# FORM N-30D

Initial annual and semi-annual reports mailed to investment company shareholders pursuant to Rule 30e-1 (other than those required to be submitted as part of Form NCSR)

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## FILER

**AMERICAN STRATEGIC INCOME PORTFOLIO INC II**
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[PHOTO]

[PHOTO]

# AMERICAN STRATEGIC INCOME PORTFOLIO II

*   *   *

## ANNUAL REPORT 1995

[PHOTO]

[PHOTO]

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AMERICAN STRATEGIC INCOME PORTFOLIO II

American Strategic Income Portfolio II is a diversified, closed-end management investment company. The fund's primary objective is to provide a high level of current income, and its secondary objective is to seek capital appreciation. To realize its objectives, the fund emphasizes investments in mortgage-related assets that directly or indirectly represent a participation in or are secured by and payable from mortgage loans. It may also invest in asset-backed securities, U.S. government securities, corporate debt securities, municipal obligations, unregistered securities, mortgage-backed derivative securities and mortgage servicing rights. The fund may also borrow by entering into reverse repurchase agreements and may purchase securities through the sale-forward (dollar-roll) program. Use of these investments and investment techniques may cause the fund's net asset value (NAV) to fluctuate to a greater extent than would be expected from interest rate movements alone. As with other mutual funds, there can be no assurance the fund will achieve its objectives. Since the fund's inception, July 30, 1992, it has been rated Af by Standard & Poor's Corporation (S&P).* Fund shares trade on the New York Stock Exchange under the symbol BSP.

*THE FUND IS RATED Af, WHICH MEANS INVESTMENTS IN THE FUND HAVE AN OVERALL CREDIT QUALITY OF A. CREDIT QUALITIES ARE ASSESSED BY STANDARD & POOR'S MUTUAL FUNDS RATING GROUP. S&P DOES NOT EVALUATE THE MARKET RISK OF AN INVESTMENT WHEN ASSIGNING A CREDIT RATING. SEE STANDARD & POOR'S CORPORATE AND MUNICIPAL RATING DEFINITIONS FOR AN EXPLANATION OF A.

THE FUND HAS ALSO BEEN GIVEN A MARKET RISK RATING BY S&P, WHICH WE CANNOT PUBLISH DUE TO NASD REGULATIONS. RISK RATINGS EVALUATE VARIOUS INVESTMENT RISKS THAT CAN AFFECT THE PERFORMANCE OF A BOND FUND AND INDICATE THE FUND'S OVERALL STABILITY AND SENSITIVITY TO CHANGING MARKET CONDITIONS. THESE RATINGS ARE AVAILABLE BY CALLING S&P AT 1-800-424-FUND.

## FUND PERFORMANCE

AVERAGE ANNUALIZED TOTAL RETURNS FOR THE PERIODS ENDED MAY 31, 1995

[Graph]

The average annual total returns for American Strategic Income Portfolio II are based on the change in its net asset value (NAV), assume all distributions were reinvested and do not reflect sales charges. NAV-based performance is used to measure investment management results.

Average annual total returns based on the change in market price for the one-year and since inception periods ended May 31, 1995, were -5.38% and 0.28%, respectively. These figures assume reinvestment of distributions and do not reflect sales charges.

The Lehman Brothers Mutual Fund Government/Mortgage Index is comprised of all U.S. government agency and Treasury securities and agency mortgage-backed securities. Developed by Lehman Brothers for comparative use by the mutual fund industry, this index is unmanaged and does not include any fees or expenses in its total return figure.

The Lipper Closed-End U.S. Mortgage Funds Average represents the average total return, with distributions reinvested, of similar closed-end mutual funds as characterized by Lipper Analytical Services.

Past performance does not guarantee future results. The return and principal value of your investment will fluctuate so that shares, when sold, may be worth more or less than their original cost.



AMERICAN STRATEGIC INCOME PORTFOLIO II

July 10, 1995

Dear Shareholders:

LONG-TERM INTEREST RATES HAVE COME DOWN CONSIDERABLY SINCE THE END OF LAST YEAR, PROMPTED BY A SLOWDOWN IN U.S. ECONOMIC GROWTH AND LOW TO MODERATE INFLATION. Due to declining interest rates, the net asset value (NAV) total return for American Strategic Income Portfolio II (BSP) was favorable for the 12-month period ended May 31, 1995, at 11.56%. The fund's market price return for that period, however, was -5.38%.* (All returns include reinvested distributions and do not include sales charges.) I am disappointed that the market price has not kept pace with the fund's improvement in NAV. I believe this is due to the fund's erratic performance over the past year, which was largely related to the fund's holdings of mortgage-backed derivative securities. For performance comparison purposes, during the 12-month period ended May 31, 1995, the Lehman Brothers Mutual Fund Government/Mortgage Index return was 11.07% and the Lipper Closed-End U.S. Mortgage Funds Average return was 12.24%.

AS I MENTIONED IN LAST JANUARY'S SEMIANNUAL REPORT, WE HAVE REDUCED THE INTEREST RATE SENSITIVITY OF THE FUND. To do so, we suspended the sale-forward program, reduced the amount of borrowing and allowed some of the fund's mortgage-backed derivatives to pay off. We redirected these investments into mortgage loans and Treasury securities, investments that should be less sensitive to changes in interest rates.

[Photo]

Mike Jansen, (above)
IS PRIMARILY RESPONSIBLE FOR THE MANAGEMENT OF AMERICAN STRATEGIC INCOME PORTFOLIO II. HE HAS 14 YEARS OF FINANCIAL EXPERIENCE.

Kevin Jansen, (below)
ASSISTS WITH THE MANAGEMENT OF AMERICAN STRATEGIC INCOME PORTFOLIO II. HE HAS SEVEN YEARS OF FINANCIAL EXPERIENCE.

*PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS. THE RETURN AND PRINCIPAL VALUE OF YOUR INVESTMENT WILL FLUCTUATE SO THAT SHARES, WHEN SOLD, MAY BE WORTH MORE OR LESS THAN THEIR ORIGINAL COST.





[Graph]

TO PROVIDE GREATER NAV AND INCOME STABILITY, WE RECENTLY SOLD MOST OF THE PORTFOLIO'S MORTGAGE-BACKED DERIVATIVE SECURITIES. While there is no definition for derivatives that is universally agreed upon, as of June 30 the fund no longer owned any inverse floaters, principal-only strips, or inverse interest-only securities. (Please note that the portfolio composition at left is as of May 31.) We still hold a 5% position in U.S. agency Z-bonds and a very small position in interest only securities (less than one-half of a percent of the fund's total assets). We intend to sell these positions in the near future as mortgage loans become available. We also own some subordinated mortgage-backed securities which, although are referred to as derivatives in the fund's prospectus, are not typically considered derivatives in the securities market nor are they perceived by us to have the same volatility characteristics as the derivative securities we sold. We currently do not intend to sell these subordinated bonds and may make additional investments in these securities in the future. While the derivative securities we sold offer potentially greater income than more traditional mortgage securities, their prices and income can also be much more volatile, as we experienced in 1994. The prices of BSP's mortgage-backed derivative securities dropped significantly last year and accounted for a disproportionate share of the fund's poor performance during 1994. This year, the prices of these derivative securities improved in response to the recovery of the bond market. Yet the income from some of these securities, such as the





<TABLE>
<CAPTION>

NET ASSET VALUE SUMMARY
JULY 30, 1992 TO MAY 31, 1995

| <S> | <C> |
|---|---|
| Initial Offering Price (7/30/92) | $15.00 |
| Initial Offering and Underwriting Expenses | ($0.93) |
| Accumulated Realized Losses (5/31/95) | ($1.60) |
| Subtotal | $12.47 |

| | |
|---|---|
| Undistributed Net Investment Income/ Dividend Reserve (5/31/95) | $0.24 |
| Unrealized Appreciation on Investments (5/31/95) | $0.29 |
| NET ASSET VALUE (5/31/95) | $13.00 |

</TABLE>

inverse floaters, declined. Consequently, we selectively sold these derivatives at improved prices and invested the proceeds into mortgage loans.

LOWER PORTFOLIO EARNINGS CAUSED THE FUND TO REDUCE ITS MONTHLY DIVIDEND TO 10.25 CENTS PER SHARE FROM 11.25 CENTS PER SHARE, BEGINNING WITH THE JULY DISTRIBUTION. Over the past few months, the fund has been relying on its accumulated undistributed net investment income (dividend reserve) to pay its monthly dividend. As a result, the fund's dividend committee reduced the dividend to bring it more in line with the fund's earnings. On June 30, the fund's earnings were approximately 8.6 cents per share and its dividend reserve was approximately 21 cents per share. The dividend reserve should continue to decline in the coming months since we believe portfolio earnings will remain at approximately the current level in the near term. In the future, we intend to maintain a small dividend reserve in the fund. So as the reserve declines, the fund's dividend committee will make gradual changes to the dividend to bring it in line with the fund's earnings. Once the dividend reserve reaches our targeted range, the dividend committee will set a dividend level that it believes is sustainable, given the fund's income level at that time. Of course, the dividend is not fixed and may fluctuate. Keep in mind that any reduction in the dividend reserve reduces the fund's NAV penny for penny.

ALTHOUGH THE DERIVATIVE SECURITIES WE SOLD WERE AT IMPROVED PRICES, WE REALIZED LOSSES THAT MAY KEEP THE FUND FROM RETURNING TO ITS NAV LEVELS OF EARLY LAST YEAR. We are currently managing significantly less per share from BSP's original





<TABLE>
<CAPTION>

DISTRIBUTION HISTORY
SINCE INCEPTION (JULY 1992) THROUGH
MAY 31, 1995

| <S> | <C> |
|---|---|
| Monthly Income Dividends Paid | 33 |
| Total Monthly Income Dividends | $3.67 |
| Capital Gains Distributions Paid | 1 |
| Total Capital Gains Distributions | $0.04 |
| Total Distributions Per Share | $3.71 |

</TABLE>

offering price of $15, due to the fund's realized losses since inception and its initial offering and underwriting expenses. (See chart on page 4.) While the NAV could one day return to the $14 to $15 range, it would most likely take many years because of the realized losses. Even though the NAV of the fund had improved to $13.00 on May 31, 1995, from a low of $11.94 on January 5, 1995, you should not expect future increases, should they occur, to be as significant.

