

Lehman Brothers Institutional Liquidity Series

Institutional Liquidity Fund

Prime Money Fund



Semi-Annual Report

September 30, 2006



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Chairman's Letter

Dear Shareholder,

I am pleased to present to you this semi-annual report for the Lehman Brothers Institutional Liquidity Fund and the Lehman Brothers Prime Money Fund for the period ended September 30, 2006. The report includes portfolio commentary, a listing of the Funds' investments, and their financial statements for the reporting period.

This report covers six months of the Funds' operation, from April 1 to September 30, 2006. For the fixed income markets, the period was characterized by the first pause in the cycle of monetary tightening pursued by the Federal Reserve since June 2004. After two 25-basis-point increases early in the period, the key Fed Funds rate has held steady at 5.25% since June. The Federal Reserve continues to articulate concerns about inflation, and to issue guidance that it will be data dependent, meaning that it will look to future data releases to assess how well past rate increases have contained inflation and engineered a soft landing for the economy as growth slows. This will determine whether it believes further increases will be necessary, or if rates will be reduced.

Over the past six months, the Funds performed admirably and as expected. Our investment strategy combines a distinct process for interest rate risk management with dedicated credit research to build a portfolio of high-quality securities that seeks to respond quickly to changes in interest rates without sacrificing yield.

As always, we intend to proceed with caution to protect our clients' principal and maintain daily liquidity and diversification.

Sincerely,

A handwritten signature in black ink, appearing to read "Peter Sundman". The signature is fluid and cursive, with the first name "Peter" and last name "Sundman" clearly distinguishable.

PETER SUNDMAN
CHAIRMAN OF THE BOARD
LEHMAN BROTHERS INSTITUTIONAL LIQUIDITY SERIES

Institutional Liquidity Series Portfolio Commentaries

We are pleased to report that both the Lehman Brothers Institutional Liquidity Fund and the Lehman Brothers Prime Money Fund delivered positive returns and outperformed the iMoneyNet Money Fund Report Taxable First Tier Institutional Average during the period from April 1, 2006 through September 30, 2006.

The first three months of the period were marked by a continuation of the Federal Reserve's current cycle of tightening, bringing the total number of increases to 17, which have added 425 basis points to the key Fed Funds rate over two years. Beginning in April, the Federal Reserve warned market participants not to draw conclusions about the future path of interest rates. On multiple occasions, the Fed reminded investors that the effects of monetary policy changes tend to be delayed as they work their way through the economic system, and that any future rate increases would be dependent on forthcoming data. Nevertheless, the two increases were anticipated by the bond market, and Treasury interest rates increased across the yield curve in April, May and June. The May increase in two-year note yields marked the first close above 5% since 2001.

In the statement accompanying its June rate decision, the Fed acknowledged that previous tightening moves had likely fostered the desired slowdown of economic growth, as evidenced by declining housing statistics and higher energy costs that were beginning to restrain consumer balance sheets. Data releases throughout July reinforced this view, and the Fed paused its cycle of tightening by leaving rates unchanged at both its early August and late September meetings.

Over the last three months of the period, data releases indicated that a housing correction is underway, with housing starts falling to a three-year low and home prices in many areas beginning to decline. Although inflation remains elevated by some measures, prices, on balance, have been held in check. Core producer prices fell in August while crude oil prices headed to a six-month low, due to easing tensions in the Middle East and rising U.S. supply.

The combination of slower economic growth and a pause in the Fed's two-year tightening campaign led to a rally in bonds, with the market delivering its best quarterly total return in four years and the fifth best in the last 10 years,* as average yields declined roughly 50 basis points.

Going forward, we expect the Fed to leave rates unchanged as it assesses the macroeconomic impact of a housing-led slowdown on the broader economy. Inflation data will continue to be diligently watched, but given the economic deceleration that is beginning to take shape, we feel that the Fed will be hard-pressed to raise short-term rates. Ultimately, we anticipate that the next move by the Fed will be to cut rates. In the interim, we anticipate that market rates will be range bound, as the market and the Fed digest incoming data. We would anticipate selectively adding to duration as opportunities arise.

Institutional Liquidity Fund

For the period from April 1, 2006 through September 30, 2006, the Lehman Brothers Institutional Liquidity Fund returned 2.52% compared to the iMoneyNet Money Fund Report Taxable First Tier Institutional Average's 2.43%. The Fund closed the period with a 5.22% seven-day current yield and a 5.36% seven-day effective yield; this more closely reflects current earnings than the six-month figure.

* As measured by the Lehman Brothers U.S. Aggregate Index.

Prime Money Fund

For the period from April 1, 2006 through September 30, 2006, the Lehman Brothers Prime Money Fund returned 2.54% compared to the iMoneyNet Money Fund Report Taxable First Tier Institutional Average's 2.43%. The Fund closed the period with a 5.26% seven-day current yield and a 5.40% seven-day effective yield; this more closely reflects current earnings than the six-month figure.

Sincerely,



JOHN C. DONOHUE AND ERIC D. HIATT
PORTFOLIO CO-MANAGERS

PERFORMANCE HIGHLIGHTS

Lehman Brothers Institutional Liquidity Series

| | Inception Date | For the 7 Days Ended 9/30/2006 | |
|---|----------------|--------------------------------|------------------------------|
| | | Current Yield ² | Effective Yield ² |
| Institutional Liquidity Fund¹ | 12/30/2004 | 5.22% | 5.36% |
| Prime Money Fund¹ | 12/27/2004 | 5.26% | 5.40% |

Performance data quoted represent past performance, which is no guarantee of future results. The investment return on an investment in a money market fund will fluctuate. Current performance may be lower or higher than the performance quoted. For performance data current to the most recent month-end, call 888-556-9030. The composition, industries and holdings of each fund are subject to change.

An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although each Fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in each Fund.

INSTITUTIONAL LIQUIDITY PORTFOLIO

Maturity Diversification (% by Maturity)

| | |
|---------------|-------|
| 1 - 7 Days | 25.7% |
| 8 - 30 Days | 27.6 |
| 31 - 90 Days | 32.0 |
| 91 - 180 Days | 13.6 |
| 181+ Days | 1.1 |

PRIME PORTFOLIO

Maturity Diversification (% by Maturity)

| | |
|---------------|-------|
| 1 - 7 Days | 22.2% |
| 8 - 30 Days | 23.5 |
| 31 - 90 Days | 43.5 |
| 91 - 180 Days | 9.6 |
| 181+ Days | 1.2 |

Endnotes

- 1 Neuberger Berman Management Inc. (“Management”) has contractually undertaken to reimburse Lehman Brothers Institutional Liquidity Fund and Lehman Brothers Prime Money Fund so that total operating expenses (exclusive of taxes, interest, brokerage commissions and extraordinary expenses) of each Fund are limited to 0.15% of average daily net assets. The undertakings last until March 31, 2009. Each Fund has contractually undertaken to reimburse Management for the excess expenses paid by Management, provided the reimbursements do not cause operating expenses (exclusive of taxes, interest, brokerage commissions, and extraordinary expenses) to exceed the above-stated expense limitation and the reimbursements are made within three years after the year that Management incurred the expense. For the period ended September 30, 2006, if this reimbursement was not made to Lehman Brothers Institutional Liquidity Fund, performance would be lower for the Fund. For the period ended September 30, 2006, there was no reimbursement of expenses by Management to Lehman Brothers Prime Money Fund.

Management voluntarily agreed to waive its investment management fee in the amount of 0.02% of the average net assets of each Portfolio in which a Fund invests. These undertakings are terminable by Management upon notice to the Portfolios. As a result of this waiver, each Fund indirectly received a management fee waiver and the investment management fee of each corresponding Portfolio was limited to 0.08% of its average net assets. If this voluntary waiver was not in place, performance would have been lower for each Fund.

- 2 “Current yield” of a money market fund refers to the income generated by an investment in the Fund over a recent 7-day period. This income is then “annualized.” The “effective yield” is calculated similarly but, when annualized, the income earned by an investment in the Fund is assumed to be reinvested. The “effective yield” will be slightly higher than the “current yield” because of the compounding effect of this assumed reinvestment. Yields of a money market fund will fluctuate and past performance is no guarantee of future results.

Glossary of Indices

**The iMoneyNet Money Fund Report
Taxable First Tier Institutional
Average:**

Measures the performance of institutional money market mutual funds which invest in anything allowable, except Second Tier Commercial Paper.

**Lehman Brothers U.S. Aggregate
Index:**

An unmanaged index that represents the U.S. domestic investment grade bond market. It is comprised of the Lehman Brothers Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index, including securities that are of investment-grade quality or better, have at least one year to maturity, and have an outstanding par value of at least \$100 million.

Please note that the index does not take into account any fees and expenses or any tax consequences of investing in the individual securities that it tracks and that individuals cannot invest directly in any index. Data about the performance of this index is prepared or obtained by Neuberger Berman Management Inc. and includes reinvestments of all dividends and capital gain distributions. Each Fund may invest in securities not included in the above-described index.

Information About Your Fund's Expenses

These tables are designed to provide information regarding costs related to your investments. All mutual funds incur operating expenses, which include each fund's proportionate share of expenses of its corresponding portfolio, administrative service fees and other expenses. The following examples are based on an investment of \$1,000 made at the beginning of the six month period ended September 30, 2006 and held for the entire period. The table illustrates the fund's costs in two ways:

Actual Expenses and Performance:

The first section of the table provides information about actual account values and actual expenses in dollars, based on the fund's actual performance during the period. You may use the information in this line, together with the amount you invested, to estimate the expenses you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first section of the table under the heading entitled "Expenses Paid During the Period" to estimate the expenses you paid over the period.

Hypothetical Example for Comparison Purposes:

The second section of the table provides information about hypothetical account values and hypothetical expenses based on the fund's actual expense ratio and an assumed rate of return at 5% per year before expenses. This return is not the fund's actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in these funds versus other funds. To do so, compare the expenses shown in this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of other funds.

Expense Information As of 9/30/06 (Unaudited)

INSTITUTIONAL LIQUIDITY FUND

| Actual | Beginning Account Value | Ending Account Value | Expenses Paid During the Period* |
|--|--------------------------------|-----------------------------|---|
| | \$1,000.00 | \$1,025.20 | \$0.76 |
| Hypothetical (5% annual return before expenses)** | | | |
| | \$1,000.00 | \$1,024.18 | \$0.76 |

PRIME MONEY FUND

| Actual | Beginning Account Value | Ending Account Value | Expenses Paid During the Period* |
|--|--------------------------------|-----------------------------|---|
| | \$1,000.00 | \$1,025.40 | \$0.76 |
| Hypothetical (5% annual return before expenses)** | | | |
| | \$1,000.00 | \$1,024.18 | \$0.76 |

* For each fund, expenses are equal to the expense ratio for the fund, multiplied by the average account value over the period, multiplied by 182/365 (to reflect the one-half year period shown). Each fund's expense ratio includes its proportionate share of the expenses of its corresponding portfolio.

