

SECURITIES AND EXCHANGE COMMISSION

FORM N-30B-2

Periodic and interim reports mailed to investment company shareholders (other than annual and semi-annual reports mailed to shareholders pursuant to Rule 30e-1)

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FILER

SMITH BARNEY SHEARSON INVESTMENT FUNDS INC

CIK: **355747** | IRS No.: **133089608** | State of Incorporation: **MD** | Fiscal Year End: **1231**
Type: **N-30B-2** | Act: **40** | File No.: **811-03275** | Film No.: **94514087**

Business Address
*TWO WORLD ST
NEW YORK NY 10048
6175731332*

[GRAPHIC]

Small box above fund name showing the American flag with a gold eagle positioned in the center. Smith Barney Shearson

1993 Government ANNUAL Securities REPORT Fund

..... DECEMBER 31, 1993

[LOGO]

Government Securities Fund

DEAR SHAREHOLDER:

We are pleased to provide the Annual Report for Smith Barney Shearson Government Securities Fund for the fiscal year ended December 31, 1993. In this report, we will provide you with a review of the Fund's performance, the market environment and portfolio activities during the past twelve months. In addition, we have taken this opportunity to simplify the report by separating the historical performance information for Class A and B shares into two distinct sections. Our goal is to give you clear, concise information that makes it easier for you to follow your investment. We are doing this because Smith Barney Shearson believes that an informed investor and an experienced Financial Consultant form the most productive partnerships.

INTEREST RATES AND ECONOMIC ENVIRONMENT

The election in November of 1992 of a new President, especially a Democratic President for the first time in 12 years, created confusion and speculation in the financial markets. Much of the speculation was centered on the question of whether this party's stereotypical label of "government knows best" would continue, or would a "new Presidency" emerge? From our vantage point, there is enough evidence to suggest that both labels are appropriate. We're going to use the graph on the next page to show the effect of the economic and political environment on the interest rate of a 30-year Treasury bond during 1993.

In expectation of a promised budget compromise and continued economic growth that was slow by historical standards, interest rates resumed their downward movement in mid-January (Phase A). Once long-term interest rates dropped below 7%, the market basically treaded water (Phase B), while waiting for the close margin of approval for the budget package. Although economic statistics indicated a reluctantly-improving economy, it was also apparent that renewed inflation was unlikely. Ongoing reports of layoffs and low levels of consumer confidence prompted the Federal Reserve Board to maintain its neutral wait-and-see policy.

YIELD ON 30-YEAR U.S. TREASURY BOND 12/31/92 - 12/31/93

[GRAPHIC]

(Phase C) of the interest rate cycle reflects the market's reaction to higher tax rates and concern over the cost of health care reform. As consumers attempted to pare down their debt levels and bolster savings, a vicious downward spiral in interest rates began in mid-May. The combination of mortgage refinancings and thirst for yield caused long-term rates to fall to levels not seen since the early 1970's.

As economic growth gained momentum and attention turned toward the North American Free Trade Agreement (NAFTA) and its implications, fear of a tightening in the Federal Reserve's monetary policy infiltrated the minds of many investors. Many investors subsequently took their profits, and a slowdown in new money entering the financial markets caused rates to rise by 50 basis points (one-half of a percentage point) to the market rate of approximately 6.30% (Phase D).

The key issue confronting the financial markets today is whether the economy truly is finally on the road to a healthy recovery or whether this is yet another example of short-lived growth. By early in the second quarter of 1994, when the effect of the retroactive tax increase becomes more fully felt and the costs of health care reform are clearer, we should have a good idea of the sustainability of the recovery. If the combined costs prove to be surprisingly

high and consumer confidence becomes negative, we would anticipate lower interest rates than we saw in 1993. Stay tuned!

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D I V I D E N D P O L I C Y

ALTHOUGH NOT EXPLICITLY STATED IN THE PROSPECTUS, THE FUND'S POLICY IS TO PAY A LEVEL MONTHLY DIVIDEND BASED ON OUR PROJECTIONS FOR THE GOVERNMENT SECURITIES MARKET AND THE GENERAL DIRECTION OF INTEREST RATES. THIS POLICY HAS NO APPRECIABLE AFFECT ON THE FUND'S INVESTMENT STRATEGIES OR NET ASSET VALUE PER SHARE SINCE IT IS GUIDED BY MARKET CONDITIONS. IT MEANS THAT WE DO NOT INVEST IN MORE SPECULATIVE SECURITIES THAT MAY UNDERMINE THE FUND'S NET ASSET VALUE PER SHARE IN ORDER TO MAINTAIN AN UNREALISTICALLY HIGH DIVIDEND POLICY. WE CONTINUALLY MONITOR BOTH THE MARKET AND THE FUND'S INCOME STREAM TO SEE THAT OUR DIVIDEND PROJECTIONS ARE REALISTIC.

INVESTMENT STRATEGY

The nursery rhyme "Jack be nimble, Jack be quick" epitomized what portfolio managers were up against in 1993. More than ever, the decision to invest in mortgage-backed securities versus Treasury securities was a crucial timing issue. In the final analysis, however, our expectations that mortgage prepayments would continue because of the historically low interest rate environment led us to avoid mortgage securities. We believe that this decision helped the Fund to perform better than many of its peers.

We anticipate that the mortgage market will offer some attractive opportunities in 1994 as the preponderance of mortgage refinancings already have occurred. When mortgage issues offer better relative value than Treasuries, we will take advantage of it. As we wait for those opportunities, the majority of the Fund's assets will be invested in intermediate-term Treasuries.

PERFORMANCE

The Fund produced a compounded total return of 10.87% for shareholders of Class A shares and 10.45% for shareholders of Class B shares for the fiscal year ended December 31, 1993. Based on an analysis of its peer group of similarly-managed funds as measured by Lipper Analytical Services, Inc., a nationally recognized mutual fund ranking organization, the Fund was ranked in the first quartile for this twelve-month period. More specific information about the performance of each share class is given in the historical performance and average annual return sections of this report.

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As the vagaries of the new world order influence fiscal policy and international treaties, we will attempt to give you a timely interpretation of the impact on the financial markets. Once again, we appreciate your continued support of the Fund and look forward to hearing from you.

Sincerely,

Heath B. McLendon
Chairman of the Board

James E. Conroy
Vice President and
Investment Officer
FEBRUARY 1, 1994

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Smith Barney Shearson
Government Securities Fund

PORTFOLIO HIGHLIGHTS (UNAUDITED)

DECEMBER 31, 1993

PORTFOLIO BREAKDOWN

Pie chart depicting the allocation of the Investment Funds Government Securities Fund's investment securities held at December 31, 1993 by security types. The pie is broken in pieces representing security types in the following percentages:

<TABLE>

<CAPTION>

SECURITY TYPES	PERCENTAGE
<S>	<C>
U.S. Treasury Securities	75.5%
Mortgage-Backed Securities	22.1%
Repurchase Agreements and Net Other	

U.S. TREASURY SECURITIES are debt obligations of the U.S. government. They are secured by the full faith and credit of the federal government, and include such instruments as Treasury notes, bills and bonds.

U.S. GOVERNMENT AGENCY SECURITIES are securities issued by government sponsored corporations like the Federal Land Banks or the Student Loan Marketing Association (SLMA). Mortgage-Backed Securities are also agency securities, but are shown separately in this chart and described below.

MORTGAGE-BACKED SECURITIES are debt securities issued by U.S. government agencies such as the Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA) and Government National Mortgage Association (GNMA). They represent thousands of individual home mortgages that are pooled to form securities. As homeowners pay interest and principal each month, these payments are passed on to investors. Mortgage-Backed Securities are backed by the full faith and credit of the issuing agency.

AVERAGE MATURITY 6.86 years

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Smith Barney Shearson
Government Securities Fund

HISTORICAL PERFORMANCE -- CLASS A SHARES (UNAUDITED)

<TABLE>
<CAPTION>
Year Ended

December 31, <S>	Net Asset Value Beginning <C>	Net Asset Value Ending <C>	Capital Gains Distributed <C>	Dividends Paid <C>	Total Return* <C>
11/6/92-12/31/92	\$9.56	\$ 9.69	--	\$0.10	2.41%
1993	9.69	10.01	--	0.72	10.87
Total			--	0.82	
Cumulative Total Return from 11/06/92 through 12/31/93					13.54%

<FN>
*Figures assume reinvestment of all dividends and capital gains distributions at net asset value and do not assume deduction of the sales charge (maximum 4.5%).
</TABLE>

THE FUND'S POLICY IS TO DISTRIBUTE DIVIDENDS MONTHLY AND CAPITAL GAINS, IF ANY, ANNUALLY.

AVERAGE ANNUAL TOTAL RETURN -- CLASS A SHARES**

<TABLE>
<CAPTION>

<S>	Without Sales Charge		With Sales Charge***	
	Actual <C>	Without Fee Waiver <C>	Actual <C>	Without Fee Waiver <C>
Year Ended 12/31/93	10.87%	10.81%	5.88%	5.83%
Inception 11/6/92 through 12/31/93	11.67%	11.63%	7.29%	7.25%

<FN>
**All average annual total return figures shown reflect the reinvestment of dividends and capital gains at net asset value. The Fund waived fees during fiscal year 1993. A shareholder's actual return for the period during which waivers were in effect would be the higher of the two numbers shown.
***Average annual total return figures shown assume the deduction of the maximum 4.5% sales charge.

NOTE: The Fund began offering Class A shares on November 6, 1992. Class A shares are subject to a maximum 4.5% front-end sales charge and an annual service fee of 0.25% of the value of the average daily net assets attributable to that class.
</TABLE>

A line graph depicting the total growth (including reinvestment of dividends and capital gains) of a hypothetical investment of \$10,000 in Government Securities Fund's Class A shares on November 6, 1992 through December 31, 1993 as compared with the growth of a \$10,000 investment in Lehman Brothers Government Bond Index and Lipper General U.S. Government Peer Group Average. The plot points used to draw the line graph were as follows:

<TABLE>
<CAPTION>

MONTH ENDED <S>	GROWTH OF \$10,000 INVESTED IN CLASS A SHARES OF THE PORTFOLIO <C>		GROWTH OF \$10,000 INVESTMENT IN THE LEHMAN BROTHERS GOVERNMENT BOND INDEX <C>		GROWTH OF \$10,000 INVESTMENT IN THE LIPPER GENERAL U.S.GOVERNMENT PEER GROUP AVERAGE INDEX <C>	
10/31/92	--		\$10,000		\$10,000	
11/06/92	\$ 9,550		--		--	
11/92	9,588		9,985		9,859	
12/92	9,780		10,150		9,865	
03/93	10,254		10,609		10,387	
06/93	10,530		10,916		10,490	
09/93	10,914		11,270		10,968	
12/93	10,843		11,232		10,900	

</TABLE>

+ Illustration of \$10,000 invested in Class A shares on November 6, 1992, assuming deduction of the maximum 4.5% sales charge at the time of investment and reinvestment of dividends and capital gains at net asset value through December 31, 1993.

The Lehman Brothers Government Bond Index is an unmanaged, broad-based index of all public debt obligations of the U.S. government and its agencies and has an average maturity of approximately nine years. The Index is useful in depicting the general movement of the government securities market, but because it is unmanaged the Index is not subject to the same management and trading expenses as a mutual fund.

The Lipper Peer Group Average is composed of the Fund's peer group of 110 mutual funds investing in U.S. government securities as of December 31, 1993.

NOTE: All figures cited here and on the other pages represent past performance of the Fund and do not guarantee future results of Class A shares.

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Smith Barney Shearson
Government Securities Fund

HISTORICAL PERFORMANCE -- CLASS B SHARES (UNAUDITED)

<TABLE>
<CAPTION>
Year Ended

December 31, <S>	Net Asset Value Beginning Ending <C> <C>		Capital Gains Distributed <C>	Dividends Paid <C>	Total Return* <C>
3/20/84 - 12/31/84	\$10.00	\$10.01	\$0.10	\$0.50	6.50%
1985	10.01	10.20	0.30	1.18	18.30
1986	10.20	10.41	0.29	0.84	13.62
1987	10.41	8.90	0.45	0.51	-5.27
1988	8.90	8.75	--	0.74	6.75
1989	8.75	9.25	--	0.73	14.58
1990	9.25	9.11	--	0.74	6.99
1991	9.11	9.81	--	0.71	16.28
1992	9.81	9.68	--	0.64	5.45
1993	9.68	10.01	--	0.67	10.45
Total			\$1.14	\$7.26	
Cumulative Total Return from 3/20/84 through 12/31/93					140.36%

<FN>
 *Figures assume reinvestment of all dividends and capital gains distributions at net asset value and do not assume deduction of the contingent deferred sales charge (CDSC).
 </TABLE>

THE FUND'S POLICY IS TO DISTRIBUTE DIVIDENDS MONTHLY AND CAPITAL GAINS, IF ANY, ANNUALLY.

 AVERAGE ANNUAL TOTAL RETURN -- CLASS B SHARES**

<TABLE>
 <CAPTION>

<S>	Without CDSC		With CDSC***	
	Actual <C>	Without Fee Waiver <C>	Actual <C>	Without Fee Waiver <C>
Year Ended 12/31/93	10.45%	10.39%	5.95%	5.89%
Five Years Ended 12/31/93	10.67%	10.64%	10.54%	10.50%
Inception 3/20/84 through 12/31/93	9.38%	9.35%	9.38%	9.35%

<FN>
 **All average annual total return figures shown reflect the reinvestment of dividends and capital gains at net asset value. The Fund's investment adviser waived fees from January 1988 to December 1989 and during fiscal year 1993. A shareholder's actual return for the period during which waivers were in effect would be the higher of the two numbers shown.

***Average annual total return figures shown assume the deduction of the applicable CDSC. The Fund commenced operations on March 20, 1984.

NOTE: On November 6, 1992, outstanding shares of the Fund were designated Class B shares. Class B shares are subject to a maximum 4.5% CDSC and annual service and distribution fees of 0.25% and 0.50%, respectively, of the value of the average daily net assets attributable to that class.

</TABLE>

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A line graph depicting the total growth (including reinvestment of dividends and capital gains) of a hypothetical investment of \$10,000 in Government Securities Fund's Class B shares on March 20, 1984 through December 31, 1993 as compared with the growth of a \$10,000 investment in Lehman Brothers Government Bond Index and Lipper General U.S. Government Peer Group Average. The plot points used to draw the line graph were as follows:

<TABLE>
 <CAPTION>

<S>	GROWTH OF \$10,000 INVESTED IN CLASS A SHARES OF THE PORTFOLIO		GROWTH OF \$10,000 INVESTMENT IN THE LEHMAN BROTHERS GOVERNMENT BOND INDEX		GROWTH OF \$10,000 INVESTMENT IN THE LIPPER GENERAL U.S. GOVERNMENT PEER GROUP AVERAGE	
	MONTH ENDED	<C>	<C>	<C>	<C>	<C>
03/20/84		\$10,000		--		--
03/84		10,010		10,000		10,000
04/84		9,910		10,005		9,927
06/84		9,580		9,883		9,674
09/84		10,202		10,621		10,254
12/84		10,650		11,382		10,896
03/85		10,847		11,623		11,047
06/85		11,498		12,529		11,910
09/85		11,684		12,778		12,219
03/86		13,529		14,894		13,549
06/86		13,933		15,091		13,658
09/86		14,079		15,386		14,331
12/86		14,315		15,806		14,649
03/87		14,243		15,992		14,967
06/87		13,668		15,713		14,357
09/87		12,864		15,290		14,411
12/87		13,561		16,154		14,648
03/88		14,075		16,686		15,476
06/88		14,253		16,843		15,149
09/88		14,624		17,128		15,421
12/88		14,476		17,289		15,838
03/89		14,633		17,473		15,898
06/89		15,870		18,878		16,593
09/89		15,950		19,034		17,112
12/89		16,588		19,749		17,718
03/90		16,307		19,504		17,586
06/90		16,873		20,186		17,888

09/90	16,772	20,353	18,133
12/90	17,747	21,470	18,952
03/91	18,073	21,936	19,567
06/91	18,261	22,232	19,921
09/91	19,423	23,500	20,601
12/91	20,636	24,759	21,371
03/92	19,890	24,326	21,808
06/92	20,747	25,288	22,190
09/92	21,776	26,537	23,176
12/92	21,761	26,548	23,110
03/93	22,785	27,748	24,332
06/93	23,372	28,550	24,574
09/93	24,220	29,478	25,692
12/93	24,036	29,378	25,534

</TABLE>

+ Illustration of \$10,000 invested in Class B shares on March 20, 1984, assuming reinvestment of dividends and capital gains at net asset value through December 31, 1993.

The Lehman Brothers Government Bond Index is an unmanaged, broad-based index of all public debt obligations of the U.S. government and its agencies and has an average maturity of approximately nine years. The Index is useful in depicting the general movement of the government securities market, but because it is unmanaged the Index is not subject to the same management and trading expenses as a mutual fund.

The Lipper Peer Group Average is composed of the Fund's peer group of 110 mutual funds investing in U.S. government securities as of December 31, 1993.

NOTE: All figures cited here and on the other pages represent past performance of the Fund and do not guarantee future results of Class B shares.

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Smith Barney Shearson
Government Securities Fund

PORTFOLIO OF INVESTMENTS
DECEMBER 31, 1993

<TABLE>
<S> <C> <C>

		KEY TO SECURITY DESCRIPTIONS
DWARF	--	FNMA Mortgage-Backed Security that matures in 15 years or less
STRIPS	--	Separate Trading of Registered Interest and Principal of Securities

</TABLE>

<TABLE>
<CAPTION>

FACE VALUE		MARKET VALUE
<C>	<S>	(NOTE 1)
<C>	<S>	<C>

U.S. TREASURY OBLIGATIONS -- 75.5%		
	U.S. TREASURY NOTES -- 65.7%	
\$ 17,500,000	5.250% due 7/31/98**	\$ 17,587,150
39,500,000	4.750% due 8/31/98	38,873,530
50,000,000	4.750% due 9/30/98***	49,195,000
340,000,000	4.750% due 10/31/98***	333,866,400
125,000,000	5.750% due 8/15/03	124,547,500

		564,069,580

ZERO COUPON TREASURY SECURITIES -- 9.8%		
34,000,000	U.S. Treasury Strips, due 8/15/98	26,801,180
255,000,000	U.S. Treasury Strips, due 11/15/15	57,484,650

		84,285,830

TOTAL U.S. TREASURY OBLIGATIONS		
(Cost \$656,960,821)		648,355,410

MORTGAGE-BACKED SECURITIES -- 22.1%		
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA) CERTIFICATES -- 19.7%		
149,749,128	GNMA 9.000%, 30 Year	160,137,225

8,106,766	GNMA 9.500%, 30 Year	8,770,548
49,327	GNMA 10.000%, 30 Year	54,353
140,288	GNMA 10.500%, 30 Year	157,824
275,513	GNMA 11.000%, 30 Year	314,686

169,434,636

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

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Smith Barney Shearson
Government Securities Fund

PORTFOLIO OF INVESTMENTS (CONTINUED)

DECEMBER 31, 1993

<TABLE>

<CAPTION>

FACE VALUE		MARKET VALUE (NOTE 1)
<C>	<S>	<C>
MORTGAGE-BACKED SECURITIES -- (CONTINUED)		
FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC) CERTIFICATES -- 2.4%		
\$ 19,138,206	FHLMC 9.000%, 30 Year	\$ 20,106,981
32,248	FHLMC 10.000%, 30 Year	35,191
		----- 20,142,172
FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA) CERTIFICATES -- 0.0%		
1,180	FNMA Dwarf 8.000% due 7/2/95	1,231

TOTAL MORTGAGE-BACKED SECURITIES (Cost \$187,950,496)		189,578,039

REPURCHASE AGREEMENTS -- 29.7%		
132,250,000	Agreement with Barclays de Zuote Wedd, 3.050% dated 12/31/93 to be repurchased at \$132,283,614 on 1/3/94, collateralized by: \$44,000,000 U.S. Treasury Bonds, 7.500% due 11/15/16 \$26,000,000 U.S. Treasury Notes, 5.125% due 3/31/98 \$28,000,000 U.S. Treasury Notes, 5.375% due 5/31/98 \$27,935,000 U.S. Treasury Notes, 12.625% due 8/15/94	132,250,000
7,449,000	Agreement with Kidder Peabody, 3.150% dated 12/31/93 to be repurchased at \$7,450,955 on 1/3/94, collateralized by \$7,270,000 U.S. Treasury Note, 6.000% due 10/15/99	7,449,000
115,000,000	Agreement with Union Bank of Switzerland, 3.100% dated 12/31/93 to be repurchased at \$115,029,708 on 1/3/94, collateralized by: \$6,155,000 U.S. Treasury Bonds, 11.750% due 11/15/14 \$20,785,000 U.S. Treasury Bonds, 9.250% due 2/15/16 \$55,345,000 U.S. Treasury Bonds, 7.875% due 2/15/21 \$11,450,000 U.S. Treasury Notes, 8.500% due 2/15/00	115,000,000

TOTAL REPURCHASE AGREEMENTS (Cost \$254,699,000)		254,699,000

TOTAL INVESTMENTS (Cost \$1,099,610,317*)	127.3%	1,092,632,449

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

Smith Barney Shearson
Government Securities Fund

PORTFOLIO OF INVESTMENTS (CONTINUED)

DECEMBER 31, 1993

<TABLE> <CAPTION>		
NUMBER OF CONTRACTS		MARKET VALUE (NOTE 1)
<C>	<S>	<C>
FUTURES CONTRACTS -- LONG POSITION -- 40.0% (Cost \$344,484,375)		
3,000	March 1994 U.S. Treasury Bonds	\$ 343,500,000
FUTURES CONTRACTS -- SHORT POSITION -- (40.0)% (Contract Amount \$344,435,906)		
3,000	March 1994 U.S. Treasury Bonds	(343,500,000)
OTHER ASSETS AND LIABILITIES (NET)	(27.3)	(234,002,289)
NET ASSETS	100.0%	\$ 858,630,160

<FN>

*Aggregate cost for Federal tax purposes.

**Securities pledged as collateral for futures contracts.

***A portion of the securities are held as collateral for reverse repurchase agreements.

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

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Smith Barney Shearson
Government Securities Fund

STATEMENT OF ASSETS AND LIABILITIES

DECEMBER 31, 1993

<TABLE>		
<S>	<C>	<C>
ASSETS:		
Investments, at value (Cost \$1,099,610,317) (Note 1)		
See accompanying schedule:		
Investment securities	\$837,933,449	
Repurchase Agreements	254,699,000	\$1,092,632,449
Cash		5,772,885
Aggregate exercise cost of futures -- short position		344,435,906
Futures contracts -- long position, at value (Cost \$344,484,375)		
(Note 1) See accompanying schedule		343,500,000
Receivable for investment securities sold		298,064,062
Dividends and interest receivable		18,256,381
Receivable for Fund shares sold		784,698
Receivable from investment adviser (Note 2)		63,840
TOTAL ASSETS		2,103,510,221
LIABILITIES:		
Aggregate exercise cost of futures -- long position	344,484,375	
Futures contracts -- short position, at value		
(Cost \$344,435,906) (Note 1)		
See accompanying schedule	343,500,000	
Payable for investment securities purchased	303,220,500	
Reverse Repurchase Agreement (Note 5)	247,796,875	
Dividends payable	4,652,254	
Distribution fee payable (Note 3)	366,231	
Payable for Fund shares redeemed	288,472	
Service fees payable (Note 3)	184,611	
Administration fee payable (Note 2)	147,520	
Custodian fees payable (Note 2)	77,675	
Transfer agent fees payable (Note 2)	67,692	
Accrued expenses and other payables	93,856	
TOTAL LIABILITIES		1,244,880,061
NET ASSETS		\$ 858,630,160

</TABLE>

Smith Barney Shearson
Government Securities Fund

STATEMENT OF ASSETS AND LIABILITIES (CONTINUED)

DECEMBER 31, 1993

<TABLE> <S>	<C>	<C>
NET ASSETS consist of:		
Undistributed net investment income		\$ 92,682
Accumulated net realized loss on security transactions and futures contracts		(556,625,868)
Unrealized depreciation of investments and futures contracts		(7,026,337)
Par value		85,739
Paid-in capital in excess of par value		1,422,103,944

TOTAL NET ASSETS		\$ 858,630,160

NET ASSET VALUE:		
CLASS A SHARES:		
NET ASSET VALUE and redemption price per share (\$7,067,380 DIVIDED BY 705,750 shares of common stock outstanding)		\$10.01

MAXIMUM OFFERING PRICE PER SHARE (\$10.01 DIVIDED BY 0.955) (based on maximum sales charge of 4.5% of the offering price on December 31, 1993)		\$10.48

CLASS B SHARES:		
NET ASSET VALUE and offering price per share+ (\$851,349,599 DIVIDED BY 85,011,511 shares of common stock outstanding)		\$10.01

CLASS D SHARES:		
NET ASSET VALUE, offering and redemption price per share (\$213,181 DIVIDED BY 21,288 shares of common stock outstanding)		\$10.01

<FN>

+Redemption price per share for Class B is equal to net asset value less any applicable contingent deferred sales charge.

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

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Smith Barney Shearson
Government Securities Fund

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 1993

<TABLE> <S>	<C>	<C>
INVESTMENT INCOME:		
Interest		\$ 61,293,780
Dividends		23,390,500

TOTAL INVESTMENT INCOME		84,684,280

EXPENSES:		
Distribution fee (Note 3)	\$4,768,632	
Investment advisory fee (Note 2)	3,357,123	
Service fee (Note 3)	2,397,944	
Sub-investment advisory and administration fee (Note 2)	1,918,367	
Transfer agent fees (Notes 2 and 4)	823,336	
Custodian fees (Note 2)	298,069	
Legal and audit fees	49,330	
Directors' fees and expenses (Note 2)	29,356	
Other	303,113	
Fees waived by investment adviser (Note 2)	(522,000)	

Total operating expenses before interest		13,423,270
Interest expense (Notes 5 and 8)		1,450,679

TOTAL EXPENSES		14,873,949

NET INVESTMENT INCOME	69,810,331

REALIZED AND UNREALIZED GAIN/(LOSS) ON INVESTMENTS (NOTES 1 AND 5):	
Net realized gain on:	
Securities transactions	53,764,705
Futures contracts	328,751

Net realized gain on investments during the year	54,093,456
Net change in unrealized depreciation of:	
Securities	(24,575,204)
Futures contracts	(48,469)

Net unrealized depreciation of investments during the year	(24,623,673)

NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS	29,469,783

NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ 99,280,114

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

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Smith Barney Shearson
Government Securities Fund

STATEMENT OF CHANGES IN NET ASSETS

<TABLE>
<CAPTION>

	YEAR ENDED 12/31/93	YEAR ENDED 12/31/92
<S>	<C>	<C>
Net investment income	\$ 69,810,331	\$ 61,385,758
Net realized gain on security transactions and futures contracts during the year	54,093,456	39,937,028
Net unrealized depreciation of investments and futures contracts during the year	(24,623,673)	(45,668,262)

Net increase in net assets resulting from operations	99,280,114	55,654,524
Distributions to shareholders from net investment income:		
Class A	(411,654)	(1,235)
Class B	(61,210,432)	(61,384,523)
Class D	(7,883)	--
Distributions to shareholders from capital:		
Class A	--	(263)
Class B	--	(13,099,590)
Net increase/(decrease) in net assets from:		
Class A share transactions (Note 6)	6,782,595	272,373
Class B share transactions (Note 6)	(233,212,716)	(220,182,501)
Class D share transactions (Note 6)	214,302	--

Net decrease in net assets	(188,565,674)	(238,741,215)
NET ASSETS:		
Beginning of year	1,047,195,834	1,285,937,049

End of year (including undistributed net investment income of \$92,682 at December 31, 1993)	\$ 858,630,160	\$1,047,195,834

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

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Smith Barney Shearson
Government Securities Fund

FINANCIAL HIGHLIGHTS

FOR A CLASS A SHARE OUTSTANDING THROUGHOUT EACH PERIOD.

