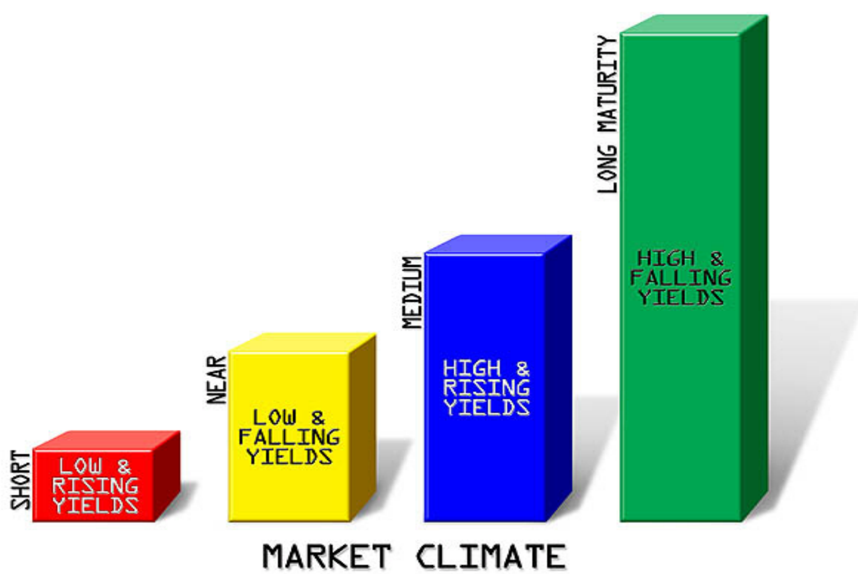
# STRATEGIC TOTAL RETURN FUND

## A SERIES OF
## HUSSMAN INVESTMENT TRUST

### SEMI-ANNUAL REPORT

**FOR THE PERIOD ENDED**
**DECEMBER 31, 2002**

**(UNAUDITED)**



# HUSSMAN STRATEGIC TOTAL RETURN FUND

## Letter to Shareholders

*February 11, 2003*

Dear Shareholder,

The Hussman Strategic Total Return Fund ended 2002 at a net asset value of $10.19. Including a year-end income distribution, the Fund earned a total return of 2.30% from its inception on September 12, 2002 through December 31, 2002.

**With valuations and market action in the U.S. Treasury market currently unfavorable on the measures that we use, the Fund has taken a limited exposure to long-term interest rate fluctuations.**

On the basis of valuations, yields on long-term bonds are quite thin in relation to their potential volatility. For example, the ratio of the 10-year Treasury yield to its duration (interest rate sensitivity) is at the lowest level since the 1960's.

On the basis of market action, corporate credit spreads (the difference between yields on risky corporate bonds and default-free Treasuries) have also declined in recent months. In general, this sort of narrowing is rarely followed by substantial declines in Treasury yields. Nor is deflation very likely when credit spreads are narrowing. The main factor that would produce deflationary pressures would be a substantial increase in corporate defaults, and this risk would most probably be telegraphed by a widening of risk spreads. To the extent that we do not observe this, there is not much basis for taking long-term interest rate risk on the expectation of deflation.

Bond market action indicates a great deal about probable economic conditions in the year ahead. Specifically, the behavior of straight Treasuries and inflation-protected Treasuries has been very unusual. The yield on inflation-protected Treasuries essentially measures the *real* interest rate, while the yield on straight Treasuries is the real yield, plus the anticipated inflation rate. **When Treasury yields decline, but inflation-protected yields decline faster, it means not only that *real interest rates are declining*, but also that *anticipated inflation is increasing* (from about 1.5% in December to about 2% recently). Since real interest rates are tied closely to future real economic growth, bond market action is giving a very specific forecast – *weak economic growth combined with positive and persistent inflation*. In a word, stagflation.**

As always, however, our current investment position does not rely on these forecasts, but on the current, observable status of valuations and market action. At present, these conditions are enough to hold us to a defensive position.

