

SECURITIES AND EXCHANGE COMMISSION

**FORM 485BPOS**

Post-effective amendments [Rule 485(b)]

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**FILER**

**NORTH AMERICAN FUNDS**

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8008728037*



	the Fund; Investment Portfolios; Risk Factors
5.	Management of the Fund; General Information-Custodian and Transfer and Dividend Disbursing Agent
5A.	Not Applicable
6.	Multiple Pricing System; General Information-Dividends and Distributions; General Information-Taxes; Shareholder Services-Shareholder Inquiries
7.	Multiple Pricing System; Shareholder Services; Purchase of Shares
8.	Multiple Pricing System; Shareholder Services-Redemption of Shares, and General Methods of Redeeming Shares; Purchase of Shares
9.	Not Applicable

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#### PART A

#### INFORMATION REQUIRED IN A PROSPECTUS

#### NORTH AMERICAN FUNDS

116 Huntington Avenue, Boston, Massachusetts 02116  
(800) 872-8037

North American Funds (the "Fund") is an open-end, diversified management investment company (mutual fund) providing a range of investment options through thirteen separate investment portfolios (the "Portfolios"), each of which has a specific investment objective. This Prospectus relates to the following portfolios of the Fund:

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<input type="checkbox"/>	INTERNATIONAL SMALL CAP FUND
<input type="checkbox"/>	SMALL/MID CAP FUND
<input type="checkbox"/>	GLOBAL EQUITY FUND
<input type="checkbox"/>	GROWTH EQUITY FUND
<input type="checkbox"/>	INTERNATIONAL GROWTH AND INCOME FUND
<input type="checkbox"/>	GROWTH AND INCOME FUND
<input type="checkbox"/>	EQUITY-INCOME FUND
<input type="checkbox"/>	BALANCED FUND
<input type="checkbox"/>	STRATEGIC INCOME FUND
<input type="checkbox"/>	INVESTMENT QUALITY BOND FUND
	NATIONAL MUNICIPAL BOND FUND
	U.S. GOVERNMENT SECURITIES FUND
	MONEY MARKET FUND

</TABLE>

The investment objectives and certain policies of each Portfolio are set forth on the inside front cover. There can be no assurance that any Portfolio

will achieve its investment objective and each of the Portfolios may employ certain investment practices which involve special risk considerations. See also the discussion of "RISK FACTORS" in this Prospectus. In pursuing their investment objectives, the Strategic Income Fund reserves the right to invest without limitation, and the Investment Quality Bond and Equity-Income Funds may invest up to 20% and 10%, respectively, of their assets, in high yield/high risk securities, commonly known as "junk bonds." Investments of this type involve comparatively greater risks, including price volatility and risk of default in the payment of interest and principal, than higher-quality securities. Although the Strategic Income Fund's Subadviser has the ability to invest up to 100% of the Portfolio's assets in lower-rated securities, the Portfolio's Subadviser does not anticipate investing in excess of 75% of the Portfolio's assets in such securities. Purchasers should carefully assess the risks associated with an investment in the Strategic Income Fund. See "RISK FACTORS -- High Yield/High Risk Securities." An investment in the Money Market Fund is neither insured nor guaranteed by the U.S. Government, and there can be no assurance that the Money Market Fund will be able to maintain a stable net asset value of \$1.00 per share. Shares of the Fund are not deposits or obligations of, or guaranteed or endorsed by, any bank, and the shares are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other agency.

This Prospectus sets forth concisely the information about the Fund that a prospective investor should know before making an investment decision. Investors are encouraged to read this Prospectus and to retain it for future reference. Additional information about the Fund has been filed with the Securities and Exchange Commission and is available upon request and without charge by writing the Fund at the above address or calling (800) 872-8037 and requesting the "Statement of Additional Information for North American Funds", dated the date of this Prospectus (hereinafter "Statement of Additional Information"). The Statement of Additional Information is incorporated by reference into this Prospectus. The Securities and Exchange Commission maintains a Web site (<http://www.sec.gov>) that contains the Statement of Additional Information, material incorporated by reference, and other information regarding registrants that file electronically with the Commission.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus is December 31, 1996.

The investment objectives and certain policies of each Portfolio are set forth below.

INTERNATIONAL SMALL CAP FUND -- The investment objective of the International Small Cap Fund is to seek long term capital appreciation. Founders manages the International Small Cap Fund and will pursue this objective by investing primarily in securities issued by foreign companies which have total market capitalizations or annual revenues of \$1 billion or less. These securities may represent companies in both established and emerging economies throughout the world.

SMALL/MID CAP FUND -- The investment objective of the Small/Mid Cap Fund is to seek long term capital appreciation. Alger manages the Small/Mid Cap Fund and will pursue this objective by investing at least 65% of the portfolio's total assets (except during temporary defensive periods) in small/mid cap equity securities.

GLOBAL EQUITY FUND -- The investment objective of the Global Equity Fund (prior to October 1, 1996, the "Global Growth Fund") is long-term capital appreciation. Morgan Stanley manages the Global Equity Fund and intends to pursue this objective by investing primarily in a globally diversified portfolio of common stocks and securities convertible into or exercisable for common stocks.

GROWTH EQUITY FUND -- The investment objective of the Growth Equity Fund is to seek long-term growth of capital. Founders manages the Growth Equity Fund and will pursue this objective by investing, under normal market conditions, at least 65% of its total assets in common stocks of well-established, high-quality growth companies that Founders believes have the potential to increase earnings faster than the rest of the market.

INTERNATIONAL GROWTH AND INCOME FUND -- The investment objective of the International Growth and Income Fund is to seek long-term growth of capital and income. The portfolio is designed for investors with a long-term investment horizon who want to take advantage of investment opportunities outside the

United States.

GROWTH AND INCOME FUND -- The investment objective of the Growth and Income Fund is to provide long-term growth of capital and income consistent with prudent investment risk. Wellington Management manages the Growth and Income Fund and seeks to achieve the Fund's objective by investing primarily in a diversified portfolio of common stocks of U.S. issuers which Wellington Management believes are of high quality.

EQUITY-INCOME FUND -- The investment objective of the Equity-Income Fund (prior to December 31, 1996, the "Value Equity Fund") is to provide substantial dividend income and also long term capital appreciation. T. Rowe Price manages the Equity-Income Fund and seeks to attain this objective by investing primarily in dividend-paying common stocks, particularly of established companies with favorable prospects for both increasing dividends and capital appreciation.

BALANCED FUND -- The investment objective of the Balanced Fund (prior to October 1, 1996, the "Asset Allocation Fund") is current income and capital appreciation. Founders is the manager of the Balanced Fund and seeks to attain this objective by investing in a balanced portfolio of common stocks, U.S. and foreign government obligations and a variety of corporate fixed-income securities.

STRATEGIC INCOME FUND -- The investment objective of the Strategic Income Fund is to seek a high level of total return consistent with preservation of capital. The Strategic Income Fund seeks to achieve its objective by giving its Subadviser, SBAM, broad discretion to deploy the Strategic Income Fund's assets among certain segments of the fixed-income market as SBAM believes will best contribute to the achievement of the portfolio's objective.

INVESTMENT QUALITY BOND FUND -- The investment objective of the Investment Quality Bond Fund is to provide a high level of current income consistent with the maintenance of principal and liquidity. Wellington Management manages the Investment Quality Bond Fund and seeks to achieve the Fund's objective by investing primarily in a diversified portfolio of investment grade corporate bonds and U.S. Government bonds with intermediate to longer term maturities.

NATIONAL MUNICIPAL BOND FUND -- The investment objective of the National Municipal Bond Fund is to achieve a high level of current income which is exempt from regular federal income taxes, consistent with the preservation of capital, by investing primarily in a portfolio of municipal obligations. The Portfolio will not invest in municipal obligations that are rated below investment grade at the time of purchase.

U.S. GOVERNMENT SECURITIES FUND -- The investment objective of the U.S. Government Securities Fund is to obtain a high level of current income consistent with preservation of capital and maintenance of liquidity. SBAM manages the U.S. Government Securities Fund and seeks to attain its objective by investing a substantial portion of its assets in debt obligations and mortgage backed securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities and derivative securities such as collateralized mortgage obligations backed by such securities.

MONEY MARKET FUND -- The investment objective of the Money Market Fund is to obtain maximum current income consistent with preservation of principal and liquidity. MAC manages the Money Market Fund and seeks to achieve this objective by investing in high quality, U.S. dollar denominated money market instruments.

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SUMMARY

The Fund

The Fund is an open-end, diversified, management investment company organized as a business trust under the laws of the Commonwealth of Massachusetts on September 28, 1988.

NASL Financial Services, Inc. ("NASL Financial" or, in its capacity as the Fund's investment adviser, the "Adviser") serves as the investment adviser and distributor for the Fund. NASL Financial is a wholly-owned subsidiary of the Fund's sponsor, North American Security Life Insurance Company, based in Boston, Massachusetts, the ultimate controlling parent of which is The Manufacturers Life Insurance Company ("Manulife"), a Canadian mutual life insurance company based in Toronto, Canada.

NASL Financial provides certain expense guarantees and administrative services to the Fund and its shareholders pursuant to an investment advisory contract (the "Advisory Agreement"). In addition, it contracts with and

compensates eight investment subadvisers which provide portfolio management services to all Portfolios of the Fund (the "Subadviser(s)"):

<S> Subadviser	<C> Subadviser To -----
Fred Alger Management, Inc. ("Alger")	Small/Mid Cap Fund
Founders Asset Management, Inc. ("Founders")	Growth Equity Fund Balanced Fund International Small Cap Fund
Wellington Management Company ("Wellington Management")	Growth and Income Fund Investment Quality Bond Fund
Salomon Brothers Asset Management ("SBAM")	U.S. Government Securities Fund Strategic Income Fund National Municipal Bond Fund
J.P. Morgan Investment Management Inc. ("J.P. Morgan")	International Growth and Income Fund
Manufacturers Adviser Corporation ("MAC")	Money Market Fund
Morgan Stanley Asset Management, Inc.	Global Equity Fund
T. Rowe Price Associates, Inc.	Equity-Income Fund

NASL Financial also serves as the distributor of the Fund's shares and in that role has entered into an exclusive promotional agent agreement with Wood Logan Associates, Inc. ("Wood Logan") to provide marketing services in connection with the sales of Fund's shares. See "PURCHASE OF SHARES -- Distribution Expenses."

Each Portfolio has a stated specific investment objectives, which together with certain investment policies are set forth on the inside cover of this Prospectus and are also described below. See "INVESTMENT PORTFOLIOS." There can be no assurance that any Portfolio will attain its investment objective. The Fund's annual report to shareholders, which is available without charge upon request, contains a discussion of Fund performance.

In addition to the risks inherent in any investment in securities, certain Portfolios of the Fund are subject to particular risks associated with investing in high yield securities, investing in foreign securities, investing in warrants, lending portfolio securities, investing in when-issued securities and engaging in various hedging and other strategic transactions (also referred to as "derivative transactions"). See "RISK FACTORS."

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#### Classes of Shares

As of April 1, 1994, the Fund began offering three classes of shares in each Portfolio ("Class A" shares, "Class B" shares and "Class C" shares) to the general public with each class having a different sales charge structure and expense level (the "Multiple Pricing System"). Each class has distinct advantages and disadvantages for different investors, and investors may choose the class that best suits their circumstances and objectives. See "MULTIPLE PRICING SYSTEM."

Class A shares. Purchases of Class A shares of less than \$1 million are offered for sale at net asset value per share plus a front end sales charge of up to 4.75% (with the exception of Class A shares of the Money Market Fund, which are offered without such a charge). Purchases of Class A shares of \$1 million or more made on or after May 1, 1995 are offered for sale at net asset value without a front end sales charge, but subject to a contingent deferred sales charge ("CDSC") of 1% of the dollar amount subject thereto during the first year after purchase. The applicable percentage is assessed on an amount equal to the lesser of the original purchase price or the redemption price of the shares redeemed. In addition, Class A shares are subject to a distribution fee of up to .10% of their respective average annual net assets and a service fee of up to .25% of their respective average annual net assets (with the exception of Class A shares of the Money Market Fund, which bear no such fees, and Class A shares of the National Municipal Bond Fund, which are subject to a service fee of up to .15% of Class A average annual net assets and are not subject to any distribution fee).

Class B shares. Class B shares are offered for sale for purchases of \$250,000 or less. Class B shares are offered for sale at net asset value without a front end sales charge but are subject to a CDSC of 5% of the dollar amount subject thereto during the first and second year after purchase, and declining by 1% each year thereafter to 0% after the sixth year. The applicable percentage is assessed on an amount equal to the lesser of the original purchase price or the redemption price of the shares redeemed. Class B shares are also subject to a distribution fee of up to .75% of their respective average annual net assets and a service fee of up to .25% of their respective average annual net assets (with the exception of Class B shares of the Money Market Fund, which bear no such fees). Class B shares will automatically convert to Class A shares of the same Portfolio six years after purchase.

Class C shares. Class C shares are offered for sale for purchases of less than \$1 million, at net asset value without a front end sales charge. Class C shares purchased on or after May 1, 1995, are subject to a CDSC of 1% of the dollar amount subject thereto during the first year after purchase. Shares purchased prior to May 1, 1995 are not subject to any CDSC upon redemption. The applicable percentage is assessed on an amount equal to the lesser of the original purchase price or the redemption price of shares redeemed. Class C shares are subject to a distribution fee of up to .75% of their respective average annual net assets and a service fee of up to .25% of their respective average annual net assets (with the exception of Class C shares of the Money Market Fund, which bear no such fees). Class C shares will automatically convert to Class A shares of the same Portfolio ten years after purchase.

The Fund implemented the Multiple Pricing System by reclassifying the then existing shares of each Portfolio as shares of a particular class of each such Portfolio. This reclassification was effected in such a manner so that the shares of each Portfolio outstanding at April 1, 1994 would be subject to identical distribution and service fees both before and after the reclassification. Specifically, all outstanding shares of the Strategic Income, Investment Quality Bond, U.S. Government Securities, National Municipal Bond, and Money Market Funds were reclassified as Class A shares of each such Portfolio, and all outstanding shares of the Global Equity, Equity-Income, Growth and Income and Balanced Funds were reclassified as Class C shares of each such Portfolio.

For a discussion of factors to consider in selecting the most beneficial class of shares for a particular investor, see "MULTIPLE PRICING SYSTEM--Factors for Consideration."

Fee Table and Example

The following tables are intended to assist investors in understanding the expenses applicable to each class of shares of each Portfolio:

SHAREHOLDER TRANSACTION EXPENSES  
<TABLE>  
<CAPTION>

	Class A	Class B	Class C
<S>	<C>	<C>	<C>
Maximum Sales Charge Imposed on Purchases of shares (as a percentage of offering price)			
All Portfolios except Money Market Fund.....	4.75%*	None	None
Money Market Fund.....	None	None	None
Sales charge imposed on dividend reinvestment			
All Portfolios.....	None	None	None
Contingent Deferred Sales Charge (as a percentage of original purchase price or redemption price, whichever is lower)			
All Portfolios except Money Market Fund.....	1% first year	**5% first year	1% first year***
.....	0% after first year	5% second year	0% after first year
.....		4% third year	
.....		3% fourth year	
.....		2% fifth year	
.....		1% sixth year,	

..... and  
 ..... 0% after sixth  
 ..... year  
 .....  
 .....

Money Market Fund.....	None	None	None
Exchange Fee	None	None	None

</TABLE>  
 \* See schedule of sales charge breakpoints under "Purchases of Shares - Class A Shares."

\*\*For purchases of \$1 million or more made on or after May 1, 1995.

\*\*\*For purchases made on or after May 1, 1995.

ANNUAL FUND OPERATING EXPENSES (as a percentage of average net assets after fee waivers and expense reimbursements in certain cases). Total Fund Operating Expenses absent reimbursement or waiver are set forth below under each Fund's "Financial Highlights."

<TABLE>  
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Portfolio	Class A	Class B	Class C
<S>	<C>	<C>	<C>
International Small Cap Fund			
Management fees.....	1.050%	1.050%	1.050%
Rule 12b-1 fees.....	0.350%	1.000%	1.000%
Other expenses* (after fee waiver)...	0.500%	0.500%	0.500%
	-----	-----	-----
Total fund operating expenses* (after fee waiver).....	1.900%	2.550%	2.550%
Small/Mid Cap Fund			
Management fees.....	0.925%	0.925%	0.925%

</TABLE>

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<TABLE>  
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<S>	<C>	<C>	<C>
Rule 12b-1 fees.....	0.350%	1.000%	1.000%
Other expenses* (after fee waiver)...	0.400%	0.400%	0.400%
	-----	-----	-----
Total fund operating expenses* (after fee waiver).....	1.675%	2.325%	2.325%

Portfolio	Class A	Class B	Class C
Global Equity Fund (formerly, "Global Growth Fund")			
Management fees.....	0.900%	0.900%	0.900%
Rule 12b-1 fees.....	0.350%	1.000%	1.000%
Other expenses* (after fee waiver)...	0.500%	0.500%	0.500%
	-----	-----	-----
Total fund operating expenses* (after fee waiver).....	1.750%	2.400%	2.400%
Growth Equity Fund			
Management fees.....	0.900%	0.900%	0.900%
Rule 12b-1 fees.....	0.350%	1.000%	1.000%
Other expenses* (after fee waiver)...	0.400%	0.400%	0.400%
	-----	-----	-----
Total fund operating expenses* (after fee waiver).....	1.650%	2.300%	2.300%
International Growth and Income Fund			
Management fees.....	0.900%	0.900%	0.900%
Rule 12b-1 fees.....	0.350%	1.000%	1.000%
Other expenses* (after fee waiver)...	0.500%	0.500%	0.500%
	-----	-----	-----
Total fund operating expenses* (after fee waiver).....	1.750%	2.400%	2.400%
Growth and Income Fund			
Management fees.....	0.725%	0.725%	0.725%
Rule 12b-1 fees.....	0.350%	1.000%	1.000%
Other expenses* (after fee waiver)...	0.265%	0.265%	0.265%
	-----	-----	-----
Total fund operating expenses* (after fee waiver).....	1.340%	1.990%	1.990%

Equity-Income Fund (formerly, "Value

Equity Fund" and previously "Growth Fund")			
Management fees.....	0.800%	0.800%	0.800%
Rule 12b-1 fees.....	0.350%	1.000%	1.000%
Other expenses*(after fee waiver)...	0.265%	0.265%	0.265%
	-----	-----	-----
Total fund operating expenses* (after fee waiver).....	1.415%	2.065%	2.065%

Balanced Fund (formerly, "Asset Allocation Fund")			
Management fees.....	0.775%	0.775%	0.775%
Rule 12b-1 fees.....	0.350%	1.000%	1.000%
Other expenses*(after fee waiver)...	0.265%	0.265%	0.265%
	-----	-----	-----
Total fund operating expenses* (after fee waiver).....	1.390%	2.040%	2.040%

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<TABLE>			
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<S>	<C>	<C>	<C>
Strategic Income Fund			
Management fees.....	0.750%	0.750%	0.750%
Rule 12b-1 fees.....	0.350%	1.000%	1.000%
Other expenses*(after fee waiver)...	0.400%	0.400%	0.400%
	-----	-----	-----
Total fund operating expenses* (after fee waiver).....	1.500%	2.150%	2.150%
</TABLE>			

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<TABLE>			
<CAPTION>			
Portfolio	Class A	Class B	Class C
-----			
<S>	<C>	<C>	<C>
Investment Quality Bond.....			
Management fees.....	0.600%	0.600%	0.600%
Rule 12b-1 fees.....	0.350%	1.000%	1.000%
Other expenses*(after fee waiver)...	0.300%	0.300%	0.300%
	-----	-----	-----
Total fund operating expenses* (after fee waiver).....	1.250%	1.900%	1.900%
National Municipal Bond Fund			
Management fees.....	0.600%	0.600%	0.600%
Rule 12b-1 fees.....	0.150%	1.000%	1.000%
Other expenses*(after fee waiver)...	0.240%	0.240%	0.240%
	-----	-----	-----
Total fund operating expenses* (after fee waiver).....	0.990%	1.840%	1.840%
U.S. Government Securities Fund.....			
Management fees.....	0.600%	0.600%	0.600%
Rule 12b-1 fees.....	0.350%	1.000%	1.000%
Other expenses*(after fee waiver)...	0.300%	0.300%	0.300%
	-----	-----	-----
Total fund operating expenses* (after fee waiver).....	1.250%	1.900%	1.900%
Money Market Fund			
Management fees.....	0.200%	0.200%	0.200%
Rule 12b-1 fees.....	0.000%	1.000%	1.000%
Other expenses*(after fee waiver)...	0.300%	0.300%	0.300%
	-----	-----	-----
Total fund operating expenses*..... (after fee waiver).....	0.500%	0.500%	0.500%
</TABLE>			

\*Amounts listed under "Other expenses" and "Total fund operating expenses" in the table above for each class of all Portfolios (except the International Small Cap, Growth Equity and the Small/Mid Cap Funds) are based on the application of expense limitations applicable during the most recent fiscal year. See "Advisory Arrangements" below. Amounts listed under "Other expenses" and "Total fund operating expenses" for the above-named Portfolios are based on estimates for current fiscal year expenses. To the extent that actual expenses are lower than the expense limitations, "Other expenses" may vary as between

classes of a Portfolio as a result of certain class-specific incremental expenses being allocated to a particular class of shares.

The amounts set forth under the caption "Shareholder Transaction Expenses" are the maximum sales charges applicable to purchases of Fund shares. Because a portion of the 12b-1 fees payable by each class of shares is considered an asset based sales charge by the National Association of Securities Dealers, Inc. ("NASD"), long-term shareholders in each class of each Portfolio (other than the Money Market Fund) may pay more than the economic equivalent of the maximum front end sales charges permitted by the NASD. See "PURCHASE OF SHARES -- Class A Shares -- Reduced Sales Charges" in this Prospectus.

The fees and expenses listed under the caption "Annual Fund Operating Expenses" are described in this Prospectus under the captions "MANAGEMENT OF THE FUND" and "PURCHASE OF SHARES -- Distribution Expenses." The Advisory Agreement and Distribution Plans operate to limit Total Fund Operating Expenses to the amounts listed in the fee table. Such contractual expense limits shall remain in effect unless the Adviser notifies the Fund (with 30 days notice) that it will not continue the limits. See "MANAGEMENT OF THE FUND -- Advisory Agreement." Total Fund Operating Expenses for the year ended October 31, 1996, absent reimbursement or waiver are set forth below under "Financial Highlights."

EXAMPLE

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An investor would pay the following expenses on a \$1,000 investment, assuming (1) a 5% annual return and (2) redemption at the end of each time period, with the exception of the lines marked "Class B No redemption" and "Class C No redemption" in which case it is assumed that no redemption is made at the end of each time period:

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<TABLE>

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Portfolio	1 Year	3 Years	5 Years	10 Years
<S>	<C>	<C>	<C>	<C>

International Small Cap				
Class A Shares	\$66	\$104		
Class B Shares	\$76	\$119		
Class B No redemption	\$26	\$79		
Class C Shares	\$36	\$79		
Class C No redemption	\$26	\$79		
Small/Mid Cap				
Class A Shares	\$64	\$98		
Class B Shares	\$74	\$113		
Class B No redemption	\$24	\$73		
Class C Shares	\$34	\$73		
Class C No redemption	\$24	\$73		
Global Equity (formerly, "Global Growth")				
Class A Shares	\$64	\$100	\$138	\$244
Class B Shares	\$74	\$115	\$148	\$243*
Class B No redemption	\$24	\$75	\$128	\$243*
Class C Shares	\$34	\$75	\$128	\$274
Class C No redemption	\$24	\$75	\$128	\$274
Growth Equity Fund				
Class A Shares	\$63	\$97		
Class B Shares	\$73	\$112		
Class B No redemption	\$23	\$72		
Class C Shares	\$33	\$72		
Class C No redemption	\$23	\$72		
International Growth and Income				
Class A Shares	\$64	\$100	\$138	\$244
Class B Shares	\$74	\$115	\$148	\$243
Class B No redemption	\$24	\$75	\$128	\$243
Class C Shares	\$34	\$75	\$128	\$274
Class C No redemption	\$24	\$75	\$128	\$274
Growth and Income				
Class A Shares	\$60	\$88	\$117	\$201
Class B Shares	\$70	\$102	\$127	\$200*
Class B No redemption	\$20	\$62	\$107	\$200*
Class C Shares	\$30	\$62	\$107	\$232
Class C No redemption	\$20	\$62	\$107	\$232
Equity-Income (formerly, "Value Equity" and previously "Growth")				
Class A Shares	\$60	\$88	\$117	\$201
Class B Shares	\$70	\$102	\$127	\$200*
Class B No redemption	\$20	\$62	\$107	\$200*

Class C Shares	\$30	\$62	\$107	\$232
Class C No redemption	\$20	\$62	\$107	\$232
Balanced (formerly, "Asset Allocation")				
Class A Shares	\$60	\$88	\$117	\$201
Class B Shares	\$70	\$102	\$127	\$200*
Class B No redemption	\$20	\$62	\$107	\$200*
Class C Shares	\$30	\$62	\$107	\$232

</TABLE>

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Class C No redemption	\$20	\$ 62	\$107	\$232
-----------------------	------	-------	-------	-------

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<TABLE>

<CAPTION>

Portfolio	1 Year	3 Years	5 Years	10 Years
<S>	<C>	<C>	<C>	<C>

Strategic Income

Class A Shares	\$62	\$ 93	\$125	\$218
Class B Shares	\$72	\$107	\$135	\$217*
Class B No redemption	\$22	\$ 67	\$115	\$217*
Class C Shares	\$32	\$ 67	\$115	\$248
Class C No redemption	\$22	\$ 67	\$115	\$248

Investment Quality Bond

Class A Shares	\$60	\$ 85	\$113	\$191
Class B Shares	\$69	\$100	\$123	\$190*
Class B No redemption	\$19	\$ 60	\$103	\$190*
Class C Shares	\$29	\$ 60	\$103	\$222
Class C No redemption	\$19	\$ 60	\$103	\$222

National Municipal Bond

Class A Shares	\$57	\$ 78	\$100	\$163
Class B Shares	\$69	\$ 98	\$120	\$173*
Class B No redemption	\$19	\$ 58	\$100	\$173*
Class C Shares	\$29	\$ 58	\$100	\$216
Class C No redemption	\$19	\$ 58	\$100	\$216

U.S. Government Securities

Class A Shares	\$60	\$ 85	\$113	\$191
Class B Shares	\$69	\$100	\$123	\$190*
Class B No redemption	\$19	\$ 60	\$103	\$190*
Class C Shares	\$29	\$ 60	\$103	\$222
Class C No redemption	\$19	\$ 60	\$103	\$222

Money Market

Class A Shares	\$ 5	\$ 16	\$ 28	\$ 63
Class B Shares	\$ 5	\$ 16	\$ 28	\$ 63
Class C Shares	\$ 5	\$ 16	\$ 28	\$ 63

</TABLE>

\* Reflects the conversion to Class A shares six years after purchase; therefore years seven through ten reflect Class A expenses.

The foregoing Fee Table and Example are intended to assist investors in understanding the various costs and expenses that investors in the Fund bear directly and indirectly. The examples for the International Small Cap and the Small/Mid Cap Funds do not include 5 and 10 year figures because they are newly formed Portfolios. Actual expenses for all the Portfolios may be higher or lower than the amounts shown in the Fee Table and, consequently, the actual expenses incurred by an investor may be greater (in the event the expense limitations are removed) or less than the amounts shown in the Example. Moreover, while the Example assumes a 5% annual return, the performance of each Portfolio will vary and may result in a return greater or less than 5%.

\* \* \* \* \*

The information in the foregoing summary is qualified in its entirety by the more detailed information appearing elsewhere in this Prospectus and in the Statement of Additional Information.

Information about the performance of each Portfolio is contained in the Fund's annual report to shareholders which may be obtained without charge.

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FINANCIAL HIGHLIGHTS

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NORTH AMERICAN FUNDS  
FINANCIAL HIGHLIGHTS (For a Share Outstanding Throughout the Period)

<TABLE>  
<CAPTION>

	INTERNATIONAL SMALL CAP FUND		
	03/04/96* TO 10/31/96 CLASS A	03/04/96* TO 10/31/96 CLASS B	03/04/96* TO 10/31/96 CLASS C
<S>	<C>	<C>	<C>
Net asset value, beginning of period.....	\$ 12.50	\$ 12.50	\$ 12.50
Income (loss) from investment operations:			
Net investment income (loss) (B).....	0.05	(0.01)	(0.01)
Net realized and unrealized gain on investment and foreign currency transactions.....	0.88	0.88	0.88
Total from investment operations.....	0.93	0.87	0.87
Net asset value, end of period.....	\$ 13.43	\$ 13.37	\$ 13.37
Total return.....	7.44%	6.96%	6.96%
Net assets, end of period (000's).....	\$ 2,120	\$ 5,068	\$ 5,517
Ratio of operating expenses to average net assets (C).....	1.90% (A)	2.55% (A)	2.55% (A)
Ratio of net investment income (loss) to average net assets.....	0.50% (A)	(0.15%) (A)	(0.15%) (A)
Portfolio turnover rate.....	67% (A)	67% (A)	67% (A)
Average commission rate per share (D).....	\$ 0.016	\$ 0.016	\$ 0.016

\* Commencement of operations

(A) Annualized

(B) After expense reimbursement by the adviser of \$0.11, \$0.02 and \$0.02 per share for the International Small Cap Fund - Classes A, B and C respectively, for the period March 4, 1996 (commencement of operations) to October 31, 1996.

(C) The ratio of operating expenses, before reimbursement by the adviser, was 3.07%, 3.27% and 3.25% for the International Small Cap Fund, Classes A, B and C respectively, for the period March 4, 1996 (commencement of operations) to October 31, 1996 on an annualized basis.

(D) For fiscal years beginning on or after September 1, 1995, a fund is required to disclose its average commission rate per share of all security trades on which commissions are charged. In certain foreign markets the relationship between the translated U.S. dollar price per share and commission paid per share may vary from that of domestic markets.

NORTH AMERICAN FUNDS  
FINANCIAL HIGHLIGHTS (For a Share Outstanding Throughout the Period)

<TABLE>  
<CAPTION>

	SMALL/MID CAP FUND		
	03/04/96* TO 10/31/96 CLASS A	03/04/96* TO 10/31/96 CLASS B	03/04/96* TO 10/31/96 CLASS C
<S>	<C>	<C>	<C>
Net asset value, beginning of period.....	\$ 12.50	\$ 12.50	\$ 12.50
Income (loss) from investment operations:			
Net investment loss (B).....	(0.02)	(0.05)	(0.05)
Net realized and unrealized gain on investments.....	0.14	0.13	0.14
Total from investment operations.....	0.12	0.08	0.09

Net asset value, end of period.....	\$ 12.62	\$ 12.58	\$ 12.59
	=====	=====	=====
Total return.....	0.96%+	0.64%+	0.72%+
Net assets, end of period (000's).....	\$ 2,966	\$ 6,659	\$ 8,241
Ratio of operating expenses to average net assets (C).....	1.675% (A)	2.325% (A)	2.325% (A)
Ratio of net investment loss to average net assets.....	(0.40%) (A)	(1.05%) (A)	(1.05%) (A)
Portfolio turnover rate.....	92% (A)	92% (A)	92% (A)
Average commission rate per share (D).....	\$ 0.069	\$ 0.069	\$ 0.069

</TABLE>

\* Commencement of operations

+ Non-annualized

(A) Annualized

(B) After expense reimbursement by the adviser of \$0.06, \$0.03 and \$0.03 per share for the Small/Mid Cap Fund - Classes A, B and C respectively, for the period March 4, 1996 (commencement of operations) to October 31, 1996.

(C) The ratio of operating expenses, before reimbursement by the adviser, was 2.69%, 3.05% and 3.04% for the Small/Mid Cap Fund, Classes A, B and C respectively, for the period March 4, 1996 (commencement of operations) to October 31, 1996 on an annualized basis.

(D) For fiscal years beginning on or after September 1, 1995, a fund is required to disclose its average commission rate per share of all security trades on which commissions are charged.

NORTH AMERICAN FUNDS

FINANCIAL HIGHLIGHTS (For a Share Outstanding Throughout the Period)

<TABLE>

<CAPTION>

GLOBAL EQUITY FUND  
(FORMERLY, THE GLOBAL GROWTH FUND)

	YEAR ENDED 10/31/96** CLASS A	YEAR ENDED 10/31/95 CLASS A	04/01/94* TO 10/31/94 CLASS A	YEAR ENDED 10/31/96** CLASS B	YEAR ENDED 10/31/95** CLASS B	04/01/94* TO 10/31/94 CLASS B
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net asset value, beginning of period.....	\$13.84	\$14.82	\$14.13	\$13.73	\$14.79	\$14.13
Income (loss) from investment operations						
Net investment loss (B).....	(0.04)	--	(0.01)	(0.14)	(0.09)	(0.03)
Net realized and unrealized gain (loss) on investments and foreign currency transactions.....	0.91	(0.54)	0.70	0.91	(0.53)	0.69
Total from investment operations.....	0.87	(0.54)	0.69	0.77	(0.62)	0.66
Less distributions						
Dividends from net investment income.....	(0.21)	--	--	(0.14)	--	--
Distributions from capital gains.....	--	(0.44)	--	--	(0.44)	--
Total distributions.....	(0.21)	(0.44)	--	(0.14)	(0.44)	--
Net asset value, end of period.....	\$14.50	\$13.84	\$14.82	\$14.36	\$13.73	\$14.79
Total return.....	6.33%	(3.52%)	9.16% (E)	5.64%	(4.09%)	8.94% (E)
Net assets, end of period (000's).....	\$25,924	\$23,894	\$18,152	\$25,661	\$23,317	\$13,903
Ratio of operating expenses to average net assets (C).....	1.75%	1.75%	1.75% (A)	2.40%	2.40%	2.40% (A)
Ratio of net investment income (loss) to average net assets.....	(0.30%)	0.03%	(0.12%) (A)	(0.95%)	(0.61%)	(0.77%) (A)
Portfolio turnover rate.....	165%	57%	54%	165%	57%	54%
Average commission rate per share (D).....	\$0.016	N/A	N/A	\$0.016	N/A	N/A

</TABLE>

\* Commencement of operations

\*\* Net investment income per share has been calculated using the average shares method.

(A) Annualized

(B) After expense reimbursement by the adviser of \$0.01 and \$0.02 per share for the Global Equity Fund - Class A and \$0.01 and \$0.02 per share for the Global Equity Fund - Class B, for the years ended October 31, 1996 and 1995, respectively and \$0.01 and \$0.01 per share for the Global Equity Fund - Classes A and B respectively, for the period April 1, 1994 to October 31, 1994.

(C) The ratio of operating expenses, before reimbursement by the adviser, was 1.83% and 1.92% for the Global Equity Fund - Class A and 2.48% and 2.58% for the Global Equity Fund - Class B, for the years ended October 31, 1996 and 1995, respectively and 1.97% and 2.71% for the Global Equity Fund - Classes A and B respectively, for the period April 1, 1994 to October 31, 1994 on an annualized basis.

(D) For fiscal years beginning on or after September 1, 1995, a fund is required to disclose its average commission rate per share of all security trades on which commissions are charged. In certain foreign markets the relationship between the translated U.S. dollar price per share and commission paid per share may vary from that of domestic markets.

(E) Historical total returns for Classes A and B shares are one year performance returns which include Class C performance prior to April 1, 1994.

NORTH AMERICAN FUNDS

FINANCIAL HIGHLIGHTS (For a Share Outstanding Throughout the Period)

<TABLE>

<CAPTION>

	GLOBAL EQUITY FUND - CLASS C (FORMERLY, THE GLOBAL GROWTH FUND - CLASS C)					
	YEARS ENDED OCTOBER, 31					
	1996**	1995**	1994	1993	1992	1991
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net asset value, beginning of period.....	\$13.73	\$14.79	\$13.74	\$10.33	\$10.76	\$10.12
Income (loss) from investment operations						
Net investment income (loss) (B).....	(0.14)	(0.09)	(0.10)	(0.01)	(0.02)	0.25
Net realized and unrealized gain (loss) on investments and foreign currency transactions.....	0.92	(0.53)	1.15	3.43	(0.37)	0.63
Total from investment operations.....	0.78	(0.62)	1.05	3.42	(0.39)	0.88
Less distributions						
Dividends from net investment income.....	(0.10)	--	--	(0.01)	--	(0.24)
Distributions from capital gains.....	--	(0.44)	--	--	--	--
Distributions from capital.....	--	--	--	--	(0.04)	--
Total distributions.....	(0.10)	(0.44)	--	(0.01)	(0.04)	(0.24)
Net asset value, end of period.....	\$14.41	\$13.73	\$ 14.79	\$13.74	\$10.33	\$10.76
Total return.....	5.70%	(4.09%)	8.94%	33.06%	(3.57%)	8.80%
Net assets, end of period (000's).....	\$64,830	\$83,340	\$101,443	\$63,503	\$14,291	\$8,828
Ratio of operating expenses to average net assets (C).....	2.40%	2.40%	2.40%	2.40%	2.52%	1.47%
Ratio of net investment income (loss) to average net assets.....	(0.95%)	(0.64%)	(0.91%)	(0.40%)	(0.27%)	1.41%
Portfolio turnover rate.....	165%	57%	54%	57%	69%	70%
Average commission rate per share (D).....	\$0.016	N/A	N/A	N/A	N/A	N/A

</TABLE>

\*\* Net investment income per share has been calculated using the average shares

- method.
- (A) Annualized
- (B) After expense reimbursement by the adviser of \$0.01, \$0.02, \$0.01, \$0.02, \$0.02 and \$0.05 per share for the Global Equity Fund - Class C for the years ended October 31, 1996, 1995, 1994, 1993, 1992 and 1991, respectively.
- (C) The ratio of operating expenses, before reimbursement by the adviser, was 2.48%, 2.53%, 2.52%, 2.72%, 2.78% and 4.37% for the Global Equity Fund - Class C for the years ended October 31, 1996, 1995, 1994, 1993, 1992 and 1991, respectively.
- (D) For fiscal years beginning on or after September 1, 1995, a fund is required to disclose its average commission rate per share of all security trades on which commissions are charged. In certain foreign markets the relationship between the translated U.S. dollar price per share and commission paid per share may vary from that of domestic markets.

NORTH AMERICAN FUNDS  
FINANCIAL HIGHLIGHTS (For a Share Outstanding Throughout the Period)

<TABLE>  
<CAPTION>

	GROWTH EQUITY FUND		
	03/04/96*	03/04/96*	03/04/96*
	TO	TO	TO
	10/31/96	10/31/96	10/31/96
	CLASS A	CLASS B	CLASS C
<S>	<C>	<C>	<C>
Net asset value, beginning of period.....	\$ 12.50	\$ 12.50	\$ 12.50
Income from investment operations:			
-----			
Net investment income (B).....	0.28	0.24	0.24
Net realized and unrealized gain on investments and foreign currency transactions.....	1.00	0.99	0.99
-----			
Total from investment operations.....	1.28	1.23	1.23
Net asset value, end of period.....	\$ 13.78	\$ 13.73	\$ 13.73
=====			
Total return.....	10.24%+	9.84%+	9.84%+
Net assets, end of period (000's).....	\$ 2,244	\$ 4,748	\$ 6,494
Ratio of operating expenses to average net assets (C).....	1.65% (A)	2.30% (A)	2.30% (A)
Ratio of net investment income to average net assets.....	4.11% (A)	4.18% (A)	4.13% (A)
Portfolio turnover rate.....	450% (A)	450% (A)	450% (A)
Average commission rate per share (D).....	\$ 0.043	\$ 0.043	\$ 0.043

</TABLE>

- \* Commencement of operations
- + Non-annualized
- (A) Annualized
- (B) After expense reimbursement by the adviser of \$0.07, \$0.04 and \$0.04 per share for the Growth Equity Fund - Classes A, B and C respectively, for the period March 4, 1996 (commencement of operations) to October 31, 1996.
- (C) The ratio of operating expenses, before reimbursement by the adviser, was 2.71%, 3.06% and 2.96% for the Growth Equity Fund, Classes A, B and C respectively, for the period March 4, 1996 (commencement of operations) to October 31, 1996 on an annualized basis.
- (D) For fiscal years beginning on or after September 1, 1995, a fund is required to disclose its average commission rate per share of all security trades on which commissions are charged. In certain foreign markets the relationship between the translated U.S. dollar price per share and commission paid per share may vary from that of domestic markets.

NORTH AMERICAN FUNDS  
FINANCIAL HIGHLIGHTS (For a Share Outstanding Throughout the Period)

<TABLE>  
<CAPTION>

## INTERNATIONAL GROWTH AND INCOME FUND

	YEAR ENDED 10/31/96** CLASS A	01/09/95* TO 10/31/95** CLASS A	YEAR ENDED 10/31/96** CLASS B	01/09/95* TO 10/31/95** CLASS B	YEAR ENDED 10/31/96** CLASS C	01/09/95* TO 10/31/95** CLASS C
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net asset value, beginning of period.....	\$10.11	\$10.00	\$10.10	\$10.00	\$10.10	\$10.00
Income from investment operations:						
Net investment income (B).....	0.09	0.06	0.06	0.01	0.06	0.01
Net realized and unrealized gain on investments and foreign currency transactions.....	1.33	0.08	1.30	0.12	1.30	0.12
Total from investment operations.....	1.42	0.14	1.36	0.13	1.36	0.13
Less distributions						
Dividends from net investment income.....	(0.08)	(0.03)	(0.05)	(0.03)	(0.05)	(0.03)
Distributions from capital gains.....	(0.10)	--	(0.11)	--	(0.10)	--
Total distributions.....	(0.18)	(0.03)	(0.16)	(0.03)	(0.15)	(0.03)
Net asset value, end of period.....	\$11.35	\$10.11	\$11.30	\$10.10	\$11.31	\$10.10
Total return.....	14.25%	1.37%+	13.58%	1.28%+	13.63%	1.28%+
Net assets, end of period (000's).....	\$4,732	\$6,897	\$15,217	\$8,421	\$ 9,076	\$6,324
Ratio of operating expenses to average net assets (C).....	1.75%	1.75% (A)	2.40%	2.40% (A)	2.40%	2.40% (A)
Ratio of net investment income to average net assets.....	0.84%	0.70% (A)	0.57%	0.15% (A)	0.51%	0.13% (A)
Portfolio turnover rate.....	170%	69% (A)	170%	69% (A)	170%	69% (A)
Average commission rate per share (D).....	\$0.022	N/A	\$0.022	N/A	\$0.022	N/A

&lt;/TABLE&gt;

\* Commencement of operations

\*\* Net investment income per share has been calculated using the average shares method.

+ Non-annualized

(A) Annualized

(B) After expense reimbursement by the adviser of \$0.02, \$0.02 and \$0.02 per share for the International Growth and Income Fund - Classes A, B and C respectively, for the year ended October 31, 1996 and \$0.04, \$0.04 and \$0.04 per share for the International Growth and Income Fund - Classes A, B and C respectively, for the period January 9, 1995 (commencement of operations) to October 31, 1995.

(C) The ratio of operating expenses, before reimbursement by the adviser, was 1.97%, 2.60% and 2.60% for the International Growth and Income Fund, Classes A, B and C respectively, for the year ended October 31, 1996 and 2.18%, 2.93% and 2.93% for the International Growth and Income Fund, Classes A, B and C respectively, for the period January 9, 1995 (commencement of operations) to October 31, 1995 on an annualized basis.

(D) For fiscal years beginning on or after September 1, 1995, a fund is required to disclose its average commission rate per share of all security trades on which commissions are charged. In certain foreign markets the relationship between the translated U.S. dollar price per share and commission paid per share may vary from that of domestic markets.

## NORTH AMERICAN FUNDS

## FINANCIAL HIGHLIGHTS (For a Share Outstanding Throughout the Period)

&lt;TABLE&gt;

&lt;CAPTION&gt;

## GROWTH AND INCOME FUND

	YEAR ENDED 10/31/96 CLASS A	YEAR ENDED 10/31/95** CLASS A	04/01/94* TO 10/31/96 CLASS A	YEAR ENDED 10/31/96** CLASS B	YEAR ENDED 10/31/95** CLASS B	04/01/94* TO 10/31/94 CLASS B
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net asset value, beginning of period...	\$14.72	\$13.09	\$12.29	\$14.69	\$13.08	\$12.29
Income from investment operations						

Net investment income (B).....	0.18	0.26	0.12	0.07	0.16	0.10
Net realized and unrealized gain on investments.....	2.99	1.90	0.76	2.99	1.94	0.77
Total from investment operations.....	3.17	2.16	0.88	3.06	2.10	0.87
Less distributions						
Dividends from net investment income...	(0.21)	(0.23)	(0.08)	(0.13)	(0.19)	(0.08)
Distributions from capital gains.....	(0.12)	(0.30)	--	(0.12)	(0.30)	--
Total distributions.....	(0.33)	(0.53)	(0.08)	(0.25)	(0.49)	(0.08)
Net asset value, end of..... period.....	\$17.56	\$14.72	\$13.09	\$17.50	\$14.69	\$13.08
Total return.....	21.84%	17.28%	5.06% (E)	21.08%	16.73%	4.98% (E)
Net assets, end of period (000's).....	\$18,272	\$12,180	\$8,134	\$34,740	\$19,052	\$3,885
Ratio of operating expenses to average net assets (C).....	1.34%	1.34%	1.34% (A)	1.99%	1.99%	1.99% (A)
Ratio of net investment income to average net assets.....	1.10%	1.91%	1.72% (A)	0.45%	1.14%	1.07% (A)
Portfolio turnover rate.....	49%	40%	45%	49%	40%	45%
Average commission rate per share (D)..	\$0.055	N/A	N/A	\$0.055	N/A	N/A

</TABLE>

\* Commencement of operations

\*\* Net investment income per share has been calculated using the average shares method.

(A) Annualized

(B) After expense reimbursement by the adviser of \$0.03 and \$0.05 per share for the Growth and Income Fund - Class A and \$0.03 and \$0.05 per share for the Growth and Income Fund - Class B, for the years ended October 31, 1996 and 1995, respectively and \$0.05 and \$0.12 per share for the Growth and Income Fund - Classes A and B respectively, for the period April 1, 1994 to October 31, 1994.

(C) The ratio of operating expenses, before reimbursement by the adviser, was 1.56% and 1.69% for the Growth and Income Fund - Class A and 2.20% and 2.33% for the Growth and Income Fund - Class B, for the years ended October 31, 1996 and 1995, respectively and 2.08% and 3.12% for the Growth and Income Fund - Classes A and B respectively, for the period April 1, 1994 to October 31, 1994 on an annualized basis.

(D) For fiscal years beginning on or after September 1, 1995, a fund is required to disclose its average commission rate per share of all security trades on which commissions are charged.

(E) Historical total returns for Classes A and B shares are one year performance returns which include Class C performance prior to April 1, 1994.

#### NORTH AMERICAN FUNDS

#### FINANCIAL HIGHLIGHTS (For a Share Outstanding Throughout the Period)

	GROWTH AND INCOME FUND - CLASS C					
	1996	1995	YEARS ENDED OCTOBER 31, 1994	1993	1992	05/01/91* TO 10/31/91
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net asset value, beginning of period....	\$14.71	\$13.08	\$12.71	\$11.21	\$10.51	\$10.00
Income from investment operations						
Net investment income (B).....	0.07	0.18	0.15	0.14	0.18	0.11
Net realized and unrealized gain on investments.....	3.00	1.90	0.46	1.48	0.70	0.47
Total from investment operations.....	3.07	2.08	0.61	1.62	0.88	0.58
Less distributions						
Dividends from net investment income....	(0.10)	(0.15)	(0.13)	(0.12)	(0.18)	(0.07)

Distributions from capital gains.....	(0.12)	(0.30)	(0.11)	--	--	--
Total distributions.....	(0.22)	(0.45)	(0.24)	(0.12)	(0.18)	(0.07)
Net asset value, end of period.....	\$17.56	\$14.71	\$13.08	\$12.71	\$11.21	\$10.51
Total return.....	21.12%	16.56%	4.85%	14.57%	8.42%	5.88%+
Net assets, end of period (000's).....	\$74,825	\$63,154	\$46,078	\$37,483	\$10,821	\$2,090
Ratio of operating expenses to average net assets (C).....	1.99%	1.99%	1.99%	1.99%	1.94%	1.85% (A)
Ratio of net investment income to average net assets.....	0.45%	1.26%	1.11%	1.12%	1.51%	2.05% (A)
Portfolio turnover rate.....	49%	40%	45%	37%	48%	111% (A)
Average commission rate per share (D)...	\$0.055	N/A	N/A	N/A	N/A	N/A

\* Commencement of operations

+ Non-annualized

(A) Annualized

(B) After expense reimbursement and waiver by the adviser of \$0.03, \$0.04, \$0.05, \$0.06, \$0.15 and \$0.37 per share for the Growth and Income Fund-Class C for the years ended October 31, 1996, 1995, 1994, 1993 and 1992 and the period May 1, 1991 (commencement of operations) to October 31, 1991, respectively.

(C) The ratio of operating expenses, before reimbursement and waiver by the adviser, was 2.20%, 2.26%, 2.38%, 2.46%, 3.18% and 10.69% for the Growth and Income Fund - Class C for the years ended October 31, 1996, 1995, 1994, 1993 and 1992 and the period May 1, 1991 (commencement of operations) to October 31, 1991 on an annualized basis, respectively.

(D) For fiscal years beginning on or after September 1, 1995, a fund is required to disclose its average commission rate per share of all security trades on which commissions are charged.

#### NORTH AMERICAN FUNDS

##### FINANCIAL HIGHLIGHTS (For a Share Outstanding Throughout the Period)

<TABLE>

<CAPTION>

	VALUE EQUITY FUND (FORMERLY, THE GROWTH FUND)					
	YEAR ENDED 10/31/96 CLASS A	YEAR ENDED 10/31/96** CLASS A	04/01/94* TO 10/31/94 CLASS A	YEAR ENDED 10/31/96 CLASS B	YEAR ENDED 10/31/95** CLASS B	04/01/94* TO 10/31/94 CLASS B
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net asset value, beginning of period.....	\$15.94	\$14.78	\$14.59	\$15.84	\$14.77	\$14.59
Income (loss) from investment operations						
Net investment income (loss) (B).....	0.16	0.12	0.02	0.06	0.02	(0.02)
Net realized and unrealized gain on investments.....	2.69	1.83	0.17	2.69	1.84	0.20
Total from investment operations.....	2.85	1.95	0.19	2.75	1.86	0.18
Less distributions						
Distributions from net investment income....	(0.14)	--	--	(0.09)	--	--
Distributions from capital gains.....	(1.28)	(0.79)	--	(1.28)	(0.79)	--
Total distributions.....	(1.42)	(0.79)	--	(1.37)	(0.79)	(0.24)
Net asset value, end of period.....	\$17.37	\$15.94	\$14.78	\$17.22	\$15.84	\$14.77
Total return.....	19.23%	14.22%	4.82% (E)	18.59%	13.58%	4.75% (E)
Net assets, end of period (000's).....	\$28,470	\$22,026	\$16,326	\$27,058	\$19,874	\$5,054
Ratio of operating expenses to average net assets (C).....	1.34%	1.34%	1.34% (A)	1.99%	1.99%	1.99% (A)

Ratio of net investment income (loss) to average net assets.....	0.98%	0.79%	0.13% (A)	0.33%	0.13%	(0.52%) (A)
Portfolio turnover rate.....	169%	54%	39%	169%	54%	39%
Average commission rate per share (D).....	\$0.053	N/A	N/A	\$0.053	N/A	N/A

- \* Commencement of operations  
\*\* Net investment income per share has been calculated using the average shares method for fiscal year 1995.
- (A) Annualized  
(B) After expense reimbursement by the adviser of \$0.04 and \$0.04 per share for the Value Equity Fund - Class A and \$0.04 and \$0.05 per share for the Value Equity Fund - Class B, for the years ended October 31, 1996 and 1995, respectively and \$0.06 and \$0.03 per share for the Value Equity Fund - Classes A and B respectively, for the period April 1, 1994 to October 31, 1994.  
(C) The ratio of operating expenses, before reimbursement by the adviser, was 1.55% and 1.62% for the Value Equity Fund - Class A and 2.20% and 2.32% for the Value Equity Fund - Class B, for the years ended October 31, 1996 and 1995, respectively and 1.79% and 2.82% for the Value Equity Fund - Classes A and B respectively, for the period April 1, 1994 to October 31, 1994 on an annualized basis.  
(D) For fiscal years beginning on or after September 1, 1995, a fund is required to disclose its average commission rate per share of all security trades on which commissions are charged.  
(E) Historical total returns for Classes A and B shares are one year performance returns which include Class C performance prior to April 1, 1994.

NORTH AMERICAN FUNDS  
FINANCIAL HIGHLIGHTS (For a Share Outstanding Throughout the Period)

<TABLE>  
<CAPTION>

	VALUE EQUITY FUND - CLASS C (FORMERLY, THE GROWTH FUND - CLASS C)							08/28/89* TO 10/31/89
	YEARS ENDED OCTOBER 31,							
	1996	1995**	1994	1993	1992	1991	1990	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Net asset value, beginning of period.....	\$15.84	\$14.77	\$14.21	\$12.05	\$10.70	\$8.22	\$11.19	\$12.25
Income (loss) from investment operations								
Net investment income (loss) (B).....	0.06	0.02	(0.07)	0.01	(0.01)	0.02	0.05	0.01
Net realized and unrealized gain (loss) on investments....	2.69	1.84	0.74	2.15	1.37	2.54	(2.39)	(1.07)
Total from investment operations.....	2.75	1.86	0.67	2.16	1.36	2.56	(2.34)	(1.06)
Less distributions								
Dividends from net investment income.....	(0.04)	--	(0.03)	--	--	(0.03)	(0.05)	--
Distributions from capital gains.....	(1.28)	(0.79)	(0.08)	--	--	--	(0.58)	--
Distributions from capital.....	--	--	--	--	(0.01)	(0.05)	--	--
Total distributions...	(1.32)	(0.79)	(0.11)	--	(0.01)	(0.08)	(0.63)	--
Net asset value, end of period.....	\$17.27	\$15.84	\$14.77	\$14.21	\$12.05	\$10.70	\$8.22	\$11.19
Total return.....	18.53%	13.58%	4.75%	17.93%	12.75%	31.32%	(22.16%)	(8.65%) +
Net assets, end of period (000's).....	\$83,855	\$83,719	\$71,219	\$64,223	\$24,291	\$15,354	\$19,370	\$30,627
Ratio of operating expenses to average net assets (C).....	1.99%	1.99%	1.99%	1.99%	2.47%	2.97%	2.85%	2.57% (A)

Ratio of net investment income (loss) to average net assets.....	0.33%	0.15%	(0.49%)	0.27%	(0.15%)	0.27%	0.43%	0.37% (A)
Portfolio turnover rate....	169%	54%	39%	40%	91%	37%	58%	65% (A)
Average commission rate per share (D).....	\$0.053	N/A	N/A	N/A	N/A	N/A	N/A	N/A

- \* Commencement of operations  
\*\* Net investment income per share has been calculated using the average shares method for fiscal year 1995.  
+ Non-annualized  
(A) Annualized  
(B) After expense reimbursement and waiver by the adviser of \$0.03, \$0.04, \$0.04, \$0.02, \$0.05 and \$0.01 per share for the Value Equity Fund - Class C for the years ended October 31, 1996, 1995, 1994, 1993, 1992 and 1991, respectively.  
(C) The ratio of operating expenses, before reimbursement and waiver by the adviser, was 2.20%, 2.23%, 2.29%, 2.35%, 3.00% and 3.12% for the Value Equity Fund - Class C for the years ended October 31, 1996, 1995, 1994, 1993, 1992 and 1991, respectively.  
(D) For fiscal years beginning on or after September 1, 1995, a fund is required to disclose its average commission rate per share of all security trades on which commissions are charged.

