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P R O S P E C T U S



SECURITY CAPITAL

*Please file this Supplement with your records*



**SECURITY CAPITAL REAL ESTATE MUTUAL FUNDS INCORPORATED  
SECURITY CAPITAL U.S. REAL ESTATE SHARES**

Supplement dated May 30, 2002

To

Prospectus and Statement of Additional Information dated April 30, 2002

The following information supplements and amends the prospectus and Statement of Additional Information of Security Capital U.S. Real Estate Shares (“SC-US”), a portfolio of Security Capital Real Estate Mutual Funds Incorporated (“SC-REMFs”).

1. On December 14, 2001, Security Capital Group Incorporated (“Security Capital”), the indirect owner of Security Capital Research & Management Incorporated (“SC-R&M”), entered into an Agreement and Plan of Merger (the “Agreement”) with General Electric Capital Corporation (“GE Capital”) and EB Acquisition Corp., an indirect wholly owned subsidiary of GE Capital. Pursuant to the Agreement, on May 14, 2002, EB Acquisition Corp. merged with and into Security Capital with Security Capital as the surviving company and as an indirect wholly owned subsidiary of GE Capital. GE Capital in turn is an indirect wholly owned subsidiary of General Electric Company (“GE”). GE Capital provides a variety of consumer services, such as credit cards and life and auto insurance; mid-market financing; specialized financing; specialty insurance; equipment management, and specialized services, to businesses and individuals in 47 countries around the world. GE is a diversified services, technology and manufacturing company with operations worldwide.

Upon consummation of the transaction, the current investment advisory agreement (the “Current Advisory Agreement”) between SC-US and SC-R&M was terminated automatically in accordance with the Investment Company Act. To assure continuation of advisory services to SC-US, the directors of SC-REMFs on March 7, 2002 approved (1) a new investment advisory agreement for SC-US (the “New Advisory Agreement”) that will become effective upon its approval by shareholders of SC-US and (2) an interim investment advisory agreement for SC-US (the “Interim Advisory Agreement”) pursuant to which SC-R&M continues to act as investment adviser to SC-US until the earlier of 150 days after May 14, 2002 (i.e., October 11, 2002) or the date on which SC-US shareholders approve the New Advisory Agreement.

SC-R&M does not anticipate that this transaction will have any adverse effect on its performance of investment advisory functions for SC-US. The New Advisory Agreement and the Interim Advisory Agreement are substantially identical to the Current Advisory Agreement and SC-R&M’s annual management fee will remain 0.60% of the average daily net asset value of SC-US’s shares. A special meeting of shareholders of SC-REMFs will be held in the summer of 2002 at which time SC-US shareholders will be asked to approve the New Advisory Agreement.

2. In conjunction with the merger described in (1) above, on May 14, 2002, Security Capital sold its entire indirect ownership interest in Macquarie Capital Partners LLC, the distributor of SC-US's shares. As of May 14, 2002, Macquarie Capital Partners LLC no longer is an affiliated person of SC-R&M or SC-REMFs.

3. The prospectus and Statement of Additional Information of SC-US dated April 30, 2002 should be read in conjunction with the events described in (1) and (2) above.

**For further information please call 1-888-SECURITY (toll free).**

*The date of this Supplement is May 30, 2002*

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*A mutual fund investing  
primarily in real estate securities  
in the United States*

P R O S P E C T U S

*April 30, 2002*

As is the case with all mutual fund shares, the Securities and Exchange Commission has not approved or disapproved these securities and has not passed on the adequacy of this prospectus. Any representation to the contrary is a criminal offense.

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A WORD TO POTENTIAL INVESTORS

The information in this prospectus is presented to help you decide whether the fund matches your financial situation and investment goals.

The minimum initial investment in the fund's shares — which are sold at net asset value without a sales charge — is \$1,000.

***About This Document***

**This prospectus describes the objectives and policies of the fund, the potential risks of investing, the fund's management, and other information necessary to make an informed investment decision.**

**Please read it carefully before you invest and then retain it for future reference.**

# T H E F U N D

## B L U E P R I N T

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### O V E R V I E W

#### **What are the fund's investment objectives?**

- The fund seeks to provide shareholders with above-average total returns, including current income and capital appreciation, primarily through investments in real estate securities in the United States.
- Long-term, the fund's objective is to achieve top-quartile total returns as compared with other mutual funds that invest primarily in real estate securities in the United States.

#### **What kind of investments does the fund make?**

- The fund invests primarily in real estate securities. It does not invest in real estate directly.
- The fund's investments generally include equity securities — primarily common stocks of real estate investment trusts (REITs) and real estate operating companies (REOCs), rights, warrants, convertible securities, and preferred stocks. For a description of REITs and REOCs, please see "Types of Investments" on page 8 of this prospectus.
- Typically, at least 80 percent of the fund's assets are invested in equity securities of publicly traded real estate companies operating in the United States.

#### **What type of investor might consider investing in the fund?**

Based on the fund's investment goals and strategies, it might be suitable for investors who:

- seek to diversify their investment holdings by adding a real estate component to their portfolio
- have a long-term investment horizon
- expect real estate to provide above-average investment returns over time

**What are the chief risks of investing in the fund?**

An investment in the fund involves risk. An investor in the fund can lose money if the value of the fund's investments declines.