### *PORTFOLIO INSIGHT*

The Schedule of Investments in this report provides an insight into the Fund's position as of December 31, 2002. At present, the Fund's position emphasizes *limited sensitivity to fluctuations in nominal interest rates and inflation*. Yet because both the level and trend of *real* interest rates continue to be favorable on the measures we use, the Fund continues to hold investments driven primarily by *real interest rate movements*.

Accordingly, the Fund's assets are currently diversified across Treasury inflation-protected securities, near-term callable agency notes, select utility and precious metals shares, foreign government notes, and short-term money market assets. Once valuations or market action become more favorable, we expect to increase the Fund's exposure to long-term bonds. Currently, however, market conditions emphasize the protection of capital against both interest rate volatility and low but persistent inflation pressures.

**In short, depressed interest rates and rising inflation expectations do not make long-term Treasury bonds particularly compelling, yet there are clearly many areas that we believe will be rewarding to investors, based on their particular attributes of valuation and market action.**

As always, our objective is to continuously position the Fund to take those risks that exhibit favorable valuation and market action, and to avoid those that do not. The specific positions taken by the Fund may change in response to market conditions, but the Fund's underlying investment discipline is steadfast.

I appreciate your investment in the Fund.

Best wishes,

*John P. Hussman, Ph.D.*

Weekly updates regarding market conditions and investment strategy, as well as special reports and analysis, are available at no charge at the Fund's website www.hussmanfunds.com

**HUSSMAN STRATEGIC TOTAL RETURN FUND**
**A Series of the Hussman Investment Trust**
**Statement of Assets and Liabilities**
**December 31, 2002**
**(Unaudited)**

| | |
|---|---|
| **ASSETS** | |
| Investments in securities: | |
| At acquisition cost | $ 12,564,080 |
| At value (Note 1) | $ 12,879,249 |
| Dividends and interest receivable | 75,705 |
| Receivable for capital shares sold | 200 |
| Receivable from Adviser (Note 3) | 34,464 |
| Other assets | 14,513 |
| Total Assets | 13,004,131 |
| **LIABILITIES** | |
| Dividends payable | 7,040 |
| Payable for capital shares redeemed | 6,230 |
| Payable to administrator (Note 3) | 6,100 |
| Other accrued expenses | 13,456 |
| Total Liabilities | 32,826 |
| **NET ASSETS** | $ 12,971,305 |
| Net assets consist of: | |
| Paid-in capital | $ 12,630,950 |
| Accumulated net realized gains from security transactions | 24,940 |
| Net unrealized appreciation on investments | 280,012 |
| Net unrealized appreciation on translation of assets and liabilities in foreign currencies | 35,403 |
| **NET ASSETS** | $ 12,971,305 |
| Shares of beneficial interest outstanding (unlimited number of shares authorized, no par value) | 1,272,600 |
| Net asset value, offering price and redemption price per share [a] (Note 1) | $ 10.19 |

[a] Redemption price varies based on length of time shares are held.

See accompanying notes to financial statements.

**HUSSMAN STRATEGIC TOTAL RETURN FUND**
**A Series of the Hussman Investment Trust**
**Statement of Operations**
**For the Period Ended December 31, 2002 [(a)]**
**(Unaudited)**

