

SECURITIES AND EXCHANGE COMMISSION

FORM 485BPOS

Post-effective amendments [Rule 485(b)]

Filing Date: **1994-03-01**
SEC Accession No. **0000053798-94-000111**

([HTML Version](#) on [secdatabase.com](#))

FILER

SMITH BARNEY SHEARSON INVESTMENT FUNDS INC

CIK: **355747** | IRS No.: **133089608** | State of Incorpor.: **MD** | Fiscal Year End: **1231**
Type: **485BPOS** | Act: **33** | File No.: **002-74288** | Film No.: **94514103**

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

As filed with the Securities and Exchange Commission on March 1, 1994
Registration
No. 2-74288 811-3275

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-1A

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 X

Pre-Effective Amendment No.

Post-Effective Amendment No. 33 X

REGISTRATION STATEMENT UNDER THE INVESTMENT
COMPANY ACT OF 1940, as amended X

Amendment No. 35 X

SMITH BARNEY SHEARSON INVESTMENT FUNDS INC.
(Exact name of Registrant as Specified in Charter)

Two World Trade Center, New York, New York 10048
(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, including Area Code:
(212) 720-9218

Francis J. McNamara, III
Secretary

SMITH BARNEY SHEARSON INVESTMENT FUNDS INC.
Exchange Place
Boston, Massachusetts 02109
(Name and Address of Agent for Service)

Approximate Date of Proposed Public Offering:
As soon as possible after this Post-Effective Amendment
becomes effective.

It is proposed that this filing will become effective:

X immediately upon filing pursuant to Rule 485(b)
on March 1, 1994 pursuant to Rule 485(b)
60 days after filing pursuant to Rule 485(a)
on _____ pursuant to Rule 485(a)

The Registrant has previously filed a declaration of indefinite registration
of its shares pursuant to Rule 24f-2 under the Investment Company Act of 1940,
as amended. Registrant's Rule 24f-2 Notice for the fiscal year ending
December 31, 1993 was filed on February 28, 1994.

SMITH BARNEY SHEARSON INVESTMENT FUNDS INC.

FORM N-1A

CROSS REFERENCE SHEET

PURSUANT TO RULE 495(b)

Part A.

Item No.	Prospectus Caption
1.	Cover Page Cover Page
2.	Synopsis Prospectus Summary
3.	Condensed Financial Information Financial Highlights
4.	General Description of Registrant Cover Page; Prospectus Summary; Investment

Objectives and Policies; Additional Information

5. Management of the Company Prospectus Summary; Management of the Company and the Fund; Distributor; Additional Information
- 5a. Management's Discussion of Fund Performance Not applicable
6. Capital Stock and Other Securities Additional Information Cover Page; Variable Pricing System; Dividends, Distribution and Taxes;
7. Purchase of Securities Being Offered Privilege Variable Pricing System; Purchase of Shares; Valuation of Shares; Exchange Privilege
8. Redemption or Repurchase of Shares; Valuation of Shares; Redemption of Shares; Exchange Privilege Variable Pricing System; Purchase of Shares; Exchange Privilege
9. Legal Proceedings Not Applicable

Part B Statement of Additional Information Caption

10. Cover Page Cover Page
11. Table of Contents Contents
12. General Information and History See Prospectus "Additional Information"
13. Investment Objectives and Policies Investment Objective and Management Policies
14. Management of the Fund Management of the Company
15. Control Persons and Principal Holders of Securities Management of the Company
16. Investment Advisory and Other Services See Prospectus--"Additional Information" Management of the Company; Distributor;
17. Brokerage Allocation and Other Practices Investment Objective and Management Policies
18. Capital Stock and Shares ; Other Securities ; Taxes; See Prospectus "Additional Information" Purchase of
19. Purchase, Redemption and Pricing of Securities Being Offered Purchase of Shares; Redemption of Shares; Distributor; Valuation of Shares; Exchange Privilege
20. Tax Status Taxes
21. Underwriters Distributor
22. Calculation of Performance Data Performance Data
23. Financial Statements Financial Statements

PART A

SMITH BARNEY SHEARSON INVESTMENT FUNDS INC.

PROSPECTUS

MARCH 1, 1994
 SMITH BARNEY SHEARSON
 GOVERNMENT

SECURITIES
 FUND PROSPECTUS BEGINS

ON PAGE ONE.
 [LOGO]

SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND -----
 ----- PROSPECTUS
 March 1, 1994 Two World Trade Center New York, New York 10048 (212) 720-
 9218 Smith Barney Shearson Government Securities Fund (the "Fund") has
 an investment objective of high current return through investments in
 U.S. government securities. It may write covered call options and secured put
 options and purchase put options on U.S. government securities. For hedging
 purposes, the Fund may purchase and sell interest rate futures contracts and
 put and call options thereon. The Fund is one of a number of funds,
 each having distinct investment objectives and policies, making up Smith Barney
 Shearson Investment Funds, Inc. (the "Company"). The Company is an open-end
 management investment company commonly referred to as a mutual fund.
 This Prospectus briefly sets forth certain information about the Fund and
 the Company, including sales charges, distribution and service fees and
 expenses, that prospective investors will find helpful in making an investment
 decision. Investors are encouraged to read this Prospectus carefully and to
 retain it for future reference. Shares of other funds offered by the Company
 are described in separate Prospectuses that may be obtained by calling the
 Company at the telephone number set forth above or by contacting any Smith
 Barney Shearson Financial Consultant. The net asset value per share of the Fund
 will fluctuate in response to changes in market conditions and other
 factors. Additional information about the Fund and the Company is
 contained in a Statement of Additional Information dated March 1, 1994, as
 amended or supplemented from time to time, that is available upon request and
 without charge by calling or writing the Company at the telephone number or
 address set forth above or by contacting any Smith Barney Shearson Financial
 Consultant. The Statement of Additional Information has been filed with the
 Securities and Exchange Commission (the "SEC") and is incorporated by reference
 into this Prospectus in its entirety. SMITH BARNEY SHEARSON
 INC. Distributor GREENWICH STREET ADVISORS Investment Adviser THE
 BOSTON COMPANY ADVISORS, INC. Administrator THESE SECURITIES HAVE NOT BEEN
 APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE
 SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY
 STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS
 PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

1

SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND -----
 ----- TABLE OF CONTENTS
 <TABLE> <S> <C> PROSPECTUS SUMMARY

3	----- FINANCIAL
HIGHLIGHTS	9 -----
----- VARIABLE PRICING SYSTEM	
13	----- INVESTMENT
OBJECTIVE AND MANAGEMENT POLICIES	14 -----
----- MANAGEMENT OF THE COMPANY AND THE FUND	
24	----- PURCHASE
OF SHARES	
26	-----
REDEMPTION OF SHARES	34 -----
----- VALUATION OF SHARES	38 -----
----- EXCHANGE PRIVILEGE	
39	----- DISTRIBUTOR
46	----- DIVIDENDS,
DISTRIBUTIONS AND TAXES	47 -----
----- THE FUND'S PERFORMANCE	50 -----
----- ADDITIONAL INFORMATION	
51	----- </TABLE>

2

----- PROSPECTUS SUMMARY THE FOLLOWING SUMMARY IS QUALIFIED IN ITS ENTIRETY BY DETAILED INFORMATION APPEARING ELSEWHERE IN THIS PROSPECTUS AND IN THE STATEMENT OF ADDITIONAL INFORMATION. CROSS REFERENCES IN THIS SUMMARY ARE TO HEADINGS IN THE PROSPECTUS. SEE THE "TABLE OF CONTENTS." BENEFITS TO INVESTORS THE FUND OFFERS INVESTORS SEVERAL IMPORTANT BENEFITS: - Investment liquidity through convenient purchase and redemption procedures. - A convenient way to invest without the administrative and recordkeeping burdens normally associated with the direct ownership of securities. - Different methods for purchasing shares that allow investment flexibility and a wider range of investment alternatives. - An automatic dividend reinvestment feature, plus an exchange privilege within the same class of shares of other funds in the Company and of most other funds in the Smith Barney Shearson Group of Funds. INVESTMENT OBJECTIVE The Fund is an open-end diversified management investment company that seeks high current return by investing in U.S. government securities. The Fund may write covered call options and secured put options and purchase put options on U.S. government securities. The Fund may purchase and sell interest rate futures contracts, and purchase and sell put and call option on futures contracts, as a means of hedging against changes in interest rates. See "Investment Objective and Management Policies." VARIABLE PRICING SYSTEM The Fund offers several classes of shares ("Classes") to investors designed to provide them with the flexibility of selecting an investment best suited to their needs. The general public is offered two classes of shares, Class A and Class B shares, which differ principally in terms of the sales charges and rates of expenses to which they are subject. In addition, a third class -- Class D shares -- is offered only to plans participating in the Smith Barney Shearson 401(k) Program (the "401(k) Program"). See "Variable Pricing System" and "Purchase of Shares -- Smith Barney Shearson 401(k) Program."

3

----- PROSPECTUS SUMMARY (CONTINUED) CLASS A SHARES These shares are offered at net asset value per share plus a maximum initial sales charge of 4.50%. The Fund pays an annual service fee of 0.25% of the value of average daily net assets of this Class. See "Purchase of Shares." CLASS B SHARES These shares are offered at net asset value per share subject to a maximum contingent deferred sales charge ("CDSC") of 4.50% of redemption proceeds, declining by 0.50% after the first year and by 1.00% each year thereafter to zero. The Fund pays an annual service fee of 0.25% and an annual distribution fee of 0.50% of the value of average daily net assets of this Class. See "Purchase of Shares." CLASS B CONVERSION FEATURE Class B shares will convert automatically to Class A shares, based on relative net asset value, approximately eight years after the date of original purchase. Upon conversion, these shares will no longer be subject to an annual distribution fee. The first of these conversions will commence on or about September 30, 1994. See "Variable Pricing System -- Class B Shares". SMITH BARNEY SHEARSON 401(K) PROGRAM Investors may be eligible to participate in the 401(k) Program, which is generally designed to assist employers or plan sponsors in the creation and operation of retirement plans under Section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code"), as well as other types of participant directed, tax qualified employee benefit plans and employer sponsored non-qualified employee benefit plans (collectively, "Participating Plans"). Class A, Class B and Class D shares are available as investment alternatives for Participating Plans. Class A and Class B shares acquired through the 401(k) Program are subject to the same service and/or distribution fees as, but different sales charges and CDSC schedules than, the Class A and Class B shares acquired by other investors. Class D shares acquired by Participating Plans are offered at net asset value per share without any sales charges or CDSC. The Fund pays annual service and distribution fees based on the value of average daily net assets attributable to this Class. See "Purchase of Shares -- Smith Barney Shearson 401(k) Program." PURCHASE OF SHARES Shares may be purchased through the Company's distributor, Smith Barney Shearson Inc. ("Smith Barney Shearson"), or a broker that clears securities transactions through Smith Barney Shearson on

4

----- PROSPECTUS SUMMARY (CONTINUED) a fully disclosed basis (an "Introducing Broker"). Direct purchases by certain retirement plans may be made through The Shareholder Services Group, Inc. ("TSSG"), the Company's transfer agent, a subsidiary of First Data Corporation ("FDC"). Smith Barney Shearson recommends that, in most cases, single investments of \$250,000 or more should be in Class A shares. See "Purchase of Shares." INVESTMENT MINIMUMS Investors are subject to a minimum initial investment requirement of \$1,000 and a minimum subsequent investment requirement of \$200. However, for Individual Retirement Accounts ("IRAs") and Self-Employed Retirement Plans, the minimum initial investment requirement is \$250 and the minimum subsequent investment requirement is \$100 and for certain qualified retirement plans, the minimum initial and subsequent investment requirement is \$25. See "Purchase of Shares." SYSTEMATIC INVESTMENT PLAN The Fund also offers shareholders a Systematic Investment Plan under which they may authorize the automatic placement of a purchase order each month or quarter for Fund shares in an amount not less than \$100. See "Purchase of Shares." REDEMPTION OF SHARES Shares may be redeemed on each day the New

York StockExchange, Inc. ("NYSE") is open for business. Class A and Class D shares are redeemable at net asset value and Class B shares are redeemable at net asset value less any applicable CDSC. See "Redemption of Shares."

MANAGEMENT OF THE FUND Greenwich Street Advisors Division ("Greenwich Street Advisors") of Mutual Management Corp. ("MMC") serves as the Fund's investment adviser. MMC provides investment advisory and management services to investment companies affiliated with Smith Barney Shearson. MMC is controlled by Smith Barney Shearson Holdings Inc. ("Holdings"), Holdings is a wholly owned subsidiary of The Travelers Inc. (which was formerly known as Primerica Corporation) ("Travelers"), a diversified financial services holding company principally engaged in the businesses of providing investment, consumer finance and insurance services. As of December 31, 1993 Greenwich Street Advisors had aggregate assets under management in excess of \$42.8 billion.

5

SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND -----
 ----- PROSPECTUS SUMMARY (CONTINUED)

The Boston Company Advisors, Inc. ("Boston Advisors") serves as the Fund's administrator. Boston Advisors is a wholly owned subsidiary of The Boston Company, Inc. ("TBC"), a financial services holding company which in turn is an indirect wholly owned subsidiary of Mellon Bank Corporation ("Mellon"). As of December 31, 1993, Boston Advisors provides investment management, investment advisory, and/or administrative services to investment companies, which had aggregate assets under management in excess of \$86.6 billion. See "Management of the Company and the Fund."

EXCHANGE PRIVILEGE Shares of a Class may be exchanged for shares of the same Class of most other funds in the Smith Barney Shearson Group of Funds and certain money market funds. Certain exchanges may be subject to a sales charge differential. See "Exchange Privilege."

VALUATION OF SHARES Net asset value of each Class is quoted daily in the financial section of most newspapers and is also available from any Smith Barney Shearson Financial Consultant. See "Valuation of Shares."

DIVIDENDS AND DISTRIBUTIONS Dividends from net investment income are declared daily and paid on the last business day of the Smith Barney Shearson statement month. Distributions of net realized long- and short-term capital gains, if any, are declared and paid annually after the end of the fiscal year in which they are earned. See "Dividends, Distributions and Taxes."

REINVESTMENT OF DIVIDENDS Dividends and distributions paid on shares of a Class will be reinvested automatically unless otherwise specified by an investor in additional shares of the same Class at current net asset value. Shares acquired by dividend and distribution reinvestments will not be subject to any sales charge or CDSC. Class B shares acquired through dividend and distribution reinvestments will become eligible for conversion to Class A shares on a prorata basis. See "Dividends, Distributions and Taxes" and "Variable Pricing System."

RISK FACTORS AND SPECIAL CONSIDERATIONS The Company is designed for long-term investors and not for investors who intend to liquidate their investment after a short period. Neither the Company as a whole nor any particular fund in the Company, including the Fund, constitutes a balanced investment plan. There can be no assurance that the Fund will achieve its

6

SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND -----
 ----- PROSPECTUS SUMMARY

(CONTINUED) investment objective. The value of the Fund's investments, and hence the net asset value of Fund shares, will fluctuate in response to changes in interest rates and market and economic conditions. The Fund may enter into interest rate futures contracts and put and call options thereon for hedging purposes, which may be subject to certain risks in addition to those inherent in investments in the underlying securities. The Fund may also employ other investment techniques which involve certain other risks, including entering into repurchase agreements and lending portfolio securities. See "Investment Objective and Management Policies -- Additional Investments."

THE FUND'S EXPENSES The following expense table lists the costs and expenses that an investor will incur either directly or indirectly as a shareholder of the Fund based on the maximum sales charge or maximum CDSC that may be incurred at the time of purchase or redemption and an estimate of the Fund's current operating expenses:

	CLASS A	CLASS B	CLASS D	<S>	<C>	<C>
<TABLE><CAPTION>						

SHAREHOLDER TRANSACTION EXPENSES Maximum sales charges imposed on purchases (as a percentage of offering price)
 4.50% -- -- Maximum CDSC (as a percentage of redemption proceeds) -- 4.50% --

ANNUAL FUND OPERATING EXPENSES (as a percentage of average net assets)

	CLASS A	CLASS B	CLASS D	Management fees	12b-1 fees*		
0.55%	0.55%	0.55%	12b-1 fees*	0.25	0.75	0.75	
Other expenses**				0.12	0.10		

TOTAL FUND OPERATING EXPENSES
 0.92% 1.40% 1.40%

<FN> *Upon conversion of Class B shares to Class A shares, such shares will no longer be subject to a distribution fee. Class D shares do not have a conversion feature and, therefore, are subject to an ongoing distribution fee. **All expenses are based on data for the Fund's fiscal year ended December 31, 1993. The sales charge and CDSC set forth in the above table are the maximum charges imposed upon purchases or redemptions of Fund shares and investors may pay actual charges

less than 4.50%, depending on the amount purchased and, in the case of Class B shares, the length of time the shares are held and whether the shares are held through the 401(k) Program. See 7

SMITH BARNEY

SHEARSON GOVERNMENT SECURITIES FUND -----

----- PROSPECTUS SUMMARY (CONTINUED) "Purchase of Shares" and "Redemption of Shares." Management fees payable by the Fund include investment advisory fees paid to Smith Barney Shearson on behalf of Greenwich Street Advisors at the maximum annual rate of 0.35% of the value of the Fund's average daily net assets and administration fees paid to Boston Advisors at the annual rate of 0.20% of the value of the Fund's average daily net assets. The nature of the services for which the Fund pays management fees is described under "Management of the Company and the Fund." Smith Barney Shearson receives an annual Rule 12b-1 service fee of 0.25% of the value of average daily net assets of Class A shares. Smith Barney Shearson also receives with respect to Class B and Class D shares an annual Rule 12b-1 fee of 0.75% of the value of the average daily net assets of Class B shares and Class D shares, respectively, consisting of a 0.50% distribution fee and a 0.25% service fee. "Other expenses" in the above table include fees for shareholder services, custodial fees, legal and accounting fees, printing costs and registration fees.

EXAMPLE The following example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical \$1,000 investment in the Fund assuming a 5.00% annual total return. THE EXAMPLE ASSUMES PAYMENT BY THE FUND OF OPERATING EXPENSES AT THE LEVELS SET FORTH IN THE ABOVE TABLE. THE EXAMPLE SHOULD NOT BE CONSIDERED A REPRESENTATION OF PAST OR FUTURE EXPENSES AND ACTUAL EXPENSES MAY BE GREATER OR LESS THAN THOSE SHOWN. MOREOVER, WHILE THE EXAMPLE ASSUMES A 5.00% ANNUAL RETURN, THE FUND'S ACTUAL PERFORMANCE WILL VARY AND MAY RESULT IN AN ACTUAL RETURN GREATER OR LESS THAN 5.00%. <TABLE><CAPTION>

<C>	1 YEAR	3 YEARS	5 YEARS	10 YEARS*	<S>	<C>

						\$ 54
\$ 73	\$ 94	\$ 153			Class A shares**	
end	of each time period***				Assumes complete redemption at	
155	Assumes no redemption		\$ 59	\$ 74	\$ 87	\$
155	Class D shares		\$ 14	\$ 44	\$ 77	\$
168			\$ 14	\$ 44	\$ 77	\$

----- <FN> *Ten-year figures assume conversion of Class B shares to Class A shares at the end of the eighth year following the date of purchase. **Assumes deduction at the time of purchase of the maximum 4.50% sales charge. ***Assumes deduction at the time of redemption of the maximum CDSC applicable for that time period.</TABLE> 8

SMITH BARNEY SHEARSON GOVERNMENT

SECURITIES FUND -----

----- FINANCIAL HIGHLIGHTS THE FOLLOWING INFORMATION HAS BEEN AUDITED BY COOPERS & LYBRAND, INDEPENDENT ACCOUNTANTS, WHOSE REPORT THEREON APPEARS IN THE FUND'S ANNUAL REPORT DATED DECEMBER 31, 1993. THIS INFORMATION SHOULD BE READ IN CONJUNCTION WITH THE FINANCIAL STATEMENTS AND RELATED NOTES THAT ALSO APPEAR IN THE FUND'S ANNUAL REPORT DATED DECEMBER 31, 1993, WHICH IS INCORPORATED BY REFERENCE INTO THE STATEMENT OF ADDITIONAL INFORMATION. FOR A CLASS A SHARE OUTSTANDING THROUGHOUT EACH PERIOD. <TABLE><CAPTION>

YEAR ENDED	PERIOD ENDED
12/31/93+++	12/31/92*<S>
<C>	<C>Net Asset Value, beginning of period
\$ 9.69	\$ 9.56
-----Income from investment operations:Net investment income#	
0.10	0.81
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>

9

SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND -----
 ----- FINANCIAL HIGHLIGHTS (CONTINUED)
 FOR A CLASS B SHARE OUTSTANDING THROUGHOUT EACH YEAR. <TABLE><CAPTION>

YEAR ENDED	YEAR ENDED	YEAR ENDED	
12/31/93+++	12/31/92	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. 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. **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 years ended December 31, 1993 and 1992 were 1.55% and 1.71%, respectively. Annualized expense ratios before voluntary waiver of fees by the 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. @Not covered by Coopers & Lybrand's report. #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.</TABLE> 10

SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND -----
 ----- <TABLE><CAPTION>

YEAR PERIOD ENDED	YEAR ENDED	YEAR ENDED	YEAR ENDED	YEAR ENDED	YEAR ENDED
12/31/88@	12/31/87@	12/31/86@	12/31/90	12/31/85@	12/31/89
12/31/84*@	<S>	<C>	<C>	<C>	<C>
<C>	<C>	<C>	\$ 9.25	\$ 8.75	
\$ 8.90	\$ 10.41	\$ 10.20	\$ 10.01	\$	
10.00					
	0.68	0.70		0.75	
0.51	0.84	0.90	0.78	(0.08)	
0.53	(0.16)	(1.06)		0.50	
0.77	(0.17)				
		0.60		1.23	
0.59	(0.55)	1.34		1.67	0.61
(0.68)	(0.70)	(0.74)		(0.51)	
(0.84)	(1.18)	(0.50)	--	--	
--	(0.05)	--	--	--	
--	--	--		(0.40)	

(0.29)	(0.30)	(0.10)	(0.06)	(0.03)
---	--	--	--	--
---	(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>

11

SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND -----
 FINANCIAL HIGHLIGHTS
 (CONTINUED) (CONTINUED) FOR A CLASS D SHARE OUTSTANDING THROUGHOUT THE
 PERIOD <TABLE><CAPTION>

PERIOD	
ENDED	
12/31/93****<S>	
<C>Net Asset Value, beginning of period	\$
9.90	-----
-----Income from investment operations:Net investment income#	
0.68Net realized and unrealized gain on investments	
.04	-----
-----Total from investment operations	
0.72Distributions to shareholders: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)	\$ 213Ratio 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 the 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
 the investment adviser for the period ended December 31, 1993 was
 \$0.55.</TABLE> 12

SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND -----
 VARIABLE PRICING SYSTEM The
 Smith Barney Shearson Group of Funds offers individual investors two methods of
 purchasing shares, Class A shares and Class B shares, thus enabling investors
 to choose the Class that best suits their needs, given the amount of purchase
 and intended length of investment. A third class -- Class D -- is offered only
 to Participating Plans. CLASS A SHARES. Class A shares are sold at
 net asset value per share plus a maximum initial sales charge of 4.50% imposed
 at the time of purchase. The initial sales charge may be reduced or waived for
 certain purchases. Class A shares are subject to an annual service fee of 0.25%
 of the value of the Fund's average daily net assets attributable to the Class.
 The annual service fee is used by Smith Barney Shearson to compensate its
 Financial Consultants for ongoing services provided to shareholders. The sales
 charge is used to compensate Smith Barney Shearson for expenses incurred in
 selling Class A shares. See "Purchase of Shares." CLASS B SHARES.
 Class B shares are sold at net asset value per share subject to a maximum 4.50%
 CDSC, which is assessed only if the shareholder redeems shares within the first
 five years of investment. This results in 100% of the investor's assets being
 used to acquire shares of the Fund. After the first year after the purchase of
 shares, the CDSC declines to 4.00%. For each of the next four years thereafter,
 the applicable CDSC declines by 1.00%; in year six, the applicable CDSC is
 reduced to 0%. See "Purchase of Shares" and "Redemption of Shares."
 Class B shares are subject to an annual service fee of 0.25% and an
 annual distribution fee of 0.50% of the value of the Fund's average daily net

assets attributable to the Class. Like the service fee applicable to Class A shares, the Class B service fee is used to compensate Smith Barney Shearson Financial Consultants for ongoing services provided to shareholders. Additionally, the distribution fee paid with respect to Class B shares compensates Smith Barney Shearson for expenses incurred in selling those shares, including expenses such as sales commissions, Smith Barney Shearson's branch office overhead expenses and marketing costs associated with Class B shares, such as preparation of sales literature, advertising and printing and distributing prospectuses, statements of additional information and other

13

SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND -----

----- VARIABLE PRICING SYSTEM

(CONTINUED) materials to prospective investors in Class B shares. A Smith Barney Shearson Financial Consultant may receive different levels of compensation for selling different Classes. Class B shares are subject to a distribution fee and are subject to higher transfer agency fees than Class A shares which generally will cause Class B shares to have a higher expense ratio and pay lower dividends than Class A shares.

Eight years after the date of purchase, Class B shares will convert automatically to Class A shares, based on the relative net asset values of shares of each Class, and will no longer be subject to a distribution fee. In addition, a certain portion of Class B shares that have been acquired through the reinvestment of dividends and distributions ("Class B Dividend Shares") will be converted at that time. That portion will be a percentage of the total number of outstanding Class B Dividend Shares, which percentage will be determined by the ratio of the total number of Class B shares converting at the time to the total number of outstanding Class B shares (other than Class B Dividend Shares). The first of these conversions will commence on or about September 30, 1994. The conversion of Class B shares into Class A shares is subject to the continuing availability of an opinion of counsel or an Internal Revenue Service ruling to the effect that such conversions will not constitute taxable events for federal tax purposes.

CLASS D SHARES. Class D shares of the Fund are sold to Participating Plans at net asset value per share and are not subject to an initial sales charge or CDSC. This Class of shares is subject to an annual service fee of 0.25% and an annual distribution fee of 0.50% of the value of the Fund's average daily net assets attributable to the Class. The distribution fee is used by Smith Barney Shearson for expenses incurred in selling Class D shares, and the service fee is used to compensate Smith Barney Shearson Financial Consultants for ongoing services provided to Class D shareholders. Class D shares are subject to a distribution fee which will cause Class D shares to have a higher expense ratio and to pay lower dividends than Class A shares.

- - INVESTMENT OBJECTIVE AND MANAGEMENT POLICIES Set forth below is a description of the investment objective and policies of the Fund. There can be no assurance that the Fund will achieve its 14

SMITH BARNEY

SHEARSON GOVERNMENT SECURITIES FUND -----

----- INVESTMENT OBJECTIVE AND MANAGEMENT POLICIES (CONTINUED)

investment objective. Certain instruments and techniques discussed in this summary are described in greater detail in this Prospectus under "Additional Investments" and in the Statement of Additional Information. The Statement of Additional Information contains specific investment restrictions which govern the Fund's investments. These restrictions and the Fund's investment objective are fundamental policies, which means that they may not be changed without a majority vote of shareholders of the Fund. Except for the objective and those restrictions specifically identified as fundamental, all investment policies and practices described in this Prospectus and in the Statement of Additional Information are non-fundamental, so that the Board of Directors may change them without shareholder approval. The fundamental restrictions applicable to the Fund include a prohibition on (a) purchasing a security if, as a result, more than 5% of the assets of the Fund would be invested in the securities of the issuer (with certain exceptions) or the Fund would own more than 10% of the outstanding voting securities of the issuer, (b) investing more than 10% of the Fund's total assets in "illiquid" securities (which includes repurchase agreements with more than seven days to maturity), and (c) investing more than 25% of the Fund's total assets in the securities of issuers in a particular industry (with exceptions for U.S. government securities and certain money market instruments). The Fund has an investment objective of high current return. The Fund seeks to achieve its objective by investing primarily U.S. government securities. U.S. government securities are obligations of, or are guaranteed by, the U.S. government, its agencies or instrumentalities. These include bills, certificates of indebtedness, and notes and bonds issued by the U.S. Treasury or by agencies or instrumentalities of the U.S. government. Some U.S. government securities, such as Treasury bills and bonds, are supported by the full faith and credit of the U.S. Treasury; others are supported by the right of the issuer to borrow from the U.S. Treasury; others, such as those of the Federal National Mortgage Association, are supported by the discretionary authority of the U.S. government to purchase the agency's obligations; still others, such as those of the Student Loan Marketing Association and the Federal Home Loan Mortgage Corporation ("FHLMC") are supported only by the credit of the instrumentality.

Mortgage participation certificates issued by the FHLMC generally represent ownership interest in a pool of

15

SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND -----
----- INVESTMENT OBJECTIVE AND MANAGEMENT
POLICIES (CONTINUED) fixed-rate conventional mortgages. Timely payment of principal and interest on these certificates is guaranteed solely by the issuer of the certificates. Other investments of the Fund will include Government National Mortgage Association Certificates ("GNMA Certificates") which are mortgage-backed securities representing part ownership of a pool of mortgage loans on which timely payment of interest and principal is guaranteed by the full faith and credit of the U.S. government. While the U.S. government guarantees the payment of principal and interest on GNMA Certificates, the market value of the securities is not guaranteed and will fluctuate. The Fund may write covered call options, secured put options and purchase put options on U.S. government securities. The Fund also purchases and sells interest rate futures contracts, and purchases and sells put and call options on futures contracts, as a means of hedging against changes in interest rates. The Fund may invest up to 5% of its net assets in U.S. government securities for which the principal repayment at maturity, while paid in U.S. dollars, is determined by reference to the exchange rate between the U.S. dollar and the currency of one or more foreign countries ("Exchange Rate-Related Securities"). The interest payable on these securities is denominated in U.S. dollars, is not subject to foreign currency risk and, in most cases, is paid at rates higher than most other U.S. government securities in recognition of the foreign currency risk component of Exchange Rate-Related Securities. The Fund may borrow money (up to 25% of its total assets) to increase its investments, thereby leveraging its portfolio and exaggerating the effect on net asset value of any increase or decrease in the market value of the Fund's securities. See "Leverage through Borrowing." The Fund may enter into repurchase agreements, reverse repurchase agreements and firm commitment agreements and "short sales against the box" and may lend its portfolio securities. The total of the Fund's direct borrowing and borrowings in connection with entering into reverse repurchase agreements will not exceed one-third of the Fund's total assets. Except when in a temporary defensive investment position, the Fund intends to maintain at least 65% of its assets invested in U.S. government securities (including futures contracts and options thereon and options relating to U.S. government securities). 16

SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND -----
----- INVESTMENT OBJECTIVE AND MANAGEMENT POLICIES (CONTINUED) The Fund's distributions may consist of interest income from U.S. government securities, premiums from expired put and call options written by the Fund, net gains from closing purchase and sale transactions in options, futures contracts or related options, and net gains from sales of portfolio securities pursuant to options or otherwise. The investments of the Fund involve certain special risks set forth in the description of those techniques in this Prospectus and in the Statement of Additional Information. The value of securities in which the Fund invests (and therefore the Fund's net asset value per share) generally will vary inversely with changes in interest rates and also will fluctuate in response to other factors. In making purchases of securities consistent with the above policies, the Fund will be subject to the applicable restrictions referred to under "Investment Restrictions" in the Statement of Additional Information. ADDITIONAL INVESTMENTS REPURCHASE AGREEMENTS. The Fund may enter into repurchase agreement transactions on U.S. government securities with certain member banks of the Federal Reserve System having assets in excess of \$100 million and with certain dealers on the Federal Reserve Bank of New York's list of reporting dealers. Under the terms of a typical repurchase agreement, the Fund would acquire an underlying debt obligation for a relatively short period (usually not more than one week) 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 underlying securities will be at least equal at all times to the total amount of the repurchase obligation, including interest. The Fund bears a risk of loss in the event that the other party to a repurchase agreement defaults on its obligations and 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 these rights to them, the risk of incurring expenses associated with asserting those rights and the risk of losing all or part of the income from

17

SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND -----
----- INVESTMENT OBJECTIVE AND MANAGEMENT POLICIES (CONTINUED) the agreement. The Fund's investment adviser and administrator, acting under the supervision of the Board of Directors, reviews

on an ongoing basis the creditworthiness and the value of the collateral of those banks and dealers with which the Fund enters into repurchase agreements to evaluate potential risks. REVERSE REPURCHASE AGREEMENTS. A reverse repurchase agreement involves the sale of a money market instrument by the Fund and its agreement to repurchase the instrument at a specified time and price. The Fund will maintain a segregated account consisting of U.S. government securities or cash or cash equivalents to cover its obligations under reverse repurchase agreements with broker-dealers (but not banks). The Fund will invest the proceeds in other money market instruments or repurchase agreements maturing not later than the expiration of the reverse repurchase agreement. Under the Investment Company Act of 1940, as amended (the "1940 Act"), reverse repurchase agreements may be considered borrowings by the seller; accordingly, the Fund will limit its investments in reverse repurchase agreements and other borrowings to no more than one-third of its total assets. FIRM COMMITMENT AGREEMENTS AND WHEN-ISSUED PURCHASES. Firm commitment agreements and when-issued purchases call for the purchase of securities at an agreed-upon price on a specified future date, and would be used, for example, when a decline in the yield of securities of a given issuer is anticipated. The Fund as purchaser assumes the risk of any decline in value of the security beginning on the date of the agreement or purchase. The Fund will not use such transactions for leveraging purposes, and accordingly will segregate U.S. government securities, cash or cash equivalents in an amount sufficient to meet its purchase obligations under the agreement. LOANS OF PORTFOLIO SECURITIES. The Fund may lend its portfolio securities provided (a) the loan is secured continuously by collateral consisting of U.S. government securities or cash or cash equivalents maintained on a daily marked-to-market basis in an amount at least equal to the current market value of the securities loaned; (b) the Fund may at any time call the loan and obtain the return of the securities loaned; (c) the Fund will receive any 18

SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND -----
----- INVESTMENT OBJECTIVE AND MANAGEMENT POLICIES (CONTINUED) interest or dividends paid on the loaned securities; and (d) the aggregate market value of securities loaned will not at any time exceed one-third of the total assets of the Fund. SHORT SALES. The Fund may sell securities "short against the box." While a short sale is the sale of a security the Fund does not own, it is "against the box" if at all times when the short position is open, the Fund owns an equal amount of the securities or securities convertible into, or exchangeable without further consideration for, securities of the same issue as the securities sold short. Short sales "against the box" are used to defer recognition of capital gains or losses. OPTIONS ACTIVITIES. The Fund may write (i.e., sell) call options ("calls") if the calls are "covered" throughout the life of the option. A call is "covered" if the Fund owns the optioned securities, if the Fund maintains in a segregated account with the Company's custodian cash or cash equivalents or U.S. government securities with a value sufficient to meet its obligations under the call, or if the Fund owns an offsetting call option. When the Fund writes a call, it receives a premium and gives the purchaser the right to buy the underlying security at any time during the call period (usually not more than nine months in the case of common stock or fifteen months in the case of U.S. government securities) at a fixed exercise price regardless of market price changes during the call period. If the call is exercised, the Fund foregoes any gain from an increase in the market price of the underlying security over the exercise price. The Fund may purchase call options on securities. However, the Fund may only purchase a call on securities to effect a "closing purchase transaction," which is the purchase of a call covering the same underlying security and having the same exercise price and expiration date as a call previously written by the Fund which it wishes to terminate its obligation. The Fund also may write and purchase put options ("puts"). When the Fund writes a put, it receives a premium and gives the purchaser of the put the right to sell the underlying security to the Fund at the exercise price at any time during the option period. When the Fund purchases a put, it pays a premium in return for the right to sell the underlying security at the exercise price at any time during the option period. If any put is not

19

SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND -----
----- INVESTMENT OBJECTIVE AND MANAGEMENT POLICIES (CONTINUED) exercised or sold, it will become worthless on its expiration date. The Fund will not purchase puts on securities if more than 10% of its net assets would be invested in premiums on puts. The Fund may write puts on securities only if they are "secured." A put is "secured" if the Fund maintains cash, cash equivalents or U.S. government securities with a value equal to the exercise price in a segregated account or holds a put on the same underlying security at an equal or greater exercise price. The aggregate value of the obligations underlying puts written by the Fund will not exceed 50% of its net assets. The Fund also writes "straddles", which are combinations of secured puts and covered calls on the same underlying security. The Fund will realize a gain (or loss) on a closing purchase transaction with respect to a call or put previously written by the Fund if the premium, plus commission costs, paid to purchase the call or put is less (or greater) than the premium, less commission costs, received on the sale of the call or put. A gain also will be realized if a call or put which the Fund has written lapses unexercised, because the Fund would retain the premium. See

"Dividends, Distributions and Taxes." There can be no assurance that a liquid secondary market will exist at a given time for any particular option. In this regard, trading in options on U.S. government securities is relatively new, so that it is impossible to predict to what extent liquid markets will develop or continue. See below for a discussion of the purchase by the Fund of options on futures contracts. See the Statement of Additional Information for a further discussion of risks involved in option trading, and particular risks applicable to options trading on U.S. government securities, including risks involved in options trading on GNMA Certificates. INTEREST RATE FUTURES CONTRACTS. The Fund may purchase and sell interest rate futures contracts ("futures contracts"), as a hedge against changes in interest rates. A futures contract is an agreement between two parties to buy and sell a security for a set price on a future date. Futures contracts are traded on designated "contracts markets" which, through their clearing 20

SMITH BARNEY

SHEARSON GOVERNMENT SECURITIES FUND -----
----- INVESTMENT OBJECTIVE AND MANAGEMENT POLICIES (CONTINUED)

corporations, guarantee performance of the contracts. Currently, there are futures contracts based on securities such as long-term U.S. Treasury bonds, U.S. Treasury notes, GNMA Certificates and three-month U.S. Treasury bills. Generally, if market interest rates increase, the value of outstanding debt securities declines (and vice versa). Entering into a futures contract for the sale of securities has an effect similar to the actual sale of securities, although the sale of the futures contract might be accomplished more easily and quickly. For example, if the Fund holds long-term U.S. government securities and the investment adviser anticipates a rise in long-term interest rates, it could, in lieu of disposing of its portfolio securities, enter into futures contracts for the sale of similar long-term securities. If interest rates increased and the value of the Fund's securities declined, the value of the Fund's futures contracts would increase, thereby protecting the Fund by preventing the net asset value from declining as much as it otherwise would have. Similarly, entering into futures contracts for the purchase of securities has an effect similar to actual purchase of the underlying securities, but permits the continued holding of securities other than the underlying securities. For example, if the investment adviser expects long-term interest rates to decline, the Fund might enter into futures contracts for the purchase of long-term securities, so that it could gain rapid market exposure that may offset anticipated increases in the cost of securities it intends to purchase, while continuing to hold higher-yielding short-term securities or waiting for the long-term market to stabilize. The Fund also may purchase and sell listed put and call options on futures contracts. An option on a futures contract gives the purchaser the right, in return for the premium paid, to assume a position in a futures contract (a long position if the option is a call and a short position if the option is a put), at a specified exercise price at any time during the option period. When an option on a futures contract is exercised, delivery of the futures position is accompanied by cash representing the difference between the current market price of the futures contract and the exercise price of the option. The Fund may purchase put options on interest rate futures contracts in lieu of, and for the same purpose as, sale of a futures contract. It also may purchase such put options in order to hedge a long position in the underlying futures contract in the same manner as it purchases "protective puts" on securities. The purchase of call options on interest rate

21

SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND -----
----- INVESTMENT OBJECTIVE AND MANAGEMENT

POLICIES (CONTINUED) futures contracts is intended to serve the same purpose as the actual purchase of the futures contract, and the Fund will set aside cash or cash equivalent sufficient to purchase the amount of portfolio securities represented by the underlying futures contracts. See "Options Activities" and "Dividends, Distributions and Taxes." The Fund may not purchase futures contracts or related options if, immediately thereafter, more than 30% of the Fund's total assets would be so invested. In purchasing and selling futures contracts and related options, the Fund will comply with rules and interpretations of the Commodity Futures Trading Commission ("CFTC"), under which the Company is excluded from regulation as a "commodity pool." CFTC regulations permit use of commodity futures and options for bona fide hedging purposes without limitations on the amount of assets committed to margin and option premiums. The Fund will not engage in transactions involving futures contracts or related options for speculation but only as a hedge against changes in the market values of debt securities held, or intended to be purchased, by the Fund and where the transactions are appropriate to reduction of the Fund's risks. The Fund's futures transactions will be entered into for traditional hedging purposes -- that is, futures contracts will be sold (or related put options purchased) to protect against a decline in the price of securities that the Fund owns, or futures contracts (or related call options) will be purchased to protect the Fund against an increase in the price of securities it is committed to purchase. There is no assurance that the Fund will be able to close out its futures positions at any time, in which case it would be required to maintain the margin deposits on the contract. There can be no assurance that hedging transactions will be successful, as there may be an imperfect correlation (or no correlation) between movements in the prices of

the futures contracts and of the debt securities being hedged, or price distortions due to market conditions in the futures markets. Where futures contracts are purchased to hedge against an increase in the price of long-term securities, but the long-term market declines and the Fund does not invest in long-term securities, the Fund would realize a loss on the futures contracts, which would not be offset by a reduction in the price of securities purchased. Where futures 22

SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND -----

----- INVESTMENT OBJECTIVE AND MANAGEMENT POLICIES (CONTINUED) contracts are sold to hedge against a decline in the price of the Fund's long-term securities but the long-term market advances, the Fund would lose part or all of the benefit of the advance due to offsetting losses in its futures positions. FOREIGN CURRENCY RISKS. The Fund has the ability to invest up to 5% of its net assets in U.S. government securities where the principal repayment amount may be increased or decreased due to fluctuations of foreign currency exchange rates. LEVERAGE THROUGH BORROWING. The Fund may borrow up to 25% of the value of its net assets on an unsecured basis from banks to increase its holdings of portfolio securities or to acquire securities to be placed in a segregated account with the custodian for various purposes (e.g. to secure puts written by the Fund). The Fund is required to maintain continuous asset coverage of 300% with respect to such borrowings, and to sell (within three days) sufficient portfolio holdings to restore such coverage, if it should decline to less than 300% due to market fluctuations or otherwise, even if disadvantageous from an investment standpoint. Leveraging will exaggerate the effect of any increase or decrease in the value of portfolio securities on the Fund's net asset value, and money borrowed will be subject to interest costs (which may include commitment fees and/or the cost of maintaining minimum average balances) which may or may not exceed the interest and option premiums received from the securities purchased with borrowed funds. AMERICAN DEPOSITARY RECEIPTS. The Fund may purchase foreign securities and American Depositary Receipts ("ADRs"), which are dollar-denominated receipts issued generally by domestic banks and representing the deposit with the bank of a security of a foreign issuer. ADRs are publicly traded on exchanges over-the-counter in the United States. PORTFOLIO TRANSACTIONS AND TURNOVER Greenwich Street Advisors arranges for the purchase and sale of the Fund's securities and selects broker-dealers which, in its best judgment, provide prompt and reliable execution at favorable prices and reasonable commission rates. Greenwich Street Advisors may select broker-dealers

23

SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND -----

----- INVESTMENT OBJECTIVE AND MANAGEMENT POLICIES (CONTINUED) which provide it with research services and may cause the Fund to pay such broker-dealers commissions which exceed those other broker-dealers may have charged, if it views the commissions as reasonable in relation to the value of the brokerage and/or research services. Smith Barney Shearson and its affiliates may serve as a regular broker for the Fund in effecting portfolio transactions on a national securities or commodities exchange, and may retain commissions, in accordance with certain regulations of the SEC. For reporting purposes, the Fund's portfolio turnover rate is calculated by dividing the lesser of purchases or sales of portfolio securities for the fiscal year by the monthly average of the value of the Fund's securities, with money market instruments with less than one year to maturity excluded. A 100% portfolio turnover rate would occur, for example, if all included securities were replaced once during the year. The Fund's portfolio turnover rates for each of the past fiscal years are set forth under "Financial Highlights." Increased portfolio turnover may result in greater brokerage commissions and in realization of net short-term capital gains which, when distributed, are taxed to shareholders (other than retirement plans) at ordinary income tax rates.

----- MANAGEMENT OF THE COMPANY AND THE FUND BOARD OF

DIRECTORS Overall responsibility for management and supervision of the Company rests with the Company's Board of Directors. The Directors approve all significant agreements between the Company and companies that furnish services to the Company and the Fund, including agreements with its distributor, investment adviser, administrator, custodian and transfer agent. The day-to-day operations of the Fund are delegated to the Fund's investment adviser and administrator. The Statement of Additional Information contains general and background information regarding each Director and executive officer of the Company. 24

SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND -----

----- MANAGEMENT OF THE COMPANY AND THE FUND (CONTINUED) INVESTMENT ADVISER -- GREENWICH STREET ADVISORS

Greenwich Street Advisors, located at Two World Trade Center, New York, New York 10048, serves as the Fund's investment adviser. Greenwich Street Advisors (through its predecessors) has been in the investment counseling business since 1934 and is a division of MMC, which was incorporated in 1978. MMC is a registered investment adviser whose principal executive offices are located at 1345 Avenue of the Americas. Greenwich Street Advisors renders investment advice to investment companies that had aggregate assets under management as of December 31, 1993 in excess of \$42.8 billion.

Subject to the supervision and direction of the Fund's Board of Directors, Greenwich Street Advisors manages the Fund's portfolio in accordance with the Fund's stated investment objective and policies, makes investment decisions for the Fund, places orders to purchase and sell securities and employs professional portfolio managers and securities analysts who provide research services to the Fund. Under an investment advisory agreement, the Fund pays Greenwich Street Advisors a monthly fee at the annual rate of 0.35% of the value of the Fund's average daily net assets up to \$2 billion, 0.30% of the value of average daily net assets on the next \$2 billion, 0.25% of the value of average daily net assets on the next \$2 billion, 0.20% of the value of average daily net assets thereafter. For the fiscal year ended December 31, 1993, the Fund paid investment advisory fees to Greenwich Street Advisors in an amount equal to 0.35% of the value of its average daily net assets.

PORTFOLIO MANAGEMENT
James Conroy, Managing Director of Taxable Fixed Income Management of Greenwich Street Advisors, has served as Investment Officer of the Fund since the Fund's inception (March 20, 1984) and is responsible for managing the day-to-day investment operations of the Fund, including the making of investment decisions. Mr. Conroy's management discussion and analysis of the Fund's performance during the fiscal year ended December 31, 1993 (including a line graph

25

SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND -----

----- MANAGEMENT OF THE COMPANY AND THE FUND (CONTINUED) comparing the Fund's performance to the Lehman Brothers Government Bond Index) is included in the Fund's Annual Report to Shareholders dated December 31, 1993. The Fund's Annual Report may be obtained upon request and without charge from any Smith Barney Shearson Financial Consultant or by writing or calling the Fund at the address or phone number listed on page 1 of this Prospectus. ADMINISTRATOR -- BOSTON

ADVISORS Boston Advisors, located at One Boston Place, Boston, Massachusetts 02108, serves as the Fund's administrator. Boston Advisors is an indirect wholly owned subsidiary of Mellon. Boston Advisors provides investment management, investment advisory and/or administrative services to investment companies which had aggregate assets under management as of December 31, 1993, in excess of \$86.6 billion. Boston Advisors calculates the net asset value of the Fund's shares and generally assists in all aspects of the Fund's administration and operation. Under an administration agreement, the Fund pays Boston Advisors a fee at the annual rate of 0.20% of the value of the Fund's average daily net assets.

----- PURCHASE OF SHARES Purchases of Fund shares must be made through a brokerage account maintained with Smith Barney Shearson or with an Introducing Broker, except that investors purchasing shares of the Fund through a qualified retirement plan may do so directly through the Company's transfer agent. When purchasing shares of the Fund, investors must specify whether the purchase is for Class A, Class B or, in the case of Participating Plans, Class D shares. No maintenance fee will be charged in connection with a brokerage account through which an investor purchases or holds shares. Purchases are effected at the public offering price next determined after a purchase order is received by Smith Barney Shearson or an Introducing Broker (the "trade date"). Payment generally is due to Smith Barney Shearson or an Introducing Broker on the fifth business day (the "settlement date") after the order is placed. Investors who make payment prior to the settlement date may permit the payment to be held in their brokerage 26

SMITH BARNEY

SHEARSON GOVERNMENT SECURITIES FUND -----

----- PURCHASE OF SHARES (CONTINUED) accounts or may designate a temporary investment (such as a money market fund in the Smith Barney Shearson Group of Funds) for such payment until the settlement date. The Company reserves the right to reject any purchase order for shares and to suspend the offering of shares for any period of time. Purchase orders received by Smith Barney Shearson or the Introducing Broker prior to the close of regular trading on the NYSE, currently 4:00 p.m., New York time, on any day the Fund's net asset value is calculated are priced according to the net asset value determined on that day. Purchase orders received after the close of regular trading on the NYSE are priced as of the time the net asset value per share is next determined. See "Valuation of Shares."

SYSTEMATIC INVESTMENT PLAN. The Fund offers shareholders a Systematic Investment Plan under which shareholders may authorize Smith Barney Shearson or an Introducing Broker to place a purchase order each month or quarter for Fund shares in an amount not less than \$100. The purchase price is paid automatically from cash held in the shareholder's Smith Barney Shearson brokerage account or through the automatic redemption of the shareholder's shares of a Smith Barney Shearson money market fund. For further information regarding the Systematic Investment Plan, shareholders should contact their Smith Barney Shearson Financial Consultants. MINIMUM INVESTMENTS. The minimum initial investment in the Fund is \$1,000 and the minimum subsequent investment is \$200 except that for purchases through (a) IRAs and Self-Employed Retirement Plans, the minimum initial and subsequent investments are \$250 and \$100, respectively, (b) retirement plans qualified under sections 403 (b) (7) and 401(a) of the Code, the minimum initial and subsequent investment is \$25 and (c) the Fund's Systematic Investment Plan, the minimum initial and

subsequent investment is \$100. There are no minimum requirements for employees of Travelers and its subsidiaries, including Smith Barney Shearson. The Company reserves the right at any time to vary the initial and subsequent investment minimums. Certificates for Fund shares are issued upon request to the Company's transfer agent, TSSG.

SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND -----

----- PURCHASE OF SHARES (CONTINUED)

CLASS A SHARES The public offering price for Class A shares is the per share net asset value of that Class next determined after a purchase order is received plus a sales charge, which is imposed in accordance with the following schedule: <TABLE><CAPTION>

AS % PRICE	SALES CHARGE OF NET ASSET VALUE<S>	AS %	AMOUNT OF INVESTMENT*	SALES CHARGE OF OFFERING <C>
<C>-----				
- -----	Less than \$25,000		4.50%	4.71%
\$25,000 but under \$50,000		4.00%		4.17%
but under \$100,000	3.50%		3.63%	\$100,000 but
under \$250,000	3.00%		3.09%	\$250,000 but under
\$500,000	2.50%		2.56%	\$500,000 but under
\$1,000,000	1.50%		1.52%	\$1,000,000 or more**
0.00%	0.00%			

-----<FN> *Smith Barney Shearson has adopted guidelines directing its Financial Consultants and Introducing Brokers that single investments of \$250,000 or more -- should be made in Class A shares.**No sales charge is imposed on purchases of Class A shares of \$1 million or more; however, a CDSC of 0.75% is imposed for the first year after purchase. The CDSC on Class A shares will be payable to Smith Barney Shearson which compensates Smith Barney Shearson Financial Consultants upon the sale of these shares. The CDSC will be waived in the same circumstances in which the CDSC applicable to Class B shares is waived. See "Redemption of Shares -- Contingent Deferred Sales Charge -- Class B Shares -- Waivers of CDSC."</TABLE> REDUCED SALES CHARGES -- CLASS A SHARES Reduced sales charges are available to investors who are eligible to combine their purchases of Fund shares to receive volume discounts. Investors eligible to receive volume discounts include individuals and their immediate families, tax-qualified employee benefit plans and trustees or other professional fiduciaries (including a bank, or an investment adviser registered with the SEC under the Investment Advisers Act of 1940, as amended) purchasing shares for one or more trust estates or fiduciary accounts even though more than one beneficiary is involved. The initial sales charge is also reduced to 1.0% for Smith Barney Shearson Personal Living Trust program participants for whom Smith Barney Shearson acts as trustee. Reduced sales charges on Class A shares are also available under a combined right of accumulation, under which an investor may combine the value of Class A shares already held in the Fund, in any other fund in the 28

SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND -----

----- PURCHASE OF SHARES

(CONTINUED) Company and in any of the other funds in the Smith Barney Shearson Group of Funds listed below (except those sold without a sales charge), along with the value of the Class A shares being purchased, to qualify for a reduced sales charge. For example, if an investor owns Class A shares of the Fund, any other funds in the Company and other funds in the Smith Barney Shearson Group of Funds that have an aggregate value of \$22,000, and makes an additional investment in Class A shares of the Fund of \$4,000, the sales charge applicable to the additional investment would be 4.0%, rather than the 4.50% normally charged on a \$4,000 purchase. Investors interested in further information regarding reduced sales charges should contact their Smith Barney Shearson Financial Consultant. Class A shares may be offered without any applicable sales charges to: (a) employees of Travelers and its subsidiaries, including Smith Barney Shearson and employee benefit plans for such employees and their immediate families when orders on their behalf are placed by such employees; (b) accounts managed by registered investment advisory subsidiaries of Travelers; (c) directors, trustees or general partners of any investment company for which Smith Barney Shearson serves as distributor; (d) any other investment company in connection with the combination of such company with the Fund by merger, acquisition of assets or otherwise; (e) shareholders who have redeemed Class A shares of the Fund (or Class A shares of any other fund in the Company or of another fund in the Smith Barney Shearson Group of Funds that are sold with a maximum 4.50% sales charge) and who wish to reinvest their redemption proceeds in the Fund, provided the reinvestment is made within 30 days of the redemption; and (f) any client of a newly-employed Smith Barney Shearson Financial Consultant (for a period up to 90 days from the commencement of the Financial Consultant's employment with Smith Barney Shearson), on the condition that the purchase is made with the proceeds of the redemption of shares of a mutual fund that (i) was sponsored by the Financial Consultant's prior employer, (ii) was sold to a client by the Financial Consultant, and (iii) when purchased, such shares were sold with a sales charge or are subject to a charge upon redemption.

----- PURCHASE OF SHARES (CONTINUED)
 CLASS B SHARES The public offering price for Class B shares is the per share net asset value of that Class. No initial sales charge is imposed at the time of purchase. ACDSC is imposed, however, on certain redemptions of Class B shares. See "Redemptions of Shares" which describes the CDSC in greater detail.

Smith Barney Shearson has adopted guidelines, in view of the relative sales charges and distribution fees applicable to the Classes, directing Smith Barney Shearson Financial Consultants and Introducing Brokers that all purchases of shares of \$250,000 or more should be in Class A shares. Smith Barney Shearson reserves the right to vary these guidelines at any time.

SMITH BARNEY SHEARSON 401(K) PROGRAM Shareholders investing in the Fund may be eligible to participate in the 401(k) Program, which is generally designed to assist employers or plan sponsors in the creation and operation of retirement plans qualified under Section 401(a) of the Code. To the extent applicable, the same terms and conditions are offered to all Participating Plans in the 401(k) Program which include 401(k) plans, other types of participant directed, tax qualified employee benefit plans and employer-sponsored non-qualified employee benefit plans. The Fund offers to Participating Plans three classes of shares, Class A, Class B and Class D shares, as investment alternatives under the 401(k) Program. Class A shares are available to all Participating Plans and are the only investment alternative for Participating Plans that are eligible to purchase Class A shares at net asset value without a sales charge. In addition, Class B shares are offered only to Participating Plans satisfying certain criteria with respect to the amount of the initial investment and number of employees eligible to participate in the Plan at that time. Alternatively, Class D shares are offered only to Participating Plans that meet other criteria relating to the amount of initial investment and number of employees eligible to participate in the Plan at that time, as described below. 30

----- PURCHASE OF SHARES (CONTINUED) The Class A and Class B shares acquired through the 401(k) Program are subject to the same service and/or distribution fees as, but different sales charge and CDSC schedules than, the Class A and Class B shares acquired by other investors. Class D shares acquired by Participating Plans are offered at net asset value per share without any sales charges or CDSC. The Fund pays annual service and distribution fees based on the value of the average daily net assets attributable to this Class. Once a Participating Plan has made an initial investment in the Fund, all of its subsequent investments in the Fund must be in the same Class of shares, except as otherwise described below.

CLASS A SHARES. The sales charges for Class A shares acquired by Participating Plans are as follows: <TABLE><CAPTION>

SALES CHARGE AS % OF OFFERING PRICE	SALES CHARGE AS % OF NET ASSET VALUE<S>	AMOUNT OF INVESTMENT
<C>	<C>	<C>
-----	-----	-----
4.71%	4.00%	Less than \$25,000 4.50%
\$25,000 but under \$100,000	3.50%	4.17%
\$100,000 but under \$250,000	3.09%	3.63%
but under \$500,000	2.56%	\$250,000
under \$750,000	2.50%	\$500,000 but
0.00%	0.00%	under \$750,000 or more
-----	-----	-----

</TABLE> A Participating Plan will have a combined right of accumulation, under which, to qualify for a reduced sales charge, it may combine the value of Class A shares being purchased with the value of Class A shares already held in the Fund and in any of the funds listed below under "Exchange Privilege" that are sold with a sales charge. Class A shares of the Fund may be offered without any sales charge to any Participating Plan that: (a) purchases \$750,000 or more of Class A shares of one or more funds in the Smith Barney Shearson Group of Funds under the combined right of accumulation described above; (b) has 250 or more employees eligible to participate in the Participating Plan at the time of initial investment in the Fund; or (c) currently holds Class A shares in the Fund that were received as a result of an exchange of Class B or Class D shares of the Fund as described below.