WE DO NOT PLAN TO INVEST IN INVERSE FLOATERS, PRINCIPAL-ONLY STRIPS, INTEREST-ONLY STRIPS, INVERSE INTEREST-ONLY SECURITIES OR Z-BONDS IN THE FUTURE. We intend to focus our efforts on mortgage loans, which have consistently performed well for the fund. Also, we do not have any immediate plans to reinstate the sale-forward (dollar-roll) program. In the event that we will again invest in these types of mortgage-backed derivatives or reinstate the sale-forward program, we will notify you in advance.

GOING FORWARD, THE FUND'S INVESTMENTS WILL BE MORE FOCUSED ON MORTGAGE LOANS AND TREASURY SECURITIES. As of the end of June, 42% of the fund's total assets were invested in single family (home) loans, 19% in multifamily (apartment) loans, 1% in commercial loans, 8% in private mortgage-backed securities, and 17% in Treasuries. Our current strategy is to eventually have approximately 80% invested in mortgage loans and private mortgage-backed securities, and 20% in Treasury securities. We will continue to use borrowing in the fund through reverse repurchase agreements, which as of June 30 accounted for 16% of the fund's total assets, and invest the proceeds in Treasury securities. Keep in mind that while borrowing can potentially increase the fund's





income, it can also increase the fund's NAV volatility, which can in turn be reflected in the fund's market price.

OUR STRATEGY FOR INVESTING IN MORTGAGE LOANS REMAINS THE SAME. We purchase pools of home loans from mortgage lending organizations at a discount from their face values. We also purchase apartment loans and commercial loans that meet our strict underwriting standards. Because we assume and manage the real estate risk of these loans and purchase many of them at discounts, the potential yields from these investments are typically much greater than those offered by securities backed by mortgages, which frequently are guaranteed or backed by a letter of credit.

WE CAN BUY HOME LOANS AT A DISCOUNT FOR A NUMBER OF REASONS. Lenders find it difficult to sell loans that do not conform to industry standards. For example, many buyers will not purchase loans that have missing loan documents, unusual loan terms, delinquent payments or loans in bankruptcy or foreclosure. Unlike many buyers, we agree to purchase loan pools that may include such mortgages. Based on our credit analysis, we purchase these mortgages below what we believe to be the market value of the home backing the mortgage. For example, a loan with delinquent payments will typically be purchased at a deep discount to our estimated market value because of its greater potential for default. If we purchase the mortgage loans an appropriate price, mortgage defaults will not have a negative impact on the fund. Of course, depending on the purchase price of the loan, we could recognize losses.

WE ALSO BUY APARTMENT AND COMMERCIAL LOANS. We purchase apartment loans and commercial loans at a level that we believe the property value exceeds the mortgage amount by a wide margin. We also require borrowers to have a significant amount of their own money (equity) at risk. Any losses from these loans will first go against the borrowers' investment (equity), which helps limit our risk with these investments.





NOW THAT OUR INVESTMENTS ARE EVEN MORE FOCUSED ON MORTGAGE LOANS, WE BELIEVE THE FUND'S PRIMARY RISKS ARE CREDIT RISK AND THE OTHER RISKS ASSOCIATED WITH INVESTMENTS IN REAL ESTATE. By selling most of the fund's mortgage-backed derivative securities, the fund has less market risk (the risk associated with changes in interest rates). But because most of the mortgages we purchase are not backed by the U.S. government or one of its agencies, they are subject to credit risk or the risk of failure to make payments. Apart from credit risk, these mortgages are also subject to property risk (physical condition and value of the property), prepayment risk (the risk that mortgages will be prepaid and the proceeds will have to be invested in lower-yielding loans), and the legal risks associated with holding any mortgage. Part of our strategy to manage the real estate risks of our home loans is to purchase mortgages located throughout the country, which helps reduce the potential impact of a regional economic recession or natural disaster. Many of the home loans we purchase are older mortgages secured by smaller homes. These loans usually have an established history of timely payments and are less likely to be delinquent, and the homeowners have often built up a considerable amount of equity. We also purchase home loans on which the borrowers have not made all of their mortgage payments on time, if we can obtain the loans at a price that we believe compensates us for the higher risk for default. We believe there are good opportunities to invest in these types of loans because many potential buyers are unwilling to buy delinquent loans. Consequently, we have increased the percentage of delinquent loans in the fund over the past year. As part of our home loan risk analysis, we also review the loan's legal documents, review the borrower's mortgage payment history, assess the local market, and assess the property value. We perform a drive-by assessment of the property or we have a local real estate agent do the assessment for us when it is difficult or impossible for us to perform the assessment ourselves.





AS PART OF OUR RISK MANAGEMENT STRATEGY FOR OUR APARTMENT AND COMMERCIAL LOANS, WE PERFORM A DETAILED INSPECTION OF EACH PROPERTY; STUDY THE COMPETING PROPERTIES IN THE AREA; INTERVIEW THE PROPERTY MANAGER; AND OBTAIN ENGINEERING AND ENVIRONMENTAL REPORTS FROM EXPERTS. While we focus on smaller apartment and commercial loans, these loans are still much larger than the fund's home loans. As a result, defaults on our apartment and commercial loans could have a much greater impact on the fund than defaults on our home loans. Our extensive risk analysis has helped keep the fund's net realized losses from home mortgage foreclosures and write-offs to a minimum (less than two cents per share since the fund's inception through May 31). We have not suffered any realized losses on our apartment or commercial loans.

THE CREDITWORTHINESS OF THE FUND'S LOANS ARE ANALYZED BY STANDARD & POOR'S CORPORATION (S&P), WHICH ISSUES A CREDIT RATING FOR THE FUND'S ENTIRE PORTFOLIO. The final step of our risk analysis is a credit rating by S&P. Each quarter we submit a report of the fund's loans to S&P for review. Since its inception in July 1992, BSP has maintained a credit rating of Af. Keep in mind that S&P does not evaluate the market risk of an investment when assigning a credit rating.

NOW THAT THE FUND IS FOCUSING EVEN MORE ON MORTGAGE LOANS, I BELIEVE IT WILL BE LESS VOLATILE AND EARN MORE CONSISTENT INCOME LEVELS THAN IN THE PAST. I hope this will attract more buyers to the fund and help narrow the current gap between the NAV and market price. Going forward, we intend to follow the investment strategy we have implemented during the past few months. If you have questions about your investment in American Strategic Income Portfolio II, don't hesitate to contact your investment professional.

Sincerely,

/s/ Mike Jansen

Mike Jansen
Portfolio Manager



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FINANCIAL STATEMENTS

STATEMENT OF ASSETS AND LIABILITIES
MAY 31, 1995

<TABLE>

| <S> | <C> |
|---|---|
| ASSETS: | |
| Investments in securities at market value* (including a repurchase agreement of $13,041,000) (note 2) ........ $ | 307,680,896 |
| Real estate owned (identified cost: $2,701,168) (note 2) ........ | 2,807,372 |
| Cash in bank on demand deposit ........ | 786,809 |
| Receivable for investment securities sold ........ | 2,506,750 |
| Accrued interest receivable ........ | 2,960,397 |
| Total assets ........ | 316,742,224 |
| LIABILITIES: | |
| Open option contracts written at market value (premium received of $434,766) (note 5) ........ | 1,000,781 |
| Reverse repurchase agreements payable ........ | 52,700,000 |
| Payable for fund shares retired ........ | 101,640 |
| Accrued investment management fee ........ | 136,378 |
| Accrued administrative fee ........ | 44,098 |
| Accrued interest ........ | 273,583 |
| Other accrued expenses ........ | 30,346 |
| Total liabilities ........ | 54,286,826 |
| Net assets applicable to outstanding capital stock ........ $ | 262,455,398 |
| REPRESENTED BY: | |
| Capital stock - authorized 1 billion shares of $0.01 par value; outstanding, 20,191,535 shares ........ $ | 201,915 |
| Additional paid-in capital ........ | 284,531,738 |
| Undistributed net investment income ........ | 4,750,082 |
| Accumulated net realized loss on investments ........ | (32,946,074) |
| Unrealized appreciation of investments ........ | 5,917,737 |
| Total - representing net assets applicable to outstanding capital stock ........ $ | 262,455,398 |

| | |
|---|---|
| Net asset value per share of outstanding capital stock ... | $ 13.00 |
| * Investments in securities at identified cost ........... | $ 301,303,348 |

</TABLE>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.



FINANCIAL STATEMENTS

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MAY 31, 1995

<TABLE>

| <S> | <C> |
|---|---|
| INCOME: | |
| Interest (net of interest expense of $5,707,397) ....... | $ 27,536,024 |
| Fee income (note 2) ..................................... | 201,788 |
| Total investment income ............................. | 27,737,812 |
| EXPENSES (NOTE 3): | |
| Investment management fee ............................... | 1,759,648 |
| Administrative fee ...................................... | 510,315 |
| Custodian, accounting and transfer agent fees ............ | 137,346 |
| Reports to shareholders ................................. | 60,883 |
| Mortgage servicing fees ................................. | 451,993 |
| Directors' fees ......................................... | 14,802 |
| Audit and legal fees .................................... | 55,738 |
| Federal excise taxes (note 2) ........................... | 169,296 |
| Other expenses .......................................... | 79,603 |
| Total expenses ...................................... | 3,239,624 |
| Net investment income ............................... | 24,498,188 |
| NET REALIZED AND UNREALIZED GAINS (LOSSES) ON INVESTMENTS: | |
| Net realized loss on investments (note 4) ................ | (26,173,662) |
| Net realized gain on closed or expired option contracts written (note 5) ....................................... | 756,762 |
| Net realized loss on investments ...................... | (25,416,900) |
| Net change in unrealized appreciation or depreciation of investments ............................................ | 28,618,130 |
| Net gain on investments ............................... | 3,201,230 |
| Net increase in net assets resulting from operations ..................................... | $ 27,699,418 |

</TABLE>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.



FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MAY 31, 1995

<TABLE>

| <S> | <C> |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Interest and fee income ................................ $ | 27,737,812 |
| Expenses ................................................ | (3,239,624) |
| Net investment income ................................ | 24,498,188 |
| Adjustments to reconcile net investment income to net cash provided by operating activities: | |
| Change in accrued interest receivable .................. | 1,629,321 |
| Net amortization of bond discount and premium .......... | (1,796,282) |
| Change in accrued fees and expenses and other payables ........................................... | 116,844 |
| Total adjustments .................................... | (50,117) |
| Net cash provided by operating activities ........... | 24,448,071 |
| CASH FLOWS FROM INVESTMENT ACTIVITIES: | |
| Proceeds from sales of investments ...................... | 225,470,617 |
| Purchases of investments ................................ | (180,198,299) |
| Net purchases of short-term securities .................. | (7,154,000) |
| Net premiums received for option contracts written ....... | 401,372 |
| Net cash provided by investment activities .......... | 38,519,690 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | |
| Net payments for reverse repurchase agreements .......... | (32,350,000) |
| Distributions paid to shareholders ...................... | (27,495,115) |
| Retirement of fund shares ............................... | (2,748,162) |
| Net cash used by financing activities ............... | (62,593,277) |
| Net increase in cash ...................................... | 374,484 |
| Cash at beginning of year ................................. | 412,325 |
| Cash at end of year ..................................... $ | 786,809 |
| Supplemental disclosure of cash flow information: | |
| Cash paid for interest on reverse repurchase agreements ............................... $ | 5,576,656 |

</TABLE>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

FINANCIAL STATEMENTS

STATEMENTS OF CHANGES IN NET ASSETS

<TABLE>
<CAPTION>

| | Year Ended 5/31/95 | Year Ended 5/31/94 |
|---|---|---|
| <S> | <C> | <C> |
| OPERATIONS: | | |
| Net investment income .................................. $ | 24,498,188 | 31,955,680 |
| Net realized loss on investments ........................ | (25,416,900) | (3,892,195) |
| Net change in unrealized appreciation or depreciation of investments ......................................... | 28,618,130 | (32,538,307) |
| Net increase (decrease) in net assets resulting from operations .......................................... | 27,699,418 | (4,474,822) |
| DISTRIBUTIONS TO SHAREHOLDERS: | | |
| From net investment income ............................... | (27,495,115) | (26,755,195) |
| In excess of net realized gains (note 2) ................ | -- | (838,183) |
| Total distributions .................................... | (27,495,115) | (27,593,378) |
| CAPITAL SHARE TRANSACTIONS: | | |
| Proceeds from issuance of 45,009 shares for the dividend reinvestment plan ..................................... | -- | 668,108 |
| Payments for retirement of 252,000 shares (note 8) ....... | (2,849,802) | -- |
| Increase (decrease) in net assets from capital share transactions ........................................ | (2,849,802) | 668,108 |
| Total decrease in net assets ........................ | (2,645,499) | (31,400,092) |
| Net assets at beginning of year ............................ | 265,100,897 | 296,500,989 |
| Net assets at end of year ............................... $ | 262,455,398 | 265,100,897 |
| Undistributed net investment income ..................... $ | 4,750,082 | 6,431,361 |

</TABLE>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.



NOTES TO FINANCIAL STATEMENTS

(1) ORGANIZATION

American Strategic Income Portfolio Inc. II (the fund), is registered under the Investment Company Act of 1940 (as amended) as a diversified, closed-end management investment company. The fund commenced operations on July 30, 1992, upon completion of its initial public offering of common stock. Shares of the fund are listed on the New York Stock Exchange under the symbol BSP.

(2) SIGNIFICANT ACCOUNTING POLICIES

INVESTMENTS IN SECURITIES

The fund's mortgage-related investments such as whole loans, participation mortgages and mortgage servicing rights are initially valued at cost and their values are subsequently monitored and adjusted pursuant to a pricing model designed to reflect the present value of the projected stream of cash flows on such investments. The pricing model takes into account a number of relevant factors including the projected rate of prepayments, the projected rate and severity of defaults, the delinquency profile, the age of the underlying mortgages, the historical payment record thereon, the expected yield at purchase, changes in prevailing interest rates and changes in the real or perceived liquidity of whole loans and participation mortgages, as the case may be. Certain elements of the pricing model involve subjective judgment. Additionally, certain other factors will be considered in the determination of the valuation of investments in multifamily and commercial loans, including but not limited to, results of annual inspections of the properties by the adviser or a servicing agent retained by the adviser, reviews of annual unaudited financial statements of the properties, monitoring of local and other economic conditions and their impact on local real estate values and analysis of rental vacancy rates at the properties. Subjective adjustments to the valuation of such investments in multifamily and commercial loans may be made based upon the adviser's analysis of such information. The actual values that may be realized upon the sale of whole loans and participation mortgages can only be determined in negotiations between the fund and third parties.

The values of other fixed income securities are determined using pricing services or prices quoted by independent brokers. Exchange-listed options are valued at the last sales price and open financial futures contracts are valued at the last settlement price.



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When market quotations for other fixed income securities are not readily available, such securities are valued at fair value according to methods selected in good faith by the board of directors.

Securities transactions are accounted for on the date the securities are purchased or sold. Realized gains and losses are calculated on the identified-cost basis. Interest income, including amortization of bond discount and premium computed on a level-yield basis, is accrued daily. Costs associated with acquiring whole loans and participation mortgages are capitalized and included in the cost basis of the loans purchased.

OPTION TRANSACTIONS

For hedging purposes, the fund may buy and sell put and call options, write covered call options on portfolio securities, write cash-secured puts, and write call options that are not covered for cross-hedging purposes. The risk in writing a call option is the fund gives up the opportunity for profit if the market price of the security increases and the option is exercised. The risk in writing a put option is the fund may incur a loss if the market price of the security decreases and the option is exercised. The risk in buying an option is the fund pays a premium whether or not the option is exercised. The fund also has the additional risk of not being able to enter into a closing transaction if a liquid secondary market does not exist. The fund also may write over-the-counter options where the completion of the obligation is dependent upon the credit standing of the other party.

Option contracts are valued daily and unrealized appreciation or depreciation is recorded. The fund will realize a gain or loss upon expiration or closing of the option transaction. When an option is exercised, the proceeds on the sale of a written call option, the purchase cost for a written put option or the security cost of a purchased put or call option is adjusted by the amount of premium received or paid.

FUTURES TRANSACTIONS

In order to gain exposure to or protect against changes in the market, the fund may buy and sell financial futures contracts and related options. Risks of entering into futures contracts and related



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options include the possibility there may be an illiquid market and that a change in the value of the contract or option may not correlate with changes in the value of the underlying securities.

Upon entering into a futures contract, the fund is required to deposit either cash or securities in an amount (initial margin) equal to a certain percentage of the contract value. Subsequent payments (variation margin) are made or received by the fund each day. The variation margin payments are equal to the daily changes in the contract value and are recorded as unrealized gains and losses. The fund recognizes a realized gain or loss when the contract is closed or expires.

INTEREST RATE TRANSACTIONS

To preserve a return or spread on a particular investment or portion of its portfolio or for other non-speculative purposes, the fund may enter into various hedging transactions, such as interest rate swaps and the purchase of interest rate caps and floors. Interest rate swaps involve the exchange of commitments to pay or receive interest, e.g., an exchange of floating rate payments for fixed rate payments. The purchase of an interest rate cap entitles the purchaser, to the extent that a specified index exceeds a predetermined interest rate, to receive payments of interest on a contractually based notional principal amount from the party selling the interest rate cap. The purchase of an interest rate floor entitles the purchaser, to the extent that a specified index falls below a predetermined interest rate, to receive payments of interest on a contractually based notional principal amount from the party selling the interest rate floor.

If forecasts of interest rates and other market factors are incorrect, investment performance will diminish compared to what performance would have been if these investment techniques were not used. Even if the forecasts are correct, there is risk that the positions may correlate imperfectly with the asset or liability being hedged. Other risks of entering into these transactions are that a liquid secondary market may not always exist, or that the other party to the transaction may not perform.

For interest rate swaps, caps and floors, the fund accrues weekly, as an increase or decrease to interest income, the current net amount due to or owed by the fund. Interest rate swaps, caps and floors are



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valued from prices quoted by independent brokers. These valuations represent the present value of all future cash settlement amounts based upon implied forward interest rates.

WHOLE LOANS AND PARTICIPATION MORTGAGES

Whole loans and participation mortgages may bear a greater risk of loss arising from a default on the part of the borrower of the underlying loans than do traditional mortgage-backed securities. This is because whole loans and participation mortgages, unlike most mortgage-backed securities, generally are not backed by any government guarantee or private credit enhancement. Such risk may be greater during a period of declining or stagnant real estate values. In addition, individual loans underlying whole loans and participation mortgages may be larger than those underlying mortgage-backed securities. At May 31, 1995, whole loans representing 6% of net assets were considered by the fund to be delinquent as to the timely monthly payment of principal and interest. The fund does not record past due interest as income until it is received.

There may be certain costs and delays in the event of a foreclosure. Also, there is no assurance that the subsequent sale of the property will produce an amount equal to the sum of the unpaid principal balance of the loan as of the date the borrower went into default, accrued unpaid interest and all foreclosure expenses. In this case the fund may suffer a loss. Real estate acquired through foreclosure, if any, is recorded at estimated fair value. At May 31, 1995, the fund owned 42 homes valued at $2,807,372, or 1% of net assets. The fund recognized net realized losses of $333,038 on real estate sold during the year ended May 31, 1995. Additionally, with respect to participation mortgages, the fund generally will not be able to unilaterally enforce its rights in the event of a default, but rather will be dependent upon the cooperation of the other participation holders.

SECURITIES PURCHASED ON A WHEN-ISSUED BASIS

Delivery and payment for securities that have been purchased by the fund on a forward-commitment or when-issued basis can take place a month or more after the transaction date. During this period, such securities do not earn interest, are subject to market fluctuation and may increase or decrease in value prior to their delivery. The fund



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maintains, in a segregated account with its custodian, assets with a market value equal to the amount of its purchase commitments. The purchase of securities on a when-issued or forward-commitment basis may increase the volatility of the fund's NAV to the extent the fund makes such purchases while remaining substantially fully invested. As of May 31, 1995, the fund had no outstanding when-issued or forward commitments.

