SALOMON BROTHERS EMERGING MARKETS INCOME FUND II INC
Form N-CSR
August 10, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number **811-7686**

Salomon Brothers Emerging Markets Income Fund II Inc.
(Exact name of registrant as specified in charter)

125 Broad Street, New York, NY 10004
(Address of principal executive offices) (Zip code)

Robert I. Frenkel, Esq.
Legg Mason & Co., LLC
300 First Stamford Place, 4th Fl.
Stamford, CT 06902
(Name and address of agent for service)

Registrant's telephone number, including area code: (800) 725-6666

Date of fiscal year end: **May 31**
Date of reporting period: **May 31, 2006**

ITEM 1. REPORT TO STOCKHOLDERS.

The **Annual** Report to Stockholders is filed herewith.

Salomon Brothers Emerging Markets Income Fund II Inc.

ANNUAL REPORT

MAY 31, 2006

INVESTMENT PRODUCTS: NOT FDIC INSURED NO BANK GUARANTEE MAY LOSE VALUE

Salomon Brothers Emerging Markets Income Fund II Inc.

Annual Report May 31, 2006

Whats Inside

Fund Objective

The Funds primary investment objective is to seek high current income. As a secondary objective, the Fund seeks capital appreciation.

Letter from the Chairman

R. JAY GERKEN, CFA
Chairman, President and Chief Executive Officer

Dear Shareholder,

The U.S. economy was generally strong during the one-year reporting period. After expanding 3.3% in the second quarter of 2005, third quarter gross domestic product (GDP)[i] advanced 4.1% . GDP growth then slipped to 1.7% in the fourth quarter. This marked the first quarter in which GDP growth did not surpass 3.0% in nearly three years. However, as expected, the economy rebounded sharply in the first quarter of 2006. During this time, GDP rose 5.6%, its best showing since the third quarter of 2003. The economic turnaround was prompted by both strong consumer and business spending. In addition, the U.S. Labor Department reported that unemployment was 4.6% in May, its lowest rate since July 2001.

The Federal Reserve Board (Fed)[ii] continued to raise interest rates during the reporting period. Despite the changing of the guard from Fed Chairman Alan Greenspan to Ben Bernanke in early 2006, it was business as usual for the Fed, as it raised short-term interest rates eight times during the period. Since it began its tightening campaign in June 2004, the Fed has increased rates 16 consecutive times, bringing the federal funds rate[iii] from 1.00% to 5.00% . Coinciding with its latest rate hike in May 2006, the Fed said that the extent and timing of further increases would depend on future economic data. After the end of the Funds reporting period, at its June meeting, the Fed once again raised the federal funds rate by 0.25% to 5.25% .

Both short- and long term yields rose over the reporting period. During the 12-months ended May 31, 2006, two-year Treasury yields increased from 3.60% to 5.04% . Over the same period, 10-year Treasury yields moved from 4.00% to 5.12% . Short-term rates rose in concert with the Feds repeated tightening, while long-term rates rose on fears of mounting inflationary pressures. Looking at the 12-month period as a whole, the overall bond market, as measured by the Lehman Brothers U.S. Aggregate Indexiv, returned 0.48% .

The high yield market generated positive returns during the reporting period, supported by generally strong corporate profits and low default rates. In addition, there was overall solid demand and limited supply as new issuance waned. These factors tended to overshadow several company specific issues, mostly in the automobile industry. During the 12-month period ended May 31, 2006, the Citigroup High Yield Market Index[v] returned 6.35% .

Despite weakness late in the reporting period, emerging markets debt produced solid results over the 12-month period, as the JPMorgan Emerging Markets Bond Index Global (EMBI Global)[vi] returned 6.49% . A strong global economy, solid domestic spending and high energy and commodity prices supported many emerging market countries. We believe that these positives more than offset the negatives associated with rising U.S. interest rates.

Please read on for a more detailed look at prevailing economic and market conditions during the Fund's fiscal year and to learn how those conditions have affected Fund performance.

Information About Your Fund

As you may be aware, several issues in the mutual fund industry have come under the scrutiny of federal and state regulators. The Fund's Manager and some of its affiliates have received requests for information from various government regulators regarding market timing, late trading, fees, and other mutual fund issues in connection with various investigations. The regulators appear to be examining, among other things, the open-end funds' response to market timing and shareholder exchange activity, including compliance with prospectus disclosure related to these subjects. The Fund has been informed that the Manager and its affiliates are responding to those information requests, but are not in a position to predict the outcome of these requests and investigations.