<TABLE>  
<CAPTION>  
NORTH AMERICAN FUNDS  
FINANCIAL HIGHLIGHTS (For a Share Outstanding Throughout the Period)

	BALANCED FUND (FORMERLY, THE ASSET ALLOCATION FUND)					
	YEAR ENDED 10/31/96** CLASS A	YEAR ENDED 10/31/95** CLASS A	04/01/94* TO 10/31/94 CLASS A	YEAR ENDED 10/31/96** CLASS B	YEAR ENDED 10/31/95** CLASS B	04/01/94 TO 10/31/94 CLASS B
	<C>	<C>	<C>	<C>	<C>	<C>
Net asset value, beginning of period.....	\$12.02	\$11.13	\$11.06	\$11.98	\$11.12	\$11.06
Income (loss) from investment operations						
Net investment income (B).....	0.39	0.38	0.17	0.31	0.30	0.12
Net realized and unrealized gain (loss) on investments.....	1.07	1.35	(0.10)	1.07	1.36	(0.06)
Total from investment operations.....	1.46	1.73	0.07	1.38	1.66	0.06
Less distributions						
Dividends from net investment income.....	(0.40)	(0.32)	--	(0.35)	(0.28)	--
Distributions from capital gains.....	(0.75)	(0.52)	--	(0.75)	(0.52)	--
Total distributions.....	(1.15)	(0.84)	--	(1.10)	(0.80)	--
Net asset value, end of period.....	\$12.33	\$12.02	\$11.13	\$12.26	\$11.98	\$11.12
Total return.....	13.10%	16.95%	0.76% (E)	12.35%	16.31%	0.67% (E)
Net assets, end of period (000's).....	\$10,873	\$10,033	\$7,830	\$16,219	\$9,875	\$4,760
Ratio of operating expenses to average net assets (C).....	1.34%	1.34%	1.34% (A)	1.99%	1.99%	1.99% (A)
Ratio of net investment income to average net assets.....	3.32%	3.39%	2.72% (A)	2.67%	2.69%	2.07% (A)
Portfolio turnover rate.....	253%	226%	246%	253%	226%	246%
Average commission rate per share (D).....	\$0.059	N/A	N/A	\$0.059	N/A	N/A

\* Commencement of operations

- \*\* Net investment income per share has been calculated using the average shares method.
- (A) Annualized
- (B) After expense reimbursement by the adviser of \$0.02 and \$0.04 for the Balanced Fund - Class A and \$0.02 and \$0.04 for the Balanced Fund - Class B, for the years ended October 31, 1996 and 1995, respectively and \$0.03 and \$0.04 for the Balanced Fund - Classes A and B respectively, for the period April 1, 1994 to October 31, 1994.
- (C) The ratio of operating expenses, before reimbursement by the adviser, was 1.55% and 1.69% for the Balanced Fund - Class A and 2.20% and 2.37% for the Balanced Fund - Class B, for the years ended October 31, 1996 and 1995, respectively and 1.86% and 2.73% for the Balanced Fund - Classes A and B respectively, for the period April 1, 1994 to October 31, 1994 on an annualized basis.
- (D) For fiscal years beginning on or after September 1, 1995, a fund is required to disclose its average commission rate per share of all security trades on which commissions are charged.
- (E) Historical total returns for Classes A and B shares are one year performance returns which include Class C performance prior to April 1, 1994.

NORTH AMERICAN FUNDS  
FINANCIAL HIGHLIGHTS (For a Share Outstanding Throughout the Period)

<S>	BALANCED FUND - CLASS C (E) (FORMERLY, THE ASSET ALLOCATION FUND - CLASS C (E))							08/28/89* TO 10/31/89
	YEARS ENDED OCTOBER 31,							
	1996**	1995**	1994	1993	1992	1991	1990	
<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	
Net asset value, beginning of period.....	\$12.02	\$11.12	\$11.52	\$10.20	\$9.76	\$8.12	\$9.84	\$10.17
Income (loss) from investment operations								
Net investment income (B)...	0.32	0.31	0.22	0.21	0.20	0.27	0.32	0.05
Net realized and unrealized gain (loss) on investments....	1.07	1.35	(0.15)	1.30	0.87	1.70	(1.66)	(0.38)
Total from investment operations.....	1.39	1.66	0.07	1.51	1.07	1.97	(1.34)	(0.33)
Less distributions								
Dividends from net investment income.....	(0.31)	(0.24)	(0.18)	(0.09)	(0.19)	(0.33)	(0.26)	-----
Distributions from capital gains.....	(0.75)	(0.52)	(0.29)	(0.10)	(0.44)	-----	-----	-----
Distributions from capital.....	-----	-----	-----	-----	-----	-----	(0.12)	-----
Total distributions...	(1.06)	(0.76)	(0.47)	(0.19)	(0.63)	(0.33)	(0.38)	-----
Net asset value, end of period.....	\$12.35	\$12.02	\$11.12	\$11.52	\$10.20	\$9.76	\$8.12	\$9.84
Total return.....	12.41%	16.25%	0.67%	15.02%	11.25%	24.53%	(13.97%)	(3.24%)+
Net assets, end of period (000's).....	\$72,821	\$80,626	\$86,902	\$96,105	\$48,160	\$30,724	\$34,713	\$43,915
Ratio of operating expenses to average net assets (C)...	1.99%	1.99%	1.99%	1.99%	2.40%	2.88%	2.63%	2.13% (A)
Ratio of net investment income to average net assets.....	2.67%	2.76%	1.93%	1.96%	1.93%	2.77%	3.34%	3.09% (A)
Portfolio turnover rate....	253%	226%	246%	196%	171%	84%	73%	84% (A)
Average commission rate per share (D).....	\$0.059	N/A	N/A	N/A	N/A	N/A	N/A	N/A

</TABLE>

- \* Commencement of operations
- \*\* Net investment income per share has been calculated using the average shares method.
- + Non-annualized
- (A) Annualized
- (B) After expense reimbursement and waiver by the adviser of \$0.01, \$0.03, \$0.04, \$0.03 and \$0.04 for the Balanced Fund - Class C for the years ended October 31, 1996, 1995, 1994, 1993 and 1992, respectively.
- (C) The ratio of operating expenses, before reimbursement and waiver by the adviser, was 2.20%, 2.24%, 2.22%, 2.28% and 2.89% for the Balanced Fund - Class C for the years ended October 31, 1996, 1995, 1994, 1993 and 1992, respectively.
- (D) For fiscal years beginning on or after September 1, 1995, a fund is required to disclose its average commission rate per share of all security trades on which commissions are charged.
- (E) On July 10, 1992, the Aggressive Fund and Conservative Fund portfolios of the old Asset Allocation Funds were liquidated and shares were exchanged for shares of the new Asset Allocation Fund. The new Asset Allocation Fund is comprised of the Moderate Fund portfolio of the old Asset Allocation Fund (the accounting "survivor") and the assets of the former Aggressive and Conservative portfolios of the old Asset Allocation Funds. For purposes of presenting financial highlights - selected per share data and ratios, only the historical results of the old Moderate Fund have been presented since it is considered the accounting survivor of the merger because, among other reasons, the investment objective of the new Asset Allocation Fund is substantially the same as that of the old Moderate Fund. At the date of the merger, 3,567,198 shares of the old Moderate Fund with a per share value of \$8.11 were decreased to 2,891,572 shares with a per share value of \$10.00, similar to a reverse stock split, and re-named as shares of the new Asset Allocation Fund. The historical per share data presented above has been adjusted as though a reverse stock split had occurred at the beginning of the earliest period presented which results in fewer shares outstanding at a correspondingly higher net asset value per share.

NORTH AMERICAN FUNDS  
 FINANCIAL HIGHLIGHTS (For a Share Outstanding Throughout the Period)

<TABLE>  
 <CAPTION>

	STRATEGIC INCOME FUND								
	YEAR ENDED 10/31/96 CLASS A	YEAR ENDED 10/31/95 CLASS A	11/01/93* TO 10/31/94 CLASS A	YEAR ENDED 10/31/96 CLASS B	YEAR ENDED 10/31/95 CLASS B	04/01/94* TO 10/31/94 CLASS B	YEAR ENDED 10/31/96 CLASS C	YEAR ENDED 10/31/95 CLASS C	4/01/94* TO 10/31/94 CLASS C
Net asset value, beginning of period.....	\$ 9.07	\$ 8.90	\$ 10.00	\$ 9.07	\$ 8.90	\$ 9.31	\$ 9.07	\$ 8.90	\$ 9.31
Income (loss) from investment operations									
Net investment income (B)..	0.80	0.78	0.65	0.73	0.73	0.38	0.73	0.73	0.38
Net realized and unrealized gain (loss) on investments and foreign currency transactions.....	0.72	0.18	(1.10)	0.73	0.17	(0.41)	0.73	0.17	(0.41)
Total from investment operations.....	1.52	0.96	(0.45)	1.46	0.90	(0.03)	1.46	0.90	(0.03)
Less distributions									
Dividends from net investment income.....	(0.79)	(0.79)	(0.65)	(0.73)	(0.73)	(0.38)	(0.73)	(0.73)	(0.38)
Net asset value, end of period.....	\$ 9.80	\$ 9.07	\$ 8.90	\$ 9.80	\$ 9.07	\$ 8.90	\$ 9.80	\$ 9.07	\$ 8.90
Total return.....	17.35%	11.43%	(3.79%)	16.59%	10.72%	(4.18%) (D)	16.59%	10.72%	(4.20%) (D)
Net assets, end of period (000's).....	\$13,382	\$ 10,041	\$15,507	\$ 30,890	\$20,672	\$ 5,440	\$22,783	\$ 14,273	\$8,439
Ratio of operating									

expenses to average net assets (C)....	1.50%	1.07%	0.41%	2.15%	1.95%	1.00% (A)	2.15%	1.95%	1.00% (A)
Ratio of net investment income to average net assets.....	8.28%	9.08%	8.26%	7.63%	8.10%	8.59% (A)	7.63%	8.25%	8.59% (A)
Portfolio turnover rate....	68%	180%	136%	68%	180%	136%	68%	180%	136%

\* Commencement of operations

(A) Annualized

(B) After expense reimbursement and waiver by the adviser of \$0.01, \$0.05 and \$0.04 per share for the Strategic Income Fund - Class A for the years ended October 31, 1996, 1995 and 1994, respectively, \$0.01 and \$0.04 for the Strategic Income Fund - Class B and \$0.01 and \$0.05 for the Strategic Income Fund - Class C, for the years ended October 31, 1996 and 1995, respectively and \$0.05 and \$0.04 for the Strategic Income Fund - Classes B and C respectively, for the period April 1, 1994 to October 31, 1994.

(C) The ratio of operating expenses, before reimbursement and waiver by the adviser, was 1.65%, 1.69% and 0.96% for the Strategic Income Fund - Class A for the years ended October 31, 1996, 1995 and 1994, respectively. The ratio of operating expenses, before reimbursement and waiver by the adviser, was 2.27% and 2.38% for the Strategic Income Fund - Class B and 2.28% and 2.37% for the Strategic Income Fund - Class C, for the years ended October 31, 1996 and 1995, respectively and 2.04% and 1.96% for the Strategic Income Fund - Classes B and C respectively, for the period April 1, 1994 to October 31, 1994 on an annualized basis.

(D) Historical total returns for Classes B and C shares are one year performance returns which include Class A performance prior to April 1, 1994.

<TABLE>

<CAPTION>

NORTH AMERICAN FUNDS

FINANCIAL HIGHLIGHTS (For a Share Outstanding Throughout the Period)

	Investment Quality Bond Fund - Class A					
	Years Ended October 31,					05/01/91* to 10/31/91
	1996	1995	1994	1993	1992	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net asset value, beginning of period....	\$10.56	\$9.74	\$11.16	\$10.56	\$10.26	\$10.00
Income (loss) from investment operations						
Net investment income (B).....	0.66	0.68	0.60	0.66	0.82	0.40
Net realized and unrealized gain (loss) on investments.....	(0.20)	0.82	(1.37)	0.64	0.27	0.30
Total from investment operations.....	0.46	1.50	(0.77)	1.30	1.09	0.70
Less distributions						
Dividends from net investment income....	(0.68)	(0.68)	(0.56)	(0.64)	(0.79)	(0.40)
Distributions from capital gains.....	----	----	(0.09)	(0.06)	----	----
Distributions from capital.....	----	----	----	----	----	(0.04)
Total distributions.....	(0.68)	(0.68)	(0.65)	(0.70)	(0.79)	(0.44)
Net asset value, end of period.....	\$10.34	\$10.56	\$ 9.74	\$11.16	\$10.56	\$10.26
Total return.....	4.52%	15.91%	(7.08%)	12.66%	11.00%	7.21% +
Net assets, end of period (000's).....	\$9,056	\$10,345	\$11,150	\$14,674	\$6,773	\$ 2,713
Ratio of operating expenses to average net assets (C).....	1.25%	1.25%	1.25%	0.98%	0.00%	0.00% (A)
Ratio of net investment income to average net assets.....	6.37%	6.72%	5.86%	5.82%	7.76%	7.08% (A)
Portfolio turnover rate.....	56%	132%	186%	41%	44%	39% (A)

- \* Commencement of operations
- + Non-annualized
- (A) Annualized
- (B) After expense reimbursement and waiver by the adviser of \$0.03, \$0.05, \$0.06, \$0.07, \$0.27 and \$0.19 per share for the Investment Quality Bond Fund - Class A for the years ended October 31, 1996, 1995, 1994, 1993 and 1992 and the period May 1, 1991 (commencement of operations) to October 31, 1991, respectively.
- (C) The ratio of operating expenses, before reimbursement and waiver by the adviser, was 1.55%, 1.73%, 1.74%, 1.57%, 2.56% and 3.37% for the Investment Quality Bond Fund - Class A for the years ended October 31, 1996, 1995, 1994, 1993 and 1992 and the period May 1, 1991 (commencement of operations) to October 31, 1991 on an annualized basis, respectively.

NORTH AMERICAN FUNDS  
FINANCIAL HIGHLIGHTS (For a Share Outstanding Throughout the Period)

<TABLE>  
<CAPTION>

INVESTMENT QUALITY BOND FUND						
	YEAR ENDED 10/31/96 CLASS B	YEAR ENDED 10/31/95 CLASS B	04/01/94* TO 10/31/94 CLASS B	YEAR ENDED 10/31/96 CLASS C	YEAR ENDED 10/31/96 CLASS C	04/01/94* TO 10/31/94 CLASS C
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net asset value, beginning of period....	\$10.55	\$ 9.74	\$10.21	\$ 10.55	\$ 9.74	\$10.21
Income (loss) from investment operations						
Net investment income (B).....	0.60	0.61	0.33	0.60	.61	0.33
Net realized and unrealized gain (loss) on investments.....	(0.20)	0.82	(0.51)	(0.20)	0.82	(0.51)
Total from investment operations.....	0.40	1.43	(0.18)	0.40	1.43	(0.18)
Less distributions						
Dividends from net investment income....	(0.62)	(0.62)	(0.29)	(0.62)	(0.62)	(0.29)
Net asset value, end of period.....	\$10.33	\$10.55	\$ 9.74	\$ 10.33	\$ 10.55	\$ 9.74
Total return.....	3.92%	15.12%	(7.34%) (D)	3.92%	15.12%	(7.34%) (D)
Net assets, end of period (000's).....	\$4,678	\$3,472	\$ 489	\$7,543	\$7,206	\$2,406
Ratio of operating expenses to average net assets (C).....	1.90%	1.90%	1.90% (A)	1.90%	1.90%	1.90% (A)
Ratio of net investment income to average net assets.....	5.72%	5.95%	5.70% (A)	5.72%	6.00%	5.70% (A)
Portfolio turnover rate.....	56%	132%	186%	56%	132%	186%

</TABLE>

- \* Commencement of operations
- + Non-annualized
- (A) Annualized
- (B) After expense reimbursement by the adviser of \$0.03 and \$0.08 per share for the Investment Quality Bond Fund - Class B and \$0.03 and \$0.06 per share for the Investment Quality Bond Fund - Class C, for the years ended October 31, 1996 and 1995, respectively and \$0.19 and \$0.07 per share for the Investment Quality Bond Fund - Classes B and C respectively, for the period April 1, 1994 to October 31, 1994.
- (C) The ratio of operating expenses, before reimbursement by the adviser, was 2.27% and 2.69% for the Investment Quality Bond Fund - Class B and 2.22% and 2.50% for the Investment Quality Bond Fund - Class C, for the years ended October 31, 1996 and 1995, respectively and 4.88% and 3.05% for the Investment Quality Bond Fund - Classes B and C respectively, for the period April 1, 1994 to October 31, 1994 on an annualized basis.
- (D) Historical total returns for Classes B and C shares are one year performance returns which include Class A performance prior to April 1, 1994.

<TABLE>  
<CAPTION>

NATIONAL MUNICIPAL BOND FUND - CLASS A

	YEARS ENDED OCTOBER 31,			07/06/93*
	1996	1995	1994	TO 10/31/93
<S>	<C>	<C>	<C>	<C>
Net asset value, beginning of period....	\$ 9.62	\$ 8.82	\$10.25	\$ 10.00
Income (loss) from investment operations				
Net investment income (B).....	0.48	0.51	0.51	0.17
Net realized and unrealized gain (loss) on investments.....	0.11	0.80	(1.43)	0.24
Total from investment operations.....	0.59	1.31	(0.92)	0.41
Less distributions				
Dividends from net investment income....	(0.48)	(0.51)	(0.51)	(0.16)
Net asset value, end of period.....	\$ 9.73	\$ 9.62	\$ 8.82	\$ 10.25
Total return.....	6.31%	15.26%	(9.24%)	4.17%+
Net assets, end of period (000's).....	\$7,710	\$7,618	\$7,663	\$ 9,131
Ratio of operating expenses to average net assets (C).....	0.99%	0.80%	0.57%	0.23% (A)
Ratio of net investment income to average net assets.....	4.99%	5.55%	5.28%	4.86% (A)
Portfolio turnover rate.....	49%	44%	6%	150% (A)

\* Commencement of operations  
+ Non-annualized

(A) Annualized

(B) After expense reimbursement and waiver by the adviser of \$0.03, \$0.05, \$0.07 and \$0.03 per share for the National Municipal Bond Fund - Class A for the years ended October 31, 1996, 1995 and 1994 and the period July 6, 1993 (commencement of operations) to October 31, 1993, respectively.

(C) The ratio of operating expenses, before reimbursement and waiver by the adviser, was 1.25%, 1.34%, 1.26% and 1.10% for the National Municipal Bond Fund - Class A for the years ended October 31, 1996, 1995 and 1994 and the period July 6, 1993 (commencement of operations) to October 31, 1993 on an annualized basis, respectively.

NORTH AMERICAN FUNDS  
FINANCIAL HIGHLIGHTS (FOR A SHARE OUTSTANDING THROUGHOUT THE PERIOD)

<TABLE>  
<CAPTION>

	NATIONAL MUNICIPAL BOND FUND					
	YEAR ENDED 10/31/96 CLASS B	YEAR ENDED 10/31/95 CLASS B	04/01/94* TO 10/31/94 CLASS B	YEAR ENDED 10/31/96 CLASS C	YEAR ENDED 10/31/95 CLASS C	04/01/94* TO 10/31/94 CLASS C
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net asset value, beginning of period.....	\$9.62	\$8.81	\$9.30	\$9.62	\$8.81	\$9.30
Income (loss) from investment operations						
Net investment income (B)..	0.40	0.43	0.25	0.40	0.43	0.25
Net realized and unrealized gain (loss) on investments.....	0.11	0.81	(0.49)	0.11	0.81	(0.49)
Total from investment operations.....	0.51	1.24	(0.24)	0.51	1.24	(0.24)
Less distributions						
Dividends from net investment income.....	(0.40)	(0.43)	(0.25)	(0.40)	(0.43)	(0.25)
Net asset value, end of period.....	\$9.73	\$9.62	\$8.81	\$9.73	\$9.62	\$8.81

Total return.....	5.41%	14.42%	(9.71%) (D)	5.41%	14.42%	(9.71%) (D)
Net assets, end of period (000's).....	\$6,130	\$5,876	\$2,036	\$5,693	\$6,834	\$1,911
Ratio of operating expenses to average net assets (C).....	1.84%	1.70%	1.24% (A)	1.84%	1.70%	1.24% (A)
Ratio of net investment income to average net assets.....	4.14%	4.59%	4.62% (A)	4.14%	4.53%	4.62% (A)
Portfolio turnover rate.....	49%	44%	6%	49%	44%	6%

</TABLE>

\* Commencement of operations

(A) Annualized

(B) After expense reimbursement and waiver by the adviser of \$0.03 and \$0.07 per share for the National Municipal Bond Fund - Class B and \$0.04 and \$0.09 per share for the National Municipal Bond Fund - Class C, for the years ended October 31, 1996 and 1995, respectively and \$0.09 and \$0.09 per share for the National Municipal Bond Fund - Classes B and C respectively, for the period April 1, 1994 to October 31, 1994.

(C) The ratio of operating expenses, before reimbursement and waiver by the adviser, was 2.11% and 2.41% for the National Municipal Bond Fund - Class B and 2.25% and 2.63% for the National Municipal Bond Fund - Class C, for the years ended October 31, 1996 and 1995, respectively and 2.81% and 2.78% for the National Municipal Bond Fund - Classes B and C respectively, for the period April 1, 1994 to October 31, 1994 on an annualized basis.

(D) Historical total returns for Classes B and C shares are one year performance returns which include Class A performance prior to April 1, 1994.

<TABLE>

<CAPTION>

NORTH AMERICAN FUNDS

FINANCIAL HIGHLIGHTS (For a Share Outstanding Throughout the Period)

	U.S. GOVERNMENT SECURITIES FUND - CLASS A							
	YEARS ENDED OCTOBER 31,							08/28/89*
	1996**	1995	1994	1993	1992	1991	1990	TO 10/31/89
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Net asset value, beginning of period.....	\$ 9.98	\$ 9.45	\$ 10.35	\$ 10.04	\$ 9.89	\$ 9.47	\$ 9.74	\$ 9.73
Income (loss) from investment operations								
Net investment income (B)...	0.56	0.63	0.53	0.51	0.74	0.84	0.75	0.15
Net realized and unrealized gain (loss) on investments.....	(0.12)	0.57	(0.74)	0.34	0.13	0.42	(0.20)	0.01
Total from investment operations.....	0.44	1.20	(0.21)	0.85	0.87	1.26	0.55	0.16
Less distributions								
Dividends from net investment income.....	(0.56)	(0.67)	(0.50)	(0.50)	(0.72)	(0.84)	(0.75)	(0.15)
Dividends in excess of net investment income.....	(0.06)	----	----	----	----	----	----	----
Distributions from capital gains.....	----	----	(0.19)	(0.04)	----	----	----	----
Distributions from capital.	----	----	----	----	----	----	(0.07)	----
Total distributions...	(0.62)	(0.67)	(0.69)	(0.54)	(0.72)	(0.84)	(0.82)	(0.15)
Net asset value, end of period.....	\$ 9.80	\$ 9.98	\$ 9.45	\$ 10.35	\$ 10.04	\$ 9.89	\$ 9.47	\$ 9.74
Total return.....	4.64%	13.15%	(2.13%)	8.64%	9.15%	13.86%	5.90%	1.66% +

Net assets, end of period (000's).....	\$72,774	\$81,179	\$100,622	\$163,296	\$118,543	\$45,662	\$43,299	\$ 56,069
Ratio of operating expenses to average net assets (C)...	1.25%	1.25%	1.25%	1.07%	0.24%	0.68%	2.28%	2.18% (A)
Ratio of net investment income to average net assets.....	5.71%	6.54%	5.39%	4.97%	7.21%	8.65%	7.89%	8.54% (A)
Portfolio turnover rate....	477%	469%	279%	208%	108%	195%	71%	93% (A)

\* Commencement of operations

\*\* Net investment income per share has been calculated using the average shares method.

+ Non-annualized

(A) Annualized

(B) After expense reimbursement and waiver by the adviser of \$0.02, \$0.02, \$0.02, \$0.04, \$0.19, \$0.18 and \$0.03 per share for the U.S. Government Securities Fund - Class A for the years ended October 31, 1996, 1995, 1994, 1993, 1992, 1991 and 1990, respectively.

(C) The ratio of operating expenses, before reimbursement and waiver by the adviser, was 1.41%, 1.45%, 1.47%, 1.42%, 2.13%, 2.61% and 2.57% for the years ended October 31, 1996, 1995, 1994, 1993, 1992, 1991 and 1990, respectively.

<TABLE>

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NORTH AMERICAN FUNDS

FINANCIAL HIGHLIGHTS (For a Share Outstanding Throughout the Period)

U.S. GOVERNMENT SECURITIES FUND						
	YEAR ENDED 10/31/96** CLASS B	YEAR ENDED 10/31/95 CLASS B	04/01/94* TO 10/31/94* CLASS B	YEAR ENDED 10/31/96 CLASS C	YEAR ENDED 10/31/95 CLASS C	04/01/94 * TO 10/31/94 CLASS C
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net asset value, beginning of period.....	\$9.98	\$9.45	\$9.77	\$9.98	\$9.45	\$9.77
Income (loss) from investment operations						
Net investment income (B)..	0.50	0.56	0.29	0.50	0.56	0.26
Net realized and unrealized gain (loss) on investments.....	(0.12)	0.58	(0.35)	(0.12)	0.58	(0.32)
Total from investment operations.....	0.38	1.14	(0.06)	0.38	1.14	(0.06)
Less distributions						
Dividends from net investment income.....	(0.50)	(0.61)	(0.26)	(0.50)	(0.61)	(0.26)
Dividends in excess of net investment income.....	(0.06)	----	----	(0.06)	----	----
Total distributions...	(0.56)	(0.61)	(0.26)	(0.56)	(0.61)	(0.26)
Net asset value, end of period.....	\$9.80	\$9.98	\$9.45	\$9.80	\$9.98	\$9.45
Total return.....	3.97%	12.45%	(2.44%) (D)	3.97%	12.45%	(2.44%) (D)
Net assets, end of period (000's).....	\$19,444	\$13,993	\$2,746	\$20,009	\$20,186	\$10,766
Ratio of operating						

expenses to average net assets (C).....	1.90%	1.90%	1.90% (A)	1.90%	1.90%	1.90% (A)
Ratio of net investment income to average net assets.....	5.06%	5.53%	5.06% (A)	5.06%	5.74%	5.06% (A)
Portfolio turnover rate....	477%	469%	279%	477%	469%	279%

\* Commencement of operations  
\*\* Net investment income per share has been calculated using the average shares method.

(A) Annualized

(B) After expense reimbursement by the adviser of \$0.02 and \$0.04 per share for the U.S. Government Securities Fund - Class B and \$0.02 and \$0.03 per share for the U.S. Government Securities Fund - Class C, for the years ended October 31, 1996 and 1995, respectively and \$0.08 and \$0.03 per share for the U.S. Government Securities Fund - Classes B and C respectively, for the period April 1, 1994 to October 31, 1994.

(C) The ratio of operating expenses, before reimbursement by the adviser, was 2.06% and 2.28% for the U.S. Government Securities Fund - Class B and 2.06% and 2.15% for the U.S. Government Securities Fund - Class C, for the years ended October 31, 1996 and 1995, respectively and 3.40% and 2.44% for the U.S. Government Securities Fund - Classes B and C respectively, for the period April 1, 1994 to October 31, 1994 on an annualized basis.

(D) Historical total returns for Classes B and C shares are one year performance returns which include Class A performance prior to April 1, 1994.

NORTH AMERICAN FUNDS

FINANCIAL HIGHLIGHTS (For a Share Outstanding Throughout the Period)

MONEY MARKET FUND - CLASS A								
YEARS ENDED OCTOBER 31,								08/28/89* TO 10/31/89
1996	1995	1994	1993	1992	1991	1990		
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Net asset value, beginning of period.....	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
Income from investment operations	-----							
Net investment income (B) ..	0.05	0.05	0.03	0.03	0.04	0.06	0.06	0.01
Less distributions	-----							
Dividends from net investment income.....	(0.05)	(0.05)	(0.03)	(0.03)	(0.04)	(0.06)	(0.06)	(0.01)
Net asset value, end of period.....	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
	=====	=====	=====	=====	=====	=====	=====	=====
Total return.....	5.16%	5.60%	3.48%	2.80%	3.69%	6.22%	5.76%	0.53% +
Net assets, end of period (000's).....	\$8,087	\$11,379	\$8,499	\$18,109	\$2,244	\$3,421	\$4,526	\$7,781
Ratio of operating expenses to average net assets (C).....	0.50%	0.50%	0.50%	0.50%	0.50%	1.00%	2.45%	1.96% (A)
Ratio of net investment income to average net assets.....	5.02%	5.45%	3.40%	2.75%	3.77%	6.01%	5.52%	6.59% (A)

\* Commencement of operations  
+ Non-annualized  
(A) Annualized  
(B) After expense reimbursement and waiver by the adviser of \$0.004, \$0.004, \$0.0044, \$0.0084, \$0.0211, \$0.0270 and \$0.0002 per share for the Money Market Fund - Class A for the years ended October 31, 1996, 1995, 1994, 1993, 1992, 1991 and 1990, respectively.

(C) The ratio of operating expenses, before reimbursement and waiver by the adviser, was 0.95%, 0.96%, 0.95%, 1.32%, 2.71%, 2.68% and 2.47% for the Money Market Fund - Class A for the years ended October 31, 1996, 1995, 1994, 1993, 1992, 1991 and 1990, respectively.

<TABLE>  
<CAPTION>

MONEY MARKET FUND						
	YEAR ENDED 10/31/96	YEAR ENDED 10/31/95	04/01/94* TO 10/31/94	YEAR ENDED 10/31/96	YEAR ENDED 10/31/95	04/01/94* TO 10/31/94
	CLASS B	CLASS B	CLASS B	CLASS C	CLASS C	CLASS C
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net asset value, beginning of period.....	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00
Income from investment operations						
Net investment income (B).....	0.05	0.05	0.02	0.05	0.05	0.02
Less distributions						
Dividends from net investment income investment income.....	(0.05)	(0.05)	(0.02)	(0.05)	(0.05)	(0.02)
Net asset value, end of period.....	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00
Total return.....	5.16%	5.60%	3.48% (D)	5.16%	5.60%	3.48% (D)
Net assets, end of period (000's).....	\$ 3,062	\$1,564	\$ 312	\$9,840	\$9,394	\$12,170
Ratio of operating expenses to average net assets (C).....	0.50%	0.50%	0.50% (A)	0.50%	0.50%	0.50% (A)
Ratio of net investment income to average net assets.....	5.02%	5.52%	3.96% (A)	5.02%	5.46%	3.96% (A)

</TABLE>

\* Commencement of operations

(A) Annualized

(B) After expense reimbursement by the adviser of \$0.007 and \$0.009 per share for the Money Market Fund - Class B and \$0.005 and \$0.005 per share for the Money Market Fund - Class C, for the years ended October 31, 1996 and 1995, respectively and \$0.0228 and \$0.0037 per share for the Money Market Fund - Classes B and C respectively, for the period April 1, 1994 to October 31, 1994.

(C) The ratio of operating expenses, before reimbursement by the adviser, was 1.18% and 1.41% for the Money Market Fund - Class B and 0.98% and 0.95% for the Money Market Fund - Class C, for the years ended October 31, 1996 and 1995, respectively and 4.83% and 1.18% for the Money Market Fund - Classes B and C respectively, for the period April 1, 1994 to October 31, 1994 on an annualized basis.

(D) Historical total returns for Classes B and C shares are one year performance returns which include Class A performance prior to April 1, 1994.

#### MULTIPLE PRICING SYSTEM

The Fund's Multiple Pricing System permits an investor to choose the method of purchasing shares that is most beneficial given the amount of the purchase and the length of time the investor expects to hold the shares.

Class A Shares. Purchases of Class A shares of less than \$1 million are offered for sale at net asset value per share plus a front end sales charge of up to 4.75% payable at the time of purchase (with the exception of Class A shares of the Money Market Fund, which are offered without such a charge). Purchases of Class A shares of \$1 million or more made on or after May 1, 1995 are offered for sale at net asset value without a front end sales charge but are subject to a contingent deferred sales charge ("CDSC") of 1% of the dollar amount subject thereto during the first year after purchase. See "MULTIPLE PRICING SYSTEM-Contingent Deferred Sales Charge." In addition, Class A shares are subject to a distribution fee of up to .10% of their respective average annual net assets and a service fee of up to .25% of their respective average annual net assets (with the exception of Class A shares of the Money Market Fund, which bear not such fees, and Class A shares of the National Municipal

Bond Fund, which are subject to a service fee of up to .15% of Class A average annual net assets and are not subject to any distribution fee). Certain purchases of Class A shares qualify for reduced front end sales charges. See "PURCHASE OF SHARES--Class A Shares--Reduced Sales Charges" and "--Distribution Expenses."

**Class B Shares.** Class B shares are offered for sale for purchases of \$250,000 or less. Class B shares are offered for sale at net asset value without a front end sales charge, but are subject to a CDSC of 5% of the dollar amount subject thereto during the first and second year after purchase, and declining by 1% each year thereafter to 0% after the sixth year. See "MULTIPLE PRICING SYSTEM - Contingent Deferred Sales Charge." In addition, Class B shares are subject to a distribution fee of up to .75% of their respective average annual net assets and a service fee of up to .25% of their respective average annual net assets (with the exception of Class B shares of the Money Market Fund, which bear no such fees). The Class B shares enjoy the benefit of permitting all of the investor's dollars to work from the time the investment is made. The higher ongoing distribution and service fees paid by Class B shares will cause such shares to have a higher expense ratio and to pay lower dividends than Class A shares. See "PURCHASE OF SHARES--Class B Shares" and "--Distribution Expenses." Class B shares will automatically convert to Class A shares six years after the end of the calendar month in which the shareholder's order to purchase was accepted. See "MULTIPLE PRICING SYSTEM--Conversion Feature."

**Class C Shares.** Class C shares are offered for purchases of less than \$1 million, at net asset value without a front end sales charge. Class C shares purchased on or after May 1, 1995 are subject to a CDSC of 1% of the dollar amount subject thereto during the first year after purchase. Shares purchased prior to May 1, 1995 are not subject to any CDSC upon redemption. See "MULTIPLE CLASS PRICING SYSTEM-Contingent Deferred Sales Charge." Class C shares are subject to a distribution fee of up to .75% of their respective average annual net assets and a service fee of up to .25% of their respective average annual net assets (with the exception of Class C shares of the Money Market Fund, which bear no such fees). Class C shares, like Class B shares, enjoy the benefit of permitting all of the investor's dollars to work from the time the investment is made. The higher ongoing distribution and service fees paid by Class C shares will cause such shares to have a higher expense ratio and to pay lower dividends than Class A shares. See "PURCHASE OF SHARES--Class C Shares" and "--Distribution Expenses." Class C shares will automatically convert to Class A shares ten years after the end of the calendar month in which the shareholder's order to purchase was accepted. See "MULTIPLE PRICING SYSTEM --Conversion Feature."

**Contingent Deferred Sales Charge.** Purchases of \$1 million or more of Class A shares made on or after May 1, 1995 are subject to a CDSC of 1% if redeemed within one year of purchase; purchases of Class B shares are subject to a CDSC of 5% during the first and second year after purchase declining by 1% each year thereafter to 0% after the sixth year; and Class C shares purchased on or after May 1, 1995 are subject to a CDSC of 1% if redeemed within one year of purchase. The applicable percentage is assessed on an amount equal to the lesser of the original purchase price or the redemption price of the shares redeemed. The CDSC is not applicable with respect to redemption of shares of the Money Market Fund which were initially purchased as such and which were never exchanged for shares of the same class of another Portfolio. However, in the case of shares of the Money Market Fund which were obtained through an exchange, such shares are subject to any applicable CDSC due at redemption. Similarly, shares initially purchased as shares of the Money Market Fund which are subsequently exchanged for shares of the same class of other Portfolios will be subject to any applicable CDSC due at redemption. See "SHAREHOLDER SERVICES --Exchange Privilege."

**Conversion Feature.** Class B shares and Class C shares will automatically convert to Class A shares six years and ten years, respectively, after the end of the calendar month in which the shareholder's order to purchase was accepted and will thereafter no longer be subject to the higher distribution and service fees. Such conversion will be on the basis of the relative net asset values per share, without the imposition of any sales charge, fee or other charge. The purpose of the conversion feature is to relieve the holders of Class B shares and Class C shares from most of the burden of distribution-related expenses at such time as when the shares have been outstanding for a duration sufficient for the Fund's distributor. NASL Financial Services, Inc. (in such capacity, the "Distributor"), to have been substantially compensated for distribution-related expenses incurred in connection with Class B shares or Class C shares, as the case may be.

Accordingly, Class B and Class C shares of the Money Market Fund do not convert to Class A shares of the Money Market Fund at any time, as shares of all classes of the Money Market Fund do not bear any distribution or service fees. In addition, because Class B and Class C shares of the Money Market Fund are not

subject to any distribution or service fees, the applicable conversion period is tolled for any period of time in which Class B or Class C shares are held in that Portfolio. For example, if Class B shares of a Portfolio other than the Money Market Fund are exchanged for Class B shares of the Money Market Fund two years after purchase and are subsequently exchanged one year later for Class B shares of a Portfolio other than the Money Market Fund, the one year of ownership in the Money Market Fund does not count in the determination of the time of conversion to Class A shares.

For purposes of the conversion of Class B and Class C shares to Class A shares, shares purchased through the reinvestment of dividends and distributions paid on Class B shares or Class C shares, as the case may be, in a shareholder's Fund account will be considered to be held in a separate sub-account. Each time any Class B shares or Class C shares in the shareholder's Fund account (other than those in the sub-account) convert to Class A shares, a pro rata portion of the Class B shares or Class C shares, as the case may be, in the sub-account will also convert to Class A shares.

The conversion of Class B shares to Class A shares and the conversion of Class C shares to Class A shares are both subject to the continuing availability of a ruling of the Internal Revenue Service that payment of different dividends on Class A shares and Class B shares, and on Class A shares and Class C shares, does not result in the Portfolios' dividends or distributions constituting "preferential dividends" under the Internal Revenue Code of 1986, as amended (the "Code"), and the continuing availability of an opinion of counsel to the effect that the conversion of shares does not constitute a taxable event under Federal income tax law. The conversion of Class B shares and Class C shares may be suspended if such an opinion is no longer available. In that event, no further conversions of Class B shares or Class C shares would occur, and those shares might continue to be subject to higher distribution and service fees for an indefinite period which may extend beyond the period ending six years or ten years, respectively, after the end of the calendar month in which the shareholder's order to purchase was accepted.

Factors for Consideration. The Fund's Multiple Pricing System is designed to provide investors with the option of choosing the class of shares which is best suited to their individual circumstances and objectives. The different sales charges, distribution and service fees and conversion features applicable to each class, as outlined above, should all be taken into consideration by investors in making the determination of which alternative is best suited for them. To assist investors in evaluating the costs and benefits of purchasing shares of each class, the information provided above under the caption "Fee Table and Example" sets forth the charges applicable to each class of shares and illustrates an example of a hypothetical investment in each class of shares of each Portfolio.

There are several key distinctions among the classes of shares that investors should understand and evaluate in comparing the options presented by the Multiple Pricing System. Class A shares are subject to lower distribution and service fees than are Class B and Class C shares, and, accordingly, pay correspondingly higher dividends per share. However, because for purchases of less than \$1 million of Class A shares a front end sales charge is deducted at the time of purchase, investors purchasing Class A shares do not have all of their funds invested initially and, therefore, initially own fewer shares than they would own if they had invested the identical sum in Class B shares or Class C shares instead. In addition, Class C shares are subject to the same ongoing distribution and service fees as Class B shares but are subject to a CDSC for a shorter period of time (one year as opposed to six years) than Class B shares. However, Class B shares convert to Class A shares, and lower ongoing distribution and service fees, in a shorter time frame than do Class C shares.

In light of these distinctions among the classes of shares, investors should weigh such factors as (i) whether they qualify for a reduced front end sales load for a purchase of Class A shares; (ii) whether, at the time of purchase, they anticipate being subject to a CDSC upon redemption if they purchase Class A shares (purchases of \$1 million or more), Class B shares or Class C shares; (iii) the differential in the relative amounts that would be paid during the anticipated life of investments (which are made at the same time and in the same amount) in each class which are attributable to (a) the front end sales charge (for purchases of less than \$1 million) and any applicable CDSC (for purchases of \$1 million or more) and accumulated distribution and service fees payable with respect to Class A shares and (b) the accumulated distribution and service fees (and any applicable CDSC) payable with respect to Class B shares or Class C shares prior to their conversion to Class A shares; and (iv) to what extent the differential referred to above might be offset by the higher yield of Class A shares. Investors should also weigh these considerations against the fact that the higher continued distribution and service fees associated with Class B shares and Class C shares will be offset to the extent any return is realized on the additional funds initially invested and that there can be no assurance as to the return, if any, which will be realized on such additional funds. Class A shares are, in general, the most beneficial for the investor who qualifies for reduced front end sales charges, as described herein under "PURCHASE OF SHARES -- Class A Shares." For this reason, Class B shares are not offered for purchases in excess of \$250,000 and Class C shares are not offered for purchases of \$1 million or more. Investors should consult their

investment representative for assistance in evaluating the relative benefits of the different classes of shares.

The distribution and shareholder service expenses incurred by the Distributor in connection with the sale of shares will be paid, in the case of Class A shares (purchases of less than \$1 million), from the proceeds of front end sales charges and ongoing distribution and

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service fees and in the case of Class A shares (purchases of \$1 million or more), Class B shares and Class C shares, from the proceeds of CDSCs and ongoing distribution and service fees. Sales personnel of broker-dealers distributing the Fund's shares and any other persons entitled to receive compensation for selling or servicing the Fund's shares may receive different compensation for selling or servicing one class of shares over another. Investors should understand that front end sales charges, CDSCs and ongoing distribution and service fees are all intended to compensate the Distributor for distribution services. See "PURCHASE OF SHARES --Distribution Expenses."

Dividends paid by the Fund with respect to each class of shares will be calculated in substantially the same manner at the same time on the same day, except that distribution and service fees and any other costs specifically attributable to a particular class of shares will be borne solely by the applicable class. See "GENERAL INFORMATION -- Dividends and Distributions." Shares of the Fund may be exchanged for shares of the same class of any other Portfolio, but not for shares of other classes of any Portfolio. See "SHAREHOLDER SERVICES -- Exchange Privilege."

The Trustees of the Fund have determined that currently no conflict of interest exists between the classes of shares. On an ongoing basis, the Trustees of the Fund, pursuant to their fiduciary duties under the Investment Company Act of 1940 (the "1940 Act") and state laws, will seek to ensure that no such conflict arises.

#### INVESTMENT PORTFOLIOS

Each Portfolio has a stated investment objective which it pursues through separate investment policies. The differences in objectives and policies among the Portfolios can be expected to affect the return of each Portfolio and the degree of market and financial risk to which each Portfolio is subject.

The investment objective of each Portfolio represents fundamental policies of each such Portfolio and may not be changed without the approval of the holders of a majority of the outstanding shares of the Portfolio. Except for certain investment restrictions, the policies by which a Portfolio seeks to achieve its investment objectives may be changed by the Trustees of the Fund without the approval of the shareholders.

The following is a description of the investment objective and policies of each Portfolio. More complete descriptions of the money market instruments and certain other investments in which each Portfolio may invest and of the options, futures and currency transactions that certain Portfolios may engage in are set forth in the Statement of Additional Information. With regard to fixed income securities there is an inverse relationship between changes in the direction of interest rates and the market value of the securities. A more complete description of the debt security ratings used by the Fund assigned by Moody's Investors Service, Inc. ("Moody's"), Standard and Poor's Ratings Group ("Standard & Poor's" or "S&P") or Fitch Investors Service, Inc. ("Fitch") is included in Appendix I to this Prospectus.

#### International Small Cap Fund

The investment objective of the International Small Cap Fund is to seek long-term capital appreciation. Founders manages the International Small Cap Fund and will pursue this objective by investing primarily in securities issued by foreign companies which have total market capitalizations (present market value per share multiplied by the total number of shares outstanding) or annual revenues of \$1 billion or less. These securities may represent companies in both established and emerging economies throughout the world.

At least 65% of the Portfolio's total assets will normally be invested in foreign securities representing a minimum of three countries (other than the United States). The Portfolio may invest in larger foreign companies or in U.S. based companies if, in Founders' opinion, they represent better prospects for capital appreciation.

The International Small Cap Fund may invest a significant portion of its assets in the securities of small companies. Small companies are those which are still in the developing stages of their life cycles and are attempting to achieve rapid growth in both sales and earnings. Investments in small

companies involve greater risk than is customarily associated with more established companies. These companies often have sales and earnings growth rates which exceed those of large companies. Such growth rates may be reflected in more rapid share price appreciation. However, smaller companies often have limited operating histories, product lines, markets or financial resources, and they may be dependent upon one-person management. These companies may be subject to intense competition from larger entities, and the securities of such companies may have limited marketability and may be subject to more abrupt or erratic movements in price than securities of larger companies or the market averages in general. Therefore, the net asset value of the International Small Cap Fund may fluctuate more widely than the popular market averages. Accordingly, an investment in the Portfolio may not be appropriate for all investors.

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The International Small Cap Fund will invest primarily in equity securities but may also invest in convertible securities, preferred stocks, bonds, debentures and other corporate obligations when Founders believes that these investments offer opportunities for capital appreciation. Current income will not be a substantial factor in the selection of these securities. The portfolio will only invest in bonds, debentures and corporate obligations--other than convertible securities and preferred stock--rated investment-grade (Baa or higher by Moody's or BBB or higher by S&P) at the time of purchase or, if unrated, of comparable quality in the opinion of Founders. Convertible securities and preferred stocks purchased by the Portfolio may be rated in medium and lower categories by Moody's or S&P (Ba or lower by Moody's and BB or lower by S&P) but will not be rated lower than B. The portfolio may also invest in unrated convertible securities and preferred stocks in instances in which Founders believes that the financial condition of the issuer or the protection afforded by the terms of the securities limits risk to a level similar to that of securities rated in categories no lower than B. At no time will the portfolio have more than 5% of its total assets invested in any fixed-income securities which are unrated or are rated below investment grade either at the time of purchase or as a result of a reduction in rating after purchase. The portfolio is not required to dispose of debt securities whose ratings are downgraded below these ratings subsequent to the portfolio's purchase of the securities, unless such a disposition is necessary to reduce the portfolio's holdings of such securities to less than 5% of its total assets. See "RISK FACTORS - High Yield/High Risk Securities." A description of the ratings used by Moody's and S & P is set forth in Appendix I to the Prospectus.

The International Small Cap Fund may invest up to 100% of its assets temporarily in the following securities if Founders determines that it is appropriate for purposes of enhancing liquidity or preserving capital in light of prevailing market or economic conditions: cash, cash equivalents, U.S. government obligations, commercial paper, bank obligations, repurchase agreements, and negotiable U.S. dollar-denominated obligations of domestic and foreign branches of U.S. depository institutions, U.S. branches of foreign depository institutions, and foreign depository institutions. The portfolio may also acquire certificates of deposit and bankers' acceptances of banks which meet criteria established by the Fund's Trustees. When the portfolio is in a defensive position, the opportunity to achieve capital growth will be limited, and, to the extent that this assessment of market conditions is incorrect, the portfolio will be foregoing the opportunity to benefit from capital growth resulting from increases in the value of equity investments and may not achieve its investment objective.

Foreign Securities. The portfolio may invest up to 100% of its total assets in foreign securities and will be subject to special risks as a result of these investments. These risks are described under the caption "RISK FACTORS -- Foreign Securities" in this Prospectus. Moreover, substantial investments in foreign securities may have adverse tax implications as described under "GENERAL INFORMATION -Taxes" in this Prospectus.

Foreign investments of the International Small Cap Fund may include securities issued by companies located in countries not considered to be major industrialized nations. Such countries are subject to more economic, political and business risk than major industrialized nations, and the securities they issue and of issuers located in such countries are expected to be more volatile and more uncertain as to payments of interest and principal. The secondary market for such securities is expected to be less liquid than for securities of major industrialized nations. Such countries may include (but are not limited to) Argentina, Australia, Austria, Belgium, Bolivia, Brazil, Chile, China, Colombia, Costa Rica, Croatia, Czech Republic, Denmark, Ecuador, Egypt, Finland, Greece, Hong Kong, Hungary, India, Indonesia, Ireland, Israel, Italy, Jordan, Malaysia, Mexico, Netherlands, New Zealand, Nigeria, North Korea, Norway, Pakistan, Paraguay, Peru, Philippines, Poland, Portugal, Singapore, Slovak Republic, South Africa, South Korea, Spain, Sri Lanka, Sweden, Switzerland, Taiwan, Thailand, Turkey, Uruguay, Venezuela, Vietnam and the countries of the former Soviet Union. Investments of the Portfolio may include securities created through the Brady Plan, a program under which heavily indebted countries have restructured their bank debt into bonds. See "OTHER INSTRUMENTS--High Yield Foreign Sovereign Debt Securities" in the Statement of Additional

Information.

Since the International Small Cap Fund's assets will be invested primarily in foreign securities and since substantially all of the portfolio's revenues will be received in foreign currencies, the portfolio's net asset values will be affected by changes in currency exchange rates. The portfolio will pay dividends in dollars and will incur currency conversion costs.

Use of Hedging and Other Strategic Transactions. The International Small Cap Fund is currently authorized to use all of the various investment strategies referred to under "RISK FACTORS -- Hedging and Other Strategic Transactions." The Statement of Additional Information contains a description of these strategies and of certain risks associated therewith.

#### Small/Mid Cap Fund

The investment objective of the Small/Mid Cap Fund is to seek long term capital appreciation. Alger manages the Small/Mid Cap Fund and will pursue this objective by investing at least 65% of the Portfolio's total assets (except during temporary defensive periods) in small/mid cap equity securities. As used in this Prospectus small/mid cap equity securities are equity securities of companies that, at the time of purchase, have "total market capitalization" -- present market value per share multiplied by the total number of shares outstanding --

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between \$500 million and \$5 billion. The Portfolio may invest up to 35% of its total assets in equity securities of companies that, at the time of purchase, have total market capitalization of \$5 billion or greater and in excess of that amount (up to 100% of its assets ) during temporary defensive periods.

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The Small/Mid Cap Fund seeks to achieve its investment objective by investing in equity securities, such as common or preferred stocks, or securities convertible into or exchangeable for equity securities, including warrants and rights. The Portfolio will invest primarily in companies whose securities are traded on domestic stock exchanges or in the over-the-counter market.

The Small/Mid Cap Fund may invest a significant portion of its assets in the securities of small companies. Small companies are those which are still in the developing stages of their life cycles and will attempt to achieve rapid growth in both sales and earnings. Investments in small companies involve greater risk than is customarily associated with more established companies. These companies often have sales and earnings growth rates which exceed those of large companies. Such growth rates may be reflected in more rapid share price appreciation. However, smaller companies often have limited operating histories, product lines, markets or financial resources, and they may be dependent upon the management of only a few people. These companies may be subject to intense competition from larger entities, and the securities of such companies may have limited marketability and may be subject to more abrupt or erratic movements in price than securities of larger companies or the market averages in general. Therefore, the net asset values of the Small/Mid Cap Fund may fluctuate more widely than the popular market averages. Accordingly, an investment in the portfolio may not be appropriate for all investors.

In order to afford the Portfolio the flexibility to take advantage of new opportunities for investments in accordance with its investment objectives, it may hold up to 15% of its net assets (up to 100% of their assets during temporary defensive periods) in money market instruments, bank and thrift obligations, obligations issued or guaranteed by the U.S. Government or by its agencies or instrumentalities, foreign bank obligations and obligations of foreign branches of domestic banks, variable rate master demand notes and repurchase agreements. When the Portfolio is in a defensive position, the opportunity to achieve capital growth will be limited, and, to the extent that this assessment of market conditions is incorrect, the Portfolio will be foregoing the opportunity to benefit from capital growth resulting from increases in the value of its investments and may not achieve its investment objective.

Foreign Securities. The Portfolio may invest up to 20% of its total assets in foreign securities and will be subject to certain risks as a result of these investments. These risks are described under the caption "RISK FACTORS -- Foreign Securities" in this Prospectus. Moreover, substantial investments in foreign securities may have adverse tax implications as described under "GENERAL INFORMATION -Taxes" in this Prospectus. The Portfolio may also purchase American Depository Receipts ("ADRs") or U.S. dollar-denominated securities of foreign issuers that are not included in the 20% foreign securities limitation. See "RISK FACTORS - Foreign Securities" in this Prospectus for a description of

Use of Hedging and Other Strategic Transactions. The Small/Mid Cap Fund is currently authorized to use all of the various investment strategies referred to under "RISK FACTORS -- Hedging and Other Strategic Transactions". The Statement of Additional Information contains a description of these strategies and of certain risks associated therewith.

#### Global Equity Fund

The investment objective of the Global Equity Fund (prior to October 1, 1996, the "Global Growth Fund") is long-term capital appreciation. Morgan Stanley manages the Global Equity Fund and seeks to attain this objective by investing primarily in common and preferred stocks, convertible securities, rights and warrants to purchase common stocks, American and Global Depository Receipts and other equity securities of issuers throughout the world, including issuers in the U.S. and emerging market countries.

Under normal circumstances, at least 65% of the value of the total assets of the Global Equity Fund will be invested in equity securities and at least 20% of the value of the portfolio's total assets will be invested in the common stocks of U.S. issuers. The portfolio may also invest in money market instruments. Although the portfolio intends to invest primarily in securities listed on stock exchanges, it will also invest in equity securities that are traded over-the-counter or that are not admitted to listing on a stock exchange or dealt in on a regulated market. As a result of the absence of a public trading market, such securities may pose liquidity risks.

The Subadviser's approach is oriented to individual stock selection and is value driven. In selecting stocks for the portfolio, the Subadviser initially identifies those stocks that it believes to be undervalued in relation to the issuer's assets, cash flow, earnings and revenues, and then evaluates the future value of such stocks by running the results of an in-depth study of the issuer through a dividend discount model. In selecting investments, the Subadviser utilizes the research of a number of sources, including Morgan Stanley Capital International, an affiliate of the Subadviser located in Geneva, Switzerland. Portfolio holdings are regularly reviewed and subjected to fundamental analysis to determine whether they continue to conform to the Subadviser's value criteria. Equity securities which no longer conform to such investment criteria will be sold. Although the portfolio will not invest for short-term trading purposes, investment securities may be sold from time to time without regard to the length of time they have been held.

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The Global Equity Fund may engage in forward foreign currency exchanges and when-issued or delayed delivery securities.

The Global Equity Fund will be subject to special risks as a result of its ability to invest up to 100% of its total assets in foreign securities. These risks, including the risks of the possible increased likelihood of expropriation or the return to power of a communist regime which would institute policies to expropriate, nationalize or otherwise confiscate investments, are described under the caption "RISK FACTORS --Foreign Securities" in this Prospectus. Moreover, substantial investments in foreign securities may have adverse tax implications as described under "GENERAL INFORMATION --Taxes" in this Prospectus.

#### Use of Hedging and Other Strategic Transactions

The Global Equity Fund is currently authorized to use all of the various investment strategies referred to under "RISK FACTORS -- Hedging and Other Strategic Transactions." With the exception of currency transactions, however, it is not presently anticipated that any of these strategies will be used to a significant degree by the portfolio. The Statement of Additional Information contains a description of these strategies and of certain risks associated therewith.

