

CALIFORNIA INVESTMENT TRUST FUND GROUP
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Statement of Additional Information - January 1, 2010

The California Investment Trust Fund Group presently consists of the following twelve separate series which are part of California Investment Trust (the "Trust"): California Tax-Free Income Fund (the "Income Fund"), California Insured Intermediate Fund (the "Insured Fund"), California Tax-Free Money Market Fund (the "Money Fund"), the S&P 500 Index Fund (the "500 Fund"), the S&P MidCap Index Fund (the "MidCap Fund"), the S&P SmallCap Index Fund (the "SmallCap Fund"), the Equity Income Fund, the Nasdaq-100 Index Fund (the "Nasdaq-100 Fund"), the European Growth & Income Fund (the "European Fund"), U.S. Government Securities Fund (the "Government Fund"), the Short-Term U.S. Government Bond Fund (the "Short-Term Government Fund"), and The United States Treasury Trust (the "Treasury Trust") (each a "Fund" and collectively, the "Funds").

This Statement of Additional Information relates to all series of the Trust.

The combined Prospectus for the Funds dated January 1, 2010, as may be amended from time to time, provides the basic information you should know before investing in a Fund, and may be obtained without charge from the Funds at the above address. This Statement of Additional Information is not a prospectus. It contains information in addition to, and in certain cases more detailed than, the information set forth in the Prospectus. This Statement of Additional Information is intended to provide you with additional information regarding the activities and operations of the Trust and each Fund, and should be read in conjunction with the Prospectus.

The Income Fund and the Insured Fund both seek as high a level of income exempt from regular federal and California personal income taxes as is consistent with prudent investment management and safety of capital. The Income Fund invests in intermediate and long-term municipal bonds. The Insured Fund invests primarily in municipal securities that are covered by insurance guaranteeing the timely payment of principal and interest.

The Money Fund seeks capital preservation, liquidity, and the highest achievable current income, exempt from regular federal and California personal income taxes consistent with safety. This Fund invests in short-term securities and attempts to maintain a constant net asset value of \$1.00 per share.

The 500 Fund is a diversified mutual fund that seeks to provide investment results that correspond to the total return of common stocks publicly traded in the United States, as represented by the Standard & Poor's (S&P) 500 Composite Stock Price Index (the "S&P 500").

The MidCap Fund is a diversified mutual fund that seeks to provide investment results that correspond to the total return of publicly traded common stocks of medium-sized domestic companies, as represented by the S&P MidCap 400 Index (the "MidCap Index").

The SmallCap Fund is a diversified mutual fund that seeks to provide investment results that correspond to the total return of publicly traded common stocks of small-sized companies, as represented by the S&P SmallCap 600 Index (the "SmallCap Index").

The Equity Income Fund is a diversified mutual fund that seeks a high level of current income by investing primarily in income producing equity securities. As a secondary objective, the Fund will also consider the potential for price appreciation when consistent with seeking current income.

The Nasdaq-100 Fund is a diversified mutual fund that seeks to provide investment results that correspond to the total return of the largest non-financial, publicly traded, companies as measured by The Nasdaq-100 Index®.

The European Fund is a diversified mutual fund that seeks long-term capital appreciation and income by investing in large-sized European companies.

The Government Fund seeks liquidity, safety from credit risk and as high a level of income as is consistent with these objectives by investing in full faith and credit obligations of the U.S. Government and its agencies or instrumentalities, primarily in U.S. Treasury Securities and Government National Mortgage Association ("GNMA") Certificates.

The Short-Term Government Fund seeks to maximize current income and preserve investor's principal. The Fund typically invests in short and intermediate-term fixed income securities whose principal and interest are backed by the full faith and credit of the United States Government. Additionally, CCM Partners (the "Manager") may invest in higher yielding securities, which are not backed by the full faith and credit of the United States Government.

The Treasury Trust seeks capital preservation, safety, liquidity, and, consistent with these objectives, the highest attainable current income exempt from state income taxes, by investing in U.S. Treasury securities, namely bills, notes or bonds which are direct obligations of the U.S. Government. The Treasury Trust's net assets will at the time of investment have remaining maturities of 397 days or less. The dollar weighted average maturity of the Fund's portfolio will generally be 90 days or less and the Manager will attempt to maintain the net asset value at \$1.00 per share.

Under normal market conditions, each Government Fund attempts to invest at least 80% of the value of its net assets in securities which are backed by the full faith and credit of the United States Government. Thus, it is possible, although not anticipated, that up to 20% of a Government Fund's assets could be invested in securities that are not backed by the full faith and credit of the US Government.

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ABOUT THE CALIFORNIA INVESTMENT TRUST FUND GROUP

The California Investment Trust Fund Group currently consists of an open-end management investment company called the California Investment Trust (“CIT”). The Trust issues its shares of beneficial interest with no par value in different series, each known as a “Fund.” Shares of each Fund represent equal proportionate interest in the assets of that Fund only, and have identical voting, dividend, redemption, liquidation and other rights. Shareholders have no preemptive or other right to subscribe to any additional shares. The Trust is organized as a Delaware statutory trust. The Trust, originally organized as two separate Massachusetts business trusts formed by Declarations of Trust dated September 11, 1985, as subsequently amended, was reorganized into a single Delaware statutory trust after the close of trading on December 29, 2006. Currently, CIT has 12 Funds, each of which maintains an entirely separate investment portfolio: the Income Fund, the Insured Fund, the Money Fund, the 500 Fund, the MidCap Fund, the SmallCap Fund, the Equity Income Fund, the Nasdaq-100 Fund, the European Fund, the Government Fund, the Short-Term Government Fund, and the Treasury Trust. The Income Fund, the Insured Fund and the Money Fund are also referred to herein as the “Tax-Free Funds.” The 500 Fund, the MidCap Fund, the SmallCap Fund and the Nasdaq-100 Fund are also referred to herein as the “Index Funds.” The Index Funds, combined with the Equity Income Fund and the European Fund are referred to as the “Stock Funds.” All funds (except the Tax-Free Funds) offer multiple share classes. The Funds (other than the Tax-Free Funds) began offering an additional class of shares, Class K, on October 16, 2003, which principally differ from the undesignated class shares (which are sometimes referred to as Direct Shares) in the ways described below under the heading “MISCELLANEOUS INFORMATION.”

The Trust is not required, nor does it intend, to hold annual shareholder meetings. However, the Trust may hold special meetings for a specific Fund or for the Trust as a whole for purposes such as electing Trustees, changing fundamental policies, or approving an investment management agreement. You have equal rights as to voting and to vote separately by Fund as to issues affecting only your Fund (such as changes in fundamental investment policies and objectives). Your voting rights are not cumulative, so that the holders of more than 50% of the shares voting in any election of Trustees can, if they choose to do so, elect all of the Trustees. Meetings of shareholders may be called by the Trustees in their discretion or upon demand of the holders of 10% or more of the outstanding shares of any Fund for the purpose of electing or removing Trustees.

INVESTMENT OBJECTIVES AND POLICIES OF THE TAX-FREE FUNDS

The following information supplements each Tax-Free Fund’s investment objectives and basic policies as set forth in the Prospectus.

As noted in the Prospectus, each Tax-Free Fund seeks to provide investors with income exempt from regular federal and from California personal income tax. The Tax-Free Funds generally are as fully invested as practicable in municipal securities. However, because the Tax-Free Funds do not presently intend to invest in taxable obligations, there may be occasions when, as a result of maturities of portfolio securities or sales of Fund shares, or in order to meet anticipated redemption requests, a Fund may hold cash which is not earning income.

Under California law, a mutual fund, or series thereof, must have at least 50% of its total assets invested in obligations that produce interest that is exempt from California personal income tax if received by an individual (including California state and local obligations, direct obligations of the U.S. Government and obligations of certain U.S. territories and possessions) at the end of each quarter of its taxable year in order to be eligible to pay dividends to California residents which will be exempt from California personal income tax. Accordingly, as described in the Funds’ Prospectus, under normal market conditions, each Tax-Free Fund attempts to invest at least 80% of the value of its net assets in securities, the interest on which is, in the opinion of legal counsel, exempt from regular federal and from California personal income taxes, and is not a separate tax preference item subject to the federal alternative minimum tax. Thus, it is possible, although not anticipated, that up to 20% of a Tax-Free Fund’s assets could be invested in municipal securities from another state and/or in taxable obligations.

The Income Fund and the Insured Fund both seek as high a level of income exempt from federal and California personal income taxes as is consistent with prudent investment management and safety of capital. The Income Fund seeks to reduce, to the extent possible, the credit risks of its portfolio by investing in California municipal securities having at the time of purchase one of the top four ratings, or if unrated, being of similar quality to one of the top four ratings provided by Standard & Poor’s Corporation (“S&P”), Moody’s Investors Service (“Moody’s”) or Fitch Investors Service, Inc. (“Fitch”). These are considered to be “investment grade” securities, although securities rated BBB, Baa, BBB by S&P, Moody’s and Fitch, respectively, in the fourth highest category are regarded as having an adequate capacity to pay principal and interest but with greater vulnerability to adverse economic conditions and to have some speculative characteristics. No more than 20% of the Income Fund’s total assets will be invested in securities in the fourth highest category.

The Insured Fund seeks to reduce the credit risks of its portfolio by investing in California municipal securities that are insured as to the timely payment of principal and interest under an insurance policy obtained by the issuer. The Insured Fund also may invest up to 20% of its total assets in uninsured California municipal securities in one of the top two ratings categories or if unrated of similar quality to securities in one of the top two ratings.

If the rating on an issue held in either the Income Fund or the Insured Fund's portfolio is downgraded, the Manager will consider such event in its evaluation of the overall investment merits of that security but such consideration will not necessarily result in the automatic sale of the security. When the Income Fund or the Insured Fund invests in securities not rated by S&P, Moody's, or Fitch, it is the responsibility of the Manager to evaluate them and reasonably determine that they are of at least equal quality to securities rated in the four highest categories.

The Money Fund invests in high-quality securities, whether rated or unrated. Such issues include those rated, at the time of issue, not lower than MIG-2, VMIG-2 or P-2 by Moody's; SP-2 or A-2 by S&P; and/or F-2 by Fitch. If unrated, the security must be determined by the Manager to be of an equivalent quality to those in the two highest short-term credit-quality ratings. Generally, all of the instruments held by the Money Fund are offered on the basis of a quoted yield to maturity and the price of the security is adjusted so that relative to the stated rate of interest, it will return the quoted rate to the purchaser.

Subsequent to its purchase by the Income Fund, the Insured Fund or the Money Fund, a municipal security may be assigned a lower rating or cease to be rated. Such an event would not necessarily require the elimination of the issue from the portfolio, but the Manager will consider such an event in determining whether the Income Fund, the Insured Fund or the Money Fund should continue to hold the security in its portfolio. In addition to considering ratings assigned by the rating services in its selection of portfolio securities for the Income Fund or the Money Fund, the Manager considers, among other things, information concerning the financial history and condition of the issuer and its revenue and expense prospects and, in the case of revenue bonds, the financial history and condition of the source of revenue to service the debt securities.

INVESTMENT OBJECTIVES AND POLICIES OF THE GOVERNMENT FUND, THE SHORT-TERM GOVERNMENT FUND, AND THE TREASURY TRUST

The following information supplements the investment objectives and basic policies of the Government Fund, the Short-Term Government Fund and the Treasury Trust as set forth in the Prospectus.

The Government Fund seeks to provide liquidity, safety from credit risk and as high a level of income as is consistent with such objectives by investing in full faith and credit obligations of the U.S. Government and its agencies or instrumentalities. To achieve its objective, the Fund currently invests primarily in U.S. Treasury Securities and "GNMA Certificates" (popularly called "GNMA's" or "Ginnie Mae's"). The Government Fund will invest in intermediate and long-term Treasury bills, notes and bonds whose principal and interest are backed by the full faith and credit of the U.S. Government. GNMA's are mortgage-backed securities (MBS) representing part ownership of a pool of mortgage loans on real property.

The Government National Mortgage Association (GNMA or Ginnie Mae) is a wholly owned US Government corporation within the US Department of Housing and Urban Development (HUD). The main focus of Ginnie Mae is to ensure liquidity for US Government insured mortgages including those insured by the Federal Housing Administration (FHA), the Veterans Administration (VA) and the Rural Housing Administration (RHA). The majority of mortgages secured as Ginnie Mae MBS are those guaranteed by FHA. FHA mortgagors are typically first-time homebuyers and low-income borrowers. The GNMA guarantee carries the full faith and credit of the US Government and is considered to be the safest federal agency.

A GNMA Certificate differs from a bond in that principal is scheduled to be paid back by the borrower over the length of the loan rather than returned in a lump sum at maturity. The Government Fund may purchase "modified pass-through" type GNMA Certificates for which the payment of principal and interest on a timely basis is guaranteed, rather than the "straight-pass through" Certificates for which such guarantee is not available. The Government Fund may also purchase GNMA Certificates that offer coupons with a variable rate - where rates periodically reset to a market rate, hybrid structures - where the coupon is fixed for a defined period of time, then converts to a variable rate, or any other type which may be issued with GNMA's guarantee. The balance of the Government Fund's assets are invested in other securities issued or guaranteed by the U.S. Government, including U.S. Treasury bills, notes, and bonds.

Securities of the type to be included in the Government Fund have historically involved little risk of principal if held to maturity. However, due to fluctuations in interest rates, the market value of such securities may vary during the period of a shareholder's investment in the Government Fund.

GNMA Certificates are created by an "issuer," which is an FHA approved lender, such as mortgage bankers, commercial banks and savings and loan associations, who also meet criteria imposed by GNMA. The issuer assembles a specific pool of mortgages insured by either the FHA or the Farmers Home Administration or guaranteed by the VA. Upon application by the issuer, and after approval by GNMA of the pool, GNMA provides its commitment to guarantee timely payment of principal and interest on the GNMA Certificates secured by the mortgages included in the pool. The GNMA Certificates, endorsed by GNMA, are then sold by the issuer through securities dealers.

The GNMA guarantee of timely payment of principal and interest on GNMA Certificates is backed by the full faith and credit of the United States. GNMA may borrow U.S. Treasury funds to the extent needed to make payments under its guarantee.

When mortgages in the pool underlying a GNMA Certificate are prepaid by mortgagees or by result of foreclosure, such principal payments are passed through to the GNMA Certificate holders (such as the Government Fund). Accordingly, the life of the GNMA Certificate is likely to be substantially shorter than the stated maturity of the mortgages in the underlying pool. Because of such variation in prepayment rights, it is not possible to predict the life of a particular GNMA Certificate.

Generally, GNMA Certificates bear a nominal “coupon rate” which represents the effective FHA-VA mortgage rates for the underlying pool of mortgages, less GNMA fees and issuer's fees. Payments to holders of GNMA Certificates consist of the monthly distributions of interest and principal less the GNMA and issuer's fees. The actual yield to be earned by the holder of a GNMA Certificate is calculated by dividing such payments by the purchase price paid for the GNMA Certificate (which may be at a premium or a discount from the face value of the Certificate). Monthly distributions of interest, as contrasted to semi-annual distributions which are common for other fixed interest investments, have the effect of compounding and thereby raising the effective annual yield earned on GNMA Certificates.

The portion of the payments received by the Government Fund as a holder of the GNMA Certificates which constitutes a return of principal is added to the Government Fund's cash available for investment in additional GNMA Certificates or other U.S. Government guaranteed securities. The interest portion received by the Government Fund is distributed as net investment income to the Fund's shareholders.

The Government Fund may be exposed to prepayment risk, which is a risk that principal of a GNMA will be unexpectedly returned to the Fund. Under certain market conditions mortgages are more likely to be pre-paid by the borrowers. This is most likely during periods where interest rates are declining below recent market levels. By refinancing a mortgage, a borrower pays off their existing balance and the payment is passed through to the holder of the GNMA. Because of market circumstances, the Fund may be forced to reinvest the returned principal in securities with lower yields. This would ultimately reduce the income available to shareholders and could potentially result in realized capital gains.

The Manager continually monitors the Government Fund's investments, and changes are made as market conditions warrant.

The Short-Term Government Fund will typically invest in short and intermediate-term bills, notes and bonds whose principal and interest are backed by the full faith and credit of the U.S. Government. The Short Term Government Fund may purchase GNMA Certificates, including securities that have fixed coupon rates, variable rates - where rates periodically reset to a market rate, hybrid structures - where the coupon is fixed for a defined period of time, then converts to a variable rate, or any other type which may be issued with GNMA's guarantee. In addition, the Manager may invest in higher yielding securities that are not backed by the full faith and credit of the U.S. Government. The Fund intends to maintain an average duration between 0 and 3 years in an effort to reduce share price volatility.

The Treasury Trust seeks capital preservation, safety, liquidity, and, consistent with these objectives, the highest attainable current income exempt from state income taxes, by investing exclusively in U.S. Treasury securities, namely bills, notes or bonds which are direct obligations of the U.S. Government. The Treasury Trust's net assets will at the time of investment have remaining maturities of 397 days or less. The dollar weighted average maturity of the Fund's portfolio will generally be 90 days or less and the Manager will attempt to maintain the net asset value at \$1.00 per share.

INVESTMENT OBJECTIVE AND POLICIES OF THE STOCK FUNDS

As stated in the Prospectus, the investment objective of the 500 Fund is to seek investment results that correspond to the total return (i.e., the combination of capital changes and income) of common stocks publicly traded in the United States, as represented by the Standard & Poor's 500 Composite Stock Price Index (the “S&P 500”). The S&P 500 is a well-known stock market index that includes common stocks of companies representing approximately 88.6% of the total market Index as measured by the S&P 1500 Index. As of November 30, 2009, companies included in the Index range from \$720 million to \$356.4 billion in market capitalization. The Manager believes that the performance of the S&P 500 is representative of the performance of publicly traded common stocks in general. The median market capitalization of the stocks in the S&P 500 Index is approximately \$8.4 billion.

The investment objective of the MidCap Fund is to seek investment results that correspond to the total return (i.e., the combination of capital changes and income) of publicly traded common stocks of medium-size domestic companies, as represented by the Standard & Poor's MidCap 400 Index (the “MidCap Index”). The MidCap Index is a well-known stock market index that includes common stocks of companies representing approximately 7.9% of the total market index as measured by the S&P 1500 Index. As of November 30,

2009, companies included in the MidCap Index range from \$279 million to \$7.1 billion in market capitalization. The median market capitalization of the stocks in the MidCap Index is approximately \$2.1 billion.

The investment objective of the SmallCap Fund is to seek investment results that correspond to the total return of publicly traded common stocks of small sized companies, as represented by the S&P SmallCap 600 Index (the "SmallCap Index"). The SmallCap Index is a well-known stock market index that includes common stocks of companies representing approximately 3.5% of the total market index as measured by the S&P 1500 Index. As of November 30, 2009, companies included in the SmallCap Index range from \$43 million to \$2.7 billion in market capitalization. The median market capitalization of the stocks in the SmallCap Index is approximately \$569 million.