- **Market risk.** The prices of real estate securities will vary with conditions in the financial markets.
- **Real estate exposure.** The fund may be affected by the same factors that influence the value of real estate in general.
- **Interest rate risk.** Higher mortgage rates can affect the profitability and liquidity of properties in the real estate market (and, therefore, can affect the value of the real estate securities associated with those properties).
- **Credit risk.** A decline in the credit rating or perceived credit quality of a real estate company's debt can have a negative impact on the value of its stock.
- **Non-diversified portfolio.** The fund is non-diversified; therefore, the fund may invest a greater percentage of its assets in the securities of one issuer than a diversified fund. Accordingly, the results of any one investment can have a significant impact on the fund's performance — either good or bad.
- **Concentration risk.** Because the fund invests primarily in real estate securities, the fund's reaction to real estate market variables may be greater than that of a fund that invests in more than one market sector.

## PRIOR INVESTMENT RESULTS

The future performance (before and after taxes) of a mutual fund cannot be predicted by looking at its performance in the past. However, a review of its prior results can help illustrate the variability of returns that an investor in the fund would have experienced over various time periods.

The total returns achieved by the fund through the fiscal years ended December 31, 1998 through December 31, 2001 are shown in the bar chart below.

### Security Capital U.S. Real Estate Shares Comparative Returns vs. Industry Benchmarks Average Annual Total Returns for the Periods Ended December 31, 2001

	One-Year 2001	Three-Year 2001	April 23, 1997 <sup>(1)</sup> to Dec. 31, 2001
<b>SC-U.S. Real Estate Shares:</b>			
Return Before Taxes	7.04%	13.51%	11.24%
Return After Taxes on Distributions	4.69%	11.42%	8.56%
Return After Taxes on Distributions and Sale of Fund Shares	4.62%	9.96%	7.79%
Wilshire Real Estate Securities Index <sup>(2)</sup>	10.45%	11.81%	7.60%
NAREIT Equity Index <sup>(3)</sup>	13.93%	11.15%	7.27%

This table compares the fund's results to changes in the Wilshire Real Estate Securities Index (WARESI)<sup>2</sup> and in the National Association of Real Estate Investment Trusts (NAREIT) Equity Index.<sup>3</sup> It provides some indication of the risks of investing in the fund by comparing the fund's performance with a broad measure of market performance. The calculation of total return assumes reinvestment of all capital gains and income dividends. Results shown for the indices also assume the reinvestment of dividends. No fees or taxes are deducted from the total returns of the indices. Because the indices are not managed investments, no operating expenses are deducted from their total returns.

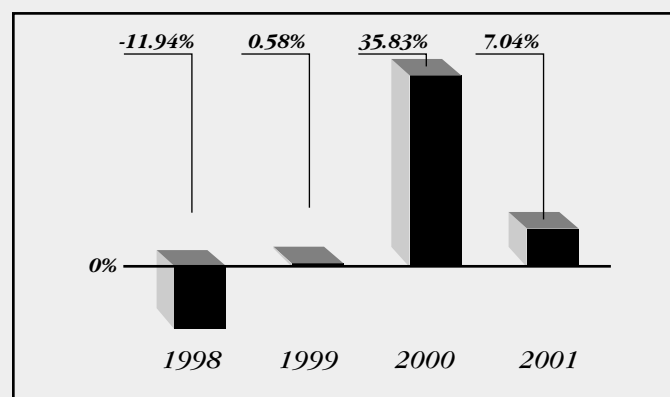
After-tax returns shown are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns will depend on an investor's tax situation and may differ from those shown, and after-tax returns shown are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

<sup>1</sup> The effective date of the fund's registration statement with the Securities and Exchange Commission.

<sup>2</sup> The WARESI is an unmanaged, broad-based, market capitalization-weighted index comprised of publicly traded REITs and REOCs, not including special purpose or healthcare REITs. It is comprised of major companies engaged in the equity ownership and operation of commercial real estate. Prior to utilizing WARESI, the fund used the Wilshire REIT Index as a benchmark, but changed because it was limited solely to REITs.

<sup>3</sup> The NAREIT Equity Index is an unmanaged index of publicly traded U.S. tax-qualified REITs that have 75% or more of their gross invested book assets invested in the equity ownership of real estate.

### Security Capital U.S. Real Estate Shares Calendar Year Total Returns



The fund's best quarterly performance during this time period was a gain of 13.73% for the quarter ended June 30, 1999. Its worst quarterly performance was a -10.14% loss for the quarter ended September 30, 1998.

## SHAREHOLDER COSTS

The table below shows the amount of fees and expenses you may pay if you buy and hold shares of the fund.

### Shareholder Transaction Expenses (paid directly from your investment)

- Maximum sales charge (load) imposed on purchases  
(as a percentage of offering price) . . . . . none
- Maximum deferred sales charge (load) . . . . . none
- Maximum sales charge (load) imposed on reinvested  
dividends and other distributions . . . . . none
- Redemption fee (as a percentage of amount redeemed, if applicable) . . . . . none
- Exchange fee . . . . . none

### Annual Fund Operating Expenses (expenses that are deducted from fund assets)

- Management fees . . . . . 0.60%
- Distribution and/or service (12b-1) fees . . . . . 0.25%
- Other expenses . . . . . 0.39%
- Total annual fund operating expenses . . . . . 1.24%

### What are the costs to the typical investor?

To help you compare the costs of investing in this fund with those of other funds, the following examples illustrate the typical expenses a shareholder would pay on a \$10,000 investment over various time periods.

The following calculations assume that the fund's operating expenses remained the same and that a 5 percent return was earned on your investment each year.

