

# PROSPECTUS

AUGUST 1, 2010

## SIT MUTUAL FUNDS:

Sit U.S. Government Securities Fund — SNGVX

Sit Tax-Free Income Fund — SNTIX

Sit Minnesota Tax-Free Income Fund — SMTFX

This Prospectus describes three bond funds that are a part of the Sit Mutual Fund family of no-load mutual funds offering a selection of Funds, each with a distinctive investment objective and risk/reward profile.



The Securities and Exchange Commission has not approved or disapproved these securities or passed upon the adequacy of this prospectus. Any representation to the contrary is a criminal offense.

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# SUMMARY INFORMATION

## SIT U.S. GOVERNMENT SECURITIES FUND

### INVESTMENT OBJECTIVE

The Fund seeks high current income and safety of principal.

### FEES AND EXPENSES OF THE FUND

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

|  |         |
|--|---------|
| <b>Shareholder Fees</b> ( <i>fees paid directly from your investment</i> )   | None    |
| <b>Annual Fund Operating Expenses</b> ( <i>expenses that you pay each year as a percentage of the value of your investment</i> ) |         |
| Management Fees  | 1.00%   |
| Total Annual Fund Operating Expenses   | 1.00%   |
| Fee Waiver <sup>(1)</sup>  | (0.20%) |
| Total Annual Fund Operating Expenses After Fee Waiver  | 0.80%   |

<sup>(1)</sup> After December 31, 2011 the fee waiver may be terminated at any time by the Adviser.

### Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. It assumes that you invest \$10,000 in the Fund for the time periods indicated, that your investment has a 5% return each year, that the Fund's operating expenses remain the same, and that you redeem all of your shares at the end of those periods. Although your actual costs and returns may be higher or lower, based on these assumptions your costs would be:

| <u>1 Year</u> | <u>3 Years</u> | <u>5 Years</u> | <u>10 Years</u> |
|---------------|----------------|----------------|-----------------|
| \$82          | \$256          | \$446          | \$993           |

### PORTFOLIO TURNOVER

The Fund pays transactions costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 66.89% of the average value of the portfolio.

### PRINCIPAL INVESTMENT STRATEGIES

The Fund seeks to achieve its objective by investing exclusively in U.S. government securities, which are securities issued, guaranteed or insured by the U.S. government, its agencies or instrumentalities.

The Fund invests a substantial portion of its assets in pass-through securities. Pass-through securities are formed when mortgages or other debt instruments are pooled together and undivided interests in the pool are sold to investors, such as the Fund. Pass-through securities in which the Fund invests include mortgage-backed securities such as those issued by Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC). GNMA is an agency of the U.S. government and its securities are backed by the full faith and credit of the U.S. government. FNMA and FHLMC are U.S. government sponsored enterprises and their securities are backed by their credit. Other types of U.S. government securities in which the Fund may invest include U.S. Treasury securities, U.S. government agency collateralized mortgage obligations and other U.S. government agency securities.

In selecting securities for the Fund, Fund managers seek securities providing high current income relative to yields currently available in the market. In making purchase and sales decisions for the Fund, the Fund managers consider their economic outlook and interest rate forecast, as well as their evaluation of a security's prepayment risk, yield, maturity, and liquidity. Fund managers attempt to maintain an average effective duration for the portfolio of approximately 2 to 5 years. Duration is a measure of total price sensitivity relative to changes in interest rates. Portfolios with longer durations are typically more sensitive to changes in interest rates. The Fund's dollar-weighted average maturity will, under normal market conditions, range between 15 and 25 years. However, since the Fund's securities are subject to various types of call provisions which make their expected average lives shorter than their stated maturity dates, the Fund managers believe that the Fund's average effective duration is a more accurate measure of the Fund's price sensitivity to changes in interest rates than the Fund's dollar-weighted average maturity.

## PRINCIPAL INVESTMENT RISKS

As with all mutual funds investing in bonds, the price and yield of the Fund may change daily due to interest rate changes and other factors. You could lose money by investing in the Fund.

The principal risks of investing in the Fund are as follows:

- > **Credit Risk:** The issuers or guarantors of securities (including U.S. government agencies and instrumentalities issuing securities that are not guaranteed by the full faith and credit of the U.S. government) owned by the Fund may default on the payment of principal or interest, or the other party to a contract may default on its obligations to the Fund, causing the value of the Fund to decrease.
- > **Income Risk:** The income you earn from the Fund may decline due to declining interest rates.
- > **Interest Rate Risk:** An increase in interest rates may lower the Fund's value and the overall return on your investment. The magnitude of this decrease is often greater for longer-term fixed income securities than shorter-term securities.
- > **Liquidity Risk:** The Fund may not be able to pay redemption proceeds within the time periods described in this Prospectus because of an inability to sell certain debt securities with more limited trading opportunities at a favorable price or time. Recent events have caused the markets for some debt securities to experience lower valuations and reduced liquidity. Consequently, the Fund may have to accept a lower price to sell a security, sell other securities to raise cash, or give up an investment opportunity, any of which could have a negative effect on the Fund's performance. Infrequent trading may also lead to greater price volatility.
- > **Management Risk:** A strategy used by the investment management team may not produce the intended results.
- > **Market Risk:** The market value of securities may fall or fail to rise. Market risk may affect a single issuer, sector of the economy, industry, or the market as a whole. The market value of securities may fluctuate, sometimes rapidly and unpredictably.
- > **Prepayment and Extension Risk:** Declining interest rates may compel borrowers to prepay mortgages and debt obligations underlying the mortgage-backed securities owned by the Fund. The proceeds received by the Fund from prepayments will likely be reinvested at interest rates lower than the original investment, thus resulting in a reduction of income to the Fund. Likewise, rising interest rates could reduce prepayments and extend the life of securities with lower interest rates, which may increase the sensitivity of the Fund's value to rising interest rates.
- > **U.S. Government Securities Risk:** Securities purchased by the Fund issued by Fannie Mae and Freddie Mac are neither issued nor guaranteed by the U.S. Treasury and, therefore, are not backed by the full faith and credit of the United States. There is a risk that the U.S. government will not provide financial support to U.S. government agencies or instrumentalities if it is not obligated to do so by law.

- > **Valuation Risk:** The Fund may hold securities for which prices from pricing services may be unavailable or are deemed unreliable, in which case the Fund's procedures for valuing investments provide that the Adviser shall use the fair value of such securities for valuing investments. There is a risk that the fair value determined by the Adviser or the price determined by the pricing service may be different than the actual sale prices of such securities.

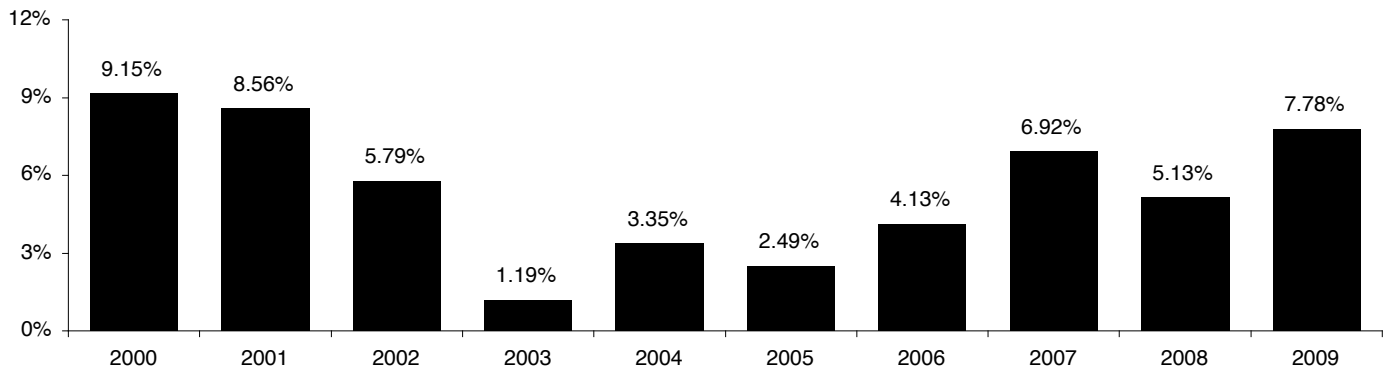
## HISTORICAL PERFORMANCE

The following tables provide information on the Fund's volatility and performance. The Fund's past performance before and after taxes is not necessarily an indication of how the Fund will perform in the future. The bar chart below is intended to provide you with an indication of the risks of investing in the Fund by showing changes in the Fund's performance from year to year. The table below compares the Fund's performance over different time periods to that of the Fund's benchmark index, which is a broad measure of market performance.

The table includes returns both before and after taxes. After-tax returns are calculated using 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. 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.

The performance information reflects Fund expenses, and assumes that all distributions have been reinvested. Performance reflects fee waivers in effect. If these fee waivers were not in place, performance would be reduced. The benchmark is an unmanaged index, has no expenses, and it is not possible to invest directly in an index.

### Annual Total Returns for calendar years ended December 31



The Fund's year-to-date return as of 6/30/10 (not annualized) was 2.38%.

Best Quarter: 3.42% (4Q00).

Worst Quarter: -0.58% (2Q04).

### Average Annual Total Returns for periods ended December 31, 2009

| Sit U.S. Government Securities Fund   | 1 Year | 5 Years | 10 Years |
|---|--------|---------|----------|
| Return before taxes   | 7.78%  | 5.28%   | 5.42%    |
| Return after taxes on distributions   | 6.08%  | 3.64%   | 3.71%    |
| Return after taxes on distributions and sale of Fund shares   | 5.62%  | 3.52%   | 3.61%    |
| Barclays Capital Intermediate Government Index<br>(reflects no deduction for fees, expenses or taxes) | -0.32% | 4.74%   | 5.65%    |

## **INVESTMENT ADVISER AND PORTFOLIO MANAGERS**

Sit Investment Associates, Inc. serves as the Fund's investment adviser (the "Adviser"). The Fund's investment decisions are made by a team of portfolio managers and analysts who are jointly responsible for the day-to-day management of the Fund.

The primary portfolio managers of the Fund are:

**Michael C. Brilley**, Senior Vice President, has served as Chief Fixed Income Officer of the Fund since 1987.

**Bryce A. Doty**, Vice President – Investments, has served as Senior Portfolio Manager of the Fund since 1995.

**Mark H. Book**, Vice President – Investments, has served as Portfolio Manager of the Fund since 2002.

## **PURCHASE AND SALE OF FUND SHARES**

The minimum initial investment for shares of the Fund is \$5,000. The minimum subsequent investment is \$100. The Fund's shares are redeemable. In general, you may buy or redeem shares of the Fund on any business day by mail (Sit Mutual Funds, P.O. Box 9763, Providence, RI 02940) or by phone (1-800-332-5580).

For additional information, please see "Buying and Selling Shares" in the Prospectus.

## **TAX INFORMATION**

The Fund pays its shareholders distributions from its net investment income and any net capital gains that it has realized. For most investors, these distributions will be taxable, whether paid in cash or reinvested. Distributions paid from the Fund's net investment income and short-term capital gains, if any, are taxable as ordinary income. Distributions paid from the Fund's net long-term capital gains, if any, are taxable as long-term capital gains, regardless of how long you have held your shares. The Fund expects that its distributions will consist primarily of ordinary income and will not be treated as "qualifying dividends" that are taxed at the same rates as long-term capital gains.

## **PAYMENTS TO BROKER-DEALERS AND OTHER FINANCIAL INTERMEDIARIES**

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank or financial adviser), the financial intermediary may impose account charges. The Fund and its related companies may also pay that intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary to recommend the Fund over another investment. Ask your intermediary or visit your intermediary's website for more information.

# SUMMARY INFORMATION

## SIT TAX-FREE INCOME FUND

### INVESTMENT OBJECTIVE

The Fund seeks high current income that is exempt from federal income tax consistent with preservation of capital.

### FEES AND EXPENSES OF THE FUND

This table describes fees and expenses that you may pay if you buy and hold shares of the Fund.

|  |       |
|--|-------|
| <b>Shareholder Fees</b> ( <i>fees paid directly from your investment</i> )   | None  |
| <b>Annual Fund Operating Expenses</b> ( <i>expenses that you pay each year as a percentage of the value of your investment</i> ) |       |
| Management Fees  | 0.80% |
| Acquired Fund Fees and Expenses <sup>(1)</sup>   | 0.09% |
| Total Annual Fund Operating Expenses   | 0.89% |
| Fee Waiver <sup>(2)</sup>  | 0.00% |
| Total Annual Fund Operating Expenses After Fee Waiver  | 0.89% |

<sup>(1)</sup> The total annual fund operating expenses do not correlate to the ratio of expenses to average net assets shown in the Fund's Financial Highlights, which does not include Acquired Fund Fees and Expenses.