----- PURCHASE OF SHARES (CONTINUED)
 Class A shares acquired through the 401(k) Program will not be subject to a CDSC. CLASS B SHARES. Under the 401(k) Program, Class B shares are offered to Participating Plans that: (i) purchase less than \$250,000 of Class B shares of one or more funds in the Smith Barney Shearson Group of Funds that are sold subject to a CDSC; and (ii) that have less than 100 employees eligible to participate in the Participating Plan at the time of initial investment in the Fund. Class B shares acquired by such Plans will be subject to a CDSC of 3% of redemption proceeds, if redeemed within eight years of the date the Participating Plan first purchases Class B shares. No CDSC is imposed to the extent that the net asset value of the Class B shares redeemed does not exceed (a) the current net asset value of Class B shares purchased through reinvestment of dividends or capital gains distributions, plus (b) the current net asset value of Class B shares purchased more than eight years prior to the

redemption, plus (c) increases in the net asset value of the shareholder's Class B shares above the purchase payments made during the preceding eight years. The CDSC applicable to a Participating Plan depends on the number of years since the Participating Plan first became a holder of Class B shares, unlike the CDSC applicable to other Class B shareholders, which depends on the number of years since those shareholders made the purchase payment from which the amount is being redeemed. The CDSC will be waived on redemptions of Class B shares in connection with lump-sum or other distributions made by a Participating Plan as a result of: (a) the retirement of an employee in the Participating Plan, (b) the termination of employment of an employee in the Participating Plan, (c) the death or disability of an employee in the Participating Plan, (d) the attainment of age 59 1/2 by an employee in the Participating Plan, (e) hardship of an employee in the Participating Plan to the extent permitted under Section 401(k) of the Code or (f) redemptions of Class B shares in connection with a loan made by the Participating Plan to an employee. Eight years after the date a Participating Plan acquired its first Class B share, it will be offered the opportunity to exchange all of its Class B shares for Class A shares of the Fund. Such Plans will be notified of the pending exchange in writing approximately 60 days before the eighth anniversary of the purchase date and, unless the exchange has been rejected in writing, the

32

SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND -----

----- PURCHASE OF SHARES (CONTINUED)

exchange will occur on or about the eighth anniversary date. Once the exchange has occurred, a Participating Plan will not be eligible to acquire additional Class B shares of the Fund but instead may acquire Class A shares of the Fund. If the Participating Plan elects not to exchange all of its Class B shares at that time, each Class B share held by the Participating Plan will have the same conversion feature as Class B shares held by other investors. See "Variable Pricing System -- Class B Shares." CLASS D SHARES. Class D shares are offered to Participating Plans that: (i) purchase less than \$750,000 but more than \$250,000 of Class D shares of one or more funds in the Smith Barney Shearson Group of Funds that offer one or more Classes of shares subject to a sales charge and/or CDSC; or (ii) have at least 100 but no more than 250 employees eligible to participate in the Participating Plan at the time of initial investment in the Fund. Class D shares acquired by Participating Plans will be offered at net asset value per share without any sales charges or CDSC. The Fund pays annual service and distribution fees based on the value of the average daily net assets attributable to this Class. Class D shares are not subject to an automatic conversion feature as are the Class B shares. However, beginning in December 1993 and each year thereafter, Participating Plans which hold Class D shares valued at \$750,000 or more in any fund or funds in the Smith Barney Shearson Group of Funds that offer one or more Classes of shares subject to a sales charge and/or CDSC will be offered the opportunity to exchange all of their Class D shares for Class A shares. Such Plans will be notified of the pending exchange in writing within 30 days after the last business day of the calendar year, and unless the exchange offer has been rejected in writing, the exchange will occur on or about the last business day of March in the following calendar year. Once the exchange has occurred, a Participating Plan will not be eligible to acquire Class D shares of the Fund but instead may acquire Class A shares of the Fund. Any Class D shares not converted will continue to be subject to the distribution fee.

Participating Plans wishing to acquire shares of the Fund through the 401(k) Program must purchase shares from the Fund's transfer agent. For further information regarding the 401(k) Program, investors should contact their Smith Barney Shearson Financial Consultant.

33

SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND -----

----- REDEMPTION OF SHARES

Shareholders may redeem their shares on any day that the Fund calculates its net asset value. See "Valuation of Shares." Redemption requests received in proper form prior to the close of regular trading on the NYSE are priced at the net asset value per share determined on that day. Redemption requests received after the close of regular trading on the NYSE are priced at the net asset value next determined. If a shareholder holds shares in more than one Class, any request for redemption must specify the Class being redeemed. In the event of a failure to specify which Class or if the investor owns fewer shares of the Class than specified, the redemption request will be delayed until the Company's transfer agent receives further instructions from Smith Barney Shearson, or if the shareholder's account is not with Smith Barney Shearson, from the shareholder directly. The Fund normally transmits redemption proceeds for credit to the shareholder's account at Smith Barney Shearson or the Introducing Broker at no charge (other than any applicable CDSC) within seven days after receipt of a redemption request. Generally, these funds will not be invested for the shareholder's benefit without specific instruction and Smith Barney Shearson will benefit from the use of temporarily uninvested funds. A shareholder who pays for Fund shares by personal check will be credited with the proceeds of a redemption of those shares only after the purchase check has been collected, which may take up to 10 days or more. A shareholder who anticipates the need for more immediate access to his or her investment should purchase shares with federal funds, by bank wire or by certified or cashier's check. A Fund account that is reduced by a

shareholder to a value of \$500 or less maybe subject to redemption by the Fund, but only after the shareholder has beengiven at least 30 days in which to increase the account balance to \$500 or more. Shares may be redeemed in one of the following ways: REDEMPTION THROUGH SMITH BARNEY SHEARSON

Redemption requests may be made through Smith Barney Shearson or anIntroducing Broker. A shareholder desiring to redeem shares represented bycertificates must also present such certificates to Smith Barney Shearson or 34

SMITH BARNEY SHEARSONGOVERNMENT SECURITIES FUND -----

REDEMPTION OF SHARES

(CONTINUED) the Introducing Broker endorsed for transfer (or accompanied by an endorsedstock power), signed exactly as the shares are registered. Redemption requestsinvolving shares represented by certificates will not be deemed received untilsuch certificates are received by the Company's transfer agent in proper form. REDEMPTION BY MAIL Shares held by Smith Barney Shearson as custodian must be redeemed bysubmitting a written request to the Smith Barney Shearson Financial Consultant.All other shares may be redeemed by submitting a written request for redemptionto: Smith Barney Shearson Government Securities Fund Class A, B or D (please specify)

c/o The Shareholder Services Group, Inc. P.O. Box 9134 Boston, Massachusetts 02205-9134 A written redemption request to the Company's transfer agent, TSSG, or a SmithBarney Shearson Financial Consultant must (a) state the Class and number ordollar amount of shares to be redeemed, (b) identify the shareholder's accountnumber and (c) be signed by each registered owner exactly as the shares areregistered. If the shares to be redeemed were issued in certificate form, thecertificates must be endorsed for transfer (or be accompanied by an endorsedstock power) and must be submitted to TSSG together with the redemption request.Any signature appearing on a redemption request, share certificate or stockpower must be guaranteed by a domestic bank, savings and loan institution,domestic credit union, member bank of the Federal Reserve System or member firmof a national securities exchange. TSSG may require additional supportingdocuments for redemptions made by corporations, executors, administrators,trustees or guardians. A redemption request will not be deemed properly receiveduntil TSSG receives all required documents in proper form.

35

SMITH BARNEY SHEARSONGOVERNMENT SECURITIES FUND -----

REDEMPTION OF SHARES (CONTINUED)

AUTOMATIC CASH WITHDRAWAL PLAN The Fund offers shareholders an automatic cash withdrawal plan, under whichshareholders who own shares with a value of at least \$10,000 may elect toreceive periodic cash payments of at least \$50 monthly. Retirement plan accountsare eligible for automatic cash withdrawal plans only where the shareholder iseligible to receive qualified distributions and has an account value of at least\$5,000. Any applicable CDSC will be waived on amounts withdrawn by a shareholderthat do not exceed 2.00% per month of the value of shareholder's shares subjectto the CDSC at the time the withdrawal plan commences. For further informationregarding the automatic cash withdrawal plan, shareholders should contact theirSmith Barney Shearson Financial Consultant.

CONTINGENT DEFERRED SALES CHARGE -- CLASS B SHARES A CDSC payable to Smith Barney Shearson is imposed on any redemption of ClassB shares, however effected, that causes the current value of a shareholder'saccount to fall below the dollar amount of all payments by the shareholder forthe purchase of Class B shares ("purchase payments") during the preceding fiveyears, except in the case of purchases by Participating Plans in the 401(k)Program, as described above. See "Purchase of Shares -- Smith Barney Shearson401(k) Program." No charge is imposed to the extent that the net asset value ofthe Class B shares redeemed does not exceed (a) the current net asset value ofClass B shares purchased through reinvestment of dividends or capital gainsdistributions, plus (b) the current net asset value of Class B shares purchasedmore than five years prior to the redemption, plus (c) increases in the netasset value of the shareholder's Class B shares above the purchase payments madeduring the preceding five years. In circumstances in which the CDSC is imposed, the amount of the charge willdepend on the number of years since the shareholder made the purchase paymentfrom which the amount is being redeemed, except in the case of purchases throughParticipating Plans in the 401(k) Program, which are subject to a differentCDSC. See "Purchase of Shares -- Smith Barney Shearson 401(k) Program." Solelyfor purposes of determining the number of years since a purchase payment, allpurchase payments during a month 36

SMITH BARNEY SHEARSONGOVERNMENT SECURITIES FUND --

REDEMPTION OF

SHARES (CONTINUED) will be aggregated and deemed to have been made on the last day of the precedingSmith Barney Shearson statement month. The following table sets forth the ratesof the charge for redemptions of Class B shares by shareholders other thanParticipating Plans: <TABLE><CAPTION> YEAR SINCE PURCHASE PAYMENT WAS MADE CDSC<S>

<C>-----
- ----- First
4.50% Second

4.00% Third
 3.00% Fourth
 2.00% Fifth
 1.00% Sixth
 0.00% Seventh
 0.00% Eighth
 0.00%-----

-----</TABLE> Class B shares will automatically convert to Class A shares approximately eight years after the date on which they were purchased and thereafter will no longer be subject to a distribution fee. The first of these conversions will commence on or about September 30, 1994. See "Variable Pricing System-- Class B Shares." The purchase payment from which a redemption of Class B shares is made is assumed to be the earliest purchase payment from which a full redemption has not already been effected. In the case of redemptions of Class B shares of other funds in the Company or of other funds in the Smith Barney Shearson Group of Funds issued in exchange for Class B shares of the Fund, the term "purchase payments" refers to the purchase payments for the shares given in exchange. In the event of an exchange of Class B shares of funds with differing CDSC schedules, the shares will be, in all cases, subject to the higher CDSC schedule. See "Exchange Privilege."
 WAIVERS OF CDSC. The CDSC will be waived on: (a) exchanges (see "Exchange Privilege"), (b) automatic cash withdrawals in amounts that do not exceed 2.00% per month of the value of the shareholder's Class B shares at the time the withdrawal plan commences (see above); (c) redemptions of shares following the death or disability of the shareholder; (d) redemption of shares in connection with certain post-retirement distributions and withdrawals from retirement plans or IRAs; (e) involuntary redemptions;

SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND -----
 ----- REDEMPTION OF SHARES (CONTINUED)

(f) redemption proceeds from other funds in the Smith Barney Shearson Group of Funds that are reinvested within 30 days of the redemption; (g) redemptions of shares in connection with a combination of any investment company with the Fund by merger, acquisition of assets or otherwise; and (h) certain redemptions of shares of the Fund in connection with lump-sum or other distributions made by a Participating Plan. See "Purchase of Shares -- Smith Barney Shearson 401(k) Program."

----- VALUATION OF SHARES Each Class' net asset value per share is calculated separately on each day, Monday through Friday, except on days when the NYSE is closed. The NYSE currently is scheduled to be closed on New Year's Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving and Christmas and on the preceding Friday or subsequent Monday when one of these holidays falls on a Saturday or Sunday, respectively. The net asset value per share of a given Class is determined as of the later of the close of regular trading on the NYSE (currently 4:00 p.m., New York time) or the Chicago Board Options Exchange (currently 4:15 p.m., New York time) and is computed by dividing the value of the Fund's net assets attributable to that Class by the total number of shares of that Class outstanding. 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. Quotations are taken from the exchange where the security is primarily traded. U.S. over-the-counter securities are valued on the basis of the bid price at the close of business on each day. Securities 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. Notwithstanding the above, bonds and other fixed-income securities are valued by using market quotations and maybe valued on the basis of prices provided by a pricing service approved by the Board of Directors. 38

SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND ----- VALUATION OF SHARES (CONTINUED)

When the Fund writes a put or call option, it records the premium received as an asset and equivalent liability, and thereafter adjusts the liability to the market value of the option determined in accordance with the preceding paragraph. The premium paid for an option purchased by the Fund is recorded as an asset and subsequently adjusted to market value. -----

----- EXCHANGE PRIVILEGE Shares of each Class may be exchanged for shares of the same Class in the following funds in the Smith Barney Shearson Group of Funds as indicated, to the extent shares are offered for sale in the shareholder's state of residence: <TABLE><CAPTION>EXCHANGEABLE WITH SHARES OF THE FOLLOWING CLASSES: FUND NAME AND INVESTMENT OBJECTIVE:<S><C>-----

FUND NAME AND INVESTMENT OBJECTIVE	FUND NAME AND INVESTMENT OBJECTIVE
MUNICIPAL BOND FUNDS A	SMITH BARNEY SHEARSON LIMITED MATURITY
MUNICIPALS FUND, an investing in investment grade obligations. A, B	SMITH BARNEY SHEARSON MANAGED MUNICIPALS FUND INC., an intermediate- and long-term municipal bond fund. A, B
EXEMPT INCOME FUND, an intermediate- and fund investing in medium and lower rated securities. A, B	SMITH BARNEY SHEARSON TAX- long-term municipal bond fund designed for Arizona

investors.A SMITH BARNEY SHEARSON INTERMEDIATE MATURITY CALIFORNIA
MUNICIPALS FUND, an intermediate-term municipal bond fund
designed for California investors.</TABLE>

39

SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND -----
----- EXCHANGE PRIVILEGE (CONTINUED)
<TABLE><CAPTION>EXCHANGEABLE WITH SHARES OF THE FOLLOWING CLASSES: FUND NAME
AND INVESTMENT OBJECTIVE:-----
-----<S> <C>A, B SMITH BARNEY SHEARSON
CALIFORNIA MUNICIPALS FUND INC., an intermediate- and long-term
municipal bond fund designed for California investors.A, B

SMITH BARNEY SHEARSON FLORIDA MUNICIPALS FUND, an intermediate- and

long-term municipal bond fund designed for Florida investors.A, B
SMITH BARNEY SHEARSON MASSACHUSETTS MUNICIPALS FUND, an
intermediate- and long-term municipal bond fund designed for
Massachusetts investors.A, B SMITH BARNEY SHEARSON NEW JERSEY
MUNICIPALS FUND INC., an intermediate- and long-term municipal
bond fund designed for New Jersey investors.A SMITH
BARNEY SHEARSON INTERMEDIATE MATURITY NEW YORK MUNICIPALS FUND,
an intermediate-term bond fund designed for New York investors.A, B
SMITH BARNEY SHEARSON NEW YORK MUNICIPALS FUND INC., an
intermediate- and long-term municipal bond fund designed for New York

investors. INCOME FUNDS A, B, D+ SMITH BARNEY SHEARSON
ADJUSTABLE RATE GOVERNMENT INCOME FUND, seeks high current income
while limiting the degree of fluctuation in net asset value
resulting from movement in interest rates.A, B SMITH BARNEY SHEARSON
WORLDWIDE PRIME ASSETS FUND, invests in a portfolio of high
quality debt securities that may be denominated in U.S. dollars
or selected foreign currencies and that have remaining maturities
of not more than one year.</TABLE> 40

SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND -----
----- EXCHANGE PRIVILEGE (CONTINUED) <TABLE><CAPTION>EXCHANGEABLE WITH SHARES OF
THE FOLLOWING CLASSES: FUND NAME AND INVESTMENT OBJECTIVE:-----
-----<S> <C>A,
B SMITH BARNEY SHEARSON SHORT-TERM WORLD INCOME FUND, invests in
high
quality, short-term debt securities denominated in U.S. dollars as well

as a range of foreign currencies.A SMITH BARNEY SHEARSON LIMITED
MATURITY TREASURY FUND, invests exclusively in securities issued
by the U.S. Treasury and other U.S. government securities.A, B,
D+ SMITH BARNEY SHEARSON DIVERSIFIED STRATEGIC INCOME FUND, seeks high

current income primarily by allocating and reallocating its assets
among various types of fixed-income securities.A, B, D+ SMITH BARNEY
SHEARSON MANAGED GOVERNMENTS FUND INC., invests in obligations
issued or guaranteed by the United States government and its
agencies and instrumentalities with emphasis on mortgage-backed
government securities.A, B, D+ SMITH BARNEY SHEARSON INVESTMENT GRADE
BOND FUND, seeks a high level of current income consistent with
prudent investment management and preservation of capital by
investing in corporate bonds and other income producing
securities.A, B, D+ SMITH BARNEY SHEARSON HIGH INCOME FUND, seeks high
current income by investing in high-yielding corporate bonds,
debentures and notes.A, B, D+ SMITH BARNEY SHEARSON GLOBAL BOND FUND,
seeks current income and capital appreciation by investing in
bonds, debentures and notes of foreign and domestic
issuers.</TABLE>

41

SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND -----
----- EXCHANGE PRIVILEGE (CONTINUED)
<TABLE><CAPTION>EXCHANGEABLE WITH SHARES OF THE FOLLOWING CLASSES: FUND NAME
AND INVESTMENT OBJECTIVE:-----
-----<S> <C> GROWTH AND INCOME
FUNDS A*, B*, D+ SMITH BARNEY SHEARSON CONVERTIBLE FUND, seeks current
income and capital appreciation by investing in convertible
securities.A*, B*, D+ SMITH BARNEY SHEARSON UTILITIES FUND, seeks total
return by investing in equity and debt securities of utilities
companies.A*, B*, D+ SMITH BARNEY SHEARSON STRATEGIC INVESTORS FUND, seeks
high total return consisting of current income and capital
appreciation by investing in a combination of equity, fixed-
income and money market securities.A*, B*, D+ SMITH BARNEY SHEARSON PREMIUM
TOTAL RETURN FUND, seeks total return by investing in dividend-
paying common stocks.A*, B*, D+ SMITH BARNEY SHEARSON GROWTH AND INCOME
FUND, seeks income and long-term capital growth by investing in

income producing equity securities. GROWTH FUNDSA*,
B*, D+ SMITH BARNEY SHEARSON APPRECIATION FUND INC., seeks long-term

appreciation of capital.A*, B*, D+ SMITH BARNEY SHEARSON AGGRESSIVE GROWTH
FUND INC., seeks above-average capital growth.A*, B*, D+ SMITH
BARNEY SHEARSON FUNDAMENTAL VALUE FUND INC., seeks long-term
capital growth with current income as a secondary objective.A*, B*, D+
SMITH BARNEY SHEARSON SECTOR ANALYSIS FUND, seeks capital appreciation

by following a sector strategy.</TABLE> 42

SMITH BARNEY

SHEARSON GOVERNMENT SECURITIES FUND -----

----- EXCHANGE PRIVILEGE (CONTINUED)

<TABLE><CAPTION>EXCHANGEABLE WITH SHARES OF THE FOLLOWING CLASSES: FUND NAME
AND INVESTMENT OBJECTIVE:-----

-----<S> <C>A*, B*, D+ SMITH BARNEY SHEARSON
TELECOMMUNICATIONS GROWTH FUND, seeks capital appreciation, with
income as a secondary consideration.A*, B*, D+ SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND, seeks long-term capital appreciation by
investing in equity securities primarily of emerging growth
companies.A*, B*, D+ SMITH BARNEY SHEARSON GLOBAL OPPORTUNITIES FUND, seeks
long-term capital growth by investing principally in the common
stocks of foreign and domestic issuers.A*, B*, D+ SMITH BARNEY
SHEARSON EUROPEAN FUND, seeks long-term capital appreciation by
investing primarily in securities of issuers based in European
countries.A*, B*, D+ SMITH BARNEY SHEARSON PRECIOUS METALS AND MINERALS
FUND INC., seeks long-term capital appreciation by investing
primarily in precious metal- and mineral-related companies and
gold bullion. MONEY MARKET FUNDS** SMITH BARNEY
SHEARSON MONEY MARKET FUND, invests in a diversified portfolio of
high quality money market instruments.*** SMITH BARNEY SHEARSON
DAILY DIVIDEND FUND, invests in a variety of money market
instruments.*** SMITH BARNEY SHEARSON GOVERNMENT AND AGENCIES FUND,
invests in United States government and agency securities.++

SMITH BARNEY SHEARSON MUNICIPAL MONEY MARKET FUND, invests in
short-term high quality municipal obligations.</TABLE>

43

SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND -----

----- EXCHANGE PRIVILEGE (CONTINUED)

<TABLE><CAPTION>EXCHANGEABLE WITH SHARES OF THE FOLLOWING CLASSES: FUND NAME
AND INVESTMENT OBJECTIVE:-----

-----<S> <C>++ SMITH BARNEY SHEARSON
CALIFORNIA MUNICIPAL MONEY MARKET FUND, invests in short-term,
high quality California municipal obligations.++ SMITH BARNEY
SHEARSON NEW YORK MUNICIPAL MONEY MARKET FUND, invests in short-
term, high quality New York municipal obligations.-----
-----<FN> *Shares of this fund are
subject to a higher sales charge or CDSC than that applicable to the Fund's
shares. **Shares of this money market fund may be exchanged for Class B shares
of the Fund.***Shares of this money market fund may be exchanged for Class A
and Class D shares of the Fund. +Class D shares of this Fund may be
acquired only by Participating Plans. ++Shares of this money market fund may
be exchanged for Class A shares of the Fund.</TABLE> TAX EFFECT. The
exchange of shares of one fund for shares of another fund is treated for
federal income tax purposes as a sale of the shares given in exchange by the
shareholder. Therefore, an exchanging shareholder may realize a taxable gain or
loss in connection with an exchange. CLASS A EXCHANGES. Class A
shareholders of the Fund and the other funds in the Smith Barney Shearson Group
of Funds sold without a sales charge or with a maximum sales charge of less
than 4.5% will be subject to the appropriate "sales charge differential" upon
the exchange of their shares for Class A shares of funds sold with a higher
sales charge. The "sales charge differential" is limited to a percentage rate
no greater than the excess of the sales charge rate applicable to purchases of
shares of the mutual fund being acquired in the exchange over the sum of the
rates of all sales charges previously paid on the mutual fund shares
relinquished in the exchange and on any predecessor of those shares. For
purposes of the exchange privilege, shares obtained through automatic
reinvestment of dividends, as described below, are treated as having paid the
same sales charges applicable to the shares on which the dividends were paid.
However, except in the case of the 44

SMITH BARNEY

SHEARSON GOVERNMENT SECURITIES FUND -----

----- EXCHANGE PRIVILEGE (CONTINUED) 401(k) Program, if no sales

charge was imposed upon the initial purchase of the shares, any shares obtained
through automatic reinvestment will be subject to a sales charge differential
upon exchange. CLASS B EXCHANGES. Class B shareholders of the Fund who
wish to exchange all or a portion of their Class B shares for Class B shares of
any of the funds identified above may do so without the imposition of an
exchange fee. In the event Class B shareholders of the Fund wish to exchange
all or a portion of their Class B shares for Class B shares in any of the funds

listed above imposing a CDSC higher than that imposed by the Fund, the exchanged Class B shares will be subject to the higher applicable CDSC. Upon an exchange, the new Class B shares will be deemed to have been purchased on the same date as the Class B shares of the Fund which have been exchanged.

CLASS D EXCHANGES. Class D shareholders who wish to exchange all or part of their Class D shares in any of these funds may do so without charge. Class D shares may be acquired only by Participating Plans.

ADDITIONAL INFORMATION REGARDING THE EXCHANGE PRIVILEGE. Shareholders exercising the exchange privilege with other funds in the Company or any other fund in the Smith Barney Shearson Group of Funds should review the prospectus relating to the exchanged-for shares carefully prior to making an exchange. Smith Barney Shearson reserves the right to reject any exchange request and the exchange privilege may be modified or terminated at any time after written notice to shareholders.

Although the exchange privilege is an important benefit, excessive exchange transactions can be detrimental to the Fund's performance and its shareholders. The Fund's investment adviser may determine that a pattern of frequent exchanges is excessive and contrary to the best interests of the Fund's other shareholders. In this event, the Fund's investment adviser will notify Smith Barney Shearson, and Smith Barney Shearson may, at its discretion, decide to limit additional purchases and/or exchanges by the shareholder. Upon such a determination, Smith Barney Shearson will provide notice in writing or by telephone to the shareholder at least 15 days prior to suspending the exchange privilege and during the 15-day period the shareholder will be required to (a) redeem his or her shares in the Fund

or
45

SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND -----

EXCHANGE PRIVILEGE (CONTINUED)

(b) remain invested in the Fund or exchange into any of the other Smith Barney Shearson funds ordinarily available, which position the shareholder would expect to maintain for a significant period of time. All relevant factors will be considered in determining what constitutes an abusive pattern of exchanges.

For further information regarding the exchange privilege or to obtain a current prospectus for the other funds in the Company or any other fund in the Smith Barney Shearson Group of Funds, shareholders should contact their Smith Barney Shearson Financial Consultant.

DISTRIBUTOR

Smith Barney Shearson is located at 388 Greenwich Street, New York, New York 10013 and serves as distributor of the Fund's shares. Smith Barney Shearson is a wholly owned subsidiary of Holdings which is in turn an indirect wholly owned subsidiary of Travelers. 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 average daily net assets of the respective Class. Smith Barney Shearson is also paid an annual distribution fee with respect to Class Band Class D shares at the rate of 0.50% of the value of average daily net assets attributable to that Class. The fees are authorized pursuant to a service and distribution plan (the "Plan") adopted by the Fund pursuant to Rule 12b-1 under the 1940 Act and are used by Smith Barney Shearson to pay its Financial Consultants for servicing shareholder accounts and, in the case of Class B shares and Class D shares, also to cover expenses primarily intended to result in the sale of shares of each Class. These expenses include: costs of printing and distributing the Fund's Prospectus, Statement of Additional Information and sales literature to prospective investors; an allocation of overhead and other Smith Barney Shearson's branch office distribution-related expenses; payments to and expenses of Smith Barney Shearson Financial Consultants and other persons who provide support services in connection with the distribution of the shares; and accruals for interest on the amount of the foregoing expenses that exceed distribution fees and, in the case of Class B shares, the CDSC received by Smith Barney Shearson. The payments to Smith Barney Shearson

46

SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND -

DISTRIBUTOR

(CONTINUED) Financial Consultants for selling shares of a Class include a commission paid at the time of sale and a continuing fee for servicing shareholder accounts for as long as a shareholder remains a holder of that Class. The service fee is credited at the rate of 0.25% of the value of average daily net assets of the Class that remain invested in the Fund. Smith Barney Shearson Financial Consultants may receive different levels of compensation for selling one Class of shares over another.

Although it is anticipated that some promotional activities will be conducted on a Company-wide basis, payments made by a fund under the Plan generally will be used to finance the distribution of shares of the Fund. Expenses incurred in connection with Company-wide activities may be allocated pro-rata among all funds of the Company on the basis of their relative net assets.

Payments under the Plan are not tied exclusively to the distribution and shareholder service expenses actually incurred by Smith Barney Shearson, and the payments may exceed distribution expenses actually incurred. The Company's Board of Directors will evaluate the appropriateness of the Plan and its payment terms on a continuing basis and in doing so will consider all relevant factors, including expenses borne by Smith Barney Shearson and the amount received under the Plan and the proceeds of the CDSC and sales charges received.

- - - - DIVIDENDS, DISTRIBUTIONS AND TAXES DIVIDENDS AND DISTRIBUTIONS The

Fund will be treated separately from the Company's other funds in determining the amount of dividends from net investment income and distributions of capital gains payable to shareholders. Dividends and any distributions automatically are reinvested in additional shares at net asset value unless the shareholder has elected to receive distributions in cash. Dividends and distributions are treated the same for tax purposes whether taken in cash or reinvested in additional shares. The Fund declares dividends daily consisting of estimated daily net investment income, and pays

47

SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND -----
----- DIVIDENDS, DISTRIBUTIONS AND TAXES

(CONTINUED) dividends monthly. Any net realized gains, after utilization of capital loss carryforwards, will be distributed at least annually, and net realized short-term capital gains (including short-term capital gains from option transactions, if any) may be paid more frequently, with the distribution of dividends from net investment income. The per share dividends and distributions on Class A shares will be higher than the per share dividends and distributions on Class B and Class D shares as a result of lower distribution and transfer agency fees applicable to the Class A shares. See "Variable Pricing System." In addition, as determined by the Board of Directors, distributions of the Fund may include a return of capital. Shareholders will be notified of the amount of any distribution that represents a return of capital. In order to comply with a calendar year distribution requirement under the Code, it may be necessary for the Fund to make distributions at times other than those set forth above. TAXES The Fund will be treated as a separate taxpayer with the result that, for federal tax purposes, the amount of investment income and capital gains earned will be determined on a fund-by-fund basis, rather than on a Company-wide basis. The Fund intends to continue to qualify as a "regulated investment company" under Subchapter M of the Code. In any taxable year in which the Fund so qualifies and distributes at least 90% of its investment company taxable income (which includes, among other items, dividends, interest and the excess of any net short-term capital gains over net long-term capital losses), the Fund (but not its shareholders) generally will be relieved of federal income tax on the investment company taxable income and net realized capital gains (the excess of net long-term capital gains over net short-term capital losses), if any, distributed to shareholders. In order to qualify as a regulated investment company, the Fund will be required to meet various Code requirements. Amounts not distributed on a timely basis in accordance with a calendar year distribution requirement are subject to a nondeductible 4% excise tax. To prevent application of the excise tax, the Fund intends to make its distributions in accordance with this requirement. 48

SMITH BARNEY
SHEARSON GOVERNMENT SECURITIES FUND -----
----- DIVIDENDS, DISTRIBUTIONS AND TAXES (CONTINUED)

Distributions of any investment company taxable income are taxable to shareholders as ordinary income. Distributions of any net capital gains designated by the Fund as capital gain dividends are taxable to shareholders as long-term capital gain regardless of the length of time a shareholder may have held shares of the Fund. Dividends (including capital gain dividends) declared by the Fund in October, November or December of any calendar year to shareholders of record on a date in such a month will be deemed to have been received by shareholders on December 31 of that calendar year, provided that the dividend is actually paid by the Fund during January of the following calendar year. Upon the disposition of shares of the Fund (whether by redemption, sale or exchange), a shareholder generally will realize a taxable gain or loss. Such gain or loss generally will be a capital gain or loss if the shares are capital assets in the shareholder's hands, and generally will be long-term or short-term depending upon the shareholder's holding period for the shares any loss realized by a shareholder on disposition of Fund shares held by the shareholder for six months or less will be treated as long-term capital loss to the extent of any distributions of capital gain dividends received by the shareholder with respect to such shares. Shareholders will be notified annually about the amounts of dividends and distributions, including the amounts (if any) for that year which have been designated as capital gain dividends. Dividends and distributions and gains realized upon a disposition of Fund shares may also be subject to state, local or foreign taxes depending on each shareholder's particular situation. Dividends consisting of interest from obligations of the U.S. government and certain of its agencies and instrumentalities may be exempt from all state and local income taxes. Investors should consult their tax advisors for specific information on the tax consequences of particular types of distributions.

49

SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND -----
----- THE FUND'S PERFORMANCE

YIELD From time to time, the Fund advertises the 30-day "yield" of each Class of shares. The Fund's yield refers to the income generated by an investment in those shares over the 30-day period identified in the advertisement and is computed by dividing the net investment income per share earned by the Class during the period by the maximum offering price per share

on the last day of the period. This income is "annualized" by assuming the amount of income is generated each month over a one-year period and is compounded semi-annually. The annualized income is then shown as a percentage of the net asset value. The Fund's yield for Class A, Class B and Class D shares for the 30-day period ended December 31, 1993, were 3.65%, 3.38%, and 3.33%, respectively. TOTAL RETURN From time to time, the Fund may advertise its "average annual total return" over various periods of time for each Class. Total return figures show the average percentage change in value of an investment in the Class from the beginning date of the measuring period to the end of the measuring period. These figures reflect changes in the price of the shares and assume that any income dividends and/or capital gains distributions made by the Fund during the period were reinvested in shares of the same Class. Class A total return figures include the maximum initial 4.50% sales charge and Class B total return figures include any applicable CDSC. These figures also take into account the service and distribution fees, if any, payable with respect to each Class. Total return figures will be given for recent one-, five- and ten-year periods or the life of a Class to the extent it has not been in existence for any such period, and may be given for other periods as well, such as on a year-by-year basis. When considering average annual total return figures for periods longer than one year, it is important to note that the total return for any one year in the period might have been greater or less than the average for the entire period. "Aggregate" total return figures may be used for various periods, representing the cumulative change in value of an 50

SMITH BARNEY

SHEARSON GOVERNMENT SECURITIES FUND -----
 ----- THE FUND'S PERFORMANCE (CONTINUED) investment in the shares for the specific period (again reflecting changes in the Fund's share prices and assuming reinvestment of dividends and distributions). Aggregate total returns may be calculated either with or without the effect of the maximum 4.50% sales charge or any applicable CDSC and may be shown by means of schedules, charts or graphs, and may indicate subtotals of the various components of total return (that is, change in the value of initial investment, income dividends, and capital gains distributions). Because of the differences in sales charges and distribution and other fees, the total returns for each of the Classes will differ. In reports or other communications to shareholders or in advertising material, performance of the Classes may be compared with that of other mutual funds or classes of shares of other funds listed in the rankings prepared by Lipper Analytical Services, Inc. or similar independent services that monitor the performance of mutual funds or with other appropriate indices of investment securities such as the Standard & Poor's 500 Composite Stock Price Index and the Dow Jones Industrial Average. The Performance information may also include evaluations of the Fund published by nationally recognized financial publications such as BARRON'S, BUSINESS WEEK, CDA INVESTMENT TECHNOLOGIES, INC., FORBES, FORTUNE, INSTITUTIONAL INVESTOR, INVESTORS DAILY, KIPLINGER'S PERSONAL FINANCE MAGAZINE, MONEY, MORNINGSTAR MUTUAL FUND VALUES, USA TODAY, THE NEW YORK TIMES and THE WALL STREET JOURNAL. It is important to note that yield and total return figures are based on historical earnings and are not intended to indicate future performance. To the extent any advertisement or sales literature of the Fund describes the expenses or performance of a Class it will also disclose such information for the other Classes. The Statement of Additional Information further contains a description of the methods used to determine performance. Performance figures may be obtained from any Smith Barney Shearson Financial Consultant. -----

----- ADDITIONAL

INFORMATION The Company was organized as a Maryland corporation pursuant to Articles of Incorporation dated September 29, 1981, as amended from time to time. The Company commenced operations on January 4, 1982 under the

SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND -----
 ----- ADDITIONAL INFORMATION (CONTINUED)
 name "Hutton Investment Series Inc." The Company's corporate name was changed to "SLH Investment Portfolios Inc." on December 29, 1988. Effective October 23, 1992, the Board of Directors of the Company authorized the Company to do business under the name of "Shearson Lehman Brothers Investment Funds" and also authorized a change in the name of the Fund to Government Securities Fund. On July 30, 1993, the Company's corporate name was changed to its current name "Smith Barney Shearson Investment Funds Inc." and the Fund's name was changed to "Smith Barney Shearson Government Securities Fund." The Fund offers shares of common stock currently classified into three Classes, A, B and D, with a par value of \$0.001 per share. Each Class of shares has the same rights, privileges and preferences, except with respect to: (a) the designation of each Class; (b) the effect of the respective sales charges, if any, for each Class; (c) the distribution and/or service fees borne by each Class; (d) the expenses allocable exclusively to each Class; (e) voting rights on matters exclusively affecting a single Class; (f) the exchange privilege of each Class; and (g) the conversion feature of the Class B shares. The Board of Directors does not anticipate that there will be any conflicts among the interests of the holders of the different Classes of shares of the Fund. The Directors, on an ongoing basis, will consider whether any such conflict exists and, if so, take appropriate action. Boston Safe, a wholly owned subsidiary of TBC, is located at One Boston Place, Boston,

Massachusetts 02108, and serves as custodian of the Company's investments.

TSSG is located at Exchange Place, Boston, Massachusetts 02109, and serves as the Company's transfer agent. The Company does not hold annual shareholder meetings. There normally will be no meeting of shareholders for the purpose of electing Directors unless and until such time as less than a majority of the Directors holding office have been elected by shareholders. The Directors will call a meeting for any purpose upon written request of shareholders holding at least 10% of the Company's outstanding shares. When matters are submitted for shareholder vote, shareholders of each Class will have one vote for each full share owned and a proportionate, fractional vote for any

52

SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND -----

----- ADDITIONAL INFORMATION

(CONTINUED) fractional share held of that Class. Generally, shares of the Company will be voted on a Company-wide basis on all matters except matters affecting only the interests of one Fund or one Class of shares. The Fund sends its shareholder a semi-annual report and an audited annual report, each of which includes a list of the investment securities held by the Fund at the end of the reporting period. In an effort to reduce the Fund's printing and mailing costs, the Company plans to consolidate the mailing of its semi-annual and annual reports by household. This consolidation means that a household having multiple accounts with the identical address of record will receive a single copy of each report. In addition, the Company also plans to consolidate the mailing of its Prospectuses so that a shareholder having multiple accounts (I.E., individual, IRA and/or Self-Employed Retirement Plan accounts) will receive a single Prospectus annually. When the Fund's annual reports are combined with the Prospectus into a single document, the Fund will mail the combined document to each shareholder to comply with legal requirements. Any shareholder who does not want this consolidation to apply to his or her account should contact their Smith Barney Shearson Financial Consultant or the Company's transfer agent.

- - NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS, THE STATEMENT OF ADDITIONAL INFORMATION AND/OR IN THE FUND'S OFFICIAL SALES LITERATURE IN CONNECTION WITH THE OFFERING OF THE FUND'S SHARES AND, IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER IN ANY STATE IN WHICH, OR TO ANY PERSON TO WHOM, SUCH OFFER MAY NOT LAWFULLY BE MADE.

53

SMITH BARNEY SHEARSON

GOVERNMENT

SECURITIES

FUND

Two World Trade Center

New York, New York 10048
212

FD0234 B4

Fund 105, 177,

PART A

SMITH BARNEY SHEARSON INVESTMENT FUNDS INC.

PROSPECTUS

SMITH BARNEY SHEARSON INVESTMENT GRADE BOND FUND

MARCH 1, 1994
SMITH BARNEY SHEARSON
INVESTMENT
GRADE BOND
FUND
PROSPECTUS BEGINS
ON PAGE ONE.

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

PROSPECTUS

March 1, 1994

Two World Trade Center
New York, New York 10048
(212) 720-9218

Smith Barney Shearson Investment Grade Bond Fund (the "Fund"), has an investment objective of high current income consistent with prudent investment management and preservation of capital by investing in bonds and other income-producing securities.

The Fund is one of a number of funds, each having distinct investment objectives and policies, making up Smith Barney Shearson Investment Funds Inc. (the "Company"). The Company is an open-end management investment company commonly referred to as a mutual fund.

This Prospectus briefly sets forth certain information about the Company and the Fund, including sales charges, distribution and service fees and expenses, that prospective investors will find helpful in making an investment decision. Investors are encouraged to read this Prospectus carefully and to retain it for future reference. Shares of other funds offered by the Company are described in separate Prospectuses that may be obtained by calling the Company at the telephone number set forth above or by contacting any Smith Barney Shearson Financial Consultant. The net asset value per share of the Fund will fluctuate in response to changes in market conditions and other factors.

Additional information about the Company and the Fund is contained in a Statement of Additional Information dated March 1, 1994, as amended or supplemented from time to time, that is available upon request and without charge by calling or writing the Company at the telephone number or address set forth above or by contacting any Smith Barney Shearson Financial Consultant. The Statement of Additional Information has been filed with the Securities and Exchange Commission (the "SEC") and is incorporated by reference into this Prospectus in its entirety.

SMITH BARNEY SHEARSON INC.
Distributor

GREENWICH STREET ADVISORS
Investment Adviser

THE BOSTON COMPANY ADVISORS, INC.
Administrator

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

1

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

TABLE OF CONTENTS

<TABLE>	
<S>	<C>
PROSPECTUS SUMMARY	3

FINANCIAL HIGHLIGHTS	9

VARIABLE PRICING SYSTEM	13
INVESTMENT OBJECTIVE AND MANAGEMENT POLICIES	14
MANAGEMENT OF THE COMPANY AND THE FUND	20
PURCHASE OF SHARES	22
REDEMPTION OF SHARES	29
VALUATION OF SHARES	33
EXCHANGE PRIVILEGE	34
DISTRIBUTOR	41
DIVIDENDS, DISTRIBUTIONS AND TAXES	42
THE FUND'S PERFORMANCE	44
ADDITIONAL INFORMATION	46

</TABLE>

2

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

PROSPECTUS SUMMARY

THE FOLLOWING SUMMARY IS QUALIFIED IN ITS ENTIRETY BY DETAILED INFORMATION APPEARING ELSEWHERE IN THIS PROSPECTUS AND IN THE STATEMENT OF ADDITIONAL INFORMATION. CROSS REFERENCES IN THIS SUMMARY ARE TO HEADINGS IN THE PROSPECTUS.

SEE THE "TABLE OF CONTENTS."

BENEFITS TO INVESTORS THE FUND OFFERS INVESTORS SEVERAL IMPORTANT BENEFITS:

- - Investment liquidity through convenient purchase and redemption procedures.
- - A convenient way to invest without the administrative and recordkeeping burdens normally associated with the direct ownership of securities.
- - Different methods for purchasing shares that allow investment flexibility and a wider range of investment alternatives.
- - An automatic dividend reinvestment feature, plus an exchange privilege within the same class of shares of the other funds in the Company and of most other funds in the Smith Barney Shearson Group of Funds.

INVESTMENT OBJECTIVE The Fund is an open-end diversified management investment company that seeks to provide a high level of current income as is consistent with prudent investment management and preservation of capital. Under normal circumstances, the Fund will invest at least 65% of its assets in bonds. See "Investment Objective and Management Policies."

VARIABLE PRICING SYSTEM The Fund offers several classes of shares ("Classes") to investors designed to provide them with the flexibility of selecting an investment best suited to their needs. The general public is offered two classes of shares, Class A shares and Class B shares, which differ principally in terms of the sales charges and rates of expenses to which they are subject. In addition, a third class -- Class D shares -- is offered only to plans participating in the Smith Barney Shearson 401(k) Program (the "401(k) Program"). See "Variable Pricing System" and "Purchase of Shares -- Smith Barney Shearson 401(k) Program."

CLASS A SHARES These shares are offered at net asset value per share plus a maximum initial sales charge of 4.50%. The Fund pays an annual service fee of 0.25% of the value of average daily net assets of this Class. See "Purchase of Shares."

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

PROSPECTUS SUMMARY (CONTINUED)

CLASS B SHARES These shares are offered at net asset value per share subject to a maximum contingent deferred sales charge ("CDSC") of 4.50% of redemption proceeds, declining by 0.50% after the first year and by 1.00% each year thereafter to zero. The Fund pays an annual service fee of 0.25% and an annual distribution fee of 0.50% of the value of average daily net assets attributable to this Class. See "Purchase of Shares."

CLASS B CONVERSION FEATURE Class B shares will convert automatically to Class A shares, based on relative net asset value, approximately eight years after the date of original purchase. Upon conversion, these shares will no longer be subject to an annual distribution fee. The first of these conversions will commence on or about September 30, 1994. See "Variable Pricing System -- Class B Shares."

SMITH BARNEY SHEARSON 401(K) PROGRAM Investors may be eligible to participate in the 401(k) Program, which is generally designed to assist employers or plan sponsors in the creation and operation of retirement plans under Section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code"), as well as other types of participant directed, tax qualified employee benefit plans and employer sponsored non-qualified employee benefit plans (collectively, "Participating Plans"). Class A, Class B and Class D shares are available as investment alternatives for Participating Plans. Class A and Class B shares acquired through the 401(k) Program are subject to the same service and/or distribution fees as, but different sales charges and CDSC schedules than, the Class A and Class B shares acquired by other investors. Class D shares acquired by Participating Plans are offered at net asset value per share without any sales charges or CDSC. The Fund pays annual service and distribution fees based on the value of average daily net assets attributable to this Class. See "Purchase of Shares --Smith Barney Shearson 401(k) Program."

PURCHASE OF SHARES Shares may be purchased through the Company's distributor, Smith Barney Shearson Inc. ("Smith Barney Shearson"), or a broker that clears securities transactions through Smith Barney Shearson on a fully disclosed basis (an "Introducing Broker"). Direct purchases of certain retirement plans may be made through The Shareholder Services Group, Inc. ("TSSG"), the Company's transfer agent, a subsidiary of First Data

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

PROSPECTUS SUMMARY (CONTINUED)

Corporation ("FDC"). Smith Barney Shearson recommends that, in most cases, single investments of \$250,000 or more should be in Class A shares. See "Purchase of Shares."

INVESTMENT MINIMUMS Investors are subject to a minimum initial investment requirement of \$1,000 and a minimum subsequent investment requirement of \$200. However, for Individual Retirement Accounts ("IRAs") and Self-Employed Retirement Plans, the minimum initial investment requirement is \$250 and the minimum subsequent investment requirement is \$100 and for certain qualified retirement plans, the minimum initial and subsequent investment requirement is \$25. See "Purchase of Shares."

SYSTEMATIC INVESTMENT PLAN The Fund also offers shareholders a Systematic Investment Plan under which they may authorize the automatic placement of a purchase order each month or quarter for Fund shares in an amount not less than \$100. See "Purchase of Shares."

REDEMPTION OF SHARES Shares may be redeemed on each day the New York Stock Exchange, Inc. ("NYSE") is open for business. Class A and Class D shares are redeemable at net asset value and Class B shares are redeemable at net asset value less any applicable CDSC. See "Redemption of Shares."

MANAGEMENT OF THE FUND Greenwich Street Advisors Division ("Greenwich Street Advisors") of Mutual Management Corp. ("MMC") serves as the Fund's investment adviser. MMC provides investment advisory and management services to investment companies affiliated with Smith Barney Shearson. MMC is controlled by Smith Barney Shearson Holdings Inc. ("Holdings"). Holdings is a wholly owned subsidiary of The Travelers Inc. (which was formerly known as Primerica Corporation) ("Travelers"), a diversified financial services holding company principally engaged in the businesses of providing investment, consumer finance and insurance services. Greenwich Street Advisors had aggregate assets under management in excess of \$42.8 billion on December 31, 1993.

The Boston Company Advisors, Inc. ("Boston Advisors") serves as the Fund's administrator. Boston Advisors is a wholly owned subsidiary of The Boston Company, Inc. ("TBC"), a financial services holding company which in turn is an indirect wholly owned subsidiary of Mellon Bank Corporation ("Mellon"). As of December 31, 1993 Boston Advisors provides investment

5

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

PROSPECTUS SUMMARY (CONTINUED)

management, investment advisory, and/or administrative services to investment companies, which had aggregate assets under management in excess of \$86.6 billion. See "Management of the Company and the Fund."

EXCHANGE PRIVILEGE Shares of a Class may be exchanged for shares of the same Class of most other funds in the Smith Barney Shearson Group of Funds and certain money market funds. Certain exchanges may be subject to a sales charge differential. See "Exchange Privilege."

VALUATION OF SHARES Net asset value of each Class is quoted daily in the financial section of most newspapers and is also available from any Smith Barney Shearson Financial Consultant. See "Valuation of Shares."

DIVIDENDS AND DISTRIBUTIONS Dividends from net investment income are declared daily and paid on the last business day of the Smith Barney Shearson statement month. Distributions of net realized long- and short-term capital gains, if any, are declared and paid annually after the end of the fiscal year in which they are earned. See "Dividends, Distributions and Taxes."

REINVESTMENT OF DIVIDENDS Dividends and distributions paid on shares of a Class will be reinvested automatically unless otherwise specified by an investor in additional shares of the same Class at current net asset value. Shares acquired by dividend and distribution reinvestments will not be subject to any sales charge or CDSC. Class B shares acquired through dividend and distribution reinvestments will become eligible for conversion to Class A shares on a pro

rata basis. See "Dividends, Distributions and Taxes" and "Variable Pricing System."

RISK FACTORS AND SPECIAL CONSIDERATIONS The Company is designed for long-term investors and not for investors who intend to liquidate their investment after a short period. Neither the Company as a whole nor any particular fund in the Company, including the Fund, constitutes a balanced investment plan. There can be no assurance that the Fund will achieve its investment objective. The Fund may employ investment techniques which involve certain risks, including entering into repurchase agreements and reverse repurchase agreements, lending portfolio securities, selling securities short and investing in foreign securities through the use of American Depositary Receipts. See "Investment Objective and Management Policies -- Additional Investments."

6

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

PROSPECTUS SUMMARY (CONTINUED)

THE FUND'S EXPENSES The following expense table lists the costs and expenses that an investor will incur either directly or indirectly as a shareholder of the Fund based upon the maximum sales charge and maximum CDSC that may be incurred at the time of purchase or redemption and an estimate of the Fund's current operating expenses:

<TABLE>
<CAPTION>

	CLASS A	CLASS B
CLASS D	<C>	<C>

SHAREHOLDER TRANSACTION EXPENSES		
Maximum sales charge imposed on purchases (as a percentage of offering price)	4.50%	--
Maximum CDSC (as a percentage of redemption proceeds)	--	4.50%

ANNUAL FUND OPERATING EXPENSES (as a percentage of average net assets)		
Management fees	0.65%	0.65%
12b-1 fees*	0.25%	0.75%
Other expenses**	0.21%	0.18%
TOTAL FUND OPERATING EXPENSES	1.11%	1.58%

<FN>
*Upon conversion of Class B shares to Class A shares, such shares will no longer be subject to a distribution fee. Class D shares do not have a conversion feature and, therefore, are subject to an ongoing distribution fee.
**All expenses are based on data for the Fund's fiscal year ended December 31, 1993.
</TABLE>

The sales charge and CDSC set forth in the above table are the maximum charges imposed upon purchases or redemptions of Fund shares and investors may pay actual charges less than 4.50%, depending on the amount purchased and, in the case of Class B shares, the length of time the shares are held and whether the shares are held through the 401(k) Program. See "Purchase of Shares" and "Redemption of Shares." Management fees payable by the Fund include investment advisory fees paid to Greenwich Street Advisors at the maximum annual rate of

0.45% of the value of the Fund's average daily net assets and administration fees paid to Boston Advisors at the maximum annual rate of 0.20% of the value of the Fund's average daily net assets. The nature of the services for which the Fund is obligated to pay management fees is described under "Management of the Company and the Fund." Smith Barney Shearson receives an annual Rule 12b-1 service fee of 0.25% of the value of average daily net assets of Class A shares. Smith Barney Shearson also receives with respect to Class B

7

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

PROSPECTUS SUMMARY (CONTINUED)

shares and Class D shares an annual Rule 12b-1 fee of 0.75% of the value of average daily net assets of Class B shares and Class D shares, respectively, consisting of a 0.50% distribution fee and a 0.25% service fee. "Other expenses" in the above table include fees for shareholder services, custodial fees, legal and accounting fees, printing costs and registration fees.

EXAMPLE

The following example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical \$1,000 investment in the Fund assuming a 5.00% annual total return. THE EXAMPLE ASSUMES PAYMENT BY THE FUND OF OPERATING EXPENSES AT THE LEVELS SET FORTH IN THE ABOVE TABLE. THE EXAMPLE SHOULD NOT BE CONSIDERED A REPRESENTATION OF PAST OR FUTURE EXPENSES AND ACTUAL EXPENSES MAY BE GREATER OR LESS THAN THOSE SHOWN. MOREOVER, WHILE THE EXAMPLE ASSUMES A 5.00% ANNUAL RETURN, THE FUND'S ACTUAL PERFORMANCE WILL VARY AND MAY RESULT IN AN ACTUAL RETURN GREATER OR LESS THAN 5.00%.

<TABLE>
<CAPTION>

YEARS*	1 YEAR	3 YEARS	5 YEARS	10 YEARS
<S>	<C>	<C>	<C>	<C>
-----	-----	-----	-----	-----
Class A shares:**	\$56	\$79	\$103	\$174
Class B shares:				
Assumes complete redemption at the end of each time period***	\$61	\$80	\$96	\$175
Assumes no redemption	\$16	\$50	\$86	\$175
Class D shares:	\$16	\$51	\$88	\$191
-----	-----	-----	-----	-----

<FN>
*Ten-year figures assume conversion of Class B shares to Class A shares at the end of the eighth year following the date of purchase.
**Assumes deduction at the time of purchase of the maximum 4.50% sales charge.
***Assumes deduction at the time of redemption of the maximum CDSC applicable for that time period.
</TABLE>

8

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

FINANCIAL HIGHLIGHTS

THE FOLLOWING INFORMATION HAS BEEN AUDITED BY COOPERS & LYBRAND, INDEPENDENT ACCOUNTANTS, WHOSE REPORT THEREON APPEARS IN THE FUND'S ANNUAL REPORT DATED DECEMBER 31, 1993. THIS INFORMATION SHOULD BE READ IN CONJUNCTION WITH THE

FOR A CLASS A SHARE OUTSTANDING THROUGHOUT EACH PERIOD.

<TABLE>
<CAPTION>

PERIOD	YEAR
ENDED	ENDED
12/31/92*	12/31/93+++
<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 capital 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+	18.73%
3.25%	

Ratios to average net assets/supplemental data:	
Net assets, end of period (in 000's)	\$10,137 \$
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>

FINANCIAL HIGHLIGHTS (CONTINUED)

FOR A CLASS B SHARE OUTSTANDING THROUGHOUT EACH YEAR.*

<TABLE>
<CAPTION>

YEAR	YEAR	YEAR	YEAR
ENDED	ENDED	ENDED	ENDED
12/31/91	12/31/90	12/31/93+++	12/31/92
<S>	<C>	<C>	<C>
Net Asset Value, beginning of year	\$ 11.89	\$ 11.80	\$
10.43	\$ 11.01		
Income from investment operations:			
Net investment income	0.80	0.83	
0.86	0.86		
Net realized and unrealized gain/(loss) on investments	1.29	0.12	
1.38	(0.57)		
Total from investment operations			
2.24	0.29	2.09	0.95
Distributions to shareholders:			
Distributions from net investment income	(0.82)	(0.83)	
(0.87)	(0.87)		
Distributions in excess of net investment income	(0.01)	--	
--	--		
Distributions from net realized capital gains	(0.14)	--	
--	--		
Distributions from capital	--	(0.03)	
--	--		
Total distributions			
(0.87)	(0.87)	(0.97)	(0.86)
Net Asset Value, end of year			
\$ 11.80	\$ 10.43	\$ 13.01	\$ 11.89
			\$
Total return+			
22.50%	2.98%	18.06%	8.36%
Ratios to average net assets/supplemental data:			
Net assets, end of year (in 000's)	\$413,878	\$405,779	\$431,783
Ratio of operating expenses to average net assets	1.53%	1.58%	1.57%**
1.53%	1.58%		
Ratio of net investment income to average net assets	7.90%	8.20%	6.20%
7.90%	8.20%		6.99%
Portfolio turnover rate	82%	59%	65%
82%	59%		47%

<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 ratio before waiver of fees by the distributor for the year ended December 31, 1989 was 1.66%.

+Total return represents aggregate total return for the period 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 year ended December

31, 1989 was \$0.86.

</TABLE>

10

SMITH BARNEY SHEARSON
 INVESTMENT GRADE BOND FUND

<TABLE>
 <CAPTION>

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

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

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

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

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

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

\$483,382	\$532,794	\$705,561	\$421,011	\$233,880
\$171,621				
1.63%***	1.22%	1.62%	1.62%	1.79%
1.88%				
8.07%	8.74%	7.96%	7.74%	9.78%
12.11%				
118%	72%	79%	211%	717%
477%				

</TABLE>

11

SMITH BARNEY SHEARSON
 INVESTMENT GRADE BOND FUND

FINANCIAL HIGHLIGHTS (CONTINUED)

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 capital 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>

12

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

VARIABLE PRICING SYSTEM

The Smith Barney Shearson Group of Funds offers individual investors two methods of purchasing shares, thus enabling investors to choose the Class that best suits their needs, given the amount of purchase and intended length of investment. A third class -- Class D -- is offered only to Participating Plans.

CLASS A SHARES. Class A shares are sold at net asset value per share plus a maximum initial sales charge of 4.50% imposed at the time of purchase. The initial sales charge may be reduced or waived for certain purchases. Class A shares are subject to an annual service fee of 0.25% of the value of the Fund's average daily net assets attributable to the Class. The annual service fee is used by Smith Barney Shearson to compensate its Financial Consultants for ongoing services provided to shareholders. The sales charge is used to compensate Smith Barney Shearson for expenses incurred in selling Class A shares. See "Purchase of Shares."

CLASS B SHARES. Class B shares are sold at net asset value per share subject to a maximum 4.50% CDSC, which is assessed only if the shareholder redeems shares within the first five years of investment. This results in 100% of the investor's assets being used to acquire shares of the Fund. After the first year after the purchase of shares, the CDSC declines to 4.00%. For each of the next four years thereafter, the applicable CDSC declines by 1.00%; in year six, the applicable CDSC is reduced to 0%. See "Purchase of Shares" and "Redemption of Shares."

Class B shares are subject to an annual service fee of 0.25% and an annual distribution fee of 0.50% of the value of the Fund's average daily net assets attributable to the Class. Like the service fee applicable to Class A shares, the Class B service fee is used to compensate Smith Barney Shearson Financial Consultants for ongoing services provided to shareholders. Additionally, the distribution fee paid with respect to Class B shares compensates Smith Barney Shearson for expenses incurred in selling those shares, including expenses such as sales commissions, Smith Barney Shearson's branch office overhead expenses and marketing costs associated with Class B shares, such as preparation of sales literature, advertising and printing and distributing prospectuses, statements of additional information and other materials to prospective investors in Class B shares. A Smith Barney Shearson Financial Consultant may receive different levels of compensation for selling different Classes. Class B shares are subject to a distribution fee

13

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

VARIABLE PRICING SYSTEM (CONTINUED)

and are subject to higher transfer agency fees than Class A shares which generally will cause Class B shares to have a higher expense ratio and pay lower dividends than Class A shares.

Eight years after the date of purchase, Class B shares will convert automatically to Class A shares, based on the relative net asset values of shares of each Class, and will no longer be subject to a distribution fee. In addition, a certain portion of Class B shares that have been acquired through the reinvestment of dividends and distributions ("Class B Dividend Shares") will be converted. That portion will be a percentage of the total number of outstanding Class B Dividend Shares, which percentage will be determined by the ratio of the total number of Class B shares converting at the time to the total number of outstanding Class B shares (other than Class B Dividend Shares). The first of these conversions will commence on or about September 30, 1994. The conversion of Class B shares into Class A shares is subject to the continuing availability of an opinion of counsel or an Internal Revenue Service ruling to the effect that such conversions will not constitute taxable events for federal tax purposes.

CLASS D SHARES. Class D shares of the Fund are sold to Participating Plans at net asset value per share and are not subject to an initial sales charge or CDSC. This Class of shares is subject to an annual service fee of 0.25% and an annual distribution fee of 0.50% of the value of the Fund's average daily net assets attributable to the Class. The distribution fee is used by Smith Barney Shearson for expenses incurred in selling Class D shares, and the service fee is used to compensate Smith Barney Shearson Financial Consultants for ongoing services provided to Class D shareholders. Class D shares are subject to a distribution fee which will cause Class D shares to have a higher expense ratio and to pay lower dividends than Class A shares.

INVESTMENT OBJECTIVE AND MANAGEMENT POLICIES

Set forth below is a description of the investment objective and policies of the Fund. There can be no assurance that the Fund will achieve its investment objective. Certain instruments and techniques discussed in this summary are described in greater detail in this Prospectus under "Additional Investments" and in the Statement of Additional Information. A description

14

INVESTMENT OBJECTIVE AND MANAGEMENT POLICIES (CONTINUED)

of the rating systems of Moody's Investors Services Inc. ("Moody's") and Standard & Poors Corporation ("S&P") is contained in the Appendix to the Statement of Additional Information.

The Statement of Additional Information contains specific investment restrictions which govern the Fund's investments. These restrictions and the Fund's investment objective are fundamental policies, which means that they may not be changed without a majority vote of shareholders of the Fund. Except for the objective and those restrictions specifically identified as fundamental, all investment policies and practices described in this Prospectus and in the Statement of Additional Information are non-fundamental, so that the Board of Directors may change them without shareholder approval. The fundamental restrictions applicable to the Fund include a prohibition on (a) purchasing a security if, as a result, more than 5% of the assets of the Fund would be invested in the securities of the issuer (with certain exceptions) or the Fund would own more than 10% of the outstanding voting securities of the issuer, (b) investing more than 10% of the Fund's total assets in "illiquid" securities (which includes repurchase agreements with more than seven days to maturity), and (c) investing more than 25% of the Fund's total assets in the securities of issuers in a particular industry (with exceptions for U.S. government securities and certain money market instruments).