If you were to redeem your shares at the end of the period indicated, your costs would be:

1 YEAR	3 YEARS	5 YEARS	10 YEARS
\$127	\$394	\$683	\$1,506

An investor's actual costs may be higher or lower than those shown in the example.

B U I L D I N G   T H E  
F U N D   P O R T F O L I O

***Security Capital Research and  
Management Incorporated  
(SC-R&M)***

- **Registered investment adviser with assets under management of more than \$3.4 billion as of March 31, 2002**

Security Capital U.S. Real Estate Shares is a series of Security Capital Real Estate Mutual Funds Incorporated (SC-REMFs). The following sections provide basic information about the fund's management team and investment operations.

T H E   I N V E S T M E N T   A D V I S E R   A N D  
M A N A G E M E N T   T E A M

Security Capital Research & Management Incorporated (SC-R&M) (formerly known as Security Capital Global Capital Management Group Incorporated) is an indirect, wholly owned subsidiary of Security Capital Group Incorporated (Security Capital), a publicly traded company which, together with its affiliated real estate operating companies, has a market capitalization of \$20.2 billion (as of December 31, 2001).

SC-R&M, which is registered as an investment adviser with the Securities and Exchange Commission (SEC), commenced operations in January 1995. Its offices are located at 11 South LaSalle Street, 2nd Floor, Chicago, Illinois 60603.

SC-R&M, under the supervision of the directors of SC-REMFs, provides investment advice and conducts the investment management activities of the fund. A team of full-time SC-R&M professionals, working together as the fund's Portfolio Management Committee, is primarily responsible for overseeing the day-to-day operations of the fund.

SC-R&M has assets under management of more than \$3.4 billion (as of March 31, 2002)

For services provided as investment adviser to the fund, SC-R&M is paid an annual management fee equal to 0.60 percent of the average daily net asset value of the fund's shares. The aggregate management fee paid to SC-R&M was 0.60 percent of the average daily net asset value of the fund's shares during the fiscal year ended December 31, 2001.

On December 14, 2001, Security Capital, the indirect owner of SC-R&M, entered into an Agreement and Plan of Merger (the "Agreement") with General Electric Capital Corporation ("GE Capital") and EB Acquisition Corp., an indirect wholly-owned subsidiary of GE Capital. Pursuant to the

Agreement, and subject to the terms and conditions contained therein, EB Acquisition Corp. proposes to merge with and into Security Capital with Security Capital as the surviving company and an indirect wholly-owned subsidiary of GE Capital. The foregoing transaction is proposed to close during the Second Quarter of 2002. There is no assurance that the transaction will be completed. Upon consummation of the transaction, the current investment advisory agreement (the "Advisory Agreement") between the fund and SC-R&M will be considered terminated as a matter of law.

To assure continuation of advisory services to the fund, the directors of SC-REMFs met on March 7, 2002 to approve a new investment advisory agreement ("New Advisory Agreement") to become effective upon consummation of the transaction. A special meeting of shareholders will be called at which shareholders will be asked to approve the New Advisory Agreement as well. The New Advisory Agreement is substantially identical to the Advisory Agreement. SC-R&M does not anticipate that the transaction will have any adverse effect on the performance of its current obligations under the Advisory Agreement. In order to protect against the possibility that shareholder approval for the New Advisory Agreement will not be obtained by the date the transaction is consummated, the directors of SC-REMFs also approved, on March 7, 2002, an interim investment advisory agreement. Under this agreement, SC-R&M may continue to act as investment adviser from the consummation of the transaction until shareholders approve the New Advisory Agreement. By law, the interim investment advisory agreement will expire 150 days after the date upon which the Advisory Agreement terminates.

#### **Distribution and Servicing Plan**

The fund has adopted a distribution and servicing plan under Rule 12b-1 of the Investment Company Act of 1940 to compensate the distributor for distribution and shareholder servicing activities performed for the fund.

The plan provides for the payment of a monthly fee (a "12b-1 fee") equal to 0.25 percent of the value of the average daily net assets invested in the fund's shares. This payment is made to the fund's distributor, Macquarie Capital Partners LLC, which is an indirect affiliate of SC-R&M.

Because the 12b-1 fee is paid out of fund assets on an ongoing basis, it will increase the cost of an investment in the fund over time. It is possible that such an arrangement would ultimately result in higher costs than the payment of other types of sales charges.

The fund's distributor may enter into agreements with various third-party organizations to provide certain distribution or servicing functions. These organizations might include various brokerage firms or other industry-recognized service providers of fund supermarkets or similar programs, as well as institutional shareholders of record, financial institutions, depository

institutions, and other financial intermediaries. These agreements may be governed by the plan.

## TYPES OF INVESTMENTS

In seeking to achieve the fund's investment objectives, the fund's Portfolio Management Committee uses the following types of investments and investment policies, which may be changed by the fund's board of directors without shareholder approval.

### **Real Estate Securities**

The fund will invest, under normal market conditions, at least 80 percent of its assets in equity securities of real estate companies operating in the United States. The real estate securities in which the fund may invest include:

- real estate investment trusts (REITs)
- real estate operating companies (REOCs)
- common stocks
- rights or warrants to purchase common stocks
- convertible securities
- preferred stocks

### **Real Estate Investment Trusts (REITs)**

The fund may invest without limit in shares of REITs, which pool investors' funds for investment primarily in income-producing real estate or in real estate related loans (such as mortgages) or other interests. Therefore, a REIT normally derives its income from rents or from interest payments, and may realize capital gains by selling properties that have appreciated in value. A REIT is not taxed on income distributed to shareholders if it complies with several requirements relating to its organization, ownership, assets, and income and a requirement that it distribute to its shareholders at least 95% of its taxable income (other than net capital gains) for each taxable year.