| | |
|---|---|
| **INVESTMENT INCOME** | |
| Dividends | $ 22,196 |
| Interest | 54,010 |
| Total Income | 76,206 |
| **EXPENSES** | |
| Professional fees | 28,438 |
| Organization expenses (Note 1) | 24,710 |
| Investment advisory fees (Note 3) | 17,527 |
| Fund accounting fees (Note 3) | 9,283 |
| Registration and filing fees | 7,643 |
| Administration fees (Note 3) | 7,200 |
| Custodian and bank service fees | 6,123 |
| Transfer agent and shareholder services fees (Note 3) | 5,400 |
| Trustees' fees and expenses | 4,500 |
| Postage and supplies | 2,089 |
| Insurance expense | 362 |
| Other expenses | 1,892 |
| Total Expenses | 115,167 |
| Less fees waived and expenses reimbursed by the Adviser (Note 3) | (88,877) |
| Net Expenses | 26,290 |
| **NET INVESTMENT INCOME** | 49,916 |
| **REALIZED AND UNREALIZED GAINS (LOSSES) ON INVESTMENTS AND FOREIGN CURRENCIES (Note 4)** | |
| Net realized gains (losses) from: | |
| Security transactions | 24,940 |
| Foreign currency transactions | (5) |
| Net change in unrealized appreciation/depreciation on: | |
| Investments | 280,012 |
| Foreign currency translation | 35,403 |
| **NET REALIZED AND UNREALIZED GAINS ON INVESTMENTS AND FOREIGN CURRENCIES** | 340,350 |
| **NET INCREASE IN NET ASSETS FROM OPERATIONS** | $ 390,266 |

[(a)] Represents the period from the commencement of operations (September 12, 2002) through December 31, 2002.

See accompanying notes to financial statements.

**HUSSMAN STRATEGIC TOTAL RETURN FUND**
**A Series of the Hussman Investment Trust**
**Statement of Changes in Net Assets**
**For the Period Ended December 31, 2002 [(a)]**
**(Unaudited)**

| | |
|---|---|
| **FROM OPERATIONS** | |
| Net investment income | $ 49,916 |
| Net realized gains (losses) from: | |
| Security transactions | 24,940 |
| Foreign currency transactions | (5) |
| Net change in unrealized appreciation/depreciation on: | |
| Investments | 280,012 |
| Foreign currency translation | 35,403 |
| Net increase in net assets resulting from operations | 390,266 |
| | |
| **DISTRIBUTIONS TO SHAREHOLDERS** | |
| From net investment income | (49,911) |
| | |
| **FROM CAPITAL SHARE TRANSACTIONS** | |
| Proceeds from shares sold | 13,359,310 |
| Net asset value of shares issued in reinvestment of distributions to shareholders | 43,716 |
| Proceeds from redemption fees collected (Note 1) | 11,470 |
| Payments for shares redeemed | (783,546) |
| Net increase in net assets from capital share transactions | 12,630,950 |
| | |
| **TOTAL INCREASE IN NET ASSETS** | 12,971,305 |
| | |
| **NET ASSETS** | |
| Beginning of period | - |
| End of period | $ 12,971,305 |
| | |
| **UNDISTRIBUTED NET INVESTMENT INCOME** | $ - |
| | |
| **CAPITAL SHARE ACTIVITY** | |
| Sold | 1,347,344 |
| Reinvested | 4,290 |
| Redeemed | (79,034) |
| Net increase in shares outstanding | 1,272,600 |
| Shares outstanding at beginning of period | - |
| Shares outstanding at end of period | 1,272,600 |

[(a)] Represents the period from the commencement of operations (September 12, 2002) through December 31, 2002.

See accompanying notes to financial statements.

**HUSSMAN STRATEGIC TOTAL RETURN FUND**
**A Series of the Hussman Investment Trust**
**Financial Highlights**
**Selected Per Share Data and Ratios for a Share Outstanding Throughout the Period Ended December 31, 2002 [(a)]**

| | |
|---|---|
| Net asset value at beginning of period | $ 10.00 |
| Income from investment operations: | |
| Net investment income | 0.04 |
| Net realized and unrealized gains on investments and foreign currencies | 0.18 |
| Total from investment operations | 0.22 |
| Distributions from net investment income | (0.04) |
| Proceeds from redemption fees collected (Note 1) | 0.01 |
| Net asset value at end of period | $ 10.19 |
| Total return (not annualized) | 2.30% |
| Net assets at end of period | $ 12,971,305 |
| Ratio of expenses to average net assets: | |
| Before advisory fees waived and expenses reimbursed | 3.90% [(b)] |
| After advisory fees waived and expenses reimbursed | 0.90% [(b)] |
| Ratio of net investment income to average net assets | 1.69% [(b)] |
| Portfolio turnover rate | 208% [(b)] |

[(a)] Represents the period from the commencement of operations (September 12, 2002) through December 31, 2002.