Important information concerning the Fund and its Manager with regard to recent regulatory developments is contained in the Notes to Financial Statements included in this report.

As always, thank you for your confidence in our stewardship of your assets. We look forward to helping you continue to meet your financial goals.

Sincerely,

R. Jay Gerken, CFA
Chairman, President and Chief Executive Officer

July 14, 2006

All index performance reflects no deduction for fees, expenses or taxes. Please note that an investor cannot invest directly in an index.

i Gross domestic product is a market value of goods and services produced by labor and property in a given country.

ii The Federal Reserve Board is responsible for the formulation of a policy designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.

iii The federal funds rate is the interest rate that banks with excess reserves at a Federal Reserve district bank charge other banks that need overnight loans.

iv The Lehman Brothers U.S. Aggregate Index is a broad-based bond index comprised of Government, Corporate, Mortgage and Asset- backed issues, rated investment grade or higher, and having at least one year to maturity.

v The Citigroup High Yield Market Index is a broad-based unmanaged index of high yield securities.

vi JPMorgan Emerging Markets Bond Index Global (EMBI Global) tracks total returns for U.S. dollar denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds, and local market instruments. Countries covered are Algeria, Argentina, Brazil, Bulgaria, Chile, China, Colombia, Cote dIvoire, Croatia, Ecuador, Greece, Hungary, Lebanon, Malaysia, Mexico, Morocco, Nigeria, Panama, Peru, the Philippines, Poland, Russia, South Africa, South Korea, Thailand, Turkey and Venezuela.

Manager Overview

Special Shareholder Notices

The portfolio management team of S. Kenneth Leech, Stephen A. Walsh, Keith J. Gardner and Michael C. Buchanan assumed portfolio management responsibilities for the Fund on March 31, 2006. Mr. Leech, Mr. Walsh and Mr. Gardner have each been employed by Western Asset Management Company (Western Asset) for more than five years. Prior to joining Western Asset as a portfolio manager and head of the U.S. High Yield team in 2005, Mr. Buchanan was a Managing Director and head of U.S. Credit Products at Credit Suisse Asset Management from 2003 to 2005. Mr. Buchanan served as Executive Vice President and portfolio manager for Janus Capital Management in 2003. Prior to joining Janus Capital Management, Mr. Buchanan was a Managing Director and head of High Yield Trading at Blackrock Financial Management from 1998 to 2003.

These portfolio managers are employees of the Funds investment manager, Salomon Brothers Asset Management Inc for purposes of carrying out their duties relating to the Fund, and they also will continue to serve as employees of Western Asset. Western Asset, like the Funds investment manager, is a subsidiary of Legg Mason, Inc. (Legg Mason).

Following the purchase of substantially all of Citigroups asset management business in December 2005, Legg Mason undertook an internal reorganization to consolidate the advisory services provided to the legacy Citigroup funds through a more limited number of advisers. As part of this reorganization, at meetings held in June and July 2006, the Funds Board approved a new management agreement with Legg Mason Partners Fund Advisor, LLC (LMPFA), under which LMPFA will act as the investment adviser for the Fund effective August 1, 2006.

The Funds Board also approved a new sub-advisory agreement for the Fund between LMPFA and Western Asset. LMPFA and Western Asset are wholly-owned subsidiaries of Legg Mason.

The portfolio manager(s) who are responsible for the day-to-day management of the Fund remain the same immediately prior to and immediately after the date of these changes.

LMPFA will provide administrative and certain oversight services to the Fund. LMPFA will delegate to the sub-adviser(s), as applicable, the day-to-day portfolio management of the Fund. The management fees for the Fund will remain unchanged.

In addition to these advisory changes, it is expected that the Funds name will change to Western Asset Emerging Markets Income Fund II Inc. in October of 2006.

Q. What were the overall market conditions during the Funds reporting period?

A. While the overall developed bond markets in the U.S. and overseas were weak during the one-year period ended May 31, 2006as evidenced by the -0.48% return of the Lehman Brothers U.S. Aggregate Index[i] and the 0.61% return of the JPMorgan Global Government Bond Index (Hedged)[ii]emerging market debt generated strong results. Over the same period, the JPMorgan Emerging Markets Bond Index Global (EMBI Global)[iii] gained 6.49% . Many emerging market countries have rich oil and commodity reserves. Given continued high prices for these items, many of these countries have strengthened their balance sheets and turned account deficits into account surpluses. While rising interest rates and the potential for slower global growth caused emerging market debt prices to fall toward the end of the period, it was not enough to hinder their solid 12-month returns.