#### Growth Equity Fund

The investment objective of the Growth Equity Fund is to seek long-term growth of capital. Founders manages the Growth Equity Fund and will pursue this objective by investing, under normal market conditions, at least 65% of its assets in common stocks of well-established, high-quality growth companies that Founders believes have the potential to increase earnings faster than the rest of the market. These companies tend to have strong performance records, solid market positions and reasonable financial strength, and have continuous operating records of three years or more.

The Growth Equity Fund may invest in convertible securities, preferred stocks, bonds, debentures and other corporate obligations when Founders believes that these investments offer opportunities for capital appreciation. Current

income will not be a substantial factor in the selection of these securities. The Growth Equity Fund will only invest in bonds, debentures and corporate obligations--other than convertible securities and preferred stock--rated investment-grade (Baa or higher by Moody's and BBB or higher by S&P) or, if unrated, of comparable quality in the opinion of Founders at the time of purchase. Convertible securities and preferred stocks purchased by the Portfolio may be rated in medium and lower categories by Moody's or S&P (Ba or lower by Moody's and BB or lower by S&P) but will not be rated lower than B. The Growth Equity Fund may also invest in unrated convertible securities and preferred stocks in instances in which Founders believes that the financial condition of the issuer or the protection afforded by the terms of the securities limits risk to a level similar to that of securities rated in categories no lower than B. At no time will the portfolio have more than 5% of its total assets invested in any fixed-income securities which are unrated or are rated below investment grade either at the time of purchase or as a result of a reduction in rating after purchase. The portfolio is not required to dispose of debt securities whose ratings are downgraded below these ratings subsequent to the portfolio's purchase of the securities, unless such a disposition is necessary to reduce the portfolio's holdings of such securities to less than 5% of its total assets. See "RISK FACTORS - High Yield Securities."

The Growth Equity Fund may invest up to 100% of its assets temporarily in the following securities if Founders determines that it is appropriate for purposes of enhancing liquidity or preserving capital in light of prevailing market or economic conditions: cash, cash equivalents, U.S. government obligations, commercial paper, bank obligations, repurchase agreements, and negotiable U.S. dollar-denominated obligations of domestic and foreign branches of U.S. depository institutions, U.S. branches of foreign depository institutions, and foreign depository institutions. The portfolio may also acquire certificates of deposit and bankers' acceptances of banks which meet criteria established by the Fund's Trustees. When the Growth Equity Fund is in a defensive position, the opportunity to achieve capital growth will be limited, and, to the extent that this assessment of market conditions is incorrect, the Growth Equity Fund will be foregoing the opportunity to benefit from capital growth resulting from increases in the value of equity investments and may not achieve its investment objective.

Foreign Securities. The Growth Equity Fund may invest without limit in ADRs and up to 30% of its total assets in foreign securities (other than ADRs), with no more than 25% invested in any one foreign country. The Growth Equity Fund will be subject to certain risks as a result of these investments. These risks are described under the caption "RISK FACTORS -- Foreign Securities" in this Prospectus. Moreover, substantial investments in foreign securities may have adverse tax implications as described under "GENERAL INFORMATION -Taxes" in this Prospectus.

Use of Hedging and Other Strategic Transactions. The Growth Equity Fund is currently authorized to use all of the various investment strategies referred to under "RISK FACTORS -- Hedging and Other Strategic Transactions." The Statement of Additional Information contains a description of these strategies and of certain risks associated therewith.

#### International Growth and Income Fund

The investment objective of the International Growth and Income Fund is to seek long-term growth of capital and income. The Portfolio is designed for investors with a long-term investment horizon who want to take advantage of investment opportunities outside the United States.

J.P. Morgan manages the International Growth and Income Fund and will seek to achieve the Portfolio's investment objective by investing, under normal circumstances, at least 65% of its total assets in equity securities of foreign issuers, consisting of common stocks and other securities with equity characteristics such as preferred stock, warrants, rights and convertible securities. The Portfolio will focus primarily on the common stock of established companies based in developed countries outside the United States. Such investments will be made in at least three foreign countries. For this purpose, a developed country is any country included in the MSCI World Index. The countries currently included in this Index are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Italy, Japan, Malaysia, Netherlands, New Zealand, Norway, Singapore, Spain, Sweden, Switzerland, United Kingdom and the U.S. The Portfolio invests in securities listed on foreign or domestic securities exchanges and securities traded in foreign or domestic over-the-counter markets, and may invest in certain restricted or unlisted securities. See "RISK FACTORS -- Foreign Securities." Under normal circumstances, the International Growth and Income Fund expects to invest primarily in equity securities. However, the Portfolio may invest up to 35% of its assets in debt obligations of corporate, sovereign issuers or supranational organizations rated A or higher by Moody's or S&P, or if unrated, of equivalent credit quality as determined by the Subadviser. See "Strategic Income Fund" below for additional information on supranational organizations.

Under normal circumstances, the Portfolio will be invested approximately 85% in equity securities and 15% in fixed income securities. J.P. Morgan may allocate the Portfolio's investment in these asset classes in a manner consistent with the Portfolio's investment objective and current market conditions. Using a variety of analytical tools, J.P. Morgan assesses the relative attractiveness of each asset class and determines an optimal allocation between them. Yields on non-U.S. equity securities tend to be lower than those on equity securities of U.S. issuers. Therefore, current income from the Portfolio may not be as high as that available from a portfolio of U.S. equity securities.

In pursuing the International Growth and Income Fund's objective, J.P. Morgan will actively manage the assets of the Portfolio through country allocation and stock valuation and selection. Based on fundamental research, quantitative valuation techniques and experienced judgment, J.P. Morgan uses a structured decision-making process to allocate the Portfolio primarily across the developed countries of the world outside the United States. This universe is typically represented by the Morgan Stanley Europe, Australia and Far East Index (the "EAFE Index").

Using a dividend discount model and based on analysts' industry expertise, securities within each country are ranked within industry sectors according to their relative value. Based on this valuation, J.P. Morgan selects the securities which appear the most attractive for the Portfolio. J.P. Morgan believes that under normal market conditions, industrial sector weightings generally will be similar to those of the EAFE index.

Finally, J.P. Morgan actively manages currency exposure, in conjunction with country and stock allocation, in an attempt to protect and possibly enhance the International Growth and Income Fund's market value. Through the use of forward foreign currency exchange contracts, J.P. Morgan will adjust the Portfolio's foreign currency weightings to reduce its exposure to currencies that the Subadviser deems unattractive and, in certain circumstances, increase exposure to currencies deemed attractive, as market conditions warrant, based on fundamental research, technical factors and the judgment of a team of experienced currency managers.

The International Growth and Income Fund intends to manage its portfolio actively in pursuit of its investment objective. The Portfolio does not expect to trade in securities for short-term profits; however, when circumstances warrant, securities may be sold without regard to the length of time held. See "GENERAL INFORMATION -- Taxes." To the extent the Portfolio engages in short-term trading, it may incur increased transaction costs.

The International Growth and Income Fund may also invest in securities on a when-issued or delayed delivery basis, enter into repurchase and reverse repurchase agreements, loan its portfolio securities and purchase certain privately placed securities. See "RISK FACTORS."

The International Growth and Income Fund may make money market investments pending other investments or settlement or for liquidity purposes. In addition, when J.P. Morgan believes that investing for defensive purposes is appropriate, such as during periods of unusual or unfavorable market or economics conditions, up to 100% of the Portfolio's assets may be temporarily invested in money market instruments. The money market investments permitted for the Portfolio include obligations of the U.S. Government and its agencies and instrumentalities, other debt securities, commercial paper, bank obligations and repurchase agreements, as described below under "Money Market Fund."

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The International Growth and Income Fund will be subject to special risks as a result of its ability to invest up to 100% of its assets in foreign securities. These risks are described under the caption "RISK FACTORS -- Foreign Securities" in this Prospectus. The ability to diversify its investments among the equity markets of different countries may, however, reduce the overall level of market risk to the extent it may reduce the Portfolio's exposure to a single market. Moreover, substantial investments in foreign securities may have adverse tax implications as described under "GENERAL INFORMATION -- Taxes" in this Prospectus.

Use of Hedging and Other Strategic Transactions. The International Growth and Income Fund is currently authorized to use all of the various investment strategies referred to under "RISK FACTORS -- Hedging and Other Strategic Transactions". With the exception of currency transactions, however, it is not presently anticipated that any of these strategies will be used to a significant degree by the Portfolio. The Statement of Additional Information contains a description of these strategies and of certain risks associated therewith.

Growth and Income Fund

The investment objective of the Growth and Income Fund is to provide long-term growth of capital and income consistent with prudent investment risk.

Wellington Management manages the Growth and Income Fund and seeks to achieve the Portfolio's objective by investing primarily in a diversified portfolio of common stocks of U.S. issuers which Wellington Management believes are of high quality. Wellington Management believes that high quality is evidenced by a leadership position within an industry, a strong or improving balance sheet, relatively high return on equity, steady or increasing dividend payout, and strong management skills. The Growth and Income Fund's investments will primarily emphasize dividend paying stocks of larger companies. The Growth and Income Fund may also invest in securities convertible into or which carry the right to buy common stocks, including those convertible securities issued in the Euromarket; preferred stocks; and marketable debt securities of domestic issuers and of foreign issuers (payable in U.S. dollars), if such marketable debt securities of domestic issuers and foreign issuers are rated at the time of purchase "A" or better by Moody's or S&P or, if unrated, deemed to be of equivalent quality in Wellington Management's judgment. When market or financial conditions warrant a temporary defensive posture, the Growth and Income Fund may, in order to reduce risk and achieve attractive total investment return, invest in securities which are authorized for purchase by the Investment Quality Bond Fund or the Money Market Fund. The Subadviser expects that under normal market conditions, the Growth and Income Fund's portfolio will consist primarily of equity securities.

Investments will be selected on the basis of fundamental analysis to identify those securities that, in Wellington Management's judgment, provide the potential for long-term growth of capital and income. Fundamental analysis involves assessing a company and its business environment, management, balance sheet, income statement, anticipated earnings and dividends and other related measures of value. When selecting securities of issuers domiciled outside of the United States, Wellington Management will also monitor and evaluate the economic and political climate and the principal securities markets of the country in which each company is located.

The Growth and Income Fund will invest primarily in securities listed on national securities exchanges, but from time to time it may also purchase securities traded in the "over-the-counter" market.

The Growth and Income Fund will be subject to certain risks as a result of its ability to invest up to 20% of its assets in foreign securities. These risks are described under the caption "RISK FACTORS -- Foreign Securities" in this Prospectus. Moreover, substantial investments in foreign securities may have adverse tax implications as described under "GENERAL INFORMATION -- Taxes" in this Prospectus.

Use of Hedging and Other Strategic Transactions. The Growth and Income Fund is currently authorized to use all of the various investment strategies referred to under "RISK FACTORS -- Hedging and Other Strategic Transactions." However, it is not presently anticipated that any of these strategies will be used to a significant degree by the Portfolio. The Statement of Additional Information contains a description of these strategies and of certain risks associated therewith.

#### Equity-Income Fund

The investment objective of the Equity-Income Fund (prior to December 31, 1996 the "Value Equity Fund") is to provide substantial dividend income and also long term capital appreciation. T. Rowe Price manages the Equity-Income Fund and seeks to attain this objective by investing primarily in dividend-paying common stocks, particularly of established companies with favorable prospects for both increasing dividends and capital appreciation.

Under normal circumstances, the Equity-Income Fund will invest at least 65% of total assets in the common stocks of established companies paying above-average dividends. T. Rowe Price believes that income can be a significant contributor to total return over time and expects the portfolio's yield to be above that of the Standard & Poor's 500 Stock Index.

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The Equity-Income Fund will generally consider companies with the following characteristics:

- Established operating histories;
- Above-average current dividend yield relative to the average yield of the S&P 500;
- Low price/earnings ratios relative to the S&P 500;
- Sound balance sheets and other financial characteristics;
- Low stock price relative to a company's underlying value as measured by assets, earnings, cash flow, or business franchises.

The Equity-Income Fund will tend to take a "value" approach and invest in stocks and other securities that appear to be temporarily undervalued by various measures, such as price/earnings ratios. Value investors seek to buy a stock (or other security) when its price is low in relation to what they believe to be its real worth or future prospects. By identifying companies whose stocks are currently out of favor, value investors hope to realize significant appreciation

as other investors recognize the stock's intrinsic value and the price rises accordingly. Finding undervalued stocks requires considerable research to identify the particular stock, to analyze the company's underlying financial condition and prospects, and to assess the likelihood that the stock's underlying value will be recognized by the market and reflected in its price.

The Equity-Income Fund may also purchase other types of securities, for example, foreign securities, preferred stocks, convertible stocks and bonds, and warrants, when considered consistent with the portfolio's investment objective and program. The portfolio will hold a certain portion of its assets in U.S. and foreign dollar-denominated money market securities, including repurchase agreements, in the two highest rating categories, maturing in one year or less. For temporary, defensive purposes, the portfolio may invest without limitation in such securities. This reserve position provides flexibility in meeting redemptions, expenses, and the timing of new investments and serves as a short-term defense during periods of unusual market volatility

The Equity-Income Fund may also invest in debt securities of any type including municipal securities without regard to quality or rating. The total return and yield of lower-quality (high-yield/high-risk) bonds, commonly referred to as "junk" bonds, can be expected to fluctuate more than the total return and yield of higher-quality, shorter-term bonds, but not as much as common stocks. Junk bonds (those rated below BBB or in default) are regarded as predominantly speculative with respect to the issuer's continuing ability to meet principal and interest payments. The portfolio will not purchase a noninvestment-grade debt security (or junk bond) if immediately after such purchase the portfolio would have more than 10% of its total assets invested in such securities.

The Equity-Income Fund may also engage in a variety of investment management practices, such as buying and selling futures and options. The portfolio may invest up to 10% of its total assets in hybrid instruments, which are a type of high-risk derivative which can combine the characteristics of securities, futures and options. For example, the principal amount, redemption or conversion terms of a security could be related to the market price of some commodity, currency or securities index. Such securities may bear interest or pay dividends at below market (or even relatively nominal) rates. The Statement of Additional Information contains a fuller description of such instruments and the risks associated therewith.

The Equity-Income Fund will be subject to special risks as a result of its ability to invest up to 25% of its total assets in foreign securities. These include nondollar-denominated securities traded outside of the U.S. and dollar-denominated securities of foreign issuers traded in the U.S. (such as ADRs). These risks are described under the caption "RISK FACTORS --Foreign Securities" in this Prospectus. Moreover, substantial investments in foreign securities may have adverse tax implications as described under "GENERAL INFORMATION --Taxes" in this Prospectus.

#### Use of Hedging and Other Strategic Transactions

The Equity-Income Fund is currently authorized to use all of the various investment strategies referred to under "RISK FACTORS -- Hedging and Other Strategic Transactions." The Statement of Additional Information contains a description of these strategies and of certain risks associated therewith.

#### Balanced Fund

The investment objective of the Balanced Fund is current income and capital appreciation. Founders is the manager of the Balanced Fund and seeks to attain this objective by investing in a balanced portfolio of common stocks, U.S. and foreign government obligations and a variety of corporate fixed-income securities.

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Normally, the Balanced Fund will invest a significant percentage (up to 75%) of its total assets in common stocks, convertible corporate obligations, and preferred stocks. The portfolio emphasizes investment in dividend-paying common stocks with the potential for increased dividends, as well as capital appreciation. The portfolio also may invest in non-dividend-paying companies if, in Founders' opinion, they offer better prospects for capital appreciation.

The Balanced Fund may invest in convertible securities, preferred stocks, bonds, debentures, and other corporate obligations when Founders believes that these investments offer opportunities for capital appreciation. Current income is also a factor in the selection of these securities.

The Balanced Fund will maintain a minimum of 25% of its total assets in fixed-income, investment-grade securities rated Baa or higher by Moody's or BBB or higher by S&P. There is, however, no limit on the amount of straight debt securities in which the portfolio may invest. Up to 5% of the Balanced Fund's

total assets may be invested in lower-grade (Ba or less by Moody's, BB or less by S&P) or unrated straight debt securities, generally referred to as junk bonds, where Founders determines that such securities present attractive opportunities. The portfolio will not invest in securities rated lower than B. Securities rated B generally lack characteristics of a desirable investment and are deemed speculative with respect to the issuer's capacity to pay interest and repay principal over a long period of time.

The Balanced Fund may also invest in convertible corporate obligations and preferred stocks. Convertible securities and preferred stocks purchased by the portfolio may be rated in medium and lower categories by Moody's or S&P (Ba or lower by Moody's and BB or lower by S&P) but will not be rated lower than B. The portfolio may also invest in unrated convertible securities and preferred stocks in instances in which Founders believes that the financial condition of the issuer or the protection afforded by the terms of the securities limits risk to a level similar to that of securities eligible for purchase by the portfolio rated in categories no lower than B. At no time will the portfolio have more than 5% of its total assets invested in any fixed-income securities which are unrated or are rated below investment grade either at the time of purchase or as a result of a reduction in rating after purchase. The portfolio is not required to dispose of debt securities whose ratings are downgraded below these ratings subsequent to the portfolio's purchase of the securities, unless such a disposition is necessary to reduce the portfolio's holdings of such securities to less than 5% of its total assets. See "RISK FACTORS -- High Yield /High Risk Securities." A description of the ratings used by Moody's and S&P is set forth in Appendix I to the Prospectus.

Up to 100% of the assets of the Balanced Fund may be invested temporarily in U.S. Government obligations, commercial paper, bank obligations, repurchase agreements, and negotiable U.S. dollar-denominated obligations of domestic and foreign branches of U.S. depository institutions, U.S. branches of foreign depository institutions, and foreign depository institutions, in cash, or in other cash equivalents, if Founders determines it to be appropriate for purposes of enhancing liquidity or preserving capital in light of prevailing market or economic conditions. The portfolio may also acquire certificates of deposit and bankers' acceptances of banks which meet criteria established by the Fund's Board of Trustees. While the portfolio is in a defensive position, the opportunity to achieve capital growth will be limited, and, to the extent that this assessment of market conditions is incorrect, the portfolio will be foregoing the opportunity to benefit from capital growth resulting from increases in the value of equity investments.

The Balanced Fund may invest without limit in ADRs and up to 30% of its total assets in foreign securities (other than ADRs). The portfolio will not invest more than 25% of its total assets in the securities of any one country.

The Balanced Fund will be subject to special risks as a result of its ability to invest up to 30% of its total assets in foreign securities, excluding ADRs. These risks are described under the caption "RISK FACTORS --Foreign Securities" in this Prospectus. Moreover, substantial investments in foreign securities may have adverse tax implications as described under "GENERAL INFORMATION --Taxes" in this Prospectus.

#### Use of Hedging and Other Strategic Transactions

The Balanced Fund is currently authorized to use all of the various investment strategies referred to under "RISK FACTORS -- Hedging and Other Strategic Transactions." The Statement of Additional Information contains a description of these strategies and of certain risks associated therewith.

#### Strategic Income Fund

The investment objective of the Strategic Income Fund is to seek a high level of total return consistent with preservation of capital.

The Strategic Income Fund seeks to achieve its objective by giving its Subadviser, SBAM, broad discretion to deploy the Strategic

Income Fund's assets among certain segments of the fixed-income market as SBAM believes will best contribute to the achievement of the Portfolio's objective. At any point in time, SBAM will deploy the Portfolio's assets based on SBAM's analysis of current economic and market conditions and the relative risks and opportunities present in the following market segments: U.S. Government obligations, investment grade domestic corporate debt, high yield corporate debt securities, mortgage-backed securities and investment grade and high yield international debt securities. SBAM is an affiliate of Salomon Brothers Inc ("SBI"), and in making investment decisions is able to draw on the research and market expertise of SBI with respect to fixed-income securities. In addition, SBAM has entered into a subadvisory consulting agreement with its London based affiliate, Salomon Brothers Asset Management Limited ("SBAM Limited") pursuant

to which SBAM Limited will provide certain advisory services to SBAM relating to currency transactions and investments in non-dollar denominated debt securities for the benefit of the Portfolio.

In pursuing the Strategic Income Fund's investment objective, the Portfolio reserves the right to invest without limitation in lower-rated securities, commonly known as "junk bonds." (i.e., rated "B" or below by Moody's (Moody's lowest rating is C, See Appendix I.) or "BB" or below by S&P(S&P lowest rating is D, see Appendix I.), or if unrated, of comparable quality as determined by SBAM). No minimum rating standard is required for a purchase by the Portfolio. Investments of this type involve comparatively greater risks, including price volatility and risk of default in the payment of interest and principal, than higher-quality securities. Although the Portfolio's Subadviser has the ability to invest up to 100% of the Portfolio's assets in lower-rated securities, the Portfolio's Subadviser does not anticipate investing in excess of 75% of the Portfolio's assets in such securities. Purchasers should carefully assess the risks associated with an investment in this Portfolio. See "RISK FACTORS -- High Yield/High Risk Securities."

SBAM will determine the amount of assets to be allocated to each type of security in which it invests based on its assessment of the maximum level of total return that can be achieved from a portfolio which is invested in these securities without incurring undue risks to principal value. In making this determination, SBAM will rely in part on quantitative analytical techniques that measure relative risks and opportunities of each type of security based on current and historical economic, market, political and technical data for each type of security, as well as on its own assessment of economic and market conditions both on a global and local (country) basis. In performing quantitative analysis, SBAM will employ prepayment analysis and option adjusted spread technology to evaluate mortgage securities, mean variance optimization models to evaluate international debt securities, and total rate of return analysis to measure relative risks and opportunities in other fixed-income markets. Economic factors considered will include current and projected levels of growth and inflation, balance of payment status and monetary policy. The allocation of assets to international debt securities will further be influenced by current and expected currency relationships and political and sovereign factors. The Portfolio's assets may not always be allocated to the highest yielding securities if SBAM feels that such investments would impair the Portfolio's ability to preserve shareholder capital. SBAM will continuously review this allocation of assets and make such adjustments as it deems appropriate. The Portfolio does not plan to establish a minimum or a maximum percentage of the assets which it will invest in any particular type of fixed-income security.

In addition, SBAM will have discretion to select the range of maturities of the various fixed-income securities in which the Portfolio invests. Such maturities may vary substantially from time to time depending on economic and market conditions.

The types and characteristics of the U.S. Government obligations, mortgage-backed securities, investment grade corporate debt securities and investment grade international debt securities to be purchased by the Portfolio are set forth in the discussion of investment objectives and policies for the Investment Quality Bond and U.S. Government Securities Funds, and in the section entitled "OTHER INSTRUMENTS" in the Statement of Additional Information; and the types and characteristics of the money market securities to be purchased are set forth in the discussion of investment objectives and policies of the Money Market Fund. Potential investors should review the discussion therein in considering an investment in shares of the Strategic Income Fund. As described below, the Strategic Income Fund may also invest in high yield domestic and foreign debt securities.

The Strategic Income Fund may also invest in debt obligations issued or guaranteed by a foreign sovereign government or one of its agencies or political subdivisions and debt obligations issued or guaranteed by supranational organizations. Supranational entities include international organizations designated or supported by governmental entities to promote economic reconstruction or development and international banking institutions and related government agencies. Examples include the International Bank for Reconstruction and Development (the "World Bank"), the European Coal and Steel Community, the Asian Development Bank and the Inter-American Development Bank. Such supranational issued instruments may be denominated in multi-national currency units.

The Strategic Income Fund currently intends to invest substantially all of its assets in fixed-income securities. In order to maintain liquidity, however, the Strategic Income Fund may invest up to 20% of its assets in high-quality short-term money market instruments. If at some future date, in the opinion of SBAM, adverse conditions prevail in the market for fixed-income securities, the Strategic Income Fund for temporary defensive purposes may invest its assets without limit in high-quality short-term money market instruments.

As discussed above, the Strategic Income Fund may invest in U.S. dollar-denominated securities issued by domestic issuers that are rated below investment grade or, if unrated, determined by SBAM to be of comparable quality.

investing in excess of 75% of the Strategic Income Fund's assets in domestic and developing country debt securities that are rated below investment grade, the Strategic Income Fund may invest a greater percentage in such securities when, in the opinion of SBAM, the yield available from such securities outweighs their additional risks. By investing a portion of the Strategic Income Fund's assets in securities rated below investment grade, as well as through investments in mortgage securities and international debt securities, as described below, SBAM expects to provide investors with a higher yield than a high-quality domestic corporate bond fund while at the same time presenting less risk than a fund that invests principally in securities rated below investment grade. Certain of the debt securities in which the Strategic Income Fund may invest may have, or be considered comparable to securities having, the lowest ratings for non-subordinated debt instruments assigned by Moody's or S&P (i.e., rated C by Moody's or CCC or lower by S&P). See "RISK FACTORS -- High Yield/High Risk Securities -- General."

In light of the risks associated with high yield corporate and sovereign debt securities, SBAM will take various factors into consideration in evaluating the creditworthiness of an issuer. For corporate debt securities, these will typically include the issuer's financial resources, its sensitivity to economic conditions and trends, the operating history of the issuer, and the experience and track record of the issuer's management. For sovereign debt instruments, these will typically include the economic and political conditions within the issuer's country, the issuer's overall and external debt levels and debt service ratios, the issuer's access to capital markets and other sources of funding, and the issuer's debt service payment history. SBAM will also review the ratings, if any, assigned to the security by any recognized rating agencies, although SBAM's judgment as to the quality of a debt security may differ from that suggested by the rating published by a rating service. The Strategic Income Fund's ability to achieve its investment objective may be more dependent on SBAM's credit analysis than would be the case if it invested in higher quality debt securities. A description of the ratings used by Moody's and S&P is set forth in Appendix I to this Prospectus.

The high yield sovereign debt securities in which the Strategic Income Fund may invest are U.S. dollar-denominated and non-dollar-denominated debt securities, including Brady Bonds, that are issued or guaranteed by governments or governmental entities of developing and emerging countries. SBAM expects that these countries will consist primarily of those which have issued or have announced plans to issue Brady Bonds, but the Portfolio is not limited to investing in the debt of such countries. Brady Bonds are debt securities issued under the framework of the Brady Plan, an initiative announced by former U.S. Treasury Secretary Nicholas F. Brady in 1989 as a mechanism for debtor nations to restructure their outstanding external indebtedness. SBAM anticipates that the Portfolio's initial investments in sovereign debt will be concentrated in Latin American countries, including Mexico and Central and South American and Caribbean countries. SBAM expects to take advantage of additional opportunities for investment in the debt of North African countries, such as Nigeria and Morocco, Eastern European countries, such as Poland and Hungary, and Southeast Asian countries, such as the Philippines. Sovereign governments may include national, provincial, state, municipal or other foreign governments with taxing authority. Governmental entities may include the agencies and instrumentalities of such governments, as well as state-owned enterprises. For a more detailed discussion on high yield sovereign debt securities, see "OTHER INSTRUMENTS -- 5. High Yield/High Risk Foreign Sovereign Debt Securities" in the Statement of Additional Information.

The Strategic Income Fund will be subject to special risks as a result of its ability to invest up to 100% of its assets in foreign securities. These risks are described under the captions "RISK FACTORS -- High Yield/High Risk Securities" and "RISK FACTORS -- Foreign Securities" in this Prospectus. Moreover, substantial investments in foreign securities may have adverse tax implications as described under "GENERAL INFORMATION -- Taxes" in this Prospectus. The ability to spread its investments among the fixed-income markets in a number of different countries may, however, reduce the overall level of market risk to the extent it may reduce the Strategic Income Fund's exposure to a single market.

Use of Hedging and Other Strategic Transactions. The Strategic Income Fund is currently authorized to use all of the various investment strategies referred to under "RISK FACTORS -- Hedging and Other Strategic Transactions." With the exception of currency transactions, however, it is not presently anticipated that any of these strategies will be used to a significant degree by the Portfolio. The Statement of Additional Information contains a description of these strategies and of certain risks associated therewith.

The investment objective of the Investment Quality Bond Fund is to provide a high level of current income consistent with the maintenance of principal and liquidity.

Wellington Management manages the Investment Quality Bond Fund and seeks to achieve its objective by investing primarily in a diversified portfolio of investment grade corporate bonds and U.S. Government bonds with intermediate to longer term maturities. Investment management will emphasize sector analysis, which focuses on relative value and yield spreads among security types and among quality, issuer, and industry sectors, call protection and credit research. Credit research on corporate bonds is based on both quantitative and

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qualitative criteria established by Wellington Management, such as an issuer's industry, operating and financial profiles, business strategy, management quality, and projected financial and business conditions. Wellington Management will attempt to maintain a high, steady and possibly growing income stream.

At least 65% of the Investment Quality Bond Fund's assets will be invested in the following types of bonds:

- \* marketable debt securities of domestic issuers and of foreign issuers (payable in U.S. dollars) rated at the time of purchase "A" or better by Moody's or S&P or, if unrated, of comparable quality as determined by Wellington Management; and
- \* securities issued or guaranteed as to principal or interest by the U.S. Government or its agencies or instrumentalities, including mortgage-backed securities (described below under U.S. Government Securities Fund).

The balance of the Investment Quality Bond Fund's investments may include: domestic and foreign debt securities rated below "A" by Moody's and S&P (and unrated securities of comparable quality as determined by Wellington Management), preferred stocks, convertible securities (including those issued in the Euromarket) and securities carrying warrants to purchase equity securities, privately placed debt securities, asset-backed securities and privately issued mortgage securities. The Portfolio may also invest in cash or cash equivalent securities which are authorized for purchase by the Money Market Fund. At least 65% of the Investment Quality Bond Fund's assets will be invested in bonds and debentures.

In pursuing its investment objective, the Investment Quality Bond Fund may invest up to 20% of its assets in domestic and foreign high yield corporate and government debt securities, commonly known as "junk bonds" (i.e., rated "B" or below by Moody's (Moody's lowest rating is "C", See Appendix I) or "BB" or below by S&P (S&P's lowest rating is "D", See Appendix I), or if unrated, of comparable quality as determined by Wellington Management). No minimum rating standard is required for a purchase by the Portfolio. The high yield sovereign debt securities in which the Portfolio will invest are described above under "Strategic Income Fund." Domestic and foreign high yield debt securities involve comparatively greater risks, including price volatility and risk of default in the payment of interest and principal, than higher-quality securities. See "RISK FACTORS -- High Yield/High Risk Securities."

The Investment Quality Bond Fund may also invest in debt securities carrying the fourth highest quality rating ("Baa" by Moody's or "BBB" by S&P) and unrated securities of comparable quality as determined by Wellington Management. While such securities are considered investment grade and are viewed to have adequate capacity for payment of principal and interest, investments in such securities involve a higher degree of risk than that associated with investments in debt securities in the higher rating categories and such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well. For example, changes in economic conditions or other circumstances are more likely to lead to a weakened capacity to make principal and interest payments than is the case with higher grade bonds. While the Investment Quality Bond Fund may only invest up to 20% of its assets in bonds rated below "Baa" by Moody's or "BBB" by S&P (or, if unrated, of comparable quality as determined by Wellington Management) at the time of investment, it is not required to dispose of downgraded bonds that cause the Investment Quality Bond Fund to exceed this 20% maximum.

The Investment Quality Bond Fund will be subject to certain risks as a result of its ability to invest up to 20% of its assets in foreign securities. These risks are described under the caption "RISK FACTORS -- Foreign Securities" in this Prospectus. Moreover, substantial investments in foreign securities may have adverse tax implications as described under "GENERAL INFORMATION -- Taxes" in this Prospectus. The Investment Quality Bond Fund may also invest in forward commitments and warrants. See "RISK FACTORS -- Warrants" and "-- When-Issued Securities ("Forward Commitments")."

Use of Hedging and Other Strategic Transactions. The Investment Quality Bond Fund is currently authorized to use all of the various investment strategies referred to under "RISK FACTORS -- Hedging and Other Strategic

Transactions." The Statement of Additional Information contains a description of these strategies and of certain risks associated therewith.

#### National Municipal Bond Fund

The National Municipal Bond Fund's investment objective is to achieve a high level of current income which is exempt from regular federal income taxes, consistent with the preservation of capital, by investing primarily in a portfolio of municipal obligations. SBAM manages the National Municipal Bond Fund and as a matter of fundamental policy, the Portfolio will invest under normal circumstances, at least 80% of its net assets in municipal obligations the interest on which is exempt from regular federal income tax. A portion of the Portfolio's dividends paid in respect of its shares may be subject to the federal alternative minimum tax. For a discussion on taxation of the National Municipal Bond Fund, see "GENERAL INFORMATION -- National Municipal Bond Fund -- Taxation."

The Portfolio will not invest in municipal obligations that are rated below investment grade at the time of investment. However, the

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Portfolio may retain in its portfolio a municipal obligation whose rating drops below "Baa" or "BBB" after its acquisition by the Portfolio, if SBAM considers the retention of such obligation advisable. The Portfolio intends to emphasize investments in municipal obligations with long-term maturities and expects to maintain an average portfolio maturity of 20 to 30 years and an average portfolio duration of 8 to 11 years. The average portfolio maturity and duration, however, may be shortened from time to time depending on market conditions.

The types of obligations in which the National Municipal Bond Fund may invest include the following:

#### Municipal Bonds

The Portfolio may invest in municipal bonds that are rated at the time of purchase within the four highest ratings assigned by Moody's, S&P or Fitch, or determined by SBAM to be of comparable quality. The four highest ratings currently assigned by Moody's to municipal bonds are "Aaa", "Aa", "A" and "Baa"; the four highest ratings assigned by S&P and Fitch to municipal bonds are "AAA", "AA", "A" and "BBB". A more complete description of the debt security ratings used by the Portfolio assigned by Moody's, S&P and Fitch is included in Appendix I to this Prospectus.

Although municipal obligations rated in the fourth highest rating category by Moody's (i.e., "Baa") or S&P or Fitch (i.e., "BBB") are considered investment grade, they may be subject to greater risks than other higher rated investment grade securities. Municipal obligations rated "Baa" by Moody's, for example, are considered medium grade obligations that lack outstanding investment characteristics and have speculative characteristics as well. Municipal obligations rated "BBB" by S&P and Fitch are regarded as having an adequate capacity to pay principal and interest.

Municipal bonds are debt obligations that are typically issued to obtain funds for various public purposes, such as construction of public facilities (e.g., airports, highways, bridges and schools). Municipal bonds at the time of issuance are generally long-term securities with maturities of as much as twenty years or more, but may have remaining maturities of shorter duration at the time of purchase by the Portfolio.

#### Municipal Notes

The Fund may invest in municipal notes rated at the time of purchase "MIG1", "MIG2" (or "VMIG-1" or "VMIG-2", in the case of variable rate demand notes), "P-2" or better by Moody's, "SP-2", "A-2" or better by S&P, or "F-2" or better by Fitch, or if not rated, determined by SBAM to be of comparable quality.

Municipal notes are issued to meet the short-term funding requirements of local, regional and state governments. Municipal notes generally have maturities at the time of issuance of three years or less. Municipal notes that may be purchased by the Portfolio include, but are not limited to:

**Tax Anticipation Notes.** Tax anticipation notes ("TANs") are sold as interim financing in anticipation of collection of taxes. An uncertainty in a municipal issuer's capacity to raise taxes as a result of such factors as a decline in its tax base or a rise in delinquencies could adversely affect the issuer's ability to meet its obligations on outstanding TANs.

**Bond Anticipation Notes.** Bond anticipation notes ("BANs") are sold as interim financing in anticipation of a bond sale. The ability of a municipal issuer to meet its obligations on its BANs is primarily dependent on the issuer's adequate access to the longer term municipal bond market and the

likelihood that the proceeds of such bond sales will be used to pay the principal of, and interest on, BANs.

Revenue Anticipation Notes. Revenue anticipation notes ("RANs") are sold as interim financing in anticipation of receipt of other revenues. A decline in the receipt of certain revenues, such as anticipated revenues from another level of government, could adversely affect an issuer's ability to meet its obligations on outstanding RANs.

TANs, BANs and RANs are usually general obligations of the issuer.

#### Municipal Commercial Paper

The Portfolio may also purchase municipal commercial paper that is rated at the time of purchase "P-2" or better by Moody's, "A-2" or better by S&P, or "F-2" or better by Fitch, or if not rated, determined by SBAM to be of comparable quality.

Municipal commercial paper that may be purchased by the Portfolio consists of short term obligations of a municipality. Such paper is likely to be issued to meet seasonal working capital needs of a municipality or as interim construction financing. Municipal commercial paper, in many cases, is backed by a letter of credit lending agreement, note repurchase agreement or other credit facility

agreement offered by banks or other institutions.

#### Characteristics of Municipal Obligations

Municipal obligations are debt obligations issued by or on behalf of states, cities, municipalities and other public authorities. The two principal classifications of municipal obligations that may be held by the Portfolio are "general obligation" securities and "revenue" securities. General obligation securities are secured by the issuer's pledge of its full faith, credit and taxing power for the payment of principal and interest. Revenue securities are payable only from the revenues derived from a particular facility or class of facilities or, in some cases, from the proceeds of a special excise tax or other specific revenue source such as the user of a facility being financed. Revenue securities may include private activity bonds. Such bonds may be issued by or on behalf of public authorities to finance various privately operated facilities and are not payable from the unrestricted revenues of the issuer. As a result, the credit quality of private activity bonds is frequently related directly to the credit standing of private corporations or other entities. In addition, the interest on private activity bonds issued after August 7, 1986 is subject to the federal alternative minimum tax. The Portfolio will not be restricted with respect to the proportion of its assets that may be invested in such obligations. Accordingly, the Portfolio may not be a suitable investment vehicle for individuals or corporations that are subject to the federal alternative minimum tax.

The National Municipal Bond Fund's portfolio may also include "moral obligation" securities, which are normally issued by special purpose public authorities. If the issuer of moral obligation securities is unable to meet its debt service obligations from current revenues, it may draw on a reserve fund, the restoration of which is a moral commitment but not a legal obligation of the state or municipality that created the issuer.

In addition, the Portfolio may invest in municipal lease obligations ("MLOs"). MLOs are not fully backed by the municipality's credit and their interest may become taxable if the lease is assigned. If the governmental user does not appropriate sufficient funds for the following year's lease payments, the lease will terminate, with the possibility of default on the MLO and loss to the Portfolio. SBAM intends to invest more than 5% of the Portfolio's net assets in municipal lease obligations and the Trustees of the Fund have established procedures the Subadviser will use to examine certain factors in evaluating the liquidity of such obligations. These factors include (i) the frequency of trades and quotes for the MLO; (ii) the number of dealers willing to purchase or sell such MLO and the number of other potential purchasers; (iii) the willingness of dealers to undertake to make a market in the MLO; (iv) the nature of the MLO and the nature of the marketplace trades (e.g., the time

needed to dispose of the security and the method of soliciting offers); (v) the nature of the offering of such MLO (e.g., the size of the issue and the number

of anticipated holders); (vi) the ability of the MLO to maintain its marketability throughout the time the instrument is held in the Portfolio; and (vii) other factors, if any, which SBAM deems relevant to determining the existence of a trading market for such MLO. The Portfolio also may invest in resource recovery bonds, which may be general obligations of the issuing municipality or supported by corporate or bank guarantees. The viability of the resource recovery project, environmental protection regulations and project operator tax incentives may affect the value and credit quality of resource

recovery bonds.

#### Other Permitted Investments

The Portfolio currently intends to invest substantially all of its assets in obligations the interest on which is exempt from regular federal income taxes. However, in order to maintain liquidity, the Portfolio may invest up to 20% of its assets in taxable obligations, including taxable high-quality short-term money market instruments. The Portfolio may invest in the following taxable high-quality short-term money market instruments: obligations of the U.S. Government or its agencies or instrumentalities; commercial paper of issuers rated, at the time of purchase, "A-2" or better by S&P, "P-2" or better by Moody's, or "F-2" or better by Fitch or which if unrated, in the opinion of SBAM, are of comparable quality; certificates of deposit, bankers' acceptances or time deposits of U.S. banks with total assets of at least \$1 billion (including obligations of foreign branches of such banks) and of the 75 largest foreign commercial banks in terms of total assets (including domestic branches of such banks), and repurchase agreements with respect to such obligations.

If at some future date, in the opinion of SBAM, adverse conditions prevail in the market for obligations the interest on which is exempt from regular federal income taxes, the Portfolio may invest its assets without limit in taxable high-quality short-term money market instruments. Dividends paid by the Portfolio that are attributable to interest derived from taxable money market instruments will be taxable to investors.

From time to time, the Portfolio may invest more than 25% of its assets in obligations whose interest payments are from revenues of similar projects (such as utilities or hospitals) or whose issuers share the same geographic location. As a result, the Portfolio may be more susceptible to a single economic, political or regulatory development than would a portfolio of securities with a greater variety of issuers. These developments include proposed legislation or pending court decisions affecting the financing of such projects and market factors affecting the demand for their services or products.

Opinions relating to the validity of municipal obligations and to the exemption of interest thereon from regular federal income tax

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are rendered by bond counsel to the respective issuers at the time of issuance. Neither the Portfolio nor SBAM will review the proceedings relating to the issuance of municipal obligations or the basis for such opinions.

#### Additional Investment Activities

**Floating and Variable Rate Obligations.** Certain of the obligations that the National Municipal Bond Fund may purchase may have a floating or variable rate of interest. Floating or variable rate obligations bear interest at rates that are not fixed, but vary with changes in specified market rates or indices, such as the prime rate, and at specified intervals. Certain of the floating or variable rate obligations that may be purchased by the Portfolio may carry a demand feature that would permit the holder to tender them back to the issuer of the underlying instrument or to a third party at par value prior to maturity. Such obligations include variable rate demand notes, which are instruments issued pursuant to an agreement between the issuer and the holder that permit the indebtedness thereunder to vary and provide for periodic adjustments in the interest rate.

**Participation Certificates.** The instruments that may be purchased by the Portfolio include participation certificates issued by a bank, insurance company or other financial institution in obligations owned by such institutions or affiliated organizations that may otherwise be purchased by the Portfolio. A participation certificate gives the Portfolio an undivided interest in the underlying obligations in the proportion that the Portfolio's interest bears to the total principal amount of such obligations. Certain of such participation certificates may carry a demand feature that would permit the holder to tender them back to the issuer or to a third party prior to maturity.

**Variable Rate Auction Securities and Inverse Floaters.** The National Municipal Bond Fund may invest in variable rate auction securities and inverse floaters which are instruments created when an issuer or dealer separates the principal portion of a long-term, fixed-rate municipal bond into two long-term, variable-rate instruments. The interest rate on the variable rate auction portion reflects short-term interest rates, while the interest rate on the inverse floater portion is typically higher than the rate available on the original fixed-rate bond. Changes in the interest rate paid on the portion of the issue relative to short-term interest rates inversely affect the interest rate paid on the latter portion of the issue. The latter portion therefore is subject to greater price volatility than the original fixed-rate bond. Since the market for these instruments is new, the holder of one portion may have difficulty finding a ready purchaser. Depending on market availability, the two portions may be recombined to form a fixed-rate municipal bond.

The National Municipal Bond Fund is currently authorized to use only certain of the various investment strategies referred to under "RISK FACTORS -- Hedging and Other Strategic Transactions." Specifically, the Portfolio may purchase or sell futures contracts on (a) debt securities that are backed by the full faith and credit of the U.S. Government, such as long-term U.S. Treasury Bonds and Treasury Notes and (b) municipal bond indices. Currently, at least one exchange trades futures contracts on an index of long-term municipal bonds, and the Portfolio reserves the right to conduct futures transactions based on an index which may be developed in the future to correlate with price movements in municipal obligations. It is not presently anticipated that any of these strategies will be used to a significant degree by the Portfolio. The Statement of Additional Information contains a description of these strategies and of certain risks associated therewith.

#### U.S. Government Securities Fund

The investment objective of the U.S. Government Securities Fund is to obtain a high level of current income consistent with preservation of capital and maintenance of liquidity. SBAM manages the U.S. Government Securities Fund and seeks to attain its objective by investing under normal circumstances 100% of its assets in debt obligations and mortgage-backed securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities. The securities in which the U.S. Government Securities Fund may invest are:

(1) mortgage-backed securities guaranteed by the Government National Mortgage Association ("GNMA"), popularly known as "Ginnie Maes," that are supported by the full faith and credit of the U.S. Government and which are the "modified pass-through" type of mortgage-backed security ("GNMA Certificates"). Such securities entitle the holder to receive all interest and principal payments due whether or not payments are actually made on the underlying mortgages;

(2) U.S. Treasury obligations;

(3) obligations issued or guaranteed by agencies or instrumentalities of the U.S. Government which are backed by their own credit and may not be backed by the full faith and credit of the U.S. Government;

(4) mortgage-backed securities guaranteed by agencies or instrumentalities of the U.S. Government which are supported by their own credit but not the full faith and credit of the U.S. Government, such as the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association; and

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(5) collateralized mortgage obligations issued by private issuers for which the underlying mortgage-backed securities serving as collateral are backed (i) by the credit alone of the U.S. Government agency or instrumentality which issues or guarantees the mortgage-backed securities, or (ii) by the full faith and credit of the U.S. Government.

The mortgage-backed securities in which the U.S. Government Securities Fund invests represent participating interests in pools of residential mortgage loans which are guaranteed by the U.S. Government, its agencies or instrumentalities of the U.S. Government. However, the guarantee of these types of securities runs only to the principal and interest payments and not to the market value of such securities. In addition, the guarantee only runs to the portfolio securities held by the U.S. Government Securities Fund and not to the purchase of shares of the Portfolio.

Mortgage-backed securities are issued by lenders such as mortgage bankers, commercial banks, and savings and loan associations. Such securities differ from conventional debt securities which provide for periodic payment of interest in fixed amounts (usually semiannually) with principal payments at maturity or specified call dates. Mortgage-backed securities provide monthly payments which are, in effect, a "pass-through" of the monthly interest and principal payments (including any prepayments) made by the individual borrowers on the pooled mortgage loans. Principal prepayments result from the sale of the underlying property or the refinancing or foreclosure of underlying mortgages.

The yield of mortgage-backed securities is based on the average life of the underlying pool of mortgage loans, which is computed on the basis of the maturities of the underlying instruments. The actual life of any particular pool may be shortened by unscheduled or early payments of principal and interest. The occurrence of prepayments is affected by a wide range of economic, demographic and social factors and, accordingly, it is not possible to accurately predict the average life of a particular pool. For pools of fixed rate 30-year mortgages, it has been common practice to assume that prepayments will result in a 12-year average life. The actual prepayment experience of a pool of mortgage loans may cause the yield realized by the U.S. Government Securities Fund to differ from the yield calculated on the basis of the average life of the pool. In addition, if any of these mortgage-backed securities are

purchased at a premium, the premium may be lost in the event of early prepayment which may result in a loss to the Portfolio.

Prepayments tend to increase during periods of falling interest rates, while during periods of rising interest rates prepayments will most likely decline. Reinvestment by the U.S. Government Securities Fund of scheduled principal payments and unscheduled prepayments may occur at higher or lower rates than the original investment, thus affecting the yield of the Portfolio. Monthly interest payments received by the Portfolio have a compounding effect which will increase the yield to shareholders as compared to debt obligations that pay interest semiannually. Because of the reinvestment of prepayments of principal at current rates, mortgage-backed securities may be less effective than Treasury bonds of similar maturity at maintaining yields during periods of declining interest rates. Also, although the value of debt securities may increase as interest rates decline, the value of these pass-through type of securities may not increase as much due to the prepayment feature.

While the Portfolio seeks a high level of current income, it cannot invest in instruments such as lower grade corporate obligations which offer higher yields but are subject to greater risks. The Portfolio will not knowingly invest in a high risk mortgage security. The term "high risk mortgage security" is defined generally as any mortgage security that exhibits greater price volatility than a benchmark security, the Federal National Mortgage Association current coupon 30-year mortgage-backed pass through security. Shares of the Portfolio are neither insured nor guaranteed by the U.S. Government, its agencies or instrumentalities.

In order to make the U.S. Government Securities Fund an eligible investment for federal credit unions ("FCUs"), federal savings and loan institutions and national banks, the Portfolio will invest in U.S. Government securities that are eligible for investment by such institutions without limitation, and will also generally be managed so as to qualify as an eligible investment for such institutions. The Portfolio will comply with all investment limitations applicable to FCUs including (i) the requirement that a FCU may only purchase collateralized mortgage obligations which would meet the high risk securities test of Part 703 of the National Credit Union Administration Rules and Regulations or would be held solely to reduce interest rate risk and (ii) the requirement that a FCU may not purchase zero coupon securities having maturities greater than ten years.

The ability of the U.S. Government Securities Fund to provide a high level of current income is restrained because that Portfolio invests predominantly in U.S. Government bonds; debt obligations and mortgage-backed securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities; and U.S. dollar-denominated money market instruments, respectively.

Use of Hedging and Other Strategic Transactions. The U.S. Government Securities Fund is not currently authorized to use any of the various investment strategies referred to under "RISK FACTORS -- Hedging and Other Strategic Transactions." However, such strategies may be used in the future by the Portfolio. The Statement of Additional Information contains a description of these strategies and of certain risks associated therewith.

#### Money Market Fund

The investment objective of the Money Market Fund is to obtain maximum current income consistent with preservation of principal and liquidity as is available from short-term investments. MAC manages the Money Market Fund and seeks to achieve this objective by investing in high quality, U.S. dollar-denominated money market instruments of the following types:

(1) obligations issued or guaranteed as to principal or interest by the U.S. Government, or any agency or authority controlled or supervised by and acting as an instrumentality of the U.S. Government pursuant to authority granted by Congress (hereinafter "U.S. Government securities");

(2) certificates of deposit, bank notes, time deposits, Eurodollars, Yankee obligations and bankers' acceptances of U.S. banks, foreign branches of U.S. banks, foreign banks and U.S. savings and loan associations which at the date of investment have capital, surplus and undivided profits as of the date of their most recent published financial statements in excess of \$100,000,000 (or less than \$100,000,000 if the principal amount of such bank obligations is insured by the Federal Deposit Insurance Corporation or the Savings Association Insurance Fund);

(3) commercial paper which at the date of investment is rated (or guaranteed by a company whose commercial paper is rated) within the two highest rating categories by any nationally recognized statistical rating organization ("NRSRO") (such as "P-1" or "P-2" by Moody's or "A-1" or "A-2" by S&P) or, if not rated, is issued by a company which MAC, acting pursuant to guidelines established by the Trustees, has determined to be of minimal credit risk and comparable quality;

(4) corporate obligations maturing in 397 days or less which at the date of investment are rated within the two highest rating categories by any NRSRO (such as "Aa" or higher by Moody's or "AA" or higher by S&P);

(5) short-term obligations issued by state and local governmental issuers;

(6) obligations of foreign governments, including Canadian and Provincial Government and Crown Agency Obligations;

(7) securities that have been structured to be eligible money market instruments such as participation interests in special purpose trusts that meet the quality and maturity requirements in whole or in part due to arrangements for credit enhancement or for shortening effective maturity; and

(8) repurchase agreements with respect to any of the foregoing obligations (without limitation).

Commercial paper may include variable amount master demand notes, which are obligations that permit investment of fluctuating amounts at varying rates of interest. Such notes are direct lending arrangements between the Money Market Fund and the note issuer, and MAC will monitor the creditworthiness of the issuer and its earning power and cash flow, and will also consider situations in which all holders of such notes would redeem at the same time. Variable amount master demand notes are redeemable on demand.

The Money Market Fund will invest only in U.S. dollar-denominated instruments. All of the Money Market Fund's investments will mature in 397 days or less and the Portfolio will maintain a dollar-weighted average portfolio maturity of 90 days or less. By limiting the maturity of its investments, the Money Market Fund seeks to lessen the changes in the value of its assets caused by fluctuations in short-term interest rates. Due to the short maturities of its investments, the Money Market Fund will tend to have a lower yield than, and the value of its underlying investments will be less volatile than the investments of, portfolios that invest in longer-term securities. In addition, the Money Market Fund will invest only in securities the Trustees determine to present minimal credit risks and which at the time of purchase are "eligible securities" as defined by Rule 2a-7 under the 1940 Act. Generally, eligible securities must be rated by a NRSRO in one of the two highest rating categories for short-term debt obligations or be of comparable quality. The Money Market Fund also intends to maintain a stable per share net asset value of \$1.00, although there is no assurance that it will be able to do so.

The Money Market Fund will be subject to certain risks as a result of its ability to invest up to 20% of its assets in foreign securities. These risks are described under the caption "RISK FACTORS -- Foreign Securities" in this Prospectus.

Use of Hedging and Other Strategic Transactions. The Money Market Fund is not authorized to use any of the various investment strategies referred to under "RISK FACTORS --Hedging and Other Strategic Transactions."

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## RISK FACTORS

### Investment Restrictions Generally

The Fund is subject to a number of restrictions in pursuing its investment objectives and policies. Such restrictions generally serve to limit investment practices that may subject the Fund to investment and market risk. The following is a brief summary of certain restrictions that may be of interest to investors. Some of these restrictions are subject to exceptions not stated here. Such exceptions and a complete list of the investment restrictions applicable to the individual Portfolios and to the Fund are set forth in the Statement of Additional Information under the caption "INVESTMENT RESTRICTIONS."

Except for the restrictions specifically identified as fundamental, all investment restrictions described in this Prospectus and in the Statement of Additional Information are not fundamental, so that the Trustees of the Fund may change them without shareholder approval. Fundamental policies may not be changed without the affirmative vote of a majority of the outstanding voting securities.

Fundamental policies applicable to all Portfolios include prohibitions on (i) investing more than 25% of the total assets of any Portfolio in the securities of issuers having their principal activities in any particular industry (with exceptions for U.S. Government securities and, with respect to the Money Market Fund, obligations of domestic branches of U.S. banks, and with respect to the National Municipal Bond Fund, obligations issued or guaranteed by any state or territory, and possession of the United States, the District of

Columbia, or any of their authorities, agencies, instrumentalities or political subdivisions) (for purposes of this restriction, supranational issuers will be considered to comprise an industry as will each foreign government that issues securities purchased by a Portfolio); (ii) borrowing money, except for temporary or emergency purposes (but not for leveraging) and then not in excess of 33 1/3% of the value of the total assets of the Portfolio at the time the borrowing is made (as a nonfundamental investment policy, a Portfolio will not purchase additional securities at any time its borrowings exceed 5% of total assets) and except in connection with reverse repurchase agreements, mortgage dollar rolls and other similar transactions, and (iii) purchasing securities of any issuer if the purchase would cause more than 5% of the value of a Portfolio's total assets to be invested in the securities of any one issuer (excluding U.S. Government securities and bank obligations) or cause more than 10% of the voting securities of the issuer to be held by a Portfolio, except that up to 25% of the value of each Portfolio's total assets (except the Money Market Fund) may be invested without regard to this restriction.

Restrictions that apply to all Portfolios and that are not fundamental include prohibitions on (i) knowingly investing more than 10% of the net assets of any Portfolio in "illiquid" securities (including repurchase agreements maturing in more than seven days but excluding master demand notes) (ii) pledging, hypothecating, mortgaging or transferring more than 10% of the total assets of any Portfolio as security for indebtedness (except that the applicable percent is 33 1/3% in the case of the Equity-Income Fund, 15% in the case of the International Small Cap, Growth Equity and Balanced Funds) and (iii) purchasing securities of other investment companies, other than in connection with a merger, consolidation or reorganization, if the purchase would cause more than 10% of the value of a Portfolio's total assets to be invested in investment company securities.

Finally, the Money Market Fund is subject to certain restrictions required by Rule 2a-7 under the 1940 Act. In order to comply with such restrictions, the Money Market Fund will, among other things, not purchase the securities of any issuer if it would cause (i) more than 5% of its total assets to be invested in the securities of any one issuer (excluding U.S. Government securities and repurchase agreements fully collateralized by U.S. Government securities), except as permitted by Rule 2a-7 for certain securities for a period of up to three business days after purchase, (ii) more than 5% of its total assets to be invested in "second tier securities," as defined by Rule 2a-7, or (iii) more than the greater of \$1 million or 1% of its total net assets to be invested in the second tier securities of that issuer.