In connection with its ability to purchase securities on a when-issued or forward-commitment basis, the fund may enter into mortgage "dollar rolls" in which the fund sells securities for delivery in the current month and simultaneously contracts with the same counterparty to repurchase similar (same type, coupon and maturity) but not identical securities on a specified future date. As an inducement to "roll over" its purchase commitments, the fund receives negotiated fees. For the year ended May 31, 1995, such fees earned by the fund amounted to $201,788.

FEDERAL TAXES
The fund intends to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and not be subject to federal income tax. Therefore, no income tax provision is required. However, the fund incurred federal excise taxes of $169,296, or $0.008 per share, on income retained by the fund during the excise tax year ended December 31, 1994.

Net investment income and net realized gains (losses) may differ for financial statement and tax purposes primarily because of losses deferred due to "wash sale" and "straddle" transactions, the timing of recognition of income on certain interest-only and principal-only securities and the non-deductibility of excise tax payments made. The character of distributions made during the year from net investment income or net realized gains may differ from their ultimate characterization for federal income tax purposes. The effect on dividend distribution of certain book-to-tax differences is presented as an "excess distribution" in the Statement of Changes in Net Assets and Financial Highlights. In addition, due to the timing of dividend distributions, the fiscal year in which amounts are distributed may differ from the year the income or realized gains (losses) were recorded by the fund.



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On the Statement of Assets and Liabilities, as a result of permanent book-to-tax differences, a reclassification adjustment has been made to increase undistributed net investment income by $1,315,648, increase accumulated net realized losses on investments by $1,146,678 and decrease additional paid-in capital by $168,970.

DISTRIBUTIONS
The fund pays monthly distributions from net investment income. Realized capital gains, if any, will be distributed on an annual basis. These distributions are recorded as of the close of business on the ex-dividend date. Such distributions are payable in cash or, pursuant to the fund's dividend reinvestment plan, reinvested in additional shares of the fund's capital stock. Under the plan, fund shares will be purchased in the open market. However, if the market price plus commission exceeds the net asset value by 5% or more, the fund will issue new shares at a discount of up to 5% from the current market price.

REPURCHASE AGREEMENTS
For repurchase agreements entered into with certain broker-dealers, the fund, along with other affiliated registered investment companies, may transfer uninvested cash balances into a joint trading account, the daily aggregate of which is invested in repurchase agreements secured by U.S. government and agency obligations. Securities pledged as collateral for all

individual and joint repurchase agreements are held by the fund's custodian bank until maturity of the repurchase agreement. Provisions for all agreements ensure the daily market value of the collateral is in excess of the repurchase amount in the event of default.

(3) EXPENSES

The fund has entered into the following agreements with Piper Capital Management Incorporated (the adviser and the administrator):

The investment advisory agreement provides the adviser with a monthly investment management fee based on the fund's average weekly net assets computed at the per annum rate of 0.20% and 4.5% of the daily gross income (i.e., investment income, including amortization of discount and premium, other than gains from the sale of securities or gains received from options and futures contracts, less interest on money borrowed by the fund) accrued by



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the fund during the month. Such monthly management fee shall not exceed the aggregate of 1/12 of 0.725% of the fund's average weekly net assets during the month (approximately 0.725% on an annual basis). For its fee, the adviser will provide investment advice and, in general, will conduct the management and investment activity of the fund.

The administration agreement provides the administrator with a monthly fee in an amount equal to an annualized rate of 0.20% of the fund's average weekly net assets. For its fee, the administrator will provide regulatory, reporting and record-keeping services for the fund.

When acquiring whole loans and participation mortgages, the fund enters into mortgage servicing agreements with mortgage servicers. For a fee, mortgage servicers maintain loan records such as insurance and taxes and the proper allocation of payments between principal and interest.

In addition to the advisory, administrative and mortgage servicing fees, the fund is responsible for paying most other operating expenses, including outside directors' fees and expenses, custodian fees, registration fees, printing and shareholder reports, transfer agent fees and expenses, legal, auditing and accounting services, insurance, interest, fees to outside parties retained to assist in conducting due diligence, taxes and other miscellaneous expenses.

(4) SECURITIES TRANSACTIONS

Cost of purchases and proceeds from sales of securities (other than short-term securities) aggregated $178,374,268 and $227,977,367, respectively, for the year ended May 31, 1995. During the year ended May 31, 1995, the fund paid no brokerage commissions to Piper Jaffray Inc., an affiliated broker.



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(5) OPTION

CONTRACTS WRITTEN

The number of contracts and premium amounts associated with call option contracts written for year ended May 31, 1995, were as follows:

| | Number of Contracts | Premium Amount |
|---|---|---|
| Balance at 5/31/94 | 900 | $ 790,156 |
| Opened | 10,256 | 8,277,676 |
| Closed or expired | (10,071) | (7,915,566) |
| Exercised | (560) | (717,500) |
| Balance at 5/31/95 | 525 | $ 434,766 |

(6) CAPITAL LOSS CARRYOVER

For federal income tax purposes, the fund had a capital loss carryover of $32,289,824 on May 31, 1995, which if not offset by subsequent capital gains, will expire in 2003 and 2004. It is unlikely the board of directors will authorize a distribution of any net realized capital gains until the available capital loss carryover has been offset or expires.

(7) RETIREMENT OF FUND SHARES

The fund's board of directors has approved a plan to repurchase shares of the fund in the open market and retire those shares. Repurchases may only be made when the previous day's closing market price was trading at a discount from net asset value. Daily repurchases are limited to 25% of the previous four weeks average daily trading volume on the New York Stock Exchange. Under the current plan, cumulative repurchases in the fund cannot exceed 3% of the total shares originally issued. The board of directors will review the plan every six months and may change the amount which may be repurchased. The plan was last reviewed and reapproved by the board of directors on May 19, 1995. Pursuant to the plan, the fund has cumulatively repurchased and retired 252,000 shares as of May 31, 1995, which represents 1.26% of the shares originally issued.



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(8) FINANCIAL HIGHLIGHTS

Per-share data for a share of capital stock outstanding throughout each period and selected information for each period are as follows:

| | Year Ended 5/31/95 | Year Ended 5/31/94 | Period from 7/30/92* to 5/31/93 |
|---|---|---|---|
| PER-SHARE DATA | | | |

| | | | |
|---|---|---|---|
| Net asset value, beginning of period | $ 12.97 | 14.54 | 14.07 |
| Operations: | | | |
| Net investment income | 1.21 | 1.56 | 1.07 |
| Net realized and unrealized gains (losses) on investments | 0.17 | (1.78) | 0.41 |
| Total from operations | 1.38 | (0.22) | 1.48 |
| Distributions to shareholders: | | | |
| From net investment income | (1.35) | (1.31) | (1.01) |
| In excess of net realized gains | -- | (0.04) | -- |
| Total distributions to shareholders | (1.35) | (1.35) | (1.01) |
| Net asset value, end of period | $ 13.00 | 12.97 | 14.54 |
| Per-share market value, end of period | $ 11.50 | 13.63 | 15.75 |
| SELECTED INFORMATION | | | |
| Total return, net asset value** | 11.56% | (2.15%) | 10.97% |
| Total return, market value*** | (5.38%) | (5.38%) | 12.57% |
| Net assets at end of period (in millions) | $ 262 | 265 | 297 |
| Ratio of expenses to average weekly net assets++ | 1.27% | 1.20% | 1.09%+ |
| Ratio of net investment income to average weekly net assets | 9.60% | 10.68% | 9.08%+ |
| Portfolio turnover rate (excluding short-term securities) | 52% | 117% | 64% |
| Amount of borrowings outstanding at end of period (in millions) | $ 53 | 85 | 76 |
| Per-share amount of borrowings outstanding at end of period TRIANGLE | $ 2.61 | 4.16 | 3.71 |
| Per-share asset coverage of borrowings outstanding at end of period+++ | $ 15.61 | 17.13 | 18.25 |

<FN>

* COMMENCEMENT OF OPERATIONS.
** BASED ON THE CHANGE IN NET ASSET VALUE OF A SHARE DURING THE PERIOD. ASSUMES REINVESTMENT OF DISTRIBUTIONS AT NET ASSET VALUE.
*** BASED ON THE CHANGE IN MARKET PRICE OF A SHARE DURING THE PERIOD. ASSUMES REINVESTMENT OF DISTRIBUTIONS AT ACTUAL PRICES PURSUANT TO THE FUND'S DIVIDEND REINVESTMENT PLAN.
TRIANGLE SECURITIES PURCHASED ON A WHEN-ISSUED BASIS FOR WHICH LIQUID, HIGH GRADE DEBT OBLIGATIONS ARE MAINTAINED IN A SEGREGATED ACCOUNT ARE NOT CONSIDERED BORROWINGS. SEE FOOTNOTE 2 IN THE NOTES TO FINANCIAL STATEMENTS.
\+ ADJUSTED TO AN ANNUAL BASIS.
++ INCLUDES 0.07% AND 0.04% FROM FEDERAL EXCISE TAXES IN FISCAL YEARS 1995 AND 1994, RESPECTIVELY.
+++ REPRESENTS THE FUND'S NET ASSETS (EXCLUDING BORROWINGS) DIVIDED BY CAPITAL SHARES OUTSTANDING.
</TABLE>



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NOTES TO FINANCIAL STATEMENTS

(9) QUARTERLY DATA
(UNAUDITED)

DOLLAR AMOUNTS

<TABLE>
<CAPTION>

| <S> | | Total Investment Income | Net Investment Income | Net Realized and Unrealized Gains (Losses) on Investments | Net Increase (Decrease) in Net Assets Resulting from Operations | Distributions from Net Investment Income |
|---|---|---|---|---|---|---|
| 8/31/94 | $ | 7,218,256 | 6,347,518 | 1,093,326 | 7,440,844 | (6,889,693) |
| 11/30/94 | | 7,566,976 | 6,650,916 | (18,386,160) | (11,735,244) | (6,904,697) |
| 2/28/95 | | 6,492,377 | 5,711,152 | 9,111,665 | 14,822,817 | (6,863,604) |
| 5/31/95 | | 6,460,203 | 5,788,602 | 11,382,399 | 17,171,001 | (6,837,121) |
| | $ | 27,737,812 | 24,498,188 | 3,201,230 | 27,699,418 | (27,495,115) |

</TABLE>

PER-SHARE AMOUNTS

<TABLE>
<CAPTION>

| <S> | | Net Investment Income | Net Realized and Unrealized Gains (Losses) on Investments | Net Increase (Decrease) in Net Assets Resulting from Operations | Distributions from Net Investment Income | Quarter End Net Asset Value |
|---|---|---|---|---|---|---|
| 8/31/94 | $ | 0.32 | 0.05 | 0.37 | (0.34) | 13.00 |
| 11/30/94 | | 0.33 | (0.90) | (0.57) | (0.34) | 12.09 |
| 2/28/95 | | 0.28 | 0.45 | 0.73 | (0.33) | 12.49 |
| 5/31/95 | | 0.28 | 0.57 | 0.85 | (0.34) | 13.00 |
| | $ | 1.21 | 0.17 | 1.38 | (1.35) | |

</TABLE>

(10) SUBSEQUENT EVENT - PENDING LITIGATION

A complaint purporting to be a class action lawsuit has been filed against the fund, Piper Jaffray Companies Inc., Piper Capital Management Incorporated, Piper Jaffray Inc. and certain affiliated individuals in the United States District Court for the Western District of Washington. The complaint was filed on June 28, 1995, by Gary E. Nelson, who purports to represent all persons who purchased shares of the fund between July 30, 1992 and October 3, 1994. The complaint alleges violations of federal and Washington state securities laws and the Washington Consumer Protection Act, breach of fiduciary duty and negligent misrepresentation. The fund intends to defend this lawsuit vigorously. Although it is impossible to predict the outcome, management believes, based on the facts currently available, that this lawsuit will have no material adverse effect on the financial statements of the fund.