The Fund's investment objective is to provide as high a level of current income as is consistent with prudent investment management and preservation of capital. The Fund seeks to achieve its objective by investing in any of the following securities; corporate bonds rated Baa or better by Moody's or BBB or better by S&P; U.S. government securities; commercial paper issued by domestic corporations and rated Prime-1 or Prime-2 by Moody's or A-1 or A-2 by S&P, or, if not rated, issued by a corporation having an outstanding debt issue rated Aa or better by Moody's or AA or better by S&P; negotiable bank certificates of deposit and bankers acceptances issued by domestic banks (but not their foreign branches) having total assets in excess of \$1 billion; and high-yielding common stocks and warrants. Obligations rated in the lowest of the top four rating categories (Baa by Moody's or BBB by S&P) may have speculative characteristics and changes in economic conditions or other circumstances are more likely to lead to a weakened capacity to make principal and interest payments, including a greater possibility of default or bankruptcy of the issuer, than is the case

15

INVESTMENT OBJECTIVE AND MANAGEMENT POLICIES (CONTINUED)

with higher grade bonds. Subsequent to its purchase by the Fund, an issue of securities may cease to be rated or its rating may be reduced below the minimum required for the purchase by the Fund. In addition, it is possible that Moody's and S&P might not timely change their ratings of a particular issue to reflect subsequent events. None of these events will require the sale of the securities by the Fund, although the investment adviser will consider these events in determining whether the Fund should continue to hold the securities. To the extent that the ratings given by Moody's or S&P for securities may change as a result of changes in the rating systems or due to a corporate reorganization of Moody's and/or S&P, the Fund will attempt to use comparable ratings as standards for its investments in accordance with the investment objectives and policies of the Fund.

The Fund may enter into repurchase agreements, reverse repurchase

agreements,
firm commitment agreements, "short sales against the box" and may lend its
portfolio securities. Except when in a temporary defensive investment
position,
the Fund intends to maintain at least 65% of its assets invested in bonds.

The value of securities in which the Fund invests (and therefore, the Fund's
net asset value per share) generally will vary inversely with changes in
interest rates and also will fluctuate according to changes in market
conditions
and other factors.

In making purchases of securities consistent with the above policies, the
Fund
will be subject to the applicable restrictions referred to under "Investment
Restrictions" in the Statement of Additional Information.

ADDITIONAL INVESTMENTS

U.S. GOVERNMENT SECURITIES. U.S. government securities are obligations of,
or
are guaranteed by, the U.S. government, its agencies or instrumentalities.
These
include bills, certificates of indebtedness, and notes and bonds issued by the
U.S. Treasury or by agencies or instrumentalities of the U.S. government. Some
U.S. government securities, such as U.S. Treasury bills and bonds, are
supported
by the full faith and credit of the U.S. Treasury; others are supported by the
right of the issuer to borrow from the U.S. Treasury; others, such as those of
the Federal National Mortgage Association, are supported by the discretionary
authority of the U.S. government to

16

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

INVESTMENT OBJECTIVE AND MANAGEMENT POLICIES (CONTINUED)

purchase the agency's obligations; still others, such as those of the Student
Loan Marketing Association and the Federal Home Loan Mortgage Corporation
("FHLMC") are supported only by the credit of the instrumentality. Mortgage
participation certificates issued by the FHLMC generally represent ownership
interests in a pool of fixed-rate conventional mortgages. Timely payment of
principal and interest on these certificates is guaranteed solely by the
issuer
of the certificates. Other investments will include Government National
Mortgage
Association Certificates ("GNMA Certificates"), which are mortgage-backed
securities representing part ownership of a pool of mortgage loans on which
timely payment of interest and principal is guaranteed by the full faith and
credit of the U.S. government. While the U.S. government guarantees the
payment
of principal and interest on GNMA Certificates, the market value of the
securities is not guaranteed and will fluctuate.

REPURCHASE AGREEMENTS. The Fund may enter into repurchase agreement
transactions on U.S. government securities with certain member banks of the
Federal Reserve System having assets in excess of \$100 million and with
certain
dealers on the Federal Reserve Bank of New York's list of reporting dealers.
Under the terms of a typical repurchase agreement, the Fund would acquire an
underlying debt obligation for a relatively short period (usually not more
than
one week) 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 underlying securities will be at least equal at all
times to the total amount of the repurchase obligation, including interest.
The
Fund bears a risk of loss in the event that the other party to a repurchase
agreement defaults on its obligations and 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 these rights to them, the risk of
incurring expenses associated with asserting those rights and the risk of

losing all or part of the income from the agreement. The Fund's investment adviser and administrator, acting under the supervision of the Board of Directors, review on an ongoing basis the creditworthiness and the value of the collateral of those banks and dealers with which the Fund enters into repurchase agreements to evaluate potential risks.

17

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

INVESTMENT OBJECTIVE AND MANAGEMENT POLICIES (CONTINUED)

REVERSE REPURCHASE AGREEMENTS. A reverse repurchase agreement involves the sale of a money market instrument by the Fund and its agreement to repurchase the instrument at a specified time and price. The Fund will maintain a segregated account consisting of U.S. government securities or cash or cash equivalents to cover its obligations under reverse repurchase agreements with broker-dealers (but not banks). The Fund will invest the proceeds in other money market instruments or repurchase agreements maturing not later than the expiration of the reverse repurchase agreement. Under the Investment Company Act of 1940, as amended (the "1940 Act"), reverse repurchase agreements may be considered borrowings by the seller; accordingly, the Fund will limit its investments in reverse repurchase agreements and other borrowings to no more than one-third of its total assets.

FIRM COMMITMENT AGREEMENTS AND WHEN-ISSUED PURCHASES. Firm commitment agreements and when-issued purchases call for the purchase of securities at an agreed-upon price on a specified future date, and would be used, for example, when a decline in the yield of securities of a given issuer is anticipated. A Fund as purchaser assumes the risk of any decline in value of the security beginning on the date of the agreement or purchase. The Fund will not use such transactions for leveraging purposes, and accordingly will segregate U.S. government securities, cash or cash equivalents in an amount sufficient to meet its purchase obligations under the agreement.

LOANS OF PORTFOLIO SECURITIES. The Fund may lend its portfolio securities provided (a) the loan is secured continuously by collateral consisting of U.S. government securities or cash or cash equivalents maintained on a daily marked-to-market basis in an amount at least equal to the current market value of the securities loaned; (b) the Fund may at any time call the loan and obtain the return of the securities loaned; (c) the Fund will receive any interest or dividends paid on the loaned securities; and (d) the aggregate market value of securities loaned will not at any time exceed 20% of the total assets of the Fund.

SHORT SALES. The Fund may sell securities "short against the box." While a short sale is the sale of a security the Fund does not own, it is "against the box" if at all times when the short position is open, the Fund owns an equal amount of the securities or securities convertible into, or exchangeable

18

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

INVESTMENT OBJECTIVE AND MANAGEMENT POLICIES (CONTINUED)

without further consideration for, securities of the same issue as the securities sold short. Short sales "against the box" are used to defer recognition of capital gains or losses.

AMERICAN DEPOSITARY RECEIPTS. The Fund may purchase American Depositary Receipts ("ADRs"), which are dollar-denominated receipts issued generally by domestic banks and representing the deposit with the bank of a security of a foreign issuer. ADRs are publicly traded on exchanges or over-the-counter in the United States.

PORTFOLIO TRANSACTIONS AND TURNOVER

Greenwich Street Advisors arranges for the purchase and sale of the Fund's securities and selects broker-dealers which, in its best judgment, provide prompt and reliable execution at favorable prices and reasonable commission rates. Greenwich Street Advisors may select broker-dealers which provide it with research services and may cause the Fund to pay such broker-dealers commissions which exceed those other broker-dealers may have charged, if it views the commissions as reasonable in relation to the value of the brokerage and/or research services. Smith Barney Shearson and its affiliates may serve as regular brokers for the Fund in effecting portfolio transactions on a national securities or commodities exchange, and may retain commissions, in accordance with certain regulations of the SEC.

For reporting purposes, the Fund's portfolio turnover rate is calculated by dividing the lesser of purchases or sales of portfolio securities for the fiscal year by the monthly average of the value of the Fund's securities, with money market instruments with less than one year to maturity excluded. A 100% portfolio turnover rate would occur, for example, if all included securities were replaced once during the year. The Fund's portfolio turnover rates for each of the past fiscal years are set forth under "Financial Highlights."

19

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

MANAGEMENT OF THE COMPANY AND THE FUND

BOARD OF DIRECTORS

Overall responsibility for management and supervision of the Company rests with the Company's Board of Directors. The Directors approve all significant agreements between the Company and companies that furnish services to the Fund and the Company, including agreements with its distributor, investment adviser, administrator, custodian and transfer agent. The day-to-day operations of the Fund are delegated to the Fund's investment adviser and administrator. The Statement of Additional Information contains general and background information regarding each Director and executive officer of the Company.

INVESTMENT ADVISER -- GREENWICH STREET ADVISORS

Greenwich Street Advisors, located at Two World Trade Center, New York, New York 10048, serves as the Fund's investment adviser. Greenwich Street Advisors (through its predecessors) has been in the investment counseling business since 1934 and is a division of MMC, which was incorporated in 1978. MMC is a registered investment adviser whose principal executive offices are located at 1345 Avenue of the Americas. Greenwich Street Advisors renders investment advice to investment companies that had aggregate assets under management as of December 31, 1993 in excess of \$42.8 billion.

Subject to the supervision and direction of the Fund's Board of Directors, Greenwich Street Advisors manages the Fund's portfolio in accordance with the Fund's stated investment objective and policies, makes investment decisions for the Fund, places orders to purchase and sell securities and employs professional portfolio managers and securities analysts who provide research services to the Fund. Under an investment advisory agreement, the Fund pays Greenwich Street Advisors a monthly fee at the annual rate of 0.45% of the value of the Fund's average daily net assets up to \$500 million and 0.42% of the value of average daily net assets thereafter. For the fiscal year ended December 31, 1993, the

Fund paid investment advisory fees to Greenwich Street Advisors in an amount equal to 0.45% of the value of its average daily net assets.

20

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

MANAGEMENT OF THE COMPANY AND THE FUND (CONTINUED)

PORTFOLIO MANAGEMENT

George Mueller, Senior Vice President of Taxable Fixed Income Management of Greenwich Street Advisors, has served as the Investment Officer of the Fund since January 1, 1985, and is primarily responsible for managing the day-to-day investment operations of the Fund, including the making of investment decisions.

Mr. Mueller's management discussion and analysis of the Fund's performance during the fiscal year ended December 31, 1993 (including a line graph comparing the Fund's performance to the Lehman Brothers Long-Term Corporate Bond Index) is included in the Fund's Annual Report to Shareholders dated December 31, 1993. The Fund's Annual Report may be obtained upon request and without charge from any Smith Barney Shearson Financial Consultant or by writing or calling the Fund at the address or phone number listed on page 1 of this Prospectus.

ADMINISTRATOR -- BOSTON ADVISORS

Boston Advisors, located at One Boston Place, Boston, Massachusetts 02108, serves as the Fund's administrator. Boston Advisors is an indirect wholly owned subsidiary of Mellon. Boston Advisors provides investment management, investment advisory and/or administrative services to investment companies which had aggregate assets under management as of December 31, 1993, in excess of \$86.6 billion.

Boston Advisors calculates the net asset value of the Fund's shares and generally assists in all aspects of the Fund's administration and operation. Under an administration agreement, the Fund pays Boston Advisors a fee at the annual rate of 0.20% of the value of the Fund's average daily net assets up to \$500 million and 0.18% of the value of the Fund's average daily net assets thereafter. For the fiscal year ended December 31, 1993, the Fund paid fees to Boston Advisors in an amount equal to 0.20% of the value of the Fund's average daily net assets.

21

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

PURCHASE OF SHARES

Purchases of Fund shares must be made through a brokerage account maintained with Smith Barney Shearson or with an Introducing Broker, except that investors purchasing shares of the Fund through a qualified retirement plan may do so directly through the Company's transfer agent. When purchasing shares of the Fund, investors must specify whether the purchase is for Class A, Class B or, in the case of Participating Plans, Class D shares. No maintenance fee will be charged in connection with a brokerage account through which an investor

purchases or holds shares. Purchases are effected at the public offering price next determined after a purchase order is received by Smith Barney Shearson or an Introducing Broker (the "trade date"). Payment generally is due to Smith Barney Shearson or an Introducing Broker on the fifth business day (the "settlement date") after the order is placed. Investors who make payment prior to the settlement date may permit the payment to be held in their brokerage accounts or may designate a temporary investment (such as a money market fund in the Smith Barney Shearson Group of Funds) for such payment until the settlement date. The Company reserves the right to reject any purchase order and to suspend the offering of shares for any period of time.

Purchase orders received by Smith Barney Shearson or the Introducing Broker prior to the close of regular trading on the NYSE, currently 4:00 p.m., New York time, on any day the Fund's net asset value is calculated are priced according to the net asset value determined on that day. Purchase orders received after the close of regular trading on the NYSE are priced as of the time the net asset value per share is next determined. See "Valuation of Shares."

SYSTEMATIC INVESTMENT PLAN. The Fund offers shareholders a Systematic Investment Plan under which shareholders may authorize Smith Barney Shearson or an Introducing Broker to place a purchase order each month or quarter for Fund shares in an amount not less than \$100. The purchase price is paid automatically from cash held in the shareholder's Smith Barney Shearson brokerage account or through the automatic redemption of the shareholder's shares of a Smith Barney Shearson money market fund. For further information regarding the Systematic Investment Plan, shareholders should contact their Smith Barney Shearson Financial Consultants.

MINIMUM INVESTMENTS. The minimum initial investment in the Fund is \$1,000 and the minimum subsequent investment is \$200 except that for

22

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

PURCHASE OF SHARES (CONTINUED)

purchases through (a) IRAs and Self-Employed Retirement Plans, the minimum initial and subsequent investments are \$250 and \$100, respectively, (b) retirement plans qualified under Sections 401(a) and 403(b) (7) of the Code, the minimum initial and subsequent investment is \$25, and (c) the Fund's Systematic Investment Plan, the minimum initial and subsequent investments are both \$100. There are no minimum requirements for employees of Travelers and its subsidiaries, including Smith Barney Shearson. The Company reserves the right at any time to vary the initial and subsequent investment minimums. Certificates for Fund shares are issued upon request to the Company's transfer agent, TSSG.

CLASS A SHARES

The public offering price for Class A shares is the per share net asset value of that Class next determined after a purchase order is received plus a sales charge, which is imposed in accordance with the following schedule:

<TABLE>
<CAPTION>

AS % AMOUNT OF INVESTMENT* VALUE	SALES CHARGE AS % OF OFFERING PRICE	SALES CHARGE OF NET ASSET
<S>	<C>	<C>
-----	-----	-----
Less than \$25,000	4.50%	4.71%

\$25,000 but under \$50,000	4.00%	4.17%
\$50,000 but under \$100,000	3.50%	3.63%
\$100,000 but under \$250,000	3.00%	3.09%
\$250,000 but under \$500,000	2.50%	2.56%
\$500,000 but under \$1,000,000	1.50%	1.52%
\$1,000,000 or more**	0.00%	0.00%

<FN>

*Smith Barney Shearson has adopted guidelines directing its Financial Consultants and

Introducing Brokers that single investments of \$250,000 or more should be made in

Class A shares.

**No sales charge is imposed on purchases of Class A shares of \$1 million or more;

however, a CDSC of 0.75% is imposed on redemptions made within the first year after

purchase. The CDSC on Class A shares will be payable to Smith Barney Shearson which

compensates Smith Barney Shearson Financial Consultants upon the sale of these

shares. The CDSC will be waived in the same circumstances in which the CDSC applicable to Class B shares is waived. See "Redemption of Shares --

Contingent

Deferred Sales Charge -- Class B Shares -- Waivers of CDSC."

</TABLE>

REDUCED SALES CHARGES -- CLASS A SHARES

Reduced sales charges are available to investors who are eligible to combine their purchases of Fund shares to receive volume discounts. Investors eligible to receive volume discounts include individuals and their

23

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

PURCHASE OF SHARES (CONTINUED)

immediate families, tax-qualified employee benefit plans and trustees or other professional fiduciaries (including a bank, or an investment adviser registered

with the SEC under the Investment Advisers Act of 1940, as amended) purchasing shares for one or more trust estates or fiduciary accounts even though more than

one beneficiary is involved. The initial sales charge is also reduced to 1.0% for Smith Barney Shearson Personal Living Trust program participants for whom Smith Barney Shearson acts as trustee. Reduced sales charges on Class A shares are also available under a combined right of accumulation, under which an investor may combine the value of Class A shares already held in the Fund, in any other fund in the Company and in any of the other funds in the Smith Barney

Shearson Group of Funds listed below (except those sold without a sales charge),

along with the value of the Class A shares being purchased, to qualify for a reduced sales charge. For example, if an investor owns Class A shares of the Fund, any other funds in the Company and other funds in the Smith Barney Shearson Group of Funds that have an aggregate value of \$22,000, and makes an additional investment in Class A shares of the Fund of \$4,000, the sales charge

applicable to the additional investment would be 4.00%, rather than the 4.50% normally charged on a \$4,000 purchase. Investors interested in further information regarding reduced sales charges should contact their Smith Barney Shearson Financial Consultant.

Class A shares may be offered without any applicable sales charges to: (a) employees of Travelers and its subsidiaries, including Smith Barney Shearson, and employee benefit plans for such employees and their immediate families when

orders on their behalf are placed by such employees; (b) accounts managed by registered investment advisory subsidiaries of Travelers; (c) directors, trustees or general partners of any investment company for which Smith Barney Shearson serves as distributor; (d) any other investment company in connection with the combination of such company with the Fund by merger, acquisition of assets or otherwise; (e) shareholders who have redeemed Class A shares of the Fund (or Class A shares of any other fund in the Company or of another fund in the Smith Barney Shearson Group of Funds that are sold with a maximum 4.50%

sales charge) and who wish to reinvest their redemption proceeds in the Fund, provided the reinvestment is made within 30 days of the redemption; and (f) any client of a newly-employed Smith Barney Shearson Financial Consultant (for a period up to 90 days from the commencement of the Financial Consultant's employment with Smith Barney Shearson), on the

24

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

- -----
PURCHASE OF SHARES (CONTINUED)

condition that the purchase is made with the proceeds of the redemption of shares of a mutual fund that (i) was sponsored by the Financial Consultant's prior employer, (ii) was sold to a client by the Financial Consultant, and (iii) when purchased, such shares were sold with a sales charge or are subject to a sales charge upon redemption.

CLASS B SHARES

The public offering price for Class B shares is the per share net asset value of that Class. No initial sales charge is imposed at the time of purchase. A CDSC is imposed, however, on certain redemptions of Class B shares. See "Redemptions of Shares" which describes the CDSC in greater detail.

Smith Barney Shearson has adopted guidelines, in view of the relative sales charges and distribution fees applicable to the Classes, directing Smith Barney Shearson Financial Consultants and Introducing Brokers that all purchases of shares of \$250,000 or more should be in Class A shares. Smith Barney Shearson reserves the right to vary these guidelines at any time.

SMITH BARNEY SHEARSON 401(K) PROGRAM

Shareholders investing in the Fund may be eligible to participate in the 401(k) Program, which is generally designed to assist employers or plan sponsors in the creation and operation of retirement plans qualified under Section 401(a) of the Code. To the extent applicable, the same terms and conditions are offered to all Participating Plans in the 401(k) Program, which include 401(k) plans, other types of participant directed, tax-qualified employee benefit plans and employer-sponsored non-qualified employee benefit plans.

The Fund offers to Participating Plans three classes of shares, Class A, Class B and Class D shares, as investment alternatives under the 401(k) Program. Class A shares are available to all Participating Plans and are the only investment alternative for Participating Plans that are eligible to purchase Class A shares at net asset value without a sales charge. In addition, Class B shares are offered only to Participating Plans satisfying certain criteria with respect to the amount of the initial investment and number of employees eligible to participate in the Plan at that time. Alternatively, Class D shares are offered only to Participating Plans that

25

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

- -----
PURCHASE OF SHARES (CONTINUED)

meet other criteria relating to the amount of initial investment and number of employees eligible to participate in the Plan at that time, as described

below.

The Class A and Class B shares acquired through the 401(k) Program are subject to the same service and/or distribution fees as, but different sales charge and CDSC schedules than, the Class A and Class B shares acquired by other investors. Class D shares acquired by Participating Plans are offered at net asset value per share without any sales charges or CDSC. The Fund pays annual service and distribution fees based on the value of the average daily net assets attributable to this Class.

Once a Participating Plan has made an initial investment in the Fund, all of its subsequent investments in the Fund must be in the same Class of shares, except as otherwise described below.

CLASS A SHARES. The sales charges for Class A shares acquired by Participating Plans are as follows:

<TABLE>
<CAPTION>

AS % AMOUNT OF INVESTMENT VALUE <S>	SALES CHARGE AS % OF OFFERING PRICE <C>	SALES CHARGE OF NET ASSET <C>
Less than \$25,000	4.50%	4.71%
\$25,000 but under \$100,000	4.00%	4.17%
\$100,000 but under \$250,000	3.50%	3.63%
\$250,000 but under \$500,000	3.00%	3.09%
\$500,000 but under \$750,000	2.50%	2.56%
\$750,000 or more	0.00%	0.00%

</TABLE>

A Participating Plan will have a combined right of accumulation, under which, to qualify for a reduced sales charge, it may combine the value of Class A shares being purchased with the value of Class A shares already held in the Fund and in any of the funds listed below under "Exchange Privilege" that are sold with a sales charge.

Class A shares of the Fund may be offered without any sales charge to any Participating Plan that: (a) purchases \$750,000 or more of Class A shares of one or more funds in the Smith Barney Shearson Group of Funds under the combined right of accumulation described above; (b) has 250 or more employees eligible to participate in the Participating Plan at the time of

26

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

PURCHASE OF SHARES (CONTINUED)

initial investment in the Fund; or (c) currently holds Class A shares in the Fund that were received as a result of an exchange of Class B or Class D shares of the Fund as described below.

CLASS B SHARES. Under the 401(k) Program, Class B shares are offered to Participating Plans that: (i) purchase less than \$250,000 of Class B shares of one or more funds in the Smith Barney Shearson Group of Funds that are sold subject to a CDSC; and (ii) that have less than 100 employees eligible to participate in the Participating Plan at the time of initial investment in the Fund. Class B shares acquired by such Plans will be subject to a CDSC of 3% of redemption proceeds, if redeemed within eight years of the date the Participating Plan first purchases Class B shares. No CDSC is imposed to the extent that the net asset value of the Class B shares redeemed does not exceed (a) the current net asset value of Class B shares purchased through

reinvestment of dividends or capital gains distributions, plus (b) the current net asset value of Class B shares purchased more than eight years prior to the redemption, plus (c) increases in the net asset value of the shareholder's Class B shares above the purchase payments made during the preceding eight years. The CDSC applicable to a Participating Plan depends on the number of years since the Participating Plan first became a holder of Class B shares, unlike the CDSC applicable to other Class B shareholders, which depends on the number of years since those shareholders made the purchase payment from which the amount is being redeemed.

The CDSC will be waived on redemptions of Class B shares in connection with lump-sum or other distributions made by a Participating Plan as a result of:

(a) the retirement of an employee in the Participating Plan, (b) the termination of employment of an employee in the Participating Plan, (c) the death or disability of an employee in the Participating Plan, (d) the attainment of age 59 1/2 by an employee in the Participating Plan, (e) hardship of an employee in the Participating Plan to the extent permitted under Section 401(k) of the Code or (f) redemptions of Class B shares in connection with a loan made by the Participating Plan to an employee.

Eight years after the date a Participating Plan acquired its first Class B share, it will be offered the opportunity to exchange all of its Class B shares for Class A shares of the Fund. Such Plans will be notified of the pending exchange in writing approximately 60 days before the eighth anniversary of the purchase date and, unless the exchange has been rejected in writing, the

27

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

PURCHASE OF SHARES (CONTINUED)

exchange will occur on or about the eighth anniversary date. Once the exchange has occurred, a Participating Plan will not be eligible to acquire additional Class B shares of the Fund but instead may acquire Class A shares of the Fund. If the Participating Plan elects not to exchange all of its Class B shares at that time, each Class B share held by the Participating Plan will have the same conversion feature as Class B shares held by other investors. See "Variable Pricing System -- Class B Shares."

CLASS D SHARES. Class D shares are offered to Participating Plans that: (i) purchase less than \$750,000 but more than \$250,000 of Class D shares of one or more funds in the Smith Barney Shearson Group of Funds that offer one or more Classes of shares subject to a sales charge and/or CDSC; or (ii) have at least 100 but no more than 250 employees eligible to participate in the Participating Plan at the time of initial investment in the Fund.

Class D shares acquired by Participating Plans will be offered at net asset value per share without any sales charges or CDSC. The Fund pays annual service and distribution fees based on the value of the average daily net assets attributable to this Class. Class D shares are not subject to an automatic conversion feature as are the Class B shares. However, beginning in December 1993 and each year thereafter, Participating Plans which hold Class D shares valued at \$750,000 or more in any fund or funds in the Smith Barney Shearson Group of Funds that offer one or more Classes of shares subject to a sales charge and/or CDSC will be offered the opportunity to exchange all of their Class D shares for Class A shares. Such Plans will be notified of the pending exchange in writing within 30 days after the last business day of the calendar year, and unless the exchange offer has been rejected in writing, the exchange will occur on or about the last business day of March in the following calendar year. Once the exchange has occurred, a Participating Plan will not be eligible to acquire Class D shares of the Fund but instead may acquire Class A shares of the Fund. Any Class D shares not converted will continue to be subject to the distribution fee.

Participating Plans wishing to acquire shares of the Fund through the 401(k) Program must purchase shares from the Fund's transfer agent. For further information regarding the 401(k) Program, investors should contact their Smith Barney Shearson Financial Consultant.

28

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

REDEMPTION OF SHARES

Shareholders may redeem their shares on any day that the Fund calculates its net asset value. See "Valuation of Shares." Redemption requests received in proper form prior to the close of regular trading on the NYSE are priced at the net asset value per share determined on that day. Redemption requests received after the close of regular trading on the NYSE are priced at the net asset value next determined. If a shareholder holds shares in more than one Class, any request for redemption must specify the Class being redeemed. In the event of a failure to specify which Class or if the investor owns fewer shares of the Class than specified, the redemption request will be delayed until the Fund's transfer agent receives further instructions from Smith Barney Shearson, or if the shareholder's account is not with Smith Barney Shearson, from the shareholder directly.

The Fund normally transmits redemption proceeds for credit to the shareholder's account at Smith Barney Shearson or the Introducing Broker at no charge (other than any applicable CDSC) within seven days after receipt of a redemption request. Generally, these funds will not be invested for the shareholder's benefit without specific instruction and Smith Barney Shearson will benefit from the use of temporarily uninvested funds. A shareholder who pays for Fund shares by personal check will be credited with the proceeds of a redemption of those shares only after the purchase check has been collected, which may take up to 10 days or more. A shareholder who anticipates the need for more immediate access to his or her investment should purchase shares with federal funds, by bank wire or by certified or cashier's check.

A Fund account that is reduced by a shareholder to a value of \$500 or less may be subject to redemption by the Fund, but only after the shareholder has been given at least 30 days in which to increase the account balance to \$500 or more.

Shares may be redeemed in one of the following ways:

REDEMPTION THROUGH SMITH BARNEY SHEARSON

Redemption requests may be made through Smith Barney Shearson or an Introducing Broker. A shareholder desiring to redeem shares represented by certificates must also present such certificates to Smith Barney Shearson or the Introducing Broker endorsed for transfer (or accompanied by an endorsed stock power), signed exactly as the shares are registered.

29

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

REDEMPTION OF SHARES (CONTINUED)

Redemption requests involving shares represented by certificates will not be deemed received until such certificates are received by the Company's transfer

agent in proper form.

REDEMPTION BY MAIL

Shares held by Smith Barney Shearson as custodian must be redeemed by submitting a written request to the Smith Barney Shearson Financial Consultant. All other shares may be redeemed by submitting a written request for redemption to:

Smith Barney Shearson Investment Grade Bond Fund

Class A, B or D (please specify)
c/o The Shareholder Services Group, Inc.
P.O. Box 9134
Boston, Massachusetts 02205-9134

A written redemption request to the Company's transfer agent, TSSG, or a Smith Barney Shearson Financial Consultant must (a) state the Class and number or dollar amount of shares to be redeemed, (b) identify the shareholder's account number and (c) be signed by each registered owner exactly as the shares are registered. If the shares to be redeemed were issued in certificate form, the certificates must be endorsed for transfer (or be accompanied by an endorsed stock power) and must be submitted to TSSG together with the redemption request.

Any signature appearing on a redemption request, share certificate or stock power must be guaranteed by a domestic bank, savings and loan institution, domestic credit union, member bank of a Federal Reserve System or member firm of a national securities exchange. TSSG may require additional supporting documents for redemptions made by corporations, executors, administrators, trustees or guardians. A redemption request will not be deemed properly received until TSSG receives all required documents in proper form.

AUTOMATIC CASH WITHDRAWAL PLAN

The Fund offers shareholders an automatic cash withdrawal plan, under which shareholders who own shares with a value of at least \$10,000 may elect to receive periodic cash payments of at least \$50 monthly. Retirement plan accounts are eligible for automatic cash withdrawal plans only where the shareholder is eligible to receive qualified distributions and has an

30

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

REDEMPTION OF SHARES (CONTINUED)

account value of at least \$5,000. Any applicable CDSC will be waived on amounts withdrawn by a shareholder that do not exceed 2.0% per month of the value of shareholder's shares subject to the CDSC at the time the withdrawal plan commences. For further information regarding the automatic cash withdrawal plan, shareholders should contact their Smith Barney Shearson Financial Consultant.

CONTINGENT DEFERRED SALES CHARGE -- CLASS B SHARES

A CDSC payable to Smith Barney Shearson is imposed on any redemption of Class B shares, however effected, that causes the current value of a shareholder's account to fall below the dollar amount of all payments by the shareholder for the purchase of Class B shares ("purchase payments") during the preceding five years, except in the case of purchases by Participating Plans in the 401(k) Program, as described above. See "Purchase of Shares -- Smith Barney Shearson 401(k) Program." No charge is imposed to the extent that the net asset value of the Class B shares redeemed does not exceed (a) the current net asset value of Class B shares purchased through reinvestment of dividends or capital gains

distributions, plus (b) the current net asset value of Class B shares purchased more than five years prior to the redemption, plus (c) increases in the net asset value of the shareholder's Class B shares above the purchase payments made during the preceding five years.

In circumstances in which the CDSC is imposed, the amount of the charge will depend on the number of years since the shareholder made the purchase payment from which the amount is being redeemed, except in the case of purchases through Participating Plans in the 401(k) Program, which are subject to a different CDSC. See "Purchase of Shares -- Smith Barney Shearson 401(k) Program." Solely for purposes of determining the number of years since a purchase payment, all purchase payments during a month will be aggregated and deemed to have been made on the last day of the

31

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

REDEMPTION OF SHARES (CONTINUED)

preceding Smith Barney Shearson statement month. The following table sets forth the rates of the charge for redemptions of Class B shares by shareholders other than Participating Plans:

<TABLE>
<CAPTION>
YEAR SINCE PURCHASE PAYMENT WAS MADE
CDSC
<S> <C>

First
4.50%
Second
4.00%
Third
3.00%
Fourth
2.00%
Fifth
1.00%
Sixth
0.00%
Seventh
0.00%
Eighth
0.00%

</TABLE>

Class B shares will automatically convert to Class A shares approximately eight years after the date on which they were purchased and thereafter will no longer be subject to a distribution fee. The first of these conversions will commence on or about September 30, 1994. See "Variable Pricing System-- Class B Shares."

The purchase payment from which a redemption of Class B shares is made is assumed to be the earliest purchase payment from which a full redemption has not already been effected. In the case of redemptions of Class B shares of other funds in the Company or of other funds in the Smith Barney Shearson Group of Funds issued in exchange for Class B shares of the Fund, the term "purchase payments" refers to the purchase payments for the shares given in exchange. In the event of an exchange of Class B shares of funds with differing CDSC schedules, the shares will be, in all cases, subject to the higher CDSC schedule. See "Exchange Privilege."

WAIVERS OF CDSC. The CDSC will be waived on: (a) exchanges (see "Exchange Privilege"), (b) automatic cash withdrawals in amounts that do not exceed 2.00% per month of the value of the shareholder's Class B shares at the time the withdrawal plan commences (see above); (c) redemptions of shares following the death or disability of the shareholder; (d) redemption of shares in connection with certain post-retirement distributions and withdrawals from retirement plans or IRAs; (e) involuntary redemptions; (f) redemption proceeds from other funds in the Smith Barney Shearson Group of Funds that are reinvested within 30 days of the redemption;

32

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

REDEMPTION OF SHARES (CONTINUED)

(g) redemptions of shares in connection with a combination of any investment company with the Fund by merger, acquisition of assets or otherwise, and (h) certain redemptions of shares of the Fund in connection with lump-sum or other distributions made by a Participating Plan. See "Purchase of Shares -- Smith Barney Shearson 401(k) Program."

VALUATION OF SHARES

Each Class' net asset value per share is calculated separately on each day, Monday through Friday, except on days when the NYSE is closed. The NYSE currently is scheduled to be closed on New Year's Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving and Christmas and on the preceding Friday or subsequent Monday when one of these holidays falls on a Saturday or Sunday, respectively.

The net asset value per share of a given Class is determined as of the later of the close of regular trading on the NYSE (currently 4:00 p.m., New York time) or the Chicago Board Options Exchange (currently 4:15 p.m., New York time) and is computed by dividing the value of the Fund's net assets attributable to that Class by the total number of shares of that Class outstanding.

A security that is primarily traded on a United States or foreign stock exchange is valued at the last sale price on that exchange or, if there were no sales during the day, at the current quoted bid price. 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. Fund securities which are primarily traded on foreign exchanges may be valued with the assistance of a pricing service and are generally valued at the preceding closing values of such securities on their respective exchanges, except that when an occurrence subsequent to the time a foreign security is valued is likely to have changed such value, then the fair value of those securities will be determined by consideration of other factors by or under the direction of the Board of Directors. Unlisted foreign securities are valued at the mean between the last available bid and offer price prior to the time of valuation. U.S. over-the-counter securities will be

33

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

VALUATION OF SHARES (CONTINUED)

valued on the basis of the bid price at the close of business on each day. 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. 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 approved by the Board of Directors. Any assets or liabilities initially expressed in terms of foreign currencies will be converted into U.S. dollar values at the mean between the bid and offered quotations of such currencies against U.S. dollars as last quoted by any recognized dealer.

EXCHANGE PRIVILEGE

Shares of each Class may be exchanged for shares of the same Class in the following funds in the Smith Barney Shearson Group of Funds, to the extent shares are offered for sale in the shareholder's state of residence:

<TABLE>
<CAPTION>
EXCHANGEABLE
WITH SHARES
OF THE
FOLLOWING
CLASSES: FUND NAME AND INVESTMENT OBJECTIVE:
<S> <C>

<S>	<C>
	MUNICIPAL BOND FUNDS
A	SMITH BARNEY SHEARSON LIMITED MATURITY MUNICIPALS FUND, an intermediate-term municipal bond fund investing in investment grade obligations.
A, B	SMITH BARNEY SHEARSON MANAGED MUNICIPALS FUND INC., an intermediate- and long-term municipal bond fund.
A, B	SMITH BARNEY SHEARSON TAX-EXEMPT INCOME FUND, an intermediate- and long-term municipal bond fund investing in medium and lower rated securities.
A, B	SMITH BARNEY SHEARSON ARIZONA MUNICIPALS FUND INC., an intermediate- and long-term municipal bond fund designed for Arizona investors.

</TABLE>

34

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

EXCHANGE PRIVILEGE (CONTINUED)

<TABLE>
<CAPTION>
EXCHANGEABLE
WITH SHARES
OF THE
FOLLOWING
CLASSES: FUND NAME AND INVESTMENT OBJECTIVE:

<S>	<C>
A	SMITH BARNEY SHEARSON INTERMEDIATE MATURITY CALIFORNIA MUNICIPALS FUND, an intermediate-term municipal bond fund designed for California investors.
A, B	SMITH BARNEY SHEARSON CALIFORNIA MUNICIPALS FUND INC., an intermediate- and long-term municipal bond fund designed for California investors.
A, B	SMITH BARNEY SHEARSON FLORIDA MUNICIPALS FUND, an intermediate- and long-term municipal bond fund designed for Florida investors.
A, B	SMITH BARNEY SHEARSON MASSACHUSETTS MUNICIPALS FUND, an intermediate- and long-term municipal bond fund designed for Massachusetts investors.
A, B	SMITH BARNEY SHEARSON NEW JERSEY MUNICIPALS FUND INC., an intermediate- and long-term municipal bond fund designed for New Jersey investors.
A	SMITH BARNEY SHEARSON INTERMEDIATE MATURITY NEW YORK MUNICIPALS FUND, an intermediate-term bond fund designed for New York investors.
A, B	SMITH BARNEY SHEARSON NEW YORK MUNICIPALS FUND INC., an intermediate- and long-term municipal bond fund designed for New York investors.

A, B, D+
FUND, INCOME FUNDS
SMITH BARNEY SHEARSON ADJUSTABLE RATE GOVERNMENT INCOME

seeks high current income while limiting the degree of fluctuation in net asset value resulting from movement in interest rates.

</TABLE>

35

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

EXCHANGE PRIVILEGE (CONTINUED)

<TABLE>
<CAPTION>
EXCHANGEABLE
WITH SHARES
OF THE
FOLLOWING
CLASSES: FUND NAME AND INVESTMENT OBJECTIVE:

<S> <C>
A, B SMITH BARNEY SHEARSON WORLDWIDE PRIME ASSETS FUND, invests
in a portfolio of high quality debt securities that may be
denominated in U.S. dollars or selected foreign currencies
and that have remaining maturities of not more than one year.
A, B SMITH BARNEY SHEARSON SHORT-TERM WORLD INCOME FUND, invests
in high quality, short-term debt securities denominated in U.S.
dollars as well as a range of foreign currencies.
A SMITH BARNEY SHEARSON LIMITED MATURITY TREASURY FUND,
invests exclusively in securities issued by the U.S. Treasury and
other U.S. government securities.
A, B, D+ SMITH BARNEY SHEARSON DIVERSIFIED STRATEGIC INCOME FUND,
seeks high current income primarily by allocating and reallocating
its assets among various types of fixed-income securities.
A, B, D+ SMITH BARNEY SHEARSON MANAGED GOVERNMENTS FUND INC., invests
in obligations issued or guaranteed by the United States
government and its agencies and instrumentalities with
emphasis on mortgage-backed government securities.
A, B, D+ SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND, seeks a
high current return by investing in U.S. government securities.
A, B, D+ SMITH BARNEY SHEARSON HIGH INCOME FUND, seeks high current
income by investing in high-yielding corporate bonds,
debentures and notes.
A, B, D+ SMITH BARNEY SHEARSON GLOBAL BOND FUND, seeks current income
and capital appreciation by investing in bonds, debentures
and notes of foreign and domestic issuers.

</TABLE>

36

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

EXCHANGE PRIVILEGE (CONTINUED)

<TABLE>
<CAPTION>
EXCHANGEABLE
WITH SHARES
OF THE
FOLLOWING
CLASSES: FUND NAME AND INVESTMENT OBJECTIVE:

<S> <C>
GROWTH AND INCOME FUNDS
A*, B*, D+ SMITH BARNEY SHEARSON CONVERTIBLE FUND, seeks current income
and capital appreciation by investing in convertible
securities.

A*, B*, D+	SMITH BARNEY SHEARSON UTILITIES FUND, seeks total return by investing in equity and debt securities of utilities companies.
A*, B*, D+	SMITH BARNEY SHEARSON STRATEGIC INVESTORS FUND, seeks high total return consisting of current income and capital appreciation by investing in a combination of equity, fixed-income and money market securities.
A*, B*, D+	SMITH BARNEY SHEARSON PREMIUM TOTAL RETURN FUND, seeks total return by investing in dividend-paying common stocks.
A*, B*, D+ and	SMITH BARNEY SHEARSON GROWTH AND INCOME FUND, seeks income long-term capital growth by investing in income producing equity securities.
A*, B*, D+ term	GROWTH FUNDS SMITH BARNEY SHEARSON APPRECIATION FUND INC., seeks long-term appreciation of capital.
A*, B*, D+	SMITH BARNEY SHEARSON FUNDAMENTAL VALUE FUND INC., seeks long-term capital growth with current income as a secondary objective.
A*, B*, D+	SMITH BARNEY SHEARSON SECTOR ANALYSIS FUND, seeks capital appreciation by following a sector strategy.
A*, B*, D+	SMITH BARNEY SHEARSON TELECOMMUNICATIONS GROWTH FUND, seeks capital appreciation, with income as a secondary consideration.

</TABLE>

37

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

EXCHANGE PRIVILEGE (CONTINUED)

<TABLE>
<CAPTION>
EXCHANGEABLE
WITH SHARES
OF THE
FOLLOWING
CLASSES:

FUND NAME AND INVESTMENT OBJECTIVE:

<S>	<C>
A*, B*, D+	SMITH BARNEY SHEARSON AGGRESSIVE GROWTH FUND INC., seeks above-average capital growth.
A*, B*, D+	SMITH BARNEY SHEARSON SPECIAL EQUITIES FUND, seeks long-term capital appreciation by investing in equity securities primarily of emerging growth companies.
A*, B*, D+	SMITH BARNEY SHEARSON GLOBAL OPPORTUNITIES FUND, seeks long-term capital growth by investing principally in the common stocks of foreign and domestic issuers.
A*, B*, D+	SMITH BARNEY SHEARSON EUROPEAN FUND, seeks long-term capital appreciation by investing primarily in securities of issuers based in European countries.
A*, B*, D+ INC.,	SMITH BARNEY SHEARSON PRECIOUS METALS AND MINERALS FUND
in	seeks long-term capital appreciation by investing primarily in precious metal- and mineral-related companies and gold bullion.
**	MONEY MARKET FUNDS SMITH BARNEY SHEARSON MONEY MARKET FUND, invests in a diversified portfolio of high quality money market instruments.
***	SMITH BARNEY SHEARSON DAILY DIVIDEND FUND, invests in a variety of money market instruments.
***	SMITH BARNEY SHEARSON GOVERNMENT AND AGENCIES FUND, invests
in	United States government and agency securities.
++	SMITH BARNEY SHEARSON MUNICIPAL MONEY MARKET FUND, invests
in	short-term high quality municipal obligations.
++	SMITH BARNEY SHEARSON CALIFORNIA MUNICIPAL MONEY MARKET
FUND,	investors invests in short-term, high quality California municipal obligations.

</TABLE>

38

EXCHANGE PRIVILEGE (CONTINUED)

<TABLE>
<CAPTION>
EXCHANGEABLE
WITH SHARES
OF THE
FOLLOWING
CLASSES: FUND NAME AND INVESTMENT OBJECTIVE:

--
<S>
++ <C>
 SMITH BARNEY SHEARSON NEW YORK MUNICIPAL MONEY MARKET FUND,
 invests in short-term, high quality New York municipal
 obligations.

<FN>
*Shares of this fund are subject to a higher sales charge or CDSC than that
applicable to the Fund's shares.
**Shares of this money market fund may be exchanged for Class B shares of
the
Fund.
***Shares of this money market fund may be exchanged for Class A or Class D
shares of the Fund.
+Class D shares of this Fund may be acquired only by Participating Plans.
++Shares of this money market fund may be exchanged for Class A shares of
the
Fund.
</TABLE>

TAX EFFECT. The exchange of shares of one fund for shares of another fund is
treated for federal income tax purposes as a sale of the shares given in
exchange by the shareholder. Therefore, an exchanging shareholder may realize
a
taxable gain or loss in connection with an exchange.

CLASS A EXCHANGES. Class A shareholders of the Fund and other funds in the
Smith Barney Shearson Group of Funds sold without a sales charge or with a
maximum sales charge of 4.50% or less will be subject to the appropriate
"sales
charge differential" upon the exchange of their shares for Class A shares of
funds sold with a higher sales charge. The "sales charge differential" is
limited to a percentage rate no greater than the excess of the sales charge
rate
applicable to purchases of shares of the mutual fund being acquired in the
exchange over the sum of the rates of all sales charges previously paid on the
mutual fund shares relinquished in the exchange and on any predecessor of
those
shares. For purposes of the exchange privilege, shares obtained through
automatic reinvestment of dividends, as described below, are treated as having
paid the same sales charges applicable to the shares on which the dividends
were
paid. However, except in the case of the 401(k) Program, if no sales charge
was
imposed upon the initial purchase of the shares, any shares obtained through
automatic reinvestment will be subject to a sales charge differential upon
exchange.

CLASS B EXCHANGES. Class B shareholders of the Fund who wish to exchange all
or a portion of their Class B shares for Class B shares of any of the funds
identified above may do so without the imposition of an exchange

EXCHANGE PRIVILEGE (CONTINUED)

fee. In the event Class B shareholders of the Fund wish to exchange all or a
portion of their shares for Class B shares in any of the funds listed above
imposing a CDSC higher than that imposed by the Fund, the exchanged Class B
shares will be subject to the higher applicable CDSC. Upon an exchange, the

new
Class B shares will be deemed to have been purchased on the same date as the
Class B shares of the Fund which have been exchanged.

CLASS D EXCHANGES. Class D shares of the Fund will be exchangeable for Class
D
shares of the funds listed above. Class D shareholders who wish to exchange
all
or part of their Class D shares in any of these funds may do so without
charge.
Class D shares may be acquired only by Participating Plans.

ADDITIONAL INFORMATION REGARDING THE EXCHANGE PRIVILEGE. Shareholders
exercising the exchange privilege with other funds in the Company or any other
fund in the Smith Barney Shearson Group of Funds should review the prospectus
relating to the exchanged-for shares carefully prior to making an exchange.
Smith Barney Shearson reserves the right to reject any exchange request and
the
exchange privilege may be modified or terminated at any time after written
notice to shareholders.

Although the exchange privilege is an important benefit, excessive exchange
transactions can be detrimental to the Fund's performance and its
shareholders.
The Fund's investment adviser may determine that a pattern of frequent
exchanges
is excessive and contrary to the best interests of the Fund's other
shareholders. In this event, the Fund's investment adviser will notify Smith
Barney Shearson, and Smith Barney Shearson may, at its discretion, decide to
limit additional purchases and/or exchanges by the shareholder. Upon such a
determination, Smith Barney Shearson will provide notice in writing or by
telephone to the shareholder at least 15 days prior to suspending the exchange
privilege and during the 15-day period the shareholder will be required to (a)
redeem his or her shares in the Fund or (b) remain invested in the Fund or
exchange into any of the other Smith Barney Shearson funds ordinarily
available,
which position the shareholder would expect to maintain for a significant
period
of time. All relevant factors will be considered in determining what
constitutes
an abusive pattern of exchanges.

40

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

EXCHANGE PRIVILEGE (CONTINUED)

For further information regarding the exchange privilege or to obtain a
current prospectus for the other funds in the Company or any other fund in the
Smith Barney Shearson Group of Funds, shareholders should contact their Smith
Barney Shearson Financial Consultant.

DISTRIBUTOR

Smith Barney Shearson is located at 388 Greenwich Street, New York, New York
10013, and serves as distributor of the Fund's shares. Smith Barney Shearson
is
a wholly owned subsidiary of Smith Barney Shearson Holdings Inc., which is in
turn a wholly owned subsidiary of Travelers. 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 average daily net assets
attributable
to the respective Class. 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 average daily net assets attributable to that Class. The fees
are authorized pursuant to a distribution and service plan (the "Plan")
adopted
by the Fund pursuant to Rule 12b-1 under the 1940 Act and are used by Smith
Barney Shearson to pay its Financial Consultants for servicing shareholder

accounts and in the case of Class B and Class D shares, to cover expenses primarily intended to result in the sale of those shares of the Fund. These expenses include: costs of printing and distributing the Fund's Prospectus, Statement of Additional Information and sales literature to prospective investors; an allocation of overhead and other Smith Barney Shearson's branch office distribution-related expenses; payments to and expenses of Smith Barney Shearson Financial Consultants and other persons who provide support services in connection with the distribution of the shares; and accruals for interest on the amount of the foregoing expenses that exceed distribution fees and, in the case of Class B shares, the CDSC received by Smith Barney Shearson. The payments to Smith Barney Shearson Financial Consultants for selling shares of a class include a commission paid at the time of sale and a continuing fee for servicing shareholder accounts for as long as a shareholder remains a holder of that Class. The service fee is credited at the rate of 0.25% of the value of the average daily net assets of the Class that

41

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

DISTRIBUTOR (CONTINUED)

remain invested in the Fund. Smith Barney Shearson Financial Consultants may receive different levels of compensation for selling one Class of shares over another.

Although it is anticipated that some promotional activities will be conducted on a Company-wide basis, payments made by a fund under the Plan generally will be used to finance the distribution of shares of the Fund. Expenses incurred in connection with Company-wide activities may be allocated pro-rata among all funds of the Company on the basis of their relative net assets.

Payments under the Plan are not tied exclusively to the distribution and shareholder service expenses actually incurred by Smith Barney Shearson, and the payments may exceed distribution expenses actually incurred. The Company's Board of Directors evaluates the appropriateness of the Plan and its payment terms on a continuing basis and in doing so will consider all relevant factors, including expenses borne by Smith Barney Shearson and the amount received under the Plan and the proceeds of the CDSC and sales charges received.

DIVIDENDS, DISTRIBUTIONS AND TAXES

DIVIDENDS AND DISTRIBUTIONS

The Fund will be treated separately from the Company's other funds in determining the amount of dividends from net investment income and distributions of capital gains payable to shareholders. Dividends and any distributions automatically are reinvested in additional shares at net asset value unless the shareholder has elected to receive distributions in cash. Dividends and distributions are treated the same for tax purposes whether taken in cash or reinvested in additional shares. The Fund declares dividends daily consisting of estimated daily net investment income, and pays dividends monthly. Any net realized long-term capital gains, after utilization of capital loss carryforwards, will be distributed at least annually. Net realized short-term capital gains may be paid with the distribution of dividends from net investment income. The per share dividends and distributions on Class A shares will be higher than the per share dividends

42

DIVIDENDS, DISTRIBUTIONS AND TAXES (CONTINUED)

and distributions on Class B and Class D shares as a result of lower distribution and transfer agency fees applicable to the Class A shares. See "Variable Pricing System." In addition, as determined by the Board of Directors, distributions of the Fund may include a return of capital. Shareholders will be notified of the amount of any distribution that represents a return of capital. In order to comply with a calendar year distribution requirement under the Code, it may be necessary for the Fund to make distributions at times other than those set forth above.

TAXES

The Fund will be treated as a separate taxpayer with the result that, for federal tax purposes, the amount of investment income and capital gains earned will be determined on a fund-by-fund basis, rather than on a Company-wide basis.

The Fund intends to continue to qualify as a "regulated investment company" under Subchapter M of the Code. In any taxable year in which the Fund so qualifies and distributes at least 90% of its investment company taxable income (which includes, among other items, dividends, interest and the excess of any net short-term capital gains over net long-term capital losses), the Fund (but not its shareholders) generally will be relieved of federal income tax on the investment company taxable income and net realized capital gains (the excess of net long-term capital gains over net short-term capital losses), if any, distributed to shareholders. In order to qualify as a regulated investment company, the Fund will be required to meet various Code requirements.

Amounts not distributed on a timely basis in accordance with a calendar year distribution requirement are subject to a nondeductible 4% excise tax. To prevent application of the excise tax, the Fund intends to make its distributions in accordance with this requirement.

Distributions of any investment company taxable income are taxable to shareholders as ordinary income. Distributions of any net capital gains designated by the Fund as capital gain dividends are taxable to shareholders as long-term capital gain regardless of the length of time a shareholder may have held shares of the Fund.

Dividends (including capital gain dividends) declared by the Fund in October, November or December of any calendar year to shareholders of record on a date in such a month will be deemed to have been received by

43

DIVIDENDS, DISTRIBUTIONS AND TAXES (CONTINUED)

shareholders on December 31 of that calendar year, provided that the dividend is actually paid by the Fund during January of the following calendar year.

Upon the disposition of shares of the Fund (whether by redemption, sale or exchange), a shareholder generally will realize a taxable gain or loss. Such gain or loss generally will be a capital gain or loss if the shares are capital assets in the shareholder's hands, and generally will be long-term or short-term depending upon the shareholder's holding period for the shares. Any loss realized by a shareholder on disposition of Fund shares held by the shareholder for six months or less will be treated as long-term capital loss to the extent of any distributions of capital gains dividends received by the shareholder with respect to such shares.

Shareholders will be notified annually about the amounts of dividends and distributions, including the amounts (if any) for that year which have been designated as capital gain dividends. Dividends and distributions, and gains realized upon a disposition of Fund shares, may also be subject to state, local or foreign taxes depending on each shareholder's particular situation. Dividends, if any, consisting of interest from obligations of the U.S. government and certain of its agencies and instrumentalities may be exempt from all state and local income taxes. Investors should consult their tax advisors for specific information on the tax consequences of particular types of distributions.

THE FUND'S PERFORMANCE

YIELD

From time to time, the Fund may advertise its 30-day "yield" for each Class of shares. The yield of a Class refers to the income generated by an investment in such Class over the 30-day period identified in the advertisement, and is computed by dividing the net investment income per share earned by the Class during the period by the net asset value per share on the last day of the period. This income is "annualized" by assuming that the

44

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

THE FUND'S PERFORMANCE (CONTINUED)

amount of income is generated each month over a one-year period and is compounded semi-annually. The annualized income is then shown as a percentage of the net asset value.

The Fund's yield for Class A, Class B and Class D shares for the 30-day period ended December 31, 1993, were 6.50%, 6.29% and 6.30%, respectively.

TOTAL RETURN

From time to time, the Fund may advertise the "average annual total return" over various periods of time for each Class of shares. Such total return figures show the average percentage change in value of an investment in the Class from the beginning date of the measuring period to the end of the measuring period. These figures reflect changes in the price of the shares and assume that any income dividends and/or capital gains distributions made by the Fund during the period were reinvested in shares of the same Class. Class A total return figures include the maximum initial 4.50% sales charge and Class B total return figures include any applicable CDSC. These figures also take into account the service and distribution fees, if any, payable with respect to the Classes.

Total return figures will be given for recent one-, five- and ten-year periods or the life of a Class to the extent it has not been in existence for any such period, and may be given for other periods as well, such as on a year-by-year basis. When considering average annual total return figures for periods longer than one year, it is important to note that the total return for any one year in the period might have been greater or less than the average for the entire period. "Aggregate" total return figures may be used for various periods, representing the cumulative change in value of an investment in the shares for the specific period (again reflecting changes in the Fund's share prices and assuming reinvestment of dividends and distributions). Aggregate total returns may be calculated either with or without the effect of the maximum 4.50% sales charge or any applicable CDSC and may be shown by means of schedules, charts or graphs, and may indicate subtotals of the various components of total return (I.E., change in the value of initial investment, income dividends, and capital gains distributions). Because of the differences in sales charges and

distribution and other fees, the total returns for each of the Classes will differ.

45

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

THE FUND'S PERFORMANCE (CONTINUED)

In reports or other communications to shareholders or in advertising material, performance of a Class may be compared with that of other mutual funds or classes of shares of other funds listed in the rankings prepared by Lipper Analytical Services, Inc. or similar independent services that monitor the performance of mutual funds or with other appropriate indices of investment securities such as the Standard & Poor's 500 Composite Stock Price Index, the Dow Jones Industrial Average and Morgan Stanley Capital International World Index. The performance information may also include evaluations of the Fund published by nationally recognized financial publications such as BARRON'S, BUSINESS WEEK, CDA INVESTMENT TECHNOLOGIES, INC., FORBES, FORTUNE, INSTITUTIONAL INVESTOR, INVESTORS DAILY, KIPLINGER'S PERSONAL FINANCE MAGAZINE, MONEY, MORNINGSTAR MUTUAL FUND VALUES, THE NEW YORK TIMES, THE WALL STREET JOURNAL and USA TODAY. It is important to note that yield and total return figures are based on historical earnings and are not intended to indicate future performance. To the extent any advertisement or sales literature of the Fund describes the expenses or performance of a Class, it will also disclose such information for the other Classes. For a description of the methods used to determine total return for the Fund, see the Statement of Additional Information. Performance figures may be obtained from any Smith Barney Shearson Financial Consultant.

ADDITIONAL INFORMATION

The Company was organized as a Maryland corporation pursuant to Articles of Incorporation dated September 29, 1981, as amended from time to time. The Company commenced operations on January 4, 1982 under the name "Hutton Investment Series Inc". The Company's corporate name was changed to "SLH Investment Portfolios Inc." on December 29, 1988. On October 23, 1992, the Board of Directors of the Company authorized the Company to do business under the name of "Shearson Lehman Brothers Investment Funds" and also authorized a change in the name of the Fund to Investment Grade Bond Fund. On July 30, 1993, the Company's corporate name was changed to its current name "Smith Barney Shearson Investment Funds Inc." and the Fund's name was changed to "Smith Barney Shearson Investment Grade Bond Fund."

46

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

ADDITIONAL INFORMATION (CONTINUED)

The Fund offers shares of common stock currently classified into three Classes, A, B and D, with a par value of \$.001 per share. Each Class of shares has the same rights, privileges and preferences, except with respect to: (a) the designation of each Class; (b) the effect of the respective sales charges, if any, for each Class; (c) the distribution and/or service fees borne by each Class; (d) the expenses allocable exclusively to each Class; (e) voting rights on matters exclusively affecting a single Class; (f) the exchange privilege of each Class; and (g) the conversion feature of the Class B shares. The Board of Directors does not anticipate that there will be any conflicts among the interests of the holders of the different Classes of shares of the Fund. The Directors, on an ongoing basis, will consider whether any such conflict exists and, if so, take appropriate action.

Boston Safe, a wholly owned subsidiary of TBC, is located at One Boston

Place,
Boston, Massachusetts 02108, and serves as custodian of the Company's
investments.

TSSG, a subsidiary of FDC, is located at Exchange Place, Boston,
Massachusetts
02109, and serves as the Company's transfer agent.

The Company does not hold annual shareholder meetings. There normally will
be
no meeting of shareholders for the purpose of electing Directors unless and
until such time as less than a majority of the Directors holding office have
been elected by shareholders. The Directors will call a meeting for any
purpose
upon written request of shareholders holding at least 10% of the Company's
outstanding shares. When matters are submitted for shareholder vote,
shareholders of each Class will have one vote for each full share owned and a
proportionate, fractional vote for any fractional share held of that Class.
Generally, shares of the Company will be voted on a Company-wide basis on all
matters except matters affecting only the interests of one Fund or one Class
of
shares.

The Fund sends its shareholders a semi-annual report and an audited annual
report, each of which includes a list of the investment securities held by the
Fund at the end of the reporting period. In an effort to reduce the Fund's
printing and mailing costs, the Fund plans to consolidate the mailing of its
semi-annual and annual reports by household. This consolidation means that a
household having multiple accounts with the identical address of record will
receive a single copy of each report. In addition, the Fund also plans to
consolidate the mailing of its Prospectuses so that a shareholder

47

SMITH BARNEY SHEARSON
INVESTMENT GRADE BOND FUND

ADDITIONAL INFORMATION (CONTINUED)

having multiple accounts (I.E., individual, IRA and/or Self-Employed
Retirement
Plan accounts) will receive a single Prospectus annually. When the Fund's
annual
reports are combined with the Prospectus into a single document, the Fund will
mail the combined document to each shareholder to comply with legal
requirements. Any shareholder who does not want this consolidation to apply to
his or her account should contact his/her Smith Barney Shearson Financial
Consultant or the Company's transfer agent.

NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY
REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS, THE STATEMENT
OF
ADDITIONAL INFORMATION AND/OR IN THE FUND'S OFFICIAL SALES LITERATURE IN
CONNECTION WITH THE OFFERING OF THE FUND'S SHARES AND, IF GIVEN OR MADE, SUCH
OTHER INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN
AUTHORIZED BY THE COMPANY. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER IN ANY
STATE IN WHICH, OR TO ANY PERSON TO WHOM, SUCH OFFER MAY NOT LAWFULLY BE MADE.

48

SMITH BARNEY SHEARSON

INVESTMENT
GRADE BOND
FUND
Two World Trade Center
New York, New York 10048

Fund 104, 234, 242

FD0233 B4

PART A

SMITH BARNEY SHEARSON INVESTMENT FUNDS INC.

PROSPECTUS

SMITH BARNEY SHEARSON SPECIAL EQUITIES FUND

MARCH 1, 1994
SMITH BARNEY SHEARSON
SPECIAL
EQUITIES
FUND
PROSPECTUS BEGINS
ON PAGE ONE.
[LOGO]

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

PROSPECTUS

March 1, 1994

Two World Trade Center
New York, New York 10048
(212) 720-9218

Smith Barney Shearson Special Equities Fund (the "Fund") has an investment objective of long-term capital appreciation by investing in a diversified managed portfolio of common stocks or securities convertible into or exchangeable for common stocks, primarily of secondary growth companies as identified by the Fund's investment adviser.

The Fund is one of a number of funds, each having distinct investment objectives and policies, making up Smith Barney Shearson Investment Funds Inc. (the "Company"). The Company is an open-end management investment company commonly referred to as a mutual fund.

This Prospectus briefly sets forth certain information about the Company and the Fund, including sales charges, distribution and service fees and expenses, that prospective investors will find helpful in making an investment decision. Investors are encouraged to read this Prospectus carefully and to retain it for future reference. Shares of other funds offered by the Company are described in separate Prospectuses that may be obtained by calling the Company at the telephone number set forth above or by contacting any Smith Barney Shearson Financial Consultant. The net asset value per share of the Fund will fluctuate in response to changes in market conditions and other factors.

Additional information about the Company and the Fund is contained in a Statement of Additional Information dated March 1, 1994, as amended or supplemented from time to time, that is available upon request and without charge by calling or writing the Company at the telephone number or address set forth above or by contacting any Smith Barney Shearson Financial Consultant. The Statement of Additional Information has been filed with the Securities and Exchange Commission (the "SEC") and is incorporated by reference into this Prospectus in its entirety.

SMITH BARNEY SHEARSON INC.
Distributor

GREENWICH STREET ADVISORS
Investment Adviser

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

1

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

TABLE OF CONTENTS

<S>	<C>
PROSPECTUS SUMMARY	3
FINANCIAL HIGHLIGHTS	9
VARIABLE PRICING SYSTEM	13
INVESTMENT OBJECTIVE AND MANAGEMENT POLICIES	14
MANAGEMENT OF THE COMPANY AND THE FUND	19
PURCHASE OF SHARES	20
REDEMPTION OF SHARES	28
VALUATION OF SHARES	32
EXCHANGE PRIVILEGE	33
DISTRIBUTOR	39
DIVIDENDS, DISTRIBUTIONS AND TAXES	41
THE FUND'S PERFORMANCE	43
ADDITIONAL INFORMATION	44

</TABLE>

2

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

PROSPECTUS SUMMARY

THE FOLLOWING SUMMARY IS QUALIFIED IN ITS ENTIRETY BY DETAILED INFORMATION APPEARING ELSEWHERE IN THIS PROSPECTUS AND IN THE STATEMENT OF ADDITIONAL INFORMATION. CROSS REFERENCES IN THIS SUMMARY ARE TO HEADINGS IN THE PROSPECTUS.

SEE THE "TABLE OF CONTENTS."

BENEFITS TO INVESTORS THE FUND OFFERS INVESTORS SEVERAL IMPORTANT BENEFITS:

- - Investment liquidity through convenient purchase and redemption procedures.
- - A convenient way to invest without the administrative and recordkeeping burdens normally associated with the direct ownership of securities.
- - Different methods for purchasing shares that allow investment flexibility and a wider range of investment alternatives.
- - An automatic dividend reinvestment feature, plus an exchange privilege within the same class of shares of the other funds in the Company and of most other funds in the Smith Barney Shearson Group of Funds.

INVESTMENT OBJECTIVE The Fund is an open-end diversified management investment company that seeks long-term capital appreciation by investing in equity securities consisting of common stocks or securities which are convertible into or exchangeable for such stocks, including warrants, which the investment

adviser believes to have superior appreciation potential. See "Investment Objective and Management Policies."

VARIABLE PRICING SYSTEM The Fund offers several classes of shares ("Classes") to investors designed to provide them with the flexibility of selecting an investment best suited to their needs. The general public is offered two classes of shares, Class A shares and Class B shares, which differ principally in terms of the sales charges and rates of expenses to which they are subject. In addition, a third class -- Class D shares -- is offered only to plans participating in the Smith Barney Shearson 401(k) Program (the "401(k) Program"). See "Variable Pricing System" and "Purchase of Shares -- Smith Barney Shearson 401(k) Program."

3

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

PROSPECTUS SUMMARY (CONTINUED)

CLASS A SHARES These shares are offered at net asset value per share plus a maximum initial sales charge of 5.00%. The Fund pays an annual service fee of 0.25% of the value of average daily net assets of this Class. See "Purchase of Shares."

CLASS B SHARES These shares are offered at net asset value per share subject to a maximum contingent deferred sales charge ("CDSC") of 5.00% of redemption proceeds, declining by 1.00% each year after the date of purchase to zero. The Fund pays an annual service fee of 0.25% and an annual distribution fee of 0.75% of the value of average daily net assets of this Class. See "Purchase of Shares."

CLASS B CONVERSION FEATURE Class B shares will convert automatically to Class A shares, based on relative net asset value, approximately eight years after the date of original purchase. Upon conversion, these shares will no longer be subject to an annual distribution fee. The first of these conversions will commence on or about September 30, 1994. See "Variable Pricing System -- Class B Shares."

SMITH BARNEY SHEARSON 401(K) PROGRAM Investors may be eligible to participate in the 401(k) Program, which is generally designed to assist employers or plan sponsors in the creation and operation of retirement plans under Section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code"), as well as other types of participant directed, tax qualified employee benefit plans and employer sponsored non-qualified employee benefit plans (collectively, "Participating Plans"). Class A, Class B and Class D shares are available as investment alternatives for Participating Plans. Class A and Class B shares acquired through the 401(k) Program are subject to the same service and/or distribution fees as, but different sales charges and CDSC schedules than, the Class A and Class B shares acquired by other investors. Class D shares acquired by Participating Plans are offered at net asset value per share without any sales charges or CDSC. The Fund pays annual service and distribution fees based on the value of average daily net assets attributable to this Class. See "Purchase of Shares -- Smith Barney Shearson 401(k) Program."

PURCHASE OF SHARES Shares may be purchased through the Company's distributor, Smith Barney Shearson Inc. ("Smith Barney Shearson"), or a broker that clears securities transactions through Smith Barney Shearson on a fully disclosed basis (an "Introducing Broker"). Direct purchases of certain

4

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

PROSPECTUS SUMMARY (CONTINUED)

retirement plans may be made through The Shareholder Services Group, Inc. ("TSSG"), the Company's transfer agent, a subsidiary of First Data Corporation ("FDC"). Smith Barney Shearson recommends that, in most cases, single investments of \$250,000 or more should be in Class A shares. See "Purchase of Shares."

INVESTMENT MINIMUMS Investors are subject to a minimum initial investment requirement of \$1,000 and a minimum subsequent investment requirement of \$200. However, for Individual Retirement Accounts ("IRAs") and Self-Employed Retirement Plans, the minimum initial investment requirement is \$250 and the minimum subsequent investment requirement is \$100 and for certain qualified retirement plans, the minimum initial and subsequent investment requirement is \$25. See "Purchase of Shares."

SYSTEMATIC INVESTMENT PLAN The Fund also offers shareholders a Systematic Investment Plan under which they may authorize the automatic placement of a purchase order each month or quarter for Fund shares in an amount not less than \$100. See "Purchase of Shares."

REDEMPTION OF SHARES Shares may be redeemed on each day the New York Stock Exchange, Inc. ("NYSE") is open for business. Class A and Class D shares are redeemable at net asset value and Class B shares are redeemable at net asset value less any applicable CDSC. See "Redemption of Shares."

MANAGEMENT OF THE FUND Greenwich Street Advisors Division ("Greenwich Street Advisors") of Mutual Management Corp. ("MMC") serves as the Fund's investment adviser. MMC provides investment advisory and management services to investment companies affiliated with Smith Barney Shearson. MMC is controlled by Smith Barney Shearson Holdings Inc. ("Holdings"). Holdings is a wholly owned subsidiary of The Travelers Inc. (which was formerly known as Primerica Corporation) ("Travelers"), a diversified financial services holding company principally engaged in the businesses of providing investment, consumer finance, and insurance services. As of December 31, 1993, Greenwich Street Advisors had aggregate assets under management in excess of \$42.8 billion.

The Boston Company Advisors, Inc. ("Boston Advisors") serves as the Fund's administrator. Boston Advisors is a wholly owned subsidiary of The Boston Company, Inc. ("TBC"), a financial services holding company which

5

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

PROSPECTUS SUMMARY (CONTINUED)

in turn is an indirect wholly owned subsidiary of Mellon Bank Corporation ("Mellon"). As of December 31, 1993, Boston Advisors provides investment management, investment advisory, and/or administrative services to investment companies which had aggregate assets under management in excess of \$86.6 billion. See "Management of the Company and the Fund."

EXCHANGE PRIVILEGE Shares of a Class may be exchanged for shares of the same Class of most other funds in the Smith Barney Shearson Group of Funds and certain money market funds. Certain exchanges may be subject to a sales charge differential. See "Exchange Privilege."

VALUATION OF SHARES Net asset value of each Class is quoted daily in the financial section of most newspapers and is also available from any Smith Barney Shearson Financial Consultant. See "Valuation of Shares."

DIVIDENDS AND DISTRIBUTIONS Dividends and distributions are paid at least annually from net investment income and net realized long-and short-term capital gains. See "Dividends, Distributions and Taxes" and "Variable Pricing System."

REINVESTMENT OF DIVIDENDS Dividends and distributions paid on shares of a Class will be reinvested automatically unless otherwise specified by an investor in additional shares of the same Class at current net asset value. Shares acquired by dividend and distribution reinvestments will not be subject to any sales charge or CDSC. Class B shares acquired through dividend and distribution

reinvestments will become eligible for conversion to Class A shares on a pro rata basis. See "Dividends, Distributions and Taxes" and "Variable Pricing System."

RISK FACTORS AND SPECIAL CONSIDERATIONS The Company is designed for long-term investors and not for investors who intend to liquidate their investment after a short period. Neither the Company as a whole nor any particular fund in the Company, including the Fund, constitutes a balanced investment plan. There can be no assurance that the Fund will achieve its investment objective. The Fund may employ investment techniques which involve certain risks, including entering into repurchase agreements, lending portfolio securities, investing in restricted securities, selling securities short and investing in foreign securities through the use of American Depositary Receipts. See "Investment Objective and Management Policies -- Additional Investments."

6

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

PROSPECTUS SUMMARY (CONTINUED)

THE FUND'S EXPENSES The following expense table lists the costs and expenses that an investor will incur either directly or indirectly as a shareholder of the Fund based upon the maximum sales charge and maximum CDSC that may be incurred at the time of purchase or redemption and an estimate of the Fund's current operating expenses:

<TABLE>
<CAPTION>

	CLASS A	CLASS B
CLASS D	<C>	<C>

SHAREHOLDER TRANSACTION EXPENSES		
Maximum sales charge imposed on purchases (as a percentage of offering price)	5.00%	--
Maximum CDSC (as a percentage of redemption proceeds)	--	5.00%

ANNUAL FUND OPERATING EXPENSES (as a percentage of average net assets)		
Management fees	0.75%	0.75%
12b-1 fees*	0.25	1.00
Other expenses**	0.67	0.59

TOTAL FUND OPERATING EXPENSES	1.67%	2.34%
2.19%		

<FN>
*Upon conversion of Class B shares to Class A shares, such shares will no longer be subject to a distribution fee. Class D shares do not have a conversion feature and, therefore, are subject to an ongoing distribution fee.

**All expenses are based on data for the Fund's fiscal year ended December 31, 1993.

</TABLE>

The sales charge and CDSC set forth in the above table are the maximum charges imposed upon purchases or redemptions of Fund shares and investors may pay actual charges less than 5.00%, depending on the amount purchased and, in the case of Class B shares, the length of time the shares are held and whether shares are held through the 401(k) Program. See "Purchase of Shares" and "Redemption of Shares." Management fees payable by the Fund include investment advisory fees paid to Greenwich Street Advisors at the annual rate of 0.55% of the value of the Fund's average daily net assets and administration fees paid to Boston Advisors at the annual rate of 0.20% of the value of the Fund's average

daily net assets. The nature of the services for which the Fund is obligated to pay management fees is described under "Management of the Company and the Fund." Smith Barney Shearson receives an annual Rule 12b-1 service fee of 0.25% of the value of average daily net assets of Class A shares. Smith Barney Shearson also receives, with respect to Class B and Class D shares,

7

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

PROSPECTUS SUMMARY (CONTINUED)

an annual Rule 12b-1 fee of 1.00% of the value of average daily net assets of Class B shares and Class D shares, respectively, consisting of a 0.75% distribution fee and a 0.25% service fee. "Other expenses" in the above table include fees for shareholder services, custodial fees, legal and accounting fees, printing costs and registration fees.

EXAMPLE

The following example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical \$1,000 investment in the Fund assuming a 5.00% annual total return. THE EXAMPLE ASSUMES PAYMENT BY THE FUND OF OPERATING EXPENSES AT THE LEVELS SET FORTH IN THE ABOVE TABLE. THE EXAMPLE SHOULD NOT BE CONSIDERED A REPRESENTATION OF PAST OR FUTURE EXPENSES AND ACTUAL EXPENSES MAY BE GREATER OR LESS THAN THOSE SHOWN. MOREOVER, WHILE THE EXAMPLE ASSUMES A 5.00% ANNUAL RETURN, THE FUND'S ACTUAL PERFORMANCE WILL VARY AND MAY RESULT IN AN ACTUAL RETURN GREATER OR LESS THAN 5.00%.

<TABLE>
<CAPTION>

YEARS*	1 YEAR	3 YEARS	5 YEARS	10 YEARS
<S>	<C>	<C>	<C>	<C>

Class A shares**:	\$ 66	\$ 100	\$ 136	\$ 238
Class B shares:				
Assumes complete redemption at the end of each time period***	74	103	135	
Assumes no redemption	24	73	125	
Class D shares:	22	69	117	

<FN>
*Ten-year figures assume conversion of Class B shares to Class A shares at the end of the eighth year following the date of purchase.
**Assumes deduction at the time of purchase of the maximum 5.00% sales charge.
***Assumes deduction at the time of redemption of the maximum CDSC applicable for that time period.
</TABLE>

8

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

FINANCIAL HIGHLIGHTS

THE FOLLOWING INFORMATION HAS BEEN AUDITED BY COOPERS & LYBRAND, INDEPENDENT ACCOUNTANTS, WHOSE REPORT THEREON APPEARS IN THE FUND'S ANNUAL REPORT DATED DECEMBER 31, 1993. THE INFORMATION SET OUT BELOW SHOULD BE READ IN CONJUNCTION WITH THE FINANCIAL STATEMENTS AND RELATED NOTES THAT ALSO APPEAR IN THE FUND'S ANNUAL REPORT DATED DECEMBER 31, 1993, WHICH IS INCORPORATED BY REFERENCE INTO THE STATEMENT OF ADDITIONAL INFORMATION.

FOR A CLASS A SHARE OUTSTANDING THROUGHOUT EACH PERIOD.

<TABLE>

<CAPTION>

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

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

Distributions from net realized gains	(0.33)	-

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

Total return+ 9.48%	32.90%	

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

<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>

9

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

FINANCIAL HIGHLIGHTS

FOR A CLASS B SHARE OUTSTANDING THROUGHOUT EACH YEAR.*

<TABLE>

<CAPTION>

YEAR ENDED	YEAR ENDED	YEAR ENDED	YEAR ENDED	YEAR ENDED
12/31/91	12/31/90	12/31/89	12/31/93+++	12/31/92
<S>			<C>	<C>
<C>	<C>			<C>
Net Asset Value, beginning of year 9.82	\$ 13.77	\$ 12.04	\$ 15.47	\$ 14.18
				\$

Income from investment operations:				
Net investment income/(loss)			(0.20)	(0.26)
(0.07)	0.29	0.28		
Net realized and unrealized gain/(loss) on investments				
4.46	(3.70)	1.96	5.14	1.55

Total from investment operations				
4.39	(3.41)	2.24	4.94	1.29
Distributions to shareholders:				
Distributions from net investment income				
(0.29)	(0.27)		--	--
Distributions from net realized gains				
(0.23)	--		(0.33)	--
Distributions from capital				
(0.03)	(0.02)	(0.24)	--	--

Total distributions				
(0.03)	(0.54)	(0.51)	(0.33)	0.00

Net Asset Value, end of year				
14.18	\$ 9.82	\$ 13.77	\$ 20.08	\$ 15.47

Total return+				
44.76%	(24.71)%	18.60%	31.93%	9.10%

Ratios to average net assets/ supplemental data:				
Net assets, end of year (in 000's)				
81,618	\$ 76,009	\$ 141,630	\$ 138,401	\$ 78,130
Ratio of operating expenses to average net assets				
2.31%	2.30%	2.34%	2.34%	2.32%
Ratio of net investment income/(loss) to average net assets				
(0.74)%	2.12%	1.69%	(1.13)%	(1.77)%
Portfolio turnover rate				
379%	372%	228%	112%	211%

<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 period indicated and does not reflect any applicable sales charges.
+++Per share amounts have been calculated using the monthly average share method.
</TABLE>

10

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

FINANCIAL HIGHLIGHTS (CONTINUED)

<TABLE> <CAPTION>					
YEAR	YEAR	YEAR	YEAR	YEAR	
ENDED	ENDED	ENDED	ENDED	ENDED	
12/31/86++	12/31/85++	12/31/84++	12/31/88++	12/31/87++	
<S>			<C>	<C>	<C>
<C>	<C>				
Net Asset Value, beginning of year					
13.15	\$ 9.94	\$ 11.83	\$ 11.48	\$ 13.02	\$

Income from investment operations:					
Net investment income/(loss)					
			0.71#	(0.10)	

(0.05)	0.05	0.21		
Net realized and unrealized gain/				
(loss) on investments			0.70	(1.30)
0.97	3.37	(1.35)		

Total from investment operations			1.41	(1.40)
0.92	3.42	(1.14)		
Distributions to shareholders:				
Distributions from net investment				
income			(0.55)	--
(0.05)	(0.21)	(0.05)		
Distributions from net realized				
gains			(0.30)	(0.14)
(1.00)	--	(0.70)		
Distributions from capital			--	--
--	--			

Total distributions			(0.85)	(0.14)
(1.05)	(0.21)	(0.75)		

Net Asset Value, end of year			\$ 12.04	\$ 11.48
13.02	\$ 13.15	\$ 9.94		

Total return+			12.60%	(10.91)%
7.05%	35.17%	(10.24)%		

Ratios to average net assets/
supplemental data:

Net assets, end of year (in 000's)			\$ 169,983	\$ 178,905	\$
214,419	\$ 163,468	\$ 129,856			
Ratio of operating expenses to					
average net assets			2.32%**	2.09%	
2.12%	2.20%	2.10%			
Ratio of net investment income/					
(loss) to average net assets			5.23%	(0.63)%	
(0.34)%	0.43%	2.01%			
Portfolio turnover rate			165%	148%	
114%	146%	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 period 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>

11

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

FINANCIAL HIGHLIGHTS (CONTINUED)

FOR A CLASS D SHARE OUTSTANDING THROUGHOUT THE PERIOD.

<TABLE>

<S>	<C>
	PERIOD
	ENDED
	12/31/93***
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>

12

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

VARIABLE PRICING SYSTEM

The Smith Barney Shearson Group of Funds offers individual investors two methods of purchasing shares, thus enabling investors to choose the Class of shares that best suits their needs, given the amount of purchase and intended length of investment. A third class -- Class D shares -- is offered only to Participating Plans.

CLASS A SHARES. Class A shares are sold at net asset value per share plus a maximum initial sales charge of 5.00% imposed at the time of purchase. The initial sales charge may be reduced or waived for certain purchases. Class A shares are subject to an annual service fee of 0.25% of the value of the Fund's average daily net assets attributable to the Class. The annual service fee is used by Smith Barney Shearson to compensate its Financial Consultants for ongoing services provided to shareholders. The sales charge is used to compensate Smith Barney Shearson for expenses incurred in selling Class A shares. See "Purchase of Shares."

CLASS B SHARES. Class B shares are sold at net asset value per share subject to a maximum 5.00% CDSC, which is assessed only if the shareholder redeems shares within the first five years of investment. This results in 100% of the investor's assets being used to acquire shares of the Fund. For each year of investment within the five-year time frame, the applicable CDSC declines by 1.00%; in year six, the applicable CDSC is reduced to 0%. See "Purchase of Shares" and "Redemption of Shares."

Class B shares are subject to an annual service fee of 0.25% and an annual distribution fee of 0.75% of the value of the Fund's average daily net assets attributable to the Class B shares. Like the service fee applicable to Class A shares, the Class B service fee is used to compensate Smith Barney Shearson Financial Consultants for ongoing services provided to shareholders. Additionally, the distribution fee paid with respect to Class B shares compensates Smith Barney Shearson for expenses incurred in selling those shares, including expenses such as sales commissions, Smith Barney Shearson's branch office overhead expenses, and marketing costs associated with Class B shares, such as preparation of sales literature, advertising and printing and distributing prospectuses, statements of additional information and other materials to prospective investors in Class B shares. A Smith Barney Shearson Financial Consultant may receive different levels of compensation for selling different Classes. Class B shares are subject to a

13

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

VARIABLE PRICING SYSTEM (CONTINUED)

distribution fee and are subject to higher transfer agency fees than Class A shares which generally will cause Class B shares to have a higher expense ratio

and pay lower dividends than Class A shares.

Eight years after the date of purchase, Class B shares will convert automatically to Class A shares, based on the relative net asset values of shares of each of the Classes, and will no longer be subject to a distribution fee. In addition, a certain portion of Class B shares that have been acquired through the reinvestment of dividends and distributions ("Class B Dividend Shares") will be converted at that time. That portion will be a percentage of the total number of outstanding Class B Dividend Shares, which percentage will be determined by the ratio of the total number of Class B shares converting at the time to the total number of outstanding Class B shares (other than Class B Dividend Shares). The first of these conversions will commence on or about September 30, 1994. The conversion of Class B shares into Class A shares is subject to the continuing availability of an opinion of counsel or an Internal Revenue Service ruling to the effect that such conversions will not constitute taxable events for federal tax purposes.

CLASS D SHARES. Class D shares of the Fund are sold to Participating Plans at net asset value per share and are not subject to an initial sales charge or CDSC. This Class of shares is subject to an annual service fee of 0.25% and an annual distribution fee of 0.75% of the value of the Fund's average daily net assets attributable to the Class. The distribution fee is used by Smith Barney Shearson for expenses incurred in selling Class D shares, and the service fee is used to compensate Smith Barney Shearson Financial Consultants for ongoing services provided to Class D shareholders. Class D shares are subject to a distribution fee which will cause Class D shares to have a higher expense ratio and to pay lower dividends than Class A shares.

INVESTMENT OBJECTIVE AND MANAGEMENT POLICIES

Set forth below is a description of the investment objective and policies of the Fund. There can be no assurance that the Fund will achieve its investment objective. Certain instruments and techniques discussed in this summary are described in greater detail in this Prospectus under "Additional Investments" and in the Statement of Additional Information.

14

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

INVESTMENT OBJECTIVE AND MANAGEMENT POLICIES (CONTINUED)

The Statement of Additional Information contains specific investment restrictions which govern the Fund's investments. These restrictions and the Fund's investment objective are fundamental policies, which means that they may not be changed without a majority vote of shareholders of the Fund. Except for the objective and those restrictions specifically identified as fundamental, all investment policies and practices described in this Prospectus and in the Statement of Additional Information are non-fundamental, so that the Board of Directors may change them without shareholder approval. The fundamental restrictions applicable to the Fund include a prohibition on (a) purchasing a security if, as a result, more than 5% of the assets of the Fund would be invested in the securities of the issuer (with certain exceptions) or the Fund would own more than 10% of the outstanding voting securities of the issuer, (b) investing more than 10% of the Fund's total assets in "illiquid" securities (which includes repurchase agreements with more than seven days to maturity), and (c) investing more than 25% of the Fund's total assets in the securities of issuers in a particular industry (with exceptions for U.S. government securities and certain money market instruments).

The Fund has an investment objective of achieving long-term capital appreciation. It seeks to achieve this objective by investing in equity securities (common stocks or securities which are convertible into or exchangeable for such stocks, including warrants) which the investment adviser believes to have superior appreciation potential.

The Fund invests primarily in equity securities of secondary growth companies, generally not within the Standard & Poor's 500 Composite Stock Price Index ("S&P 500"), as identified by the investment adviser. These companies may not have reached a fully mature stage of earnings growth, since they may still be in

the developmental stage, or may be older companies which appear to be entering a new stage of more rapid earnings progress due to factors such as management change or development of new technology, products or markets. A significant number of these companies may be in technology areas, including health care related sectors, and may have annual sales of less than \$300 million. The Fund may also choose to invest in some relatively unseasoned stocks, I.E., companies whose market capitalization is under \$100 million.

15

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

INVESTMENT OBJECTIVE AND MANAGEMENT POLICIES (CONTINUED)

Investing in smaller, newer issuers generally involves greater risk than investing in larger, more established issuers. The Fund may purchase restricted securities (subject to a limit on all illiquid securities of 10% of total assets), invest in money market instruments, enter into repurchase agreements for temporary defensive purposes, lend its portfolio securities and enter into "short sales against the box."

In making purchases of securities consistent with the above policies, the Fund will be subject to the applicable restrictions referred to under "Investment Restrictions" in the Statement of Additional Information.

ADDITIONAL INVESTMENTS

U.S. GOVERNMENT SECURITIES. U.S. government securities are obligations of, or are guaranteed by, the U.S. government, its agencies or instrumentalities. These include bills, certificates of indebtedness, and notes and bonds issued by the U.S. Treasury or by agencies or instrumentalities of the U.S. government. Some U.S. government securities, such as U.S. Treasury bills and bonds, are supported by the full faith and credit of the U.S. Treasury; others are supported by the right of the issuer to borrow from the U.S. Treasury; others, such as those of the Federal National Mortgage Association, are supported by the discretionary authority of the U.S. government to purchase the agency's obligations; still others, such as those of the Student Loan Marketing Association and the Federal Home Loan Mortgage Corporation ("FHLMC"), are supported only by the credit of the instrumentality. Mortgage participation certificates issued by the FHLMC generally represent ownership interests in a pool of fixed-rate conventional mortgages. Timely payment of principal and interest on these certificates is guaranteed solely by the issuer of the certificates. Other investments will include Government National Mortgage Association Certificates ("GNMA Certificates"), which are mortgage-backed securities representing part ownership of a pool of mortgage loans on which timely payment of interest and principal is guaranteed by the full faith and credit of the U.S. government. While the U.S. government guarantees the payment of principal and interest on GNMA Certificates, the market value of the securities is not guaranteed and will fluctuate.

REPURCHASE AGREEMENTS. The Fund may enter into repurchase agreement transactions on U.S. government securities with certain member banks of the

16

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

INVESTMENT OBJECTIVE AND MANAGEMENT POLICIES (CONTINUED)

Federal Reserve System having assets in excess of \$100 million and with certain dealers on the Federal Reserve Bank of New York's list of reporting dealers. Under the terms of a typical repurchase agreement, the Fund would acquire an underlying debt obligation for a relatively short period (usually not more than one week) 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 underlying securities will be at least equal at all times to the total amount of the repurchase obligation, including interest. The Fund bears a risk of loss in the event that the other party to a repurchase agreement defaults on its obligations and 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 these rights to them, the risk of incurring expenses associated with asserting those rights and the risk of losing all or part of the income from the agreement. The Fund's investment adviser and administrator, acting under the supervision of the Board of Directors, review on an ongoing basis the creditworthiness and the value of the collateral of those banks and dealers with which the Fund enters into repurchase agreements to evaluate potential risks.

LOANS OF PORTFOLIO SECURITIES. The Fund may lend its portfolio securities provided (a) the loan is secured continuously by collateral consisting of U.S. government securities or cash or cash equivalents maintained on a daily marked-to-market basis in an amount at least equal to the current market value of the securities loaned; (b) the Fund may at any time call the loan and obtain the return of the securities loaned; (c) the Fund will receive any interest or dividends paid on the loaned securities; and (d) the aggregate market value of securities loaned will not at any time exceed one-third of the total assets of the Fund.

SHORT SALES. The Fund may sell securities "short against the box." While a short sale is the sale of a security the Fund does not own, it is "against the box" if at all times when the short position is open, the Fund owns an equal amount of the securities or securities convertible into, or exchangeable

17

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

INVESTMENT OBJECTIVE AND MANAGEMENT POLICIES (CONTINUED)

without further consideration for, securities of the same issue as the securities sold short. Short sales "against the box" are used to defer recognition of capital gains or losses.

AMERICAN DEPOSITARY RECEIPTS. The Fund may purchase American Depositary Receipts ("ADRs"), which are dollar-denominated receipts issued generally by domestic banks and representing the deposit with the bank of a security of a foreign issuer. ADRs are publicly traded on exchanges or over-the-counter in the United States.

RESTRICTED SECURITIES. The Fund may invest in restricted securities. Restricted securities are securities subject to legal or contractual restrictions on their resale. Such restrictions might prevent the sale of restricted securities at a time when such a sale would otherwise be desirable. Restricted securities and securities for which there is no readily available market ("illiquid assets") will not be acquired if such acquisition would cause the aggregate value of illiquid assets and restricted securities to exceed 10% of the Fund's total assets.

PORTFOLIO TRANSACTIONS AND TURNOVER

Greenwich Street Advisors arranges for the purchase and sale of the Fund's securities and selects broker-dealers which, in its best judgment, provide prompt and reliable execution at favorable prices and reasonable commission rates. Greenwich Street Advisors may select broker-dealers which provide it with research services and may cause the Fund to pay such broker-dealers commissions which exceed those other broker-dealers may have charged, if it views the commissions as reasonable in relation to the value of the brokerage and/or research services. Smith Barney Shearson and its affiliates may serve as a

regular broker for the Fund in effecting portfolio transactions on a national securities or commodities exchange, and may retain commissions, in accordance with certain regulations of the SEC.

For reporting purposes, the Fund's portfolio turnover rate is calculated by dividing the lesser of purchases or sales of portfolio securities for the fiscal year by the monthly average of the value of the Fund's securities, with money market instruments with less than one year to maturity excluded. A 100% portfolio turnover rate would occur, for example, if all included

18

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

INVESTMENT OBJECTIVE AND MANAGEMENT POLICIES (CONTINUED)

securities were replaced once during the year. The Fund's portfolio turnover rates for each of the past fiscal years are set forth under "Financial Highlights."

MANAGEMENT OF THE COMPANY AND THE FUND

BOARD OF DIRECTORS

Overall responsibility for management and supervision of the Company rests with the Company's Board of Directors. The Directors approve all significant agreements between the Company and companies that furnish services to the Fund and the Company, including agreements with its distributor, investment adviser, administrator, custodian and transfer agent. The day-to-day operations of the Fund are delegated to the Fund's investment adviser and administrator. The Statement of Additional Information contains general and background information regarding each Director and executive officer of the Company.

INVESTMENT ADVISER -- GREENWICH STREET ADVISORS

Greenwich Street Advisors, located at Two World Trade Center, New York, New York 10048, serves as the Fund's investment adviser. Greenwich Street Advisors (through its predecessors) has been in the investment counseling business since 1934 and is a division of MMC, which was incorporated in 1978. MMC is a registered investment adviser whose principal executive offices are located at 1345 Avenue of the Americas. Greenwich Street Advisors renders investment advice to investment companies that had aggregate assets under management as of December 31, 1993, in excess of \$42.8 billion.

Subject to the supervision and direction of the Fund's Board of Directors, Greenwich Street Advisors manages the Fund's portfolio in accordance with the Fund's stated investment objective and policies, makes investment decisions for the Fund, places orders to purchase and sell securities and employs professional portfolio managers and securities analysts who provide research services to the Fund. Under an Investment Advisory Agreement, the Fund pays Greenwich Street Advisors a monthly fee at the annual rate of 0.55% of the value of its average daily net assets.

19

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

MANAGEMENT OF THE COMPANY AND THE FUND (CONTINUED)

PORTFOLIO MANAGEMENT

George Novello, Managing Director of Greenwich Street Advisors, has served as Investment Officer of the Fund since September 1990 and is responsible for managing the day-to-day investment operations of the Fund, including the making of investment decisions. Prior to that time, Mr. Novello was a Managing

Director
at McKinley-Allsopp where he served as Head of Research.

Mr. Novello's management discussion and analysis of the Fund's performance during the fiscal year ended December 31, 1993 (including a line graph comparing the Fund's performance to the S&P 500, an unmanaged index composed of 500 widely held common stocks used to portray the movement of common stock prices) is included in the Fund's Annual Report to Shareholders dated December 31, 1993. The Fund's Annual Report may be obtained upon request and without charge from any Smith Barney Shearson Financial Consultant or by writing or calling the Fund at the address or phone number listed on page 1 of this Prospectus.

ADMINISTRATOR -- BOSTON ADVISORS

Boston Advisors, located at One Boston Place, Boston, Massachusetts 02108, serves as the Fund's administrator. Boston Advisors is an indirect wholly owned subsidiary of Mellon. Boston Advisors provides investment management, investment advisory, and/or administrative services to investment companies which had aggregate assets under management as of December 31, 1993, in excess of \$86.6 billion.

Boston Advisors calculates the net asset value of the Fund's shares and generally assists in all aspects of the Fund's administration and operation. Under an administration agreement the Fund pays Boston Advisors a fee at the annual rate of 0.20% of the value of the Fund's average daily net assets.

PURCHASE OF SHARES

Purchases of Fund shares must be made through a brokerage account maintained with Smith Barney Shearson or with an Introducing Broker, except that investors purchasing shares of the Fund through a qualified

20

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

PURCHASE OF SHARES (CONTINUED)

retirement plan may do so directly through the Company's transfer agent. When purchasing shares of the Fund, investors must specify whether the purchase is for Class A, Class B or, in the case of Participating Plans, Class D shares.

No maintenance fee will be charged in connection with a brokerage account through which an investor purchases or holds shares. Purchases are effected at the public offering price next determined after a purchase order is received by Smith Barney Shearson or an Introducing Broker (the "trade date"). Payment generally is due to Smith Barney Shearson or an Introducing Broker on the fifth business day (the "settlement date") after the order is placed. Investors who make payment prior to the settlement date may permit the payment to be held in their brokerage accounts or may designate a temporary investment (such as a money market fund in the Smith Barney Shearson Group of Funds) for such payment until the settlement date. The Company reserves the right to reject any purchase order and to suspend the offering of shares for any period of time.

Purchase orders received by Smith Barney Shearson or the Introducing Broker prior to the close of regular trading on the NYSE, currently 4:00 p.m., New York time, on any day the Fund's net asset value is calculated are priced according to the net asset value determined on that day. Purchase orders received after the close of regular trading on the NYSE are priced as of the time the net asset value per share is next determined. See "Valuation of Shares."

SYSTEMATIC INVESTMENT PLAN. The Fund offers shareholders a Systematic Investment Plan under which shareholders may authorize Smith Barney Shearson or

an Introducing Broker to place a purchase order each month or quarter for Fund shares in an amount not less than \$100. The purchase price is paid automatically from cash held in the shareholder's Smith Barney Shearson brokerage account or through the automatic redemption of the shareholder's shares of a Smith Barney Shearson money market fund. For further information regarding the Systematic Investment Plan, shareholders should contact their Smith Barney Shearson Financial Consultants.

MINIMUM INVESTMENTS. The minimum initial investment in the Fund is \$1,000 and the minimum subsequent investment is \$200 except that for purchases through (a) IRAs and Self-Employed Retirement Plans, the minimum initial and subsequent investments are \$250 and \$100, respectively, (b) retirement plans qualified under Sections 401(a) and 403(b) (7) of

21

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

PURCHASE OF SHARES (CONTINUED)

the Code, the minimum initial and subsequent investment is \$25 and (c) the Fund's Systematic Investment Plan, the minimum initial and subsequent investments are both \$100. There are no minimum requirements for employees of Travelers and its subsidiaries, including Smith Barney Shearson. The Company reserves the right at any time to vary the initial and subsequent investment minimums. Certificates for Fund shares are issued upon request to the Company's transfer agent, TSSG.

CLASS A SHARES

The public offering price for Class A shares is the per share net asset value of that Class next determined after a purchase order is received plus a sales charge, which is imposed in accordance with the following schedule:

<TABLE>
<CAPTION>

AMOUNT OF INVESTMENT*	SALES CHARGE AS % OF OFFERING PRICE	SALES CHARGE AS % OF NET ASSET VALUE
<S>	<C>	<C>
Less than \$25,000	5.00%	5.26%
\$25,000 but under \$100,000	4.00%	4.17%
\$100,000 but under \$250,000	3.25%	3.36%
\$250,000 but under \$500,000	2.50%	2.56%
\$500,000 but under \$1,000,000	2.00%	2.04%
\$1,000,000 or more**	0.00	0.00

<FN>
*Smith Barney Shearson has adopted guidelines directing its Financial Consultants and Introducing Brokers that single investments of \$250,000 or more should be made in Class A shares.

**No sales charge is imposed on purchases of Class A shares of \$1 million or more; however, a CDSC of 0.75% is imposed on redemptions made within the first year after purchase. The CDSC on Class A shares will be payable to Smith Barney Shearson which compensates Smith Barney Shearson Financial Consultants upon the sale of these shares. The CDSC will be waived in the same circumstances in which the CDSC applicable to Class B shares is waived. See "Redemption of Shares -- Contingent Deferred Sales Charge -- Class B Shares -- Waivers of CDSC."

</TABLE>

REDUCED SALES CHARGES -- CLASS A SHARES

Reduced sales charges are available to investors who are eligible to combine their purchases of Fund shares to receive volume discounts. Investors eligible to receive volume discounts include individuals and their immediate families, tax-qualified employee benefit plans and trustees or other professional fiduciaries (including a bank, or an investment adviser registered with the

SEC
under the Investment Advisers Act of 1940, as amended) purchasing shares for
one
or more trust estates or fiduciary

22

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

PURCHASE OF SHARES (CONTINUED)

accounts even though more than one beneficiary is involved. The initial sales charge is also reduced to 1.00% for Smith Barney Shearson Personal Living Trust program participants for whom Smith Barney Shearson acts as trustee. Reduced sales charges on Class A shares are also available under a combined right of accumulation, under which an investor may combine the value of Class A shares already held in the Fund, in any other fund in the Company and in any of the other funds in the Smith Barney Shearson Group of Funds listed below (except those sold without a sales charge), along with the value of Class A shares being purchased, to qualify for a reduced sales charge. For example, if an investor owns Class A shares of the Fund, any other funds in the Company and other funds in the Smith Barney Shearson Group of Funds that have an aggregate value of \$22,000, and makes an additional investment in Class A shares of the Fund of \$4,000, the sales charge applicable to the additional investment would be 4.00%, rather than the 5.00% normally charged on a \$4,000 purchase. Investors interested in further information regarding reduced sales charges should contact their Smith Barney Shearson Financial Consultant.

Class A shares may be offered without any applicable sales charges to: (a) employees of Travelers and its subsidiaries, including Smith Barney Shearson, and employee benefit plans for such employees and their immediate families when orders on their behalf are placed by such employees; (b) accounts managed by registered investment advisory subsidiaries of Travelers; (c) directors, trustees or general partners of any investment company for which Smith Barney Shearson serves as distributor; (d) any other investment company in connection with the combination of such company with the Fund by merger, acquisition of assets or otherwise; (e) shareholders who have redeemed Class A shares in the Fund (or Class A shares of any other fund in the Company or of another fund in the Smith Barney Shearson Group of Funds that are sold with a maximum 5.00% sales charge) and who wish to reinvest their redemption proceeds in the Fund, provided the reinvestment is made within 30 days of the redemption; and (f) any client of a newly-employed Smith Barney Shearson Financial Consultant (for a period up to 90 days from the commencement of the Financial Consultant's employment with Smith Barney Shearson), on the condition that the purchase is made with the proceeds of the redemption of shares of a mutual fund that (i) was sponsored by the Financial Consultant's

23

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

PURCHASE OF SHARES (CONTINUED)

prior employer, (ii) was sold to a client by the Financial Consultant, and (iii) when purchased, such shares were sold with a sales charge or are subject to a sales charge upon redemption.

CLASS B SHARES

The public offering price for Class B shares is the per share net asset value of that Class. No initial sales charge is imposed at the time of purchase. A CDSC is imposed, however, on certain redemptions of Class B shares. See "Redemptions of Shares" which describes the CDSC in greater detail.

Smith Barney Shearson has adopted guidelines, in view of the relative sales charges and distribution fees applicable to the Classes, directing Smith

Barney
Shearson Financial Consultants and Introducing Brokers that all purchases of shares of \$250,000 or more should be for Class A shares. Smith Barney Shearson reserves the right to vary these guidelines at any time.

SMITH BARNEY SHEARSON 401(K) PROGRAM

Shareholders investing in the Fund may be eligible to participate in the 401(k) Program, which is generally designed to assist employers or plan sponsors in the creation and operation of retirement plans qualified under Section 401(a) of the Code. To the extent applicable, the same terms and conditions are offered to all Participating Plans in the 401(k) Program which include 401(k) plans, other types of participant directed, tax-qualified employee benefit plans and employer-sponsored non-qualified employee benefit plans.

The Fund offers to Participating Plans three classes of shares, Class A, Class B and Class D shares, as investment alternatives under the 401(k) Program. Class A shares are available to all Participating Plans and are the only investment alternative for Participating Plans that are eligible to purchase Class A shares at net asset value without a sales charge. In addition, Class B shares are offered only to Participating Plans satisfying certain criteria with respect to the amount of the initial investment and number of employees eligible to participate in the Plan at that time. Alternatively, Class D shares are offered only to Participating Plans that

24

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

PURCHASE OF SHARES (CONTINUED)

meet other criteria relating to the amount of initial investment and number of employees eligible to participate in the Plan at that time, as described below.

The Class A and Class B shares acquired through the 401(k) Program are subject to the same service and/or distribution fees as, but different sales charge and CDSC schedules than, the Class A and Class B shares acquired by other investors.

Class D shares acquired by Participating Plans are offered at net asset value per share without any sales charges or CDSC. The Fund pays annual service and distribution fees based on the value of the average daily net assets attributable to this Class.

Once a Participating Plan has made an initial investment in the Fund, all of its subsequent investments in the Fund must be in the same Class of shares, except as otherwise described below.

CLASS A SHARES. The sales charges for Class A shares acquired by Participating Plans are as follows:

<TABLE>
<CAPTION>

AMOUNT OF INVESTMENT <S>	SALES CHARGE AS % OF OFFERING PRICE <C>	SALES CHARGE AS % OF NET ASSET VALUE <C>
-----------------------------	---	--

- - - -

Less than \$25,000	5.00%	5.26%
\$25,000 but under \$100,000	4.00%	4.17%
\$100,000 but under \$250,000	3.25%	3.36%
\$250,000 but under \$500,000	2.50%	2.56%
\$500,000 but under \$750,000	2.00%	2.04%
\$750,000 or more	0.00%	0.00%

- - - -

</TABLE>

A Participating Plan will have a combined right of accumulation, under which, to qualify for a reduced sales charge, it may combine the value of Class A

shares being purchased with the value of Class A shares already held in the Fund and in any of the funds listed below under "Exchange Privilege" that are sold with a sales charge.

Class A shares of the Fund may be offered without any sales charge to any Participating Plan that: (a) purchases \$750,000 or more of Class A shares of one or more funds in the Smith Barney Shearson Group of Funds under the combined right of accumulation described above; (b) has 250 or more employees eligible to participate in the Participating Plan at the time of

25

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

PURCHASE OF SHARES (CONTINUED)

initial investment in the Fund; or (c) currently holds Class A shares in the Fund that were received as a result of an exchange of Class B or Class D shares of the Fund as described below.

Class A shares acquired through the 401(k) Program will not be subject to a CDSC.

CLASS B SHARES. Under the 401(k) Program, Class B shares are offered to Participating Plans that: (i) purchase less than \$250,000 of Class B shares of one or more funds in the Smith Barney Shearson Group of Funds that are sold subject to a CDSC; and (ii) that have less than 100 employees eligible to participate in the Participating Plan at the time of initial investment in the Fund. Class B shares acquired by such Plans will be subject to a CDSC of 3% of redemption proceeds if redeemed within eight years of the date the Participating Plan first purchases Class B shares. No CDSC is imposed to the extent that the net asset value of the Class B shares redeemed does not exceed (a) the current net asset value of Class B shares purchased through reinvestment of dividends or capital gains distributions, plus (b) the current net asset value of Class B shares purchased more than eight years prior to the redemption, plus (c) increases in the net asset value of the shareholder's Class B shares above the purchase payments made during the preceding eight years. The CDSC applicable to a Participating Plan depends on the number of years since the Participating Plan first became a holder of Class B shares, unlike the CDSC applicable to other Class B shareholders, which depends on the number of years since those shareholders made the purchase payment from which the amount is being redeemed.

The CDSC will be waived on redemptions of Class B shares in connection with lump-sum or other distributions made by a Participating Plan as a result of: (a) the retirement of an employee in the Participating Plan, (b) the termination of employment of an employee in the Participating Plan, (c) the death or disability of an employee in the Participating Plan, (d) the attainment of age 59 1/2 by an employee in the Participating Plan, (e) hardship of an employee in the Participating Plan to the extent permitted under Section 401(k) of the Code or (f) redemptions of Class B shares in connection with a loan made by the Participating Plan to an employee.

Eight years after the date a Participating Plan acquired its first Class B share, it will be offered the opportunity to exchange all of its Class B shares for Class A shares of the Fund. Such Plans will be notified of the pending

26

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

PURCHASE OF SHARES (CONTINUED)

exchange in writing approximately 60 days before the eighth anniversary of the purchase date and, unless the exchange has been rejected in writing, the

exchange will occur on or about the eighth anniversary date. Once the exchange has occurred, a Participating Plan will not be eligible to acquire additional Class B shares of the Fund but instead may acquire Class A shares of the Fund. If the Participating Plan elects not to exchange all of its Class B shares at that time, each Class B share held by the Participating Plan will have the same conversion feature as Class B shares held by other investors. See "Variable Pricing System -- Class B Shares."

CLASS D SHARES. Class D shares are offered to Participating Plans that: (i) purchase less than \$750,000 but more than \$250,000 of Class D shares of one or more funds in the Smith Barney Shearson Group of Funds that offer one or more Classes of shares subject to a sales charge and/or CDSC; or (ii) have at least 100 but no more than 250 employees eligible to participate in the Participating Plan at the time of initial investment in the Fund.

Class D shares acquired by Participating Plans will be offered at net asset value per share without any sales charges or CDSC. The Fund pays annual service and distribution fees based on the value of the average daily net assets attributable to this Class. Class D shares are not subject to an automatic conversion feature as are the Class B shares. However, beginning in December 1993 and each year thereafter, Participating Plans which hold Class D shares valued at \$750,000 or more in any fund or funds in the Smith Barney Shearson Group of Funds that offer one or more Classes of shares subject to a sales charge and/or CDSC will be offered the opportunity to exchange all of their Class D shares for Class A shares. Such Plans will be notified of the pending exchange in writing within 30 days after the last business day of the calendar year, and unless the exchange offer has been rejected in writing, the exchange will occur on or about the last business day of March in the following calendar year. Once the exchange has occurred, a Participating Plan will not be eligible to acquire Class D shares of the Fund but instead may acquire Class A shares of the Fund. Any Class D shares not converted will continue to be subject to the distribution fee.

Participating Plans wishing to acquire shares of the Fund through the 401(k) Program must purchase shares from the Fund's transfer agent.

27

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

PURCHASE OF SHARES (CONTINUED)

For further information regarding the 401(k) Program, investors should contact their Smith Barney Shearson Financial Consultant.

REDEMPTION OF SHARES

Shareholders may redeem their shares on any day that the Fund calculates its net asset value. See "Valuation of Shares." Redemption requests received in proper form prior to the close of regular trading on the NYSE are priced at the net asset value per share determined on that day. Redemption requests received after the close of regular trading on the NYSE are priced at the net asset value next determined. If a shareholder holds shares in more than one Class, any request for redemption must specify the Class being redeemed. In the event of a failure to specify which Class or if the investor owns fewer shares of the Class than specified, the redemption request will be delayed until the Fund's transfer agent receives further instructions from Smith Barney Shearson, or if the shareholder's account is not with Smith Barney Shearson, from the shareholder directly.

The Fund normally transmits redemption proceeds for credit to the shareholder's account at Smith Barney Shearson or the Introducing Broker at no charge (other than any applicable CDSC) within seven days after receipt of a redemption request. Generally, these funds will not be invested for the shareholder's benefit without specific instruction and Smith Barney Shearson will benefit from the use of temporarily uninvested funds. A shareholder who pays for Fund shares by personal check will be credited with the proceeds of a redemption of those shares only after the purchase check has been collected,

which may take up to 10 days or more. A shareholder who anticipates the need for more immediate access to his or her investment should purchase shares with federal funds, by bank wire or by certified or cashier's check.

A Fund account that is reduced by a shareholder to a value of \$500 or less may be subject to redemption by the Fund, but only after the shareholder has been given at least 30 days in which to increase the account balance to \$500 or more.

28

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

REDEMPTION OF SHARES (CONTINUED)

Shares may be redeemed in one of the following ways:

REDEMPTION THROUGH SMITH BARNEY SHEARSON

Redemption requests may be made through Smith Barney Shearson or an Introducing Broker. A shareholder desiring to redeem shares represented by certificates must also present such certificates to Smith Barney Shearson or the Introducing Broker endorsed for transfer (or accompanied by an endorsed stock power), signed exactly as the shares are registered. Redemption requests involving shares represented by certificates will not be deemed received until such certificates are received by the Company's transfer agent in proper form.

REDEMPTION BY MAIL

Shares held by Smith Barney Shearson as custodian must be redeemed by submitting a written request to the Smith Barney Shearson Financial Consultant. All other shares may be redeemed by submitting a written request for redemption to:

Smith Barney Shearson Special
Equities Fund
Class A, B or D (please specify)
c/o The Shareholder Services Group, Inc.
P.O. Box 9134
Boston, Massachusetts 02205-9134

A written redemption request to the Company's transfer agent, TSSG, or a Smith Barney Shearson Financial Consultant must (a) state the Class and number or dollar amount of shares to be redeemed, (b) identify the shareholder's account number and (c) be signed by each registered owner exactly as the shares are registered. If the shares to be redeemed were issued in certificate form, the certificates must be endorsed for transfer (or be accompanied by an endorsed stock power) and must be submitted to TSSG together with the redemption request.

Any signature appearing on a redemption request, share certificate or stock power must be guaranteed by a domestic bank, savings and loan institution, domestic credit union, member bank of a Federal Reserve System or member firm of a national securities exchange. TSSG may require additional supporting documents for

29

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

REDEMPTION OF SHARES (CONTINUED)

redemptions made by corporations, executors, administrators, trustees or guardians. A redemption request will not be deemed properly received until TSSG receives all required documents in proper form.

AUTOMATIC CASH WITHDRAWAL PLAN

The Fund offers shareholders an automatic cash withdrawal plan, under which shareholders who own shares with a value of at least \$10,000 may elect to

receive periodic cash payments of at least \$50 monthly. Retirement plan accounts are eligible for automatic cash withdrawal plans only where the shareholder is eligible to receive qualified distributions and has an account value of at least \$5,000. Any applicable CDSC will be waived on amounts withdrawn by a shareholder that do not exceed 2.00% per month of the value of shareholder's shares subject to the CDSC at the time the withdrawal plan commences. For further information regarding the automatic cash withdrawal plan, shareholders should contact their Smith Barney Shearson Financial Consultants.

CONTINGENT DEFERRED SALES CHARGE -- CLASS B SHARES

A CDSC payable to Smith Barney Shearson is imposed on any redemption of Class B shares, however effected, that causes the current value of a shareholder's account to fall below the dollar amount of all payments by the shareholder for the purchase of Class B shares ("purchase payments") during the preceding five years, except in the case of purchases by Participating Plans in the 401(k) Program, as described above. See "Purchase of Shares -- Smith Barney Shearson 401(k) Program." No charge is imposed to the extent that the net asset value of the Class B shares redeemed does not exceed (a) the current net asset value of Class B shares purchased through reinvestment of dividends or capital gains distributions, plus (b) the current net asset value of Class B shares purchased more than five years prior to the redemption, plus (c) increases in the net asset value of the shareholder's Class B shares above the purchase payments made during the preceding five years.

In circumstances in which the CDSC is imposed, the amount of the charge will depend on the number of years since the shareholder made the purchase payment from which the amount is being redeemed, except in the case of purchases through Participating Plans in the 401(k) Program, which

30

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

REDEMPTION OF SHARES (CONTINUED)

are subject to a different CDSC. See "Purchase of Shares -- Smith Barney Shearson 401(k) Program." Solely for purposes of determining the number of years since a purchase payment, all purchase payments during a month will be aggregated and deemed to have been made on the last day of the preceding Smith Barney Shearson statement month. The following table sets forth the rates of the charge for redemptions of Class B shares by shareholders other than Participating Plans:

<TABLE>
<CAPTION>
YEAR SINCE PURCHASE PAYMENT WAS MADE
CDSC
<S> <C>

First
5.00%
Second
4.00%
Third
3.00%
Fourth
2.00%
Fifth
1.00%
Sixth
0.00%
Seventh
0.00%
Eighth
0.00%

</TABLE>

Class B shares will automatically convert to Class A shares approximately eight years after the date on which they were purchased and thereafter will no longer be subject to a distribution fee. The first of these conversions will commence on or about September 30, 1994. See "Variable Pricing System -- Class B Shares."

The purchase payment from which a redemption of Class B shares is made is assumed to be the earliest purchase payment from which a full redemption has not already been effected. In the case of redemptions of Class B shares of other funds in the Company or of other funds in the Smith Barney Shearson Group of Funds issued in exchange for Class B shares of the Fund, the term "purchase payments" refers to the purchase payments for the shares given in exchange. In the event of an exchange of Class B shares of funds with differing CDSC schedules, the shares will be, in all cases, subject to the higher CDSC schedule. See "Exchange Privilege."

WAIVERS OF CDSC. The CDSC will be waived on: (a) exchanges (see "Exchange Privilege"), (b) automatic cash withdrawals in amounts that do not exceed 2.00% per month of the value of the shareholder's Class B shares at the time the withdrawal plan commences (see above); (c) redemptions of shares following the death or disability of the shareholder; (d) redemption of

31

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

REDEMPTION OF SHARES (CONTINUED)

shares in connection with certain post-retirement distributions and withdrawals from retirement plans or IRAs; (e) involuntary redemptions; (f) redemption proceeds from other funds in the Smith Barney Shearson Group of Funds that are reinvested within 30 days of the redemption; (g) redemptions of shares in connection with a combination of any investment company with the Fund by merger, acquisition of assets or otherwise, and (h) certain redemptions of shares of the Fund in connection with lump-sum or other distributions made by a Participating Plan. See "Purchase of Shares -- Smith Barney Shearson 401(k) Program."

VALUATION OF SHARES

Each Class' net asset value per share is calculated separately on each day, Monday through Friday, except on days when the NYSE is closed. The NYSE currently is scheduled to be closed on New Year's Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving and Christmas and on the preceding Friday or subsequent Monday when one of these holidays falls on a Saturday or Sunday, respectively.

The net asset value per share of a given Class is determined as of the later of the close of regular trading on the NYSE (currently 4:00 p.m., New York time) or the Chicago Board Options Exchange (currently 4:15 p.m. New York time) and is computed by dividing the value of the Fund's net assets attributable to that Class by the total number of shares of that Class outstanding.

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. Quotations are taken from the exchange where the security is primarily traded. Portfolio securities which are primarily traded on foreign exchanges may be valued with the assistance of a pricing service and are generally valued at the preceding closing values of such securities on their respective exchange, except that when an occurrence subsequent to the time a foreign security is valued is likely to have changed such value, then the fair value of those securities will be determined by consideration of other factors by or under the direction of the Board of Directors. Over-the-counter securities are

32

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

 VALUATION OF SHARES (CONTINUED)

valued on the basis of the bid price at the close of business on each day. Unlisted foreign securities are valued at the mean between the last available bid and offer price prior to the time of valuation. Any assets or liabilities initially expressed in terms of foreign currencies will be converted into U.S. dollar values at the mean between the bid and offered quotations of such currencies against U.S. dollars at last quoted by any recognized dealer. Securities for which market quotations are not readily available are valued at fair value. 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 approved by the Board of Directors.

 EXCHANGE PRIVILEGE

Shares of each Class may be exchanged for shares of the same Class in the following funds in the Smith Barney Shearson Group of Funds, to the extent shares are offered for sale in the shareholder's state of residence:

<TABLE>
 <CAPTION>
 EXCHANGEABLE
 WITH SHARES
 OF THE
 FOLLOWING
 CLASSES: FUND NAME AND INVESTMENT OBJECTIVE:
 <S> <C>

	MUNICIPAL BOND FUNDS
A	SMITH BARNEY SHEARSON LIMITED MATURITY MUNICIPALS FUND, an intermediate-term municipal bond fund investing in
investment	grade obligations.
A, B	SMITH BARNEY SHEARSON MANAGED MUNICIPALS FUND INC., an intermediate- and long-term municipal bond fund.
A, B	SMITH BARNEY SHEARSON TAX-EXEMPT INCOME FUND, an intermediate- and long-term municipal bond fund investing in medium and lower rated securities.
A, B	SMITH BARNEY SHEARSON ARIZONA MUNICIPALS FUND INC., an intermediate- and long-term municipal bond fund designed for Arizona investors.

</TABLE>

33

SMITH BARNEY SHEARSON
 SPECIAL EQUITIES FUND

 EXCHANGE PRIVILEGE (CONTINUED)

<TABLE>
 <CAPTION>
 EXCHANGEABLE
 WITH SHARES
 OF THE
 FOLLOWING
 CLASSES: FUND NAME AND INVESTMENT OBJECTIVE:

<S>	<C>
A	SMITH BARNEY SHEARSON INTERMEDIATE MATURITY CALIFORNIA MUNICIPALS FUND, an intermediate-term municipal bond fund designed for California investors.
A, B	SMITH BARNEY SHEARSON CALIFORNIA MUNICIPALS FUND INC., an intermediate- and long-term municipal bond fund designed for California investors.
A, B	SMITH BARNEY SHEARSON FLORIDA MUNICIPALS FUND, an intermediate- and long-term municipal bond fund designed for Florida investors.
A, B	SMITH BARNEY SHEARSON MASSACHUSETTS MUNICIPALS FUND, an intermediate- and long-term municipal bond fund designed for Massachusetts investors.
A, B	SMITH BARNEY SHEARSON NEW JERSEY MUNICIPALS FUND INC., an intermediate- and long-term municipal bond fund designed for New Jersey investors.
A	SMITH BARNEY SHEARSON INTERMEDIATE MATURITY NEW YORK MUNICIPALS FUND, an intermediate-term bond fund designed for New York investors.
A, B	SMITH BARNEY SHEARSON NEW YORK MUNICIPALS FUND INC., an

intermediate- and long-term municipal bond fund designed for New York investors.