<sup>(2)</sup> For the period October 1, 1993 through December 31, 2011, the Adviser has agreed to limit the flat monthly fee paid by the Fund to an annual rate of 0.70% of the Fund's average daily net assets in excess of \$250 million and 0.60% of the Fund's average daily net assets in excess of \$500 million. After December 31, 2011, the fee waiver may be terminated at any time by the Adviser. For the fiscal year ended March 31, 2010, no fees were waived pursuant to this arrangement.

### Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. It assumes that you invest \$10,000 in the Fund for the time periods indicated, that your investment has a 5% return each year, that the Fund's operating expenses remain the same, and that you redeem all of your shares at the end of those periods. Although your actual costs and returns may be higher or lower, based on these assumptions your costs would be:

| <u>1 Year</u> | <u>3 Years</u> | <u>5 Years</u> | <u>10 Years</u> |
|---------------|----------------|----------------|-----------------|
| \$91          | \$285          | \$495          | \$1,100         |

### PORTFOLIO TURNOVER

The Fund pays transactions costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 27.30% of the average value of the portfolio.

## PRINCIPAL INVESTMENT STRATEGIES

The Fund seeks to achieve its objective by investing primarily in municipal securities that generate interest income that is exempt from both regular federal income tax and federal alternative minimum tax. During normal market conditions, the Fund invests 100% (and, as a fundamental policy, no less than 80%) of its net assets in such tax-exempt municipal securities. Municipal securities are debt obligations issued by or for U.S. states, territories, and possessions and the District of Columbia, and their political subdivisions, agencies, and instrumentalities.

The Fund invests both in revenue bonds, which are backed by and payable only from the revenues derived from a specific facility or specific revenue source, and in general obligation bonds, which are secured by the full faith, credit and taxation power of the issuing municipality. The Fund generally invests a significant portion of its assets in obligations of municipal housing authorities, which include single family and multi-family mortgage revenue bonds, revenue bonds of health care-related facilities, and revenue bonds of educational institutions, which include higher education institutions, public, private and charter schools, and student loan-backed bonds.

The Fund primarily invests in securities rated investment-grade at the time of purchase or, if unrated, determined to be of comparable quality by the Fund's adviser. Investment-grade securities are rated within the four highest grades by the major rating agencies. However, the Fund may invest up to 25% of its assets in municipal securities rated below investment grade (commonly referred to as junk bonds) or determined to be of comparable quality by the Fund's investment adviser, but the Fund may not invest in securities rated lower than B3 by Moody's Investors Service, or B- by Standard and Poor's or Fitch Ratings, or, if unrated, determined by the Fund's investment adviser to be of comparable quality.

In selecting securities for the Fund, Fund managers seek securities providing high tax-exempt income. Fund managers attempt to maintain an average effective duration for the portfolio of approximately 3 to 8 years. Duration is a measure of total price sensitivity relative to changes in interest rates. Portfolios with longer durations are typically more sensitive to changes in interest rates. The Fund managers' economic outlook and interest rate forecast, as well as their evaluation of a security's structure, credit quality, yield, maturity, and liquidity, are all factors considered when making investment decisions.

The Fund's dollar-weighted average maturity will, under normal market conditions, range between 10 and 20 years. However, since the Fund's securities are subject to various types of call provisions which make their expected average lives shorter than their stated maturity dates, the Fund managers believe that the Fund's average effective duration is a more accurate measure of the Fund's price sensitivity to changes in interest rates than the Fund's dollar-weighted average maturity.

## PRINCIPAL INVESTMENT RISKS

As with all mutual funds investing in bonds, the price and yield of the Fund may change daily due to interest rate changes and other factors. You could lose money by investing in the Fund.

The principal risks of investing in the Fund are as follows:

- > **Call Risk:** Many bonds may be redeemed ("called") at the option of the issuer before their stated maturity date. In general, an issuer will call its bonds if they can be refinanced by issuing new bonds which bear a lower interest rate. The Fund may then be forced to invest the unanticipated proceeds at lower interest rates, resulting in a decline in the Fund's income.
- > **Credit Risk:** The issuers or guarantors of securities owned by the Fund may default on the payment of principal or interest, or experience a decline in credit quality, causing the value of the Fund to decrease.
- > **High-Yield Risk:** The Fund may invest up to 25% of its assets in municipal securities rated below investment-grade or if non-rated, determined to be of comparable quality by the Fund's Adviser. Debt securities rated below investment-grade are commonly known as junk bonds. Junk bonds are considered predominately speculative and involve greater risk of default or price changes due to changes in the issuer's creditworthiness.
- > **Income Risk:** The income you earn from the Fund may decline due to declining interest rates.
- > **Interest Rate Risk:** An increase in interest rates may lower the Fund's value and the overall return on your investment. The magnitude of this decrease is often greater for longer-term fixed income securities than shorter-term securities.

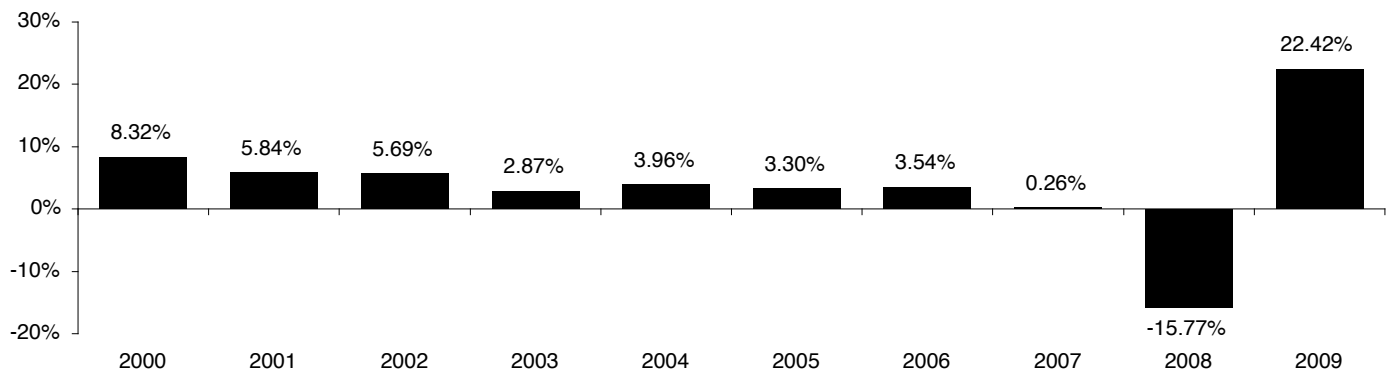
- > **Liquidity Risk:** The Fund may not be able to pay redemption proceeds within the time periods described in this Prospectus because of an inability to sell certain debt securities with more limited trading opportunities at a favorable price or time, including high yield securities that have received ratings below investment grade. Recent events have caused the markets for some debt securities to experience lower valuations and reduced liquidity. Consequently, the Fund may have to accept a lower price to sell a security, sell other securities to raise cash, or give up an investment opportunity, any of which could have a negative effect on the Fund's performance. Infrequent trading may also lead to greater price volatility.
- > **Management Risk:** A strategy used by the investment management team may not produce the intended results.
- > **Market Risk:** The market value of securities may fall or fail to rise. Market risk may affect a single issuer, sector of the economy, industry, or the market as a whole. The market value of securities may fluctuate, sometimes rapidly and unpredictably.
- > **Political, Economic and Tax Risk:** Because the Fund invests primarily in municipal securities issued by states and their political subdivisions, the Fund may be particularly affected by the political and economic conditions and developments in those states. Since the Fund primarily invests in municipal securities, the value of the Fund may be more adversely affected than other funds by future changes in federal or state income tax laws.
- > **Revenue Bond Risk:** The revenue bonds in which the Fund invests may entail greater credit risk than the Fund's investments in general obligation bonds. In particular, weaknesses in federal housing subsidy programs and their administration may result in a decrease of subsidies available for the payment of principal and interest on certain multi-family housing authority bonds.
- > **Sector Concentration Risk:** Because the Fund may invest a significant portion of their assets in health care facility bonds, housing authority bonds, and education bonds, the Fund may be more affected by events influencing these sectors than a fund that is more diversified across numerous sectors.
- > **Valuation Risk:** The Fund may hold securities for which prices from pricing services may be unavailable or are deemed unreliable, in which case the Fund's procedures for valuing investments provide that the Adviser shall use the fair value of such securities for valuing investments. There is a risk that the fair value determined by the Adviser or the price determined by the pricing service may be different than the actual sale prices of such securities.

## **HISTORICAL PERFORMANCE**

The following tables provide information on the Fund's volatility and performance. The Fund's past performance before and after taxes is not necessarily an indication of how the Fund will perform in the future. The bar chart below is intended to provide you with an indication of the risks of investing in the Fund by showing changes in the Fund's performance from year to year. The table below compares the Fund's performance over different time periods to that of the Fund's benchmark index, which is a broad measure of market performance.

The table includes returns both before and after taxes. After-tax returns are calculated using 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. 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.

The performance information reflects Fund expenses, and assumes that all distributions have been reinvested. Performance reflects fee waivers in effect. If these fee waivers were not in place, performance would be reduced. The benchmark is an unmanaged index, has no expenses, and it is not possible to invest directly in an index.

**Annual Total Returns for calendar years ended December 31**

The Fund's year-to-date return as of 6/30/10 (not annualized) was 4.72%.

Best Quarter: 9.71% (3Q09).

Worst Quarter: -11.66% (4Q08).

**Average Annual Total Returns for periods ended December 31, 2009**

| <b>Sit Tax-Free Income Fund</b>   | 1 Year | 5 Years | 10 Years |
|---|--------|---------|----------|
| Return before taxes   | 22.42% | 2.03%   | 3.66%    |
| Return after taxes on distributions   | 22.42% | 2.03%   | 3.66%    |
| Return after taxes on distributions and sale of Fund shares   | 19.86% | 2.35%   | 3.79%    |
| Barclays Capital 5-Year Municipal Bond Index<br>(reflects no deduction for fees, expenses or taxes) | 7.40%  | 4.50%   | 5.24%    |

**INVESTMENT ADVISER AND PORTFOLIO MANAGERS**

Sit Investment Associates, Inc. serves as the Fund's investment adviser (the "Adviser"). The Fund's investment decisions are made by a team of portfolio managers and analysts who are jointly responsible for the day-to-day management of the Fund.

The primary portfolio managers of the Fund are:

**Michael C. Brilley**, Senior Vice President, has served as Chief Fixed Income Officer for Fund since 1988.

**Debra A. Sit**, Vice President – Investments, has served as Senior Portfolio Manager of the Fund since 1991.

**Paul J. Jungquist**, Vice President – Investments, has served as Portfolio Manager of the Fund since 2000.

**PURCHASE AND SALE OF FUND SHARES**

The minimum initial investment for shares of the Fund is \$5,000. The minimum subsequent investment is \$100. The Fund's shares are redeemable. In general, you may buy or redeem shares of the Fund on any business day by mail (Sit Mutual Funds, P.O. Box 9763, Providence, RI 02940) or by phone (1-800-332-5580).

For additional information, please see "Buying and Selling Shares" in the Prospectus.

## **TAX INFORMATION**

The Fund intends to meet certain federal tax requirements so that distributions of tax-exempt interest income may be treated as “exempt-interest dividends.” These dividends are not subject to regular federal income tax. The Fund expects that its distributions will consist primarily of exempt-interest dividends. The Fund’s exempt-interest dividends may be subject to state or local taxes.

Distributions paid from any interest income that is not tax-exempt and from any short-term or long-term capital gains will be taxable whether you reinvest those distributions or receive them in cash. Distributions paid from a Fund’s net long-term capital gains, if any, are taxable to you as long-term capital gains, regardless of how long you have held your shares.

## **PAYMENTS TO BROKER-DEALERS AND OTHER FINANCIAL INTERMEDIARIES**

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank or financial adviser) the financial intermediary may impose account charges. The Fund and its related companies may also pay that intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary to recommend the Fund over another investment. Ask your intermediary or visit your intermediary’s website for more information.