#### High Yield/High Risk Securities

General. The Strategic Income Fund may invest without limitation, the Investment Quality Bond Fund may invest up to 20% of its assets, the Equity-Income Fund may invest up to 10% of its assets, and the Balanced, International Small Cap and Growth Equity Funds may each invest up to 5% of its assets, in "high yield" securities (commonly known as "junk bonds"). High yield securities include debt instruments that have an equity security attached to it. In addition, the International Small Cap, Strategic Income and Investment Quality Bond Funds expect that a significant portion of their assets may be invested in Brady Bonds. Securities rated below investment grade and comparable unrated securities offer yields that fluctuate over time, but generally are superior to the yields offered by higher rated securities. However, securities rated below investment grade also involve greater risks than higher rated securities. Under rating agency guidelines, medium- and lower-rated securities and comparable unrated securities will likely have some quality and protective characteristics that are outweighed by large uncertainties or major risk exposures to adverse conditions. Certain of the debt securities in

which the Portfolios may invest may have, or be considered comparable to securities having, the lowest ratings for non-subordinated debt instruments assigned by Moody's or S&P (i.e., rated C by Moody's or CCC or lower by S&P). These securities are considered to have extremely poor prospects of ever attaining any real investment standing, to have a current identifiable vulnerability to default, to be unlikely to have the capacity to pay interest and repay principal when due in the event of adverse business, financial or economic conditions, and/or to be in default or not current in the payment of interest or principal. Such securities are considered speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations. Accordingly, it is possible that these types of factors could, in certain instances, reduce the value of securities held by the Portfolio with a commensurate effect on the value of the Portfolio's shares. The Strategic Income Fund may invest without limitation in high yield debt securities, and accordingly, should not be considered as a complete investment program for all investors.

Because the Strategic Income and Investment Quality Bond Funds will invest primarily in fixed-income securities, the net asset value of each Portfolio's shares can be expected to change as general levels of interest rates

fluctuate, although the market values of securities rated below investment grade and comparable unrated securities tend to react less to fluctuations in interest rate levels than do those of higher-rated securities. Except to the extent that values are affected independently by other factors such as developments relating to a specific issuer, when interest rates decline, the value of a fixed-income portfolio can generally be expected to rise. Conversely, when interest rates rise, the value of a fixed-income portfolio can generally be expected to decline.

The secondary markets for high yield corporate and sovereign debt securities are not as liquid as the secondary markets for higher rated securities. The secondary markets for high yield debt securities are concentrated in relatively few market makers and participants in the market are mostly institutional investors, including insurance companies, banks, other financial institutions and mutual funds. In addition, the trading volume for high yield debt securities is generally lower than that for higher-rated securities and the secondary markets could contract under adverse market or economic conditions independent of any specific adverse changes in the condition of a particular issuer. These factors may have an adverse effect on a Fund's ability to dispose of particular portfolio investments and may limit the ability of those Portfolios to obtain accurate market quotations for purposes of valuing securities and calculating net asset value. If a Portfolio is not able to obtain precise or accurate market quotations for a particular security, it will become more difficult for the Trustees to value such Portfolio's investment portfolio and the Fund's Trustees may have to use a greater degree of judgment in making such valuations. Less liquid secondary markets may also affect a Portfolio's ability to sell securities at their fair value. In addition, each Portfolio may invest up to 10% of its net assets, measured at the time of investment, in illiquid securities, which may be more difficult to value and to sell at fair value. If the secondary markets for high yield debt securities are affected by adverse economic conditions, the proportion of a Portfolio's assets invested in illiquid securities may increase.

**Corporate Debt Securities.** While the market values of securities rated below investment grade and comparable unrated securities tend to react less to fluctuations in interest rate levels than do those of higher-rated securities, the market values of certain of these securities also tend to be more sensitive to individual corporate developments and changes in economic conditions than higher-rated securities. In addition, such securities generally present a higher degree of credit risk. Issuers of these securities are often highly leveraged and may not have more traditional methods of financing available to them, so that their ability to service their debt obligations during an economic downturn or during sustained periods of rising interest rates may be impaired. The risk of loss due to default by such issuers is significantly greater than with investment grade securities because such securities generally are unsecured and frequently are subordinated to the prior payment of senior indebtedness.

**Foreign Sovereign Debt Securities.** Investing in foreign sovereign debt securities will expose a Portfolio to the direct or indirect consequences of political, social or economic changes in the developing and emerging countries that issue the securities. The ability and willingness of sovereign obligors in developing and emerging countries or the governmental authorities that control repayment of their external debt to pay principal and interest on such debt when due may depend on general economic and political conditions within the relevant country. Countries such as those in which the Portfolios may invest have historically experienced, and may continue to experience, high rates of inflation, high interest rates, exchange rate trade difficulties and extreme poverty and unemployment. Many of these countries are also characterized by political uncertainty or instability. Additional factors which may influence the ability or willingness to service debt include, but are not limited to, a country's cash flow situation, the availability of sufficient foreign exchange on the date a payment is due, the relative size of its debt service burden to the economy as a whole, and its government's policy towards the International Monetary Fund, the World Bank and other international agencies.

The ability of a foreign sovereign obligor to make timely payments on its external debt obligations will also be strongly influenced by the obligor's balance of payments, including export performance, its access to international credits and investments, fluctuations in interest rates and the extent of its foreign reserves. A country whose exports are concentrated in a few commodities or whose economy depends on certain strategic imports could be vulnerable to fluctuations in international prices of these commodities or imports. To the extent that a country receives payment for its exports in currencies other than dollars, its ability to make debt payments denominated in dollars could be adversely affected. If a foreign sovereign obligor cannot generate sufficient earnings from foreign trade to service its external debt, it may need to depend on continuing loans and aid from foreign governments, commercial banks and multilateral organizations, and inflows of

foreign investment. The commitment on the part of these foreign governments,

multilateral organizations and others to make such disbursements may be conditioned on the government's implementation of economic reforms and/or economic performance and the timely service of its obligations. Failure to implement such reforms, achieve such levels of economic performance or repay principal or interest when due may result in the cancellation of such third parties' commitments to lend funds, which may further impair the obligor's ability or willingness to timely service its debts. The cost of servicing external debt will also generally be adversely affected by rising international interest rates, because many external debt obligations bear interest at rates which are adjusted based upon international interest rates. The ability to service external debt will also depend on the level of the relevant government's international currency reserves and its access to foreign exchange. Currency devaluations may affect the ability of a sovereign obligor to obtain sufficient foreign exchange to service its external debt.

As a result of the foregoing, a governmental obligor may default on its obligations. If such an event occurs, the Portfolio may have limited legal recourse against the issuer and/or guarantor. Remedies must, in some cases, be pursued in the courts of the defaulting party itself, and the ability of the holder of foreign sovereign debt securities to obtain recourse may be subject to the political climate in the relevant country. In addition, no assurance can be given that the holders of commercial bank debt will not contest payments to the holders of other foreign sovereign debt obligations in the event of default under their commercial bank loan agreements.

Sovereign obligors in developing and emerging countries are among the world's largest debtors to commercial banks, other governments, international financial organizations and other financial institutions. These obligors have in the past experienced substantial difficulties in servicing their external debt obligations, which led to defaults on certain obligations and the restructuring of certain indebtedness. Restructuring arrangements have included, among other things, reducing and rescheduling interest and principal payments by negotiating new or amended credit agreements or converting outstanding principal and unpaid interest to Brady Bonds, and obtaining new credit to finance interest payments. Holders of certain foreign sovereign debt securities may be requested to participate in the restructuring of such obligations and to extend further loans to their issuers. There can be no assurance that the Brady Bonds and other foreign sovereign debt securities in which the Portfolios may invest will not be subject to similar restructuring arrangements or to requests for new credit which may adversely affect a Portfolio's holdings. Furthermore, certain participants in the secondary market for such debt may be directly involved in negotiating the terms of these arrangements and may therefore have access to information not available to other market participants.

In addition to high yield foreign sovereign debt securities, many of the Portfolios may also invest in investment grade foreign securities. For a discussion of such securities and their associated risks, see "Foreign Securities" below.

#### Foreign Securities

Each of the portfolios, other than the U.S. Government Securities and National Municipal Bond Funds, may invest in securities of foreign issuers. Such foreign securities may be denominated in foreign currencies, except with respect to the Money Market Fund which may only invest in U.S. dollar-denominated securities of foreign issuers. The International Small Cap, Global Equity, International Growth and Income and Strategic Income Funds may each, without limitation, invest up to 100% of its assets in securities issued by foreign entities and/or denominated in foreign currencies. The Balanced and Growth Equity Funds may each invest up to 30% of its assets, the Equity-Income Fund up to 25% of its assets, and each of the other portfolios (other than the U.S. Government Securities and National Municipal Bond Funds) up to 20% of its assets in securities issued by foreign entities and/or denominated in foreign currencies. (In the case of the Small/Mid Cap, Growth Equity and Balanced Funds, ADRs and U.S. dollar denominated securities are not included in the percentage limitation.). The types of foreign securities in which the Money Market Fund may invest are set forth above under "INVESTMENT PORTFOLIOS - Money Market Fund." The U.S. Government Securities and National Municipal Bond Funds may not invest in foreign securities.

Securities of foreign issuers include obligations of foreign branches of U.S. banks and of foreign banks, common and preferred stocks, debt securities issued by foreign governments, corporations and supranational organizations, and American Depositary Receipts, European Depositary Receipts and Global Depositary Receipts ("ADRs", "EDRs" and "GDRs", respectively). ADRs are U.S. dollar-denominated securities backed by foreign securities deposited in a U.S. securities depository. ADRs are created for trading in the U.S. markets. The value of an ADR will fluctuate with the value of the underlying security, reflect any changes in exchange rates and otherwise involve risks associated with investing in foreign securities. ADRs in which the Portfolios may invest may be sponsored or unsponsored. There may be less information available about foreign issuers of unsponsored ADRs. EDRs and GDRs are receipts evidencing an arrangement with a non-U.S. bank similar to that for ADRs and are designed for use in non-U.S. securities markets. EDRs and GDRs are not necessarily quoted in

the same currency as the underlying security.

Foreign securities may be subject to foreign government taxes which reduce their attractiveness. See "GENERAL INFORMATION -- Taxes." In addition, investing in securities denominated in foreign currencies and in the securities of foreign issuers, particularly non-governmental issuers, involves risks which are not ordinarily associated with investing in domestic issuers. These risks include political or economic instability in the country involved and the possibility of imposition of currency controls. Since certain

Portfolios may invest in securities denominated or quoted in currencies other than the U.S. dollar, changes in foreign currency exchange rates may affect the value of investments in the Portfolio and the unrealized appreciation or depreciation of investments insofar as U.S. investors are concerned. Foreign currency exchange rates are determined by forces of supply and demand on the foreign exchange markets. These forces are, in turn, affected by the international balance of payments and other economic and financial conditions, government intervention, speculation and other factors. The Portfolios may incur transaction charges in exchanging foreign currencies.

There may be less publicly available information about a foreign issuer than about a domestic issuer. Foreign issuers, including foreign branches of U.S. banks, are subject to different accounting and reporting requirements which are generally less extensive than the requirements applicable to domestic issuers. Foreign stock markets (other than Japan) have substantially less volume than the U.S. exchanges and securities of foreign issuers are generally less liquid and more volatile than those of comparable domestic issuers. These risks are heightened in the case of emerging markets. There is frequently less governmental regulation of exchanges, broker-dealers and issuers than in the United States, and brokerage costs may be higher. In addition, investments in foreign companies may be subject to the possibility of nationalization, withholding of dividends at the source, expropriation or confiscatory taxation, currency blockage, political or economic instability or diplomatic developments that could adversely affect the value of those investments. Finally, in the event of a default on any foreign obligation, it may be difficult for the Fund to obtain or to enforce a judgment against the issuer.

Foreign markets, especially emerging markets, may have different clearance and settlement procedures, and in certain markets there have been times when settlements have been unable to keep pace with the volume of securities transactions, making it difficult to conduct such transactions. Delays in settlement could result in temporary periods when a portion of the assets of a Portfolio is uninvested and no return is earned thereon. The inability of a Portfolio to make intended security purchases due to settlement could cause the Portfolio to miss attractive investment opportunities. Inability to dispose of portfolio securities due to settlement problems could result in losses to a Portfolio due to subsequent declines in values of the portfolio securities or, if the Portfolio has entered into a contract to sell the security, possible liability to the purchaser. Certain foreign markets, especially emerging markets, may require governmental approval for the repatriation of investment income, capital or the proceeds of sales of securities by foreign investors. A Portfolio could be adversely affected by delays in, or a refusal to grant, any required governmental approval for repatriation of capital, as well as by the application to the Portfolio of any restrictions on investments.

In addition to the foreign securities listed above, the International Small Cap, Strategic Income, Investment Quality Bond, Growth Equity and Balanced Funds may also invest in foreign sovereign debt securities, which involve certain additional risks. See "RISK FACTORS -- High Yield/High Risk Securities -- Foreign Sovereign Debt Securities" above.

#### Warrants

Subject to certain restrictions, each of the Portfolios except the National Municipal Bond and Money Market Funds may purchase warrants, including warrants traded independently of the underlying securities. It is a non-fundamental investment restriction of each Portfolio not to purchase warrants if as a result that Portfolio would then have more than 10% of its total net assets invested in warrants, or if more than 5% of the value of the Portfolio's total net assets would be invested in warrants which are not listed on a recognized United States or foreign stock exchange, except for warrants included in units or attached to other securities.

#### Lending Portfolio Securities

To attempt to increase its income, each Portfolio may lend its portfolio securities in amounts up to 33% of its total non-cash assets to brokers, dealers and other financial institutions, provided such loans are callable at any time by the Portfolio and are at all times fully secured by cash, cash equivalents or securities issued or guaranteed by the U.S. government

or its agencies or instrumentalities, marked to market to the value of loaned securities on a daily basis. As with any extensions of credit, there may be risks of delay in recovery and in some cases even loss of rights in the collateral should the borrower of the securities fail financially. However, these loans of portfolio securities will only be made to firms deemed by the Subadvisers to be creditworthy.

#### When-Issued Securities ("Forward Commitments")

In order to help ensure the availability of suitable securities, each of the Portfolios may purchase debt securities on a "when-issued" or on a "forward delivery" basis, which means that the obligations will be delivered to the Portfolio at a future date, which may be a month or more after the date of commitment (referred to as "forward commitments"). It is expected that, under normal circumstances, a Portfolio purchasing securities on a when-issued or forward delivery basis will take delivery of the securities, but the Portfolio may sell the securities before the settlement date, if such action is deemed advisable. In general, a Portfolio does not pay for the securities or start earning interest on them until the purchase of the obligation is scheduled to be settled, but it does, in the meantime, record the transaction and reflect the value each day of the securities in determining its net asset value. At the time delivery is made, the value of when-issued or forward delivery securities may be more or less than the transaction price, and the yields then available in the market may be higher than those obtained in the

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transaction. While awaiting delivery of the obligations purchased on such bases, a Portfolio will establish a segregated account consisting of cash or liquid high quality debt securities equal to the amount of the commitments to purchase when-issued or forward delivery securities. The availability of liquid assets for this purpose and the effect of asset segregation on a Portfolio's ability to meet its current obligations, to honor requests for redemption and to have its investment portfolio managed properly will limit the extent to which the Portfolio may purchase when-issued or forward delivery securities. Except as may be imposed by these factors, there is no limit on the percentage of a Portfolio's total assets that may be committed to such transactions.

#### Hedging and Other Strategic Transactions

Individual Portfolios may be authorized to use a variety of investment strategies described below for hedging purposes only, including hedging various market risks (such as interest rates, currency exchange rates and broad or specific market movements), and managing the effective maturity or duration of debt instruments held by the Portfolio. The description in this Prospectus of each Portfolio indicates which, if any, of these types of transactions may be used by the Portfolio. Limitations on the portion of a Portfolio's assets that may be used in connection with the investment strategies described below are set out in the Statement of Additional Information.

Subject to the constraints described above, an individual Portfolio may (if and to the extent so authorized) purchase and sell (or write) exchange-listed and over-the-counter put and call options on securities, index futures contracts, financial futures contracts and fixed-income indices and other financial instruments, enter into financial futures contracts, enter into interest rate transactions, and enter into currency transactions (collectively, these transactions are referred to in this Prospectus as "Hedging and Other Strategic Transactions"). Other Strategic Transactions are also referred to as derivative transactions. A "derivative" is generally defined as an instrument whose value is based upon, or derived from, some underlying index, reference rate (e.g. interest rate or currency exchange rate, security, commodity or other asset). Portfolio's interest rate transactions may take the form of swaps, caps, floors and collars, and a Portfolio's currency transactions may take the form of currency forward contracts, currency futures contracts, currency swaps and options on currencies or currency futures contracts.

Hedging and Other Strategic Transactions may generally be used to attempt to protect against possible changes in the market value of securities held or to be purchased by a Portfolio resulting from securities markets or currency exchange rate fluctuations, to protect a Portfolio's unrealized gains in the value of its securities, to facilitate the sale of those securities for investment purposes, to manage the effective maturity or duration of a Portfolio's securities or to establish a position in the derivatives markets as a temporary substitute for purchasing or selling particular securities. A Portfolio may use any or all types of Hedging and Other Strategic Transactions which it is authorized to use at any time; no particular strategy will dictate the use of one type of transaction rather than another, as use of any authorized Hedging and Other Strategic Transaction will be a function of numerous variables, including market conditions. The ability of a Portfolio to utilize Hedging and Other Strategic Transactions successfully will depend on, in addition to the factors described above, the Subadviser's ability to predict pertinent market movements, which cannot be assured. These skills are different from those needed to select a Portfolio's securities. None of the Portfolios is a "commodity pool" (i.e., a pooled investment vehicle which trades in commodity

futures contracts and options thereon and the operator of which is registered with the Commodity Futures Trading Commission (the "CFTC"). Futures contracts and options on futures contracts will be purchased, sold or entered into only for bona fide hedging to the extent permitted by CFTC regulations. The use of certain Hedging and Other Strategic Transactions will require that a Portfolio segregate cash, liquid high grade debt obligations or other assets to the extent a Portfolio's obligations are not otherwise "covered" through ownership of the underlying security, financial instrument or currency. Risks associated with Hedging and Other Strategic Transactions are described in "HEDGING AND OTHER STRATEGIC TRANSACTIONS -- Risk Factors" in the Statement of Additional Information. A detailed discussion of various Hedging and Other Strategic Transactions, including applicable regulations of the CFTC and the requirement to segregate assets with respect to these transactions, also appears in the Statement of Additional Information.

#### Illiquid Securities

Each of the portfolios is precluded from investing in excess of 10% of its net assets in securities that are not readily marketable. Excluded from the 10% limitation are securities that are restricted as to resale but for which a ready market is available pursuant to exemption provided by Rule 144A adopted under the Securities Act of 1933, as amended (the "1933 Act") or other exemptions from the registration requirements of the 1933 Act. Whether securities sold pursuant to Rule 144A are readily marketable for purposes of the Fund's investment restriction is a determination to be made by the Subadvisers, subject to the Trustees' oversight and for which the Trustees are ultimately responsible. The Subadvisers will also monitor the liquidity of Rule 144A securities held by the Portfolios for which they are responsible. To the extent Rule 144A securities held by a Portfolio should become illiquid because of a lack of interest on the part of qualified institutional investors, the overall liquidity of the Portfolio could be adversely affected. In addition, the Money Market Fund may invest in commercial paper issued in reliance on the exemption from registration afforded by Section 4(2) of the 1933 Act. Section 4(2) commercial paper is restricted as to the disposition under federal securities law, and is generally sold to institutional investors, such as the Fund, who agree that they are purchasing the paper for investment purposes and not with a view to public distribution. Any resale by the purchaser must be made in an exempt transaction. Section 4(2) commercial paper is normally resold to other institutional investors like the

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Money Market Fund through or with the assistance of the issuer or investment dealers who make a market in Section 4(2) commercial paper, thus providing liquidity. The Money Market Fund's subadviser believes that Section 4(2) commercial paper meets its criteria for liquidity and is quite liquid. The Money Market Fund intends, therefore, to treat Section 4(2) commercial paper as liquid and not subject to the investment limitation applicable to illiquid securities. The Money Market Fund's subadviser will monitor the liquidity of Section 4(2) commercial paper held by the Money Market Fund, subject to the Trustees' oversight and for which the Trustees are ultimately responsible.

#### Repurchase Agreements and Reverse Repurchase Agreements

Each of the Fund's Portfolios may enter into repurchase agreements and reverse repurchase agreements. Repurchase agreements involve the acquisition by a Portfolio of debt securities subject to an agreement to resell them at an agreed-upon price. Under a repurchase agreement, at the time the Portfolio acquires a security, it agrees to resell it to the original seller (a financial institution or broker/dealer which meets the guidelines established by the Trustees) and must deliver the security (and/or securities that may be added to or substituted for it under the repurchase agreement) to the original seller on an agreed-upon date in the future. The repurchase price is in excess of the purchase price. The arrangement is in economic effect a loan collateralized by securities.

The Trustees have adopted procedures that establish certain creditworthiness, asset and collateralization requirements for the counterparties to a Portfolio's repurchase agreements. The Trustees will regularly monitor the use of repurchase agreements and the Subadvisers will, pursuant to procedures adopted by the Trustees, continuously monitor the amount of collateral held with respect to a repurchase transaction so that it equals or exceeds the amount of the obligation.

A Portfolio's risk in a repurchase transaction is limited to the ability of the seller to pay the agreed-upon sum on the delivery date. In the event of bankruptcy or other default by the seller, there may be possible delays and expenses in liquidating the instrument purchased, decline in its value and loss of interest. Securities subject to repurchase agreements will be valued every business day and additional collateral will be requested if necessary so that the value of the collateral is at least equal to the value of the repurchase obligation, including the interest accrued thereon.

Each Portfolio of the Fund may enter into "reverse" repurchase

agreements. Under a reverse repurchase agreement, a Portfolio may sell a debt security and agree to repurchase it at an agreed upon time and at an agreed upon price. The Portfolio retains record ownership of the security and the right to receive interest and principal payments thereon. At an agreed upon future date, the Portfolio repurchases the security by remitting the proceeds previously received, plus interest. The difference between the amount the Portfolio receives for the security and the amount it pays on repurchase is deemed to be payment of interest. The Portfolio will maintain in a segregated custodial account cash, Treasury bills or other U.S. Government securities having an aggregate value equal to the amount of such commitment to repurchase including accrued interest, until payment is made. In certain types of agreements, there is no agreed-upon repurchase date and interest payments are calculated daily, often based on the prevailing overnight repurchase rate.

#### Mortgage Dollar Rolls

Each Portfolio of the Fund (except the Money Market Fund) may enter into mortgage dollar rolls. Under a mortgage dollar roll, a Portfolio sells mortgage-backed securities for delivery in the future (generally within 30 days) and simultaneously contracts to repurchase substantially similar (same type, coupon and maturity) securities on a specified future date. During the roll period, the Portfolio forgoes principal and interest paid on the mortgage-backed securities. A Portfolio is compensated by the difference between the current sale price and the lower forward price for the future purchase (often referred to as the "drop") as well as by the interest earned on the cash proceeds of the initial sale. A Portfolio may also be compensated by receipt of a commitment fee. A Portfolio may only enter into covered rolls. A "covered roll" is a specific type of dollar roll for which there is an offsetting cash or cash equivalent security position which matures on or before the forward settlement date of the dollar roll transaction. Dollar roll transactions involve the risk that the market value of the securities sold by the Portfolio may decline below the repurchase price of those securities.

#### MANAGEMENT OF THE FUND

Under Massachusetts law and the Fund's Declaration of Trust and By-Laws, the business and affairs of the Fund are managed under the direction of the Trustees.

#### Advisory Arrangements

NASL Financial Services, Inc., ("NASL Financial" or, in its capacity as investment adviser to the Fund, the "Adviser"), a Massachusetts corporation whose principal offices are located at 116 Huntington Avenue, Boston, Massachusetts 02116, is the investment adviser to the Fund. NASL Financial is a wholly-owned subsidiary of North American Security Life Insurance Company ("Security Life"), a Delaware stock life insurance company, the controlling ultimate parent of which is The Manufacturers Life Insurance Company

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("Manulife"), a Canadian mutual life insurance company based in Toronto, Canada. Prior to January 1, 1996, Security Life was a wholly owned subsidiary of North American Life Assurance Company ("NAL"), a Canadian mutual life insurance company. On January 1, 1996 NAL and Manulife merged with the combined company retaining the name Manulife.

Pursuant to its Advisory Agreement with the Fund (the "Advisory Agreement"), the Adviser oversees the administration of all aspects of the business and affairs of the Fund; selects, contracts with and compensates subadvisers to manage the assets of the Fund's Portfolios; and reimburses the Fund if the total of certain expenses allocated to any Portfolio exceeds certain limitations. The Adviser serves as investment adviser to one other investment company, NASL Series Trust. NASL Series Trust is a mutual fund that serves as the underlying investment medium for variable annuity contracts issued by Security Life and its wholly-owned subsidiary, First North American Life Assurance Company. At November 30, 1996, NASL Series Trust had assets of approximately \$6.8 billion.

Under the terms of the Advisory Agreement, the Adviser selects, contracts with and compensates subadvisers to manage the investment and reinvestment of the assets of all Portfolios of the Fund. The Adviser monitors the compliance of such subadvisers with the investment objectives and related policies of each Portfolio and reviews the performance of such subadvisers and reports periodically on such performance to the Trustees. The Fund has filed an application with the Securities and Exchange Commission seeking exemptive relief to permit the appointment of a subadviser pursuant to an agreement that is not approved by shareholders. If granted, the Fund would be able to change subadvisers from time to time without the expense and delays associated with obtaining shareholder approval of the new subadviser. There is no assurance that the requested relief will be granted.

The Adviser oversees all aspects of the Fund's business and affairs. In that connection, the Adviser permits its directors, officers and employees to

serve as Trustees or President, Vice President, Treasurer or Secretary of the Fund, without cost to the Fund. The Adviser also provides certain services, and the personnel to perform such services, to the Fund for which the Fund reimburses the Adviser's costs of providing such services and personnel. Such services include maintaining certain records of the Fund and performing all administrative, financial, accounting, bookkeeping and recordkeeping functions of the Fund, except for any of those functions performed by the Fund's custodian or transfer and shareholder servicing agents. The reimbursement paid by the Fund to the Adviser for personnel costs include employee compensation and allocated portions of the Adviser's related personnel expenses of office space, utilities, office equipment and miscellaneous office expenses.

The Adviser has agreed to reduce a Portfolio's advisory fee, or if necessary to reimburse the Fund, in order to prevent the expenses of a Portfolio from exceeding either the most restrictive expense limitation imposed by applicable state law or a fixed expense limitation contained in the Advisory Agreement, whichever results in the lowest expenses to the Fund. The fixed limitation may be terminated by the Adviser at any time on 30 days' written notice. The most restrictive state law provision limits a Portfolio's annual expenses, excluding taxes, portfolio brokerage commissions, interest, certain litigation and indemnification expenses, extraordinary expenses and a portion of the Portfolio's distribution fees, to 2.5% of the first \$30,000,000 of the average net assets of the Portfolio, 2.0% of the next \$70,000,000 and 1.5% of the remaining average net assets of the Portfolio. The fixed limitation contained in the Advisory Agreement, and as of the date of this Prospectus the operative limitation on the Fund's expenses, limits a Portfolio's annual expenses, excluding taxes, portfolio brokerage commissions, interest, certain litigation and indemnification expenses, extraordinary expenses and all of the Portfolio's distribution fees as a percentage of average net assets to the following percents:

<TABLE>  
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Portfolio	Percent
International Small Cap Fund	1.55%
Small/Mid Cap Fund	1.325%
Global Equity Fund	1.40%
Growth Equity Fund	1.30%
International Growth and Income Fund	1.40%
Growth and Income Fund	.99%
Equity-Income Fund	.99%
Balanced Fund	.99%
Strategic Income Fund	1.15%
Investment Quality Bond	.90%
U.S. Government Securities Fund	.90%
National Municipal Bond Fund	.85%
Money Market Fund.	.50%

As compensation for its services, the Adviser receives a fee from the Fund computed separately for each Portfolio. The fee for each Portfolio is stated as an annual percentage of the current value of the net assets of the Portfolio. The fee, which is accrued daily and payable monthly, is calculated for each day by multiplying the fraction of one over the number of calendar days in the year by the annual percentage prescribed for a Portfolio, and multiplying this product by the value of the net assets of the Portfolio at the close of business on the previous business day of the Fund. The following is a schedule of the management fees each Portfolio currently is obligated to pay the Adviser under the Advisory Agreement (prior to the application of any fee waivers):

<TABLE>  
<CAPTION>

Funds	First \$50,000,000	Between	Between	Excess over \$500,000,000
		\$ 50,000,000 and \$200,000,000	\$200,000,000 and \$500,000,000	
International Small Cap Fund.....	1.050%	1.000%	.900%	.800%
Small/Mid Cap Fund.....	.925%	.900%	.875%	.850%
Global Equity Fund.....	.900%	.900%	.700%	.700%
Growth Equity Fund.....	.900%	.850%	.825%	.800%
International Growth and Income Fund.....	.900%	.850%	.800%	.750%
Growth and Income Fund.....	.725%	.675%	.625%	.550%
Equity-Income Fund.....	.800%	.700%	.600%	.600%
Balanced Fund.....	.775%	.725%	.675%	.625%

Strategic Income Fund.....	.750%	.700%	.650%	.600%
Investment Quality Bond Fund.....	.600%	.600%	.525%	.475%
National Municipal Bond Fund.....	.600%	.600%	.600%	.600%
U.S. Government Securities Fund.....	.600%	.600%	.525%	.475%
Money Market Fund.....	.200%	.200%	.200%	.145%

</TABLE>

As of March 16, 1993, August 1, 1994 and November 23, 1992, respectively, the Equity-Income, Growth and Income and Balanced Funds reached sufficient size to realize a reduction in the fee as a percent of excess net assets.

A more comprehensive statement of the terms of the Advisory Agreement appears in the Statement of Additional Information and this agreement is on file with and is available from the Commission

Subadvisory Arrangements

Wellington Management Company

Wellington Management Company LLP ("Wellington Management"), the Subadviser to the Growth and Income and Investment Quality Bond Funds, founded in 1933, is a Massachusetts limited liability partnership whose principal business address is 75 State Street, Boston, Massachusetts 02109. Wellington Management is a professional investment counseling firm which provides investment services to investment companies, employee benefit plans, endowments, foundations and other institutions and individuals. As of September 30, 1996, Wellington Management had investment management authority with respect to approximately \$123 billion of assets. The managing partners of Wellington Management are Robert W. Doran, Duncan M. McFarland, and John R. Ryan.

Matthew E. Megargel, Senior Vice President of Wellington Management, has served as portfolio manager to the Growth and Income Fund since February 1992. Mr. Megargel also serves as the portfolio manager for NASL Series Trust's Growth and Income Trust. Mr. Megargel joined Wellington Management in 1983 as a research analyst and took on additional responsibilities as a portfolio manager in 1988. In 1991, he became solely a portfolio manager with Wellington Management.

Thomas L. Pappas, Vice President of Wellington Management, has served as portfolio manager to the Investment Quality Bond Fund since March 1994. Mr. Pappas also serves as portfolio manager for NASL Series Trust's Investment Quality Bond Trust. Mr. Pappas has been a portfolio manager with Wellington Management since 1987.

J.P. Morgan Investment Management, Inc.

J.P. Morgan Investment Management, Inc. ("J.P. Morgan") is the Subadviser to the International Growth and Income Fund. J.P. Morgan, with principal offices at 522 Fifth Avenue, New York, New York 10036, is a wholly-owned subsidiary of J.P. Morgan & Co. Incorporated ("J.P. Morgan & Co."), a bank holding company organized under the laws of Delaware which is located at 60 Wall Street, New York, New York 10260. Through offices in New York City and abroad, J.P. Morgan & Co., through J.P. Morgan and other subsidiaries, offers a wide range of services to governmental, institutional, corporate and individual customers and acts as investment adviser to individual and institutional clients with combined assets under management of approximately \$197 billion as of September 30, 1996. J.P. Morgan has managed international securities for institutional investors since 1974. As of September 30, 1996, the non-U.S. securities under J.P. Morgan's management was approximately \$65 billion. J.P. Morgan provides investment advice and portfolio management services to the Portfolio. Subject to the supervision of the Fund's Trustees, J.P. Morgan makes the Portfolio's day-to-day investment decisions, arranges for the execution of portfolio transactions and generally manages the Portfolio's investments.

J.P. Morgan uses a sophisticated, disciplined, collaborative process for managing the Portfolio. The following persons are primarily responsible for the day-to-day management and implementation of J.P. Morgan's process for the Portfolio (their business experience for the past 5 years is indicated parenthetically): Paul A. Quinsee, Vice President (employed by J.P. Morgan since February 1992, previously Vice President, Citibank), and Gareth A. Fielding, Assistant Vice President (employed by J.P. Morgan since February 1992, previously he received his MBA from Imperial College at London University, while he was a self-employed trader on the London International Financial Futures Exchange). Mr. Quinsee has been managing the International Growth and Income Fund since the portfolio's inception (January, 1995) and Mr. Fielding has been managing the portfolio since May, 1995.

Mr. Quinsee is primarily responsible for the day-to-day management of several other institutional and investment company accounts that invest in international securities constituting approximately \$5 billion of assets. Since

July 1994, Mr. Fielding has been responsible for the day-to-day management (in some cases with another person) of 10 institutional and investment company portfolios that invest primarily in international fixed income securities, constituting approximately \$3.3 billion of assets. Mr. Fielding is a specialist in mortgage and asset-backed securities. Prior to July 1994, Mr. Fielding traded global fixed income products on J.P. Morgan's London trading desk.

Salomon Brothers Asset Management Inc.

Salomon Brothers Asset Management Inc ("SBAM"), the subadviser to the U.S. Government Securities Fund and Strategic Income Fund (collectively, the "Funds") is a wholly-owned subsidiary of Salomon Brothers Holding Company Inc, which is in turn wholly-owned by Salomon Inc ("SI"). SBAM was incorporated in 1987 and, together with affiliates in London, Frankfurt and Hong Kong, provides a full range of fixed income and equity investment advisory services for individual and institutional clients around the world, including European and Far East central banks, pension funds, endowments, insurance companies, and services as investment adviser to various investment companies. In providing such investment advisory services, SBAM and its affiliates have access to SI's more than 250 economists, mortgage, bond, sovereign and equity analysts. As of October 31, 1996, SBAM and its worldwide investment advisory affiliates managed approximately \$17.8 billion in assets. SBAM's business offices are located at 7 World Trade Center, New York, New York 10048.

In connection with SBAM's service as subadviser to the Strategic Bond Fund, SBAM's London-based affiliate, Salomon Brothers Asset Management Limited ("SBAM Limited"), whose business address is Victoria Plaza, 111 Buckingham Palace Road, London SW1W 0SB, England, provides certain advisory services to SBAM with regard to currency transactions and investments in non-dollar denominated debt securities for the benefit of the Strategic Bond Fund. SBAM Limited is compensated by SBAM at no additional expense to the Strategic Bond Fund. SBAM Limited is an indirect, wholly-owned subsidiary of Salomon Brothers Holding Company Inc. SBAM Limited is a member of the Investment Management Regulatory Organization Limited in the United Kingdom and is registered as an investment adviser in the United States pursuant to the Investment Advisers Act of 1940, as amended.

Steven Guterman and Roger Lavan are jointly responsible for the day-to-day management of the mortgage-backed securities and U.S. government securities components of the U.S. Government Securities Fund portfolio since December 1991 and the Strategic Income Fund portfolio since February 1993. Mr. Guterman, who joined SBAM in 1990, is a Managing Director of Salomon Brothers Inc and a managing Director and Senior Portfolio Manager of SBAM, responsible for SBAM's investment company and institutional portfolios which invest primarily in mortgage-backed securities and U.S. government issues. Mr. Guterman also serves as portfolio manager for two offshore mortgage funds and a number of institutional clients. Mr. Guterman joined Salomon Brothers Inc in 1983 working initially in the mortgage research group where he became a Research Director and later traded derivative mortgage-backed securities.

Mr. Lavan joined SBAM in 1990 and is a Portfolio Manager and Quantitative Fixed Income Analyst, responsible for working with senior portfolio managers to monitor and analyze market relationships and identify and implement relative value transactions in SBAM's investment company and institutional portfolios which invest in mortgage-backed securities and U.S.

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government securities. Prior to joining SBAM, Mr. Lavan spent four years analyzing portfolios for Salomon Brothers' Fixed Income Sales Group and Product Support Divisions.

Mssrs. Guterman and Lavan are assisted in the management of the Strategic Income Funds by Peter Wilby since February 1993 and David Scott since January 1995. Mr. Wilby, who joined SBAM in 1989, is a Managing Director of Salomon Brothers Inc and SBAM and a Senior Portfolio Manager of SBAM, responsible for investment company and institutional portfolio investments in high yield U.S. corporate debt securities and high yield foreign sovereign debt securities. From 1984 to 1989, Mr. Wilby was employed by Prudential Capital Management Group ("Prudential"), where he served as Director of Prudential's credit research unit and as a corporate and sovereign credit analyst. Mr. Wilby also managed high yield bonds and leveraged equities for Prudential mutual funds and institutional portfolios.

David Scott is a Senior Portfolio Manager with SBAM Limited in London with primary responsibility for managing long-term global bond portfolios. He also plays an integral role in developing strategy. Mr. Scott manages currency transactions and investments in non-dollar denominated securities for the Strategic Income Fund. Prior to joining Salomon Brothers in April 1994, Mr. Scott worked at J.P. Morgan Investment Management ("J.P. Morgan") from 1990 to 1994 where he had responsibility for global and non-dollar portfolios for clients including departments of various governments, pension funds and insurance companies. Before joining J.P. Morgan, from 1987 to 1990, Mr. Scott

worked for Mercury Asset Management managing captive insurance portfolios and products.

Fred Alger Management, Inc.

Investment decisions for the Small/Mid Cap Fund are made by its Subadviser, Fred Alger Management, Inc. ("Alger"). Alger, located at 75 Maiden Lane, New York, New York 10038, has been in the business of providing investment advisory services since 1964 and as of September 30, 1996 had approximately \$6.8 billion under management, including \$4.8 billion in mutual fund accounts and \$2.0 billion in other advisory accounts. Alger is wholly owned by Fred Alger & Company, Incorporated which in turn is wholly owned by Alger Associates, Inc., a financial services holding company. Fred M. Alger, III and his brother, David D. Alger, are the majority shareholders of Alger Associates, Inc. and may be deemed to control that company and its subsidiaries.

David D. Alger, President of Alger Management, is primarily responsible for the day-to-day management of the Small/Mid Cap Fund since the portfolio's inception (March 1996). He has been employed by Alger as Executive Vice President and Director of Research since 1971 and as President since 1995 and he serves as portfolio manager for other mutual funds and investment accounts managed by Alger Management. Also participating in the management of the Small/Mid Cap Fund since the portfolio's inception are Ronald Tartaro and Seilai Khoo. Mr. Tartaro has been employed by Alger Management since 1990 and he serves as a Senior Vice President. Prior to 1990, he was a member of the technical staff at AT&T Bell Laboratories. Ms. Khoo has been employed by Alger Management since 1989 and she serves as a Senior Vice President.

Founders Asset Management, Inc.

Investment decisions for the Growth Equity, International Small Cap and Balanced Funds are made by its Subadviser, Founders Asset Management, Inc. ("Founders"), located at 2930 East Third Avenue, Denver, Colorado 80206, a registered investment adviser first established as an asset manager in 1938. Bjorn K. Borgen, Chairman, Chief Executive Officer and Chief Investment Officer of Founders, owns 100% of the voting stock of Founders. As of October 31, 1996, Founders had over \$4.5 billion of assets under management, including approximately \$3.4 billion in mutual fund accounts and \$1.1 billion in other advisory accounts.

Founders is a "growth-style" manager of equity portfolios and gives priority to the selection of individual securities that have the potential to provide superior results over time, despite short-term volatility. Under normal circumstances, Founders' approach to investment management gives greater emphasis to the fundamental financial, marketing and operating strengths of the companies whose securities it buys, and is less concerned with the short-term impact of changes in macroeconomic and market conditions. Founders focuses on purchasing the stocks of companies with strong management and market positions that have earnings prospects that are significantly above the average for their market sectors.

To facilitate the day-to-day investment management of the Growth Equity, International Small Cap and Balanced Funds, Founders employs a unique team-and-lead-manager system. The management team is composed of several members of the Investment Department, including Founders' Chief Investment Officer, lead portfolio managers, assistant portfolio managers, portfolio traders and research analysts. Team members share responsibility for providing ideas, information, knowledge and expertise in the management of the portfolios. Each team member has one or more areas of expertise that is applied to the management of the Portfolio. Daily decisions on portfolio selection for the portfolio rests with a lead portfolio manager assigned to the portfolio.

Michael W. Gerding, Vice President of Investments, has been the lead portfolio manager for the International Small Cap Fund since the portfolio's inception (March, 1996). Mr.

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Gerding is a chartered financial analyst who has been part of Founders' investment department since 1990. Prior to joining Founders, Mr. Gerding served as a portfolio manager and research analyst with NCNB Texas for several years. Mr. Gerding earned a BBA in finance and an MBA from Texas Christian University.

Edward F. Keely, Vice President of Investments, has been the lead portfolio manager for the Growth Equity Fund since the portfolio's inception (March, 1996). Mr. Keely is a chartered financial analyst who joined Founders in 1989. A graduate of The Colorado College, Mr. Keely holds a Bachelor of Arts degree in economics.

Brian F. Kelly, Portfolio Manager, is the lead portfolio manager for the Balanced Fund. Mr. Kelly joined Founders in 1996. Prior to joining Founders, Mr. Kelly served as portfolio manager for Invesco Trust Company (1993-1996) and as a

senior investment analyst for Sears Investment Management Company (1986-1993). A graduate of the University of Notre Dame, Mr. Kelly received his MBA and JD from the University of Iowa. He is also a Certified Public Accountant.

T. Rowe Price Associates, Inc.

T. Rowe Price, whose address is at 100 East Pratt Street, Baltimore, Maryland 21202, is the subadviser for the Equity-Income Fund. Founded in 1937 by the late Thomas Rowe Price, Jr., T. Rowe Price and its affiliates managed over \$90 billion for over four million individual and institutional investor accounts as of November 30, 1996.

The investment advisory committee for the Equity-Income Fund is comprised of the following members: Brian C. Rogers, Chairman, Stephen W. Boese, Richard P. Howard, and William J. Stromberg. Mr. Rogers joined T. Rowe Price in 1982 and has been managing investments since 1983. He has been chairman of the Equity Income Fund investment advisory committee since October 1, 1996.

Morgan Stanley Asset Management, Inc.

Morgan Stanley, with principal offices at 1221 Avenue of the Americas, New York, New York 10020, has been the subadviser to the Global Equity Fund since October 1, 1996. Morgan Stanley, a wholly-owned subsidiary of Morgan Stanley Group, Inc. conducts a worldwide portfolio management business, providing a broad range of portfolio management services to customers in the United States and abroad. At September 30, 1996, Morgan Stanley, together with its affiliated asset management companies, (including MAS) managed investments totaling approximately \$103.5 billion, including approximately \$86.9 billion under active management and \$16.6 billion as named fiduciary or fiduciary adviser.

Frances Campion has been primarily responsible for the portfolio management of the Global Equity Fund since October, 1996. Ms. Campion joined Morgan Stanley in January 1990 as a global equity fund manager and is now a Principal of Morgan Stanley & Co. Incorporated. Her responsibilities include day to day management of the Global Equity Portfolio of Morgan Stanley Institutional Fund, Inc. Prior to joining Morgan Stanley, Ms. Campion was a U.S. equity analyst with Lombard Odler Limited where she had responsibility for the management of global portfolios. Ms. Campion has ten years global investment experience. She is a graduate of University of College, Dublin.

Manufacturers Adviser Corporation

MAC, a Colorado corporation, is the subadviser of the Money Market Fund. Its principal business at the present time is to provide investment management services to these portfolios and comparable portfolios of NASL Series Trust. MAC is an indirect wholly-owned subsidiary of Manulife. The address of MAC is 200 Bloor Street East, Toronto, Ontario, Canada M4W 1E5. As of October 31, 1996, MAC together with Manulife had approximately \$15 billion of assets under management.

Management of the above portfolios is provided by a team of investment professionals each of whom plays an important role in the management process of each portfolio. Team members work together to develop investment strategies and select securities for a portfolio. They are supported by research analysts, traders and other investment specialists who work alongside the investment professionals in an effort to utilize all available resources to benefit the shareholders.

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Under the terms of each of the subadvisory agreements between the Adviser and a Subadviser (the "Subadvisory Agreements"), the Subadviser assigned to a Portfolio manages the investment and reinvestment of the assets of such Portfolio, subject to the supervision of the Trustees. The Subadviser formulates a continuous investment program for such Portfolio consistent with its investment objectives and policies outlined in this Prospectus. The Subadviser implements such programs by purchases and sales of securities and regularly reports to the Adviser and the Trustees with respect to their implementation. The factors considered by the Subadvisers in allocating brokerage among broker/dealers are described in the Statement of Additional Information under the caption "PORTFOLIO BROKERAGE." Among the factors that may be considered is the willingness of broker/dealers to sell shares of the Fund.

As compensation for their services, the Subadvisers receive fees from the Adviser computed separately for each Portfolio. The fee for each Portfolio is stated as an annual percentage of the current value of the net assets of the Portfolio. The fee, which is accrued daily and payable monthly, is calculated for each day by multiplying the fraction of one over the number of calendar days in the year by the annual percentage prescribed for a Portfolio, and multiplying this product by the value of the net assets of the Portfolio at the close of business on the previous business day of the Fund. Once the average net assets

of a Portfolio exceed specified amounts, the fee is reduced with respect to the excess. Absent any applicable fee waivers, the following is a schedule of the management fees the Adviser is obligated to pay the Subadvisers for each Portfolio under the Subadvisory Agreements. These fees are paid out of the advisory fees described above and are not additional charges to the Portfolios or their shareholders.

<TABLE>  
<CAPTION>

Funds	First \$50,000,000	Between	Between	Excess over \$500,000,000
		\$ 50,000,000 and \$200,000,000	\$200,000,000 and \$500,000,000	
<S>	<C>	<C>	<C>	<C>
International Small Cap.....	.650%	.600%	.500%	.400%
Small/Mid Cap Fund.....	.525%	.500%	.475%	.450%
Global Equity Fund.....	.500%	.450%	.375%	.325%
Growth Equity Fund.....	.500%	.450%	.425%	.400%
International Growth and Income Fund.....	.500%	.450%	.400%	.350%
Growth and Income Fund.....	.325%	.275%	.225%	.150%
Equity-Income Fund.....	.400%	.300%	.200%	.200%
Balanced Fund.....	.375%	.325%	.275%	.225%
Strategic Income Fund*.....	.350%	.300%	.250%	.200%
Investment Quality Bond Fund.....	.225%	.225%	.150%	.100%
National Municipal Bond Fund.....	.250%	.250%	.250%	.250%
U.S. Government Securities Fund.....	.225%	.225%	.150%	.100%
Money Market Fund.....	.075%	.075%	.075%	.020%

</TABLE>

\*In connection with the subadvisory consulting agreement between SBAM and SBAM Limited, SBAM will pay SBAM Limited, as full compensation for all services provided under the subadvisory consulting agreement, a portion of its subadvisory fee, such amount being an amount equal to the fee payable under SBAM's subadvisory agreement multiplied by portion of the assets of the Strategic Income Fund that SBAM Limited has been delegated to manage divided by the current value of the net assets of the Portfolio.

As of March 16, 1993, August 1, 1994 and November 23, 1992, respectively, the Equity-Income, Growth and Income and Balanced Funds reached sufficient size to realize a reduction in the fee as a percent of excess net assets.

A more comprehensive statement of the terms of the Subadvisory Agreements appears in the Statement of Additional Information and these agreements are on file with and are available from the Commission.

All or a portion of Fund brokerage commissions may be paid to affiliates of Salomon, J.P. Morgan, Alger, Morgan Stanley and Oechsle. Information on the amount of these commissions is set forth in the Statement of Additional Information under "PORTFOLIO BROKERAGE."

#### Fund Expenses

Subject to the expense limitations discussed above, the Fund is responsible for the payment of all expenses of its organization, operations and business, except for those expenses the Adviser has agreed to bear pursuant to the Advisory Agreement or its Distribution Agreement with the Fund or the Subadvisers have agreed to pay pursuant to the Subadvisory Agreements. Among the expenses to be borne by the Fund, in addition to certain expenses incurred by the Adviser as described above, are the expense of the advisory and distribution fees;

all charges and expenses relating to the transfer, safekeeping, servicing and accounting for the Fund's property, including charges of depositories, custodians and other agents; all expenses of maintaining and servicing shareholder accounts, including charges of the Fund's transfer, dividend disbursing, shareholder recordkeeping, redemption and other agents; costs of shareholder reports and other communications to current shareholders; the expenses of meetings of the Fund's shareholders and the solicitation of management proxies in connection therewith; all expenses of preparing Fund Prospectuses and Statements of Additional Information; the expenses of determining the Portfolios' net asset value per share; the compensation of Trustees who are not directors, officers or employees of the Adviser and all expenses of meetings of the Trustees; all charges for services and expenses of the Fund's legal counsel and independent auditors; all fees and expenses of registering and qualifying, and maintaining the registration and qualification of, the Fund and its shares under all federal and state laws applicable to the Fund and its business activities; all expenses associated with the issue, transfer and redemption of Fund shares; brokers' and other charges incident to the purchase, sale or lending of the Fund's securities; taxes and other

governmental fees payable by the Fund; and any nonrecurring expenses including litigation expenses and any expenses the Fund may incur as a result of its obligation to indemnify its Trustees, officers and agents. All expenses are accrued daily and deducted from total income before dividends are paid.

Each Fund's portfolio turnover rate is set forth under the "Financial Highlights" section of the Prospectus. A high rate of portfolio turnover (in excess of 100%) generally involves correspondingly greater commission expenses, which must be borne directly by the Fund. The portfolio turnover rate of each of the Fund's portfolios may vary from year to year, as well as within a year. See "PORTFOLIO BROKERAGE" in the Statement of Additional Information.

#### GENERAL INFORMATION

##### Net Asset Value

The net asset value of the shares of each class of each Portfolio is calculated separately and, except as described below, is determined once daily as of the close of regularly scheduled trading on the New York Stock Exchange (the "Exchange"), Monday through Friday. Net asset value per share of each class of each Portfolio (other than the Money Market Fund, as described below) is calculated by dividing the value of the portion of the Portfolio's securities and other assets attributable to that class, less the liabilities attributable to that class, by the number of shares of that class outstanding. No determination is required on (i) days on which changes in the value of such Portfolio's securities holdings will not materially affect the current net asset value of the shares of the Portfolio, (ii) days during which no shares of such Portfolio are tendered for redemption and no order to purchase or sell such shares is received by the Fund, or (iii) the following business holidays or the days on which such holidays are observed by the Exchange: New Year's Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. Generally, trading in non-U.S. securities, as well as U.S. Government securities and money market instruments, is substantially completed each day at various times prior to the close of regularly scheduled trading on the Exchange. The values of such securities used in computing the net asset value of the shares of a class of a Portfolio are generally determined as of such times. Occasionally, events which affect the values of such securities may occur between the times at which they are generally determined and the close of regularly scheduled trading on the Exchange and would therefore not be reflected in the computation of a class's net asset value. If events materially affecting the value of such securities occur during such period, then these securities will be valued at their fair value as determined in good faith by the Subadvisers under procedures established and regularly reviewed by the Trustees.

Securities held by each of the Portfolios other than the Money Market Fund, except for money market instruments with remaining maturities of 60 days or less, are valued as follows: securities which are traded on stock exchanges are valued at the last sales price as of the close of the Exchange, or lacking any sales, at the closing bid prices. Securities traded only in the "over-the-counter" market are valued at the last bid prices quoted by brokers that make markets in the securities at the close of trading on the Exchange. Securities and assets for which market quotations are not readily available or not obtained from a pricing service are valued at fair value as determined in good faith by the Trustees, although the actual calculations may be made by persons acting pursuant to the direction of the Trustees. If approved by the Trustees, the Fund may make use of a pricing service or services in determining the net asset value of the classes of the Portfolios.

The Trustees have authorized the Portfolios to value certain debt securities by reference to valuations obtained from pricing services which take into account appropriate factors such as institution-size trading in similar groups of securities, yield, quality, coupon rate, maturity, type of issue, trading characteristics and other market data in determining valuations of such securities, without extensive reliance upon quoted prices, since such valuations are believed by the Trustees to more accurately reflect the fair value of such securities.

All instruments held by the Money Market Fund and money market instruments with a remaining maturity of 60 days or less held by the other Portfolios are valued on an amortized cost basis. With respect to each class of shares of the Money Market Fund, this method of calculation facilitates maintaining a constant net asset value of \$1.00 per share. However, there can be no assurance that the \$1.00 net asset value will be maintained at all times. The Trustees have determined that the amortized cost method of valuation fairly reflects a market based net asset value.

##### Dividends and Distributions

Except for the National Municipal Bond Fund, each Portfolio's dividends from net investment income (i.e., its net investment company taxable income as that term is defined in the Internal Revenue Code of 1986 (the "Code")),

determined without regard to the deduction for dividends paid) which includes short-term capital gains (collectively "ordinary income dividends") are taxable as ordinary income to shareholders whether paid in additional shares or in cash. Any net capital gain (i.e., the excess of a Portfolio's net realized long-term capital gain over its net realized short-term capital loss) distributed to shareholders as "capital gain dividends" is treated as long-term capital gain by the shareholders, whether paid in cash or additional shares, regardless of the length of time a shareholder has owned his or her shares. Shareholders are provided annually with full information on dividends and capital gains distributions for tax purposes. Shareholders may not have to pay state or local taxes on dividends derived from interest on U.S. Government obligations. Shareholders should consult their tax advisers regarding the applicability of state and local taxes to dividends and distributions. Each Portfolio will send shareholders a statement after the end of every calendar year stating the amount of dividends derived from interest on U.S. Government obligations.

The International Small Cap, Small/Mid Cap, Global Equity, Growth Equity, Equity-Income and Balanced Funds declare and pay any income dividends annually; the Growth and Income and International Growth and Income Funds declare and pay any income dividends semiannually; and the Strategic Income, Investment Quality Bond, U.S. Government Securities, National Municipal Bond and Money Market Funds declare income dividends daily and pay them monthly. See "PURCHASE OF SHARES -- General Methods of Purchasing Shares." Each of the Portfolios, other than the Money Market Fund, declares and pays any capital gains dividends annually. Generally, income dividends of Portfolios other than the Strategic Income, Investment Quality Bond, U.S. Government Securities, National Municipal Bond and Money Market Funds and capital gains dividends of Portfolios other than the Money Market Fund paid shortly after a purchase of shares prior to the record date, although in effect a return of capital, will be subject to income tax.

The maximum distribution and service fees payable by the Class B shares and Class C shares of each Portfolio (other than the Money Market Fund, which bears no such fees) are more than the maximum fees payable by each such Portfolio's Class A shares. In addition, certain incremental expenses which are specifically allocable to a particular class of shares in a Portfolio are separately allocated to that class of shares. As a result, the per share dividend on Class B and Class C shares will generally be lower than the per share dividend on Class A shares of a Portfolio.