INCOME FUNDS

A, B, D+ SMITH BARNEY SHEARSON ADJUSTABLE RATE GOVERNMENT INCOME

FUND,

seeks high current income while limiting the degree of fluctuation in net asset value resulting from movement in interest rates.

A, B SMITH BARNEY SHEARSON WORLDWIDE PRIME ASSETS FUND, invests

in

a portfolio of high quality debt securities that may be denominated in U.S. dollars or selected foreign currencies

and

that have remaining maturities of not more than one year.

</TABLE>

34

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

EXCHANGE PRIVILEGE (CONTINUED)

<TABLE>

<CAPTION>

EXCHANGEABLE

WITH SHARES

OF THE

FOLLOWING

CLASSES: FUND NAME AND INVESTMENT OBJECTIVE:

<S>

A, B SMITH BARNEY SHEARSON SHORT-TERM WORLD INCOME FUND, invests

in

high quality, short-term debt securities denominated in U.S. dollars as well as a range of foreign currencies.

A SMITH BARNEY SHEARSON LIMITED MATURITY TREASURY FUND,

invests

exclusively in securities issued by the U.S. Treasury and other U.S. government securities.

A, B, D+ SMITH BARNEY SHEARSON DIVERSIFIED STRATEGIC INCOME FUND,

seeks

high current income primarily by allocating and reallocating its assets among various types of fixed-income securities.

A, B, D+ SMITH BARNEY SHEARSON MANAGED GOVERNMENTS FUND INC., invests in obligations issued or guaranteed by the United States government and its agencies and instrumentalities with emphasis on mortgage-backed government securities.

A, B, D+ SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND, seeks a

high

current return by investment in U.S. government securities.

A, B, D+ SMITH BARNEY SHEARSON INVESTMENT GRADE BOND FUND, seeks a

high

level of current income consistent with prudent investment management and preservation of capital by investing in corporate bonds and other income producing securities.

A, B, D+ SMITH BARNEY SHEARSON HIGH INCOME FUND, seeks high current income by investing in high-yielding corporate bonds, debentures and notes.

A, B, D+ SMITH BARNEY SHEARSON GLOBAL BOND FUND, seeks current income and capital appreciation by investing in bonds, debentures

and

notes of foreign and domestic issuers.

</TABLE>

35

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

EXCHANGE PRIVILEGE (CONTINUED)

<TABLE>

<CAPTION>

EXCHANGEABLE

WITH SHARES

OF THE

FOLLOWING

CLASSES: FUND NAME AND INVESTMENT OBJECTIVE:

```

-----
<S>          <C>
              GROWTH AND INCOME FUNDS
A, B, D+     SMITH BARNEY SHEARSON CONVERTIBLE FUND, seeks current income
              and capital appreciation by investing in convertible
              securities.
A, B, D+     SMITH BARNEY SHEARSON UTILITIES FUND, seeks total return by
              investing in equity and debt securities of utilities
              companies.
A, B, D+     SMITH BARNEY SHEARSON STRATEGIC INVESTORS FUND, seeks high
              total return consisting of current income and capital
              appreciation by investing in a combination of equity, fixed-
              income and money market securities.
A, B, D+     SMITH BARNEY SHEARSON PREMIUM TOTAL RETURN FUND, seeks total
              return by investing in dividend-paying common stocks.
A, B, D+     SMITH BARNEY SHEARSON GROWTH AND INCOME FUND, seeks income
and
              long-term capital growth by investing in income producing
              equity securities.
              GROWTH FUNDS
A, B, D+     SMITH BARNEY SHEARSON APPRECIATION FUND INC., seeks long-
term
              appreciation of capital.
A, B, D+     SMITH BARNEY SHEARSON FUNDAMENTAL VALUE FUND INC., seeks
              long-term capital growth with current income as a secondary
              objective.
A, B, D+     SMITH BARNEY SHEARSON SECTOR ANALYSIS FUND, seeks capital
              appreciation by following a sector strategy.
A, B, D+     SMITH BARNEY SHEARSON TELECOMMUNICATIONS GROWTH FUND, seeks
              capital appreciation, with income as a secondary
              consideration.
A, B, D+     SMITH BARNEY SHEARSON AGGRESSIVE GROWTH FUND INC., seeks
              above-average capital growth.
</TABLE>

```

36

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

EXCHANGE PRIVILEGE (CONTINUED)

```

<TABLE>
<CAPTION>
EXCHANGEABLE
WITH SHARES
OF THE
FOLLOWING
CLASSES:      FUND NAME AND INVESTMENT OBJECTIVE:
-----

```

```

-----
<S>          <C>
A, B, D+     SMITH BARNEY SHEARSON GLOBAL OPPORTUNITIES FUND, seeks
              long-term capital growth by investing principally in the
              common stocks of foreign and domestic issuers.
A, B, D+     SMITH BARNEY SHEARSON EUROPEAN FUND, seeks long-term capital
              appreciation by investing primarily in securities of issuers
              based in countries of Europe.
A, B, D+     SMITH BARNEY SHEARSON PRECIOUS METALS AND MINERALS FUND
INC.,
in
              seeks long-term capital appreciation by investing primarily
              in
              precious metal- and mineral-related companies and gold
              bullion.
*            MONEY MARKET FUNDS
              SMITH BARNEY SHEARSON MONEY MARKET FUND, invests in a
              diversified portfolio of high quality money market
              instruments.
**          SMITH BARNEY SHEARSON DAILY DIVIDEND FUND, invests in a
              variety of money market instruments.
**          SMITH BARNEY SHEARSON GOVERNMENT AND AGENCIES FUND, invests
in
              United States government and agency securities.
++          SMITH BARNEY SHEARSON MUNICIPAL MONEY MARKET FUND, invests
in
              short-term high quality municipal obligations.
++          SMITH BARNEY SHEARSON CALIFORNIA MUNICIPAL MONEY MARKET
FUND,
              designed for California investors in short-term, high
quality
              California municipal obligations.
++          SMITH BARNEY SHEARSON NEW YORK MUNICIPAL MONEY MARKET FUND,

```

designed for New York investors in short-term, high quality New York municipal obligations.

<FN>

*Shares of this money market fund may be exchanged for Class B shares of the Fund.
**Shares of this money market fund may be exchanged for Class A and Class D shares of the Fund.
+Class D shares of this Fund may be acquired only by Participating Plans.
++Shares of this money market fund may be exchanged for Class A shares of the Fund.
</TABLE>

37

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

EXCHANGE PRIVILEGE (CONTINUED)

TAX EFFECT. The exchange of shares of one fund for shares of another fund is treated for federal income tax purposes as a sale of the shares given in exchange by the shareholder. Therefore, an exchanging shareholder may realize a taxable gain or loss in connection with an exchange.

CLASS A EXCHANGES. Class A shareholders of the funds in the Smith Barney Shearson Group of Funds sold without a sales charge or with a maximum sales charge of less than 5.00% will be subject to the appropriate "sales charge differential" upon the exchange of their shares for Class A shares of the Fund or other funds sold with a higher sales charge. The "sales charge differential" is limited to a percentage rate no greater than the excess of the sales charge rate applicable to purchases of shares of the mutual fund being acquired in the exchange over the sum of the rates of all sales charges previously paid on the mutual fund shares relinquished in the exchange and on any predecessor of those shares. For purposes of the exchange privilege, shares obtained through automatic reinvestment of dividends, as described below, are treated as having paid the same sales charges applicable to the shares on which the dividends were paid. However, except in the case of the 401(k) Program, if no sales charge was imposed upon the initial purchase of the shares, any shares obtained through automatic reinvestment will be subject to a sales charge differential upon exchange.

CLASS B EXCHANGES. Smith Barney Shearson Class B shareholders of the Fund who wish to exchange all or a part of their Class B shares for Class B shares of any of the funds identified above may do so without the imposition of an exchange fee. Upon an exchange, the new Class B shares will be deemed to have been purchased on the same date as the Class B shares of the Fund which have been exchanged.

CLASS D EXCHANGES. Smith Barney Shearson Class D shares of the Fund will be exchangeable for Class D shares of the funds listed above. Class D shareholders who wish to exchange all or a portion of their Class D shares in any of these funds may do so without charge. Class D shares may be acquired only by Participating Plans.

ADDITIONAL INFORMATION REGARDING THE EXCHANGE PRIVILEGE. Shareholders exercising the exchange privilege with other funds in the Company or any other fund in the Smith Barney Shearson Group of Funds should review the prospectus relating to the exchanged-for shares carefully prior to making an

38

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

EXCHANGE PRIVILEGE (CONTINUED)

exchange. Smith Barney Shearson reserves the right to reject any exchange request and the exchange privilege may be modified or terminated at any time after written notice to Shareholders.

Although the exchange privilege is an important benefit, excessive exchange transactions can be detrimental to the Fund's performance and its shareholders.

The Fund's investment adviser may determine that a pattern of frequent exchanges is excessive and contrary to the best interests of the Fund's other shareholders. In this event, the Fund's investment adviser will notify Smith Barney Shearson, and Smith Barney Shearson may, at its discretion, decide to limit additional purchases and/or exchanges by the shareholder. Upon such a determination, Smith Barney Shearson will provide notice in writing or by telephone to the shareholder at least 15 days prior to suspending the exchange privilege and during the 15-day period the shareholder will be required to (a) redeem his or her shares in the Fund or (b) remain invested in the Fund or exchange into any of the other Smith Barney Shearson funds ordinarily available, which position the shareholder would expect to maintain for a significant period of time. All relevant factors will be considered in determining what constitutes an abusive pattern of exchanges.

For further information regarding the exchange privilege or to obtain a current prospectus for the other funds in the Company or any other fund in the Smith Barney Shearson Group of Funds, shareholders should contact their Smith Barney Shearson Financial Consultant.

DISTRIBUTOR

Smith Barney Shearson is located at 388 Greenwich Street, New York, New York 10013, and serves as distributor of the Fund's shares. Smith Barney Shearson is a wholly owned subsidiary of Holdings which in turn is an indirect wholly owned subsidiary of Travelers. 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 average daily net assets of the respective Class. 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 average daily net assets attributable to those shares. The fees are authorized pursuant to a distribution and service plan (the

39

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

DISTRIBUTOR (CONTINUED)

"Plan") adopted by the Fund pursuant to Rule 12b-1 under the 1940 Act and are used by Smith Barney Shearson to pay its Financial Consultants for servicing shareholder accounts and, in the case of Class B and Class D shares, to cover expenses primarily intended to result in the sale of shares. These expenses include: costs of printing and distributing the Fund's Prospectus, Statement of Additional Information and sales literature to prospective investors; an allocation of overhead and other Smith Barney Shearsons' branch office distribution-related expenses; payments to and expenses of Smith Barney Shearson Financial Consultants and other persons who provide support services in connection with the distribution of the shares; and accruals for interest on the amount of the foregoing expenses that exceed distribution fees and, in the case of Class B shares, the CDSC received by Smith Barney Shearson. The payments to Smith Barney Shearson Financial Consultants for selling shares of a class include a commission paid at the time of sale and a continuing fee for servicing shareholder accounts for as long as a shareholder remains a holder of that Class. The service fee is credited at the rate of 0.25% of the value of average daily net assets of the Class of shares that remain invested in the Fund. Smith Barney Shearson Financial Consultants, may receive different levels of compensation for selling one Class of shares over another.

Although it is anticipated that some promotional activities will be

conducted
on a Company-wide basis, payments made by a fund under the Plan generally will
be used to finance the distribution of shares of the Fund. Expenses incurred
in
connection with Company-wide activities may be allocated pro-rata among all
funds of the Company on the basis of their relative net assets.

Payments under the Plan are not tied exclusively to the distribution and
shareholder service expenses actually incurred by Smith Barney Shearson, and
the
payments may exceed distribution expenses actually incurred. The Company's
Board
of Directors evaluates the appropriateness of the Plan and its payment terms
on
a continuing basis and in doing so considers all relevant factors, including
expenses borne by Smith Barney Shearson and the amount received under the Plan
and the proceeds of the CDSC and sales charges received.

40

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

DIVIDENDS, DISTRIBUTIONS AND TAXES

DIVIDENDS AND DISTRIBUTIONS

The Fund will be treated separately from the Company's other funds in
determining the amount of dividends from net investment income and
distributions
of capital gains payable to shareholders. Dividends and any distributions
automatically are reinvested in additional shares at net asset value unless
the
shareholder has elected to receive distributions in cash. Dividends and
distributions are treated the same for tax purposes whether taken in cash or
reinvested in additional shares. Dividends, if any, consisting of net
investment
income of the Fund will be declared and paid at least annually. Any net
realized
long-term capital gains, after utilization of capital loss carryforwards, will
be distributed at least annually. Net realized short-term capital gains may be
paid with the distribution of dividends from net investment income. The per
share dividends and distributions on Class A shares will be higher than the
per
share dividends and distributions on Class B and Class D shares as a result of
lower distribution and transfer agency fees applicable to the Class A shares.
See "Variable Pricing System." In addition, as determined by the Board of
Directors, distributions of the Fund may include a return of capital.
Shareholders will be notified of the amount of any distribution that
represents
a return of capital. In order to comply with a calendar year distribution
requirement under the Code, it may be necessary for the Fund to make
distributions at times other than those set forth above.

TAXES

The Fund will be treated as a separate taxpayer with the result that, for
federal tax purposes, the amount of investment income and capital gains earned
will be determined on a fund-by-fund basis, rather than on a Company-wide
basis.
The Fund intends to continue to qualify as a "regulated investment company"
under Subchapter M of the Code. In any taxable year in which the Fund so
qualifies and distributes at least 90% of its investment company taxable
income
(which includes, among other items, dividends, interest and the excess of any
net short-term capital gains over net long-term capital losses), the Fund (but
not its shareholders) generally will be relieved of federal income tax on the
investment company taxable income and net realized capital gains (the excess
of
net long-term capital gains over net short-term capital losses), if any,
distributed to shareholders. In order to qualify as a regulated investment
company, the Fund will be required to meet various Code requirements.

41

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

DIVIDENDS, DISTRIBUTIONS AND TAXES (CONTINUED)

Amounts not distributed on a timely basis in accordance with a calendar year distribution requirement are subject to a nondeductible 4% excise tax. To prevent application of the excise tax, the Fund intends to make its distributions in accordance with this requirement.

Distributions of any investment company taxable income are taxable to shareholders as ordinary income. Distributions of any net capital gains designated by the Fund as capital gain dividends are taxable to shareholders as long-term capital gain regardless of the length of time a shareholder may have held shares of the Fund.

Dividends (including capital gain dividends) declared by the Fund in October, November or December of any calendar year to shareholders of record on a date in such a month will be deemed to have been received by shareholders on December 31 of that calendar year, provided that the dividend is actually paid by the Fund during January of the following calendar year.

Upon the disposition of shares of the Fund (whether by redemption, sale or exchange), a shareholder generally will realize a taxable gain or loss. Such gain or loss generally will be a capital gain or loss if the shares are capital assets in the shareholder's hands, and generally will be long-term or short-term depending upon the shareholder's holding period for the shares. Any loss realized by a shareholder on disposition of Fund shares held by the shareholder for six months or less will be treated as long-term capital loss to the extent of any distributions of capital gains dividends received by the shareholder with respect to such shares.

Shareholders will be notified annually about the amounts of dividends and distributions, including the amounts (if any) for that year which have been designated as capital gain dividends. Dividends and distributions, and gains realized upon a disposition of Fund shares, may also be subject to state, local or foreign taxes depending on each shareholder's particular situation. Dividends, if any, consisting of interest from obligations of the U.S. government and certain of its agencies and instrumentalities may be exempt from all state and local income taxes. Investors should consult their tax advisors for specific information on the tax consequences of particular types of distributions.

42

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

THE FUND'S PERFORMANCE

TOTAL RETURN

From time to time, the Fund may advertise the "average annual total return" over various periods of time for each Class. Such total return figures show the average percentage change in value of an investment in the Class from the beginning date of the measuring period to the end of the measuring period. These figures reflect changes in the price of the shares and assume that any income dividends and/or capital gains distributions made by the Fund during the period were reinvested in shares of the same Class. Class A total return figures include the maximum initial 5.00% sales charge and Class B total return figures include any applicable CDSC. These figures also take into account the service and distribution fees, if any, payable with respect to each Class.

Total return figures will be given for recent one-, five- and ten-year periods or the life of a Class to the extent it has not been in existence for any such period, and may be given for other periods as well, such as on a year-by-year basis. When considering average annual total return figures for periods longer than one year, it is important to note that the total return for any one year in the period might have been greater or less than the average for the entire period. "Aggregate" total return figures may be used for various periods, representing the cumulative change in value of an investment in the shares for the specific period (again reflecting changes in the Fund's share prices and

assuming reinvestment of dividends and distributions). Aggregate total returns may be calculated either with or without the effect of the maximum 5.00% sales charge or any applicable CDSC and may be shown by means of schedules, charts or graphs, and may indicate subtotals of the various components of total return (that is, change in the value of initial investment, income dividends, and capital gains distributions). Because of the differences in sales charges and distribution and other fees, the total returns for each of the Classes will differ.

In reports or other communications to shareholders or in advertising material, performance of a Class may be compared with that of other mutual funds or classes of shares of other funds listed in the rankings prepared by Lipper Analytical Services, Inc. or similar independent services that monitor the performance of mutual funds or with other appropriate indices of investment securities such as the S&P 500, the Dow Jones Industrial Average and Morgan Stanley Capital International World Index. The performance information may also include evaluations of the Fund published by nationally recognized financial publications such as BARRON'S,

43

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

THE FUND'S PERFORMANCE (CONTINUED)

BUSINESS WEEK, CDA INVESTMENT TECHNOLOGIES, INC., FORBES, FORTUNE, INSTITUTIONAL INVESTOR, INVESTORS DAILY, KIPLINGER'S PERSONAL FINANCE MAGAZINE, MONEY, MORNINGSTAR MUTUAL FUND VALUES, THE NEW YORK TIMES, USA TODAY and THE WALL STREET JOURNAL. It is important to note that total return figures are based on historical earnings and are not intended to indicate future performance. To the extent any advertisement or sales literature of the Fund describes the expenses or performance of a Class, it will also disclose such information for the other Classes. For a description of the methods used to determine total return for the Fund, see the Statement of Additional Information. Performance figures may be obtained from any Smith Barney Shearson Financial Consultant.

ADDITIONAL INFORMATION

The Company was organized as a Maryland corporation pursuant to Articles of Incorporation dated September 29, 1981, as amended from time to time. The Company commenced operations on January 4, 1982 under the name "Hutton Investment Series Inc." The Company's corporate name was changed to "SLH Investment Portfolios Inc." on December 29, 1988. On October 23, 1992, the Board of Directors of the Company authorized the Company to do business under the name of "Shearson Lehman Brothers Investment Funds" and also authorized a change in the name of the Fund to Special Equities Fund. On July 30, 1993, the Company's corporate name was changed to its current name "Smith Barney Shearson Investment Funds Inc." and the Fund's name was changed to "Smith Barney Shearson Special Equities Fund."

The Fund offers shares of common stock currently classified into three Classes, A, B and D, with a par value of \$0.001 per share. Each Class of shares has the same rights, privileges and preferences, except with respect to: (a) the designation of each Class; (b) the effect of the respective sales charges, if any, for each Class; (c) the distribution and/or service fees borne by each Class; (d) the expenses allocable exclusively to each Class; (e) voting rights on matters exclusively affecting a single Class; (f) the exchange privilege of each Class; and (g) the conversion feature of the Class B shares. The Board of Directors does not anticipate that there will be any conflicts

44

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

ADDITIONAL INFORMATION (CONTINUED)

among the interests of the holders of the different Classes of shares of the Fund. The Directors, on an ongoing basis, will consider whether any such conflict exists and, if so, take appropriate action.

Boston Safe, a wholly owned subsidiary of TBC, is located at One Boston Place, Boston, Massachusetts 02108, and serves as custodian of the Company's investments.

TSSG, a subsidiary of FDC, is located at Exchange Place, Boston, Massachusetts 02109, and serves as the Company's transfer agent.

The Company does not hold annual shareholder meetings. There normally will be no meeting of shareholders for the purpose of electing Directors unless and until such time as less than a majority of the Directors holding office have been elected by shareholders. The Directors will call a meeting for any purpose upon written request of shareholders holding at least 10% of the Company's outstanding shares. When matters are submitted for shareholder vote, shareholders of each Class will have one vote for each full share owned and a proportionate, fractional vote for any fractional share held of that Class. Generally, shares of the Company will be voted on a Company-wide basis on all matters except matters affecting only the interests of one Fund or one Class of shares.

The Fund sends its shareholders a semi-annual report and an audited annual report, each of which includes a list of the investment securities held by the Fund at the end of the reporting period. In an effort to reduce the Fund's printing and mailing costs, the Company plans to consolidate the mailing of its semi-annual and annual reports by household. This consolidation means that a household having multiple accounts with the identical address of record will receive a single copy of each report. In addition, the Company also plans to consolidate the mailing of its Prospectuses so that a shareholder having multiple accounts (I.E., individual, IRA and/or Self-Employed Retirement Plan accounts) will receive a single Prospectus annually. When the Fund's annual reports are combined with the Prospectus into a single document, the Fund will mail the combined document to each shareholder to comply with legal requirements. Any shareholder who does not want this consolidation to apply to his or her account should contact their Smith Barney Shearson Financial Consultant or the Fund's transfer agent.

45

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

ADDITIONAL INFORMATION (CONTINUED)

NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS, THE STATEMENT OF ADDITIONAL INFORMATION AND/OR IN THE FUND'S OFFICIAL SALES LITERATURE IN CONNECTION WITH THE OFFERING OF THE FUND'S SHARES AND, IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER IN ANY STATE IN WHICH, OR TO ANY PERSON TO WHOM, SUCH OFFER MAY NOT LAWFULLY BE MADE.

46

SMITH BARNEY SHEARSON
SPECIAL EQUITIES FUND

DIRECTORS

Dwight B. Crane
Alger B. Chapman
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

George Novello
INVESTMENT OFFICER

Vincent Nave
TREASURER

Francis J. McNamara, III
SECRETARY

Paul F. Roye
ASSISTANT SECRETARY

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

47

SMITH BARNEY SHEARSON
SPECIAL
EQUITIES
FUND
Two World Trade Center
New York, New York 10048

Fund 102, 193, 253

FD0232 B4

PART A

SMITH BARNEY SHEARSON INVESTMENT FUNDS INC.

PROSPECTUS

SMITH BARNEY SHEARSON EUROPEAN FUND

MARCH 1, 1994
SMITH BARNEY SHEARSON
EUROPEAN
FUND
PROSPECTUS BEGINS
ON PAGE ONE.
[LOGO]

SMITH BARNEY SHEARSON
EUROPEAN FUND

PROSPECTUS

March 1, 1994

Two World Trade Center
New York, New York 10048
(212) 720-9218

Smith Barney Shearson European Fund (the "Fund") has an investment objective of long-term capital appreciation by investing primarily in securities of issuers based in countries of Europe, including Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, The Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland, Turkey and the United Kingdom. The decision to invest in the Fund's shares requires consideration of certain factors that are not normally involved in an investment in U.S. securities.

The Fund is one of a number of funds, each having distinct investment objectives and policies, making up Smith Barney Shearson Investment Funds Inc. (the "Company"). The Company is an open-end management investment company commonly referred to as a mutual fund.

This Prospectus briefly sets forth certain information about the Company and the Fund, including sales charges, distribution and service fees and expenses that prospective investors will find helpful in making an investment decision. Investors are encouraged to read this Prospectus carefully and to retain it for future reference. Shares of other funds offered by the Company are described in separate Prospectuses that may be obtained by calling the Company at the telephone number set forth above or by contacting any Smith Barney Shearson Financial Consultant. The net asset value per share of the Fund will fluctuate in response to changes in market conditions and other factors.

Additional information about the Company and the Fund is contained in a Statement of Additional Information dated March 1, 1994, as amended or supplemented from time to time, that is available upon request and without charge by calling or writing the Company at the telephone number or address set forth above or by contacting any Smith Barney Shearson Financial Consultant. The Statement of Additional Information has been filed with the Securities and Exchange Commission (the "SEC") and is incorporated by reference into this Prospectus in its entirety.

SMITH BARNEY SHEARSON INC.
Distributor

LEHMAN BROTHERS GLOBAL ASSET MANAGEMENT LIMITED

THE BOSTON COMPANY ADVISORS, INC.
Administrator

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

1

SMITH BARNEY SHEARSON
EUROPEAN FUND

TABLE OF CONTENTS

<TABLE>	
<S>	<C>
PROSPECTUS SUMMARY	3

FINANCIAL HIGHLIGHTS	9

VARIABLE PRICING SYSTEM	12

INVESTMENT OBJECTIVE AND MANAGEMENT POLICIES	13

MANAGEMENT OF THE COMPANY AND THE FUND	21

PURCHASE OF SHARES	23

REDEMPTION OF SHARES	30

VALUATION OF SHARES	34

EXCHANGE PRIVILEGE	36

DISTRIBUTOR	42

DIVIDENDS, DISTRIBUTIONS AND TAXES	44

THE FUND'S PERFORMANCE	47

ADDITIONAL INFORMATION	49

</TABLE>

2

SMITH BARNEY SHEARSON
EUROPEAN FUND

PROSPECTUS SUMMARY

THE FOLLOWING SUMMARY IS QUALIFIED IN ITS ENTIRETY BY DETAILED INFORMATION APPEARING ELSEWHERE IN THIS PROSPECTUS AND IN THE STATEMENT OF ADDITIONAL INFORMATION. CROSS REFERENCES IN THIS SUMMARY ARE TO HEADINGS IN THE PROSPECTUS.
SEE THE "TABLE OF CONTENTS."

BENEFITS TO INVESTORS THE FUND OFFERS INVESTORS SEVERAL IMPORTANT BENEFITS:

- - Investment liquidity through convenient purchase and redemption procedures.
- - A convenient way to invest without the administrative and recordkeeping burdens normally associated with the direct ownership of securities.
- - Different methods for purchasing shares that allow investment flexibility and a wider range of investment alternatives.
- - An automatic dividend reinvestment feature, plus an exchange privilege within the same class of shares of the other funds in the Company and of most other funds in the Smith Barney Shearson Group of Funds.

INVESTMENT OBJECTIVE The Fund is an open-end diversified management investment company that seeks long-term capital appreciation by investing in issuers based in the countries of Europe, including Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, The Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland, Turkey and the United Kingdom. Under normal circumstances, the Fund will invest at least 65% of its assets in a diversified portfolio of equity securities of issuers domiciled in the above named countries. See "Investment Objective and Management Policies."

VARIABLE PRICING SYSTEM The Fund offers several classes of shares ("Classes") to investors designed to provide them with the flexibility of selecting an investment best suited to their needs. The general public is offered two classes of shares, Class A shares and Class B shares, which differ principally in terms of the sales charges and rates of expenses to which they are subject. In addition, a third class -- Class D shares -- is offered only to plans participating in the Smith Barney Shearson 401(k) Program (the "401(k) Program"). See "Variable Pricing System" and "Purchase of Shares -- Smith Barney Shearson 401(k) Program."

3

SMITH BARNEY SHEARSON
EUROPEAN FUND

PROSPECTUS SUMMARY (CONTINUED)

CLASS A SHARES These shares are offered at net asset value per share plus a maximum initial sales charge of 5.00%. The Fund pays an annual service fee of 0.25% of the value of average daily net assets of this Class. See "Purchase of Shares."

CLASS B SHARES These shares are offered at net asset value per share subject to a maximum contingent deferred sales charge ("CDSC") of 5.00% of redemption proceeds, declining by 1.0% each year after the date of purchase to zero. The Fund pays an annual service fee of 0.25% and an annual distribution fee of 0.75% of the value of average daily net assets of this Class. See "Purchase of Shares."

CLASS B CONVERSION FEATURE Class B shares will convert automatically to Class A shares, based on relative net asset value, approximately eight years after the date of original purchase. Upon conversion, these shares will no longer be subject to an annual distribution fee. The first of these conversions will commence on or about September 30, 1994. See "Variable Pricing System -- Class B Shares."

SMITH BARNEY SHEARSON 401(K) PROGRAM Investors may be eligible to participate in the 401(k) Program, which is generally designed to assist employers or plan sponsors in the creation and operation of retirement plans under Section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code"), as well as other types of participant directed, tax qualified employee benefit plans and employer sponsored non-qualified employee benefit plans (collectively, "Participating Plans"). Class A, Class B and Class D shares are available as investment alternatives for Participating Plans. Class A and Class B shares acquired through the 401(k) Program are subject to the same service and/or distribution fees as, but different sales charges and CDSC schedules than, the Class A and Class B shares acquired by other investors. Class D shares acquired by Participating Plans are offered at net asset value per share without any sales charges or CDSC. The Fund pays annual service and distribution fees based on the

value of average daily net assets attributable to this Class. See "Purchase of Shares -- Smith Barney Shearson 401(k) Program."

PURCHASE OF SHARES Shares may be purchased through the Company's distributor, Smith Barney Shearson Inc. ("Smith Barney Shearson"). Shares may also be purchased through a broker that clears securities transactions through Smith Barney Shearson on a fully disclosed basis (an "Introducing

4

SMITH BARNEY SHEARSON
EUROPEAN FUND

PROSPECTUS SUMMARY (CONTINUED)

Broker"). Direct purchases of certain retirement plans may be made through The Shareholder Services Group, Inc. ("TSSG"), the Company's transfer agent, a subsidiary of First Data Corporation ("FDC"). Smith Barney Shearson recommends that, in most cases, single investments of \$250,000 or more should be made in Class A shares. See "Purchase of Shares."

INVESTMENT MINIMUMS Investors are subject to a minimum initial investment requirement of \$1,000 and a minimum subsequent investment requirement of \$200. However, for Individual Retirement Accounts ("IRAs") and Self-Employed Retirement Plans, the minimum initial investment requirement is \$250 and the minimum subsequent investment requirement is \$100 and for certain qualified retirement plans, the minimum initial and subsequent investment requirement is \$25. See "Purchase of Shares."

SYSTEMATIC INVESTMENT PLAN The Fund also offers shareholders a Systematic Investment Plan under which they may authorize the automatic placement of a purchase order each month or quarter for Fund shares in an amount not less than \$100. See "Purchase of Shares."

REDEMPTION OF SHARES Shares may be redeemed on each day the New York Stock Exchange, Inc. ("NYSE") is open for business. Class A and Class D shares are redeemable at net asset value and Class B shares are redeemable at net asset value less any applicable CDSC. See "Redemption of Shares."

MANAGEMENT OF THE FUND Lehman Brothers Global Asset Management Limited ("Global Asset Management") serves as the Fund's investment adviser. Global Asset Management is a wholly owned subsidiary of Lehman Brothers Holdings Inc. ("Holdings"), a full-line investment firm serving U.S. and foreign securities and commodities markets. Holdings is in turn a wholly owned subsidiary of American Express Company ("American Express"), which is principally engaged in the businesses of providing travel-related services, information services, investment services, international banking services and investors' diversified financial services. American Express owns 100% of Holdings' issued and outstanding common stock, which represents approximately 92% of Holdings' issued and outstanding common stock. The remainder of Holdings' voting stock is owned by Nippon Life Insurance Company. As of December 31, 1993 Global Asset Management had aggregate assets under management in excess of \$8.1 billion.

5

SMITH BARNEY SHEARSON
EUROPEAN FUND

PROSPECTUS SUMMARY (CONTINUED)

The Boston Company Advisors, Inc. ("Boston Advisors") serves as the Fund's administrator. Boston Advisors is a wholly owned subsidiary of The Boston Company, Inc. ("TBC") a financial services holding company which in turn is an indirect wholly owned subsidiary of Mellon Bank Corporation ("Mellon"). As of December 31, 1993 Boston Advisors provides investment management, investment advisory, and/or administrative services to investment companies, which had aggregate assets under management in excess of \$86.6 billion. See "Management

of
the Company and the Fund."

EXCHANGE PRIVILEGE Shares of a Class may be exchanged for shares of the same Class of most other funds in the Smith Barney Shearson Group of Funds and certain money market funds. Certain exchanges may be subject to a sales charge differential. See "Exchange Privilege."

VALUATION OF SHARES Net asset value of each Class is quoted daily in the financial section of most newspapers and is also available from any Smith Barney Shearson Financial Consultant. See "Valuation of Shares."

DIVIDENDS AND DISTRIBUTIONS Dividends and distributions are paid at least annually from net investment income and net realized long- and short-term capital gains. See "Dividends, Distributions and Taxes" and "Variable Pricing System."

REINVESTMENT OF DIVIDENDS Dividends and distributions paid on shares of a Class will be reinvested automatically unless otherwise specified by an investor in additional shares of the same Class at current net asset value. Shares acquired by dividend and distribution reinvestments will not be subject to any sales charge or CDSC. Class B shares acquired through dividend and distribution reinvestments will become eligible for conversion to Class A shares on a pro rata basis. See "Dividends, Distributions and Taxes" and "Variable Pricing System."

RISK FACTORS AND SPECIAL CONSIDERATIONS The Company is designed for long-term investors and not for investors who intend to liquidate their investment after a short period. Neither the Company as a whole nor any particular fund in the Company, including the Fund, constitutes a balanced investment plan. There can be no assurance that the Fund will achieve its investment objective. The foreign securities in which the Fund invests may be subject to certain risks in addition to those inherent in domestic investments. The Fund may employ investment techniques which involve

6

SMITH BARNEY SHEARSON
EUROPEAN FUND

PROSPECTUS SUMMARY (CONTINUED)

certain other risks, including entering into repurchase agreements, lending portfolio securities and selling securities short. See "Investment Objective and Management Policies -- Additional Investments."

THE FUND'S EXPENSES The following expense table lists the costs and expenses that an investor will incur either directly or indirectly as a shareholder of the Fund based upon the maximum sales charge and the maximum CDSC that may be incurred at the time of purchase or redemption and an estimate of the Fund's current operating expenses:

<TABLE>
<CAPTION>

	CLASS A	CLASS B
CLASS D		
<S>	<C>	<C>
<C>		

SHAREHOLDER TRANSACTION EXPENSES		
Maximum sales charge imposed on purchases (as a percentage of offering price)	5.00%	--

Maximum CDSC (as a percentage of redemption		

proceeds)	--	5.00%

ANNUAL FUND OPERATING EXPENSES		
(as a percentage of average net assets)		
Management fees	0.90	0.90
0.90%		
12b-1 fees*	0.25	1.00
1.00		
Other expenses**	1.17	1.15
1.09		

TOTAL FUND OPERATING EXPENSES	2.32%	3.05%
2.99%		

<FN>
 *Upon conversion of Class B shares to Class A shares, such shares will no longer be subject to a distribution fee. Class D shares do not have a conversion feature and, therefore, are subject to an ongoing distribution fee.
 **All expenses are based on data for the Fund's fiscal year ended December 31, 1993.
 </TABLE>

The sales charge and CDSC set forth in the above table are the maximum charges imposed upon purchases or redemptions of Fund shares and investors may pay actual charges less than 5.00%, depending on the amount purchased and, in the case of Class B shares, the length of time the shares are held and whether the shares are held through the 401(k) Program. See "Purchase of Shares" and "Redemption of Shares." Management fees payable by the Fund include investment advisory fees paid to Global Asset Management at the annual rate of 0.70% of the value of the Fund's average daily net assets and administration fees paid to Boston Advisors at the annual rate of 0.20% of the value of the Fund's average daily net assets. The nature of the services for which the Fund pays management fees is described

7

SMITH BARNEY SHEARSON
 EUROPEAN FUND

 PROSPECTUS SUMMARY (CONTINUED)

under "Management of the Company and the Fund." Smith Barney Shearson receives an annual Rule 12b-1 service fee of 0.25% of the value of average daily net assets of Class A shares. Smith Barney Shearson also receives, with respect to Class B shares and Class D shares, an annual Rule 12b-1 fee of 1.00% of the value of average daily net assets of Class B shares and Class D shares, respectively, consisting of a 0.75% distribution fee and a 0.25% service fee. "Other expenses" in the above table include fees for shareholder services, custodial fees, legal and accounting fees, printing costs and registration fees.

EXAMPLE

The following example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical \$1,000 investment in the Fund assuming a 5.0% annual total return. THE EXAMPLE ASSUMES PAYMENT BY THE FUND OF OPERATING EXPENSES AT THE LEVELS SET FORTH IN THE ABOVE TABLE. THE EXAMPLE SHOULD NOT BE CONSIDERED A REPRESENTATION OF PAST OR FUTURE EXPENSES AND ACTUAL EXPENSES MAY BE GREATER OR LESS THAN THOSE SHOWN. MOREOVER, WHILE THE EXAMPLE ASSUMES A 5.0% ANNUAL RETURN, THE FUND'S ACTUAL PERFORMANCE WILL VARY AND MAY RESULT IN AN ACTUAL RETURN GREATER OR LESS THAN 5.0%.

<TABLE>
 <CAPTION>

1 YEAR 3 YEARS 5 YEARS 10

YEARS*	<S>	<C>	<C>	<C>	<C>
Class A shares:**	\$303	\$72	\$119	\$168	
Class B shares:					
Assumes complete redemption at the end of each time period ***	319	81	124	170	
Assumes no redemption	319	31	94	160	
Class D shares:	292	26	81	136	

<FN>
 *Ten-year figures assume conversion of Class B shares to Class A shares at the end of the eighth year following the date of purchase.
 **Assumes deduction at the time of purchase of the maximum 5.00% sales charge.
 ***Assumes deduction at the time redemption of the maximum CDSC applicable for that time period.
 </TABLE>

8

SMITH BARNEY SHEARSON
 EUROPEAN FUND

FINANCIAL HIGHLIGHTS

THE FOLLOWING INFORMATION HAS BEEN AUDITED BY COOPERS & LYBRAND, INDEPENDENT ACCOUNTANTS, WHOSE REPORT THEREON APPEARS IN THE FUND'S ANNUAL REPORT DATED DECEMBER 31, 1993. THE INFORMATION BELOW SHOULD BE READ IN CONJUNCTION WITH THE FINANCIAL STATEMENTS AND RELATED NOTES THAT ALSO APPEAR IN THE FUND'S ANNUAL REPORT DATED DECEMBER 31, 1993, WHICH IS INCORPORATED BY REFERENCE INTO THE STATEMENT OF ADDITIONAL INFORMATION.

FOR A CLASS A SHARE OUTSTANDING THROUGHOUT THE PERIOD:

PERIOD	ENDED	YEAR ENDED
12/31/93##	12/31/92*	
Net Asset Value, beginning of period	\$11.52	\$11.72
Income from investment operations:		
Net investment income/(loss)	0.00++	0.07
Net realized and unrealized gain on investments	0.20	2.68
Total from investment operations	0.20	2.75
Net Asset Value, end of period	\$11.72	\$14.47
Total return+	1.74%	23.46%
Net assets, end of period (in 000's)	\$ 46	\$1,707
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>

9

SMITH BARNEY SHEARSON
 EUROPEAN FUND

FINANCIAL HIGHLIGHTS (CONTINUED)

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

<TABLE>
 <CAPTION>

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

<FN>

*The Fund commenced operations on November 6, 1987.

**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.
 ++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 income/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.
 ##Per share amounts have been calculated using the monthly average share method.
 </TABLE>

10

SMITH BARNEY SHEARSON
 EUROPEAN FUND

<TABLE>
 <CAPTION>

YEAR ENDED	YEAR ENDED	YEAR ENDED	YEAR ENDED	PERIOD ENDED
12/31/91	12/31/90	12/31/89	12/31/88+++	
<S>	<C>	<C>	<C>	<C>
\$ 12.97	\$ 13.29	\$11.32	\$10.44	\$10.00
-----	-----	-----	-----	-----
0.19 (0.08)	0.24 (0.09)	0.14# 2.38	(0.06)# 1.33	0.05# 0.39
-----	-----	-----	-----	-----
0.11 (0.27)	0.15 (0.16)	2.52 (0.05)	1.27 (0.12)	0.44 --
-- (0.01)	-- (0.31)	-- (0.48)	-- (0.27)	-- --
-----	-----	-----	-----	-----
(0.28)	(0.47)	(0.55)	(0.39)	--
-----	-----	-----	-----	-----
\$ 12.80	\$ 12.97	\$13.29	\$11.32	\$10.44
-----	-----	-----	-----	-----
0.88%	1.17%	22.26%	12.28%	4.40%
-----	-----	-----	-----	-----
\$28,634 2.55%	\$28,017 2.92%	\$7,445 2.37%++	\$2,287 2.51%++	\$1,708
4.30%****+				
1.49%	2.21%	0.97%	(0.71)%	
4.73%***				
94%	118%	109%	105%	167%
-----	-----	-----	-----	-----

</TABLE>

11

SMITH BARNEY SHEARSON
 EUROPEAN FUND

 VARIABLE PRICING SYSTEM

The Smith Barney Shearson Group of Funds offers individual investors two methods of purchasing shares, thus enabling investors to choose the Class that best suits their needs, given the amount of purchase and intended length of investment. A third class -- Class D -- is offered only to Participating

Plans.

CLASS A SHARES. Class A shares are sold at net asset value per share plus a maximum initial sales charge of 5.0% imposed at the time of purchase. The initial sales charge may be reduced or waived for certain purchases. Class A shares are subject to an annual service fee of 0.25% of the value of the Fund's average daily net assets attributable to the Class. The annual service fee is used by Smith Barney Shearson to compensate its Financial Consultants for ongoing services provided to shareholders. The sales charge is used to compensate Smith Barney Shearson for expenses incurred in selling Class A shares. See "Purchase of Shares."

CLASS B SHARES. Class B shares are sold at net asset value per share subject to a maximum 5.00% CDSC, which is assessed only if the shareholder redeems shares within the first five years of investment. This results in 100% of the investor's assets being used to acquire shares of the Fund. For each year of investment within the five-year time frame, the applicable CDSC declines by 1.00%; in year six, the applicable CDSC is reduced to 0%. See "Purchase of Shares" and "Redemption of Shares."

Class B shares are subject to an annual service fee of 0.25% and an annual distribution fee of 0.75% of the value of the Fund's average daily net assets attributable to the Class. Like the service fee applicable to Class A shares, the Class B service fee is used to compensate Smith Barney Shearson Financial Consultants for ongoing services provided to shareholders. Additionally, the distribution fee paid with respect to Class B shares compensates Smith Barney Shearson for expenses incurred in selling those shares, including expenses such as sales commissions, Smith Barney Shearson's branch office overhead expenses and marketing costs associated with Class B shares, such as preparation of sales literature, advertising and printing and distributing prospectuses, statements of additional information and other materials to prospective investors in Class B shares. A Financial Consultant may receive different levels of compensation for selling different Classes. Class B shares are subject to a distribution fee and are subject to higher transfer agency fees than Class A shares which generally will cause Class B shares to have a higher expense ratio and pay lower dividends than Class A shares.

12

SMITH BARNEY SHEARSON
EUROPEAN FUND

VARIABLE PRICING SYSTEM (CONTINUED)

Eight years after the date of purchase, Class B shares will convert automatically to Class A shares, based on the relative net asset values of shares of each Class, and will no longer be subject to a distribution fee. In addition, a certain portion of Class B shares that have been acquired through the reinvestment of dividends and distributions ("Class B Dividend Shares") will be converted at that time. That portion will be a percentage of the total number of outstanding Class B Dividend Shares, which percentage will be determined by the ratio of the total number of Class B shares converting at the time to the total number of outstanding Class B shares (other than Class B Dividend Shares). The first of these conversions will commence on or about September 30, 1994. The conversion of Class B shares into Class A shares is subject to the continuing availability of an opinion of counsel or an Internal Revenue Service ruling to the effect that such conversions will not constitute taxable events for federal tax purposes.

CLASS D SHARES. Class D shares of the Fund are sold to Participating Plans at net asset value per share and are not subject to an initial sales charge or CDSC. This Class of shares is subject to an annual service fee of 0.25% and an

annual distribution fee of 0.75% of the value of the Fund's average daily net assets attributable to the Class. The distribution fee is used by Smith Barney Shearson for expenses incurred in selling Class D shares, and the service fee is used to compensate Smith Barney Shearson Financial Consultants for ongoing services provided to Class D shareholders. Class D shares are subject to a distribution fee which will cause Class D shares to have a higher expense ratio and to pay lower dividends than Class A shares.

INVESTMENT OBJECTIVE AND MANAGEMENT POLICIES

Set forth below is a description of the investment objective and policies of the Fund. There can be no assurance that the Fund will achieve its investment objective. Certain instruments and techniques discussed in this summary are described in greater detail in this Prospectus under "Additional Investments" and in the Statement of Additional Information.

The Statement of Additional Information contains specific investment restrictions which govern the Fund's investments. These restrictions and the Fund's investment objective are fundamental policies, which means that they

13

SMITH BARNEY SHEARSON
EUROPEAN FUND

INVESTMENT OBJECTIVE AND MANAGEMENT POLICIES (CONTINUED)

may not be changed without a majority vote of shareholders of the Fund. Except for the objective and those restrictions specifically identified as fundamental, all investment policies and practices described in this Prospectus and in the Statement of Additional Information are non-fundamental, so that the Board of Directors may change them without shareholder approval. The fundamental restrictions applicable to the Fund include a prohibition on (a) purchasing a security if, as a result, more than 5% of the assets of the Fund would be invested in the securities of the issuer (with certain exceptions) or the Fund would own more than 10% of the outstanding voting securities of the issuer, (b) investing more than 10% of the Fund's total assets in "illiquid" securities (which includes repurchase agreements with more than seven days to maturity), and (c) investing more than 25% of the Fund's total assets in the securities of issuers in a particular industry (with exceptions for U.S. government securities and certain money market instruments).

The Fund has an investment objective of achieving long-term capital appreciation. The Fund seeks to achieve its objective by investing primarily in equity securities (common and preferred stock) of issuers in countries of Europe, including Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, The Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland, Turkey and the United Kingdom ("Primary Investment Area"). Global Asset Management, the Fund's investment adviser, believes that the Fund's objective can best be achieved by an investment policy based on the identification of countries and industries with above-average growth rates, the assessment of currency factors, and the identification of companies in those countries and industries with potential for above-average growth in earnings. It is a fundamental policy of the Fund to invest, under normal circumstances, at least 65% of its total assets in a diversified portfolio of equity securities of issuers domiciled in the Primary Investment Area of the Fund.

In addition, the Fund may invest in other kinds of securities, E.G., convertible bonds, warrants, Samurai and Yankee bonds, Eurobonds, American Depositary Receipts, which are dollar-denominated receipts issued generally by domestic banks and representing the deposit with the bank of a security of a foreign issuer ("ADRs") and European Depositary Receipts, which are receipts similar to ADRs issued and traded in Europe ("EDRs"), securities issued by companies domiciled outside the Primary Investment

14

INVESTMENT OBJECTIVE AND MANAGEMENT POLICIES (CONTINUED)

Area of the Fund, including, but not limited to, Eastern Europe, U.S. and foreign government securities, and U.S. and non-U.S. money market securities. Money market securities will generally be held by the Fund for temporary and defensive purposes. With respect to certain countries, investments by the Fund presently may only be made by acquiring shares of other investment companies with local governmental authority to invest in those countries. It is not expected that the income yield of the Fund will be significant.

The Fund also may hold cash in U.S. dollars to meet redemption requests and other expenses and cash in other currencies to meet settlement requirements for foreign securities. The Fund may engage in currency exchange transactions in order to protect against uncertainty in the level of future exchange rates between a particular foreign currency and the U.S. dollar or between foreign currencies in which the Fund's securities are or may be denominated. The Fund may conduct its currency exchange transactions either on a "spot" (I.E., cash) basis at the rate prevailing in the currency exchange market or through entering into forward contracts to purchase or sell currencies. The Fund's dealings in forward foreign currency exchange contracts will be limited to hedging involving either specific transactions or aggregate portfolio positions. See "Foreign Securities and American Depositary Receipts" and "Foreign Currency Risks" herein and see the Statement of Additional Information for further details concerning these transactions.

The Fund may invest in yen-denominated bonds sold in Japan by non-Japanese issuers. Such bonds are commonly called "Samurai bonds" and correspond to "Yankee bonds" or dollar-denominated bonds sold in the United States by non-U.S. issuers. As compared with domestic issues, E.G., those of the government of Japan and its agencies, Samurai bond issues normally carry a higher interest rate but are less actively traded and therefore may be volatile. Moreover, as with other securities denominated in foreign currencies, their value is affected by fluctuations in currency exchange rates. It is the policy of the Fund to invest in Samurai bond issues only after taking into account considerations of quality and liquidity, as well as yield. These bonds would be of Organization for Economic Cooperation and Development ("OECD") governments or would have AAA ratings.

15

INVESTMENT OBJECTIVE AND MANAGEMENT POLICIES (CONTINUED)

The Fund may borrow money from a bank as a temporary measure for emergency or extraordinary purposes in an amount not exceeding 10% of the value of its total assets, and may invest no more than 10% of its total assets in securities that are not readily marketable (I.E., trading in the security is suspended or, in the case of unlisted securities, market makers do not exist or will not entertain bids or offers). When the Fund has borrowed in excess of 5% of the value of its total assets, the Fund will not make further investments. The Fund will not invest more than 25% of the value of its total assets in the securities of issuers engaged in any one industry (other than the U.S. government, its agencies and instrumentalities). The Fund will invest no more than 10% of the value of its net assets in warrants valued at the lower of cost or market. The Fund does not currently intend to engage in trading of options or futures contracts but may do so in the future if determined to be in the Fund's best interests by the Fund's Board of Directors.

In making purchases of securities consistent with the above policies, the Fund will be subject to the applicable restrictions referred to under "Investment Restrictions" in the Statement of Additional Information.

ADDITIONAL INVESTMENTS

U.S. GOVERNMENT SECURITIES. U.S. government securities are obligations of, or are guaranteed by, the U.S. government, its agencies or instrumentalities. These include bills, certificates of indebtedness, and notes and bonds issued by the U.S. Treasury or by agencies or instrumentalities of the U.S. government. Some U.S. government securities, such as U.S. Treasury bills and bonds, are supported by the full faith and credit of the U.S. Treasury; others are supported by the right of the issuer to borrow from the U.S. Treasury; others, such as those of the Federal National Mortgage Association, are supported by the discretionary authority of the U.S. government to purchase the agency's obligations; still others, such as those of the Student Loan Marketing Association and the Federal Home Loan Mortgage Corporation ("FHLMC"), are supported only by the credit of the instrumentality. Mortgage participation certificates issued by the FHLMC generally represent ownership interests in a pool of fixed-rate conventional mortgages. Timely payment of principal and interest on these certificates is guaranteed solely by the issuer of the certificates. Other

16

SMITH BARNEY SHEARSON
EUROPEAN FUND

INVESTMENT OBJECTIVE AND MANAGEMENT POLICIES (CONTINUED)

investments will include Government National Mortgage Association Certificates ("GNMA Certificates"), which are mortgage-backed securities representing part ownership of a pool of mortgage loans on which timely payment of interest and principal is guaranteed by the full faith and credit of the U.S. government. While the U.S. government guarantees the payment of principal and interest on GNMA Certificates, the market value of the securities is not guaranteed and will fluctuate.

REPURCHASE AGREEMENTS. The Fund may enter into repurchase agreement transactions on U.S. government securities with certain member banks of the Federal Reserve System having assets in excess of \$100 million and with certain dealers on the Federal Reserve Bank of New York's list of reporting dealers. Under the terms of a typical repurchase agreement, the Fund would acquire an underlying debt obligation for a relatively short period (usually not more than one week) 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 underlying securities will be at least equal at all times to the total amount of the repurchase obligation, including interest. The Fund bears a risk of loss in the event that the other party to a repurchase agreement defaults on its obligations and 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 these rights to them, the risk of incurring expenses associated with asserting those rights and the risk of losing all or part of the income from the agreement. The Fund's investment adviser and administrator, acting under the supervision of the Board of Directors, review on an ongoing basis the creditworthiness and the value of the collateral of those banks and dealers with which the Fund enters into repurchase agreements to evaluate potential risks.

LOANS OF PORTFOLIO SECURITIES. The Fund may lend its portfolio securities provided (a) the loan is secured continuously by collateral consisting of U.S. government securities or cash or cash equivalents maintained on a daily marked-to-market basis in an amount at least equal to the current market value of the securities loaned; (b) the Fund may at any time call the loan and obtain the return of the securities loaned; (c) the Fund will receive any

SMITH BARNEY SHEARSON
EUROPEAN FUND

INVESTMENT OBJECTIVE AND MANAGEMENT POLICIES (CONTINUED)

interest or dividends paid on the loaned securities; and (d) the aggregate market value of securities loaned will not at any time exceed one-third of the total assets of the Fund.

SHORT SALES. The Fund may sell securities "short against the box." While a short sale is the sale of a security the Fund does not own, it is "against the box" if at all times when the short position is open, the Fund owns an equal amount of the securities or securities convertible into, or exchangeable without further consideration for, securities of the same issue as the securities sold short. Short sales "against the box" are used to defer recognition of capital gains or losses.

FOREIGN SECURITIES AND AMERICAN DEPOSITARY RECEIPTS. The Fund may purchase foreign securities and ADRs. ADRs are publicly traded on exchanges or over-the-counter in the United States. The Fund also may purchase EDRs and may invest directly in securities of foreign companies which are held and traded abroad.

Investing in the securities of foreign companies involves special risks and considerations not typically associated with investing in U.S. companies. These include differences in accounting, auditing and financial reporting standards, generally higher commission rates on foreign portfolio transactions, the possibility of expropriation or confiscatory taxation, adverse changes in investment or exchange control regulations, political instability which could affect U.S. investments in foreign countries, and potential restrictions on the flow of international capital. Additionally, dividends payable on foreign securities may be subject to foreign withholding and other taxes withheld prior to distribution. Foreign securities often trade with less frequency and volume than domestic securities and therefore may exhibit greater price volatility, and changes in foreign exchange rates will affect the value of those securities which are denominated or quoted in currencies other than the U.S. dollar. Many of the foreign securities held by the Fund will not be registered with, nor the issuers thereof be subject to, the reporting requirements of the SEC. Accordingly, there may be less publicly available information about the securities and about the foreign company issuing them than is available about a domestic company and its securities. Moreover, individual foreign economies may differ favorably or unfavorably from the United States economy in such respects as growth of Gross National Product, rate of inflation, capital reinvestment, resource self-

18

SMITH BARNEY SHEARSON
EUROPEAN FUND

INVESTMENT OBJECTIVE AND MANAGEMENT POLICIES (CONTINUED)

sufficiency and balance of payment positions. The Fund may invest in securities of foreign governments (or agencies or subdivisions thereof), and therefore many, if not all, of the foregoing considerations apply to such investments as well.

The Fund will calculate its net asset value and complete orders to purchase, exchange or redeem shares only on a Monday through Friday basis excluding holidays on which the NYSE is closed. The Fund's securities are primarily listed on foreign stock exchanges which may trade on other days (such as a Saturday). As a result, the net asset value of the Fund's shares may be significantly affected by such trading on days when a shareholder has no access to the Fund.

FOREIGN CURRENCY RISKS. The Fund will invest primarily in securities denominated in currencies other than the U.S. dollar, and since the Fund may

temporarily hold funds in bank deposits or other money market investments denominated in foreign currencies, it may be affected favorably or unfavorably by exchange control regulations or changes in the exchange rates between such currencies and the dollar. Changes in foreign currency exchange rates will influence values within the Fund from the perspective of U.S. investors, and may also affect the value of dividends and interest earned, gains and losses realized on the sale of securities, and net investment income and gains, if any, to be distributed to shareholders by the Fund. The rate of exchange between the U.S. dollar and other currencies is determined by the forces of supply and demand in the foreign exchange markets. These forces are affected by the international balance of payments and other economic and financial conditions, government intervention, speculation and other factors.

The Fund may enter into forward foreign currency exchange contracts in order to protect against uncertainty in the level of future foreign exchange rates between a particular foreign currency and the U.S. dollar or between foreign currencies in which the Fund's securities are or may be denominated. A forward foreign currency exchange contract involves an obligation to purchase or sell a specific currency at a future date, which may be any fixed number of days from the date of the contract agreed upon by the parties, at a price set at the time of the contract. The Fund also may utilize forward currency contracts denominated in the European Currency Unit to hedge portfolio security positions when a security or securities are denominated in

19

SMITH BARNEY SHEARSON
EUROPEAN FUND

INVESTMENT OBJECTIVE AND MANAGEMENT POLICIES (CONTINUED)

currencies of member countries in the European Monetary System. Forward foreign currency exchange contracts are entered into in the interbank market conducted directly between currency traders (usually large commercial banks) and their customers. Forward foreign currency exchange contracts may be bought or sold to protect the Fund against a possible loss resulting from an adverse change in the relationship between foreign currencies and the U.S. dollar or between foreign currencies. Although such contracts are intended to minimize the risk of loss due to a decline in the value of the hedged currency, at the same time, they tend to limit any potential gain which might result should the value of such currency increase. In addition, the Fund could be exposed to risks of loss or delay in fulfilling the terms of the contracts if the counterparties to the contracts are unable to meet the terms of their contracts.

RESTRICTED SECURITIES. The Fund may invest in restricted securities. Restricted securities are securities subject to legal or contractual restrictions on their resale. Such restrictions might prevent the sale of restricted securities at a time when such a sale would otherwise be desirable. Restricted securities and securities for which there is no readily available market ("illiquid assets") will not be acquired if such acquisition would cause the aggregate value of illiquid assets and restricted securities to exceed 10% of the Fund's total assets.

PORTFOLIO TRANSACTIONS AND TURNOVER

Global Asset Management arranges for the purchase and sale of the Fund's securities and selects broker-dealers which, in its best judgment, provide prompt and reliable execution at favorable prices and reasonable commission rates. Global Asset Management may select broker-dealers which provide it with research services and may cause the Fund to pay such broker-dealers commissions which exceed those other broker-dealers may have charged, if it views the commissions as reasonable in relation to the value of the brokerage and/or research services. Smith Barney Shearson and its affiliates may serve as a regular broker for the Fund in effecting portfolio transactions on a national securities or commodities exchange, and may retain commissions, in accordance with certain regulations of the SEC.

For reporting purposes, the Fund's portfolio turnover rate is calculated by dividing the lesser of purchases or sales of portfolio securities for the

SMITH BARNEY SHEARSON
EUROPEAN FUND

INVESTMENT OBJECTIVE AND MANAGEMENT POLICIES (CONTINUED)

year by the monthly average of the value of the Fund's securities, with money market instruments with less than one year to maturity excluded. A 100% portfolio turnover rate would occur, for example, if all included securities were replaced once during the year.

The Fund will not normally engage in the trading of securities for the purpose of realizing short-term profits, but will adjust its portfolio as considered advisable in view of prevailing or anticipated market conditions, and portfolio turnover will not be a limiting factor should Global Asset Management deem it advisable to purchase or sell securities. While it is not possible to predict future market conditions or portfolio turnover rates with any certainty, Global Asset Management anticipates that, under normal market conditions, the annual portfolio turnover rate for the Fund may exceed 100%. Any portfolio turnover rate in excess of 100% generally would exceed that of most other mutual funds, including other funds with the investment objective of capital appreciation. The Fund's portfolio turnover rates for each of the past fiscal years are set forth under "Financial Highlights."

Increased portfolio turnover may result in greater brokerage commissions and in realization of net short-term capital gains which, when distributed, are taxed to shareholders (other than retirement plans) at ordinary income tax rates.