# SUMMARY INFORMATION

## SIT MINNESOTA TAX-FREE INCOME FUND

### INVESTMENT OBJECTIVE

The Fund seeks high current income that is exempt from federal regular income tax and Minnesota regular personal income tax consistent with preservation of capital.

### FEES AND EXPENSES OF THE FUND

This table describes fees and expenses that you may pay if you buy and hold shares of the Fund.

|  |              |
|--|--------------|
| <b>Shareholder Fees</b> ( <i>fees paid directly from your investment</i> )   | None         |
| <b>Annual Fund Operating Expenses</b> ( <i>expenses that you pay each year as a percentage of the value of your investment</i> ) |              |
| Management Fees  | 0.80%        |
| Acquired Fund Fees and Expenses <sup>(1)</sup>   | 0.02%        |
| <b>Total Annual Fund Operating Expenses</b>  | <b>0.82%</b> |

<sup>(1)</sup> The total annual fund operating expenses do not correlate to the ratio of expenses to average net assets shown in the Fund's Financial Highlights, which does not include Acquired Fund Fees and Expenses

### Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. It assumes that you invest \$10,000 in the Fund for the time periods indicated, that your investment has a 5% return each year, that the Fund's operating expenses remain the same, and that you redeem all of your shares at the end of those periods. Although your actual costs and returns may be higher or lower, based on these assumptions your costs would be:

| <u>1 Year</u> | <u>3 Years</u> | <u>5 Years</u> | <u>10 Years</u> |
|---------------|----------------|----------------|-----------------|
| \$84          | \$263          | \$457          | \$1,017         |

### PORTFOLIO TURNOVER

The Fund pays transactions costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 11.46% of the average value of the portfolio.

### PRINCIPAL INVESTMENT STRATEGIES

The Fund seeks to achieve its objective by investing primarily in municipal securities that generate interest income that is exempt from regular federal income tax and Minnesota regular personal income tax. During normal market conditions, the Fund invests

100% (and, as a fundamental policy, no less than 80%) of its net assets in such tax-exempt municipal securities. The Fund may invest up to 20% of its assets in securities that generate interest income subject to both Minnesota and federal alternative minimum tax (“AMT”). Investors subject to AMT treat the Fund’s income subject to AMT as an item of tax preference in computing their alternative minimum taxable income.

The Fund substantially invests in municipal securities issued by the state of Minnesota and its political subdivisions. The Fund invests in both general obligation bonds, which are secured by the full faith, credit and taxation power of the issuing municipality, and in revenue bonds, which are backed by and payable only from the revenues derived from a specific facility or specific revenue source. The Fund generally invests a significant portion of its assets in obligations of municipal housing authorities, which include single family and multi-family mortgage revenue bonds, revenue bonds of health care-related facilities, and revenue bonds of educational institutions, which include higher education institutions, public, private and charter schools, and student loan-backed bonds.

The Fund primarily invests in securities rated investment-grade at the time of purchase or, if unrated, determined to be of comparable quality by the Fund’s adviser. Investment-grade securities are rated within the four highest grades by the major rating agencies. However, the Fund may invest up to 30% of its assets in municipal securities rated below investment-grade (commonly referred to as junk bonds) or determined to be of comparable quality by the Fund’s investment adviser, but the Fund may not invest in securities rated lower than B3 by Moody’s Investors Service, or B- by Standard and Poor’s or Fitch Ratings or, if unrated, determined by the Fund’s investment adviser to be of comparable quality.

In selecting securities for the Fund, Fund managers seek securities providing high current tax-exempt income. In making purchase and sales decisions for the Fund, the Fund managers consider their economic outlook and interest rate forecast, as well as their evaluation of a security’s structure, credit quality, yield, maturity, and liquidity. Fund managers attempt to maintain an average effective duration for the portfolio of approximately 3 to 8 years. Duration is a measure of total price sensitivity relative to changes in interest rates. Portfolios with longer durations are typically more sensitive to changes in interest rates.

The Fund’s dollar-weighted average maturity will, under normal market conditions, range between 10 and 20 years. However, since the Fund’s securities are subject to various types of call provisions which make their expected average lives shorter than their stated maturity dates, the Fund managers believe that the Fund’s average effective duration is a more accurate measure of the Fund’s price sensitivity to changes in interest rates than the Fund’s dollar-weighted average maturity.

## PRINCIPAL INVESTMENT RISKS

As with all mutual funds investing in bonds, the price and yield of the Fund may change daily due to interest rate changes and other factors. You could lose money by investing in the Fund.

The principal risks of investing in the Fund are as follows:

- > **Call Risk:** Many bonds may be redeemed (“called”) at the option of the issuer before their stated maturity date. In general, an issuer will call its bonds if they can be refinanced by issuing new bonds which bear a lower interest rate. The Fund may then be forced to invest the unanticipated proceeds at lower interest rates, resulting in a decline in the Fund’s income.
- > **Credit Risk:** The issuers or guarantors of securities owned by the Fund may default on the payment of principal or interest, or experience a decline in credit quality, causing the value of the Fund to decrease.
- > **High-Yield Risk** The Fund may invest up to 30% of its assets in municipal securities rated below investment-grade, or if non-rated, determined to be of comparable quality by the Fund’s Adviser. Debt securities rated below investment-grade are commonly known as junk bonds. Junk bonds are considered predominately speculative and involve greater risk of default or price changes due to changes in the issuer’s creditworthiness.
- > **Income Risk:** The income you earn from the Fund may decline due to declining interest rates.
- > **Interest Rate Risk:** An increase in interest rates may lower the Fund’s value and the overall return on your investment. The magnitude of this decrease is often greater for longer-term fixed income securities than shorter-term securities.
- > **Liquidity Risk:** The Fund may not be able to pay redemption proceeds within the time periods described in this Prospectus because of an inability to sell certain debt securities with more limited trading opportunities at a favorable price or time, including high yield securities that have received ratings below investment grade. Recent events have caused the markets for

some debt securities to experience lower valuations and reduced liquidity. Consequently, the Fund may have to accept a lower price to sell a security, sell other securities to raise cash, or give up an investment opportunity, any of which could have a negative effect on the Fund's performance. Infrequent trading may also lead to greater price volatility.

- > **Management Risk:** A strategy used by the investment management team may not produce the intended results.
- > **Market Risk:** The market value of securities may fall or fail to rise. Market risk may affect a single issuer, sector of the economy, industry, or the market as a whole. The market value of securities may fluctuate, sometimes rapidly and unpredictably.
- > **Minnesota State Specific Risk:** The Fund substantially invests in municipal securities issued by the state of Minnesota and its political subdivisions. The State relies heavily on a progressive individual income tax and a retail sales tax for revenue, which results in a fiscal system that is sensitive to economic conditions. The State projects a substantial budget deficit for the current biennium, and planning estimates project additional deficits in future years.
- > **Nondiversification Risk:** The Fund is nondiversified, as is typical of single-state funds. This means that the Fund may invest a larger portion of its assets in a limited number of issuers than a diversified fund. Because a relatively high percentage of the Fund's assets may be invested in the securities of a limited number of issuers, the Fund may be more susceptible to any single economic, political or regulatory occurrence than a diversified fund.
- > **Political, Economic and Tax Risk:** Because the Fund invests primarily in municipal securities issued by states and their political subdivisions, the Fund may be particularly affected by the political and economic conditions and developments in those states. Since the Fund primarily invests in municipal securities, the value of the Fund may be more adversely affected than other funds by future changes in federal or state income tax laws.
- > **Revenue Bond Risk:** The revenue bonds in which the Fund invests may entail greater credit risk than the Fund's investments in general obligation bonds. In particular, weaknesses in federal housing subsidy programs and their administration may result in a decrease of subsidies available for the payment of principal and interest on certain multi-family housing authority bonds.
- > **Sector Concentration Risk:** Because the Fund may invest a significant portion of their assets in health care facility bonds, housing authority bonds, and education bonds, the Fund may be more affected by events influencing these sectors than a fund that is more diversified across numerous sectors.
- > **Valuation Risk:** The Fund may hold securities for which prices from pricing services may be unavailable or are deemed unreliable, in which case the Fund's procedures for valuing investments provide that the Adviser shall use the fair value of such securities for valuing investments. There is a risk that the fair value determined by the Adviser or the price determined by the pricing service may be different than the actual sale prices of such securities.

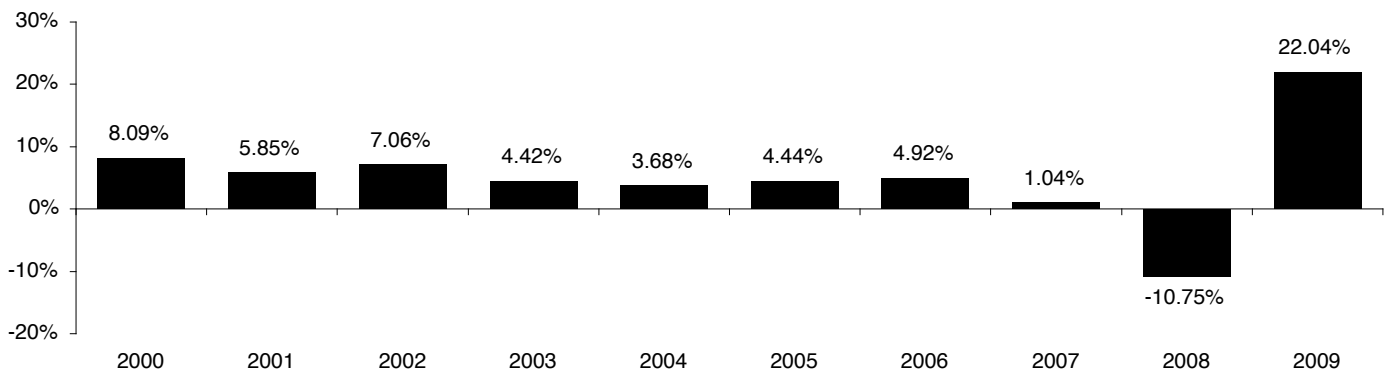
## **HISTORICAL PERFORMANCE**

The following tables provide information on the Fund's volatility and performance. The Fund's past performance before and after taxes is not necessarily an indication of how the Fund will perform in the future. The bar chart below is intended to provide you with an indication of the risks of investing in the Fund by showing changes in the Fund's performance from year to year. The table below compares the Fund's performance over different time periods to that of the Fund's benchmark index, which is a broad measure of market performance.

The table includes returns both before and after taxes. After-tax returns are calculated using 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. 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.

The performance information reflects Fund expenses, and assumes that all distributions have been reinvested. The benchmark is an unmanaged index, has no expenses, and it is not possible to invest directly in an index.

**Annual Total Returns for calendar years ended December 31**



The Fund's year-to-date return as of 6/30/10 (not annualized) was 3.47%.

Best Quarter: 8.51% (3Q09).

Worst Quarter: -7.75% (4Q08).

**Average Annual Total Returns for periods ended December 31, 2009**

| Sit Minnesota Tax-Free Income Fund  | 1 Year | 5 Years | 10 Years |
|---|--------|---------|----------|
| Return before taxes   | 22.04% | 3.82%   | 4.81%    |
| Return after taxes on distributions   | 22.04% | 3.82%   | 4.81%    |
| Return after taxes on distributions and sale of Fund shares   | 19.48% | 3.89%   | 4.80%    |
| Barclays Capital 5-Year Municipal Bond Index<br>(reflects no deduction for fees, expenses or taxes) | 7.40%  | 4.50%   | 5.24%    |

**INVESTMENT ADVISER AND PORTFOLIO MANAGERS**

Sit Investment Associates, Inc. serves as the Fund's investment adviser (the "Adviser"). The Fund's investment decisions are made by a team of portfolio managers and analysts who are jointly responsible for the day-to-day management of the Fund.

The primary portfolio managers of the Fund are:

**Michael C. Brilley**, Senior Vice President, has served as Chief Fixed Income Officer of the Fund since 1993.

**Debra A. Sit**, Vice President – Investments, has served as Senior Portfolio Manager of the Fund since 1993.

**Paul J. Jungquist**, Vice President – Investments, has served as Portfolio Manager of the Fund since 1998.

**PURCHASE AND SALE OF FUND SHARES**

The minimum initial investment for shares of the Fund is \$5,000. The minimum subsequent investment is \$100. The Fund's shares are redeemable. In general, you may buy or redeem shares of the Fund on any business day by mail (Sit Mutual Funds, P.O. Box 9763, Providence, RI 02940) or by phone (1-800-332-5580).