Performance Review

For the twelve months ended May 31, 2006, the Salomon Brothers Emerging Markets Income Fund II Inc. returned 9.12%, based on its net asset value (NAV)[iv] and 5.05% based on its New York Stock Exchange (NYSE) market price per share. In comparison, the Fund's unmanaged benchmark, the EMBI Global index, returned 6.49% and its Lipper Emerging Markets Debt Closed-End Funds Category Average[v] increased 8.70% over the same time frame. Please note that Lipper performance returns are based on each fund's NAV.

During the twelve-month period, the Fund made distributions to shareholders totaling $1.71 per share. The performance table shows the Fund's twelve-month total return based on its NAV and market price as of May 31, 2006. **Past performance is no guarantee of future results.**

Performance Snapshot as of May 31, 2006 (unaudited)

Price Per Share	12-Month Total Return
$14.34 (NAV)	9.12%
$12.57 (Market Price)	5.05%

All figures represent past performance and are not a guarantee of future results.

Total returns are based on changes in NAV or market price, respectively. Total returns assume the reinvestment of all distributions.

Q. What were the most significant factors affecting Fund performance?

What were the leading contributors to performance?

A. During the first nine months of the reporting period, the Fund's performance was driven predominantly by positive issue selection, particularly in Colombia, Mexico, Argentina and Russia. The Fund's strategic overweight to Argentina and the use of leverage also positively contributed to overall positive performance. During the last three months of the period, the Fund's short duration aided results as yields rose.

What were the leading detractors from performance?

A. During the reporting period, the Fund's overweight to Mexico and underweight to Venezuela detracted from performance relative to its benchmark. Security selection in Brazil also detracted from portfolio performance. Late in the reporting period, the Fund's holdings in Russia and Colombia detracted from results as investor risk aversion increased and these markets declined.

Q. Were there any significant changes to the Fund during the reporting period?

A. During the reporting period, we decreased its allocations to Brazil, Mexico and Russia in favor of BB-rated corporate bonds from countries such as El Salvador, Peru and Turkey.

Looking for Additional Information?

The Fund is traded under the symbol "EDF" and its closing market price is available in most newspapers under the NYSE listings. The daily NAV is available on-line under symbol XEDFX. *Barron's* and *The Wall Street*

Journal's Monday editions carry closed-end fund tables that will provide additional information. In addition, the Fund issues a quarterly press release that can be found on most major financial websites as well as www.leggma-son.com/InvestorServices.

In a continuing effort to provide information concerning the Fund, shareholders may call 1-888-777-0102 (toll free), Monday through Friday from 8:00 a.m. to 6:00 p.m. Eastern Time, for the Fund's current NAV, market price and other information.

Thank you for your investment in the Salomon Brothers Emerging Markets Income Fund II Inc. As ever, we appreciate that you have chosen us to manage your assets and we remain focused on achieving the Fund's investment goals.

Sincerely,
Salomon Brothers Asset Management Inc

July 14, 2006

The information provided is not intended to be a forecast of future events, a guarantee of future results or investment advice. Views expressed may differ from those of the firm as a whole.

RISKS: Foreign bonds are subject to certain risks of overseas investing including currency fluctuations and changes in political and economic conditions, which could result in significant market fluctuations. These risks are magnified in emerging or developing markets. High yield bonds are subject to additional risks such as the increased risk of default and greater volatility because of the lower credit quality of the issues.

All index performance reflects no deduction for fees, expenses or taxes. Please note that an investor cannot invest directly in an index.

i The Lehman Brothers U.S. Aggregate Index is a broad-based bond index comprised of Government, Corporate, Mortgage and Asset- backed issues, rated investment grade or higher, and having at least one year to maturity.

ii The JPMorgan Global Government Bond Market Index is a daily, market capitalization-weighted, international fixed-income index consisting of 13 countries.

iii JPMorgan Emerging Markets Bond Index Global (EMBI Global) tracks total returns for U.S. dollar denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds, and local market instruments. Countries covered are Algeria, Argentina, Brazil, Bulgaria, Chile, China, Colombia, Cote d'Ivoire, Croatia, Ecuador, Greece, Hungary, Lebanon, Malaysia, Mexico, Morocco, Nigeria, Panama, Peru, the Philippines, Poland, Russia, South Africa, South Korea, Thailand, Turkey and Venezuela.