### **Real Estate Operating Companies (REOCs)**

A REOC is a company that derives at least 50 percent of its revenues from the ownership, construction, financing, management or sale of commercial, industrial, or residential real estate (or that has at least 50 percent of its assets invested in such real estate).

### **Defensive Investments**

If the fund's investment adviser (SC-R&M) determines that adverse market, economic, or political conditions justify a more defensive portfolio, the fund may make temporary investments in cash, high-grade bonds and short-term money market instruments, including domestic bank obligations and repurchase agreements. Such investments need not be issued by a real estate company.

Under normal circumstances, it is not likely that the fund will invest a substantial portion of its assets in such securities. If such investments are made, the fund will invest only in securities rated “investment grade” or considered by SC-R&M to be of comparable quality.

If the fund makes defensive investments, such investments might not be consistent with the fund’s investment objectives. Therefore, during the period of time when such investments are held, these objectives might not be met.

#### **Investments in companies controlled by Security Capital**

The real estate securities in which the fund invests may occasionally include securities issued by real estate companies that are controlled by Security Capital or its affiliates, subject to procedures approved by the directors (including a majority of the independent directors) of SC-REMFs to assure that these investments are made in the best interests of fund shareholders, prevent conflicts of interest and comply with applicable law. Among other things, the procedures will require investment decisions related to these controlled companies to be made by SC-R&M independently of Security Capital and its other affiliates. Because of certain federal securities laws limitations, the fund may be restricted in its resale of these securities and will treat them as illiquid subject to the fund’s 10 percent limitation on investment in illiquid securities.

## I N V E S T M E N T   R I S K S

All investments involve some degree of risk. While all mutual funds, including this one, employ techniques and practices to limit risk, there is always a possibility that investors may earn a smaller return than expected or lose some or all of their investment.

For this reason, an investment in the fund should be considered a long-term investment. Before investing, investors should read this prospectus carefully and come to understand the risks described below.

Please note that the most significant risks of investing in the fund are those associated with investing in the real estate market. These risks could have a direct impact on the fund’s net asset value, yield, and total return.

#### **Real Estate Exposure**

The fund will not invest in real estate directly, but its investments will be highly concentrated in real estate securities (see “Types of Investments”). The value of real estate securities, of course, will be affected by many of the factors that affect the value of real estate.

As a result, the fund is subject to investment risks that are similar to those associated with direct ownership of real estate. For example, general or local economic conditions could contribute to:

- a decline in the value of commercial or residential properties
- extended vacancies of properties
- increases in property taxes and operating expenses
- changes in interest rates

Real estate markets in general could also be affected by a range of variables that could contribute to a fluctuation in the value of real estate securities, including:

- variations in supply and demand
- increased competition or overbuilding
- changes in existing laws
- environmental issues

Other important risk factors that could affect the value of a real estate security might apply to individual properties or the issuers of particular securities:

- casualty or condemnation losses
- legal liabilities for injury or damages
- operating losses

#### **Investing in REITs and REOCs**

The fund’s investments in REITs and REOCs (together “real estate securities”) are subject to the same general investment risks as those described under “Real Estate Exposure.”

In general, the performance of real estate securities is dependent on the management skills of their managers and of the operators of the real estate properties in which they invest. Also, real estate securities may be affected by changes in the value of the underlying property owned by such entities.

Under certain conditions, real estate securities could possibly fail to qualify for tax-free pass-through of their income, resulting in a tax liability for shareholders (such as the fund). Real estate securities also generate certain expenses that would be paid indirectly by fund shareholders.

The fund may not be able to sell illiquid securities, including securities issued by real estate companies controlled by Security Capital or its affiliates at a time when SC-R&M otherwise believes it would be appropriate to do so and, therefore, the fund may be disadvantaged.

#### **Market Risk**

The prices of the common stocks of REITs and REOCs, and other securities in which the fund invests, will fluctuate from day to day and may — in either the near term or over the long run — decline in value. The value of the fund may be affected by a decline in financial markets in general.

#### **Interest Rate Risk**

As interest rates fluctuate, mortgage rates and other lending rates will increase or decrease, which could affect the value of the fund’s portfolio.

Higher mortgage rates, for example, could make properties less profitable or more difficult to sell (as credit becomes more costly). Such conditions could depress the prices of the securities in which the fund invests over either short- or long-term periods.

### **Credit Risk**

The performance of the fund may be affected by the credit ratings or perceived credit quality of the real estate companies in which it invests. For example, if a real estate company's credit rating is downgraded, or if market conditions suggest that its ability to service its debt may be impaired in the future, the price of its stock may decline, thereby affecting the value of the fund portfolio.

### **Performance Risk**

There can be no assurance that the fund will meet its investment objectives. As with any mutual fund, the performance of the fund will vary and may not match that of similar funds or relevant benchmark indexes. The value of fund shares will vary and, when sold, may be worth more or less than their original cost.

### **Concentration Risk**

The fund is non-diversified. This means that the proportion of its assets that can be invested in the securities of a single issuer is not limited by law. In addition, the fund generally will invest in a smaller number of individual issuers than a diversified investment company. As a result, the economic, political, or regulatory conditions that affect these issuers may have a greater impact on this fund than on a similar fund that is more diversified.