MANAGEMENT OF THE COMPANY AND THE FUND

BOARD OF DIRECTORS

Overall responsibility for management and supervision of the Company rests with the Company's Board of Directors. The Directors approve all significant agreements between the Company and companies that furnish services to the Fund and the Company, including agreements with its distributor, investment adviser, administrator, custodian and transfer agent. The day-to-day operations of the Fund are delegated to the Fund's investment adviser and administrator. The Statement of Additional Information contains general and background information regarding each Director and executive officer of the Company.

SMITH BARNEY SHEARSON
EUROPEAN FUND

MANAGEMENT OF THE COMPANY AND THE FUND (CONTINUED)

INVESTMENT ADVISER -- GLOBAL ASSET MANAGEMENT

Global Asset Management, located at Two Broadgate, London EC2M7HA, United Kingdom. Global Asset Management renders investment advice to institutional clients (including other investment companies), with total assets under management, as of December 31, 1993, in excess of \$8.1 billion.

Subject to the supervision and direction of the Fund's Board of Directors, Global Asset Management manages the Fund's portfolio in accordance with the Fund's stated investment objective and policies, makes investment decisions for the Fund, places orders to purchase and sell securities and employs professional portfolio managers and securities analysts who provide research services to

the Fund. Global Asset Management receives an investment advisory fee computed daily and paid monthly at the annual rate of 0.70% of the value of the average daily net assets of the Fund. The investment advisory fees of the Fund are higher than investment advisory fees of most other mutual funds that invest in domestic securities, since the costs associated with managing foreign securities are generally higher than those usually incurred in managing domestic securities.

PORTFOLIO MANAGEMENT

Erich Stock of Global Asset Management has served as Investment Officer of the Fund since 1989 and is responsible for managing the day-to-day investment operations of the Fund, including the making of investment decisions.

Mr. Stock's management discussion and analysis of the Fund's performance during the fiscal year ended December 31, 1993 (including a line graph comparing the Fund's performance to the Morgan Stanley Capital International European Index) is included in the Fund's Annual Report to Shareholders dated December 31, 1993. The Fund's Annual Report may be obtained upon request and without charge from any Smith Barney Shearson Financial Consultant or by writing or calling the Fund at the address or phone number listed on page 1 of this prospectus.

22

SMITH BARNEY SHEARSON
EUROPEAN FUND

MANAGEMENT OF THE COMPANY AND THE FUND (CONTINUED)

ADMINISTRATOR -- BOSTON ADVISORS

Boston Advisors, located at One Boston Place, Boston, Massachusetts 02108, serves as the Fund's administrator. Boston Advisors is an indirect wholly owned subsidiary of Mellon. Boston Advisors provides investment management, investment advisory, and/or administrative services to investment companies which had aggregate assets under management as of December 31, 1993, in excess of \$86.6 billion.

Boston Advisors calculates the net asset value of the Fund's shares and generally assists in all aspects of the Fund's administration and operation. Under an Administration Agreement the Fund pays Boston Advisors a fee at the annual rate of 0.20% of value of the Fund's average daily net assets.

PURCHASE OF SHARES

Purchases of Fund shares must be made through a brokerage account maintained with Smith Barney Shearson or with an Introducing Broker, except that investors purchasing shares of the Fund through a qualified retirement plan may do so directly through the Company's transfer agent. When purchasing shares of the Fund, investors must specify whether the purchase is for Class A, Class B or, in the case of Participating Plans, Class D shares. No maintenance fee will be charged in connection with a brokerage account through which an investor purchases or holds shares. Purchases are effected at the public offering price next determined after a purchase order is received by Smith Barney Shearson or an Introducing Broker (the "trade date"). Payment generally is due to Smith Barney Shearson or an Introducing Broker on the fifth business day (the "settlement date") after the order is placed. Investors who make payment prior to the settlement date may permit the payment to be held in their brokerage accounts or may designate a temporary investment (such as a money market fund in

the Smith Barney Shearson Group of Funds) for such payment until the settlement date. The Company reserves the right to reject any purchase order and to suspend the offering of shares for any period of time.

Purchase orders received by Smith Barney Shearson or the Introducing Broker prior to the close of regular trading on the NYSE, currently 4:00 p.m., New York time, on any day the Fund's net asset value is

23

SMITH BARNEY SHEARSON
EUROPEAN FUND

PURCHASE OF SHARES (CONTINUED)

calculated are priced according to the net asset value determined on that day. Purchase orders received after the close of regular trading on the NYSE are priced as of the time the net asset value per share is next determined. See "Valuation of Shares."

SYSTEMATIC INVESTMENT PLAN. The Fund offers shareholders a Systematic Investment Plan under which shareholders may authorize Smith Barney Shearson or an Introducing Broker to place a purchase order each month or quarter for Fund shares in an amount not less than \$100. The purchase price is paid automatically from cash held in the shareholder's Smith Barney Shearson brokerage account or through the automatic redemption of the shareholder's shares of a Smith Barney Shearson money market fund. For further information regarding the Systematic Investment Plan, shareholders should contact their Smith Barney Shearson Financial Consultants.

MINIMUM INVESTMENTS. The minimum initial investment in the Fund is \$1,000 and the minimum subsequent investment is \$200 except that for purchases through (a) IRAs and Self-Employed Retirement Plans, the minimum initial and subsequent investments are \$250 and \$100, respectively, (b) retirement plans qualified under sections 401(a) and 403(b)(7) of the Code, the minimum and subsequent investment is \$25 and (c) the Fund's Systematic Investment Plan, the minimum initial and subsequent investments are both \$100. There are no minimum requirements for employees of The Travelers Inc. (which was formerly known as Primerica Corporation) ("Travelers") and its subsidiaries, including Smith Barney Shearson. The Company reserves the right at any time to vary the initial and subsequent investment minimums. Certificates for Fund shares are issued upon request to the Company's transfer agent, TSSG.

24

SMITH BARNEY SHEARSON
EUROPEAN FUND

PURCHASE OF SHARES (CONTINUED)

CLASS A SHARES

The public offering price for Class A shares is the per share net asset value of that Class next determined after a purchase order is received plus a sales charge, which is imposed in accordance with the following schedule:

<TABLE>
<CAPTION>

	SALES CHARGE AS %	SALES CHARGE
AS %		
AMOUNT OF INVESTMENT*	OF OFFERING PRICE	OF NET ASSET
VALUE		
<S>	<C>	<C>

Less than \$25,000	5.00%	5.26%
\$25,000 but under \$100,000	4.00%	4.17%
\$100,000 but under \$250,000	3.25%	3.36%
\$250,000 but under \$500,000	2.50%	2.56%
\$500,000 but under \$1,000,000	2.00%	2.04%
\$1,000,000 or more**	0.00%	0.00%

<FN>

*Smith Barney Shearson has adopted guidelines directing its Financial Consultants and

Introducing Brokers that single investments of \$250,000 or more should be made in

Class A shares.

**No sales charge is imposed on purchases of Class A shares of \$1 million or more;

however, a CDSC of .75% for the first year after purchase is imposed. The CDSC on

Class A shares will be payable to Smith Barney Shearson which compensates Smith

Barney Shearson Financial Consultants upon the sale of these shares. The CDSC will

be waived in the same circumstances in which the CDSC applicable to Class B shares

is waived. See "Redemption of Shares -- Contingent Deferred Sales Charge -- Class B

Shares -- Waivers of CDSC."

</TABLE>

REDUCED SALES CHARGES -- CLASS A SHARES

Reduced sales charges are available to investors who are eligible to combine their purchases of Fund shares to receive volume discounts. Investors eligible to receive volume discounts include individuals and their immediate families, tax-qualified employee benefit plans and trustees or other professional fiduciaries (including a bank, or an investment adviser registered with the SEC

under the Investment Advisers Act of 1940, as amended) purchasing shares for one

or more trust estates or fiduciary accounts even though more than one

beneficiary is involved. The initial sales charge is also reduced to 1.00% for Smith Barney Shearson Personal Living Trust program participants for whom

Smith

Barney Shearson acts as trustee. Reduced sales charges on Class A shares are

also available under a combined right of accumulation, under which an investor may combine the value of Class A shares already held in the Fund, in any other

fund in the Company and in any of the other funds in the Smith Barney Shearson Group of Funds listed below (except those sold without a sales charge), along

with the value of the Class A shares being purchased, to qualify for a

25

SMITH BARNEY SHEARSON
EUROPEAN FUND

PURCHASE OF SHARES (CONTINUED)

reduced sales charge. For example, if an investor owns Class A shares of the Fund, any other funds in the Company and other funds in the Smith Barney Shearson Group of Funds that have an aggregate value of \$22,000, and makes an additional investment in Class A shares of the Fund of \$4,000, the sales charge

applicable to the additional investment would be 4.00%, rather than the 5.0% normally charged on a \$4,000 purchase. Investors interested in further information regarding reduced sales charges should contact their Smith Barney Shearson Financial Consultant.

Class A shares may be offered without any applicable sales charges to: (a) employees of Travelers and its subsidiaries, including Smith Barney Shearson and employee benefit plans for such employees and their immediate families when orders on their behalf are placed by such employees; (b) accounts managed by registered investment advisory subsidiaries of Travelers; (c) directors, trustees or general partners of any investment company for which Smith Barney Shearson serves as distributor; (d) any other investment company in connection

with the combination of such company with the Fund by merger, acquisition of assets or otherwise; (e) shareholders who have redeemed Class A shares in the Fund (or Class A shares of any other fund in the Company or of another fund in the Smith Barney Shearson Group of Funds that are sold with a maximum 5.00% sales charge) and who wish to reinvest their redemption proceeds in the Fund, provided the reinvestment is made within 30 days of the redemption; and (f) any client of a newly-employed Smith Barney Shearson Financial Consultant (for a period up to 90 days from the commencement of the Financial Consultant's employment with Smith Barney Shearson), on the condition that the purchase is made with the proceeds of the redemption of shares of a mutual fund that (i) was sponsored by the Financial Consultant's prior employer, (ii) was sold to a client by the Financial Consultant, and (iii) when purchased, such shares were sold with a sales charge or are subject to a sales charge upon redemption.

CLASS B SHARES

The public offering price for Class B shares is the per share net asset value of that Class. No initial sales charge is imposed at the time of purchase. A CDSC is imposed, however, on certain redemptions of Class B shares. See "Redemptions of Shares" which describes the CDSC in greater detail.

26

SMITH BARNEY SHEARSON
EUROPEAN FUND

PURCHASE OF SHARES (CONTINUED)

Smith Barney Shearson has adopted guidelines, in view of the relative sales charges and distribution fees applicable to the Classes, directing Smith Barney Shearson Financial Consultants and Introducing Brokers that all purchases of shares of \$250,000 or more should be for Class A shares. Smith Barney Shearson reserves the right to vary these guidelines at any time.

SMITH BARNEY SHEARSON 401(K) PROGRAM

Shareholders investing in the Fund may be eligible to participate in the 401(k) Program, which is generally designed to assist employers or plan sponsors in the creation and operation of retirement plans qualified under Section 401(a) of the Code. To the extent applicable, the same terms and conditions are offered all Participating Plans in the 401(k) Program which include 401(k) plans, other types of participant directed, tax-qualified employee benefit plans and employer-sponsored non-qualified employee benefit plans.

The Fund offers to Participating Plans three classes of shares, Class A, Class B and Class D shares, as investment alternatives under the 401(k) Program. Class A shares are available to all Participating Plans and are the only investment alternative for Participating Plans that are eligible to purchase Class A shares at net asset value without a sales charge. In addition, Class B shares are offered only to Participating Plans satisfying certain criteria with respect to the amount of the initial investment and number of employees eligible to participate in the Plan at that time. Alternatively, Class D shares are offered only to Participating Plans that meet other criteria relating to the amount of initial investment and number of employees eligible to participate in the Plan at that time, as described below.

The Class A and Class B shares acquired through the 401(k) Program are subject to the same service and/or distribution fees as, but different sales charge and CDSC schedules than, the Class A and Class B shares acquired by other investors. Class D shares acquired by Participating Plans are offered at net asset value

per share without any sales charges or CDSC. The Fund pays annual service and distribution fees based on the value of the average daily net assets attributable to this Class.

27

SMITH BARNEY SHEARSON
EUROPEAN FUND

PURCHASE OF SHARES (CONTINUED)

Once a Participating Plan has made an initial investment in the Fund, all of its subsequent investments in the Fund must be in the same Class of shares, except as otherwise described below.

CLASS A SHARES. The sales charges for Class A shares acquired by Participating Plans are as follows:

<TABLE>
<CAPTION>

AS % AMOUNT OF INVESTMENT VALUE	SALES CHARGE AS % OF OFFERING PRICE	SALES CHARGE OF NET ASSET
<S>	<C>	<C>
Less than \$25,000	5.00%	5.26%
\$25,000 but under \$100,000	4.00%	4.17%
\$100,000 but under \$250,000	3.25%	3.36%
\$250,000 but under \$500,000	2.50%	2.56%
\$500,000 but under \$750,000	2.00%	2.04%
\$750,000 or more	0.00%	0.00%

</TABLE>

A Participating Plan will have a combined right of accumulation, under which, to qualify for a reduced sales charge, it may combine the value of Class A shares being purchased with the value of Class A shares already held in the Fund and in any of the funds listed below under "Exchange Privilege" that are sold with a sales charge.

Class A shares of the Fund may be offered without any sales charge to any Participating Plan that: (a) purchases \$750,000 or more of Class A shares of one or more funds in the Smith Barney Shearson Group of Funds under the combined right of accumulation described above; (b) has 250 or more employees eligible to participate in the Participating Plan at the time of initial investment in the Fund; or (c) currently holds Class A shares in the Fund that were received as a result of an exchange of Class B or Class D shares of the Fund as described below.

Class A shares acquired through the 401(k) Program will not be subject to a CDSC.

CLASS B SHARES. Under the 401(k) Program, Class B shares are offered to Participating Plans that: (i) purchase less than \$250,000 of Class B shares of one or more funds in the Smith Barney Shearson Group of Funds that are sold subject to a CDSC; and (ii) that have less than 100 employees eligible to participate in the Participating Plan at the time of initial investment in the Fund. Class B shares acquired by such Plans will be subject to a CDSC of

28

SMITH BARNEY SHEARSON
EUROPEAN FUND

PURCHASE OF SHARES (CONTINUED)

3% of redemption proceeds, if redeemed within eight years of the date the

Participating Plan first purchases Class B shares. No CDSC is imposed to the extent that the net asset value of the Class B shares redeemed does not exceed (a) the current net asset value of Class B shares purchased through reinvestment of dividends or capital gains distributions, plus (b) the current net asset value of Class B shares purchased more than eight years prior to the redemption, plus (c) increases in the net asset value of the shareholder's Class B shares above the purchase payments made during the preceding eight years. The CDSC applicable to a Participating Plan depends on the number of years since the Participating Plan first became a holder of Class B shares, unlike the CDSC applicable to other Class B shareholders, which depends on the number of years since those shareholders made the purchase payment from which the amount is being redeemed.

The CDSC will be waived on redemptions of Class B shares in connection with lump-sum or other distributions made by a Participating Plan as a result of: (a) the retirement of an employee in the Participating Plan, (b) the termination of employment of an employee in the Participating Plan, (c) the death or disability of an employee in the Participating Plan, (d) the attainment of age 59 1/2 by an employee in the Participating Plan, (e) hardship of an employee in the Participating Plan to the extent permitted under Section 401(k) of the Code or (f) redemptions of Class B shares in connection with a loan made by the Participating Plan to an employee.

Eight years after the date a Participating Plan acquired its first Class B share, it will be offered the opportunity to exchange all of its Class B shares for Class A shares of the Fund. Such Plans will be notified of the pending exchange in writing approximately 60 days before the eighth anniversary of the purchase date and, unless the exchange has been rejected in writing, the exchange will occur on or about the eighth anniversary date. Once the exchange has occurred, a Participating Plan will not be eligible to acquire additional Class B shares of the Fund but instead may acquire Class A shares of the Fund. If the Participating Plan elects not to exchange all of its Class B shares at that time, each Class B share held by the Participating Plan will have the same conversion feature as Class B shares held by other investors. See "Variable Pricing System -- Class B Shares."

CLASS D SHARES. Class D shares are offered to Participating Plans that: (i) purchase less than \$750,000 but more than \$250,000 of Class D shares

29

SMITH BARNEY SHEARSON
EUROPEAN FUND

PURCHASE OF SHARES (CONTINUED)

of one or more funds in the Smith Barney Shearson Group of Funds that offer one or more Classes of shares subject to a sales charge and/or CDSC; or (ii) have no more than 250 employees eligible to participate in the Participating Plan at the time of initial investment in the Fund.

Class D shares acquired by Participating Plans will be offered at net asset value per share without any sales charges or CDSC. The Fund pays annual service and distribution fees based on the value of the average daily net assets attributable to this Class. Class D shares are not subject to an automatic conversion feature as are the Class B shares. However, beginning in December 1993 and each year thereafter, Participating Plans which hold Class D shares valued at \$750,000 or more in any fund or funds in the Smith Barney Shearson Group of Funds that offer one or more Classes of shares subject to a sales charge and/or CDSC will be offered the opportunity to exchange all of their Class D shares for Class A shares. Such Plans will be notified of the pending exchange in writing within 30 days after the last business day of the calendar year, and unless the exchange offer has been rejected in writing, the exchange will occur on or about the last business day of March in the following calendar year. Once the exchange has occurred, a Participating Plan will not be eligible

to acquire Class D shares of the Fund but instead may acquire Class A shares of the Fund. Any Class D shares not converted will continue to be subject to the distribution fee.

Participating Plans wishing to acquire shares of the Fund through the 401(k) Program must purchase shares from the Fund's transfer agent.

For further information regarding the 401(k) Program, investors should contact their Smith Barney Shearson Financial Consultants.

REDEMPTION OF SHARES

Shareholders may redeem their shares on any day that the Fund calculates its net asset value. See "Valuation of Shares." Redemption requests received in proper form prior to the close of regular trading on the NYSE are priced at the net asset value per share determined on that day. Redemption requests received after the close of regular trading on the NYSE are priced at the net asset value next determined. If a shareholder holds shares in more than one Class, any request for redemption must specify the Class being redeemed. In

30

SMITH BARNEY SHEARSON
EUROPEAN FUND

REDEMPTION OF SHARES (CONTINUED)

the event of a failure to specify which Class or if the investor owns fewer shares of the Class than specified, the redemption request will be delayed until the Fund's transfer agent receives further instructions from Smith Barney Shearson, or if the shareholder's account is not with Smith Barney Shearson, from the shareholder directly.

The Fund normally transmits redemption proceeds for credit to the shareholder's account at Smith Barney Shearson or the Introducing Broker at no charge (other than any applicable CDSC) within seven days after receipt of a redemption request. Generally, these funds will not be invested for the shareholder's benefit without specific instruction and Smith Barney Shearson will benefit from the use of temporarily uninvested funds. A shareholder who pays for Fund shares by personal check will be credited with the proceeds of a redemption of those shares only after the purchase check has been collected, which may take up to 10 days or more. A shareholder who anticipates the need for more immediate access to his or her investment should purchase shares with federal funds, by bank wire or by certified or cashier's check.

A Fund account that is reduced by a shareholder to a value of \$500 or less may be subject to redemption by the Fund, but only after the shareholder has been given at least 30 days in which to increase the account balance to \$500 or more.

Shares may be redeemed in one of the following ways:

REDEMPTION THROUGH SMITH BARNEY SHEARSON

Redemption requests may be made through Smith Barney Shearson or an Introducing Broker. A shareholder desiring to redeem shares represented by certificates must also present such certificates to Smith Barney Shearson or the Introducing Broker endorsed for transfer (or accompanied by an endorsed stock power), signed exactly as the shares are registered. Redemption requests involving shares represented by certificates will not be deemed received until such certificates are received by the Company's transfer agent in proper form.

SMITH BARNEY SHEARSON
EUROPEAN FUND

REDEMPTION OF SHARES (CONTINUED)

REDEMPTION BY MAIL

Shares held by Smith Barney Shearson as custodian must be redeemed by submitting a written request to the Smith Barney Shearson Financial Consultant.

All other shares may be redeemed by submitting a written request for redemption to:

Smith Barney Shearson European Fund

Class A, B or D (please specify)

c/o The Shareholder Services Group, Inc.
P.O. Box 9134
Boston, Massachusetts 02205-9134

A written redemption request to TSSG or a Smith Barney Shearson Financial Consultant must (a) state the Class and number or dollar amount of shares to be redeemed, (b) identify the shareholder's account number and (c) be signed by each registered owner exactly as the shares are registered. If the shares to be redeemed were issued in certificate form, the certificates must be endorsed for transfer (or be accompanied by an endorsed stock power) and must be submitted to TSSG together with the redemption request. Any signature appearing on a redemption request, share certificate or stock power must be guaranteed by a domestic bank, savings and loan institution, domestic credit union, member bank of a Federal Reserve System or member firm of a national securities exchange. TSSG may require additional supporting documents for redemptions made by corporations, executors, administrators, trustees or guardians. A redemption request will not be deemed properly received until TSSG receives all required documents in proper form.

AUTOMATIC CASH WITHDRAWAL PLAN

The Fund offers shareholders an automatic cash withdrawal plan, under which shareholders who own shares with a value of at least \$10,000 may elect to receive periodic cash payments of at least \$50 monthly. Retirement plan accounts are eligible for automatic cash withdrawal plans only where the shareholder is eligible to receive qualified distributions and has an account value of at least \$5,000. Any applicable CDSC will be waived on amounts withdrawn by a shareholder that do not exceed 2.0% per month of the value of shareholder's shares subject to the CDSC at the time the withdrawal plan commences. For further information regarding the automatic cash withdrawal plan, shareholders should contact their Smith Barney Shearson Financial Consultants.

SMITH BARNEY SHEARSON
EUROPEAN FUND

REDEMPTION OF SHARES (CONTINUED)

CONTINGENT DEFERRED SALES CHARGE -- CLASS B SHARES

A CDSC payable to Smith Barney Shearson is imposed on any redemption of

Class B shares, however effected, that causes the current value of a shareholder's account to fall below the dollar amount of all payments by the shareholder for the purchase of Class B shares ("purchase payments") during the preceding five years, except in the case of purchases by Participating Plans in the 401(k) Program, as described above. See "Purchase of Shares -- Smith Barney Shearson 401(k) Program." No charge is imposed to the extent that the net asset value of the Class B shares redeemed does not exceed (a) the current net asset value of Class B shares purchased through reinvestment of dividends or capital gains distributions, plus (b) the current net asset value of Class B shares purchased more than five years prior to the redemption, plus (c) increases in the net asset value of the shareholder's Class B shares above the purchase payments made during the preceding five years.

In circumstances in which the CDSC is imposed, the amount of the charge will depend on the number of years since the shareholder made the purchase payment from which the amount is being redeemed, except in the case of purchases through Participating Plans in the 401(k) Program, which are subject to a different CDSC. See "Purchase of Shares -- Smith Barney Shearson 401(k) Program." Solely for purposes of determining the number of years since a purchase payment, all purchase payments during a month will be aggregated and deemed to have been made on the last day of the preceding Smith Barney Shearson statement month. The following table sets forth the rates of the charge for redemptions of Class B shares by shareholders other than Participating Plans:

<TABLE>
 <CAPTION>
 YEAR SINCE PURCHASE PAYMENT WAS MADE
 CDSC
 <S> <C>

First	5.00%
Second	4.00%
Third	3.00%
Fourth	2.00%
Fifth	1.00%
Sixth	0.00%
Seventh	0.00%
Eighth	0.00%

</TABLE>

33

SMITH BARNEY SHEARSON
 EUROPEAN FUND

REDEMPTION OF SHARES (CONTINUED)

Class B shares will automatically convert to Class A shares approximately eight years after the date on which they were purchased and thereafter will no longer be subject to a distribution fee. The first of these conversions will commence on or about September 30, 1994. See "Variable Pricing System -- Class B Shares."

The purchase payment from which a redemption of Class B shares is made is assumed to be the earliest purchase payment from which a full redemption has not already been effected. In the case of redemptions of Class B shares of other funds in the Company or of other funds in the Smith Barney Shearson Group of Funds issued in exchange for Class B shares of the Fund, the term "purchase payments" refers to the purchase payments for the shares given in exchange. In

the event of an exchange of Class B shares of funds with differing CDSC schedules, the shares will be, in all cases, subject to the higher CDSC schedule. See "Exchange Privilege."

WAIVERS OF CDSC. The CDSC will be waived on: (a) exchanges (see "Exchange Privilege"), (b) automatic cash withdrawals in amounts that do not exceed 2.0% per month of the value of the shareholder's Class B shares at the time the withdrawal plan commences (see below); (c) redemptions of shares following the death or disability of the shareholder; (d) redemptions of shares in connection with certain post-retirement distributions and withdrawals from retirement plans or IRAs; (e) involuntary redemptions; (f) redemption proceeds from other funds in the Smith Barney Shearson Group of Funds that are reinvested within 30 days of the redemption; (g) redemptions of shares in connection with a combination of any investment company with the Fund by merger, acquisition of assets or otherwise, and (h) certain redemptions of shares of the Fund in connection with lump-sum or other distributions made by a Participating Plan. See "Purchase of Shares -- Smith Barney Shearson 401(k) Program."

VALUATION OF SHARES

Each Class' net asset value per share is calculated separately on each day, Monday through Friday, except on days when the NYSE is closed. The NYSE currently is scheduled to be closed on New Year's Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day,

34

SMITH BARNEY SHEARSON
EUROPEAN FUND

VALUATION OF SHARES (CONTINUED)

Thanksgiving and Christmas and on the preceding Friday or subsequent Monday when one of these holidays falls on a Saturday or Sunday, respectively.

The net asset value per share of a given Class is determined as of the later of the close of regular trading on the NYSE (currently 4:00 p.m., New York time) or the Chicago Board Options Exchange (currently 4:15 p.m., New York time) and is computed by dividing the value of the Fund's net assets attributable to that Class by the total number of shares of that Class of the Fund outstanding.

A security that is primarily traded on a United States or foreign stock exchange is valued at the last sale price on that exchange or, if there were no sales during the day, at the current quoted bid price. 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. Fund securities which are primarily traded on foreign exchanges may be valued with the assistance of a pricing service and are generally valued at the preceding closing values of such securities on their respective exchanges, except that when an occurrence subsequent to the time a foreign security is valued is likely to have changed such value, then the fair value of those securities will be determined by consideration of other factors by or under the direction of the Board of Directors. Unlisted foreign securities are valued at the mean between the last available bid and offer price prior to the time of valuation. U.S. over-the-counter securities will be valued on the basis of the bid price at the close of business on each day. 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. Any assets or liabilities initially expressed in terms of foreign currencies will be converted into U.S. dollar values at the mean between the bid and offered quotations of such currencies against U.S. dollars as last quoted by any recognized dealer.

SMITH BARNEY SHEARSON
EUROPEAN FUND-----
EXCHANGE PRIVILEGE

Shares of each Class may be exchanged for shares of the same Class in the following funds in the Smith Barney Shearson Group of Funds to the extent shares are offered for sale in the shareholder's state of residence:

<TABLE>	
<CAPTION>	
EXCHANGEABLE WITH SHARES OF THE FOLLOWING CLASSES:	
<S>	FUND NAME AND INVESTMENT OBJECTIVE:

--	
	MUNICIPAL BOND FUNDS
A	SMITH BARNEY SHEARSON LIMITED MATURITY MUNICIPALS FUND, an intermediate-term municipal bond fund investing in investment
	grade obligations.
A, B	SMITH BARNEY SHEARSON MANAGED MUNICIPALS FUND INC., an intermediate- and long-term municipal bond fund.
A, B	SMITH BARNEY SHEARSON TAX-EXEMPT INCOME FUND, an intermediate- and long-term municipal bond fund investing in medium and lower rated securities.
A, B	SMITH BARNEY SHEARSON ARIZONA MUNICIPALS FUND INC., an intermediate- and long-term municipal bond fund designed for Arizona investors.
A	SMITH BARNEY SHEARSON INTERMEDIATE MATURITY CALIFORNIA MUNICIPALS FUND, an intermediate-term municipal bond fund designed for California investors.
A, B	SMITH BARNEY SHEARSON CALIFORNIA MUNICIPALS FUND INC., an intermediate- and long-term municipal bond fund designed for California investors.
A, B	SMITH BARNEY SHEARSON FLORIDA MUNICIPALS FUND, an intermediate- and long-term municipal bond fund designed for Florida investors.
A, B	SMITH BARNEY SHEARSON MASSACHUSETTS MUNICIPALS FUND, an intermediate- and long-term municipal bond fund designed for Massachusetts investors.

</TABLE>

36

SMITH BARNEY SHEARSON
EUROPEAN FUND-----
EXCHANGE PRIVILEGE (CONTINUED)

<TABLE>	
<CAPTION>	
EXCHANGEABLE WITH SHARES OF THE FOLLOWING CLASSES:	
<S>	FUND NAME AND INVESTMENT OBJECTIVE:

--	
<S>	<C>
A, B	SMITH BARNEY SHEARSON NEW JERSEY MUNICIPALS FUND INC., an intermediate- and long-term municipal bond fund designed for New Jersey investors.
A	SMITH BARNEY SHEARSON INTERMEDIATE MATURITY NEW YORK MUNICIPALS FUND, an intermediate-term bond fund designed for New York investors.
A, B	SMITH BARNEY SHEARSON NEW YORK MUNICIPALS FUND INC., an intermediate- and long-term municipal bond fund designed for New York investors.
	INCOME FUNDS
A, B, D+ FUND,	SMITH BARNEY SHEARSON ADJUSTABLE RATE GOVERNMENT INCOME
	seeks high current income while limiting the degree of

fluctuation in net asset value resulting from movement in interest rates.

A, B
in
SMITH BARNEY SHEARSON WORLDWIDE PRIME ASSETS FUND, invests
in
a portfolio of high quality debt securities that may be
denominated in U.S. dollars or selected foreign currencies
and
that have remaining maturities of not more than one year.

A, B
in
SMITH BARNEY SHEARSON SHORT-TERM WORLD INCOME FUND, invests
in
high quality, short-term debt securities denominated in U.S.
dollars as well as a range of foreign currencies.

A
invests
SMITH BARNEY SHEARSON LIMITED MATURITY TREASURY FUND,
exclusively in securities issued by the U.S. Treasury and
other U.S. government securities.

A, B, D+
seeks
SMITH BARNEY SHEARSON DIVERSIFIED STRATEGIC INCOME FUND,
high current income primarily by allocating and reallocating
its assets among various types of fixed-income securities.

</TABLE>

37

SMITH BARNEY SHEARSON
EUROPEAN FUND

EXCHANGE PRIVILEGE (CONTINUED)

<TABLE>
<CAPTION>
EXCHANGEABLE
WITH SHARES
OF THE
FOLLOWING
CLASSES: FUND NAME AND INVESTMENT OBJECTIVE:

--
<S> <C>
A, B, D+ SMITH BARNEY SHEARSON MANAGED GOVERNMENTS FUND INC., invests
in obligations issued or guaranteed by the United States
government and its agencies and instrumentalities with
emphasis on mortgage-backed government securities.

A, B, D+ SMITH BARNEY SHEARSON GOVERNMENT SECURITIES FUND, seeks a
high
current return by investing in U.S. government securities.

A, B, D+ SMITH BARNEY SHEARSON INVESTMENT GRADE BOND FUND, seeks a
high
level of current income consistent with prudent investment
management and preservation of capital by investing in
corporate bonds and other income producing securities.

A, B, D+ SMITH BARNEY SHEARSON HIGH INCOME FUND, seeks high current
income by investing in high-yielding corporate bonds,
debentures and notes.

A, B, D+ SMITH BARNEY SHEARSON GLOBAL BOND FUND, seeks current income
and capital appreciation by investing in bonds, debentures
and
notes of foreign and domestic issuers.

A, B, D+ GROWTH AND INCOME FUNDS
SMITH BARNEY SHEARSON CONVERTIBLE FUND, seeks current income
and capital appreciation by investing in convertible
securities.

A, B, D+ SMITH BARNEY SHEARSON UTILITIES FUND, seeks total return by
investing in equity and debt securities of utilities
companies.

</TABLE>

38

SMITH BARNEY SHEARSON
EUROPEAN FUND

EXCHANGE PRIVILEGE (CONTINUED)

<TABLE>
<CAPTION>
EXCHANGEABLE
WITH SHARES
OF THE
FOLLOWING

CLASSES:	FUND NAME AND INVESTMENT OBJECTIVE:
<S>	<C>
A, B, D+	SMITH BARNEY SHEARSON STRATEGIC INVESTORS FUND, seeks high total return consisting of current income and capital appreciation by investing in a combination of equity, fixed-income and money market securities.
A, B, D+	SMITH BARNEY SHEARSON PREMIUM TOTAL RETURN FUND, seeks total return by investing in dividend-paying common stocks.
A, B, D+	SMITH BARNEY SHEARSON GROWTH AND INCOME FUND, seeks income and
	long-term capital growth by investing in income producing equity securities.
	GROWTH FUNDS
A, B, D+	SMITH BARNEY SHEARSON APPRECIATION FUND INC., seeks long-term
	appreciation of capital.
A, B, D+	SMITH BARNEY SHEARSON FUNDAMENTAL VALUE FUND INC., seeks long-term capital growth with current income as a secondary objective.
A, B, D+	SMITH BARNEY SHEARSON SECTOR ANALYSIS FUND, seeks capital appreciation by following a sector strategy.
A, B, D+	SMITH BARNEY SHEARSON TELECOMMUNICATIONS GROWTH FUND, seeks capital appreciation, with income as a secondary consideration.
A, B, D+	SMITH BARNEY SHEARSON AGGRESSIVE GROWTH FUND INC., seeks above-average capital growth.
A, B, D+	SMITH BARNEY SHEARSON SPECIAL EQUITIES FUND, seeks long-term capital appreciation by investing in equity securities primarily of emerging growth companies.
A, B, D+	SMITH BARNEY SHEARSON GLOBAL OPPORTUNITIES FUND, seeks long-term capital growth by investing principally in the common stocks of foreign and domestic issuers.

</TABLE>

39

SMITH BARNEY SHEARSON
EUROPEAN FUND

EXCHANGE PRIVILEGE (CONTINUED)

CLASSES:	FUND NAME AND INVESTMENT OBJECTIVE:
<S>	<C>
A, B, D+	SMITH BARNEY SHEARSON PRECIOUS METALS AND MINERALS FUND INC.,
	seeks long-term capital appreciation by investing primarily
in	precious metal- and mineral-related companies and gold bullion.
	MONEY MARKET FUNDS
*	SMITH BARNEY SHEARSON MONEY MARKET FUND, invests in a diversified portfolio of high quality money market instruments.
**	SMITH BARNEY SHEARSON DAILY DIVIDEND FUND, invests in a variety of money market instruments.
**	SMITH BARNEY SHEARSON GOVERNMENT AND AGENCIES FUND, invests
in	United States government and agency securities.
++	SMITH BARNEY SHEARSON MUNICIPAL MONEY MARKET FUND, invests
in	short-term high quality municipal obligations.
++	SMITH BARNEY SHEARSON CALIFORNIA MUNICIPAL MONEY MARKET FUND,
	invests in short-term, high quality California municipal obligations.
++	SMITH BARNEY SHEARSON NEW YORK MUNICIPAL MONEY MARKET FUND, invests in short-term, high quality New York municipal obligations.

<FN>

*Shares of this money market fund may be exchanged for Class B shares of the Fund.

**Shares of this money market fund may be exchanged for Class A and Class D shares of the Fund.
+Class D shares of this Fund may be acquired only by Participating Plans.
++Shares of this money market fund may be exchanged for Class A shares of the Fund.
</TABLE>

TAX EFFECT. The exchange of shares of one fund for shares of another fund is treated for federal income tax purposes as a sale of the shares given in exchange by the shareholder. Therefore, an exchanging shareholder may realize a taxable gain or loss in connection with an exchange.

40

SMITH BARNEY SHEARSON
EUROPEAN FUND

EXCHANGE PRIVILEGE (CONTINUED)

CLASS A EXCHANGES. Class A shareholders of the funds in the Smith Barney Shearson Group of Funds sold without a sales charge or with a maximum sales charge of less than 5.00% will be subject to the appropriate "sales charge differential" upon the exchange of their shares for Class A shares of the Fund or other funds sold with a higher sales charge. The "sales charge differential" is limited to a percentage rate no greater than the excess of the sales charge rate applicable to purchases of shares of the mutual fund being acquired in the exchange over the sum of the rates of all sales charges previously paid on the mutual fund shares relinquished in the exchange and on any predecessor of those shares. For purposes of the exchange privilege, shares obtained through automatic reinvestment of dividends, as described below, are treated as having paid the same sales charges applicable to the shares on which the dividends were paid. However, except in the case of the 401(k) Program, if no sales charge was imposed upon the initial purchase of the shares, any shares obtained through automatic reinvestment will be subject to a sales charge differential upon exchange.

CLASS B EXCHANGES. Class B shareholders of the Fund who wish to exchange all or part of their Class B shares for Class B shares of any of the funds identified above may do so without the imposition of an exchange fee. Upon an exchange, the new Class B shares will be deemed to have been purchased on the same date as the Class B shares of the Fund which have been exchanged.

CLASS D EXCHANGES. Class D shares of the Fund will be exchangeable for Class D shares of the funds listed above. Class D shareholders who wish to exchange all or part of their Class D shares in any of these funds may do so without charge. Class D shares may be acquired only by Participating Plans.

ADDITIONAL INFORMATION REGARDING THE EXCHANGE PRIVILEGE. Shareholders exercising the exchange privilege with other funds in the Company or any other fund in the Smith Barney Shearson Group of Funds should review the prospectus relating to the exchanged-for shares carefully prior to making an exchange. Smith Barney Shearson reserves the right to reject any exchange request and the exchange privilege may be modified or terminated at any time after notice to shareholders.

Although the exchange privilege is an important benefit, excessive exchange transactions can be detrimental to the Fund's performance and its shareholders. The Fund's investment adviser may determine that a pattern of

41

EXCHANGE PRIVILEGE (CONTINUED)

frequent exchanges is excessive and contrary to the best interests of the Fund's other shareholders. In this event, the Fund's investment adviser will notify Smith Barney Shearson, and Smith Barney Shearson may, at its discretion, decide to limit additional purchases and/or exchanges by the shareholder. Upon such a determination, Smith Barney Shearson will provide notice in writing or by telephone to the shareholder at least 15 days prior to suspending the exchange privilege and during the 15-day period the shareholder will be required to (a) redeem his or her shares in the Fund or (b) remain invested in the Fund or exchange into any of the other Smith Barney Shearson funds ordinarily available, which position the shareholder would expect to maintain for a significant period of time. All relevant factors will be considered in determining what constitutes an abusive pattern of exchanges.

For further information regarding the exchange privilege or to obtain a current prospectus for the other funds in the Company or any other fund in the Smith Barney Shearson Group of Funds, shareholders should contact their Smith Barney Shearson Financial Consultant.

DISTRIBUTOR

Smith Barney Shearson is located at 388 Greenwich Street, New York, New York 10013, and serves as the distributor of the Fund's shares. Smith Barney Shearson is a wholly owned subsidiary of Holdings which is in turn an indirect wholly owned subsidiary of Travelers. 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 the respective Class. 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 those classes. The fees are authorized pursuant to a distribution and service plan (the "Plan") adopted by the Fund pursuant to Rule 12b-1 under the 1940 Act and are used by Smith Barney Shearson to pay its Financial Consultants for servicing shareholder accounts and, in the case of Class B and Class D shares, to cover expenses primarily intended to result in the sale of those shares of the Fund. These expenses include: costs of printing and distributing the Fund's Prospectus, Statement of

42

DISTRIBUTOR (CONTINUED)

Additional Information and sales literature to prospective investors; an allocation of overhead and other Smith Barney Shearson's branch office distribution-related expenses; payments to and expenses of Smith Barney Shearson Financial consultants and other persons who provide support services in connection with the distribution of the shares; and accruals for interest on the amount of the foregoing expenses that exceed distribution fees and, in the case of Class B shares, the CDSC received by Smith Barney Shearson. The payments to Smith Barney Shearson Financial Consultants for selling shares of a class include a commission paid at the time of sale and a continuing fee for servicing shareholder accounts for as long as a shareholder remains a holder of that Class. The service fee is credited at the rate of 0.25% of the value of average daily net assets of the Class that remain invested in the Fund. Smith Barney

Shearson Financial Consultants may receive different levels of compensation for selling one Class of shares over another.

Although it is anticipated that some promotional activities will be conducted on a Company-wide basis, payments made by a fund under the Plan generally will be used to finance the distribution of shares of such fund. Expenses incurred in connection with Company-wide activities may be allocated pro-rata among all funds of the Company on the basis of their relative net assets.

Payments under the Plan are not tied exclusively to the distribution and shareholder service expenses actually incurred by Smith Barney Shearson, and the payments may exceed distribution expenses actually incurred. The Company's Board of Directors evaluates the appropriateness of the Plan and its payment terms on a continuing basis and in doing so will consider all relevant factors, including expenses borne by Smith Barney Shearson and the amount received under the Plan and the proceeds of the CDSC and sales charges received.

On a quarterly basis, the Company's Board of Directors reviews a report on expenditures under the Plan and the purposes for which those expenditures were made. The Directors conduct an additional, more extensive review annually in determining whether the Plan will be continued. By its terms, continuation of the Plan from year to year is contingent on annual approval by a majority of the Company's Directors and by a majority of the Directors who are not "interested persons" as defined in the 1940 Act, and who have no direct or indirect financial interest in the

43

SMITH BARNEY SHEARSON
EUROPEAN FUND

DISTRIBUTOR (CONTINUED)

operation of the Plan or related agreements (the "Plan Directors"). The Plan may be terminated with respect to the Fund at any time by vote of a majority of the Plan Directors or a majority of the outstanding shares of the Fund.

For additional information on the Plan, see the discussion under "Distribution Arrangements" in the Statement of Additional Information.

DIVIDENDS, DISTRIBUTIONS AND TAXES

DIVIDENDS AND DISTRIBUTIONS

The Fund will be treated separately from the Company's other funds in determining the amount of dividends from net investment income and distributions of capital gains payable to shareholders. Dividends and any distributions automatically are reinvested in additional shares at net asset value unless the shareholder has elected to receive distributions in cash. Dividends and distributions are treated the same for tax purposes whether taken in cash or reinvested in additional shares. Dividends, if any, consisting of net investment income of the Fund will be declared and paid annually. Any net realized long-term capital gains, after distribution of capital loss carryforwards, will be distributed at least annually. Net realized short-term capital gains may be paid with the distribution of dividends from net investment income. The per share dividends and distributions on Class A shares will be higher than the per share dividends and distributions on Class B and Class D shares as a result of lower distribution and transfer agency fees applicable to the Class A shares. See "Variable Pricing System." In addition, as determined by the Board of Directors, distributions of the Fund may include a return of capital.

Shareholders will be notified of the amount of any distribution that represents a return of capital. In order to comply with a calendar year distribution requirement under the Code, it may be necessary for the Fund to make distributions at times other than those set forth above.

44

SMITH BARNEY SHEARSON
EUROPEAN FUND

DIVIDENDS, DISTRIBUTIONS AND TAXES (CONTINUED)

TAXES

The Fund will be treated as a separate taxpayer with the result that, for federal tax purposes, the amount of investment income and capital gains earned will be determined on a fund-by-fund basis, rather than on a Company-wide basis.

The Fund intends to continue to qualify as a "regulated investment company" under Subchapter M of the Code. In any taxable year in which the Fund so qualifies and distributes at least 90% of its investment company taxable income

(which includes, among other items, dividends, interest and the excess of any net short-term capital gains over net long-term capital losses), the Fund (but not its shareholders) generally will be relieved of federal income tax on the investment company taxable income and net realized capital gains (the excess of net long-term capital gains over net short-term capital losses), if any, distributed to shareholders. In order to qualify as a regulated investment company, the Fund will be required to meet various Code requirements.

Amounts not distributed on a timely basis in accordance with a calendar year distribution requirement are subject to a nondeductible 4% excise tax. To prevent application of the excise tax, the Fund intends to make its distributions in accordance with this requirement.

Distributions of any investment company taxable income are taxable to shareholders as ordinary income. Distributions of any net capital gains designated by the Fund as capital gain dividends are taxable to shareholders as long-term capital gain regardless of the length of time a shareholder may have held shares of the Fund.

Dividends (including capital gain dividends) declared by the Fund in October, November or December of any calendar year to shareholders of record on a date in such a month will be deemed to have been received by shareholders on December 31 of that calendar year, provided that the dividend is actually paid by the Fund during January of the following calendar year.

Certain foreign currency forward contracts in which the Fund may invest are "section 1256 contracts." Gains or losses in section 1256 contracts generally are considered 60% long-term and 40% short-term capital gains or losses ("60/40%"); however, foreign currency gains or losses arising from certain section 1256 contracts (including foreign currency forward contracts)

45

SMITH BARNEY SHEARSON
EUROPEAN FUND

DIVIDENDS, DISTRIBUTIONS AND TAXES (CONTINUED)

generally are treated as ordinary income or loss. Also, section 1256 contracts held by the Fund at the end of each taxable year are "marked-to-market" with the result that unrealized gains or losses are treated as though they were realized. These contracts also may be marked-to-market for purposes of the 4% excise tax and for other purposes under rules prescribed pursuant to the Code.

Certain foreign currency forward contracts entered into by the Fund may result in "straddles" for federal income tax purposes. The straddle rules may affect the character of gains (or losses) realized by the Fund on straddle positions. In addition, losses realized by the Fund on straddle positions may be deferred under the straddle rules, rather than being taken into account in calculating

the taxable income for the taxable year in which such losses are realized. The Fund may make one or more of the elections applicable to straddles. If the Fund makes any of the elections, the amount, character and timing of the recognition of gains and losses from the affected straddle positions will be determined under rules that vary according to the elections made. Because only a few of the regulations implementing the straddle rules have been promulgated, the tax consequences of straddle transactions to the Fund are not entirely clear.

Under the Code, gains or losses attributable to fluctuations in exchange rates which occur between the time the Fund accrues income or other receivables or accrues expenses or other liabilities denominated in a foreign currency and the time the Fund actually collects such receivables or pays such liabilities generally are treated as ordinary income or ordinary loss. Similarly, on disposition of debt securities denominated in a foreign currency and on disposition of foreign currency forward contracts, gains or losses attributable to fluctuations in the value of a foreign currency between the date of acquisition of the security or contract and the date of disposition also generally are treated as ordinary gain or loss. These gains or losses, referred to under the Code as "section 988" gains or losses, may increase or decrease the amount of the Fund's investment company taxable income to be distributed to its shareholders.

It is expected that certain dividends and interest received by the Fund will be subject to foreign withholding taxes. If more than 50% in value of the Fund's total assets at the close of any fiscal year consists of stocks or securities of foreign corporations, the Fund may elect to treat any foreign income and similar taxes paid by it as paid by its shareholders. If the Fund makes the election, shareholders will be required to include in income their

46

SMITH BARNEY SHEARSON
EUROPEAN FUND

DIVIDENDS, DISTRIBUTIONS AND TAXES (CONTINUED)

proportionate share of the amount of foreign taxes paid or accrued by the Fund and will be entitled to claim, subject to limitations, either a credit or deduction (if they itemize their deductions) for their share of the taxes in computing their federal income tax.

Upon the disposition of shares of the Fund (whether by redemption, sale or exchange), a shareholder generally will realize a taxable gain or loss. Such gain or loss generally will be a capital gain or loss if the shares are capital assets in the shareholder's hands, and generally will be long-term or short-term depending upon the shareholder's holding period for the shares. Any loss realized by a shareholder on disposition of Fund shares held by the shareholder for six months or less will be treated as long-term capital loss to the extent of any distributions of capital gains dividends received by the shareholder with respect to such shares.

Shareholders will be notified annually about the amounts of dividends and distributions, including the amounts (if any) for that year which have been designated as capital gain dividends. Dividends and distributions and gains realized upon a disposition of Fund shares may also be subject to state, local or foreign taxes depending on each shareholder's particular situation. Dividends, if any, consisting of interest from obligations of the U.S. government and certain of its agencies and instrumentalities may be exempt from all state and local income taxes. Investors should consult their tax advisors for specific information on the tax consequences of particular types of distributions.

THE FUND'S PERFORMANCE

TOTAL RETURN

From time to time, the Fund may advertise the "average annual total return" over various periods of time for each Class. Such total return figures show the average percentage change in value of an investment in the Class from the beginning date of the measuring period to the end of the measuring period. These figures reflect changes in the price of the shares and assume that any income dividends and/or capital gains distributions made by the Fund during the period were reinvested in shares of the same Class. Class A total return figures include the maximum initial 5.00% sales charge and

47

SMITH BARNEY SHEARSON
EUROPEAN FUND

THE FUND'S PERFORMANCE (CONTINUED)

Class B total return figures include any applicable CDSC. These figures also take into account the service and distribution fees, if any, payable with respect to the Classes.

Total return figures will be given for recent one-, five- and ten-year periods or the life of a Class to the extent it has not been in existence for any such period, and may be given for other periods as well, such as on a year-by-year basis. When considering average annual total return figures for periods longer than one year, it is important to note that the total return for any one year in the period might have been greater or less than the average for the entire period. "Aggregate" total return figures may be used for various periods, representing the cumulative change in value of an investment in the shares for the specific period (again reflecting changes in the Fund's share prices and assuming reinvestment of dividends and distributions). Aggregate total returns may be calculated either with or without the effect of the maximum 5.00% sales charge or any applicable CDSC and may be shown by means of schedules, charts or graphs, and may indicate subtotals of the various components of total return (I.E., change in the value of initial investment, income dividends, and capital gains distributions). Because of the differences in sales charges and distribution and other fees, the total returns for each of the Classes will differ.

In reports or other communications to shareholders or in advertising material, performance of a Class may be compared with that of other mutual funds or classes of shares of other funds listed in the rankings prepared by Lipper Analytical Services, Inc. or similar independent services that monitor the performance of mutual funds or with other appropriate indices of investment securities such as the Standard & Poor's 500 Composite Stock Price Index, the Dow Jones Industrial Average and Morgan Stanley Capital International World Index. The performance information may also include evaluations of the Fund published by nationally recognized financial publications such as BARRON'S, BUSINESS WEEK, CDA INVESTMENT TECHNOLOGIES, INC., FORBES, FORTUNE, INSTITUTIONAL INVESTOR, INVESTORS DAILY, KIPLINGER'S PERSONAL FINANCE MAGAZINE, MONEY, MORNINGSTAR MUTUAL FUND VALUES, THE NEW YORK TIMES, USA TODAY and THE WALL STREET JOURNAL. It is important to note that yield and total return figures are based on historical earnings and are not intended to indicate future performance. To the extent any advertisement or sales literature of the Fund describes the expenses or performance of a Class, it will also disclose such information for the other

48

SMITH BARNEY SHEARSON
EUROPEAN FUND

Classes. For a description of the methods used to determine total return, see the Statement of Additional Information. Performance figures may be obtained from any Smith Barney Shearson Financial Consultant.

ADDITIONAL INFORMATION

The Company was organized as a Maryland corporation pursuant to Articles of Incorporation dated September 29, 1981, as amended from time to time. The Company commenced operations on January 4, 1982 under the name "Hutton Investment Series Inc." The Company's corporate name was changed to "SLH Investment Portfolios Inc." on December 29, 1988. On October 23, 1992, the Board of Directors of the Company authorized the Company to do business under the name of "Shearson Lehman Brothers Investment Funds" and also authorized a change in the name of the Fund to European Fund.

On July 30, 1993, the Company's corporate name was changed to its current name "Smith Barney Shearson Investment Funds Inc." and the Fund's name was changed to Smith Barney Shearson European Fund.

The Fund offers shares of common stock currently classified into three Classes, A, B and D, with a par value of \$.001 per share. Each Class of shares has the same rights, privileges and preferences, except with respect to: (a) the designation of each Class; (b) the effect of the respective sales charges, if any, for each Class; (c) the distribution and/or service fees borne by each Class; (d) the expenses allocable exclusively to each Class; (e) voting rights on matters exclusively affecting a single Class; (f) the exchange privilege of each Class; and (g) the conversion feature of the Class B shares. The Board of Directors does not anticipate that there will be any conflicts among the interests of the holders of the different Classes of shares of the Fund. The Directors, on an ongoing basis, will consider whether any such conflict exists and, if so, take appropriate action.

Boston Safe, a wholly owned subsidiary of TBC, is located at One Boston Place, Boston, Massachusetts 02108, and serves as custodian of the Company's investments.

TSSG, a subsidiary of FDC, is located at Exchange Place, Boston, Massachusetts 02109, and serves as the Company's transfer agent.

49

SMITH BARNEY SHEARSON
EUROPEAN FUND

ADDITIONAL INFORMATION (CONTINUED)

The Company does not hold annual shareholder meetings. There normally will be no meeting of shareholders for the purpose of electing Directors unless and until such time as less than a majority of the Directors holding office have been elected by shareholders. The Directors will call a meeting for any purpose upon written request of shareholders holding at least 10% of the Company's outstanding shares. When matters are submitted for shareholder vote, shareholders of each Class will have one vote for each full share owned and a proportionate, fractional vote for any fractional share held of that Class. Generally, shares of the Company will be voted on a Company-wide basis on all matters except matters affecting only the interests of one Fund or one Class of shares.

The Fund sends its shareholders a semi-annual report and an audited annual report, each of which includes a list of the investment securities held by the Fund at the end of the reporting period. In an effort to reduce the Fund's printing and mailing costs, the Company plans to consolidate the mailing of its semi-annual and annual reports by household. This consolidation means that a household having multiple accounts with the identical address of record will receive a single copy of each report. In addition, the Company also plans to consolidate the mailing of its Prospectuses so that a shareholder having multiple accounts (I.E., individual, IRA and/or Self-Employed Retirement Plan accounts) will receive a single Prospectus annually. When the Fund's annual reports are combined with the Prospectus into a single document, the Fund will mail the combined document to each shareholder to comply with legal requirements. Any shareholder who does not want this consolidation to apply to his or her account should contact their Smith Barney Shearson Financial Consultant or the Fund's transfer agent.

NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS, THE STATEMENT OF ADDITIONAL INFORMATION AND/OR IN THE FUND'S OFFICIAL SALES LITERATURE IN CONNECTION WITH THE OFFERING OF THE FUND'S SHARES AND, IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER IN ANY STATE IN WHICH, OR TO ANY PERSON TO WHOM, SUCH OFFER MAY NOT LAWFULLY BE MADE.

50

SMITH BARNEY SHEARSON
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

DISTRIBUTOR

Smith Barney Shearson Inc.
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

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

CUSTODIAN

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

51

SMITH BARNEY SHEARSON

EUROPEAN
FUND
Two World Trade Center
New York, New York 10048

Fund 109, 203, 255

FD0236 B4

PART B

SMITH BARNEY SHEARSON INVESTMENT FUNDS INC.

STATEMENT OF ADDITIONAL INFORMATION

Smith Barney Shearson
INVESTMENT FUNDS INC.
Two World Trade Center
New York, New York 10048
(212) 720-9218

STATEMENT OF ADDITIONAL INFORMATION

MARCH 1, 1994

This Statement of Additional Information expands upon and supplements the

information contained in the current Prospectuses of Smith Barney Shearson Investment Funds Inc. (the "Company"), dated March 1, 1994, as amended or supplemented from time to time, and should be read in conjunction with the Company's Prospectuses. The Company issues a Prospectus for each of the investment funds offered by the Company (the "Funds"). The Company's Prospectuses may be obtained from any Smith Barney Shearson Financial Consultant, or by writing or calling the Company at the address or telephone number listed above. This Statement of Additional Information, although not in itself a prospectus, is incorporated by reference into the Prospectuses in its entirety.

CONTENTS

For ease of reference, the same section headings are used in both the Prospectuses and this Statement of Additional Information, except where shown below:

<TABLE>
<S>
<C>
Management of the Company (see in the Prospectuses "Management of the Company and the Fund")
1
Investment Objective and Management Policies
6
Purchase of Shares
24
Redemption of Shares
25
Distributor
26
Valuation of Shares
27
Exchange Privilege
28
Performance Data (see in the Prospectuses "The Fund's Performance")
29
Taxes (see in the Prospectuses "Dividends, Distributions and Taxes")
33
Custodian and Transfer Agent
37
Financial Statements
37
Appendix
A-1
</TABLE>

MANAGEMENT OF THE COMPANY

The executive officers of the Company are employees of certain of the organizations that provide services to the Company. These organizations are the following:

<TABLE>	
<CAPTION>	
NAME	SERVICE
<S>	<C>
Greenwich Street Advisors ("Greenwich Street Advisors")	Investment Advisers
Lehman Brothers Global Asset Management Limited ("Global Asset Management")	
The Boston Company Advisors, Inc. ("Boston Advisors")	Administrator
Smith Barney Shearson Inc. ("Smith Barney Shearson")	Distributor
Boston Safe Deposit and Trust Company ("Boston Safe")	Custodian
The Shareholder Services Group, Inc. ("TSSG"), a subsidiary of First Data Corporation	Transfer Agent
</TABLE>	

These organizations and the functions they perform for the Company are discussed in the Prospectuses and in this Statement of Additional Information.

DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

The Directors and executive officers of the Company, together with information as to their principal business occupations during the past five years, are shown below. Each Director who is an "interested person" of the Company, as defined in the Investment Company Act of 1940, as amended (the "1940 Act"), is indicated by an asterisk.

Dwight B. Crane, Director. Professor, Graduate School of Business Administration, Harvard University. His address is Graduate School of Business Administration, Harvard University, Boston, Massachusetts 02163.

Alger B. Chapman, Chairman and Chief Operating Officer of the Chicago Board Options Exchange. His address is Chicago Board Options Exchange, LaSalle at Van Buren, Chicago, IL 60605.

Frank G. Hubbard, Corporate Vice President, Materials Management and Marketing Services of Huls America, Inc. His address is 80 Centennial Avenue P.O. Box 456, Piscataway, NJ 08855-0456.

Allan R. Johnson, Director. Retired; Former Chairman, Retail Division of BATUS, Inc., and Chairman and Chief Executive Officer of Saks Fifth Avenue, Inc. His address is 2 Sutton Place South, New York, New York 10022.

*Heath B. McLendon, Chairman of the Board. Executive Vice President of Smith Barney Shearson and Chairman of Smith Barney Shearson Strategy Advisers Inc., an investment advisory affiliate of Smith Barney Shearson ("SBSSA"). Prior to July 1993, Senior Executive Vice President of Shearson Lehman Brothers Inc. ("Shearson Lehman Brothers") and Vice Chairman of the Board of Shearson Asset Management, a member of the Asset Management Group of Shearson Lehman Brothers. His address is Two World Trade Center, New York, New York 10048.

John F. White, Director. President Emeritus of The Cooper Union for the Advancement of Science and Art; Special Assistant to the President of the Aspen Institute. His address is Crows Nest Road, Tuxedo Park, New York 10987.

Stephen J. Treadway, President. Executive Vice President and Director of Smith Barney Shearson; Director and President of Mutual Management Corp. and Smith Barney Advisers, Inc., and Trustee of Corporate Realty Income Trust I. His address is 1345 Avenue of the Americas, New York, New York 10105.

Richard P. Roelofs, Executive Vice President. Managing Director of Smith Barney Shearson; President of SBSSA. Prior to July 1993, Senior Vice President of Shearson Lehman Brothers and Vice President of Shearson Lehman Investment Strategy Advisors Inc., an investment advisory affiliate of Shearson Lehman Brothers. His address is Two World Trade Center, New York, New York 10048.

James E. Conroy, First Vice President. Managing Director of Greenwich Street Advisors. Prior to July 1993, Managing Director of Shearson Lehman Advisors. His address is Two World Trade Center, New York, New York 10048.