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INVESTMENTS IN SECURITIES

AMERICAN STRATEGIC INCOME PORTFOLIO II
MAY 31, 1995

<TABLE>
<CAPTION>

| Name of Issuer | Principal Amount | Market Value (a) |
|---|---|---|
| <S> | <C> | <C> |
| (PERCENTAGES OF EACH INVESTMENT CATEGORY RELATE TO TOTAL NET ASSETS) | | |
| U.S. GOVERNMENT SECURITIES (20.7%): | | |
| U.S. Treasury Note, 6.88%, 3/31/00 (cost: $52,757,099) ............................ | $ 52,500,000( ,d) | 54,239,325 |
| MORTGAGE-BACKED SECURITIES (15.2%): | | |
| COLLATERALIZED MORTGAGE OBLIGATIONS (C) (15.2%): | | |
| PRIVATE FIXED RATE (6.5%): | | |
| 8.60%, Chemical Mortgage Securities, Series 1991-1, Subordinated Class B, 9/25/21 ....................... | 3,026,600(g) | 2,883,784 |
| 6.00%, CMI Trust 1, Series 1991-1, Subordinated, 3/1/22 ............................................. | 3,796,904(g) | 3,478,913 |
| 9.25%, FBS Mortgage Corporation, Series 1991-B, Subordinated Class D, 11/1/31 ....................... | 1,291,844(g) | 1,242,592 |
| 7.43%, First Boston, Series 1993-2R, Subordinated Class B-3A, 3/28/33 ................................ | 3,578,565(g) | 2,967,248 |
| 14.13%, Foremost Financial Services Corp, Subordinated Class 82-B, 10/10/97 ............................... | 67,022(g) | 66,783 |
| 12.50%, Foremost Financial Services Corp, Subordinated Class 83-A, 2/2/98 ................................. | 308,150(g) | 307,558 |
| 12.25%, Foremost Financial Services Corp, Subordinated Class 83-B, 4/15/98 ................................ | 565,692(g) | 564,242 |
| 9.35%, GMBS Inc., Series 1990-4, Subordinated Class S, 10/25/20 ............................................ | 1,876,683(g) | 1,813,931 |
| 10.22%, Residential Funding Mortgage Securities, Series 1987, Class S-8B, 8/25/17 .................... | 1,957,832(g) | 1,705,761 |
| 9.25%, Salomon Brothers Mortgage Securities VII, Series 1990-1, Class G-1, 8/25/20 .................. | 1,227,030(g) | 1,178,728 |
| 9.25%, Salomon Brothers Mortgage Securities VII, Series 1990-1, Class G-2, 8/25/20 .................. | 696,220(g) | 669,032 |
| | | 16,878,572 |
| PRIVATE INTEREST-ONLY (0.4%): | | |
| 2.10%, Farmer Mac Agricultural Real Estate Trust, Series 1992-A, Subordinated Class X1, 4/25/04 ....... | --(g) | 1,108,240 |
| U.S. AGENCY INVERSE FLOATER (2.7%): | | |
| 7.90%, FHLMC, Series 1552, Class LA, LIBOR, 8/15/23 ............................................. | 3,596,820 | 2,805,520 |
| 5.69%, FHLMC, Series 1712, Class SA, COFI, 3/15/08 ... | 1,865,377 | 1,615,883 |
| 10.23%, FNMA, Series 1993-185, Class S, LIBOR, 9/25/23 ............................................. | 4,502,880 | 2,609,823 |
| | | 7,031,226 |

</TABLE>

SEE ACCOMPANYING NOTES TO INVESTMENTS IN SECURITIES.

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INVESTMENTS IN SECURITIES

AMERICAN STRATEGIC INCOME PORTFOLIO II
(CONTINUED)

<TABLE>
<CAPTION>

| Name of Issuer | Principal Amount | Market Value (a) |
|---|---|---|
| <S> | <C> | <C> |
| U.S. AGENCY Z-TRANCHE (5.6%): | | |
| 8.50%, FHLMC, Series 1339, Class PZ, 7/15/22 ....... $ | 9,457,020 | 9,791,988 |
| 7.50%, FHLMC, Series 1510, Class N, 5/15/13 .......... | 5,049,356 | 4,976,897 |
| | | 14,768,885 |
| Total Mortgage-Backed Securities (cost: $40,211,570) ................................ | | 39,786,923 |
| WHOLE LOANS AND PARTICIPATION MORTGAGES (E,F,G) (76.4%): | | |
| COMMERCIAL LOANS (1.6%): | | |
| Countyside Village Mobile Home Park, 9.00%, 10/10/95 ........................................... | 1,041,190 | 1,062,118 |
| Harbour West Mobile Home Park, 9.63%, 12/10/95 ....... | 1,529,246 | 1,562,278 |
| Ridgewood Estates Mobile Home Park, 9.00%, 6/10/95 ... | 1,664,503 | 1,689,970 |
| | | 4,314,366 |
| MULTIFAMILY LOANS (23.0%): | | |
| Chase Hill Apartments, 9.00%, 4/1/01 ................ | 3,095,705 | 3,104,992 |
| Claridge Apartments, 10.06%, 9/1/01 ................. | 5,578,970 | 5,727,929 |
| Colony Square Apartments, 10.25%, 12/1/01 ........... | 1,361,006 | 1,408,641 |
| Colorado Springs Multifamily, 10.00%, 1/30/08 ....... | 10,281,072 | 10,640,910 |
| Dakota Creekside, 10.00%, 3/1/23 .................... | 1,701,911 | 1,761,478 |
| Deering Manor, 9.50%, 12/8/22 ....................... | 1,321,687 | 1,351,425 |
| Green Acres Apartments, 10.38%, 10/1/01 ............. | 1,094,363 | 1,132,666 |
| Harbor View Apartments, 9.50%, 1/25/18 .............. | 797,248 | 815,585 |
| Lexington Apartments, 9.13%, 6/1/02 ................. | 1,500,000 | 1,500,000 |
| Minnesota Multifamily, 9.88%, 12/1/22 ............... | 1,725,079 | 1,785,457 |
| Newport Apartments, 9.75%, 4/1/02 ................... | 1,400,000 | 1,449,000 |
| Normandale Lake Estates, 10.55%, 8/1/01 ............. | 2,266,330 | 2,345,652 |
| Normandy Village Apartments, 10.31%, 10/1/01 ........ | 2,738,178 | 2,691,355 |
| Park Dale Lane Apartments, 9.63%, 6/1/01 ............ | 970,003 | 990,858 |
| Park Place of Venice Apartments, 10.75%, 4/1/02 ...... | 2,700,000 | 2,794,500 |
| Railview Apartments, 9.50%, 12/8/22 ................. | 1,533,840 | 1,568,351 |
| Rhode Island Chateau Apartments, 10.61%, 9/1/01 ...... | 2,426,235 | 2,511,154 |
| Rockwell Plaza Apartments, 9.88%, 8/1/01 ............ | 4,308,428 | 4,403,644 |
| Sunland Manor Apartments, 10.13%, 11/1/01 ........... | 1,296,709 | 1,337,037 |
| The Hedges Apartments, 10.13%, 8/1/01 ............... | 5,014,037 | 5,155,934 |
| Weatheridge Apartments, 9.63%, 4/1/04 ............... | 1,486,203 | 1,538,220 |
| Willmar Multifamily, 10.25%, 1/20/18 ................ | 1,091,573 | 1,091,573 |
| Windgate Apartments, 10.38%, 8/1/01 ................. | 3,178,818 | 3,290,076 |
| | | 60,396,437 |

</TABLE>

SEE ACCOMPANYING NOTES TO INVESTMENTS IN SECURITIES.