** Hypothetical 5% annual return before expenses is calculated by multiplying the number of days in the most recent half year divided by 365.

Statements of Assets and Liabilities (Unaudited)

Institutional Liquidity Series

(000's omitted except per share amounts)

| | Institutional Liquidity Fund | Prime Money Fund |
|--|---------------------------------|---------------------|
| Assets | | |
| Investment in corresponding Portfolio, at value (Note A) | \$201,435 | \$1,389,047 |
| Receivable from administrator-net (Note B) | 19 | 29 |
| Total Assets | <u>201,454</u> | <u>1,389,076</u> |
| Liabilities | | |
| Dividends payable | 114 | 649 |
| Accrued expenses and other payables | 52 | 71 |
| Total Liabilities | <u>166</u> | <u>720</u> |
| Net Assets at value | <u>\$201,288</u> | <u>\$1,388,356</u> |
| Net Assets consist of: | | |
| Paid-in capital | \$201,293 | \$1,388,407 |
| Undistributed net investment income (loss) | — | 1 |
| Accumulated net realized gains (losses) on investment | (5) | (52) |
| Net Assets at value | <u>\$201,288</u> | <u>\$1,388,356</u> |
| Shares Outstanding (\$.001 par value; unlimited shares authorized) | <u>201,293</u> | <u>1,388,407</u> |
| Net Asset Value, offering and redemption price per share | <u>\$1.00</u> | <u>\$1.00</u> |

Statements of Operations

Institutional Liquidity Series (000's omitted)

| | INSTITUTIONAL LIQUIDITY FUND | PRIME MONEY FUND |
|---|--|--|
| | For the Six Months Ended September 30, 2006 (Unaudited) | For the Six Months Ended September 30, 2006 (Unaudited) |
| Investment Income | | |
| Investment income from corresponding Portfolio (Note A) | \$4,132 | \$40,240 |
| Expenses from corresponding Portfolio (Notes A & B) | (83) | (724) |
| Net investment income from corresponding Portfolio | <u>\$4,049</u> | <u>\$39,516</u> |
| Expenses: | | |
| Administration fees (Note B) | 40 | 387 |
| Audit fees | 6 | 3 |
| Legal fees | 20 | 20 |
| Registration and filing fees | 19 | 160 |
| Shareholder reports | 3 | 12 |
| Shareholder servicing agent fees | 10 | 11 |
| Trustees' fees and expenses | 3 | 3 |
| Miscellaneous | 8 | 17 |
| Total expenses | <u>109</u> | <u>613</u> |
| Expenses reimbursed by administrator (Note B) | (31) | — |
| Administration fees waived (Note B) | (40) | (174) |
| Total net expenses | <u>38</u> | <u>439</u> |
| Net investment income (loss) | <u>\$4,011</u> | <u>\$39,077</u> |
| Realized and Unrealized Gain (Loss) on Investments (Note A): | | |
| Net gain (loss) on investments from corresponding Portfolio | (1) | (19) |
| Net increase (decrease) in net assets resulting from operations | <u>\$4,010</u> | <u>\$39,058</u> |

Statements of Changes in Net Assets

Institutional Liquidity Series (000's omitted)

| | INSTITUTIONAL LIQUIDITY FUND | | PRIME MONEY FUND | |
|--|---|---------------------------|---|---------------------------|
| | Six Months Ended September 30, 2006 (Unaudited) | Year Ended March 31, 2006 | Six Months Ended September 30, 2006 (Unaudited) | Year Ended March 31, 2006 |
| Increase (Decrease) in Net Assets: | | | | |
| From Operations: | | | | |
| Net investment income (loss) | \$4,011 | \$7,360 | \$39,077 | \$33,576 |
| Net realized gain (loss) on investments from corresponding Portfolio | (1) | (4) | (19) | (33) |
| Net increase (decrease) in net assets resulting from operations | 4,010 | 7,356 | 39,058 | 33,543 |
| Distributions to Shareholders From (Note A): | | | | |
| Net investment income | (4,011) | (7,360) | (39,077) | (33,576) |
| Total distributions to shareholders | (4,011) | (7,360) | (39,077) | (33,576) |
| From Fund Share Transactions (Note D): | | | | |
| Proceeds from shares sold | 1,140,892 | 1,501,232 | 10,727,343 | 13,980,057 |
| Proceeds from reinvestment of dividends and distributions | 2,660 | 6,716 | 32,603 | 31,234 |
| Payments for shares redeemed | (1,135,844) | (1,480,074) | (10,916,237) | (13,042,201) |
| Net increase (decrease) from Fund share transactions | 7,708 | 27,874 | (156,291) | 969,090 |
| Net Increase (Decrease) in Net Assets | 7,707 | 27,870 | (156,310) | 969,057 |
| Net Assets: | | | | |
| Beginning of period | 193,581 | 165,711 | 1,544,666 | 575,609 |
| End of period | \$201,288 | \$193,581 | \$1,388,356 | \$1,544,666 |
| Undistributed net investment income (loss) at end of period | \$— | \$— | \$1 | \$1 |

Notes to Financial Statements Institutional Liquidity Series (Unaudited)

Note A—Summary of Significant Accounting Policies:

- 1 **General:** The Lehman Brothers Institutional Liquidity Fund (“Institutional Liquidity Fund”) and the Lehman Brothers Prime Money Fund (“Prime Money”) (individually a “Fund,” collectively, the “Funds”), are separate operating series of Lehman Brothers Institutional Liquidity Series (the “Trust”), a Delaware statutory trust organized pursuant to a Trust Instrument dated October 1, 2004. The Trust is registered as a diversified, open-end management investment company under the Investment Company Act of 1940, as amended (the “1940 Act”), and its shares are registered under the Securities Act of 1933, as amended. Institutional Liquidity Fund had no operations until December 30, 2004 other than matters relating to its organization. Prime Money had no operations until December 27, 2004 other than matters relating to its organization and the sale on December 21, 2004 of 100,000 shares of beneficial interest for \$100,000 (\$1.00 per share) to Neuberger Berman Management Inc., the Fund’s investment manager (“Management”). The Board of Trustees of the Trust (the “Board”) may establish additional series or classes of shares without the approval of shareholders.

The assets of each Fund belong only to that Fund, and the liabilities of each Fund are borne solely by that Fund and no other series of the Trust.

Each Fund seeks to achieve its investment objective by investing all of its net investable assets in a Portfolio of Institutional Liquidity Trust (each a “Portfolio,” collectively, the “Portfolios”) that has an investment objective identical to, and a name similar to, that of each respective Fund. Institutional Liquidity Fund invests in Institutional Liquidity Portfolio (commencement of operations December 30, 2004) and Prime Money invests in Prime Portfolio (commencement of operations December 27, 2004). The value of each Fund’s investment in its corresponding Portfolio reflects the Fund’s proportionate interest in the net assets of its corresponding Portfolio (7.15% for Institutional Liquidity Fund and 28.50% for Prime Money, at September 30, 2006). The performance of each Fund is directly affected by the performance of its corresponding Portfolio. The financial statements of the Portfolios, including the Schedule of Investments, are included elsewhere in this report and should be read in conjunction with the Funds’ financial statements.

It is the policy of the Funds to maintain a continuous net asset value per share of \$1.00; the Funds have adopted certain investment, valuation, and distribution policies, which conform to general industry practice, to enable them to do so. However, there is no assurance the Funds will be able to maintain a stable net asset value per share.

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires Management to make estimates and assumptions at the date of the financial statements. Actual results could differ from those estimates.

- 2 **Portfolio valuation:** Each Fund records its investment in its corresponding Portfolio at value. Investment securities held by the corresponding Portfolios are valued as indicated in the notes following the Portfolios’ Schedule of Investments.
- 3 **Income tax information:** The Funds are treated as separate entities for U.S. federal income tax purposes. It is the policy of each Fund to continue to qualify as a regulated investment company by complying with the requirements of Subchapter M of the Internal Revenue Code applicable to regulated investment companies and to distribute substantially all of its earnings to its shareholders. Therefore, no federal income or excise tax provision is required.

Income distributions and capital gain distributions are determined in accordance with income tax regulations, which may differ from U.S. generally accepted accounting principles. These differences are primarily due to differing treatments of income and gains on various investment securities held by each Portfolio, timing differences and differing characterization of distributions made by each Fund as a whole.

As determined on March 31, 2006, permanent differences resulting from different book and tax accounting for distribution redesignations were reclassified at fiscal year-end. These reclassifications had no effect on net income, net asset value or net asset value per share of each Fund.

The tax character of distributions paid during the year ended March 31, 2006 and the period ended March 31, 2005 was as follows:

| | Distributions Paid From: | | | |
|-------------------------------------|---------------------------------|-------------|--------------|-------------|
| | Ordinary Income | | Total | |
| | 2006 | 2005 | 2006 | 2005 |
| Institutional Liquidity Fund | \$7,359,541 | \$666,521 | \$7,359,541 | \$666,521 |
| Prime Money | 33,576,427 | 3,001,663 | 33,576,427 | 3,001,663 |

As of March 31, 2006, the components of distributable earnings (accumulated losses) on a U.S. federal income tax basis were as follows:

| | Undistributed Ordinary Income | Loss Carryforwards and Deferrals | Total |
|--------------------|--|---|--------------|
| | Institutional Liquidity Fund | \$106,112 | \$(3,763) |
| Prime Money | 131,373 | (32,536) | 98,837 |

The difference between book and tax basis distributable earnings is attributable primarily to timing differences of distribution payments, post October loss deferrals, and capital loss carryforwards.