Kenneth A. Egan, First Vice President. Managing Director of Greenwich Street Advisors. Prior to July 1993, Managing Director of Shearson Lehman Advisors. His address is Two World Trade Center, New York, New York 10048.

R. Jay Gerken, Investment Officer. Senior Vice President of Greenwich Street Advisors. Prior to July 1993, Senior Vice President of Shearson Lehman Advisors. His address is Two World Trade Center, New York, New York 10048.

George E. Mueller, Jr., Investment Officer. Senior Vice President of Greenwich Street Advisors. Prior to July 1993, Managing Director of Shearson Lehman Advisors. His address is Two World Trade Center, New York, New York 10048.

George V. Novello, Investment Officer. Managing Director of Greenwich Street Advisors. Prior to July 1993, Managing Director of Shearson Lehman Advisors. Prior to September 1990, Mr. Novello was a Managing Director at McKinley-Allsopp where he served as Head of Research. His address is Two World Trade Center, New York, New York 10048.

Erich Stock, Investment Officer. Director-Equities, Global Asset Management. His address is Two Broadgate, London EC2M, 7HA, United Kingdom.

Vincent Nave, Treasurer. Senior Vice President of Boston Advisors and Boston Safe. His address is One Boston Place, Boston, Massachusetts 02108.

Francis J. McNamara, III, Secretary. Senior Vice President and General Counsel of Boston Advisors; prior to June 1989, Vice President and Associate Counsel of Boston Advisors. His address is One Boston Place, Boston, Massachusetts 02108.

Paul F. Roye, Assistant Secretary. Partner in the law firm of Dechert Price & Rhoads. His address is 1500 K Street, N.W., Washington, D.C. 20005.

Messrs. Crane, Johnson, White and McLendon also serve as directors, trustees and/or individual general partners of certain other mutual funds for which Smith Barney Shearson serves as distributor. As of December 31, 1993, the Directors and officers of the Company, as a group, owned less than 1% of the outstanding common stock of the Company.

No officer, director or employee of Smith Barney Shearson or Boston Advisors or of any parent or subsidiary 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 or employee of Smith Barney Shearson or Boston Advisors or any of their affiliates a fee of \$14,000 per annum plus \$3,000 per meeting attended and reimburses travel and out-of-pocket expenses. For the fiscal year ended December 31, 1993, such fees and expenses totalled approximately \$147,980.00.

INVESTMENT ADVISERS--GREENWICH STREET ADVISORS AND GLOBAL ASSET MANAGEMENT ADMINISTRATOR--BOSTON ADVISORS

Greenwich Street Advisors and Global Asset Management serve as investment advisers to one or more of the Funds pursuant to written agreements with the Funds (the "Advisory Agreements"), which, with the exception of the European Funds' Advisory Agreement, were most recently approved by the Board of Directors, including a majority of the Directors who are not "interested persons" of the Company or the investment advisers (the "Independent Directors"), on April 7, 1993 and by shareholders of the respective Funds on June 9, 1993. The Advisory Agreement for European Fund was most recently approved by the Board of Directors, including a majority of the Independent Directors, on August 5, 1993 and by shareholders of European Fund on November 4, 1988. Each of the investment advisers pays the salary of any officer and employee who is employed by both it and the Company. The services provided by the investment advisers under the Advisory Agreements are described in the Prospectuses under "Management of the Company." Greenwich Street Advisors, a division of Mutual Management Corp., provides investment advisory and management services to investment companies affiliated with Smith Barney Shearson. Smith Barney Shearson is a wholly owned subsidiary of Smith Barney Shearson Holdings Inc., which is in turn a wholly owned subsidiary of The Travelers Inc. (formerly known as Primerica Corporation) ("Travelers"). Global Asset Management is a wholly owned subsidiary of Lehman Brothers Holdings Inc. ("Holdings"). American Express Company ("American Express") owns 100% of Holdings' issued and outstanding common stock, which represents approximately 92% of Holdings' issued and outstanding voting stock. The remainder of Holdings' voting stock is owned by Nippon Life Insurance Company. On January 21, 1994, American Express announced plans to issue a special dividend to its common shareholders consisting of the common stock of Holdings which it owns immediately preceding such dividend. Final terms of the proposed transaction, which is expected to be completed during the second quarter of 1994 and would result in Holdings emerging as an independent publicly-owned corporation, have not yet been determined.

For the fiscal years ended December 31, 1991, 1992 and 1993, the Funds accrued approximate advisory fees as follows:

<TABLE>
<CAPTION>

FUND	1991	1992	1993
<S>	<C>	<C>	<C>
Investment Grade Bond Fund \$2,157,373	\$1,792,000	\$1,879,000	
Government Securities Fund 3,357,123	4,771,000	3,926,000	
Special Equities Fund 548,764	421,000	385,000	
European Fund 195,586	203,000	189,000	

</TABLE>

Boston Advisors serves as administrator to each Fund pursuant to a written agreement dated May 21, 1993 (the "Administration Agreement"), which was first approved by the Board of Directors, including a majority of the Independent Directors, on November 4, 1992. Prior to the close of business on May 21, 1993, Boston Advisors acted as the Funds' sub-investment adviser and administrator. Boston Advisors is a wholly owned subsidiary of The Boston Company, Inc. ("TBC"), a financial services holding company, which is in turn a wholly owned subsidiary of Mellon Bank Corporation ("Mellon").

Prior to the close of business on May 21, 1993 (the "Closing"), TBC was an affiliate of Shearson Lehman Brothers and, in connection with its sale to Mellon, Shearson Lehman Brothers conditionally agreed (with certain exceptions) that neither it nor its subsidiaries would provide custody services (other than to investment companies) or master trust services for a period of three years, and that neither it nor its subsidiaries would provide custody or administration services to certain investment companies and/or clients of TBC and its subsidiaries for a period of one to seven years. In addition, Shearson Lehman Brothers conditionally agreed (with certain exceptions) that, for a period of seven years (a) with respect to each investment company for which both (i) TBC or its subsidiary provided custody services, administration services or investment advisory services (not sub-advisory services) on September 14, 1992 and (ii) Shearson Lehman Brothers or its subsidiaries serve as investment adviser or principal underwriter, Shearson Lehman Brothers would to the extent consistent with its fiduciary duties and other applicable law recommend TBC or its subsidiary as a provider of such services, and (b) it would recommend TBC or its subsidiary as the provider of custody services and administration services for any investment company for which Shearson Lehman Brothers or its subsidiaries become an investment adviser or principal underwriter.

On July 30, 1993, Travelers and Smith Barney Harris Upham & Co. Incorporated ("Smith Barney") purchased certain assets and assumed certain liabilities of Shearson Lehman Brothers and Smith Barney was renamed "Smith Barney Shearson Inc." Under the asset purchase agreement between Smith Barney and Shearson Lehman Brothers, as regards the above-described provisions, Smith Barney agreed with American Express that Smith Barney and its pertinent affiliates would be bound by those provisions described in the preceding paragraph to the extent that Shearson Lehman Brothers and its pertinent affiliates would have been bound if the sale to Smith Barney had not occurred.

Certain of the services provided to the Company by Boston Advisors pursuant to the Administration Agreement are described in the Prospectuses under "Management of the Company and the Fund." In addition to those services, Boston Advisors pays the salaries of all officers and employees who are employed by both it and the Company, maintains office facilities for the Company, furnishes the Company with statistical and research data, clerical help and accounting, data processing, bookkeeping, internal auditing and legal services and certain other services required by the Company, prepares reports to the Company's shareholders and prepares tax returns, reports to and filings with the Securities and Exchange Commission (the "SEC") and state Blue Sky authorities. Boston Advisors bears all expenses in connection with the performance of its services.

For the fiscal years ended December 31, 1991, 1992 and 1993, the Funds accrued approximate sub-investment and/or administration fees as follows:

<TABLE>
<CAPTION>

FUND	1991	1992	1993
<S>	<C>	<C>	<C>
Investment Grade Bond Fund 958,700	\$ 796,000	\$ 835,000	\$
Government Securities Fund 1,918,367	2,726,000	2,243,000	
Special Equities Fund 199,551	153,000	140,000	
European Fund 55,902	60,000*	53,000	

<FN>
* For the fiscal year ended December 31, 1991, 100% of the sub-investment advisory and administration fees were waived by Boston Advisors for the European Fund.

</TABLE>

The Company bears expenses incurred in its operation, including taxes, interest, brokerage fees and commissions, if any; fees of Directors who are not officers, directors, shareholders or employees of the investment advisers, Smith Barney Shearson or Boston Advisors; SEC fees and state Blue Sky qualification fees; charges of custodians; transfer and dividend disbursing agent's fees; certain insurance premiums; outside auditing and legal expenses; costs of maintenance of corporate existence; investor services (including allocated telephone and personnel expenses); and costs of preparation and printing of prospectuses for regulatory purposes and for distribution to existing shareholders, shareholders' reports and corporate meetings.

Each investment adviser and Boston Advisors have agreed that if in any fiscal year the aggregate expenses of a Fund (including fees paid pursuant

to the Advisory and Administration Agreements, but excluding interest, taxes, brokerage and, with the prior written consent of the necessary state securities commissions, extraordinary expenses) exceed the expense limitation of any state having jurisdiction over the Fund, the investment advisers and Boston Advisors will, to the extent required by law, reduce their management fees for the Fund by the amount of such excess expense, such amount to be allocated between them in the proportion that their respective fees bear to the aggregate of such fees paid by the Fund. Such a fee reduction, if any, will be reconciled on a monthly basis. The most restrictive state limitation applicable to the Company would require the investment advisers and Boston Advisors to reduce their fees in any year that such excess expenses exceed 2.5% of the first \$30 million of average net assets, 2% of the next \$70 million of average net assets and 1.5% of the remaining average net assets. No fee reduction was required for the 1993, 1992 and 1991 fiscal years.

COUNSEL AND AUDITORS

Dechert Price & Rhoads serves as counsel to the Company and Smith Barney Shearson and from time to time provides certain legal services to Boston Advisors. Paul F. Royce, a partner at Dechert Price & Rhoads, is Assistant Secretary of the Company. Sullivan & Worcester serves as counsel to the Directors who are not "interested persons" of the Company.

Coopers & Lybrand, independent accountants, One Post Office Square, Boston, Massachusetts 02109, serve as auditors of the Company and render an opinion on the Company's financial statements annually.

INVESTMENT OBJECTIVE AND MANAGEMENT POLICIES

The Prospectuses discuss the investment objectives of each Fund and the policies they employ to achieve such objectives. The following discussion supplements the description of the Funds' investment objectives and management policies contained in the Prospectuses.

INVESTMENT GRADE BOND FUND

The investment objective of the Investment Grade Bond Fund is to provide as high a level of current income as is consistent with prudent investment management and preservation of capital. The Fund seeks to achieve its objective by investing in the following securities: -- Corporate bonds which are rated Aaa, Aa, A, or Baa by Moody's Investors Service, Inc. ("Moody's") or AAA, AA, A, or BBB by Standard & Poor's Corporation ("S&P") (See Appendix for a description of these ratings). -- U.S. government securities (See below). -- Commercial paper issued by domestic corporations rated Prime-1 or Prime-2 by Moody's or A-1+, A-1 or A-2 by S&P or, if not rated by Moody's or S&P, issued by a corporation having an outstanding debt issue rated Aa or better by Moody's or AA or better by S&P (See Appendix). -- Negotiable bank certificates of deposit or bankers' acceptances issued by domestic banks (but not their foreign branches) having together with branches or subsidiaries, total assets in excess of \$1 billion. -- High-yielding common stocks (which may be purchased directly or acquired through the exercise of warrants or the conversion of fixed-income securities) -- Warrants.

The ratings of Moody's and S&P generally represent the opinions of those organizations as to the quality of the securities that they rate. Such ratings, however, are relative and subjective, are not absolute standards of quality and do not evaluate the market risk of the securities. Although the Fund's investment adviser uses these ratings as a criterion for the selection of securities for the Fund, the Fund's investment adviser also relies on its independent analysis to evaluate potential investments for the Fund. The Fund's achievement of its investment objectives may be more dependent on the investment adviser's credit analysis of low-rated and unrated securities than would be the case for a portfolio of higher-rated securities.

Subsequent to its purchase by the Fund, an issue of securities may cease to be rated or its rating may be reduced below the minimum required for purchase by the Fund. In addition, it is possible that Moody's and S&P might not timely change their ratings of a particular issue to reflect subsequent events. None of these events will require the sale of the securities by the Fund, although the investment adviser will consider these events in determining whether the Fund should continue to hold the securities. To the extent that the ratings given by Moody's or S&P for securities may change as a result of changes in the rating systems or due to a corporate reorganization of Moody's and/or S&P, the Fund will attempt to use comparable ratings as standards for its investments in accordance with the investment objectives and policies of the Fund.

As a condition of its continuing registration in a state, the Fund has undertaken that Investment Grade Bond Fund's investments in warrants, valued at the lower of cost or market, will not exceed 5% of the value of its net assets. Included within that amount, but not to exceed 2% of the Fund's

net assets, may be warrants which are not listed on either the New York Stock Exchange, Inc. (the "NYSE") or the American Stock Exchange. Warrants acquired by the Fund in units or attached to securities will be deemed to be without value for purposes of this restriction. These limits are not fundamental policies of the Fund and may be changed by the Board of Directors without shareholder approval.

Investment Grade Bond Fund may enter into repurchase agreements, reverse repurchase agreements and firm commitment agreements and may lend its portfolio securities, in each case in accordance with the description of those techniques (and subject to the same risks) set forth below. The Fund may purchase American Depositary Receipts ("ADRs"), which are dollar-denominated receipts issued generally by domestic banks and representing the deposit with the bank of a security of a foreign issuer. ADRs are publicly traded on exchanges or over-the-counter in the United States.

Investment Grade Bond Fund may also sell securities "short against the box." While a short sale is the sale of a security the Fund does not own, it is "against the box" if at all times when the short position is open, the Fund owns an equal amount of the securities or securities convertible into, or exchangeable without further consideration for, securities of the same issue as the securities sold short. Short sales against the box are used to defer recognition of capital gains or losses or to extend the holding period of securities for certain federal income tax purposes.

It is the Fund's policy that at least 65% of the assets of Investment Grade Bond Fund will be invested in bonds, except during times when the investment adviser believes that adoption of a temporary defensive position by investing more heavily in cash or money market instruments (such as short-term U.S. government securities, commercial paper, and negotiable bank certificates of deposit) is desirable due to prevailing market or economic conditions. This policy was adopted in accordance with guidelines of the SEC which require that any investment company whose name implies that it invests primarily in a particular type of security have a policy of investing at least 65% of its total assets in that type of security under normal market conditions. This policy may be changed without shareholder approval in the event the SEC guidelines are modified.

Repurchase Agreements. The Fund may purchase securities and concurrently enter into repurchase agreements with certain member banks of the Federal Reserve System having total assets in excess of \$100 million and certain dealers on the Federal Reserve Bank of New York's list of reporting dealers. Repurchase agreements are contracts under which the buyer of a security simultaneously commits to resell the security to the seller at an agreed-upon price and date. Under each repurchase agreement, the selling institution will be required to maintain the value of the securities subject to the repurchase agreement at not less than their repurchase price. Repurchase agreements could involve certain risks in the event of default or insolvency of the other party, including possible delays or restrictions upon a Fund's ability to dispose of the underlying securities, the risk of a possible decline in the value of the underlying securities during the period in which the Fund seeks to assert its rights to them, the risk of incurring expenses associated with asserting those rights and the risk of losing all or part of the income from the repurchase agreement. The investment adviser and the administrator of the Fund, acting under the supervision of the Company's Board of Directors, review on an ongoing basis 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. The Fund will not enter into repurchase agreements that would cause more than 10% of its total assets to be invested in "illiquid" securities.

Reverse Repurchase Agreements. A reverse repurchase agreement involves the sale of a money market instrument held by the Fund coupled with an agreement by the Fund to repurchase the instrument at a stated price, date and interest payment. The Fund will use the proceeds of a reverse repurchase agreement to purchase other money market instruments which either mature at a date simultaneous with or prior to the expiration of the reverse repurchase agreement or which are held under an agreement to resell maturing as of that time.

The Fund will enter into a reverse repurchase agreement only when the interest income to be earned from the investment of the proceeds of the transaction is greater than the interest expense of the transaction. Under the 1940 Act, reverse repurchase agreements may be considered to be borrowings by the seller. The Fund may not enter into a reverse repurchase agreement if, as a result, its current obligations under such agreements would exceed one-third of the current market value of the Fund's total assets (less all of its liabilities other than obligations under such agreements).

The Fund may enter into reverse repurchase agreements with banks or broker-dealers. Entry into such agreements with broker-dealers requires the creation and maintenance of a segregated account with the Company's

custodian consisting of U.S. government securities or cash or cash equivalents.

Firm Commitment Agreements. The Fund may enter into firm commitment agreements (when-issued purchases) for the purchase of securities at an agreed-upon price on a specified future date. Such agreements might be entered into, for example, when a decline in the yield of securities of a given issuer is anticipated and a more advantageous yield may be obtained by committing currently to purchase securities to be issued later.

The Fund will not enter into such agreements for the purpose of investment leverage. Liability for the purchase price, and all the rights and risks of ownership of the securities, accrue to the Fund at the time it becomes obligated to purchase such securities, although delivery and payment occur at a later date. Accordingly, if the market price of the security should decline, the effect of the agreement would be to obligate the Fund to purchase the security at a price above the current market price on the date of delivery and payment. During the time the Fund is obligated to purchase such securities, it will maintain in a segregated account with the Company's custodian, U.S. government securities or cash or cash equivalents of an aggregate current value sufficient to make payment for the securities.

Lending of Portfolio Securities. The Fund has the ability to lend portfolio securities to brokers, dealers and other financial organizations. Such loans, if and when made, may not exceed 20% of the Fund's total assets taken at value. The Fund will not lend portfolio securities to Smith Barney Shearson unless it has applied for and received specific authority to do so from the SEC. Loans of portfolio securities will be collateralized by cash, letters of credit or U.S. government securities which are maintained at all times in an amount at least equal to the current market value of the loaned securities. From time to time, the Fund may pay a part of the interest earned from the investment of collateral received for securities loaned to the borrower and/or a third party which is unaffiliated with the Fund and is acting as a "finder."

By lending its securities, the Fund can increase its income by continuing to receive interest on the loaned securities as well as by either investing the cash collateral in short-term instruments or obtaining yield in the form of interest paid by the borrower when U.S. government securities are used as collateral. The Fund will adhere to the following conditions whenever its portfolio securities are loaned: (a) the Fund must receive at least 100% cash collateral or equivalent securities from the borrower; (b) the borrower must increase such collateral whenever the market value of the securities loaned rises above the level of such collateral; (c) the Fund must be able to terminate the loan at any time; (d) the Fund must receive reasonable interest on the loan, as well as any dividends, interest or other distributions on the loaned securities, and any increase in market value; (e) the Fund may pay only reasonable custodian fees in connection with the loan; and (f) voting rights on the loaned securities may pass to the borrower; provided, however, that if a material event adversely affecting the investment in the loaned securities occurs, the Board of Directors must terminate the loan and regain the right to vote the securities.

GOVERNMENT SECURITIES FUND

The investment objective of Government Securities Fund is high current return. It seeks to achieve its objective by investing in U.S. government securities and by writing covered call options and secured put options and by purchasing put options on U.S. government securities. The Fund also may purchase and sell interest rate futures contracts, and purchase and sell put and call options on futures contracts, as a means of hedging against changes in interest rates.

U.S. Government Securities. Direct obligations of the U.S. Treasury include a variety of securities, which differ in their interest rates, maturities and dates of issuance. Treasury Bills have maturities of one year or less; Treasury Notes have maturities of one to ten years and Treasury Bonds generally have maturities of greater than ten years at the date of issuance.

In addition to direct obligations of the U.S. Treasury, securities issued or guaranteed by the U.S. government or its agencies or instrumentalities include securities issued or guaranteed by the Federal Housing Administration, Farmers Home Administration, Export-Import Bank of the United States, Small Business Administration, Government National Mortgage Association ("GNMA"), General Services Administration, Central Bank for Cooperatives, Federal Home Loan Mortgage Corporation, Federal Intermediate Credit Banks, Federal Land Banks, Federal Maritime Administration, the Tennessee Valley Authority, District of Columbia Armory Board, Student Loan Marketing Association, International Bank for Reconstruction and Development, Resolution Trust Corporation and Federal National Mortgage Association ("FNMA"). The Fund will invest in obligations of an instrumentality to which the U.S. government is not obligated by law to provide

support only if the Fund's investment adviser determines that the credit risk with respect to the instrumentality does not make its securities unsuitable for investment by the Fund.

Some U.S. government securities are supported by the full faith and credit of the U.S. Treasury; others are supported by the right of the issuers to borrow from the U.S. Treasury; others, such as those of FNMA, are supported by the discretionary authority of the U.S. government to purchase the agency's obligations; still others, such as those of the Student Loan Marketing Association, are supported only by the credit of the instrumentality. No assurance can be given that the U.S. government would provide financial support to a U.S. government-sponsored instrumentality when it is not obligated to do so by law. The Fund will invest in the securities of such U.S. government agencies and instrumentalities only when it is satisfied that the credit risk is minimal.

It is the Fund's policy that at least 65% of its total assets will be invested in U.S. government securities, including options and futures contracts thereon, except during times when the investment adviser believes that adoption of a temporary defensive position by investing more heavily in cash or money market instruments is desirable due to prevailing market or economic conditions. This policy was adopted in accordance with guidelines of the SEC which require that any investment company whose name implies that it invests primarily in a particular type of security have a policy of investing at least 65% of its total assets in that type of security under normal market conditions. This policy may be changed without shareholder approval in the event that the SEC's guidelines are modified.

The Fund's current distribution return consists generally of interest income from U.S. government securities, premiums from expired put and call options written by the Fund, net gains from closing purchase and sale transactions, and net gains from sales of portfolio securities pursuant to options or otherwise.

Exchange Rate-Related U.S. Government Securities. Government Securities Fund has the ability to invest up to 5% of its net assets in U.S. government securities for which the principal repayment at maturity, while paid in U.S. dollars, is determined by reference to the exchange rate between the U.S. dollar and the currency of one or more foreign countries ("Exchange Rate-Related Securities"). The interest payable on these securities is denominated in U.S. dollars, is not subject to foreign currency risk and, in most cases, is paid at rates higher than most other U.S. government securities in recognition of the foreign currency risk component of Exchange Rate-Related Securities.

Exchange Rate-Related Securities are issued in a variety of forms, depending on the structure of the principal repayment formula. The principal repayment formula may be structured so that the securityholder will benefit if a particular foreign currency to which the security is linked is stable or appreciates against the U.S. dollar. In the alternative, the principal repayment formula may be structured so that the securityholder benefits if the U.S. dollar is stable or appreciates against the linked foreign currency. Finally, the principal repayment formula can be a function of more than one currency and, therefore, be designed in either of the aforementioned forms or a combination of those forms.

Investments in Exchange Rate-Related Securities entail special risks. There is the possibility of significant changes in rates of exchange between the U.S. dollar and any foreign currency to which an Exchange Rate-Related Security is linked. If currency exchange rates do not move in the direction or to the extent anticipated at the time of purchase of the security, the amount of principal repaid at maturity might be significantly below the par value of the security, which might not be offset by the interest earned by the Fund over the term of the security. The rate of exchange between the U.S. dollar and other currencies is determined by the forces of supply and demand in the foreign exchange markets. These forces are affected by the international balance of payments and other economic and financial conditions, government intervention, speculation and other factors. The imposition or modification of foreign exchange controls by the United States or foreign governments or intervention by central banks also could affect exchange rates. Finally, there is no assurance that sufficient trading interest to create a liquid secondary market will exist for particular Exchange Rate-Related Securities due to conditions in the debt and foreign currency markets. Illiquidity in the forward foreign exchange market and the high volatility of the foreign exchange market may from time to time combine to make it difficult to sell an Exchange Rate-Related Security prior to maturity without incurring a significant price loss.

Options Activities. Government Securities Fund may write (i.e., sell) call options on U.S. government securities ("calls"). The Fund writes only "covered" call options, which means that so long as the Fund is obligated as the writer of a call option, it will own the underlying securities subject to the option, or, in the case of options on certain U.S. government

securities as described further below, it will maintain in a segregated account with the Company's custodian, cash or cash equivalents or U.S. government securities with a value sufficient to meet its obligations under the call.

When the Fund writes a call, it receives a premium and gives the purchaser the right to buy the underlying U.S. government security at any time during the call period (usually between three and nine months, but not more than fifteen months) at a fixed exercise price regardless of market price changes during the call period. If the call is exercised, the Fund forgoes any gain from an increase in the market price of the underlying security over the exercise price.

The Fund may purchase a call on securities only to effect a "closing purchase transaction," which is the purchase of a call covering the same underlying security and having the same exercise price and expiration date as the call previously written by the Fund on which it wishes to terminate its obligation. Government Securities Fund also may purchase call options on futures contracts, as described below. If the Fund is unable to effect a closing purchase transaction, it will not be able to sell the underlying security until the call previously written by the Fund expires (or until the call is exercised and the Fund delivers the underlying security).

The Fund will realize a gain (or loss) on a closing purchase transaction with respect to a call or put previously written by the Fund if the premium, plus commission costs, paid to purchase the call or put is less (or greater) than the premium, less commission costs, received on the sale of the call or put. A gain also will be realized if a call or put which the Fund has written lapses unexercised, because the Fund would retain the premium. See "Taxes."

Government Securities Fund also may write and purchase put options ("puts") on U.S. government securities. When the Fund writes a put, it receives a premium and gives the purchaser of the put the right to sell the underlying U.S. government security to the Fund at the exercise price at any time during the option period. When the Fund purchases a put, it pays a premium in return for the right to sell the underlying U.S. government security at the exercise price at any time during the option period. If any put is not exercised or sold, it will become worthless on its expiration date. The Fund will not purchase puts if more than 10% of its net assets would be invested in premiums on puts.

The Fund may write puts only if they are "secured." A put is "secured" if the Fund maintains cash, cash equivalents or U.S. government securities with a value equal to the exercise price in a segregated account or holds a put on the same underlying security at an equal or greater exercise price. The aggregate value of the obligations underlying puts written by a Fund will not exceed 50% of its net assets. The Fund also may write "straddles," which are combinations of secured puts and covered calls on the same underlying U.S. government security.

There can be no assurance that a liquid secondary market will exist at a given time for any particular option. In this regard, trading in options on U.S. government securities is relatively new, so that it is impossible to predict to what extent liquid markets will develop or continue. The Fund has undertaken with a state securities commission that it will limit losses from all options transactions to 5% of its average net assets per year, or cease options transactions until in compliance with the 5% limitation, but there can be no absolute assurance that these limits can be adhered to.

The Company's custodian, or a securities depository acting for it, will act as escrow agent as to the securities on which the Fund has written puts or calls, or as to other securities acceptable for such escrow, so that no margin deposit will be required of the Fund. Until the underlying securities are released from escrow, they cannot be sold by the Fund.

SPECIAL CONSIDERATIONS RELATING TO OPTIONS ON CERTAIN U.S. GOVERNMENT SECURITIES

Treasury Bonds and Notes. Because trading interest in U.S. Treasury bonds and notes tends to center on the most recently auctioned issues, the exchanges will not continue indefinitely to introduce new expirations to replace expiring options on particular issues. The expirations introduced at the commencement of options trading on a particular issue will be allowed to run, with the possible addition of a limited number of new expirations as the original expirations expire. Options trading on each issue of bonds or notes will thus be phased out as new options are listed on more recent issues, and a full range of expirations will not ordinarily be available for every issue on which options are traded.

Treasury Bills. Because the deliverable U.S. Treasury bill changes from week to week, writers of U.S. Treasury bill calls cannot provide in advance for their potential exercise settlement obligations by acquiring and

holding the underlying security. However, if the Fund holds a long position in U.S. Treasury bills with a principal amount corresponding to the contract size of the option, it may be hedged from a risk standpoint. In addition, the Fund will maintain U.S. Treasury bills maturing no later than those which would be deliverable in the event of the exercise of a call option it has written in a segregated account with its custodian so that it will be treated as being covered for margin purposes.

GNMA Certificates. GNMA Certificates are mortgage-backed securities representing part ownership of a pool of mortgage loans. These loans are made by private lenders and are either insured by the Federal Housing Administration or guaranteed by the Veterans Administration. Once approved by GNMA, the timely payment of interest and principal on each mortgage in a "pool" of such mortgages is guaranteed by the full faith and credit of the U.S. government. Unlike most debt securities, GNMA Certificates provide for repayment of principal over the term of the loan rather than in a lump sum at maturity. GNMA Certificates are called "pass-through" securities because both interest and principal payments on the mortgages are passed through to the holder.

Since the remaining principal balance of GNMA Certificates declines each month as mortgage payments are made, the Fund as a writer of a GNMA call may find that the GNMA Certificates it holds no longer have a sufficient remaining principal balance to satisfy its delivery obligation in the event of exercise of the call option it has written. Should this occur, additional GNMA Certificates from the same pool (if obtainable) or replacement GNMA Certificates will have to be purchased in the cash market to meet delivery obligations.

The Fund will either replace GNMA Certificates representing cover for call options it has written or will maintain in a segregated account with its custodian cash or cash equivalents or U.S. government securities having an aggregate value equal to the market value of the GNMA Certificates underlying the call options it has written.

Other Risks. In the event of a shortage of the underlying securities deliverable on exercise of an option, the Options Clearing Corporation has the authority to permit other, generally comparable securities to be delivered in fulfillment of option exercise obligations. If the Options Clearing Corporation exercises its discretionary authority to allow such other securities to be delivered it may also adjust the exercise prices of the affected options by setting different prices at which otherwise ineligible securities may be delivered. As an alternative to permitting such substitute deliveries, the Options Clearing Corporation may impose special exercise settlement procedures.

The hours of trading for options on U.S. government securities may not conform to the hours during which the underlying securities are traded. To the extent that the options markets close before the markets for the underlying securities, significant price and rate movements can take place in the underlying markets that cannot be reflected in the options markets.

Options are traded on exchanges on only a limited number of U.S. government securities, and exchange regulations limit the maximum number of options which may be written or purchased by a single investor or a group of investors acting in concert. The Company and other clients advised by affiliates of Smith Barney Shearson may be deemed to constitute a group for these purposes. In light of these limits, the Board of Directors may determine at any time to restrict or terminate the public offering of the Fund's shares (including through exchanges from the other Funds).

Exchange markets in options on U.S. government securities are a relatively new and untested concept. It is impossible to predict the amount of trading interest that may exist in such options, and there can be no assurance that viable exchange markets will develop or continue.

Interest Rate Futures Transactions. The Fund may purchase and sell interest rate futures contracts ("futures contracts") as a hedge against changes in interest rates. A futures contract is an agreement between two parties to buy and sell a security for a set price on a future date. Futures contracts are traded on designated "contracts markets" which, through their clearing corporations, guarantee performance of the contracts. Currently there are futures contracts based on securities such as long-term U.S. Treasury bonds, U.S. Treasury notes, GNMA Certificates and three-month U.S. Treasury bills.

Generally, if the market interest rates increase, the value of outstanding debt securities declines (and vice versa). Entering into a futures contract for the sale of securities has an effect similar to the actual sale of securities, although sale of the futures contract might be accomplished more easily and quickly. For example, if the Fund holds long-term U.S. government securities and the investment adviser anticipates a rise in long-term interest rates, it could, in lieu of disposing of its portfolio securities, enter into futures contracts for the sale of similar long-term

securities. If rates increased and the value of the Fund's securities declined, the value of the Fund's futures contracts would increase, thereby protecting the Fund by preventing net asset value from declining as much as it otherwise would have. Similarly, entering into a futures contract for the purchase of securities has an effect similar to actual purchase of the underlying securities, but permits the continued holding of securities other than the underlying securities. For example, if the investment adviser expects long-term interest rates to decline, the Fund might enter into futures contracts for the purchase of long-term securities, so that it could gain rapid market exposure that may offset anticipated increases in the cost of securities it intends to purchase, while continuing to hold higher-yield short-term securities or waiting for the long-term market to stabilize. See "Taxes."

The Appendix contains additional information on the characteristics and risks of interest rate futures contracts.

Options on Futures Contracts. Government Securities Fund also may purchase and sell listed put and call options on futures contracts. An option on a futures contract gives the purchaser the right, in return for the premium paid, to assume a position in a futures contract (a long position if the option is a call and a short position if the option is a put), at a specified exercise price at any time during the option period. When an option on a futures contract is exercised, delivery of the futures position is accompanied by cash representing the difference between the current market price of the futures contract and the exercise price of the option. The Fund may purchase put options on interest rate futures contracts in lieu of, and for the same purpose as, sale of a futures contract. It also may purchase such put options in order to hedge a long position in the underlying futures contract in the same manner as it purchases "protective puts" on securities. See "Options Activities."

The purchase of call options on interest rate futures contracts is intended to serve the same purpose as the actual purchase of the futures contract, and the Fund will set aside cash and cash equivalents sufficient to purchase the amount of portfolio securities represented by the underlying futures contracts. The Fund generally would purchase call options on interest rate futures contracts in anticipation of a market advance when it is not fully invested.

The Fund would write a call option on a futures contract in order to hedge against a decline in the prices of the debt securities underlying the futures contracts. If the price of the futures contract at expiration is below the exercise price, the Fund would retain the option premium, which would offset, in part, any decline in the value of its portfolio securities.

The writing of a put option on a futures contract is similar to the purchase of the futures contract, except that, if the market price declines, the Fund would pay more than the market price for the underlying securities. The net cost to the Fund will be reduced, however, by the premium on the sale of the put, less any transaction costs. See "Taxes."

Limitations on Transactions in Futures and Options on Futures. Government Securities Fund will not engage in transactions in futures contracts or related options for speculation but only as a hedge against changes in the market values of debt securities held, or intended to be purchased by, the Fund, and where the transactions are appropriate to reduction of the Fund's risks. The Fund may not purchase futures contracts or related options if, immediately thereafter, more than 30% of the Fund's total assets would be so invested. In purchasing and selling futures contracts and related options, the Fund will comply with rules and interpretations of the Commodity Futures Trading Commissions ("CFTC"), under which the Fund is excluded from regulation as a "commodity pool." In order to prevent leverage in connection with the purchase of futures contracts by the Fund, an amount of cash, cash equivalents and/or U.S. government securities equal to the market value of futures contracts purchased will be maintained in a segregated account with the custodian (or broker).

The Fund's futures transactions will be entered into for traditional hedging purposes -- that is, futures contracts will be sold (or related put options purchased) to protect against a decline in the price of securities that the Fund owns, or futures contracts (or related call options) will be purchased to protect the Fund against an increase in the price of securities it is committed to purchase. See Appendix, "Supplementary Description of Interest Rate Futures Contracts and Related Options."

Leverage Through Borrowing. Government Securities Fund may borrow up to 25% of the value of its net assets on an unsecured basis from banks to increase its holdings of portfolio securities or to acquire securities to be placed in a segregated account with its custodian for various purposes (e.g., to secure puts written by the Fund). The Fund is required to maintain continuous asset coverage of 300% with respect to such borrowings, and to sell (within three days) sufficient portfolio holdings to restore

such coverage, if it should decline to less than 300% due to market fluctuations or otherwise, even if disadvantageous from an investment standpoint. Leveraging will exaggerate the effect of any increase or decrease in the value of portfolio securities on the Fund's net asset value, and money borrowed will be subject to interest costs (which may include commitment fees and/or the cost of maintaining minimum average balances) which may or may not exceed the interest and option premiums received from the securities purchased with borrowed funds.

SPECIAL EQUITIES FUND

The investment objective of Special Equities Fund is long-term capital appreciation. It seeks to achieve this objective by investing in common stocks, or securities convertible into or exchangeable for common stocks (such as convertible preferred stocks, convertible debentures or warrants), which the investment adviser believes to have superior appreciation potential.

The Fund invests primarily in equity securities of secondary companies that have yet to reach a fully mature stage of earnings growth. These companies may still be in the developmental stage or may be older companies that appear to be entering a new stage of more rapid earnings progress due to factors such as management change or development of new technology, products or markets. A significant number of these companies may be in technology areas and may have annual sales less than \$300 million.

Some of the securities in which the Fund invests may not be listed on a national securities exchange, but such securities will usually have an established over-the-counter market. However, some of the securities in which the Fund invests may have limited marketability, and the Fund may invest up to 10% of its total assets in securities the disposition of which would be subject to legal restrictions ("restricted securities"). It may be difficult to sell restricted securities at a price which represents the investment adviser's opinion of their fair value until they may be sold publicly. The Fund ordinarily will acquire the right to have such securities registered at the expense of the issuer within some specified period of time. Where registration is required prior to sale, a considerable period of time may elapse between a decision to sell the restricted securities and the time when the Fund could sell them, during which period the price may change. The Fund may not invest in restricted securities of public utilities.

The Fund may also acquire securities subject to contractual restrictions on its right to resell them. These restrictions might prevent their sale at a time when sale would otherwise be desirable. No restricted securities and no securities for which there is no readily available market ("illiquid securities") will be acquired if such acquisition would cause the aggregate value of illiquid and restricted securities to exceed 10% of the Fund's total assets. The Fund may not invest more than 5% of its total assets in securities of issuers which, together with any predecessor, have been in operation for less than three years.

Special Equities Fund also may invest in, or enter into repurchase agreements with respect to, corporate bonds, U.S. government securities, commercial paper, certificates of deposit or other money market securities during periods when the investment adviser believes that adoption of a defensive position is desirable due to prevailing market or economic conditions. Special Equities Fund may lend its portfolio securities, in accordance with the description set forth under "Investment Grade Bond Fund -- Lending of Portfolio Securities" above. Special Equities Fund's investments in warrants are subject to the same undertaking applicable to Investment Grade Bond Fund, as described above. The limits contained in that undertaking are not fundamental policies of the Fund and may be changed by the Board of Directors without the vote of shareholders. Special Equities Fund may also sell securities "short against the box," in accordance with the description set forth above. The Fund may also purchase ADRs.

Investors should realize that the very nature of investing in smaller, newer companies involves greater risk than is customarily associated with investing in larger, more established companies. Smaller, newer companies often have limited product lines, markets or financial resources, and they may be dependent for management upon one of a few key persons. The securities of such companies may be subject to more abrupt or erratic market movements than securities of larger, more established companies or than the market averages in general. In accordance with its investment objective of long-term capital appreciation, securities purchased for Special Equities Fund will not generally be traded for short-term profits, but will be retained for their longer-term appreciation potential. This general practice limits the Fund's ability to adopt a defensive position by investing in money market instruments during periods of market downturn. Accordingly, while in periods of market upturn the Fund may outperform the market averages, in periods of downturn, it is likely to underperform the market averages. Thus, investing in Special Equities Fund may involve greater risk than investing in the other Funds.

European Fund's investment objective is long-term capital appreciation, which the Fund seeks to achieve by investing primarily in equity securities of issuers in its investment area.

Selecting Investments. In determining the appropriate distribution of investments among various countries and geographic regions for European Fund, the investment adviser ordinarily considers the following factors: prospects for relative economic growth among foreign countries; expected levels of inflation; government policies influencing business conditions; the outlook for currency relationships; and the range of the individual investment opportunities available to international investors.

In analyzing companies for investment by the Fund, the investment adviser ordinarily looks for one or more of the following characteristics: an above-average earnings growth per share; high return on invested capital; healthy balance sheet; sound financial and accounting policies and overall financial strength; strong competitive advantages; effective research and product development and marketing; efficient service; pricing flexibility; strength of management; and general operating characteristics which will enable the companies to compete successfully in their respective marketplace.

There may be times when, in the opinion of management, prevailing market, economic or political conditions warrant reducing the proportion invested in equity securities from the primary investment areas below 65% of the Fund's assets and increasing the proportion held in cash or short-term obligations denominated in dollars or other currencies. A portion of the Fund's assets will normally be held in dollars or short-term interest-bearing dollar-denominated securities to provide for ongoing expenses and redemptions.

Because European Fund will buy and sell securities denominated in currencies other than the U.S. dollar, and receive interest, dividends and sale proceeds in currencies other than the U.S. dollar, the Fund will engage in foreign currency exchange transactions. These transactions will either be on a spot (i.e., cash) basis at the spot rate prevailing in the foreign currency exchange market, or the Fund will use forward contracts to purchase or sell foreign currencies. A forward foreign currency exchange contract will involve an obligation by the Fund to purchase or sell a specific amount of currency at a future date, which may be any fixed number of days from the date of the contract upon which the parties agree, at a price set at the time of the contract. These contracts are transferable in the interbank market conducted directly between currency traders (usually large commercial banks) and their customers. A forward contract generally has no deposit requirement, and no commissions are charged at any stage for trades. Neither spot transactions nor forward exchange contracts will eliminate fluctuations in the prices of the Fund's securities or in foreign exchange rates, or prevent loss if the prices of such securities should decline.

European Fund may enter into forward foreign exchange contracts in order to hedge against risks arising from either specific transactions or aggregate portfolio positions. When the Fund enters into a contract for the purchase or sale of a security denominated in a foreign currency which the Fund does not hold, it may desire to "lock in" the price of the security on the basis of current or anticipated exchange rates. The Fund will then enter into a forward contract for the purchase or sale of the amount of foreign currency involved in the underlying securities transactions; in this manner, the Fund will be better able to protect itself against a possible loss resulting from an adverse change in exchange rates during the period between the date the securities are purchased or sold and the date on which payment is made or received. In such cases, the Fund will retain in a segregated account the full amount in the relevant currency needed to cover this forward contract.

When the investment adviser believes that the currency of a particular foreign country may suffer a substantial decline against the U.S. dollar or another foreign currency, it may enter into a forward contract to sell the amount of foreign currency approximating the value of some or all of the Fund's securities denominated in such foreign currency. The precise matching of the forward contract amounts and the value of the securities involved will not generally be possible since the future value of such securities in foreign currencies will change as a consequence of market movements in the value of those securities between the date the forward contract is entered into and the date it matures. The projection of short-term currency market movements is extremely difficult, and the successful execution of a short-term hedging strategy is highly uncertain. The Fund generally will not attempt to hedge all of its portfolio positions and will enter into such transactions only to the extent, if any, deemed appropriate by the investment adviser. The Fund generally will not enter into such forward contracts or maintain a net exposure to such contracts

when the consummation of the contracts would obligate the Fund to deliver an amount of foreign currency in excess of the value of the Fund's securities or other assets denominated in that currency. Under normal circumstances, the Fund expects that any appreciation (depreciation) on such forward exchange contracts will be approximately offset by the depreciation (appreciation) in translation of the underlying foreign investment arising from fluctuations in foreign currency exchange rates.

Although the Fund values its assets daily in terms of U.S. dollars, the Fund will not normally convert its holdings of foreign currencies into U.S. dollars on a daily basis. The Fund will do so from time to time, and investors should be aware of the costs of currency conversion. Although foreign exchange dealers do not charge a fee for conversion, they do realize a profit based on the difference (the "spread") between the prices at which they are buying and selling various currencies. Thus, a dealer may offer to sell a foreign currency to the Fund at one rate, while offering a lesser rate of exchange should the Fund desire to sell that currency to the dealer.

The Company is not aware at this time of the existence of any investment or exchange control regulations which might substantially impair the operations of the Company as described in the Prospectuses and this Statement of Additional Information. It should be noted, however, that this situation could change at any time.

The Fund will recognize the unrealized appreciation or depreciation from the fluctuation in a foreign currency forward contract as an increase or decrease in the Fund's net assets on a daily basis, thereby providing an appropriate measure of the Fund's financial position and changes in financial position.

The Fund may invest in yen-denominated bonds sold in Japan by non-Japanese issuers ("Samurai Bonds") and may invest in dollar-denominated bonds sold in the United States by non-U.S. issuers ("Yankee Bonds"). As compared with the bonds issued in their countries of domicile, such bond issues normally carry a higher interest rate but are less actively traded. It is the policy of the Fund to invest in Samurai or Yankee Bond issues only after taking into account considerations of quality and liquidity, as well as yield. These bonds would be issued by Organization for European Cooperation and Development ("OECD") governments or would have "AAA" ratings.

European Fund may invest in ADRs, European Depository Receipts ("EDRs"), which are designed for trading in European securities markets and are receipts issued in Europe which evidence a similar ownership arrangement to ADRs, or securities convertible into securities of eligible European or Far Eastern issuers. These convertible securities may not necessarily be denominated in the same currency as the securities into which they may be converted. Generally, ADRs, in registered form, are designed for use in American securities markets, and EDRs, in bearer form, are designed for use in European securities markets.

European Fund may lend its portfolio securities if: (a) such loans are secured continuously by collateral consisting of cash or U.S. government securities maintained on a daily basis as an amount or of a market value at least equal at all times to the market value of the securities loaned; (b) the Fund may at any time call such loans and obtain the securities loaned; (c) the Fund will receive an amount in cash at least equal to the interest paid by the issuer of the loaned securities during the existence of such loan; and (d) the Fund will be entitled to the interest paid upon investment of the cash collateral in its permitted investments or to the payment of a premium for the loan.

European Fund will invest no more than 10% of the value of its net assets in warrants valued at the lower of cost or market.

INVESTMENT RESTRICTIONS

The Funds' investment objectives and the investment restrictions set forth below are fundamental policies of each Fund, i.e., they may not be changed with respect to a Fund without a majority vote of the outstanding shares of that Fund. (All other investment practices described in the Prospectuses and the Statement of Additional Information may be changed by the Board of Directors without the approval of shareholders.)

Unless otherwise indicated, all percentage limitations apply to each Fund on an individual basis, and apply only at the time a transaction is entered into. (Accordingly, if a percentage restriction is complied with at the time of investment, a later increase or decrease in the percentage which results from a relative change in values or from a change in the Fund's net assets will not be considered a violation.)

Restrictions Applicable to All Funds. No Fund may:

1. purchase the securities of any one issuer, other than the U.S. govern-

ment or its agencies or instrumentalities (or, for European Fund, governments, agencies or instrumentalities of any jurisdiction in the primary investment area of the Fund and other OECD countries and the World Bank), if immediately after such purchase more than 5% of the value of the total assets of the Fund would be invested in securities of such issuer;

2. invest in real estate, real estate mortgage loans, or interests in oil, gas and/or mineral exploration or development programs, provided that this limitation shall not prohibit the purchase of securities issued by companies, including real estate investment trusts, which invest in real estate or interests therein;

3. purchase securities of any other investment company, except in connection with a merger, consolidation, reorganization, or acquisition or assets. European Fund may, under certain circumstances, invest in securities of other companies. See "Restrictions Applicable to European Fund." (For purposes of this limitation, foreign banks or their agencies or subsidiaries are not considered "investment companies");

4. make investments in securities for the purpose of exercising control over or management of the issuer;

5. participate on a joint or a joint and several basis in any trading account in securities. (The "bunching" of orders of two or more Funds -- or of one or more Funds and of other accounts -- for the sale or purchase of portfolio securities shall not be considered participation in a joint securities trading account);

6. purchase the securities of any one issuer if, immediately after such purchase, the Fund would own more than 10% of the outstanding voting securities of such issuer;

7. purchase securities on margin, except such short-term credits as are necessary for the clearance of transactions. (For this purpose, the deposit or payment by Government Securities Fund of initial or maintenance margin in connection with futures contracts and related options is not considered to be the purchase of a security on margin. Additionally, borrowing by Government Securities Fund and European Fund to increase their holdings of portfolio securities is not considered to be the purchase of securities on margin);

8. make loans, except that this restriction shall not prohibit (a) the purchase and holding of a portion of an issue of publicly distributed debt securities, (b) the lending of portfolio securities, or (c) entry into repurchase agreements;

9. invest in securities of an issuer which, together with any predecessor, has been in operation for less than three years if, as a result, more than 5% of the total assets of the Fund would then be invested in such securities;

10. purchase the securities of an issuer if, to the Company's knowledge, one or more of the Directors or officers of the Company individually own beneficially more than 1/2 of 1% of the outstanding securities of such issuer or together own beneficially more than 5% of such securities;

11. purchase a security which is not readily marketable if, as a result, more than 10% of the Fund's total assets would consist of such securities. (For purposes of this limitation, restricted securities and repurchase agreements having more than seven days remaining to maturity are considered not readily marketable);

12. sell securities short, unless at all times when a short position is open, it owns an equal amount of the securities or securities convertible into, or exchangeable without payment of any further consideration for, securities of the same issue as the securities sold short; or

13. purchase the securities of issuers conducting their principal business activities in the same industry, if immediately after such purchase the value of its investments in such industry would exceed 25% of the value of the total assets of the Fund, provided that (a) neither all utility companies (including telephone companies), as a group, nor all banks, savings and loan associations and savings banks, as a group, will be considered a single industry for purposes of this limitation, and (b) there is no such limitation with respect to repurchase agreements or to investments in U.S. government securities or certificates of deposit or bankers' acceptances issued by domestic institutions (but not their foreign branches).

Restrictions Applicable to All Funds Except Government Securities Fund and European Fund. The Funds may not:

1. invest in commodities or commodity futures contracts;

2. borrow amounts in excess of 5% of their total assets taken at cost or at market value, whichever is lower, and then only from banks as a temporary measure for extraordinary or emergency purposes. A Fund may not mortgage, pledge or in any other manner transfer any of its assets as security for any indebtedness. This restriction shall not prohibit entry into reverse repurchase agreements, provided that a Fund may not enter into a reverse repurchase agreement if, as a result, its current obligations under such agreements would exceed one-third of the current market value of the Fund's total assets (less its liabilities other than obligations under such agreements); or

3. write, purchase or sell puts, calls, straddles, spreads or any combinations thereof.

Restrictions Applicable to All Funds Except Special Equities Fund and European Fund. The Funds may not:

1. purchase securities which may not be resold to the public without registration under the Securities Act of 1933, as amended (the "1933 Act"); or
2. act as an underwriter of securities.

Restrictions Applicable to Special Equities Fund and European Fund. The Funds may not act as an underwriter of securities, except that each Fund may invest up to 10% of its total assets in securities which it may not be free to resell without registration under the 1933 Act, in which registration the Fund may technically be deemed an underwriter for purposes of the 1933 Act.

Restrictions Applicable to Investment Grade Bond Fund Only. Investment Grade Bond Fund may not purchase corporate bonds unless rated at the time of purchase Baa or better by Moody's or BBB or better by S&P, or purchase commercial paper unless issued by a U.S. corporation and rated at the time of purchase Prime-1 or Prime-2 by Moody's or A-1 or A-2 by S&P (or, if not rated, issued by a corporation having outstanding debt rated Aa or better by Moody's or AA or better by S&P), although it may continue to hold a security if its quality rating is reduced by a rating service below those specified.

Restrictions Applicable to European Fund Only. The Fund may invest in shares of other investment companies to the extent permitted by the 1940 Act. With respect to certain countries (e.g., South Korea and Taiwan), investments by the Fund may only presently be made by acquiring shares of other investment companies with local governmental approval to invest in those countries. The 1940 Act provides that the Fund may purchase shares in an investment company unless (a) such a purchase would cause the Fund to own in aggregate more than 3% of the total outstanding voting stock of the company, or (b) such a purchase would cause the Fund to have more than 5% of its assets invested in the company or more than 10% of its assets invested in an aggregate of all such investment companies. (Investment through a limited number of approved vehicles may also involve the payment of substantial premiums above the value of such companies' portfolio securities. The yield of such securities will be reduced by operating expenses of such companies including payments to the investment managers of those investment companies. At such time as direct investment in these countries is allowed, the Fund anticipates investing directly in these markets.)

BROKERAGE

In selecting brokers or dealers to execute securities transactions on behalf of a Fund, the Fund's investment adviser seeks the best overall terms available. In assessing the best overall terms available for any transaction, each investment adviser will consider the factors that the investment adviser deems relevant, including the breadth of the market in the security, the price of the security, the financial condition and execution capability of the broker or dealer and the reasonableness of the commission, if any, for the specific transaction and on a continuing basis. In addition, each investment advisory agreement between the Company and an investment adviser authorizes the investment adviser, in selecting brokers or dealers to execute a particular transaction and in evaluating the best overall terms available, to consider the brokerage and research services (as those terms are defined in Section 28(e) of the Securities Exchange Act of 1934) provided to the Company, the other Funds and other accounts over which the investment adviser or its affiliates exercise investment discretion. The fees under the investment advisory agreements and the administration agreement between the Company and the investment advisers and administrator, respectively, are not reduced by reason of their receiving such brokerage and research services. The Board of Directors periodically will review the commissions paid by the Funds to determine if the commissions paid over representative periods of time were reasonable in relation to the benefits inuring to the Company.

To the extent consistent with applicable provisions of the 1940 Act and

the rules and exemptions adopted by the SEC thereunder, the Board of Directors has determined that transactions for a Fund may be executed through Smith Barney Shearson and other affiliated broker-dealers if, in the judgment of the Fund's investment adviser, the use of such broker-dealer is likely to result in price and execution at least as favorable as those of other qualified broker-dealers, and if, in the transaction, such broker-dealer charges the Fund a rate consistent with that charged to comparable unaffiliated customers in similar transactions.

SEC rules require that commissions paid to Smith Barney Shearson by a Fund on exchange transactions not exceed "usual and customary brokerage commissions." The rules define "usual and customary" commissions to include amounts which are "reasonable and fair compared to the commission, fee or other remuneration received or to be received by other brokers in connection with comparable transactions involving similar securities being purchased or sold on a securities exchange during a comparable period of time." The Board of Directors, particularly those members who are not "interested persons" of the Company (as defined in the 1940 Act), has adopted procedures for evaluating the reasonableness of commissions paid to Smith Barney Shearson and reviews these procedures periodically.

Portfolio securities are not purchased from or through Smith Barney Shearson or any affiliated person (as defined in the 1940 Act) of Smith Barney Shearson where such entities are acting as principal, except pursuant to the terms and conditions of exemptive rules or orders promulgated by the SEC. Pursuant to an exemption granted by the SEC, the Company may engage in transactions involving certain money market instruments when Smith Barney Shearson and certain of its affiliates are acting as principal. Pursuant to conditions set forth in rules of the SEC, the Company may purchase securities from an underwriting syndicate of which Smith Barney Shearson is a member (but not from Smith Barney Shearson). Such conditions relate to the price and amount of the securities purchased, the commission or spread paid, and the quality of the issuer. The rules further require that such purchases take place in accordance with procedures adopted and reviewed periodically by the Board of Directors, particularly those Directors who are not interested persons of the Company.

Under rules adopted by the SEC, Smith Barney Shearson may directly execute transactions for a Fund on the floor of any national securities exchange, provided: (i) the Board of Directors has expressly authorized Smith Barney Shearson to effect such transactions; and (ii) Smith Barney Shearson annually advises the Fund of the aggregate compensation it earned on such transactions.

The Funds may use Smith Barney Shearson as a commodities broker in connection with entering into futures contracts and commodity options. Smith Barney Shearson has agreed to charge the Funds commodity commissions at rates comparable to those charged by Smith Barney Shearson to its most favored clients for comparable trades in comparable accounts.

The following table sets forth certain information regarding each Fund's payment of brokerage commissions to Smith Barney Shearson:

<TABLE> <CAPTION>				
	FISCAL YEAR ENDED	GOVERNMENT SECURITIES	SPECIAL EQUITIES	
EUROPEAN	DECEMBER 31,	FUND	FUND	FUND
<S>	<C>	<C>	<C>	<C>
Total Brokerage Commissions \$139,159	1991	\$196,809	\$551,741	
\$143,776	1992	\$238,425	\$267,089	
\$100,366	1993	\$717,340	--	
Commissions paid to 8,106 Smith Barney Shearson* 3,142	1991	\$187,850	\$ 74,657	\$
9,401	1992	\$ 0	\$ 56,498	\$
	1993	\$ 87,550	\$ 16,614	\$
% of Total Brokerage 9.37% Commissions paid to Smith Barney Shearson*	1993	12.2%**	11.9%	
% of Total Transactions 10.56% involving Commissions paid to Smith Barney Shearson*	1993	.07%**	11.7%	

<FN>

* Includes commissions paid to Shearson Lehman Brothers prior to the acquisition of certain assets of Shearson Lehman Brothers by Smith Barney on July 30, 1993.

** The disproportionate amount between the % of total brokerage commissions paid to Smith Barney Shearson and the % of total transactions involving commissions paid to Smith Barney Shearson for the Government Securities Fund resulted from higher brokerage commissions for options and futures transactions which were the only commission transactions involving Smith Barney Shearson.

</TABLE>

PORTFOLIO TURNOVER

For reporting purposes, a Fund's portfolio turnover rate is calculated by dividing the lesser of purchases or sales of portfolio securities for the fiscal year by the monthly average of the value of the portfolio securities owned by the Fund during the fiscal year. In determining such portfolio turnover, all securities whose maturities at the time of acquisition were one year or less are excluded. A 100% portfolio turnover rate would occur, for example, if all of the securities in the Fund's investment portfolio (other than short-term money market securities) were replaced once during the fiscal year.

Investment Grade Bond Fund will not normally engage in the trading of securities for the purpose of realizing short-term profits, but it will adjust its portfolio as considered advisable in view of prevailing or anticipated market conditions. Portfolio turnover will not be a limiting factor should the Fund's investment adviser deem it advisable to purchase or sell securities.

Special Equities Fund and European Fund invest for long-term capital appreciation and will not generally trade for short-term profits. However, each portfolio will be adjusted as deemed advisable by the investment adviser, and portfolio turnover will not be a limiting factor should the Fund's investment adviser deem it advisable to purchase or sell securities.

The options activities of Government Securities Fund may affect its portfolio turnover rate and the amount of brokerage commissions paid by the Fund. The exercise of calls written by the Fund may cause the Fund to sell portfolio securities, thus increasing its turnover rate. The exercise of puts also may cause the sale of securities and increase turnover; although such exercise is within the Fund's control, holding a protective put might cause the Fund to sell the underlying securities for reasons which would not exist in the absence of the put. The Fund will pay a brokerage commission each time it buys or sells a security in connection with the exercise of a put or call. Some commissions may be higher than those which would apply to direct purchases or sales of portfolio securities. High portfolio turnover involves correspondingly greater commission expenses and transaction costs.

For the fiscal years ended December 31, 1992 and 1993, the portfolio turnover rates were as follows:

<TABLE>

<CAPTION>

FUND	1992	1993
<S>	<C>	<C>
Investment Grade Bond Fund	47%	65%
Government Securities Fund	426%	540%
Special Equities Fund	211%	112%
European Fund	108%	68%

</TABLE>

Increased portfolio turnover necessarily results in correspondingly greater brokerage commissions which must be paid by the Fund. To the extent that portfolio trading results in realization of net short-term capital gains, shareholders will be taxed on such gains at ordinary income tax rates (except shareholders who invest through IRAs and other retirement plans which are not taxed currently on accumulations in their accounts).

The Funds' investment advisers manage a number of private investment accounts on a discretionary basis. Neither investment adviser is bound by the recommendations of the Smith Barney Shearson research department in managing the Funds. Although investment decisions are made individually for each client, at times decisions may be made to purchase or sell the same securities for one or more of the Funds and/or for one or more of the

other accounts managed by the investment adviser or fund manager. When two or more such accounts simultaneously are engaged in the purchase or sale of the same security, transactions are allocated in a manner considered equitable to each, with emphasis on purchasing or selling entire orders wherever possible. In some cases, this procedure may adversely affect the price paid or received by a Fund or the size of the position obtained or disposed of by the Fund.