<TABLE>
<CAPTION>

	YEAR ENDED 12/31/93+++	PERIOD ENDED 12/31/92*
<S>	<C>	<C>
Net Asset Value, beginning of period	\$ 9.69	\$ 9.56

Income from investment operations:		
Net investment income#	0.81	0.10
Net realized and unrealized gain on investments	0.23	0.13

Total from investment operations	1.04	0.23
Distributions to shareholders:		
Distributions from net investment income	(0.72)	(0.08)
Distributions from capital	--	(0.02)

Total distributions	(0.72)	(0.10)

Net Asset Value, end of period	\$10.01	\$ 9.69

Total return+	10.87%	2.41%

Ratios to average net assets/supplemental data:		
Net assets, end of period (in 000's)	\$7,067	\$ 275
Ratio of operating expenses to average net assets++	0.92%	0.68%**
Ratio of net investment income to average net assets	7.76%	6.24%**
Portfolio turnover rate	540%	426%

<FN>

*The Fund commenced selling Class A shares on November 6, 1992.

**Annualized.

+Total return represents aggregate total return for the period indicated and does not reflect any applicable sales charges.

++The annualized operating expense ratios exclude interest expense. The ratios including interest expense for the year ended December 31, 1993 and the period ended December 31, 1992 were 1.07% and 1.01%, respectively. Annualized expense ratio before voluntary waiver of fees by investment adviser (including interest expense) for the year ended December 31, 1993 was 1.12%.

+++Per share amounts have been calculated using the monthly average share method.

#Net investment income before voluntary waiver of fees by investment adviser for the year ended December 31, 1993 was \$0.71.

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

17

Smith Barney Shearson
Government Securities Fund

FINANCIAL HIGHLIGHTS

FOR A CLASS B SHARE OUTSTANDING THROUGHOUT EACH YEAR.**

<TABLE>

<CAPTION>

	YEAR ENDED 12/31/93+++	YEAR ENDED 12/31/92	YEAR ENDED 12/31/91
<S>	<C>	<C>	<C>
Net Asset Value, beginning of year	\$ 9.68	\$ 9.81	\$ 9.11

Income from investment operations:			
Net investment income#	0.73	0.53	0.70
Net realized and unrealized gain/(loss) on investments	0.27	(0.02)	0.71

Total from investment operations	1.00	0.51	1.41
Distributions to shareholders:			
Distributions from net investment income	(0.67)	(0.53)	(0.63)
Distributions in excess of net investment income and net realized gain	--	--	--
Distributions from net realized gains	--	--	--
Distributions from capital	--	(0.11)	(0.08)

Total distributions	(0.67)	(0.64)	(0.71)

Net Asset Value, end of year	\$ 10.01	\$ 9.68	\$ 9.81

Total return+	10.45%	5.45%	16.28%

Ratios to average net assets/supplemental data:			
Net assets, end of year (in 000's)	\$851,350	\$1,046,921	\$1,285,937
Ratio of operating expenses to average net assets++	1.40%	1.45%	1.40%
Ratio of net investment income to average net assets	7.28%	5.47%	6.80%
Portfolio turnover rate	540%	426%	326%

<FN>

*The Fund commenced operations on March 20, 1984.

**Shares in existence prior to November 6, 1992 have been designated Class B shares.

***Annualized.

+Total return represents aggregate total return for the period indicated and does not reflect any applicable sales charges.

++The operating expense ratios exclude interest expense. The ratios including interest expense for the years ended December 31, 1993 and 1992 were 1.55% and 1.71%, respectively. Operating expense ratios before voluntary waiver of fees by investment adviser and/or distributor (including interest expense) for the years ended December 31, 1993, 1989 and 1988 were 1.61%, 1.52%, and 1.53%, respectively.

+++Per share amounts have been calculated using the monthly average share method.

#Net investment income before voluntary waiver of fees by investment adviser and/or distributor for the years ended December 31, 1993, 1989, and 1988 were \$0.72, \$0.69, and \$0.74, respectively.

@Not covered by Coopers & Lybrand's report.

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

18

Smith Barney Shearson
Government Securities Fund

<TABLE>

<CAPTION>

YEAR ENDED 12/31/90	YEAR ENDED 12/31/89	YEAR ENDED 12/31/88@	YEAR ENDED 12/31/87@	YEAR ENDED 12/31/86@	YEAR ENDED 12/31/85@	PERIOD ENDED 12/31/84*@
<S> \$ 9.25	<C> \$ 8.75	<C> \$ 8.90	<C> \$ 10.41	<C> \$ 10.20	<C> \$ 10.01	<C> \$ 10.00
0.68 (0.08)	0.70 0.53	0.75 (0.16)	0.51 (1.06)	0.84 0.50	0.90 0.77	0.78 (0.17)
0.60 (0.68)	1.23 (0.70)	0.59 (0.74)	(0.55) (0.51)	1.34 (0.84)	1.67 (1.18)	0.61 (0.50)
--	--	--	(0.05)	--	--	--
(0.06)	(0.03)	--	(0.40)	(0.29)	(0.30)	(0.10)
(0.74)	(0.73)	(0.74)	(0.96)	(1.13)	(1.48)	(0.60)
\$ 9.11	\$ 9.25	\$ 8.75	\$ 8.90	\$ 10.41	\$ 10.20	\$ 10.01
6.99%	14.58%	6.75%	(5.27)%	13.62%	18.30%	6.50%
\$1,521,016	\$2,001,740	\$2,735,974	\$4,383,816	\$6,072,390	\$3,053,758	\$ 777,176
1.43%	1.40%	1.34%++	1.64%	1.56%	1.67%	2.21%***
7.60%	7.79%	8.00%	6.44%	6.20%	8.60%	10.55%***
274%	352%	281%	249%	353%	457%	--

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

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Smith Barney Shearson
Government Securities Fund

FINANCIAL HIGHLIGHTS

FOR A CLASS D SHARE OUTSTANDING THROUGHOUT THE PERIOD.

<TABLE>

<CAPTION>

	PERIOD ENDED 12/31/93****
<S> Net Asset Value, beginning of period	<C> \$ 9.90
Income from investment operations:	
Net investment income#	0.68
Net realized and unrealized gain on investments	0.04

Total from investment operations	0.72
Distributions from net investment income	(0.61)
Net Asset Value, end of period	\$ 10.01
Total return+	7.36%
Ratios to average net assets/supplemental data:	
Net assets, end of period (in 000's)	\$ 213
Ratio of operating expenses to average net assets++	1.40%**
Ratio of net investment income to average net assets	7.28%**
Portfolio turnover rate	540%

<FN>

*The Fund commenced selling Class D shares on February 4, 1993.

**Annualized.

+Total return represents aggregate total return for the period indicated.

++The annualized operating expense ratio excludes interest expense. The ratio including interest expense for the period ended December 31, 1993 was 1.55%. Annualized expense ratio before voluntary waiver of fees by investment adviser (including interest expense) for the period ended December 31, 1993 was 1.61%.

+++Per share amounts have been calculated using the monthly average share method.

#Net investment income before voluntary waiver of fees by investment adviser for the period ended December 31, 1993 was \$0.55.

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

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Smith Barney Shearson
Government Securities Fund

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Smith Barney Shearson Investment Funds Inc. (the "Company") was incorporated in Maryland on September 29, 1981 and commenced operations on January 4, 1982. The Company is registered with the Securities and Exchange Commission under the Investment Company Act of 1940, as amended (the "1940 Act"), as a diversified open-end management investment company. Prior to the close of business on July 30, 1993, the Company's corporate name was "SLH Investment Portfolios Inc." and it was doing business under the name "Shearson Lehman Brothers Investment Funds." As of the date of this report, the Company is composed of five managed investment Funds (the "Funds"): Investment Grade Bond Fund, Government Securities Fund, Special Equities Fund, Directions Value Fund, and European Fund. The assets of each Fund are segregated and a shareholder's interest is limited to the Fund in which he or she owns shares. As of November 6, 1992, each Fund offered two classes of shares to the general public: Class A shares and Class B shares. Class A shares are sold with a front-end sales charge. Class B shares may be subject to a contingent deferred sales charge ("CDSC"). Class B shares will convert automatically to Class A shares approximately eight years after the date of original purchase, beginning September 30, 1994. As of January 29, 1993, the Government Securities Fund (the "Fund") offered a third class of shares, Class D shares and these shares were first purchased by the public on February 4, 1993. Class D shares are offered to plans participating in the Smith Barney Shearson Inc. ("Smith Barney Shearson") 401(k) program. Class D shares are offered without a front-end sales charge or CDSC. All classes of shares have identical rights and privileges except with respect to the effect of the respective sales charges to each class, the distribution and/or service fees borne by each class, expenses allocable exclusively to each class, voting rights on matters affecting a single class, the exchange privilege of each class and the conversion feature of Class B shares. The following is a summary of significant accounting policies consistently followed by the Fund in preparation of its financial statements.

PORTFOLIO VALUATION: Securities listed on an exchange are valued on the basis of the last sale prior to the time the valuation is made. If there has been no sale since the immediately previous valuation, then the current bid price is used. Over-the-counter securities are valued on the basis of the bid price at

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Smith Barney Shearson
Government Securities Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

the close of business on each day. Notwithstanding the above, bonds and other fixed-income securities are valued by using market quotations and may be valued on the basis of prices provided by a pricing service, when the Board of Directors believes that such prices reflect the market value of such securities. In cases where securities are traded on more than one exchange, the securities are valued on the exchange designated by or under the authority of the Board of Directors as the primary market. Securities and assets for which market quotations are not readily available are valued at fair value as determined in good faith by or under the direction of the Board of Directors. Options are generally valued at the last sale price or, in the absence of a last sale price, the last bid price. Money market instruments maturing within 60 days of the valuation date are valued at amortized cost.

OPTIONS ON FUTURES CONTRACTS: Options on futures generally operate in the same manner as options purchased or written directly on the underlying debt securities. The Fund is required to deposit, in a manner similar to futures contracts as described below, "initial margin" and "variation margin" with respect to put and call options written on futures contracts. In addition, upon exercise, net premiums received will decrease the unrealized loss or increase the unrealized gain on the future. The potential risk to the Fund is that the change in value of the underlying securities may not correlate to the change in value of the contracts.

FUTURES CONTRACTS: The Fund may enter into futures contracts in order to hedge against changes in the value of its portfolio securities due to anticipated changes in market conditions and interest rates.

Upon entering into a futures contract, the Fund is required to deposit with the broker an amount of cash or cash equivalents equal to a certain percentage of the contract amount. This is known as the "initial margin." Subsequent payments ("variation margin") are made or received by the Fund each day, depending on the daily fluctuation of the value of the contract.

For financial statement purposes, an amount equal to the settlement amount of the contract is included in its Statement of Assets and Liabilities as an asset and as an equivalent liability. For long futures positions, the asset is marked-to-market daily. For short futures positions, the liability is marked-

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Smith Barney Shearson
Government Securities Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

to-market daily. The daily changes in the contract are recorded as unrealized gains or losses. The Fund recognizes a realized gain or loss when the contract is closed.

There are several risks in connection with the use of futures contracts as a hedging device. The change in value of futures contracts primarily corresponds with the value of their underlying instruments, which may not correlate with the change in value of the hedged instruments. In addition, there is the risk the Fund may not be able to enter into a closing transaction because of an illiquid secondary market.

REPURCHASE AGREEMENTS: The Fund engages in repurchase agreement transactions. Under the terms of a typical repurchase agreement, the Fund takes possession of an underlying debt obligation subject to an obligation of the seller to repurchase, and the Fund to resell, the obligation at an agreed-upon price and time, thereby determining the yield during the Fund's holding period. This arrangement results in a fixed rate of return that is not subject to market fluctuations during the Fund's holding period. The value of the collateral is at least equal at all times to the total amount of the repurchase obligations, including interest. In the event of counterparty default, the Fund has the right to use the collateral to offset losses incurred. There is a potential loss to the Fund in the event the Fund is delayed or prevented from exercising its rights to dispose of the collateral securities including the risk of a possible decline in the value of the underlying securities during the period while the Fund seeks to assert its rights. The Fund's investment adviser, acting under the supervision of the Board of Directors, reviews the value of the collateral and the creditworthiness of those banks and dealers with which the Fund enters into repurchase agreements to evaluate potential risks.

REVERSE REPURCHASE AGREEMENTS: The Fund may enter into reverse repurchase agreement transactions with member banks on the Federal Reserve Bank of New York's list of reporting dealers for leverage purposes. A reverse repurchase agreement involves a sale by the Fund of securities that it holds with an agreement by the Fund to repurchase the same securities at an agreed upon price and date. A reverse repurchase agreement involves the risk that the market value

Smith Barney Shearson
Government Securities Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

securities under a reverse repurchase agreement files for bankruptcy or becomes insolvent, the Fund's use of the proceeds of the agreement may be restricted pending a determination by the party, or its trustee or receiver, whether to enforce the Fund's obligation to repurchase the securities. The Fund will establish a segregated account with its custodian, Boston Safe Deposit and Trust Company ("Boston Safe"), in which the Fund will maintain cash, U.S. government securities or other liquid high grade debt obligations equal in value to its obligations with respect to reverse repurchase agreements.

SECURITIES TRANSACTIONS AND INVESTMENT INCOME: Securities transactions are recorded as of the trade date. Dividend income is recorded on the ex-dividend date. Interest income is recorded on the accrual basis. Realized gains and losses from securities transactions are recorded on the identified cost basis. Investment income and realized and unrealized gains and losses are allocated based upon the relative net assets of each class of shares.

FEDERAL INCOME TAXES: The Fund intends to continue to qualify as a regulated investment company, if such qualification is in the best interest of its shareholders, by complying with the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), applicable to regulated investment companies and to distribute substantially all of its taxable income to its shareholders. Therefore, no Federal income tax provision is required.

DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS: Distributions from net investment income are determined on a class level and will be declared daily and paid monthly. Distributions from net realized capital gains, after utilization of capital loss carryforwards, are determined on a Fund level and will be distributed at least annually. Net short-term capital gains (including, any short-term capital gains from options transactions) may be paid more frequently, with the distribution of dividends from net investment income. Additional distributions of net investment income and capital gains may be made at the discretion of the Board of Directors to avoid the application of the excise tax imposed under the Code for certain undistributed amounts. Income distributions and capital gain distributions on a Fund level are determined in accordance with income tax regulations which may differ from generally accepted accounting principles. These differences are primarily due

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Smith Barney Shearson
Government Securities Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

to differing treatments of income and gains on various investment securities held by the Fund, timing differences and differing characterization of distributions made by the Fund as a whole.

RECLASSIFICATIONS: During the year, the Fund adopted Statement of Position 93-2 "Determination, Disclosure, and Financial Statement Presentation of Income, Capital Gain, and Return of Capital Distributions by Investment Companies." Accordingly, certain reclassifications have been made to the components of capital in the Statement of Net Assets to conform with the accounting and reporting guidelines of this statement. Distributions in excess of book basis accumulated realized gains or undistributed net investment income that were the result of permanent book and tax accounting differences have been reclassified to paid-in capital. In addition, amounts distributed in excess of accumulated net investment income as determined for financial statement purposes which had previously been reported as distributions from paid-in capital have been reclassified to accumulated net investment income. Accordingly, amounts as of December 31, 1992 have been restated to reflect a decrease in paid-in capital of \$26,975,624, a decrease in accumulated net realized losses of \$29,083,669 and a decrease in undistributed net investment income of \$2,108,045. The Statement of Changes in Net Assets and the Financial Highlights have not been restated to reflect this change in presentation. Net investment income, net realized gains and net assets were not affected by this change.

2. INVESTMENT ADVISORY FEE, ADMINISTRATION FEE AND OTHER RELATED PARTY TRANSACTIONS

Up to the close of business on July 30, 1993, the Fund had entered into an investment advisory agreement with Shearson Lehman Brothers Inc. ("Shearson Lehman Brothers") on behalf of Shearson Lehman Advisors, a member of the Asset Management Group of Shearson Lehman Brothers. Under the Advisory Agreement, the Fund paid a monthly fee at the annual rate of 0.35% of the value of its average daily net assets, up to \$2 billion, 0.30% of the value of its average daily net assets on the next \$2 billion, 0.25% of the value of its average daily net assets on the next \$2 billion, 0.20% of the value of average daily net assets of the next \$2 billion and 0.15% of the value of its average daily net assets thereafter.

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Smith Barney Shearson
Government Securities Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As of the close of business on July 30, 1993, The Travelers Inc. (formerly known as Primerica Corporation) ("Travelers") and Smith Barney, Harris Upham & Co. Incorporated completed the acquisition of substantially all of the domestic retail brokerage and asset management businesses of Shearson Lehman Brothers. Smith Barney, Harris Upham & Co. Incorporated was subsequently renamed Smith Barney Shearson.

As of the close of business on July 30, 1993, Greenwich Street Advisors, a division of Mutual Management Corp., which is controlled by Smith Barney Shearson Holdings Inc. ("Holdings"), succeeded Shearson Lehman Advisors as the Fund's investment adviser. Holdings is a wholly owned subsidiary of Travelers. The new investment advisory agreement with Greenwich Street Advisors (the "Advisory Agreement") contains terms and conditions substantially similar to the investment advisory agreement with the predecessor investment adviser and provides for payment of fees at the same rate as was paid to such predecessor investment adviser. For the year ended December 31, 1993, Greenwich Street Advisors voluntarily waived fees of \$522,000, of this amount \$63,840 is receivable at December 31, 1993.

The Fund has also entered into an administration agreement (the "Administration Agreement") with the Boston Company Advisors, Inc. ("Boston Advisors"), an indirect wholly owned subsidiary of Mellon Bank Corporation ("Mellon"). Under the Administration Agreement, the Fund pays a monthly fee at an annual rate of 0.20% of the value of its average daily net assets. Prior to May 21, 1993, Boston Advisors served as sub-investment adviser and administrator to the Fund.

For the year ended December 31, 1993, the Fund incurred total brokerage commissions of \$717,340, of which \$87,550 were paid to Smith Barney Shearson or its predecessor.

For the year ended December 31, 1993, Smith Barney Shearson or its predecessor received from investors \$48,964 representing commissions (sales charges) on sales of Class A shares.

A CDSC is generally payable by a shareholder in connection with the redemption of Class B shares within five years (eight years in the case of

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Smith Barney Shearson
Government Securities Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

certain 401(k) plans) after the date of purchase. In circumstances in which the charge is imposed, the amount of the charge ranges between 4.5% and 1% of net asset value depending on the number of years since the date of purchase (except in the case of purchases by certain 401(k) plans in which case a 3% charge is imposed for the eight year period after the date of purchase). For the year ended December 31, 1993, Smith Barney Shearson or its predecessor received from investors \$820,619 representing CDSC fees on the redemption of Class B shares.

No officer, director or employee of Smith Barney Shearson or Boston Advisors or of any parent or subsidiary of those corporations receives any compensation from the Company for serving as an officer or director of the Company. The Company pays each Director who is not an officer, director or employee of Smith Barney Shearson or Boston Advisors or any of their affiliates \$14,000 per annum plus \$3,000 per meeting attended and reimburses each such Director for travel and out-of-pocket expenses.

Boston Safe, an indirect wholly owned subsidiary of Mellon, serves as the Fund's custodian. The Shareholder Services Group, Inc., a subsidiary of First Data Corporation, serves as the Fund's transfer agent.

3. DISTRIBUTION AGREEMENT

Smith Barney Shearson acts as distributor of the Fund's shares pursuant to a distribution agreement with the Company, and sells shares of all Funds of the Company through Smith Barney Shearson or its affiliates.

Pursuant to Rule 12b-1 under the 1940 Act, the Fund has adopted a Services and Distribution Plan (the "Plan"). Under this Plan, the Company compensates Smith Barney Shearson for servicing shareholder accounts for Class A, Class B, and Class D shareholders, and covers expenses incurred in distributing Class B and Class D shares. Smith Barney Shearson is paid an annual service fee with respect to Class A, Class B and Class D shares of the Fund at the rate of 0.25% of the value of the average daily net assets of each respective class of shares. Smith Barney Shearson is also paid an annual distribution fee with respect to Class B and Class D shares at the rate of 0.50% of the value of the average daily net assets of each respective class of shares. For the year ended December 31, 1993, the service fee for Class A

Smith Barney Shearson
Government Securities Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

and Class B shares was \$13,628 and \$2,384,061, respectively. For the period from February 4, 1993 through December 31, 1993, the service fee for Class D shares was \$255. For the year ended December 31, 1993, the distribution fee for Class B shares was \$4,768,122. For the period from February 4, 1993 through December 31, 1993, the distribution fee for Class D shares was \$510.

4. EXPENSE ALLOCATION

Expenses of the Fund not directly attributable to the operations of any class of shares are prorated among the classes based upon the relative net assets of each class. Operating expenses directly attributable to a class of shares are charged to that class' operations. In addition to the above service and distribution fees, class specific operating expenses include the transfer agent fees. For the year ended December 31, 1993, transfer agent fees for Class A and Class B shares were \$5,431 and \$817,821, respectively. For the period from February 4, 1993 through December 31, 1993 transfer agent fees for Class D shares were \$84.

5. SECURITIES TRANSACTIONS

Cost of purchases and proceeds from sales of U.S. government securities, excluding short-term investments, aggregated \$5,182,442,051 and \$5,428,165,914, respectively, for the year ended December 31, 1993.

At December 31, 1993, aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost was \$1,684,566 and aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was \$8,662,434.

Smith Barney Shearson
Government Securities Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Information regarding borrowing by the Fund under reverse repurchase agreements is as follows:

<TABLE>		<CAPTION>	
Face Value		Market Value	
<C>	<S>	<C>	
\$247,796,875	Reverse Repurchase Agreement with Morgan Stanley, dated 12/31/93 2.500%, to be repurchased at borrower's option date, collateralized by: \$197,500,000 U.S. Treasury Notes, 4.750% due 10/31/98 and \$49,750,000 U.S. Treasury Notes, 4.750% due 9/30/98	\$247,796,875	

Maximum amount outstanding during the year	\$337,342,576
Average amount outstanding during the year	\$ 65,111,351

</TABLE>

Interest rates ranged from 0.25% to 3.10% during the year. The average amount outstanding during the year was calculated by summing borrowings at the end of each day and dividing the sum by the number of days in the year ended December 31, 1993.

Interest paid for the year ended December 31, 1993, on borrowings by the Fund under reverse repurchase agreements aggregated \$1,447,588.

6. SHARES OF COMMON STOCK

At December 31, 1993, the Fund had authorized capital of 1 billion shares of \$.001 par value common stock divided into four classes of shares, Class A, Class B, Class C and Class D. The Fund has not yet commenced offering Class C shares.

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Smith Barney Shearson
Government Securities Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Changes in the common stock outstanding were as follows:

<TABLE>
<CAPTION>

CLASS A SHARES: <S>	YEAR ENDED 12/31/93		PERIOD ENDED 12/31/92*	
	Shares <C>	Amount <C>	Shares <C>	Amount <C>
Sold	1,054,136	\$ 10,586,533	29,255	\$ 281,402
Issued as reinvestment of dividends	30,502	308,583	111	1,071
Redeemed	(407,209)	(4,112,521)	(1,045)	(10,100)
Net increase	677,429	\$ 6,782,595	28,321	\$ 272,373

<CAPTION>

CLASS B SHARES: <S>	YEAR ENDED 12/31/93		YEAR ENDED 12/31/92	
	Shares <C>	Amount <C>	Shares <C>	Amount <C>
Sold	6,495,924	\$ 65,355,298	10,504,492	\$ 100,811,045
Issued as reinvestment of dividends	3,961,687	39,944,292	4,739,263	45,265,155
Redeemed	(33,549,100)	(338,512,306)	(38,253,401)	(366,258,701)
Net decrease	(23,091,489)	\$(233,212,716)	(23,009,646)	\$(220,182,501)

<CAPTION>

CLASS D SHARES: <S>	PERIOD ENDED 12/31/93**		<C>	<C>
	Shares <C>	Amount <C>		
Sold	20,640	\$ 207,781		
Issued as reinvestment of dividends	780	7,883		
Redeemed	(132)	(1,362)		
Net increase	21,288	\$ 214,302		

<FN>

*The Fund commenced selling Class A shares on November 6, 1992. Any shares outstanding prior to November 6, 1992 were designated Class B shares.
**The Fund commenced selling Class D shares to the public on February 4, 1993.
</TABLE>

7. CAPITAL LOSS CARRYFORWARD

At December 31, 1993, the Fund had available for federal tax purposes unused capital loss carryforwards (in thousands) of \$391,564,060 and \$148,463,086 expiring in 1995 and 1996, respectively.

Smith Barney Shearson
Government Securities Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. LINE OF CREDIT

The Fund and several affiliated entities participate in a \$50 million line of credit provided by Continental Bank N.A. under an Amended and Restated Line of Credit Agreement (the "Agreement") dated April 30, 1992, primarily for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. Under this Agreement, the Fund may borrow up to the lesser of \$25 million or 20% of its net assets. Interest is payable either at the bank's Money Market Rate or the London Interbank Offered Rate (LIBOR) plus 0.375% on an annualized basis. The Fund and the other affiliated entities are charged an aggregate commitment fee of \$125,000 which is allocated equally among each of the participants. The Agreement requires, among other provisions, each participating fund to maintain a ratio of net assets (not including funds borrowed pursuant to the Agreement) to aggregate amount of indebtedness pursuant to the Agreement of no less than 5 to 1. During the year ended December 31, 1993, the Fund had an average outstanding daily balance of \$89,589 with interest rates ranging from 3.3125% to 3.5625%. Interest expense totalled \$3,091 for the year ended December 31, 1993. At December 31, 1993 the Fund had no outstanding borrowings under this Agreement.

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Smith Barney Shearson
Government Securities Fund

REPORT OF INDEPENDENT ACCOUNTANTS

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF
SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND OF
SMITH BARNEY SHEARSON INVESTMENT FUNDS INC.:

We have audited the accompanying statement of assets and liabilities of Smith Barney Shearson Government Securities Fund of Smith Barney Shearson Investment Funds Inc., including the schedule of portfolio investments, as of December 31, 1993, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights 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 December 31, 1993 by correspondence with the custodian and brokers. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Smith Barney Shearson Government Securities Fund of Smith Barney Shearson Investment Funds Inc. as of December 31, 1993, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with generally accepted accounting principles.

COOPERS & LYBRAND

Boston, Massachusetts
February 2, 1994

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GOVERNMENT
SECURITIES FUND

DIRECTORS

Alger B. Chapman
Dwight B. Crane
Allan R. Johnson
Frank G. Hubbard
Heath B. McLendon
John F. White

OFFICERS
Heath B. McLendon
CHAIRMAN OF THE BOARD

Stephen J. Treadway
PRESIDENT

Richard P. Roelofs
EXECUTIVE VICE PRESIDENT

James E. Conroy
FIRST VICE PRESIDENT AND
INVESTMENT OFFICER

Kenneth A. Egan
FIRST VICE PRESIDENT

Vincent Nave
TREASURER

Francis J. McNamara, III
SECRETARY

Paul F. Roye
ASSISTANT SECRETARY

THIS REPORT IS SUBMITTED FOR THE GENERAL INFORMATION OF THE SHAREHOLDERS OF SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND. IT IS NOT AUTHORIZED FOR DISTRIBUTION TO PROSPECTIVE INVESTORS UNLESS ACCOMPANIED OR PRECEDED BY AN EFFECTIVE PROSPECTUS FOR THE FUND, WHICH CONTAINS INFORMATION CONCERNING THE FUND'S INVESTMENT POLICIES AND EXPENSES AS WELL AS OTHER PERTINENT INFORMATION.