To the extent each Fund's net realized capital gains, if any, can be offset by capital loss carryforwards, it is the policy of each Fund not to distribute such gains. As determined on March 31, 2006, each Fund had unused capital loss carryforwards available for federal income tax purposes to offset net realized capital gains, if any, as follows:

| | Expiring in: | |
|-------------------------------------|---------------------|-------------|
| | 2013 | 2014 |
| Institutional Liquidity Fund | \$62 | \$971 |
| Prime Money | — | 12,465 |

Under current tax law, certain net capital losses realized after October 31 within the taxable year may be deferred and treated as occurring on the first day of the following tax year. For the year ended March 31, 2006, the Funds elected to defer the following net capital losses arising between November 1, 2005 and March 31, 2006:

| | |
|-------------------------------------|---------|
| Institutional Liquidity Fund | \$2,730 |
| Prime Money | 20,071 |

- Distributions to shareholders:** Each Fund earns income, net of expenses, daily on its investment in its corresponding Portfolio. It is the policy of each Fund to declare distributions from net investment income on each business day; such distributions are paid or reinvested monthly. Distributions from net realized capital gains, if any, will be made annually. Income distributions and capital gain distributions to shareholders are recorded on the ex-date.
- Expense allocation:** Certain expenses are applicable to multiple funds. Expenses directly attributable to a Fund are charged to that Fund. Expenses of the Trust that are not directly attributed to a Fund are allocated among the Funds, on the basis of relative net assets, except where a more appropriate allocation of expenses to each of the

Funds can otherwise be made fairly. Expenses borne by the complex of related investment companies, which includes open-end and closed-end investment companies for which Management serves as investment manager, that are not directly attributed to a Fund or the Trust, are allocated among the Funds and the other investment companies in the complex or series thereof, on the basis of relative net assets, except where a more appropriate allocation of expenses to each investment company in the complex or series thereof can otherwise be made fairly.

- 6 **Other:** All net investment income and realized and unrealized capital gains and losses of a Portfolio are allocated pro rata among its respective funds and any other investors in the Portfolio, if any.
- 7 **Indemnifications:** Like many other companies, the Trust’s organizational documents provide that its officers and trustees are indemnified against certain liabilities arising out of the performance of their duties to the Trust. In addition, both in some of its principal service contracts and in the normal course of its business, the Trust enters into contracts that provide indemnifications to other parties for certain types of losses or liabilities. The Trust’s maximum exposure under these arrangements is unknown as this could involve future claims against the Trust.

Note B—Management Fees, Administration Fees, Distribution Arrangements, and Other Transactions with Affiliates:

Each Fund retains Management as its administrator under an Administration Agreement. Each Fund pays Management an administration fee at the annual rate of 0.05% of its average daily net assets under this agreement. Effective April 3, 2006, Management has voluntarily agreed to waive its administration fee in an amount necessary to reach its contractual expense limitation. For the six months ended September 30, 2006, this resulted in a reduction of expenses of \$40,207 and \$174,133 for Institutional Liquidity Fund and Prime Money, respectively. Additionally, Management retains State Street Bank and Trust Company (“State Street”) as its sub-administrator under a Sub-Administration Agreement. Management pays State Street a fee for all services received under the agreement. Each Fund indirectly pays for investment management services through its investment in its corresponding Portfolio (see Note B of Notes to Financial Statements of the Portfolios). As a result of a management fee waiver at the Portfolio level, for the six months ended September 30, 2006, each Fund indirectly received a management fee waiver of 0.02% of its average daily net assets, resulting in a reduction of expenses from the corresponding Portfolio of \$16,120 and \$155,181 for Institutional Liquidity Fund and Prime Money, respectively.

Management has contractually undertaken to reimburse each Fund for its operating expenses plus its pro rata portion of its corresponding Portfolio’s operating expenses (including the fees payable to Management but excluding interest, taxes, brokerage commissions and extraordinary expenses) (“Operating Expenses”) which exceed the expense limitation as detailed in the following table:

| | Contractual Expense Limitation⁽¹⁾ | Expiration | Contractual Reimbursement from Management for the Six Months Ended September 30, 2006 |
|-------------------------------------|---|-------------------|--|
| Institutional Liquidity Fund | 0.15% | 3/31/09 | \$31,398 |
| Prime Money | 0.15% | 3/31/09 | — |

- (1) Expense limitation per annum of the Funds’ average daily net assets.

Each Fund has agreed to repay Management for its excess Operating Expenses previously reimbursed by Management, pursuant to a contractual expense limitation, so long as its annual Operating Expenses during that period do not exceed its expense limitation and the repayments are made within three years after the year in which Management issued the reimbursement.

During the six months ended September 30, 2006, there was no reimbursement to Management under this agreement. At September 30, 2006, contingent liabilities to Management under the agreement were as follows:

| | Expiring in: | | | Total |
|-------------------------------------|--------------|-----------|----------|-----------|
| | 2008 | 2009 | 2010 | |
| Institutional Liquidity Fund | \$60,865 | \$193,993 | \$31,398 | \$286,256 |
| Prime Money | 68,720 | 462,072 | — | 530,792 |

Management and Lehman Brothers Asset Management Inc. (“LBAM”), sub-adviser to each Portfolio, are wholly-owned subsidiaries of Lehman Brothers Holdings Inc., a publicly-owned holding company. Several individuals who are officers and/or trustees of the Trust are also employees of LBAM and/or Management.

Each Fund also has a distribution agreement with Management. Management receives no compensation under it and no commissions for sales or redemptions of shares of beneficial interest of each Fund.

The Board has adopted a distribution plan (“Plan”) with respect to each Fund, pursuant to rule 12b-1 under the 1940 Act. Under the Plan, Management may receive a maximum fee at the annual rate of 0.15% of the average daily net assets to support distribution and shareholder servicing. Neither Fund currently charges such a fee but may do so upon approval of the Board.

Each Portfolio has an expense offset arrangement in connection with its custodian contract. For the six months ended September 30, 2006, the impact of this arrangement was a reduction of expenses of \$1,330 and \$5,379 for Institutional Liquidity Fund and Prime Money, respectively.

Note C—Investment Transactions:

During the six months ended September 30, 2006, contributions and withdrawals in each Fund’s investment in its corresponding Portfolio were as follows:

| (000’s omitted) | Contributions | Withdrawals |
|-------------------------------------|---------------|-------------|
| Institutional Liquidity Fund | \$1,090,008 | \$1,086,332 |
| Prime Money | 4,961,227 | 5,156,384 |

Note D—Fund Share Transactions:

Share activity at \$1.00 per share for the six months ended September 30, 2006 and for the year ended March 31, 2006 was as follows:

| (000’s omitted) | For the Six Months Ended September 30, 2006 | | | | For the Year Ended March 31, 2006 | | | |
|---|--|---|--------------------|------------------|--------------------------------------|---|--------------------|----------------|
| | Shares Sold | Shares Issued on Reinvestment of Dividends and Distributions | Shares Redeemed | Total | Shares Sold | Shares Issued on Reinvestment of Dividends and Distributions | Shares Redeemed | Total |
| Institutional Liquidity Fund | 1,140,892 | 2,660 | (1,135,844) | 7,708 | 1,501,232 | 6,716 | (1,480,074) | 27,874 |
| Prime Money | 10,727,343 | 32,603 | (10,916,237) | (156,291) | 13,980,057 | 31,234 | (13,042,201) | 969,090 |

Note E—Recent Accounting Pronouncement:

On July 13, 2006, the Financial Accounting Standards Board (“FASB”) released FASB Interpretation No. 48 “Accounting for Uncertainty in Income Taxes” (“FIN 48”). FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 clarifies the accounting for income taxes, by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 requires that a “more-likely-than-not” threshold be met before the benefit of a tax position may be recognized in the financial statements and prescribes how such benefit should be measured. Adoption of FIN 48 is required for fiscal years beginning after December 15, 2006 and is to be applied to all open tax years as of the effective date. At this time, Management is evaluating the implications of FIN 48 and its impact in the financial statements has not yet been determined.

Note F—Unaudited Financial Information:

The financial information included in this interim report is taken from the records of each Fund without audit by an independent registered public accounting firm. Annual reports contain audited financial statements.

Financial Highlights

Institutional Liquidity Fund[†]

The following table includes selected data for a share outstanding throughout each period and other performance information derived from the Financial Statements. It should be read in conjunction with its corresponding Portfolio's Financial Statements and notes thereto.

| | Six Months Ended September 30, 2006 (Unaudited) | Year Ended March 31, 2006 | Period from December 30, 2004[^] to March 31, 2005 |
|--|--|--|--|
| Net Asset Value, Beginning of Period | \$1.0000 | \$1.0000 | \$1.0000 |
| Income From Investment Operations: | | | |
| Net Investment Income (Loss) | .0250 | .0366 | .0059 |
| Net Gains or Losses on Securities | (.0000) | (.0000) | — |
| Total From Investment Operations | .0250 | .0366 | .0059 |
| Less Distributions From: | | | |
| Net Investment Income | (.0250) | (.0366) | (.0059) |
| Total Distributions | (.0250) | (.0366) | (.0059) |
| Net Asset Value, End of Period | \$1.0000 | \$1.0000 | \$1.0000 |
| Total Return^{††} | +2.52%** | +3.72% | +0.59%** |
| Ratios/Supplemental Data | | | |
| Net Assets, End of Period (in millions) | \$201.3 | \$193.6 | \$165.7 |
| Ratio of Gross Expenses to Average Net Assets[#] | .15%* | .15% | .15%* |
| Ratio of Net Expenses to Average Net Assets[‡] | .15%* | .15% | .15%* |
| Ratio of Net Investment Income (Loss) to Average Net Assets | 4.99%* | 3.73% | 2.44%* |

Financial Highlights

Prime Money Fund[†]

The following table includes selected data for a share outstanding throughout each period and other performance information derived from the Financial Statements. It should be read in conjunction with its corresponding Portfolio's Financial Statements and notes thereto.

| | Six Months Ended September 30, 2006 (Unaudited) | Year Ended March 31, 2006 | Period from December 27, 2004[^] to March 31, 2005 |
|--|--|--|--|
| Net Asset Value, Beginning of Period | \$1.0000 | \$1.0000 | \$1.0000 |
| Income From Investment Operations: | | | |
| Net Investment Income (Loss) | .0251 | .0366 | .0062 |
| Net Gains or Losses on Securities | (.0000) | (.0000) | .0000 |
| Total From Investment Operations | .0251 | .0366 | .0062 |
| Less Distributions From: | | | |
| Net Investment Income | (.0251) | (.0366) | (.0062) |
| Total Distributions | (.0251) | (.0366) | (.0062) |
| Net Asset Value, End of Period | \$1.0000 | \$1.0000 | \$1.0000 |
| Total Return^{††} | +2.54%** | +3.72% | +0.62%** |
| Ratios/Supplemental Data | | | |
| Net Assets, End of Period (in millions) | \$1,388.4 | \$1,544.7 | \$575.6 |
| Ratio of Gross Expenses to Average Net Assets[#] | .15%* | .15% | .15%* |
| Ratio of Net Expenses to Average Net Assets[‡] | .15%* | .15% | .15%* |
| Ratio of Net Investment Income (Loss) to Average Net Assets | 5.05%* | 3.76% | 2.41%* |

Notes to Financial Highlights Institutional Liquidity Series (Unaudited)

- † The per share amounts and ratios which are shown reflect income and expenses, including the Fund's proportionate share of its corresponding Portfolio's income and expenses.
- †† Total return based on per share net asset value reflects the effects of changes in net asset value on the performance of the Fund during each fiscal period and assumes dividends and other distributions, if any, were reinvested. Results represent past performance and do not guarantee future results. Current returns may be lower or higher than the performance data quoted. Investment returns and principal may fluctuate and shares when redeemed may be worth more or less than original cost. Total return would have been lower if Management had not reimbursed and/or waived certain expenses (see Note B of Notes to Financial Statements of Institutional Liquidity Series).
- ‡ After reimbursement of expenses and/or waiver of a portion of the investment management and administration fees by Management (see Note B of Notes to Financial Statements of Institutional Liquidity Series). Had Management not undertaken such actions, the annualized ratios of net expenses to average daily net assets would have been:

| | Six Months Ended September 30, 2006 | Year Ended March 31, 2006 | Period Ended March 31, 2005 |
|-------------------------------------|--|--|--|
| Institutional Liquidity Fund | .26% | .27% | .39% ⁽¹⁾ |
| Prime Money Fund | .19% | .22% | .23% ⁽²⁾ |

(1) Period from December 30, 2004 (Commencement of Operations) to March 31, 2005.

