rate of return that was higher than the existing rates for U.S. Treasury securities of comparable maturity as long as the yield curve for such securities was ''steep''—with interest rates falling based on the specified index. However, Bankers Trust states that once the yield curve became ''flat'' (i.e. with short-term interest rates rising faster than long-term interest rates) or ''climbed'' (i.e. with a general rise in both short-term and long-term rates), the relative yield on the CMT Notes fell and their market value was below par.

The IANs were debt instruments which initially paid a premium rate of interest monthly based on LIBOR, pursuant to certain formulas used to calculate such rates at various specified times. However, the IANs risked a maturity extension if short-term interest rates, as measured by LIBOR, rose above a certain level. Under such circumstances, once the maturity on the IANs was extended, the IANs would stop paying interest and the outstanding principal balance would be paid down over the remaining term pursuant to certain specified schedules.

5. The terms of the Notes, and the circumstances relating to their yield as investments for the Funds, are described as follows:

Note #1 was a five-year CMT note issued by the Federal National Mortgage Association (FNMA or ''Fannie Mae''), which was purchased by the Funds on February 15, 1994 from McDonald & Company for $95 million, with final maturity on March 2, 1999. Note #1 paid interest monthly at a rate equal to one-month LIBOR plus 20 basis points for the first and second years, .65 times the two-year CMT rate plus 129 basis points for the third through fifth years. At the time of the sale of Note #1 by the Funds to BTNY, the note was paying a coupon of LIBOR plus 20 basis points. Bankers Trust states that at the time of sale, the forward curve (i.e. a measurement of future interest rates based on yields for U.S. Treasury securities of comparable duration) suggested that the performance of Note #1 would be significantly impaired once the LIBOR-based coupon payment period ended. According to the forward curve determined by Bankers Trust on October 28, 1994, the comparable investment rate for the time horizon of February 15, 1996 through March 15, 1999 was 7.55%. Bankers Trust represents that Note #1 would have had a market value greater than par if the ''time weighted average'' of the expected coupons had been greater than or equal to 7.55%. However, at the time of sale, Bankers Trust did not expect that the coupons to be received on Note #1 would be greater than the comparable investment rate for the duration of Note #1. Therefore, Bankers Trust determined that it was appropriate to sell the security.

Note #2 was a three-year CMT note issued by the Federal Home Loan Bank (FHLB), which was purchased by the BT Cash Plus Fund on October 27, 1993 from McDonald & Company for $26,831,250, with a final maturity on November 12, 1996. The par value of Note #2 was $27 million. Thus, the BT Cash Plus Fund purchased Note #2 at a discounted price. Note #2 paid interest quarterly at a rate equal to the three-month U.S. Treasury Bill Rate plus 25 basis points for the first year and .4 times the two-year CMT rate plus 205 basis points for the second and third years. At the time of the sale of Note #2 by the BT Cash Plus Fund to BTNY, the period for the note to pay the three-month U.S. Treasury Bill Rate plus 25 basis points had ended. Bankers Trust states that once this payment period ended, the forward curve suggested that the performance of Note #2 would be significantly impaired. According to the forward curve determined by Bankers Trust on October 28, 1994, since the remaining life of Note #2 was two years, the comparable investment rate was equal to the then current two-year CMT rate which was 6.82%. Bankers Trust represents that Note #2 would have had a market value greater than par if the ''time weighted average'' of the expected coupons had been greater than 6.82%. However, at the time of sale, Bankers Trust did not expect that the coupons to be received on Note #2 would be greater than the comparable investment rate for the duration of Note #2. Therefore, Bankers Trust determined that it was appropriate to sell the security.

Note #3 was a five-year CMT note issued by Fannie Mae, which was purchased by the BT Cash Plus Fund on February 7, 1994 from McDonald & Company for $95 million, with final maturity on February 17, 1999. Note #3 paid interest monthly at a rate equal to the COFI rate plus 10 basis points for the first and second years, .4 times the two-year CMT rate plus 245 basis points for the third through fifth years. At the time of the sale of Note #3 by the BT Cash Plus Fund to BTNY, the note was paying the COFI rate plus 10 basis points. However, Bankers Trust states that once this COFI-based coupon payment ended, the forward curve suggested that the performance of the note would be significantly impaired. According to the forward curve determined by Bankers Trust on October 28, 1994, the comparable investment rate for the period February 17, 1996 to February 1, 1999 was 7.53%. Bankers Trust represents that Note #3 would have had a market value greater than par if the ''time weighted average'' of the expected coupons had been greater than 7.53%. At the time of sale, Bankers Trust did not expect that the coupons to be received on Note #3 would be greater than the comparable investment rate for the duration of Note #3. Therefore, Bankers Trust determined that it was appropriate to sell the security.

Note #4 was a five-year CMT note issued by the Federal Home Loan Mortgage Corporation (FHLMC or ''Freddie Mac''), which was purchased by the BT Cash Plus Fund and the BT Super Cash Fund on February 16, 1994 from Nikko Securities for $71 million, with final maturity on March 2, 1999. Note #4 paid interest monthly at a rate equal to .5 times the two-year CMT rate plus 209 basis points. According to the forward curve determined by Bankers Trust on October 28, 1994, the comparable investment rate for the period October 28, 1994 through March 2, 1999 was 7.4%. Bankers Trust represents that Note #4 would have had a market value greater than par if the ''time weighted average'' of the expected coupons had been greater than 7.4%. However, at the time of sale, Bankers Trust did not expect that the coupons to be received on Note #4 would be greater than the comparable investment rate for the duration of Note #4. Therefore, Bankers Trust determined that it was appropriate to sell the security.

Note #5 was a three-year CMT note issued by the Student Loan Marketing Association (SLMA or ''Sallie Mae''), which was purchased on February 10, 1994 from Nikko Securities for $95 million, with final maturity on February 24, 1997. Note #5 paid interest monthly at a rate equal to one-month LIBOR plus 20 basis points for the first year and .65 times the two-year CMT rate plus 75 basis points for the second and third years. At the time of the sale of Note #5 by the Funds to BTNY, the note was paying LIBOR plus 20 basis points. However, Bankers Trust states that once this LIBOR-based coupon payment ended, the forward curve suggested that the performance of the note would be significantly impaired. According to the forward curve determined by Bankers Trust on October 28, 1994, the comparable investment rate was equal to the then current two-year CMT rate which was 6.82%. Bankers Trust represents that Note #5 would have had a market value greater than par if the ''time weighted average'' of the expected coupons had been greater than 6.82%. At the time of sale, Bankers Trust did not expect that the coupons to be received on Note #5 would be greater