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INVESTMENTS IN SECURITIES

AMERICAN STRATEGIC INCOME PORTFOLIO II
(CONTINUED)

<TABLE>
<CAPTION>

| Name of Issuer | Principal Amount | Market Value (a) |
|---|---|---|
| <S> | <C> | <C> |
| SINGLE FAMILY LOANS (51.8%): | | |
| Amerivest Mortgage, 8.69%, 5/1/12 .................. $ | 3,105,591 | 3,083,448 |
| CTX Mortgage, 9.09%, 11/23/22 ........................ | 3,262,351 | 3,254,489 |
| Energy Park Loans, 12.20%, 12/1/22 ................... | 600,309 | 616,925 |
| Fairbanks Capital, 10.10%, 7/29/97 ................... | 7,451,968 | 7,535,803 |
| Fairbanks Capital Corp., 9.95%, 1/1/07 ............... | 3,210,613 | 2,913,824 |
| Fairbanks IV, 8.94%, 7/3/11 .......................... | 1,275,289 | 1,179,923 |
| First Federal of Delaware, 8.39%, 2/1/18 ............. | 7,878,372 | 7,422,135 |
| Heartland Federal Savings & Loan, 10.49%, 11/17/22 ... | 859,614 | 835,081 |
| Kentucky Central Life, 9.32%, 5/1/22 ................. | 9,459,585(b) | 9,437,639 |
| Kislak, 9.99%, 6/30/20 ............................... | 9,503,563 | 8,662,514 |
| Maryland National Bank, 9.59%, 9/1/18 ................ | 1,813,041 | 1,842,575 |
| McDowell, 10.10%, 12/1/20 ............................ | 5,948,747 | 5,688,965 |
| Merchants Bank, 10.22%, 12/1/20 ...................... | 3,295,328 | 3,384,302 |
| Meridian, 9.72%, 10/15/22 ............................ | 2,299,164 | 2,372,047 |
| Meridian III, 9.55%, 12/1/20 ......................... | 6,716,487 | 6,433,008 |
| Nations Bank, 8.21%, 10/1/07 ......................... | 326,261 | 337,631 |
| Neslund Properties, 9.88%, 2/1/23 .................... | 9,235,317 | 8,997,100 |
| Nomura I, 10.09%, 12/16/23 ........................... | 16,562,702(b) | 16,677,150 |
| Nomura II, 8.64%, 3/22/15 ............................ | 17,641,018 | 15,681,047 |
| Old Hickory Credit Union, 10.09%, 10/15/22 ........... | 4,267,178 | 4,363,744 |
| Paine Webber, New Jersey, 12.02%, 10/15/20 ........... | 1,019,843 | 973,542 |
| PHH US Mortgage, 8.86%, 1/1/12 ....................... | 11,479,003 | 11,189,364 |
| President Homes 92-4, Sales Inventory, 8.14%, 10/15/20 ............................................ | 614,254 | 603,855 |
| President Homes 92-5, Sales Inventory, 8.14%, 10/15/20 ............................................ | 318,053 | 312,668 |
| President Homes 92-6, Sales Inventory, 8.14%, 10/15/20 ............................................ | 390,805 | 384,189 |
| President Homes 92-7, Sales Inventory, 8.14%, 10/15/20 ............................................ | 504,314 | 495,776 |
| President Homes 92-8, Sales Inventory, 8.14%, 11/24/22 ............................................ | 1,067,166 | 1,049,099 |
| President Homes 94-1A, Sales Inventory, 8.14%, 12/28/22 ............................................ | 1,201,247 | 1,180,909 |
| President Homes 94-1A, Warehouse Inventory, 10.00%, 12/28/22 ............................................ | 460,481 | 414,433 |
| President Homes 94-1B, Warehouse Inventory, 10.00%, 6/4/24 . | 449,501 | 404,551 |
| Progressive Consumers Federal Credit Union, 11.14%, 10/15/22 ............................................ | 1,620,626 | 1,555,509 |
| Salomon Pool, 7.76%, 12/28/16 ........................ | 5,956,117 | 5,780,769 |
| Sears Mortgage, 8.53%, 11/18/22 ...................... | 832,273 | 838,831 |
| | | 135,902,845 |
| Total Whole Loans and Participation Mortgages (cost: $195,293,679) .............................. | | 200,613,648 |

</TABLE>

SEE ACCOMPANYING NOTES TO INVESTMENTS IN SECURITIES.

INVESTMENTS IN SECURITIES

AMERICAN STRATEGIC INCOME PORTFOLIO II
(CONTINUED)

| Name of Issuer | Principal Amount | Market Value (a) |
|---|---|---|
| SHORT-TERM SECURITIES (5.0%): | | |
| Repurchase agreement with Morgan Stanley in a joint trading account, collateralized by U.S. government agency securities, acquired on 5/31/95, accrued interest at repurchase date of $2,090, 5.85%, 6/1/95 (cost: $13,041,000) .............................. | $ 13,041,000 | 13,041,000 |
| Total Investments in Securities (cost: $301,303,348) (h) ........................ | | $ 307,680,896 |

NOTES TO INVESTMENTS IN SECURITIES:

(A) SECURITIES ARE VALUED IN ACCORDANCE WITH PROCEDURES DESCRIBED IN NOTE 2 TO THE FINANCIAL STATEMENTS.

(B) ON MAY 31, 1995, SECURITIES VALUED AT $77,709,302 WERE PLEDGED AS COLLATERAL FOR THE FOLLOWING OUTSTANDING REVERSE REPURCHASE AGREEMENTS:

| AMOUNT | ACQUISITION DATE | RATE* | DUE | ACCRUED INTEREST | NAME OF BROKER AND DESCRIPTION OF COLLATERAL |
|---|---|---|---|---|---|
| $ 2,450,000 | 3/1/95 | 5.96% | 6/1/95 | $ 12,579 | (1) |
| 2,700,000 | 7/25/94 | 6.94% | 1/25/97 | 16,129 | (2) |
| 1,500,000 | 9/14/94 | 5.96% | 9/1/95 | 7,702 | (3) |
| 8,000,000 | 4/3/95 | 5.96% | 6/1/95 | 41,075 | (4) |
| 10,900,000 | 5/1/95 | 5.96% | 7/5/95 | 55,964 | (5) |
| 9,150,000 | 5/1/95 | 5.96% | 8/1/95 | 46,980 | (6) |
| 950,000 | 5/1/95 | 5.96% | 6/1/95 | 4,878 | (7) |
| 5,600,000 | 8/16/94 | 6.01% | 6/1/95 | 28,994 | (8) |
| 5,850,000 | 8/16/94 | 6.01% | 8/1/95 | 30,288 | (9) |
| 5,600,000 | 8/16/94 | 6.01% | 7/5/95 | 28,994 | (9) |
| $ 52,700,000 | | | | $ 273,583 | |

*INTEREST RATE IS AS OF MAY 31, 1995. RATES ARE BASED ON THE LONDON INTERBANK OFFERED RATE (LIBOR) AND RESET MONTHLY.

NAME OF BROKER AND DESCRIPTION OF COLLATERAL:

(1) NOMURA; U.S. TREASURY NOTE, 6.88%, 3/31/00, $2,445,000 PAR
(2) NOMURA; KENTUCKY CENTRAL LIFE, 9.32%, 5/1/22, $9,459,585 PAR
NOMURA I, 10.09%, 12/16/23, $16,562,702 PAR
(3) NOMURA; U.S. TREASURY NOTE, 6.88%, 3/31/00, $1,500,000 PAR
(4) NOMURA; U.S. TREASURY NOTE, 6.88%, 3/31/00, $7,990,000 PAR
(5) NOMURA; U.S. TREASURY NOTE, 6.88%, 3/31/00, $10,885,000 PAR
(6) NOMURA; U.S. TREASURY NOTE, 6.88%, 3/31/00, $9,140,000 PAR



- ---------------------------------------------------------------------------------



<TABLE>
<S> <C>
(7) NOMURA; U.S. TREASURY NOTE, 6.88%, 3/31/00, $950,000 PAR
(8) NOMURA; U.S. TREASURY NOTE, 6.88%, 3/31/00, $5,480,000 PAR
(9) NOMURA; U.S. TREASURY NOTE, 6.88%, 3/31/00, $11,550,000 PAR
</TABLE>

(C) DESCRIPTIONS OF CERTAIN COLLATERALIZED MORTGAGE OBLIGATIONS ARE AS FOLLOWS:
LIBOR - LONDON INTERBANK OFFERED RATE.
COFI (11TH DISTRICT) - COST OF FUNDS INDEX OF THE FEDERAL RESERVE'S 11TH DISTRICT.
INVERSE FLOATER - REPRESENTS SECURITIES THAT PAY INTEREST AT RATES THAT INCREASE (DECREASE) WITH A DECLINE (INCREASE) IN THE SPECIFIED INDEX. THE INTEREST RATE PAID BY THE INVERSE FLOATER WILL GENERALLY CHANGE AT A MULTIPLE OF ANY CHANGE IN THE INDEX. INTEREST RATES DISCLOSED ARE IN EFFECT ON MAY 31, 1995.
INTEREST-ONLY - REPRESENTS SECURITIES THAT ENTITLE HOLDERS TO RECEIVE ONLY INTEREST PAYMENTS ON THE UNDERLYING MORTGAGES. THE YIELD TO MATURITY OF AN INTEREST-ONLY IS EXTREMELY SENSITIVE TO THE RATE OF PRINCIPAL PAYMENTS ON THE UNDERLYING MORTGAGE ASSETS. A RAPID (SLOW) RATE OF PRINCIPAL REPAYMENTS MAY HAVE AN ADVERSE (POSITIVE) EFFECT ON YIELD TO MATURITY. INTEREST RATES DISCLOSED REPRESENT CURRENT YIELDS BASED UPON THE CURRENT COST BASIS AND ESTIMATED TIMING AND AMOUNT OF FUTURE CASH FLOWS.
Z-TRANCHE - REPRESENTS SECURITIES THAT PAY NO INTEREST OR PRINCIPAL DURING THEIR INITIAL ACCRUAL PERIODS, BUT ACCRUE ADDITIONAL PRINCIPAL AT SPECIFIED RATES. INTEREST RATES DISCLOSED REPRESENT CURRENT YIELDS BASED UPON THE CURRENT COST BASIS AND ESTIMATED TIMING OF FUTURE CASH FLOWS.

(D) ISSUE IS IDENTIFIED IN CONNECTION WITH THE FOLLOWING OPEN CALL OPTIONS WRITTEN:

<TABLE>
<CAPTION>

| TYPE OF CONTRACT | NUMBER OF CALLS | EXERCISE PRICE | EXPIRATION DATE | MARKET VALUE |
|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> |
| U.S. TREASURY NOTE 6.88%, 3/31/00 | 525 | 101.45 | 6/15/95 | $ 1,000,781 |

</TABLE>

(E) INTEREST RATE AND MATURITY DATE DISCLOSED REPRESENT THE WEIGHTED AVERAGE COUPON AND WEIGHTED AVERAGE MATURITY FOR THE UNDERLYING MORTGAGE LOANS AS OF MAY 31, 1995.