[(b)] Annualized.

See accompanying notes to financial statements.

# HUSSMAN STRATEGIC TOTAL RETURN FUND
## A Series of the Hussman Investment Trust
## Portfolio of Investments
## December 31, 2002
## (Unaudited)

| Shares | COMMON STOCKS - 20.3% | Value |
|---|---|---|
| | **Electric Utilities - 2.4%** | |
| 7,500 | Ameren Corp. | $ 311,775 |
| | **Energy Equipment and Services - 1.7%** | |
| 14,000 | DPL, Inc. | 214,760 |
| | **Gas Utilities - 1.7%** | |
| 3,500 | Nicor, Inc. | 119,105 |
| 4,500 | Sempra Energy | 106,425 |
| | | 225,530 |
| | **Metals and Mining - 12.2%** | |
| 21,000 | Agnico-Eagle Mines Ltd. | 312,060 |
| 31,000 | Barrick Gold Corp. | 477,710 |
| 20,000 | Newmont Mining Corp. | 580,600 |
| 18,000 | Placer Dome, Inc. | 207,000 |
| | | 1,577,370 |
| | **Oil and Gas - 2.3%** | |
| 3,000 | PPL Corp. | 104,040 |
| 6,500 | Scana Corp. | 201,240 |
| | | 305,280 |
| | **Total Common Stocks** (Cost $2,513,333) | $ 2,634,715 |

| Par Value | U.S. TREASURY OBLIGATIONS - 54.0% | Value |
|---|---|---|
| | **U.S. Treasury Bills - 15.4%** | |
| $ 2,000,000 | Discount note, due 01/23/2003 | $ 1,998,670 |
| | **U.S. Treasury Inflation-Protection Notes - 29.6%** | |
| 1,041,630 | 3.50%, due 01/15/2011 | 1,143,352 |
| 2,205,560 | 3.875%, due 04/15/2029 | 2,696,985 |
| | | 3,840,337 |
| | **U.S. Treasury Notes - 9.0%** | |
| 1,000,000 | 6.00%, due 08/15/2009 | 1,162,656 |
| | **Total U.S. Treasury Obligations** (Cost $6,851,175) | $ 7,001,663 |

| Par Value | U.S. GOVERNMENT AGENCY OBLIGATIONS - 15.5% | Value |
|---|---|---|
| | **Federal Home Loan Bank - 15.5%** | |
| $ 500,000 | 3.07%, due 04/08/2005 | $ 500,117 |
| 1,500,000 | 3.25%, due 06/19/2006 | 1,511,164 |
| | **Total U.S. Government Agency Obligations** (Cost $2,003,248) | $ 2,011,281 |

# HUSSMAN STRATEGIC TOTAL RETURN FUND
## A Series of the Hussman Investment Trust
## Portfolio of Investments (Continued)
## December 31, 2002
## (Unaudited)

| Par Value | | FOREIGN GOVERNMENT OBLIGATIONS - 5.2% | Value |
|---|---|---|---|
| | | **United Kingdom Treasury Note - 1.9%** | |
| BP | 150,000 | 6.50%, due 12/07/2003 | $ 247,667 |
| | | **German Bundesschatzanweisungen Note - 3.3%** | |
| EC | 400,000 | 3.75%, due 09/12/2003 | 422,326 |
| | | **Total Foreign Government Obligations** (Cost $634,727) | $ 669,993 |

| Shares | MONEY MARKETS - 4.3% | Value |
|---|---|---|
| 561,597 | First American Treasury Obligation Fund - Class S (Cost $561,597) | $ 561,597 |
| | **Total Investments at Value - 99.3%** (Cost $12,564,080) | $ 12,879,249 |
| | **Other Assets in Excess of Liabilities - 0.7%** | 92,056 |
| | **Net Assets - 100.00%** | $ 12,971,305 |

BP - British Pound
EC - Euro

See accompanying notes to financial statements.