iv NAV is calculated by subtracting total liabilities from the closing value of all securities held by the Fund (plus all other assets) and dividing the result (total net assets) by the total number of the common shares outstanding. The NAV fluctuates with changes in the market prices of securities in which the Fund has invested. However, the price at which an investor may buy or sell shares of the Fund is at the Fund's market price as determined by supply of and demand for the Fund's shares.

v Lipper, Inc. is a major independent mutual-fund tracking organization. Returns are based on the 12-month period ended May 31, 2006, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 13 funds in the Fund's Lipper category, and excluding sales charges.

Fund at a Glance (unaudited)

Investment Breakdown

As a Percent of Total Investments

Schedule of Investments (May 31, 2006)

SALOMON BROTHERS EMERGING MARKETS INCOME FUND II INC.

Face Amount		Security		Value
SOVEREIGN BONDS 81.0%				
Argentina 3.5%				
		Republic of Argentina:		
1,000,000	DEM	11.750% due 5/20/11 (a)	$	203,396
437,500		4.889% due 8/3/12 (b)		403,835
8,800,000	DEM	12.000% due 9/19/16 (a)		1,717,711
2,000,000	DEM	10.250% due 2/6/03 (a)		414,993
3,875,000	DEM	8.500% due 2/23/05 (a)		788,159
3,000,000	DEM	7.000% due 3/18/04 (a)		610,188
5,400,000	DEM	11.250% due 4/10/06 (a)		1,107,195
1,000,000	DEM	9.000% due 9/19/03 (a)		193,554
9,453,588	ARS	Discount Bonds, 5.830% due 12/31/33 (b)(c)		3,328,739
		GDP Linked Securities:		
57,059,503	ARS	0.000% due 12/15/35 (a)(b)		1,470,177
3,200,000	EUR	0.000% due 12/15/35 (a)(b)		379,842
2,705,000		0.000% due 12/15/35 (a)(b)		247,507
		Medium-Term Notes:		
6,000,000,000	ITL	7.000% due 3/18/04 (a)		1,197,889
1,000,000,000	ITL	7.625% due 8/11/07 (a)		196,337
625,000	DEM	8.000% due 10/30/09 (a)		119,434
3,000,000,000	ITL	0.000% due 7/13/05 (a)		581,544
640,000		Par Bonds, 1.330% due 12/31/38 (b)		223,200
		Total Argentina		13,183,700
Brazil 14.7%				
		Federative Republic of Brazil:		
13,168,000		11.000% due 8/17/40		16,048,500
		Collective Action Securities:		
33,162,000		8.000% due 1/15/18		34,587,966
3,980,000		8.750% due 2/4/25		4,263,575
		Total Brazil		54,900,041
Chile 1.5%				
		Republic of Chile:		
1,325,000		5.500% due 1/15/13		1,301,733
4,325,000		Collective Action Securities, 5.526% due 1/28/08 (b)		4,346,625
		Total Chile		5,648,358

Colombia 4.8%		
	Republic of Colombia:	
875,000	11.750% due 2/25/20	1,190,000
550,000	8.125% due 5/21/24	578,875
12,425,000	10.375% due 1/28/33	16,276,750
	Total Colombia	18,045,625

See Notes to Financial Statements.

Schedule of Investments (May 31, 2006) (continued)

Face Amount	Security	Value
Ecuador 1.9%		
	Republic of Ecuador:	
510,000	12.000% due 11/15/12 (d)	$ 525,810
6,785,000	9.000% due 8/15/30 (b)	6,674,744
	Total Ecuador	7,200,554
El Salvador 1.9%		
	Republic of El Salvador:	
2,630,000	7.750% due 1/24/23 (d)	2,800,950
3,975,000	8.250% due 4/10/32 (d)	4,223,437
	Total El Salvador	7,024,387
Indonesia 0.5%		
1,600,000	Republic of Indonesia, 8.500% due 10/12/35 (d)	1,736,960
Malaysia 2.9%		
7,025,000	Federation of Malaysia, 8.750% due 6/1/09	7,603,777
3,361,000	Penerbangan Malaysia Berhad, 5.625% due 3/15/16 (d)	3,262,623
	Total Malaysia	10,866,400
Mexico 13.3%		
	United Mexican States:	
1,185,000	11.375% due 9/15/16	1,614,563
	Medium-Term Notes:	
19,450,000	5.625% due 1/15/17	18,112,812
4,935,000	8.300% due 8/15/31	5,630,835
	Series A:	
431,000	6.375% due 1/16/13	432,724
8,473,000	6.625% due 3/3/15	8,583,149
13,840,000	8.000% due 9/24/22	15,431,600
	Total Mexico	49,805,683
Panama 3.2%		
	Republic of Panama:	
5,195,000	8.875% due 9/30/27	6,091,137
1,364,000	9.375% due 4/1/29	1,665,785
4,383,000	6.700% due 1/26/36	4,169,329
	Total Panama	11,926,251