The Equity Income Fund is a diversified mutual fund that seeks a high level of current income by investing primarily in income producing equity securities. As a secondary objective, the Fund may consider the potential for price appreciation when consistent with seeking current income.

The investment objective of the European Fund is to provide long-term capital appreciation and income by investing in large-sized European companies located in Europe. The Fund expects to invest primarily in ADRs that trade on U.S. equity exchanges. The Manager may elect at some future period to invest in non-U.S. dollar denominated securities but does not intend to do so at this time.

The investment objective of the Nasdaq-100 Fund is to seek to replicate performance of the largest and most actively traded non-financial stocks as measured by The Nasdaq-100 Stock Index. Companies included in the Index range from \$2.5 billion to \$261.1 billion in market capitalization as of November 30, 2009. The majority of portfolio transactions in the Fund (other than those made in response to shareholder activity) will be made to adjust the Fund's portfolio to track the Index or to reflect occasional changes in the Index's composition.

DESCRIPTION OF INVESTMENT SECURITIES AND PORTFOLIO TECHNIQUES

Municipal Securities

Discussed below are the major attributes of the various municipal and other securities in which each of the Tax-Free Funds may invest and of the portfolio techniques the Income Fund or the Money Fund may utilize.

Tax Anticipation Notes are used to finance working capital needs of municipalities and are issued in anticipation of various seasonal tax revenues, to be payable from these specific future taxes. They are usually general obligations of the issuer, secured by the issuer's taxing power for the payment of principal and interest.

Revenue Anticipation Notes are issued in expectation of receipt of other kinds of revenue, such as federal revenues available under the Federal Revenue Sharing Program. They also are usually general obligations of the issuer.

Bond Anticipation Notes normally are issued to provide interim financing until long-term financing can be arranged. The long-term bonds then provide the money for the repayment of the notes.

Construction Loan Notes are sold to provide construction financing for specific projects. After successful completion and acceptance, many projects receive permanent financing through the FHA under the Federal National Mortgage Association or the Government National Mortgage Association.

Project Notes are instruments sold by the Department of Housing and Urban Development but issued by a state or local housing agency to provide financing for a variety of programs. They are backed by the full faith and credit of the U.S. Government, and generally are for periods of one year or less.

Short-Term Discount Notes (tax-exempt commercial paper) are short-term (397 days or less) promissory notes issued by municipalities to supplement their cash flow.

Municipal Bonds, which meet longer term capital needs and generally have maturities of more than one year when issued, have two principal classifications: general obligation bonds and revenue bonds.

1. General Obligation Bonds. Issuers of general obligation bonds include states, counties, cities, towns and regional districts. The proceeds of these obligations are used to fund a wide range of public projects, including construction or improvement of schools, highways and roads, and water and sewer systems. The basic security behind general obligation bonds is the issuer's pledge of its full faith, credit and taxing power for the payment of principal and interest. The taxes that can be levied for the payment of debt service may be limited or unlimited as to the rate or amount of special assessments.

General obligation bonds are generally paid from a municipality's general fund, so that the credit of the security is determined by the overall credit of the issuer. Economic and political events that negatively impact the municipality could also affect the value of the bonds issued by the municipality.

2. Revenue Bonds. A revenue bond is not secured by the full faith, credit and taxing power of an issuer. Rather, the principal security for a revenue bond is generally the net revenue derived from a particular facility, group of facilities, or, in some cases, the proceeds of a special excise or other specific revenue source. Revenue bonds are issued to finance a wide variety of capital projects including: electric, gas, water, and sewer systems; highways, bridges, and tunnels; port and airport facilities; colleges and universities; and hospitals. Although the principal security behind these bonds may vary, many provide additional security in the form of a debt service reserve fund which may be used to make principal and interest payments on the issuer's obligations. Housing finance authorities have a wide range of security, including partially or fully insured mortgages, rent subsidized and/or collateralized mortgages, and/or the net revenues from housing or other public projects. Some authorities are provided further security in the form of a state's assurance (although without obligation) to make up deficiencies in the debt service reserve fund.

Revenue bonds are generally paid from revenues generated from facilities or projects financed by the bond. Economic and political events which affect the ability to generate revenue could potentially impact the value of a revenue bond.

Industrial development bonds which pay tax-exempt interest are in most cases revenue bonds and are issued by or on behalf of public authorities to raise money to finance various privately operated facilities for business manufacturing, housing, sports, and pollution control. These bonds are also used to finance public facilities such as airports, mass transit systems, ports, and parking. The payment of the principal and interest on such bonds is dependent solely on the ability of the facility's user to meet its financial obligations and the pledge, if any, of the real and personal property so financed as security for such payment. As a result of 1986 federal tax legislation, industrial revenue bonds may no longer be issued on a tax-exempt basis for certain previously permissible purposes, including sports and pollution control facilities.

The quality of an industrial development bond is in part based on the corporation's ability to make payments of principal and interest. Unfavorable developments that affect the ability or willingness for the corporation to make the payments could have an impact on the value of the bond.

There may, of course, be other types of municipal securities that become available which are similar to the foregoing described municipal securities in which the Tax-Free Funds may invest.

Special Considerations Affecting Investment in California Municipal Obligations

The Money Fund invests a high proportion of its assets in California municipal securities. The Income Fund and the Insured Fund also invest primarily in California municipal securities. Payment of interest and preservation of principal is dependent upon the continuing ability of California issuers and/or obligors of state, municipal and public authority debt obligations to meet their obligations thereunder. In addition to general economic pressures, certain California constitutional amendments, legislative measures, executive orders, administrative regulations and voter initiatives could adversely affect a California issuer's ability to raise revenues to meet its financial obligations. The following is not an exhaustive list, constitutes only a brief summary, does not purport to be a complete description, and is based on information drawn from official statements and prospectuses relating to securities offerings of the State of California that have come to the attention of the Tax-Free Funds and were available before the date of this Statement of Additional Information. The Tax-Free Funds have not independently verified such information.

As used below, "California Tax-Exempt Securities" include issues secured by a direct payment obligation of the State of California and obligations of other issuers that rely in whole or in part on California revenues to pay their obligations, the interest on which is, in the opinion on bond counsel, exempt from federal income tax and California personal income tax. Property tax revenues and part of the State's General Fund surplus are distributed to counties, cities and their various taxing entities; whether and to what extent a portion of the State's General Fund will be so distributed in the future is unclear.

State Budgetary Considerations

The California Legislative Analysts Office (CLAO) forecast of California's General Fund revenues and expenditures shows that the state must address a General Fund budget problem of \$20.7 billion between now and the time the Legislature enacts a 2010-11 state budget plan. The budget problem consists of a \$6.3 billion projected deficit for 2009-10 and a \$14.4 billion gap between projected revenues and spending in 2010-11. Addressing this large shortfall will require painful choices—on top of the difficult choices the Legislature made earlier this year.

The vast majority of the new budget problem the CLAO has identified for 2009–10 can be attributed to the state’s inability to implement several major solutions in the July 2009 budget plan, such as:

- The expected inability of several programs—in particular, the prison system and Medi-Cal—to collectively achieve billions of dollars of spending reductions assumed in the 2009–10 budget.
- The expected inability of the state to sell the State Compensation Insurance Fund (SCIF), a quasi-public workers’ compensation insurer, for the budgeted amount of \$1 billion in 2009–10.
- The state’s loss of a court case that makes the General Fund unable to benefit from over \$800 million in transportation funds in 2009–10.
- A nearly \$1 billion increase in the Proposition 98 funding guarantee for K–14 education in 2009–10.

The ongoing impact of most of these problems further expands the multibillion-dollar operating shortfall that policymakers already expected in the 2010–11 budget year. Additional court cases threaten to drive the CLAO’s identified budget problem even higher.

Consistent with legislative action in 2009 to eliminate most automatic cost-of-living adjustments (COLAs) for state programs, the CLAO’s forecast assumes no COLAs and no salary increases for state employees through 2014–15. Furthermore, under the CLAO forecast that assumes school funding at the minimum guarantee level for Proposition 98, districts will be affected by the loss of billions of dollars of temporary federal stimulus funding over the next two years. Even in this stringent scenario, the CLAO forecasts that operating deficits after 2010–11 will be around \$20 billion each year. The forecasted gap between revenues and expenditures is the greatest—\$23 billion—in 2012–13 (the year when the state must pay back its loan from local governments pursuant to Proposition 1A of 2004).

Earlier in 2009, the Legislature adopted major temporary tax increases and significant cuts affecting most state-funded programs. An unexpectedly strong economic recovery theoretically could reduce the deficits the CLAO forecasts. Nevertheless, the scale of the deficits is so vast that the CLAO knows of no way that the Legislature, the Governor, and voters can avoid making additional, very difficult choices about state priorities. Moreover, strings attached to federal stimulus funding will result in much less spending flexibility than usual for the state in 2010–11. In the coming years, major state spending programs will have to be significantly reduced. Policymakers will also need to add revenues to the mix.

At the time the July 2009 revisions to the *2009–10 Budget Act* were signed into law, the administration estimated that the General Fund would have a \$500 million reserve at the end of 2009–10. The CLAO has updated our forecast of the 2009–10 General Fund condition to reflect updated revenue and expenditure forecasts based on current economic circumstances. As a result of these updated projections, the CLAO estimates that the state faces a 2009–10 year-end deficit of \$6.3 billion if no actions are taken.

Inability to Achieve Budget Solutions Is the Key Problem. Spending is drifting well above the levels assumed in the July budget package. The CLAO forecast indicates that General Fund spending obligations will be \$4.9 billion higher than budgeted as of the July budget package. Major spending-related budget problems in 2009–10 include:

- An estimated \$1.4 billion problem in the California Department of Corrections and Rehabilitation (CDCR) budget, largely the result of higher-than-budgeted spending by the prison medical care Receiver, and policy adjustments that were insufficient to allow the prison and parole systems to meet budget reduction targets.
- A nearly \$1 billion increase in the Proposition 98 minimum school funding guarantee in 2009–10.
- Nearly \$900 million of higher-than-budgeted spending for the Medi-Cal Program—largely due to the state’s inability to obtain additional federal funds or flexibility to reduce program costs.
- Over \$800 million of higher General Fund spending related to the court decision mentioned earlier, which limits the state’s ability to use “spillover” gasoline sales tax and Public Transportation Account funds to reduce General Fund spending.

The CLAO revenue estimate also includes no funds from the sale of the SCIF, which the July budget plan assumed would produce \$1 billion in General Fund revenues in 2009–10.

Tax Revenues Coming in Somewhat Less Than Budgeted. The 2009–10 budget plan, as adopted in July, assumed that the General Fund would receive revenues and transfers totaling \$84.1 billion in 2008–09 and \$89.5 billion in 2009–10. For the fiscal year to date, General Fund taxes have been somewhat softer than expected. Based on CLAO analysis of current and expected economic and revenue trends, the CLAO expects that General Fund revenues and transfers will be \$83.6 billion in 2008–09 (\$496 million less than budgeted) and \$88.1 billion in 2009–10 (\$1.5 billion less than budgeted). After accounting for the expected inability to sell SCIF, however, other revenues in the CLAO forecast are just \$451 million less than budgeted in 2009–10.

Even at the time the 2009–10 budget was revised in July 2009, policymakers acknowledged a multibillion-dollar shortfall for the upcoming 2010–11 budget. The administration at the time estimated the operating shortfall—that is, the gap between projected

expenditures and projected revenues—to be \$7.4 billion. In large part, this expected shortfall was the result of one-time and temporary budget solutions in the range of \$20 billion—especially the use of federal stimulus funds, shifting funds from local governments to the benefit of the state, and one-time revenue accelerations—no longer being available to help balance the 2010–11 budget. The administration’s 2010–11 budget shortfall estimate in July, however, did not carry forward the \$3 billion in lower tax revenues the Legislature incorporated into the final budget plan passed in July. Accordingly, the administration’s \$7.4 billion shortfall estimate for 2010–11 was based on a revenue estimate that was too optimistic, to the tune of several billion dollars. Additionally, the CLAO estimate of the 2010–11 operating shortfall is several billion dollars higher than the administration’s prior estimates. This is due mainly to about \$3.5 billion of higher net spending in the CLAO forecast—principally the result of continuing trends from 2009–10 in Medi-Cal, the transportation-related court case described above, and CDCR. In total, the CLAO projects a 2010–11 operating shortfall of \$14.4 billion. During the next several months, the Legislature will have to address this combined \$20.7 billion budget problem and pass a budget plan that restores the General Fund to balance by the end of 2010–11.

As of September 30, 2009, the State’s general obligation bonds were rated Baa1 - stable outlook by Moody’s Investor Service. Moody’s upgraded them from Baa1 - negative outlook on August 21, 2009. Standard & Poor’s (S&P) rates the debt A with a negative outlook. Fitch upgraded its BBB rating outlook on August 26, 2009 from negative to stable. It is not presently possible to determine whether, or the extent to which, Moody’s, S&P or Fitch will change such ratings in the future. It should be noted that the creditworthiness of obligations issued by local California issuers may be unrelated to the creditworthiness of obligations issued by the State, and there is no obligation on the part of the State to make payment on such local obligations in the event of default.

Issues Affecting Local Governments and Special Districts

Proposition 13. Certain California Tax-Exempt Securities may be obligations of issuers that rely in whole or in part on ad valorem real property taxes for revenue. In 1978, California voters approved Proposition 13, which amended the State Constitution to limit ad valorem real property taxes and restrict the ability of taxing entities to increase property tax and other revenues. With certain exceptions, the maximum ad valorem real property tax is limited to 1% of the value of real property. The value of real property may be adjusted annually for inflation at a rate not exceeding 2% per year, or reduced to reflect declining value, and may also be adjusted when there is a change in ownership or new construction with respect to the property. Constitutional challenges to Proposition 13 to date have been unsuccessful.

The State, in response to the significant reduction in local property tax revenues as a result of the passage of Proposition 13, enacted legislation to provide local government with increased expenditures from the General Fund. This post-Proposition 13 fiscal relief has, however, ended.

Proposition 62. This initiative placed further restrictions on the ability of local governments to raise taxes and allocate approved tax revenues. Several recent decisions of the California Courts of Appeal have held parts of Proposition 62 unconstitutional. Recently, however, the California Supreme Court upheld a requirement imposed by Proposition 62 that "special taxes" be approved by two-thirds of the voters voting in an election on the issue. This recent decision may invalidate other taxes that have been imposed by local governments in California and make it more difficult for local governments to raise taxes.

Propositions 98 and 111. These initiatives changed the State appropriations limit and State funding of public education below the university level by guaranteeing K-14 schools a minimum share of General Fund revenues. The initiatives also require that the State establish a prudent reserve fund for public education.

Proposition 218. Passed in November 1996, this initiative places additional limitations on the ability of California local governments to increase general taxes and impose special assessments. Taxes, assessments and fees have a grace period of up to two years from November 1996 to receive voter approval.

Appropriations Limit. Local governmental entities are also subject to annual appropriations limits. If a local government’s revenues in any year exceed the limit, the excess must be returned to the public through a revision of tax rates or fee schedules over the following two years.

Conclusion. The effect of these Constitutional and statutory changes and of budget developments on the ability of California issuers to pay interest and principal on their obligations remains unclear, and may depend upon whether a particular bond is a general obligation or limited obligation bond (limited obligation bonds being generally less affected). The Tax-Free Funds’ concentration in California tax-exempt securities provides a greater level of risk than a fund that is diversified across numerous state and municipal entities.

The effect of constitutional and statutory changes and of budget developments on the ability of California issuers to pay interest and principal on their obligations remains unclear, and may depend on whether a particular bond is a general obligation or limited obligation bond (limited obligation bonds being generally less affected). It is not possible to predict the future impact of the voter initiatives, State constitutional amendments, legislation or economic considerations described above, or of such initiatives,

amendments or legislation that may be enacted in the future, on the long-term ability of the State of California or California municipal issuers to pay interest or repay principal on their obligations. There is no assurance that any California issuer will make full or timely payments of principal or interest or remain solvent. For example, in December 1994, Orange County, California, together with its pooled investment funds, which included investment funds from other local governments, filed for bankruptcy. Los Angeles County, the nation's largest county, in the recent past has also experienced financial difficulty and its financial condition will continue to be affected by the large number of County residents who are dependent on government services and by a structural deficit in its health department. Moreover, California's improved economy has caused Los Angeles County, and other local governments, to come under increased pressure from public employee unions for improved compensation and retirement benefits.

Certain tax-exempt securities in which a Fund may invest may be obligations payable solely from the revenues of specific institutions, or may be secured by specific properties, which are subject to provisions of California law that could adversely affect the holders of such obligations. For example, the revenues of California health care institutions may be subject to State laws, and California law limits the remedies of a creditor secured by a mortgage or deed of trust on real property.

Additional Issues

Mortgages and Deeds of Trust. The Tax-Free Funds may invest in issues that are secured in whole or in part by mortgages or deeds of trust on real property. California law limits the remedies of a creditor secured by a mortgage or a deed of trust, which may result in delays in the flow of revenues to, and debt service paid by an issuer.

Lease Financing. Some local governments and districts finance certain activities through lease arrangements. It is uncertain whether such lease financing are debt that requires voter approval.

Seismic Risk. It is impossible to predict the time, location, or magnitude of a major earthquake or its effect on the California economy. In January 1994, a major earthquake struck Los Angeles, causing significant damage to structures and facilities in a four-county area. The possibility exists that another such earthquake could create a major dislocation of the California economy.

Terrorism. It is impossible to predict the timing or economic impact of an act of terrorism. The Federal, State, and local authorities have greatly stepped up security at major landmarks and infrastructure points since Sept. 11, 2001, but the possibility of major acts of terrorism is an ongoing risk.

Variable Rate Demand Notes

Variable Rate Demand Notes ("VRDNs") are tax-exempt obligations which contain a floating or variable interest rate adjustment formula and an unconditional right of demand to receive payment of the unpaid principal balance plus accrued interest upon a short notice period prior to specified dates, generally at 30, 60, 90, 180, or 365 day intervals. The interest rates are adjustable at intervals ranging from daily to six months. Adjustment formulas are designed to maintain the market value of the VRDN at approximately the par value of the VRDN upon the adjustment date. The adjustments are typically based upon the prime rate of a bank or some other appropriate interest rate adjustment index.

The Tax-Free Funds may also invest in VRDNs in the form of participation interests ("Participating VRDNs") in variable rate tax-exempt obligations held by a financial institution, typically a commercial bank ("institution"). Participating VRDNs provide the Tax-Free Funds with a specified undivided interest (up to 100%) of the underlying obligation and the right to demand payment of the unpaid principal balance plus accrued interest on the Participating VRDNs from the institution upon a specified number of days' notice, not to exceed seven days. In addition, the Participating VRDN is backed by an irrevocable letter of credit or guaranty of the institution. The Tax-Free Funds have an undivided interest in the underlying obligation and thus participate on the same basis as the institution in such obligation except that the institution typically retains fees out of the interest paid on the obligation for servicing the obligation, providing the letter of credit and issuing the repurchase commitment.