# Notes to the Financial Statements
# December 31, 2002
# (Unaudited)

### 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Hussman Strategic Total Return Fund (the "Fund") is a diversified series of the Hussman Investment Trust (the "Trust"), an open-end management investment company organized as an Ohio business trust on June 1, 2000. The Fund is registered under the Investment Company Act of 1940. The Fund is authorized to issue an unlimited number of shares. The Fund commenced operations on September 12, 2002.

The investment objective of the Fund is to provide long-term total return from income and capital appreciation.

The following is a summary of the Fund's significant accounting policies:

**Securities Valuation –** The Fund's portfolio securities are valued as of the close of business of the regular session of the New York Stock Exchange ("NYSE") (normally 4:00 p.m., Eastern time). Securities, other than options, listed on the NYSE or other exchanges are valued on the basis of their last sale prices on the exchanges on which they are primarily traded. However, if the last sale price on the NYSE is different than the last sale price on any other exchange, the NYSE price will be used. If there are no sales on that day, the securities are valued at the closing bid price on the NYSE or other primary exchange for that day. Securities traded on a foreign stock exchange are valued based upon the closing price on the principal exchange where the security is traded. Securities traded in the over-the-counter market are valued on the basis of the last sale price as reported by NASDAQ. If there are no sales on that day, the securities are valued at the mean between the closing bid and asked prices as reported by NASDAQ. Options traded on national securities exchanges are valued at a price between the closing bid and asked prices determined to most closely reflect market value as of the time of computation of net asset value. Futures contracts and options thereon, which are traded on commodities exchanges, are valued at their daily settlement value as of the close of such commodities exchanges. Foreign securities are translated from the local currency into U.S. dollars using currency exchange rates supplied by a pricing quotation service.

In the event that market quotations are not readily available, securities and other assets are valued at fair value as determined in accordance with procedures adopted in good faith by the Board of Trustees of the Trust. Debt securities will be valued at their current market value when available or at their fair value, which for securities with remaining maturities of 60 days or less has been determined in good faith by the Board of Trustees to be represented by amortized cost value, absent unusual circumstances. One or more pricing services may be utilized to determine the fair value of securities held by the Fund. The Board of Trustees will review and monitor the methods used by such services to assure itself that securities are appropriately valued.

## Notes to the Financial Statements
## December 31, 2002 (Continued)
## (Unaudited)

**1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Futures Contracts and Related Options -** The Fund may use financial futures contracts and related options to hedge against changes in the market value of its portfolio securities or securities that it intends to purchase. The Fund may purchase an interest rate futures contract to protect against a decline in the value of its portfolio or to gain exposure to securities which the Fund otherwise wishes to purchase.

When the Fund writes (sells) an option, an amount equal to the premium received by the Fund is included in the Statement of Assets and Liabilities as an asset and an equivalent liability. The amount of the liability is subsequently marked-to-market to reflect the current value of the option written. By writing an option, the Fund may become obligated during the term of the option to deliver or purchase the securities underlying the option at the exercise price if the option is exercised. When an option expires on its stipulated expiration date or the Fund enters into a closing purchase transaction, the Fund realizes a gain or loss if the cost of the closing purchase transaction differs from the premium received when the option was sold without regard to any unrealized gain or loss on the underlying security, and the liability related to such option is eliminated. When an option is exercised, the premium originally received decreases the cost basis of the security (or increases the proceeds on a sale of the security).

**Repurchase Agreements –** The Fund may enter into repurchase agreements with certain banks or non-bank dealers. The value of the underlying securities will be monitored on an ongoing basis to ensure that the value always equals or exceeds the repurchase price plus accrued interest.

**Share Valuation and Redemption Fees –** The net asset value per share of the Fund is calculated at the close of regular trading on the NYSE (normally 4:00 p.m., Eastern time) on each day that the Exchange is open for business. To calculate the net asset value, the Fund's assets are valued and totaled, liabilities are subtracted, and the balance is divided by the number of shares outstanding. The offering price and redemption price per share is equal to the net asset value per share, except that shares of the Fund are subject to a redemption fee of 1.5% if redeemed within six months of the date of purchase. For the period ended December 31, 2002, proceeds from redemption fees totaled $11,470.