(F) FOR INVESTMENT SCHEDULE PRESENTATION, SINGLE FAMILY DIRECT MORTGAGE PURCHASES ARE SUMMARIZED BY THE INSTITUTION FROM WHICH THEY WERE PURCHASED. TOTAL NUMBER OF LOANS AND GENERAL GEOGRAPHICAL LOCATION ASSOCIATED WITH EACH LOAN GROUP ARE AS FOLLOWS:

COMMERCIAL LOANS:
COUNTRYSIDE VILLAGE MOBILE HOME PARK - 1 COMMERCIAL LOAN LOCATED IN BOWLING GREEN, KENTUCKY.
HARBOUR WEST MOBILE HOME PARK - 1 COMMERCIAL LOAN LOCATED IN LINCOLN,

NEBRASKA.
RIDGEWOOD ESTATES MOBILE HOME PARK - 1 COMMERCIAL LOAN LOCATED IN LAYTON, UTAH.

MULTIFAMILY LOANS:

CHASE HILL APARTMENTS - 1 MULTIFAMILY LOAN LOCATED IN SAN ANTONIO, TEXAS.
CLARIDGE APARTMENTS - 1 MULTIFAMILY LOAN LOCATED IN HOUSTON, TEXAS.
COLONY SQUARE APARTMENTS - 1 MULTIFAMILY LOAN LOCATED IN FORT WORTH, TEXAS.
COLORADO SPRINGS MULTIFAMILY - 5 MULTIFAMILY LOANS LOCATED IN COLORADO SPRINGS, COLORADO.
DAKOTA CREEKSIDE - 1 MULTIFAMILY LOAN LOCATED IN PENSACOLA, FLORIDA.
DEERING MANOR - 1 MULTIFAMILY LOAN LOCATED IN NASHWAUK, MINNESOTA
GREEN ACRES APARTMENTS - 1 MULTIFAMILY LOAN LOCATED IN YOUNGSTOWN, OHIO
HARBOR VIEW APARTMENTS - 1 MULTIFAMILY LOAN LOCATED IN GRAND MARAIS, MINNESOTA.
LEXINGTON APARTMENTS - 1 MULTIFAMILY LOAN LOCATED IN EAST POINT, GEORGIA.
MINNESOTA MULTIFAMILY - 3 LOANS LOCATED IN MINNEAPOLIS, MINNESOTA.
NEWPORT APARTMENTS - 1 MULTIFAMILY LOAN LOCATED IN WHITE SETTLEMENT, TEXAS.



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INVESTMENTS IN SECURITIES

<TABLE>
<S>  <C>

NORMANDALE LAKE ESTATES - 1 MULTIFAMILY LOAN LOCATED IN BLOOMINGTON, MINNESOTA.
NORMANDY VILLAGE APARTMENTS - 1 MULTIFAMILY LOAN LOCATED IN MIAMI BEACH, FLORIDA.
PARK DALE LANE APARTMENTS - 1 MULTIFAMILY LOAN LOCATED IN FORT WORTH, TEXAS.
PARK PLACE OF VENICE APARTMENTS - 1 MULTIFAMILY LOAN LOCATED IN VENICE, FLORIDA.
RAILVIEW APARTMENTS - 1 MULTIFAMILY LOAN LOCATED IN PROCTOR, MINNESOTA.
RHODE ISLAND CHATEAU APARTMENTS - 1 MULTIFAMILY LOAN LOCATED IN ST. LOUIS PARK, MINNESOTA.
ROCKWELL PLAZA APARTMENTS - 1 MULTIFAMILY LOAN LOCATED IN OKLAHOMA CITY, OKLAHOMA.
SUNLAND MANOR APARTMENTS - 1 MULTIFAMILY LOAN LOCATED IN MESA, ARIZONA.
THE HEDGES APARTMENTS - 1 MULTIFAMILY LOAN LOCATED IN GREENSBORO, NORTH CAROLINA.
WEATHERIDGE APARTMENTS - 1 MULTIFAMILY LOAN LOCATED IN HOUSTON, TEXAS.
WILLMAR MULTIFAMILY - 1 LOAN LOCATED IN WILLMAR, MINNESOTA.
WINDGATE APARTMENTS - 1 MULTIFAMILY LOAN LOCATED IN LOUISVILLE, KENTUCKY.

SINGLE FAMILY LOANS:

AMERIVEST MORTGAGE - 46 LOANS LOCATED IN MASSACHUSETTS.
CTX MORTGAGE - 31 LOANS LOCATED THROUGHOUT THE UNITED STATES.
ENERGY PARK LOANS - 9 LOANS LOCATED IN ST. PAUL, MINNESOTA.
FAIRBANKS CAPITAL - SENIOR DEBT SECURITY COLLATERALIZED BY A POOL OF NON-PERFORMING WHOLE LOANS LOCATED THROUGHOUT THE EASTERN UNITED STATES.
FAIRBANKS CAPITAL CORP - 46 LOANS LOCATED IN THE WESTERN UNITED STATES.
FAIRBANKS IV - 24 LOANS LOCATED THROUGHOUT THE UNITED STATES.
FIRST FEDERAL OF DELAWARE - 152 LOANS LOCATED THROUGHOUT THE UNITED STATES.
HEARTLAND FEDERAL SAVINGS & LOAN - 8 LOANS LOCATED IN CALIFORNIA.
KENTUCKY CENTRAL LIFE - 160 LOANS LOCATED IN KENTUCKY.
KISLAK - 167 LOANS LOCATED IN THE CENTRAL AND SOUTHERN UNITED STATES.
MARYLAND NATIONAL BANK - 31 LOANS LOCATED IN THE EASTERN UNITED STATES.
MCDOWELL - 119 LOANS LOCATED IN GEORGIA.
MERCHANTS BANK - 99 LOANS LOCATED IN VERMONT.
MERIDIAN - 19 LOANS LOCATED IN CALIFORNIA AND FLORIDA.
MERIDIAN III - 113 LOANS LOCATED IN CALIFORNIA.

NATIONS BANK - 32 LOANS LOCATED IN GEORGIA.
NESLUND PROPERTIES - 211 LOANS LOCATED IN MINNEAPOLIS, MINNESOTA.
NOMURA II - 288 LOANS LOCATED THROUGHOUT THE UNITED STATES.
NOMURA I - 330 LOANS LOCATED PRIMARILY IN CALIFORNIA AND TEXAS.
OLD HICKORY CREDIT UNION - 119 LOANS LOCATED IN TENNESSEE.
PAINE WEBBER, NEW JERSEY - 30 LOANS LOCATED IN NEW JERSEY.
PHH US MORTGAGE - 154 LOANS LOCATED THROUGHOUT THE UNITED STATES.
PRESIDENT HOMES, SALES INVENTORY - 43 LOANS LOCATED THROUGHOUT THE MIDWESTERN STATES.
PRESIDENT HOMES, WAREHOUSE INVENTORY - 7 LOANS LOCATED THROUGHOUT THE MIDWESTERN STATES.
PROGRESSIVE CONSUMERS FEDERAL CREDIT UNION - 13 LOANS LOCATED IN MASSACHUSETTS.
SALOMON POOL - 66 LOANS LOCATED IN NEW JERSEY.
SEARS MORTGAGE - 10 LOANS LOCATED THROUGHOUT THE UNITED STATES.

(G) SECURITIES PURCHASED AS PART OF A PRIVATE PLACEMENT WHICH HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933.

</TABLE>



- ------------------------------------------------------------------------------------



<TABLE>
<S> <C>

(H) ON MAY 31, 1995, THE COST OF INVESTMENTS IN SECURITIES FOR FEDERAL INCOME TAX PURPOSES WAS $302,246,376. THE AGGREGATE GROSS UNREALIZED APPRECIATION AND DEPRECIATION OF INVESTMENTS IN SECURITIES BASED ON THIS COST WERE AS FOLLOWS:

</TABLE>

<TABLE>

| <S> | <C> |
|---|---|
| GROSS UNREALIZED APPRECIATION .... | $ 9,458,712 |
| GROSS UNREALIZED DEPRECIATION ...... | (4,024,192) |
| NET UNREALIZED APPRECIATION .... | $ 5,434,520 |

</TABLE>



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## INDEPENDENT AUDITORS' REPORT

THE BOARD OF DIRECTORS AND SHAREHOLDERS
AMERICAN STRATEGIC INCOME PORTFOLIO INC. II:

We have audited the accompanying statement of assets and liabilities, including the schedule of investments in securities, of American Strategic Income Portfolio Inc. II (the fund) as of May 31, 1995 and the related statements of operations and cash flows for the year then ended, the statements of changes in net assets for each of the years in the two-year period ended May 31, 1995 and the financial highlights presented in footnote 8 to the financial statements. These financial statements and the financial highlights are the responsibility of the fund's management. Our responsibility is to express an opinion on these financial statements and the financial highlights based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Investment securities held in custody are confirmed to us by the custodian. As to securities sold but not delivered, we request confirmation from brokers, and where replies are not received, we carry out other appropriate auditing procedures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and the financial highlights referred to above present fairly, in all material respects, the financial position of American Strategic Income Portfolio Inc. II as of May 31, 1995, the results of its operations and cash flows for the year then ended, the changes in its net assets for each of the years in the two-year period ended May 31, 1995 and the financial highlights presented in footnote 8 to the financial statements, in conformity with generally accepted accounting principles.

As discussed in Note 2, the financial statements include real estate owned and certain mortgage related investments (representing 78% of net assets at May 31, 1995) which are stated at estimated value as determined by the investment adviser using procedures approved by the Board of Directors. We have reviewed the procedures used in arriving at the estimated values and have inspected underlying documentation, and, in the circumstances, we believe the procedures are reasonable and the documentation appropriate. However, because of the inherent uncertainty of valuation, those estimated values may differ from actual values realized upon a sale as determined in a negotiation between the fund and third parties.

KPMG Peat Marwick LLP
Minneapolis, Minnesota
July 14, 1995



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FEDERAL TAX INFORMATION

Fiscal Year Ended May 31, 1995

Federal tax information is presented as an aid to you in reporting distributions. Please consult a tax adviser on how to report these distributions at the state and local levels.

Distributions shown below are taxable as dividend income. None qualify for corporate dividends received deduction. In early February 1996, you will receive a breakdown of income earned by investment category for calendar year 1995.