For additional information, please see "Buying and Selling Shares" in the Prospectus.

## **TAX INFORMATION**

The Fund intends to meet certain federal tax requirements so that distributions of tax-exempt interest income may be treated as “exempt-interest dividends.” These dividends are not subject to regular federal income tax. However, the Fund may invest up to 20% of its net assets in municipal securities subject to the alternative minimum tax. Any portion of exempt-interest dividends attributable to interest on the securities may increase some shareholders’ alternative minimum tax. The Fund expects that its distributions will consist primarily of exempt-interest dividends.

Distributions paid from any interest income that is not tax-exempt and from any short-term or long-term capital gains will be taxable whether you reinvest those distributions or receive them in cash. Distributions paid from a Fund’s net long-term capital gains, if any, are taxable to you as long-term capital gains, regardless of how long you have held your shares.

The Fund intends to comply with certain state tax requirements so that dividends it pays that are attributable to interest on Minnesota municipal securities will be excluded from the Minnesota taxable net income of individuals, estates and trusts. To meet these requirements, at least 95% of the exempt-interest dividends paid by the Fund must be derived from interest income on Minnesota municipal securities. A portion of the Fund’s dividends may be subject to the Minnesota alternative minimum tax. Exempt-interest dividends are not excluded from the Minnesota taxable income of corporations and financial institutions.

## **PAYMENTS TO BROKER-DEALERS AND OTHER FINANCIAL INTERMEDIARIES**

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank or financial adviser) the financial intermediary may impose account charges. The Fund and its related companies may also pay that intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary to recommend the Fund over another investment. Ask your intermediary or visit your intermediary’s website for more information.

## **ADDITIONAL INFORMATION ABOUT THE FUNDS**

Each Fund's investment objective and its principal investment strategies and risks are described under "Summary Information About The Funds." This section provides additional information about the Funds' investments and certain portfolio management techniques the Funds may use, as well as the principal risks that may affect a Fund's portfolio. The Funds' investment objectives and certain other investment restrictions designated as fundamental may not be changed without shareholder approval. These policies are described in the Statement of Additional Information. In seeking to achieve their investment objectives, the Funds may also invest in various types of securities and engage in various investment practices which are not the principal focus of the Funds and therefore are not described in this Prospectus. Additional information about some of these investments and portfolio management techniques and their associated risks is included in the Funds' Statement of Additional Information.

### **HOW THE FUNDS INVEST**

The Funds' experienced management team bases its investment decisions on its economic and interest rate forecasts; its evaluation of a security's attributes such as prepayment risk, yield, maturity, and liquidity; and the Funds' characteristics such as average duration and diversification. Decisions to buy and sell securities are based on the management team's best judgment to achieve the Funds' investment objectives.

#### **Sit U.S. Government Securities Fund**

The investment objective of the Fund is to seek high current income and safety of principal. The Fund seeks to achieve its objective by investing exclusively in U.S. government securities, which are securities issued, guaranteed or insured by the U.S. government, its agencies or instrumentalities.

The Fund invests a substantial portion of its assets in pass-through securities. Pass-through securities are formed when mortgages or other debt instruments are pooled together and undivided interests in the pool are sold to investors, such as the Fund. The cash flow from the underlying debt instruments is "passed through" to the holders of the securities in the form of periodic (generally monthly) payments of interest and principal, and any prepayments.

Pass-through securities in which the Fund invests include mortgage-backed securities such as those issued by Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC). GNMA is an agency of the U.S. government and its securities are backed by the full faith and credit of the U.S. government. FNMA and FHLMC are U.S. government sponsored enterprises and their securities are backed by their credit. In addition, a portion of the Fund's pass-through security investments may be GNMA manufactured home loan pass-through securities. Manufactured home loans are fixed-rate loans secured by a manufactured home unit.

Other types of U.S. government securities in which the Fund may invest include U.S. Treasury securities, U.S. government agency collateralized mortgage obligations and other U.S. government agency securities.

In selecting securities for the Fund, Fund managers seek securities providing high current income relative to yields currently available in the market. In making purchase and sales decisions for the Fund, the Fund managers consider their economic outlook and interest rate forecast, as well as their evaluation of a security's prepayment risk, yield, maturity, and liquidity. Fund managers attempt to maintain an average effective duration for the portfolio of approximately 2 to 5 years. Duration is a measure of total price sensitivity relative to changes in interest rates. Portfolios with longer durations are typically more sensitive to changes in interest rates.

The Fund's dollar-weighted average maturity will, under normal market conditions, range between 15 and 25 years. However, since the Fund's securities are subject to various types of call provisions which make their expected average lives shorter than their stated maturity dates, the Fund managers believe that the Fund's average effective duration is a more accurate measure of the Fund's price sensitivity to changes in interest rates than the Fund's dollar-weighted average maturity.

### **Sit Tax-Free Income Fund**

The investment objective of the Fund is to seek high current income that is exempt from federal income tax consistent with preservation of capital. The Fund seeks to achieve its objective by investing primarily in municipal securities that generate interest income that is exempt from both regular federal income tax and federal alternative minimum tax. During normal market conditions, the Fund invests 100% (and, as a fundamental policy, no less than 80%) of its net assets in such tax-exempt municipal securities. Municipal securities are debt obligations issued by or for U.S. states, territories, and possessions and the District of Columbia, and their political subdivisions, agencies, and instrumentalities.

The Fund invests both in revenue bonds, which are backed by and payable only from the revenues derived from a specific facility or specific revenue source, and in general obligation bonds, which are secured by the full faith, credit and taxation power of the issuing municipality. The Fund generally invests a significant portion of its assets in obligations of municipal housing authorities, which include single family and multi-family mortgage revenue bonds, revenue bonds of health care-related facilities, and revenue bonds of educational institutions, which include higher education institutions, public, private and charter schools, and student loan-backed bonds.

The Fund primarily invests in securities rated investment-grade at the time of purchase or, if unrated, determined to be of comparable quality by the Fund's investment adviser. Investment-grade securities are rated within the four highest grades by the major rating agencies. However, the Fund may invest up to 25% of its assets in municipal securities rated below investment grade (commonly referred to as junk bonds) or determined to be of comparable quality by the Fund's investment adviser, but the Fund may not invest in securities rated lower than B3 by Moody's Investors Service, or B- by Standard and Poor's or Fitch Ratings, or, if unrated, determined by the Fund's investment adviser to be of comparable quality.

In selecting securities for the Fund, Fund managers seek securities providing high tax-exempt income. The Fund managers' economic outlook and interest rate forecast, as well as their evaluation of a security's structure, credit quality, yield, maturity, and liquidity, are all factors considered when making investment decisions. Fund managers attempt to maintain an average effective duration for the portfolio of approximately 3 to 8 years. Duration is a measure of total price sensitivity relative to changes in interest rates. Portfolios with longer durations are typically more sensitive to changes in interest rates.

The Fund's dollar-weighted average maturity will, under normal market conditions, range between 10 and 20 years. However, since the Fund's securities are subject to various types of call provisions which make their expected average lives shorter than their stated maturity dates, the Fund managers believe that the Fund's average effective duration is a more accurate measure of the Fund's price sensitivity to changes in interest rates than the Fund's dollar-weighted average maturity.

### **Sit Minnesota Tax-Free Income Fund**

The investment objective of the Fund is to seek high current income that is exempt from federal regular income tax and Minnesota regular personal income tax consistent with preservation of capital. The Fund seeks to achieve its objective by investing primarily in municipal securities that generate interest income that is exempt from regular federal income tax and Minnesota regular personal income tax. During normal market conditions, the Fund invests 100% (and, as a fundamental policy, no less than 80%) of its net assets in such tax-exempt municipal securities. The Fund may invest up to 20% of its assets in securities that generate interest income subject to both Minnesota and federal alternative minimum tax ("AMT"). Investors subject to AMT treat the Fund's income subject to AMT as an item of tax preference in computing their alternative minimum taxable income.

The Fund substantially invests in municipal securities issued by the state of Minnesota and its political subdivisions. The Fund invests in both general obligation bonds, which are secured by the full faith, credit and taxation power of the issuing municipality, and in revenue bonds, which are backed by and payable only from the revenues derived from a specific facility or specific revenue source. The Fund generally invests a significant portion of its assets in obligations of municipal housing authorities which include single family and multi-family mortgage revenue bonds, revenue bonds of health care-related facilities, revenue bonds of health care-related facilities, and revenue bonds of educational institutions, which include higher education institutions, public, private and charter schools, and student loan-backed bonds.

The Fund primarily invests in securities rated investment-grade at the time of purchase or, if unrated, determined to be of comparable quality by the Fund's adviser. Investment-grade securities are rated within the four highest grades by the major rating agencies. However, the Fund may invest up to 30% of its assets in municipal securities rated below investment-grade (commonly referred to as junk bonds) or determined to be of comparable quality by the Fund's investment adviser, but the Fund may not invest in securities rated lower than B3 by Moody's Investors Service, or B- by Standard and Poor's or Fitch Ratings or, if unrated, determined by the Fund's investment adviser to be of comparable quality.

In selecting securities for the Fund, Fund managers seek securities providing high current tax-exempt income. In making purchase and sales decisions for the Fund, the Fund managers consider their economic outlook and interest rate forecast, as well as their evaluation of a security's structure, credit quality, yield, maturity, and liquidity. Fund managers attempt to maintain an average effective duration for the portfolio of approximately 3 to 8 years. Duration is a measure of total price sensitivity relative to changes in interest rates. Portfolios with longer durations are typically more sensitive to changes in interest rates.

The Fund's dollar-weighted average maturity will, under normal market conditions, range between 10 and 20 years. However, since the Fund's securities are subject to various types of call provisions which make their expected average lives shorter than their stated maturity dates, the Fund managers believe that the Fund's average effective duration is a more accurate measure of the Fund's price sensitivity to changes in interest rates than the Fund's dollar-weighted average maturity.

## **MORE ON THE FUNDS' RISKS**

All investments carry some degree of risk which will affect the value of a Fund's investments, investment performance and price of its shares. It is possible to lose money by investing in the Funds.

### **Risks That Apply To Each Fund:**

- > **Credit Risk:** The issuer of a debt security or a guarantor of a security held by a Fund or counterparty to a transaction may default on its payment obligations or experience a decline in credit quality. Generally, the lower the credit rating of a security, issuer, guarantor or counterparty, the higher the degree of risk as to the payment of interest and return of principal. Also, a downgrade in the credit quality of a security or its issuer or guarantor may cause the security to decline in value and could affect the bond's liquidity and make it more difficult for a Fund to sell. When a Fund purchases unrated securities, it will depend on the Adviser's analysis of credit risk without the assessment of an independent rating organization, such as Moody's or Standard & Poor's. There is always the risk that the Adviser's analysis of creditworthiness is incorrect or may change due to market conditions.
- > **Derivatives Risk:** A Fund may incur losses from its investments in options, futures, swaps, structured debt securities and other derivative instruments. Investments in derivative instruments may result in losses exceeding the amounts invested. The Funds may use derivatives for hedging purposes. Compared to conventional securities, derivatives can be more sensitive to changes in interest rates or to sudden fluctuations in market prices and thus a Fund's losses may be greater if it invests in derivatives than if it invests only in conventional securities.
- > **Income Risk:** The income you earn from a Fund may decline due to declining interest rates. This is because, in a falling interest rate environment, a Fund generally will have to invest the proceeds from sales of Fund shares, as well as the proceeds from maturing portfolio securities (or portfolio securities that have been called, see "Call Risk" below), in lower-yielding securities.
- > **Interest Rate Risk:** An increase in interest rates will cause debt securities held by a Fund to decline in value, and thereby lower a Fund's value and the overall return on your investment. The magnitude of this decrease is often greater for longer-term fixed income securities than shorter-term securities.
- > **Liquidity Risk:** A Fund may not be able to pay redemption proceeds within the time periods described in this Prospectus because of an inability to sell certain debt securities with more limited trading opportunities at a favorable price or time, including high yield securities that have received ratings below investment grade. Recent events have caused the markets for some debt securities to experience lower valuations and reduced liquidity. Consequently, a fund may have to accept a lower price to sell a security, sell other securities to raise cash, or give up an investment opportunity, any of which could have a negative effect on a Fund's performance. Infrequent trading may also lead to greater price volatility.
- > **Management Risk:** A Fund's performance will reflect in part the Adviser's ability to implement its investment strategy and make investment decisions which are suited to achieving a Fund's investment objective. A strategy used by the investment

management team may fail to produce the intended results. A Fund could underperform its benchmark or other mutual funds with similar investment objectives.