Similarly, because the fund concentrates its investments in the real estate industry, it is susceptible to the same risks that direct ownership of real estate would entail. Therefore, its performance will be more dependent on conditions in the real estate industry than a fund that invests in a more diverse range of industries or market sectors.

## HOW THE FUND MANAGES RISK

As the fund seeks to reduce investment risk, it will—under normal market conditions—adhere to the following guidelines; which may be changed by the fund's board of directors without shareholder approval:

With respect to the fund's total assets:

- not more than 15 percent of the fund's market value will be invested in the securities of a single issuer

With respect to 50 percent of the market value of its total assets:

- the fund will not own more than 10 percent of the outstanding voting securities of a single issuer

# HOW THE FUND IS MANAGED

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The fund follows a disciplined, research-driven investment approach. The key elements of this approach are outlined below.

## OPPORTUNITIES IN THE REAL ESTATE INDUSTRY

SC-R&M believes that the U.S. real estate industry has experienced a fundamental transformation, creating significant investment opportunities. As of December 31, 2001, the total market capitalization of U.S. equity REITs and REOCs was approximately \$419.0 billion, up from \$15.7 billion as of December 31, 1990.

This shift from direct investment to increased “securitization” of real estate offers significant benefits to shareholders, including:

- an efficient, practicable method of adding a diversified real estate component to an investment portfolio
- enhanced liquidity versus private direct investments
- real-time pricing
- the potential for high dividend yields
- the potential for growth and sustainable rates of return

REITs have generally outperformed direct real estate investments over the long-term. SC-R&M believes this trend will continue over the next decade.

## INVESTMENT PROCESS

The organization and investment processes of SC-R&M reflect our belief that superior investment results are achieved through a dedication to proprietary, fundamental research. Our investment process focuses on three fundamental research disciplines that we believe play an important role in the performance and pricing of real estate companies:

- Real Estate Research
- Company Analysis
- Market Strategy

These are highly specialized disciplines and each impacts the performance of real estate companies and the ultimate pricing of their securities. The investment process integrates these three disciplines under the broad direction of the Portfolio Management Committee, the decision-making body for investment strategies.

### **Real Estate Research**

Research analysts focus on understanding the market pressures and factors that affect rent growth, occupancy and development. This understanding provides perspectives on future supply and demand trends for property types in various markets and the relative impact for different companies.

### **Company Analysis**

Investment analysts focus on analyzing real estate companies within SC-R&M's defined universe of investments and modeling their cash flow potential. They form a complete assessment of the company's assets, operating management team and strategies through company and property visits, careful scrutiny of SEC filings and fieldwork. The recurring output of the investment analysts includes a detailed five-year cash flow forecast, an analysis of net asset value, and a detailed qualitative assessment of each company.

### **Market Strategy**

Market Strategy focuses on establishing appropriate cost of capital thresholds for pricing real estate companies in our coverage universe of the companies. This effort requires consideration of the risks underlying the securities as well as the appetite for and pricing of risk in the broader equity and capital markets. With this understanding, discount rates and terminal multiples are set that govern the key discounted cash flow models and other valuation models employed. The definition and execution of trading strategies is also an important part of Market Strategy.

### **Portfolio Construction**

All investment decisions are directed by a committee of senior investment professionals—the Portfolio Management Committee. The Committee meets formally on a weekly basis and informally throughout the week to evaluate emerging real estate research and company analysis, as well as key recurring reports to create price forecasts to produce a highly focused target portfolio for the fund. This target portfolio integrates the critical real estate and capital market expertise that helps to identify the most attractive investment opportunities.

O N B E C O M I N G A  
S H A R E H O L D E R

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**The following describes how to open an account, what to expect as a shareholder in the fund, and other important information that can help make owning fund shares a more satisfying experience.**

H O W T O P U R C H A S E F U N D S H A R E S

Investors may open an account to purchase fund shares through the fund's transfer agent or through various authorized brokers and their intermediaries. The fund has authorized one or more unaffiliated brokers to accept purchase and redemption orders on its behalf. These brokers, in turn, may designate intermediaries to accept such orders on the fund's behalf. In such cases, the fund will be deemed to have received an order when an authorized broker (or its authorized intermediary) accepts the order.

All purchases of the fund's shares are made at the net asset value determined after the receipt of your payment by the fund's transfer agent or an authorized broker (or its authorized designee). All shares purchased, together with any dividends and capital gains that are paid in additional shares, will be credited to this account.

In some instances, when the fund's shares are offered through an authorized broker or intermediary agent, an investor may be charged a fee to effect a transaction through such broker or agent.

**Initial Investment**

The minimum initial investment in the fund is \$1,000. For individual retirement accounts (including Traditional IRAs and Roth IRAs), Coverdell education savings accounts, and employee benefit plans qualified under sections 401, 403(b), 457 or 530 of the federal tax code, as well as UGMA or UTMA accounts, the minimum initial investment is \$500. For investors using the Automatic Investment Plan (described below), the minimum investment is \$100.

The initial purchase of shares may be made only by mail or by wire; telephone transactions may be used only for subsequent purchases of fund shares. To open an account, follow the procedures outlined below:

*By Mail*

1. Complete and sign the account application enclosed with this prospectus.
2. Enclose a check or money order drawn on a U.S. bank, savings and loan, or credit union (made payable to "Security Capital Real Estate Mutual Funds").