VRDN's may be unrated or rated and their creditworthiness may be a function of the creditworthiness of the issuer, the institution furnishing the irrevocable letter of credit, or both. Accordingly, a Tax-Free Fund may invest in such VRDN's the issuers or underlying institutions of which the Manager believes are creditworthy and satisfy the quality requirements of each Tax-Free Fund. The Manager will continuously monitor the creditworthiness of the issuer of such securities and the underlying institution.

Periods of high inflation and periods of economic slowdown, together with the fiscal measures adopted to attempt to deal with them, have caused wide fluctuations in interest rates. While the value of the underlying VRDN may change with changes in interest rates generally, the variable rate nature of the underlying VRDN should tend to reduce changes in the value of the instruments. Accordingly, as interest rates decrease or increase, the potential for capital appreciation and the risk of potential capital depreciation is less than would be the case with a portfolio of fixed income securities. The Tax-Free Funds may invest in VRDNs on which stated minimum or maximum rates, or maximum rates set by state law, limit the degree to which interest on such VRDNs may fluctuate; to

the extent it does, increases or decreases in value may be somewhat greater than would be the case without such limits. Because the adjustment of interest rates on the VRDNs is made in relation to movements of various interest rate adjustment indices, the VRDNs are not comparable to long-term fixed rate securities. Accordingly, interest rates on the variable rate demand instruments may be higher or lower than current market rates for fixed rate obligations of comparable quality with similar maturities.

For purposes of determining whether a VRDN held by a Tax-Free Fund matures within one year from the date of its acquisition, the maturity of the instrument will be deemed to be the longer of (1) the demand period required before the Tax-Free Fund is entitled to receive payment of the principal amount of the instrument, or (2) the period remaining until the instrument's next interest rate adjustment. The maturity of a VRDN will be determined in the same manner for purposes of computing a Tax-Free Fund's dollar-weighted average portfolio maturity.

Obligations with Puts Attached. Each Tax-Free Fund may purchase municipal securities together with the right to resell the securities to the seller at an agreed upon price or yield within a specified period prior to the maturity date of the securities. Although it is not a put option in the usual sense, such a right to resell is commonly known as a "put" and is also referred to as a "stand-by commitment." The Tax-Free Funds will use such puts in accordance with regulations issued by the Securities and Exchange Commission ("SEC"). The Manager understands that the Internal Revenue Service (the "IRS") has issued a revenue ruling to the effect that, under specified circumstances, a registered investment company will be the owner of tax-exempt municipal obligations acquired subject to a put option. The IRS has also issued private letter rulings to certain taxpayers (which do not serve as precedent for other taxpayers) to the effect that tax-exempt interest received by a regulated investment company with respect to such obligations will be tax-exempt in the hands of the company and may be distributed to its shareholders as exempt-interest dividends. The IRS has subsequently announced that it will not ordinarily issue advance ruling letters as to the identity of the true owner of property in cases involving the sale of securities or participation interests therein if the purchaser has the right to cause the security, or the participation interest therein, to be purchased by either the seller or a third party. Each Tax-Free Fund intends to take the position that it is the owner of any municipal obligations acquired subject to a stand-by commitment or similar put right and that tax-exempt interest earned with respect to such municipal obligations will be tax-exempt in its hands. There is no assurance that stand-by commitments will be available to the Tax-Free Funds nor have the Tax-Free Funds assumed that such commitments would continue to be available under all market conditions.

U.S. Government Obligations, Other Securities and Portfolio Techniques

U.S. Government Obligations. U.S. Treasury obligations are issued by the U.S. Treasury and include U.S. Treasury bills (maturing within one year of the date they are issued), certificates of indebtedness, notes and bonds (issued with maturities longer than one year). Such obligations are backed by the full faith and credit pledge of the U.S. Government. Agencies and instrumentalities of the U.S. Government are established under the authority of an act of Congress and include, but are not limited to, GNMA, the Tennessee Valley Authority, the Bank for Cooperatives, the Farmer's Home Administration, Federal Home Loan Banks, the FHA, Federal Intermediate Credit Banks, Federal Land Banks and the Federal National Mortgage Association. Obligations are issued by such agencies or instrumentalities in a range of maturities and may be either (1) backed by the full faith and credit pledge of the U.S. Government, or (2) backed only by the rights of the issuer to borrow from the U.S. Treasury.

Repurchase Transactions. The Tax-Free Funds, the Government Fund and the Stock Funds may enter into repurchase agreements with government securities dealers recognized by the Federal Reserve Board or with member banks of the Federal Reserve System. Such a transaction is an agreement in which the seller of U.S. Government securities agrees to repurchase the securities sold to the Fund at a mutually agreed upon time and price. It may also be viewed as the loan of money by the Fund to the seller. The resale price normally is in excess of the purchase price, reflecting an agreed upon interest rate. The rate is effective for the period of time in the agreement and is not related to the coupon rate on the underlying security. The period of these repurchase agreements is usually short, from overnight to one week, and in particular, at no time will the Money Fund invest in repurchase agreements with a term of more than one year. The U.S. Government securities which are subject to repurchase agreements, however, may have maturity dates in excess of one year from the effective date of the repurchase agreement. A Fund always receives as collateral U.S. Government securities whose market value, including accrued interest, is at least equal to 100% of the dollar amount invested by the Fund in each agreement, and such Fund makes payment for such securities only upon physical delivery or evidence of book entry transfer to the account of its custodian. If the seller defaults, the Fund might incur a loss if the value of the collateral securing the repurchase agreement declines and might incur disposition costs in connection with liquidating the collateral. A Fund may not enter into a repurchase agreement with more than seven days to maturity if, as a result, more than 10% of the market value of the Fund's total assets would be invested in such repurchase agreements. With respect to the Tax-Free Funds and the Government Fund, the Manager on an ongoing basis will review and monitor the creditworthiness of institutions with which it has entered into repurchase agreements. The current policy of the Stock Funds is to limit repurchase agreements to those parties whose creditworthiness has been reviewed and found satisfactory by the Manager.

When-Issued Purchases and Forward Commitments. New issues of U.S. Government securities and municipal securities may be offered on a when-issued basis. Accordingly, the Tax-Free Funds and the Government Fund may purchase securities on a when-issued or forward commitment basis. When-issued purchases and forward commitments involve a commitment by the Funds to purchase

securities at a future date. The price of the underlying securities (usually expressed in terms of yield) and the date when the securities will be delivered and paid for (the settlement date) are fixed at the time the transaction is negotiated. Thus, the Fund bears the market risk of the security immediately following its commitment to buy the security. The value of the securities underlying a when-issued purchase or a forward commitment to purchase securities, and any subsequent fluctuations in their value, is taken into account when determining a Fund's net asset value starting on the day the Fund agrees to purchase the securities. Therefore, if a Fund remains substantially fully invested at the same time that it has committed to purchase securities on a when-issued or forward commitment basis, its net asset value per share may be subject to greater price fluctuation. A Fund does not earn interest on the securities it has committed to purchase until they are paid for and delivered on the settlement date. Settlement of when-issued purchases and forward commitments generally takes place within two months of the date of the transaction, but delayed settlements beyond two months may be negotiated.

The Funds make commitments to purchase securities on a when-issued or forward commitment basis only with the intention of completing the transaction. If deemed advisable as a matter of investment strategy, however, each Fund may dispose of or renegotiate a commitment after it is entered into, and may sell securities it has committed to purchase before those securities are delivered to that Fund on the settlement date. In these cases a Fund may realize a capital gain or loss.

When a Fund enters into a when-issued purchase or a forward commitment to purchase securities, the Funds' Custodian, U.S. Bank N.A. (the "Custodian") will establish, and maintain on a daily basis, a separate account of that Fund consisting of cash or portfolio securities having a value at least equal to the amount of that Fund's purchase commitments. These procedures are designed to insure that the Fund maintains sufficient assets at all times to cover its obligations under when-issued purchases and forward commitments.

Lending Portfolio Securities

Each of the Tax-Free Funds, the Treasury Trust, the Short-Term Government Fund and the Government Fund may lend up to one-third of its portfolio securities to non-affiliated brokers, dealers, and financial institutions provided that cash or U.S. Government securities equal to at least 100% of the market value of the securities loaned is deposited by the borrower with the lending Fund and is maintained each business day. Although the Stock Funds have no current intention to do so, each Stock Fund may lend up to 10% of its portfolio securities to non-affiliated brokers, dealers and financial institutions provided that cash or U.S. Government securities equal to at least 100% of the market value of the securities loaned is deposited by the borrower with the lending Fund and is maintained each business day. While such securities are on loan, the borrower will pay such Fund any income accruing thereon, and the Fund may invest or reinvest the collateral (depending on whether the collateral is cash or U.S. Government securities) in portfolio securities, thereby earning additional income. Each Fund will not lend its portfolio securities if such loans are not permitted by the laws or regulations of any state in which its shares are qualified for sale. Loans are typically subject to termination by a Fund in the normal settlement time, currently five business days after notice, or by the borrower on one day's notice. Borrowed securities must be returned when the loan is terminated. Any gain or loss in the market price of the borrowed securities which occurs during the term of the loan inures to the lending Fund and its shareholders. A Fund may pay reasonable finders', borrowers', administrative, and custodial fees in connection with a loan of its securities. The Manager will review and monitor the creditworthiness of such borrowers on an ongoing basis.

Stock Index Futures Contracts

The Stock Funds may enter into agreements to "buy" or "sell" a stock index at a fixed price at a specified date. No stock actually changes hands under these contracts; instead, changes in the underlying index's value are settled in cash. The cash settlement amounts are based on the difference between the index's current value and the value contemplated by the contract. An option on a stock index futures contract is an agreement to buy or sell an index futures contract; that is, exercise of the option results in ownership of a position in a futures contract. Most stock index futures are based on broad-based common stocks, such as the S&P 500 and the MidCap Index, both registered trademarks of Standard & Poor's Corporation. Other broad-based indices include the New York Stock Exchange Composite Index, S&P BARRA/Value, Russell 2000, Value Line Composite Index, Standard & Poor's 100 Stock Index, The Nasdaq-100 Index, Dow Jones Euro Stoxx, and the MSCI (Morgan Stanley Capital International) Euro Index.

Additionally, each Stock Fund may take advantage of opportunities in the area of futures contracts and options on futures contracts and any other derivative investments which are not presently contemplated for use by such Fund or which are not currently available but which may be developed, to the extent such opportunities are both consistent with each Stock Fund's investment objective and legally permissible for such Fund.

The Manager expects that futures transactions for the 500 Fund, the MidCap Fund, the SmallCap Fund and the Nasdaq-100 Fund will typically involve the S&P 500 Index, the MidCap Index, the Russell 2000, and the Nasdaq-100 Index respectively. Beginning in 2002, futures tracking the S&P SmallCap Index were launched. Should the Manager determine that these futures offer sufficient liquidity and tracking characteristics, these futures will be used in lieu of the Russell 2000 futures. Futures transactions for the Equity Income Fund may involve any major index for which the Manager believes is in the best interest of the shareholders. The indices used may

include, but are not limited to, the S&P 500, the MidCap Index and the Russell 2000 Index. Because the value of index futures depends primarily on the value of their underlying indices, the performance of broad-based contracts will generally reflect broad changes in common stock prices. Each Fund's investments may be more or less heavily weighted in securities of particular types of issuers, or securities of issuers in particular industries, than the indexes underlying its index futures positions. Therefore, while a Fund's index futures positions should provide exposure to changes in value of the underlying indexes (or protection against declines in their value in the case of hedging transactions), it is likely that, in the case of hedging transactions, the price changes of a Fund's index futures positions will not match the price changes of the Fund's other investments. Other factors that could affect the correlation of a Fund's index futures positions with its other investments are discussed below.

Futures Margin Payments. Both the purchaser and seller of a futures contract are required to deposit "initial margin" with a futures broker (known as a "futures commission merchant," or "FCM"), when the contract is entered into. Initial margin deposits are equal to a percentage of the contract's value, as set by the exchange where the contract is traded, and may be maintained in cash or high quality liquid securities. If the value of either party's position declines, that party will be required to make additional "variation margin" payments to settle the change in value on a daily basis. The party that has a gain may be entitled to receive all or a portion of this amount. Initial and variation margin payments are similar to good faith deposits or performance bonds, unlike margin extended by a securities broker, and initial and variation margin payments do not constitute purchasing securities on margin for purposes of a Fund's investment limitations. In the event of the bankruptcy of a FCM that holds margin on behalf of a Fund, that Fund may be entitled to a return of margin owed to it only in proportion to the amount received by the FCM's other customers. The Manager will attempt to minimize this risk by monitoring the creditworthiness of the FCMs with which the Stock Funds do business.

Limitations on Stock Index Futures Transactions. Each Stock Fund has filed a notice of eligibility for exclusion from the definition of the term "commodity pool operator" with the Commodity Futures Trading Commission (the "CFTC") and the National Futures Association, which regulate trading in the futures markets. Pursuant to Section 4.5 of the regulations under the Commodity Exchange Act, each Fund may use futures contracts for bona fide hedging purposes within the meaning of CFTC regulations; provided, however, that, with respect to positions in futures contracts which are not used for bona fide hedging purposes within the meaning of CFTC regulations, the aggregate initial margin required to establish such position will not exceed five percent of the liquidation value of each Fund's portfolio, after taking into account unrealized profits and unrealized losses on any such contracts into which the Fund has entered.

The Manager also intends to follow certain other limitations on each of the Stock Fund's futures activities. Under normal conditions, a Fund will not enter into any futures contract if, as a result, the sum of (i) the current value of assets hedged in the case of strategies involving the sale of securities, and (ii) the current value of the indexes or other instruments underlying the Fund's other futures positions would exceed 20% of such Fund's total assets. In addition, each Fund does not intend to enter into futures contracts that are not traded on exchanges or boards of trade.

The above limitations on the Stock Funds' investments in futures contracts, and these Funds' policies regarding futures contracts discussed elsewhere in this Statement of Additional Information, are not fundamental policies and may be changed as regulatory agencies permit. Non-fundamental policies may be changed without shareholder approval.

Various exchanges and regulatory authorities have undertaken reviews of futures trading in light of market volatility. Among the possible actions that have been presented are proposals to adopt new or more stringent daily price fluctuation limits for futures transactions, and proposals to increase the margin requirements for various types of strategies. It is impossible to predict what actions, if any, will result from these reviews at this time.

Each Stock Fund may purchase index futures contracts in order to attempt to remain fully invested in the stock market. For example, if a Fund had cash and short-term securities on hand that it wished to invest in common stocks, but at the same time it wished to maintain a highly liquid position in order to be prepared to meet redemption requests or other obligations, it could purchase an index futures contract in order to approximate the activity of the index with that portion of its portfolio. Each Stock Fund may also purchase futures contracts as an alternative to purchasing actual securities. For example, if a Fund intended to purchase stocks but had not yet done so, it could purchase a futures contract in order to participate in the index's activity while deciding on particular investments. This strategy is sometimes known as an anticipatory hedge. In these strategies a Fund would use futures contracts to attempt to achieve an overall return -- whether positive or negative -- similar to the return from the stocks included in the underlying index, while taking advantage of potentially greater liquidity than futures contracts may offer. Although a Fund would hold cash and liquid debt securities in a segregated account with a value sufficient to cover its open future obligations, the segregated assets would be available to the Fund immediately upon closing out the futures position, while settlement of securities transactions can take several days.

When a Fund wishes to sell securities, it may sell stock index futures contracts to hedge against stock market declines until the sale can be completed. For example, if the Manager anticipated a decline in common stock prices at a time when a Fund anticipated selling common stocks, it could sell a futures contract in order to lock in current market prices. If stock prices subsequently fell, the futures contract's value would be expected to rise and offset all or a portion of the anticipated loss in the common stocks the Fund had hedged

in anticipation of selling them. Of course, if prices subsequently rose, the futures contract's value could be expected to fall and offset all or a portion of any gains from those securities. The success of this type of strategy depends to a great extent on the degree of correlation between the index futures contract and the securities hedged.

Asset Coverage for Futures Positions. Each Stock Fund will comply with guidelines established by the SEC with respect to coverage of futures strategies by mutual funds, and if the guidelines so require will set aside cash and or other appropriate liquid assets (e.g., U.S. equities, U.S. Government securities or other high grade debt obligations) in a segregated custodial account in the amount prescribed. Securities held in a segregated account cannot be sold while the futures or option strategy is outstanding, unless they are replaced with other suitable assets. As a result, there is a possibility that segregation of a large percentage of a Fund's assets could impede portfolio management or such Fund's ability to meet redemption requests or other current obligations.

Correlation of Price Changes. As noted above, price changes of a Fund's futures positions may not be well correlated with price changes of its other investments because of differences between the underlying indexes and the types of securities the Fund invests in. For example, if a Fund sold a broad-based index futures contract to hedge against a stock market decline while the Fund completed a sale of specific securities in its portfolio, it is possible that the price of the securities could move differently from the broad market average represented by the index futures contract, resulting in an imperfect hedge which could affect the correlation between the Fund's return and that of the respective benchmark index. In the case of an index futures contract purchased by the Fund either in anticipation of actual stock purchases or in an effort to be fully invested, failure of the contract to track its index accurately could hinder such Fund in the achievement of its objective.

Stock index futures prices can also diverge from the prices of their underlying indexes. Futures prices are affected by such factors as current and anticipated short-term interest rates, changes in volatility of the underlying index, and the time remaining until expiration of the contract, which may not affect security prices the same way. Imperfect correlation may also result from differing levels of demand in the futures markets and the securities markets, from structural differences in how futures and securities are traded, or from imposition of daily price fluctuation limits for futures contracts. A Fund may sell futures contracts with a greater or lesser value than the securities it wishes to hedge in order to attempt to compensate for differences in historical volatility between the futures contract and the securities, although this may not be successful in all cases.

Liquidity of Futures Contracts. Because futures contracts are generally settled within a day from the date they are closed out, compared with a settlement period of up to five days for some types of securities, the futures markets can provide superior liquidity to the securities markets in many cases. Nevertheless, there is no assurance a liquid secondary market will exist for any particular futures contract at any particular time. In addition, futures exchanges may establish daily price fluctuation limits for futures contracts, and may halt trading if a contract's price moves upward or downward more than the limit in a given day. On volatile trading days when the price fluctuation limit is reached, it may be impossible for a Fund to enter into new positions or close out existing positions. Trading in index futures can also be halted if trading in the underlying index stocks is halted. If the secondary market for a futures contract is not liquid because of price fluctuation limits or otherwise, it would prevent prompt liquidation of unfavorable futures positions, and potentially could require a Fund to continue to hold a futures position until the delivery date regardless of potential consequences. If a Fund must continue to hold a futures position, its access to other assets held to cover the position could also be impaired.

American Depositary Receipts (ADRs)

Under normal circumstances, the European Fund typically invests in sponsored and unsponsored ADRs. Such investments may subject the Fund to significant investment risks that are different from, and in addition to, those related to investments of U.S. domestic issuers or in the U.S. markets. Unsponsored ADRs may involve additional risks in that they are organized without the cooperation of the issuer of the underlying securities. As a result, available information concerning the issuer may not be as current as that for sponsored ADRs.