- > **Market Risk:** The value of the securities in which a Fund invests may go up or down in response to the prospects of individual issuers and/or general economic conditions. Securities markets may experience great short-term volatility and may fall sharply at times. Different markets may behave differently from each other. Price changes may be temporary or last for extended periods. You could lose money over short periods due to fluctuation in a Fund's net asset value ("NAV") in response to market movements, and over longer periods during market downturns. Recently, securities markets experienced extraordinary volatility, substantially lower valuations, reduced liquidity, credit downgrades, increased likelihood of default and valuation difficulties. As a result, many of the risks described in this Prospectus may be heightened. The U.S. government has taken numerous steps to alleviate these market concerns, including without limitation, acquiring ownership interests in distressed institutions. However, there is no assurance that such actions will be successful. Continuing market problems and government intervention in the economy may adversely affect the Funds.
- > **Temporary Investment Risk:** A Fund may hold cash and/or invest all or a portion of its assets in short-term obligations in response to adverse market, economic or other conditions when the investment management team believes that it is in the best interest of the Fund to pursue such a defensive strategy. The investment management team may, however, choose not to make such temporary investments even in very volatile or adverse conditions. A Fund may not achieve its investment objective when it holds cash or invests its assets in short-term obligations. A Fund also may miss investment opportunities and have a lower total return during these periods.

**Risk that Applies Primarily to Sit U.S. Government Securities Fund:**

- > **Prepayment and Extension Risk:** Declining interest rates may compel borrowers to prepay mortgages and debt obligations underlying the securities owned by a Fund. The proceeds received by a Fund from prepayments will likely be reinvested at interest rates lower than the original investment, thus resulting in a reduction of income to a Fund. Likewise, rising interest rates could reduce prepayments and extend the life of securities with lower interest rates, which may increase the sensitivity of a Fund's value to rising interest rates.
- > **U.S. Government Securities Risk:** U.S. Government agency securities in which the Fund may invest include securities issued by the Government National Mortgage Association ("Ginnie Mae"), the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac"). Securities issued by Ginnie Mae are backed by the full faith and credit of the U.S. Government. Securities issued by Fannie Mae and Freddie Mac are supported by the right to borrow directly from the U.S. Treasury. Other U.S. Government securities are supported only by the credit of the issuer or instrumentality. There is a risk that the U.S. government will not provide financial support to U.S. government agencies or instrumentalities if it is not obligated to do so by law. Securities purchased by the Fund issued by Fannie Mae and Freddie Mac are neither issued nor guaranteed by the U.S. Treasury and, therefore, are not backed by the full faith and credit of the United States. An agency of the U.S. government has placed Fannie Mae and Freddie Mac into conservatorship with the objective of improving the entities' business operations. It is unclear what effect this conservatorship will have on the securities issued or guaranteed by Fannie Mae or Freddie Mac.

**Risks That Apply Primarily To Sit Tax-Free Income and Sit Minnesota Tax-Free Income Funds:**

- > **Call Risk:** Many bonds may be redeemed ("called") at the option of the issuer before their stated maturity date. This may happen during a period of falling interest rates when an issuer can refinance its bonds by issuing new bonds which bear a lower interest rate. A Fund would then be forced to invest the unanticipated proceeds in lower yielding securities. The loss of higher yielding securities and the reinvestment at lower interest rates can reduce a Fund's income, total return and share price.
- > **High-Yield Risk:** The Tax-Free Income Fund and the Minnesota Tax-Free Income Fund may invest up to 25% and 30% respectively of their assets in municipal securities rated below investment-grade, or if nonrated, determined to be of comparable quality by the Fund's Adviser. Debt securities rated below investment-grade are commonly known as junk bonds. Junk bonds are considered predominately speculative and involve greater risk of default or price changes due to changes in the issuer's creditworthiness. In addition, there may be less of a market for these securities, which could make it harder to sell them at an

acceptable price. These and related risks mean that a Fund may not achieve the expected return from non-investment grade debt securities and that its share price may be adversely affected by declines in the value of these securities.

- > **Political, Economic and Tax Risk:** The value of, the income generated by, and the ability of the Funds to sell a municipal security may be affected by constitutional amendment, legislative enactments, executive orders, administrative regulations and voter initiatives as well as the economies of the regions in which the issuers in which the Funds' investments are located. Municipal securities backed by current or anticipated revenues from a specific project or asset, such as revenue bonds, can be negatively affected by the discontinuance of the taxation supporting the project or assets or the inability to collect revenues for the project or from the assets. The value of municipal securities also may be adversely affected by future changes in federal or state income tax laws, including rate reductions, the imposition of a flat tax, or the loss of a current state income tax exemption. If the Internal Revenue Service determines that an issuer of a municipal security has not complied with applicable tax requirements, interest from the security could be treated as taxable, which could result in a decline in the security's value. To the extent that a municipal security in which the Funds invest is not heavily followed by the investment community or such security issue is relatively small, the security may be difficult to value or sell at a fair price.
- > **Revenue Bond Risk:** The revenue bonds in which the Funds invest may entail greater credit risk than the Funds' investments in general obligation bonds because such bonds are generally not backed by the taxing power of the issuing municipality. In particular, weaknesses in federal housing subsidy programs and their administration may result in a decrease of subsidies available for the payment of principal and interest on certain multi-family housing authority bonds.
- > **Sector Concentration - Education Bond Risk:** Because the Funds may invest a significant portion of their assets in education bonds, the Funds may be more affected by events influencing the education sector than a fund that is more diversified across numerous sectors. An issuer's gross receipts and net income available for debt service on an education bond may be affected by future events and conditions including, among other things, fluctuations in interest rates, construction costs, operating costs; student enrollment, state and federal government funding programs, and donations.
- > **Sector Concentration - Health Care Facility Revenue Obligations Risk:** Because the Funds may invest a significant portion of their assets in health care facility bonds, the Funds may be more affected by events influencing the health care sector than a fund that is more diversified across numerous sectors. A health care facility's gross receipts and net income available for debt service may be affected by future events and conditions including, among other things, demand for services, efforts by insurers and governmental agencies to limit rates, legislation and changes in Medicare, Medicaid and other similar third-party payor programs.
- > **Sector Concentration - Housing Authority Bonds Risk:** Because the Funds may invest a significant portion of their assets in housing authority bonds, the Funds may be more affected by events influencing the housing sector than a fund that is more diversified across numerous sectors. A housing authority's gross receipts and net income available for debt service may be affected by future events and conditions including, among other things, economic developments such as fluctuations in interest rates, construction costs and operating costs; and changes in federal housing subsidy programs. A housing authority's inability to obtain additional financing could also reduce revenues available to pay existing obligations.
- > **Valuation Risk:** The Funds may hold securities for which prices from pricing services may be unavailable or are deemed unreliable, in which case the Funds' procedures for valuing investments provide that the Adviser shall use the fair value of such securities for valuing investments. There is a risk that the fair value determined by the Adviser or the price determined by the pricing service may be different than the actual sale prices of such securities.

#### **Risks That Apply Primarily to Sit Minnesota Tax-Free Income Fund:**

- > **Minnesota State Specific Risk:** The Fund substantially invests in municipal securities issued by the state of Minnesota and its political subdivisions. The State relies heavily on a progressive individual income tax and a retail sales tax for revenue, which results in a fiscal system that is sensitive to economic conditions. Diversity and a significant natural resource base are two important characteristics of the Minnesota economy. Generally, the structure of the State's economy parallels the structure of the United States economy as a whole. The ability of Minnesota or its municipalities to meet their obligations depends on the availability of tax and other revenues, the economic, political and demographic conditions within the state, ecological or environmental concerns, and the underlying fiscal condition of the state, its counties and its municipalities. In recent years, the State addressed recurring projected budget deficits by substantially reducing or deferring projected spending, including aid

to local government and higher education, transferring funds from other accounts, increasing revenues, eliminating its budget reserve, and substantially reducing its cash flow account. Planning estimates project additional deficits in future years.

- > **Nondiversification Risk:** The Fund is non-diversified, as is typical of single-state funds. This means that the Fund may invest in a larger portion of its assets in a limited number of issuers than a diversified fund. Because a relatively high percentage of the Fund's assets may be invested in the securities of a limited number of issuers, the Fund may be more susceptible to any single economic, political or regulatory occurrence than a diversified fund, and more susceptible to greater losses because of these developments.

## **TEMPORARY DEFENSIVE INVESTING**

For temporary defensive purposes in periods of unusual market conditions, each Fund may invest all of its total assets in cash or short-term debt securities including certificates of deposit, bankers' acceptances and other bank obligations, corporate and direct U.S. obligation bonds, notes, bills, commercial paper and repurchase agreements. In addition, Tax-Free Income Fund and Minnesota Tax-Free Income Fund may invest all of their assets in taxable obligations under these conditions. Investing in these temporary investments may reduce a Fund's yield and prevent it from achieving its investment objective.

## **PORTFOLIO TURNOVER**

The Funds may trade securities frequently, resulting, from time to time, in an annual portfolio turnover rate of over 100%. However, historically, the Funds' turnover rate has been less than 100%. The "Financial Highlights" section of this Prospectus shows each Fund's historical portfolio turnover rate. A high portfolio turnover rate generally will result in greater brokerage commission expenses borne by a Fund which may decrease the Fund's yield. A high portfolio turnover rate may result in higher amounts of realized capital gain, including short-term capital gain, subject to the payment of taxes by shareholders.

## **PORTFOLIO HOLDINGS DISCLOSURE**

Each Funds' portfolio holdings are included in that Fund's annual and semi-annual financial reports that are mailed to shareholders of record. Additionally, a complete portfolio holdings report is filed quarterly with the SEC and is available on the SEC website at [www.sec.gov](http://www.sec.gov) or upon request from an Investor Service Representative. A complete description of the Funds' portfolio holdings disclosure policies is available in the Funds' Statement of Additional Information.

## **DURATION**

Duration measures how much the value of a security is expected to change with a given change in interest rates. Effective duration is one means used to measure interest rate risk. The longer a security's effective duration, the more sensitive its price is to changes in interest rates. For example, if interest rates rise by 1%, the market value of a security with an effective duration of 3 years would decrease by 3%, with all other factors being constant. The Adviser uses several methods to compute duration estimates appropriate for particular securities held in the Funds' portfolios. Duration estimates are based on assumptions by the Adviser and subject to a number of limitations. Duration is most useful when interest rate changes are small and occur equally in short-term and long-term securities. In addition, it is difficult to calculate precisely for bonds with prepayment options, such as mortgage-related securities, because the calculation requires assumptions about prepayment rates.

## **SECURITIES RATINGS**

When debt securities are rated by one or more independent rating agencies, the Adviser uses these ratings to determine bond quality. Investment-grade debt securities are those that are rated within the four highest rating categories, which are AAA, AA, A, and BBB by Standard & Poor's and Fitch Ratings, and Aaa, Aa, A and Baa by Moody's Investor Services. If a debt security's credit quality rating is downgraded after a Fund's purchase, the Adviser will consider whether any action, such as selling the security, is warranted.

## MANAGEMENT OF THE FUNDS

### INVESTMENT ADVISER

Sit Investment Associates, Inc. (the “Adviser”), 3300 IDS Center, 80 S. Eighth Street, Minneapolis, Minnesota 55402, is the Funds’ investment adviser. The Adviser was founded in 1981 and provides investment management services for both public and private clients. As of June 30, 2010, the Adviser had approximately \$9.1 billion in assets under management, including approximately \$2.2 billion for the 12 Sit Mutual Funds.