[LOGO]

Smith Barney Shearson
Mutual Funds
Two World Trade Center
New York, New York 10048

Fund 105,177,212
FD0316 B4

[GRAPHIC]

Small box above fund name showing
S&P Stock Guide and a calculator,
pen and desk pad.
Smith Barney Shearson
Investment

1993 Grade
ANNUAL Bond
REPORT Fund

.....
DECEMBER 31, 1993

[LOGO]

Investment Grade Bond Fund

DEAR SHAREHOLDER:

We are pleased to provide the Annual Report for Smith Barney Shearson Investment Grade Bond Fund (the "Fund") for the fiscal year ended December 31, 1993. In this report we will provide you with a review of the Fund's performance, the market environment and portfolio activities during the past twelve months. In addition, we have taken the opportunity to simplify this report by separating the historical performance information for Class A and B shares into two distinct sections. Our goal is to give you clear, concise information that makes it easier for you to follow your investment. We are doing this because Smith Barney Shearson believes that an informed investor and an experienced Financial Consultant form the most productive partnerships.

THE MARKET AND ECONOMIC ENVIRONMENT

The primary concern amongst all participants in capital markets as we entered the dawn of a new Democratic Administration in 1993 was the spectre of unnecessary fiscal stimulus as a panacea for the fledgling economic recovery. As the year unfolded, President Clinton proceeded to honor his campaign pledge to reduce the Federal budget deficit. In August 1993, legislation was enacted which provided for significant deficit reductions in the years ahead. This helped calm market fears and participants once again shifted their focus to the level of economic activity and the improving outlook for inflation.

Economic growth slowed from the rapid pace recorded in the fourth quarter of 1992. The sharp increase in reported inflation statistics in early 1993 gave way to a series of moderating monthly increases throughout the remainder of the year. At the long end of the maturity spectrum, the yield on the 30-year Treasury bond fell from 7.40% in December 1992 to 5.75% in mid-October 1993. As monthly economic reports strengthened in November and December, 1993, the yield on the 30-year Treasury bond rose to close the year at 6.30%.

The overall decline in rates during 1993 made it very advantageous for corporations to issue debt, and as a result the corporate bond market experienced a record amount of new issuance. Bank and finance, industrial utility and sovereign issuers were extremely active in refinancing older, higher

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D I V I D E N D P O L I C Y

ALTHOUGH NOT EXPLICITLY STATED IN THE PROSPECTUS, THE FUND'S POLICY IS TO PAY A LEVEL MONTHLY DIVIDEND BASED ON OUR PROJECTIONS FOR THE CORPORATE BOND MARKET AND THE GENERAL DIRECTION OF INTEREST RATES. THIS POLICY HAS NO APPRECIABLE AFFECT ON THE FUND'S INVESTMENT STRATEGIES OR NET ASSET VALUE PER SHARE SINCE IT IS GUIDED BY MARKET CONDITIONS. IT MEANS THAT WE DO NOT INVEST IN MORE SPECULATIVE SECURITIES THAT MAY UNDERMINE THE FUND'S NET ASSET VALUE PER SHARE IN ORDER TO MAINTAIN AN UNREALISTICALLY HIGH DIVIDEND POLICY. WE CONTINUALLY MONITOR BOTH THE MARKET AND THE FUND'S INCOME STREAM TO SEE THAT OUR DIVIDEND PROJECTIONS ARE REALISTIC.

coupon debt with new issues at lower coupon levels. Because the net new issuance was absorbed readily by insurance companies, mutual funds and pension funds, the yield differential between corporate and other securities narrowed during the year.

INVESTMENT STRATEGY

We began 1993 with a constructive outlook for the year as a whole and remained fully invested in longer-dated maturities. The average maturity of the Fund's portfolio was 27 years at the end of the Fund's fiscal year. On December 31, 1993, 4.05% of the portfolio was rated AAA, the highest available bond rating by Standard & Poor's Corporation, which is a nationally-recognized bond rating organization, 13.21% of the portfolio was rated AA, 36.91% was rated A, and 30.03% was rated BBB. The majority of assets were invested in the food and beverage, airline, automotive and aerospace sectors.

PERFORMANCE REVIEW

The Fund had yet another good performance year in 1993. Its Class A and Class B shares were ranked numbers one and two, respectively, among their Lipper Analytical peer group of 73 funds for the twelve months ended December 31, 1993. The Fund's oldest class of shares, the Class B shares, was ranked by Lipper in the first quartile for the three-and five-year periods ended December 31, 1993. More specific information about the performance of each share class is given in the historical performance and average annual total return sections of this report.

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THE OUTLOOK FOR 1994

As we look forward to 1994, we envision uneven economic growth accompanied by a relatively stable, low level of inflation. It remains our belief that favorable global factors such as emerging markets and worldwide competition continue to provide a positive backdrop for more improvement in productivity gains. The acceptance of the North American Free Trade Agreement ("NAFTA") and the General Agreement on Trade and Tariffs ("GATT") are more symbolic of how the world is becoming interdependent. This is not an inflationary environment leading to higher interest rates. Conversely, it should lead to a declining worldwide rate environment.

The 1993 fiscal year concluded the Fund's eleventh year of operations. In retrospect, the past years have been filled with an amazing variety of market

and economic conditions and political events. Through it all our investment focus has remained constant, and despite periodic volatility the Fund and its shareholders have been handsomely rewarded. As we begin our twelfth year, we want to thank the shareholders who have been investors since inception and welcome more recent shareholders to the Fund.

Sincerely,

Heath B. McLendon
Chairman of the Board

George E. Mueller, Jr.
Investment Officer
FEBRUARY 1, 1994

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Smith Barney Shearson
Investment Grade Bond Fund

HISTORICAL PERFORMANCE -- CLASS A SHARES (UNAUDITED)

<TABLE>
<CAPTION>

Year Ended	Net Asset Value		Capital Gains	Dividends	Total
12/31/93	Beginning	Ending	Distributed	Paid	Return*
<S>	<C>	<C>	<C>	<C>	<C>
11/6/92 -					
12/31/92	\$11.67	\$11.89	--	\$0.15	3.25%
1993	11.89	13.01	\$0.14	0.89	18.45
Total			\$0.14	\$1.04	
Cumulative Total Return from 11/06/92 through 12/31/93					22.30%

<FN>
*Figures assume reinvestment of all dividends and capital gains distributions at net asset value and do not assume deduction of the sales charge (maximum 4.5%).
</TABLE>

THE FUND'S POLICY IS TO DISTRIBUTE DIVIDENDS MONTHLY AND CAPITAL GAINS, IF ANY, ANNUALLY.

AVERAGE ANNUAL TOTAL RETURN -- CLASS A SHARES**

<TABLE>
<CAPTION>

<S>	Without Sales Charge		With Sales Charge***	
	Actual	Without Fee Waiver	Actual	Without Fee Waiver
<C>	<C>	<C>	<C>	<C>
Year Ended 12/31/93	18.45%	--	13.12%	--
Inception 11/6/92 through 12/31/93	19.13%	--	14.46%	--

<FN>
**All average annual total return figures shown reflect the reinvestment of dividends and capital gains at net asset value.
***Average annual total return figures shown assume the deduction of the maximum 4.5% sales charge.
NOTE: The Fund began offering Class A shares on November 6, 1992. Class A shares are subject to a maximum 4.5% front-end sales charge and an annual service fee of 0.25% of the value of the average daily net assets attributable to that class.
</TABLE>

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A line graph depicting the total growth (including reinvestment of dividends and capital gains) of a hypothetical investment of \$10,000 in Investment Grade Bond Portfolio's Class A shares on November 6, 1992 through December 31, 1993 as compared with the growth of a \$10,000 investment in Lehman Brothers Long-Term Corporate Bond Index and Lipper Corporate Debt A-Rated Average. The plot points used to draw the line graph were as follows:

<TABLE>
<CAPTION>

GROWTH OF \$10,000	GROWTH OF \$10,000	GROWTH OF \$10,000
	INVESTMENT IN THE	INVESTMENT IN THE
	LEHMAN BROTHERS	LIPPER CORPORATE

MONTH ENDED <S>	INVESTED IN CLASS A SHARES OF THE PORTFOLIO <C>	LONG-TERM CORPORATE BOND INDEX <C>	DEBT A-RATED AVERAGE <C>
10/31/92	--	\$10,000	\$10,000
11/06/92	\$ 9,550	--	--
11/92	\$ 9,603	\$10,070	\$ 9,995
12/92	\$ 9,860	\$10,298	\$10,168
03/93	\$10,478	\$10,848	\$10,654
06/93	\$11,102	\$11,278	\$10,967
09/93	\$11,831	\$11,780	\$11,341
12/93	\$11,680	\$11,703	\$11,298

</TABLE>

+ Illustration of \$10,000 invested in Class A shares on November 6, 1992, assuming deduction of the maximum 4.5% sales charge at the time of investment and reinvestment of dividends and capital gains at net asset value through December 31, 1993.

The Lehman Brothers Long-Term Corporate Bond Index is an unmanaged index comprised of all publicly issued, fixed rate, nonconvertible, dollar-denominated investment-grade corporate debt. The average maturity of the bonds in this index is approximately 23 years and includes bonds from a diverse range of industries. Because it is unmanaged, the Lehman Brothers Long-Term Corporate Bond Index is not subject to the same management and trading expenses as a mutual fund.

The Lipper Corporate Debt A-Rated Average is composed of the Fund's peer group of 75 mutual funds as of December 31, 1993.

NOTE: All figures cited here and on the other pages represent past performance of the Fund and do not guarantee future results of Class A shares.

FOR A GLOSSARY OF TERMS, PLEASE TURN TO THE END OF THIS REPORT.

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Smith Barney Shearson
Investment Grade Bond Fund

HISTORICAL PERFORMANCE -- CLASS B SHARES (UNAUDITED)

<TABLE>
<CAPTION>

Year Ended <S>	Net Asset Value Beginning <C>	Net Asset Value Ending <C>	Capital Gains Distributed <C>	Dividends Paid <C>	Total Return* <C>
12/31/93					
1984	\$10.86	\$10.88	\$0.18	\$1.19	14.59%
1985	10.88	12.00	0.11	1.39	26.43
1986	12.00	12.91	0.25	1.10	19.54
1987	12.91	10.55	0.89	1.12	-2.83
1988	10.55	10.33	--	0.88	6.43
1989	10.33	11.01	--	0.87	15.57
1990	11.01	10.43	--	0.87	2.98
1991	10.43	11.80	--	0.87	22.50
1992	11.80	11.89	--	0.86	8.36
1993	11.89	13.01	0.14	0.83	18.06
Total			\$1.57	\$9.98	
Cumulative Total Return from 1/1/84 through 12/31/93					234.05%

<FN>
*Figures assume reinvestment of all dividends and capital gains distributions at net asset value and do not assume deduction of the contingent deferred sales charge (CDSC).
</TABLE>

THE FUND'S POLICY IS TO DISTRIBUTE DIVIDENDS MONTHLY
AND CAPITAL GAINS, IF ANY, ANNUALLY.

<TABLE>
<CAPTION>

	Without CDSC		With CDSC***	
	Actual	Without Fee Waiver	Actual	Without Fee Waiver
<S>	<C>	<C>	<C>	<C>
Year Ended 12/31/93	18.06%	--	13.56%	--
Five Years Ended 12/31/93	13.28%	13.26%	13.15%	13.14%
Ten Years Ended 12/31/93	12.82%	12.78%	12.82%	12.78%

<FN>
 **All average annual total return figures shown reflect the reinvestment of dividends and capital gains at net asset value. The Fund's distributor waived fees from January 1988 to December 1989. A shareholder's actual return for the period during which waivers were in effect would be the higher of the two numbers shown.
 ***Average annual total return figures shown assume the deduction of the applicable CDSC.

NOTE: On November 6, 1992, outstanding shares of the Fund were designated Class B shares. Class B shares are subject to a maximum 4.5% CDSC and annual service and distribution fees of 0.25% and 0.50%, respectively, of the value of the average daily net assets attributable to that class.

</TABLE>

6

A line graph depicting the total growth (including reinvestment of dividends and capital gains) of a hypothetical investment of \$10,000 in Investment Grade Bond Portfolio's Class B shares on December 31, 1983 through December 31, 1993 as compared with the growth of a \$10,000 investment in Lehman Brothers Long-Term Corporate Bond Index and Lipper Corporate Debt A-Rated Average. The plot points used to draw the line graph were as follows:

<TABLE>
<CAPTION>

MONTH ENDED <S>	GROWTH OF \$10,000 INVESTED IN CLASS B SHARES OF THE PORTFOLIO		GROWTH OF \$10,000 INVESTMENT IN THE LEHMAN BROTHERS LONG-TERM CORPORATE BOND INDEX		GROWTH OF \$10,000 INVESTMENT IN THE LIPPER CORPORATE DEBT A-RATED AVERAGE	
	<C>	<C>	<C>	<C>	<C>	<C>
12/83	\$10,000		\$10,000		\$10,000	
01/84	\$10,241		\$10,202		\$10,207	
03/84	\$ 9,982		\$ 9,805		\$10,011	
06/84	\$ 9,507		\$ 9,315		\$ 9,743	
09/84	\$10,690		\$10,562		\$10,619	
12/84	\$11,459		\$11,480		\$11,340	
03/85	\$11,696		\$11,658		\$11,568	
06/85	\$12,509		\$13,086		\$12,564	
09/85	\$12,700		\$13,236		\$12,798	
12/85	\$14,488		\$15,101		\$13,779	
03/86	\$16,445		\$18,115		\$14,745	
06/86	\$16,425		\$18,070		\$14,886	
09/86	\$16,653		\$18,087		\$15,135	
12/86	\$17,319		\$18,737		\$15,708	
03/87	\$17,655		\$18,958		\$16,021	
06/87	\$16,670		\$18,023		\$15,571	
09/87	\$15,410		\$16,646		\$14,997	
12/87	\$16,829		\$18,236		\$15,828	
03/88	\$17,478		\$18,965		\$16,406	
06/88	\$17,547		\$19,116		\$16,577	
09/88	\$17,918		\$19,518		\$16,904	
12/88	\$17,911		\$19,921		\$17,098	
03/89	\$18,046		\$20,141		\$17,277	
06/89	\$19,972		\$22,650		\$18,527	
09/89	\$20,057		\$22,630		\$18,660	
12/89	\$20,699		\$23,711		\$19,212	
03/90	\$19,946		\$22,683		\$18,981	
06/90	\$20,821		\$23,708		\$19,595	
09/90	\$20,267		\$23,172		\$19,579	
12/90	\$21,316		\$25,202		\$20,553	
03/91	\$22,275		\$25,726		\$21,109	
06/91	\$22,703		\$25,836		\$21,435	
09/91	\$24,378		\$28,011		\$22,694	
12/91	\$26,111		\$29,910		\$23,918	
03/92	\$25,805		\$28,833		\$23,552	

06/92	\$26,983	\$30,035	\$24,498
09/92	\$28,514	\$31,986	\$25,662
12/92	\$28,295	\$32,330	\$25,629
03/93	\$30,055	\$34,466	\$26,876
06/93	\$31,813	\$36,316	\$27,663
09/93	\$33,873	\$38,568	\$28,605
12/93	\$33,405	\$37,964	\$28,499

</TABLE>

+ Hypothetical illustration of \$10,000 invested in Class B shares on December 31, 1983, assuming reinvestment of dividends and capital gains at net asset value through December 31, 1993.

The Lehman Brothers Long-Term Corporate Bond Index is an unmanaged index comprised of all publicly issued, fixed rate, nonconvertible, dollar-denominated investment-grade corporate debt. The average maturity of the bonds in this index is approximately 23 years and includes bonds from a diverse range of industries. Because it is unmanaged, the Lehman Brothers Long-Term Corporate Bond Index is not subject to the same management and trading expenses as a mutual fund.

The Lipper Corporate Debt A-Rated Average is composed of the Fund's peer group of 75 mutual funds as of December 31, 1993.

NOTE: All figures cited here and on the other pages represent past performance of the Fund and do not guarantee future results of Class B shares.

FOR A GLOSSARY OF TERMS, PLEASE TURN TO THE END OF THIS REPORT.

Smith Barney Shearson
Investment Grade Bond Fund

PORTFOLIO HIGHLIGHTS (UNAUDITED)

DECEMBER 31, 1993

INDUSTRY BREAKDOWN

Pie chart depicting the allocation of the Investment Portfolios Investment Grade Bond Portfolio's investment securities held at December 31, 1993 by industry classification. The pie is broken in pieces representing industries in the following percentages:

INDUSTRY	PERCENTAGE
U.S. Treasury Bonds, U.S. Government Agency Securities, Repurchase Agreements and ney Other Assets and Liabilities	4.8%
Paper Products	6.5%
Aerospace	7.7%
Automotive	8.2%
Retail Stores	5.1%
Yenkee Bonds	12.7%
Other Corporate Bonds	27.0%
Airlines	10.8%
Food and Beverage	17.3%

TOP TEN HOLDINGS

Company	Percentage of Net Assets
FORD MOTOR COMPANY	4.3%
HYDRO-QUEBEC	4.1
BOEING COMPANY	4.0
SEAGRAMS LTD.	3.9
GENERAL MOTORS CORPORATION	3.9
UNITED AIRLINES INC.	3.9
HERSHEY FOODS CORPORATION	3.8
UNITED TECHNOLOGIES CORPORATION	3.7
AMR CORPORATION	3.7
EASTMAN KODAK COMPANY	3.6

AVERAGE MATURITY: 27 years

Smith Barney Shearson
Investment Grade Bond Fund

PORTFOLIO OF INVESTMENTS

DECEMBER 31, 1993

<TABLE>
<CAPTION>

FACE VALUE		MARKET VALUE (NOTE 1)
<C>	<S>	<C>

U.S. CORPORATE BONDS AND NOTES -- 82.5%		
FOOD AND BEVERAGE -- 17.3%		
American Brands Inc.:		
\$10,275,000	Deb., 8.625% due 11/15/2021	\$ 11,610,750
3,000,000	Notes, 7.875% due 1/15/2023	3,131,250
4,000,000	Borden Inc., Note, 7.875% due 2/15/2023	3,960,000
12,500,000	Coca-Cola Enterprises Inc., Deb., 6.750% due 9/15/2023	11,921,875
15,200,000	Hershey Foods Corporation, Deb., 8.800% due 2/15/2021	18,316,000
16,000,000	Ralston Purina Company, Deb., 8.125% due 2/1/2023	16,420,000
16,800,000	Seagrams Ltd., Deb., 8.350% due 1/15/2022	18,921,000

		84,280,875

AIRLINES -- 10.8%		
AMR Corporation, Deb.:		
14,000,000	9.000% due 9/15/2016	14,595,000
3,000,000	9.880% due 6/15/2020	3,408,750
Delta Air Lines, Inc., Deb.:		
10,890,000	9.000% due 5/15/2016 +	10,631,363
5,000,000	9.750% due 5/15/2021	5,218,750
17,650,000	United Airlines Inc., Deb., 9.750% due 8/15/2021	18,797,250

		52,651,113

AUTOMOTIVE -- 8.2%		
17,500,000	Ford Motor Company, Deb., 8.875% due 1/15/2022	21,000,000
16,000,000	General Motors Corporation, Note, 9.400% due 7/15/2021	18,880,000

		39,880,000

AEROSPACE -- 7.7%		
20,500,000	Boeing Company, Deb., 6.875% due 10/15/2043	19,423,750

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

9

Smith Barney Shearson
Investment Grade Bond Fund

PORTFOLIO OF INVESTMENTS (CONTINUED)

DECEMBER 31, 1993

<TABLE>
<CAPTION>

FACE VALUE		MARKET VALUE (NOTE 1)
<C>	<S>	<C>

U.S. CORPORATE BONDS AND NOTES -- (CONTINUED)		
AEROSPACE -- (CONTINUED)		
\$15,500,000	United Technologies Corporation, Deb., 8.750% due 3/1/2021	\$ 18,115,625

		37,539,375

PAPER PRODUCTS -- 6.5%		

11,000,000	Boise Cascade Corporation, Deb., 9.450% due 11/1/2009	11,756,250
	Bowater, Inc., Deb.:	
8,000,000	9.500% due 10/15/2012	9,030,000
6,000,000	9.375% due 12/15/2021	6,735,000
	Georgia-Pacific Corporation, Deb.:	
3,000,000	9.500% due 12/1/2011	3,491,250
500,000	9.625% due 3/15/2022	578,125
-----		31,590,625
RETAIL STORES -- 5.1%		
14,000,000	K Mart Corporation, Deb., 7.950% due 2/1/2023	15,102,500
5,000,000	Penney (J.C.) Company, Inc., Deb., 7.125% due 11/15/2023	4,981,250
5,000,000	Wal-Mart Stores Inc., Deb., 6.750% due 10/15/2023	4,856,250
-----		24,940,000
SUPRANATIONAL ENTITY -- 4.5%		
	International Bank for Reconstruction and Development:	
110,000,000	Zero coupon due 3/1/2026	11,825,000
70,000,000	Zero coupon due 3/1/2028	6,562,500
42,860,000	Zero coupon due 7/15/2029	3,589,525
-----		21,977,025
PHOTOGRAPHY -- 3.6%		
14,500,000	Eastman Kodak Company, Deb., 9.200% due 6/1/2021	17,400,000

PUBLISHING -- 3.4%		
15,000,000	Time Warner, Inc., Deb., 9.150% due 2/1/2023	16,518,750

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

10

Smith Barney Shearson
Investment Grade Bond Fund

PORTFOLIO OF INVESTMENTS (CONTINUED)

DECEMBER 31, 1993

<TABLE>

<CAPTION>

FACE VALUE		MARKET VALUE (NOTE 1)
<C>	<S>	<C>
U.S. CORPORATE BONDS AND NOTES -- (CONTINUED)		
\$17,500,000	ELECTRONICS -- 3.3% Loral Corporation, Sr. Deb., 7.000% due 9/15/2023	\$ 16,231,250

14,500,000	TELEVISION -- 2.9% CBS Inc., Note, 7.125% due 11/1/2023	14,119,375

10,000,000	METALS AND MINING -- 2.3% Inco Ltd., Deb., 9.600% due 6/15/2022	11,137,500

12,000,000	ENTERTAINMENT -- 2.3% Paramount Communications, Inc., Sr. Deb., 7.500% due 7/15/2023	11,040,000

8,250,000	CONSUMER PRODUCTS -- 2.0% Corning Glass Works, Deb., 8.875% due 3/15/2016	9,683,437

7,500,000	TRANSPORTATION -- 1.8% Ryder Systems, Inc., Bond, Series G, 9.000% due 5/15/2016	8,521,875

3,000,000	FINANCIAL SERVICES -- 0.8% Penn Central Corporation, Sub. Deb., 10.875% due 5/1/2011	3,630,000

	TOTAL U.S. CORPORATE BONDS AND NOTES (Cost \$374,254,403)	401,141,200

YANKEE BONDS -- 12.7%		
	Hydro-Quebec, Deb.:	
1,600,000	Series HE, 8.625% due 6/15/2029	1,842,000
15,000,000	Series HH, 8.500% due 12/1/2029	17,043,750
1,000,000	Series HI, 9.375% due 4/15/2030	1,245,000
5,000,000	Newfoundland Province of Canada, Deb., 7.320% due 10/13/2023	4,862,500
6,500,000	Nova Scotia Power Corporation, 8.250% due 7/30/2022	7,109,375

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

11

Smith Barney Shearson
Investment Grade Bond Fund

PORTFOLIO OF INVESTMENTS (CONTINUED) DECEMBER 31, 1993

<TABLE>
<CAPTION>

FACE VALUE		MARKET VALUE (NOTE 1)
<C>	<S>	<C>

YANKEE BONDS -- (CONTINUED)		
	Nova Scotia Province of Canada, Deb.:	
\$ 3,000,000	9.125% due 5/1/2021	\$ 3,566,250
8,500,000	8.750% due 4/1/2022	9,796,250
13,500,000	Petro Canada, 9.250% due 10/15/2021	16,149,375

	TOTAL YANKEE BONDS (Cost \$54,028,500)	61,614,500

U.S. TREASURY BOND -- 2.6%	(Cost \$13,556,250)	
12,000,000	U.S. Treasury Bond, 7.125% due 2/15/2023	13,006,679

U.S. GOVERNMENT AGENCY SECURITIES -- 0.8%		
	Financing Corporation Strips, Series 19:	
2,400,000	9.000% due 12/6/2018	395,136
21,400,000	9.000% due 6/6/2019	3,406,452

	TOTAL U.S. GOVERNMENT AGENCY SECURITIES (Cost \$2,856,342)	3,801,588

REPURCHASE AGREEMENT -- 1.9%	(Cost \$9,314,000)	
9,314,000	Agreement with Citibank 3.000% dated 12/31/1993 to be repurchased at \$9,316,328 on 1/3/1994, collateralized by \$9,270,000 U.S. Treasury Note, 5.250% due 7/31/1998**	9,314,000

TOTAL INVESTMENTS (Cost \$454,009,495*)	100.5%	488,877,967
OTHER ASSETS AND LIABILITIES (NET)	(0.5)	(2,525,456)

NET ASSETS	100.0%	\$486,352,511

<FN>

*Aggregate cost for Federal tax purposes.

**Collateral for securities on loan at 12/31/93 (Note 7).

+A portion of this security is loaned at 12/31/93. (See Note 7 to Financial Statements).

</TABLE>

Smith Barney Shearson
Investment Grade Bond Fund

STATEMENT OF ASSETS AND LIABILITIES		DECEMBER 31, 1993
<TABLE>		
<S>		
<C>		
<C>		
ASSETS:		
Investments, at value (Cost \$454,009,495) (Note 1)		
See accompanying schedule		\$488,877,967
Cash		64,676
Interest receivable		9,900,757
Receivable for Fund shares sold		1,377,836

TOTAL ASSETS		500,221,236

LIABILITIES:		
Collateral for securities loaned (Note 7)	\$9,314,900	
Notes payable (Note 8)	1,900,191	
Dividends payable	1,772,156	
Distribution fee payable (Note 3)	203,997	
Investment advisory fee payable (Note 2)	187,293	
Payable for Fund shares redeemed	153,173	
Service fees payable (Note 3)	104,156	
Administration fee payable (Note 2)	83,241	
Transfer agent fees payable (Note 2)	36,705	
Custodian fees payable (Note 2)	24,000	
Accrued expenses and other payables	88,913	

TOTAL LIABILITIES		13,868,725

NET ASSETS		\$486,352,511

NET ASSETS consist of:		
Distributions in excess of net investment income		\$ (212,081)
Accumulated net realized gain on investments sold		7,840,829
Unrealized appreciation of investments		34,868,472
Par value		37,383
Paid-in capital in excess of par value		443,817,908

TOTAL NET ASSETS		\$486,352,511

</TABLE>		

SEE NOTES TO FINANCIAL STATEMENTS.