(2) Period from December 27, 2004 (Commencement of Operations) to March 31, 2005.

- ^ The date investment operations commenced.
- * Annualized.
- ** Not annualized.
- # The Fund is required to calculate an expense ratio without taking into consideration any expense reductions related to expense offset arrangements.

Schedule of Investments Institutional Liquidity Portfolio

| PRINCIPAL AMOUNT | | RATING | | VALUE^{††} |
|---|---|---------------|------|---------------------------|
| (000's omitted) | | Moody's | S&P | (000's omitted) |
| U.S. Government Agency Securities (1.1%) | | | | |
| \$30,000 | Federal Home Loan Bank, 5.40%, due 10/5/07 | AGY | AGY | \$30,000 |
| Certificates of Deposit (12.9%) | | | | |
| 20,000 | BNP Paribas London, Euro CD, 5.09%, due 12/13/06 | P-1 | A-1+ | 19,998 |
| 40,000 | Calyon NY, Floating Rate Yankee CD, 5.27% & 5.42%, due 10/2/06 & 11/10/06 | P-1 | A-1+ | 39,993 ^μ |
| 12,000 | Calyon NY, Yankee CD, 5.03%, due 12/6/06 | P-1 | A-1+ | 12,000 |
| 15,000 | Charter One Bank NA, CD, 5.37%, due 11/27/06 | P-1 | A-1+ | 15,000 |
| 30,000 | Credit Suisse First Boston, Floating Rate Yankee CD, 5.44% & 5.51%, due 10/2/06 & 10/24/06 | P-1 | A-1 | 29,998 ^μ |
| 20,000 | DZ Bank NY, Yankee CD, 5.16%, due 10/19/06 | P-1 | A-1 | 20,000 |
| 50,000 | HBOS Treasury Services PLC, Yankee CD, 4.71%, due 10/12/06 | P-1 | A-1+ | 50,000 |
| 55,000 | Natexis Banque Populaires, Yankee CD, 4.71% & 4.86%, due 11/3/06 & 11/6/06 | P-1 | A-1+ | 55,000 |
| 20,000 | Royal Bank of Scotland NY, Yankee CD, 4.75%, due 12/4/06 | P-1 | A-1+ | 19,968 |
| 25,000 | Societe Generale NY, Floating Rate Yankee CD, 5.26%, due 10/31/06 | P-1 | A-1+ | 25,000 ^μ |
| 40,000 | Svenska Handelsbanken AB, Yankee CD, 4.69% & 4.76%, due 11/6/06 & 12/18/06 | P-1 | A-1+ | 40,000 |
| 15,000 | Toronto Dominion Bank, Yankee CD, 5.41%, due 2/20/07 | P-1 | A-1 | 15,000 |
| 21,500 | Unicredito Italiano NY, Floating Rate Yankee CD, 5.43%, due 10/4/06 | P-1 | A-1 | 21,500 ^μ |
| Total Certificates of Deposit | | | | 363,457 |
| Commercial Paper (45.4%) | | | | |
| 88,200 | Ajax Bambino Funding, Inc., 5.30% - 5.35%, due 10/6/06 - 11/14/06 | P-1 | A-1+ | 87,844 |
| 15,000 | Amstel Funding Corp., 5.42%, due 10/20/06 | P-1 | A-1+ | 14,959 |
| 25,000 | Bank of America NA, 5.28%, due 11/20/06 | P-1 | A-1+ | 24,820 |
| 15,000 | Bank of Ireland, 5.09%, due 11/22/06 | P-1 | A-1 | 14,892 |
| 75,000 | Barclays U.S. Funding Corp., 5.23% & 5.28%, due 11/16/06 & 12/27/06 | P-1 | A-1+ | 74,211 |
| 10,000 | Bear Stearns Co., Inc., 5.33%, due 10/2/06 | P-1 | A-1 | 10,000 ^μ |
| 20,000 | BNP Paribas Finance, 5.10%, due 11/20/06 | P-1 | A-1+ | 19,861 |
| 80,000 | Caisse Nationale d'Epargne, 5.26% - 5.27%, due 1/11/07 - 2/20/07 | P-1 | A-1+ | 78,519 |
| 40,000 | Caterpillar Financial, 5.30% & 5.34%, due 10/30/06 & 11/13/06 | P-1 | A-1 | 39,814 |
| 15,000 | Ciesco LLC, 5.27%, due 11/17/06 | P-1 | A-1+ | 14,899 |
| 56,500 | CIT Group, Inc., 5.05% - 5.42%, due 10/2/06 - 1/18/07 | P-1 | A-1 | 55,926 |
| 20,000 | Citibank Credit Card Master Trust, 5.40%, due 10/20/06 | P-1 | A-1 | 19,946 |
| 70,000 | CRC Funding LLC, 5.26% & 5.27%, due 10/10/06 & 10/20/06 | P-1 | A-1+ | 69,845 |

PRINCIPAL AMOUNT**RATING****VALUE^{††}**

(000's omitted)

Moody's

S&P

(000's omitted)

| | | | | |
|----------|---|-----|------|------------------|
| \$52,719 | Crown Point Capital Co., 5.24% - 5.25%, due 1/12/07 - 3/12/07 | P-1 | A-1 | \$51,783 |
| 60,000 | Danske Corp., 5.27%, due 12/11/06 | P-1 | A-1+ | 59,385 |
| 69,500 | Depfa Bank PLC, 5.21% - 5.42%, due 11/16/06 - 1/5/07 | P-1 | A-1+ | 68,847 |
| 20,000 | DNB Norway Bank, 5.03%, due 10/19/06 | P-1 | A-1 | 19,953 |
| 60,000 | DZ Bank AG, 5.27% & 5.28%, due 10/2/06 & 10/20/06 | P-1 | A-1 | 59,868 |
| 20,777 | Edison Asset Securitization LLC, 5.10%, due 11/14/06 | P-1 | A-1+ | 20,650 |
| 16,058 | Fairway Finance, 5.36%, due 1/23/07 | P-1 | A-1 | 15,788 |
| 20,000 | Grampain Funding LLC, 5.43%, due 11/21/06 | P-1 | A-1+ | 19,849 |
| 13,740 | HBOS Treasury Services PLC, 5.27%, due 12/12/06 | P-1 | A-1+ | 13,597 |
| 60,000 | Lexington Parker Capital, 5.24% - 5.28%, due 2/16/07 - 3/1/07 | P-1 | A-1 | 58,754 |
| 45,000 | Nationwide Building, 5.25% & 5.40%, due 10/6/06 & 1/11/07 | P-1 | A-1 | 44,620 |
| 25,000 | Nationwide Building, 5.27%, due 10/10/06 | P-1 | A-1 | 24,971** |
| 24,000 | Park Granada LLC, 5.40%, due 10/10/06 | P-1 | A-1+ | 23,971 |
| 30,000 | Regency Markets No. 1 LLC, 5.30%, due 11/15/06 | P-1 | A-1 | 29,806 |
| 35,000 | Scaldis Capital LLC, 5.33%, due 11/8/06 | P-1 | A-1+ | 34,808 |
| 50,000 | Societe Generale NA, Inc., 5.08% & 5.26%, due 11/16/06 & 11/21/06 | P-1 | A-1+ | 49,659 |
| 70,000 | Solitaire Funding LLC, 5.27% & 5.28%, due 10/17/06 & 1/12/07 | P-1 | A-1+ | 69,527 |
| 10,000 | Svenska Handelsbanken, 5.08%, due 10/23/06 | P-1 | A-1+ | 9,970 |
| 10,000 | Wal-Mart Funding, 5.37%, due 10/24/06 | P-1 | A-1+ | 9,967 |
| 50,000 | Westpac Banking Corp., 5.23% & 5.35%, due 12/1/06 & 2/20/07 | P-1 | A-1+ | 49,092 |
| 17,108 | Whistlejacket Capital LLC, 5.35%, due 11/27/06 | P-1 | A-1+ | 17,107**μ |
| | Total Commercial Paper | | | 1,277,508 |

Time Deposits (4.2%)

| | | | | |
|--------|--|-----|-----|--------|
| 59,000 | Marshall & Ilsley Bank, Grand Cayman, 5.25%, due 10/2/06 | P-1 | A-1 | 59,000 |
| 59,000 | Suntrust Bank, Grand Cayman, Inc., 5.25%, due 10/2/06 | P-1 | A-1 | 59,000 |