For the convenience of shareholders, all income dividends and capital gains distributions are paid in full and fractional shares of the same class of a Portfolio on the payment date unless a shareholder has requested payment in cash. Shareholders may elect to have dividends and distributions from a class of a Portfolio invested in shares of the same class of another Portfolio at the respective net asset value. See SHAREHOLDER SERVICES -- Automatic Dividend Diversification."

#### Taxes

It is expected that each Portfolio of the Fund will qualify as a "regulated investment company" under the Code. If it so qualifies, a Portfolio will not be subject to United States federal income taxes on its net investment income and net capital gain, if any, that it distributes to its shareholders in each taxable year, provided that it distributes to its shareholders (i) at least 90% of its net investment income for such taxable year, and (ii) with respect to the National Municipal Bond Fund at least 90% of its net tax-exempt interest income for such taxable year. If in any year a Portfolio fails to qualify as a regulated investment company, such Portfolio would incur regular corporate federal income tax on its taxable income for that year and be subject to certain additional distribution requirements upon requalification. Each Portfolio will be subject to a 4% nondeductible excise tax on its taxable income to the extent it does not meet certain distribution requirements by the end of each calendar year. Each Portfolio intends to make sufficient distributions to avoid application of the corporate income and excise taxes.

Funds investing in foreign securities or currencies may be required to pay withholding or other taxes to foreign governments on dividends and interest. The investment yield of the Portfolios investing in foreign securities or currencies will be reduced by these foreign taxes. Shareholders will bear the cost of any foreign taxes, but may not be able to claim a foreign tax credit or deduction for these foreign taxes. If a Portfolio is eligible for and makes an election to allow the shareholders of that Portfolio to claim a foreign tax credit or deduction for these taxes for any taxable year, the shareholders will be notified. In addition, Portfolios investing in securities of passive foreign investment companies may be subject to U.S. federal income taxes (and interest on such taxes) as a result of such investments. The investment yield of the Portfolios making such investments will be reduced by these taxes and interest. Shareholders will bear the cost of these taxes and interest, but will not be able to claim a deduction for these amounts.

The redemption, sale or exchange of Fund shares (including the exchange of shares of one Portfolio for shares of another) is a taxable event and may result in a gain or loss. Gain or loss, if any, recognized on the sale or other disposition of shares of the Fund will be

taxed as capital gain or loss if the shares are capital assets in the shareholder's hands. Generally, a shareholder's gain or loss will be a long-term gain or loss if the shares have been held for more than one year. If a shareholder sells or otherwise disposes of a share of the Fund before holding it for more than six months, any loss on the sale or other disposition of such share shall be (i) treated as a long-term capital loss to the extent of any capital gain dividends received by the shareholder with respect to such share or (ii) in the case of the National Municipal Bond Fund, disallowed to the extent of any exempt-interest dividend received by the shareholder with respect to such shares. A loss realized on a sale or exchange of shares may be disallowed if other shares are acquired within a 61-day period beginning 30 days before and ending 30 days after the date that the shares are disposed of.

Unless a shareholder of any Portfolio includes his or her taxpayer identification number (social security number for individuals) in the Shareholder Application and certifies that he or she is not subject to backup withholding, the Fund is required to withhold and remit to the U.S. Treasury 31% from dividends other than exempt-interest dividends and other reportable payments to the shareholder.

Depending on the residence of the shareholder for tax purposes, distributions may also be subject to state and local taxes or withholding taxes. Most states provide that a regulated investment company may pass through (without restriction) to its shareholders state and local income tax exemptions available to direct owners of certain types of U.S. government securities. Thus, for residents of these states, distributions derived from a Portfolio's investment in certain types of U.S. government securities should be free from state and local income taxes to the extent that the interest income from such investments would have been exempt from state and local income taxes if such securities had been held directly by the respective shareholders themselves.

#### National Municipal Bond Fund - Taxation

The National Municipal Bond Fund also intends to satisfy conditions under the Code that will enable interest from municipal obligations, which is exempt from regular federal income taxes in the hands of each Portfolio, to qualify as "exempt-interest dividends" when distributed to such Portfolio's shareholders. Except as discussed below, such dividends are exempt from regular federal income taxes.

Although exempt-interest dividends paid by the National Municipal Bond Fund will be excluded by shareholders of the Portfolios from their gross income for regular federal income tax purposes, under the Code all or a portion of such dividends may be (i) a preference item for purposes of the alternative minimum tax, (ii) a component of the "ACE" adjustment for purposes of determining the amount of corporate alternative minimum tax or (iii) a factor in determining the extent to which a shareholder's Social Security benefits are taxable. Moreover, the receipt of exempt-interest dividends from each of the Portfolios affect the federal tax liability of certain foreign corporations, S Corporations and insurance companies. Furthermore, under the Code, interest on indebtedness incurred or continued to purchase or carry portfolio shares, which interest is deemed to relate to exempt-interest dividends, will not be deductible by shareholders of the Portfolio for federal income tax purposes.

The exemption of exempt-interest dividend income from regular federal income taxation does not necessarily result in similar exemptions for such income under tax laws of state or local taxing authorities. In general, states exempt from state income tax only that portion of any exempt-interest dividend that is derived from interest received by a regulated investment company on its holdings of obligations issued by that state or its political subdivisions and instrumentalities.

A notice detailing the tax status of dividends and distributions paid by the National Municipal Bond Fund will be mailed annually to its shareholders. As part of this notice, the Portfolio will report to its shareholders the percentage of interest income earned by the Portfolio during the preceding year on tax-exempt obligations indicating, on a state-by-state basis, the source of such income.

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Descriptions of tax consequences set forth in this Prospectus and in the Statement of Additional Information are intended to be a general guide. Investors should consult their tax advisers concerning a prospective investment in the Fund.

#### Performance Information

From time to time the Fund may advertise certain information about the performance of all classes of one or more of the Portfolios. Such performance information may include time periods prior to the establishment of the multi-class distribution system, as described more fully in the Statement of Information under the caption "PERFORMANCE INFORMATION." Information about performance of a class of shares of a Portfolio is not intended to indicate future performance. The Fund's annual report to shareholders, which is available without charge upon request, contains further discussions of Fund performance.

The Fund may advertise the yield and/or total return performance for all classes of one or more of the Portfolios in accordance with the rules of the Commission. The National Municipal Bond Fund may also present from time to time yield, tax-equivalent yield and standardized and nonstandardized total return in advertisements. When yield is used in sales literature, the total return figures will also be included. The Commission has issued rules setting forth the uniform calculation of both yield and total return, but shareholders' actual experience may be more or less than the figures produced by these formulas.

Each Portfolio may include the total return for all classes of shares in advertisements or other written material. Each such piece will include at least the average annual total return quotations for one year, five years, ten years (if available) and/or from the commencement of operations. Total return is measured by comparing the value of an investment at the beginning of the relevant period to the redemption value of the investment at the end of the period; the calculation assumes the initial investment is made at the current maximum net offering

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price, assumes immediate reinvestment of any dividends or capital gains distributions and adjusts for the current maximum sales charge of 4.75% for Class A shares and the applicable CDSC imposed on a redemption of Class B shares or Class C shares held for the period indicated. Yield and total return are calculated separately for each class of a Portfolio.

Each of the Portfolios may advertise yield for all classes, accompanied by total return. The yield will be computed by dividing the net investment income per share earned during a recent one month period (after deducting expenses net of reimbursements applicable to each class) by the maximum offering price (including the maximum front end sales charge or applicable CDSC) on the last day of the period, and annualizing the result (assuming compounding of interest) in order to arrive at annual percentage rate. The National Municipal Bond Fund may also present from time to time the tax-equivalent yield of all classes. The tax-equivalent yield is calculated by determining the portion of yield which is tax-exempt and calculating the equivalent taxable yield and adding to such amount any fully taxable yield.

The Money Market Fund may advertise yield and effective yield for all classes. The yield is based upon the income earned by the Portfolio over a seven-day period and is then annualized, i.e., the income earned in the period is assumed to be earned every seven days over a 365 day period and is stated as a percentage of the investment. Effective yield is calculated similarly, but when annualized the income earned by the investment is assumed to be reinvested weekly in shares of the same class and thus compounded in the course of a 365 day period. The effective yield will be higher than the yield because of the compounding effect of this assumed reinvestment.

All performance information may be compared with data published by Lipper Analytical Services, Inc. or to unmanaged indices of performance, including, but not limited to, the Dow Jones Industrial Average, Standard & Poor's 500, Value Line Composite, Lehman Brothers Bond, Government Corporate, Corporate and Aggregate Indices, Merrill Lynch Government & Agency and Intermediate Agency Indices, the EAFE Index or the Morgan Stanley Capital International World Index. In addition, during certain time periods the yield and total return of a class and/or a Portfolio may be affected by expense waivers and/or expense reimbursements. When so affected, the yield and total return figures will be accompanied by a statement regarding such waiver and/or reimbursement. While performance information may be helpful in evaluating whether a Portfolio may be fulfilling its objective, past performance should not be regarded as representative of future results. Yields and net asset values will fluctuate with market conditions and the value of shares redeemed may be more or less than their cost. The Money Market Fund operates under procedures designed to stabilize the net asset value of all classes at \$1.00 per share. The Fund will include performance data for each class of a Portfolio in any advertisement or information including performance data of such Portfolio. The Fund may also utilize performance information in hypothetical illustrations provided in narrative form.

#### Organization of the Fund

The Fund was organized as a Massachusetts business trust on September 28, 1988. The Equity-Income, U.S. Government Securities and Money Market Funds

commenced operations on August 28, 1989 with the acquisition of substantially all the assets of the corresponding portfolios of Hidden Strength Funds. The Global Equity Fund became available to investors on November 7, 1990, and the Growth and Income and Investment Quality Bond Funds became available to investors on May 1, 1991. The Balanced Fund (formerly the Asset Allocation Fund) became available July 13, 1992, following the combination of the former Conservative, Moderate and Aggressive Asset Allocation Trusts into the Balanced Fund. The former asset allocation trusts commenced operations August 28, 1989 with the acquisition of substantially all the assets of the corresponding portfolios of Hidden Strength Funds. The National Municipal Bond Fund became available to investors on June 30, 1993. The Strategic Income Fund became available to investors on November 30, 1993. The International Growth and Income Fund became available to investors on January 9, 1995. The Small/Mid Cap, International Small Cap and Growth Equity Funds became available to investors on March 4, 1996.

All shares of beneficial interest, \$.001 par value per share, of each Portfolio have equal voting rights (except as described below with respect to matters specifically affecting a class of shares) and have no pre-emptive or conversion rights. At a meeting of the Board of Trustees held on December 16, 1993, the Trustees, including each Trustee who is not an "interested person," as such term is defined under the 1940 Act, unanimously approved amendments to the Fund's Declaration of Trust to permit implementation of the Multiple Pricing System. Shareholders of the Fund approved these amendments at a special meeting held on February 18, 1994. The Multiple Pricing System was implemented on April 1, 1994. An order dated February 28, 1994 was issued to the Fund and NASL Financial by the Commission permitting the issuance and sale of multiple classes of shares representing interests in the Fund's existing Portfolios. Shares of each class of a Portfolio represent interests in that Portfolio in proportion to each share's net asset value. The per share net asset value of each class of shares in a Portfolio is calculated separately and may differ as between classes as a result of the differences in distribution and service fees payable by the classes and the allocation of certain incremental class-specific expenses to the appropriate class to which such expenses apply.

All shares of the Fund have equal voting rights and will be voted in the aggregate, and not by series (Portfolio) or class, except where voting by series or class is required by law or where the matter involved affects only one series or class (for example, matters pertaining to the plan of distribution relating to Class A shares will only be voted on by Class A shares). Matters required by the 1940 Act to be voted upon by each affected series include changes to (i) the Advisory Agreement, (ii) a Subadvisory Agreement and (iii) fundamental

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investment objectives and policies. (The Fund has filed an application with the Securities and Exchange Commission seeking exemptive relief to permit the appointment of a subadviser pursuant to an agreement that is not approved by shareholders. If granted, the Fund would be able to change subadvisers from time to time without the expense and delays associated with obtaining shareholder approval of the new subadviser. There is no assurance that the requested relief will be granted.)

The Fund is not generally required to hold annual meetings of shareholders. However, the Trustees may call special meetings of shareholders for action by shareholder vote as may be requested in writing by the holders of 25% or more of the outstanding shares of the Fund (10% in the case of a meeting requested for the purpose of removing a Trustee) or as may be required by applicable laws. Shareholders seeking to call a meeting for the purpose of removing a Trustee will be assisted by the Fund in communicating with other shareholders, provided the shareholders seeking to call a meeting are at least ten in number, have been shareholders for at least six months and hold in the aggregate at least one percent of the outstanding shares or shares having a value of at least \$25,000, whichever is less. Also, Trustees may be removed by action of the holders of two-thirds or more of the outstanding shares of the Fund. The Trustees are authorized to create additional series and classes of shares at any time without approval by shareholders.

Under Massachusetts law, shareholders of a business trust may, in certain circumstances, be held personally liable as partners for the obligations of the Fund. However, the Declaration of Trust pursuant to which the Fund was organized contains an express disclaimer of shareholder liability for acts or obligations of each Portfolio of the Fund and requires that notice of such disclaimer be given in each instrument entered into or executed by the Fund. The Declaration of Trust also provides for indemnification out of a Portfolio's property for any shareholder of such Portfolio held personally liable for any of the Portfolio's obligations. Thus, the risk of a shareholder being personally liable as a partner for obligations of a Portfolio is limited to the unlikely circumstance in which the Portfolio itself would be unable to meet its obligations.

Custodian and Transfer and Dividend Disbursing Agents

State Street Bank and Trust Company ("State Street"), 225 Franklin Street,

Boston, Massachusetts 02110, currently acts as Custodian of all the Portfolios' assets, as well as the bookkeeping, transfer and dividend disbursing agent for all of the Portfolios of the Fund. State Street has selected various banks and trust companies in foreign countries to maintain custody of certain foreign securities. State Street is authorized to use the facilities of the Depository Trust Company, the Participants Trust Company and the book-entry system of the Federal Reserve Banks.

#### Independent Accountants

Coopers & Lybrand L.L.P., One Post Office Square, Boston, Massachusetts 02109 serves as the Fund's independent accountant. The audited financial statements of the Fund at October 31, 1996, incorporated by reference into the Statement of Additional Information and the Financial Highlights for the period from the commencement of operations through October 31, 1996, included in this Prospectus have been audited by Coopers & Lybrand L.L.P. as indicated in their reports incorporated by reference into the Statement of Additional Information and are included therein in reliance upon such reports and upon the authority of such firm as experts in accounting and auditing.

#### PURCHASE OF SHARES

##### Introduction

The Fund offers three classes of shares in each Portfolio to the general public. Purchases of Class A shares of less than \$1 million are sold with a front end sales charge. Purchases of Class A shares of \$1 million or more made on or after May 1, 1995 are offered for sale at net asset value without a front end sales charge but may be subject to a CDSC upon redemption. Class B shares are sold without a front end sales charge but may be subject to a CDSC upon redemption. Class C shares are sold without a front end sales charge, but may be subject to a CDSC upon redemption. Shares of all classes of the Money Market Fund are sold at net asset value (without the imposition of a front end sales charge or CDSC). See "MULTIPLE PRICING SYSTEM" for a discussion of factors to consider in selecting which class of shares to purchase.

Shares are offered continuously for sale through securities dealers and banks which have executed an agreement (a "Dealer Agreement") with NASL Financial, the distributor of the Fund's shares (in such capacity, the "Distributor"). Certain States require that purchases of shares of the Fund be made only through a broker-dealer registered in the State.

The initial purchase of any class of shares in any Portfolio must be at least \$1,000, with the exception that the initial purchase to a retirement plan account may be made with a minimum of \$50. In addition, an account can be established with a minimum of \$50 if the account will be receiving periodic, regular investments through programs such as Automatic Investment Plans, Automatic Dividend Diversification, and Systematic Investing (see "SHAREHOLDER SERVICES -- Additional Shareholder Privileges" for a description of these

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programs). The minimum for subsequent investments is \$50.

When purchasing shares of any Portfolio of the Fund, investors must specify whether the purchase is for Class A, Class B or Class C shares.

##### General Methods of Purchasing Shares

1. By Mail. To make an initial account purchase, mail a check made payable in U.S. dollars to "North American Funds" with a completed New Account Application (copy enclosed with this Prospectus) to:

North American Funds  
P.O. Box 8505  
Boston, MA 02266-8505

Third party checks which are payable to an existing shareholder of the Fund who is a natural person (as opposed to a corporation or partnership) and endorsed over to the Fund will be accepted.

To make a purchase of shares to an existing North American Funds account, please note your account number on the check and forward it with an account investment slip to the above address.

Note: To establish certain tax deferred retirement plan accounts, such as IRAs, you will be required to complete a separate application which may be obtained from the Distributor or a securities dealer who has a Dealer Agreement with the Distributor.

2. By Federal Funds Wire. Shares may be purchased in any Portfolio by wire transfer. To obtain instructions for Federal Funds Wire purchases, please contact the Customer Service Department at (800) 872-8037.

3. Through a Securities Dealer. You may purchase shares by contacting a securities dealer who has a Dealer Agreement with the Distributor.

Orders for shares of all Portfolios except the Money Market Fund will be assigned the next closing price after receipt of the order. Orders for the Money Market Fund will be assigned the next closing price after the payment has been converted to Federal Funds and dividends will begin to accrue on the business day after such conversion. While orders for shares of the Strategic Income, Investment Quality Bond, U.S. Government Securities and National Municipal Bond Funds are assigned the next closing price after receipt of the order, dividends will begin to accrue on the business day after the purchase has been converted into Federal Funds.

Share Price

The public offering price of the Class A shares of each Portfolio is the net asset value per share (next determined following receipt of an order) plus, in the case of all Portfolios except the Money Market Fund, a front end sales charge, if applicable. The share price for Class B shares and Class C shares is the net asset value per share (next determined following receipt of an order).

Class A Shares

The public offering price for purchases of Class A shares of less than \$1 million is the net asset value per share plus a front end sales charge, expressed as a percentage of the offering price as set forth in the table below. No front end sales charge is imposed on the purchase of Class A shares of the Money Market Fund. However, when Class A shares of the Money Market Fund on which no sales charge has been paid or waived are exchanged for Class A shares of another Portfolio, the sales charge applicable to purchases of Class A shares will be assessed at that time. Purchases of Class A shares of \$1 million or more are offered for sale at net asset value subject to a CDSC of 1% of the dollar amount subject thereto if redeemed within one year of purchase. See "PURCHASES OF SHARES --Contingent Deferred Sales Charge" below. The CDSC may be waived on certain redemptions of shares. See "PURCHASES OF SHARES - Waiver of CDSC."

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Class A Sales Charge Table

Amount of Purchase Payment	Percentage of the Offering Price	Percentage of the Net Amount Invested	Concession to Broker Dealer as a Percentage of Offering Price
<S> Less than \$100,000.....	<C> 4.75%	<C> 4.99%	<C> 4.00%
\$100,000 but less than \$250,000.....	4.00%	4.17%	3.25%
\$250,000 but less than \$500,000.....	3.00%	3.09%	2.50%
\$500,000 but less than 1 million.....	2.25%	2.30%	1.75%
\$1 million or more.....	none*	none*	See below**

</TABLE>  
\*A contingent deferred sales charge may apply. See "PURCHASES OF SHARES - Contingent Deferred Sales Charge."

\*\*For purchases of Class A shares of \$1 million or more the Distributor will pay a commission to dealers as follows: 1.00% on sales up to \$5 million (0.50% for sales of the National Municipal Bond Fund), plus 0.50% of the amount in excess of \$5 million; provided, however, that the Distributor may pay a commission on sales in excess of \$5 million of up to 1.00% to certain dealers which, at the Distributor's invitation, enter into an agreement with the Distributor in which the dealer agrees to return any commission paid to it on the sale (or a pro rata portion thereof) if the shareholder redeems his shares within a period of time after purchase as specified by the Distributor. Purchases of \$1 million or more for each shareholder account will be aggregated over a 12 month period (commencing from the date of the first such purchase) for purposes of determining the level of commission to be paid during that period with respect to such account.

The Distributor may reallocate concessions to securities dealers with whom it has agreements and retain the balance over such concessions, and at times the Distributor may reallocate the entire front end sales charge to such dealers. In such circumstances, dealers may be deemed to be underwriters under the 1933 Act.

Also, during an initial offering period following the introduction of a new portfolio, and from time to time thereafter, additional amounts may be paid by the Distributor or its promotional agent that would result in total dealer concessions exceeding the offering price.

The Distributor may also pay banks and other financial service firms ("Service Organizations") that provide services for their clients to facilitate transactions in Class A shares of a Portfolio, a transaction fee up to an amount equal to the greater of the full applicable front end sales charge or the "Concession to a Broker Dealer as a Percentage of Offering Price" as shown in the above table. Banks are currently prohibited under the Glass-Steagall Act from providing certain underwriting or distribution services. If banking firms are prohibited from acting in any capacity or providing any of the described services, management will consider what action, if any, is appropriate. It is not anticipated that termination of a relationship with a bank would result in any material adverse consequences to a Portfolio. In addition, State securities laws may differ from federal laws regarding Service Organizations which may be required to register under State securities laws as brokers and/or dealers.

#### Reduced Sales Charges

Investors purchasing Class A shares may be able to benefit from a reduction or elimination of the front end sales charge through several purchase plans.

**Right of Accumulation.** For the purposes of determining which sales charge level in the table above is applicable to a purchase of Class A shares, investors may combine the total of the value of the shares being purchased with the amount equal to the current net asset value of the investor's holdings of shares in all Portfolios of the Fund, including holdings in Class B and Class C shares, but excluding shares purchased or held in the Money Market Fund. Also, for purposes of the foregoing calculation, shares (including holdings in Class B and Class C shares, but excluding shares purchased or held in the Money Market Fund) beneficially owned by the investor's spouse and the investor's children under the age of 21 may, upon written notice to the transfer agent, also be included in the investor's beneficial holdings at

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the current net asset value to reach a level specified in the above table. The investor must notify the transfer agent in writing of all share accounts to be considered in exercising the right of accumulation described above.

**Statement of Intention.** For the purposes of determining which sales charge level in the table above is applicable to a purchase of Class A shares, investors may also establish a total investment goal in shares of the Fund to be achieved over a thirteen-month period and may purchase Class A shares during such period at the applicable reduced front end sales charge. All shares, including Class B shares and Class C shares (but excluding shares purchased or held in the Money Market Fund), previously purchased and still beneficially owned by the investor and his or her spouse and children under the age of 21 may, upon written notice to the transfer agent, also be included at the current net asset value to reach a level specified in the table above.

Shares totaling 5% of the dollar amount of the Statement of Intention will be held in escrow by the Transfer Agent in the name of the purchaser. The effective date of a Statement of Intention may be back-dated up to 90 days, in order that any investments made during this 90-day period, valued at the purchaser's cost, can be applied to the fulfillment of the Statement of Intention goal.

The Statement of Intention does not obligate the investor to purchase, nor the Fund to sell, the indicated amount. In the event the investment goal is not achieved within the thirteen-month period, the purchaser is required to pay the front end sales charge that would otherwise have applied to the purchases of Class A shares made during this period. If a payment is due under the preceding sentence, it must be made directly to the Distributor within twenty days of notification or, if not paid, the Distributor will liquidate sufficient escrowed shares to obtain such difference. Certain transitional rules apply to shareholders who had a statement of intention in effect prior to April 1, 1994. For additional information, shareholders should contact the Fund, Wood Logan or eligible securities dealers.

**Group Purchases.** Subject to applicable regulations, reduced front end sales charges as set forth in the "Class A Sales Charge Schedule" are available on the purchase of Class A shares when sales are made to a group of individuals in such a manner as results in a savings of sales expenses. Approval of group purchase reduced front end sales charge plans is subject to the discretion of the Distributor.

**Certain Qualified Purchasers.** No front end sales charge or CDSC is applicable to any sale of Class A shares to a Trustee or officer of the Fund, or to the immediate families (i.e., the spouse, children, mother or father) of such persons, or any full-time employee or registered representative of broker/dealers having Dealer Agreements with the Distributor ("Selling Broker")

and their immediate families (or any trust, pension, profit sharing or other benefit plan for the benefit of such persons), or any full-time employee of a bank, savings and loan, credit union or other financial institution that utilizes a Selling Broker to clear purchases of Fund shares, and their immediate families. In addition, no front end sales charge or CDSC is applicable on any sale to North American Security Life Insurance Company or any of its affiliates, the Subadvisers or Wood Logan, or to a director, officer, full-time employee or sales representative of North American Security Life Insurance Company or any of its affiliates, the Subadvisers or any of their affiliates or of Wood Logan, or to the immediate families of such persons, or any trust, pension, profit-sharing or other benefit plan for the benefit of such persons.

No front end sales charge or CDSC on Class A shares is applicable to continuing purchase payments made in connection with Code Section 401 qualified plans that were invested in the Fund prior to April 1, 1994.

A qualified retirement plan that is currently a shareholder of the Fund may make additional purchases of Class A shares at net asset value (i.e., without the imposition of a front end sales load or CDSC). A commission or transaction fee of 1.00% will be paid by the Distributor to broker-dealers, banks and other financial service firms subject to a chargeback to the firm for redemptions made within one year from the date of purchase.

Class A shares may be purchased at net asset value by certain broker-dealers and other financial institutions which have entered into an agreement with the Distributor, which includes a requirement that such shares be sold for the benefit of clients participating in a "wrap account" or a similar account program under which such clients pay a fee to such broker-dealer or other financial institution. Class A shares may also be purchased at net asset value by registered investment advisers for the benefit of client accounts if the adviser charges a fee (other than brokerage commissions) for his services.

Class B Shares Class B shares are offered for sale at net asset value, and are offered for purchases of \$250,000 or less. Class B shares which are redeemed within six years of purchase are subject to a CDSC at the rates set forth in the table below, charged as a percentage of the dollar amount subject thereto. See "PURCHASES OF SHARES - Contingent Deferred Sales Charge."

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<TABLE>  
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Class B CDSC Table

Year(s) Since Purchase Order	CDSC as a Percentage of Dollar Amount Subject to Charge
Up to 2 years	5%
2 years or more but less than 3 years	4%
3 years or more but less than 4 years	3%
4 years or more but less than 5 years	2%
5 years or more but less than 6 years	1%
6 or more years	0%

The CDSC may be waived on certain redemption of shares. See "PURCHASES OF SHARES - Waiver of CDSC"

Class C Shares

Class C shares are offered for sale at net asset value and are offered for purchases of less than \$1 million. Class C shares are sold without a front end sales charge. Class C shares purchased on or after May 1, 1995 are subject to a CDSC of 1% of the dollar amount subject thereto during the first year after purchase. Shares purchased prior to May 1, 1995 are not subject to a CDSC. See "PURCHASES OF SHARES - Contingent Deferred Sales Charge"

The CDSC may be waived on certain redemptions of shares. See "PURCHASES OF SHARES - Waiver of CDSC."

Contingent Deferred Sales Charge

Class A shares (purchases of \$1 million or more) and Class C shares purchased on or after May 1, 1995 which are redeemed within one year of purchase are subject to a CDSC at the rate of 1% of the dollar amount subject thereto. Class B shares which are redeemed within six years of purchase are subject to a CDSC at the rates set forth above under "PURCHASES OF SHARES - Class B Shares." The CDSC generally is not applicable with respect to redemption of shares of the Money Market Fund. However, in the case of shares of the Money Market Fund which were obtained through an exchange of the same class of shares of another Portfolio, such shares will be subject to any applicable CDSC due at redemption.

Similarly, shares initially purchased as shares of the Money Market Fund which are subsequently exchanged for the same class of shares of other Portfolios will be subject to any applicable CDSC due at redemption. See "SHAREHOLDER SERVICES - Exchange Privilege." The CDSC is assessed on an amount equal to the lesser of the net asset value at redemption or the initial purchase price of the shares being redeemed. Solely for purposes of determining the amount of time from the purchase of shares until redemption, all orders accepted during a month are aggregated and deemed to have been made on the last business day of that month.

In determining the amount of the CDSC that may be applicable to a redemption, any shares in the redeeming shareholder's account that may be redeemed without charge will be assumed to be redeemed prior to those subject to a charge. In addition, if the CDSC is determined to be applicable to redeemed shares, it will be assumed that shares held for the longest duration are redeemed first. No CDSC is imposed on (i) amounts representing increases in the net asset value per share; or (ii) shares acquired through reinvestment of income dividends or capital gains distributions. Because shares of the Money Market Fund are not subject to any distribution or service fees, the CDSC period is tolled for any period of time in which shares are held in that Portfolio. For example, if Class C shares of a Portfolio other than the Money Market Fund are exchanged for the same class of shares of the Money Market Fund six months after purchase and are subsequently redeemed one year later, these shares are subject to a CDSC since the CDSC period is tolled during the period of time the shares are in the Money Market Fund. Furthermore, when Money Market Fund shares are exchanged for the same class of shares of any other Portfolio, the CDSC becomes (or, in the case of Money Market Fund shares which were subject to a CDSC prior to a previous exchange for Money Market Fund shares, again becomes) applicable to those shares commencing at the time of exchange. If such shares are subsequently redeemed, only time of ownership spent in Portfolios other than the Money Market Fund counts toward determining the applicable CDSC.

#### Waiver of CDSC

**Systematic Withdrawal Plan.** The CDSC on Class A, Class B and Class C shares may be waived in connection with a Systematic Withdrawal Plan. See "SHAREHOLDER SERVICES - Systematic Withdrawal Plan." For account opened after May 1, 1995, up to 12% of

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the value of an account (i.e., up to 1% per month of the value of the account at the time the systematic withdrawal is taken) may be withdrawn without the imposition of CDSC. If distributions (dividends and capital gains) are reinvested into an account and systematic withdrawals are also taken from the account, the distributions (which are never assessed a CDSC) will be included in the calculation of the 1% per month that may be withdrawn without the imposition of a CDSC.

**Qualified Retirement Plans.** The CDSC on Class A, Class B and Class C shares may be waived in connection with redemptions from qualified retirement plans (other than Individual Retirement Accounts ("IRAs")) in the case of (i) death or disability (as defined in section 72(m)(7) of the Code, as amended from time to time) of the participant in the retirement plan, (ii) required minimum distributions from the retirement plan due to attainment of age 70 1/2, (iii) tax-free return of an excess contribution to the retirement plan, (iv) retirement of the participant in the retirement plan, (v) a loan from the retirement plan (repayment of a loan, however, will constitute a new sale for purposes of assessing the CDSC), (vi) "financial hardship" of the participant in the retirement plan, as that term is defined in Treasury Regulation 1.401(k)-1(d)(2), as amended from time to time, (vii) termination of employment of the participant in the plan (excluding, however, a partial or other termination of the retirement plan), and (viii) the plan participant obtaining age 59 1/2.

**Other Waivers.** The CDSC on Class A, Class B and Class C shares may be waived in connection with (i) redemptions made following the death of a shareholder, (ii) redemptions effected pursuant to the Fund's right to liquidate a shareholder's account if the aggregate net asset value of the shares held in the account is less than the applicable minimum account size and (iii) a tax-free return of an excess contribution to any retirement plan.

#### Other Dealer Compensation

The Distributor may, either directly or through Wood Logan, from time to time assist dealers by, among other things, providing sales literature to, and holding educational programs for the benefit of, dealers' registered representatives. Participation of registered representatives in such informational programs may require the sale of minimum dollar amounts of shares of the Portfolios of the Fund. The Distributor and/or Wood Logan will also provide additional promotional incentives to dealers in connection with sales of shares of all classes of the Portfolios of the Fund. These incentives shall include payment for travel expenses, including lodging (which may be at a luxury resort), incurred in connection with trips taken by qualifying registered representatives and members of their families within or outside the United States. Incentive payments will be provided for out of the front end sales

charges and CDSCs retained by the Distributor, any applicable Distribution Plan payments or the Distributor's other resources. Other than Distribution Plan payments, the Fund does not bear distribution expenses. The staff of the SEC has indicated that dealers who receive more than 90% of the sales charge may be considered underwriters.

#### Distribution Expenses

In addition to the front-end sales charge which may be deducted at the time of purchase of Class A shares of less than \$1 million and the CDSC which may apply on redemptions of Class A shares (purchases of \$1 million or more), Class B shares, and Class C shares, each class of shares of each Portfolio is authorized under the Distribution Plan applicable to that class of shares (the "Class A Plan," the "Class B Plan" and the "Class C Plan," collectively, the "Plans") adopted pursuant to Rule 12b-1 under the 1940 Act to use the assets attributable to such class of shares of the Portfolio to finance certain activities relating to the distribution of shares to investors. The Plans are "compensation" plans providing for the payment of a fixed percentage of average net assets to finance distribution expenses. The Plans provide for the payment by each class of shares of each Portfolio of the Fund, other than the Money Market Fund, of a monthly distribution and service fee to the Distributor, as principal underwriter for the Fund. Portions of the fees prescribed below are used to provide payments to the Distributor, to promotional agents, to brokers, dealers or financial institutions (collectively, "Selling Agents") and to Service Organizations for ongoing account services to shareholders and are deemed to be "service fees" as defined in paragraph (b) (9) of Section 26 of the Rules of Fair Practice of the NASD.

Under the Class A Plan, Class A shares of each Portfolio (except as described in the next sentence) are subject to a fee of up to .35% of their respective average annual net assets, five-sevenths of which (.25%) constitutes a "service fee." Class A shares of the Money Market Fund bear no such fees and Class A shares of the National Municipal Bond Fund are subject to a fee of up to .15% of Class A average annual net assets, the entire amount of which constitutes a "service fee." Under the Class B Plan, Class B shares of each Portfolio (with the exception of the Money Market Fund) are subject to a fee of up to 1.00% of their respective average annual net assets, one-fourth (.25%) of which constitutes a "service fee." Under the Class C Plan, Class C shares of each Portfolio (with the exception of the Money Market Fund) are subject to a fee of up to 1.00% of their respective average annual net assets, one-fourth (.25%) of which constitutes a "service fee."

Payments under the Plans are used primarily to compensate the Distributor for distribution services provided by it in connection with the offering and sale of the applicable class of shares, and related expenses incurred, including payments by the Distributor to compensate or reimburse Selling Agents for sales support services provided and related expenses incurred by such Selling Agents. Such services and expenses may include the development, formulation and implementation of marketing and promotional activities, the

preparation, printing and distribution of prospectuses and reports to recipients other than existing shareholders, the preparation, printing and distribution of sales literature, expenditures for support services such as telephone facilities and expenses and shareholder services as the Fund may reasonably request, provision to the Fund of such information, analyses and opinions with respect to marketing and promotional activities as the Fund may, from time to time, reasonably request, commissions, incentive compensation or other compensation to, and expenses of, account executives or other employees of the Distributor or Selling Agents, attributable to distribution or sales support activities, respectively, overhead and other office expenses of the Distributor or Selling Agents, attributable to distribution or sales support activities, respectively, and any other costs and expenses relating to distribution or sales support activities. The Distributor may pay directly Selling Agents and may provide directly the distribution services described above, or it may arrange for such payment or the performance of some or all of such services by Wood Logan, the Fund's exclusive promotional agent, at such level of compensation as may be agreed to by the Distributor and Wood Logan.

The Distributor currently pays a trail commission to securities dealers, with respect to accounts that such dealers continue to service for shares sold after April 1, 1994 as follows: Class A shares - .25% annually, commencing from the date the purchase order is accepted, for all Portfolios (except the National Municipal Bond Fund, for which the trail commission is .15%, and the Money Market Fund, for which no trail commission is paid); Class B shares - .25% annually, for all Portfolios (except the National Municipal Bond Fund, for which the trail commission is .15%, and the Money Market Fund, for which no trail commission is paid); and Class C shares - 1.0% annually, for all Portfolios other than the Investment Quality Bond, U.S. Government Securities, National Municipal Bond and Money Market Funds and .90% annually, for the Investment Quality Bond, U.S. Government Securities and National Municipal Bond Fund (no trail commission is paid on the Money Market Fund). The trail commission payable following conversion of Class B and Class C shares to Class A shares will be in

accordance with the amounts paid for Class A shares. For Class B and Class C shares sold on or after May 1, 1995, trail commissions commence 13 months after purchase. For Class B and Class C shares sold prior to May 1, 1995, trail commissions commence the date the purchase order is accepted. Trail commissions for shares sold prior to April 1, 1994 will be paid as noted below.

In the case of Class B shares and Class C shares sold on or after May 1, 1995, the Distributor will advance to securities dealers the first year service fee at a rate equal to 0.25% of the purchase price of such shares and, as compensation therefor, the Distributor may retain the service fee paid by the Fund with respect to such shares for the first year after purchase. In the case of sales of Class B shares, the Distributor will pay each dealer a fee of 4% of the amount of Class B shares purchased (0.25% is the advancement of the first year service fee and the remainder is a commission or transaction fee). No commission or transaction fee is paid for sales of shares of Class B of the Money Market Fund. In the case of sales of Class C shares, the Distributor will pay each securities dealer a fee of 1% (0.90% in the case of the Investment Quality Bond, U.S. Government Securities and National Municipal Bond Fund of the purchase price of Class C shares purchased through such securities dealer (0.25% is the advancement of the first year service fee and the remainder is a commission or transaction fee). No commission or transaction fee is paid for sales of shares of Class C of the Money Market Fund.

The Distributor will also pay a trail commission to securities dealers, with respect to accounts that such dealers continue to service for shares sold prior to April 1, 1994, as follows: (i) for the Equity-Income, Growth and Income, Global Equity and Balanced Funds, 0.90%, (ii) for the U.S. Government Securities, Investment Quality Bond and Strategic Income Funds, 0.35% and for the National Municipal Bond Fund, 0.15%. No trail commission will be paid on shares of the Money Market Fund. The trail commission above will be paid on shares purchased prior to April 1, 1994 provided the shares remain in the same Portfolio. If the shares are exchanged or transferred from the Portfolio at any time on or after April 1, 1994, then the trail commission for shares sold after April 1, 1994 as stated above will be paid.

The distribution and service fees attributable to the Class B shares and the Class C shares are designed to permit an investor to purchase shares without the assessment of a front end sales charge, and, with respect to the Class C shares, without the assessment of a CDSC as well, and at the same time permit the Distributor to compensate securities dealers with respect to sales of such shares.

The Distributor is authorized by each Plan to retain any excess of the fees it receives thereunder over its payments to selected dealers or Wood Logan and its expenses incurred in connection with providing distribution services. Thus, payments under a Plan may result in a profit to the Distributor. Each Plan also provides that to the extent that any payments by any class of any Portfolio of the Fund to the Distributor in its capacity as investment adviser to the Fund, such as for investment management fees, may be deemed to be an indirect payment of distribution expenses, those indirect payments are deemed to be authorized by the Plans. Payments made under the Plans are subject to quarterly review by the Trustees and the Plans are subject to annual review and approval by the Trustees.

In adopting the Plans, the Trustees determined that the adoption of the Plans is in the best interests of the Fund and its shareholders, that there is a reasonable likelihood that the Plans will benefit the Fund and its shareholders, and that the Plans are essential to, and an integral part of, the Fund's program for financing the sale of shares of the various Portfolios of the Fund to the public.

The Distributor, a wholly-owned subsidiary of North American Security Life Insurance Company, is a broker/dealer registered under the Securities Exchange Act of 1934, as amended (the "1934 Act") and is a member of the NASD. The Distributor's address is the same as that of the Fund and the Distributor also serves as the investment adviser to the Fund as described above under "MANAGEMENT

OF THE FUND." The Distributor has entered into an exclusive promotional agent agreement with Wood Logan pursuant to which Wood Logan will solicit securities dealers to sell Fund shares, offer sales training to registered representatives of such dealers, prepare and distribute certain sales and promotional materials and otherwise assist in the distribution of Fund shares. For providing such services, the Distributor will pay Wood Logan such amounts as are agreed to from time to time pursuant to the promotional agent agreement. Wood Logan, a broker/dealer registered under the 1934 Act and a member of the NASD, is a subsidiary of Wood Logan Associates, Inc., a corporation which is a wholly owned subsidiary of a holding company that is 85% owned by Manulife and approximately 15% owned by principals of Wood Logan Associates. The address of Wood Logan is 1455 East Putnam Avenue, Old Greenwich, Connecticut 06870.

Further information on any of the programs described in the following sections may be obtained from the Fund, Wood Logan and eligible securities dealers. For additional information, shareholders should contact the Fund, Wood Logan or eligible securities dealers.

#### Automatic Investment Plan

Shareholders who open an account who wish to make subsequent monthly investments in a Portfolio may establish an Automatic Investment Plan as part of the initial Application or subsequently by submitting an Application. Under this plan, on or about the tenth day of each month the Transfer Agent will debit the shareholder's bank account in the amount specified by the shareholder (which monthly amount may not be less than \$50). The proceeds will be invested in shares of the specified class of a Portfolio of the Fund at the applicable offering price determined on the date of the debit. In the event of a full exchange, this plan will follow into the new Portfolio unless otherwise specified. Participation in the Automatic Investment Plan may be discontinued upon 30 days' written notice to the Transfer Agent, or if a debit is not honored.

#### Exchange Privilege

Shares of any Portfolio may be exchanged for shares of the same class of any other Portfolio with the same account registration at the relative net asset value per share without the imposition of any front end sales charge or CDSC, except as described below. Shares of one class may not be exchanged for shares of any other class of any Portfolio.

Class A Shares - Class A shares of any Portfolio may be exchanged for Class A shares of any other Portfolio at the relative net asset value per share without the imposition of a front end sales charge or CDSC which would be due upon redemption with respect to the shares being exchanged. However, a front end sales charge will be imposed with respect to Class A shares (purchases of less than \$1 million) which are issued upon an exchange from Class A Money Market Fund shares and as to which no front end sales charge had been previously paid or waived. See "SHAREHOLDER SERVICES - Money Market Fund - Assessment of CDSC."

Class B Shares - Class B shares of any Portfolio may be exchanged for Class B shares of any other Portfolio, including the Money Market Fund, at the relative net asset value per share without the imposition at that time of any CDSC which would be due upon redemption with respect to the shares being exchanged. See "SHAREHOLDER SERVICES - Money Market Fund - Assessment of CDSC."

Class C Shares - Class C shares of any Portfolio may be exchanged for Class C shares of any other Portfolio, including the Money Market Fund, at the relative net asset value per share without the imposition at that time of any CDSC which would be due upon redemption with respect to the shares being exchanged. See "SHAREHOLDER SERVICES - Money Market Fund - Assessment of CDSC."

Money Market Fund - Assessment of CDSC - The CDSC period for Class A shares (purchases of \$1 million or more), Class B shares and Class C shares is tolled for any period of time in which they are held in the Money Market Fund. For example, if Class C shares of a Portfolio, other than the Money Market Fund, are exchanged for Class C shares of the Money Market Fund six months after purchase and are subsequently redeemed one year later, these Class C shares are subject to a CDSC since the CDSC period is tolled during the period of time the shares are in the Money Market Fund. Furthermore, when Money Market Fund shares are exchanged for shares of any other Portfolio, the CDSC becomes (or, in the case of Money Market Fund shares which were subject to a CDSC prior to a previous exchange for Money Market Fund shares, again becomes) applicable to those shares commencing at the time of exchange. If such shares are subsequently redeemed, only time of ownership spent in Portfolios other than the Money Market Fund counts toward determining the applicable CDSC.

General Information - Exchanges are regarded as sales for federal and state income tax purposes and could result in a gain or loss, depending on the original cost of shares exchanged. If the exchanged shares were acquired within the previous 90 days, the gain or loss may have to be computed without regard to any sales charges incurred on the exchanged shares (except to the extent those sales charges exceed the sales charges waived in connection with the exchange). See "GENERAL INFORMATION -- Taxes." Exchanges are free and unlimited in number and will usually occur on the same day as requested. The terms of the foregoing exchange privilege are subject to change and the

privilege may be terminated at any time. The exchange privilege is only available where the exchange may legally be made.

By mail - an exchange will be honored by a written letter of request to the Fund if signed by all registered owners of the account.

By telephone - All accounts are eligible for the telephone exchange privilege. See "--- ADDITIONAL SHAREHOLDER PRIVILEGES -- Telephone Exchanges."

#### Transfer of Shares

Shareholders may transfer fund shares to family members and others at any time without incurring a front end sales charge (Class A shares purchases of less than \$1 million) and without a CDSC being imposed at that time (Class A shares purchases of \$1 million or more, Class B shares and Class C shares). Shareholders should consult their tax adviser concerning such transfers.

#### Redemption of Shares

You may redeem shares of your account in any amount and at any time at the applicable net asset value next determined after the request for redemption is received in proper order by the Fund. As described under "PURCHASE OF SHARES," redemptions of Class A shares purchases of \$1 million or more, Class B shares and Class C shares and may subject to a CDSC. The Fund will normally send the proceeds from a redemption (less any applicable CDSC) on the next business day, but if making immediate payment could adversely affect the Fund, it may take up to seven days for payment to be made. Payment may also be delayed if the shares to be redeemed were purchased by check and that check has not cleared.

#### General Methods of Redeeming Shares

1. By Mail. You may redeem shares by mail by sending a written request for the redemption to the Fund. The request will be processed after receipt of all required documents in proper order: certificates of beneficial interest (if issued); a stock power signed by all account owners exactly as the account is registered specifying the number of shares or dollars to be redeemed; and in the case of a redemption to be paid to a person or address other than the person or address of record and/or in an amount greater than \$50,000, a guarantee of the stock power signature(s) without restriction, condition or qualification by an officer of a commercial bank, Trust Company, Federal savings and loan institution, member firm of a national securities exchange or NASD member. If shares are held in the name of a corporation, trust, estate, custodianship, partnership or pension or profit sharing plan, additional documentation may be necessary.

2. Through a Securities Dealer. You may sell your shares by contacting a securities dealer who has a Dealer Agreement with the Distributor. (See "GENERAL -- Repurchase of Shares" in the Statement of Additional Information for more details.) The dealer may assess a nominal fee for this service.

#### Reinstatement Privilege

With regard to Class A shares (purchases of less than \$1 million), you may reinstate at net asset value any portion of shares which have been previously redeemed if the redemption occurred within 90 days of the request. With regard to Class A shares (purchases of \$1 million or more), Class B shares and Class C shares and, if an investor redeems these shares and pays a CDSC upon redemption, and then uses those proceeds to purchase the same class of shares of any Portfolio within 90 days, the shares purchased will be credited with any CDSC paid in connection with the prior redemption.

Any gain recognized on a redemption or repurchase is taxable despite the reinstatement in the Portfolio. Any loss realized as a result of the redemption or repurchase may not be allowed as a deduction for federal income tax purposes but may be applied, depending on the amount reinstated, to adjust the cost basis of the shares acquired upon reinstatement. In addition, if the shares redeemed or repurchased had been acquired within the 90 days preceding the redemption or repurchase, the amount of any gain or loss on the redemption or repurchase may have to be computed without regard to any sales charges incurred on the redeemed or repurchased shares (except to the extent those sales charges exceed the sales charges waived in connection with the reinstatement). See "GENERAL INFORMATION -- Taxes."

#### Minimum Account Balance

The Fund reserves the right to involuntarily redeem your account any time the value of your account falls below \$500 as a result of redemption, with the exception of a retirement plan account and with respect to an account established with a minimum of \$50 pursuant to programs such as Automatic Investment Plans, Automatic Dividend Diversification, and Systematic Investing. You will be notified in writing prior to the redemption and be allowed 30 days to make additional investments before the redemption is processed.

#### Redemption In Kind

The Trustees of the Fund reserve the right to redeem proceeds in whole or in part by a distribution in kind of marketable securities held by a Portfolio of the Fund. See "GENERAL -- Redemption in Kind" in the Statement of Additional

Information for more details.

#### Additional Shareholder Privileges

Certain privileges listed in this section may not be offered by the Fund if you hold shares with the Fund in the "street name" of a financial institution, or if the account is networked through National Securities Clearing Corporation (NSCC).

#### Automatic Investment Plan

If you open an account and wish to make subsequent, periodic investments in a Portfolio by electronic funds transfer from a bank account, you may establish an Automatic Investment Plan on your account. The bank at which your account is maintained must be a member of the Automated Clearing House (ACH). The frequency with which the investments occur is specified by you (monthly, every alternate month, quarterly, etc.) with the exception that no more than one investment will be processed each month. On or about the tenth of the month, the Fund will debit your bank account in the specified amount (minimum of \$50 per draft) and the proceeds will be invested at the applicable offering price determined on the date of the debit. In the event of a full exchange, this plan will follow into the new Portfolio unless otherwise specified.

#### Automatic Dividend Diversification (ADD)

The ADD program allows you to have all dividends and any other distributions from a Portfolio automatically used to purchase shares of the same class of any other Portfolio of the Fund. The receiving account must be in the same name as your existing account. The purchase of shares to the Portfolio receiving the cross-investment of the dividends will be using the net asset value at the close of business of the dividend payable date.

#### Systematic Investing

You may request that your shares of any class of the Money Market, U.S. Government Securities or National Municipal Bond Fund be exchanged monthly for shares of the same class of up to three other Portfolios. A predetermined dollar amount of at least \$50 per exchange will then occur on or about the 15th of each month in accordance with the instructions you provided on the initial account application or on the Systematic Investing application. This Systematic Investing program is also referred to as "Dollar Cost Averaging."

#### Systematic Withdrawal Plan

You may establish a plan for redemptions to be made automatically at monthly, quarterly, semiannual or annual intervals with payments sent directly to you or to persons designated by you as recipients of the withdrawals. Up to 12% of the value of an account (i.e., up to 1% per month of the value of the account at the time the Systematic Withdrawal is taken) may be withdrawn without the imposition of CDSC. See "PURCHASES OF SHARES - Waiver of CDSC." Requests for this service not made on the initial application require signature guarantees unless the payments are to be made to you and mailed to the address of record on your account. You are required to have a minimum account value of \$10,000 per Portfolio in order to establish this plan. Maintenance of a Systematic Withdrawal Plan concurrently with purchases of additional shares may be disadvantageous to you because of the sales charges on certain purchases and redemptions.

The redemptions will occur on or about the 25th day of the month and the checks will generally be mailed within two days after the redemption occurs. No redemption will occur if the account balance falls below the amount required to meet the requested withdrawal amount. This service may be terminated at any time, and, while no fee is currently charged (although a CDSC may be applicable), the Distributor reserves the right to initiate a fee of up to \$5 per withdrawal upon 30 days' written notice to the shareholder.

#### Checkwriting

Checkwriting is available only to Class A and Class C shareholders of the U.S. Government Securities, National Municipal Bond and Money Market Funds. You will be issued a book of blank checks if the request is indicated on the account application and is accompanied by a correctly completed and endorsed signature card. The checks may be made payable to the order of anyone in any amount not less than \$250. You should not attempt to close your account by check.

Checks which exceed the value of the account at the time of receipt by the Fund will not be honored. In addition, the privilege will be invalid when your account is closed.

When a check is presented for payment, a sufficient number of shares will be redeemed to cover the amount of the check and any applicable CDSC. If the amount of the check plus any applicable CDSC is greater than the value of the

shares held in the shareholder's account, the check will be returned unpaid.

This privilege cannot be used for the redemption of shares held in certificate form.

#### Telephone Transactions

Shareholders are permitted to request exchanges and/or redemptions by telephone. The Fund will not be liable for following instructions communicated by telephone that it reasonably believes to be genuine. The Fund will employ reasonable procedures to confirm that instructions communicated by telephone are genuine and may only be liable for any losses due to unauthorized or fraudulent instructions where it fails to employ its procedures properly. Such procedures include the following. Upon telephoning a request, shareholders will be asked to provide their account number, and if not available, their social security number. For the shareholder's and Fund's protection, all conversations with shareholders will be tape recorded. All telephone transactions will be followed by a confirmation statement of the transaction.

Telephone Exchanges. You are automatically authorized to effect telephone exchanges by calling the Fund, unless you elect not to authorize telephone exchanges in the Application (if you initially elect not to allow telephone exchanges in the Application, you may request authorization by executing an appropriate authorization form provided by the Fund upon request.) Exchanges will only be made if proper account identification is given by the dealer or shareholder of record. Requests will be processed on the same day as receipt of the telephone call if the request is made before the close of the regularly scheduled trading on the Exchange (normally 4:00 p.m. New York time).

This privilege cannot be used for the exchange of shares held in certificate form.

Telephone Redemptions. You may request the option to redeem shares of any Portfolio by telephone by completing the "Expedited Telephone Redemptions" portion of the account application. In order to obtain that day's closing net asset value on the redemption, the telephone call must be received by the Fund prior to the close of the regularly scheduled trading on the Exchange (normally 4:00 p.m. New York time).

Payment for shares will be made by federal wire or by mail as specified by you in the Application. Payment will normally be sent on the business day following the date of receipt of the request. Payment by wire to your bank account must be in amounts of \$1000 or more. Although the Fund does not assess a charge for wire transfers, your bank may assess a charge for the transaction. Payments by mail may only be sent to your account address of record and may only be payable to the registered owner(s).

This privilege cannot be used for the redemption of shares held in certificate form.

#### Certificates

Although the Fund does not recommend the issuance of certificates, shares will be issued in certificate form if specifically requested by the shareholder.

#### How to Obtain Information on Your Investment

1. Confirmation of Share Transactions and Dividend Payments. Share transactions in all Portfolios, other than trans-actions pursuant to a Systematic Withdrawal Plan, Automatic Investment Plan, and Systematic Investing Plan, will be confirmed immediately in the form of an account confirmation statement which will be mailed to the account address of record.

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The Fund will confirm all account activity occurring within a calendar quarter, including the payment of dividend and capital gain distributions and transactions made as a result of a Systematic Withdrawal Plan, Automatic Investment Plan, and Systematic Investing Plan, shortly after the end of each calendar quarter.

The Fund also reserves the right to confirm, with respect to certain tax qualified plans and certain group plans, purchases and sales of Fund shares on a quarterly basis. Transactions in shares of the Money Market Fund, other than those confirmed quarterly as set forth above, will be confirmed monthly.

A copy of all confirmation statements will be sent to the securities dealer firm listed on your account.

2. Shareholder Inquiries. Please direct any questions or requests that you may have concerning the Fund or your account by writing to North American Funds, P.O. Box 8505, Boston, Massachusetts 02266-8505, or by calling the Mutual Fund Customer Service Department at 1-800-872-8037.

## APPENDIX I

## DEBT SECURITY RATINGS

## Standard &amp; Poor's Ratings Group ("S&amp;P")

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## Commercial Paper:

- A-1 The rating A-1 is the highest rating assigned by S&P to commercial paper. This designation indicates that the degree of safety regarding timely payment is either overwhelming or very strong. Those issues determined to possess overwhelming safety characteristics are denoted with a plus (+) sign designation.
- A-2 Capacity for timely payment on issues with this designation is strong. However, the relative degree of safety is not as high for issuers designated "A-1".

## Bonds:

- AAA Debt rated AAA has the highest rating assigned by S&P. Capacity to pay interest and repay principal is extremely strong.
- AA Debt rated AA has a very strong capacity to pay interest and repay principal and differs from the higher rated issues only in small degree.
- A Debt rated A has a strong capacity to pay interest and repay principal although it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher rated categories.
- BBB Debt rated BBB is regarded as having an adequate capacity to pay interest and repay principal. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than in higher rated categories.
- BB-B-  
CCC-CC Bonds rated BB, B, CCC and CC are regarded, on balance, as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations. BB indicates the lowest degree of speculation and CC the highest degree of speculation. While such bonds will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.
- D Bonds rated D are in default. The D category is used when interest payments or principal payments are not made on the date due even if the applicable grace period has not expired. The D rating is also used upon the filing of a bankruptcy petition if debt service payments are jeopardized.

The ratings set forth above may be modified by the addition of a plus or minus to show relative standing within the major rating categories.