3. Send your application and payment to one of the following addresses:

- *Via U.S. Mail*  
Boston Financial Data Services  
Attn: Security Capital Real Estate Mutual Funds Incorporated  
P.O. Box 8121  
Boston, Massachusetts 02266-8121
- *Via Overnight Delivery Service*  
Boston Financial Data Services  
Attn: Security Capital Real Estate Mutual Funds Incorporated  
66 Brooks Drive  
Braintree, Massachusetts 02184

*By Wire*

1. Call toll-free 1-800-409-4189 prior to wiring any funds in order to obtain a confirmation number and to ensure prompt and accurate handling of your investment. A completed application must be on file before funds are wired.
2. Use the following instructions to wire your investment to the fund's transfer agent:
  - *Wire to:*  
State Street Bank and Trust Company  
225 Franklin Street  
Boston, Massachusetts 02101  
ABA Number 011000028
  - *Credit:*  
DDA Number 9905-378-7
  - *Further Credit:*  
Security Capital Real Estate Mutual Funds Incorporated  
Shareholder Registration  
Shareholder Fund and Account Number

**All Investments**

- Customer orders will be priced at the fund's net asset value (see "Determination of Net Asset Value") computed after they are accepted by the fund's transfer agent, an authorized broker, or its authorized intermediary. To be priced at the fund's net asset value computed as of the same day an order is accepted, the fund's transfer agent, authorized broker, or authorized intermediary must have accepted such order before the close of regular trading on that day.
- Payment must be in U.S. funds. Neither cash nor third-party checks will be accepted. If a shareholder's check does not clear, a service fee of \$20 will be charged.

- All funds will be invested in full and fractional shares. A confirmation indicating the details of each purchase will be sent to you promptly after each transaction.
- Certificates for full shares can be obtained by writing to the transfer agent; all fractional shares will be held in book entry form. Please note that it is more difficult to redeem shares held in certificate form.

### **Additional Investments**

If you wish to purchase additional shares, the minimum for subsequent investments is \$100. These share purchases may be made by mail, by wire, or by telephone as described below.

#### *By Mail*

1. When making an additional investment by mail, please use the Additional Investment Form provided on the lower portion of your account statement.
2. Enclose a check or money order drawn on a U.S. bank, savings and loan, or credit union (made payable to “Security Capital Real Estate Mutual Funds”).
3. Send your form and payment to one of the addresses listed under *By Mail* in the “Initial Investment” section above.

#### *By Wire*

1. To make an additional purchase by wire, a shareholder may call toll-free 1-800-409-4189 for complete wiring instructions.

#### *By Telephone*

1. Call toll-free 1-800-409-4189 to request a purchase of additional shares by moving money from your bank account to your fund account. (Please note that you must have previously elected the telephone purchase option in writing.) Your bank account must be held at a domestic financial institution that is an Automated Clearing House (ACH) member.
2. To purchase shares at the net asset value determined at the close of any given trading day, the transfer agent must receive a purchase order by telephone before the close of regular trading on that day.

### **Automatic Investment Plan**

The Automatic Investment Plan allows regular, systematic investments in the fund’s shares from a bank checking or NOW account. The fund will reduce the minimum initial investment to \$100 if a shareholder elects to use the Automatic Investment Plan. To establish the Automatic Investment Plan, an investor should complete the appropriate section in the account application and an existing shareholder should call 1-888-SECURITY (toll free) for an automatic investment plan form.

The Automatic Investment Plan can be set up with any financial institution that is a member of the ACH. Under certain circumstances (such as discontinuation of the Automatic Investment Plan before the minimum initial investment is reached, or, after reaching the minimum initial investment, the account balance is reduced to less than \$500), the fund reserves the right to close such account. Prior to closing any account for failure to reach the minimum initial investment, the fund will give a shareholder written notice and 60 days in which to reinstate the Automatic Investment Plan or otherwise reach the minimum initial investment. A shareholder should consider his or her financial ability to continue in the Automatic Investment Plan until the minimum initial investment amount is met because the fund has the right to close such account for failure to reach the minimum initial investment. Such closing may occur in periods of declining share prices.

Under the Automatic Investment Plan, a shareholder may choose to make investments on the day of his or her choosing (or the next business day thereafter) in amounts of \$100 or more. There is no service fee for participating in the Automatic Investment Plan. However, a service fee of \$20 will be deducted from a shareholder's account for any Automatic Investment Plan purchase that does not clear due to insufficient funds or, if prior to notifying the fund in writing or by telephone to terminate the plan, a shareholder closes his or her bank account or in any manner prevents, withdrawal of funds from the designated bank checking or NOW account.

The Automatic Investment Plan is a method of using dollar-cost averaging, which is an investment strategy that involves investing a fixed amount of money at a regular time interval. However, a program of regular investment cannot ensure a profit or protect against a loss from declining markets. By always investing the same amount, a shareholder will be purchasing more shares when the price is low and fewer shares when the price is high. Since such a program involves continuous investment regardless of fluctuating share values, a shareholder should consider his or her financial ability to continue the program through periods of low share price levels.

## HOW TO REDEEM FUND SHARES

You may request redemption of some or all of your shares at any time, either by telephone or by mail, through the fund's transfer agent. You may also request to redeem shares through an authorized broker or agent, though you may be charged a fee to do so. To be priced at the fund's net asset value computed as of the same day an order is accepted, the fund's transfer agent, authorized broker, or authorized agent must have accepted such order before the close of regular trading on that day.