Total Time Deposits**118,000****Corporate Debt Securities (31.0%)**

| | | | | |
|--------|---|-----|------|-----------|
| 20,000 | American Honda Finance, Floating Rate Medium-Term Notes, 5.50%, due 10/12/06 | P-1 | A-1 | 20,003**μ |
| 30,000 | Bank of America NA, Floating Rate Bank Notes, 5.32%, due 11/15/06 | P-1 | A-1+ | 30,000μ |
| 25,000 | Bank of Ireland, Floating Rate Medium-Term Notes 5.31%, due 10/19/16 | P-1 | A-1+ | 25,000**μ |
| 45,000 | Bear Stearns Co., Inc., Floating Rate Medium-Term Notes, Ser. B, 5.50%, due 2/26/07 | P-1 | A-1 | 45,000μ |
| 20,000 | Beta Finance, Inc., Guaranteed Floating Rate Medium-Term Notes, 5.34%, due 10/16/06 | P-1 | A-1+ | 20,003**μ |
| 14,140 | Caterpillar Financial Services Corp., Medium-Term Notes, 3.00%, due 2/15/07 | P-1 | A-1 | 14,025 |
| 22,973 | CIT Group, Inc., Floating Rate Medium-Term Notes, 5.63%, due 11/20/06 | P-1 | A-1 | 23,004μ |

| PRINCIPAL AMOUNT | RATING | | VALUE ^{††} |
|--|---------|------|---------------------------|
| | Moody's | S&P | (000's omitted) |
| (000's omitted) | | | |
| \$33,300 Credit Suisse First Boston, Floating Rate Medium-Term Notes, 5.58%, due 10/5/06 | P-1 | A-1 | \$33,320 ^μ |
| 10,000 Household Finance Corp., Floating Rate Medium-Term Notes, 5.46%, due 10/2/06 | P-1 | A-1+ | 10,000 ^μ |
| 15,000 HSBC Finance Corp., Floating Rate Notes, 5.36%, due 10/24/06 | P-1 | A-1+ | 15,000 ^μ |
| 30,000 HSBC Finance Corp., Floating Rate Medium-Term Notes, 5.44%, due 11/28/06 | P-1 | A-1+ | 30,005 ^μ |
| 55,000 JP Morgan Master Note, 5.46%, due 5/22/07 | P-1 | A-1 | 55,000 ^μ |
| 30,000 K2 (USA) LLC, Guaranteed Floating Rate Medium-Term Notes, 5.33% & 5.35%, due 11/15/06 & 12/18/06 | P-1 | A-1+ | 29,998 ^{**μ} |
| 20,000 Links Finance LLC, Floating Rate Medium-Term Notes, 5.29%, due 10/4/06 | P-1 | A-1+ | 19,999 ^{**μ} |
| 55,000 Merrill Lynch & Co., Floating Rate Medium-Term Notes, Ser. C, 5.53% & 5.62%, due 10/27/06 & 11/27/06 | P-1 | A-1 | 55,047 ^μ |
| 55,000 Morgan Stanley, Floating Rate Senior Notes, 5.35% & 5.41%, due 10/2/06 & 10/3/06 | P-1 | A-1 | 55,000 ^μ |
| 5,250 Morgan Stanley, Floating Rate Notes, 5.50%, due 11/9/06 | P-1 | A-1 | 5,250 ^μ |
| 8,625 Nationwide Building, Floating Rate Notes, 5.62%, due 10/20/06 | P-1 | A-1 | 8,634 ^{**μ} |
| 25,000 Parkland (USA) LLC, Floating Rate Medium-Term Notes, 5.34%, due 10/6/06 & 12/26/06 | P-1 | A-1+ | 25,000 ^{**μ} |
| 50,000 Royal Bank of Canada, Floating Rate Medium-Term Notes, 5.30%, due 10/2/06 | P-1 | A-1+ | 50,000 ^{**μ} |
| 10,880 Schreiber Capital Co., Bonds, 5.33%, due 10/5/06 | P-1 | | 10,880 ^μ |
| 35,000 Sigma Finance, Inc., Guaranteed Floating Rate Medium-Term Notes, 5.50%, due 10/20/06 | P-1 | A-1+ | 35,001 ^{**μ} |
| 15,000 Sigma Finance, Inc., Medium-Term Notes, 4.83%, due 1/30/07 | P-1 | A-1+ | 15,000 ^{**} |
| 62,500 Tango Finance Corp., Floating Rate Medium-Term Notes, 5.29% - 5.36%, due 10/25/06 - 12/26/06 | P-1 | A-1+ | 62,496 ^{**μ} |
| 25,000 Toyota Motor Credit Corp., Floating Rate Medium-Term Notes, 5.31%, due 12/15/06 | P-1 | A-1+ | 25,000 ^μ |
| 39,000 Unicredito Italiano PLC, Guaranteed Floating Rate Notes, 5.34%, due 10/10/06 & 10/16/06 | P-1 | A-1 | 39,000 ^{**μ} |
| 30,000 Wachovia Corp., Senior Floating Rate Notes, 5.59%, due 10/23/06 | P-1 | A-1 | 30,029 ^μ |
| 45,000 Wells Fargo & Co., Floating Rate Notes, 5.34%, due 10/16/06 | P-1 | A-1+ | 45,000 ^{**μ} |
| 40,000 Whistlejacket Capital LLC, Floating Rate Medium-Term Notes, 5.29% & 5.32%, due 10/16/06 & 12/5/06 | P-1 | A-1+ | 39,995 ^{**μ} |
| Total Corporate Debt Securities | | | 871,689 |
| Promissory Notes (2.1%) | | | |
| 60,000 Goldman Sachs Group, 4.44% - 5.36%, due 10/2/06 | P-1 | A-1 | 60,000^μ |

| PRINCIPAL AMOUNT | RATING | | VALUE^{††} |
|---|---|-----|---------------------------|
| (000's omitted) | Moody's | S&P | (000's omitted) |
| Asset-Backed Securities (1.7%) | | | |
| \$19,041 | Capital One Auto Finance Trust, Ser. 2006-A, Class A1, 5.12% & 5.48%, due 10/16/06 & 11/15/06 | | \$19,041 |
| 30,299 | Wachovia Auto Owner Trust, Ser. 2006-A, Class A1, 5.31%, due 10/20/06 | | 30,299 |
| Total Asset-Backed Securities | | | 49,340 |
| Repurchase Agreements (1.5%) | | | |
| 41,000 | Credit Suisse First Boston, 5.35%, due 10/2/06, dated 9/29/06, Maturity Value \$41,018,279, Collateralized by \$57,452,008, Fannie Mae, 4.49% - 6.92%, due 3/1/33 - 7/1/42 (Collateral Value \$41,823,410) | | 41,000 |
| Total Investments (99.9%) | | | 2,810,994 |
| Cash, receivables and other assets, less liabilities (0.1%) | | | 4,437 |
| Total Net Assets (100.0%) | | | \$2,815,431 |

Schedule of Investments Prime Portfolio

| PRINCIPAL AMOUNT | RATING | | VALUE^{††} |
|--|---------------|------|---------------------------|
| (000's omitted) | Moody's | S&P | (000's omitted) |
| U.S. Government Agency Securities (0.6%) | | | |
| \$30,000 Federal Home Loan Bank, 5.40%, due 10/5/07 | AGY | AGY | \$30,000 |
| Certificates of Deposit (6.9%) | | | |
| 25,000 BNP Paribas London, Euro CD, 5.09%, due 12/13/06 | P-1 | A-1+ | 24,997 |
| 50,000 Calyon NY, Floating Rate Yankee CD, 5.27%, due 10/2/06 | P-1 | A-1+ | 49,989 ^μ |
| 10,000 Calyon NY, Yankee CD, 5.03%, due 12/6/06 | P-1 | A-1+ | 10,000 |
| 15,000 Charter One Bank NA, CD, 5.37%, due 11/27/06 | P-1 | A-1+ | 15,000 |
| 95,000 Credit Suisse First Boston, Floating Rate Yankee CD, 5.31% - 5.51%, due 10/2/06 - 10/30/06 | P-1 | A-1 | 95,003 ^μ |
| 20,000 KBC Bank, Euro CD, 5.23%, due 10/4/06 | P-1 | A-1+ | 20,000 |
| 50,000 Natexis Banque Populaires, Yankee CD, 5.35%, due 12/28/06 | P-1 | A-1+ | 49,999 |
| 30,000 Royal Bank of Scotland NY, Yankee CD, 4.75%, due 12/4/06 | P-1 | A-1+ | 29,952 |
| 35,000 Toronto Dominion Bank, Yankee CD, 5.41%, due 2/20/07 | P-1 | A-1 | 35,001 |
| 7,500 Unicredito Italiano NY, Yankee CD, 5.38%, due 2/12/07 | P-1 | A-1 | 7,500 |
| Total Certificates of Deposit | | | 337,441 |
| Commercial Paper (58.9%) | | | |
| 161,500 Ajax Bambino Funding, Inc., 5.30% - 5.43%, due 10/2/06 - 12/4/06 | P-1 | A-1+ | 160,916 |
| 79,045 Atlantic Asset Securitization Corp., 5.27%, due 10/31/06 & 12/20/06 | P-1 | A-1 | 78,480 |
| 25,000 Bank of America NA, 5.28%, due 11/20/06 | P-1 | A-1+ | 24,820 |
| 20,000 Bank of Ireland, 5.09%, due 11/22/06 | P-1 | A-1 | 19,856 |
| 145,000 Barclays U.S. Funding Corp., 5.26% - 5.28%, due 10/10/06 - 12/12/06 | P-1 | A-1+ | 144,100 |
| 30,156 Barton Capital Corp., 5.26%, due 10/6/06 | P-1 | A-1 | 30,138 |
| 15,000 Bear Stearns Co., Inc., 5.44%, due 10/3/06 | P-1 | A-1 | 15,000 ^μ |
| 13,000 Beta Finance, Inc., 5.32%, due 10/23/06 | P-1 | A-1+ | 12,960 |
| 77,100 Caisse Nationale d'Epargne, 5.26% - 5.30%, due 10/23/06 - 2/15/07 | P-1 | A-1+ | 75,899 |
| 35,000 Caterpillar Financial, 5.30% & 5.39%, due 10/26/06 & 11/13/06 | P-1 | A-1 | 34,848 |
| 50,417 Chariot Funding LLC, 5.26%, due 11/8/06 | P-1 | A-1+ | 50,144 |
| 30,000 Ciesco LLC, 5.27%, due 11/17/06 | P-1 | A-1+ | 29,798 |
| 40,000 CIT Group, Inc., 5.26%, due 1/19/07 | P-1 | A-1 | 39,363 |
| 135,725 Citibank Credit Card Master Trust, 5.26% & 5.40%, due 10/16/06 & 11/9/06 | P-1 | A-1 | 135,144** |
| 35,000 Citibank Credit Card Master Trust, 5.40%, due 10/20/06 | P-1 | A-1 | 34,906 |
| 123,000 CRC Funding LLC, 5.26% - 5.37%, due 10/5/06 - 12/13/06 | P-1 | A-1+ | 122,296 |
| 25,000 Credit Suisse First Boston, 5.39%, due 11/6/06 | P-1 | A-1+ | 24,869 |
| 125,000 Crown Point Capital Co., 5.26%, due 10/5/06 & 1/12/07 | P-1 | A-1 | 124,222 |