<TABLE>  
<CAPTION>

## Moody's Investors Service, Inc. ("Moody's")

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<S>        <C>  
Commercial Paper:

- P-1 The rating P-1 is the highest commercial paper rating assigned by Moody's. Issuers rated P-1 (or related supporting institutions) have a superior capacity for repayment of short-term promissory obligations. P-1 repayment capacity will normally be evidenced by the following characteristics: (1) leading market positions in established industries; (2) high rates of return on funds employed; (3) conservative capitalization structures with moderate reliance on debt and ample asset protection; (4) broad margins in earnings coverage of fixed financial charges and high internal cash generation; and (5) well established access to a range of financial markets and assured sources of alternate liquidity.
- P-2 Issuers rated P-2 (or related supporting institutions) have a strong

capacity for repayment of short-term promissory obligations. This will normally be evidenced by many of the characteristics cited above but to a lesser degree. Earnings trends and coverage ratios, while sound, will be more subject to variation. Capitalization characteristics, while still appropriate, may be more affected by external conditions. Ample alternative liquidity is maintained.

</TABLE>

A-1

=====  
<TABLE>  
<CAPTION>

Bonds:

<S> <C>

Aaa Bonds which are rated Aaa by Moody's are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edge". Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

Aa Bonds which are rated Aa by Moody's are judged to be of high quality by all standards. Together with the Aaa group, they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long term risks appear somewhat larger than in Aaa securities.

A Bonds which are rated A by Moody's possess many favorable investment attributes and are to be considered as upper medium grade obligations. Factors giving security to principal and interest are considered adequate but elements may be present which suggest a susceptibility to impairment sometime in the future.

Baa Bonds which are rated Baa by Moody's are considered as medium grade obligations, that is, they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

Ba Bonds which are rated Ba are judged to have speculative elements; their future cannot be considered as well assured. Often the protection of interest and principal payments may be very moderate and thereby not well safeguarded during other good and bad times over the future. Uncertainty of position characterizes bond in this class.

B Bonds which are rated B generally lack characteristics of a desirable investment. Assurance of interest and principal payments or of maintenance and other terms of the contract over any long period of time may be small.

Caa Bonds which are rated Caa are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.

Ca Bonds which are rated Ca represent obligations which are speculative in high degree. Such issues are often in default or have other marked shortcomings.

C Bonds which are rated C are the lowest rated class of bonds and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

</TABLE>

Moody's applies numerical modifiers "1", "2" and "3" to certain of its rating classifications. The modifier "1" indicates that the security ranks in the higher end of its generic rating category; the modifier "2" indicates a mid-range ranking; and the modifier "3" indicates that the issue ranks in the lower end of its generic rating category.

<TABLE>  
<CAPTION>

Fitch Investors Service, Inc. ("Fitch")  
-----

Commercial Paper:

<S>	<C>
F-1+	Exceptionally strong credit quality. Issues assigned this rating are regarded as having the strongest degree of assurance for timely payment.
F-1	Very strong credit quality. Issues assigned this rating reflect an assurance of timely payment only slightly less in degree than issues rated "F-1+".
F-2	Issues assigned this rating have a satisfactory degree of assurance for timely payment but the margin of safety is not as great as for issues assigned "F-1+" or "F-1".

</TABLE>

A-2

<TABLE>  
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Bonds:

<S>	<C>
AAA	Bonds considered to be investment grade and of the highest credit quality. The obligor has an exceptionally strong ability to pay interest and repay principal, which is unlikely to be affected by reasonably foreseeable events.
AA	Bonds considered to be investment grade and of very high credit quality. The obligor's ability to pay interest and repay principal is very strong, although not quite as strong as bonds rated "AAA". Because bonds rated in the "AAA" and "AA" categories are not significantly vulnerable to foreseeable future developments, short-term debt of these issuers is generally rated "F-1+".
A	Bonds considered to be investment grade and of high credit quality. The obligor's ability to pay interest and repay principal is considered to be strong, but may be more vulnerable to adverse changes in economic conditions and circumstances than bonds with higher ratings.
BBB	Bonds considered to be investment grade and of satisfactory credit quality. The obligor's ability to pay interest and repay principal is considered to be adequate. Adverse changes in economic conditions and circumstances, however, are more likely to have adverse impact on these bonds, and therefore impair timely payment. The likelihood that the ratings of these bonds will fall below investment grade is higher than for bonds with higher ratings.
BB	Bonds are considered speculative. The obligor's ability to pay interest and repay principal may be affected over time by adverse economic changes. However, business and financial alternatives can be identified which could assist the obligor in satisfying its debt service requirements.
B	Bonds are considered highly speculative. While bonds in this class are currently meeting debt service requirements, the probability of continued timely payment of principal and interest reflects the obligor's limited margin of safety and the need for reasonable business and economic activity throughout the life of the issue.
CCC	Bonds have certain identifiable characteristics which, if not remedied, may lead to default. The ability to meet obligations requires an advantageous business and economic environment.
CC	Bonds are minimally protected. Default in payment of interest and/or principal seems probable over time.
C	Bonds are in imminent default in payment of interest or principal.
DDD-DD- and D	Bonds are in default on interest and/or principal payments. Such bonds are extremely speculative and should be valued on the basis of their ultimate recovery value in liquidation or reorganization of the obligor. "DDD" represents the highest potential for recovery on these bonds, and "D" represents the lowest potential for recovery.

</TABLE>

Plus and minus signs are used with a rating symbol to indicate the relative position of a credit within the rating category. Plus and minus signs, however, are not used in the "AAA" category.

<TABLE>  
<CAPTION>

Additional Moody's and S&P Municipal Bond Ratings

Moody's Ratings of State and Municipal Notes

<S>	<C>
MIG-1/VMIG-1	Notes rated MIG-1/VMIG-1 are of the best quality. There is present strong protection by established cash flows, superior liquidity support or broad-based access to the market for refinancing.
MIG-2/VMIG-2	Notes which are rated MIG-2/VMIG-2 are of high quality. Margins of protection are ample though not so large as in the preceding group.

S&P Ratings of State and Municipal Notes

SP-1	Notes which are rated SP-1 have a very strong or strong capacity to pay principal and interest. Those issues determined to possess overwhelming safety characteristics will be given a plus (+) designation.
SP-2	Notes which are rated SP-2 have a satisfactory capacity to pay principal and interest.

</TABLE>

A-3

APPENDIX II

STRATEGIC INCOME FUND DEBT RATINGS

The average distribution of investments in corporate and government bonds by ratings for the fiscal year ended October 31, 1996, calculated monthly on a dollar-weighted basis, for the Strategic Income Fund, was as follows:

<TABLE>

<CAPTION>

Moody's	Standard & Poor's	Unrated but of Comparable Quality	Percentage
-----			
<S>	<C>	<C>	<C>
Aaa	AAA	0%	36%
Aa	AA	0%	2%
A	A	0%	1%
Baa	BBB	0%	3%
Ba	BB	3%	8%
B	B	3%	44%
Caa	CCC	0%	0%
Ca	CC	0%	0%
C	C	0%	0%
	D	0%	0%
Unrated as a Group:			6%
U.S. Government Securities*			0%
			----
Total			100%

</TABLE>

The actual distribution of the Strategic Income Fund's corporate and government bond investments by ratings on any given date will vary. In addition, the distribution of the Portfolio's investments by ratings as set forth above should not be considered as representative of the Portfolio's future portfolio composition.

\*Obligations issued or guaranteed by the U.S. Government or its agencies, authorities or instrumentalities.

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INVESTMENT QUALITY BOND FUND DEBT RATINGS

The average distribution of investments in corporate and government bonds by ratings for the fiscal year ended October 31, 1996, calculated monthly on a dollar-weighted basis, for the Investment Quality Bond Fund, was as follows:

<TABLE>

<CAPTION>

Moody's	Standard & Poor's	Unrated but of Comparable Quality	Percentage
---------	-------------------	---	------------

<S>	<C>	<C>	<C>
Aaa	AAA	0%	6%II
Aa	AA	0%	3%II
A	A	0%	16%II
Baa	BBB	0%	5%II
Ba	BB	0%	4%II
B	B	0%	6%II
Caa	CCC	0%	0%II
Ca	CC	0%	0%II
C	C	0%	0%II
	D	0%	0%II

Unrated as a Group: 0%II  
U.S. Government Securities\* 60%II

Total 100%  
</TABLE>

The actual distribution of the Investment Quality Bond Fund's corporate and government bond investments by ratings on any given date will vary. In addition, the distribution of the Portfolio's investments by ratings as set forth above should not be considered as representative of the Portfolio's future portfolio composition.

\*Obligations issued or guaranteed by the U.S. Government or its agencies, authorities or instrumentalities.

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STATEMENT OF ADDITIONAL INFORMATION

NORTH AMERICAN FUNDS

North American Funds (the "Fund") is a professionally managed open-end investment company that currently has thirteen investment portfolios: the International Small Cap Fund, the Small/Mid Cap Fund, the Global Equity Fund (formerly the Global Growth Fund), the Growth Equity Fund, the International Growth and Income Fund, the Growth and Income Fund, the Equity-Income Fund (formerly, the Value Equity Fund and prior thereto the Growth Fund), the Balanced Fund (formerly the Asset Allocation Fund), the Strategic Income Fund, the Investment Quality Bond Fund, the National Municipal Bond Fund, the U.S. Government Securities Fund and the Money Market Fund (the "Portfolios"). The investment objective of each Portfolio is described in the Fund's Prospectus dated December 31, 1996 (the "Prospectus") under the caption "Investment Portfolios." Each Portfolio currently offers three classes of shares: "Class A" shares, "Class B" shares and "Class C" shares, all as described in the Prospectus under the caption "Multiple Pricing System."

This Statement of Additional Information is not a prospectus but should be read in conjunction with the Prospectus, which may be obtained from North American Funds, 116 Huntington Avenue, Boston, Massachusetts, 02116.

The date of this Statement of Additional Information is December 31, 1996.

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INVESTMENT POLICIES

The following discussion supplements the description of the Fund's Portfolios set forth in the Prospectus under the caption "INVESTMENT PORTFOLIOS."

MONEY MARKET INSTRUMENTS

The Money Market Fund will be invested in the types of money market instruments described below. Certain of the instruments listed below may also be purchased by the other Portfolios in accordance with their investment policies and all Portfolios may purchase such instruments to invest otherwise idle cash or for defensive purposes, except that the U.S. Government Securities Fund may not invest in the instruments described in 2 and 7 below.

1. U.S. Government and Government Agency Obligations. U.S. Government obligations are debt securities issued or guaranteed as to principal or interest by the U.S. Treasury. These securities include treasury bills, notes and bonds. U.S. Government agency obligations are debt securities issued or guaranteed as to principal or interest by an agency or instrumentality of the U.S. Government pursuant to authority granted by Congress. U.S. Government agency obligations include, but are not limited to, the Student Loan Marketing Association, Federal Home Loan Banks, Federal Intermediate Credit Banks and the Federal National Mortgage Association. U.S. instrumentality obligations include, but are not limited to, the Export-Import Bank and Farmers Home Administration. Some obligations issued or guaranteed by U.S. Government agencies or instrumentalities are supported by the right of the issuer to borrow from the U.S. Treasury or the Federal Reserve Banks, such as those issued by Federal Intermediate Credit Banks; others, such as those issued by the Federal National Mortgage Association, are supported by discretionary authority of the U.S. Government to purchase certain obligations of the agency or instrumentality; and others, such as those issued by the Student Loan Marketing Association, are supported only by the credit of the agency or instrumentality. There are also separately traded interest components of securities issued or guaranteed by the U.S. Treasury. No assurance can be given that the U.S. Government will provide financial support to such U.S. Government sponsored agencies or instrumentalities in the future, since it is not obligated to do so by law. The foregoing types of instruments are hereafter collectively referred to as "U.S. Government securities."

2. Certificates of Deposit and Bankers' Acceptances. Certificates of deposit are certificates issued against funds deposited in a bank or a savings and loan association. They are for a definite period of time and earn a

specified rate of return. Bankers' acceptances are short-term credit instruments evidencing the obligation of a bank to pay a draft which has been drawn on it by a customer. These instruments reflect the obligation both of the bank and of the drawer to pay the face amount of the instrument upon maturity. They are primarily used to finance the import, export, transfer or storage of goods. They are termed "accepted" when a bank guarantees their payment at maturity.

Fund Portfolios may acquire obligations of foreign banks and foreign branches of U.S. banks. These obligations are not insured by the Federal Deposit Insurance Corporation.

3. Commercial Paper. Commercial paper consists of unsecured promissory notes issued by corporations to finance short-term credit needs. Commercial paper is issued in bearer form with maturities generally not exceeding nine months. Commercial paper obligations may include variable amount master demand notes. Variable amount master demand notes are obligations that permit the investment of fluctuating amounts at varying rates of interest pursuant to direct arrangements between a Portfolio, as lender, and the borrower. These notes permit daily changes in the amounts borrowed. A Portfolio has the right to increase the amount under the note at any time up to the full amount provided by the note agreement, or to decrease the amount, and the borrower may prepay up to the full amount of the note without penalty. Because variable amount master demand notes are direct lending arrangements between the lender and borrower, it is not generally contemplated that such instruments will be traded, and there is no secondary market for these notes, although they are redeemable (and thus immediately repayable by the borrower) at face value, plus accrued interest, at any time. A Portfolio will only invest in variable amount master demand notes issued by companies which at the date of investment have an outstanding debt issue rated "Aaa" or "Aa" by Moody's or "AAA" or "AA" by S&P and which the applicable Subadviser has determined present minimal risk of loss to the Portfolio. A Subadviser will look generally at the financial strength of the issuing company as "backing" for the note and not to any security interest or supplemental source such as a bank letter of credit. A variable amount master demand note will be valued each day as a Portfolio's net asset value is determined, which value will generally be equal to the face value of the note plus accrued interest unless the financial position of the issuer is such that its ability to repay the note when due is in question.

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4. Corporate Obligations. Corporate obligations include bonds and notes issued by corporations to finance longer-term credit needs than those supported by commercial paper. While such obligations generally have maturities of ten years or more, the Money Market Fund will only purchase obligations which have remaining maturities of thirteen months or less from the date of purchase and which are rated "AA" or higher by Standard & Poor's or "Aa" or higher by Moody's.

5. Repurchase Agreements. Repurchase agreements are arrangements involving the purchase of obligations by a Portfolio and the simultaneous agreement to resell the same obligations on demand or at a specified future date and at an agreed upon price. The majority of repurchase transactions run from day to day and delivery pursuant to the resale provision typically will occur within one to five business days of the purchase. A repurchase agreement can be viewed as a loan made by a Portfolio to the seller of the obligation with such obligation serving as collateral for the seller's agreement to repay the amount borrowed with interest. Such transactions afford an opportunity for a Portfolio to earn a return on cash which is only temporarily available. Repurchase agreements entered into by the Portfolio will be with banks, brokers or dealers. However, a Portfolio will enter into a repurchase agreement with a broker or dealer only if the broker or dealer agrees to deposit additional collateral should the value of the obligation purchased by the Portfolio decrease below the resale price.

The Trustees have adopted procedures that establish certain creditworthiness, asset and collateralization requirements for the counterparties to a Portfolio's repurchase agreements. These procedures limit the counterparties to repurchase transactions to those financial institutions which are members of the Federal Reserve System and/or a primary government securities dealer reporting to the Federal Reserve Bank of New York's Market Reports Division or a broker/dealer which meet certain creditworthiness criteria or which report U.S. Government securities positions to the Federal Reserve Board. However, the Trustees reserve the right to change the criteria used to select such financial institutions and broker/dealers. The Trustees will regularly monitor the use of repurchase agreements and the Subadvisers will, pursuant to procedures adopted by the Trustees, continuously monitor the amount of collateral held with respect to a repurchase transaction so that it equals or exceeds the amount of the obligations.

Should an issuer of a repurchase agreement fail to repurchase the underlying obligation, the losses to the Portfolio, if any, would be the difference between the repurchase price and the underlying obligation's market value. A Portfolio might also incur certain costs in liquidating the underlying

obligation. Moreover, if bankruptcy or other insolvency proceedings should be commenced with respect to the seller, realization upon the underlying obligation by the Portfolio might be delayed or limited. Generally, repurchase agreements are of a short duration, often less than one week but on occasion for longer periods.

#### 6. Warrants, Rights, Preferred Stock and Convertible Securities.

Certain of the portfolios may invest in warrants, rights, preferred stock and convertible securities to the extent noted in the Prospectus. A warrant is a security, usually issued together with a bond or preferred stock, that entitles the holder to buy a proportionate amount of common stock at a specified price, usually higher than the market price at the time of issuance, for a period of years or to perpetuity. (For additional information on warrants see "Hedging and Other Strategic Transactions - Warrant Transactions and Risks.") In contrast, rights, which also represent the right to buy common shares, normally have a subscription price lower than the current market value of the common stock and a life of two to four weeks. A warrant is usually issued as a sweetener, to enhance the marketability of the accompanying fixed income securities. Preferred stock is a class of capital stock that pays dividends at a specified rate and that has preference over common stock in the payment of dividends and the liquidation of assets. Preferred stock does not ordinarily carry voting rights. Convertible securities are securities (usually preferred shares or bonds) that are exchangeable for a set number of another form of securities (usually common stock) at a pre-stated price. The convertible feature is usually designed as a sweetener to enhance the marketability of the security.

#### 7. Canadian and Provincial Government and Crown Agency Obligations.

Canadian Government obligations are debt securities issued or guaranteed as to principal or interest by the Government of Canada pursuant to authority granted by the Parliament of Canada and approved by the Governor in Council, where necessary. These securities include treasury bills, notes, bonds, debentures and marketable Government of Canada loans. Canadian Crown agency obligations are debt securities issued or guaranteed by a Crown corporation, company or agency ("Crown agencies") pursuant to authority granted by the Parliament of Canada and approved by the Governor in Council, where necessary. Certain Crown agencies are by statute agents of Her Majesty in right of Canada, and their obligations, when properly authorized, constitute direct obligations of the Government of Canada. Such obligations include, but are not limited to, those issued or guaranteed by the Export Development Corporation, Farm Credit Corporation, Federal Business Development Bank and Canada Post Corporation. In addition, certain Crown agencies which are not by law agents of Her Majesty may issue obligations which by statute the Governor in Council may authorize the Minister of Finance to guarantee on behalf of the Government of Canada. Other Crown agencies which are not by law agents of Her Majesty may issue or guarantee obligations not entitled to be guaranteed by the Government of Canada. No assurance can be given that the Government of Canada will support the obligations of Crown agencies which are not agents of Her Majesty, which it has not guaranteed, since it is not obligated to do so by law.

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Provincial Government obligations are debt securities issued or guaranteed as to principal or interest by the government of any province of Canada pursuant to authority granted by the Legislature of any such province and approved by the Lieutenant Governor in Council of any such province, where necessary. These securities include treasury bills, notes, bonds and debentures. Provincial Crown agency obligations are debt securities issued or guaranteed by a provincial Crown corporation, company or agency ("provincial Crown agencies") pursuant to authority granted by a provincial Legislature and approved by the Lieutenant Governor in Council of such province, where necessary. Certain provincial Crown agencies are by statute agents of Her Majesty in right of a particular province of Canada, and their obligations, when properly authorized, constitute direct obligations of such province. Other provincial Crown agencies which are not by law agents of Her Majesty in right of a particular province of Canada may issue obligations which by statute the Lieutenant Governor in Council of such province may guarantee, or may authorize the Treasurer thereof to guarantee, on behalf of the government of such province. Finally, other provincial Crown agencies which are not by law agencies of Her Majesty may issue or guarantee obligations not entitled to be guaranteed by a provincial government. No assurance can be given that the government of any province of Canada will support the obligations of provincial Crown agencies which are not agents of Her Majesty, which it has not guaranteed, as it is not obligated to do so by law. Provincial Crown agency obligations described above include, but are not limited to, those issued or guaranteed by a provincial railway corporation, a provincial hydroelectric or power commission or authority, a provincial municipal financing corporation or agency and a provincial telephone commission or authority.

Any Canadian obligation acquired by the Money Market Fund will be denominated in U.S. dollars.

#### OTHER INSTRUMENTS

The following provides a more detailed explanation of some of the other instruments that certain Portfolios may invest in.

## 1. Mortgage Securities

Mortgage securities differ from conventional bonds in that principal is paid over the life of the securities rather than at maturity. As a result, a Portfolio receives monthly scheduled payments of principal and interest, and may receive unscheduled principal payments representing prepayments on the underlying mortgages. When a Portfolio reinvests the payments and any unscheduled prepayments of principal it receives, it may receive a rate of interest which is higher or lower than the rate on the existing mortgage securities. For this reason, mortgage securities may be less effective than other types of debt securities as a means of locking in long-term interest rates.

In addition, because the underlying mortgage loans and assets may be prepaid at any time, if a Portfolio purchases mortgage securities at a premium, a prepayment rate that is faster than expected will reduce yield to maturity, while a prepayment rate that is slower than expected will have the opposite effect of increasing yield to maturity. Conversely, if a Portfolio purchases these securities at a discount, faster than expected prepayments will increase, while slower than expected payments will reduce, yield to maturity.

Adjustable rate mortgage securities are similar to the mortgage securities discussed above, except that unlike fixed rate mortgage securities, adjustable rate mortgage securities are collateralized by or represent interests in mortgage loans with variable rates of interest. These variable rates of interest reset periodically to align themselves with market rates. Most adjustable rate mortgage securities provide for an initial mortgage rate that is in effect for a fixed period, typically ranging from three to twelve months. Thereafter, the mortgage interest rate will reset periodically in accordance with movements in a specified published interest rate index. The amount of interest due to an adjustable rate mortgage holder is determined in accordance with movements in a specified published interest rate index by adding a pre-determined increment or "margin" to the specified interest rate index. Many adjustable rate mortgage securities reset their interest rates based on changes in the one-year, three-year and five-year constant maturity Treasury rates, the three-month or six-month Treasury Bill rate, the 11th District Federal Home Loan Bank Cost of Funds, the National Median Cost of Funds, the one-month, three-month, six-month or one-year London Interbank Offered Rate ("LIBOR") and other market rates.

A Portfolio will not benefit from increases in interest rates to the extent that interest rates rise to the point where they cause the current coupon of adjustable rate mortgages held as investments to exceed any maximum allowable annual or lifetime reset limits (or "cap rates") for a particular mortgage. In this event, the value of the mortgage securities in a Portfolio would likely decrease. Also, the Portfolio's net asset value could vary to the extent that current yields on adjustable rate mortgage securities are different than market yields during interim periods between coupon reset dates. During periods of declining interest rates, income to a Portfolio derived from adjustable rate mortgages which remain in a mortgage pool will decrease in contrast to the income on fixed

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rate mortgages, which will remain constant. Adjustable rate mortgages also have less potential for appreciation in value as interest rates decline than do fixed rate investments.

Privately-Issued Mortgage Securities. Privately-issued pass through securities provide for the monthly principal and interest payments made by individual borrowers to pass through to investors on a corporate basis, and in privately-issued collateralized mortgage obligations, as further described below. Privately-issued mortgage securities are issued by private originators of, or investors in, mortgage loans, including mortgage bankers, commercial banks, investment banks, savings and loan associations and special purpose subsidiaries of the foregoing. Since privately-issued mortgage certificates are not guaranteed by an entity having the credit status of GNMA or FHLMC, such securities generally are structured with one or more types of credit enhancement. For a description of the types of credit enhancements that may accompany privately-issued mortgage securities, see "Asset-Backed Securities--Types of Credit Support" below. A Portfolio will not limit its investments to asset-backed securities with credit enhancements.

Collateralized Mortgage Obligations ("CMOs"). CMOs generally are bonds or certificates issued in multiple classes that are collateralized by or represent an interest in mortgages. CMOs may be issued by single-purpose, stand-alone finance subsidiaries or trusts of financial institutions, government agencies, investment banks or other similar institutions. Each class of CMOs, often referred to as a "tranche", may be issued with a specific fixed coupon rate (which may be zero) or a floating coupon rate, and has a stated maturity or final distribution date. Principal prepayments on the underlying mortgages may cause the CMOs to be retired substantially earlier than their stated maturities or final distribution dates. Interest is paid or accrued on CMOs on a monthly,

quarterly or semiannual basis. The principal of and interest on the underlying mortgages may be allocated among the several classes of a series of a CMO in many ways. The general goal sought to be achieved in allocating cash flows on the underlying mortgages to the various classes of a series of CMOs is to create tranches on which the expected cash flows have a higher degree of predictability than the underlying mortgages. As a general matter, the more predictable the cash flow is on a CMO tranche, the lower the anticipated yield will be on that tranche at the time of issuance. As part of the process of creating more predictable cash flows on most of the tranches in a series of CMOs, one or more tranches generally must be created that absorb most of the volatility in the cash flows on the underlying mortgages. The yields on these tranches are relatively higher than on tranches with more predictable cash flows. Because of the uncertainty of the cash flows on these tranches, and the sensitivity thereof to changes in prepayment rates on the underlying mortgages, the market prices of and yield on these tranches tend to be highly volatile.

CMOs purchased may be:

- (1) collateralized by pools of mortgages in which each mortgage is guaranteed as to payment of principal and interest by an agency or instrumentality of the U.S. Government;
- (2) collateralized by pools of mortgages in which payment of principal and interest is guaranteed by the issuer and the guarantee is collateralized by U.S. Government securities; or
- (3) securities for which the proceeds of the issuance are invested in mortgage securities and payment of the principal and interest is supported by the credit of an agency or instrumentality of the U.S. Government.

STRIPS. In addition to the U.S. Government securities discussed above, certain Portfolios may invest in separately traded interest components of securities issued or guaranteed by the U.S. Treasury. The interest components of selected securities are traded independently under the Separate Trading of Registered Interest and Principal of Securities program ("STRIPS"). Under the STRIPS program, the interest components are individually numbered and separately issued by the U.S. Treasury at the request of depository financial institutions, which then trade the component parts independently.

Stripped Mortgage Securities. Stripped mortgage securities are derivative multiclass mortgage securities. Stripped mortgage securities may be issued by agencies or instrumentalities of the U.S. Government, or by private issuers, including savings and loan associations, mortgage banks, commercial banks, investment banks and special purpose subsidiaries of the foregoing. Stripped mortgage securities have greater volatility than other types of mortgage securities in which a Portfolio invests. Although stripped mortgage securities are purchased and sold by institutional investors through several investment banking firms acting as brokers or dealers, the market for such securities has not yet been fully developed. Accordingly, stripped mortgage securities are generally illiquid and to such extent, together with any other illiquid investments, will not exceed 10% of a Portfolio's net assets.

Stripped mortgage securities are usually structured with two classes that receive different proportions of the interest and principal distributions on a pool of mortgage assets. A common type of stripped mortgage security will have one class receiving

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some of the interest and most of the principal from the mortgage assets, while the other class will receive most of the interest and the remainder of the principal. In the most extreme case, one class will receive all of the interest (the interest-only or "IO" class), while the other class will receive all of the principal (the principal-only or "PO" class). The yield to maturity on an IO class is extremely sensitive not only to changes in prevailing interest rates but also the rate of principal payments (including prepayments) on the related underlying mortgage assets, and a rapid rate of principal payments may have a material adverse effect on a Portfolio's yield to maturity. If the underlying mortgage assets experience greater than anticipated prepayments of principal, a Portfolio may fail to fully recoup its initial investment in these securities even if the securities have received the highest rating by a nationally recognized statistical rating organization.

As interest rates rise and fall, the value of IOs tends to move in the same direction as interest rates. The value of the other mortgage securities described in this Statement of Additional Information, like other debt instruments, will tend to move in the opposite direction of interest rates. Accordingly, the Fund believes that investing in IOs, in conjunction with the other mortgage securities described herein, will contribute to a Portfolio's relatively stable net asset value.

In addition to the stripped mortgage securities described above, the Strategic Income may invest in similar securities such as Super POs and Levered IOs which are more volatile than POs, IOs and IOettes. Risks associated with

instruments such as Super POs are similar in nature to those risks related to investments in POs. Risks connected with Levered IOs and IOettes are similar in nature to those associated with IOs. The Strategic Income Fund may also invest in other similar instruments developed in the future that are deemed consistent with the investment objective, policies and restrictions of the Portfolio.

Under the Internal Revenue Code of 1986, as amended (the "Code"), POs may generate taxable income from the current accrual of original issue discount, without a corresponding distribution of cash to a Portfolio. See "Taxes -- Pay-in-kind Bonds, Zero Coupon Bonds and Discount Obligations."

**Inverse Floaters.** The Strategic Income and National Municipal Bond Funds may invest in inverse floaters, which are also derivative mortgage securities. Inverse floaters may be issued by agencies or instrumentalities of the U.S. Government, or by private issuers, including savings and loan associations, mortgage banks, commercial banks, investment banks and special purpose subsidiaries of the foregoing. Inverse floaters have greater volatility than other types of mortgage securities in which a Portfolio invests (with the exception of stripped mortgage securities). Although inverse floaters are purchased and sold by institutional investors through several investment banking firms acting as brokers or dealers, the market for such securities has not yet been fully developed. Accordingly, inverse floaters are generally illiquid and to such extent, together with any other illiquid investments, will not exceed 10% of a Portfolio's net assets.

Inverse floaters are structured as a class of security that receives distributions on a pool of mortgage assets and whose yields move in the opposite direction of short-term interest rates and at an accelerated rate. Such securities have the effect of providing a degree of investment leverage since they will generally increase or decrease in value in response to changes in market interest rates at a rate which is a multiple (typically two) of the rate at which fixed-rate long-term debt obligations increase or decrease in response to such changes. As a result, the market values of such securities will generally be more volatile than the market value of fixed-rate obligations.

## 2. Asset-Backed Securities

The securitization techniques used to develop mortgage securities are also being applied to a broad range of other assets. Through the use of trusts and special purpose corporations, automobile and credit card receivables are being securitized in pass-through structures similar to mortgage pass-through structures or in a pay-through structure similar to the CMO structure. Generally the issuers of asset-backed bonds, notes or pass-through certificates are special purpose entities and do not have any significant assets other than the receivables securing such obligations. In general, the collateral supporting asset-backed securities is of a shorter maturity than mortgage loans. As a result, investment in these securities should result in greater price stability for a Portfolio's shares. Instruments backed by pools of receivables are similar to mortgage-backed securities in that they are subject to unscheduled prepayments of principal prior to maturity. When the obligations are prepaid, a Portfolio must reinvest the prepaid amounts in securities the yields of which reflect interest rates prevailing at the time. Therefore, a Portfolio's ability to maintain a portfolio which includes high-yielding asset-backed securities will be adversely affected to the extent that prepayments of principal must be reinvested in securities which have lower yields than the prepaid obligations. Moreover, prepayments of securities purchased at a premium could result in a realized loss. A Portfolio will only invest in asset-backed securities rated, at the time of purchase, "AA" or better by S&P or "Aa" or better by Moody's or which, in the opinion of the applicable Subadviser, are of comparable quality.

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As with mortgage securities, asset-backed securities are often backed by a pool of assets representing the obligations of a number of different parties and use similar credit enhancement techniques. For a description of the types of credit enhancement that may accompany privately-issued mortgage securities, see "Types of Credit Support" below. A Portfolio will not limit its investments to asset-backed securities with credit enhancements. Although asset-backed securities are not generally traded on a national securities exchange, such securities are widely traded by brokers and dealers, and to such extent will not be considered illiquid securities for the purposes of the investment restriction under "Investment Restrictions" below.

**Types of Credit Support.** Mortgage securities and asset-backed securities are often backed by a pool of assets representing the obligations of a number of different parties. To lessen the effect of failure by obligors on underlying assets to make payments, such securities may contain elements of credit support. Such credit support falls into two categories: (i) liquidity protection and (ii) protection against losses resulting from ultimate default by an obligor on the underlying assets. Liquidity protection refers to the provision of advances, generally by the entity administering the pool of assets, to ensure that the pass-through of payments due on the underlying pool occurs in a timely fashion. Protection against losses resulting from ultimate default enhances the

likelihood of ultimate payment of the obligations on at least a portion of the assets in the pool. Such protection may be provided through guarantees, insurance policies or letters of credit obtained by the issuer or sponsor from third parties, through various means of structuring the transaction or through a combination of such approaches. The Fund will not pay any additional fees for such credit support, although the existence of credit support may increase the price of a security.

The ratings of mortgage securities and asset-backed securities for which third-party credit enhancement provides liquidity protection or protection against losses from default are generally dependent upon the continued creditworthiness of the provider of the credit enhancement. The ratings of such securities could be subject to reduction in the event of deterioration in the creditworthiness of the credit enhancement provider even in cases where the delinquency and loss experience on the underlying pool of assets is better than expected.

Examples of credit support arising out of the structure of the transaction include "senior-subordinated securities" (multiple class securities with one or more classes subordinate to other classes as to the payment of principal thereof and interest thereon, with the result that defaults on the underlying assets are borne first by the holders of the subordinated class), creation of "reserve funds" (where cash or investments sometimes funded from a portion of the payments on the underlying assets are held in reserve against future losses) and "over-collateralization" (where the scheduled payments on, or the principal amount of, the underlying assets exceed those required to make payment of the securities and pay any servicing or other fees). The degree of credit support provided for each issue is generally based on historical information with respect to the level of credit risk associated with the underlying assets. Delinquency or loss in excess of that which is anticipated could adversely affect the return on an investment in such security.

### 3. Zero Coupon Securities and Pay-in-Kind Bonds

Zero coupon securities and pay-in-kind bonds involve special risk considerations. Zero coupon securities are debt securities that do not provide for the payment of cash income but are sold at substantial discounts from their value at maturity. When a zero coupon security is held to maturity, its entire return, which consists of the amortization of discount, comes from the difference between its purchase price and its maturity value. This difference is known at the time of purchase, so that investors holding zero coupon securities until maturity know at the time of their investment what the return on their investment will be. Certain zero coupon securities also are sold at substantial discounts from their maturity value and provide for the commencement of regular interest payments at a deferred date. The Portfolios also may purchase pay-in-kind bonds. Pay-in-kind bonds are bonds that pay all or a portion of their interest in the form of additional debt or equity securities. The U.S. Government Securities Fund will not invest in zero coupon securities having maturities of greater than ten years.

Zero coupon securities and pay-in-kind bonds tend to be subject to greater price fluctuations in response to changes in interest rates than are ordinary interest-paying debt securities with similar maturities. The value of zero coupon securities appreciates more during periods of declining interest rates and depreciates more during periods of rising interest rates.

Zero coupon securities and pay-in-kind bonds may be issued by a wide variety of corporate and governmental issuers. Although zero coupon securities and pay-in-kind bonds are generally not traded on a national securities exchange, such securities are widely traded by brokers and dealers and, to such extent, will not be considered illiquid for the purposes of the investment restriction under "Investment Restrictions" below.

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Current federal income tax law requires the holder of a zero coupon security or certain pay-in-kind bonds to accrue income with respect to these securities prior to the receipt of cash payments. To maintain its qualification as a regulated investment company and avoid liability for federal income and excise taxes, a Portfolio may be required to distribute income accrued with respect to these securities and may have to dispose of portfolio securities under disadvantageous circumstances in order to generate cash to satisfy these distribution requirements. See "TAXES -- Pay-in-kind Bonds, Zero Coupon Bonds and Discount Obligations" below.

### 4. High Yield/High Risk Domestic Corporate Debt Securities

The market for high yield U.S. corporate debt securities (commonly known as "junk bonds") has undergone significant changes in the past decade. Issuers in the U.S. high yield market originally consisted primarily of growing small capitalization companies and larger capitalization companies whose credit quality had declined from investment grade. During the mid-1980s, participants in the U.S. high yield market issued high yield securities principally in connection with leveraged buyouts and other leveraged recapitalizations. In

late 1989 and 1990, the volume of new issues of high yield U.S. corporate debt declined significantly and liquidity in the market decreased. Since early 1991, the volume of new issues of high yield U.S. corporate debt securities has increased substantially and secondary market liquidity has improved. During the same periods, the U.S. high yield debt market exhibited strong returns, as it continues to be an attractive market in terms of yield and yield spread over U.S. Treasury securities. Currently, most new offerings of U.S. high yield securities are being issued to refinance higher coupon debt and to raise funds for general corporate purposes.

High yield U.S. corporate debt securities include bonds, debentures, notes and commercial paper and will generally be unsecured. Most of these debt securities will bear interest at fixed rates. However, a Portfolio may also invest in debt securities with variable rates of interest or which involve equity features, such as contingent interest or participations based on revenues, sales or profits (i.e., interest or other payments, often in addition to a fixed rate of return, that are based on the borrower's attainment of specified levels of revenues, sales or profits and thus enable the holder of the security to share in the potential success of the venture).

#### 5. High Yield/High Risk Foreign Sovereign Debt Securities

The Strategic Income, High Yield and Investment Quality Bond Funds expect that a significant portion of their emerging market governmental debt obligations will consist of "Brady Bonds." In addition, the International Small Cap, and Balanced Funds may also invest in Brady Bonds. Brady Bonds are debt securities, generally denominated in U.S. dollars, issued under the framework of the "Brady Plan," an initiative announced by former U.S. Treasury Secretary Nicholas F. Brady in 1989 as a mechanism for debtor nations to restructure their outstanding external commercial bank indebtedness. The Brady Plan framework, as it has developed, contemplates the exchange of external commercial bank debt for newly issued bonds (Brady Bonds). Brady Bonds may also be issued in respect of new money being advanced by existing lenders in connection with the debt restructuring. Investors should recognize that Brady Bonds have been issued only recently, and accordingly do not have a long payment history. Brady Bonds issued to date generally have maturities of between 15 and 30 years from the date of issuance and have traded at a deep discount from their face value. The Portfolios may invest in Brady Bonds of emerging market countries that have been issued to date, as well as those which may be issued in the future. In addition to Brady Bonds, the Portfolios may invest in emerging market governmental obligations issued as a result of debt restructuring agreements outside of the scope of the Brady Plan. A substantial portion of the Brady Bonds and other sovereign debt securities in which the Portfolios invest are likely to be acquired at a discount, which involves certain considerations discussed below under "TAXES -- Pay-in-kind Bonds, Zero Coupon Bonds and Discount Obligations."

Agreements implemented under the Brady Plan to date are designed to achieve debt and debt-service reduction through specific options negotiated by a debtor nation with its creditors. As a result, the financial packages offered by each country differ. The types of options have included the exchange of outstanding commercial bank debt for bonds issued at 100% of face value of such debt which carry a below-market stated rate of interest (generally known as par bonds), bonds issued at a discount from the face value of such debt (generally known as discount bonds), bonds bearing an interest rate which increases over time and bonds issued in exchange for the advancement of new money by existing lenders. Discount bonds issued to date under the framework of the Brady Plan have generally borne interest computed semiannually at a rate equal to 13/16 of one percent above the then current six month LIBOR rate. Regardless of the stated face amount and stated interest rate of the various types of Brady Bonds, the Portfolios will purchase Brady Bonds in secondary markets, as described below, in which the price and yield to the investor reflect market conditions at the time of purchase. Brady Bonds issued to date have traded at a deep discount from their face value. Certain sovereign bonds are entitled to "value recovery payments" in certain circumstances, which in effect constitute supplemental interest payments but generally are not collateralized. Certain Brady Bonds have been collateralized as to principal due at maturity (typically 15 to 30 years from the date of issuance) by U.S. Treasury zero coupon bonds with a maturity equal to the final maturity of such

Brady Bonds, although the collateral is not available to investors until the final maturity of the Brady Bonds. Collateral purchases are financed by the International Monetary Fund (the "IMF"), the World Bank and the debtor nations' reserves. In addition, interest payments on certain types of Brady Bonds may be collateralized by cash or high-grade securities in amounts that typically represent between 12 and 18 months of interest accruals on these instruments with the balance of the interest accruals being uncollateralized. The Portfolios may purchase Brady Bonds with no or limited collateralization, and will be relying for payment of interest and (except in the case of principal collateralized Brady Bonds) principal primarily on the willingness and ability of the foreign government to make payment in accordance with the terms of the Brady Bonds. Brady Bonds issued to date are purchased and sold in secondary

markets through U.S. securities dealers and other financial institutions and are generally maintained through European transnational securities depositories.

## 6. Municipal Lease Obligations

The National Municipal Bond Fund may invest in municipal lease obligations. Municipal lease obligations are secured by revenues derived from the lease of property to state and local government units. The underlying leases typically are renewable annually by the governmental user, although the lease may have a term longer than one year. If the governmental user does not appropriate sufficient funds for the following year's lease payments, the lease will terminate, with the possibility of default on the lease obligations and significant loss to the Portfolio. In the event of a termination, assignment or sublease by the governmental user, the interest paid on the municipal lease obligation could become taxable, depending upon the identity of the succeeding user.

## 7. Hybrid Instruments

Hybrid instruments (a type of potentially high-risk derivative) have been developed and combine the elements of futures contracts or options with those of debt, preferred equity or a depository instrument (hereinafter "Hybrid Instruments"). Generally, a Hybrid Instrument will be a debt security, preferred stock, depository share, trust certificate, certificate of deposit or other evidence of indebtedness on which a portion of or all interest payments, and/or the principal or stated amount payable at maturity, redemption or retirement, is determined by reference to prices, changes in prices, or differences between prices, of securities, currencies, intangibles, goods, articles or commodities (collectively "Underlying Assets") or by another objective index, economic factor or other measure, such as interest rates, currency exchange rates, commodity indices, and securities indices (collectively "Benchmarks"). Thus, Hybrid Instruments may take a variety of forms, including, but not limited to, debt instruments with interest or principal payments or redemption terms determined by reference to the value of a currency or commodity or securities index at a future point in time, preferred stock with dividend rates determined by reference to the value of a currency, or convertible securities with the conversion terms related to a particular commodity.

Hybrid Instruments can be an efficient means of creating exposure to a particular market, or segment of a market, with the objective of enhancing total return. For example, a Portfolio may wish to take advantage of expected declines in interest rates in several European countries, but avoid the transactions costs associated with buying and currency-hedging the foreign bond positions. One solution would be to purchase a U.S. dollar-denominated Hybrid Instrument whose redemption price is linked to the average three year interest rate in a designated group of countries. The redemption price formula would provide for payoffs of greater than par if the average interest rate was lower than a specified level, and payoffs of less than par if rates were above the specified level. Furthermore, the Portfolio could limit the downside risk of the security by establishing a minimum redemption price so that the principal paid at maturity could not be below a predetermined minimum level if interest rates were to rise significantly. The purpose of this arrangement, known as a structured security with an embedded put option, would be to give the Portfolio the desired European bond exposure while avoiding currency risk, limiting downside market risk, and lowering transactions costs. Of course, there is no guarantee that the strategy will be successful and the Portfolio could lose money if, for example, interest rates do not move as anticipated or credit problems develop with the issuer of the Hybrid.

The risks of investing in Hybrid Instruments reflect a combination of the risks of investing in securities, options, futures and currencies. Thus, an investment in a Hybrid Instrument may entail significant risks that are not associated with a similar investment in a traditional debt instrument that has a fixed principal amount, is denominated in U.S. dollars or bears interest either at a fixed rate or a floating rate determined by reference to a common, nationally published Benchmark. The risks of a particular Hybrid Instrument will, of course, depend upon the terms of the instrument, but may include, without limitation, the possibility of significant changes in the Benchmarks or the prices of Underlying Assets to which the instrument is linked. Such risks generally depend upon factors which are unrelated to the operations or credit quality of the issuer of the Hybrid Instrument and which may not be readily foreseen by the purchaser, such as economic and political events, the supply and demand for the Underlying Assets and interest rate movements. In recent years, various Benchmarks and prices for Underlying Assets have been highly volatile, and such

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volatility may be expected in the future. Reference is also made to the discussion below of futures, options, and forward contracts for a description of certain risks associated with such investments.

Hybrid Instruments are potentially more volatile and carry greater market risks than traditional debt instruments. Depending on the structure of the

particular Hybrid Instrument, changes in a Benchmark may be magnified by the terms of the Hybrid Instrument and have an even more dramatic and substantial effect upon the value of the Hybrid Instrument. Also, the prices of the Hybrid Instrument and the Benchmark or Underlying Asset may not move in the same direction or at the same time.

Hybrid Instruments may bear interest or pay preferred dividends at below market (or even relatively nominal) rates. Alternatively, Hybrid Instruments may bear interest at above market rates but bear an increased risk of principal loss (or gain). The latter scenario may result if "leverage" is used to structure the Hybrid Instrument. Leverage risk occurs when the Hybrid Instrument is structured so that a given change in a Benchmark or Underlying Asset is multiplied to produce a greater value change in the Hybrid Instrument, thereby magnifying the risk of loss as well as the potential for gain.

Hybrid Instruments may also carry liquidity risk since the instruments are often "customized" to meet the portfolio needs of a particular investor, and therefore, the number of investors that are willing and able to buy such instruments in the secondary market may be smaller than that for more traditional debt securities. In addition, because the purchase and sale of Hybrid Instruments could take place in an over-the-counter market without the guarantee of a central clearing organization or in a transaction between the portfolio and the issuer of the Hybrid Instrument, the creditworthiness of the counter party or issuer of the Hybrid Instrument would be an additional risk factor which the portfolio would have to consider and monitor. Hybrid Instruments also may not be subject to regulation of the Commodities Futures Trading Commission ("CFTC"), which generally regulates the trading of commodity futures by U.S. persons, the SEC, which regulates the offer and sale of securities by and to U.S. persons, or any other governmental regulatory authority. The various risks discussed above, particularly the market risk of such instruments, may in turn cause significant fluctuations in the net asset value of the Portfolio.

#### HEDGING AND OTHER STRATEGIC TRANSACTIONS

As described in the Prospectus under "Hedging and Other Strategic Transactions", an individual Portfolio may be authorized to use a variety of investment strategies. These strategies will be used for hedging purposes only, including hedging various market risks (such as interest rates, currency exchange rates and broad or specific market movements), and managing the effective maturity or duration of debt instruments held by the Portfolio, (such investment strategies and transactions are referred to herein as "Hedging and Other Strategic Transactions"). The description in the Prospectus of each Portfolio indicates which, if any, of these types of transactions may be used by the Portfolio.

A detailed discussion of Hedging and Other Strategic Transactions follows below. No Portfolio which is authorized to use any of these investment strategies will be obligated, however, to pursue any of such strategies and no Portfolio makes any representation as to the availability of these techniques at this time or at any time in the future. In addition, a Portfolio's ability to pursue certain of these strategies may be limited by the Commodity Exchange Act, as amended, applicable rules and regulations of the Commodity Futures Trading Commission ("CFTC") thereunder and the federal income tax requirements applicable to regulated investment companies which are not operated as commodity pools.

#### General Characteristics of Options

Put options and call options typically have similar structural characteristics and operational mechanics regardless of the underlying instrument on which they are purchased or sold. Thus, the following general discussion relates to each of the particular types of options discussed in greater detail below. In addition, many Hedging and Other Strategic Transactions involving options require segregation of Portfolio assets in special accounts, as described below under "Use of Segregated and Other Special Accounts."

A put option gives the purchaser of the option, upon payment of a premium, the right to sell, and the writer the obligation to buy, the underlying security, commodity, index, currency or other instrument at the exercise price. A Portfolio's purchase of a put option on a security, for example, might be designed to protect its holdings in the underlying instrument (or, in some cases, a similar instrument) against a substantial decline in the market value of such instrument by giving the Portfolio the right to sell the instrument at the option exercise price. A call option, upon payment of a premium, gives the purchaser of the option the right to buy, and the seller the obligation to sell, the underlying instrument at the exercise price. A Portfolio's purchase of a call option on a security, financial futures contract, index, currency or other instrument might be intended to protect the Portfolio against an increase

in the price of the underlying instrument that it intends to purchase in the

future by fixing the price at which it may purchase the instrument. An "American" style put or call option may be exercised at any time during the option period, whereas a "European" style put or call option may be exercised only upon expiration or during a fixed period prior to expiration. Exchange-listed options are issued by a regulated intermediary such as the Options Clearing Corporation ("OCC"), which guarantees the performance of the obligations of the parties to the options. The discussion below uses the OCC as an example, but is also applicable to other similar financial intermediaries.

OCC-issued and exchange-listed options, with certain exceptions, generally settle by physical delivery of the underlying security or currency, although in the future, cash settlement may become available. Index options and Eurodollar instruments (which are described below under "Eurodollar Instruments") are cash settled for the net amount, if any, by which the option is "in-the-money" (that is, the amount by which the value of the underlying instrument exceeds, in the case of a call option, or is less than, in the case of a put option, the exercise price of the option) at the time the option is exercised. Frequently, rather than taking or making delivery of the underlying instrument through the process of exercising the option, listed options are closed by entering into offsetting purchase or sale transactions that do not result in ownership of the new option.

A Portfolio's ability to close out its position as a purchaser or seller of an OCC-issued or exchange-listed put or call option is dependent, in part, upon the liquidity of the particular option market. Among the possible reasons for the absence of a liquid option market on an exchange are: (1) insufficient trading interest in certain options, (2) restrictions on transactions imposed by an exchange, (3) trading halts, suspensions or other restrictions imposed with respect to particular classes or series of options or underlying securities, including reaching daily price limits, (4) interruption of the normal operations of the OCC or an exchange, (5) inadequacy of the facilities of an exchange or the OCC to handle current trading volume or (6) a decision by one or more exchanges to discontinue the trading of options (or a particular class or series of options), in which event the relevant market for that option on that exchange would cease to exist, although any such outstanding options on that exchange would continue to be exercisable in accordance with their terms.

The hours of trading for listed options may not coincide with the hours during which the underlying financial instruments are traded. To the extent that the option markets close before the markets for the underlying financial instruments, significant price and rate movements can take place in the underlying markets that would not be reflected in the corresponding option markets.

Over-the-counter ("OTC") options are purchased from or sold to securities dealers, financial institutions or other parties (collectively referred to as "Counterparties" and individually referred to as a "Counterparty") through a direct bilateral agreement with the Counterparty. In contrast to exchange-listed options, which generally have standardized terms and performance mechanics, all of the terms of an OTC option, including such terms as method of settlement, term, exercise price, premium, guaranties and security, are determined by negotiation of the parties. It is anticipated that any Portfolio authorized to use OTC options will generally only enter into OTC options that have cash settlement provisions, although it will not be required to do so.

Unless the parties provide for it, no central clearing or guaranty function is involved in an OTC option. As a result, if a Counterparty fails to make or take delivery of the security, currency or other instrument underlying an OTC option it has entered into with a Portfolio or fails to make a cash settlement payment due in accordance with the terms of that option, the Portfolio will lose any premium it paid for the option as well as any anticipated benefit of the transaction. Thus, the Subadviser must assess the creditworthiness of each such Counterparty or any guarantor or credit enhancement of the Counterparty's credit to determine the likelihood that the terms of the OTC option will be met. A Portfolio will enter into OTC option transactions only with U.S. Government securities dealers recognized by the Federal Reserve Bank of New York as "primary dealers," or broker-dealers, domestic or foreign banks, or other financial institutions that are deemed creditworthy by the Subadviser. In the absence of a change in the current position of the staff of the Securities and Exchange Commission (the "Commission"), OTC options purchased by a Portfolio and the amount of the Portfolio's obligation pursuant to an OTC option sold by the Portfolio (the cost of the sell-back plus the in-the-money amount, if any) or the value of the assets held to cover such options will be deemed illiquid.

If a Portfolio sells a call option, the premium that it receives may serve as a partial hedge, to the extent of the option premium, against a decrease in the value of the underlying securities or instruments held by the Portfolio or will increase the Portfolio's income. Similarly, the sale of put options can also provide Portfolio gains.

If and to the extent authorized to do so, a Portfolio may purchase and sell call options on securities and on Eurodollar instruments that are traded on U.S. and foreign securities exchanges and in the OTC markets, and on securities indices, currencies and futures contracts. All calls sold by a Portfolio must be "covered," that is, the Portfolio must own the securities subject to the

call, must own an offsetting option on a futures position, or must otherwise meet the asset segregation requirements described below for

so long as the call is outstanding. Even though a Portfolio will receive the option premium to help protect it against loss, a call sold by the Portfolio will expose the Portfolio during the term of the option to possible loss of opportunity to realize appreciation in the market price of the underlying security or instrument and may require the Portfolio to hold a security or instrument that it might otherwise have sold.

Each Portfolio reserves the right to purchase or sell options on instruments and indices which may be developed in the future to the extent consistent with applicable law, the Portfolio's investment objective and the restrictions set forth herein.

If and to the extent authorized to do so, a Portfolio may purchase and sell put options on securities (whether or not it holds the securities in its portfolio) and on securities indices, currencies and futures contracts. A Portfolio will not sell put options if, as a result, more than 50% of the Portfolio's assets would be required to be segregated to cover its potential obligations under put options other than those with respect to futures contracts. In selling put options, a Portfolio faces the risk that it may be required to buy the underlying security at a disadvantageous price above the market price.

#### General Characteristics of Futures Contracts and Options on Futures Contracts

If and to the extent authorized to do so, a Portfolio may trade financial futures contracts or purchase or sell put and call options on those contracts as a hedge against anticipated interest rate, currency or market changes, for duration management and for permissible non-hedging purposes. Futures contracts are generally bought and sold on the commodities exchanges on which they are listed with payment of initial and variation margin as described below. The sale of a futures contract creates a firm obligation by a Portfolio, as seller, to deliver to the buyer the specific type of financial instrument called for in the contract at a specific future time for a specified price (or, with respect to certain instruments, the net cash amount). Options on futures contracts are similar to options on securities except that an option on a futures contract gives the purchaser the right, in return for the premium paid, to assume a position in a futures contract and obligates the seller to deliver that position.

A Portfolio's use of financial futures contracts and options thereon will in all cases be consistent with applicable regulatory requirements and in particular the rules and regulations of the CFTC and generally will be entered into only for bona fide hedging, risk management (including duration management). Maintaining a futures contract or selling an option on a futures contract will typically require a Portfolio to deposit with a financial intermediary, as security for its obligations, an amount of cash or other specified assets ("initial margin") that initially is from 1% to 10% of the face amount of the contract (but may be higher in some circumstances). Additional cash or assets ("variation margin") may be required to be deposited thereafter daily as the mark-to-market value of the futures contract fluctuates. The purchase of an option on a financial futures contract involves payment of a premium for the option without any further obligation on the part of a Portfolio. If a Portfolio exercises an option on a futures contract it will be obligated to post initial margin (and potentially variation margin) for the resulting futures position just as it would for any futures position. Futures contracts and options thereon are generally settled by entering into an offsetting transaction, but no assurance can be given that a position can be offset prior to settlement or that delivery will occur.

The value of all futures contracts sold by a Portfolio (adjusted for the historical volatility relationship between such Portfolio and the contracts) will not exceed the total market value of the Portfolio's securities. The segregation requirements with respect to futures contracts and options thereon are described below under "Use of Segregated and Other Special Accounts."

#### Options on Securities Indices and Other Financial Indices

If and to the extent authorized to do so, a Portfolio may purchase and sell call and put options on securities indices and other financial indices. In so doing, the Portfolio can achieve many of the same objectives it would achieve through the sale or purchase of options on individual securities or other instruments. Options on securities indices and other financial indices are similar to options on a security or other instrument except that, rather than settling by physical delivery of the underlying instrument, options on indices settle by cash settlement; that is, an option on an index gives the holder the right to receive, upon exercise of the option, an amount of cash if the closing level of the index upon which the option is based exceeds, in the case of a call, or is less than, in the case of a put, the exercise price of the option (except if, in the case of an OTC option, physical delivery is specified). This

amount of cash is equal to the excess of the closing price of the index over the exercise price of the option, which also may be multiplied by a formula value. The seller of the option is obligated, in return for the premium received, to make delivery of this amount. The gain or loss on an option on an index depends on price movements in the instruments comprising the market, market segment, industry or other composite on which the underlying index is based, rather than price movements in individual securities, as is the case with respect to options on securities.