The value of securities denominated in or indexed to foreign currencies and of dividends and interest from such securities can change significantly when foreign currencies strengthen or weaken relative to the U.S. dollar. Foreign securities markets generally have less trading volume and less liquidity than the U.S. markets, and prices on some foreign securities can be highly volatile.

Many foreign countries lack uniform accounting and disclosure standards comparable to those applicable to U.S. companies, and it may seem more difficult to obtain reliable information regarding an issuer's financial conditions and operations.

Settlement of transaction in some foreign markets may be delayed or may be less frequent than in the U.S., which could affect the liquidity of the Fund's investments. In addition, the cost of foreign investing, including withholding taxes, brokerage commissions and custodial costs, are generally higher than for U.S. investments.

Foreign markets may offer less protection to investors than U.S. markets. Foreign issuers, brokers, and securities markets may be subject to less government supervision. Foreign security trading practices, including those involving the release of assets in advance of

payment, may involve increased risks in the event of a failed trade or the insolvency of the broker-dealer, which may result in substantial delays in settlement. It may also be more difficult to enforce legal rights in foreign countries.

Investing abroad also involves different political and economic risks. Foreign investments may be affected by actions of foreign governments adverse to the interests of U.S. investors, including the possibility of expropriation or nationalization of assets, confiscatory taxation, restriction on U.S. investments or on the ability to repatriate assets or convert currency into U.S. dollars, or other government intervention. There may be a greater possibility of default by foreign governments or foreign government sponsored enterprises. Investments in foreign countries also involve the risk of local political, economic, or social instability, military action or unrest, or adverse diplomatic developments. There is no assurance that the Manager will be able to anticipate these potential events or counter their effects.

Options on Securities, Securities Indices and Currencies.

The European Fund may purchase put and call options on securities in which it has invested, on foreign currencies represented in its portfolios and on any securities index based in whole or in part on securities in which the Fund may invest. In an effort to minimize risks, the Fund usually will not use options for speculative purposes or as leverage.

The Fund may purchase call options in anticipation of an increase in the market value of securities of the type in which it may invest or a positive change in the currency in which such securities are denominated. The purchase of a call option would entitle the Fund, in return for the premium paid, to purchase specified securities or a specified amount of a foreign currency at a specified price during the option period.

The Fund may purchase and sell options traded on U.S. and foreign exchanges. Although the Fund will generally purchase only those options for which there appears to be an active secondary market, there can be no assurance that a liquid secondary market on an exchange will exist for any particular option or at any particular time. For some options, no secondary market on an exchange may exist. In such event, it might not be possible to effect closing transactions in particular options, with the result that the Fund would have to exercise its options in order to realize any profit and would incur transaction costs upon the purchase or sale of the underlying securities.

Secondary markets on an exchange may not exist or may be illiquid for a variety of reasons including: (i) insufficient trading interest in certain options; (ii) restrictions on opening transactions or closing transactions imposed by an exchange; (iii) trading halts, suspensions or other restrictions may be imposed with respect to particular classes or series of options; (iv) unusual or unforeseen circumstances which interrupt normal operations on an exchange; (v) inadequate facilities of an exchange or the Options Clearing Corporation (the "OCC") to handle current trading volume at all times; or (vi) discontinuance in the future by one or more exchanges for economic or other reasons, of trading of options (or of a particular class or series of options), in which event the secondary market on that exchange (or in that class or series of options) would cease to exist, although outstanding options on that exchange that had been issued by the OCC as a result of trades on that exchange would continue to be exercisable in accordance with their terms.

There is no assurance that higher than anticipated trading activity or other unforeseen events might not, at times, render certain of the facilities of the OCC inadequate, and result in the institution by an exchange of special procedures that may interfere with the timely execution of the Fund's orders.

Securities of Other Investment Companies – Closed End Funds

The European Fund may purchase closed-end funds that invest in foreign securities. Unlike open-end investment companies, like the Fund, closed-end funds issue a fixed number of shares that trade on major stock exchanges or over the counter. Additionally, closed-end funds do not stand ready to issue or redeem on a continuous basis. Closed-end funds often sell at a discount to net asset value.

The Nasdaq-100 Index Fund may invest in securities issued by other investment companies. Those investment companies must invest in securities that the Fund can invest in a manner consistent with the Fund's investment objective and policies.

Applicable provisions of the Investment Company Act of 1940, as amended (the "1940 Act") require that a Fund limit its investments so that, as determined immediately after a securities purchase is made: (a) not more than 10% of the value of that Fund's total assets will be invested in the aggregate in securities of investment companies as a group; and (b) either (i) that Fund and affiliated persons of that Fund not own together more than 3% of the total outstanding shares of any one investment company at the time of purchase (and that all shares of the investment company held by that Fund in excess of 1% of the company's total outstanding shares be deemed illiquid), or (ii) that Fund not invest more than 5% of its total assets in any one investment company and the investment not represent more than 3% of the total outstanding voting stock of the investment company at the time of purchase. As a shareholder in an investment company, a Fund bears its ratable share of that investment company's expenses, including advisory and administration fees, resulting in an additional layer of management fees and expenses for shareholders. This duplication of expenses would occur regardless of the type of investment company, i.e., open-end (mutual fund) or closed-end.

INVESTMENT RESTRICTIONS

Except as noted with respect to any Fund, the Trust has adopted the following restrictions as additional fundamental policies of its Funds, which means that they may not be changed without the approval of a majority of the outstanding voting securities of that Fund. Under the 1940 Act, a “vote of a majority of the outstanding voting securities” of the Trust or of a particular Fund means the affirmative vote of the lesser of (1) more than 50% of the outstanding shares of the Trust or of such Fund, or (2) 67% or more of the shares of the Trust or of such Fund present at a meeting of shareholders if more than 50% of the outstanding shares of the Trust or of such Fund are represented at the meeting in person or by proxy. A Fund may not:

1. Borrow money or mortgage or pledge any of its assets, except that borrowings (and a pledge of assets therefor) for temporary or emergency purposes may be made from banks in any amount up to 10% (15% in the case of the Stock Funds) of the Fund’s total asset value. However, a Fund will not purchase additional securities while the value of its outstanding borrowings exceeds 5% of its total assets. Secured temporary borrowings may take the form of a reverse repurchase agreement, pursuant to which a Fund would sell portfolio securities for cash and simultaneously agree to repurchase them at a specified date for the same amount of cash plus an interest component. (As a matter of operating policy, the Funds currently do not intend to utilize reverse repurchase agreements, but may do so in the future.)
2. Except as required in connection with permissible futures contracts (Stock Funds only), buy any securities on “margin” or sell any securities “short,” except that it may use such short-term credits as are necessary for the clearance of transactions.
3. Make loans, except (a) through the purchase of debt securities which are either publicly distributed or customarily purchased by institutional investors, (b) to the extent the entry into a repurchase agreement may be deemed a loan, or (c) to lend portfolio securities to broker-dealers or other institutional investors if at least 100% collateral, in the form of cash or securities of the U.S. Government or its agencies and instrumentalities, is pledged and maintained by the borrower.
4. Act as underwriter of securities issued by other persons except insofar as the Fund may be technically deemed an underwriter under the federal securities laws in connection with the disposition of portfolio securities.
5. With respect to 75% of its total assets, purchase the securities of any one issuer (except securities issued or guaranteed by the U.S. Government and its agencies or instrumentalities, as to which there are no percentage limits or restrictions) if immediately after and as a result of such purchase (a) the value of the holdings of the Fund in the securities of such issuer would exceed 5% of the value of the Fund's total assets, or (b) the Fund would own more than 10% of the voting securities of any such issuer (both the issuer of the municipal obligation as well as the financial institution/ intermediary shall be considered issuers of a participation certificate), except that the Insured Fund may invest more than 25% of its assets in securities insured by the same insurance company.
6. Purchase securities from or sell to the Trust’s officers and Trustees, or any firm of which any officer or Trustee is a member, as principal, or retain securities of any issuer if, to the knowledge of the Trust, one or more of the Trust’s officers, Trustees, or investment adviser own beneficially more than 1/2 of 1% of the securities of such issuer and all such officers and Trustees together own beneficially more than 5% of such securities (non-fundamental for the Stock Funds).
7. Acquire, lease or hold real estate, except such as may be necessary or advisable for the maintenance of its offices, and provided that this limitation shall not prohibit the purchase of securities secured by real estate or interests therein.
8. (a) Invest in commodities and commodity contracts, or interests in oil, gas, or other mineral exploration or development programs; provided, however, that a Fund may invest in futures contracts as described in the Prospectus and in this Statement of Additional Information (Stock Funds only).

(b) Invest in commodities and commodity contracts, puts, calls, straddles, spreads, or any combination thereof, or interests in oil, gas, or other mineral exploration or development programs, except that the Government Fund may purchase, hold, and dispose of “obligations with puts attached” in accordance with its investment policies (all Funds except the Stock Funds).
9. Invest in companies for the purpose of exercising control or management.
10. (a) Purchase securities of other investment companies, except to the extent permitted by the 1940 Act and as such securities may be acquired in connection with a merger, consolidation, acquisition, or reorganization (Stock Funds only, excluding the Nasdaq-100 Fund).

- (b) Purchase securities of other investment companies, except in connection with a merger, consolidation, acquisition, or reorganization (all Funds except the Stock Funds).
- 11. Purchase illiquid securities, including (under current SEC interpretations) securities that are not readily marketable, and repurchase agreements with more than seven days to maturity if, as a result, more than 10% of the total assets of the Fund would be invested in such illiquid securities.
- 12. Invest 25% or more of its assets in securities of any one industry, although for purposes of this limitation, tax-exempt securities and obligations of the U.S. Government and its agencies or instrumentalities are not considered to be part of any industry (both the industry of the issuer of the municipal obligation as well as the industry of the financial institution/intermediary shall be considered in the case of a participation certificate), except that the Insured Fund may invest more than 25% of its assets in securities insured by the same insurance company. Index funds may exceed this limitation and will invest in proportion to the underlying index.
- 13. Issue senior securities, as defined in the 1940 Act, except that this restriction shall not be deemed to prohibit a Fund from (a) making any permitted borrowings, mortgages or pledges, and (b) entering into permissible repurchase and futures transactions.

In addition, each Stock Fund has adopted the following restrictions as operating policies, which are not fundamental policies, and may be changed without shareholder approval in accordance with applicable regulations. Each Stock Fund may not:

- 1. Engage in short sales of securities.
- 2. Invest in warrants, valued at the lower of cost or market, in excess of 5% of the value of a Fund's net assets. Included in such amount, but not to exceed 2% of the value of the Fund's net assets, may be warrants that are not listed on the New York Stock Exchange (the "NYSE") or American Stock Exchange. Warrants acquired by a Fund in units or attached to securities may be deemed to be without value.
- 3. Enter into a futures contract or option on a futures contract, if, as a result thereof, more than 5% of the Fund's total assets (taken at market value at the time of entering into the contract) would be committed to initial deposits and premiums on open futures contracts and options on such contracts.
- 4. With the exception of the Nasdaq-100 Fund, invest more than 5% of its total assets in the securities of companies (including predecessors) that have been in continuous operation for a period of less than three years.
- 5. Invest in puts, calls, straddles or spread options, or any combination thereof. (Excluding the SmallCap Fund, the Nasdaq-100 Fund and the European Fund.)

If a percentage restriction is adhered to at the time of investment, a subsequent increase or decrease in a percentage resulting from a change in the values of assets will not constitute a violation of that restriction, except as otherwise noted.

DISCLOSURE OF PORTFOLIO HOLDINGS

In accordance with the Funds' policies and procedures, the Funds' transfer agent and fund accountant, ALPS Fund Services, Inc. (the "Transfer Agent") is responsible for dissemination of information about the Funds' portfolio holdings. Only an officer of the Funds may authorize the Transfer Agent to disclose portfolio holdings information. The Funds, together with the Transfer Agent and the Manager (the "Service Providers"), may only disclose information concerning securities held in the Funds' portfolios under the following circumstances:

- 1. Approximately 60 days following the end of each month, calendar quarter and fiscal quarter, each Fund's full portfolio holdings will be made publicly available by the following means:
 - a. The Funds shall send shareholders portfolio holdings in the Funds' annual and semi-annual reports, which are mailed to shareholders and posted on the Funds' website in accordance with the SEC guidelines. Additionally, quarterly reports are filed with the SEC.
 - b. The Fund Accountant shall send portfolio holding to nationally-recognized rating agencies via electronic transmission at least annually.

2. The Funds or a Service Provider may disclose the Funds' portfolio securities holdings to selected third parties when the Funds have a legitimate business purpose for doing so. Examples of legitimate business purposes in which selective disclosure of the Funds' portfolio securities may be appropriate include disclosure for due diligence purposes to an investment advisor that is in merger or acquisition talks with the Advisor; disclosure to a newly hired investment advisor or sub-adviser prior to its commencing its duties; disclosure to third party service providers of accounting, auditing, custody, proxy voting and other services to the Funds; or disclosure to a rating or ranking organization;
3. As required by the federal securities laws, including the 1940 Act, the Funds will disclose their portfolio holdings in their applicable regulatory filings, including shareholder reports, reports on Form N-Q, Form N-CSR or such other filings, reports or disclosure documents as the applicable regulatory authorities may require.

In accordance with the Funds' policies and procedures, third parties are required to keep confidential any information disclosed to them and to not engage in trading based on such information in accordance with the foregoing and no compensation may be received by the Funds, a Service Provider or any affiliate in connection with disclosure of such information. The Funds' Board will oversee disclosure under the foregoing policies and procedures by approval in advance of disclosures for legitimate business purposes and by regular review of reports on disclosures of the Funds' portfolio holdings.

TRUSTEES AND OFFICERS

The Trustees of the Trust have the responsibility for the overall management of the Trust, including general supervision and review of the Funds' investment activities. The Trustees appoint the officers of the Trust who are responsible for administering the day-to-day operations of such Trust and its Funds. The affiliations of the officers and Trustees and their principal occupations for the past five years are listed below.

Name and Address	Date of Birth	Position and Offices with the Trust	Principal Occupation during the Past Five Years	Other Public Company or Investment Company Directorships
Interested Trustee				
Stephen C. Rogers P.O. Box 387 San Francisco, CA 94104	06/27/66	President, since 1999; Secretary, since 1999; Chairman of the Board & Trustee since 1999	Portfolio Manager, California Investment Trust, 2003 to present; Chief Executive Officer, CCM Partners, 1999 to present.	ETSpreads
Independent Trustees				
James W. Miller, Jr. P.O. Box 387 San Francisco, CA 94104	05/28/66	Trustee, since 2002	Director, RREEF 2006 to present; Executive Vice President, Jones Lang LaSalle Americas, Inc. 1999 to 2006.	N/A
Kevin T. Kogler P.O. Box 387 San Francisco, CA 94104	02/21/66	Trustee, since 2006	Principal, Robertson Piper Software Group, 2006 to present; Senior Vice President, Investment Banking, Friedman, Billings Ramsey, 2003 to 2006.	N/A
Stephen H. Sutro P.O. Box 387 San Francisco, CA 94104	04/09/69	Trustee, since 2006	Partner, Duane Morris LLP (law firm), 2003 to present.	N/A
Officers				
Carman Leung P.O. Box 387 San Francisco, CA 94104	07/21/74	Chief Compliance Officer, since 2008	Chief Compliance Officer, California Investment Trust, 2008 to present; Fund Operations, Wells Fargo, 2005-2008; Alternative Fund Operations, Bysis, 2005; Senior Fund Administration Analyst, RCM, 2000-2005.	N/A

Christopher P. Browne
P.O. Box 387
San Francisco, CA 94104

02/07/67

Treasurer, since
2004

Portfolio Manager, California
Investment Trust, 2004 to
present; Manager, Autodesk,
2000-2004.

N/A

The Board met four times during the fiscal year ended August 31, 2009. Currently, the Board has an Audit Committee and a Pricing Committee. The responsibilities of each committee and its members are described below.

¹*Basis of Interestedness.* Stephen C. Rogers is affiliated with CCM Partners LP, which is the investment adviser of California Investment Trust.

AUDIT COMMITTEE. The Board has an Audit Committee comprised only of the Independent Trustees (currently, Messrs. Miller, Kogler, and Sutro). The Audit Committee has the responsibility, among other things, to (1) recommend the selection of the Funds' independent auditors; (2) review and approve the scope of the independent auditors' audit activity; (3) review the financial statements which are the subject of the independent auditor's certifications; and (4) review with such independent auditors the adequacy of the Funds' basic accounting system and the effectiveness of the Funds' internal accounting controls. During the fiscal year ended August 31, 2009, there were two meetings of the Audit Committee.

PRICING COMMITTEE. The Board has a Pricing Committee, comprised of one Trustee of the Trust, certain officers of the Trust and of the Manager, which reviews and monitors the pricing policies adopted by the Board. The Pricing Committee is responsible for determining the fair value of each Fund's securities as needed in accordance with the pricing policies and performs such other tasks as the Board deems necessary. The Pricing Committee meets on an ad hoc basis to discuss issues relating to the valuation of securities held by the Funds. Committee members are required to report actions taken at their meetings at the next scheduled Board meeting following the Pricing Committee's meeting. During the fiscal year ended August 31, 2009, there were no meetings of the Pricing Committee.

As shown in the following table, the Funds pay the fees of the Trustees who are not affiliated with the Manager, which are currently \$2,500 per quarter and \$500 for each meeting attended. Mr. Miller and Mr. Sutro are each compensated \$1,500 annually for their services as Audit Committee Chair. The table provides information regarding the Funds as of August 31, 2009.

Name/Position	Aggregate Fund group compensation	Pension or Estimated retirement benefits accrued as Fund expenses	Annual benefits upon retirement	Total compensation respecting Registrant and Fund complex paid to Trustees
Stephen C. Rogers President, Secretary & Trustee	None	None	None	None
James W. Miller, Jr. Trustee	\$13,500	None	None	\$13,500
Kevin T. Kogler Trustee	\$12,000	None	None	\$12,000
Stephen H. Sutro Trustee	\$13,500	None	None	\$13,500

Dollar Range of equity holdings in the respective Funds as of December 31, 2008:

Trust	Income Fund	Insured Fund	Money Fund	Government Fund	Nasdaq-100 Fund	Treasury Trust
Stephen C. Rogers	None	None	Above \$100,000	None	\$1-\$10,000	\$10,001-50,000
James W. Miller, Jr.	None	None	\$10,001-\$50,000	None	\$10,001-\$50,000	\$1-\$10,000
Kevin T. Kogler	None	\$1-\$10,000	None	None	\$10,001-\$50,000	Above \$100,000
Stephen H. Sutro	None	None	None	None	\$1-\$10,000	None

	500 Fund	MidCap Fund	SmallCap Fund	Equity Income Fund	Short-Term Government Fund	European Fund
Stephen C. Rogers	Over \$100,000	\$50,001-\$100,000	\$50,001-\$100,000	\$50,001-\$100,000	None	\$10,001-\$50,000
James W. Miller, Jr.	\$10,001-\$50,000	\$10,001-50,000	\$10,001-50,000	None	None	\$10,001-\$50,000
Kevin T. Kogler	\$50,001-\$100,000	None	\$50,001-\$100,000	None	None	None
Stephen H. Sutro	\$1-\$10,000	\$1-\$10,000	\$1-\$10,000	\$1-\$10,000	None	None

Aggregate Dollar Range of Equity Securities in the Trust and Fund Complex:

California Investment Trust	
Stephen C. Rogers	Above \$100,000
James W. Miller, Jr.	Above \$100,000
Kevin T. Kogler	Above \$100,000
Stephen H. Sutro	\$10,001-\$50,000

INVESTMENT MANAGEMENT AND OTHER SERVICES

Management Services

CCM Partners, a California Limited Partnership (the “Manager”), is the investment adviser to the Funds pursuant to the Investment Advisory Agreement dated January 1, 2007, between the Trust on behalf of each of the Funds and the Manager (the “Agreement”). The Manager is controlled by a privately held partnership, RFS Partners, LP, which in turn is controlled by a family trust of which Mr. Stephen C. Rogers is a co-trustee.