| PRINCIPAL AMOUNT | | RATING | VALUE^{††} |
|--|--|---------------|---------------------------|
| (000's omitted) | | Moody's | (000's omitted) |
| \$15,000 | Danske Corp., 5.08%, due 10/23/06 | P-1 | \$14,956 |
| 140,650 | Depfa Bank PLC, 5.21% - 5.42%, due 11/16/06 - 1/5/07 | P-1 | 139,381 |
| 170,000 | DZ Bank AG, 5.26% - 5.28%, due 10/2/06 - 11/1/06 | P-1 | 169,546 |
| 54,915 | Edison Asset Securitization LLC, 5.24% & 5.26%, due 10/16/06 & 1/3/07 | P-1 | 54,343 |
| 19,909 | Fairway Finance, 5.26%, due 10/2/06 | P-1 | 19,909** |
| 50,000 | Galleon Capital LLC, 5.28%, due 11/8/06 | P-1 | 49,729 |
| 25,000 | Grampian Funding LLC, 5.41%, due 1/9/07 | P-1 | 24,628 |
| 14,000 | Grampian Funding LLC, 5.23%, due 3/20/07 | P-1 | 13,656** |
| 161,375 | HBOS Treasury Services PLC, 5.26% - 5.28%, due 11/13/06 - 12/8/06 | P-1 | 159,949 |
| 35,000 | ING America Insurance Holdings, Inc., 5.40%, due 12/4/06 | P-1 | 34,670 |
| 45,396 | Ivory Funding Corp., 5.27% - 5.28%, due 12/1/06 - 12/15/06 | P-1 | 44,965 |
| 50,000 | Jupiter Securitization Corp., 5.28%, due 11/7/06 | P-1 | 49,736 |
| 50,000 | Lexington Parker Capital, 5.29%, due 10/19/06 | P-1 | 49,999 ^μ |
| 35,000 | Lexington Parker Capital, 5.24% - 5.28%, due 2/16/07- 3/1/07 | P-1 | 34,280 |
| 65,632 | Mont Blanc Capital Corp., 5.26% & 5.39%, due 10/10/06 & 12/7/06 | P-1 | 65,284 |
| 135,000 | Nationwide Building, 5.23% - 5.40%, due 10/6/06 - 3/7/07 | P-1 | 133,649 |
| 64,692 | Old Line Funding Corp., 5.26% & 5.30%, due 11/1/06 & 11/6/06 | P-1 | 64,385 |
| 75,358 | Park Granada LLC, 5.27% & 5.28%, due 10/31/06 & 11/1/06 | P-1 | 75,032 |
| 22,000 | Picaros Funding, 5.35% & 5.42%, due 11/3/06 & 2/2/07 | P-1 | 21,759 |
| 97,772 | Regency Markets No. 1 LLC, 5.29% - 5.41%, due 10/20/06 - 11/15/06 | P-1 | 97,252 |
| 160,000 | Scaldis Capital LLC, 5.27% & 5.33%, due 10/10/06 & 11/8/06 | P-1 | 159,382 |
| 17,000 | Solitaire Funding LLC, 5.26%, due 11/13/06 | P-1 | 16,896 |
| 57,500 | Spintab, 5.26% & 5.27%, due 11/22/06 & 12/7/06 | P-1 | 56,961 |
| 10,000 | Svenska Handelsbanken, 5.08%, due 10/23/06 | P-1 | 9,970 |
| 58,886 | Thunder Bay Funding, Inc., 5.26%, due 10/2/06 & 10/16/06 | P-1 | 58,845 |
| 40,000 | Westpac Banking Corp., 5.23% & 5.35%, due 12/1/06 & 2/20/07 | P-1 | 39,296 |
| 55,000 | Whistlejacket Capital LLC, 5.35%, due 11/27/06 | P-1 | 54,997** ^μ |
| | Total Commercial Paper | | 2,871,214 |
| Time Deposits (1.4%) | | | |
| 66,500 | Marshall & Ilsley Bank, Grand Cayman, 5.25%, due 10/2/06 | P-1 | 66,500 |
| Corporate Debt Securities (28.5%) | | | |
| 15,000 | American Express Bank FSB, Floating Rate Bank Notes, 5.30%, due 10/12/06 | P-1 | 15,000 ^μ |
| 12,440 | American Express Credit Corp., Floating Rate Medium-Term Senior Notes, 5.42%, due 10/16/06 | P-1 | 12,443 ^μ |
| 15,000 | American Honda Finance, Floating Rate Medium-Term Notes, 5.50%, due 10/12/06 | P-1 | 15,002** ^μ |
| 50,000 | Bank of America NA, Floating Rate Bank Notes, 5.32%, due 11/15/06 | P-1 | 50,000 ^μ |
| 12,500 | Bank of Ireland, Floating Rate Medium-Term Notes, 5.31%, due 10/19/06 | P-1 | 12,500** ^μ |

| PRINCIPAL AMOUNT | | RATING | | VALUE ^{††} |
|------------------|---|---------|------|------------------------|
| | | Moody's | S&P | (000's omitted) |
| (000's omitted) | | | | |
| \$59,751 | Bear Stearns Co., Inc., Floating Rate Medium-Term Notes, Ser. B, 5.50% & 5.67%, due 10/16/06 & 2/26/07 | P-1 | A-1 | \$59,758 ^μ |
| 15,000 | Beta Finance, Inc., Guaranteed Floating Rate Medium-Term Notes, 5.48%, due 10/2/06 | P-1 | A-1+ | 15,003 ^{**μ} |
| 40,000 | Calyon NY, Floating Rate Notes, 5.42%, due 11/10/06 | P-1 | A-1+ | 39,995 ^μ |
| 17,000 | Citigroup Inc., Floating Rate Notes, 5.45%, due 12/4/06 | P-1 | A-1+ | 17,009 ^μ |
| 25,000 | Credit Agricole (London), Floating Rate Notes, 5.48%, due 10/23/06 | P-1 | A-1+ | 25,000 ^{**μ} |
| 30,000 | Dorada Finance, Inc., Floating Rate Medium-Term Notes, 5.29%, due 10/16/06 | P-1 | A-1+ | 30,000 ^{**μ} |
| 10,000 | HBOS Treasury Services PLC, Notes, 3.13%, due 1/12/07 | P-1 | A-1+ | 9,939 ^{**} |
| 9,124 | Household Finance Corp., Notes, 5.75%, due 1/30/07 | P-1 | A-1+ | 9,134 |
| 22,250 | HSBC Finance Corp., Floating Rate Medium-Term Notes, 5.44%, due 11/28/06 | P-1 | A-1+ | 22,254 ^μ |
| 120,000 | K2 (USA) LLC, Guaranteed Floating Rate Medium-Term Notes, 5.32% - 5.49%, due 10/5/06 - 12/18/06 | P-1 | A-1+ | 119,991 ^{**μ} |
| 120,000 | Links Finance LLC, Floating Rate Medium-Term Notes, 5.29% - 5.40%, due 10/3/06 - 11/24/06 | P-1 | A-1+ | 119,996 ^{**μ} |
| 10,000 | Merrill Lynch & Co., Floating Rate Medium-Term Notes, Ser. C, 5.53%, due 11/27/06 | P-1 | A-1 | 10,006 ^μ |
| 20,000 | Natexis Banques Populaires, Floating Rate Bonds, 5.31%, due 10/16/06 | P-1 | A-1+ | 20,000 ^{**μ} |
| 17,200 | Nationwide Building, Floating Rate Notes, 5.62%, due 10/20/06 | P-1 | A-1 | 17,222 ^{**μ} |
| 22,350 | Nationwide Building, Notes, 2.63%, due 1/30/07 | P-1 | A-1 | 22,156 ^{**} |
| 155,000 | Parkland (USA) LLC, Floating Rate Medium-Term Notes, 5.31% - 5.36%, due 10/6/06 - 12/29/06 | P-1 | A-1+ | 154,999 ^{**μ} |
| 40,000 | Royal Bank of Canada, Floating Rate Medium-Term Notes, 5.30%, due 10/2/06 | P-1 | A-1+ | 40,000 ^{**μ} |
| 20,000 | Royal Bank of Scotland PLC, Senior Unsecured Floating Rate Notes, 5.32%, due 10/23/06 | P-1 | A-1+ | 20,002 ^{**μ} |
| 105,000 | Sigma Finance, Inc., Guaranteed Floating Rate Medium-Term Notes, 5.29% - 5.50%, due 10/20/06 - 12/20/06 | P-1 | A-1+ | 104,996 ^{**μ} |
| 9,000 | Sigma Finance, Inc., Medium-Term Notes, 4.83%, due 1/30/07 | P-1 | A-1+ | 9,000 ^{**} |
| 167,500 | Tango Finance Corp., Floating Rate Medium-Term Notes, 5.29% - 5.36%, due 10/25/06 - 12/26/06 | P-1 | A-1+ | 167,486 ^{**μ} |
| 25,000 | Toyota Motor Credit Corp., Floating Rate Medium-Term Notes, 5.31%, due 12/15/06 | P-1 | A-1+ | 25,000 ^μ |
| 66,100 | Wachovia Corp., Senior Floating Rate Notes, 5.59%, due 10/23/06 | P-1 | A-1 | 66,163 ^μ |
| 15,000 | Wachovia Corp., Notes, 4.95%, due 11/1/06 | P-1 | A-1 | 15,003 |
| 28,000 | Wells Fargo & Co., Floating Rate Notes, 5.34%, due 10/16/06 | P-1 | A-1+ | 28,000 ^{**μ} |
| 28,800 | Westpac Banking Corp., Floating Rate Notes, 5.46%, due 11/27/06 | P-1 | A-1+ | 28,814 ^{**μ} |
| 90,000 | Whistlejacket Capital LLC, Floating Rate Medium-Term Notes, 5.28% - 5.35%, due 10/23/06 - 12/13/06 | P-1 | A-1+ | 89,995 ^{**μ} |
| | Total Corporate Debt Securities | | | 1,391,866 |

| PRINCIPAL AMOUNT | RATING | | VALUE^{††} |
|---|--|-----|------------------------------|
| (000's omitted) | Moody's | S&P | (000's omitted) |
| Promissory Notes (2.8%) | | | |
| \$135,000 | Goldman Sachs Group, 5.35% - 5.44%, due 10/2/06 | | \$135,000^u |
| Asset-Backed Securities (0.9%) | | | |
| 32,179 | Capital One Auto Finance Trust, 5.12% & 5.48%, due 10/16/06 & 11/15/06 | | 32,179 |
| 12,427 | Harley-Davidson Motorcycle Trust, Ser. 2006-3, Class A1, 5.37%, due 9/15/07 | | 12,427 |
| Total Asset-Backed Securities | | | 44,606 |
| Total Investments (100.0%) | | | 4,876,627 |
| Liabilities, less cash, receivables and other assets [(0.0%)] | | | (1,570) |
| Total Net Assets (100.0%) | | | \$4,875,057 |

Notes to Schedule of Investments Institutional Liquidity Trust (Unaudited)

- †† Investment securities are valued at amortized cost, which approximates U.S. federal income tax cost.
- ** Restricted security subject to restrictions on resale under federal securities laws. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers under Rule 144A and have been deemed by the investment manager to be liquid. At September 30, 2006, these securities amounted to \$477,207,000 or 16.9% of net assets for Institutional Liquidity Portfolio and \$1,273,807,000 or 26.1% of net assets for Prime Portfolio.
- μ Floating rate securities are securities whose yields vary with a designated market index or market rate. These securities are shown at their current rates as of September 30, 2006.