### *By Telephone*

Call the transfer agent toll-free at 1-800-409-4189 to request a redemption of your shares. **(Please note that you must have previously elected the telephone redemption option in writing.)**

### *By Mail and By Wire*

1. For most redemption requests, you need only furnish a written, unconditional request stating the number of your shares (or the exact dollar amount) that you wish to redeem. Your request must be signed exactly as the shares are registered, and all joint owners must sign.
2. Send your written request to Security Capital Real Estate Mutual Funds Incorporated at one of the addresses listed under *By Mail* in the "Initial Investment" section above.
3. If you wish, you may have your redemption proceeds wired to a commercial bank that you have authorized on your account application (a service fee of \$12 will be charged for wire redemptions). Otherwise, a check for the proceeds will be mailed to you at the address of record for your account.

Once your request has been accepted, the fund normally will mail redemption proceeds to you on the next business day, and no later than seven business days after it receives and accepts your request. When a purchase has been made by check, the fund may hold payment of redemption proceeds until reasonably satisfied that the check has cleared. This may take up to 12 days.

To request redemption of any shares held in certificate form, the certificate must be endorsed for transfer (or accompanied by a duly executed stock power) and must be submitted to the transfer agent together with your written redemption request.

Redemption proceeds will be mailed directly to you or transferred to a predesignated account. To change the designated account, a written request with signature(s) guaranteed must be sent to the fund's transfer agent. No telephone redemptions will be allowed within 30 days of such a change.

The fund reserves the right to limit the number of telephone redemptions made by a shareholder.

### **For Your Protection**

To help ensure the integrity of your account, the fund employs the following reasonable measures to protect against unauthorized redemption of fund shares. These include:

- The fund may require some form of personal identification prior to acting upon telephone instructions, providing written confirmation of all such transactions, and/or tape recording all telephone instructions.
- Once a telephone redemption request has been made, it may not be modified or canceled.
- Additional documentation may be requested from corporations, executors, administrators, trustees, guardians, agents, or attorneys-in-fact before a redemption request made by mail or by wire is granted.
- Any written redemption requests received within 30 days after an address change must be accompanied by a signature guarantee (see “Signature Guarantees” below).
- The fund reserves the right to refuse any telephone redemption in whole or in part.

Assuming procedures such as the above have been followed, the fund will not be liable for any loss, cost, or expense for acting upon a shareholder’s telephone instructions or for any unauthorized telephone redemption.

### **Signature Guarantees**

Signature guarantees are required for any of the following transactions:

- redemption requests mailed to or wired to a person other than the registered owner(s) of the shares
- redemption requests to be mailed to or wired to an address other than the account’s address of record
- any redemption request received within 30 days of a change of address
- any redemption request involving \$100,000 or more

A signature guarantee may be obtained from any eligible guarantor institution, as defined by the SEC, such as banks, savings associations, credit unions, brokerage firms, and others.

## OTHER REDEMPTION INFORMATION

The fund may suspend the right of redemption during any period when:

- trading on the New York Stock Exchange (NYSE) is restricted or the NYSE is closed (other than customary weekend and holiday closings)
- an emergency (as defined by rules adopted by the SEC) makes disposal of portfolio securities or determination of the value of net assets of the fund not reasonably practicable

A shareholder's account may be closed if, upon the redemption of shares, the value of remaining shares is less than \$1,000 (\$500 in the case of individual retirement accounts, Coverdell education savings accounts and employee benefit plans qualified under sections 401, 403(b)(7), 457 or 530 of the federal tax code and for investors using the Automatic Investment Plan (described above)). The shareholder will be given notice of at least 60 days and the opportunity to make additional investments that will increase the account's value so that it satisfies the minimum amount required.

The fund may, under certain circumstances, redeem shares in kind.

## PERFORMANCE REPORTING

### **Determination of Net Asset Value**

Shares of the fund are sold, without a sales charge, at net asset value. The net asset value per share is calculated as of the close of regular trading on each day the NYSE is open for trading. Net asset value will not be calculated on any national holiday or any other day the NYSE is not open for trading.

Net asset value is determined by adding the market value of all securities in the fund's portfolio and any other assets, subtracting liabilities, and dividing by the total number of shares then outstanding. This is the price at which purchase or redemption of the fund's shares is effected.

Each trading day, portfolio securities are valued at their last sale price as of the close of trading on the exchange representing the principal market for such securities, or at the mean of the closing bid and asked price for that day. Any securities for which market quotations are not readily available are valued in good faith in a manner that best reflects their fair value.

### **Dividends and Distributions**

The fund pays dividends from its investment income once each quarter and pays any capital gains at least once each year. All dividends and distributions are automatically reinvested in additional shares of the fund (at net asset value) unless you choose to have them paid in cash. As a shareholder, you will receive a statement reflecting all payments made to your account.

## TAX CONSEQUENCES AND YEAR-END REPORTING

### **Federal Income Taxes**

To comply with tax law requirements, the fund intends to make annual distributions of its investment income. It is likely that a portion of each distribution (whether received in cash or reinvested in shares of the fund) will be taxable to shareholders of the fund as ordinary income and the remainder of such distribution will be taxable to shareholders as long-term capital gain.