Peru 4.4%		
	Republic of Peru:	
7,346,780	FLIRB, 5.000% due 3/7/17 (b)	7,052,909
9,594,550	PDI, 5.000% due 3/7/17 (b)	9,258,741
	Total Peru	16,311,650
Philippines 4.1%		
	Republic of the Philippines:	
14,400,000	8.250% due 1/15/14	15,246,000
130,000	8.000% due 1/15/16	136,500
	Total Philippines	15,382,500

See Notes to Financial Statements.

Schedule of Investments (May 31, 2006) (continued)

Face Amount	Security		Value
Russia 9.2%			
	Russian Federation:		
2,666,667	8.250% due 3/31/10 (d)	$	2,789,333
4,175,000	11.000% due 7/24/18 (d)		5,818,906
1,950,000	12.750% due 6/24/28 (d)		3,327,188
21,095,000	5.000% due 3/31/30 (b)(d)		22,518,913
	Total Russia		34,454,340
South Africa 1.6%			
5,975,000	Republic of South Africa, 6.500% due 6/2/14		6,124,375
Turkey 7.0%			
	Republic of Turkey:		
2,500,000	7.250% due 3/15/15		2,484,375
1,299,000	7.000% due 6/5/20		1,250,287
3,200,000	11.875% due 1/15/30		4,560,000
782,000	8.000% due 2/14/34		779,068
	Collective Action Securities, Notes:		
13,300,000	9.500% due 1/15/14		15,095,500
1,944,000	7.375% due 2/5/25		1,875,960
	Total Turkey		26,045,190
Ukraine 1.1%			
3,700,000	Republic of Ukraine, 8.235% due 8/5/09 (b)(d)		3,931,250
Uruguay 1.1%			
4,214,135	Republic of Uruguay, Benchmark Bonds, 7.875% due 1/15/33 (c)		4,066,640
Venezuela 4.3%			
	Bolivarian Republic of Venezuela:		
800,000	5.375% due 8/7/10 (d)		770,000
7,751,000	8.500% due 10/8/14		8,380,769
2,225,000	7.650% due 4/21/25		2,255,594
	Collective Action Securities:		
350,000	6.090% due 4/20/11 (b)(d)		348,687
3,500,000	Notes, 10.750% due 9/19/13		4,226,250
	Total Venezuela		15,981,300
	TOTAL SOVEREIGN BONDS (Cost $296,544,425)		**302,635,204**

CORPORATE BONDS & NOTES 12.6%

Cayman Islands 0.4%		
1,450,000	Vale Overseas Ltd., Notes, 6.250% due 1/11/16	1,399,250
Chile 0.5%		
1,900,000	Corporacion Nacional del Cobre-Codelco, Notes, 5.500% due 10/15/13 (d)	1,838,222
Luxembourg 1.4%		
5,270,000	Russian Agricultural Bank, Notes, 7.175% due 5/16/13 (d)	5,283,175
Mexico 5.2%		
	Grupo Transportacion Ferroviaria Mexicana SA de CV, Senior Notes:	
237,000	10.250% due 6/15/07	246,480
220,000	9.375% due 5/1/12	235,400

See Notes to Financial Statements.