Statements of Assets and Liabilities (Unaudited)

Institutional Liquidity Trust
(000's omitted)

| | Institutional Liquidity Portfolio | Prime Portfolio |
|--|--|----------------------------|
| Assets | | |
| Investments in securities, at value* (Note A)-see Schedule of Investments: | | |
| Unaffiliated issuers | \$2,810,994 | \$4,876,627 |
| Cash | 131 | 429 |
| Interest receivable | 14,583 | 13,373 |
| Prepaid expenses | 27 | 26 |
| Total Assets | 2,825,735 | 4,890,455 |
| Liabilities | | |
| Payable for securities purchased | 10,000 | 15,000 |
| Payable to investment manager-net (Note B) | 192 | 384 |
| Accrued expenses and other payables | 112 | 14 |
| Total Liabilities | 10,304 | 15,398 |
| Net Assets Applicable to Investors' Beneficial Interests | \$2,815,431 | \$4,875,057 |
| Net Assets consist of: | | |
| Paid-in capital | \$2,815,431 | \$4,875,057 |
| *Cost of investments: | | |
| Unaffiliated issuers | \$2,810,994 | \$4,876,627 |

Statements of Operations

Institutional Liquidity Trust (000's omitted)

| | INSTITUTIONAL LIQUIDITY PORTFOLIO | PRIME PORTFOLIO |
|--|--|--|
| | For the Six Months Ended September 30, 2006 (Unaudited) | For the Six Months Ended September 30, 2006 (Unaudited) |
| Investment Income | | |
| Income: | | |
| Interest income-unaffiliated issuers (Note A) | \$65,845 | \$120,368 |
| Expenses: | | |
| Investment management fees (Note B) | 1,276 | 2,309 |
| Audit fees | 14 | 7 |
| Custodian fees (Note B) | 205 | 223 |
| Insurance expense | 59 | 53 |
| Legal fees | 2 | 3 |
| Rating agency fees | — | 11 |
| Shareholder reports | 4 | 3 |
| Trustees' fees and expenses | 18 | 14 |
| Miscellaneous | 7 | 6 |
| Total expenses | 1,585 | 2,629 |
| Investment management fees waived (Note B) | (255) | (462) |
| Expenses reduced by custodian fee expense offset arrangement (Note B) | (19) | (19) |
| Total net expenses | 1,311 | 2,148 |
| Net investment income | \$64,534 | \$118,220 |
| Realized and Unrealized Gain (Loss) on Investments (Note A) | | |
| Net realized gain (loss) on: | | |
| Sales of investment securities of unaffiliated issuers | (23) | (59) |
| Net increase (decrease) in net assets resulting from operations | \$64,511 | \$118,161 |

Statements of Changes in Net Assets

Institutional Liquidity Trust
(000's omitted)

| | INSTITUTIONAL LIQUIDITY PORTFOLIO | | PRIME PORTFOLIO | |
|--|---|------------------------------------|---|------------------------------------|
| | Six Months Ended September 30, 2006 (Unaudited) | Year Ended March 31, 2006 | Six Months Ended September 30, 2006 (Unaudited) | Year Ended March 31, 2006 |
| Increase (Decrease) in Net Assets: | | | | |
| From Operations: | | | | |
| Net investment income (loss) | \$64,534 | \$82,975 | \$118,220 | \$76,803 |
| Net realized gain (loss) on investments | (23) | (56) | (59) | (78) |
| Net increase (decrease) in net assets resulting from operations | 64,511 | 82,919 | 118,161 | 76,725 |
| Transactions in Investors' Beneficial Interest: | | | | |
| Contributions | 2,956,914 | 4,162,855 | 13,329,688 | 14,573,443 |
| Withdrawals | (2,436,516) | (4,433,678) | (11,778,991) | (12,721,501) |
| Net increase (decrease) from transactions in investors' beneficial interest | 520,398 | (270,823) | 1,550,697 | 1,851,942 |
| Net Increase (Decrease) in Net Assets | 584,909 | (187,904) | 1,668,858 | 1,928,667 |
| Net Assets: | | | | |
| Beginning of period | 2,230,522 | 2,418,426 | 3,206,199 | 1,277,532 |
| End of period | \$2,815,431 | \$2,230,522 | \$4,875,057 | \$3,206,199 |

Notes to Financial Statements Institutional Liquidity Trust (Unaudited)

Note A—Summary of Significant Accounting Policies:

1 General: The Institutional Liquidity Portfolio (“Institutional Liquidity”) and the Prime Portfolio (“Prime”) (individually a “Portfolio,” collectively, the “Portfolios”) are separate operating series of Institutional Liquidity Trust (the “Trust”), a Delaware statutory trust organized pursuant to a Trust Instrument dated October 1, 2004. The Trust is registered as a diversified, open-end management investment company under the Investment Company Act of 1940, as amended.

Other investment companies sponsored by Neuberger Berman Management Inc. (“Management”), the Portfolios’ investment manager and Lehman Brothers Asset Management Inc. (“LBAM”), the sub-adviser to the Portfolios, whose financial statements are not presented herein, also invest in the Portfolios.

The assets of each Portfolio belong only to that Portfolio, and the liabilities of each Portfolio are borne solely by that Portfolio and no other series of the Trust.

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires Management to make estimates and assumptions at the date of the financial statements. Actual results could differ from those estimates.

2 Portfolio valuation: Investment securities are valued as indicated in the notes following the Portfolios’ Schedule of Investments.

3 Securities transactions and investment income: Securities transactions are recorded on trade date for financial reporting purposes. Interest income, including accretion of discount (adjusted for original issue discount, where applicable), and amortization of premium, where applicable, is recorded on the accrual basis. Realized gains and losses from securities transactions are recorded on the basis of identified cost and stated separately in the Statements of Operations.

4 Income tax information: It is the policy of the Portfolios to comply with the requirements of the Internal Revenue Code. It is also the policy of the Portfolios to conduct their operations so that each of its investors that are regulated investment companies and invest substantially all of their net investable assets therein will continue to qualify as such. Each Portfolio will be treated as a partnership for U.S. federal income tax purposes and is therefore not subject to U.S. federal income tax.

5 Concentration of risk: Each Portfolio normally concentrates in the financial services industries; therefore, factors influencing the health of those industries could have a significant negative effect on the Portfolios’ performance. These may include economic trends, governmental action, changes in interest rates, as well as the availability and cost of capital funds.

6 Expense allocation: Certain expenses are applicable to multiple portfolios. Expenses directly attributable to a Portfolio are charged to that Portfolio. Expenses of the Trust that are not directly attributed to a Portfolio are allocated among the Portfolios, on the basis of relative net assets, except where a more appropriate allocation of expenses to each of the Portfolios can otherwise be made fairly. Expenses borne by the complex of related investment companies, which includes open-end and closed-end investment companies for which Management serves as investment manager, that are not directly attributed to a Portfolio or the Trust, are allocated among the Portfolios and the other investment companies in the complex or series thereof, on the basis of relative net assets, except where a more appropriate allocation of expenses to each investment company in the complex or series thereof can otherwise be made fairly.

7 Repurchase agreements: Each Portfolio may enter into repurchase agreements with institutions that Management has determined are creditworthy. Each repurchase agreement is recorded at cost. Each Portfolio requires that the

securities purchased in a repurchase agreement be transferred to the custodian in a manner sufficient to enable the Portfolio to assert a perfected security interest in those securities in the event of a default under the repurchase agreement. Each Portfolio monitors, on a daily basis, the value of the securities transferred to ensure that their value, including accrued interest, is greater than amounts owed to the Portfolio under each such repurchase agreement.

- 8 Indemnifications:** Like many other companies, the Trust's organizational documents provide that its officers and trustees are indemnified against certain liabilities arising out of the performance of their duties to the Trust. In addition, both in some of its principal service contracts and in the normal course of its business, the Trust enters into contracts that provide indemnifications to other parties for certain types of losses or liabilities. The Trust's maximum exposure under these arrangements is unknown as this could involve future claims against the Trust.

Note B—Management Fees and Other Transactions with Affiliates:

Each Portfolio retains Management as its investment manager under a Management Agreement. For such investment management services, each Portfolio pays Management a fee at the annual rate of 0.10% of its average daily net assets. Management has voluntarily agreed to waive its management fee in the amount of 0.02% of the average daily net assets of each Portfolio. These undertakings are terminable by Management upon notice to the Portfolios. For the six months ended September 30, 2006, such waived fees amounted to \$255,203 for Institutional Liquidity and \$461,751 for Prime, respectively.

Management and LBAM, the sub-adviser to the Portfolios, are wholly-owned subsidiaries of Lehman Brothers Holdings Inc., a publicly-owned holding company. LBAM is retained by Management to provide day-to-day investment management services. LBAM, as sub-adviser to each Portfolio, receives a monthly fee paid by Management, based on an annual rate of each Portfolio's average daily net assets. The Portfolios do not pay a fee directly to LBAM for such services. As investment adviser, Management is responsible for overseeing the investment activities of LBAM. Several individuals who are officers and/or Trustees of the Trust are also employees of LBAM and/or Management.

Each Portfolio has an expense offset arrangement in connection with its custodian contract. For the six months ended September 30, 2006, the impact of this arrangement was a reduction of expenses of \$18,589 for Institutional Liquidity and \$18,871 for Prime.

Note C—Securities Transactions:

All securities transactions for Institutional Liquidity and Prime were short-term.

Note D—Unaudited Financial Information:

The financial information included in this interim report is taken from the records of the Portfolios without audit by an independent registered public accounting firm. Annual reports contain audited financial statements.