Sales and other dispositions by a shareholder of his or her shares of the fund generally will be treated as capital gain if the amount received by the shareholder in the sale exceeds the shareholder's tax basis in the shares and will be treated as a capital loss if the shareholder's tax basis in the fund shares exceeds the amount received by the shareholder in the sale. A shareholder's tax basis in his or her shares generally will equal the cost of the shares plus the amount of any distributions reinvested in shares of the fund. Any capital gain or loss will be long-term capital gain or loss if the shares sold have been owned by the shareholder for more than one year from the date of sale. Shareholders should consult their own tax advisers regarding the federal tax consequences of an investment in the fund.

### **State and Local Taxes**

Fund distributions also may be subject to state and local taxes. Shareholders should consult their own tax advisers regarding the particular state and local tax consequences of an investment in the fund.

### **Year-End Tax Reporting**

After the end of each calendar year, the fund will send shareholders a report showing the amount and tax character of all dividends and distributions paid during the year.

## REPORTS TO SHAREHOLDERS

The fund sends a report of portfolio investments and other information to its shareholders on a semi-annual basis. An annual report, which includes financial statements audited by an independent accounting firm, is sent to shareholders each year. Please visit our website at [www.securitycapital.com](http://www.securitycapital.com) or call toll-free 1-888-SECURITY for a copy of the fund's most recent shareholder report.

# FINANCIAL HIGHLIGHTS

The financial highlights table is intended to help you understand the fund's financial performance since April 23, 1997, the effective date of the fund's registration statement with the SEC.

The information in this table reflects financial results for a single fund share. The total returns in the table represent the rate that an investor would have earned (or lost) on an investment in the fund (assuming reinvestment of all dividends and distributions).

This information has been audited by Arthur Andersen LLP, whose report — along with the fund's financial statements — is included in the statement of additional information, which is available upon request.

	2001	2000	1999	1998	April 23, 1997 <sup>(1)</sup> through December 31, 1997
<b>Per Share Data<sup>(2)</sup></b>					
Net asset value, beginning of period . . .	\$12.14	\$9.37	\$9.82	\$11.95	\$10.15
Income from investment operations:					
Net investment income . . . . .	0.57	0.44	0.45	0.42	0.31
Net realized and unrealized gain (loss) on investments . . . . .	0.26	2.86	(0.39)	(1.80)	2.49
Total from investment operations . . .	0.83	3.30	0.06	(1.38)	2.80
Less distributions:					
Dividends from net investment income . . . . .	(0.57)	(0.44)	(0.45)	(0.43)	(0.31)
Distributions from net realized gains . . . . .	(0.24)	—	—	(0.29)	(0.54)
Return of capital . . . . .	—	(0.09)	(0.06)	(0.03)	—
Total distributions . . . . .	(0.81)	(0.53)	(0.51)	(0.75)	(1.00)
Net asset value, end of period . . . . .	\$12.16	\$12.14	\$9.37	\$9.82	\$11.95
Total return <sup>(3)</sup> . . . . .	7.04%	35.83%	0.58%	(11.94)%	28.01%
<b>Supplemental data and ratios:</b>					
Net assets, end of period (\$000) . . .	\$160,635	\$117,864	\$50,949	\$94,811	\$117,232
Ratio of expenses to average net assets <sup>(4)(5)</sup> . . . . .	1.24%	1.35%	1.20%	1.00%	1.16%
Ratio of net investment income to average net assets <sup>(4)(5)</sup> . . . . .	4.96%	5.02%	4.18%	4.75%	4.08%
Portfolio turnover rate . . . . .	91.20%	91.14%	49.66%	109.49%	82.10%

- (1) Date the fund was effective with the SEC.
- (2) Effective February 1, 2000, the fund's Class R shares were converted to Class I shares, with the resulting class known as Security Capital U.S. Real Estate Shares. The information in this table reflects financial results for the former Class I shares, with the exception of net assets which are of both Classes.
- (3) Not annualized for the period April 23, 1997 through December 31, 1997.
- (4) Annualized.
- (5) Without voluntary expense reimbursements of \$12,239, \$256,747, \$301,721 and \$30,276 for the years ended December 31, 2000, 1999 and 1998, and the period April 23, 1997 through December 31, 1997, respectively, the ratio of expenses to average net assets would have been 1.36%, 1.62%, 1.29% and 1.19%, respectively, and the ratio of net investment income to average net assets would have been 5.01%, 3.76%, 4.46% and 4.04%, respectively. For the year ended December 31, 2001, there was no voluntary expense reimbursement.

TO LEARN MORE  
ABOUT THE FUND

- See the fund's current annual and semi-annual reports for an in-depth discussion of the market conditions and investment strategies that significantly affected the fund's performance during its last fiscal year.
- Review the fund's Statement of Additional Information (which is incorporated by reference into this prospectus) for more details on the fund's portfolio, investment policies, and operating procedures.

CONTACT US FOR  
MORE INFORMATION

Contact Security Capital Real Estate Mutual Funds Incorporated if you have questions or wish to obtain a free copy of these documents; simply call toll-free 1-888-SECURITY or access the Security Capital website ([www.securitycapital.com](http://www.securitycapital.com)).

Information about the fund including the Statement of Additional Information can be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-202-942-8090. Reports and other information about the fund are available on the EDGAR database on the SEC's Internet website at <http://www.sec.gov>. Copies may be obtained after payment of a duplicating fee by electronic request at the SEC's e-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing to the SEC's Public Reference Section, Washington, D.C. 20549-0102.

Investment Company Act file number:  
811-8033



**SECURITY CAPITAL**

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