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Smith Barney Shearson
Investment Grade Bond Fund

STATEMENT OF ASSETS AND LIABILITIES (CONTINUED)		
DECEMBER 31, 1993		
<TABLE>		
<S>		
<C>		
<C>		
NET ASSET VALUE:		
CLASS A SHARES:		
NET ASSET VALUE and redemption price per share (\$10,136,494 DIVIDED BY 779,050 shares of common stock outstanding)		\$13.01

MAXIMUM OFFERING PRICE PER SHARE (\$13.01 DIVIDED BY 0.955) (based on maximum sales charge of 4.5% of the offering price on December 31, 1993)		\$13.62

CLASS B SHARES:		
NET ASSET VALUE and offering price per share+ (\$476,007,897 DIVIDED BY 36,588,263 shares of common stock outstanding)		\$13.01

CLASS D SHARES:		

NET ASSET VALUE, offering and redemption price per share
(\$208,120 DIVIDED BY 15,998 shares of common stock
outstanding) \$13.01

<FN>
+Redemption price per share for Class B shares is equal to net asset value less
any applicable contingent deferred sales charge.
</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

14

Smith Barney Shearson
Investment Grade Bond Fund

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 1993

	<C>	<C>
<TABLE>		
<S>		
INVESTMENT INCOME:		
Interest		\$37,258,980

EXPENSES:		
Distribution fee (Note 3)	\$2,363,995	
Investment advisory fee (Note 2)	2,157,373	
Service fee (Note 3)	1,198,727	
Sub-investment advisory and administration fee (Note 2)	958,700	
Transfer agent fees (Notes 2 and 4)	451,061	
Custodian fees (Note 2)	70,895	
Legal and audit fees	54,163	
Directors' fees and expenses (Note 2)	29,356	
Other	228,313	

TOTAL EXPENSES		7,512,583

NET INVESTMENT INCOME		29,746,397

REALIZED AND UNREALIZED GAIN ON INVESTMENTS (NOTES 1 AND 5):		
Net realized gain on investments during the year		29,001,216
Net unrealized appreciation of investments during the year		18,943,101

NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS		47,944,317

NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS		\$77,690,714

</TABLE>		

SEE NOTES TO FINANCIAL STATEMENTS.

15

Smith Barney Shearson
Investment Grade Bond Fund

STATEMENT OF CHANGES IN NET ASSETS

	YEAR ENDED 12/31/93	YEAR ENDED 12/31/92
<TABLE>		
<CAPTION>		
<S>		
Net investment income	\$ 29,746,397	\$ 29,202,989
Net realized gain on investment during the year	29,001,216	7,816,610
Net unrealized appreciation/(depreciation) of investments during the year	18,943,101	(3,973,870)

Net increase in net assets resulting from operations	77,690,714	33,045,729
Distributions to shareholders from net investment income:		
Class A	(441,259)	(5,781)
Class B	(30,089,838)	(29,243,196)
Class D	(3,570)	--
Distributions in excess of net investment income:		
Class A	(3,065)	--
Class B	(208,991)	--
Class D	(25)	--
Distributions from capital:		

Class A	--	(207)
Class B	--	(1,046,190)
Distributions to shareholders from net realized gain on investments:		
Class A	(106,722)	--
Class B	(5,018,275)	--
Class D	(2,184)	--
Net increase in net assets from:		
Class A share transactions (Note 6)	8,940,862	923,865
Class B share transactions (Note 6)	2,664,579	15,163,391
Class D share transactions (Note 6)	214,405	--

Net increase in net assets	53,636,631	18,837,611
NET ASSETS:		
Beginning of year	432,715,880	413,878,269

End of year (including distributions in excess of net investment income of \$212,081 at December 31, 1993)	\$486,352,511	\$432,715,880

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

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Smith Barney Shearson
Investment Grade Bond Fund

FINANCIAL HIGHLIGHTS

FOR A CLASS A SHARE OUTSTANDING THROUGHOUT EACH PERIOD.

<TABLE>
<CAPTION>

	YEAR ENDED 12/31/93+++	PERIOD ENDED 12/31/92*
<S>	<C>	<C>
Net Asset Value, beginning of period	\$ 11.89	\$11.67

Income from investment operations:		
Net investment income	0.88	0.14
Net realized and unrealized gain on investments	1.27	0.23

Total from investment operations	2.15	0.37
Distributions to shareholders:		
Distributions from net investment income	(0.88)	(0.14)
Distributions in excess of net investment income	(0.01)	--
Distributions from net realized gains	(0.14)	--
Distributions from capital	--	(0.01)

Total distributions	(1.03)	(0.15)

Net Asset Value, end of period	\$ 13.01	\$11.89

Total return+	18.45%	3.25%

Ratios to average net assets/supplemental data:		
Net assets, end of period (in 000's)	\$10,136	\$ 933
Ratio of operating expenses to average net assets	1.11%	1.03%***
Ratio of net investment income to average net assets	6.67%	7.53%++
Portfolio turnover rate	65%	47%

<FN>

- *The Fund commenced selling Class A shares on November 6, 1992.
- **The annualized operating expense ratio excludes interest expense. The ratio including interest expense for the period ended December 31, 1992 was 1.04%.
- +Total return represents aggregate total return for the period indicated and does not reflect any applicable sales charges.
- ++Annualized.
- +++Per share amounts have been calculated using the monthly average share method.

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

17

Smith Barney Shearson
Investment Grade Bond Fund

FINANCIAL HIGHLIGHTS

FOR A CLASS B SHARE OUTSTANDING THROUGHOUT EACH YEAR.*

<TABLE>

<CAPTION>

	YEAR ENDED 12/31/93+++	YEAR ENDED 12/31/92	YEAR ENDED 12/31/91
<S>	<C>	<C>	<C>
Net Asset Value, beginning of year	\$ 11.89	\$ 11.80	\$ 10.43

Income from investment operations:			
Net investment income	0.80	0.83	0.86
Net realized and unrealized gain/(loss) on investments	1.29	0.12	1.38

Total from investment operations	2.09	0.95	2.24
Distributions to shareholders:			
Distributions from net investment income	(0.82)	(0.83)	(0.87)
Distributions in excess of net investment income	(0.01)	--	--
Distributions from net realized gains	(0.14)	--	--
Distributions from capital	--	(0.03)	--

Total distributions	(0.97)	(0.86)	(0.87)

Net Asset Value, end of year	\$ 13.01	\$ 11.89	\$ 11.80

Total return+	18.06%	8.36%	22.50%

Ratios to average net assets/supplemental data:			
Net assets, end of year (in 000's)	\$476,008	\$431,783	\$413,878
Ratio of operating expenses to average net assets	1.58%	1.57%**	1.53%
Ratio of net investment income to average net assets	6.20%	6.99%	7.90%
Portfolio turnover rate	65%	47%	82%

<FN>

*On November 6, 1992 the Fund commenced selling Class A shares. Those shares in existence prior to November 6, 1992 were designated Class B shares.

**The operating expense ratio excludes interest expense. The ratio including interest expense for the year ended December 31, 1992 was 1.58%.

***Expense ratios before waiver of fees by the distributor for the years ended December 31, 1989 and 1988 were 1.66% and 1.57%, respectively.

+Total return represents aggregate total return for the year indicated and does not reflect any applicable sales charges.

++Not covered by Coopers & Lybrand's report.

+++Per share amounts have been calculated using the monthly average share method.

#Net investment income before waiver of fees by the distributor for the years ended December 31, 1989 and 1988 were \$0.86 and \$0.87, respectively.

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

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Smith Barney Shearson
Investment Grade Bond Fund

<TABLE>

<CAPTION>

YEAR ENDED 12/31/91	YEAR ENDED 12/31/89	YEAR ENDED 12/31/88++	YEAR ENDED 12/31/87++	YEAR ENDED 12/31/86++	YEAR ENDED 12/31/85++	YEAR ENDED 12/31/84++
<S>	<C>	<C>	<C>	<C>	<C>	<C>
\$ 11.01	\$ 10.33	\$ 10.55	\$ 12.91	\$ 12.00	\$ 10.88	\$ 10.86

0.86	0.87#	0.90#	0.89	1.10	1.08	1.25
(0.57)	0.68	(0.24)	(1.24)	1.16	1.54	0.14

0.29	1.55	0.66	(0.35)	2.26	2.62	1.39
(0.87)	(0.87)	(0.88)	(1.12)	(1.10)	(1.39)	(1.19)
--	--	--	--	--	--	--
--	--	--	(0.89)	(0.25)	(0.11)	(0.18)
--	--	--	--	--	--	--

(0.87)	(0.87)	(0.88)	(2.01)	(1.35)	(1.50)	(1.37)

\$ 10.43	\$ 11.01	\$ 10.33	\$ 10.55	\$ 12.91	\$ 12.00	\$ 10.88

2.98%	15.57%	6.43%	(2.83)%	19.54%	26.43%	14.59%

\$405,779	\$483,382	\$532,794	\$705,561	\$421,011	\$233,880	\$171,621

1.58%	1.63%***	1.22%***	1.62%	1.62%	1.79%	1.88%
8.20%	8.07%	8.74%	7.96%	7.74%	9.78%	12.11%
59%	118%	72%	79%	211%	717%	477%

<FN>
</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

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Smith Barney Shearson
Investment Grade Bond Fund

FINANCIAL HIGHLIGHTS

FOR A CLASS D SHARE OUTSTANDING THROUGHOUT THE PERIOD.

<TABLE>
<CAPTION>

	PERIOD ENDED 12/31/93***
<S>	<C>
Net Asset Value, beginning of period	\$12.56

Income from investment operations:	
Net investment income	0.63
Net realized and unrealized gain on investments	0.65

Total from investment operations	1.28
Distributions to shareholders:	
Distributions from net investment income	(0.68)
Distributions in excess of net investment income	(0.01)
Distributions from net realized gains	(0.14)

Total distributions	(0.83)

Net Asset Value, end of period	\$13.01

Total return+	10.38%

Ratios to average net assets/supplemental data:	
Net assets, end of period (in 000's)	\$ 208
Ratio of operating expenses to average net assets	1.61%**
Ratio of net investment income to average net assets	6.17%**
Portfolio turnover rate	65%

<FN>
*The Fund commenced selling Class D shares on February 26, 1993.
**Annualized.
+Total return represents aggregate total return for the period indicated.
++Per share amounts have been calculated using the monthly average share
method.

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

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Smith Barney Shearson
Investment Grade Bond Fund

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Smith Barney Shearson Investment Funds Inc. (the "Company") was incorporated in Maryland on September 29, 1981 and commenced operations on January 4, 1982. The Company is registered with the Securities and Exchange Commission under the Investment Company Act of 1940, as amended (the "1940 Act"), as a diversified open-end management investment company. Prior to the close of business on July 30, 1993, the Company's corporate name was "SLH Investment Portfolios Inc." and it was doing business under the name "Shearson Lehman Brothers Investment Funds." As of the date of this report, the Company is composed of five managed investment funds (the "Funds"): Investment Grade Bond Fund, Government Securities Fund, Special Equities Fund, Directions Value Fund, and European

Fund. The assets of each Fund are segregated and a shareholder's interest is limited to the Fund in which he or she owns shares. As of November 6, 1992, each Fund offered two classes of shares to the general public: Class A shares and Class B shares. Class A shares are sold with a front-end sales charge. Class B shares may be subject to a contingent deferred sales charge ("CDSC") upon redemption. Class B shares will convert automatically to Class A shares approximately eight years after date of purchase, beginning on September 30, 1994. As of January 29, 1993, the Investment Grade Bond Fund ("the Fund") offered a third class of shares, Class D shares, and these shares were first purchased by the public on February 26, 1993. Class D shares are offered to plans participating in the Smith Barney Shearson Inc. ("Smith Barney Shearson") 401(k) program. Class D shares are offered without a front-end sales charge or CDSC. All classes of shares have identical rights and privileges except with respect to the effect of the respective sales charges to each class, the distribution and/or service fees borne by each class, expenses allocable exclusively to each class, voting rights on matters affecting a single class, the exchange privilege of each class and the conversion feature of Class B shares. The following is a summary of significant accounting policies consistently followed by the Fund in preparation of its financial statements.

PORTFOLIO VALUATION: Securities listed on an exchange are valued on the basis of the last sale prior to the time the valuation is made. If there has been no sale since the immediately previous valuation, then the current bid price is used. Over-the-counter securities are valued on the basis of the bid price at the close of business on each day. Notwithstanding the above, bonds and

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Smith Barney Shearson
Investment Grade Bond Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

other fixed-income securities are valued by using market quotations and may be valued on the basis of prices provided by a pricing service, when the Board of Directors believes that such prices reflect the market value of such securities. In cases where securities are traded on more than one exchange, the securities are valued on the exchange designated by or under the authority of the Board of Directors as the primary market. Securities and assets for which market quotations are not readily available are valued at fair value as determined in good faith by or under the direction of the Board of Directors. Money market instruments maturing within 60 days of the valuation date are valued at amortized cost.

REPURCHASE AGREEMENTS: The Fund engages in repurchase agreement transactions. Under the terms of a typical repurchase agreement, the Fund takes possession of an underlying debt obligation subject to an obligation of the seller to repurchase, and the Fund to resell, the obligation at an agreed-upon price and time, thereby determining the yield during the Fund's holding period. This arrangement results in a fixed rate of return that is not subject to market fluctuations during the Fund's holding period. The value of the collateral is at least equal at all times to the total amount of the repurchase obligations, including interest. In the event of counterparty default, the Fund has the right to use the collateral to offset losses incurred. There is a potential loss to the Fund in the event the Fund is delayed or prevented from exercising its rights to dispose of the collateral securities including the risk of a possible decline in the value of the underlying securities during the period while the Fund seeks to assert its rights. The Fund's investment adviser, acting under the supervision of the Board of Directors, reviews the value of the collateral and the creditworthiness of those banks and dealers with which the Fund enters into repurchase agreements to evaluate potential risks.

SECURITIES TRANSACTIONS AND INVESTMENT INCOME: Securities transactions are recorded as of the trade date. Dividend income is recorded on the ex-dividend date. Interest income is recorded on the accrual basis. Realized gains and losses from securities transactions are recorded on the identified cost basis. Investment income and realized and unrealized gains and losses are allocated based upon the relative net assets of each class of shares.

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Smith Barney Shearson
Investment Grade Bond Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FEDERAL INCOME TAXES: The Fund intends to continue to qualify as a regulated investment company, if such qualification is in the best interest of its shareholders, by complying with the requirements of the Internal Revenue Code of

1986, as amended (the "Code"), applicable to regulated investment companies and to distribute substantially all of its taxable income to its shareholders. Therefore, no Federal income tax provision is required.

DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS: Distributions from net investment income, if any, are determined on a class level and will be declared daily and paid monthly. Distributions from net realized capital gains, after utilization of capital loss carryforwards, are determined on a Fund level and will be distributed at least annually. Net short-term capital gains may be paid more frequently, with the distribution of dividends from net investment income. Additional distributions of net investment income and capital gains may be made at the discretion of the Board of Directors to avoid application of the excise tax imposed under the code for certain undistributed amounts. Income distributions and capital gain distributions on a Fund level are determined in accordance with income tax regulations which may differ from generally accepted accounting principles. These differences are primarily due to differing treatments of income and gains on various investment securities held by the Fund, timing differences and differing characterization of distributions made by the Fund as a whole.

RECLASSIFICATIONS: During the year, the Fund adopted Statement of Position 93-2 "Determination, Disclosure, and Financial Statement Presentation of Income, Capital Gain, and Return of Capital Distributions by Investment Companies." Accordingly, certain reclassifications have been made to the components of capital in the Statement of Net Assets to conform with the accounting and reporting guidelines of this statement. Distributions in excess of book basis accumulated realized gains or undistributed net investment income that were the result of permanent book and tax accounting differences have been reclassified to paid-in capital. In addition, amounts distributed in excess of accumulated net investment income as determined for financial statement purposes which had previously been reported as distributions from paid-in capital have been reclassified to accumulated net investment income. Accordingly, amounts as of December 31, 1992 have been restated to reflect an increase in undistributed net investment income of \$788,270, a decrease in paid-in capital of \$806,152 and a decrease in

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Smith Barney Shearson
Investment Grade Bond Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

accumulated net realized losses of \$17,882. The Statement of Changes in Net Assets and Financial Highlights have not been restated to reflect this change in presentation. Net investment income, net realized gains and net assets were not affected by this change.

2. INVESTMENT ADVISORY FEE, ADMINISTRATION FEE AND OTHER RELATED PARTY TRANSACTIONS

Up to the close of business on July 30, 1993, the Fund had entered into an investment advisory agreement with Shearson Lehman Brothers Inc. ("Shearson Lehman Brothers") on behalf of Shearson Lehman Advisors, a member of the Asset Management Group of Shearson Lehman Brothers. Under the investment advisory agreement, the Fund paid a monthly fee at the annual rate of 0.45% of the value of its average daily net assets, up to \$500 million and 0.42% of the value of its average daily net assets thereafter.

As of the close of business on July 30, 1993, The Travelers Inc. (formerly known as Primerica Corporation) ("Travelers") and Smith Barney, Harris Upham & Co. Incorporated completed the acquisition of substantially all of the domestic retail brokerage and asset management businesses of Shearson Lehman Brothers. Smith Barney, Harris Upham & Co. Incorporated was subsequently renamed Smith Barney Shearson.

As of the close of business on July 30, 1993, Greenwich Street Advisors, a division of Mutual Management Corp., which is controlled by Smith Barney Shearson Holdings Inc. ("Holdings"), succeeded Shearson Lehman Advisors as the Fund's investment adviser. Holdings is a wholly owned subsidiary of Travelers. The new investment advisory agreement with Greenwich Street Advisors (the "Advisory Agreement") contains terms and conditions substantially similar to the investment advisory agreement with the predecessor investment adviser and provides for payment of fees at the same rate as was paid to such predecessor investment adviser.

The Fund has also entered into an administration agreement (the "Administration Agreement") dated May 21, 1993, with The Boston Company Advisors, Inc. ("Boston Advisors"), an indirect wholly owned subsidiary of Mellon Bank Corporation ("Mellon"). Under the Administration Agreement, the Fund pays a monthly fee at the annual rate of 0.20% of the value of its

Smith Barney Shearson
Investment Grade Bond Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

average daily net assets up to \$500 million and 0.18% of the value of its average daily net assets thereafter. Prior to May 21, 1993, Boston Advisors served as sub-investment adviser and administrator to the Fund.

For the year ended December 31, 1993, Smith Barney Shearson or its predecessor received from investors \$110,683 representing commissions (sales charges) on sales of Class A shares.

A CDSC is generally payable by a shareholder in connection with the redemption of Class B shares within five years (eight years in the case of certain 401(k) plans) after the date of purchase. In circumstances in which the charge is imposed, the amount of the charge ranges between 4.5% and 1% of net asset value depending on the number of years since the date of purchase (except in the case of purchases by certain 401(k) plans in which case a 3% charge is imposed for the eight year period after the date of the purchase). For the year ended December 31, 1993, Smith Barney Shearson or its predecessor received from investors \$498,515 representing CDSC fees on the redemption of Class B shares.

No officer, director or employee of Smith Barney Shearson or Boston Advisors or of any parent or subsidiary of those corporations receives any compensation from the Company for serving as an officer or director of the Company. The Company pays each Director who is not an officer, director or employee of Smith Barney Shearson or Boston Advisors or any of their affiliates \$14,000 per annum plus \$3,000 per meeting attended and reimburses each such Director for travel and out-of-pocket-expenses.

Boston Safe Deposit and Trust Company, an indirect wholly owned subsidiary of Mellon, serves as the Fund's custodian. The Shareholder Services Group, Inc., a subsidiary of First Data Corporation, serves as the Fund's transfer agent.

3. DISTRIBUTION AGREEMENT

Smith Barney Shearson acts as distributor of the Fund's shares pursuant to a distribution agreement with the Company, and sells shares of all the Funds of the Company through Smith Barney Shearson or its affiliates.

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Smith Barney Shearson
Investment Grade Bond Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Pursuant to Rule 12b-1 under the 1940 Act, the Company has adopted a Services and Distribution Plan (the "Plan"). Under this Plan, the Company compensates Smith Barney Shearson for servicing shareholder accounts for Class A, Class B and Class D shareholders, and covers expenses incurred in distributing Class B and Class D shares. Smith Barney Shearson is paid an annual service fee with respect to Class A, Class B and Class D shares of the Fund at the rate of 0.25% of the value of the average daily net assets of each respective class of shares. Smith Barney Shearson is also paid an annual distribution fee with respect to Class B and Class D shares at the rate of 0.50% of the value of the average daily net assets of each respective class of shares. For the year ended December 31, 1993, the service fee for Class A and Class B shares was \$16,729 and \$1,181,850, respectively. For the period from February 26, 1993 through December 31, 1993, the service fee for Class D shares was \$148. For the year ended December 31, 1993, the distribution fee for Class B shares was \$2,363,700. For the period from February 26, 1993 through December 31, 1993, the distribution fee for Class D shares was \$295.

4. EXPENSE ALLOCATION

Expenses of the Fund not directly attributable to the operations of any class of shares are prorated among the classes based upon the relative net assets of each class. Operating expenses directly attributable to a class of shares are charged to that class' operations. In addition to the above service and distribution fees, class specific operating expenses include the transfer agent fees. For the year ended December 31, 1993, transfer agent fees for Class A and Class B shares were \$8,253 and \$442,736, respectively. For the period from February 26, 1993 through December 31, 1993 transfer agent fees for Class D shares were \$72.

5. SECURITIES TRANSACTIONS

Cost of purchases and proceeds from sales of securities, excluding short-term investments, aggregated \$311,886,167 and \$304,511,038, respectively, for the year ended December 31, 1993.

At December 31, 1993, aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost was \$39,170,957 and aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was \$4,302,485.

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Smith Barney Shearson
Investment Grade Bond Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. SHARES OF COMMON STOCK

At December 31, 1993, the Fund had authorized capital of 200 million shares of \$.001 par value common stock divided into four classes of shares, Class A, Class B, Class C and Class D. The Fund has not yet commenced offering Class C shares.

Changes in common stock outstanding were as follows:

<TABLE>
<CAPTION>

CLASS A SHARES: <S>	YEAR ENDED 12/31/93		PERIOD ENDED 12/31/92*	
	Shares <C>	Amount <C>	Shares <C>	Amount <C>
Sold	814,955	\$ 10,439,045	78,401	\$ 922,565
Issued as reinvestment of dividends	30,012	391,603	243	2,864
Redeemed	(144,428)	(1,889,786)	(133)	(1,564)
Net increase	700,539	\$ 8,940,862	78,511	\$ 923,865

<CAPTION>

CLASS B SHARES: <S>	YEAR ENDED 12/31/93		YEAR ENDED 12/31/92	
	Shares <C>	Amount <C>	Shares <C>	Amount <C>
Sold	7,479,308	\$ 95,869,084	7,993,753	\$ 94,210,187
Issued as reinvestment of dividends	2,026,146	26,160,376	1,901,871	22,373,065
Redeemed	(9,246,595)	(119,364,881)	(8,629,417)	(101,419,861)
Net increase	258,859	\$ 2,664,579	1,266,207	\$ 15,163,391

<CAPTION>

CLASS D SHARES: <S>	PERIOD ENDED 12/31/93**		Shares <C>	Amount <C>
	Shares <C>	Amount <C>		
Sold	15,619	\$ 209,421		
Issued as reinvestment of dividends	473	6,230		
Redeemed	(94)	(1,246)		
Net increase	15,998	\$ 214,405		

<FN>
*The Fund commenced selling Class A shares on November 6, 1992. Any shares outstanding prior to November 6, 1992 were designated Class B shares.
**The Fund commenced selling Class D shares to the public on February 26, 1993.
</TABLE>

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Smith Barney Shearson
Investment Grade Bond Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. LENDING OF PORTFOLIO SECURITIES

The Fund has the ability to lend its securities to brokers, dealers and other financial organizations. Loans of securities by the Fund are collateralized by cash, letters of credit or U.S. government securities that are maintained at all times in an amount at least equal to the current market value of the loaned security.

For the year ended December 31, 1993, the Fund loaned securities to certain brokers for which the Fund received \$9,314,900 as collateral. This amount is invested in a repurchase agreement at December 31, 1993.

At December 31, 1993, the Fund loaned a security with an aggregate market value of \$9,279,257 which represents 1.91% of total net assets.

8. NOTES PAYABLE

The Fund and several affiliated entities participate in a \$50 million line of credit provided by Continental Bank N.A. under an Amended and Restated Line of Credit Agreement (the "Agreement") dated April 30, 1992, primarily for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. Under this Agreement, the Fund may borrow up to the lesser of \$25 million or 20% of its net assets. Interest is payable either at the bank's Money Market Rate or the London Interbank Offered Rate (LIBOR) plus 0.375% on an annualized basis. The Fund and the other affiliated entities are charged an aggregate commitment fee of \$125,000 which is allocated equally among each of the participants. The Agreement requires, among other provisions, each participating fund to maintain a ratio of net assets (not including funds borrowed pursuant to the Agreement) to aggregate amount of indebtedness pursuant to the Agreement of no less than 5 to 1. During the year ended December 31, 1993, the Fund had an average outstanding daily balance of \$618,356 with interest rates ranging from 3.375% to 4.375%. Interest expense for the year ended December 31, 1993 totalled \$21,407 which has been included in other expenses on the Statement of Operations for the year ended December 31, 1993. At December 31, 1993, the Fund had outstanding borrowings under this Agreement of \$1,900,191.

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Smith Barney Shearson
Investment Grade Bond Fund

REPORT OF INDEPENDENT ACCOUNTANTS

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF
SMITH BARNEY SHEARSON INVESTMENT GRADE BOND FUND OF
SMITH BARNEY SHEARSON INVESTMENT FUNDS INC.:

We have audited the accompanying statement of assets and liabilities of Smith Barney Shearson Investment Grade Bond Fund of Smith Barney Shearson Investment Funds Inc., including the schedule of portfolio investments, as of December 31, 1993, and the related statement of operations for the year then ended, the statement of changes in net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights 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 December 31, 1993 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the Smith Barney Shearson Investment Grade Bond Fund of Smith Barney Shearson Investment Funds Inc. as of December 31, 1993, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with generally accepted accounting principles.

COOPERS & LYBRAND

Boston, Massachusetts
February 2, 1994

Smith Barney Shearson
Investment Grade Bond Fund

TAX INFORMATION

YEAR ENDED DECEMBER 31, 1993 (UNAUDITED)

The amount of long term capital gains paid for the fiscal year ended December 31, 1993 was \$5,127,181.

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Smith Barney Shearson
Investment Grade Bond Fund

PARTICIPANTS

DISTRIBUTOR

Smith Barney Shearson Inc.
388 Greenwich Street
New York, New York 10013

INVESTMENT ADVISER

Greenwich Street Advisors
Two World Trade Center
New York, New York 10048

ADMINISTRATOR

The Boston Company Advisors, Inc.
One Boston Place
Boston, Massachusetts 02108

AUDITORS AND COUNSEL

Coopers & Lybrand
One Post Office Square
Boston, Massachusetts 02109

Dechert Price & Rhoads
1500 K Street, N.W.
Washington, D.C. 20005

TRANSFER AGENT

The Shareholder Services Group, Inc.
Exchange Place
Boston, Massachusetts 02109

CUSTODIAN

Boston Safe Deposit and
Trust Company
One Boston Place
Boston, Massachusetts 02108

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Smith Barney Shearson
Investment Grade Bond Fund

GLOSSARY OF COMMONLY USED MUTUAL FUND TERMS

CAPITAL GAIN (OR LOSS) This is the increase (or decrease) in the market value (price) of a security in your portfolio. If a stock or bond appreciates in price, there is a capital gain; if it depreciates there is a capital loss. A capital gain or loss is "realized" upon the sale of a security; if net capital gains exceed net capital losses, there may be a capital gain distribution to shareholders.

CONTINGENT DEFERRED SALES CHARGE (CDSC) One kind of back-end load, a CDSC may be imposed if shares are redeemed during the first few years of ownership. The CDSC may be expressed as a percentage of either the original purchase price or the

redemption proceeds. Most CDSs decline over time, and some will not be charged if shares are redeemed after a certain period of time.