Under Investment Management Agreements between the Funds and the Adviser (the “Agreements”), the Adviser manages the Funds’ business and investment activities, subject to the authority of the board of directors. A discussion regarding the basis of the board of directors’ approving the Agreements is available in the Bond Funds Annual Report to shareholders, dated March 31, 2010. The Agreements require the Adviser to bear all of the Funds’ expenses except interest, brokerage commissions, transaction charges, acquired fund fees and expenses and certain extraordinary expenses. Each Fund pays the Adviser a monthly fee for its services. During their most recent fiscal year, after taking into account voluntary fee waivers, the Funds paid the following advisory fees to the Adviser:

| Fund                            | Advisory fee as a % of<br>average daily net assets |
|---------------------------------|--|
| U.S. Government Securities Fund | .80%*  |
| Tax-Free Income Fund            | .80%   |
| Minnesota Tax-Free Income Fund  | .80%   |

\* Net of voluntary fee waiver. After December 31, 2011, this voluntary fee waiver may be discontinued by the Adviser in its sole discretion. The contractual fee (without waiver) for the Fund is 1.00% (.80% of assets in excess of \$50 million) per year of the Fund’s average daily net assets.

## PORTFOLIO MANAGEMENT

The Funds' investment decisions are made by a team of portfolio managers and analysts who are jointly responsible for the day-to-day management of the Funds. The portfolio management team is led by Michael C. Brilley, Senior Vice President of the Adviser; Debra A. Sit, Vice President of the Adviser; and Bryce A. Doty, Vice President – Investments of the U.S. Government Securities Fund. Roger J. Sit, Chairman, President, CEO, and Global Chief Investment Officer of the Adviser establishes and oversees Fund policy and investment management strategies.

The following table lists the individual team members that are primarily responsible for managing each Fund's investments.

| Portfolio Manager<br>Title                        | Role on Management Team    | Experience with:  |           | Past 5 Years Business Experience  |
|---|----------------------------|-------------------|-----------|---|
|   |                            | • Management Team | • Advisor |   |
| <b>U.S. Government Securities Fund</b>            |                            |                   |           |   |
| Michael C. Brilley<br>Senior Vice President       | Chief Fixed-Income Officer | 23 yrs            | 1 m       | Senior Vice President and Senior Fixed Income Officer of the Adviser; Director and President and Chief Fixed Income Officer of Sit Investment Fixed Income Advisors, Inc. ("SF"). |
|   |                            | 26 yrs            | 4 m       |   |
|   |                            | 42 yrs            | 7 m       |   |
| Bryce A. Doty<br>Vice President — Investments     | Senior Portfolio Manager   | 14 yrs            | 7 m       | Senior Vice President and Senior Portfolio Manager of SF.   |
|   |                            | 14 yrs            | 8 m       |   |
|   |                            | 20 yrs            | 2 m       |   |
| Mark H. Book<br>Vice President — Investments      | Portfolio Manager          | 7 yrs             | 9 m       | Vice President and Portfolio Manager of SF.   |
|   |                            | 9 yrs             | 11m       |   |
|   |                            | 23 yrs            | 8 m       |   |
| <b>Tax-Free Income Fund</b>                       |                            |                   |           |   |
| Michael C. Brilley<br>Senior Vice President       | Chief Fixed-Income Officer | 21 yrs            | 10 m      | See above.  |
|   |                            | 26 yrs            | 4 m       |   |
|   |                            | 42 yrs            | 7 m       |   |
| Debra A. Sit<br>Vice President — Investments      | Senior Portfolio Manager   | 19 yrs            | 7 m       | Vice President — Bond Investments of the Adviser; Senior Vice President and Senior Portfolio Manager of SF.   |
|   |                            | 29 yrs            | 0 m       |   |
|   |                            | 29 yrs            | 0 m       |   |
| Paul J. Jungquist<br>Vice President — Investments | Portfolio Manager          | 11 yrs            | 9 m       | Vice President and Portfolio Manager of SF.   |
|   |                            | 16 yrs            | 6 m       |   |
|   |                            | 16 yrs            | 6 m       |   |
| <b>Minnesota Tax-Free Income Fund</b>             |                            |                   |           |   |
| Michael C. Brilley<br>Senior Vice President       | Chief Fixed-Income Officer | 16 yrs            | 8 m       | See above.  |
|   |                            | 26 yrs            | 4 m       |   |
|   |                            | 42 yrs            | 7 m       |   |
| Debra A. Sit<br>Vice President — Investments      | Senior Portfolio Manager   | 16 yrs            | 7 m       | See above.  |
|   |                            | 29 yrs            | 0 m       |   |
|   |                            | 29 yrs            | 0 m       |   |
| Paul J. Jungquist<br>Vice President — Investments | Portfolio Manager          | 11 yrs            | 9 m       | See above.  |
|   |                            | 16 yrs            | 6 m       |   |
|   |                            | 16 yrs            | 6 m       |   |

The Statement of Additional Information provides additional information about the Portfolio Managers' compensation, other accounts managed by the Portfolio Managers, and the Portfolio Managers' ownership of securities in the Fund, if any.

# BUYING AND SELLING SHARES

## BUYING SHARES

### To Open an Account

| Minimum Investment | Buy by Mail  | Buy by Telephone  | Buy Online   |
|--------------------|--|---|--|
| \$5,000 per Fund   | <p>Mail a completed account application and your check payable to:<br/>                     Sit Mutual Funds<br/>                     P. O. Box 9763<br/>                     Providence, RI 02940</p> <p>Certain checks and other instruments are not accepted without prior approval such as:</p> <ul style="list-style-type: none"> <li>• third party checks</li> <li>• money orders</li> <li>• travel checks</li> <li>• starter checks</li> <li>• credit card checks</li> </ul> <p>Prospectuses and account applications may be viewed and printed from our website, <a href="http://www.sitfunds.com">www.sitfunds.com</a>.</p> | <p>Fax a completed account application to Sit Mutual Funds at 612-342-2111 and then call us at 1-800-332-5580 for a new account number and bank wiring instructions.</p> <p>Instruct your bank to wire your investment to us using the wire instructions we have given you. Your bank may charge a wire fee. Mail the original signed account application to:<br/>                     Sit Mutual Funds<br/>                     P.O. Box 9763<br/>                     Providence, RI 02940</p> <p><b>Note for IRA Accounts:</b> An IRA account cannot be opened over the telephone.</p> | <p>You cannot open an account and make an initial purchase online.</p> |

- Shares may be purchased on any day the NYSE is open with a minimum initial investment of \$5,000 per fund.
- IRA accounts (regular, Roth and SEP) require a minimum initial investment of \$2,000 per fund.

### To Add to an Account

| Minimum Investment | Buy by Mail  | Buy by Telephone  | Buy Online   |
|--------------------|--|---|--|
| \$100              | <p>Mail a completed investment slip for a particular fund (which you received in your account statement) or a letter of instruction with a check payable to:<br/>                     Sit Mutual Funds<br/>                     P. O. Box 9763<br/>                     Providence, RI 02940</p> <p>A letter of instruction must include your account number, the name(s) of the registered owner(s) and the Fund(s) that you want to purchase.</p> <p>Certain checks and other instruments are not accepted without prior approval such as:</p> <ul style="list-style-type: none"> <li>• third party checks</li> <li>• money orders</li> <li>• travel checks</li> <li>• starter checks</li> <li>• credit card checks</li> </ul> | <p><b>Payment by Wire.</b> Instruct your bank to wire your investment of the Sit Mutual Funds using the wire instructions on the back of the prospectus. Call us at 1-800-332-5580 and notify us of the wire.</p> <p><b>Payment by ACH.</b> Call us at 1-800-332-5580 to request that a purchase be made electronically from your bank account. The shares purchased will be priced on the next business day following your telephone request made prior to the close of the NYSE.</p> <p>Before using the ACH feature, you must set up the ACH option on your initial account application or a Change of Account Options Form.</p> | <p>You may purchase additional shares of a Sit Fund online. Visit <a href="http://www.sitfunds.com">www.sitfunds.com</a> to access your account. Your account must have a designated bank account to execute transactions.</p> |

- Additional investments in any account must be at least \$100.
- You may set up an Automatic Investment Plan on your initial account application or on a Change of Account Options Form. The Plan will invest in the selected Fund electronically from your bank account (via ACH) on any day the Funds are open.

## SELLING SHARES

### To Sell Shares

| Sell by Mail  | Sell by Telephone   | Sell Online   |
|---|---|---|
| <p>Mail a written request that includes:</p> <ul style="list-style-type: none"> <li>• account number</li> <li>• names and signatures of all registered owners exactly as they appear on the account</li> <li>• name of Fund and number of shares or dollar amount you want to sell</li> <li>• Medallion signature guarantee(s) if you have requested that the proceeds from the sale be:               <ul style="list-style-type: none"> <li>• paid to anyone other than the registered account owners</li> <li>• paid by check and mailed to an address other than the registered address</li> <li>• sent via bank wire (currently an \$8 fee) to a bank different than the bank authorized by you on your account application</li> </ul> </li> <li>• supporting legal documents, if required (see "General Rules")</li> <li>• method of payment (check, wire transfer, or ACH, see "General Rules")</li> </ul> | <p>Call us at 1-800-332-5580 and request a sale of shares.</p> <p>Before selling shares by telephone, you must set up the option on your initial account application or a Change of Account Options Form. Proceeds from the sale will be sent as directed on your application by check, bank wire or ACH. The Funds' bank charges a wire fee to send the proceeds via bank wire (currently \$8).</p> <p><b>Note for IRA Accounts:</b> A sale of shares from an IRA account cannot be made over the telephone. Mail a completed IRA Distribution Form to Sit Mutual Funds.</p> | <p>You may sell shares of a Sit Fund online. Visit <a href="http://www.sitfunds.com">www.sitfunds.com</a> to access your account. Your account must have a designated bank account to execute transactions.</p> |

**Note for IRA Accounts:** Mail a signed IRA Distribution Form to Sit Mutual Funds

- Your sale proceeds will be paid as soon as possible, generally not later than 7 days after the Funds' receipt of your request to sell. However, if you purchased shares with nonguaranteed funds, such as a personal check, and you sell shares, your sale proceeds payment will be delayed until your check clears, which may take 15 days. You may receive proceeds from the sales of your shares in one of three ways:
  - *By Mail:* Your check will generally be mailed to the address of record within 7 days after receipt of your request.
  - *By Wire:* Your bank account will generally be credited within 1 to 2 business days after receipt of your request. The Funds' bank charges a wire fee (currently \$8) which will be deducted from the balance of your account or from the amount being wired if your account has been completely redeemed. The recipient bank may also charge a wire fee.
  - *By ACH:* Your bank account will generally be credited within 1 to 2 business days after receipt of your request.
- *Other Documents:* Under certain circumstances, sales of shares may require additional legal documentation, such as sales by estates, trusts, guardianships, custodianships, corporations, pension and profit sharing plans and other organizations.
- *Medallion Signature Guarantee:* A medallion signature guarantee assures that a signature is genuine and protects shareholders from unauthorized account transactions. A medallion signature guarantee may be obtained from a bank, brokerage firm, or other financial institution that is participating in a medallion program recognized by the Securities Transfer Association. A notary public stamp cannot be substituted for a medallion signature guarantee.
- You may set up an Automatic Withdrawal Plan (minimum \$100) on your initial account application or on a Change of Account Options Form. The Plan will sell shares of the selected Fund and send the proceeds by check or by ACH.

## EXCHANGING SHARES

### To Exchange Shares

| Exchange by Mail   | Exchange by Telephone  | Exchange Online   |
|--|--|---|
| <p>You may sell shares of one Sit Fund and purchase shares of another Sit Fund by mailing a letter of instruction signed by all registered owners of the account to:</p> <p>Sit Mutual Funds<br/>P. O. Box 9763<br/>Providence, RI 02940</p> | <p>You may sell shares of one Sit Fund and purchase shares of another Sit Fund by calling us at 1-800-332-5580. If you call after business hours, you will need your Personal Identification Number to use the automatic telephone system.</p> | <p>You may sell shares of one Sit Fund and purchase shares of another Sit Fund online. Visit <a href="http://www.sitfunds.com">www.sitfunds.com</a> to access your account.</p> |

A letter of instruction must include your account number, the name(s) and the number of shares or dollar amount of the Fund(s) you want to sell and the name(s) of the Fund(s) you want to purchase.

- There is no cost to sell shares of one or more Sit Funds and use the proceeds to buy shares of another Sit Fund.
- Before making an exchange, please read the Prospectus and consider the investment objective of the Fund you are purchasing.
- An exchange of shares is a sale for federal income tax purposes and you may have a taxable capital gain or loss.
- You may set up an Automatic Exchange Plan on your initial account application or on a Change of Account Options Form. The Plan will sell shares of one Sit Fund and invest in another Sit Fund on any day the Funds are open.