PURCHASE OF SHARES

VOLUME DISCOUNTS

The schedules of sales charges on Class A shares described in the Prospectuses apply to purchases made by any "purchaser," which is defined to include the following: (a) an individual; (b) an individual or his or her immediate family purchasing shares for his or her own account; (c) a trustee or other fiduciary purchasing shares for a single trust estate or single fiduciary account; (d) a pension, profit-sharing or other employee benefit plan qualified under Section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and qualified employee benefit plans of employers who are "affiliated persons" of each other within the meaning of the 1940 Act; (e) tax-exempt organizations enumerated in Section 501(c)(3) or (13) of the Code; (f) any other organized group of persons, provided that the organization has been in existence for at least six months and was organized for a purpose other than the purchase of investment company securities at a discount; or (g) a trustee or other professional fiduciary (including a bank, or an investment adviser registered with the SEC under the Investment Advisers Act of 1940) purchasing shares of a Fund for one or more trust estates or fiduciary accounts. Purchasers who wish to combine purchase orders to take advantage of volume discounts on Class A shares should contact their Smith Barney Shearson Financial Consultant.

COMBINED RIGHT OF ACCUMULATION

Reduced sales charges, in accordance with the schedule in the Prospectuses, apply to any purchase of Class A shares if the aggregate investment in Class A shares of a Fund and in Class A shares of the other funds in the Company and of other funds in the Smith Barney Shearson Group of Funds that are sold with a sales charge, including the purchase being made, of any "purchaser" (as defined above) is \$25,000 or more. The reduced sales charge is subject to confirmation of the shareholder's holdings through a check of appropriate records. Each Fund reserves the right to terminate or amend the combined right of accumulation at any time after notice to shareholders. For further information regarding the rights of accumulation, shareholders should contact their Smith Barney Shearson Financial Consultant.

DETERMINATION OF PUBLIC OFFERING PRICE

Each Fund offers its shares to the public on a continuous basis. The public offering price for Class A shares of each Fund is equal to the net asset value per share at the time of purchase plus a sales charge based on the aggregate amount of the investment. The public offering price for Class B shares and Class D shares (and Class A share purchases, including applicable rights of accumulation, equalling or exceeding \$1 million or, in the case of investors purchasing through the Smith Barney Shearson 401(k) Program, equalling or exceeding \$750,000), is equal to the net asset value per share at the time of purchase and no sales charge is imposed at the time of purchase. A contingent deferred sales charge ("CDSC"), however, is imposed on certain redemptions of Class B shares and Class A shares when purchased in amounts equalling or exceeding \$1 million. The method of computation of the public offering price is shown in each Fund's financial statements accompanying this Statement of Additional Information.

REDEMPTION OF SHARES

Detailed information on how to redeem shares of a Fund is included in each Prospectus. The right of redemption may be suspended or the date of payment postponed (a) for any period during which the NYSE is closed (other than for customary weekend and holiday closings), (b) when trading in markets a Fund normally utilizes is restricted, or an emergency exists, as determined by the SEC, so that disposal of the Fund's investments or determination of net asset value is not reasonably practicable or (c) for such other periods as the SEC by order may permit for the protection of the Fund's shareholders.

Automatic Cash Withdrawal Plan. An automatic cash withdrawal plan (the "Withdrawal Plan") is available to shareholders who own shares with a value of at least \$10,000 (\$5,000 for retirement plan accounts) and who wish to receive specific amounts of cash periodically. Withdrawals of at least \$50 monthly may be made under the Withdrawal Plan by redeeming as many shares of a Fund as may be necessary to cover the stipulated withdrawal payment. Any applicable CDSC will not be waived on amounts with-

drawn by shareholders that exceed 2.00% per month of the value of a shareholder's shares at the time the Withdrawal Plan commences. To the extent withdrawals exceed dividends, distributions and appreciation of shareholder's investment in the Company, there will be a reduction in the value of the shareholder's investment and continued withdrawal payments may reduce the shareholder's investment and ultimately exhaust it. Withdrawal payments should not be considered as income from investment in the Fund. Furthermore, as it would not generally be advantageous to a shareholder to make additional investments in the Fund at the same time that he or she is participating in the Withdrawal Plan, purchases by such shareholders in amounts of less than \$5,000 will not ordinarily be permitted.

Shareholders who wish to participate in the Withdrawal Plan and who hold their shares in certificate form must deposit their share certificates with TSSG as agent for Withdrawal Plan members. All dividends and distributions on shares in the Withdrawal Plan are automatically reinvested at net asset value in additional shares of the Company. All applications for participation in the Withdrawal Plan must be received by TSSG as Withdrawal Plan agent no later than the eighth day of the month to be eligible for participation beginning with that month's withdrawal. The Withdrawal Plan will not be carried over on exchanges between Funds or classes ("Classes"). A new Withdrawal Plan application is required to establish the Withdrawal Plan in the new fund or Class. For additional information, shareholders should contact their Smith Barney Shearson Financial Consultant.

DISTRIBUTOR

Smith Barney Shearson serves as the Company's distributor on a best efforts basis pursuant to a distribution agreement (the "Distribution Agreement").

Smith Barney Shearson forwards investors' funds for the purchase of shares five business days after placement of purchase orders (i.e., the "settlement date"). When payment is made by the investor before the settlement date, unless otherwise directed by the investor, the funds will be held as a free credit balance in the investor's brokerage account, and Smith Barney Shearson may benefit from the temporary use of the funds. The investor may designate another use for the funds prior to settlement date, such as investment in a money market fund (other than the Smith Barney Shearson Money Market Fund) in the Smith Barney Shearson Group of Funds. If the investor instructs Smith Barney Shearson to invest the funds in a money market fund in the Smith Barney Shearson Group of Funds, the amount of the investment will be included as part of the average daily net assets of both the Company and the money market fund, and affiliates of Smith Barney Shearson which serve the funds in an investment advisory capacity will benefit from the fact that they are receiving fees from both such investment companies for managing these assets computed on the basis of their average daily net assets. The Company's Board of Directors has been advised of the benefits to Smith Barney Shearson resulting from five-day settlement procedures and will take such benefits into consideration when reviewing the Advisory, Administration and Distribution Agreements for continuance.

DISTRIBUTION ARRANGEMENTS

Shares of the Company are distributed on a best efforts basis by Smith Barney Shearson as exclusive sales agent of the Company pursuant to the Distribution Agreement. To compensate Smith Barney Shearson for the services it provides and for the expense it bears under the Distribution Agreement, the Company has adopted a services and distribution plan (the "Plan") pursuant to Rule 12b-1 under the 1940 Act. Under the Plan, each Fund pays Smith Barney Shearson a service fee, accrued daily and paid monthly, calculated at the annual rate of 0.25% of the value of each Fund's average daily net assets attributable to the Class A, Class B and Class D shares. In addition, holders of Class B shares and Class D shares pay a distribution fee primarily intended to compensate Smith Barney Shearson for its initial expense of paying Financial Consultants a commission upon sales of the respective shares. Such shares distribution fees, which are accrued daily and paid monthly, are calculated at the annual rate of 0.75% of the value of average daily net assets attributable to the Class B and Class D shares with respect to Special Equities Fund and European Fund, and 0.50% of the value of average daily net assets attributable to the Class B and Class D Shares with respect to Government Securities Fund and Investment Grade Bond Fund.

Prior to July 30, 1993, Shearson Lehman Brothers served as the distributor of the Company's shares pursuant to a distribution agreement ("SLB Distribution Agreement") substantially the same as the Distribution Agreement. During the fiscal years ended December 31, 1991 and 1992 Shearson Lehman Brothers received approximately \$24,762,000 and \$14,563,000, respectively, from the Funds under the SLB Distribution Agreement. During the fiscal year ended December 31, 1993, Smith Barney Shearson and Shearson Lehman

Brothers received \$5,652,418 and \$7,949,875, respectively, under their respective Distribution Agreements. During the fiscal years ended December 31, 1991 and 1992, Shearson Lehman Brothers received approximately \$3,942,000 and \$1,320,000, respectively, representing the CDSC on redemptions of Class B shares of the Funds. During the fiscal year ended December 31, 1993, Smith Barney Shearson and Shearson Lehman Brothers received \$699,139 and \$871,809, respectively, representing the CDSC on redemptions of Class B shares of the Funds. During the fiscal year ended December 31, 1993, Shearson Lehman Brothers and Smith Barney Shearson incurred distribution expenses totalling approximately \$18,866,000, consisting of \$11,059,000 for support services, \$7,479,000 to Financial Consultants, \$50,000 for advertising expenses, and \$278,000 for printing and mailing expenses.

Under its terms, the Plan continues from year to year, provided such continuance is approved annually by vote of the Board of Directors, including a majority of the Directors who are not interested persons of the Company and who have no direct or indirect financial interest in the operation of the Plan (the "Independent Directors"). The Plan may not be amended to increase the amount to be spent for the services provided by Smith Barney Shearson without shareholder approval, and all amendments of the Plan also must be approved by the Directors in the manner described above. The Plan may be terminated at any time, without penalty, by vote of a majority of the Independent Directors or by a vote of a majority of the outstanding voting securities of the Company (as defined in the 1940 Act) on not more than 30 days' written notice to any other party to the Plan. Pursuant to the Plan, Smith Barney Shearson will provide the Board of Directors periodic reports of amounts expended under the Plan and the purpose for which such expenditures were made.

VALUATION OF SHARES

The Prospectuses discuss the time at which the net asset value of shares of each Class is determined for purposes of sales and redemptions. Because of the differences in distribution fees and Class-specific expenses, the per share net asset value of each Class will differ. The following is a description of the procedures used by the Funds in valuing its assets.

As noted in the Prospectuses, the Company will not calculate the net asset value of the Funds on certain holidays. On those days, securities paid by a Fund may nevertheless be actively traded, and the value of the Fund's shares could be significantly affected.

Because of the need to obtain prices as of the close of trading on various exchanges throughout the world, the calculation of the net asset value on European Fund may not take place contemporaneously with the determination of the prices of many of its respective portfolio securities used in such calculation. A security which is listed or traded on more than one exchange is valued at the quotation on the exchange determined to be the primary market for such security. All assets and liabilities initially expressed in foreign currency values will be converted into U.S. dollar values at the mean between the bid and offered quotations of such currencies against U.S. dollars as last quoted by any recognized dealer. If such quotations are not available, the rate of exchange will be determined in good faith by the Board of Directors. In carrying out the Board of Director's valuation policies, Boston Advisors, as administrator, may consult with an independent pricing service (the "Pricing Service") retained by the Company.

Debt securities of U.S. issuers (other than U.S. government securities and short-term investments) are valued by Boston Advisors, as administrator, after consultation with the Pricing Service approved by the Board of Directors. When, in the judgment of the Pricing Service, quoted bid prices for investments are readily available and are representative of the bid side of the market, these investments are valued at the mean between the quoted bid prices and asked prices. Investments for which, in the judgment of the Pricing Service, there are no readily obtainable market quotations are carried at fair value as determined by the Pricing Service. The procedures of the Pricing Service are reviewed periodically by the officers of the Company under the general supervision and responsibility of the Board of Directors.

EXCHANGE PRIVILEGE

Class A, Class B and Class D shares of any Fund in the Company may be exchanged for shares of the respective Class of many of the funds in the Smith Barney Shearson Group of Funds, as indicated in the Prospectuses, to the extent such shares are offered for sale in the shareholder's state of residence.

Except as noted below, shareholders of any Fund in the Company and of any fund in the Smith Barney Shearson Group of Funds may exchange all or part of their shares for shares of the same class of other funds in the Company

and in the Smith Barney Shearson Group of Funds as listed in the Prospectuses, on the basis of relative net asset value per share at the time of exchange as follows:

A. Class A shares of any Fund or company purchased with a sales charge may be exchanged for Class A shares of any of the other funds, and the sales charge differential, if any, will be applied. Class A shares of any fund may be exchanged without a sales charge for shares of the funds that are offered without a sales charge. Class A shares of any fund purchased without a sales charge may be exchanged for shares sold with a sales charge, and the appropriate sales charge differential will be applied.

B. Class A shares of any fund acquired by a previous exchange of shares purchased with a sales charge may be exchanged for Class A shares of any of the other funds, and the sales charge differential, if any, will be applied.

C. Class B shares of any fund may be exchanged without a sales charge. Class B shares of the Fund exchanged for Class B shares of another fund will be subject to the higher applicable CDSC of the two funds and, for purposes of calculating CDSC rates and conversion periods, will be deemed to have been held since the date the shares being exchanged were purchased.

Dealers other than Smith Barney Shearson must notify TSSG of the investor's prior ownership of Class A shares of Smith Barney Shearson High Income Fund and the account number in order to accomplish an exchange of shares of High Income Fund under paragraph B above.

The exchange privilege enables shareholders to acquire shares of the same class in a fund with different investment objectives when they believe that a shift between funds is an appropriate investment decision. This privilege is available to shareholders resident in any state in which the fund shares being acquired may legally be sold. Prior to any exchange, the shareholder should obtain and review a copy of the current prospectus of each fund into which an exchange is being considered. Prospectuses may be obtained from any Smith Barney Shearson Financial Consultant.

Upon receipt of proper instructions and all necessary supporting documents, shares submitted for exchange are redeemed at the then-current net asset value and the proceeds are immediately invested at a price as described above, in shares of the fund being acquired with such shares being subject to any applicable CDSC. Smith Barney Shearson reserves the right to reject any exchange request. The exchange privilege may be modified or terminated at any time after written notice to shareholders.

PERFORMANCE DATA

From time to time, a Fund may quote its yield or total return in advertisements or in reports and other communications to shareholders. To the extent any advertisement or sales literature of a Fund describes the expenses or performance of a Class, it will also disclose such information for the other Classes.

YIELD

A Fund's 30-day yield figure described in the Prospectuses is calculated according to a formula prescribed by the SEC. The formula can be expressed as follows:

$$\text{YIELD} = 2[(ab/cd + 1)^6 - 1]$$

Where:

- a = dividends and interest earned during the period.
- b = expenses accrued for the period (net of reimbursement).
- c = the average daily number of shares outstanding during the period that were entitled to receive dividends.
- d = the maximum offering price per share on the last day of the period.

For the purpose of determining the interest earned (variable "a" in the formula) on debt obligations that were purchased by the Fund at a discount or premium, the formula generally calls for amortization of the discount or premium; the amortization schedule will be adjusted monthly to reflect changes in the market values of the debt obligations.

Investors should recognize that, in periods of declining interest rates, a Fund's yield will tend to be somewhat higher than prevailing market rates, and in periods of rising interest rates, the Fund's yield will tend to be somewhat lower. In addition, when interest rates are falling, the inflow of net new money to the Fund from the continuous sale of its shares will likely be invested in portfolio instruments producing lower yields than the balance of such Fund's investments, thereby reducing the current yield

of the Fund. In periods of rising interest rates, the opposite can be expected to occur.

The yields for the 30-day period ended December 31, 1993 for Class A, Class B and Class D shares of Investment Grade Bond Fund were 6.50%, 6.29% and 6.31%, respectively, and of Government Securities Fund were 3.65%, 3.38% and 3.33%, respectively.

AVERAGE ANNUAL TOTAL RETURN

A Class' "average annual total return" figures, as described and shown in the Prospectuses, are computed according to a formula prescribed by the SEC. The formula can be expressed as follows:

$$P(1+T)^n = ERV$$

Where: P = a hypothetical initial payment of \$1,000.
 T = average annual total return.
 n = number of years.
 ERV = Ending Redeemable Value of a hypothetical \$1,000 investment made at the beginning of a 1-, 5- or 10-year period at the end of the 1-, 5- or 10-year period (or fractional portion thereof), assuming reinvestment of all dividends and distributions.

A Class' total return figures calculated in accordance with the above formula assume that the maximum applicable sales charge or maximum applicable CDSC, as the case may be, has been deducted from the hypothetical \$1,000 initial investment at the time of purchase or redemption, as applicable.

The Funds' average annual total returns for Class A shares were as follows for the periods indicated:

<TABLE>
 <CAPTION>

1992* NAME OF FUND 31, 1993	YEAR ENDED	NOVEMBER 6,
	DECEMBER 31, 1993	THROUGH DECEMBER
<S>	<C>	<C>
Investment Grade Bond Fund	13.39%	14.70%
Government Securities Fund	5.88	7.29
Special Equities Fund	26.26	32.88
European Fund	17.29	16.79

<FN>
 * The Funds commenced selling Class A shares on November 6, 1992.
 </TABLE>

The Funds' average annual total returns for Class B shares were as follows for the periods indicated:

<TABLE>
 <CAPTION>

TEN YEAR PERIOD OR
 PERIOD FROM
 COMMENCEMENT OF

OPERATIONS THROUGH NAME OF FUND DECEMBER 31, 1993	YEAR ENDED	FIVE YEARS ENDED
	DECEMBER 31, 1993	DECEMBER 31, 1993
<S>	<C>	<C>
<C>		
Investment Grade Bond Fund	13.56%	13.15%
12.82%<F1>		
Government Securities Fund	5.95	10.54
9.38 <F2>		
Special Equities Fund	26.93	13.10
9.26 <F1>		
European Fund	17.87	6.87
8.44 <F3>		

<FN>
 <F1> Figures are for the ten-year period ended December 31, 1993.
 <F2> Fund commenced operations on March 20, 1984.

<F3> Fund commenced operations on November 6, 1987.
</TABLE>

These average annual total return figures reflect the deduction of the applicable CDSC (maximum of 5.00% for Special Equities Fund and European Fund and 4.50% for Investment Grade Bond Fund and Government Securities Fund) that would have been deducted upon a redemption of shares at the end of the periods indicated.

AGGREGATE TOTAL RETURN

A Class' aggregate total return figures, as described and shown in the Prospectuses, represent the cumulative change in the value of an investment in the Class for the specified period and are computed by the following formula:

$$\text{AGGREGATE TOTAL RETURN} = \frac{\text{ERV} - \text{P}}{\text{P}}$$

Where: P = a hypothetical initial payment of \$10,000.
ERV = Ending Redeemable Value of a hypothetical \$10,000 investment made at the beginning of a 1-, 5- or 10-year period (or fractional portion thereof) at the end of the 1-, 5- or 10-year period (or fractional portion thereof), assuming reinvestment of all dividends and distributions.

A Class' performance will vary from time to time depending upon market conditions, the composition of the Fund's investment portfolio and operating expenses and the expenses exclusively attributable to the Class. Consequently, any given performance quotation should not be considered representative of the Class' performance for any specified period in the future. Because performance will vary, it may not provide a basis for comparing an investment in the Class with certain bank deposits or other investments that pay a fixed yield for a stated period of time. Investors comparing the Class' performance with that of other mutual funds should give consideration to the quality and maturity of the respective investment companies' portfolio securities.

The aggregate total returns of the Class A shares of the Funds were as follows for the periods indicated:

<TABLE>
<CAPTION>

PERIOD FROM	PERIOD FROM		
	NOVEMBER 6, 1992	ONE YEAR	NOVEMBER 6, 1992*
PERIOD ENDED	THROUGH	PERIOD ENDED	THROUGH
NAME OF FUND	DECEMBER 31, 1993**	DECEMBER 31, 1993**	DECEMBER 31, 1993**
DECEMBER 31, 1993***	DECEMBER 31, 1993**	<C>	<C>
<S>	<C>	<C>	<C>
Investment Grade Bond Fund	13.12%	18.45%	22.30%
Government Securities Fund	5.88	10.87	13.54
Special Equities Fund	26.26	32.90	45.51
European Fund	17.29	23.46	25.61
<FN>	19.33		

* The Funds commenced selling Class A shares on November 6, 1992.
** Figures do not include the effect of the maximum sales charge.
*** Figures include the effect of the maximum sales charge.
</TABLE>

The Funds' aggregate total returns for Class B shares were as follows for the periods indicated:

<TABLE>
<CAPTION>

TEN YEAR PERIOD	TEN YEAR PERIOD		
OR PERIOD FROM	OR PERIOD FROM		
COMMENCEMENT	COMMENCEMENT		
ONE YEAR	ONE YEAR	FIVE YEAR	OF OPERATIONS
FIVE YEAR	OF OPERATIONS		

PERIOD ENDED	PERIOD ENDED	PERIOD ENDED	PERIOD ENDED	THROUGH
DECEMBER 31,	DECEMBER 31,	THROUGH	DECEMBER 31,	DECEMBER 31,
DECEMBER 31,	DECEMBER 31,	DECEMBER 31,	DECEMBER 31,	DECEMBER 31,
NAME OF FUND		1993*	1993*	1993*
1993**	1993**	1993**		
<S>		<C>	<C>	<C>
<C>	<C>	<C>		
Investment Grade Bond Fund		18.06%	86.51%	347.76%<F1>
13.56%	85.51%	347.76%<F1>		
Government Securities Fund		10.45	66.04	140.36 <F2>
5.95	65.04	140.36 <F2>		
Special Equities Fund		31.93	86.06	187.94 <F1>
26.93	85.06	187.94 <F1>		
European Fund		22.95	40.48	64.67 <F3>
17.95	39.48	64.67 <F3>		

* Figures do not include the effect of the CDSC (maximum 4.50% for Investment Grade Bond Fund and Government Securities Fund and 5.00% for the other Funds).

** Figures include the effect of the applicable CDSC, if any.

<F1> Figures are for the ten-year period ending December 31, 1993.

<F2> The Fund commenced operations on March 20, 1984.

<F3> The Fund commenced operations on November 6, 1987.

</TABLE>

It is important to note that the yield and total return figures set forth above are based on historical earnings and are not intended to indicate future performance.

The aggregate total returns of the Class D shares of the Funds were as follows for the period indicated:

<TABLE>

<CAPTION>

NAME OF FUND	PERIOD FROM	THROUGH
	JANUARY 29, 1993*	DECEMBER 31, 1993
<S>	<C>	
Investment Grade Bond Fund	10.35%	
Government Securities Fund	7.48	
Special Equities Fund	(9.77)	
European Fund	**	

* The Funds commenced selling Class D shares on January 29, 1993. Class D shares are sold at net asset value without any sales charge or CDSC.

** As of December 31, 1993, no publically offered Class D shares of the Fund had been purchased, and therefore no meaningful performance information is available.

</TABLE>

A Fund's performance will vary from time to time depending upon market conditions, the composition of its investments, and its operating expenses. Consequently, any given performance quotation should not be considered representative of the Fund's performance for any specified period in the future. Because performance will vary, it may not provide a basis for comparing an investment in a Fund with certain bank deposits or other investments that pay a fixed yield for a stated period of time.

Comparative performance information may be used from time to time in advertising the Company's shares, including data from Lipper Analytical Services, Inc., the Standard & Poor's 500 Composite Stock Price Index, the Dow Jones Industrial Average and other publications.

TAXES

Set forth below is a summary of certain federal income tax considerations generally affecting the Company and its shareholders. The summary is not intended as a substitute for individual tax planning, and investors are urged to consult their tax advisors with specific reference to their own federal, state or local tax situations.

TAX STATUS OF THE FUNDS

Each Fund will be treated as a separate taxable entity for federal tax purposes.

The Company intends that each Fund qualify separately as a "regulated investment company" under the Code. A qualified Fund generally will not be

liable for federal income taxes to the extent that its taxable net investment income and net realized capital gains are distributed to its shareholders, provided that each Fund distributes at least 90% of its net investment income.

Each Fund intends to accrue dividend income for federal income tax purposes in accordance with the rules applicable to regulated investment companies. In some cases, these rules may have the effect of accelerating (in comparison to other recipients of the dividend) the time at which the dividend is taken into account by a Fund as taxable income.

Certain options, futures contracts and forward contracts in which the Funds may invest are "section 1256 contracts." Gains or losses on section 1256 contracts generally are considered 60% long-term and 40% short-term capital gains or losses ("60/40"); however, foreign currency gains or losses arising from certain section 1256 contracts may be treated as ordinary income or loss. Also, section 1256 contracts held by a Fund at the end of each taxable year are "marked-to-market" with the result that unrealized gains or losses are treated as though they were realized and the resulting gain or loss is treated as 60/40 gain or loss as ordinary income or loss, as the case may be. These contracts also may be marked-to-market for purposes of the 4% excise tax under rules prescribed in the Code.

Many of the hedging transactions undertaken by the Funds will result in "straddles" for federal income tax purposes. Straddles are defined to include "offsetting positions" in actively traded personal property. It is not entirely clear under what circumstances one investment made by a Fund will be treated as offsetting another investment held by the Fund. In general, positions are offsetting if there is a substantial diminution in the risk of loss from holding one position by reason of holding one or more other positions. The straddle rules may effect the character of gains (or losses) realized on straddle positions. In addition, losses realized by a Fund on straddle positions may be deferred under the straddle rules, rather than being taken into account in calculating the taxable income for the taxable year in which losses are realized. The hedging transactions may also increase the amount of gains from assets held less than three months. As a result, the 30% limit on gains from certain assets held less than three months, which applies to regulated investment companies, may restrict a Fund in the amount of hedging transactions which it may undertake. In addition, hedging transactions may increase the amount of short-term capital gain realized by a Fund which is taxed as ordinary income when distributed to the shareholders. The Fund may make one or more of the elections available under the Code which are applicable to straddles. If a Fund makes any of the elections, the amount, character and timing of the recognition of gain or losses from the affected straddle positions will be determined under rules that vary according to the election(s) made. Because only a few regulations implementing the straddle rules have been promulgated, the consequences of straddle transactions to a Fund are not entirely clear.

Distributions of investment company taxable income generally are taxable to shareholders as ordinary income. In view of each Fund's investment policy, it is expected that dividends from domestic corporations will constitute a portion of the gross income of several of the Funds but not of others. Therefore, it is expected that a portion of the income distributed by the Special Equities Fund but not others (Investment Grade Bond Fund, Government Securities Fund and European Fund) may be eligible for the dividends-received deduction for corporations.

Distributions of net realized capital gains designated by a Fund as capital gains dividends are taxable to shareholders as long-term capital gain, regardless of the length of time the shares of a Fund have been held by a shareholder. Distributions of capital gains, whether long or short-term, are not eligible for the dividends-received deduction.

Dividends (including capital gain dividends) declared by a Fund in October, November or December of any calendar year to shareholders of record on a date in such a month will be deemed to have been received by shareholders on December 31 of that calendar year, provided that the dividend is actually paid by the Fund during January of the following calendar year.

All dividends are taxable to the shareholder whether reinvested in additional shares or received in cash. Shareholders receiving distributions in the form of additional shares will have a cost basis for federal income tax purposes in each share received equal to the net asset value of a share of the Fund on the reinvestment date. Shareholders will be notified annually as to federal tax status of distributions.

Under the Code, gains or losses attributable to fluctuations in currency

exchange rates which occur between the time a Fund accrues income or other receivables or accrues expenses or other liabilities denominated in a foreign currency and the time a Fund actually collects such receivables or pays such liabilities, generally are treated as ordinary income or ordinary loss. Similarly, on disposition of debt securities denominated in a foreign currency and on disposition of certain futures contracts, forward contracts and options, gains or losses attributable to fluctuations in the value of certain currency between the date of acquisition of the security and the date of disposition also are treated as ordinary gain or loss. These gains or losses, referred to under the Code as "section 988" gains or losses, may increase or decrease the amount of a Fund's investment company taxable income to be distributed to its shareholders as ordinary income.

It is expected that certain dividends and interest received by the Fund will be subject to foreign withholding taxes. So long as more than 50% in value of a Fund's total assets at the close of a given taxable year consists of stocks or securities of foreign corporations, the Fund may elect to treat any foreign taxes paid or accrued by it as paid by its shareholders. Each Fund will notify shareholders in writing each year whether it makes the election and the amount of foreign taxes it has elected to have treated as paid by the shareholders. If a Fund makes the election, shareholders will be required to include as income their proportionate share of the amount of foreign taxes paid or accrued by the Fund and generally will be entitled to claim either a credit or deduction (as an itemized deduction) for their share of the taxes in computing their federal income tax, subject to limitations.

Generally, a credit for foreign taxes is subject to the limitation that it may not exceed the shareholder's U.S. tax attributable to his or her total foreign source taxable income. For this purpose, if the pass-through election is made, the source of the electing Fund's income will flow through to its shareholders. With respect to a Fund, gains from the sales of securities generally will be treated as derived from U.S. sources and certain currency fluctuation gains, including fluctuation gains from foreign currency denominated debt securities, receivables and payables, will be treated as ordinary income derived from U.S. sources. The limitation on the foreign tax credit is applied separately to foreign source passive income (as defined for purposes of the foreign tax credit), including the foreign source passive income passed through by a Fund. Shareholders may be unable to claim a credit for the full amount of their proportionate share of the foreign tax paid or accrued by a Fund. A foreign tax credit can be used to offset only 90% of the alternative minimum tax (as computed under the Code for purposes of the limitation) imposed on corporations and individuals. If a Fund is not eligible to make the election to "pass through" to its shareholders its foreign taxes, the foreign taxes it pays will reduce investment company taxable income and the distributions by that Fund will be treated as United States source income.

The foregoing is only a general description of the foreign tax credit. Because application of the credit depends on the particular circumstances of each shareholder, shareholders are advised to consult their own tax advisors.

Distributions by a Fund reduces the net asset value of the Fund's shares. Should a distribution reduce the net asset value below a shareholder's cost basis, such distribution nevertheless generally would be taxable to the shareholder as ordinary income or capital gains as described above, even though, from an investment standpoint, it may constitute a partial return of capital. In particular, investors should be careful to consider the tax implications of buying shares just prior to a distribution. The price of shares purchased at that time includes the amount of the forthcoming distribution but the distribution generally would be taxable to him.

Upon redemption, sale or exchange of his shares, a shareholder will realize a taxable gain or loss depending upon his basis for his shares. Such gain or loss will be treated as capital gain or loss if the shares are capital assets in the shareholder's hands. Such gain or loss generally will be long-term or short-term depending upon the shareholder's holding period for the shares. However, a loss realized by a shareholder on the sale of shares of a Fund with respect to which capital gain dividends have been paid will, to the extent of such capital gain dividends, be treated as long-term capital loss if such shares have been held by the shareholder for six months or less. A gain realized on a redemption, sale or exchange will not be affected by a reacquisition of shares. A loss realized on a redemption, sale or exchange, however, will be disallowed to the extent the shares disposed of are replaced (whether through reinvestment of distributions or otherwise) within a period of 61 days beginning 30 days before and ending 30 days after the shares are disposed of. In such a case, the basis of the shares acquired will be adjusted to reflect the disallowed loss.

For the purposes of computing the revised alternative minimum tax of 20% for corporations, 75% of the excess of the adjusted current earnings (as defined in the Code) over other alternative minimum taxable income is treated as an adjustment item. Shareholders are advised to consult their own tax advisors for details regarding the alternative minimum tax.

If a Fund purchases shares in certain foreign investment funds classified under the Code as a "passive foreign investment company", the Fund may be subject to federal income tax on a portion of an "excess distribution" and gain from the disposition of such shares, even though such income may have to be distributed as a taxable dividend by the Fund to its shareholders. In addition, gains on the disposition of shares in a passive foreign investment company generally are treated as ordinary income even though the shares are capital assets in the hands of the Company. Certain interest charges may be imposed on either the Fund or its shareholders in respect of any taxes arising from such distributions or gains. A Fund may be eligible to elect to include in its gross income its share of earnings of a passive foreign investment company on a current basis. Generally the election would eliminate the interest charge and the ordinary income treatment on the disposition of stock, but such an election may have the effect of accelerating the recognition of income and gains by the Fund compared to a fund that did not make the election. In addition, another election may be available that would involve marking to market a Fund's passive foreign investment company shares at the end of each taxable year (and on certain other dates prescribed in the Code), with the result that unrealized gains are treated as though they were realized. If this election were made, tax at the Fund level under the passive foreign investment company rules would generally be eliminated, but the Fund could, in limited circumstances, incur nondeductible interest charges. Each Fund's intention to qualify annually as a regulated investment company may limit its elections with respect to shares of passive foreign investment companies.

Because the application of the passive foreign investment company rules may affect, among other things, the character of gains, the amount of gain or loss and the timing of the recognition of income with respect to passive foreign investment company shares, as well as subject a Fund itself to tax on certain income from such shares, the amount that must be distributed to shareholders, and which will be taxed to shareholders as ordinary income or long-term capital gain, may be increased or decreased substantially as compared to a fund that did not invest in passive foreign investment companies.

If a shareholder (a) incurs a sales charge in acquiring shares of the Company, (b) disposes of those shares within 90 days and (c) acquires shares in a mutual fund for which the otherwise applicable sales charge is reduced by reason of a reinvestment right (i.e., exchange privilege), the original sales charge increases the shareholder's tax basis in the original shares only to the extent the otherwise applicable sales charge for the second acquisition is not reduced. The portion of the original sales charge that does not increase the shareholder's tax basis in the original shares would be treated as incurred with respect to the second acquisition and, as a general rule, would increase the shareholder's tax basis in the newly acquired shares. Furthermore, the same rule also applies to a disposition of the newly acquired shares made within 90 days of the subsequent acquisition. This provision prevents a shareholder from immediately deducting the sales charge by shifting his or her investment in a family of mutual funds.

Backup Withholding. If a shareholder fails to furnish a correct taxpayer identification number, fails to fully report dividend or interest income, or fails to certify that he or she has provided a correct taxpayer identification number and that he or she is not subject to such withholding, then the shareholder may be subject to a 31% "backup withholding tax" with respect to (a) any taxable dividends and distributions and (b) any proceeds of any redemption of Company shares. An individual's taxpayer identification number is his or her social security number. The 31% backup withholding tax is not an additional tax and may be credited against a shareholder's regular federal income tax liability.

The foregoing discussion relates only to federal income tax law as applicable to U.S. persons. Distributions by the Funds also may be subject to state, local and foreign taxes, and their treatment under state, local and foreign income tax laws may differ from the federal income tax treatment. The Government Securities Fund's dividends, to the extent they consist of interest from obligations of the U.S. government and certain of its agencies and instrumentalities, may be exempt from state and local income taxes in some jurisdictions. The Company intends to advise shareholders of the proportion of that Fund's dividends which are derived from such interest. Shareholders should consult their tax advisors with respect to particular questions of federal, state and local taxation.

CUSTODIAN AND TRANSFER AGENT

Boston Safe, a wholly owned subsidiary of TBC, is located at One Boston Place, Boston, Massachusetts 02108, and serves as the custodian of the Company. Under its custody agreement with the Company, Boston Safe holds the Company's fund securities and keeps all necessary accounts and records. For its services, Boston Safe receives a monthly fee based upon the month-end market value of securities held in custody and also receives securities transaction charges. Boston Safe is authorized to establish separate accounts for foreign securities owned by the Company to be held with foreign branches of other domestic banks as well as with certain foreign banks and securities depositories. The assets of the Company are held under bank custodianship in compliance with the 1940 Act.

The Shareholders Services Group, Inc. ("TSSG"), a subsidiary of First Data Corporation ("FDC"), is located at Exchange Place, Boston, Massachusetts 02109 and serves as the Company's transfer agent. The outstanding shares of FDC are partially owned by American Express. Under the transfer agency agreement, TSSG maintains the shareholder account records for the Company, handles certain communications between shareholders and the Company and distributes dividends and distributions payable by the Company. For these services, TSSG receives a monthly fee computed on the basis of the number of shareholder accounts it maintains for the Company during the month and is reimbursed for out-of-pocket expenses.

FINANCIAL STATEMENTS

The Annual Reports for each Fund for the fiscal year ended December 31, 1993 are incorporated herein by reference in their entirety.

APPENDIX

CORPORATE BONDS AND COMMERCIAL PAPER RATINGS

Corporate Bonds. Bonds rated Aa by Moody's are judged by Moody's to be of high-quality by all standards. Together with bonds rated Aaa (Moody's highest rating) they comprise what are generally known as high-grade bonds. Aa bonds are rated lower than Aaa bonds because margins of protection may not be as large as those of Aaa bonds, or fluctuation of protective elements may be of greater amplitude, or there may be other elements present which make the long-term risks appear somewhat larger than those applicable to Aaa securities. Bonds which are rated A by Moody's possess many favorable investment attributes and are to be considered as upper medium-grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present which suggest a susceptibility to impairment sometime in the future.

Moody's Baa rated bonds are considered as medium-grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present, but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and, in fact, have speculative characteristics as well.

Bonds rated AA by S&P are judged by S&P to be the high-grade obligations and in the majority of instances differ only in small degree from issues rated AAA (S&P highest rating). Bonds rated AAA are considered by S&P to be the highest grade obligations and possess the ultimate degree of protection as to principal and interest. With AA bonds, as with AAA bonds, prices move with the long-term money market. Bonds rated A by S&P have a strong capacity to pay principal and interest, although they are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions.

Bonds rated BBB by S&P, or medium-grade category bonds, are borderline between definitely sound obligations and those where speculative elements begin to predominate. These bonds have adequate asset coverage and normally are protected by satisfactory earnings. Their susceptibility to changing conditions, particularly to depressions, necessitates constant watching. These bonds generally are more responsive to business and trade conditions than to interest rates. This group is the lowest which qualifies for commercial bank investment.

Commercial Paper. The Prime rating is the highest commercial paper rating assigned by Moody's. Among the factors considered by Moody's in assigning ratings are the following: (a) evaluation of the management of the issuer; (b) economic evaluation of the issuer's industry or industries and an appraisal of speculative-type risks which may be inherent in certain areas; (c) evaluation of the issuer's products in relation to competition and customer acceptance; (d) liquidity; (e) amount and quality of long-term debt; (f) trend of earnings over a period of ten years; (g) financial strength of a parent company and the relationships which exist with the issuer; and (h) recognition by management of obligations which may be

present or may arise as a result of public interest questions and preparations to meet such obligations. Issuers within the Prime category may be given ratings 1, 2 or 3, depending on the relative strengths of these factors.

Commercial paper rated A by S&P has the following characteristics: (a) liquidity ratios are adequate to meet cash requirements; (b) long-term senior debt rating should be A or better, although in some cases BBB credits may be allowed if other factors outweigh the BBB; (c) the issuer should have access to at least two additional channels of borrowing; (d) basic earnings and cash flow should have an upward trend with allowances made for unusual circumstances; and (e) typically the issuer's industry should be well established and the issuer should have a strong position within its industry, and the reliability and quality of management should be unquestioned. Issuers rated A are further referred to by use of number 1, 2 and 3 to denote relative strength within this highest classification.

SUPPLEMENTARY DESCRIPTION OF INTEREST RATE FUTURES CONTRACTS AND RELATED OPTIONS

Characteristics of Futures Contracts. Currently, futures contracts can be purchased and sold on such securities as U.S. Treasury bonds, U.S. Treasury notes, GNMA's and U.S. Treasury bills. Unlike when the Fund purchases or sells a security, no price is paid or received by the Fund upon the purchase or sales of a futures contract. The Fund will initially be required to deposit with the custodian or the broker an amount of "initial margin" of cash of U.S. Treasury bills. The nature of initial margin in futures transactions is different from that of margin in security transactions in that futures contract initial margin does not involve the borrowing of funds by their customer to finance the transaction. Rather, the initial margin is in the nature of a performance bond or good faith deposit on the contract which is returned to the Fund upon termination of the futures contract, assuming all contractual obligations have been satisfied. Subsequent payments, called maintenance margin, to and from the broker, will be made on a daily basis as the price of the underlying debt security fluctuates, making the long and short positions in the futures contract more or less valuable, a process known as "marked-to-market." For example, when the Fund has purchased a futures contract and the price of the underlying debt security has risen, that position will have increased in value and the Fund will receive from the broker a maintenance margin payment equal to that increase in value. Conversely, when the Fund has purchased a futures contract and the price of the underlying debt security has declined, the position would be less valuable and the Fund would be required to make a maintenance margin payment to the broker. At any time prior to expiration of the futures contract, the Fund may elect to close the position by taking an opposite position which will operate to terminate the Fund's position in the futures contract. A final determination of maintenance margin is then made, additional cash is required to be paid by or released to the Fund, and the Fund realizes a loss or a gain.

While futures contracts based on debt securities do provide for the delivery and acceptance of securities, such deliveries and acceptances are very seldom made. Generally, the futures contract is terminated by entering into an offsetting transaction. An offsetting transaction for a futures contract sale is effected by the Fund entering into a futures contract purchase for the same aggregate amount of the specific type of financial instrument and same delivery date. If the price in the sale exceeds the price in the offsetting purchase, the Fund pays the difference and realizes the loss. Similarly, the closing out of a futures contract purchase is effected by the Fund entering into a futures contract sale. If the offsetting sale price exceeds the purchase price, the Fund realizes a gain, and if the purchase price exceeds the offsetting price, the Fund realizes a loss.

Risks of Transactions in Futures Contracts. There are several risks in connection with the use of futures contracts by Government Securities Fund as a hedging device. One risk arises because of the imperfect correlation between movements in the price of the futures contracts and movements in the price of the debt securities which are the subject of the hedge. The price of the futures contract may move more than or less than the price of the debt securities being hedged. If the price of the futures contract moves less than the price of the securities which are the subject of the hedge, the hedge will not be fully effective, but, if the price of the securities being hedged has moved in an unfavorable direction, the Fund would be in a better position than if it has not hedged at all. If the price of the securities being hedged has moved in a favorable direction, this advantage will be partially offset by the movement in the price of the futures contract. If the price of the futures contracts moves more than the price of the security, the Fund will experience either a loss or a gain on the future which will not be completely offset by movements in the prices of the debt securities which are the subject of the hedge. To compensate for the imperfect correlation of movements in the price of debt securities being hedged and movements in the prices of the futures contracts, the Fund may buy or sell futures contracts in a greater dollar

amount than the dollar amount of the securities being hedged if the historical volatility of the prices of such securities has been greater than the historical volatility of the futures contracts. Conversely, the Fund may buy or sell fewer futures contracts if the historical volatility of the price of the securities being hedged is less than the historical volatility of the futures contracts. It is also possible that, where the Fund has sold futures to hedge its portfolio against decline in the market, the market may advance and the value of securities held in the Fund's portfolio may decline. If this occurred, the Fund would lose money on the futures contracts and also experience a decline in value in its portfolio securities. However, while this could occur for a very brief period or to a very small degree, over time the value of a diversified portfolio will tend to move in the same direction as the futures contracts.

Where futures are purchased to hedge against a possible increase in prices of securities before the Fund is able to invest its cash (or cash equivalents) in U.S. government securities (or options) in an orderly fashion, it is possible that the market may decline instead; if the Fund then concludes not to invest in U.S. government securities or options at that time because of concern as to possible further market decline or for other reasons, the Fund will realize a loss on the futures contract that is not offset by a reduction in the price of securities purchased.

In addition to the possibility that there may be an imperfect correlation, or no correlation at all, between movements in the futures contracts and the portion of the portfolio being hedged, the market prices of futures contracts may be affected by certain factors. First, all participants in the futures market are subject to margin deposit and maintenance requirements. Rather than meeting additional margin deposit requirements, investors may close futures contracts through offsetting transactions which could distort the normal relationship between the debt securities and futures markets; second, from the point of view of speculators, the deposit requirements in the futures market are less onerous than margin requirements in the securities market. Therefore, increased participation by speculators in the futures market may also cause temporary price distortions. Due to the possibility of price distortion in the futures market and because of the imperfect correlation between movements in the debt securities and movements in the prices of futures contracts, a correct forecast of interest rate trends by the investment advisor may still not result in a successful hedging transaction over a very short time frame.

Positions in futures contracts may be closed out only on an exchange or board of trade which provides a secondary market for such futures. Although Government Securities Fund intends to purchase or sell futures only on exchanges or boards of trade where there appears to be an active secondary market, there is no assurance that a liquid secondary market on an exchange or board of trade will exist for any particular contract or at any particular time. In such event, it may not be possible to close a futures position, and in the event of adverse price movements, the Fund would continue to be required to make daily cash payments of variation margin. However, in the event that the futures contracts have been used to hedge portfolio securities, such securities will not be sold until the futures contracts can be terminated. In such circumstances, an increase in the price of the securities, if any, may partially or completely offset losses on the futures contracts. However, as described above, there is no guarantee that the price of the securities will, in fact, correlate with the price movements of the futures contracts and thus provide an offset to losses on futures contracts.

Successful use of futures contracts by the Fund is also subject to the investment adviser's ability to predict correctly movements in the direction of interest rates and other factors affecting markets of debt securities. For example, if the Fund has hedged against the possibility of an increase in interest rates which would adversely affect debt securities held in its portfolio and prices of such securities increase instead, the Fund will lose part or all of the benefit of the increased value of its securities which it has hedged because it will have offsetting losses in its futures positions. In addition, in such situations, if the Fund has insufficient cash, it may have to sell securities to meet daily variation margin requirements. Such sale of securities may be, but will not necessarily be, at increased prices which reflect the rising market. The Fund may have to sell securities at a time when it may be disadvantageous to do so.

Characteristics of Options on Futures Contracts. As with options on debt securities, the holder of an option may terminate his position by selling an option of the same series. There is no guarantee that such closing transactions can be effected. The Fund will be required to deposit initial margin and maintenance margin with respect to put and call options on futures contracts written by it pursuant to brokers' requirements similar to those applicable to interest rate futures contracts described above, and, in addition, net option premiums received will be included as initial margin deposits.

In addition to the risks which apply to all options transactions, there

are several special risks relating to options on futures contracts. Trading in such options commenced in October 1982. The ability to establish and close out positions on such options will be subject to the development and maintenance of a liquid secondary market. It is not certain that this market will develop. The Fund will not purchase options on futures contracts on any exchange unless and until, in the investment advisor's opinion, the market for such options had developed sufficiently that the risks in connection with options on futures contracts are not greater than the risks in connection with futures contracts. Compared to the use of futures contracts, the purchase of options on futures contracts involves less potential risk to the Fund because the maximum amount of risk is the premium paid for the options (plus transaction costs). However, there may be circumstances when the use of an option on a futures contract would result in a loss to the Fund when the use of a futures contract would not, such as when there is no movement in the prices of debt securities. Writing an option on a futures contract involves risks similar to those arising in the sale of futures contracts, as described above.

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

Smith Barney Shearson
INVESTMENT FUNDS INC.

INVESTMENT GRADE BOND FUND
GOVERNMENT SECURITIES FUND
SPECIAL EQUITIES FUND
EUROPEAN FUND

STATEMENT OF
ADDITIONAL INFORMATION

MARCH 1, 1994

SMITH BARNEY SHEARSON

PART C

SMITH BARNEY SHEARSON INVESTMENT FUNDS INC.

FINANCIAL STATEMENTS

EXHIBITS

SMITH BARNEY SHEARSON INVESTMENT FUNDS INC

PART C

Item 24. Financial Statements and Exhibits

(a) Financial Statements:

Included in Part A:

Financial Highlights

Included in Part B:

Portfolio of Investments
Statement of Assets and Liabilities
Statement of Operations

Statement of Changes in Net Assets

Financial Highlights
Notes to Financial Statements
Report of Independent Accountants
Condensed Financial Information Tax Information

Included in Part C:

Consent of Independent Accountants is filed herein

(b) Exhibits

All references are to Registrant's Registration Statement on Form N-1A (the "Registration Statement") as filed with the Securities and Exchange Commission on October 2, 1981 (File Nos. 2-74288 and 811-3275).

(1) (a) Articles of Restatement, dated February 12, 1993, to the Articles of Incorporation are incorporated by reference to Post-Effective Amendment No. 29 to the Registration Statement, filed on March 3, 1993.

(1) (b) Articles of Amendment, dated May 21, 1993, to the Articles of Incorporation are incorporated by reference to the Registrant's Registration Statement filed on Form N-14 on September 2, 1993.

(1) (c) Articles of Amendment dated July 30, 1993, to the Articles of Incorporation are incorporated by reference to the Registrant's Registration Statement filed on Form N-14 on September 2, 1993.

(1) (d) Articles Supplementary, dated August 9, 1993, to the Articles of Incorporation are incorporated by reference to the Registrant's Registration Statement filed on Form N-14 on September 2, 1993.

(2) Registrant's By-Laws, as amended on September 30, 1992, are incorporated by reference to Post-Effective Amendment No. 30 to the Registration Statement, filed on April 30, 1993.

(3) Inapplicable.

(4) (a) Registrant's form of stock certificate relating to Class A shares is incorporated by reference to Post-Effective Amendment No. 27 to the Registration Statement filed on October 23, 1992.

(4) (b) Registrant's form of stock certificate relating to Class B shares is incorporated by reference to Post-Effective Amendment No. 27 to the Registration Statement filed on October 23, 1992.

(4) (c) Registrant's form of stock certificate relating to Class D shares is incorporated by reference to Post-Effective Amendment No. 27 to the Registration Statement filed on October 23, 1992.

(5) (a) Investment Advisory Agreement between the Registrant and Lehman Brothers Global Asset Management Limited (formerly Shearson Lehman Global Asset Management S.A.) is incorporated by reference to the Registration Statement filed on Form N-14 filed on August 15, 1988.

(5) (b) Investment Advisory Agreement dated July 30, 1993, between the Registrant and Greenwich Street Advisors Division of Mutual Management Corporation is incorporated by reference to the Registration Statement filed on Form N-14 on September 2, 1993. File No 33-50153.

5(c) Administration Agreement dated May 21, 1993, between the Registrant and The Boston Company Advisors, Inc. is incorporated by reference to the Registration Statement filed on Form N-14 on September 2, 1993. File No. 33-50153

(6) Distribution Agreement, dated July 30, 1993, between the Registrant and Smith Barney Shearson Inc. is incorporated by reference to the Registration Statement filed on Form N-14 on September 2, 1993. File No. 33-50153

(7) Inapplicable

(8) Custodian Agreement with Boston Safe Deposit and Trust Company is incorporated by reference to Post-Effective Amendment No. 20 to the Registration Statement, filed on September 6, 1988.

(9) Transfer Agency and Registration Agreement dated August 5, 1993 with The Shareholder Services Group, Inc. is incorporated by reference to Post-Effective Amendment No. 31 to the Registration Statement, filed on December 22, 1993.

(10) Opinion of Counsel relating to legality of shares is incorporated by reference to Post-Effective Amendment No. 31 to the Registration Statement, filed on December 22, 1993.

(11)

Consent of Independent Accountants is filed herein .

(12) Inapplicable

(13) Inapplicable

(14) Inapplicable

(15) Services and Distribution Plan dated July 30, 1993 between the Registrant and Smith Barney Shearson Inc. is incorporated by reference to the Registration Statement filed on Form N-14 on September 2, 1993. File No. 33-50153

(16) Performance Data is incorporated by reference to Post-Effective Amendment No. 22 to the Registration Statement filed on May 1, 1989.

(17) Powers of Attorney are incorporated by reference to Post-Effective Amendment No. 31 to the Registration Statement, filed on December 22, 1993.

Item 25. Persons Controlled by or Under Common Control with Registrant

None.

Item 26. Number of Holders of Securities

(1) (2)

Number of Record

Title of Class Holders as of February 25, 1994

Common Stock par value \$.001 per share	Class A	Class B	Class D
FUND			
Special Equities Fund	9,096	24,094	10
Investment Grade Bond Fund	766	29,549	7
Government Securities Fund	526	49,410	11
*Directions Value Fund	15,196	37,486	12
European Fund	379	5,558	1

*Directions Value Fund ceased offering shares to the public on December 23, 1993 in anticipation of its merger with and into Smith Barney Shearson Growth and Income Fund.

Item 27. Indemnification

The response to this item is incorporated by reference to Pre-Effective Amendment No. 1 to the Registration Statement filed on Form N-14 on October 8, 1993. File No. 33-50153

Item 28(a). Business and Other Connections Investment Adviser

Investment Adviser - - Greenwich Street Advisors

Greenwich Street Advisors, through its predecessors, has been in the investment counseling business since 1934 and is a division of Mutual Management Corp. ("MMC"). MMC was incorporated in 1978 and is a wholly owned subsidiary of Smith Barney Shearson Holdings Inc. ("Holdings"), which is in turn a wholly owned subsidiary of The Travelers Inc. ("Travelers") (formerly known as Primerica Corporation).

The list required by this Item 28 of officers and directors of MMC and

Greenwich Street Advisors, together with information as to any other business, profession, vocation or employment of a substantial nature engaged in by such officers and directors during the past two fiscal years, is incorporated by reference to Schedules A and D of FORM ADV filed by MMC on behalf of Greenwich Street Advisors pursuant to the Advisers Act (SEC File No. 801-14437).

Prior to the close of business on July 30, 1993 (the "Closing"), Shearson Lehman Advisors, a member of the Asset Management Group of Shearson Lehman Brothers Inc. ("Shearson Lehman Brothers"), served as the Registrant's investment adviser. On the Closing, Travelers and Smith Barney Shearson Inc. (formerly Smith Barney, Harris Upham & Co. Incorporated) acquired the domestic retail brokerage and asset management business of Shearson Lehman Brothers, which included the business of the Registrant's prior investment adviser. Shearson Lehman Brothers was a wholly owned subsidiary of Shearson Lehman Brothers Holdings Inc. ("Shearson Holdings"). All of the issued and outstanding common stock of Shearson Holdings (representing 92% of the voting stock) was held by American Express Company. Information as to any past business vocation or employment of a substantial nature engaged in by officers and directors of Shearson Lehman Advisors can be located in Schedules A and D of FORM ADV filed by Shearson Lehman Brothers on behalf of Shearson Lehman Advisors prior to July 30, 1993. (SEC FILE NO. 801-3701)

8/23/93

Item 28(b). Business and Other Connections of Investment Adviser

Investment Adviser - - Lehman Brothers Global Asset Management Limited

Lehman Brothers Global Asset Management Limited ("Global Asset Management"), is a wholly owned subsidiary of Lehman Brothers Holdings Inc. Global Asset Management is a registered investment adviser under the Investment Advisers Act of 1940 (the "Advisers Act") and serves as investment adviser to investment companies and institutional clients.

On July 30, 1993, Shearson Lehman Brothers Holdings Inc. changed its name to Lehman Brothers Holdings Inc. ("Holdings"). All of the issued and outstanding common stock (representing 92% of the voting stock) of Holdings is held by American Express Company. The list required by this Item 28 of officers and directors of Global Asset Management, together with information as to any other business, profession, vocation or employment of a substantial nature engaged in by such officers and directors during the past two years, is incorporated by reference to Schedules A and D of FORM ADV filed by Global Asset Management pursuant to the Advisers Act (SEC File No. 801-21068).

8/23/93

Item 29. Principal Underwriters

Smith Barney Shearson Inc. ("Smith Barney Shearson") currently acts as distributor for Smith Barney Shearson Managed Municipals Fund Inc., Smith Barney Shearson New York Municipals Fund Inc., Smith Barney Shearson California Municipals Fund Inc., Smith Barney Shearson Massachusetts Municipals Fund, Smith Barney Shearson Global Opportunities Fund, Smith Barney Shearson Aggressive Growth Fund Inc., Smith Barney Shearson Appreciation Fund Inc., Smith Barney Shearson Worldwide Prime Assets Fund, Smith Barney Shearson Short-Term World Income Fund, Smith Barney Shearson Principal Return Fund, Smith Barney Shearson Municipal Money Market Fund Inc., Smith Barney Shearson Daily Dividend Fund Inc., Smith Barney Shearson Government and Agencies Fund Inc., Smith Barney Shearson Managed Governments Fund Inc., Smith Barney Shearson New York Municipal Money Market Fund, Smith Barney Shearson California Municipal Money Market Fund, Smith Barney Shearson Income Funds, Smith Barney Shearson Equity Funds, Smith Barney Shearson Investment Funds Inc., Smith Barney Shearson Precious Metals and Minerals Fund Inc., Smith Barney Shearson Telecommunications Trust, Smith Barney Shearson Arizona Municipals Fund Inc., Smith Barney Shearson New Jersey Municipals Fund Inc., The USA High Yield Fund N.V., Garzarelli Sector Analysis Portfolio N.V., The Advisors Fund L.P., Smith Barney Shearson Fundamental Value Fund Inc., Smith Barney Shearson Series Fund, The Trust for TRAK Investments, Smith Barney Shearson Income Trust, Smith Barney Shearson FMA R Trust, Smith Barney Shearson Adjustable Rate Government Income Fund, Smith Barney Shearson Florida Municipals Fund, Smith Barney Funds, Inc., Smith Barney Equity Funds, Inc.,

Smith Barney Muni Funds, Smith Barney World Funds, Inc., Smith Barney Money Funds, Inc., Smith Barney Tax Free Money Fund, Inc., Smith Barney Variable Account Funds, Smith Barney U.S. Dollar Reserve Fund (Cayman), Worldwide Special Fund, N.V., Worldwide Securities Limited, (Bermuda), and various series of unit investment trusts.

Smith Barney Shearson is a wholly owned subsidiary of Smith Barney Shearson Holdings Inc., which in turn is a wholly owned subsidiary of The Travelers Inc. ("Travelers") (formerly known as Primerica Corporation). The information required by this Item 29 with respect to each director, officer and partner of Smith Barney Shearson is incorporated by reference to Schedule A of FORM BD filed by Smith Barney Shearson pursuant to the Securities Exchange Act of 1934 (SEC File No. 812-8510).

Item 30. Location of Accounts and Records

- (1) Smith Barney Shearson Investment Funds Inc.
Two World Trade Center
New York, New York 10048
- (2) The Boston Company Advisors, Inc.
One Boston Place
Boston, Massachusetts 02108
- (3) Boston Safe Deposit and Trust Company
One Boston Place
Boston, Massachusetts 02108
- (4) Smith Barney Shearson Inc.
388 Greenwich Street
New York, New York 10013
- (5) Lehman Brothers Global Asset Management Limited
Two Broadgate
London Ed 2M 7HA
United Kingdom

Item 31. Management Services

Not applicable.

Item 32. Undertakings

The Registrant hereby undertakes to furnish to each person to whom a prospectus of any series of the Registrant is delivered a copy of the Registrant's latest annual report, upon request and without charge.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933 and the Investment Company Act of 1940, as amended, the Registrant certifies that it meets all of the requirements for effectiveness of this Registration Statement pursuant to Rule 485(b) under the Securities Act of 1933 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereto duly authorized, in the City of New York and State of New York, on the 28th day of February, 1994.

SMITH BARNEY SHEARSON INVESTMENT FUNDS INC.,
Registrant

By: /s/ Heath B. McLendon
Name: Heath B. McLendon
Title: Chariman of the Board

As required by the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

Signature:	Title:	Date:
/s/Stephen J. Treadway Stephen J. Treadway	President	February 28, 1994
/s/Richard P. Roelofs Richard P. Roelofs	Executive Vice-President	February 28, 1994

/s/Vincent Nave
1994
Vincent Nave

Treasurer (Chief Financial
and Accounting Officer)

February 28,

/s/Heath B. McLendon
Heath B. McLendon

Chairman of the Board
(Chief Executive Officer)

February 28, 1994

/s/Alger B. Chapman
1994
Alger B. Chapman

Director

February 28,

/s/Dwight B. Crane
1994
Dwight B. Crane

Director

February 28,

/s/Frank G. Hubbard
1994
Frank G. Hubbard

Director

February 28,

/s/Allan R. Johnson
1994
Allan R. Johnson

Director

February 28,

/s/John F. White
John F. White

Director

February 28, 1994

SLIV/PEA/PEA#33

CONSENT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of

Smith Barney Shearson Investment Funds:

We hereby consent to the following with respect to Post-Effective Amendment No. 33 to the Registration Statement on Form N-1A (File No. 2-74288) under the Securities Act of 1933, as amended, of Smith Barney Shearson Investment Funds:

1. The incorporation by reference of our reports dated February 2, 1994 accompanying the Annual Reports for the fiscal year ended December 31, 1993 of Investment Grade Bond Fund, Government Securities Fund, and Special Equities Fund, and our report dated February 8, 1994 accompanying the Annual Report for the fiscal year ended December 31, 1993 of the European Fund, in the Statement of Additional Information.

2. The reference to our firm under the heading "Financial Highlights" in the Prospectuses.

3. The reference to our firm under the heading "Counsel and Auditors" in the Statement of Additional Information.

COOPERS & LYBRAND

Boston, Massachusetts

February 28, 1994