Pursuant to the Agreement, the Manager supplies investment research and portfolio management, including the selection of securities for the Funds to purchase, hold, or sell and the selection of brokers or dealers through whom the portfolio transactions of each Fund are executed. The Manager’s activities are subject to review and supervision by the Trustees to whom the Manager renders periodic reports of the Funds’ investment activities.

Each Fund pays for its own operating expenses and for its share of the Trust’s expenses not assumed by the Manager, including, but not limited to, costs of custodian services, brokerage fees, taxes, interest, costs of reports and notices to shareholders, costs of dividend disbursing and shareholder record-keeping services (including telephone costs), auditing and legal fees, the fees of the independent Trustees and the salaries of any officers or employees who are not affiliated with the Manager, and its pro rata portion of premiums on the fidelity bond covering the Fund.

For the Manager’s services, each Fund pays a monthly fee computed at the annual rates shown in the table below:

Funds	Management Fee per annum	Range of average daily net assets of each fund
Income Fund, Insured Fund, Money Fund, Government Fund, Treasury Trust	1/2 of 1% (0.50%) 45/100 of 1% (0.45%) 4/10 of 1% (0.40%)	Up to and including assets of \$100 million over \$100 million up to and including \$500 million over \$500 million
MidCap Fund	4/10 of 1% (0.40%)	All assets
500 Fund	25/100 of 1% (0.25%)	All assets
European Fund	85/100 of 1% (0.85%)	All assets
SmallCap Fund, Equity Income Fund, Nasdaq-100 Fund, Short-Term Government Fund	1/2 of 1% (0.50%) 45/100 of 1% (0.45%) 4/10 of 1% (0.40%)	Up to and including assets of \$500 million over \$500 million up to and including \$1 billion over \$1 billion

The Agreement provides that the Manager is obligated to reimburse each of the Funds (through a reduction of its management fees or otherwise) for all expenses (except for expenses such as front-end or contingent deferred loads, taxes, interest, brokerage commissions, short sale dividend expenses, expenses incurred in connection with any merger or reorganization or extraordinary expenses such as litigation) in excess of 1% for the undesignated class shares and 1.50% for the Class K shares of each such Fund’s average daily net assets. The Manager may also, and has to date for certain Funds, reduced its fees in excess of its obligations under the Agreements.

The following fees were paid to the Manager:

For the fiscal year ended August 31, 2007:

Fund	Fee	Reimbursement	Net to Manager
Money Fund	\$476,029	\$175,932	\$300,097
Income Fund	\$607,632	-	\$607,632
Government Fund	\$132,057	\$33,268	\$98,789
Treasury Trust	\$240,380	\$118,097	\$122,283
Insured Fund	\$91,844	\$36,934	\$54,910
500 Fund	\$287,259	\$176,669	\$110,590
MidCap Fund	\$720,519	\$89,673	\$630,846
SmallCap Fund	\$176,714	\$56,922	\$119,792
Equity Income Fund	\$122,020	-	\$122,020
European Fund	\$102,650	\$49,572	\$53,078
Nasdaq-100 Fund	\$90,273	\$48,276	\$41,997
Short-Term Government Fund	\$69,069	\$49,017	\$20,052

For the fiscal year ended August 31, 2008:

Fund	Fee	Reimbursement	Net to Manager
Money Fund	\$424,743	\$166,408	\$258,335
Income Fund	\$589,428	-	\$589,428
Government Fund	\$135,776	\$28,744	\$107,032
Treasury Trust	\$205,227	\$107,074	\$98,153
Insured Fund	\$82,754	\$34,187	\$48,567
500 Fund	\$261,801	\$157,300	\$104,501
MidCap Fund	\$658,833	\$90,958	\$567,875
SmallCap Fund	\$157,427	\$48,069	\$109,358
Equity Income Fund	\$123,850	-	\$123,850
European Fund	\$125,263	\$49,551	\$75,712
Nasdaq-100 Fund	\$102,857	\$81,380	\$21,477
Short-Term Government Fund	\$60,130	\$46,843	\$13,287

For the fiscal year ended August 31, 2009:

Fund	Fee	Reimbursement	Net to Manager
Money Fund	\$364,048	\$184,452	\$179,596
Income Fund	\$541,426	-	\$541,426
Government Fund	\$149,378	\$37,562	\$111,816
Treasury Trust	\$178,791	\$221,823	-
Insured Fund	\$76,434	\$36,030	\$40,404
500 Fund	\$169,720	\$155,422	\$14,298
MidCap Fund	\$410,067	\$118,710	\$291,357
SmallCap Fund	\$110,392	\$70,847	\$39,545
Equity Income Fund	\$83,253	-	\$83,253
European Fund	\$88,643	\$50,833	\$37,810
Nasdaq-100 Fund	\$71,679	\$88,106	-
Short-Term Government Fund	\$74,140	\$54,104	\$20,036

The Agreement is currently in effect until March 31, 2010 and will be in effect thereafter only if it is renewed for each Fund for successive periods not exceeding one year by (i) the Board of Trustees of the Trust or a vote of a majority of the outstanding voting securities of each Fund, and (ii) a vote of a majority of the Trustees who are not parties to the Agreement or an interested person of any such party (other than as a Trustee), cast in person at a meeting called for the purpose of voting on such Agreement.

The Agreement may be terminated without penalty at any time by the Trust with respect to one or more of the Funds (either by the applicable Board of Trustees or by a majority vote of the terminating Fund's outstanding shares). Each Agreement may also be

terminated by the Manager on 60-days' written notice and will automatically terminate in the event of its assignment as defined in the 1940 Act.

Administrative Services

Pursuant to the Fund Administration Servicing Agreements, CCM Partners ("Administrator") also serves as the Funds' Administrator. The Administrator is responsible for handling the administrative requirements of the Funds and, as compensation for these duties, receives fees of 0.10% on the first \$100 million in combined assets of the Trust, 0.08% on the next \$400 million in combined assets of the Trust, and 0.06% on the Trust combined assets over \$500 million.

Portfolio Managers

The table below includes details about the type, number, and assets under management for the various types of accounts, and total assets in the accounts with respect to which the advisory fee is based on the performance of the accounts that Messrs. Rogers and Browne, managed as of August 31, 2009:

Stephen C. Rogers

Type of Account	Number of Accounts Managed	Total Assets Managed	Number of Accounts Managed for which Investment Advisory Fee is Performance-Based	Assets Managed for which Investment Advisory Fee is Performance-Based
Registered Investment Companies	12	\$532,805,033	0	0
Other Pooled Investment Vehicles	0	0	0	0
Other Accounts	0	0	0	0

Christopher P. Browne

Type of Account	Number of Accounts Managed	Total Assets Managed	Number of Accounts Managed for which Investment Advisory Fee is Performance-Based	Assets Managed for which Investment Advisory Fee is Performance-Based
Registered Investment Companies	6	\$271,407,851	0	0
Other Pooled Investment Vehicles	0	0	0	0
Other Accounts	0	0	0	0

Potential Conflicts

Individual portfolio managers may manage multiple CIT Funds. CCM manages potential conflicts between Funds through allocation policies and procedures, internal review processes, including, but not limited to reports and oversight by management. CCM has developed trade allocation systems and controls to help ensure that no one Fund, regardless of type, is intentionally favored at the expense of another. Allocation policies are designed to address potential conflicts in situations where two or more funds participate in investment decisions involving the same securities.

Portfolio Manager Securities Ownership

The table below identifies the dollar range of Fund shares beneficially owned by each portfolio manager of such Fund, as of August 31, 2009.

	Income Fund	Insured Fund	Money Fund	Government Fund	Nasdaq-100 Fund	Treasury Trust
Stephen C. Rogers	None	None	\$10,001-\$50,000	None	\$1-\$10,000	\$10,001-\$50,000
Christopher P. Browne	None	None	None	None	None	\$1-\$10,000
	500 Fund	MidCap Fund	SmallCap Fund	Equity Income Fund	Short-Term Government Fund	European Fund
Stephen C. Rogers	Above \$100,000	Above \$100,000	\$50,001-\$100,000	\$50,001-\$100,000	None	\$10,001-\$50,000
Christopher P. Browne	\$10,001-\$50,000	\$10,001-\$50,000	None	None	None	None

Compensation of Portfolio Managers (PMs) includes a base salary, cash bonus, and a package of employee benefits that are generally available to all salaried employees. Compensation is structured to emphasize the success of the Manager rather than that of any one individual. The Manager does not have any “incentive compensation” or “deferred compensation” programs for the PMs. Compensation is not linked to the distribution of Fund shares or to the performance of any account or Fund. Some of the PMs also participate in equity ownership of the Manager. Each element of compensation is detailed below:

Base Salary. PMs are paid a fixed base salary that is intended to be competitive in light of each PMs’ experience and responsibilities.

Bonus. Bonus payments are based on a number of factors including the profitability of the firm and the employee’s long-term contributions, full-time employees of the Manager with at least one year of tenure participate in the annual bonus program. Bonuses are not linked to the volume of assets managed or to measurements of relative or absolute investment returns.

Partnership interests. In the past, the firm has made partnership interests available in its general partner, RFS Partners to employees of the Manager. PMs have participated in these offerings by purchasing interests in the partnership. Partnership interests may provide pass-through income of the firm’s profits and annual cash distributions based on each Partner’s proportionate profit sharing interest. Distributions are generally determined based on considerations of the Manager’s working capital requirements and on estimated tax liabilities associated with the pass-through income.

Employee Benefit Program. PMs participate in benefit plans and programs available generally to all employees, which includes a qualified, defined-contribution profit sharing plan and company match.

The above information regarding compensation of PMs is current as of December 31, 2009.

Code of Ethics

The Trust and the Manager have adopted a Code of Ethics pursuant to Section 17(j) of the 1940 Act and Rule 17j-1 thereunder (and Rule 204A-1 under the Investment Advisers Act of 1940, as amended). Currently, the Code of Ethics prohibits personnel subject to the Code of Ethics from buying or selling securities for their own individual accounts if such purchase or sale represents \$50,000 or 1,000 shares, whichever is greater, and if the securities at the time of such purchase or sale (i) are being considered for purchase or sale by a Fund (except the Index Funds) (ii) have been purchased or sold by a Fund within the most recent seven (7) days if such person participated in the recommendation to, or the decision by, the Fund to purchase or sell such security (except the Index Funds). Notwithstanding these prohibitions, there are limited circumstances in which personnel subject to the Code of Ethics may buy or sell securities for their own account (e.g. purchases which are part of an automatic dividend reinvestment plan). The Code of Ethics also requires personnel subject to the Code to report personal holdings to the Trust or the Manager on both an annual and a quarterly basis.

Proxy Voting Policies and Procedures

The Board of Trustees of the Trust has delegated to the Manager the authority to vote proxies of companies held in the Fund’s portfolio. The Manager intends to apply its pre-determined proxy voting guidelines when voting proxies on behalf of the Fund.

The Manager recognizes that an investment adviser is a fiduciary that owes its clients, including the Fund, a duty of utmost good faith and full and fair disclosure of all material facts. An investment adviser’s duty of loyalty requires an adviser to vote proxies in a manner consistent with the best interest of its clients and precludes the adviser from subrogating the clients’ interests to its own. In addition, an investment adviser voting proxies on behalf of a fund must do so in a manner consistent with the best interests of the fund and its shareholders. The Board, in conjunction with the Manager, seeks to balance the benefits of voting the proxies against the associated costs to the shareholders. The Board will review its determination at least annually.

The Manager seeks to avoid material conflicts of interest by voting in accordance with its pre-determined written proxy voting guidelines (the “Voting Guidelines”) in an objective and consistent manner across client accounts, based on internal and external research and recommendations provided by a third party vendor, and without consideration of any client relationship factors. Further, the Manager may engage a third party as an independent fiduciary, as required, to vote all proxies of the Fund, and may engage an independent fiduciary to vote proxies of other issuers at its discretion.

All proxies received by the Fund are reviewed, categorized, analyzed and voted in accordance with the Voting Guidelines. The guidelines are reviewed periodically and updated as necessary to reflect new issues and any changes in the Manager’s policies on specific issues. Items that can be categorized under the Voting Guidelines are voted in accordance with any applicable guidelines.

Proposals that cannot be categorized under the Voting Guidelines and raise a material conflict of interest between the Adviser and the Fund are referred to the Fund’s Board of Trustees. Specifically, the Manager will disclose the conflict to the Board and obtain its consent to the proposed vote in question prior to voting the securities. The disclosure to the Board will include sufficient detail

regarding the matter to be voted on and the nature of the Manager's conflict so that the Board would be able to make an informed decision regarding the vote. When the Board does not respond to such a conflict disclosure request or denies the request, the Manager will abstain from voting the securities held by the Fund.

With regard to voting proxies of foreign companies, the Manager weighs the cost of voting and potential inability to sell the securities (which may occur during the voting process) against the benefit of voting the proxies to determine whether or not to vote. With respect to securities lending transactions, the Manager seeks to balance the economic benefits of continuing to participate in an open securities lending transaction against the inability to vote proxies.

When evaluating proposals, the Manager recognizes that the management of a publicly-held company may need protection from the market's frequent focus on short-term considerations, so as to be able to concentrate on such long-term goals as productivity and development of competitive products and services. In addition, the Manager generally supports proposals designed to provide management with short-term insulation from outside influences so as to enable them to bargain effectively with potential suitors to the extent such proposals are discrete and not bundled with other proposals. The Manager believes that a shareholder's role in the governance of a publicly-held company is generally limited to monitoring the performance of the company and its management and voting on matters which properly come to a shareholder vote. However, the Manager generally opposes proposals designed to insulate an issuer's management unnecessarily from the wishes of a majority of shareholders. Accordingly, the Manager generally votes in accordance with management on issues that, at the sole discretion of the Manager, it believes neither unduly limits the rights and privileges of shareholders nor adversely affects the value of the investment.

Information regarding how the Funds voted proxies relating to portfolio securities during the most recent 12-month period ended June 30, 2009 is available (1) by calling the Funds at (800) 225-8778, or (2) on the SEC's website at <http://www.sec.gov>.

Share Marketing Plan

The Trust has adopted a Share Marketing Plan (or Rule 12b-1 Plan) (the "12b-1 Plan") with respect to the K Class pursuant to Rule 12b-1 under the Investment Company Act. Specifically, on August 12, 2003 the Board of Trustees of the Trust, including a majority of the Trustees who are not interested persons of the Trust and who have no direct or indirect financial interest in the operation of the 12b-1 Plan or in any agreement related to the 12b-1 Plan (the "Independent Trustees"), at their regular quarterly meeting, adopted the 12b-1 Plan for the newly designated Class K shares of each Fund. In Reviewing the Plan, the Board of Trustees considered the proposed range and nature of payments and terms of the Investment Advisory Agreement between the Trust on behalf of each Fund and the Manager and the nature and amount of other payments, fees and commissions that may be paid to the Manager, its affiliates and other agents of the Trust.

Under the 12b-1 Plan, each Fund pays distribution fees to the Fund's distributor at an annual rate of 0.25% of the Fund's aggregate average daily net assets attributable to its Class K shares, to reimburse the distributor for its expenses in connection with the promotion and distribution of the Class K shares. The 12b-1 Plan provides that the Fund's distributor may use the distribution fees received from the Class K shares of the Fund covered by the 12b-1 Plan only to pay for the distribution expenses of that Class. For the fiscal year ended August 31, 2009, the Funds paid 12b-1 fees as follows: Government Fund, \$17,889; Treasury Trust, \$7,823; Short-Term Government Fund, \$6,174; 500 Fund, \$13,624; MidCap Fund, \$11,681; SmallCap Fund, \$15,378; Equity Income Fund, \$9,067; European Fund, \$10,925; Nasdaq-100 Fund, \$9,923.

Shareholder Services Plan

The Trust has adopted a Shareholder Services Plan (the "Services Plan") with respect to the K Class. The Manager (or its affiliate) serves as the service provider under the Services Plan and, as such, receives any fees paid by the Funds pursuant to the Services Plan.

On August 12, 2003, the Board of Trustees of the Trust, including a majority of the Trustees who are not interested persons of the Trust and who have no direct or indirect financial interest in the operation of the Services Plan or in any agreement related to the Services Plan (the "Independent Trustees"), at their regular quarterly meeting, adopted the Services Plan for the Class K shares of each Fund.

Under the Services Plan, the covered shares of each Fund will pay a continuing service fee to the Manager, the Fund's distributor or other service providers, in an amount, computed and prorated on a daily basis, equal to 0.25% per annum of the average daily net assets of the covered shares of each Fund. Such amounts are compensation for providing certain services to clients owning those shares of the Funds, including personal services such as processing purchase and redemption transactions, assisting in change of address requests and similar administrative details, and providing other information and assistance with respect to a Fund, including responding to shareholder inquiries.

For the fiscal year ended August 31, 2009, the Funds paid Shareholder servicing fees as follows: Government Fund, \$17,889; Treasury Trust, \$7,823; Short-Term Government Fund, \$6,174; 500 Fund, \$13,624; MidCap Fund, \$11,681; SmallCap Fund, \$15,378; Equity Income Fund, \$9,067; European Fund, \$10,925; Nasdaq-100 Fund, \$9,923.

Principal Underwriter

RFS Partners, a California limited partnership, is currently the principal underwriter of each Fund's shares under an underwriting agreement with each Fund, pursuant to which RFS Partners agrees to act as each Fund's distribution agent. Each Fund's shares are sold to the public on a best efforts basis in a continuous offering without a sales load or other commission or compensation. RFS Partners is the general partner of the Funds' Manager. The general partner of RFS Partners is Richard F. Shelton, Inc., a corporation that is controlled by a family trust, of which Stephen C. Rogers serves as a co-trustee. While the shares of each Fund are offered directly to the public with no sales charge, RFS Partners may, out of its own monies, compensate brokers who assist in the sale of a Fund's shares. In addition, the Manager may, out of its own monies, make cash contributions to tax-exempt charitable organizations that invest in the Funds.