#### Currency Transactions

If and to the extent authorized to do so, a Portfolio may engage in currency transactions with Counterparties to hedge the value of portfolio securities denominated in particular currencies against fluctuations in relative value. Currency transactions include currency forward contracts, exchange-listed currency futures contracts and options thereon, exchange-listed and OTC options on currencies, and currency swaps. A forward currency contract involves a privately negotiated obligation to purchase or sell (with delivery generally required) a specific currency at a future date, which may be any fixed number of days from the date of the contract agreed upon by the parties, at a price set at the time of the contract. A currency swap is an agreement to exchange cash flows based on the notional difference among two or more currencies and operates similarly to an interest rate swap, which is described below under "Swaps, Caps, Floors and Collars". A Portfolio may enter into currency transactions only with Counterparties that are deemed creditworthy by the Subadviser.

A Portfolio's dealings in forward currency contracts and other currency transactions such as futures contracts, options, options on futures contracts and swaps will be limited to hedging and other non-speculative purposes, including transaction hedging and position hedging. Transaction hedging is entering into a currency transaction with respect to specific assets or liabilities of a Portfolio, which will generally arise in connection with the purchase or sale of the Portfolio's portfolio securities or the receipt of income from them. Position hedging is entering into a currency transaction with respect to portfolio securities positions denominated or generally quoted in that currency. A Portfolio will not enter into a transaction to hedge currency exposure to an extent greater, after netting all transactions intended wholly or partially to offset other transactions, than the aggregate market value (at the time of entering into the transaction) of the securities held by the Portfolio that are denominated or generally quoted in or currently convertible into the currency, other than with respect to proxy hedging as described below.

A Portfolio may cross-hedge currencies by entering into transactions to purchase or sell one or more currencies that are expected to increase or decline in value relative to other currencies to which the Portfolio has or in which the Portfolio expects to have exposure. To reduce the effect of currency fluctuations on the value of existing or anticipated holdings of its securities, a Portfolio may also engage in proxy hedging. Proxy hedging is often used when the currency to which a Portfolio's holdings is exposed is difficult to hedge generally or difficult to hedge against the dollar. Proxy hedging entails entering into a forward contract to sell a currency, the changes in the value of which are generally considered to be linked to a currency or currencies in which some or all of a Portfolio's securities are or are expected to be denominated, and to buy dollars. The amount of the contract would not exceed the market value of the Portfolio's securities denominated in linked currencies.

Currency transactions are subject to risks different from other portfolio transactions, as discussed below under "Risk Factors." If a Portfolio enters into a currency hedging transaction, the Portfolio will comply with the asset segregation requirements described below under "Use of Segregated and Other Special Accounts."

#### Combined Transactions

If and to the extent authorized to do so, a Portfolio may enter into multiple transactions, including multiple options transactions, multiple futures transactions, multiple currency transactions (including forward currency contracts), multiple interest rate transactions and any combination of futures, options, currency and interest rate transactions, instead of a single Hedging and Other Strategic Transaction, as part of a single or combined strategy when, in the judgment of the Subadviser, it is in the best interests of the Portfolio to do so. A combined transaction will usually contain elements of risk that are present in each of its component transactions. Although combined transactions will normally be entered into by a Portfolio based on the Subadviser's judgment that the combined strategies will reduce risk or otherwise more effectively achieve the desired portfolio management goal, it is possible that the combination will instead increase the risks or hinder achievement of the portfolio management objective.

#### Swaps, Caps, Floors and Collars

A Portfolio may be authorized to enter into interest rate, currency and

index swaps, the purchase or sale of related caps, floors and collars and other derivatives. A Portfolio will enter into these transactions primarily to seek to preserve a return or spread on a particular investment or portion of its portfolio, to protect against currency fluctuations, as a duration management technique or to protect against any increase in the price of securities a Portfolio anticipates purchasing at a later date. A Portfolio will use these transactions for non-speculative purposes and will not sell interest rate caps or floors if it does not own securities or other instruments providing the income the Portfolio may be obligated to pay. Interest rate swaps involve the exchange by a Portfolio with another party of their respective commitments to pay or receive interest (for example, an exchange of floating rate payments for fixed rate payments with respect to a notional amount of principal). A currency swap is an agreement to exchange cash flows on a

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notional amount based on changes in the values of the reference indices. The purchase of a cap entitles the purchaser to receive payments on a notional principal amount from the party selling the cap to the extent that a specified index exceeds a predetermined interest rate. The purchase of an interest rate floor entitles the purchaser to receive payments of interest on a notional principal amount from the party selling the interest rate floor to the extent that a specified index falls below a predetermined interest rate or amount. The purchase of a floor entitles the purchaser to receive payments on a notional principal amount from the party selling the floor to the extent that a specific index falls below a predetermined interest rate or amount. A collar is a combination of a cap and a floor that preserves a certain return with a predetermined range of interest rates or values.

A Portfolio will usually enter into interest rate swaps on a net basis, that is, the two payment streams are netted out in a cash settlement on the payment date or dates specified in the instrument, with the Portfolio receiving or paying, as the case may be, only the net amount of the two payments. Inasmuch as these swaps, caps, floors, collars and other similar derivatives are entered into for good faith hedging or other non-speculative purposes, they do not constitute senior securities under the Investment Company Act of 1940, as amended (the "1940 Act"), and, thus, will not be treated as being subject to the Portfolio's borrowing restrictions. A Portfolio will not enter into any swap, cap, floor, collar or other derivative transaction unless the Counterparty is deemed creditworthy by the Subadviser. If a Counterparty defaults, a Portfolio may have contractual remedies pursuant to the agreements related to the transaction. The swap market has grown substantially in recent years with a large number of banks and investment banking firms acting both as principals and as agents utilizing standardized swap documentation. As a result, the swap market has become relatively liquid. Caps, floors and collars are more recent innovations for which standardized documentation has not yet been fully developed and, for that reason, they are less liquid than swaps.

The liquidity of swap agreements will be determined by a Subadviser based on various factors, including (1) the frequency of trades and quotations, (2) the number of dealers and prospective purchasers in the marketplace, (3) dealer undertakings to make a market, (4) the nature of the security (including any demand or tender features), and (5) the nature of the marketplace for trades (including the ability to assign or offset a Portfolio's rights and obligations relating to the investment). Such determination will govern whether a swap will be deemed to be within the 10% restriction on investments in securities that are not readily marketable.

Each Portfolio will maintain cash and appropriate liquid assets (i.e., high grade debt securities) in a segregated custodial account to cover its current obligations under swap agreements. If a Portfolio enters into a swap agreement on a net basis, it will segregate assets with a daily value at least equal to the excess, if any, of the Portfolio's accrued obligations under the swap agreement over the accrued amount the Portfolio is entitled to receive under the agreement. If a Portfolio enters into a swap agreement on other than a net basis, it will segregate assets with a value equal to the full amount of the Portfolio's accrued obligations under the agreement. See "Use of Segregated and Other Special Accounts."

#### Eurodollar Instruments

If and to the extent authorized to do so, a Portfolio may make investments in Eurodollar instruments, which are typically dollar-denominated futures contracts or options on those contracts that are linked to the London Interbank Offered Rate ("LIBOR"), although foreign currency denominated instruments are available from time to time. Eurodollar futures contracts enable purchasers to obtain a fixed rate for the lending of funds and sellers to obtain a fixed rate for borrowings. A Portfolio might use Eurodollar futures contracts and options thereon to hedge against changes in LIBOR, to which many interest rate swaps and fixed income instruments are linked.

#### Municipal Bond Index Futures Contracts

The National Municipal Bond Fund may enter into municipal bond index

futures contracts. A municipal bond index futures contract is an agreement to take or make delivery of an amount of cash equal to the difference between the value of the index at the beginning and at the end of the contract period. The National Municipal Bond Fund may enter into short municipal bond index futures contracts in anticipation of or during a market decline to attempt to offset the decrease in market value of securities in its respective portfolio that might otherwise result. When the Portfolio is not fully invested in securities and anticipates a significant market advance, it may enter into long municipal bond index futures contracts in order to gain rapid market exposure that may wholly or partially offset increases in the costs of securities that it intends to purchase. In a substantial majority of these transactions, the Portfolio will purchase such securities upon termination of the futures position but, under unusual market conditions, a futures position may be terminated without the corresponding purchase of securities.

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## Risk Factors

Hedging and Other Strategic Transactions have special risks associated with them, including possible default by the Counterparty to the transaction, illiquidity and, to the extent the Subadviser's view as to certain market movements is incorrect, the risk that the use of the Hedging and Other Strategic Transactions could result in losses greater than if they had not been used. Use of put and call options could result in losses to a Portfolio, force the sale or purchase of portfolio securities at inopportune times or for prices higher than (in the case of put options) or lower than (in the case of call options) current market values, or cause a Portfolio to hold a security it might otherwise sell.

The use of futures and options transactions entails certain special risks. In particular, the variable degree of correlation between price movements of futures contracts and price movements in the related securities position of a Portfolio could create the possibility that losses on the hedging instrument are greater than gains in the value of the Portfolio's position. In addition, futures and options markets could be illiquid in some circumstances and certain over-the-counter options could have no markets. As a result, in certain markets, a Portfolio might not be able to close out a transaction without incurring substantial losses. Although a Portfolio's use of futures and options transactions for hedging should tend to minimize the risk of loss due to a decline in the value of the hedged position, at the same time it will tend to limit any potential gain to a Portfolio that might result from an increase in value of the position. Finally, the daily variation margin requirements for futures contracts create a greater ongoing potential financial risk than would purchases of options, in which case the exposure is limited to the cost of the initial premium.

Currency hedging involves some of the same risks and considerations as other transactions with similar instruments. Currency transactions can result in losses to a Portfolio if the currency being hedged fluctuates in value to a degree or in a direction that is not anticipated. Further, the risk exists that the perceived linkage between various currencies may not be present or may not be present during the particular time that a Portfolio is engaging in proxy hedging. Currency transactions are also subject to risks different from those of other portfolio transactions. Because currency control is of great importance to the issuing governments and influences economic planning and policy, purchases and sales of currency and related instruments can be adversely affected by government exchange controls, limitations or restrictions on repatriation of currency, and manipulations or exchange restrictions imposed by governments. These forms of governmental actions can result in losses to a Portfolio if it is unable to deliver or receive currency or monies in settlement of obligations and could also cause hedges it has entered into to be rendered useless, resulting in full currency exposure as well as incurring transaction costs. Buyers and sellers of currency futures contracts are subject to the same risks that apply to the use of futures contracts generally. Further, settlement of a currency futures contract for the purchase of most currencies must occur at a bank based in the issuing nation. Trading options on currency futures contracts is relatively new, and the ability to establish and close out positions on these options is subject to the maintenance of a liquid market that may not always be available. Currency exchange rates may fluctuate based on factors extrinsic to that country's economy.

Losses resulting from the use of Hedging and Other Strategic Transactions will reduce a Portfolio's net asset value, and possibly income, and the losses can be greater than if Hedging and Other Strategic Transactions had not been used.

## Risks of Hedging and Other Strategic Transactions Outside the United States

When conducted outside the United States, Hedging and Other Strategic Transactions may not be regulated as rigorously as in the United States, may not involve a clearing mechanism and related guarantees, and will be subject to the risk of governmental actions affecting trading in, or the prices of, foreign securities, currencies and other instruments. The value of positions taken as part of non-U.S. Hedging and Other Strategic Transactions also could be

adversely affected by: (1) other complex foreign political, legal and economic factors, (2) lesser availability of data on which to make trading decisions than in the United States, (3) delays in a Portfolio's ability to act upon economic events occurring in foreign markets during non-business hours in the United States, (4) the imposition of different exercise and settlement terms and procedures and margin requirements than in the United States and (5) lower trading volume and liquidity.

#### Use of Segregated and Other Special Accounts

Use of many Hedging and Other Strategic Transactions by a Portfolio will require, among other things, that the Portfolio segregate cash, liquid high grade debt obligations or other assets with its custodian, or a designated sub-custodian, to the extent the Portfolio's obligations are not otherwise "covered" through ownership of the underlying security, financial instrument or currency. In general, either the full amount of any obligation by a Portfolio to pay or deliver securities or assets must be covered at all times by the securities, instruments or currency required to be delivered, or, subject to any regulatory restrictions, an amount of cash or liquid high grade debt obligations at least equal to the current amount of the obligation must be segregated with the custodian or sub-

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custodian. The segregated assets cannot be sold or transferred unless equivalent assets are substituted in their place or it is no longer necessary to segregate them. A call option on securities written by a Portfolio, for example, will require the Portfolio to hold the securities subject to the call (or securities convertible into the needed securities without additional consideration) or to segregate liquid high grade debt obligations sufficient to purchase and deliver the securities if the call is exercised. A call option sold by a Portfolio on an index will require the Portfolio to own portfolio securities that correlate with the index or to segregate liquid high grade debt obligations equal to the excess of the index value over the exercise price on a current basis. A put option on securities written by a Portfolio will require the Portfolio to segregate liquid high grade debt obligations equal to the exercise price. Except when a Portfolio enters into a forward contract in connection with the purchase or sale of a security denominated in a foreign currency or for other non-speculative purposes, which requires no segregation, a currency contract that obligates the Portfolio to buy or sell a foreign currency will generally require the Portfolio to hold an amount of that currency, liquid securities denominated in that currency equal to a Portfolio's obligations or to segregate liquid high grade debt obligations equal to the amount of the Portfolio's obligations.

OTC options entered into by a Portfolio, including those on securities, currency, financial instruments or indices, and OCC-issued and exchange-listed index options will generally provide for cash settlement, although a Portfolio will not be required to do so. As a result, when a Portfolio sells these instruments it will segregate an amount of assets equal to its obligations under the options. OCC-issued and exchange-listed options sold by a Portfolio other than those described above generally settle with physical delivery, and the Portfolio will segregate an amount of assets equal to the full value of the option. OTC options settling with physical delivery or with an election of either physical delivery or cash settlement will be treated the same as other options settling with physical delivery.

In the case of a futures contract or an option on a futures contract, a Portfolio must deposit initial margin and, in some instances, daily variation margin in addition to segregating assets sufficient to meet its obligations to purchase or provide securities or currencies, or to pay the amount owed at the expiration of an index-based futures contract. These assets may consist of cash, cash equivalents, liquid high grade debt or equity securities or other acceptable assets. A Portfolio will accrue the net amount of the excess, if any, of its obligations relating to swaps over its entitlements with respect to each swap on a daily basis and will segregate with its custodian, or designated sub-custodian, an amount of cash or liquid high grade debt obligations having an aggregate value equal to at least the accrued excess. Caps, floors and collars require segregation of assets with a value equal to a Portfolio's net obligation, if any.

Hedging and Other Strategic Transactions may be covered by means other than those described above when consistent with applicable regulatory policies. A Portfolio may also enter into offsetting transactions so that its combined position, coupled with any segregated assets, equals its net outstanding obligation in related options and Hedging and Other Strategic Transactions. A Portfolio could purchase a put option, for example, if the strike price of that option is the same or higher than the strike price of a put option sold by the Portfolio. Moreover, instead of segregating assets if it holds a futures contracts or forward contract, a Portfolio could purchase a put option on the same futures contract or forward contract with a strike price as high or higher than the price of the contract held. Other Hedging and Other Strategic Transactions may also be offset in combinations. If the offsetting transaction terminates at the time of or after the primary transaction, no segregation is required, but if it terminates prior to that time, assets equal to any remaining

obligation would need to be segregated.

#### Other Limitations

No Portfolio will maintain open short positions in futures contracts, call options written on futures contracts, and call options written on securities indices if, in the aggregate, the current market value of the open positions exceeds the current market value of that portion of its securities portfolio being hedged by those futures and options plus or minus the unrealized gain or loss on those open positions, adjusted for the historical volatility relationship between that portion of the Portfolio and the contracts (e.g., the Beta volatility factor). For purposes of the limitation stated in the immediately preceding sentence, to the extent the Portfolio has written call options on specific securities in that portion of its portfolio, the value of those securities will be deducted from the current market value of that portion of the securities portfolio. If this limitation should be exceeded at any time, the Portfolio will take prompt action to close out the appropriate number of open short positions to bring its open futures and options positions within this limitation.

#### Warrant Transactions and Risks

Subject to certain restrictions described under "INVESTMENT RESTRICTIONS" below, each of the Portfolios (other than the Money Market Fund) may purchase warrants, including warrants traded independently of the underlying securities. Such

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transactions entail certain risks. Warrants may be considered more speculative than certain other types of investments in that prior to their exercise they do not entitle a holder to dividends and voting rights with respect to the securities which may be purchased by the exercise thereof, nor do they represent any rights in the assets of the issuing company. Also, the value of the warrant does not necessarily change with the value of the underlying security. If a warrant expires unexercised, the Portfolio will lose the amount paid for the warrant and any transaction costs.

The degree to which a Portfolio may utilize Hedging and Other Strategic Transactions may also be affected by certain provisions of the Code.

#### INVESTMENT RESTRICTIONS

There are two classes of investment restrictions to which the Fund is subject in implementing the investment policies of the Portfolios: fundamental and nonfundamental. Nonfundamental restrictions are subject to change by the Trustees of the Fund without shareholder approval. Fundamental restrictions may only be changed by a vote of the lesser of (i) 67% or more of the shares represented at a meeting at which more than 50% of the outstanding shares are represented or (ii) more than 50% of the outstanding shares.

With respect to the submission of a change in an investment restriction to the holders of the Fund's outstanding voting securities, the matter shall be deemed to have been effectively acted upon with respect to a particular Portfolio if a majority of the outstanding voting securities of the Portfolio vote for the approval of the matter, notwithstanding (1) that the matter has not been approved by the holders of a majority of the outstanding voting securities of any other Portfolio affected by the matter, and (2) that the matter has not been approved by the vote of a majority of the outstanding voting securities of the Fund.

All of the restrictions through restriction (8) are fundamental. Restrictions (9) through (20) are nonfundamental.

#### Fundamental

The Fund may not issue senior securities, except to the extent that the borrowing of money in accordance with restriction (3) may constitute the issuance of a senior security. (For purposes of this restriction, purchasing securities on a when-issued or delayed delivery basis and engaging in Hedging and Other Strategic Transactions will not be deemed to constitute the issuance of a senior security.) In addition, unless a Portfolio is specifically excepted by the terms of a restriction, each Portfolio will not:

(1) Invest more than 25% of the value of its total assets in securities of issuers having their principal activities in any particular industry, excluding U.S. Government securities and, with respect to the Money Market Fund, obligations of domestic branches of U.S. banks and with respect to the National Municipal Bond Fund, obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities or by any state, territory or any possession of the United States, the District of Columbia, or any of their authorities, agencies, instrumentalities or political subdivisions, or with respect to repurchase agreements collateralized by any of such obligations. For purposes of

this restriction, supranational issuers will be considered to comprise an industry as will each foreign government that issues securities purchased by a Portfolio.

(2) Purchase the securities of any issuer if the purchase would cause more than 5% of the value of the Portfolio's total assets to be invested in the securities of any one issuer (excluding U.S. Government securities) or cause more than 10% of the voting securities of the issuer to be held by the Portfolio, except that up to 25% of the value of each Portfolio's total assets may be invested without regard to these restrictions.

(3) Borrow money except that each Portfolio may borrow (i) for temporary or emergency purposes (not for leveraging) up to 33 1/3% of the value of the Portfolio's total assets (including amounts borrowed) less liabilities (other than borrowings) and (ii) in connection with reverse repurchase agreements, mortgage dollar rolls and other similar transactions.

(4) Underwrite securities of other issuers except insofar as the Fund may be considered an underwriter under the Securities Act of 1933 in selling portfolio securities.

(5) Purchase or sell real estate, except that each Portfolio may invest in securities issued by companies which invest in real estate or interests therein and each of the Portfolios other than the Money Market Fund may invest in mortgages and mortgage-backed securities.

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(6) Purchase or sell commodities or commodity contracts except that each Portfolio other than the Investment Quality Bond and Money Market Funds may purchase and sell futures contracts on financial instruments and indices and options on such futures contracts, and the Equity - Income, Small/Mid Cap, International Small Cap, Growth Equity, Global Equity, Strategic Income and International Growth and Income Funds may purchase and sell futures contracts on foreign currencies and options on such futures contracts. The U.S. Government Securities Fund has elected for the present to not engage in the purchase or sale of commodities or commodity contracts to the extent permitted by this restriction, but it reserves the right to engage in such transactions at a future time.

(7) Lend money to other persons except by the purchase of obligations in which the Portfolio is authorized to invest and by entering into repurchase agreements. For purposes of this restriction, collateral arrangements with respect to options, forward currency and futures transactions will not be deemed to involve the lending of money.

(8) Lend securities in excess of 33% of the value of its total non-cash assets. For purposes of this restriction, collateral arrangements with respect to options, forward currency and futures transactions will not be deemed to involve loans of securities.

Nonfundamental

(9) Knowingly invest more than 10% of the value of its net assets in securities or other investments not readily marketable, including repurchase agreements maturing in more than seven days but excluding variable amount master demand notes.

(10) Purchase any security if as a result the Portfolio would then have more than 5% of its total assets (taken at current value) invested in securities of companies (including predecessors) less than three years old.

(11) Sell securities short or purchase securities on margin except that it may obtain such short-term credits as may be required to clear transactions. For purposes of this restriction, collateral arrangements with respect to Hedging and Other Strategic Transactions will not be deemed to involve the use of margin.

(12) Write or purchase options on securities, financial indices or currencies except to the extent a Portfolio is specifically authorized to engage in Hedging and Other Strategic Transactions.

(13) Purchase securities for the purpose of exercising control or management.

(14) Purchase securities of other investment companies if the purchase would cause more than 10% of the value of the Portfolio's total assets to be invested in investment company securities, provided that (i) no investment will be made in the securities of any one investment company if immediately after such investment more than 3% of the outstanding voting securities of such company would be owned by the Portfolio or more than 5% of the value of the Portfolio's total assets would be invested in such company and (ii) no restrictions shall apply to a purchase of investment company securities in

connection with a merger, consolidation or reorganization or in connection with the investment of collateral received in connection with the lending of securities in the Navigator Securities Lending Trust. For purposes of this restriction, privately issued collateralized mortgage obligations will not be treated as investment company securities if issued by "Exemptive Issuers". Exemptive Issuers are defined as unmanaged, fixed-asset issuers that (a) invest primarily in mortgage-backed securities, (b) do not issue redeemable securities as defined in section 2(a)(32) of the 1940 Act, (c) operate under general exemptive orders exempting them from "all provisions of the Investment Company Act of 1940," and (d) are not registered or regulated under the 1940 Act as investment companies.

(15) Pledge, hypothecate, mortgage or transfer (except as provided in restriction (8) as security for indebtedness) any securities held by the Portfolio, except in an amount of not more than 10% (33 1/3% in the case of the Equity-Income, 15% in the case of the International Small Cap, Growth Equity and Balanced Funds) of the value of the Portfolio's total assets and then only to secure borrowings permitted by restrictions (3) and (11). For purposes of this restriction, collateral arrangements with respect to Hedging and Other Strategic Transactions will not be deemed to involve a pledge of assets.

(16) Invest in securities of any issuer if, to the knowledge of the Portfolio, any officer or Trustee of the Fund or officer or director of the Adviser owns more than 1/2 of 1% of the outstanding securities of such issuer, and such Trustees, officers and directors who own more than 1/2 of 1% own in the aggregate more than 5% of the outstanding securities of such issuer.

(17) Purchase interests in oil, gas or other mineral exploration or development programs or leases, except that it may acquire the securities of companies engaged in the production or transmission of oil, gas or other minerals.

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(18) Purchase warrants if, as a result, the Portfolio would then have more than 10% of its total net assets (taken at the lower of cost or current value) invested in warrants, or if more than 5% of the value of the Portfolio's total net assets would be invested in warrants which are not listed on a recognized United States or foreign stock exchange, except for warrants included in units or attached to other securities.

(19) Purchase securities of foreign issuers, except that (A) the International Small Cap, Global Equity, International Growth and Income and Strategic Income Funds may each, without limitation, invest up to 100% of its assets in securities issued by foreign entities and/or denominated in foreign currencies, (B) the Balanced and Growth Equity Funds may each invest up to 30% of its assets in such securities, (C) the Equity-Income Fund may invest up to 25% of its assets in such securities, and (D) each of the other portfolios (other than the U.S. Government Securities and National Municipal Bond Funds) may invest up to 20% of its assets in securities issued by foreign entities and/or denominated in foreign currencies. (In the case of the Small/Mid Cap, Growth Equity and Balanced Funds, ADRs and U.S. dollar denominated securities are not included in the percentage limitation.)

(20) Purchase or sell real estate limited partnership interests.

In addition to the above policies, the Money Market Fund is subject to certain restrictions required by Rule 2a-7 under the 1940 Act. In order to comply with such restrictions, the Money Market Fund will, among other things, not purchase the securities of any issuer if it would cause (i) more than 5% of its total assets to be invested in the securities of any one issuer (excluding U.S. Government securities and repurchase agreements fully collateralized by U.S. Government securities), except as permitted by Rule 2a-7 for certain securities for a period of up to three business days after purchase, (ii) more than 5% of its total assets to be invested in "second tier securities," as defined by Rule 2a-7, or (iii) more than the greater of \$1 million or 1% of its total assets to be invested in the second tier securities of that issuer.

For the purposes of the investment limitations applicable to the National Municipal Bond Fund, the identification of the issuer of a municipal obligation depends on the terms and conditions of the obligation. If the assets and revenues of an agency, authority, instrumentality, or other political subdivision are separate from those of the government creating the subdivision and the obligation is backed only by the assets and revenues of the subdivision, such subdivision would be regarded as the sole issuer. Similarly, in the case of a private activity bond, if the bond is backed only by the assets and revenues of the non-governmental user, such non-governmental user would be regarded as the sole issuer. If in either case the creating government or another entity guarantees an obligation, the guarantee would be considered a separate security and treated as an issue of such government or entity.

If a percentage restriction is adhered to at the time of an investment, a later increase or decrease in the investment's percentage of the value of a Portfolio's total assets resulting from a change in such values or assets will

not constitute a violation of the percentage restriction, except in the case of the Money Market Fund where the percentage limitation of restriction (9) must be met at all times.

PORTFOLIO TURNOVER

The annual rate of portfolio turnover will normally differ for each Portfolio and may vary from year to year. Portfolio turnover is calculated by dividing the lesser of purchases or sales of portfolio securities during the fiscal year by the monthly average of the value of the Portfolio's securities (excluding from the computation all securities, including options, with maturities at the time of acquisition of one year or less). A high rate of portfolio turnover (in excess of 100%) generally involves correspondingly greater brokerage commission expenses, which must be borne directly by the Portfolio. No portfolio turnover rate can be calculated for the Money Market Fund due to the short maturities of the instruments purchased. The portfolio turnover rates for the Portfolios of the Fund in existence prior to December 31, 1996 for the periods shown below were as follows:

<TABLE>  
<CAPTION>

	11/1/94 to 10/31/95	11/1/95 to 10/31/96
<S>	<C>	<C>
Small/Mid Cap.....	NA	92%**
International Small Cap.....	NA	67%***
Growth Equity.....	NA	450%**
Global Equity.....	57%	165%
Equity-Income.....	54%	169%
Growth and Income.....	40%	49%
Balanced.....	226%	253%

</TABLE>

<TABLE>  
<S>

	<C>	<C>
Strategic Income.....	180%	68%
Investment Quality Bond.....	132%	56%
U.S. Govt. Securities.....	469%	477%
National Municipal Bond.....	44%	49%
International Growth and Income.....	69%*	170%

</TABLE>

\* For the period January 9, 1995 (commencement of operations) to October 31, 1995.  
\*\* For the period March 4, 1996 (commencement of operations) to October 31, 1996.

Prior rates of portfolio turnover do not provide an accurate guide as to what the rate will be in any future year, and prior rates and estimated rates are not a limiting factor when it is deemed appropriate to purchase or sell securities for a Portfolio. Each Portfolio of the Fund intends to comply with the various requirements of the Code so as to qualify as a "regulated investment company" thereunder. One such requirement is that a Portfolio must derive less than 30% of its gross income from gains on the sale or other disposition of stock or securities held for less than three months. Accordingly, the ability of a particular Portfolio to effect certain portfolio transactions may be limited.

MANAGEMENT OF THE FUND

The Trustees and officers of the Fund, together with information as to their principal occupations during the past five years, are listed below:

<TABLE>  
<CAPTION>

Name, Address and Age -----	Position with the Fund ----	Principal Occupation During Past Five Years -----
<S>	<C>	<C>
Don B. Allen 136 Knickerbocker Rd. Pittsford, NY 14534 Age: 68	Trustee	Senior Lecturer, William E. Simon Graduate School of Business Admin., University of Rochester.
Charles L. Bardelis	Trustee	President and Chief

297 Dillingham Avenue  
 Falmouth, MA 02540  
 Age: 55

Executive Officer, Island Commuter Corporation (marine transport).

Joe Scott  
 116 Huntington Avenue  
 Boston, MA 02116  
 Age: 47

President

President, North American Funds, September 25, 1996 to the present; Vice President, Business Development and Marketing of North American Funds, January 1, 1996 to September 25, 1996; Annuities Vice President, U.S. Savings and Retirement Services Division, of Manulife, January 1, 1995 to December 31, 1995; Distribution Vice President, U.S. Group and Pension Division, of Manulife, January 1, 1990 to December 31, 1994.

Samuel Hoar  
 73 Tremont Street  
 Boston, MA 02109  
 Age: 68

Trustee

Senior Mediator, Judicial Arbitration Mediation Services "JAMS/Endispute", June 1, 1994 to date; Partner, Goodwin, Proctor & Hoar, prior to June 1, 1994.

Robert J. Myers  
 9610 Wire Avenue  
 Silver Spring, MD 20901  
 Age: 83  
 </TABLE>

Trustee

Consulting Actuary (self-employed), April 1983 to date; Member, Prospective Payment Assessment Commission, June 1993 to present; Chairman, Commission on Railroad Retirement Reform 1988-1990.

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<TABLE>  
 <CAPTION>  
 Name, Address and Age  
 -----

Position  
 -----  
 with the  
 -----  
 Fund  
 ----

Principal Occupation  
 During Past Five  
 Years  
 -----

<S>  
 John D. Richardson\*  
 200 Bloor Street East  
 Toronto, Ontario, Canada  
 M4W 1E5  
 Age: 58

<C>  
 Chairman  
 of the  
 Trustees

<C>  
 Senior Vice President and General Manager, U.S. Operations of Manulife -- 1995-present; Senior Vice President and General Manager, Canadian Operations of Manulife -- 1992-1994; Senior Vice President, Financial Services of Manulife -- 1992.

F. David Rolwing  
 17810 Meeting House Road  
 Sandy Spring, MD 20860  
 Age: 62

Trustee

President, Montgomery Mutual Insurance Co., Sandy Spring, MD

John G. Vrysen  
 116 Huntington Avenue  
 Boston, MA 02116  
 Age: 40

Vice  
 President

Vice President, Chief Financial Officer, U.S. Operations, of Manulife, January 1, 1996 to date; Vice President and Chief Actuary, January 1986 to date, North American Security Life Insurance Company.

James D. Gallagher  
 116 Huntington Avenue  
 Boston, MA 02116  
 Age: 42

Secretary

Vice President, Legal Services, of Manulife, January 1, 1996 to date; Vice President, Secretary and General Counsel, June 1994 to date, North American Security Life Insurance Company; Vice President and Associate General Counsel, 1990-1994, The Prudential Insurance Company of America

Richard C. Hirtle  
 116 Huntington Avenue  
 Boston, MA 02116  
 Age: 40

Vice  
 President,  
 Treasurer  
 and Chief  
 Financial  
 Officer

Vice President, Chief Financial Officer, Annuities, of Manulife, January 1996 to date; Vice President, Treasurer and Chief Financial Officer, November 1988 to date, North American Security Life Insurance Company.

</TABLE>

\*Trustee who is an "interested person", as defined in the 1940 Act.

Compensation of Trustees

The Fund does not pay any remuneration to its Trustees who are officers or employees of the Adviser or its affiliates. Trustees not so affiliated receive an annual retainer of \$4,000, a fee of \$1,000 for each meeting of the Trustees that they attend in person and a fee of \$200 for each such meeting conducted by telephone. Trustees are reimbursed for travel and other out-of-pocket expenses. The officers listed above are furnished to the Fund pursuant to the Advisory Agreement described below and receive no compensation from the Fund. These officers spend only a portion of their time on the affairs of the Fund.

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Compensation Table

<TABLE>  
<CAPTION>

Name of Person, Position	Aggregate Compensation From Fund for Fiscal Year Ended October 31, 1996*	Total Compensation from Fund Complex for Fiscal Year Ended October 31, 1996#*
<S>	<C>	<C>
Don B. Allen, Trustee	\$8,250	\$46,750
Charles L. Bardelis, Trustee	\$8,250	\$46,750
Samuel Hoar, Trustee	\$8,250	\$46,750
Robert J. Myers, Trustee	\$8,250	\$46,750
F. David Rowling, Trustee	\$0	\$12,000

</TABLE>

\*Compensation received for services as Trustee.

#Fund Complex includes all portfolios of the Fund as well as all portfolios of NASL Series Trust and Manulife Series Fund, Inc. of which the Adviser, or an affiliate of the Adviser is the investment adviser.

#### Principal Holders of Securities

As of December 1, 1996 (i) Frontier Trust Company, Trustee FBO Saia Motor Freight Line Incorporated 401k Plan, Springhouse Corporate Center II, 323 Norristown Road, Ambler, Pennsylvania 192202-2756 owned record 1,414,379.799 shares (6.39% of the outstanding shares) of the Money Market Fund, 386.011.396 shares (5.24% of the outstanding shares) of the Growth & Income Fund and 155,816.685 shares (7.63% of the outstanding shares) of Investment Quality Bond Fund, (ii) Nalco Pension Plan for US Members, Elliot & Page, 120 Adelaide Street West 1120, Toronto, Ontario owned record 501,980.183 shares (6.38% of the outstanding shares) of the Global Equity Fund and (iii) Security Life, 116 Huntington Avenue, Boston, Massachusetts 02116 beneficially owned 1,498,323.859 shares (5.34% of the outstanding shares) of the Small/Mid Cap Fund, 1,029,612.855 shares (7.77% of the outstanding shares) of the International Small Cap Fund and 1,124,365.451 shares (7.11% of the outstanding shares) of the Growth Equity Fund. As of such date, no other shareholder owned of record or, to the knowledge of the Fund, beneficially owned more than 5% of the outstanding shares of any Portfolio of the Fund. The officers and Trustees of the Fund as a group own less than 1% of the outstanding shares of each Portfolio of the Fund.

#### INVESTMENT MANAGEMENT ARRANGEMENTS

The following information supplements the material appearing in the Prospectus under the caption "MANAGEMENT OF THE FUND." The principal terms of the Advisory and Subadvisory Agreements are described in the Prospectus. The following supplemental discussion of such agreements covers certain legal terms of such agreements. The Advisory and Subadvisory Agreements discussed below have been filed with and are available from the Commission.

#### Advisory and Subadvisory Agreements

The Advisory Agreement, each Subadvisory Agreement (except those described below) and the Salomon Brothers Asset Management Limited Consulting Agreement were approved by the Trustees on September 28, 1995 and by the shareholders of the portfolios on December 5, 1995. These approvals occurred in connection with the change of control of NASL Financial as a result of the merger of North American Life Assurance Company, the ultimate controlling parent of NASL Financial, with The Manufacturers Life Insurance Company on January 1, 1996.

On December 15, 1995, the Trustees appointed Fred Alger Management, Inc. ("Alger") pursuant to a new Subadvisory Agreement with Alger ("Alger Subadvisory Agreement") as subadviser to the Small/Mid Cap Fund. The Alger Subadvisory Agreement, which provides for the management of the newly-established Small/Mid Cap Fund, was approved by the Trustees,

including a majority of the Trustees who are not parties to the Alger Subadvisory Agreement or interested persons of any party to such Agreement on December 15, 1995. The Alger Subadvisory Agreement was approved by the sole shareholder of the Small/Mid Cap Fund on March 1, 1996.

On December 15, 1995, the Trustees appointed Founders Asset Management, Inc. ("Founders") pursuant to a new Subadvisory Agreement with Founders ("Founders Subadvisory Agreement") as subadviser to the International Small Cap and the Growth Equity Fund. The Founders Subadvisory Agreement, which provides for the management of the newly-established International Small Cap and Growth Equity Fund, was approved by the Trustees, including a majority of the Trustees who are not parties to the Founders Subadvisory Agreement or interested persons of any party to such Agreement on December 15, 1995. The Founders Subadvisory Agreement was approved by the sole shareholder of the International Small Cap and Growth Equity Fund on March 1, 1996.

Effective October 1, 1996, Oechsle International, Wellington Management, and Goldman Sachs Asset Management, the Subadvisers of the Global Equity (formerly Global Growth), Money Market, Balanced (formerly the Asset Allocation) and Equity-Income (formerly Value Equity and prior thereto Growth) Funds, respectively, resigned their positions as Subadvisers of those Portfolios. On September 27, 1996, the Trustees (i) appointed Morgan Stanley Asset Management Inc. ("Morgan Stanley") pursuant to a new Subadvisory Agreement with Morgan Stanley ("Morgan Stanley Subadvisory Agreement") to manage the Global Equity Fund, (ii) appointed T. Rowe Price Associates, Inc. ("T. Rowe Price") pursuant to a new Subadvisory Agreement with T. Rowe Price ("T. Rowe Price Subadvisory Agreement") to manage the Equity-Income Fund, (iii) appointed Manufacturers Adviser Corporation ("MAC") pursuant to a new Subadvisory Agreement with MAC ("MAC Subadvisory Agreement") to manage the Money Market Fund and (iv) appointed Founders pursuant to an amendment to the Founders' Subadvisory Agreement to manage the Balanced Fund. All such Subadvisory Agreements were approved by the Trustees, including a majority of the Trustees who are not parties to the agreements or interested persons of any party to such agreements, on September 27 (with an effective date of October 1, 1996) and by the shareholders of the respective portfolios on December 20, 1996.

For the periods November 1, 1993 to October 31, 1994, November 1, 1994 to October 31, 1995, November 1, 1995 to October 31, 1996, the Fund paid total advisory fees to the Adviser of \$3,483,764, \$ 4,324,695 and \$5,398,787, respectively. The amounts represented by each of the Portfolios are as follows:

<TABLE>  
<CAPTION>

Portfolio	11/1/93 to 10/31/94	11/1/94 to 10/31/95	11/1/95 to 10/31/96
<S>	<C>	<C>	<C>
Small/Mid Cap	NA	NA	63,467*
International Small Cap	NA	NA	47,966*
Growth Equity	NA	NA	40,762*
Global Equity	\$882,302	\$1,185,949	1,174,747
Equity-Income	\$556,612	\$758,694	936,036
Growth and Income	\$333,531	\$521,769	784,990
International Growth and Income	N/A	**\$102,022	236,517
Strategic Income	***	\$195,046	415,019
Investment Quality Bond	\$89,202	\$99,260	127,602
U.S. Government	\$860,225	\$661,449	693,407
National Municipal Bond	\$19,807	\$68,638	121,407
Money Market	\$38,127	\$44,306	38,258
Balanced	\$703,958	\$687,562	718,609

</TABLE>

\*For the period March 4, 1996 (commencement of operations) to October 31, 1996.

\*\*For the period January 9, 1995 (commencement of operations) to October 31, 1995.

\*\*\*For the period November 30, 1993 (commencement of operations) to October 31, 1994.

For information concerning waivers of advisory fees and expense reimbursements, see note 5 to the financial statements dated October 31, 1996 included in this Statement of Additional Information.

For the same periods, the Adviser paid total subadvisory fees of

\$1,609,821, \$2,060,667 and \$2,533,101, respectively. The amounts represented by each of the Portfolios are as follows:

Portfolio	11/1/93 to 10/31/94	11/1/94 to 10/31/95	11/1/95 to 10/31/96
Small/Mid Cap	N/A	N/A	\$36,022*
International Small Cap	N/A	N/A	\$29,693*
Growth Equity	N/A	N/A	\$22,646*
Global Equity	\$539,184	\$724,749	\$709,960
Equity-Income	\$241,581	\$323,912	\$396,204
Growth and Income	\$148,991	\$227,367	\$334,666
International Growth and Income	N/A	**\$56,679	\$131,398
Strategic Income	***\$0	#\$91,022	#\$192,079
Investment Quality Bond	\$33,714	\$37,223	\$47,851
U.S. Government	\$323,714	\$248,043	\$260,027
National Municipal Bond	\$9,819	\$40,125	\$50,586
Money Market	\$14,296	\$16,615	\$14,347
Balanced	\$298,522	\$294,932	\$307,622

\*For the period March 4, 1996 (commencement of operations) to October 31, 1996.

\*\*For the period January 9, 1995 (commencement of operations) to October 31, 1995.

\*\*\*For the period November 30, 1993 (commencement of operations) to October 31, 1994.

#Of these amounts, \$29,730 and \$ 48,019.75 respectively, were paid by SBAM to Salomon Brothers Asset Management Limited under the Subadvisory Consulting Agreement.

The Prospectus refers to a subadvisory consulting agreement between SBAM and Salomon Brothers Asset Management Limited ("SBAM Limited"). Under that agreement SBAM Limited provides certain investment advisory services to SBAM relating to currency transactions and investments in non-dollar denominated debt securities for the benefit of the Strategic Income Fund. SBAM pays SBAM Limited, as full compensation for all services provided under the subadvisory consulting agreement, a portion of its subadvisory fee, such amount being an amount equal to the fee payable under SBAM's subadvisory agreement multiplied by the current value of the net assets of the portion of the assets of the Strategic Income Fund that SBAM Limited has been delegated to manage divided by the current value of the net assets of the Portfolio. The Fund will not incur any additional expenses in connection with SBAM Limited's services. SBAM Limited is a wholly owned subsidiary of Salomon Brothers Europe Limited ("SBEL"). Salomon (International) Finance A G ("SIF") owns 100% of SBEL's Convertible Redeemable Preference Shares and 36.8% of SBEL's Ordinary Shares, while the remaining 63.2% of SBEL's Ordinary Shares are owned by Salomon Brothers Holding Company Inc ("SBH"). SIF is wholly owned by SBH, which is in turn, a wholly owned subsidiary of Salomon Inc.

For the year ended October 31, 1996 the net investment advisory fees retained by the Adviser after payment of subadvisory fees was \$2,865,686, allocated among the portfolios as follows:

	Dollar Amount	AnnualPercentage of
	-----	Portfolio Net Assets
		-----
Small/Mid Fund*	\$27,445	0.14
International Small Cap Fund*	\$18,273	0.15
Growth Equity Fund*	\$18,116	0.13
Global Equity Fund	\$464,786	0.40
International Growth and Income Fund	\$105,119	0.36
Growth and Income Fund	\$450,324	0.35
Equity-Income Fund	\$539,833	0.39
Balanced Fund	\$410,987	0.41
Strategic Income Fund	\$222,940	0.33
Investment Quality Bond Fund	\$79,752	0.37
National Municipal Bond Fund	\$70,821	0.36
U.S. Government Securities Fund	\$433,379	0.39
Money Market Fund	\$23,911	0.11

\*For the period March 4, 1996 (commencement of operations) to October 31, 1996.

The Advisory Agreement and each Subadvisory Agreement, including the SBAM Limited Consulting Agreement (collectively, the "Agreements") will continue in effect as to a Portfolio for a period no more than two years from the date of its execution or the execution of an amendment making the agreement applicable to that Portfolio only so long as such continuance is specifically approved at least annually either by the Trustees or by the vote of a majority of the outstanding voting securities of each of the Portfolios of the Fund, provided that in either event such continuance shall also be approved by the vote of the majority of the Trustees who are not interested persons of any party to the Agreements, cast in person at a meeting called for the purpose of voting on such approval. The required shareholder approval of any continuance of any of the Agreements shall be effective with respect to any Portfolio if a majority of the outstanding voting securities of the class of capital stock of that Portfolio vote to approve such continuance, notwithstanding that such continuance may not have been approved by a majority of the outstanding voting securities of the Fund.

If the shareholders of any Portfolio fail to approve any continuance of any Agreement, the Adviser or Subadviser (including SBAM Limited), as applicable, will continue to act as such with respect to such Portfolio pending the required approval of the continuance of such Agreement, of a new contract with the Adviser or Subadviser or different investment adviser or subadviser, or other definitive action. In the case of the Adviser and Oechsle International, the compensation received by them in respect of such a Portfolio during such period will be no more than its actual costs incurred in furnishing investment advisory and management services to such Portfolio or the amount it would have received under the Agreement in respect of such Portfolio, whichever is less. In the case of the Subadvisers, the compensation received by them in respect of such a Portfolio during such a period will be no more than that permitted by Rule 15a-4 under the 1940 Act.

The Agreements may be terminated at any time, without the payment of penalty, by the Trustees of the Fund or by the vote of a majority of the outstanding voting securities of the applicable Portfolios of the Fund, with respect to any Portfolio by the vote of a majority of the outstanding shares of such Portfolio, or by the Adviser or applicable Subadviser on 60 days' written notice to the other party or parties to the Agreement and, in the case of the Subadvisory Agreements, to the Fund. Each of the Agreements will automatically terminate in the event of its assignment.

The Agreements may be amended by the parties provided that such amendment is specifically approved by the vote of a majority of the outstanding voting securities of the Fund or applicable Portfolio(s), as the case may be, and by the vote of a majority of the Trustees of the Fund who are not interested persons of the Fund, of the Adviser or of the applicable Subadviser or of SBAM Limited, cast in person at a meeting called for the purpose of voting upon such approval. The required shareholder approval of any amendment shall be effective with respect to any Portfolio if a majority of the outstanding voting securities of that Portfolio vote to approve the amendment, notwithstanding that the amendment may not be approved by a majority of the outstanding voting securities of (i) any other Portfolio affected by the amendment or (ii) all the Portfolios of the Fund.

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Each Subadvisory Agreement, except the Oechsle Subadvisory Agreement and the J.P. Morgan Subadvisory Agreement, and the SBAM Limited Consulting Agreement, provides that the Subadviser or SBAM Limited will not be liable to the Fund or the Adviser for any losses resulting from any matters to which the agreement relates other than losses resulting from the Subadviser's or SBAM Limited's willful misfeasance, bad faith or gross negligence in the performance of, or from reckless disregard of, its duties. The Oechsle Subadvisory Agreement and the J.P. Morgan Subadvisory Agreement each provide that the subadviser will not be liable to the Fund or NASL Financial for any losses resulting from any error of judgment made in the good faith exercise of the Subadviser's investment discretion in connection with selecting investments, except for losses resulting from willful misfeasance, bad faith or gross negligence of, or from reckless disregard of, its duties, and that it shall not be liable for any losses resulting from any other matters except for losses resulting from willful misfeasance, bad faith or negligence in the performance of, or from disregard of, its duties.

#### DISTRIBUTION PLANS

The Fund currently offers three classes of shares in each Portfolio: "Class A" shares, "Class B" shares and "Class C" shares (the "Multiple Pricing System"). See "MULTIPLE PRICING SYSTEM" and "HOW TO PURCHASE SHARES" in the Prospectus.

In addition to the front end sales charge which may be deducted at the time of purchase of Class A shares and the CDSC which may apply on redemption of

Class B shares, each class of shares of each Portfolio is authorized under the Distribution Plan applicable to that class of shares (the "Class A Plan," the "Class B Plan" and the "Class C Plan," collectively, the "Plans") adopted pursuant to Rule 12b-1 under the 1940 Act to use the assets attributable to such class of shares of the Portfolio to finance certain activities relating to the distribution of shares to investors. The Plans are "compensation" plans providing for the payment of a fixed percentage of average net assets to finance distribution expenses. The Plans provide for the payment by each class of shares of each Portfolio of the Fund, other than the Money Market Fund, of a monthly distribution and service fee to the Distributor, as principal underwriter for the Fund. Portions of the fees prescribed below are used to provide payments to the Distributor, to promotional agents, to brokers, dealers or financial institutions (collectively, "Selling Agents") and to Service Organizations for ongoing account services to shareholders and are deemed to be "service fees" as defined in paragraph (b) (9) of Section 26 of the Rules of Fair Practice of the National Association of Securities Dealers, Inc.

Under the Class A Plan, Class A shares of each Portfolio (except as described in the next sentence) are subject to a fee of up to .35% of their respective average annual net assets, five-sevenths of which (.25%) constitutes a "service fee." Class A shares of the National Municipal Bond Fund are subject to a fee of up to .15% of Class A average annual net assets, the entire amount of which constitutes a "service fee," and Class A shares of the Money Market Fund bear no such fees. Under the Class B Plan, Class B shares of each Portfolio (with the exception of the Money Market Fund) are subject to a fee of up to 1.00% of their respective average annual net assets, one-fourth (.25%) of which constitutes a "service fee." Under the Class C Plan, Class C shares of each Portfolio (with the exception of the Money Market Fund) are subject to a fee of up to 1.00% of their respective average annual net assets, one-fourth (.25%) of which constitutes a "service fee."

Payments under the Plans are used primarily to compensate the Distributor for distribution services provided by it in connection with the offering and sale of the applicable class of shares, and related expenses incurred, including payments by the Distributor to compensate or reimburse Selling Agents for sales support services provided and related expenses incurred by such Selling Agents. Such services and expenses may include the development, formulation and implementation of marketing and promotional activities, the preparation, printing and distribution of prospectuses and reports to recipients other than existing shareholders, the preparation, printing and distribution of sales literature, expenditures for support services such as telephone facilities and expenses and shareholder services as the Fund may reasonably request, provision to the Fund of such information, analyses and opinions with respect to marketing and promotional activities as the Fund may, from time to time, reasonably request, commissions, incentive compensation or other compensation to, and expenses of, account executives or other employees of the Distributor or Selling Agents, attributable to distribution or sales support activities, respectively, overhead and other office expenses of the Distributor or Selling Agents, attributable to distribution or sales support activities, respectively, and any other costs and expenses relating to distribution or sales support activities. The Distributor may pay directly Selling Agents and may provide directly the distribution services described above, or it may arrange for such payment or the performance of some or all of such services by Wood Logan, the Fund's exclusive promotional agent, at such level of compensation as may be agreed to by the Distributor and Wood Logan.

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The distribution and service fees attributable to the Class B shares and Class C shares are designed to permit an investor to purchase shares without the assessment of a front end sales charge, and, with respect to the Class C shares, without the assessment of a front end sales charge or a CDSC, and at the same time permit the Distributor to compensate securities dealers with respect to sales of such shares.

The Distributor is authorized by each Plan to retain any excess of the fees it receives thereunder over its payments to selected dealers or Wood Logan and its expenses incurred in connection with providing distribution services. Thus, payments under a Plan may result in a profit to the Distributor. Each Plan also provides that to the extent that any payments by any class of any Portfolio of the Fund to the Distributor in its capacity as investment adviser to the Fund, such as for investment management fees, may be deemed to be an indirect payment of distribution expenses, those indirect payments are deemed to be authorized by the Plans.

In adopting the Plans, the Trustees determined that the adoption of the Plans is in the best interests of the Fund and its shareholders, that there is a reasonable likelihood that the Plans will benefit the Fund and its shareholders, and that the Plans are essential to, and an integral part of, the Fund's program for financing the sale of shares of the various Portfolios of the Fund to the public.

The Distributor, a wholly-owned subsidiary of North American Security Life

Insurance Company, is a broker/dealer registered under the Securities Exchange Act of 1934, as amended ("1934 Act") and a member of the NASD. The Distributor's address is the same as that of the Fund and the Distributor also serves as the investment adviser to the Fund as described above under "MANAGEMENT OF THE FUND." The Distributor has entered into an exclusive promotional agent agreement with Wood Logan pursuant to which Wood Logan will solicit securities dealers to sell Fund shares, offer sales training to registered representatives of such dealers, prepare and distribute certain sales and promotional materials and otherwise assist in the distribution of Fund shares. For providing such services, the Distributor will pay Wood Logan such amounts as are agreed to from time to time pursuant to the promotional agent agreement. Wood Logan, a broker/dealer registered under the 1934 Act and a member of the NASD, is a subsidiary of Wood Logan Associates, Inc., a corporation which is a wholly owned subsidiary of a holding company that is 85% owned by Manulife and approximately 15% owned by principals of Wood Logan. The address of Wood Logan is 1455 East Putnam Avenue, Old Greenwich, Connecticut 06870.

Neither a Plan nor any related agreements can take effect until approved by a majority vote of both all the Trustees and those Trustees who are not interested persons of the Fund and who have no direct or indirect financial interest in the operation of a Plan or in any agreements related to it (the "Qualified Trustees"), cast in person at a meeting called for the purpose of voting on such Plan and the related agreements. Such approvals of the Plans were obtained on December 16, 1993. The Plan relating to Class A shares was approved (i) with respect to the Strategic Income, Investment Quality Bond, U.S. Government Securities, National Municipal Bond and Money Market Funds, by the shareholders of each such Portfolio on February 18, 1994, as the initial shareholders of the Class A shares in each such Portfolio, (ii) with respect to the Global Equity, Equity-Income, Growth and Income and Balanced Funds, by the Distributor on March 30, 1994 as sole initial shareholder of the Class A shares of each such Portfolio, (iii) with respect to the International Growth and Income Fund, by the Distributor on January 4, 1995 as sole initial shareholder of the Class A shares of such Portfolio, (iv) with respect to the Small/Mid Cap, Growth Equity and the International Small Cap Funds, by the Distributor on March 1, 1996 as sole initial shareholder of the Class A shares of such Portfolio. The Plan relating to Class B shares was approved (i) with respect to the Strategic Income, Investment Quality Bond, U.S. Government Securities, National Municipal Bond, Money Market, Global Equity, Equity-Income, Growth and Income and Balanced Funds by the Distributor on March 30, 1994 as sole initial shareholder of the Class B shares of each such Portfolio, (ii) with respect to the International Growth and Income Fund, by the Distributor on January 4, 1995 as sole initial shareholder of the Class B shares of such Portfolio, (iii) with respect to the Small/Mid Cap, Growth Equity and International Small Cap Funds by the Distributor on March 1, 1996 as sole initial shareholder of the Class B shares of each such Portfolio. The Plan relating to Class C shares was approved (i) with respect to the Global Equity, Equity-Income, Growth and Income and Balanced Funds, by the shareholders of each such Portfolio on February 18, 1994, as the initial shareholders of the Class C shares in each such Portfolio, (ii) with respect to the Strategic Income, Investment Quality Bond, U.S. Government Securities, National Municipal Bond and Money Market Funds, by the shareholders of each such Portfolio on March 30, 1994, as the initial shareholders of the Class C shares in each such Portfolio, (iii) with respect to the International Growth and Income Fund, by the Distributor on January 4, 1995 as sole initial shareholder of the Class C shares of such Portfolio, (iv) with respect to the Small/Mid Cap, Growth Equity and International Small Cap Funds, by the Distributor on March 1, 1996 as sole initial shareholder of the Class C shares of such Portfolio.

The Plans will continue in effect only so long as their continuance is specifically approved at least annually by the Trustees in the manner described above for Trustee approval of the Plans. The Trustees will receive quarterly and annual statements concerning distribution and shareholder servicing expenditures. In such statements, only expenditures properly attributable to the

sale or servicing of a particular class of shares will be used to justify any distribution or servicing fee charged to that class. Expenditures not related to the sale or servicing of a particular class will not be presented to the Trustees to justify any fee attributable to that class. The statements, including the allocations upon which they are based, will be subject to the review and approval of the Qualified Trustees in the exercise of their fiduciary duty. Each Plan may be terminated at any time with respect to any one or more Portfolios by a majority vote of the Qualified Trustees or by vote of a majority of the outstanding voting securities attributable to Class A, Class B and Class C shares, as applicable, of such Portfolio or Portfolios. If a Plan is terminated by the Trustees or is otherwise discontinued with respect to one or more Portfolios, no further payments would be made by the Fund in respect of the Class A, Class B and Class C shares, as applicable, of such Portfolio or Portfolios under that Plan. A Plan may remain in effect with respect to Class A, Class B, Class C or shares, as applicable, of a Portfolio even if it has been terminated with respect to the Class A, Class B and Class C shares, as applicable, of one or more other Portfolios.