## **ACCOUNT INFORMATION**

### **PRICING OF FUND SHARES**

Your price for purchasing, selling, or exchanging shares is based on the Fund's net asset value (NAV) per share, which is calculated as of the close of regular trading on the New York Stock Exchange (generally 3:00 p.m. Central time) every day the exchange is open. The NAV per share of the Funds will fluctuate. A Fund's NAV per share is calculated by adding the total value of the Fund's investments and other assets (including accrued income), subtracting its liabilities, and dividing by the number of outstanding shares of the Fund.

The Boards of Directors have adopted procedures for valuing investments and have delegated to the Adviser the daily valuation of such investments. Pursuant to the procedures, security valuations for a Fund's investments are furnished by one or more independent pricing services that have been approved by the Fund's Board of Directors. In certain situations, the Adviser may use the fair value of a security if prices are unavailable or are deemed unreliable. The Adviser expects to fair value domestic securities in limited circumstances, such as when the securities are subject to restrictions on resale; an event occurs after the close of a securities market (usually a foreign market) and before a Fund values its assets that would materially affect net asset value; and debt securities that have gone into default and for which there is no current market value quotation.

A security that is fair valued may be valued at a price higher or lower than actual market quotations or the value determined by other mutual funds using their own fair valuation procedures. Fair value pricing involves subjective judgments and it is possible that the fair value determined for a security may be different than the value that could be realized upon the sale of that security.

Short-term debt securities maturing in less than 60 days are valued at amortized cost. The amortized cost method of valuation initially values a security at its purchase cost, then consistently adjusts the cost value by amortizing/accreting any discount or premium paid until the security's maturity without regard to fluctuating interest rates.

### **WHEN ORDERS ARE EFFECTIVE**

Purchase, exchange, and sale orders are received and may be accepted by Sit Mutual Funds only on days the New York Stock Exchange ("NYSE") is open. The customary national business holidays observed by the NYSE are: New Year's Day, Martin Luther King Jr. Day, President's Day, Good Friday, Memorial Day, July Fourth, Labor Day, Thanksgiving Day and Christmas Day. Purchase, exchange, and sale orders received prior to the close of the NYSE (generally 3:00 p.m. Central time) are processed at the net asset value per share calculated for that business day, except purchases made to an existing account via Automated Clearing House, "ACH," electronic transfer of funds. ACH purchases are invested at the net asset value per share on the next business day (or, if the next business day is a bank holiday, then two business days) after your telephone call to the Funds if you call the Funds prior to the close of the NYSE. Your bank account will be debited within 1 to 2 business days.

If your purchase, exchange, or sale order is received after the close of the NYSE, the purchase, exchange or sale will be made at the net asset value calculated on the next day the NYSE is open.

### **INVESTING THROUGH FINANCIAL INTERMEDIARIES**

There is no charge to invest, exchange, or sell shares when you make transactions directly through Sit Mutual Funds.

The Funds may authorize certain institutions acting as financial intermediaries (including banks, trust companies, brokers and investment advisers), to accept purchase, redemption and exchange orders from their customers on behalf of the Funds. A Fund will be deemed to have received an order when the order is received by the authorized intermediary in good form, and the order will be priced at the Fund's per share NAV next determined, provided that the authorized intermediary forwards the order (and payment for any purchase order) to the Funds (or their transfer agent) within agreed upon time periods. Investors purchasing shares through a financial intermediary should read their account agreements carefully. A financial intermediary's requirements may differ from those listed in this Prospectus. A financial intermediary also may impose account charges, such as asset allocation fees, account maintenance fees and other charges. If you purchase the Fund through a broker-dealer or other financial intermediary, the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment. Ask your salesperson or visit your financial intermediary's web site for more information.

## **CHECK WRITING**

Check writing is available on the Funds at no cost. You may redeem shares by writing checks in amounts of \$250 or more. To use this option, you must complete the checkwriting section of the application. You will be provided with free checks and you may order additional checks as needed. The checkwriting privilege is subject to the Funds' procedures and rules, including the "Conditions of Check Writing" information found on the account application. The checkwriting privilege may be terminated or suspended, and/or a fee may be imposed for this service.

A check that you write will be treated as a sale of shares equal to the amount of the check. You will receive a confirmation of the sale, but your cancelled check will not be returned. You will be entitled to distributions paid on your shares until the check is presented to the Fund for payment.

You cannot liquidate your account using the check writing privilege because your account balance will change each day as a result of daily dividends and fluctuation of the net asset value per share. If you wish to sell all of your shares, see the "Selling Shares" section.

## **PURCHASE RESTRICTIONS**

The Funds may reject or restrict any purchase or exchange order at any time when, in the judgment of management, it is in the best interests of the Funds. For example, see the discussion regarding "Excessive Trading in Fund Shares" below.

## **EXCESSIVE TRADING IN FUND SHARES**

The Funds discourage excessive short-term trading that could be disruptive to the management of a Fund. When large dollar amounts are involved, a Fund may have difficulty implementing investment strategies, because it cannot predict how much cash it will have to invest. Excessive trading also may force a Fund to sell portfolio securities at disadvantageous times to raise the cash needed to satisfy a redemption request, and may increase brokerage expenses. These factors may hurt a Fund's performance and its shareholders.

The Funds may, in the Funds' discretion, reject any purchase or exchange order from a shareholder if the Funds determine that the shareholder's short-term trading activity is excessive. The Funds' Boards of Directors have approved policies and procedures designed to discourage excessive trading in Fund shares. The Funds monitor purchase orders and investigate orders that exceed certain thresholds and attempt to confirm that the investment is not being made for a short-term, otherwise any such trade will be rejected. The Funds have the right to modify the market timing policy at any time without advance notice. The Funds seek to apply market timing policies and procedures uniformly to all shareholders. The Funds make reasonable efforts to apply these policies and procedures to shareholders who own shares through omnibus accounts, however, it should be noted that the ability of the Funds to monitor and limit excessive short-term trading of shareholders investing in a Fund through the omnibus account of a financial intermediary may be significantly limited or absent where the intermediary maintains the underlying shareholder accounts. Despite our efforts to discourage market timing, there is no guarantee that the Funds or their agents will be able to identify market timers or curtail their trading practices.

## **SMALL ACCOUNT BALANCES / MANDATORY REDEMPTIONS**

If your account balance in a Fund falls below \$5,000 as a result of selling or exchanging shares, the Fund has the right to redeem your shares and send you the proceeds. Before redeeming your account, the Fund will mail you a notice of its intention to redeem, which will give you an opportunity to make an additional investment. If you do not increase the value of your account to at least \$5,000 within 30 days of the date the notice was mailed, the Fund may redeem your account.

## **INVESTOR SERVICE FEES**

Investor Services Representatives can provide many services to you. You will be charged a fee for some customized services, such as researching historical account statements and mailings via overnight delivery services. A schedule of services with applicable fees, if any, is available upon request.

## **CUSTOMER IDENTIFICATION PROGRAM**

Federal law requires the Funds to obtain, verify and record identifying information, which may include the name, residential or business street address, date of birth (for an individual), social security or taxpayer identification number or other identifying information for each investor who opens an account with the Funds. Applications without this information, or without an indication that a social security or taxpayer identification number has been applied for, may not be accepted. After acceptance, to the extent permitted by applicable law or its customer identification program, the Funds reserve the right to: (a) place limits on account transactions until the investor's identity is verified; (b) refuse an investment in the Funds or (c) involuntarily redeem an investor's shares and close an account in the event that an investor's identity is not verified. The Funds and their agents will not be responsible for any loss in an investor's account resulting from the investor's delay in providing all required identifying information or from closing an account and redeeming an investor's shares when an investor's identity is not verified.

## **MAILING OF REGULATORY DOCUMENTS**

The Funds' practice is to "household," or consolidate shareholder mailings of regulatory documents such as prospectuses, shareholder reports, and proxies to shareholders at a common address. This means that a single copy of these regulatory documents is sent to the address of record. If at any time you wish to receive multiple copies of the regulatory documents at your address, you may contact the Funds and the Funds will mail separate regulatory documents to each of your individual accounts within 30 days of your call. Regulatory documents are also available to you electronically. If you would like to receive this prospectus or other regulatory document electronically, please visit [www.sitfunds.com](http://www.sitfunds.com) or call 1-800-332-5580 for information about registering for "e-delivery."

## **PRIVACY POLICY**

The Funds take their shareholders' personal privacy seriously. In order to provide financial products and services, the Funds may collect nonpublic personal information about their shareholders from the following sources:

- > Information we receive from account documentation, including applications, contracts, and other forms which may include (but is not limited to) information such as a shareholder's name, address, tax identification number or social security number, assets and income;
- > Information about shareholder transactions and communications with the Funds, their affiliates, agents or others which may include (but is not limited to) account numbers, balances, and transaction requests made through transfer agents, custodians or third party intermediaries.

The Funds do not disclose any nonpublic personal information about their shareholders or former shareholders to anyone outside the Funds' organization except as necessary in order to provide services to their shareholders as permitted by law. For example, we may disclose nonpublic personal information about a shareholder to a non-affiliated company assisting the Funds in servicing ac-

counts such as providing transfer agent services. To safeguard their shareholder's personal information, the Funds insist that their service providers limit access to personal information to authorized employees and agents and maintain appropriate safeguards.

The Funds restrict access to their shareholders' nonpublic personal information to those employees who need to know that information to provide products or services to their shareholders. The Funds maintain physical, electronic and procedural safeguards that comply with federal standards to guard their shareholders' nonpublic personal information.

This privacy policy does not apply to a shareholder's relationship with other financial service providers, such as broker dealers, custodians or other third party intermediaries.

## **DIVIDENDS AND DISTRIBUTIONS**

Dividends from a Fund's net investment income are declared daily and paid monthly. Net investment income includes dividends on stocks and interest earned on bonds or other debt securities less operating expenses.

Capital gains, if any, are distributed at least once a year by each Fund. A capital gain occurs if a Fund sells portfolio securities for more than its cost.

If you buy Fund shares just before a capital gain distribution, in effect, you "buy the distribution." You will pay the full price for the shares and then receive a portion of that price back as a taxable distribution.

Dividend and capital gain distributions are automatically reinvested in additional shares of the Fund paying the distribution at the net asset value per share on the distribution date. However, you may request that distributions be automatically reinvested in another Sit Mutual Fund, or paid in cash. Such requests may be made on the application, Change of Account Options form, or by written notice to Sit Mutual Funds. You will receive a quarterly statement reflecting the dividend payment and, if applicable, the reinvestment of dividends. If cash payment is requested, an ACH transfer will be initiated, or a check normally will be mailed within five business days after the payable date. No interest will accrue on uncashed distribution, dividend, or sales proceeds checks.

## TAXES

Some of the tax consequences of investing in the Funds are discussed below. More information about taxes is in the Statement of Additional Information. However, because everyone's tax situation is unique, always consult your tax professional about federal, state and local tax consequences.

### TAXES ON DISTRIBUTIONS

**Sit U.S. Government Securities Fund:** The Fund pays its shareholders distributions from its net investment income and any net capital gains that it has realized. For most investors, these distributions will be taxable, whether paid in cash or reinvested.

Distributions paid from the Fund's net investment income and short-term capital gains, if any, are taxable as ordinary income. Distributions paid from the Fund's net long-term capital gains, if any, are taxable as long-term capital gains, regardless of how long you have held your shares.

The Fund expects that its distributions will consist primarily of ordinary income and will not be treated as "qualifying dividends" that are taxed at the same rates as long-term capital gains.

**Sit Tax-Free Income Fund and Sit Minnesota Tax-Free Income Fund:** Each Fund intends to meet certain federal tax requirements so that distributions of tax-exempt interest income may be treated as "exempt-interest dividends." These dividends are not subject to regular federal income tax. However, Sit Minnesota Tax-Free Income Fund may invest up to 20% of its net assets in municipal securities subject to the alternative minimum tax. Any portion of exempt-interest dividends attributable to interest on these securities may increase some shareholders' alternative minimum tax. The Funds expect that their distributions will consist primarily of exempt-interest dividends. Sit Tax-Free Income Fund's exempt-interest dividends may be subject to state or local taxes.

Distributions paid from any interest income that is not tax-exempt and from any short-term or long-term capital gains will be taxable whether you reinvest those distributions or receive them in cash. Distributions paid from a Fund's net long-term capital gains, if any, are taxable to you as long-term capital gains, regardless of how long you have held your shares.