Schedule of Investments (May 31, 2006) (continued)

Face Amount		Security		Value
Mexico 5.2% (continued)				
100,000		12.500% due 6/15/12	$	111,000
		Pemex Project Funding Master Trust:		
15,125,000		7.375% due 12/15/14		15,661,937
1,025,000		Guaranteed Bonds, 9.500% due 9/15/27		1,240,250
24,000,000	MXN	Telefonos de Mexico SA de CV, Senior Notes, 8.750% due 1/31/16 (b)		1,962,323
		Total Mexico		19,457,390
Russia 4.6%				
14,650,000		Gaz Capital SA, Notes, 8.625% due 4/28/34 (d)		17,253,305
Venezuela 0.5%				
1,830,000		Petrozuata Finance Inc., 8.220% due 4/1/17 (d)		1,729,350
		TOTAL CORPORATE BONDS & NOTES (Cost $49,145,567)		**46,960,692**
Warrants				
WARRANTS 0.3%				
10,000		Bolivarian Republic of Venezuela, Oil-linked payment obligations, Expires 4/15/20		350,000
81,000		United Mexican States, Series XW05, Expires 11/9/06*		162,000
64,750		United Mexican States, Series XW10, Expires 10/10/06*		233,100
60,000		United Mexican States, Series XW20, Expires 9/1/06*		405,000
		TOTAL WARRANTS (Cost $913,625)		**1,150,100**
Contracts				
PURCHASED OPTIONS 0.0%				
10,500,000	EUR	Argentina, Call @ 30 Euro, expires 8/18/06*		74,107
10,000,000	EUR	Argentina, Call @ 30 Euro, expires 9/27/06*		70,579
		TOTAL PURCHASED OPTIONS (Cost $875,472)		**144,686**
		TOTAL INVESTMENTS BEFORE SHORT-TERM INVESTMENT (Cost $347,479,089)		**350,890,682**

Face Amount		
SHORT-TERM INVESTMENT 6.1%		
Repurchase Agreement 6.1%		
$ 22,944,000	Merrill Lynch, Pierce, Fenner & Smith, Inc. repurchase agreement dated 5/31/06, 5.020% due 6/1/06; Proceeds at maturity $22,947,199; (Fully collateralized by U.S. Treasury obligation 4.125% due 8/15/08; Market value $23,407,216) (Cost $22,944,000)	**22,944,000**
	TOTAL INVESTMENTS 100.0% (Cost $370,423,089#)	**$ 373,834,682**

See Notes to Financial Statements.

Schedule of Investments (May 31, 2006) (continued)

* Non-income producing security.

 Face amount denominated in U.S. dollars, unless otherwise noted.

 All securities are segregated as collateral pursuant to a revolving credit facility and future contracts.

(a) Security is currently in default.

(b) Variable rate security. Interest rate disclosed is that which is in effect at May 31, 2006.

(c) Payment-in-kind security for which part of the income earned may be paid as additional principal.

(d) Security is exempt from registration under Rule 144A of the Securities Act of 1933. This security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers. This security has been deemed liquid pursuant to guidelines approved by the Board of Directors, unless otherwise noted.

\# Aggregate cost for federal income tax purposes is $372,059,023.

Abbreviations used in this schedule:

ARS Argentine Peso
DEM German Mark
EUR Euro
FLIRB Front-Loaded Interest Reduction Bonds
GDP Gross Domestic Product
ITL Italian Lira
MXN Mexican Peso
PDI Past Due Interest

See Notes to Financial Statements.

Statement of Assets and Liabilities (May 31, 2006)

ASSETS:		
Investments, at value (Cost $370,423,089)	$	373,834,682
Cash		983
Interest receivable		7,135,742
Receivable for securities sold		1,643,836
Deposits with brokers for open futures contracts		300,000
Receivable from broker variation margin on open futures contracts		154,965
Prepaid expenses		15,617
Total Assets		**383,085,825**
LIABILITIES:		
Loan payable (Note 4)		30,000,000
Payable for securities purchased		1,943,333
Investment management fee payable		317,946
Interest payable		294,200
Accrued expenses		158,462
Total Liabilities		**32,713,941**
Total Net Assets	**$**	**350,371,884**
NET ASSETS:		
Par value ($0.001 par value, 100,000,000 shares authorized; 24,432,561 shares outstanding)	$	24,433
Paid-in capital in excess of par value		330,296,901
Undistributed net investment income		6,017,593
Accumulated net realized gain on investments, futures contracts, swap contracts and foreign currency transactions		9,869,561
Net unrealized appreciation on investments, futures contracts and foreign currencies		4,163,396
Total Net Assets	**$**	**350,371,884**
Shares Outstanding		**24,432,561**
Net Asset Value	**$**	**14.34**

See Notes to Financial Statements.

Statement of Operations (For the year ended May 31, 2006)

INVESTMENT INCOME:

Interest