<TABLE>
<CAPTION>

| Payable Date | Per Share |
|---|---|
| <S> | <C> |
| June 22, 1994 | $ 0.1125 |
| July 27, 1994 | 0.1125 |
| August 24, 1994 | 0.1125 |
| September 28, 1994 | 0.1125 |
| October 26, 1994 | 0.1125 |
| November 23, 1994 | 0.1125 |
| December 28, 1994 | 0.1125 |
| January 13, 1995 | 0.1125 |
| February 22, 1995 | 0.1125 |
| March 29, 1995 | 0.1125 |
| April 26, 1995 | 0.1125 |
| May 24, 1995 | 0.1125 |

| | |
|---|---|
| | ----------- |
| $ | 1.3500 |
| | ----------- |
| | ----------- |

</TABLE>



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## SHAREHOLDER UPDATE

ANNUAL MEETING RESULTS

An annual meeting of the fund's shareholders was held on August 22, 1994. Each matter voted upon at the meeting, as well as the number of votes cast for, against or withheld, the number of abstentions, and the number of broker non-votes with respect to such matter, are set forth below.

1. The fund's shareholders elected the following eight directors:

<TABLE>
<CAPTION>

| | Shares Voted "For" | Shares Withholding Authority to Vote |
|---|---|---|
| David T. Bennett | 12,663,909 | 333,579 |
| Jaye F. Dyer | 12,657,693 | 339,736 |
| William H. Ellis | 12,663,112 | 334,316 |
| Karol D. Emmerich | 12,672,856 | 324,572 |
| Luella G. Goldberg | 12,668,066 | 329,362 |
| John T. Golle* | 12,659,681 | 337,747 |
| Edward J. Kohler* | 12,670,705 | 326,724 |
| George Latimer | 12,649,928 | 347,501 |

<FN>

* MR. KOHLER RESIGNED AS DIRECTOR OF THE FUND, EFFECTIVE NOVEMBER 30, 1994.
MR. GOLLE RESIGNED AS DIRECTOR OF THE FUND, EFFECTIVE JUNE 1, 1995.
</TABLE>

2. The fund's shareholders ratified the selection by a majority of the independent members of the fund's Board of Directors of KPMG Peat Marwick LLP as the independent public accountants for the fund for the fiscal year ending May 31, 1995. The following votes were cast regarding this matter:

<TABLE>
<CAPTION>

| Shares Voted "For" | Shares Voted "Against" | Abstentions | Broker Non-Votes |
|---|---|---|---|
| 12,521,588 | 106,480 | 369,361 | -- |

</TABLE>

SHARE REPURCHASE PROGRAM

Your fund's board of directors has reapproved the fund's share repurchase program, which enables the fund to "buy back" shares of its common stock in the open market. Repurchases may only be made when the previous day's closing market price per share was at a discount from net asset value. Repurchases cannot exceed 3% of the fund's originally issued shares.

WHAT EFFECT WILL THIS PROGRAM HAVE ON SHAREHOLDERS?

- - We do not expect any adverse impact on the adviser's ability to manage the fund.
- - Because repurchases will be at a price below net asset value, remaining shares

outstanding may experience a slight increase in net asset value.



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- - Although the effect of share repurchases on market price is less certain, the board of directors believes the program may have a favorable effect on the market price of fund shares.
- - We do not anticipate any material increase in the fund's expense ratio.

WHEN WILL SHARES BE REPURCHASED?
Share repurchases may be made from time to time and may be discontinued at any time. Share repurchases are not mandatory when fund shares are trading at a discount from net asset value; all repurchases will be at the discretion of the fund's investment adviser. The board of directors will consider whether to continue the share repurchase program on at least a semiannual basis and will notify shareholders of its determination in the next semiannual or annual report.

HOW WILL SHARES BE REPURCHASED?
We expect to finance the repurchase of shares by liquidating portfolio securities or using current cash balances. We do not anticipate borrowing in order to finance share repurchases.

TERMS AND CONDITIONS OF THE DIVIDEND REINVESTMENT PLAN
As a shareholder, you may choose to participate in the Dividend Reinvestment Plan. It's a convenient and economical way to buy additional shares of the fund by automatically reinvesting dividends and capital gains. The plan is administered by Investors Fiduciary Trust Company (IFTC), the plan agent.

ELIGIBILITY/PARTICIPATION
You may join the plan at any time. Reinvestment of distributions will begin with the next distribution paid, provided your request is received at least 10 days before the record date for that distribution.

If your shares are in certificate form, you may join the plan directly and have your distributions reinvested in additional shares of the fund. To enroll in this plan, call IFTC at 1-800-543-1627. If your shares are registered in your brokerage firm's name or another name, ask the holder of your shares how you may participate.

Banks, brokers or nominees, on behalf of their beneficial owners who wish to reinvest dividend and capital gain distributions, may participate in the plan by informing IFTC at least 10 days before each share's dividend and/or capital gains distribution.



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PLAN ADMINISTRATION
Beginning no more than five business days before the dividend payment date, IFTC will buy shares of the fund on the New York Stock Exchange or elsewhere on the open market only when the price of the fund's shares on the NYSE plus commissions is less than a 5% premium over the fund's most recently calculated net asset value (NAV) per share. If, at the close of business on the dividend payment date, the shares purchased in the open market are insufficient to satisfy the dividend reinvestment requirement, IFTC will accept payment of the dividend, or the remaining portion, in authorized but unissued shares of the fund. These shares will be issued at a per-share price equal to the higher of (a) the NAV per share as of the close of business on the payment date or (b) 95% of the closing market price per share on the payment date.

By participating in the dividend reinvestment plan, you may receive benefits not available to shareholders who elect not to participate. For example, if the market price plus commissions of the fund's shares is 5% or more above the NAV, you will receive shares at a discount of up to 5% from the current market value. However, if the market price plus commissions is below the NAV, you will receive distributions in shares with a NAV greater than the value of any cash distributions you would have received.

There is no direct charge for reinvestment of dividends and capital gains, since IFTC fees are paid for by the fund. However, if fund shares are purchased in the open market, each participant pays a pro rata portion of the brokerage commissions. Brokerage charges are expected to be lower than those for individual transactions because shares are purchased for all participants in blocks. As long as you continue to participate in the plan, distributions paid on the shares in your account will be reinvested.

IFTC maintains accounts for plan participants holding shares in certificate form. You will receive a monthly statement detailing total dividend and capital gain distributions, date of investment, shares acquired, price per share, and total shares held in your account, both certificate-form shares and unissued shares acquired through the plan.

TAX INFORMATION
Distributions reinvested in additional shares of the fund are subject to income tax, just as they would be if received in cash. When shares are issued by the fund at a discount from market value, shareholders will be treated as having received distributions of an amount equal to the full market value of those shares. Shareholders, as required by the Internal Revenue Service, will receive Form 1099 regarding the federal tax status of the prior year's distributions.



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PLAN WITHDRAWAL
If you hold your shares in certificate form, you may terminate your participation in the plan at any time by giving written notice to IFTC. If your shares are registered in your brokerage firm's name, you may terminate your participation via verbal or written instructions to your investment professional. Written instructions should include your name and address as they appear on the certificate or account.

If notice is received at least 10 days before the record date, all future distributions will be paid directly to the shareholder of record.

If your shares are in certificate form and you discontinue your participation in the plan, you (or your nominee) will receive an additional certificate for all full shares and a check for any fractional shares in your account.

PLAN AMENDMENT/TERMINATION
The funds reserve the right to amend or terminate the plan. Should the plan be amended or terminated, participants will be notified in writing at least 90 days before the record date for such dividend or distribution. The plan may also be amended or terminated by IFTC with at least 90 days written notice to participants in the plan.

Any questions about the plan should be directed to your investment professional or to Investors Fiduciary Trust Company, P.O. Box 419432, Kansas City, Missouri 64141, 1-800-543-1627.



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DIRECTORS AND OFFICERS

<TABLE>

| <S> | <C> |
|---|---|
| DIRECTORS | David T. Bennett, CHAIRMAN, HIGHLAND HOMES, INC., USL PRODUCTS, INC., AND KIEFER BUILT, INC., OF COUNSEL, GRAY, PLANT, MOOTY, MOOTY & BENNETT, P.A. |
| | Jaye F. Dyer, PRESIDENT, DYER MANAGEMENT COMPANY |
| | William H. Ellis, PRESIDENT, PIPER JAFFRAY COMPANIES INC., PIPER CAPITAL MANAGEMENT INCORPORATED |
| | Karol D. Emmerich, PRESIDENT, THE PARACLETE GROUP |
| | Luella G. Goldberg, DIRECTOR, TCF FINANCIAL, RELIASTAR CORP., HORMEL FOODS CORP. |
| | George Latimer, DIRECTOR, SPECIAL ACTIONS OFFICE, OFFICE OF THE SECRETARY, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT |
| OFFICERS | William H. Ellis, CHAIRMAN OF THE BOARD |
| | Michael P. Jansen, PRESIDENT |
| | Worth Bruntjen, SENIOR VICE PRESIDENT |
| | Marijo A. Goldstein, SENIOR VICE PRESIDENT |
| | Robert H. Nelson, SENIOR VICE PRESIDENT |
| | Kevin A. Jansen, VICE PRESIDENT |
| | John G. Wenker, VICE PRESIDENT |
| | Charles N. Hayssen, TREASURER |
| | David E. Rosedahl, SECRETARY |
| INVESTMENT ADVISER | Piper Capital Management Incorporated<br>222 SOUTH NINTH STREET, MINNEAPOLIS, MN 55402 |
| TRANSFER AGENT AND RECORD KEEPER | Investors Fiduciary Trust Company<br>127 WEST 10TH STREET, KANSAS CITY, MO 64105-1716 |
| LEGAL COUNSEL | Dorsey & Whitney P.L.L.P.<br>220 SOUTH SIXTH STREET, MINNEAPOLIS, MN 55402 |
| CUSTODIAN | First Trust<br>180 EAST FIFTH STREET, ST. PAUL, MN 55101 |
| INDEPENDENT AUDITORS | KPMG Peat Marwick LLP<br>4200 NORWEST CENTER, MINNEAPOLIS, MN 55402 |

</TABLE>



[LOGO]

PIPER CAPITAL MANAGEMENT INCORPORATED
222 SOUTH NINTH STREET
MINNEAPOLIS, MN 55402-3804

PIPER JAFFRAY INC., FUND SPONSOR AND NASD MEMBER.
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