**Sit Minnesota Income Taxation:** Sit Minnesota Tax-Free Income Fund intends to comply with certain state tax requirements so that dividends it pays that are attributable to interest on Minnesota municipal securities will be excluded from the Minnesota taxable net income of individuals, estates and trusts. To meet these requirements, at least 95% of the exempt-interest dividends paid by the Fund must be derived from interest income on Minnesota municipal securities. A portion of the Fund's dividends may be subject to the Minnesota alternative minimum tax. Exempt-interest dividends are not excluded from the Minnesota taxable income of corporations and financial institutions.

### TAXES ON TRANSACTIONS

The sale or exchange of your shares in a Fund is a taxable transaction, and you may incur a capital gain or loss on the transaction. If you held the shares for more than one year, such gain or loss would be a long-term gain or loss. A gain or loss on shares held for one year or less is considered short-term and is taxed at the same rates as ordinary income.

**TAX-DEFERRED ACCOUNTS**

Taxes on current income can be deferred by investing in Individual Retirement Accounts (IRAs), 401(k), pension, profit sharing, employee benefit, deferred compensation and other qualified retirement plans.

The Funds are available for your tax-deferred retirement plan with a \$2,000 minimum initial investment per Fund and subsequent contributions of at least \$100. Such retirement plans must have a qualified plan sponsor or trustee. Tax-deferred retirement plans include 401(k), profit sharing, and money purchase plans as well as IRA, Roth IRA and SEP-IRAs. You should contact Sit Mutual Funds for specific plan documentation. IRA accounts with balances under \$10,000 will be charged an annual \$15 IRA custodial fee. Account balance minimum and custodial fee amount is subject to change with a 30 day written notice.

The federal tax laws governing these tax-deferred plans must be complied with to avoid adverse tax consequences. You should consult your tax adviser before investing.

Sit Tax-Free Income Fund and Sit Minnesota Tax-Free Income Fund are not suitable investments for tax-deferred accounts.

## FINANCIAL HIGHLIGHTS

The tables that follow present performance information about the shares of each Fund. This information is intended to help you understand each Fund's financial performance for the past 5 years. Some of this information reflects financial results for a single Fund share. The total returns in the tables represent the rate that you would have earned or lost on an investment in a Fund, assuming you reinvested all of your dividends and distributions. This information has been derived from the Funds' financial statements, which have been audited by KPMG LLP, an independent registered public accounting firm, whose report, along with the Funds' financial statements, is included in the Funds' annual report, which is available upon request.

### Financial Highlights — Sit U. S. Government Securities Fund

|   | Years Ended March 31, |           |           |           |           |
|---|-----------------------|-----------|-----------|-----------|-----------|
|   | 2010                  | 2009      | 2008      | 2007      | 2006      |
| <b>Net Asset Value:</b>                                   |                       |           |           |           |           |
| Beginning of period                                       | \$10.84               | \$10.92   | \$10.56   | \$10.45   | \$10.62   |
| <b>Operations:</b>  |                       |           |           |           |           |
| Net investment income (1)                                 | .44                   | .52       | .50       | .48       | .43       |
| Net realized and unrealized gains (losses) on investments | .29                   | (.08)     | .36       | .11       | (.17)     |
| Total from operations                                     | .73                   | .44       | .86       | .59       | .26       |
| <b>Distributions to Shareholders:</b>                     |                       |           |           |           |           |
| From net investment income                                | (.44)                 | (.52)     | (.50)     | (.48)     | (.43)     |
| From net realized gains                                   | ----                  | ----      | ----      | ----      | ----      |
| Total Distributions                                       | (.44)                 | (.52)     | (.50)     | (.48)     | (.43)     |
| <b>Net Asset Value:</b>                                   |                       |           |           |           |           |
| End of period   | \$11.13               | \$10.84   | \$10.92   | \$10.56   | \$10.45   |
| Total investment return (2)                               | 6.88%                 | 4.18%     | 8.37%     | 5.81%     | 2.45%     |
| Net assets at end of period (000's omitted)               | \$768,720             | \$390,630 | \$254,677 | \$198,378 | \$234,395 |
| <b>Ratios (3):</b>  |                       |           |           |           |           |
| Expenses (without waiver) (4)                             | 0.82%                 | 0.83%     | 0.85%     | 0.85%     | 0.84%     |
| Expenses (with waiver) (4)                                | 0.80%                 | 0.80%     | 0.80%     | 0.80%     | 0.80%     |
| Net investment income (without waiver)                    | 3.83%                 | 4.84%     | 4.61%     | 4.56%     | 3.99%     |
| Net investment income (with waiver)                       | 3.85%                 | 4.87%     | 4.66%     | 4.61%     | 4.03%     |
| Portfolio turnover rate                                   | 66.89%                | 59.63%    | 67.42%    | 43.98%    | 60.37%    |

(1) The net investment income per share is based on average shares outstanding for the period.

(2) Total investment return is based on the change in net asset value of a share during the period and assumes reinvestment of distributions at net asset value.

(3) The ratio information is calculated based on average daily net assets. Total Fund expenses are limited to 1.00% of average daily net assets for the first \$50 million in Fund net assets and .80% of average daily net assets for Fund net assets exceeding \$50 million. However, during the periods above, the investment adviser voluntarily absorbed expenses that were otherwise payable by the Fund.

(4) In addition to fees and expenses which the Fund bears directly, the Fund indirectly bears a pro rata share of the fees and expenses of the acquired funds in which it invests. Such indirect expenses are not included in the above reported expense ratios.

## Financial Highlights — Sit Tax-Free Income Fund

Years Ended March 31,

|   | 2010      | 2009      | 2008      | 2007      | 2006      |
|---|-----------|-----------|-----------|-----------|-----------|
| <b>Net Asset Value:</b>                                   |           |           |           |           |           |
| Beginning of period                                       | \$7.93    | \$9.16    | \$9.72    | \$9.72    | \$9.77    |
| <b>Operations:</b>  |           |           |           |           |           |
| Net investment income (1)                                 | .41       | .41       | .40       | .38       | .37       |
| Net realized and unrealized gains (losses) on investments | .97       | (1.23)    | (.56)     | ----      | (.05)     |
| Total from operations                                     | 1.38      | (.82)     | (.16)     | .38       | .32       |
| <b>Distributions to Shareholders:</b>                     |           |           |           |           |           |
| From net investment income                                | (.41)     | (.41)     | (.40)     | (.38)     | (.37)     |
| From net realized gains                                   | ----      | ----      | ----      | ----      | ----      |
| Total distributions                                       | (.41)     | (.41)     | (.40)     | (.38)     | (.37)     |
| <b>Net Asset Value:</b>                                   |           |           |           |           |           |
| End of period   | \$8.90    | \$7.93    | \$9.16    | \$9.72    | \$9.72    |
| Total investment return (2)                               | 17.71%    | (9.14%)   | (1.72%)   | 4.00%     | 3.35%     |
| Net assets at end of period (000's omitted)               | \$153,495 | \$138,781 | \$322,590 | \$377,549 | \$366,948 |
| <b>Ratios (3):</b>  |           |           |           |           |           |
| Expenses (without waiver) (4)                             | 0.80%     | 0.80%     | 0.80%     | 0.80%     | 0.80%     |
| Expenses (with waiver) (4)                                | 0.80%     | 0.79%     | 0.77%     | 0.77%     | 0.77%     |
| Net investment income (without waiver)                    | 4.79%     | 4.62%     | 4.15%     | 3.90%     | 3.78%     |
| Net investment income (with waiver)                       | 4.79%     | 4.63%     | 4.18%     | 3.93%     | 3.81%     |
| Portfolio turnover rate                                   | 27.30%    | 18.51%    | 42.93%    | 50.67%    | 32.93%    |

- (1) The net investment income per share is based on average shares outstanding for the period.
- (2) Total investment return is based on the change in net asset value of a share during the period and assumes reinvestment of distributions at net asset value.
- (3) The ratio information is calculated based on average daily net assets. Total Fund expenses are limited to 0.80% of average daily net assets. However, during the periods above, the investment adviser voluntarily absorbed expenses that were otherwise payable by the Fund.
- (4) In addition to fees and expenses which the Fund bears directly, the Fund indirectly bears a pro rata share of the fees and expenses of the acquired funds in which it invests. Such indirect expenses are not included in the above reported expense ratios.

## Financial Highlights — Sit Minnesota Tax-Free Income Fund

|  | Years Ended March 31, |           |           |           |           |
|--|-----------------------|-----------|-----------|-----------|-----------|
|  | 2010                  | 2009      | 2008      | 2007      | 2006      |
| <b>Net Asset Value:</b>                                      |                       |           |           |           |           |
| Beginning of period  | \$8.97                | \$9.76    | \$10.21   | \$10.12   | \$10.09   |
| <b>Operations:</b>   |                       |           |           |           |           |
| Net investment income (1)                                    | .43                   | .43       | .43       | .42       | .41       |
| Net realized and unrealized gains<br>(losses) on investments | .91                   | (.79)     | (.45)     | .09       | .03       |
| Total from operations  | 1.34                  | (.36)     | (.02)     | .51       | .44       |
| <b>Distributions to Shareholders:</b>                        |                       |           |           |           |           |
| From net investment income                                   | (.43)                 | (.43)     | (.43)     | (.42)     | (.41)     |
| <b>Net Asset Value:</b>                                      |                       |           |           |           |           |
| End of period  | \$9.88                | \$8.97    | \$9.76    | \$10.21   | \$10.12   |
| Total investment return (2)                                  | 15.22%                | (3.67%)   | (0.25%)   | 5.17%     | 4.46%     |
| Net assets at end of period (000's omitted)                  | \$290,806             | \$244,123 | \$307,738 | \$288,922 | \$263,312 |
| <b>Ratios (3):</b>   |                       |           |           |           |           |
| Expenses (4)   | 0.80%                 | 0.80%     | 0.80%     | 0.80%     | 0.80%     |
| Net investment income  | 4.52%                 | 4.65%     | 4.25%     | 4.17%     | 4.07%     |
| Portfolio turnover rate                                      | 11.46%                | 15.68%    | 37.48%    | 28.42%    | 54.91%    |

- (1) The net investment income per share is based on average shares outstanding for the period.
- (2) Total investment return is based on the change in net asset value of a share during the period and assumes reinvestment of distributions at net asset value.
- (3) The ratio information is calculated based on average daily net assets.
- (4) In addition to fees and expenses which the Fund bears directly, the Fund indirectly bears a pro rata share of the fees and expenses of the acquired funds in which it invests. Such indirect expenses are not included in the above reported expense ratios.

## FOR MORE INFORMATION

If you have any questions about the Funds or would like more information, please contact the Funds as noted below. You may obtain a free copy of the Funds' Statement of Additional Information ("SAI") and annual or semi-annual reports on the Funds' website at [www.sitfunds.com](http://www.sitfunds.com) or by contacting the Funds as noted below.

The SAI contains more details about the Funds and their investment policies. The SAI is incorporated in this Prospectus by reference.

The annual and semi-annual reports include a discussion of the market conditions and investment strategies that significantly affected the Funds' performance during its most recent six- or 12-month periods, as applicable.

### ONLINE

[www.sitfunds.com](http://www.sitfunds.com) or via email at [info@sitinvest.com](mailto:info@sitinvest.com)

### TELEPHONE

(800) 332-5580

Investor Services Representatives are available Monday through Friday 7:30 to 5:30 p.m. Central Time.

### MAIL

Regular Mail: Sit Mutual Funds, P.O. Box 9763, Providence, RI 02940

Express Mail: Sit Mutual Funds, 101 Sabin Street, Pawtucket, RI 02860

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Account #86-0690-5556

Sit Mutual Funds

For Further Credit: (shareholder name)

Account Number: (fund name and account #)

### CONTACT THE SEC

You can go to the SEC's web site at [www.sec.gov](http://www.sec.gov) to view these and other documents that Sit Mutual Funds has filed electronically with the SEC.

For a duplicating fee, copies of such information may be obtained by electronic request at the following email address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the Commission's Public Reference Section, Washington, D.C. 20549-1520. In addition, information about the Funds can be reviewed and copied at the Commission's Public Reference Room in Washington, D.C. Call the Commission 202-551-8090 for information.

1940 Investment Company Act File Nos.:  
Sit U.S. Government Securities Fund, Inc. 811-04995  
Sit Mutual Funds II, Inc. 811-04033