DISTRIBUTION RATE This is the rate at which a mutual fund pays out (or distributes) interest, dividends and realized capital gains to shareholders. A fund's distribution rate is usually expressed as an annualized percent of the fund's offering price.

DIVIDEND This is income generated by securities in a portfolio and distributed after expenses to shareholders.

FRONT-END SALES CHARGE This is the sales charge which may be applied to an investment at the time of initial purchase.

NET ASSET VALUE (NAV) Net asset value is the total market value of all securities held by a fund, minus any liabilities, divided by the number of shares outstanding. It is the value of a single share of a mutual fund on a given day. The total value of your investment would be the NAV multiplied by the number of shares you own.

SEC YIELD This standardized calculation of a mutual fund's yield is based on a formula developed by the Securities and Exchange Commission (SEC) to allow funds to be compared on an equal basis. It is an annualized yield based on the portfolio's potential earnings from dividends, interest and yield to maturity of its holdings, and it reflects the payments of all portfolio expenses for the most recent 30-day period. Mutual funds are required to use this figure when stating yield.

TOTAL RETURN Total return measures a fund's performance, taking into account the combination of dividends paid and the gain or loss in the value of the securities held in the portfolio. It may be expressed on an AVERAGE ANNUAL basis or CUMULATIVE basis (total change over a given period). In addition, total return may be expressed with or without the effects of sales charges or the reinvestment of dividends and capital gains.

Whenever a fund reports any type of performance, it must also report the average annual total return according to the standardized calculation developed by the SEC. The SEC AVERAGE ANNUAL TOTAL RETURN calculation includes the effects of all fees and sales charges and assumes the reinvestment of all dividends and capital gains.

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INVESTMENT
GRADE BOND
FUND

DIRECTORS
Alger B. Chapman
Dwight B. Crane
Allan R. Johnson
Frank G. Hubbard
Heath B. McLendon
John F. White

OFFICERS
Heath B. McLendon
CHAIRMAN OF THE BOARD

Stephen J. Treadway
PRESIDENT

Richard P. Roelofs
EXECUTIVE VICE PRESIDENT

George E. Mueller Jr.
INVESTMENT OFFICER

Kenneth A. Egan
FIRST VICE PRESIDENT

Vincent Nave
TREASURER

Francis J. McNamara, III
SECRETARY

Paul F. Roye
ASSISTANT SECRETARY

THIS REPORT IS SUBMITTED FOR THE GENERAL INFORMATION OF THE SHAREHOLDERS OF SMITH BARNEY SHEARSON INVESTMENT GRADE BOND FUND. IT IS NOT AUTHORIZED FOR DISTRIBUTION TO PROSPECTIVE INVESTORS UNLESS ACCOMPANIED OR PRECEDED BY AN

[LOGO]

SMITH BARNEY SHEARSON
MUTUAL FUNDS
Two World Trade Center
New York, New York 10048

Fund 104, 234, 242
FD0317 B4

1993. PLEASE CONSULT SMITH BARNEY SHEARSON
MUTUAL FUNDS QUARTERLY PERFORMANCE UPDATE FOR
FIGURES THROUGH THE MOST RECENT CALENDAR
QUARTER.

SMITH BARNEY SHEARSON
DIRECTIONS
VALUE
FUND

Two World Trade Center
New York, New York 10048

Fund 107, 235, 249
FD0314 B4

[GRAPHIC]

Small box above fund name showing
4 bars with the words "growth
companies" printed on top of them.
Smith Barney Shearson

1993 Special
ANNUAL Equities
REPORT Fund

.....
DECEMBER 31, 1993

[LOGO]

Special Equities Fund

DEAR SHAREHOLDER:

We are pleased to provide the Annual Report for Smith Barney
Shearson Special Equities Fund for the fiscal year ended
December 31, 1993. In this report we

will provide you with a review of the Fund's performance, the market
environment and portfolio activities during the past twelve months. In
addition, we have taken this opportunity to simplify the report by
separating the historical performance information for Class A and B
shares into two distinct sections. Our goal is to provide clear,
concise information that makes it easier for you to follow your
investment.

THE MARKET AND ECONOMIC ENVIRONMENT

In 1993 the economy continued to benefit from low and stable
inflation, low interest rates and ample liquidity. The result was four
quarters of progressively better "real" growth. As we
exited 1993, much improved consumer confidence was captured by both sample
statistical surveys and an increase in spending in big ticket items such as
homes and autos.

Mother Nature clearly negatively affected the first quarter of 1994; first came
the California earthquake just as that state's lagging economy was beginning to
awaken, then came the frigid Arctic blast with its seemingly mountainous
snowfalls in much of the country's northern tier. At the same time, some signs
of an impending pickup in inflationary pricing pressure (particularly in some of
the commodities markets) motivated the Federal Reserve Board to take its first
move towards tightening monetary policy since 1989. Whether this move is a
preemptive strike or an over-reaction, it does signal the first reversal in an
accommodative monetary policy that has been supporting the move to ever-higher
prices for financial assets. At the risk of overstating this modest Fed action,
it must be said that it reflects a change that should be expected on a cyclical
basis as the economy's growth pace has accelerated.

INVESTMENT STRATEGY

The immediate response that we as investors should make is to reinforce the importance of earnings when seeking attractive investments. That pushes stock selection to the top of the critical portfolio decisions as opposed to broad market judgments. We reflect this in our investment decisions by purchasing shares of only those companies which have a proven track record of increasing revenues and earnings, some unique attributes which set them apart from their competitors, and sufficient trading activity not only to accommodate a purchase but, more importantly, a sale.

Despite stock market averages hitting new highs and an almost euphoric view toward the economy as the year progressed, 1993 proved to be a more difficult year for performance-oriented funds than it appeared on the surface. Although the averages may have hit new highs, the broader underlying

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markets did not perform as well. In our view, the year was characterized by rolling corrections or rapid, volatile rotations between sectors of the market, while the overall averages maintained their steady upward pace. This dichotomy of performance proved to be difficult, particularly for growth fund managers, whether large or small-capitalization. Stock selection, therefore, became an even more critical component of the investment process and we think 1994 will be no different. While we believe the small-capitalization world clearly has an upward bias, the road will be bumpy with continued volatile moves. Hence, we once again advise investors in the more aggressive funds to use them as an integral part of an overall investment program.

PERFORMANCE

The performance of the Fund in 1993 was good, up approximately 32% for the year. The Fund ended the year ranked fourth for Class A Shares and eighth for Class B Shares among its 166-member peer group investing in small company growth stocks as measured by Lipper Analytical Services, Inc., a nationally-recognized mutual fund ranking service. However, this was not achieved without difficulty in the sense that much of our portfolio was invested in the so-called "out of favor" consumer sector. Moreover, the uniqueness of the companies in the Fund's portfolio greatly contributed to its strong performance. This compares with performance increases for the broader markets in the range of 7% to 17%. While the Dow Jones Industrial Average (DJIA) had risen 13.72%, the Standard & Poor's 500 Composite Stock Price Index (S&P 500), a truer index comparison with the Fund, was up just over 7%.

Our goal in 1994 is to continue to provide our investors with a rational, carefully thought out investment program based on stock selection and geared to outperform the averages. We cannot stress enough the concept of stock selection. With group leadership seemingly lasting only days and weeks, the flexibility needed to participate in such moves is often not available. Thus, we think stock selection of high quality growth issues is a far more prudent strategy.

Once again, we thank you for your continued support and look forward to serving your investment needs in the future.

Sincerely,

Heath B. McLendon
Chairman of the Board

George V. Novello
Investment Officer
FEBRUARY 1, 1994

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Smith Barney Shearson
Special Equities Fund

HISTORICAL PERFORMANCE -- CLASS A SHARES (UNAUDITED)

<TABLE>
<CAPTION>

Year Ended December 31, <S>	Net Asset Value Beginning <C>	Net Asset Value Ending <C>	Capital Gains Distributed <C>	Dividends Paid <C>	Total Return* <C>
11/6/92 - 12/31/92	\$14.13	\$ 15.47	--	--	9.48%
1993	15.47	20.23	\$0.33	--	32.90
Total			\$0.33	--	
Cumulative Total Return from 11/6/92 through 12/31/93					45.51%

<FN>
 *Figures assume reinvestment of all dividends and capital gains distributions at net asset value and do not assume deduction of the sales charge (maximum 5%).
 </TABLE>

THE FUND'S POLICY IS TO DISTRIBUTE DIVIDENDS
 AND CAPITAL GAINS, IF ANY, ANNUALLY.

 AVERAGE ANNUAL TOTAL RETURN -- CLASS A SHARES**

<TABLE>
 <CAPTION>

<S>	Without Sales Charge		With Sales Charge***	
	Actual	Without Expense Reimbursement	Actual	Without Expense Reimbursement
<C>	<C>	<C>	<C>	<C>
Year Ended 12/31/93	32.90%	--	26.26%	--
Inception 11/6/92 through 12/31/93	39.00	--	32.88	--

<FN>
 **All average annual total return figures shown reflect the reinvestment of dividends and capital gains at net asset value.
 ***Average annual total return figures shown assume the deduction of the maximum 5% sales charge.
 NOTE: The Fund began offering Class A shares on November 6, 1992. Class A shares are subject to a maximum 5% front-end sales charge and an annual service fee of 0.25% of the value of the average daily net assets attributable to that class.
 </TABLE>

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A line graph depicting the total growth (including reinvestment of dividends and capital gains) of a hypothetical investment of \$10,000 in the Special Equities Fund's Class A shares on November 10, 1992 through December 31, 1993 as compared with the growth of a \$10,000 investment in Standard & Poor's Composite Stock Price Index. The plot points used to draw the line graph were as follows:

<TABLE>
 <CAPTION>

MONTH ENDED	GROWTH OF \$10,000 INVESTED IN CLASS A SHARES OF THE FUND		GROWTH OF \$10,000 INVESTMENT IN THE STANDARD & POOR'S COMPOSITE STOCK PRICE INDEX	
	<C>	<C>	<C>	<C>
10/31/92	--	--	\$ 10,000	--
11/10/92	\$ 9,500	--	--	--
11/92	10,139	10,139	10,340	10,340
12/92	10,401	10,401	10,466	10,466
03/93	10,856	10,856	10,923	10,923
06/93	12,068	12,068	10,975	10,975
9/93	14,542	14,542	11,258	11,258
12/93	13,823	13,823	11,526	11,526

</TABLE>

+ Illustration of \$10,000 invested in Class A shares on November 6, 1992, assuming deduction of the maximum 5% sales charge at the time of investment and reinvestment of dividends and capital gains at net asset value through December 31, 1993.

The Standard & Poor's 500 Composite Stock Price Index ("S&P 500") is an index composed of 500 widely held common stocks listed on the New York Stock Exchange, American Stock Exchange and over-the-counter market. The S&P 500 is useful in depicting the general movement of the stock market, but because it is unmanaged, it is not subject to the same management and trading expenses as a mutual fund.

NOTE: All figures cited here and on the other pages represent past performance of the Fund and do not guarantee future results of Class A shares.

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Smith Barney Shearson
 Special Equities Fund

 HISTORICAL PERFORMANCE -- CLASS B SHARES (UNAUDITED)

Year Ended December 31, <S>	Net Asset Value		Capital Gains	Dividends	Total
<S>	Beginning <C>	Ending <C>	Distributed <C>	Paid <C>	Return* <C>
1984	\$11.83	\$ 9.94	\$0.70	\$0.05	-10.24%
1985	9.94	13.15	--	0.21	35.17
1986	13.15	13.02	1.00	0.05	7.05
1987	13.02	11.48	0.14	--	-10.91
1988	11.48	12.04	0.30	0.55	12.60
1989	12.04	13.77	--	0.51	18.60
1990	13.77	9.82	0.23	0.31	-24.71
1991	9.82	14.18	--	0.03	44.76
1992	14.18	15.47	--	--	9.10
1993	15.47	20.08	0.33	--	31.93
Total			\$2.70	\$1.71	
Cumulative Total Return from 1/1/84 through 12/31/93					142.43%

<FN>
 *Figures assume reinvestment of all dividends and capital gains distributions at net asset value and do not assume deduction of the contingent deferred sales charge (CDSC).
 </TABLE>

THE FUND'S POLICY IS TO DISTRIBUTE DIVIDENDS
 AND CAPITAL GAINS, IF ANY, ANNUALLY.

 AVERAGE ANNUAL TOTAL RETURN -- CLASS B SHARES**

<S>	Without CDSC		With CDSC***	
	Actual <C>	Without Expense Reimbursement <C>	Actual <C>	Without Expense Reimbursement <C>
Year Ended 12/31/93	31.93%	--	26.93%	--
Five Years Ended 12/31/93	13.22	--	13.10	--
Ten Years Ended 12/31/93	9.26	9.25%	9.26	9.25%

<FN>
 **All average annual total return figures shown reflect the reinvestment of dividends and capital gains at net asset value. The Fund's investment adviser, sub-investment adviser and administrator reimbursed expenses during 1988. A shareholder's actual return for the period during which reimbursements were in effect would be the higher of the two numbers shown.
 ***Average annual total return figures shown assume the deduction of the applicable CDSC.

NOTE: On November 6, 1992, outstanding shares of the Fund were designated Class B shares. Class B shares are subject to a maximum 5% CDSC and annual service and distribution fees of 0.25% and 0.75%, respectively, of the value of the average daily net assets attributable to that class.
 </TABLE>

6

A line graph depicting the total growth (including reinvestment of dividends and capital gains) of a hypothetical investment of \$10,000 in Special Equities Fund's Class B shares on December 31, 1983 through December 31, 1993 as compared with the growth of a \$10,000 investment in Standard & Poor's Composite Stock Price Index. The plot points used to draw the line graph were as follows.

<TABLE>
 <CAPTION>

GROWTH OF \$10,000
 INVESTMENT IN THE
 STANDARD & POOR'S

GROWTH OF \$10,000

MONTH ENDED	INVESTED IN CLASS B SHARES OF THE FUND	COMPOSITE STOCK PRICE INDEX
<S>	<C>	<C>
12/83	\$10,000	\$10,000
01/84	9,581	9,944
03/84	9,165	9,760
06/84	8,813	9,511
9/84	9,048	10,433
12/84	8,976	10,629
03/85	10,213	11,605
06/85	11,016	12,459
9/85	10,453	11,948
12/85	12,132	14,004
03/86	14,104	15,980
06/86	14,586	16,921
09/86	12,595	15,741
12/86	12,988	16,618
03/87	15,966	20,167
06/87	15,210	21,179
09/87	16,198	22,576
12/87	11,571	17,491
03/88	12,875	18,484
06/88	13,340	19,715
09/88	12,720	19,780
12/88	13,030	20,385
03/89	14,015	21,829
06/89	14,307	23,752
09/89	15,638	26,292
12/89	15,454	26,832
03/90	14,781	26,025
06/90	15,544	27,659
09/90	11,064	23,862
12/90	11,636	25,988
03/91	13,650	29,768
06/91	12,963	29,697
09/91	14,444	31,282
12/91	16,844	33,902
03/92	16,273	33,047
06/92	14,028	33,674
09/92	14,848	34,736
12/92	18,376	36,481
03/93	19,172	38,071
06/93	21,250	38,254
09/93	25,562	39,239
12/93	24,243	40,173

</TABLE>

+ Illustration of \$10,000 invested in Class B shares on December 31, 1983, assuming reinvestment of dividends and capital gains at net asset value through December 31, 1993.

The Standard & Poor's 500 Composite Stock Price Index ("S&P 500") is an index composed of 500 widely held common stocks listed on the New York Stock Exchange, American Stock Exchange and over-the-counter market. The S&P 500 is useful in depicting the general movement of the stock market, but because it is unmanaged, it is not subject to the same management and trading expenses as a mutual fund.

NOTE: All figures cited here and on the other pages represent past performance of the Fund and do not guarantee future results of Class B shares.

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Smith Barney Shearson
Special Equities Fund

PORTFOLIO HIGHLIGHTS (UNAUDITED)

DECEMBER 31, 1993

INDUSTRY BREAKDOWN

Pie chart depicting the allocation of the Investment Funds Special Equities Fund's investment securities held at December 31, 1993 by industry classification. The pie is broken in pieces representing industries in the following percentages:

<TABLE>

<CAPTION>

INDUSTRY	PERCENTAGE
<S>	<C>
Environmental Services	5.0%
Consumer Non-Durables	5.1%
Restaurants	8.1%
Technology	9.5%

Consumer Durables	9.7%
Retail Stores	15.2%
Convertible Preferred Stock, Repurchase Agreement and Net Other Assets and Liabilities	13.1%
Other Common Stocks	11.4%
Entertainment and Leisure	22.9%

TOP TEN HOLDINGS

<TABLE>
<CAPTION>

Company <S>	Percentage of Net Assets <C>
CALLAWAY GOLF COMPANY	7.7%
BOMBAY COMPANY	3.3
GENTEX CORPORATION	3.0
CHEESECAKE FACTORY	3.0
MICRO WAREHOUSE INC.	2.8
CML GROUP, INC.	2.8
MARVEL ENTERTAINMENT GROUP	2.6
STARBUCKS CORPORATION	2.6
SUNGLASS HUT INTERNATIONAL, INC.	2.5
HEILIG-MEYERS	2.5

</TABLE>

3

Smith Barney Shearson
Special Equities Fund

PORTFOLIO OF INVESTMENTS

DECEMBER 31, 1993

<TABLE>
<CAPTION>

SHARES <C>	<S>	MARKET VALUE (NOTE 1) <C>
COMMON STOCKS -- 86.9%		
ENTERTAINMENT AND LEISURE -- 22.9%		
185,000	Acclaim Entertainment, Inc.+	\$ 3,931,250
125,000	Aldila, Inc.	3,562,500
70,000	American Recreation Company Holdings Inc.+	892,500
271,800	Callaway Golf Company	14,507,325
220,000	CML Group, Inc.	5,197,500
25,000	Coastcast Corporation+**	453,125
70,000	Cobra Golf Inc.+	1,907,500
90,000	Gymboree Corporation+	4,005,000
55,000	Iwerks Entertainment Inc.+	1,471,250
60,000	Lodgenet Entertainment Corporation+	877,500
180,000	Marvel Entertainment Group+	4,905,000
85,000	StarSight Telecast Inc.+	1,572,500
		43,282,950
RETAIL STORES -- 15.2%		
40,000	Amway Asia Pacific Ltd.+	1,425,000
30,000	Authentic Fitness Corporation+	843,750
110,000	Barnes and Noble Inc.+	2,736,250
110,000	Bell Sports Corporation+**	3,410,000
40,000	Catherines Stores Corporation+	700,000
100,000	Cato Corporation, Class A	2,000,000
60,000	Chicos Fas, Inc.	2,055,000
125,000	Micro Warehouse Inc.+	5,203,125
309,800	National Record Mart, Inc.++	1,909,143
30,000	Phillips Van Heusen Corporation	1,125,000
151,000	Sunglass Hut International, Inc.	4,756,500
40,000	Talbots Inc.+	1,060,000
75,000	Tops Appliance City+**	1,443,750
		28,667,518
CONSUMER DURABLES -- 9.7%		
65,000	Bed Bath & Beyond Inc.+	2,242,500
138,000	Bombay Company+	6,210,000
205,000	Eagle Hardware & Garden Inc.+	3,690,000
50,000	Ethan Allen Interiors, Inc.+	1,562,500

120,000	Heilig-Meyers	4,680,000
-----		18,385,000

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

8

Smith Barney Shearson
Special Equities Fund

PORTFOLIO OF INVESTMENTS (CONTINUED)

DECEMBER 31, 1993

<TABLE>

<CAPTION>

SHARES		MARKET VALUE (NOTE 1)
<C>	<S>	<C>
COMMON STOCKS (CONTINUED)		
	TECHNOLOGY -- 9.5%	
20,000	Adaptec Inc.+	\$ 795,000
50,000	Arrow Electronics Inc.+	2,087,500
100,000	Davidson & Associates, Inc.+	1,800,000
115,000	Electronic Arts+	3,450,000
8,595	Encore Marketing International, Inc.+	6,983
90,000	Fuel-Tech N.V.	1,057,500
162,000	Gentex Corporation	5,710,500
50,000	Mercury Interactive Corporation+	862,500
30,000	NetFRAME Systems Inc.+	517,500
35,000	NetManage Inc.+	1,286,250
25,000	Thermo Remediation Inc.+	315,625

17,889,358

	RESTAURANTS -- 8.1%	
30,000	Boston Chicken Inc.+**	1,080,000
220,000	Checkers Drive-In Restaurants+**	2,557,500
166,000	Cheesecake Factory+**	5,685,500
131,000	Krystal Company+	1,752,125
85,000	Landry's Seafood Restaurants+	2,040,000
121,000	Taco Cabana Inc., Class A+	2,147,750

15,262,875

	CONSUMER NON-DURABLES -- 5.1%	
60,000	Brothers Gourmet Coffees Inc.**	975,000
40,000	Nine West Group, Inc.+	1,180,000
220,000	Starbucks Corporation+	4,895,000
43,000	Starter Corporation	747,125
45,000	Summa Four Inc.+	1,788,750

9,585,875

	ENVIRONMENTAL SERVICES -- 5.0%	
100,000	Ecoscience Corporation	600,000
100,000	Huntco, Inc., Class A	4,212,500
130,000	Molten Metal Technology, Inc.+	3,022,500

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

9

Smith Barney Shearson
Special Equities Fund

PORTFOLIO OF INVESTMENTS (CONTINUED)

DECEMBER 31, 1993

<TABLE>

<CAPTION>

SHARES		MARKET VALUE (NOTE 1)
<C>	<S>	<C>
COMMON STOCKS (CONTINUED)		
	ENVIRONMENTAL SERVICES -- (CONTINUED)	
135,000	Omega Environmental, Inc.+**	\$ 1,383,750
15,000	Purus Inc.+	195,000

		9,413,750
	COMMUNICATIONS -- 4.2%	
60,000	CableMaxx Inc.+	645,000
125,000	California Microwave Inc.+	3,031,250
70,000	CenCall Communications Corporation+	1,960,000
65,000	Comcast Corporation, Class A	2,340,000
		7,976,250
	PET FOOD -- 2.2%	
150,000	PETsmART Inc.+	4,087,500
	TRANSPORTATION -- 1.8%	
111,000	Johnstown America Industries Inc.+	2,719,500
40,000	Mesa Airlines, Inc.+	710,000
		3,429,500
	BUILDING AND CONSTRUCTION -- 1.1%	
25,000	Brewer C Homes Inc., Class A+	328,125
60,000	T J International Inc.	1,815,000
		2,143,125
	HEALTHCARE -- 1.1%	
25,000	Chiron Corporation+	2,100,000
	FOREST PRODUCTS -- 0.5%	
25,000	Wausau Paper Mills Company	993,750
	GAMING -- 0.5%	
30,000	International Game Technology	885,000
	TOTAL COMMON STOCKS (Cost \$128,277,292)	164,102,451

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

10

Smith Barney Shearson
Special Equities Fund

PORTFOLIO OF INVESTMENTS (CONTINUED)		DECEMBER 31, 1993
<TABLE>		
<CAPTION>		
SHARES		MARKET VALUE (NOTE 1)
<C>	<S>	<C>
CONVERTIBLE PREFERRED STOCK --0.1% (Cost \$672,900)		
75,000	Encore Marketing International, Series A	\$ 112,500
<CAPTION>		
FACE VALUE		
<C>	<S>	<C>
REPURCHASE AGREEMENT --17.9% (Cost \$33,779,000)		
\$ 33,779,000	Agreement with Citibank, 3.000% dated 12/31/93, to be repurchased at \$33,787,445 on 1/3/94, collateralized by \$33,615,000 U.S. Treasury Notes, 5.250% due 7/31/98***	33,779,000
TOTAL INVESTMENTS (Cost \$162,729,192*)	104.9%	197,993,951
OTHER ASSETS AND LIABILITIES (NET)	(4.9)	(9,286,904)
NET ASSETS	100.0%	\$188,707,047

<FN>

*Aggregate cost for Federal tax purposes.
**Portions of securities were loaned at 12/31/93. (See Note 8 to Financial Statements).
***Collateral for securities on loan at 12/31/93 (Note 8).
+Non-income producing security.
++Restricted security (Note 7).

</TABLE>

Smith Barney Shearson
Special Equities Fund

STATEMENT OF ASSETS AND LIABILITIES		DECEMBER 31, 1993
<TABLE>		
<S>		
ASSETS:		
Investments, at value (Cost \$162,729,192) (Note 1) See accompanying schedule:		
Investment securities	\$164,214,951	
Repurchase agreement	33,779,000	\$ 197,993,951
Receivable for Fund shares sold		2,342,195
Receivable for investment securities sold		36,750
Dividends and interest receivable		31,364

TOTAL ASSETS		200,404,260

LIABILITIES:		
Payable for investment securities purchased	5,699,305	
Collateral for securities loaned (Note 8)	5,499,752	
Payable for Fund shares redeemed	148,606	
Investment advisory fee payable (Note 2)	86,307	
Distribution fee payable (Note 3)	66,656	
Transfer agent fees payable (Note 2)	35,000	
Service fees payable (Note 3)	34,956	
Administration fee payable (Note 2)	31,384	
Custodian fees payable (Note 2)	19,400	
Accrued expenses and other payables	75,847	

TOTAL LIABILITIES		11,697,213

NET ASSETS		\$ 188,707,047

</TABLE>		

SEE NOTES TO FINANCIAL STATEMENTS.

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Smith Barney Shearson
Special Equities Fund

STATEMENT OF ASSETS AND LIABILITIES (CONTINUED)		DECEMBER 31, 1993
<TABLE>		
<S>		
NET ASSETS consist of:		
Distributions in excess of net realized capital gains		\$ (270,779)
Unrealized appreciation of investments		35,264,759
Par value		9,382
Paid-in capital in excess of par value		153,703,685

TOTAL NET ASSETS		\$ 188,707,047

NET ASSET VALUE:		
CLASS A SHARES:		
NET ASSET VALUE and redemption price per share (\$50,121,129 DIVIDED BY 2,478,169 shares of common stock outstanding)		\$20.23

MAXIMUM OFFERING PRICE PER SHARE (\$20.23 DIVIDED BY 0.95) (based on maximum sales charge of 5% of the offering price on December 31, 1993)		\$21.29

CLASS B SHARES:		
NET ASSET VALUE and offering price per share+		

(\$138,400,985 DIVIDED BY 6,894,192 shares of common
stock outstanding) \$20.08

CLASS D SHARES:
NET ASSET VALUE, offering and redemption price per share
(\$184,933 DIVIDED BY 9,212 shares of common stock
outstanding) \$20.08

<FN>
+Redemption price per share for Class B shares is equal to net asset value less
any applicable contingent deferred sales charge.
</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

13

Smith Barney Shearson
Special Equities Fund

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 1993

	<C>	<C>
INVESTMENT INCOME:		
Dividends (net of foreign withholding taxes of \$90)		\$ 883,056
Interest		329,449
TOTAL INVESTMENT INCOME		1,212,505
EXPENSES:		
Distribution fee (Note 3)	\$681,175	
Investment advisory fee (Note 2)	548,764	
Transfer agent fees (Notes 2 and 4)	272,822	
Service fee (Note 3)	249,438	
Sub-investment advisory and administration fee (Note 2)	199,551	
Legal and audit fees	74,466	
Custodian fees (Note 2)	43,685	
Directors' fees and expenses (Note 2)	29,356	
Other	176,170	
TOTAL EXPENSES		2,275,427
NET INVESTMENT LOSS		(1,062,922)
REALIZED AND UNREALIZED GAIN ON INVESTMENTS (NOTES 1 AND 5):		
Net realized gain on investments during the year		11,887,764
Net unrealized appreciation of investments during the year		15,305,261
NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS		27,193,025
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS		\$26,130,103

SEE NOTES TO FINANCIAL STATEMENTS.