Other Services

ALPS Fund Services, Inc. acts as the shareholder servicing agent for the Trust and acts as the Trust's transfer and dividend-paying agent. In such capacities it performs many services, including portfolio and net asset valuation, bookkeeping, and shareholder record-keeping.

US Bank N.A. (the "Custodian") acts as custodian of the securities and other assets of the Trust. The Custodian does not participate in decisions relating to the purchase and sale of portfolio securities. Under the custodian agreement, the Custodian (i) maintains a separate account or accounts in the name of each Fund, (ii) holds and transfers portfolio securities on account of each Fund, (iii) accepts receipts and makes disbursements of money on behalf of each Fund, (iv) collects and receives all income and other payments and distribution on account of each Fund's securities and (v) makes periodic reports to the Trustees of each Trust concerning each Fund's operations.

Tait, Weller & Baker LLP (the "Auditor"), 1818 Market Street, Suite 2400, Philadelphia, Pennsylvania 19103, is the independent registered public accounting firm for the Trust. The Auditor provides audit services and assistance and consultation with respect to regulatory filings with the SEC. The Auditor also audits the books of each Fund once each year.

The validity of shares of beneficial interest offered hereby has been passed on by Reed Smith LLP, 101 Second Street, 18th Floor, San Francisco, California 94105.

POLICIES REGARDING BROKER-DEALERS USED FOR PORTFOLIO TRANSACTIONS

Decisions to buy and sell securities for the Funds, assignment of their portfolio business, and negotiation of commission rates and prices are made by the Manager, whose policy is to obtain the "best execution" available (i.e., prompt and reliable execution at the most favorable security price). If purchases made by the Funds are effected via principal transactions with one or more dealers (typically a market maker firm in the particular security or a selling group member in the case of an initial or secondary public offering) at net prices, the Funds will generally incur few or no brokerage costs. These dealers are compensated through the principal "spread," and may also charge related transaction fees. Purchases of portfolio securities from underwriters may include a commission or concession paid by the issuer to the underwriter, and purchases from dealers will include a spread between the bid and asked price.

However, in order to obtain additional research and brokerage services on a "soft dollar" basis, and in order to obtain other qualitative execution services that the Manager believes are important to best execution, the Manager may place over-the-counter ("OTC") equity transactions and/or place fixed-income transactions with specialized broker-dealers with which the Manager has a "soft dollar" credit arrangement, and that execute such transactions on an agency basis ("Brokers"). When the Manager uses Brokers to execute OTC equity transactions and/or fixed-income transactions on an agency basis, the Manager takes steps to ensure that the prices obtained in such transactions are competitive with the prices that could have been obtained had the transactions been conducted on a principal basis, i.e., directly with the dealers. However, the total cost (i.e., price plus/minus commission) of executing an OTC equity transaction and/or a fixed income transaction through a Broker on an agency basis may be less favorable than that of executing that same transaction with a dealer because the Broker will receive a commission for its services, including for the provision of research products, services or credits. The Manager will take steps to ensure that commissions paid are reasonable in relation to, among other things: (i) the value of all the brokerage and research products and services provided by that Broker and (ii) the quality of execution provided by that Broker. Accordingly, the Manager uses Brokers to effect OTC equity transactions and/or fixed income transactions for the Funds where the total cost is, in the Manager's opinion, reasonable, but not necessarily the lowest total cost available.

In selecting broker-dealers and in negotiating commissions, the Manager generally considers, among other things, the broker-dealer's reliability, the quality of its execution services on a continuing basis, the financial condition of the broker-dealer, and the research services provided, which include furnishing advice as to the value of securities, the advisability of purchasing or selling specific securities and furnishing analysis and reports concerning state and local governments, securities, and economic factors and trends, and portfolio strategy. The Manager considers such information, which is in addition to and not in lieu of the services required to be performed by the Manager under the Agreements, to be useful in varying degrees, but of indeterminable value.

The Funds may pay brokerage commissions in an amount higher than the lowest available rate for brokerage and research services as authorized, under certain circumstances, by the Securities Exchange Act of 1934, as amended. Where commissions paid reflect research services and information furnished in addition to execution, the Manager believes that such services were bona fide and rendered for the benefit of its clients. For the fiscal year ended August 31 of each year shown, the commissions paid are as follows:

	2007	2008	2009
500 Fund	\$6,574	\$5,047	\$7,677
MidCap Fund	\$34,908	\$35,060	\$68,806
SmallCap Fund	\$6,857	\$6,061	\$11,046
Nasdaq-100 Fund	\$1,779	\$3,852	\$2,341
Equity Income Fund	\$2,926	\$5,517	\$19,201
European Fund	\$1,195	\$860	\$4,638

The Manager ceased using soft dollar credits pending a review regarding the practice. In the past, a broker would provide research services to the Manager. Such research were paid for by the broker using soft dollars credits. Any research received by the Manager was used for the exclusive benefit of the Funds and their shareholders. The Manager does not currently use soft dollars but may do so in the future with respect to the Funds at its discretion, subject to oversight by the Trustees.

If purchases or sales of securities of the Funds are considered at or about the same time, transactions in such securities will be allocated among the several Funds in a manner deemed equitable to all by the Manager, taking into account the respective sizes of the Funds, and the amount of securities to be purchased or sold. It is recognized that it is possible that in some cases this procedure could have a detrimental effect on the price or volume of the security so far as a Fund is concerned. In other cases, however, it is possible that the ability to participate in volume transactions and to negotiate lower brokerage commissions or net prices will be beneficial to a Fund.

ADDITIONAL INFORMATION REGARDING PURCHASES AND REDEMPTIONS OF FUND SHARES

Purchase Orders

The purchase price for shares of the Funds is the net asset value of such shares next determined after receipt and acceptance of a purchase order in proper form by the Funds' Transfer Agent, ALPS Fund Services, Denver. Once shares of a Fund are purchased, they begin earning income immediately, and income dividends will start being credited to the investor's account on the day following the effective date of purchase and continue through the day the shares in the account are redeemed. All checks are accepted subject to collection at full face value in U.S. funds and must be drawn in U.S. dollars on a U.S. bank. Checks drawn in U.S. funds on foreign banks will not be credited to the shareholder's account and dividends will not begin accruing until the proceeds are collected, which can take a long period of time.

Payments transmitted by wire and received by the Transfer Agent prior to the close of the Funds, normally at 4:00 p.m. Eastern time (1:00 p.m. Pacific time) on any business day are effective on the same day as received. Wire payments received by the Transfer Agent after that time will normally be effective on the next business day and such purchases will be made at the net asset value next calculated after receipt of that payment.

Shareholder Accounting

All purchases of Fund shares will be credited to the shareholder in full and fractional shares of the relevant Fund (rounded to the nearest 1/1000 of a share) in an account maintained for the shareholder by the Trust's transfer agent. Share certificates will not be issued for any Fund at any time. To open an account in the name of a corporation, a resolution of that corporation's Board of Directors will be required. Other evidence of corporate status or the authority of account signatories may be required.

The Trust reserves the right to reject any order for the purchase of shares of any Fund, in whole or in part. In addition, the offering of shares of any Fund may be suspended by the Trust at any time and resumed at any time thereafter.

Shareholder Redemptions

All requests for redemption and all share assignments should be sent to the applicable Fund, P.O. Box 387, San Francisco, California 94104-0387, or, for telephone redemptions, by calling the Fund at (800) 225-8778. For online redemptions, visit the Funds' website at www.caltrust.com.

Redemptions will be made in cash at the net asset value per share next determined after receipt by the transfer agent of a redemption request in proper form, including all share certificates, share assignments, signature guarantees, and other documentation as may be required by the transfer agent. The amount received upon redemption may be more or less than the shareholder's original investment.

The Trust will attempt to make payment for all redemptions within one business day, but in no event later than seven days after receipt of such redemption request in proper form. However, the Trust reserves the right to suspend redemptions or postpone the date of payment (1) for any periods during which the New York Stock Exchange is closed (other than for the customary weekend and holiday closings), (2) when trading in the markets the Trust usually utilize is restricted or an emergency exists, as determined by the SEC, so that disposal of the Trust's investments or the determination of a Fund's net asset value is not reasonably practicable, or (3) for such other periods as the SEC by order may permit for the protection of a Trust's shareholders. Also, the Trust will not mail redemption proceeds until checks used for the purchase of the shares have cleared, which can take up to 15 days.

As of the date of this Statement of Additional Information, the Trust understands that the New York Stock Exchange is closed for the following holidays: New Year's Day, Martin Luther King, Jr. Day, President's Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas. The Bond and Money Market Funds are expected to be closed on the following additional days: Columbus Day and Veterans Day. On holidays in which the Custodian is closed, any transactions will be processed on the following business day.

Due to the relatively high cost of handling small investments, the Trust reserves the right to redeem, involuntarily, at net asset value, the shares of any shareholder whose accounts in the Trust have an aggregate value of less than \$5,000 (\$1,000 in the case of the Stock Funds), but only where the value of such accounts has been reduced by such shareholder's prior voluntary redemption of shares. In any event, before the Trust redeems such shares and sends the proceeds to the shareholder, it will notify the shareholder that the value of the shares in that shareholder's account is less than the minimum amount and allow that shareholder 30 days to make an additional investment in an amount which will increase the aggregate value of that shareholder's accounts to at least \$5,000 before the redemption is processed (\$1,000 in the case of the Stock Funds).

Use of the Exchange Privilege as described in the Prospectus in conjunction with market timing services offered through numerous securities dealers has become increasingly popular as a means of capital management. In the event that a substantial portion of a Fund's shareholders should, within a short period, elect to redeem their shares of that Fund pursuant to the Exchange Privilege, the Fund might have to liquidate portfolio securities it might otherwise hold and incur the additional costs related to such transactions. The Exchange Privilege may be terminated or suspended by the Funds upon 60-days' prior notice to shareholders.

Redemptions in Kind

The Trust has committed itself to pay in cash all requests for redemption by any shareholder of record, limited in amount, however, during any 90-day period to the lesser of \$250,000 or 1% of the value of the applicable Fund's net assets at the beginning of such period. Such commitment is irrevocable without the prior approval of the SEC. In the case of requests for redemption in excess of such amounts, the Trustees reserve the right to make payments in whole or in part in securities or other assets of the Fund from which the shareholder is redeeming in case of an emergency, or if the payment of such a redemption in cash would be detrimental to the existing shareholders of that Fund or the Trust. In such circumstances, the securities distributed would be valued at the price used to compute such Fund's net asset value. Should a Fund do so, a shareholder would likely incur transaction fees in converting the securities to cash.

Determination of Net Asset Value Per Share ("NAV")

The valuation of the portfolio securities of the Money Fund and the Treasury Trust (including any securities held in the separate account maintained for when-issued securities) is based upon their amortized cost, which does not take into account unrealized capital gains or losses. This involves valuing an instrument at its cost and thereafter assuming a constant amortization to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of the instrument. While this method provides certainty in valuation, it may result in periods during which value, as determined by amortized cost, is higher or lower than the price such Funds would receive if they sold the instrument. During periods of declining interest rates, the daily yield on shares of the Money Fund and the Treasury Trust computed as described above may tend to be higher than a like computation made by a Fund with identical investments utilizing a method of valuation based upon market prices. Thus, if the use of amortized cost by such Funds resulted in a lower aggregate portfolio value on a particular day, a prospective investor in such Fund would be able to obtain a

somewhat higher yield than would result from investment in a Fund utilizing solely market values, and existing investors in such Fund would receive less investment income. The converse would apply in a period of rising interest rates.

The use of amortized cost by the Money Fund and the Treasury Trust, and the maintenance of each Fund's per share net asset value at \$1.00 is permitted by Rule 2a-7 under the 1940 Act, pursuant to which each Fund must adhere to certain conditions. There are policies that the Manager follows regarding 2a-7. Under the amortized cost method, securities are valued at their acquisition cost, as adjusted for amortization of premium or discount, rather than at current market value. Calculations are made at least weekly to compare the value of these Funds' investments valued at amortized cost with market values.

The Money Fund and the Treasury Trust each maintain a dollar-weighted average portfolio maturity of 90 days or less, only purchase instruments having remaining maturities of 397 days or less, and only invest in securities determined by the Trustees to be of high quality with minimal credit risks. The Trustees have also established procedures designed to stabilize, to the extent reasonably possible, each Fund's price per share as computed for the purpose of sales and redemptions at \$1.00. Such procedures include review of each Fund's portfolio holdings by the Trustees, at such intervals as they may deem appropriate, to determine whether each Fund's net asset value calculated by using available market quotations deviates from \$1.00 per share based on amortized cost. The extent of any deviation is examined by the Trustees. If such deviation exceeds 1/2 of 1%, the Trustees will promptly consider what action, if any, will be initiated. In the event the Trustees determine that a deviation exists which may result in material dilution or other unfair results to investors or existing shareholders, they have agreed to take such corrective action as they regard as necessary and appropriate, which may include the sale of portfolio securities prior to maturity to realize capital gains or losses or to shorten average portfolio maturity, adjusting or withholding of dividends, redemptions of shares in kind, or establishing a net asset value per share by using available market quotations.

The portfolio securities of the Stock Funds are generally valued at the last reported sale price. In the case of the Futures contracts held by the Stock Funds, the valuation is determined using the settle price provided by the Chicago Mercantile Exchange, typically as of 1:15 p.m., Pacific time. Securities held by the Stock Funds that have no reported last sale for any day that a Fund's NAV is calculated and securities and other assets for which market quotations are readily available are valued at the latest available bid price. Portfolio securities held by the Income Fund and the Insured Fund for which market quotations are readily available are valued at the last available bid. The Government Fund and the Short-Term Government Fund for which market quotations are readily available are valued at the mean between the bid and ask price of the security. All other securities and assets are valued at their fair value as determined in good faith by the Board of Trustees. Securities with remaining maturities of 60 days or less are valued on the amortized cost basis unless the Trustees determine that such valuation does not reflect fair value. The Trust may also utilize a pricing service, bank, or broker/dealer experienced in such matters to perform any of the pricing functions.

TAXATION

Provided that, as anticipated, each Tax-Free Fund qualifies as a regulated investment company under the Internal Revenue Code of 1986, as amended (the "Code"), and, at the close of each quarter of its taxable year, at least 50% of the value of the total assets of each Tax-Free Fund consists of Municipal Obligations, each Tax-Free Fund may designate and pay exempt-interest dividends from interest earned on such obligations. Such exempt-interest dividends may be excluded by shareholders of the Tax-Free Funds from their gross income for federal income tax purposes. Corporate shareholders must take all exempt-interest dividends into account in determining "adjusted current earnings" for purposes of calculating their alternative minimum tax. Each Tax-Free Fund might purchase municipal obligations at a discount from the prices at which they were originally issued, especially during periods of rising interest rates. For federal income tax purposes, some or all of this market discount may be included in the Tax-Free Funds' ordinary income and will be taxable to shareholders as such when it is distributed. If, at the close of each quarter of its taxable year, at least 50% of the value of the total assets of each Tax-Free Fund consists of obligations that produce interest that is exempt from California personal income tax if received by an individual, and if each maintains its qualification as a regulated investment company, then such Tax-Free Fund will be qualified to pay exempt-interest dividends to its shareholders that, to the extent they are attributable to interest received by such Tax-Free Fund on such obligations, are exempt from California personal income tax. The total amount of exempt-interest dividends paid by a Tax-Free Fund to its shareholders with respect to any taxable year cannot exceed the amount of interest received by the Fund during such year on tax-exempt obligations less any expenses attributable to such interest.

Provided that, as anticipated, the Treasury Trust qualifies as a regulated investment company and meets certain requirements of California tax law, including the requirement that, at the close of each quarter of its taxable year, at least 50% of the value of its individual total assets are invested in direct obligations of the United States (or other U.S. and California tax-exempt obligations), then the Treasury Trust will be qualified to pay dividends to its shareholders that, to the extent they are attributable to interest received by the Treasury on such U.S. Government obligations, will be exempt from California personal income tax. Because the GNMA certificates in which the Government Fund and Short Term Government Fund invests are not considered direct obligations of the United States for this purpose, the Government Fund or Short Term Government Fund may not meet the 50% requirement; as a result, dividends paid by the respective Fund may be subject to California personal income tax.

Exempt-interest dividends paid to Tax-Free Fund shareholders that are corporations subject to California franchise or income tax will be taxed as ordinary income to such shareholders. Moreover, no dividend paid by the Tax-Free Funds will qualify for the corporate dividends-received deduction for federal income tax purposes.

Interest on indebtedness incurred or continued by a shareholder to purchase or carry shares of a Tax-Free Fund is not deductible for federal income tax purposes. Under regulations used by the Internal Revenue Service (the "IRS") for determining when borrowed funds are considered used for the purpose of purchasing or carrying particular assets, the purchase of shares may be considered to have been made with borrowed funds even though the borrowed funds are not directly traceable to the purchase of shares of a Fund. California personal income tax law restricts the deductibility of interest on indebtedness incurred by a shareholder to purchase or carry shares of a Fund paying dividends exempt from California personal income tax, as well as the allowance of losses realized upon a sale or redemption of shares, in substantially the same manner as federal tax law. Further, a Tax-Free Fund may not be an appropriate investment for persons who are "substantial users" of facilities financed by industrial revenue bonds or are "related persons" of such users. Such persons should consult their tax advisers before investing in one of the Tax-Free Funds.

Up to 85% of Social Security or railroad retirement benefits may be included in federal taxable income for benefit recipients whose adjusted gross income (including income from tax-exempt sources such as tax-exempt bonds and the Tax-Free Funds) plus 50% of their benefits exceeds certain base amounts. Income from the Tax-Free Funds, and others like them, is included in the calculation of whether a recipient's income exceeds certain established amounts but is not taxable directly. California does not impose personal income tax on Social Security or railroad retirement benefits.

From time to time, proposals have been introduced before Congress for the purpose of restricting or eliminating the federal income tax exemption for interest on Municipal Obligations. It can be expected that similar proposals may be introduced in the future. Proposals by members of state legislatures may also be introduced which could affect the state tax treatment of the Tax-Free Funds' distributions. If such proposals were enacted, the availability of Municipal Obligations for investment by the Tax-Free Funds and the value of the Tax-Free Funds' portfolios would be affected. In such event, the Tax-Free Funds would reevaluate their investment objectives and policies.

General

Each Fund is treated as a separate entity and intends to continue to qualify in each year to be treated as a separate "regulated investment company" under the Code. Each of these Funds has elected such treatment and has so qualified during its last fiscal period ended August 31, 2009. To continue to qualify for the tax treatment afforded a regulated investment company under the Code, a Fund must distribute for each fiscal year at least 90% of its taxable income (including net realized short-term capital gains) and tax-exempt net investment income and meet certain source of income, diversification of assets and other requirements of the Code. Provided a Fund continues to qualify for such tax treatment, it will not be subject to federal income tax on the part of its net investment income and its net realized capital gains which it distributes to shareholders, nor will it be subject to Delaware or California income or excise taxation. Each Fund must also meet certain Code requirements relating to the timing of its distributions, which generally require the distribution of substantially all of its taxable income and capital gains each calendar year, in order to avoid a 4% federal excise tax on certain retained amounts.