**Investment Income –** Interest income is accrued as earned. Dividend income is recorded on the ex-dividend date. Discounts and premiums on fixed income securities are amortized using the interest method.

**Distributions to Shareholders -** Dividends arising from net investment income, if any, are declared and paid quarterly to shareholders of the Fund. Net realized short-term capital gains, if any, may be distributed throughout the year and net realized long-term capital gains, if any, are distributed at least once each year. The amount of distributions from net investment income and net realized gains are determined in accordance with federal income tax regulations which may differ from accounting principles generally accepted in the United States. These "book/tax" differences are either temporary or permanent in nature and are primarily due to losses deferred due to wash sales and treatment for foreign currency transactions.

## Notes to the Financial Statements
## December 31, 2002 (Continued)
## (Unaudited)

**1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES** (Continued)

The tax character of distributions paid during the period ended December 31, 2002 was ordinary income.

The tax character of distributable earnings at December 31, 2002 was as follows:

| Unrealized Appreciation | Other Gains | Total Distributable Earnings |
|---|---|---|
| $295,890 | $44,465 | $340,355 |

**Organization Expenses –** All costs incurred and expensed by the Fund in connection with the organization of the Fund and the initial public offering of shares of the Fund, principally professional fees and printing, have been paid by the Adviser, but are subject to recovery by the Adviser pursuant to the Expense Limitation Agreement (See Note 3).

**Security Transactions –** Security transactions are accounted for on trade date. Securities sold are determined on a specific identification basis.

**Accounting Estimates –** The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

**Federal Income Tax –** It is the Fund's policy to comply with the special provisions of the Internal Revenue Code applicable to regulated investment companies. As provided therein, in any fiscal year in which a Fund so qualifies and distributes at least 90% of its taxable net income, the Fund (but not the shareholders) will be relieved of federal income tax on the income distributed. Accordingly, no provision for income taxes has been made.

In order to avoid imposition of the excise tax applicable to regulated investment companies, it is also the Fund's intention to declare as dividends in each calendar year at least 98% of its net investment income (earned during the calendar year) and 98% of its net realized capital gains (earned during the twelve months ended October 31) plus undistributed amounts from prior years.

# Notes to the Financial Statements
# December 31, 2002 (Continued)
# (Unaudited)

**1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Based upon the federal income tax cost of portfolio investments of $12,583,605 as of December 31, 2002, the Fund had net unrealized appreciation of $295,644, consisting of $326,435 of gross unrealized appreciation and $30,791 of gross unrealized depreciation. The difference between the federal income tax cost of portfolio investments and the financial statement cost is due to certain timing differences in the recognition of capital gains or losses under income tax regulations and accounting principles generally accepted in the United States.

**2. INVESTMENT TRANSACTIONS**

During the period ended December 31, 2002, cost of purchases and proceeds from sales and maturities of investment securities, other than short-term investments, amounted to $11,866,767 and $4,264,139, respectively.

**3. TRANSACTIONS WITH AFFILIATES**

Certain Trustees and officers of the Trust are affiliated with the Adviser or Ultimus Fund Solutions, LLC (“Ultimus”), the Fund’s administrator, transfer agent and fund accounting agent.

**Advisory Agreement**
Under the Investment Advisory Agreement, the Fund pays the Adviser a fee, which is computed and accrued daily and paid monthly, at the annual rate of 0.60% of the average daily net assets of the Fund.