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Smith Barney Shearson
Special Equities Fund

STATEMENT OF CHANGES IN NET ASSETS

	YEAR ENDED 12/31/93	YEAR ENDED 12/31/92
Net investment loss	\$ (1,062,922)	\$ (1,240,513)
Net realized gain on investments sold during the year	11,887,764	4,740,181
Net unrealized appreciation on investments during the year	15,305,261	1,845,780
Net increase in net assets resulting from operations	26,130,103	5,345,448
Distributions to shareholders from net realized gain on investments:		

Class A	(201,416)	--
Class B	(1,917,909)	--
Class D	(2,961)	--
Net increase/(decrease) in net assets from:		
Class A share transactions (Note 6)	45,287,453	183,152
Class B share transactions (Note 6)	40,880,321	(8,821,970)
Class D share transactions (Note 6)	207,013	--

Net increase/(decrease) in net assets	110,382,604	(3,293,370)
NET ASSETS:		
Beginning of year	78,324,443	81,617,813

End of year (including accumulated net investment loss of \$1,809,635 at December 31, 1992)	\$188,707,047	\$ 78,324,443

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

Smith Barney Shearson
Special Equities Fund

FINANCIAL HIGHLIGHTS

FOR A CLASS A SHARE OUTSTANDING THROUGHOUT EACH PERIOD.

<TABLE>
<CAPTION>

	YEAR ENDED 12/31/93++	PERIOD ENDED 12/31/92*
<S>	<C>	<C>
Net Asset Value, beginning of period	\$ 15.47	\$14.13

Income from investment operations:		
Net investment loss	(0.08)	(0.01)
Net realized and unrealized gain on investments	5.17	1.35

Total from investment operations	5.09	1.34
Distributions from net realized gains	(0.33)	--

Net Asset Value, end of period	\$ 20.23	\$15.47

Total return+	32.90%	9.48%

Ratios to average net assets/supplemental data:		
Net assets, end of period (in 000's)	\$50,121	\$ 195
Ratio of operating expenses to average net assets	1.67%	1.51%**
Ratio of net investment loss to average net assets	(0.46)%	(0.97)%**
Portfolio turnover rate	112%	211%

<FN>

*The Fund commenced selling Class A shares on November 6, 1992.
**Annualized.
+Total return represents aggregate total return for the period indicated and does not reflect any applicable sales charges.
++Per share amounts have been calculated using the monthly average share method.

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

Smith Barney Shearson
Special Equities Fund

FINANCIAL HIGHLIGHTS

FOR A CLASS B SHARE OUTSTANDING THROUGHOUT EACH YEAR.*

<TABLE>
<CAPTION>

	YEAR ENDED 12/31/93+++	YEAR ENDED 12/31/92	YEAR ENDED 12/31/91	YEAR ENDED 12/31/90
<S>	<C>	<C>	<C>	<C>
Net Asset Value, beginning of year	\$ 15.47	\$ 14.18	\$ 9.82	\$ 13.77

Income from investment operations:				

Net investment income/(loss)	(0.20)	(0.26)	(0.07)	0.29
Net realized and unrealized gain/ (loss) on investments	5.14	1.55	4.46	(3.70)

Total from investment operations	4.94	1.29	4.39	(3.41)
Distributions to shareholders:				
Distributions from net investment income	--	--	--	(0.29)
Distributions from net realized gains	(0.33)	--	--	(0.23)
Distributions from capital	--	--	(0.03)	(0.02)

Total distributions	(0.33)	0.00	(0.03)	(0.54)

Net Asset Value, end of year	\$ 20.08	\$ 15.47	\$ 14.18	\$ 9.82

Total return+	31.93%	9.10%	44.76%	(24.71)%

Ratios to average net assets/ supplemental data:				
Net assets, end of year (in 000's)	\$138,401	\$ 78,130	\$ 81,618	\$ 76,009
Ratio of operating expenses to average net assets	2.34%	2.32%	2.31%	2.30%
Ratio of net investment income/ (loss) to average net assets	(1.13)%	(1.77)%	(0.74)%	2.12%
Portfolio turnover rate	112%	211%	379%	372%

<CAPTION>

	YEAR ENDED 12/31/89 <C>
<S>	
Net Asset Value, beginning of year	\$ 12.04

Income from investment operations:	
Net investment income/(loss)	0.28
Net realized and unrealized gain/ (loss) on investments	1.96

Total from investment operations	2.24
Distributions to shareholders:	
Distributions from net investment income	(0.27)
Distributions from net realized gains	--
Distributions from capital	(0.24)

Total distributions	(0.51)

Net Asset Value, end of year	\$ 13.77

Total return+	18.60%

Ratios to average net assets/ supplemental data:	
Net assets, end of year (in 000's)	\$141,630
Ratio of operating expenses to average net assets	2.34%
Ratio of net investment income/ (loss) to average net assets	1.69%
Portfolio turnover rate	228%

<FN>
*On November 6, 1992 the Fund commenced selling Class A shares. Those shares in existence prior to November 6, 1992 were designated Class B shares.
+Total return represents aggregate total return for the year indicated and does not reflect any applicable sales charges.
+++Per share amounts have been calculated using the monthly average share method.
</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

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Smith Barney Shearson
Special Equities Fund

FINANCIAL HIGHLIGHTS

FOR A CLASS B SHARE OUTSTANDING THROUGHOUT EACH YEAR (CONTINUED).

<TABLE>
<CAPTION>

	YEAR ENDED 12/31/88++ <C>	YEAR ENDED 12/31/87++ <C>	YEAR ENDED 12/31/86++ <C>	YEAR ENDED 12/31/85++ <C>
<S> Net Asset Value, beginning of year	\$ 11.48	\$ 13.02	\$ 13.15	\$ 9.94

Income from investment operations:				
Net investment income/(loss)	0.71#	(0.10)	(0.05)	0.05
Net realized and unrealized gain/(loss) on investments	0.70	(1.30)	0.97	3.37

Total from investment operations	1.41	(1.40)	0.92	3.42
Distributions to shareholders:				
Distributions from net investment income	(0.55)	--	(0.05)	(0.21)
Distributions from net realized gains	(0.30)	(0.14)	(1.00)	--
Distributions from capital	--	--	--	--

Total distributions	(0.85)	(0.14)	(1.05)	(0.21)

Net Asset Value, end of year	\$ 12.04	\$ 11.48	\$ 13.02	\$ 13.15

Total return+	12.60%	(10.91)%	7.05%	35.17%

Ratios to average net assets/ supplemental data:				
Net assets, end of year (in 000's)	\$169,983	\$178,905	\$214,419	\$163,468
Ratio of operating expenses to average net assets	2.32%**	2.09%	2.12%	2.20%
Ratio of net investment income/(loss) to average net assets	5.23%	(0.63)%	(0.34)%	0.43%
Portfolio turnover rate	165%	148%	114%	146%

<CAPTION>

	YEAR ENDED 12/31/84++ <C>
<S> Net Asset Value, beginning of year	\$ 11.83

Income from investment operations:	
Net investment income/(loss)	0.21
Net realized and unrealized gain/(loss) on investments	(1.35)

Total from investment operations	(1.14)
Distributions to shareholders:	
Distributions from net investment income	(0.05)
Distributions from net realized gains	(0.70)
Distributions from capital	--

Total distributions	(0.75)

Net Asset Value, end of year	\$ 9.94

Total return+	(10.24)%

Ratios to average net assets/ supplemental data:	
Net assets, end of year (in 000's)	\$129,856
Ratio of operating expenses to average net assets	2.10%
Ratio of net investment income/(loss) to average net assets	2.01%
Portfolio turnover rate	163%

<FN>

**Expense ratio before reimbursement of expenses by investment adviser and sub-investment adviser and administrator for the year ended December 31, 1988 was 2.39%.

+Total return represents aggregate total return for the year indicated and does not reflect any applicable sales charges.

++Not covered by Coopers & Lybrand's report.

#Net investment income before reimbursement of expenses by investment adviser

and sub-investment adviser and administrator for the year ended December 31, 1988 was \$0.70.

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

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Smith Barney Shearson
Special Equities Fund

FINANCIAL HIGHLIGHTS

FOR A CLASS D SHARE OUTSTANDING THROUGHOUT THE PERIOD.

<TABLE>
<CAPTION>

	PERIOD ENDED 12/31/93***
<S>	<C>
Net Asset Value, beginning of period	\$ 22.62

Income from investment operations:	
Net investment loss	(0.16)
Net realized and unrealized loss on investments	(2.05)

Total from investment operations	(2.21)
Distributions from net realized gains	(0.33)

Net Asset Value, end of period	\$ 20.08

Total return+	(9.77)%

Ratios to average net assets/supplemental data:	
Net assets, end of period (in 000's)	\$ 185
Ratio of operating expenses to average net assets	2.19%**
Ratio of net investment loss to average net assets	(0.98)%**
Portfolio turnover rate	112%

<FN>
*The Fund commenced selling Class D shares on October 18, 1993.
**Annualized.
+Total return represents aggregate total return for the period indicated.
++Per share amounts have been calculated using the monthly average share method.

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

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Smith Barney Shearson
Special Equities Fund

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Smith Barney Shearson Investment Funds Inc. (the "Company") was incorporated in Maryland on September 29, 1981 and commenced operations on January 4, 1982. The Company is registered with the Securities and Exchange Commission under the Investment Company Act of 1940, as amended (the "1940 Act"), as a diversified open-end management investment company. Prior to the close of business on July 30, 1993, the Company's corporate name was "SLH Investment Portfolios Inc." and it was doing business under the name "Shearson Lehman Brothers Investment Funds". As of the date of this report, the Company is composed of five managed investment funds (the "Funds"): Investment Grade Bond Fund, Government Securities Fund, Special Equities Fund, Directions Value Fund, and European Fund. The assets of each Fund are segregated and a shareholder's interest is limited to the Fund in which he or she owns shares. As of November 6, 1992, each Fund offered two classes of shares to the general public: Class A shares and Class B shares. Class A shares are sold with a front-end sales charge. Class B shares may be subject to a contingent deferred sales charge ("CDSC") upon redemption. Class B shares will convert automatically to Class A shares approximately eight years after the date of original purchase, beginning on September 30, 1994. On January 29, 1993, the Special Equities Fund (the "Fund") offered a third class of shares, Class D shares, and these shares were first purchased by the public on October 18, 1993. Class D shares are offered to plans participating in the Smith Barney Shearson Inc. ("Smith Barney Shearson") 401(k) program. Class D shares are offered without a front-end sales charge or CDSC. All classes of shares have identical rights and privileges except with respect

to the effect of the respective sales charges to each class, the distribution and/or service fees borne by each class, expenses allocable exclusively to each class, voting rights on matters affecting a single class, the exchange privilege of each class and the conversion feature of Class B shares. The following is a summary of significant accounting policies consistently followed by the Fund in preparation of its financial statements.

PORTFOLIO VALUATION: Securities listed on an exchange are valued on the basis of the last sale prior to the time the valuation is made. If there has been no sale since the immediately previous valuation, then the current bid price is used. Over-the-counter securities are valued on the basis of the bid price at the close of business on each day. Notwithstanding the above, bonds and

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Smith Barney Shearson
Special Equities Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

other fixed-income securities are valued by using market quotations and may be valued on the basis of prices provided by a pricing service, when the Board of Directors believes that such prices reflect the market value of such securities. In cases where securities are traded on more than one exchange, the securities are valued on the exchange designated by or under the authority of the Board of Directors as the primary market. Securities and assets for which market quotations are not readily available are valued at fair value as determined in good faith by or under the direction of the Board of Directors. Money market instruments maturing within 60 days of the valuation date are valued at amortized cost.

REPURCHASE AGREEMENTS: The Fund engages in repurchase agreement transactions. Under the terms of a typical repurchase agreement, the Fund takes possession of an underlying debt obligation subject to an obligation of the seller to repurchase, and the Fund to resell, the obligation at an agreed-upon price and time, thereby determining the yield during the Fund's holding period. This arrangement results in a fixed rate of return that is not subject to market fluctuations during the Fund's holding period. The value of the collateral is at least equal at all times to the total amount of the repurchase obligations, including interest. In the event of counterparty default, the Fund has the right to use the collateral to offset losses incurred. There is a potential loss to the Fund in the event the Fund is delayed or prevented from exercising its rights to dispose of the collateral securities including the risk of a possible decline in the value of the underlying securities during the period while the Fund seeks to assert its rights. The Fund's investment adviser, acting under the supervision of the Board of Directors, reviews the value of the collateral and the creditworthiness of those banks and dealers with which the Fund enters into repurchase agreements to evaluate potential risks.

SECURITIES TRANSACTIONS AND INVESTMENT INCOME: Securities transactions are recorded as of the trade date. Dividend income is recorded on the ex-dividend date. Interest income is recorded on the accrual basis. Realized gains and losses from securities transactions are recorded on the identified cost basis. Investment income and realized and unrealized gains and losses are allocated based upon the relative net assets of each class of shares.

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Smith Barney Shearson
Special Equities Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FEDERAL INCOME TAXES: The Fund intends to continue to qualify as a regulated investment company, if such qualification is in the best interest of its shareholders, by complying with the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), applicable to regulated investment companies and to distribute substantially all of its taxable income to its shareholders. Therefore, no Federal income tax provision is required.

DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS: Distributions from net investment income, if any, are determined on a class level and will be declared and paid at least annually. Distributions from net realized capitals gains, after utilization of capital loss carry forwards, are determined on a Fund level and will be distributed at least annually. Net short-term capital gains may be paid more frequently, with the distribution of dividends from net investment income. Additional distributions of net investment income and capital gains may be made at the discretion of the Board of Directors to avoid the application of the excise tax imposed under the Code for certain undistributed amounts. Income

distributions and capital gain distributions on a Fund level are determined in accordance with income tax regulations which may differ from generally accepted accounting principles. These differences are primarily due to differing treatments of income and gains on various investment securities held by the fund, timing differences and differing characterization of distributions made by the fund as a whole. Permanent differences incurred during the year ended December 31, 1993 resulting from a tax basis net operating loss were reclassified to paid-in capital at year end.

RECLASSIFICATIONS: During the year, the Fund adopted Statement of Position 93-2 "Determination, Disclosure, and Financial Statement Presentation of Income, Capital Gain, and Return of Capital Distributions by Investment Companies." Accordingly, certain reclassifications have been made to the components of capital in the Statement of Net Assets to conform with the accounting and reporting guidelines of this statement. Distributions in excess of book basis accumulated realized gains or undistributed net investment income that were the result of permanent book and tax accounting differences have been reclassified to paid-in capital. In addition, amounts distributed in excess of accumulated net investment income as determined for financial statement purposes which had previously been reported as distributions from paid-in capital have been reclassified to accumulated net investment income. Accordingly, amounts as of December 31, 1992 have

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Smith Barney Shearson
Special Equities Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

been restated to reflect a decrease in paid-in capital of \$1,789,894, an increase in accumulated net realized loss of \$19,741 and a decrease in accumulated net investment loss of \$1,809,635. The Financial Highlights have not been restated to reflect this change in presentation. Net investment income, net realized gains and net assets were not affected by this change.

2. INVESTMENT ADVISORY FEE, ADMINISTRATION FEE AND OTHER RELATED PARTY TRANSACTIONS

Up to the close of business on July 30, 1993, the Fund had entered into an investment advisory agreement with Shearson Lehman Brothers Inc. ("Shearson Lehman Brothers") on behalf of Shearson Lehman Advisors, a member of the Asset Management Group of Shearson Lehman Brothers. Under the investment advisory agreement, the Fund paid a monthly fee at the annual rate of 0.55% of the value of its average daily net assets.

As of the close of business on July 30, 1993, The Travelers Inc. (formerly known as Primerica Corporation) ("Travelers") and Smith Barney, Harris Upham & Co. Incorporated completed the acquisition of substantially all of the domestic retail brokerage and asset management businesses of Shearson Lehman Brothers. Smith Barney, Harris Upham & Co. Incorporated was subsequently renamed Smith Barney Shearson.

As of the close of business on July 30, 1993, Greenwich Street Advisors, a division of Mutual Management Corp., which is controlled by Smith Barney Shearson Holdings Inc. ("Holdings"), succeeded Shearson Lehman Advisors as the Fund's investment adviser. Holdings is a wholly owned subsidiary of Travelers. The new investment advisory agreement with Greenwich Street Advisors (the "Advisory Agreement") contains terms and conditions substantially similar to the investment advisory agreement with the predecessor investment adviser and provides for payment of fees at the same rate as was paid to such predecessor investment adviser.

The Fund has also entered into an administration agreement (the "Administration Agreement") dated May 21, 1993, with The Boston Company Advisors, Inc. ("Boston Advisors"), an indirect wholly owned subsidiary of Mellon Bank Corporation ("Mellon"). Under the Administration Agreement,

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Smith Barney Shearson
Special Equities Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

the Fund pays a monthly fee at an annual rate of 0.20% of the value of its average daily net assets. Prior to May 21, 1993 Boston Advisors served as sub-investment adviser and administrator to the Fund.

For the year ended December 31, 1993, the Fund incurred total brokerage commissions of \$139,427, of which \$16,614 were paid to Smith Barney Shearson or its predecessor.

For the year ended December 31, 1993, Smith Barney Shearson or its predecessor received from investors \$172,978, representing commissions (sales charges) on sales of Class A shares.

A CDSC is generally payable by a shareholder in connection with the redemption of Class B shares within five years (eight years in the case of certain 401(k) plans) after the date of purchase. In circumstances in which the charge is imposed, the amount of the charge ranges between 5% and 1% of net asset value depending on the number of years since the date of purchase (except in the case of purchases by certain 401(k) plans in which case a 3% charge is imposed for the eight year period after the date of the purchase. For the year ended December 31, 1993, Smith Barney Shearson or its predecessor received from investors \$73,089 representing CDSC fees on the redemption of Class B shares.

No officer, director or employee of Smith Barney Shearson or Boston Advisors or of any parent or subsidiary of those corporations receives any compensation from the Company for serving as an officer or director of the Company. The Company pays each Director who is not an officer, director or employee of Smith Barney Shearson or Boston Advisors or any of their affiliates \$14,000 per annum plus \$3,000 per meeting attended and reimburses each such Director for travel and out-of-pocket-expenses.

Boston Safe Deposit and Trust Company, an indirect wholly owned subsidiary of Mellon, serves as the Fund's custodian. The Shareholder Services Group, Inc., a subsidiary of First Data Corporation, serves as the Fund's transfer agent.

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Smith Barney Shearson
Special Equities Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. DISTRIBUTION AGREEMENT

Smith Barney Shearson acts as distributor of the Fund's shares pursuant to a distribution agreement with the Company, and sells shares of all Funds of the Company through Smith Barney Shearson or its affiliates.

Pursuant to Rule 12b-1 under the 1940 Act, the Fund has adopted a Services and Distribution Plan (the "Plan"). Under this Plan, the Company compensates Smith Barney Shearson for servicing shareholder accounts for Class A, Class B and Class D shareholders, and covers expenses incurred in distributing Class B and Class D shares. Smith Barney Shearson is paid an annual service fee with respect to Class A, Class B and Class D shares of the Fund at the rate of 0.25% of the value of the average daily net assets of each respective class of shares. Smith Barney Shearson is also paid an annual distribution fee with respect to Class B and Class D shares at the rate of 0.75% of the value of the average daily net assets attributable to each respective class of shares. For the year ended December 31, 1993, the service fee for Class A and Class B shares was \$22,380 and \$226,964, respectively. For the period from October 18, 1993 through December 31, 1993, the service fee for Class D shares was \$94. For the year ended December 31, 1993, the distribution fee for Class B shares was \$680,894. For the period from October 18, 1993 through December 31, 1993, the distribution fee for Class D shares was \$281.

4. EXPENSE ALLOCATION

Expenses of the Fund not directly attributable to the operations of any class of shares are prorated among the classes based upon the relative net assets of each class. Operating expenses directly attributable to a class of shares are charged to that class' operations. In addition to the above servicing and distribution fees, class specific operating expenses include the transfer agent fees. For the year ended December 31, 1993, transfer agent fees for Class A and Class B shares were \$31,423 and \$241,356, respectively. For the period from October 18, 1993 through December 31, 1993, transfer agent fees for Class D shares were \$43.

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Smith Barney Shearson
Special Equities Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. SECURITIES TRANSACTIONS

Cost of purchases and proceeds from sales of securities, excluding short-term investments, aggregated \$136,477,477 and \$105,820,975, respectively, for the year ended December 31, 1993.

At December 31, 1993, aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost was \$40,087,352 and aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was \$4,822,593.

6. SHARES OF COMMON STOCK

At December 31, 1993, the Fund had authorized capital of 100 million shares of \$.001 par value common stock divided into four classes of shares, Class A, Class B, Class C and Class D. The Fund has not yet commenced offering Class C shares.

Changes in the common stock outstanding were as follows:

<TABLE>
<CAPTION>

CLASS A SHARES: <S>	YEAR ENDED 12/31/93		PERIOD ENDED 12/31/92*	
	Shares <C>	Amount <C>	Shares <C>	Amount <C>
Sold	1,956,806	\$ 32,135,851	32,578	\$ 482,157
Issued as reinvestment of dividends	9,933	199,734	--	--
Issued in exchange for shares of Small Capitalization Fund (Note 11)	1,707,528	34,338,381	--	--
Redeemed	(1,208,680)	(21,386,513)	(19,996)	(299,005)
Net increase	2,465,587	\$ 45,287,453	12,582	\$ 183,152

<FN>
*The Fund commenced selling Class A shares on November 6, 1992. Any shares outstanding prior to November 6, 1992 were designated Class B shares.

</TABLE>

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Smith Barney Shearson
Special Equities Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

<TABLE>
<CAPTION>

CLASS B SHARES: <S>	YEAR ENDED 12/31/93		YEAR ENDED 12/31/92	
	Shares <C>	Amount <C>	Shares <C>	Amount <C>
Sold	6,238,027	\$119,893,345	3,832,456	\$ 53,071,383
Issued as reinvestment of dividends	94,014	1,878,397	--	--
Issued in exchange for shares of Small Capitalization Fund (Note 11)	267,249	5,339,634	--	--
Redeemed	(4,756,506)	(86,231,055)	(4,536,113)	(61,893,353)
Net increase/(decrease)	1,842,784	\$ 40,880,321	(703,657)	\$ (8,821,970)

</TABLE>

<TABLE>
<CAPTION>

CLASS D SHARES: <S>	PERIOD ENDED 12/31/93**	
	Shares <C>	Amount <C>
Sold	9,085	\$ 204,530
Issued as reinvestment of dividends	148	2,963
Issued in exchange for shares of Small Capitalization Fund (Note 11)	1	20
Redeemed	(22)	(500)
Net increase	9,212	\$ 207,013

<FN>
**The Fund commenced selling Class D shares to the public on October 18, 1993.

</TABLE>

7. RESTRICTED SECURITY

The Fund's investment in the following security is restricted as to resale and is valued under the direction of the Fund's Board of Directors in good faith, at fair value, taking into consideration all indications of value available. The following table shows the security description, acquisition date, fair value, percentage of total net assets, aggregate cost and value per unit of the restricted security:

<TABLE>
<CAPTION>

SECURITY <S>	ACQUISITION DATE <C>	FAIR VALUE AT DECEMBER 31, 1993 <C>	PERCENTAGE OF TOTAL NET ASSETS <C>	COST <C>	VALUE PER UNIT AT DECEMBER 31, 1993 <C>

National Record Mart, Inc., Common Stock	5/16/86	\$1,909,143	1.01%	\$ 500,000	\$ 6.1625

</TABLE>

The Fund may purchase securities which are subject to legal or contractual restrictions on resale if not more than 10% of the value of the Fund's total assets would be invested in such securities or in securities for which there is

Smith Barney Shearson
Special Equities Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

no readily available market. In purchasing securities which could not be sold by the Fund without registration under the Securities Act of 1933, as amended, the Fund will endeavor to obtain the right to registration at the expense of the issuer. There generally will be a lapse of time between the decision by the Fund to sell any such security and the registration of the security permitting sale. During any such period the security will be subject to market fluctuations.

8. LENDING OF PORTFOLIO SECURITIES

The Fund has the ability to lend its securities to brokers, dealers and other financial organizations. Loans of securities by the Fund are collateralized by cash, letters of credit or U.S. government securities that are maintained at all times in amounts at least equal to the current market value of the loaned security.

For the year ended December 31, 1993 the Fund loaned securities to certain brokers for which the Fund received \$5,499,752 as collateral. This amount is invested in a repurchase agreement at December 31, 1993.

At December 31, 1993, the Fund loaned securities with an aggregate market value of \$5,838,588 which represents 3.09% of total net assets.

9. LINE OF CREDIT

The Fund and several affiliated entities participate in a \$50 million line of credit provided by Continental Bank N.A. under an Amended and Restated Line of Credit Agreement (the "Agreement") dated April 30, 1992, primarily for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. Under this Agreement, the Fund may borrow up to the lesser of \$25 million or 20% of its net assets. Interest is payable either at the bank's Money Market Rate or the London Interbank Offered Rate (LIBOR) plus 0.375% on an annualized basis. The Fund and the other affiliated entities are charged an aggregate commitment fee of \$125,000 which is allocated equally among each of the participants. The Agreement requires, among other provisions, each participating fund to maintain a ratio of net assets (not including funds borrowed pursuant to the Agreement) to aggregate amount

Smith Barney Shearson
Special Equities Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

of indebtedness pursuant to the Agreement of no less than 5 to 1. During the

year ended December 31, 1993, the Fund did not borrow under the Agreement.

10. REORGANIZATION

On November 19, 1993, the Fund (Acquiring Fund) acquired the assets and certain liabilities of Smith Barney Shearson Small Capitalization Fund, (Acquired Fund), in exchange for shares of the Acquiring Fund, pursuant to a plan of reorganization approved by the Acquired Fund's shareholders on November 18, 1993. Total shares issued by the Acquiring Fund, the value of the shares issued by the Acquiring Fund, the total net assets of the Acquired Fund and the Acquiring Fund and any unrealized appreciation included in the Acquired Fund's total net assets are as follows:

<TABLE>

<CAPTION>

ACQUIRING FUND	ACQUIRED FUND	SHARES ISSUED BY ACQUIRING FUND	VALUE OF SHARES ISSUED BY ACQUIRING FUND	TOTAL NET ASSETS OF ACQUIRED FUND*	TOTAL NET ASSETS OF ACQUIRING FUND	ACQUIRED FUND UNREALIZED APPRECIATION
<S>	<C>	<C>	<C>	<C>	<C>	<C>

	Small Capitalization Fund	1,974,778	\$39,678,035	\$39,678,035	\$131,829,124	\$4,017,511
The Fund	Fund					

<FN>

*The net assets of the Acquiring Fund immediately after the acquisition were \$171,507,159.

</TABLE>

Smith Barney Shearson
Special Equities Fund

REPORT OF INDEPENDENT ACCOUNTANTS

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF
SMITH BARNEY SHEARSON SPECIAL EQUITIES FUND OF
SMITH BARNEY SHEARSON INVESTMENT FUNDS INC.:

We have audited the accompanying statement of assets and liabilities of Smith Barney Shearson Special Equities Fund of Smith Barney Shearson Investment Funds Inc., including the schedule of portfolio investments, as of December 31, 1993, and the related statement of operations for the year then ended, the statement of changes in net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits. We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights 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 December 31, 1993 by correspondence with the custodian and brokers. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Smith Barney Shearson Special Equities Fund of Smith Barney Shearson Investment Funds Inc. as of December 31, 1993, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with generally accepted accounting principles.