Each Stock Fund may purchase or sell futures contracts. Such transactions are subject to special tax rules which may affect the amount, timing and character of distributions to shareholders. Unless a Fund is eligible to make and makes a special election, such futures contracts that are "Section 1256 contracts" (such as a futures contract the margin requirements for which are based on a marked-to-market system and which is traded on a "qualified board or exchange") will be "marked to market" for federal income tax purposes at the end of each taxable year, i.e., each futures contract will be treated as sold for its fair market value on the last day of the taxable year. In general, unless the special election is made, gain or loss from transactions in such futures contracts will be 60% long-term and 40% short-term capital gain or loss.

Dividends of net investment income and realized net short-term capital gains in excess of net long-term capital losses are taxable to shareholders as ordinary income, whether such distributions are taken in cash or reinvested in additional shares. Distributions of net long-term capital gains (i.e., the excess of net long-term capital gains over net short-term capital losses), if any, are taxable as long-term capital gains, whether such distributions are taken in cash or reinvested in additional shares, and regardless of how long shares of a Fund have been held. The current maximum federal individual tax rate applicable to ordinary income is 35.0%. The current maximum federal individual tax rate applicable to net long-term capital gains is 15% for investments held longer than 12 months. Dividends declared by a Fund in October, November, or December of any calendar year to shareholders of record as of a record date in such a month will be treated for federal income tax purposes as having been received by shareholders on December 31 of that year if they are paid during January of the following year.

A portion of each Stock Fund's ordinary income dividends may qualify for the dividends received deduction available to corporate shareholders under Code Section 243 to the extent that the Fund's income is derived from qualifying dividends. Availability of the

deduction is subject to certain holding periods and debt-financing limitations. Because a Fund may also earn other types of income such as interest, income from securities loans, non-qualifying dividends, and short-term capital gains, the percentage of dividends from a Fund that qualifies for the deduction generally will be less than 100%. Each Stock Fund will notify corporate shareholders annually of the percentage of Fund dividends that qualifies for the dividends received deduction.

For any fiscal year, each Fund may use the accounting practice called equalization in order to avoid the dilution of the dividends payable to existing shareholders. Under this procedure, that portion of the net asset value per share of a Fund which is attributable to undistributed income is allocated as a credit to undistributed income in connection with the purchase of shares or a debit to undistributed income in connection with the redemption of shares. Thus, after every distribution, the value of a share drops by the amount of the distribution. The use of equalization accounting by the Funds may affect the amount, timing and character of their distributions to shareholders.

Each Fund is required to file information reports with the IRS with respect to taxable distributions and other reportable payments made to shareholders. The Code requires backup withholding of tax at a rate of 30% on redemptions (except redemptions of Money Fund and Treasury Trust shares) and other reportable payments made to non-exempt shareholders if they have not provided the Fund with their correct social security or other taxpayer identification number and made the certifications required by the IRS or if the IRS or a broker has given notification that the number furnished is incorrect or that withholding applies as a result of previous underreporting. Such withholding is not required with respect to the Tax-Free Funds' dividends qualifying as "exempt-interest dividends" but will apply to the proceeds of redemption or repurchase of Fund (except Money Fund and Treasury Trust) shares for which the correct taxpayer identification number has not been furnished in the manner required or if withholding is otherwise applicable. Therefore, investors should make certain that their correct taxpayer identification number and completed certifications are included in the application form when opening an account.

The information above is only a summary of some of the tax considerations generally affecting the Funds and their shareholders. No attempt has been made to discuss individual tax consequences and this discussion should not be construed as applicable to all shareholders' tax situations. Investors should consult their own tax advisers to determine the suitability of a particular Fund and the applicability of any federal, state, local, or foreign taxation. Reed Smith LLP has expressed no opinion in respect thereof. Foreign shareholders should consider, in particular, the possible application of U.S. withholding taxes on certain taxable distributions from a Fund at rates up to 30% (subject to reduction under certain income tax treaties).

Yield Disclosure and Performance Information

As noted in this SAI, each Fund may from time to time quote various performance figures in advertisements and investor communications to illustrate the Fund's past performance. Performance information published by the Funds will be in compliance with rules adopted by the SEC. These rules require the use of standardized performance quotations or, alternatively, that every non-standardized performance quotation furnished by a Fund be accompanied by certain standardized performance information computed as required by the SEC. An explanation of the methods used by the Funds to compute or express performance is discussed below.

Average Annual Total Return

Total return for the Funds may be stated for any relevant period as specified in the advertisement or communication. Any statements of total return or other performance data for the Funds will be limited to or accompanied by standardized information on the Fund's average annual compounded rate of return over the most recent four calendar quarters, five years, 10 years (if applicable) and over the life of the Fund (i.e., the period from the Fund's inception of operations through the end of the most recent calendar quarter). The average annual compounded rate of return is determined by reference to a hypothetical \$1,000 investment that includes capital appreciation and depreciation for the stated period and assumes reinvestment (on the reinvestment date) of all distributions at net asset value and redemption at the end of the stated period. It is calculated according to the following standardized formula:

$$P(1+T)^n = ERV$$

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 periods at the end of a 1-, 5- or 10-year periods (or fractional portion).

Average Annual Total Return (after taxes on distributions):

The Funds compute their average annual total return after taxes on distributions by determining the average annual compounded rates of return during specified periods that equate the initial amount invested to the ending redeemable value of such investment after taxes on fund distributions:

$$P(1+T)^n = ATV_D$$

where:

- P = a hypothetical initial payment of \$1,000.
- T = average annual total return (after taxes on distributions).
- n = number of years
- ATV_D = ending value of a hypothetical \$1,000 payment made at the beginning of the 1-, 5-, or 10-year periods at the end of such periods, after taxes on fund distributions but not after taxes on redemptions.

Average Annual Total Return (after taxes on distributions and redemptions)

The Funds compute their average annual total return after taxes on distributions and redemptions by determining the average annual compounded rates of return during specified periods that equate the initial amount invested to the ending redeemable value of such investment after taxes on fund distributions and redemptions:

$$P(1+T)^n = ATV_{DR}$$

where:

- P = a hypothetical initial payment of \$1,000.
- T = average annual total return (after taxes on distributions and redemptions).
- n = number of years
- ATV_{DR} = ending value of a hypothetical \$1,000 payment made at the beginning of the 1-, 5-, or 10-year periods at the end of such periods, after taxes on fund distributions and redemptions.

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown, and after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts.

Since performance will fluctuate, performance data for the Funds should not be used to compare an investment in the Funds' shares with bank deposits, savings accounts and similar investment alternatives which often provide an agreed-upon or guaranteed fixed yield for a stated period of time. Shareholders should remember that performance is generally a function of the kind and quality of the instruments held in a portfolio, portfolio maturity, operating expenses and market conditions.

The average annual compounded rates of return, or total return, for the Direct share class of the Income Fund, the Government Fund, the Insured Fund, the 500 Fund, the MidCap Fund, the SmallCap Fund, the Equity Income Fund, the European Fund, the Nasdaq-100 Fund, and the Short-Term Government Fund for the following periods were:

	One Year Ended August 31, 2009	Five Years Ended August 31, 2009	Ten Years Ended August 31, 2009	Period From Inception through August 31, 2009
Income Fund				
Return Before Taxes	3.44%	2.83%	4.19%	6.50%
Return After Taxes on Distributions	3.39%	2.65%	4.03%	6.37%
Return After Taxes on Distributions and sale of Fund Shares	3.75%	2.99%	4.17%	6.39%

Government Fund				
Return Before Taxes	2.73%	3.60%	4.84%	6.75%
Return After Taxes on Distributions	1.50%	2.21%	3.13%	4.89%
Return After Taxes on Distributions and sale of Fund Shares	1.78%	2.27%	3.12%	4.88%
Insured Fund				
Return Before Taxes	3.97%	2.87%	4.03%	4.58%
Return After Taxes on Distributions	3.97%	2.82%	3.93%	4.50%
Return After Taxes on Distributions and sale of Fund Shares	3.63%	2.89%	3.92%	4.47%
500 Fund				
Return Before Taxes	-17.86%	0.40%	-0.78%	7.37%
Return After Taxes on Distributions	-18.50%	-0.23%	-1.49%	6.33%
Return After Taxes on Distributions and sale of Fund Shares	-11.65%	0.00%	-1.02%	5.98%
MidCap Fund				
Return Before Taxes	-18.90%	3.21%	6.36%	10.51%
Return After Taxes on Distributions	-19.71%	2.06%	4.67%	8.63%
Return After Taxes on Distributions and sale of Fund Shares	-11.95%	2.64%	4.87%	8.53%
SmallCap Fund				
Return Before Taxes	-22.04%	2.25%	5.89%	6.31%
Return After Taxes on Distributions	-24.05%	0.63%	4.68%	5.14%
Return After Taxes on Distributions and sale of Fund Shares	-12.71%	1.75%	4.86%	5.19%
Equity Income Fund				
Return Before Taxes	-14.55%	1.91%	1.95%	5.46%
Return After Taxes on Distributions	-15.14%	1.03%	1.10%	4.40%
Return After Taxes on Distributions and sale of Fund Shares	-9.48%	1.29%	1.25%	4.21%
European Fund				
Return Before Taxes	-13.27%	5.39%	N/A	-0.17%
Return After Taxes on Distributions	-14.25%	4.49%	N/A	-0.86%
Return After Taxes on Distributions and sale of Fund Shares	-8.72%	4.13%	N/A	-0.56%
Nasdaq-100 Fund				
Return Before Taxes	-12.14%	3.70%	N/A	-8.54%
Return After Taxes on Distributions	-12.15%	3.65%	N/A	-8.63%
Return After Taxes on Distributions and sale of Fund Shares	-7.89%	3.14%	N/A	-6.79%
Short-Term Government Fund				
Return Before Taxes	3.49%	3.38%	N/A	3.60%
Return After Taxes on Distributions	2.82%	2.30%	N/A	2.37%
Return After Taxes on Distributions and sale of Fund Shares	2.27%	2.25%	N/A	2.33%

The average annual compounded rates of return, or total return, for the K class shares of the Government Fund, the 500 Fund, the MidCap Fund, the SmallCap Fund, the Equity Income Fund, the European Fund, the Nasdaq-100 Fund, and the Short-Term Government Fund for the following periods were:

	One Year Ended August 31, 2009	Five Years Ended August 31, 2009	Ten Years Ended August 31, 2009	Period From Inception* through August 31, 2009
Government Fund				
Return Before Taxes	2.19%	3.08%	N/A	3.24%
Return After Taxes on Distributions	1.26%	1.99%	N/A	2.18%
Return After Taxes on Distributions and sale of Fund Shares	1.54%	2.02%	N/A	2.18%
500 Fund				
Return Before Taxes	-18.25%	-0.07%	N/A	0.95%
Return After Taxes on Distributions	-18.80%	-0.52%	N/A	0.53%
Return After Taxes on Distributions and sale of Fund Shares	-11.90%	-0.30%	N/A	0.58%
MidCap Fund				
Return Before Taxes	-19.31%	2.72%	N/A	3.49%
Return After Taxes on Distributions	-20.04%	1.72%	N/A	2.63%
Return After Taxes on Distributions and sale of Fund Shares	-12.21%	2.31%	N/A	2.98%
SmallCap Fund				
Return Before Taxes	-22.36%	1.77%	N/A	2.84%
Return After Taxes on Distributions	-24.30%	0.14%	N/A	1.39%
Return After Taxes on Distributions and sale of Fund Shares	-12.91%	1.27%	N/A	2.19%
Equity Income Fund				
Return Before Taxes	-14.91%	1.33%	N/A	2.70%
Return After Taxes on Distributions	-15.42%	0.61%	N/A	2.07%
Return After Taxes on Distributions and sale of Fund Shares	-9.71%	0.89%	N/A	2.10%
European Fund				
Return Before Taxes	-13.69%	4.94%	N/A	5.64%
Return After Taxes on Distributions	-14.56%	4.22%	N/A	4.97%
Return After Taxes on Distributions and sale of Fund Shares	-8.97%	3.84%	N/A	4.49%
Nasdaq-100 Fund				
Return Before Taxes	-12.58%	3.22%	N/A	1.90%
Return After Taxes on Distributions	-12.58%	3.20%	N/A	1.88%
Return After Taxes on Distributions and sale of Fund Shares	-8.18%	2.75%	N/A	1.61%
Short-Term Government Fund				
Return Before Taxes	2.93%	2.85%	N/A	2.49%
Return After Taxes on Distributions	2.49%	1.98%	N/A	1.72%
Return After Taxes on Distributions and sale of Fund Shares	1.91%	1.92%	N/A	1.67%

* The inception date for the K class shares is October 16th, 2003.

Yield

As stated in the Prospectus, a Fund may also quote its current yield and, where appropriate, effective yield and tax equivalent yield in advertisements and investor communications.

The current yield for the Income Fund, Insured Fund, Government Fund and Short-Term Govt. Fund is determined by dividing the net investment income per share earned during a specified 30-day period by the net asset value per share on the last day of the period and annualizing the resulting figure, according to the following formula:

$$\text{Yield} = 2[\frac{((a-b)/cd)+1}{6} - 1]$$

where:

- a = dividends and interest earned during the period;
- b = expenses accrued for the period (net of reimbursements);
- 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.

The current yield for Direct share class of the Income Fund, the Government Fund, the Insured Fund and the Short-Term Government Fund for the 30-day period ended August 31, 2009, was 3.43%, 3.43%, 1.63% and 0.65%, respectively. The current yield for K class of the Government Fund and the Short-Term Government Fund for the 30-day period ended August 31, 2009, was 2.94% and 0.16%, respectively.

The current yield for the Money Fund and the Treasury Trust is computed in accordance with a standardized method which involves determining the net change in the value of a hypothetical pre-existing account having a balance of one share at the beginning of a specified 7-day period, subtracting a hypothetical charge reflecting deductions of expenses, and dividing the net change or difference by the value of the account at the beginning of the period to obtain the base period return, and annualizing the results (*i.e.*, multiplying the base period return by 365/7). The net change in the value of the account does not include realized gains and losses or unrealized appreciation and depreciation.

The Money Fund and the Treasury Trust may also quote an effective yield. Effective yield is calculated by compounding the base period return (calculated as described above) by adding 1, raising that sum to a power equal to 365 divided by 7, and subtracting 1 from the result, according to the following formula:

$$\text{EFFECTIVE YIELD} = [(\text{BASE PERIOD RETURN} + 1)^{(365/7)}] - 1.$$

The current yield and effective yield for the 7-day period ended August 31, 2009 is as follows:

	Current yield	Effective yield
Money Fund	0.00%	0.00%
Treasury Trust	0.00%	0.00%
Treasury Trust K class	0.00%	0.00%

A tax equivalent yield demonstrates the taxable yield necessary to produce an after-tax yield equivalent to that of a Fund which invests in tax-exempt obligations. The tax equivalent yields for the Treasury Trust and the Tax-Free Funds are computed by dividing that portion of the current yield (or effective yield) of each Fund (computed for each Fund as discussed for the current yield indicated above) which is tax-exempt by one minus a stated income tax rate and adding the product to that portion (if any) of the yield of the Fund that is not tax-exempt. In calculating tax equivalent yields, the Tax-Free Funds assume an effective tax rate (combining federal and California rates) of 41.045%. The effective rate used in determining such yield does not reflect the tax costs resulting from the loss of the benefit of personal exemptions and itemized deductions that may result from the receipt of additional taxable income by taxpayers with adjusted gross incomes exceeding certain levels. The tax equivalent yield may be higher than the rate stated for taxpayers subject to the loss of these benefits. As of August 31, 2009, the 30-day tax equivalent yield for the Income Fund and the Insured Fund was 5.82% and 2.76%, respectively. The tax equivalent yield for the Money Fund for the 7-day period ended August 31, 2009 was 0.00%.

Distribution Rate

Each Fund may also include a reference to its current distribution rate in investor communications and sales literature preceded or accompanied by the Prospectus, reflecting the amounts actually distributed to shareholders. All calculations of a Fund's distribution rate are based on the distributions per share, which are declared, but not necessarily paid, during the fiscal year. The distribution rate is determined by dividing the distributions declared during the period by the net asset value per share on the last day of the period and annualizing the resulting figure. In calculating its distribution rate, each Fund uses the same assumptions that apply to its calculation of yield. The distribution rate will differ from a Fund's yield because it may include capital gains and other items of income not reflected in the Fund's yield, as well as interest income received by the Fund and distributed to shareholders which is reflected in the Fund's yield. The distribution rate does not reflect capital appreciation or depreciation in the price of the Fund's shares and should not be considered to be a complete indicator of the return to the investor on his investment.

Comparisons

From time to time, advertisements and investor communications may compare a Fund's performance to the performance of other investments as reported in various indices or averages, in order to enable an investor better to evaluate how an investment in a

particular Fund might satisfy his investment objectives. The Funds may also publish an indication of past performance as measured by Lipper Analytical Services, Inc., Morningstar or other widely recognized independent services that monitor the performance of mutual funds. The performance analysis will include the reinvestment of dividends and capital gains distributions, but does not take any sales charges into consideration and is prepared without regard to tax consequences. Independent sources may include the American Association of Individual Investors, Weisenberger Investment Companies Services, Donoghue's Money Fund Report, Barron's, Business Week, Financial World, Money Magazine, Forbes, and The Wall Street Journal.

The Income Fund may also quote (among others) the Barclays Municipal Bond Index and the Barclays 5 Year Municipal Bond Index. These indices are not managed for any investment goal. Their composition may, however, be changed from time to time by Barclays.

The Government Fund and Short-term Government Fund may also quote (among others) the following indices of bond prices prepared by Barclays: Barclays GNMA Index, Barclays Treasury Index and Barclays 1-3 Year Treasury Index. These indices are not managed for any investment goal. Their composition may, however, be changed from time to time by Barclays.

The MidCap Fund, 500 Fund, SmallCap Fund, European Fund, and the Nasdaq-100 Fund each may compare its performance to the performance of the MidCap Index, S&P 500, SmallCap Index, Dow Jones Euro Stoxx, Nasdaq-100 Index, respectively. Additionally, The Equity Income Fund may compare its performance to the 500 Index or the S&P/Citigroup Value Index. Each such Fund may compare its performance to the Value Line Composite Index, the Russell 2000 and/or other widely recognized market indices. These indices are unmanaged indices of common stock prices. The performance of each index is based on changes in the prices of stocks comprising such index and assumes the reinvestment of all dividends paid on such stocks. Taxes, brokerage commissions and other fees are disregarded in computing the level of each index.

The performance of a Fund may also be compared to compounded rates of return regarding a hypothetical investment of \$10,000 at the beginning of each year, earning interest throughout the year at the compounding interest rates of 5%, 7.5% and 10%.