Financial Highlights

Institutional Liquidity Portfolio

| | Six Months Ended September 30, 2006 (Unaudited) | Year Ended March 31, 2006 | Period from December 30, 2004 [^] to March 31, 2005 |
|--|---|------------------------------------|---|
| Ratios to Average Net Assets: | | | |
| Gross Expenses[#] | .10%* | .11% | .11%* |
| Net Expenses[‡] | .10%* | .11% | .11%* |
| Net Investment Income (Loss) | 5.06%* | 3.72% | 2.38%* |
| Total Return[†] | +2.59%** | +3.87% | +0.63%** |
| Net Assets, End of Period (in millions) | \$2,815.4 | \$2,230.5 | \$2,418.4 |

Financial Highlights

Prime Portfolio

| | Six Months Ended September 30, 2006 (Unaudited) | Year Ended March 31, 2006 | Period from December 27, 2004[^] to March 31, 2005 |
|---|--|--|--|
| Ratios to Average Net Assets: | | | |
| Gross Expenses [#] | .09% * | .11% | .12% * |
| Net Expenses [‡] | .09% * | .10% | .11% * |
| Net Investment Income (Loss) | 5.12% * | 3.78% | 2.43% * |
| Total Return [†] | +2.61% ** | +3.87% | +0.66% ** |
| Net Assets, End of Period (in millions) | \$4,875.1 | \$3,206.2 | \$1,277.5 |

Notes to Financial Highlights Institutional Liquidity Trust (Unaudited)

The Portfolio is required to calculate an expense ratio without taking into consideration any expense reductions related to expense offset arrangements.

‡ After waiver of a portion of the investment management fee by Management. Had Management not undertaken such action, the annualized ratios of net expenses to average daily net assets would have been:

| | Six Months Ended September 30, 2006 | Year Ended March 31, 2006 | Period Ended March 31, 2005 |
|--|--|--|--|
| Institutional Liquidity Portfolio | .12% | .13% | .13% ⁽¹⁾ |
| Prime Portfolio | .11% | .12% | .13% ⁽²⁾ |

(1) Period from December 30, 2004 (commencement of operations) to March 31, 2005.

(2) Period from December 27, 2004 (commencement of operations) to March 31, 2005.

† Total Return for the Portfolio has been calculated based on the total return for the feeder funds that invest all of their net investable assets in the Portfolio. Total Return assumes all distributions were reinvested and adjusted for the difference in expenses as set forth in the Notes to the Financial Statements of Institutional Liquidity Trust. Results represent past performance and do not guarantee future results. Current returns may be lower or higher than the performance data quoted. Total return would have been lower had Management not waived a portion of the investment management fee.

^ The date investment operations commenced.

* Annualized.

** Not annualized.

Directory

Investment Manager, Administrator and Distributor

Neuberger Berman Management Inc.
605 Third Avenue, 2nd Floor
New York, NY 10158-0180
888.556.9030

Sub-Adviser

Lehman Brothers Asset Management Inc.
745 Seventh Avenue
New York, NY 10019

Custodian and Shareholder Servicing Agent

State Street Bank and Trust Company
225 Franklin Street
Boston, MA 02110

Legal Counsel

Kirkpatrick & Lockhart Nicholson Graham LLP
1601 K Street, NW
Washington, DC 20006

Independent Registered Public Accounting Firms

Ernst & Young LLP
200 Clarendon Street
Boston, MA 02116

Tait Weller & Baker LLP
1818 Market Street
Suite 2400
Philadelphia, PA 19103

Proxy Voting Policies and Procedures

A description of the policies and procedures that the Funds use to determine how to vote proxies relating to portfolio securities is available, without charge, by calling 1-888-556-9030 (toll-free) and on the website of the Securities and Exchange Commission, at www.sec.gov. Information regarding how the Funds voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is also available, without charge, by calling 1-888-556-9030 (toll-free) and on the website of the Securities and Exchange Commission, at www.sec.gov.

Quarterly Portfolio Schedule

Each Trust files a complete schedule of portfolio holdings for each Fund and Portfolio with the Securities and Exchange Commission for the first and third quarters of each fiscal year on Form N-Q. Each Trust's Forms N-Q are available on the Securities and Exchange Commission's website at www.sec.gov and may be reviewed and copied at the Securities and Exchange Commission's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. The information on Form N-Q is available upon request, without charge, by calling 1-888-556-9030 (toll-free).

Board Consideration of the Management and Sub-Advisory Agreements

At a meeting held on September 27, 2006, the Board of Trustees of Institutional Liquidity Trust (“Board”), including Trustees who are not “interested persons” of Neuberger Berman Management Inc. (“Management”) (including its affiliates) or Institutional Liquidity Trust (“Independent Fund Trustees”), approved the continuance of the Management and Sub-Advisory Agreements (“Agreements”) between Management and Institutional Liquidity Trust, on behalf of Institutional Liquidity Portfolio and Prime Portfolio (each, a “Master Portfolio”). Each of Lehman Brothers Institutional Liquidity Fund and Lehman Brothers Prime Money Fund (each, a “Feeder Fund”) invests all of its net investable assets in Institutional Liquidity Portfolio and Prime Portfolio, respectively. The term “Fund” is used throughout this section to refer to each Feeder Fund or its corresponding Master Portfolio, as appropriate.

In evaluating the Agreements, the Board, including the Independent Fund Trustees, reviewed materials furnished by Management and Lehman Brothers Asset Management Inc. (“Lehman Brothers Asset Management”) in response to questions submitted by counsel to the Independent Fund Trustees, and met with senior representatives of Management and Lehman Brothers Asset Management regarding their personnel and operations. The Independent Fund Trustees were advised by counsel that is experienced in Investment Company Act of 1940 matters and that is independent of Management and Lehman Brothers Asset Management.

The Independent Fund Trustees received a memorandum from independent counsel discussing the legal standards for their consideration of the proposed continuance of the Agreements. They met with such counsel separately from representatives of Management to discuss the annual contract review. The annual contract review extends over two regular meetings of the Board to ensure that Management and Lehman Brothers Asset Management have time to respond to any questions the Independent Fund Trustees may have on their initial review of the report and that the Independent Fund Trustees have time to consider those responses. In addition, during this process, the Board held a separate meeting devoted to reviewing and discussing Fund performance.

The Board considered the following factors, among others, in connection with its approval of the continuance of the Agreements: (1) the nature, extent, and quality of the services to be provided by Management and Lehman Brothers Asset Management; (2) the performance of each Fund compared to relevant market indices and a peer group of investment companies; (3) the costs of the services to be provided and profits historically realized by Management and its affiliates from the relationship with the Funds; (4) the extent to which economies of scale might be realized as each Fund grows; and (5) whether fee levels reflect those potential economies of scale for the benefit of investors in each Fund. In their deliberations, the Board members did not identify any particular information that was all-important or controlling, and each Trustee may have attributed different weights to the various factors.

The Board evaluated the terms of the Agreements and whether the Agreements were in the best interests of each Fund and its shareholders. The Board considered, with respect to each Fund, the nature, extent and quality of the services provided under the Agreements and the overall fairness of the Agreements to the Funds. The Board requested and evaluated a report from Management that addressed specific factors designed to inform the Board’s consideration of these and other issues.

With respect to the nature, extent and quality of the services provided, the Board considered the performance of each Fund and the degree of risk undertaken by the portfolio managers. The Board considered the experience and staffing of portfolio management and the investment research personnel of Management and Lehman Brothers Asset Management dedicated to performing services for the Funds. The Board noted that Management also provides certain administrative services, including fund accounting and compliance oversight. In addition, the Board noted the positive compliance history of Management, as the firm has been free of significant compliance problems.

With respect to the performance of each Fund, the Board considered the performance of each Fund relative to its benchmark and a peer group of investment companies pursuing broadly similar strategies. The Board also considered the previous performance of Management in managing Neuberger Berman Institutional Cash Fund, a series of Neuberger Berman Income Funds and the predecessor to Neuberger Berman Institutional Cash Fund, which invests in the Institutional Liquidity Portfolio.

With respect to the overall fairness of the Agreements, the Board considered each Fund's fee structure as compared to a peer group of comparable funds and any fall-out benefits likely to accrue to Management or Lehman Brothers Asset Management or their affiliates. The Board also considered the profitability of Management and its affiliates from their association with the Funds.

The Board reviewed a comparison of each Fund's management fee and overall expense ratio to a peer group of comparable funds. The Board considered the mean and median of the management fees and expense ratios of the peer group. In addition, the Board considered the contractual and voluntary limits on Fund expenses undertaken by Management for the Funds.

The Board considered whether there were other funds that were sub-advised by Management or its affiliates or separate accounts managed by Management with similar investment objectives, policies and strategies as the Funds. The Board compared the fees charged to comparable separate accounts to the fees charged to the Funds at various asset levels. The Board considered the appropriateness and reasonableness of the differences between the fees charged between each Fund and the comparable separate accounts and determined that the differences in fees were consistent with the management and other services provided.

The Board also evaluated any actual or anticipated economies of scale in relation to the services Management provides to each Fund. The Board considered the relatively low level of the management fee and the contractual and voluntary expense limit for each Fund.

In concluding that the benefits accruing to Management and its affiliates by virtue of their relationship to the Funds were reasonable in comparison with the costs of providing the investment advisory services and the benefits accruing to each Fund, the Board reviewed specific data as to Management's profit or loss on each Fund since its inception. The Board also carefully examined Management's cost allocation methodology. It also reviewed an analysis from an independent data consultant on investment management profitability margins. The Board recognized that Management should be entitled to earn a reasonable level of profits for services it provides to the Funds and, based on its review, concluded it was satisfied that Management's level of profitability from its relationship with the Funds was not excessive.

Conclusions

In approving the Agreements, the Board concluded that the terms of each Agreement are fair and reasonable and that approval of the Agreements is in the best interest of each Fund and its shareholders. In reaching this determination, the Board considered that Management and Lehman Brothers Asset Management could be expected to provide a high level of service to each Fund; that the performance of each Fund was satisfactory; that each Fund's fee structure appeared to the Board to be reasonable given the quality of services expected to be provided; and that the benefits accruing to Management and its affiliates by virtue of their relationship to the Funds were reasonable in comparison with the costs of providing the investment advisory services and the benefits accruing to each Fund.

Investment manager: **Neuberger Berman Management Inc.**
Sub-adviser: **Lehman Brothers Asset Management Inc.**

Neuberger Berman Management Inc.
605 Third Avenue, 2nd Floor
New York, NY 10158-0180
888.556.9030
Web site: www.lehmanam.com

Statistics and projections in this report are derived from sources deemed to be reliable but cannot be regarded as a representation of future results of the Funds. This report is prepared for the general information of shareholders and is not an offer of shares of the Funds. Shares are sold only through the currently effective prospectus, which must precede or accompany this report.

F0367 11/06