COOPERS & LYBRAND

Boston, Massachusetts
February 2, 1994

Smith Barney Shearson
Special Equities Fund

YEAR ENDED DECEMBER 31, 1993

The amount of long term capital gains paid for the fiscal year ended December 31, 1993 was \$2,122,286.

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Smith Barney Shearson
Special Equities Fund

PARTICIPANTS

DISTRIBUTOR

Smith Barney Shearson Inc.
388 Greenwich Street
New York, New York 10013

INVESTMENT ADVISER

Greenwich Street Advisors
Two World Trade Center
New York, New York 10048

ADMINISTRATOR

The Boston Company Advisors, Inc.
One Boston Place
Boston, Massachusetts 02108

AUDITORS AND COUNSEL

Coopers & Lybrand
One Post Office Square
Boston, Massachusetts 02109

Dechert Price & Rhoads
1500 K. Street, N.W.
Washington, D.C. 20005

TRANSFER AGENT

TSSG
Exchange Place
Boston, Massachusetts 02109

CUSTODIAN

Boston Safe Deposit and
Trust Company
One Boston Place
Boston, Massachusetts 02108

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SPECIAL
EQUITIES FUND

DIRECTORS

Alger B. Chapman
Dwight B. Crane
Frank G. Hubbard
Allan R. Johnson
Heath B. McLendon
John F. White

OFFICERS

Heath B. McLendon
CHAIRMAN OF THE BOARD

Stephen J. Treadway
PRESIDENT

Richard P. Roelofs
EXECUTIVE VICE PRESIDENT

Kenneth A. Egan
FIRST VICE PRESIDENT

George V. Novello
INVESTMENT OFFICER

Vincent Nave
TREASURER

Francis J. McNamara, III
SECRETARY

Paul Roye
ASSISTANT SECRETARY

THIS REPORT IS SUBMITTED FOR THE GENERAL INFORMATION OF THE SHAREHOLDERS OF SMITH BARNEY SHEARSON SPECIAL EQUITIES FUND. IT IS NOT AUTHORIZED FOR DISTRIBUTION TO PROSPECTIVE INVESTORS UNLESS ACCOMPANIED OR PRECEDED BY AN EFFECTIVE PROSPECTUS FOR THE FUND, WHICH CONTAINS INFORMATION CONCERNING THE FUND'S INVESTMENT POLICIES AND EXPENSES AS WELL AS OTHER PERTINENT INFORMATION.

[LOGO]

Smith Barney Shearson
Mutual Funds
Two World Trade Center
New York, New York 10048

Fund 102, 193, 253

FD0313 B4

[GRAPHIC]

Small box above fund name showing the globe of the world with a three-dimensional picture of Europe.

1993 Smith Barney Shearson
ANNUAL European
REPORT Fund

.....
DECEMBER 31, 1993

[LOGO]

European Fund

DEAR SHAREHOLDER:

We are pleased to provide the Annual Report for Smith Barney Shearson European Fund for the year ended December 31, 1993.

In this report, we will provide you with a review of the Fund's performance, the market environment and portfolio activities during the past twelve months. In addition, we also have taken this opportunity to simplify this report by separating the historical performance information for A and B classes of shares into two distinct sections. Our goal is to give you clear, concise information that makes it easier for you to follow your investment.

ECONOMIC REVIEW

The year 1993 has been a very rewarding year for European equity markets with the Morgan Stanley Capital International (MSCI) European Index (which measures the aggregate performance of European markets), appreciating by 37.1% in local currency terms. However, the appreciation of the U.S. dollar against the European currencies over the last 12 months resulted in a return of 29.3% for the MSCI European Index in U.S. dollar terms. The MSCI European Index rose in all four quarters, although the last two quarters provided the strongest returns.

Two trends characterized the European equity markets for most of 1993: (1) continued economic weakness in continental Europe and (2) interest rate declines. Even though there are some indications that most continental European economies may have bottomed out in the second or third quarter of 1993, no significant economic recovery is expected until the second half of 1994. The key concern of European policymakers has now become the continued growth in unemployment.

Monetary policy, which was kept excessively tight by the German Bundesbank in 1992, eased significantly in 1993, with a 2.5% cut in the German discount rate from 8.25% at the start of the year to 5.75% at the end of the year. The easing of monetary policy in Germany was followed and exceeded by most European central banks. The combination of significant declines in interest rates and the strong performance of bond markets provided the main driving force behind the revaluation of European equity markets. However, the speed and extent of

monetary easing caused friction within the European Rate Mechanism (ERM). At the end of July 1993, Germany's reluctance to cut interest rates more quickly led to strong tensions within the ERM. This resulted in the eventual widening of the

currency fluctuation bands to 15% and the end of the ERM in all but name. European central banks are no longer required to defend their currencies with interest rates which are out of line with economic fundamentals.

At the end of 1993 the controversial Uruguay round of the General Agreement on Trade and Tariffs ("GATT") talks on further tariff reductions was successfully concluded. The Uruguay round, which started in 1986, has been the most complex and ambitious GATT agreement so far. Its twenty-eight (28) separate accords for the first time extend fair trade to agriculture, textiles, services, intellectual property and foreign investment. This potentially far reaching tariff-cutting deal, as illustrated by the cut by over a third of tariffs on industrial goods, has rekindled investors' interest in Europe which stands to benefit significantly from expanding trade liberalization.

Superior performance during 1993 resulted in markets, such as Finland (+82.7% in \$U.S. terms), Sweden (+37%) and Italy (+28.5% in \$U.S. terms), which experienced significant depreciation of their currency as strong cuts in interest rates improved their competitiveness. Those markets which were perceived as key beneficiaries of a global economic recovery or from trade expansion resulting from the GATT agreement, such as Switzerland (+45.8%), Germany (+35.6%) and The Netherlands (+35.3%), were also strong performers.

OUTLOOK AND PORTFOLIO STRATEGY

For most of the year the Fund was positioned to take advantage of the decline in interest rates in the European markets. This explains the Fund's exposure to the financial sector through investments in European banks and insurance companies, which traditionally benefit from a declining interest rate environment. The Fund was also underweighted in the United Kingdom ("U.K.") market compared to the MSCI European Index and overweighted in the markets of continental Europe for most of the year because most of the interest cuts in the U.K. had already taken place in 1992 and the U.S. market had discounted most of the benefits resulting from those cuts. In contrast, the continental European markets had seen only limited declines in interest rates in 1992 and were therefore mostly driven by interest rates. The U.K. market was more dependent on positive earnings developments than the continental European markets. This strategy served the Fund well in 1993. However, with the potential for improvement in U.K. corporate earnings and the valuation of the U.K. market falling more in line with that of continental European markets, we may begin to increase the Fund's exposure to the U.K. over the next year.

After the recent strong performance of continental European markets, valuations are less attractive than at the beginning of the year. We nevertheless remain bullish for the next twelve months. The forces which drove European bourses higher in 1993 are still in place. We anticipate that core inflation will remain very low in both 1994 and 1995 due in part to the recent decline in the price of oil. This will underpin European bonds and encourage policy makers to ease monetary policy still further. The more monetary policy is eased, the greater the scope for a cyclical recovery in earnings that should take the equity markets higher even when bond yields stop falling. This should maintain the positive liquidity picture coming from continued U.S. investments and increasingly from domestic money market funds shifting into equities. As we go through 1994, earnings will become more important than interest rates. We will strive to position the holdings of the Fund to take advantage of this trend.

Sincerely,

Heath B. McLendon
CHAIRMAN OF THE BOARD

Erich Stock
INVESTMENT OFFICER
FEBRUARY 1, 1994

Smith Barney Shearson
European Fund

HISTORICAL PERFORMANCE -- CLASS A SHARES (UNAUDITED)

<TABLE>					
<CAPTION>					
Year Ended	Net Asset Value		Capital Gains	Dividends	Total
12/31/94	Beginning	Ending	Distributed	Paid	Return*

<S>	<C>	<C>	<C>	<C>	<C>
11/6/92	-				
12/31/92	\$11.52	\$11.72	--	--	1.74%
1993	11.72	14.47	--	--	23.46
Total			--	--	
Cumulative Total Return from 11/06/92 through 12/31/93					25.61%

<FN>
 *Figures assume reinvestment of all dividends and capital gains distributions at net asset value and do not assume deduction of the sales charge (maximum 5%).
 </TABLE>

THE FUND'S POLICY IS TO DISTRIBUTE DIVIDENDS AND CAPITAL GAINS, IF ANY, ANNUALLY.

AVERAGE ANNUAL TOTAL RETURN -- CLASS A SHARES**

<S>	Without Sales Charge Without Fee Waiver/ Expense Actual <C>	With Sales Charge*** Without Fee Waiver/ Expense Actual <C>
Year Ended 12/31/93	23.46%	17.29%
Inception 11/6/92 through 12/31/93	22.17%	16.79%

<FN>
 **All average annual total return figures shown reflect the reinvestment of dividends and capital gains at net asset value.
 ***Average annual total return figures shown assume the deduction of the maximum 5% sales charge.

NOTE: The Fund began offering Class A shares on November 6, 1992. Class A shares are subject to a maximum 5% front-end sales charge and an annual service fee of 0.25% of the value of the average daily net assets attributable to that class.
 </TABLE>

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A line graph depicting the total growth (including reinvestment of dividends and capital gains) of a hypothetical investment of \$10,000 in European Fund's Class A shares on November 10, 1992 through December 31, 1993 as compared with the growth of a \$10,000 investment in Morgan Stanley Capital International European Index. The plot points used to draw the line graph were as follows:

MONTH ENDED <S>	GROWTH OF \$10,000 INVESTED IN CLASS A SHARES OF THE PORTFOLIO <C>	GROWTH OF \$10,000 INVESTMENT IN THE MORGAN STANLEY CAPITAL INTERNATIONAL EUROPEAN INDEX <C>
10/31/92	--	\$10,000
11/10/92	\$ 9,500	--
11/92	\$ 9,549	\$ 9,995
12/92	\$ 9,665	\$10,224
03/93	\$10,077	\$10,891
06/93	\$ 9,987	\$11,087
09/93	\$10,902	\$12,064
12/93	\$11,933	\$13,219

+ Illustration of \$10,000 invested in Class A shares on November 6, 1992, assuming deduction of the maximum 5% sales charge at the time of investment and reinvestment of dividends and capital gains at net asset value through December 31, 1993.

The Morgan Stanley Capital International European Index includes 619 companies representing thirteen countries currently comprising the Europe, Australia, Far East ("EAFE") Index. Dividends are reinvested monthly, net after withholding taxes for foreigners.

NOTE: All figures cited here and on the other pages represent past performance

of the Fund and do not guarantee future results of Class A shares.

FOR A GLOSSARY OF TERMS, PLEASE TURN TO THE END OF THIS REPORT.

Smith Barney Shearson
European Fund

HISTORICAL PERFORMANCE -- CLASS B SHARES (UNAUDITED)

<TABLE>
<CAPTION>

Year Ended	Net Asset Value	Capital Gains	Dividends	Total
12/31/94	Beginning	Distributed	Paid	Return*
<S>	<C>	<C>	<C>	<C>
11/6/87 -				
12/31/87	\$10.00	--	--	4.40%
1988	10.44	\$0.27	\$0.12	12.28
1989	11.32	0.48	0.07	22.26
1990	13.29	0.31	0.16	1.17
1991	12.97	--	0.28	0.88
1992	12.80	--	--	-8.44
1993	11.72	--	--	22.87
Total		\$1.06	\$0.63	
Cumulative Total Return from 11/06/87 through 12/31/93				64.56%

<FN>
*Figures assume reinvestment of all dividends and capital gains distributions at net asset value and do not assume deduction of the contingent deferred sales charge (CDSC).
</TABLE>

THE FUND'S POLICY IS TO DISTRIBUTE DIVIDENDS AND CAPITAL GAINS, IF ANY, ANNUALLY.

AVERAGE ANNUAL TOTAL RETURN -- CLASS B SHARES**

<TABLE>
<CAPTION>

Year Ended	Without CDSC		With CDSC***	
	Without Fee	With Fee	Without Fee	With Fee
<S>	Actual	Reimbursement	Actual	Reimbursement
	<C>	<C>	<C>	<C>
Year Ended 12/31/93	22.87%	--	17.87%	--
Five Years Ended 12/31/93	7.02%	5.27%	6.87%	5.12%
Inception 11/6/87 through 12/31/93	8.44%	6.11%	8.44%	6.11%

<FN>
**All average annual total return figures shown reflect the reinvestment of dividends and capital gains at net asset value. The Fund commenced operations on November 6, 1987. The Fund's investment adviser, sub-investment adviser and administrator waived fees and reimbursed expenses from November 1987 to December 1989. A shareholder's actual return for the period during which waivers and reimbursements were in effect would be the higher of the two numbers shown.
***Average annual total return figures shown assume the deduction of the applicable CDSC, as described in the Fund's prospectus.
NOTE: As of November 6, 1992, outstanding shares of the Fund were designated Class B shares. Class B shares are subject to a maximum 5% CDSC and annual service and distribution fees of 0.25% and 0.75%, respectively, of the value of the average daily net assets attributable to that class.
</TABLE>

A line graph depicting the total growth (including reinvestment of dividends and capital gains) of a hypothetical investment of \$10,000 in European Fund's Class B shares on November 6, 1987 through December 31, 1993 as compared with the growth of a \$10,000 investment in Morgan Stanley Capital International European Index. The plot points used to draw the line graph were as follows:

<TABLE>

<CAPTION>

MONTH ENDED <S>	GROWTH OF \$10,000	GROWTH OF \$10,000
	INVESTED IN CLASS B SHARES OF THE PORTFOLIO <C>	INVESTMENT IN THE MORGAN STANLEY CAPITAL INTERNATIONAL EUROPEAN INDEX <C>
10/31/87	--	\$10,000
11/06/87	\$10,000	--
11/87	\$ 9,820	\$ 9,559
12/87	\$10,440	\$10,115
03/88	\$10,380	\$10,554
06/88	\$10,694	\$10,443
09/88	\$11,038	\$10,534
12/88	\$11,723	\$11,714
03/89	\$11,723	\$12,089
06/89	\$12,147	\$12,274
09/89	\$13,348	\$13,780
12/89	\$14,332	\$15,054
03/90	\$14,547	\$14,861
06/90	\$15,798	\$16,193
09/90	\$13,688	\$13,411
12/90	\$14,499	\$14,475
03/91	\$14,231	\$15,180
06/91	\$13,739	\$14,166
09/91	\$14,791	\$15,886
12/91	\$14,627	\$16,373
03/92	\$14,193	\$15,857
06/92	\$15,187	\$17,355
09/92	\$14,068	\$16,404
12/92	\$13,393	\$15,602
03/93	\$13,965	\$16,620
06/93	\$13,839	\$16,919
09/93	\$15,073	\$18,409
12/93	\$16,456	\$20,171

</TABLE>

+ Illustration of \$10,000 invested in Class B shares on November 6, 1987, assuming reinvestment of dividends and capital gains at net asset value through December 31, 1993.

The Morgan Stanley Capital International European Index includes 619 companies representing thirteen countries currently comprising the Europe, Australia, Far East ("EAFE") Index. Dividends are reinvested monthly, net after withholding taxes for foreigners.

NOTE: All figures cited here and on the other pages represent past performance of the Fund and do not guarantee future results of Class B shares.

FOR A GLOSSARY OF TERMS, PLEASE TURN TO THE END OF THIS REPORT.

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Smith Barney Shearson
European Fund

PORTFOLIO HIGHLIGHTS (UNAUDITED)

DECEMBER 31, 1993

COUNTRY BREAKDOWN

Pie chart depicting the allocation of the Investment Portfolios European Fund's investment securities held at December 31, 1993 by country classification. The pie is broken in pieces representing industries in the following percentages:

<TABLE>

<CAPTION>

INDUSTRY <S>	PERCENTAGE <C>
Convertible Bond	0.9%
Warrants	0.1%
Spain	4.7%
Netherlands	7.5%
Switzerland	8.7%
Germany	13.8%
France	17.1%
Repurchase Agreement and Net	

Other Assets and Liabilities	5.5%
Other Common Stocks	10.4%
United Kingdom	29.5%
Preferred Stock	1.8%

	100.0%

</TABLE>

TOP TEN HOLDINGS

<TABLE>
<CAPTION>

Company <S>	Percentage of Net Assets <C>
-----	-----
DEUTSCHE BANK AG	2.9%
NORWEB	2.7
INTERNATIONAL NEDERLANDEN GROUP	2.6
AEGON NV	2.6
BARCLAYS BANK	2.6
ALLIANZ AG	2.5
ROYAL BANK OF SCOTLAND	2.4
ROYAL DUTCH PETROLEUM	2.3
BAYERISCHE MOTOREN WERKE AG	2.3
COMPAGNIE FINANCIERE DE SUEZ	2.2

</TABLE>

8

Smith Barney Shearson
European Fund

PORTFOLIO OF INVESTMENTS

DECEMBER 31, 1993

<TABLE>
<CAPTION>

SHARES <C>	<S>	MARKET VALUE (NOTE 1) <C>
-----	-----	-----
COMMON STOCKS -- 91.7%		
	UNITED KINGDOM -- 29.5%	
54,000	Agryll Group	\$ 220,605
136,000	Allied Colloids	462,162
102,084	Barclays Bank	957,765
59,315	B.A.T. Industries	484,638
142,000	British Telecommunications	453,179
114,942	BTR	630,057
87,556	Cable & Wireless	680,454
37,000	Carlton Communications	517,975
153,160	Coats Viyella PLC	582,707
44,391	General Accident	468,952
793	Grand Metropolitan	5,554
136,400	Hanson	540,103
76,738	Hepworth	487,536
53,400	Kingfisher	610,674
92,000	Norweb	1,026,271
81,500	Prudential Corporation	433,498
131,000	Royal Bank of Scotland	880,664
59,661	Smithkline Beecham Group	321,304
137,207	TI Group	822,043
37,200	Zeneca Group	461,689
-----	-----	-----
		11,047,830
	FRANCE -- 17.1%	
5,518	Alcatel Alsthom Cie Generale D'Electric	784,923
6,600	Assurances Generales de France	794,999
1,672	Cie Generale des Eaux	825,655
13,900	Compagnie Financiere de Suez	838,098
27,200	Matra Hachette	734,309
23,200	Michelin Group	822,293
6,361	Societe Generale	823,166
14,000	Total Cie Francaise Des Petroles, Series B	763,239
-----	-----	-----
		6,386,682
-----	-----	-----

</TABLE>

Smith Barney Shearson
European Fund

PORTFOLIO OF INVESTMENTS (CONTINUED)

DECEMBER 31, 1993

<TABLE>

<CAPTION>

SHARES		MARKET VALUE (NOTE 1)
<C>	<S>	<C>
COMMON STOCKS (CONTINUED)		
	GERMANY -- 13.8%	
560	Allianz AG	\$ 949,054
2,500	Bayerische Hypo UND Wechsel Bank	760,995
2,055	Bayerische Motoren Werke AG	852,952
2,070	Deutsche Bank AG	1,054,933
4,240	Hoechst Group AG	775,119
1,430	Linde AG	779,327

		5,172,380
	SWITZERLAND -- 8.7%	
1,300	Ciba-Geigy AG	786,290
7,250	Credit Suisse Holdings+	716,230
860	Landis & GYR	511,492
1,700	Merkur Holdings	423,858
1,338	Saurer	494,556
676	Schweiz Ruckversicherungs+	333,911

		3,266,337
	NETHERLANDS -- 7.5%	
17,700	Aegon NV	959,584
20,400	International Nederlanden Group	973,874
8,300	Royal Dutch Petroleum	870,519

		2,803,977
	SPAIN -- 4.7%	
3,000	Argentaria	126,581
67,400	Iberdrola I SA Ord	482,606
20,560	Repsol	639,134
40,000	Telefonica de Espanol	521,132

		1,769,453
	SWEDEN -- 3.9%	
9,100	Asea AB Free, Series A	643,117
10,900	Astra AB Free, Class A	248,071
11,600	Stora Kopparbergs 'B' Free	548,848

		1,440,036

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

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Smith Barney Shearson
European Fund

PORTFOLIO OF INVESTMENTS (CONTINUED)

DECEMBER 31, 1993

<TABLE>

<CAPTION>

SHARES		MARKET VALUE (NOTE 1)
<C>	<S>	<C>
COMMON STOCKS (CONTINUED)		
	ITALY -- 3.5%	
265,600	Parmalat Finanziaria	\$ 345,210
275,000	Stet di Risp	558,171
23,420	Toro Assicurazioni	402,267

		1,305,648
133,000	IRELAND -- 1.1% Irish Life	417,480
83,000	AUSTRIA -- 1.0% Fotex	359,834
16,600	FINLAND -- 0.5% Outokumpu, Class A	194,583
242,957	CANADA -- 0.4% International UNP Holdings+	146,796
	TOTAL COMMON STOCKS (Cost \$29,566,755)	34,311,036
2,300	PREFERRED STOCK -- 1.8% (Cost \$634,048) GEA AG, Pfd	667,721
3,482	WARRANTS -- 0.1% BTR PLC, expires 12/31/98+	2,547
31,000	Deutsche Bank, expires 12/31/03+	32,791
33,200	Paramalat Finanziaria, expires 1999+	24
1,176	Schweiz Ruckversicherungs: Class A, expires 10/14/94+	9,089
1,176	Class B, expires 6/30/95+	8,101
	TOTAL WARRANTS (Cost \$23,149)	52,552

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

11

Smith Barney Shearson
European Fund

PORTFOLIO OF INVESTMENTS (CONTINUED)

DECEMBER 31, 1993

<TABLE>

<CAPTION>

FACE VALUE		MARKET VALUE (NOTE 1)
<C>	<S>	<C>
CONVERTIBLE BOND -- 0.9% (Cost \$140,599)		
FF 1,504,800	Cie Generale des Eaux, 6.000% due 1/1/98	\$ 331,558
REPURCHASE AGREEMENT -- 5.4% (Cost \$2,001,000)		
\$2,001,000	Agreement with Citibank, 3.000% dated 12/31/93, to be repurchased at \$2,001,500 on 1/3/94, collateralized by \$1,995,000 U.S. Treasury Bond, 5.250% due 7/31/98	2,001,000
TOTAL INVESTMENTS (Cost \$32,365,551*)	99.9%	37,363,867
OTHER ASSETS AND LIABILITIES (NET)	0.1	41,499
NET ASSETS	100.0%	\$ 37,405,366

<FN>

*Aggregate cost for Federal tax purposes.

+Non-income producing security.

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

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Smith Barney Shearson
European Fund

PORTFOLIO OF INVESTMENTS (CONTINUED)

DECEMBER 31, 1993

<TABLE>

<CAPTION>

SECTOR DIVERSIFICATION (UNAUDITED) <S>	PERCENTAGE OF NET ASSETS <C>	MARKET VALUE (NOTE 1) <C>

COMMON STOCKS:		
Banking	16.1%	\$ 6,027,433
Multi-Industries	13.0	4,860,497
Engineering and Construction	6.8	2,530,227
Communication	6.6	2,478,094
Consumer Durables	5.8	2,170,093
Technology	5.7	2,125,191
Utilities	5.4	2,030,009
Chemicals	4.5	1,698,970
Insurance	4.4	1,653,842
Financial Services	4.0	1,477,224
Oil and Gas	3.7	1,402,373
Manufacturing	3.5	1,313,190
Electrical	3.1	1,154,609
Autos	2.3	852,952
Textiles	1.6	582,707
Pharmaceuticals	1.5	569,375
Paper Products	1.5	548,848
Consumer Non-Durables	1.3	484,638
Food and Beverages	0.9	350,764

TOTAL COMMON STOCKS	91.7	34,311,036

Preferred Stock	1.8	667,721
Warrants	0.1	52,552
Convertible Bonds	0.9	331,558
Repurchase Agreement	5.4	2,001,000
Other Assets and Liabilities (Net)	0.1	41,499

TOTAL INVESTMENT PORTFOLIO	100.0%	\$ 37,405,366

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

13

Smith Barney Shearson
European Fund

STATEMENT OF ASSETS AND LIABILITIES		DECEMBER 31, 1993

<TABLE>		
<S>		
<C>		
<C>		
ASSETS:		
Investments, at value (Cost \$32,365,551) (Note 1)		\$ 37,363,867
See accompanying schedule		
Currency, at value (Cost \$194,299)		191,919
Dividends and interest receivable		175,811
Receivable for Fund shares sold		154,600
Prepaid expenses		15,746

TOTAL ASSETS		37,901,943

LIABILITIES:		
Payable for investment securities purchased	\$ 419,728	
Distribution fee payable (Note 3)	22,129	
Investment advisory fee payable (Note 2)	21,661	
Custodian fees payable (Note 2)	9,338	
Service fees payable (Note 3)	7,736	
Administration fee payable (Note 2)	6,189	
Transfer agent fees payable (Note 2)	5,300	
Payable for Fund shares redeemed	2,496	
Accrued expenses and other payables	2,000	

TOTAL LIABILITIES		496,577

NET ASSETS		\$ 37,405,366

NET ASSETS consist of:		
Accumulated net realized loss on securities, forward foreign exchange contracts and foreign currency transactions		\$ (1,923,050)
Unrealized appreciation of securities, forward foreign exchange contracts,		

foreign currencies and net other assets	4,989,932
Par value	2,597
Paid-in capital in excess of par value	34,335,887

TOTAL NET ASSETS	\$ 37,405,366

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

14

Smith Barney Shearson
European Fund

STATEMENT OF ASSETS AND LIABILITIES (CONTINUED)

DECEMBER 31, 1993

<TABLE>		
<S>	<C>	<C>
NET ASSET VALUE:		
CLASS A SHARES:		
NET ASSET VALUE and redemption price per share		
(\$1,707,459 DIVIDED BY 118,021 shares of common stock		
outstanding)		\$14.47

MAXIMUM OFFERING PRICE per share (\$14.47 DIVIDED BY		
0.95)		
(based on maximum sales charge of 5% of the offering		
price on		
December 31, 1993)		\$15.23

CLASS B SHARES:		
NET ASSET VALUE and offering price per share+		
(\$35,697,893 DIVIDED BY 2,479,040 shares of common		
stock outstanding)		\$14.40

CLASS D SHARES:		
NET ASSET VALUE, offering and redemption price per share		
(\$14.40 DIVIDED BY 1 share of common stock outstanding)		\$14.40

<FN>

+Redemption price per share for Class B is equal to net asset value less any applicable contingent deferred sales charge.