In assessing any comparisons of total return or yield, an investor should keep in mind that the composition of the investments in a reported average is not identical to a Fund's portfolio, that such averages are generally unmanaged and that the items included in the calculations of such averages may not be identical to the formula used by the Fund to calculate its total return or yield. In addition, there can be no assurance that a Fund will continue its performance as compared to any such averages.

MISCELLANEOUS INFORMATION

Shareholders of Funds other than the Stock Funds who so request may have their dividends paid out monthly in cash. Shareholders of the Stock Funds who so request may have their dividends paid out quarterly in cash. If a shareholder withdraws the entire amount in his or her Money Fund or Treasury Trust account at any time during the month, all daily dividends accrued with respect to his or her account during the month to the time of withdrawal will be paid in the same manner and at the same time as the proceeds of withdrawal.

The shareholders of a Delaware business trust could, under certain circumstances, be held personally liable as partners for its obligations. However, the Trust's Declaration of Trust contains an express disclaimer of shareholder liability for acts or obligations of the Trust. The Declaration of Trust also provides for indemnification and reimbursement of expenses out of Trust assets for any shareholder held personally liable for obligations of the Trust. The Declaration of Trust also provides that a Trust shall, upon request, assume the defense of any claim made against any shareholder for any act or obligation of that Trust and satisfy any judgment thereon. All such rights are limited to the assets of the Fund(s) of which a shareholder holds shares. The Declaration of Trust further provides that the Trust may maintain appropriate insurance (for example, fidelity bonding and errors and omissions insurance) for the protection of the Trust, its shareholders, Trustees, officers, employees and agents to cover possible tort and other liabilities. Furthermore, the activities of the Trust as investment companies as distinguished from operating companies would not likely give rise to liabilities in excess of a Fund's total assets. Thus, the risk of a shareholder incurring financial loss on account of shareholder liability is limited to circumstances in which both inadequate insurance exists and a Trust itself is unable to meet its obligations.

As of November 30, 2009 the following shareholders, to the Trust's knowledge, owned beneficially more than 5% of a Fund's outstanding shares, as noted:

Direct Shares

MONEY FUND:

DDF Y2K Family Trust (21.57%; 15,254,949 shares)
J. J. Fisher (11.10%; 7,846,568 shares)
J & L Fisher (6.29%; 4,449,017 shares)
W.S. Fisher Family Trust (5.36%; 3,792,771 shares)
Sansome Guarantor LLC (5.25%; 3,714,927 shares)
R.J. Fisher Family Trust (5.10%; 3,603,688 shares)
San Francisco, CA

TREASURY TRUST:

W.C. Edwards Revocable Trust (10.95%; 2,678,063 shares)
D. Fisher Trust (9.53%; 2,331,547 shares)
San Francisco, CA

INSURED FUND:

J.P. Young Trust (15.94%; 206,064 shares)
W.M. Budge Trust (8.35%; 107,904 shares)
P & E Bigotta Trust (6.86%; 88,684 shares)
J.F. Cornuelle Trust (6.20%; 80,129 shares)
San Francisco, CA

S&P 500 FUND:

SEI Trust (7.61%; 240,761 shares)
Oaks, PA

DDF Trust (6.05%; 191,513 shares)
Charles Schwab & Co. (5.02%; 158,813 shares)
San Francisco, CA

MIDCAP FUND:

Standard Insurance Co. (25.68%; 1,649,490 shares)
Portland, OR

National Financial Services Corp. (6.38%; 409,921 shares)
New York, NY

Charles Schwab & Co. (5.18%; 332,412 shares)
San Francisco, CA

EQUITY INCOME FUND:

T. Abel IRA (8.09%; 89,697 shares)
J.F. Cornuelle Trust (6.93%; 76,764 shares)
San Francisco, CA

SMALLCAP FUND:

J.S. Newman (12.60%; 194,101 shares)
San Francisco, CA

NASDAQ-100 FUND:

Charles Schwab & Co. (13.63%; 422,367 shares)
N.E. Grenzebach (6.66%; 206,325 shares)
San Francisco, CA

Ameritrade Inc. (8.96%; 277,709shares)
Omaha, NE

EUROPEAN GROWTH & INCOME FUND:

Golden Gate Software (8.29%; 68,310 shares)
Denver, CO

Doughtronics, Inc. (7.33%; 60,372 shares)
Berkeley, CA

SHORT-TERM GOVERNMENT FUND:

W.C. Edwards Trust (23.43%; 374,205 shares)
San Mateo, CA

J.W. Rowland (7.66%; 122,388 shares)
E. Callan Family (6.40%; 102,220 shares)
San Francisco, CA

Class K Shares

EUROPEAN GROWTH & INCOME FUND-CLASS K:

Tarlton Properties, Inc. (5.37%; 37,420 shares)
Denver, CO

NASDAQ-100 –CLASS K:

Case Central, Inc. (7.44%; 90,602 shares)
Nth Power (7.19%; 87,533 shares)
Denver, CO

S&P 500 INDEX FUND-CLASS K:

Tarlton Properties, Inc. (9.58%; 30,347 shares)
MBV Law (7.74%; 24,516 shares)
Denver, CO

S&P MIDCAP INDEX FUND-CLASS K:

Tarlton Properties, Inc. (10.50%; 37,132 shares)
MBV Law (7.11%; 25,139 shares)
Case Central, Inc. (5.75%; 20,351 shares)
Denver, CO

S&P SMALLCAP FUND-CLASS K:

Tarlton Properties, Inc. (7.92%; 52,193 shares)
Nth Power (5.81%; 38,244 shares)
Denver, CO

US GOVERNMENT SECURITIES FUND-CLASS K:

Ben Franklin (5.87%; 43,054 shares)
Health Care Partners (5.49%; 40,320 shares)
Tarlton Properties, Inc. (5.27%; 38,706 shares)
Denver, CO

US TREASURY TRUST-CLASS K:

MBV Law (11.05%; 373,450 shares)
BayRisk Ins. Brokers (9.23%; 311,767 shares)
Tarlton Properties, Inc. (6.67%; 225,282 shares)
Hearing and Speech Center of N. CA (5.91%; 199,576 shares)
Nth Power (5.35%; 180,738 shares)
Denver, CO

SHORT TERM US GOVERNMENT BOND FUND- CLASS K:

Tarlton Properties, Inc. (15.24%; 49,864 shares)
Param Electric, Inc. (14.63%; 47,864 shares)
Engine Company One (7.09%; 23,184 shares)
Courtney Enterprises (6.63%; 21,673 shares)
Pro-Lab Orthotics (6.53%; 21,356 shares)
BayRisk Ins. Brokers (6.19%; 20,259 shares)
MBV Law (5.53%; 18,099 shares)

As of the calendar year ended November 30, 2009, the Trustees and Officers of the Trust, as a group, beneficially owned less than 1% of each of the twelve Funds.

Although each Fund is offering only its own shares by this joint Statement of Additional Information and joint Prospectus, it is possible that a Fund might become liable for any misstatements in this Statement of Additional Information or in the Prospectus about one of the other Funds. The Board of Trustees of the Trust has considered this possibility in approving the use of a joint Prospectus and Statement of Additional Information.

The S&P Index Funds are not sponsored, endorsed, sold or promoted by Standard & Poor's ("S&P"). S&P makes no representation or warranty, express or implied, to the owners of the Funds or any member of the public regarding the advisability of investing in securities generally or in the Product particularly or the ability of the S&P 500 Composite Stock Price Index, S&P MidCap 400 Index and the S&P SmallCap 600 Index to track general stock market performance. S&P's only relationship to the Licensee is the licensing of certain trademarks and trade names of S&P and of the S&P 500 Composite Stock Price Index, S&P MidCap 400 Index and the S&P SmallCap 600 Index which are determined, composed and calculated by S&P without regard to the licensee or the product. S&P has no obligation to take the needs of the licensee or the owners of the product into consideration in determining, composing or calculating the S&P 500 Composite Stock Price Index, S&P MidCap 400 Index and the S&P SmallCap 600 Index. S&P is not responsible for and has not participated in the determination of- the prices and amount of the product or the timing of the issuance or sale of the product or in the determination or calculation of the equation by which the product is to be converted into cash. S&P has no obligation or liability in connection with the administration, marketing or trading of the product.

S&P DOES NOT GUARANTEE THE ACCURACY AND/OR THE COMPLETENESS OF THE S&P 500 COMPOSITE STOCK PRICE INDEX, THE S&P MIDCAP 400 INDEX OR THE S&P SMALLCAP 600 INDEX OR ANY DATA INCLUDED THEREIN AND S&P SHALL HAVE NO LIABILITY FOR ANY ERRORS, OMISSIONS, OR INTERRUPTIONS THEREIN. S&P MAKES NO WARRANTY, EXPRESS OR IMPLIED, AS TO RESULTS TO BE OBTAINED BY LICENSEE, OWNERS OF THE PRODUCT, OR ANY OTHER PERSON OR ENTITY FROM THE USE OF THE S&P SMALLCAP 600 INDEX OR ANY DATA INCLUDED THEREIN. S&P MAKES NO EXPRESS OR IMPLIED WARRANTIES, AND EXPRESSLY DISCLAIMS ALL WARRANTIES OR MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE WITH RESPECT TO THE S&P 500 COMPOSITE STOCK PRICE INDEX, THE S&P MIDCAP 400 INDEX OR THE S&P SMALLCAP 600 INDEX OR ANY DATA INCLUDED THEREIN. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT SHALL S&P HAVE ANY LIABILITY FOR ANY SPECIAL, PUNITIVE, INDIRECT, OR CONSEQUENTIAL DAMAGES (INCLUDING LOST PROFITS), EVEN IF NOTIFIED OF THE POSSIBILITY OF SUCH DAMAGES.

FINANCIAL STATEMENTS

The audited financial statements for the fiscal year ended August 31, 2009 for the Funds as contained in the combined Annual Report to Shareholders for the fiscal year ended August 31, 2009 (the "Report"), are incorporated herein by reference to the Report which has been filed with the SEC. Any person not receiving the Report with this Statement should call or write the Funds to obtain a free copy.

APPENDIX

DESCRIPTION OF MUNICIPAL SECURITIES RATINGS

The following paragraphs summarize the descriptions for the rating symbols of municipal securities.

Municipal Bonds

Moody's Investors Service:

- Aaa: Issuers or issues rated Aaa demonstrate the strongest creditworthiness relative to other US municipal or tax-exempt issuers or issues.
- Aa: Issuers or issues rated Aa demonstrate very strong creditworthiness relative to other US municipal or tax-exempt issuers or issues.
- A: Issuers or issues rated A present above-average creditworthiness relative to other US municipal or tax-exempt issuers or issues.
- Baa: Issuers or issues rated Baa represent average creditworthiness relative to other US municipal or tax- exempt issuers or issues.

Conditional Rating: Bonds for which the security depends upon the completion of some act or the fulfillment of some condition are rated conditionally. These are bonds secured by (a) earnings of projects under construction, (b) earnings of projects unseasoned in operation experience, (c) rentals which begin when facilities are completed, or (d) payments to which some other limiting condition attaches. Parenthetical rating denotes probable credit stature upon completion of construction or elimination of basis of condition.

Rating Refinements: Moody's appends numerical modifiers 1, 2, and 3 to each generic rating category from Aa through Caa. The modifier 1 indicates that the issuer or obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

Standard & Poor's Corporation:

- AAA: An obligation rated "AAA" has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.
- AA: An obligation rated "AA" differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.
- A: An obligation rated "A" is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.
- BBB: An obligation rated "BBB" exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

Provisional Ratings: The letter "p" indicates that the rating is provisional. A provisional rating assumes the successful completion of the project being financed by the bonds being rated and indicates that payment of debt service requirements is largely or entirely dependent upon the successful and timely completion of the project. This rating, however, while addressing credit quality subsequent to completion of the project, makes no comment on the likelihood of, or the risk of default upon failure of, such completion. The investor should exercise his own judgment with respect to such likelihood and risk.

Note: The ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

Fitch Investor's Service:

- AAA: Bonds and notes rated AAA are regarded as being of the highest quality, with the obligor having an extraordinary ability to pay interest and repay principal which is unlikely to be affected by reasonably foreseeable events.
- AA: Bonds and notes rated AA are regarded as high quality obligations. The obligor's ability to pay interest and repay principal, while very strong, is somewhat less than for AAA rated securities, and more subject to possible change over the term of the issue.
- A: Bonds and notes rated A are regarded as being of good quality. The obligor's ability to pay interest and repay principal is strong, but may be more vulnerable to adverse changes in economic conditions and circumstances than bonds and notes with higher ratings.
- BBB: Bonds and notes rated BBB are regarded as being of satisfactory quality. The obligor's ability to pay interest and repay principal is considered to be adequate. Adverse changes in economic conditions and circumstances, however, are more likely to weaken this ability than bonds with higher ratings.
- Note: Fitch ratings may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories. These are refinements more closely reflecting strengths and weaknesses, and are not to be used as trend indicators.

Municipal Notes

Moody's:

Moody's ratings for state and municipal and other short-term obligations will be designated Moody's Investment Grade ("MIG"). This distinction is in recognition of the differences between short-term credit risk and long-term risk. Factors affecting the liquidity of the borrower are uppermost in importance in short-term borrowing, while various factors of first importance in long-term borrowing risk are of lesser importance in the short run. Symbols used will be as follows:

- MIG-1: This designation denotes superior credit quality. Excellent protection is afforded by established cash flows, highly reliable liquidity support, or demonstrated broad-based access to the market for refinancing.
- MIG-2: This designation denotes strong credit quality. Margins of protection are ample, although not as large as in the preceding group.
- MIG-3: This designation denotes acceptable credit quality. Liquidity and cash-flow protection may be narrow, and market access for refinancing is likely to be less well-established.
- SG: This designation denotes speculative-grade credit quality. Debt instruments in this category may lack sufficient margins of protection.

Standard & Poor's:

A Standard & Poor's U.S. municipal note rating reflects the liquidity factors and market access risks unique to notes. Notes due in three years or less will likely receive a note rating. Notes maturing beyond three years will most likely receive a long-term debt rating. The following criteria will be used in making that assessment:

Amortization schedule—the larger the final maturity relative to other maturities, the more likely it will be treated as a note; and

Source of payment—the more dependent the issue is on the market for its refinancing, the more likely it will be treated as a note.

- SP-1: Strong capacity to pay principal and interest. An issue determined to possess a very strong capacity to pay debt service is given a plus (+) designation.
- SP-2: Satisfactory capacity to pay principal and interest, with some vulnerability to adverse financial and economic changes over the term of the notes.

Fitch:

Fitch Investment Note Ratings are grouped into four categories with the indicated symbols. The ratings reflect Fitch's current appraisal of the degree of assurance of timely payment, whatever the source.

- F1: Highest credit quality. Indicates the strongest capacity for timely payment of financial commitments; a “+” or “-“ may be appended to an F1 rating class to denote relative status within the category.
- F2: Good credit quality. A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.
- F3: Fair credit quality. The capacity for timely payment of financial commitments is adequate; however, near-term adverse changes could result in a reduction to non-investment grade.

Commercial Paper

Moody's:

Moody's Commercial Paper ratings, which are also applicable to municipal paper investments permitted to be made by the Trust, are opinions of the ability of issuers to repay punctually their promissory obligations not having an original maturity in excess of nine months. Moody's employs the following designations, all judged to be investment grade, to indicate the relative repayment capacity of rated issuers:

P-1 (Prime-1): Superior capacity for repayment.

P-2 (Prime-2): Strong capacity for repayment.

P-3 (Prime-3): Acceptable capacity for repayment.

Standard & Poor's:

A Standard & Poor's commercial paper rating is a current assessment of the likelihood of timely payment of debt having an original maturity of no more than 365 days. Ratings are graded into several categories, ranging from 'A' for the highest-quality obligations to 'D' for the lowest. These categories are as follows:

- A-1: This designation indicates that the degree of safety regarding timely payment is strong. Those issues determined to possess extremely strong safety characteristics are denoted with a plus sign (+) designation.
- A-2: Capacity for timely payment on issues with this designation is satisfactory. However, the relative degree of safety is not as high as for issues designated 'A-1'.
- A-3: Issues carrying this designation have an adequate capacity for timely payment. They are, however, more vulnerable to the adverse effects of changes in circumstances than obligations carrying the higher designations.
- B: Issues rated 'B' are regarded as having only speculative capacity for timely payment.

The Commercial Paper Rating is not a recommendation to purchase or sell a security. The ratings are based on current information furnished to Standard & Poor's by the issuer and obtained by Standard & Poor's from other sources it considers reliable. The ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of, such information.

Fitch:

Fitch-1: Commercial paper assigned this rating is regarded as having the strongest degree of assurance for timely payment.

Fitch-2: Issues assigned this rating reflect an assurance of timely payment only slightly less in degree than the strongest issues.

Fitch-3: Commercial paper carrying this rating has a satisfactory degree of assurance for timely payment but the margin of safety is not as great as the two higher categories.

Fitch-4: Issues carrying this rating have characteristics suggesting that the degree of assurance for timely payment is minimal and is susceptible to near term adverse change due to less favorable financial or economic conditions.

Variable Rate Demand Obligations (“VRDO”)

Moody’s:

In the case of variable rate demand obligations (VRDOs), a two-component rating is assigned; a long or short-term debt rating and a demand obligation rating. The first element represents Moody’s evaluation of the degree of risk associated with scheduled principal and interest payments. The second element represents Moody’s evaluation of the degree of risk associated with the ability to receive purchase price upon demand (“demand feature”), using a variation of the MIG rating scale, the Variable Municipal Investment Grade or VMIG rating.

When either the long- or short-term aspect of a VRDO is not rated, that piece is designated NR, e.g., Aaa/NR or NR/VMIG 1.

VMIG rating expirations are a function of each issue’s specific structural or credit features.

VMIG 1: This designation denotes superior credit quality. Excellent protection is afforded by the superior short-term credit strength of the liquidity provider and structural and legal protections that ensure the timely payment of purchase price upon demand.

VMIG 2: This designation denotes strong credit quality. Good protection is afforded by the strong short-term credit strength of the liquidity provider and structural and legal protections that ensure the timely payment of purchase price upon demand.

VMIG 3: This designation denotes acceptable credit quality. Adequate protection is afforded by the satisfactory short-term credit strength of the liquidity provider and structural and legal protections that ensure the timely payment of purchase price upon demand.

SG: This designation denotes speculative-grade credit quality. Demand features rated in this category may be supported by a liquidity provider that does not have an investment grade short-term rating or may lack the structural and/or legal protections necessary to ensure the timely payment of purchase price upon demand.

Standard & Poor’s:

Standard & Poor's assigns “dual” ratings to all debt issues that have a put option or demand feature as part of their structure.

The first rating addresses the likelihood of repayment of principal and interest as due, and the second rating addresses only the demand feature. The long-term debt rating symbols are used for bonds to denote the long-term maturity and the commercial paper rating symbols for the put option (for example, ‘AAA/A-1+’). With short-term demand debt, note-rating symbols are used with the commercial paper rating symbols (for example, ‘SP-1+/A-1+’).