Pursuant to an Expense Limitation Agreement, the Adviser has contractually agreed to waive a portion of its advisory fees or to absorb the Fund’s operating expenses to the extent necessary so that the Fund’s ordinary operating expenses do not exceed an amount equal to 0.90% annually of its average daily net assets. This expense limitation agreement remains in effect until at least December 31, 2005. Any fee waivers or expense reimbursements by the Adviser, either before or after December 31, 2005, are subject to repayment by the Fund provided the Fund is able to effect such repayment and remain in compliance with the undertaking by the Adviser to limit expenses of the Fund, and provided further that the expenses which are the subject of the repayment were incurred within three years of such repayment. Accordingly, during the period ended December 31, 2002, the Adviser waived its entire advisory fee and reimbursed the Fund for the other expenses in the amount of $71,350. As of December 31, 2002, the Adviser may in the future, but no later than June 30, 2006, recoup from the Fund fees waived and expenses reimbursed totaling $88,877.

## Notes to the Financial Statements
## December 31, 2002 (Continued)
## (Unaudited)

**3. TRANSACTIONS WITH AFFILIATES** (Continued)

**Administration Agreement**
Under the terms of an Administration Agreement, Ultimus supplies executive, administrative and regulatory services to the Fund, supervises the preparation of tax returns, and coordinates the preparation of reports to shareholders and reports to and filings with the Securities and Exchange Commission and state securities authorities. For the performance of these administrative services, Ultimus receives a monthly fee at an annual rate of .15% of the Fund's average daily net assets up to $50 million; .125% of such assets from $50 million to $100 million; .10% of such assets from $100 million to $250 million; .075% of such assets from $250 to $500 million; and .05% of such assets in excess of $500 million, subject to a minimum fee of $2,000 per month. Accordingly, during the period ended December 31, 2002, Ultimus was paid $7,200 for administrative services.

**Fund Accounting Agreement**
Under the terms of a Fund Accounting Agreement between the Trust and Ultimus, Ultimus calculates the daily net asset value per share and maintains the financial books and records of the Fund. For these services, Ultimus receives from the Fund a monthly fee of $2,500, plus an asset based fee equal to 0.01% of the Fund's average daily net assets up to $500 million and 0.005% of such assets over $500 million. Accordingly, during the period ended December 31, 2002, Ultimus was paid $9,283 for accounting services. In addition, the Fund pays certain out-of-pocket expenses incurred by Ultimus in obtaining valuations of the Fund's portfolio securities.

**Transfer Agent and Shareholder Services Agreement**
Under the terms of a Transfer Agent and Shareholder Services Agreement between the Trust and Ultimus, Ultimus maintains the records of each shareholder's account, answers shareholders' inquiries concerning their accounts, processes purchases and redemptions of Fund shares, acts as dividend and distribution disbursing agent and performs other shareholder service functions. For these services, Ultimus receives from the Fund a monthly fee at an annual rate of $17 per account, subject to a minimum fee of $1,500 per month. Accordingly, during the period ended December 31, 2002, Ultimus was paid $5,400 for transfer agent services. In addition, the Fund pays out-of-pocket expenses including, but not limited to, postage and supplies.

**4. FOREIGN CURRENCY TRANSLATION**

Amounts denominated in or expected to settle in foreign currencies are translated into U.S. dollars based on exchange rates on the following basis:

A. The market values of investment securities and other assets and liabilities are translated at the closing rate of exchange each day.

## Notes to the Financial Statements
## December 31, 2002 (Continued)
## (Unaudited)

**4. FOREIGN CURRENCY TRANSLATION** (Continued)

B. Purchases and sales of investment securities and income and expenses are translated at the rate of exchange prevailing on the respective date of such transactions.

C. The Fund does not isolate that portion of the results of operations caused by changes in foreign exchange rates on investments from those caused by changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gains or losses on investments.

Reported net realized foreign exchange gains or losses arise from 1) purchases and sales of foreign currencies, 2) currency gains or losses realized between the trade and settlement dates on securities transactions and 3) the difference between the amounts of dividends, interest and foreign withholding taxes recorded on the Fund's books, and the U.S. dollar equivalent of the amounts actually received or paid. Reported net unrealized foreign exchange gains and losses arise from changes in the value of assets and liabilities, other than investment securities, resulting from changes in exchange rates.