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

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Smith Barney Shearson
European Fund

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 1993

<TABLE>		
<S>	<C>	<C>
INVESTMENT INCOME:		
Dividends (net of withholding taxes of \$121,541)		\$ 692,976
Interest		90,326

TOTAL INVESTMENT INCOME		783,302

EXPENSES:		
Distribution fee (Note 3)	\$ 202,801	
Investment advisory fee (Note 2)	195,586	
Shareholder reports expense	78,652	
Service fee (Note 3)	69,877	
Transfer agent fees (Notes 2 and 4)	65,345	
Custodian fees (Note 2)	57,894	
Sub-investment advisory and administration fee		
(Note 2)	55,902	
Registration and filing fees	52,285	
Legal and audit fees	31,122	
Directors' fees and expenses (Note 2)	30,556	
Amortization of organization costs (Note 7)	1,366	
Other	4,750	

TOTAL EXPENSES	846,136
NET INVESTMENT LOSS	(62,834)
REALIZED AND UNREALIZED GAIN ON INVESTMENTS (NOTES 1 AND 5):	
Net realized gain/(loss) on:	
Securities	510,943
Forward foreign exchange contracts	(85,836)
Foreign currency transactions	43,713
Net realized gain on investments sold during the year	468,820
Net change in unrealized appreciation/(depreciation) of:	
Securities	5,804,893
Forward foreign exchange contracts	(70,938)
Foreign currencies and net other assets	20,629
Net unrealized appreciation of investments during the year	5,754,584
NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS	6,223,404
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$6,160,570

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

16

Smith Barney Shearson
European Fund

STATEMENT OF CHANGES IN NET ASSETS

<TABLE>

<CAPTION>

	YEAR ENDED 12/31/93	YEAR ENDED 12/31/92
Net investment loss	\$ (62,834)	\$ (228,426)
Net realized gain/(loss) on securities, forward foreign exchange contracts and foreign currency transactions during the year	468,820	(401,973)
Net unrealized appreciation/(depreciation) of securities, forward foreign exchange contracts, foreign currencies and net other asset during the year	5,754,584	(1,694,544)
Net increase/(decrease) in net assets resulting from operations	6,160,570	(2,324,943)
Net increase/(decrease) in net assets from:		
Class A share transactions (Note 6)	1,389,860	39,441
Class B share transactions (Note 6)	6,688,242	(3,181,627)
Class D share transactions (Note 6)	14	--
Net increase/(decrease) in net assets	14,238,686	(5,467,129)
NET ASSETS:		
Beginning of year	23,166,680	28,633,809
End of year (including accumulated net investment loss of \$228,426 at December 31, 1992)	\$37,405,366	\$ 23,166,680

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

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Smith Barney Shearson
European Fund

FINANCIAL HIGHLIGHTS

FOR A CLASS A SHARE OUTSTANDING THROUGHOUT EACH PERIOD.

<TABLE>

<CAPTION>

	YEAR ENDED 12/31/93##	PERIOD ENDED 12/31/92*
<S>	<C>	<C>

Net Asset Value, beginning of period	\$ 11.72	\$11.52
Income from investment operations:		
Net investment income/(loss)	0.07	0.00++
Net realized and unrealized gain on investments	2.68	0.20
Total from investment operations	2.75	0.20
Net Asset Value, end of period	\$ 14.47	\$11.72
Total return+	23.46%	1.74%
Ratios to average net assets/ supplemental data:		
Net assets, end of period (in 000's)	\$ 1,707	\$ 46
Ratio of operating expenses to average net assets	2.32%	1.87%**
Ratio of net investment income/(loss) to average net assets	0.48%	(0.04)%**
Portfolio turnover rate	68%	108%

<FN>

*The Fund commenced selling Class A shares on November 6, 1992.

**Annualized.

+Total return represents aggregate total return for the period indicated and does not reflect any applicable sales charges.

++Amount represents less than (0.01).

##Per share amounts have been calculated using the monthly average share method.

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

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Smith Barney Shearson
European Fund

FINANCIAL HIGHLIGHTS

FOR A CLASS B SHARE OUTSTANDING THROUGHOUT EACH YEAR.**

<TABLE>

<CAPTION>

	YEAR ENDED 12/31/93##	YEAR ENDED 12/31/92	YEAR ENDED 12/31/91
Net Asset Value, beginning of year	\$ 11.72	\$ 12.80	\$ 12.97
Income from investment operations:			
Net investment income/(loss)	(0.03)	(0.12)	0.19
Net realized and unrealized gain/(loss) on investments	2.71	(0.96)	(0.08)
Total from investment operations	2.68	(1.08)	0.11
Distributions to shareholders:			
Distributions from net investment income	--	--	(0.27)
Distributions from net realized gains	--	--	--
Distributions from capital	--	--	(0.01)
Total distributions	--	--	(0.28)
Net Asset Value, end of year	\$ 14.40	\$ 11.72	\$ 12.80
Total return+	22.87%	(8.44)%	0.88%
Ratios to average net assets/supplemental data:			
Net assets, end of year (in 000's)	\$ 35,698	\$ 23,120	\$28,634
Ratio of operating expenses to average net assets	3.05%	2.68%	2.55%
Ratio of net investment income/(loss) to average net assets	(0.25)%	(0.85)%	1.49%
Portfolio turnover rate	68%	108%	94%

<FN>

**Shares in existence prior to November 6, 1992 have been designated Class B shares.

+Total return represents aggregate total return for the year indicated and does not reflect any applicable sales charges.

##Per share amounts have been calculated using the monthly average share method.

</TABLE>

Smith Barney Shearson
European Fund

FINANCIAL HIGHLIGHTS

FOR A CLASS B SHARE OUTSTANDING THROUGHOUT EACH YEAR (CONTINUED).

<TABLE>

<CAPTION>

	YEAR ENDED 12/31/90 <C>	YEAR ENDED 12/31/89 <C>	YEAR ENDED 12/31/88+++ <C>	PERIOD ENDED 12/31/87*+++ <C>
<S>				
Net Asset Value, beginning of year	\$ 13.29	\$ 11.32	\$ 10.44	\$ 10.00

Income from investment operations:				
Net investment income/(loss)	0.24	0.14#	(0.06)#	0.05#
Net realized and unrealized gain/(loss) on investments	(0.09)	2.38	1.33	0.39

Total from investment operations	0.15	2.52	1.27	0.44
Distributions to shareholders:				
Distributions from net investment income	(0.16)	(0.05)	(0.12)	--
Distributions from net realized gains	(0.31)	(0.48)	(0.27)	--
Distributions from capital	--	(0.02)	--	--

Total distributions	(0.47)	(0.55)	(0.39)	--

Net Asset Value, end of year	\$ 12.97	\$ 13.29	\$ 11.32	\$ 10.44

Total return+	1.17%	22.26%	12.28%	4.40%

Ratios to average net assets/supplemental data:				
Net assets, end of year (in 000's)	\$28,017	\$7,445	\$2,287	\$1,708
Ratio of operating expenses to average net assets	2.92%	2.37%++	2.51%++	4.30%***++
Ratio of net investment income/(loss) to average net assets	2.21%	0.97%	(0.71)%	4.73%***
Portfolio turnover rate	118%	109%	105%	167%

*The Fund commenced operations on November 6, 1987.

***Annualized.

+Total Return represents aggregate total return for the period indicated and does not reflect any applicable sales charges.

++Annualized expense ratios before waiver of fees and reimbursement of expenses by investment adviser, sub-investment adviser and administrator for the years ended December 31, 1989 and 1988 and the period ended December 31, 1987 were 8.33%, 9.11% and 18.07%, respectively.

+++Not covered by Coopers & Lybrand's report.

#Net investment loss before waiver of fees and reimbursement of expenses by the investment adviser, sub-investment adviser and administrator for the years ended December 31, 1989 and 1988 and the period ended December 31, 1987 were \$1.00, \$0.58 and \$0.09, respectively.

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

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Smith Barney Shearson
European Fund

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Smith Barney Shearson Investment Funds Inc. (the "Company") was incorporated in Maryland on September 29, 1981 and commenced operations on January 4, 1982. The Company is registered with the Securities and Exchange Commission under the Investment Company Act of 1940, as amended (the "1940 Act"), as a diversified open-end management investment company. Prior to the close of business on July 30, 1993, the Company's corporate name was "SLH Investment Portfolios Inc." and it was doing business under the name "Shearson Lehman Brothers Investment Funds". As of the date of this report, the Company is composed of five managed investment funds (the "Funds"): Investment Grade Bond Fund, Government Securities Fund, Special Equities Fund, Directions Value Fund and European Fund. The assets of each Fund are segregated and a shareholder's interest is limited to the Fund in which he or she owns shares. As of November 6, 1992, each Fund offered two classes of shares to the general public: Class A shares and Class B

shares. Class A shares are sold with a front-end sales charge. Class B shares may be subject to a contingent deferred sales charge ("CDSC") upon redemption. Class B shares will convert automatically to Class A shares approximately eight years after date of purchase, beginning on September 30, 1994. As of January 29, 1993, the European Fund (the "Fund") offered a third class of shares, Class D shares, to investors eligible to participate in the Smith Barney Shearson Inc. ("Smith Barney Shearson") 401(k) program. Class D shares are offered without a front-end sales charge or CDSC. All classes of shares have identical rights and privileges except with respect to the effect of the respective sales charges to each class, the distribution and/or service fees borne by each class, expenses allocable exclusively to each class, voting rights on matters affecting a single class, the exchange privilege of each class and the conversion feature of Class B shares. The following is a summary of significant accounting policies consistently followed by the Fund in preparation of its financial statements.

PORTFOLIO VALUATION: Securities listed on an exchange are valued on the basis of the last sale prior to the time the valuation is made. If there has been no sale since the immediate previous valuation, then the current bid price is used. Over-the-counter securities are valued on the basis of the bid price at the close of business on each day. Notwithstanding the above, bonds and

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Smith Barney Shearson
European Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

other fixed-income securities are valued by using market quotations and may be valued on the basis of prices provided by a pricing service, when the Board of Directors believes that such prices reflect the market value of such securities. Foreign securities are valued on the basis of prices provided by pricing services. The service generally values foreign securities at the last quoted sales price on the exchange on which such securities are being valued, or lacking any sales, at the last available sale price, except that in certain circumstances, prices provided by the pricing service are within the range of the available bid and offer prices. Unlisted foreign securities are valued at the mean between the last available bid and offer price prior to the time of valuation. In cases where securities are traded on more than one exchange, the securities are valued on the exchange designated by or under the authority of the Board of Directors as the primary market. Securities and assets for which market quotations are not readily available are valued at fair value as determined in good faith by or under the direction of the Board of Directors. Money market instruments maturing within 60 days of the valuation date are valued at amortized cost.

FOREIGN CURRENCY TRANSACTIONS: The books and records of the Fund are maintained in United States (U.S.) dollars. Foreign currencies, investments and other assets and liabilities are translated into U.S. dollars at the exchange rates prevailing at the end of the period, and purchases and sales of investment securities, income and expenses are translated on the respective dates of such transactions. Unrealized gains and losses which result from changes in foreign currency exchange rates have been included in the unrealized appreciation/(depreciation) of investments. Exchange gains and losses included in net investment income include foreign currency gains and losses between trade date and settlement date on investment securities transactions, foreign currency transactions and the difference between the amounts of interest and dividends recorded on the books of the Fund and the amount actually received. The portion of foreign currency gains and losses related to fluctuation in exchange rates between the initial purchase trade date and subsequent sale trade date is included in realized gains and losses on investment securities sold.

FORWARD FOREIGN CURRENCY CONTRACTS: Forward foreign currency contracts are valued at the forward rate, and are marked-to-market daily. The change in market value is recorded by the Fund as an unrealized gain or loss. When

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Smith Barney Shearson
European Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

the contract is closed, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

The use of forward foreign currency contracts does not eliminate fluctuations in the underlying prices of the Fund securities, but it does establish a rate of

exchange that can be achieved in the future. Although forward foreign currency contracts limit the risk of loss due to a decline in the value of the hedged currency, they also limit any potential gain that might result should the value of the currency increase. In addition, the Fund could be exposed to risks if the counterparties to the contracts are unable to meet the terms of their contracts.

REPURCHASE AGREEMENTS: The Fund engages in repurchase agreement transactions. Under the terms of a typical repurchase agreement, the Fund takes possession of an underlying debt obligation subject to an obligation of the seller to repurchase, and the Fund to resell, the obligation at an agreed-upon price and time, thereby determining the yield during the Fund's holding period. This arrangement results in a fixed rate of return that is not subject to market fluctuations during the Fund's holding period. The value of the collateral is at least equal at all times to the total amount of the repurchase obligations, including interest. In the event of counterparty default, the Fund has the right to use the collateral to offset losses incurred. There is a potential loss to the Fund in the event the Fund is delayed or prevented from exercising its rights to dispose of the collateral securities including the risk of a possible decline in the value of the underlying securities during the period while the Fund seeks to assert its rights. The Fund's investment adviser, acting under the supervision of the Board of Directors, reviews the value of the collateral and the creditworthiness of those banks and dealers with which the Fund enters into repurchase agreements to evaluate potential risks.

SECURITIES TRANSACTIONS AND INVESTMENT INCOME: Securities transactions are recorded as of the trade date. Dividend income is recorded on the ex-dividend date except that certain dividends from foreign securities are recorded as soon as the Fund is informed of the ex-dividend date. Interest income is recorded on the accrual basis. Realized gains and losses from

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Smith Barney Shearson
European Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

securities transactions are recorded on the identified cost basis. Investment income and realized and unrealized gains and losses are allocated based upon the relative net assets of each class of shares.

FEDERAL INCOME TAXES: The Fund intends to qualify as a regulated investment company, if such qualification is in the best interest of its shareholders, by complying with the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), applicable to regulated investment companies and to distribute substantially all of its taxable income to its shareholders. Therefore, no Federal income tax provision is required.

DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS: Distributions from net investment income, if any, are determined on a class level and will be declared and paid at least annually. Distributions from net realized capital gains, after utilization of capital loss carryforwards, are determined on a Fund level and will be distributed at least annually. Net short-term capital gains may be paid more frequently, with the distribution of dividends from net investment income. Additional distributions of net investment income and capital gains may be made at the discretion of the Board of Directors to avoid the application of the excise tax imposed under the Code for certain undistributed amounts. Income distributions and capital gain distributions on a Fund level are determined in accordance with income tax regulations which may differ from generally accepted accounting principles. These differences are primarily due to differing treatments of income and gains on various investment securities held by the Fund, timing differences and differing characterization of distributions made by the Fund as a whole. Permanent differences incurred during the year ended December 31, 1993 resulting from a tax basis net operating loss were reclassified to paid-in capital at year end.

RECLASSIFICATIONS: During the year, the Fund adopted Statement of Position 93-2 "Determination, Disclosure, and Financial Statement Presentation of Income, Capital Gain, and Return of Capital Distributions by Investment Companies." Accordingly, certain reclassifications have been made to the components of capital in the Statement of Net Assets to conform with the accounting and reporting guidelines of this statement. Distributions in excess of book basis accumulated realized gains or undistributed net investment income that were the result of permanent book and tax accounting differences have been reclassified to paid-in capital. In addition, amounts

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Smith Barney Shearson
European Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

distributed in excess of accumulated net investment income as determined for financial statement purposes which had previously been reported as distributions from paid-in capital have been reclassified to accumulated net investment income. Accordingly, amounts as of December 31, 1992 have been restated to reflect a decrease in accumulated net investment loss of \$228,426, a decrease in paid-in capital of \$206,891 and an increase in accumulated net realized losses of \$21,535. The Financial Highlights have not been restated to reflect this change in presentation. Net investment income, net realized gains and net assets were not affected by this change.

2. INVESTMENT ADVISORY FEES, ADMINISTRATION FEE AND OTHER RELATED PARTY TRANSACTIONS

The Fund has entered into an investment advisory agreement (the "Advisory Agreement") with Lehman Brothers Global Asset Management Limited ("Global Asset Management"), a wholly owned subsidiary of Lehman Brothers Holdings Inc. ("Holdings"). American Express Company owns 100% of Holdings' issued and outstanding common stock, which represents approximately 92% of Holdings' voting stock. The remainder of Holdings' voting stock is owned by Nippon Life Insurance Company. Fees accrued by the Fund to Global Asset Management are payable monthly based on an annual rate of 0.70% of the value of its average daily net assets.

The Fund has also entered into an administration agreement (the "Administration Agreement") dated May 21, 1993, with The Boston Company Advisors, Inc. ("Boston Advisors"), an indirect wholly owned subsidiary of Mellon Bank Corporation ("Mellon"). Under the Administration Agreement, the Fund pays a monthly fee at the annual rate of 0.20% of the value of its average daily net assets. Prior to May 21, 1993, Boston Advisors served as sub-investment advisor and administrator to the Fund.

For the year ended December 31, 1993, the Fund incurred total brokerage commissions of \$100,366, of which \$9,401 were paid to Smith Barney Shearson or its predecessor.

For the year ended December 31, 1993, Smith Barney Shearson or its predecessor received from investors \$8,730 representing commissions (sales charges) on sales of Class A shares.

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Smith Barney Shearson
European Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

A CDSC is generally payable by a shareholder in connection with the redemption of Class B shares within five years (eight years in the case of certain 401(k) plans) after the date of purchase. In circumstances in which the charge is imposed, the amount of the charge ranges between 5% and 1% of net asset value depending on the number of years since the date of purchase (except in the case of purchases by certain 401(k) plans in which case a 3% charge is imposed for the eight year period after the date of the purchase). For the year ended December 31, 1993, Smith Barney Shearson or its predecessor received from investors \$70,120 representing CDSC fees on the redemption of Class B shares.

No officer, director or employee of Smith Barney Shearson or Boston Advisors or any of their affiliates receives any compensation from the Company for serving as an officer or director of the Company. The Company pays each Director who is not an officer, director or employee of Smith Barney Shearson or Boston Advisors or any of their affiliates \$14,000 per annum plus \$3,000 per meeting attended and reimburses each such Director for travel and out-of-pocket expenses.

Boston Safe Deposit and Trust Company, an indirect wholly owned subsidiary of Mellon, serves as the Fund's custodian. The Shareholder Services Group, Inc., a subsidiary of First Data Corporation, serves as the Fund's transfer agent.

3. DISTRIBUTION AGREEMENT

Smith Barney Shearson acts as distributor of the Fund's shares pursuant to a distribution agreement with the Company, and sells shares of all the Funds of the Company through Smith Barney Shearson or its affiliates.

Pursuant to Rule 12b-1 under the 1940 Act, the Company has adopted a Services and Distribution Plan (the "Plan"). Under this Plan, the Company compensates Smith Barney Shearson for servicing shareholder accounts for Class A, Class B and Class D shareholders, and covers expenses incurred in distributing Class B and Class D shares. Smith Barney Shearson is paid an annual service fee with

respect to Class A, Class B and Class D shares of the Fund at the rate of 0.25% of the value of the average daily net assets attributable to each respective class of shares. Smith Barney Shearson is also

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Smith Barney Shearson
European Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

paid an annual distribution fee with respect to Class B shares at the rate of 0.75% of the value of the average daily net assets of each respective class of shares. For the year ended December 31, 1993, the service fee for Class A and Class B shares was \$2,277 and \$67,600, respectively. For the year ended December 31, 1993 the distribution fee for Class B shares was \$202,801. For the year ended December 31, 1993, no service or distribution fees were paid for Class D shares.

4. EXPENSE ALLOCATION

Expenses of the Fund not directly attributable to the operations of any class of shares are prorated among the classes based upon the relative net assets of each class. Operating expenses directly attributable to a class of shares are charged to that class' operations. In addition to the above servicing and distribution fees, class specific operating expenses include transfer agent fees. For the year ended December 31, 1993, transfer agent fees for Class A and Class B shares were \$2,339 and \$63,006, respectively.

5. SECURITIES TRANSACTIONS

Cost of purchases and proceeds from sales of securities, excluding short-term investments, aggregated \$23,008,389 and \$17,441,012, respectively, for the year ended December 31, 1993.

At December 31, 1993, aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost was \$5,326,779 and aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was \$328,463.

6. SHARES OF COMMON STOCK

At December 31, 1993, the Fund had authorized capital of 100 million shares of \$.001 par value common stock divided into four classes, Class A, Class B, Class C and Class D. The Fund has not yet commenced offering Class C shares.

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Smith Barney Shearson
European Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Changes in common stock outstanding were as follows:

<TABLE>
<CAPTION>

CLASS A SHARES: <S>	YEAR ENDED 12/31/93		PERIOD ENDED 12/31/92*	
	Shares <C>	Amount <C>	Shares <C>	Amount <C>
Sold	1,006,830	\$ 12,641,308	411,988	\$ 4,816,938
Redeemed	(892,758)	(11,251,448)	(408,039)	(4,777,497)
Net increase	114,072	\$ 1,389,860	3,949	\$ 39,441

<CAPTION>

CLASS B SHARES: <S>	YEAR ENDED 12/31/93		YEAR ENDED 12/31/92	
	Shares <C>	Amount <C>	Shares <C>	Amount <C>
Sold	2,857,156	\$ 36,736,827	1,589,184	\$ 20,001,131
Redeemed	(2,351,504)	(30,048,585)	(1,853,055)	(23,182,758)
Net increase/(decrease)	505,652	\$ 6,688,242	(263,871)	\$ (3,181,627)

<FN>

*The Fund commenced selling Class A shares on November 6, 1992. Any shares outstanding prior to November 6, 1992 were designated Class B shares.

</TABLE>

As of December 31, 1993, the Fund had one Class D share issued in the amount of \$14.40 to Smith Barney Shearson. During the period ended December 31, 1993, there was no income or expenses allocated to the one Class D share.

7. ORGANIZATION AND OFFERING EXPENSES

Organization costs were amortized on a straight-line basis over a period of five years. As of December 31, 1993 all costs have been fully amortized.

8. CAPITAL LOSS CARRYFORWARD

At December 31, 1993, the Fund had available for federal tax purposes unused capital loss carryforward (in thousands) of \$1,304 and \$619 expiring in 1999 and 2000, respectively.

9. FOREIGN SECURITIES

Investing in securities of foreign companies and foreign governments involves special risks and considerations not typically associated with investing in U.S. companies and the U.S. government. These risks include revaluation of

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Smith Barney Shearson
European Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

currencies and future adverse political and economic developments. Moreover, securities of many foreign companies and foreign governments and their markets may be less liquid and their prices more volatile than those of securities of comparable U.S. companies and the U.S. government.

10. LINE OF CREDIT

The Fund and several affiliated entities participate in a \$50 million line of credit provided by Continental Bank N.A. under an Amended and Restated Line of Credit Agreement (the "Agreement") dated April 30, 1992, primarily for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. Under this Agreement, the Fund may borrow up to the lesser of \$25 million or 20% of its net assets. Interest is payable either at the bank's Money Market Rate or the London Interbank Offered Rate (LIBOR) plus 0.375% on an annualized basis. The Fund and the other affiliated entities are charged an aggregate commitment fee of \$125,000 which is allocated equally among the participants. The Agreement requires, among other provisions, each participating fund to maintain a ratio of net assets (not including funds borrowed pursuant to the Agreement) to aggregate amount of indebtedness pursuant to the Agreement of no less than 5 to 1. During the year ended December 31, 1993, the Fund did not borrow under the Agreement.

11. SUBSEQUENT EVENT

On February 8, 1994, the Board of Directors of the Fund approved a new investment advisory agreement by and between the Fund and Smith Barney Advisers, Inc., subject to shareholder approval, to take effect on or about April 8, 1994.

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Smith Barney Shearson
European Fund

REPORT OF INDEPENDENT ACCOUNTANTS

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF
SMITH BARNEY SHEARSON EUROPEAN FUND OF
SMITH BARNEY SHEARSON INVESTMENT FUNDS INC.:

We have audited the accompanying statement of assets and liabilities of Smith Barney Shearson European Fund of Smith Barney Shearson Investment Funds Inc., including the schedule of portfolio investments, as of December 31, 1993, and the related statement of operations for the year then ended, the statement of changes in net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these

financial statements and financial highlights based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights 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 December 31, 1993 by correspondence with the custodian and brokers. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Smith Barney Shearson European Fund of Smith Barney Shearson Investment Funds Inc. as of December 31, 1993, the results of its operations for the year then ended, the changes in net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with generally accepted accounting principles.

COOPERS & LYBRAND

Boston, Massachusetts
February 8, 1994

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Smith Barney Shearson
European Fund

PARTICIPANTS

DISTRIBUTOR

Smith Barney Shearson
388 Greenwich Street
New York, New York 10013

INVESTMENT ADVISER

Lehman Brothers Global Asset
Management Limited
Two Broadgate
London EC2M 7HA
United Kingdom

ADMINISTRATOR

The Boston Company Advisors, Inc.
One Boston Place
Boston, Massachusetts 02108

AUDITORS AND COUNSEL

Coopers & Lybrand
One Post Office Square
Boston, Massachusetts 02109

Dechert Price & Rhoads
1500 K Street, N.W.
Washington, D.C. 20005

TRANSFER AGENT

TSSG
Exchange Place
Boston, Massachusetts 02109

CUSTODIAN

Boston Safe Deposit and
Trust Company
One Boston Place
Boston, Massachusetts 02108

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Smith Barney Shearson
European Fund

GLOSSARY OF COMMONLY USED MUTUAL FUND TERMS

CAPITAL GAIN (OR LOSS) This is the increase (or decrease) in the market value (price) of a security in your portfolio. If a stock or bond appreciates in price, there is a capital gain; if it depreciates there is a capital loss. A capital gain or loss is "realized" upon the sale of a security; if net capital gains exceed net capital losses, there may be a capital gain distribution to shareholders.

CONTINGENT DEFERRED SALES CHARGE (CDSC) One kind of back-end load, a CDSC may be imposed if shares are redeemed during the first few years of ownership. The CDSC may be expressed as a percentage of either the original purchase price or the redemption proceeds. Most CDSCs decline over time, and some will not be charged if shares are redeemed after a certain period of time.

DIVIDEND This is income generated by securities in a portfolio and distributed after expenses to shareholders.

FRONT-END SALES CHARGE This is the sales charge applied to an investment at the time of initial purchase.

NET ASSET VALUE (NAV) Net asset value is the total market value of all securities held by a fund, minus any liabilities, divided by the number of shares outstanding. It is the value of a single share of a mutual fund on a given day. The total value of your investment would be the NAV multiplied by the number of shares you own.

TOTAL RETURN Total return measures a fund's performance, taking into account the combination of dividends paid and the gain or loss in the value of the securities held in the portfolio. It may be expressed on an AVERAGE ANNUAL basis or CUMULATIVE basis (total change over a given period). In addition, total return may be expressed with or without the effects of sales charges or the reinvestment of dividends and capital gains.

Whenever a fund reports any type of performance, it must also report the average annual total return according to the standardized calculation developed by the SEC. The SEC AVERAGE ANNUAL TOTAL RETURN calculation includes the effects of all fees and sales charges and assumes the reinvestment of all dividends and capital gains.

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EUROPEAN
FUND

DIRECTORS
Alger B. Chapman
Dwight B. Crane
Frank G. Hubbard
Allan R. Johnson
Heath B. McLendon
John F. White

OFFICERS
Heath B. McLendon
CHAIRMAN OF THE BOARD

Stephen J. Treadway
PRESIDENT

Richard P. Roelofs
EXECUTIVE VICE PRESIDENT

Erich Stock
INVESTMENT OFFICER

Kenneth A. Egan
FIRST VICE PRESIDENT

Vincent Nave
TREASURER

Francis J. McNamara, III
SECRETARY

Paul F. Roye
ASSISTANT SECRETARY

THIS REPORT IS SUBMITTED FOR THE GENERAL INFORMATION OF THE SHAREHOLDERS OF THE EUROPEAN FUND OF SMITH BARNEY SHEARSON INVESTMENT FUNDS INC. IT IS NOT AUTHORIZED FOR DISTRIBUTION TO PROSPECTIVE INVESTORS UNLESS ACCOMPANIED OR

PRECEDED BY AN EFFECTIVE PROSPECTUS FOR THE FUND, WHICH CONTAINS INFORMATION CONCERNING THE FUND'S INVESTMENT POLICIES AND EXPENSES AS WELL AS OTHER PERTINENT INFORMATION.

PERFORMANCE CITED IS THROUGH DECEMBER 31, 1993. PLEASE CONSULT SMITH BARNEY SHEARSON MUTUAL FUNDS QUARTERLY PERFORMANCE UPDATE FOR FIGURES THROUGH THE MOST RECENT CALENDAR QUARTER.

[LOGO]

Smith Barney Shearson
Mutual Funds
Two World Trade Center
New York, New York 10048

Fund 109, 203, 255
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