A Plan may not be amended with respect to any class of any Portfolio so as to materially increase the amount of the fees payable thereunder unless the amendment is approved by a vote of at least a majority of the outstanding voting securities of such class of such Portfolio. In addition, no material amendment to a Plan may be made unless approved by the Trustees in the manner described above for Trustee approval of the Plans.

For the period November 1, 1995 to October 31, 1996, the Fund paid distribution and service fees pursuant to the Class A Plan to the Distributor of \$659,514 comprised of:

\$ 4,983 from the Small/Mid Cap Fund\*,  
\$ 3,424 from the International Small Cap Fund\*,  
\$ 4,389 from the Growth Equity Fund\*,  
\$ 92,464 from the Global Equity Fund,  
\$ 90,494 from the Equity-Income Fund,  
\$ 52,788 from the Growth and Income Fund,  
\$ 39,989 from the Strategic Income Fund,  
\$ 37,745 from the Balanced Fund,  
\$ 34,097 from the Investment Quality Bond Fund,  
\$268,716 from the U.S. Government Securities Fund,  
\$ 18,795 from the International Growth and Income Fund, and  
\$ 11,630 from the National Municipal Bond Fund.

\*For the period March 4, 1996 to October 31, 1996.

Of the total, \$51,507 was paid by the Distributor to Wood Logan for providing promotional and shareholder services. Of this latter amount, approximately 81% was spent for sales literature and printing prospectuses for other than current shareholders, 6% represented allocated overhead expenses of Wood Logan and 13% represented allocated compensation of personnel of Wood Logan. The balance of the fees were, in accordance with the Class A Plan, retained by the Distributor and used to fund shareholder servicing, promotional activities and expenses. In addition, \$468,970 of the total distribution fees for Class A were paid to securities dealers, comprised of:

\$ 2,397 from the Small/Mid Cap Fund,  
\$ 1,454 from the International Small Cap Fund,  
\$ 2,106 from the Growth Equity Fund,  
\$ 42,588 from the Global Equity Fund,  
\$ 48,274 from the Equity-Income Fund,  
\$ 35,897 from the Growth and Income Fund,  
\$ 31,240 from the Strategic Income Fund,  
\$ 26,197 from the Balanced Fund,  
\$ 27,218 from the Investment Quality Bond Fund  
\$230,796 from the U.S. Government Securities Fund  
\$ 9,335 from the International Growth and Income Fund and  
\$ 11,468 from the National Municipal Bond Fund.

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For the period November 1, 1995 to October 31, 1996, the Fund paid distribution and service fees pursuant to the Class B Plan to the Distributor of \$1,665,286 comprised of:

\$ 26,559 from the Small/Mid Cap Fund\*,  
\$ 17,637 from the International Small Cap Fund\*,  
\$ 15,448 from the Growth Equity Fund\*,  
\$264,579 from the Global Equity Fund,  
\$243,764 from the Equity-Income Fund,  
\$280,833 from the Growth and Income Fund,  
\$263,337 from the Strategic Income Fund,  
\$132,045 from the Balanced Fund,  
\$ 44,719 from the Investment Quality Bond Fund,  
\$186,538 from the U.S. Government Securities Fund,  
\$128,705 from the International Growth and Income Fund and  
\$ 61,122 from the National Municipal Bond Fund.

\*For the period March 4, 1996 to October 31, 1996.

Of the total, \$0 was paid by the Distributor to Wood Logan for providing promotional and shareholder services. Of this latter amount, approximately 81% was spent for sales literature and printing prospectuses for other than current shareholders, 6% represented allocated overhead expenses of Wood Logan and 13% represented allocated compensation of personnel of Wood Logan. The balance of the fees were, in accordance with the Class B Plan, retained by the Distributor and used to fund shareholder servicing, promotional activities and expenses. In addition, \$218,442 of the total distribution fees for Class B were paid to securities dealers, comprised of:

\$ 472 from the Small/Mid Cap Fund,  
\$ 636 from the International Small Cap Fund,  
\$ 359 from the Growth Equity Fund,

\$45,225 from the Global Equity Fund,  
 \$36,251 from the Equity-Income Fund,  
 \$34,620 from the Growth and Income Fund,  
 \$39,902 from the Strategic Income Fund,  
 \$18,975 from the Balanced Fund,  
 \$ 5,364 from the Investment Quality Bond Fund,  
 \$17,231 from the U.S. Government Securities Fund,  
 \$13,165 from the International Growth and Income Fund and  
 \$ 6,242 from the National Municipal Bond Fund.

For the period November 1, 1995 to October 31, 1996, the Fund paid distribution and service fees pursuant to the Class C Plan to the Distributor of \$3,776,973, comprised of:

\$ 27,814 from the Small/Mid Cap Fund\*,  
 \$ 18,264 from the International Small Cap Fund\*,  
 \$ 17,304 from the Growth Equity Fund\*,  
 \$788,845 from the Global Equity Fund,  
 \$847,265 from the Equity-Income Fund,  
 \$694,154 from the Growth and Income Fund,  
 \$179,767 from the Strategic Income Fund,  
 \$787,578 from the Balanced Fund,  
 \$ 70,532 from the Investment Quality Bond Fund,  
 \$201,380 from the U.S. Government Securities Fund,  
 \$ 80,388 from the International Growth and Income Fund and  
 \$ 63,682 from the National Municipal Bond Fund.

\*For the period March 4, 1996 to October 31, 1996.

Of the total, \$404,803 was paid by the Distributor to Wood Logan for providing promotional and shareholder services. Of this latter amount, approximately 81% was spent for sales literature and printing prospectuses for other than current shareholders, 6% represented allocated overhead expenses of Wood Logan and 13% represented allocated compensation of personnel of Wood Logan. The balance of the fees were, in accordance with the Class C Plan, retained by the Distributor and used to fund shareholder servicing, promotional activities and expenses. In addition, \$2,835,633 of the total distribution fees for Class C were paid to securities dealers, comprised of:

\$ 6,181 from the Small/Mid Cap Fund,  
 \$ 4,714 from the International Small Cap Fund,  
 \$ 5,871 from the Growth Equity Fund,  
 \$634,944 from the Global Equity Fund,  
 \$682,211 from the Equity-Income Fund,  
 \$521,558 from the Growth and Income Fund,  
 \$112,120 from the Strategic Income Fund,  
 \$655,538 from the Balanced Fund,  
 \$ 37,808 from the Investment Quality Bond Fund,  
 \$108,515 from the U.S. Government Securities Fund,  
 \$ 37,814 from the International Growth and Income Fund and  
 \$ 28,359 from the National Municipal Bond Fund.

Underwriters

For the periods November 1, 1993 to October 31, 1994, November 1, 1994 to October 31, 1995 and November 1, 1995 to October 31, 1996, the Distributor received underwriting commissions of \$1,344,806, \$960,690 and \$1,046,375 respectively. The amounts were comprised as reflected below, with respect to shares of the following Portfolios:

<TABLE>  
 <CAPTION>

Portfolio	11/1/93 to 10/31/94	11/1/94 to 10/31/95	11/1/95 to 10/31/96
<S>	<C>	<C>	<C>
Small/Mid Cap	NA	NA	* \$ 77,609
International Small Cap	NA	NA	* \$ 47,504
Growth Equity	NA	NA	* \$ 51,483
Global Equity	\$413,960	\$172,487	\$ 93,621
Equity-Income	\$213,835	\$138,334	\$137,617
Growth and Income	\$102,711	\$123,745	\$141,037
International Growth and Income	N/A	**\$100,890	\$ 64,345

Strategic Income	***\$206,721	\$65,693	\$114,585
Investment Quality Bond	\$33,392	\$19,367	\$ 23,097
U.S. Government	\$155,785	\$223,721	\$218,181
National Municipal Bond	\$20,201	\$31,612	\$ 32,640
Balanced	\$198,201	\$84,841	\$ 44,656

\*For the period March 4, 1996 (commencement of operations) to October 31, 1996.

\*\*For the period January 9, 1995 (commencement of operations) to October 31, 1995.

\*\*\*For the period November 30, 1993 (commencement of operations) to October 31, 1994.

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Of the total underwriting commissions received during the three fiscal year periods, none was retained by the Distributor. The balance of such commissions was paid to securities dealers and the promotional agent. During such periods the Distributor did not receive directly or indirectly from the Fund any compensation on the redemption or repurchase of Fund shares, brokerage commissions or other underwriting compensation.

#### PORTFOLIO BROKERAGE

Pursuant to the Subadvisory Agreements, the Subadvisers are responsible for placing all orders for the purchase and sale of portfolio securities of the Fund, the portfolio transactions for which are the responsibility of the Adviser. The Subadvisers have no formula for the distribution of the Fund's brokerage business, their intention being to place orders for the purchase and sale of securities with the primary objective of obtaining the most favorable overall results for the Fund. The cost of securities transactions for each Portfolio will consist primarily of brokerage commissions or dealer or underwriter spreads. Bonds and money market instruments are generally traded on a net basis and do not normally involve either brokerage commissions or transfer taxes.

Occasionally, securities may be purchased directly from the issuer. For securities traded primarily in the over-the-counter market, the Subadvisers will, where possible, deal directly with dealers who make a market in the securities unless better prices and execution are available elsewhere. Such dealers usually act as principals for their own account.

The Subadvisers consider various factors in selecting brokers through which orders for client accounts are executed. The Subadvisers' primary consideration is the broker's ability to provide the best execution of the trade (including both trade price and commission). Assuming equal execution capabilities, the Subadvisers also take other factors into account.

In determining which brokers provide best execution, the Subadvisers look primarily to the stock price quoted by the broker, and normally place orders with the broker through which they can obtain the most favorable price. If the same price is available from more than one broker, a Subadviser's judgment as to the following factors may influence the selection of a broker for a particular trade: the execution, clearance and settlement capabilities of the brokers under consideration; the nature of the security being traded; the size of the transaction; the desired timing of the trade; the activity existing and expected in the market for the particular security; confidentiality; the financial stability of the brokers under consideration; actual or apparent operational problems of any broker under consideration; and the negotiated commission rates available at the time of the trade. The Subadvisers may also consider the willingness of particular brokers to sell shares of the Fund and difficulty of execution.

The Subadvisers also consider the nature and extent of research services provided when they select brokers. Assuming equal execution capabilities as described above, the Subadvisers may direct commission business to brokers who provide research services. Such services include, but are not limited to: analyses and reports concerning economic factors and trends, industries, specific securities, portfolio strategy, and valuation and performance of accounts; advice regarding critical factors supporting research recommendations and special reports or information based on the specific requests of a Subadviser's portfolio manager/analysts. The Subadvisers may also from time to time obtain research services prepared by third parties and provided by brokers in exchange for a predetermined amount of commission business. These services include portfolio monitoring, analysis and performance measurement systems,

various economic forecasting and research services covering stocks and bonds, research and trading conferences, and a source of information as to block trading opportunities. Some third party arrangements are cancelable at any time while others require notice. Such third party arrangements do not involve a substantial amount of the Subadvisers' commission business on behalf of clients.

In accordance with industry practice, commission rates are normally determined through negotiations with brokers conducted by the Subadvisers' traders. These negotiations take into account industry norms for particular transactions, the size and type of trades, the size and expertise of the brokerage firm involved and the nature of brokerage and research services provided, including special services in connection with a particular trade. (Such special services could include, among other things, the assumption of market risk in connection with a trade or series of trades or the facilitation of trades in a thin or volatile market.) Commission rates paid by the Subadvisers in those cases may be higher than those charged by brokers for execution of similar trades without the provision of research and/or special services.

No precise monetary value can be assigned to research and special execution services furnished to the Subadvisers by brokers. The Subadvisers will review all research services and will determine if the amounts of commissions directed to brokers are reasonable in relation to the value of the brokerage and research services provided, viewed in terms of both particular transactions

and the Subadvisers' overall responsibilities with respect to the accounts over which they exercise investment discretion. Each Subadviser will maintain an internal allocation procedure to identify those brokers who provide them with research services and the amount of research services they provide, and will endeavor to direct sufficient commissions to them to ensure the continued receipt of such services as the Subadviser believes to be valuable.

Research services furnished by brokers will generally be used in servicing all of the Portfolios of the Fund advised by a Subadviser, although not all of such services may be used in connection with any particular Portfolio that paid commissions to the brokers providing such services.

The Subadvisers' practices in selecting brokers will be reviewed periodically by the Trustees of the Fund.

The Subadvisers and/or their affiliates currently manage portfolios and accounts other than those of the Fund. Although investment recommendations or determinations for the Fund's Portfolios will be made by the Subadvisers independently from the investment recommendations and determinations made by them for any other portfolio or account or by the Subadvisers' affiliates for the portfolios or accounts they manage, investments deemed appropriate for the Fund's Portfolios by the Subadvisers may also be deemed appropriate by them or affiliated advisers for other portfolios or accounts, so that the same security may be purchased or sold at or about the same time for both the Fund's Portfolios and such other portfolios or accounts. In such circumstances, the Subadvisers may determine that orders for the purchase or sale of the same security for the Fund's Portfolios and one or more other portfolios or accounts should be combined, in which event the transactions will be priced and allocated in a manner deemed by the Subadvisers to be equitable and in the best interests of the Fund's Portfolios and such other portfolios or accounts. While in some instances combined orders could adversely affect the price or volume of a security, the Subadvisers and the Fund believe that its participation in such transactions on balance will produce better overall results for the Fund.

For the periods November 1, 1993 to October 31, 1994, November 1, 1994 to October 31, 1995 and November 1, 1995 to October 31, 1996, the Fund paid brokerage commissions in connection with portfolio transactions of \$777,036, \$1,039,631 and \$1,768,058, respectively. The amounts represented by each of the Portfolios are as follows:

<TABLE>  
<CAPTION>

Portfolio	11/1/93 to 10/31/94	11/1/94 to 10/31/95	11/1/95 to 10/31/96
Small/Mid Cap	N/A	N/A	*****\$24,367
International Small Cap	N/A	N/A	*****\$47,513
Growth Equity	N/A	N/A	*****\$65,354
Global Equity*	\$462,441	\$509,668	\$542,895
Equity-Income**	\$140,638	\$211,194	\$605,408
Growth and Income	\$70,381	\$97,836	\$141,134

International Growth and Income	N/A	***\$12,558	\$173,403
Balanced****	\$103,576	\$208,375	\$167,984

\*Formerly known as the Global Growth Fund.

\*\*Formerly known as the Value Equity Fund and prior thereto the Growth Fund

\*\*\*For the period January 9, 1995 (commencement of operations) to October 31, 1995.

\*\*\*\*Formerly known as the Asset Allocation Fund.

\*\*\*\*\*For the period March 4, 1996 (commencement of operations) to October 31, 1996.

Salomon Brothers Inc. ("Salomon"), Dresdner Bank, J.P. Morgan Securities Inc and J.P. Morgan Securities Ltd. (J.P. Morgan") and Morgan Stanley & Co. Incorporated are affiliated brokers of the Fund due to the positions of Salomon, Oechsle International, J.P. Morgan and Morgan Stanley, respectively, as Subadvisers to Fund portfolios. Prior to October 1, 1996, Goldman Sachs & Co. ("Goldman") was an affiliated brokers of the Fund due to the position of Goldman as Subadviser to the Equity-Income Fund.

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From November 1, 1993 to October 31, 1994, brokerage commissions were paid to Goldman, Sachs & Co. as follows:

Portfolio	11/1/93 to 10/31/94	% of Portfolio's Brokerage Commissions Represented for the period	% of aggregate \$ amount of transactions for the period
Equity-Income	\$10,169	7%	1%
Growth and Income	\$2,502	4%	1%
Balanced	\$9,284	9%	0.12%
Investment Quality	\$0	0%	0.48%
National Municipal Bond	\$0	0%	37%
Money Market	\$0	0%	4%

From November 1, 1994 to October 31, 1995, brokerage commission were paid to Goldman, Sachs & Co. as follows:

Portfolio	11/1/94 to 10/31/95	% of Portfolio's Brokerage Commissions Represented for the period	% of aggregate \$ amount of transactions for the period
Global Equity	\$4,137	0.81%	0.67%
Equity-Income	\$23,638	11.19%	0.27%
Balanced	\$16,464	7.90%	0.26%
International Growth and Income*	\$1,690	13.46%	1.97%
Growth and Income	\$4,086	4.18%	0.36%

\*For the period January 9, 1995 (commencement of operations) to October 31, 1995

From November 1, 1995 to October 31, 1996, brokerage commissions were paid to Goldman, Sachs & Co. as follows:

Portfolio	11/1/95 to	% of Portfolio's	% of aggregate \$
-----------	------------	------------------	-------------------

10/31/96 Brokerage Commissions amount of transactions  
 Represented for the for the period  
 period

<S>	<C>	<C>	<C>	<C>
International Small Cap	\$9,019		18.98%	0.77%
Growth Equity	\$1,259		1.93%	0.74%
Global Equity	\$49,434		9.11%	1.87%
Equity-Income	\$32,267		5.33%	2.15%
Growth and Income	\$5,892		4.17%	1.03%
International Growth and Income	\$1,744		1.01%	1.79%
Balanced	\$9,195		5.47%	0.28%

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From November 1, 1993 to October 31, 1994, brokerage commissions were paid to Salomon Brothers Inc as follows:

<TABLE>  
 <CAPTION>

Portfolio	11/1/93 to 10/31/94	% of Portfolio's Brokerage Commissions Represented for the period	% of aggregate \$ amount of transactions for the period
<S>	<C>	<C>	<C>
Global Equity	\$2,277	0%	1%
Equity-Income	\$7,181	5%	0.13%
Growth & Income	\$7,908	11%	1%
Balanced	\$7,396	7%	4%
Investment Quality Bond	\$0	0%	1%
U.S. Government	\$0	0%	0.25%
Money Market	\$0	0%	1%

</TABLE>

From November 1, 1994 to October 31, 1995, brokerage commissions were paid to Salomon Brothers Inc as follows:

<TABLE>  
 <CAPTION>

Portfolio	11/1/94 to 10/31/95	% of Portfolio's Brokerage Commissions Represented for the period	% of aggregate \$ amount of transactions for the period
<S>	<C>	<C>	<C>
Global Equity	\$6,414	1.26%	0.86%
Equity-Income	\$8,760	4.15%	0.16%
Growth and Income	\$10,402	10.63%	0.71%
Balanced	\$8,117	3.90%	2.71%

</TABLE>

From November 1, 1995 to October 31, 1996, brokerage commissions were paid to Salomon Brothers Inc. as follows:

<TABLE>  
 <CAPTION>

Portfolio	11/1/95 to 10/31/96	% of Portfolio's Brokerage Commissions Represented for the period	% of aggregate \$ amount of transactions for the period
<S>	<C>	<C>	<C>
International Small Cap	\$1,747	3.68%	0.13%

Growth Equity	\$978	1.50%	0.32%
Global Equity	\$1,996	0.37%	0.11%
Equity-Income	\$17,942	2.96%	0.41%
Growth & Income	\$8,968	6.35%	1.20%
International Growth & Income	\$846	0.49%	0.42%
Balanced	\$7,604	4.53%	2.00%

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From January 1, 1995 to October 31, 1995, brokerage commissions were paid to J.P.Morgan Securities as follows:

<TABLE>  
<CAPTION>

Portfolio	1/9/95 to 10/31/95	% of Portfolio's Brokerage Commissions Represented for the period	% of aggregate \$ amount of transactions for the period
<S>	<C>	<C>	<C>
Global Equity	\$3,265	0.64%	0.48%
Equity-Income	\$13,056	6.18%	0.21%
Growth & Income	\$300	0.31%	0.03%
Balanced	\$13,735	6.59%	0.88%

From November 1, 1995 to October 31, 1996, brokerage commissions were paid to J.P. Morgan Securities as follows:

<TABLE>  
<CAPTION>

Portfolio	11/1/95 to 10/31/96	% of Portfolio's Brokerage Commissions Represented or the period	% of aggregate \$ amount of transactions for the period
<S>	<C>	<C>	<C>
Global Equity	\$3,108	0.57%	0.11%
Equity-Income	\$26,767	4.42%	0.89%
Growth & Income	\$3,804	2.70%	0.52%
Balanced	\$4,691	2.79%	0.20%

From November 1, 1995 to October 31, 1996, brokerage commissions were paid to Morgan Stanley as follows:

<TABLE>  
<CAPTION>

Portfolio	11/1/95 to 10/31/96	% of Portfolio's Brokerage Commissions Represented or the period	% of aggregate \$ amount of transactions for the period
<S>	<C>	<C>	<C>
International Small Cap	\$1,689	3.55%	0.21%
Global Equity	\$91,029	16.77%	21.92%
Equity-Income	\$27,173	4.49%	1.02%
Growth & Income	\$34,889	3.46%	0.87%
Int. Growth & Income	\$1,514	0.87%	1.06%
Balanced	\$5,712	3.40%	2.17%
Growth Equity	\$625	0.96%	0.41%
Small/Mid Cap	\$0	0.00%	1.00%

From November 1, 1994 to October 31, 1996, there were no brokerage commissions paid to Dresdner Bank.

#### DETERMINATION OF NET ASSET VALUE

The following supplements the discussion under the caption "GENERAL INFORMATION -- Net Asset Value" set forth in the Prospectus. The assets belonging to each class of shares of a Portfolio will, in each case, be invested together in a single portfolio. The net asset value of each class will be determined separately by subtracting the expenses and liabilities allocated to that class from the assets belonging to that class.

The following provides further information concerning the Fund's use of the amortized cost method of valuation for certain types of securities.

All instruments held by the Money Market Fund and money market instruments with a remaining maturity of 60 days or less held by the other Portfolios will be valued on an amortized cost basis. Under this method of valuation, the instrument is initially valued at cost (or in the case of instruments initially valued at market value, at the market value on the day before its remaining maturity is such that it qualifies for amortized cost valuation); thereafter, the Fund assumes a constant proportionate amortization in value until maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of the instrument. While this method provides certainty in valuation, it may result in periods during which value, as determined by amortized cost, is higher or lower than the price that would be received upon sale of the instrument.

The Money Market Fund uses the amortized cost valuation method in reliance upon Rule 2a-7 under the 1940 Act. As required by Rule 2a-7, the Money Market Fund will maintain a dollar weighted average maturity of 90 days or less. In addition, the Money Market Fund is permitted to purchase only securities that the Trustees determine to present minimal credit risks and which are at the time of purchase "eligible securities," as defined by Rule 2a-7. Generally, eligible securities must be rated by a nationally

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recognized statistical rating organization in one of the two highest rating categories for short-term debt obligations or be of comparable quality. The Money Market Fund will invest only in obligations that have remaining maturities of 397 days or less.

The Trustees have established procedures designed to stabilize, to the extent reasonably possible, the Money Market Fund's price per share (for each class) as computed for the purposes of sales and redemptions at \$1.00. Such procedures include a directive to the Adviser to establish procedures which will allow for the monitoring of the propriety of the continued use of amortized cost valuation to maintain a constant net asset value of \$1.00 per share. Such procedures also include a directive to the Adviser that requires that on determining net asset value per share based upon available market quotations, the Money Market Fund shall value weekly (a) all portfolio instruments for which market quotations are readily available at market, and (b) all portfolio instruments for which market quotations are not readily available or are not obtainable from a pricing service, at their fair value as determined in good faith by the Trustees, although the actual calculations may be made by persons acting pursuant to the direction of the Trustees. If the fair value of a security needs to be determined, the Subadviser will provide determinations, in accordance with procedures and methods established by the Trustees of the Fund, of the fair value of securities held by the Portfolios for which market quotations are not readily available for purposes of enabling the Portfolio's Custodian to calculate net asset value. The Adviser, with the Subadviser's assistance, periodically (but no less frequently than annually) shall prepare a written report to the Trustees verifying the accuracy of the pricing system or estimate. A non-negotiable security which is not treated as an illiquid security because it may be redeemed with the issuer, subject to a penalty for early redemption, shall be assigned a value that takes into account the reduced amount that would be received if it were currently liquidated. In the event that the deviation from the amortized cost exceeds .50 of 1% or more or a difference of \$.005 per share in net asset value, the Adviser shall promptly call a special meeting of the Trustees to determine what, if any, action should be initiated. Where the Trustees believe the extent of any deviation from the Fund's amortized cost price per share may result in material dilution or other unfair results to investors or existing shareholders, it shall take such action as it deems appropriate to eliminate or reduce to the extent reasonably practical such dilution or unfair results. The actions that may be taken by the Board include, but are not limited to: (a) redeeming shares in kind; (b) selling portfolio instruments prior to maturity to realize capital gains or losses or to shorten the average portfolio maturity of the Portfolio; (c) withholding or reducing dividends; (d) utilizing a net asset value per share based on available market quotations; and (e) investing all cash in instruments with a maturity on the next business day.

PERFORMANCE INFORMATION

As indicated in the Prospectus, the Fund may advertise its yield and/or total return performance for all classes of shares of one or more of the Portfolios, calculated in accordance with the rules of the Commission. Such performance information may include time periods prior to the implementation of the Multiple Pricing System on April 1, 1994, and will be calculated as described below. For purposes of quoting and comparing the performance of the classes of the Portfolios to that of other mutual funds and to stock or other relevant indices in advertisements or in reports to shareholders, performance will be stated in terms of total return and yield. Both "total return" and "yield" figures are based on historical performance, show the performance of a hypothetical investment and are not intended to indicate future performance.

Under the rules of the Commission, funds advertising performance must include total return quotes, "T" below, calculated according to the following formula:

$$P(1 + T)/n/ = ERV$$

Where: P = a hypothetical initial payment of \$1,000

T = average annual total return

n = number of years (1, 5 or 10)

ERV = ending redeemable value of a hypothetical \$1,000 payment made at the beginning of the "n" year period (or fractional portion thereof) at the end of such period.

The average annual total return will be calculated under the foregoing formula and the time periods used in advertising will be based on rolling calendar quarters, updated to the last day of the most recent quarter prior to submission of the advertising for publication, and will cover one, five, and ten year periods (if available) plus the time period since the effective date of the Fund's registration statement. When the period since inception for a Portfolio is less than one year, the total return quoted will be the aggregate return for the period. In calculating the ending redeemable value, for Class A shares, the current maximum front end

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sales charge of 4.75% (as a percentage of the offering price) is deducted from the initial \$1,000 payment, and for Class B shares, the applicable CDSC imposed on a redemption of shares held for the period is deducted. The schedule of CDSCs due upon redemption is described under "PURCHASE OF SHARES -- Class B Shares" in the Prospectus. The formula also assumes that all dividends and distributions have been reinvested at net asset value as described in the Prospectus on the reinvestment dates during the period. Total return, or "T" in the formula above, is computed by finding the average annual compounded rates of return over the 1, 5 and 10 year periods (or fractional portions thereof) that would equate the initial amount invested to the ending redeemable value. Any sales charges that might in the future be made applicable to reinvestments would be included as would any recurring account charges that might be imposed by the Fund.

The Fund implemented the Multiple Pricing System by reclassifying the then existing shares of each Portfolio as shares of a particular class of each such Portfolio. This reclassification was effected in such a manner so that the shares of each Portfolio outstanding at April 1, 1994 would be subject to identical distribution and service fees both before and after the reclassification. Specifically, all outstanding shares of the Strategic Income, Investment Quality Bond, U.S. Government Securities, National Municipal Bond and Money Market Funds were reclassified as Class A shares of each such Portfolio, and all outstanding shares of the Global Equity, Equity-Income, Growth and Income and Balanced Funds were reclassified as Class C shares of each such Portfolio.

The figures shown in the table below are, for all classes, restated to reflect front end sales charges and CDSCs currently payable by each class of shares under the Multiple Pricing System (as described above), and (for all of the tables presented below) are based on the distribution and service fees and other expenses actually paid by each Portfolio for the periods presented, rather than the distribution and service fees and other expenses currently payable by each class of shares under the Multiple Pricing System, which in certain cases are different. Until April 1, 1994, each Portfolio paid distribution and service fees under the Prior Plan. Under the Prior Plan, (i) the Global Equity, Equity-Income, Growth and Income and Balanced Funds paid the Distributor a distribution fee at an annual rate of up to .75% of average daily net assets and a service fee of up to .25% of average daily net assets; (ii) the Strategic Income, Investment Quality Bond and U.S. Government Securities Funds paid the Distributor a distribution fee at an annual rate of up to .10% of average daily net assets and a service fee of up to .25% of average daily net assets; (iii) the National Municipal Bond Fund paid the Distributor no distribution fee

and a service fee at an annual rate of up to .15% of average daily net assets; and (iv) the Money Market Fund did not pay any fees. The distribution and service fees currently payable by each class of shares under the Multiple Pricing System are described in "DISTRIBUTION PLANS" in this Statement of Additional Information.

The following tables set forth the average annual total returns for each class of shares of each Portfolio for certain periods of time ending October 31, 1996, restated to reflect the effects of the maximum front end sales charges and any applicable CDSCs payable by an investor under the Multiple Pricing System:

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Class A shares

<TABLE>

<CAPTION>

Through 10/31/96	One Year	Five Years	Since Inception	Inception Date
<S>	<C>	<C>	<C>	<C>
Small/Mid Cap	NA	NA	-3.84%	(03-04-96) *
International Small Cap	NA	NA	2.34%	(03-04-96) *
Growth Equity	NA	NA	5.00%	(03-04-96) *
Global Equity	1.28%	6.48%	6.89%	(11-07-90)
Equity-Income	13.57%	12.57%	7.57%	(08-28-89)
Growth & Income	16.06%	12.18%	12.18%	(05-01-91)
International Growth and Income	8.82%	NA	5.60%	(01-09-95)
Strategic Income	11.77%	NA	6.23%	(11-01-93)
Balanced	7.73%	10.19%	7.53%	(08-28-89)
Investment Quality Bond	-0.45%	6.04%	6.82%	(05-01-91)
U.S. Government Securities	-0.33%	5.53%	6.81%	(08-28-89)
National Municipal Bond	1.26%	NA	3.01%	(07-06-93)

</TABLE>

\*Aggregate total return from March 4, 1996 (commencement of operations) to October 31, 1996.

Class B shares

<TABLE>

<CAPTION>

Through 10/31/96	One Year	Five Years	Since Inception	Inception Date
<S>	<C>	<C>	<C>	<C>
Small/Mid Cap	NA	NA	-4.36%	(03-04-96) *
International Small Cap	NA	NA	1.96%	(03-04-96) *
Growth Equity	NA	NA	4.84%	(03-04-96) *
Global Equity	0.64%	6.90%	7.38%	(11-07-90)
Equity-Income	13.59%	13.17%	8.13%	(08-28-89)
Growth & Income	16.08%	12.76%	12.82%	(05-01-91)
International Growth and Income	8.58%	NA	5.45%	(01-09-95)
Strategic Income	11.59%	NA	6.19%	(11-01-93)
Balanced	7.35%	10.71%	8.07%	(08-28-89)
Investment Quality Bond	-1.08%	6.44%	7.34%	(05-01-91)
U.S. Government Securities	-1.03%	5.91%	7.30%	(08-28-89)
National Municipal Bond	0.41%	NA	3.04%	(07-06-93)

</TABLE>

\*Aggregate total return from March 4, 1996 (commencement of operations) to October 31, 1996.

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Class C shares

<TABLE>

<CAPTION>

Through 10/31/96	One Year	Five Years	Since Inception	Inception Date
<S>	<C>	<C>	<C>	<C>
Small/Mid Cap	NA	NA	-0.28%	(03-04-96) *
International Small Cap	NA	NA	5.96%	(03-04-96) *
Growth Equity	NA	NA	8.84%	(03-04-96) *
Global Equity	4.70%	7.22%	7.51%	(11-07-90)
Equity-Income	17.53%	13.40%	8.12%	(08-28-89)
Growth & Income	20.12%	12.96%	12.88%	(05-01-91)
International Growth and Income	12.63%	N/A	8.11%	(01-09-95)
Strategic Income	15.59%	N/A	7.36%	(11-01-93)
Balanced	11.41%	10.98%	8.07%	(08-28-89)
Investment Quality Bond	2.92%	6.75%	7.47%	(05-01-91)

U.S. Government Securities	2.97%	6.23%	7.30%	(08-28-89)
National Municipal Bond	4.41%	NA	3.88%	(07-06-93)

</TABLE>

\*Aggregate total return from March 4, 1996 (commencement of operations) to October 31, 1996.

As described in the Prospectus under the caption "FEE TABLE AND EXAMPLE," the Portfolios have been and still are subject to certain fee reimbursements. Absent such reimbursement, the returns shown above would be lower.

The performance data quoted represents past performance; investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. On July 10, 1992, the former Aggressive, Moderate and Conservative Asset Allocation Trusts were reorganized into the Balanced Fund. The Balanced Fund's investment objectives, policies and restrictions are identical to the old Moderate Asset Allocation Trust. The performance figures shown above for the Balanced Fund therefore are based on the past performance of the former Moderate Asset Allocation Trust for the period prior to July 10, 1992.

A Portfolio's yield is a way of showing the rate of income the Portfolio earns on its investments as a percentage of the Portfolio's share price. Under the rules of the Commission, yield must be calculated according to the following formula:

$$\text{YIELD} = \frac{a-b}{c} \times \frac{360}{d} \times 100$$

Where:

- a = dividends and interest earned during the period.
- b = expenses accrued for the period (net of reimbursement).
- c = the average daily number of shares outstanding during the period that were entitled to receive dividends.
- d = the maximum offering price per share on the last day of the period.

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Yields for the classes of the Portfolios of the Fund used in advertising are computed by dividing the class of the Portfolio's interest and dividend income for a given 30 day period, net of expenses, by the average number of shares entitled to receive distributions during the period, dividing this figure by the offering price (including the applicable front end sales charge or CDSC) at the end of the period and annualizing the result (assuming compounding of income) in order to arrive at an annual percentage rate. Income is calculated for purposes of yield quotations in accordance with standardized methods applicable to all stock and bond mutual funds. Dividends from equity investments are treated as if they were accrued on a daily basis, solely for the purposes of yield calculations. In general, interest income is reduced with respect to bonds trading at a premium over their par value by subtracting a portion of the premium from income on a daily basis, and is increased with respect to bonds trading at a discount by adding a portion of the discount to daily income. Capital gains and losses generally are excluded from the calculation. Income calculated for the purposes of calculating the Portfolio's yield differs from income as determined for other accounting purposes. Because of the different accounting methods used, and because of the compounding assumed in yield calculations, the yield quoted for a class of a Portfolio may differ from the rate of distributions paid over the same period or the rate of income reported in the Fund's financial statements. The yields for Classes A, B and C of the Investment Quality Bond Fund for the thirty day period ended October 31, 1996 were 5.73%, 5.37% and 5.37%, respectively. The yields for Classes A, B and C of the U.S. Government Securities Fund for the thirty day period ended October 31, 1996 were 4.76%, 4.35% and 4.35%, respectively. The yields for Classes A, B and C of the Strategic Income Fund for the thirty day period ended October 31, 1996 were 7.14%, 6.84% and 6.84%, respectively.

Yield quotations for the Investment Quality Bond and U.S. Government Securities and Strategic Income Funds will reflect the fact that such Portfolios will have paid no advisory fees during certain periods of their operations. Therefore, the yield for those Portfolios encompassing the periods during which no advisory fees were paid will be higher than the yields the Portfolios would have realized had the suspension of advisory fees not been in effect.

The yields for Classes A, B and C of the National Municipal Bond Fund for the thirty day period ended October 31, 1996 were 4.59%, 3.98% and 3.98%, respectively. With respect to the National Municipal Bond Fund, tax-equivalent yields are computed by dividing that portion of yield that is tax-exempt by one, minus a stated income tax rate and adding the quotient to that portion, if any,

of the yield that is not tax-exempt.

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Yields for the Money Market Fund will be computed on the basis of seven-day periods, and such quotations will be in lieu of total return quotations for the one, five and ten year periods described above. Yields will be computed by dividing the net change, exclusive of capital changes, in the value of a hypothetical account having a balance of one share at the beginning of the seven-day period by the value of the account at the beginning of the period and multiplying the return so determined ("base period return") by 365/7. Effective yields will be computed by compounding the base period return in accordance with the following formula:

$$\text{Effective yield} = [(\text{Base period return} + 1)^{365/7}] - 1$$

For the seven-day period ended October 31, 1996, yields for Classes A, B and C of the Money Market Fund were 4.94%, 4.94% and 4.94%, respectively. For the seven-day period ended October 31, 1996, the effective yields for Classes A, B and C of the Money Market Fund were 4.94%, 4.94% and 4.94%, respectively.

Yield and total return are calculated separately for each class of shares of a Portfolio. As discussed above, these calculations adjust for the different front end sales charges and CDSCs currently payable with respect to each class, and are based on distribution and service fees and other expenses actually paid by each Portfolio for the periods presented.

The Fund may also from time to time include in such advertising a total aggregate return figure or an average annual total return figure that is not calculated according to the formula set forth above in order to compare performance more accurately with other measures of investment return. Each class of a Portfolio may quote an aggregate total return figure in comparing total return with data published by Lipper Analytical Services, Inc. or with the performance of various indices including, but not limited to, the Dow Jones Industrial Average, the Standard & Poor's 500 Stock Index, the Value Line Composite Index, the Lehman Brothers Bond, Government Corporate, Corporate and Aggregate Indices, Merrill Lynch Government & Agency Index, Merrill Lynch Intermediate Agency Index, Morgan Stanley Capital International Europe, Australia, Far East Index or the Morgan Stanley Capital International World Index. For such purposes, aggregate total return is calculated for the specified periods of time by assuming the investment of \$1,000 in shares of a class of a Portfolio and assuming the reinvestment of each dividend or other distribution at net asset value on the reinvestment date. Percentage increases are determined by subtracting the initial value of the investment from the ending value and by dividing the remainder by the beginning value. The Fund does not, for these purposes, deduct from the initial value invested any amount representing front end sales charges or CDSCs applicable to a class. To calculate its average annual total

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return, the aggregate return is then annualized according to the Commission's formula for total return quotes, outlined above. When the period since inception is less than one year, the total return quoted will be the aggregate return for the period. The Fund will, however, disclose the maximum front end sales charge or CDSC applicable to each class and will also disclose that the performance data does not reflect sales charges and that the inclusion of sales charges would reduce the performance quoted. Such alternative total return information will be given no greater prominence in such advertising than the information prescribed under Commission rules and all advertisements containing performance data will include a legend disclosing that such performance data represent past performance and that the investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The Fund may also advertise the performance rankings assigned certain Portfolios (or classes thereof) or their investment subadvisers by various publications and statistical services, including but not limited to SEI, Lipper Analytical Services, Inc.'s Mutual Fund Performance Analysis, Intersec Research Survey of Non-U.S. Equity Fund Returns, Frank Russell International Universe, and any other data which may be presented from time to time by such analysis as Dow Jones, Morningstar, Chase Investment Performance, Wilson Associates, Stanger, CDA Investment Technology, the Consumer Price Index ("CPI"), The Bank Rate Monitor National Index, IBC/Donaghue's Average/U.S. Government and Agency, or as they appear in various publications including but not limited to The Wall Street Journal, Forbes, Barrons, Fortune, Money Magazine, The New York Times, Financial World and Financial Services Week.

Calculated in the manner set forth immediately above, the average annual total returns for each class of each Portfolio for the one and five year periods ended October 31, 1996 and since inception to October 31, 1996 are as follows:

Class A shares

<TABLE>  
<CAPTION>

Through 10/31/96 <S>	One Year <C>	Five Years <C>	Since Inception <C>	Inception Date <C>
Small/Mid Cap	NA	NA	0.96%	(03-04-96) *
International Small Cap	NA	NA	7.44%	(03-04-96) *
Growth Equity	NA	NA	10.24%	(03-04-96) *
Global Equity	6.33%	7.52%	7.76%	(11-07-90)
Equity-Income	19.23%	13.67%	8.31%	(08-28-89)
Growth & Income	21.84%	13.28%	13.17%	(05-01-91)
International Growth and Income	14.25%	NA	8.49%	(01-09-95)
Strategic Income	17.35%	NA	7.97%	(11-01-93)
Balanced	13.10%	11.27%	8.27%	(08-28-89)
Investment Quality Bond	4.52%	7.08%	7.77%	(05-01-91)
U.S. Government Securities	4.64%	6.56%	7.54%	(08-28-89)
National Municipal Bond	6.31%	NA	4.54%	(07-06-93)

</TABLE>

\*Aggregate total return from March 4, 1996 (commencement of operations) to October 31, 1996.

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Class B shares

<TABLE>

<CAPTION>

Through 10/31/96 <S>	One Year <C>	Five Years <C>	Since Inception <C>	Inception Date <C>
Small/Mid Cap	NA	NA	0.64%	(03-04-96) *
International Small Cap	NA	NA	6.96%	(03-04-96) *
Growth Equity	NA	NA	9.84%	(03-04-96) *
Global Equity	5.64%	7.21%	7.50%	(11-07-90)
Equity-Income	18.59%	13.41%	8.13%	(08-28-89)
Growth & Income	21.08%	13.01%	12.93%	(05-01-91)
International Growth and Income	13.58%	NA	8.08%	(01-09-95)
Strategic Income	16.59%	NA	7.37%	(11-01-93)
Balanced	12.35%	10.98%	8.07%	(08-28-89)
Investment Quality Bond	3.92%	6.75%	7.47%	(05-01-91)
U.S. Government Securities	3.97%	6.23%	7.30%	(08-28-89)
National Municipal Bond	5.41%	NA	3.88%	(07-06-93)

</TABLE>

\*Aggregate total return from March 4, 1996 (commencement of operations) to October 31, 1996

Class C shares

<TABLE>

<CAPTION>

Through 10/31/96 <S>	One Year <C>	Five Years <C>	Since Inception <C>	Inception Date <C>
Small/Mid Cap	NA	NA	0.72%	(03-04-96) *
International Small Cap	NA	NA	6.96%	(03-04-96) *
Growth Equity	NA	NA	9.84%	(03-04-96) *
Global Equity	5.70%	7.22%	7.51%	(11-07-90)
Equity-Income	18.53%	13.40%	8.12%	(08-28-89)
Growth & Income	21.12%	12.96%	12.88%	(05-01-91)
International Growth and Income	13.63%	N/A	8.11%	(01-09-95)
Strategic Income	16.59%	N/A	7.36%	(11-01-93)
Balanced	12.41%	10.98%	8.07%	(08-28-89)
Investment Quality Bond	3.92%	6.75%	7.47%	(05-01-91)
U.S. Government Securities	3.97%	6.23%	7.30%	(08-28-89)
National Municipal Bond	5.41%	NA	3.88%	(07-06-93)

</TABLE>

\*Aggregate total return from March 4, 1996 (commencement of operations) to October 31, 1996.

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As described in the Prospectus under the caption "FEE TABLE AND EXAMPLE," the Portfolios have been and still are subject to certain fee reimbursements. Absent such reimbursement, the returns shown above would be lower .

The Fund may also from time to time include in advertising and sales literature the following: 1) information regarding its portfolio subadvisers, such as information regarding a subadviser's specific investment expertise, client base, assets under management or other relevant information; 2) quotations about the Fund, its portfolios or its investment subadvisers that

appear in various publications and media; and 3) general discussions of economic theories, including but not limited to discussions of how demographics and political trends may effect future financial markets, as well as market or other relevant information. The Fund will include performance data for each class of shares of a Portfolio in any advertisement or information including performance data of such Portfolio.

#### TAXES

The following information supplements the disclosure contained in the Prospectus under the heading "Taxes." No attempt is made to present a detailed explanation of all federal, state, local and foreign tax concerns, and the discussion set forth here and in the Prospectus do not constitute tax advice. Investors are urged to consult their own tax advisers with specific questions relating to federal, state, local and foreign taxes.

Each Portfolio intends to qualify as a regulated investment company (a "RIC") under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code") and to continue to so qualify. Qualification as a RIC requires, among other things, that each Portfolio: (a) derive at least 90% of its gross income in each taxable year from dividends, interest, payments with respect to securities loans and gains from the sale or other disposition of stock, securities or foreign currencies, or other income (including gains from options, futures or forward contracts) derived with respect to its business of investing in such stocks or securities; (b) derive less than 30% of its gross income in each taxable year from the sale or other disposition of any of the following held for less than three months: (i) stock or securities, (ii) options, futures, or forward contracts, or (iii) foreign currencies (or foreign currency options, futures or forward contracts) that are not directly related to its principal business of investing in stock or securities (or options and futures with respect to stocks or securities) (the "30% limitation"); and (c) diversify its holdings so that, at the end of each quarter of each taxable year, (i) at least 50% of the market value of a Portfolio's assets is represented by cash, cash items, U.S. government securities, securities of other regulated investment companies and other securities with such other securities limited, in respect of any issuer, to an amount not greater than 5% of the value of a Portfolio's assets and 10% of the outstanding voting securities of such issuer, and (ii) not more than 25% of the value of its assets is invested in the securities (other than U.S. government securities or the securities of other regulated investment companies) of any one issuer.

As a RIC, a Portfolio will not be subject to federal income tax on its net investment income (i.e., its investment company taxable income, as that term is defined in the Code, determined without regard to the deduction for dividends Paid) and "net capital gains" (the excess of a Portfolio's net long-term capital gains over net short-term capital Losses), if any, that it distributes in each taxable year to its shareholders, provided that it distributes (i) 90% of its net investment income for such taxable year and (ii) in the case of the National Municipal Bond Fund at least 90% of its net tax-exempt income for such taxable year. Each Portfolio expects to designate amounts retained as undistributed net capital gains in a notice to its shareholders who (i) will be required to include in income for United States federal income tax purposes, as long-term capital gains, their proportionate shares of the undistributed amount, (ii) will be entitled to credit their proportionate shares of the 35% tax paid by a Portfolio on the undistributed amount against their federal income tax liabilities and to claim refunds to the extent such credits exceed their liabilities and (iii) will be entitled to increase their tax basis, for federal income tax purposes, in their shares by an amount equal to 65% of the amount of undistributed net capital gains included in the shareholder's income.

A Portfolio will be subject to a nondeductible 4% excise tax on the amount by which the aggregate income it distributes in any calendar year is less than the sum of: (a) 98% of a Portfolio's ordinary income for such calendar year; (b) 98% of its capital gain net income (the excess of capital gains over capital losses, both long- and short-term) for the one-year period ending on October 31 of each year; and (c) 100% of the undistributed ordinary income and gains from prior years. For this purpose, any income or gains retained by a Portfolio subject to corporate income tax will be considered to have been distributed by year-end. Each Portfolio expects to distribute substantially all of its net income and gain, and, assuming that it does so, it will not be subject to this excise tax.

Pay-in-kind Bonds, Zero Coupon Bonds and Discount Obligations. Certain Portfolios may make investments that produce income that is not matched by a corresponding cash distribution to the Portfolio, such as investments in pay-in-kind bonds or in discount obligations such as zero coupon securities, certain sovereign debt securities and stripped mortgage securities having original

issue discount or market discount (if a Portfolio elects to accrue the market discount on a current basis with respect to such instruments). Such income would be treated as income earned by the Portfolio and therefore would be subject to the distribution requirements of the Code. Because such income may not be

matched by a corresponding cash distribution to the Portfolio, the Portfolio may be required to borrow money or dispose of other securities to be able to make distributions to its investors. For example, pursuant to a provision of the Code governing the treatment of securities such as the stripped mortgage securities described in this Statement of Additional Information, a principal-only ("PO") class will be treated as having been issued with original issue discount and, consequently, will result in income to the Portfolio without a corresponding distribution of cash to the Portfolio. A portion of the amount received on a PO class will constitute a return of the Portfolio's investment and as such will not be income.

**Futures and Forward Transactions.** Under Section 1256 of the Code, gain or loss on certain futures contracts and forward contracts ("Section 1256 contracts") will be treated as 60% long-term and 40% short-term capital gain or loss (hereinafter "blended gain or loss"). In addition, Section 1256 contracts held by a Portfolio at the end of each taxable year will be required to be treated as sold at market value on the last day of such taxable year for U.S. federal income tax purposes and the resulting gain or loss will be treated as blended gain or loss.

Offsetting positions held by a Portfolio involving certain futures transactions may be considered to constitute, for federal income tax purposes, "straddles" which are subject to special rules under the Code. Under these rules, depending on different elections which may be made by a Portfolio, the amount, timing and character of gain and loss realized by a Portfolio and its shareholders may be affected.

The requirements for qualification as a regulated investment company under the Code may limit a Portfolio's ability to engage in certain transactions in futures contracts and forward contracts.

**Special Rules for Certain Foreign Currency Transactions.** Under section 988 of the Code, special rules are provided for certain transactions in a foreign currency other than the taxpayer's functional currency (i.e., in a Portfolio's case, currencies other than the United States dollar). In general, foreign currency gains or losses from certain forward contracts not traded in the interbank market and from futures contracts that are not "regulated futures contracts" will be treated as ordinary income or loss under section 988 of the Code. In certain circumstances, a Portfolio may elect capital gain or loss treatment for such transactions. The rules under section 988 of the Code may also affect the timing of income recognized by a Portfolio.

**Investments in Passive Foreign Investment Companies.** If a Portfolio purchases shares in a foreign investment company treated for U.S. federal income tax purposes as a "passive foreign investment company" (a "PFIC"), a Portfolio may be subject to U.S. federal income tax on a portion of any "excess distribution" or gain from the disposition of such shares even if such income is distributed as a taxable dividend by the Portfolio to its shareholders. Additional charges in the nature of interest may be imposed on a Portfolio in respect of deferred taxes arising from such distributions or gains. If a Portfolio were to invest in a PFIC and elected to treat the PFIC as a "qualified electing fund" under the Code, in lieu of the foregoing requirements, a Portfolio would be required to include in income each year a portion of the ordinary earnings and net capital gain of the qualified electing fund, even if not distributed to the Portfolio, and such amounts would be subject to the distribution requirements described in the Prospectus. On March 31, 1992 the IRS proposed regulations providing a mark-to-market election for RICs that would have effects similar to the proposed legislation. These regulations would be effective for taxable years ending after promulgation of the regulations as final regulations.

**Foreign Withholding Taxes.** Certain dividends and interest received by a Portfolio may be subject to foreign withholding taxes. If more than 50% in value of a Portfolio's total assets at the close of any taxable year consists of stocks or securities of foreign corporations, the Portfolio may elect to treat any foreign income taxes paid by it as paid by its shareholders. If eligible, the Portfolio(s) intend to make this election. If a Portfolio makes this election, its shareholders will be required to include in income their respective pro rata portions of foreign income taxes paid by the Portfolio(s) and, if they itemize their deductions, will be entitled to deduct such respective pro rata portions in computing their taxable income or, alternatively, to claim foreign tax credits (subject to the limitations discussed below). Each year that a Portfolio makes this election, it will report to its shareholders the amount per share of foreign income taxes it has elected to have treated as paid by its shareholders.

Generally, a credit for foreign income taxes is subject to the limitation that it may not exceed the shareholder's U.S. tax attributable to his or her total foreign source taxable income. For this purpose, the source of a Portfolio's income flows through to its shareholders. A Portfolio's gains from the sale of securities will be treated as derived from U.S. sources and certain currency fluctuation gains, including fluctuation gains from foreign currency denominated debt securities, receivables and payables, will be treated as ordinary income derived from U.S. sources. The limitation on the foreign tax credit is applied separately to foreign source

passive income, such as the portion of dividends received from a Portfolio that qualifies as foreign source income. In addition, the foreign tax credit is allowed to offset only 90% of the revised alternative minimum tax imposed on corporations and individuals. Because of these limitations, shareholders may be unable to claim a credit for the full amount of their proportionate share of the foreign taxes paid by a Portfolio.

State and Local Income Taxes. Depending on the residence of the shareholder for tax purposes, distributions may also be subject to state and local taxes or withholding taxes. Most states provide that a RIC may pass through (without restriction) to its shareholders state and local income tax exemptions available to direct owners of certain types of U.S. government securities. Thus, for residents of these states, distributions derived from a Portfolio's investment in certain types of U.S. government securities should be free from state and local income taxes to the extent that the interest income from such investments would have been exempt from state and local taxes if such securities had been held directly by the respective shareholders themselves. Certain states, however, do not allow a RIC to pass through to its shareholders the state and local income tax exemptions available to direct owners of certain types of U.S. government securities unless the RIC holds at least a required amount of U.S. government securities. Accordingly, for residents of these states, distributions derived from a Portfolio's investment in certain types of U.S. government securities may not be entitled to the exemptions from state and local income taxes that would be available if the shareholders had purchased U.S. government securities directly. Shareholders' dividends attributable to a Portfolio's income from repurchase agreements generally are subject to state and local income taxes, although states and regulations vary in their treatment of such income. The exemption from state and local income taxes does not preclude states from asserting other taxes on the ownership of U.S. government securities. To the extent that a Portfolio invests to a substantial degree in U.S. government securities which are subject to favorable state and local tax treatment, shareholders of such Portfolio will be notified as to the extent to which distributions from the Portfolio are attributable to interest on such securities.

#### National Municipal Bond Fund

The National Municipal Bond Fund intends to qualify to pay "exempt-interest dividends," as that term is defined in the Code, by holding at the end of each quarter of its taxable year at least 50% of the value of its total assets in the form of municipal obligations described in section 103(a) of the Code. Because the National Municipal Bond Fund will primarily invest in municipal obligations, dividends from the Portfolio will generally be exempt from regular federal income tax in the hands of shareholders subject to the possible application of the alternative minimum tax. Further, gain from a sale of redemption of shares of the National Municipal Bond Fund will be taxable to shareholders as capital gain even though the increase in value of such shares is attributable to tax-exempt income. Thus, it will normally be advantageous for the National Municipal Bond Fund to declare exempt-interest dividends frequently.

Federal tax law imposes an alternative minimum tax with respect to both corporations and individuals based on certain items of tax preference. Interest on certain municipal obligations, such as bonds issued to make loans for housing purposes or to private entities (but not to certain tax-exempt organizations such as universities and non-profit hospitals) is included as an item of tax preference in determining the amount of a taxpayer's alternative minimum taxable income. To the extent that the Portfolio receives income from municipal obligations treated as a tax preference item for purposes of the alternative minimum tax, a portion of the dividends paid by it, although otherwise exempt from federal income tax, will be taxable to shareholders to the extent that their tax liability will be determined under the alternative minimum tax. The Portfolio will annually supply shareholders with a report indicating the percentage of portfolio income attributable to municipal obligations subject to the alternative minimum tax. Additionally, taxpayers must disclose to the Internal Revenue Service on their tax returns the entire amount of tax-exempt interest (including exempt-interest dividends on shares of the Portfolio) received or accrued during the year.

In addition, for corporations, the alternative minimum taxable income is increased by a percentage of the amount by which an alternative measure of income ("adjusted current earnings", referred to as "ACE") exceeds the amount otherwise determined to be the alternative minimum taxable income. Interest on all municipal obligations, and therefore all exempt-interest dividends paid by the Portfolio, is included in calculating ACE. Taxpayers that may be subject to the alternative minimum tax should consult their tax advisers before investing in the Portfolio.

Under the Omnibus Budget Reconciliation Act of 1993, all or a portion of the National Municipal Bond Fund's gain from the sale or redemption of tax-exempt obligations acquired after April 30, 1993 attributable to market discount will be treated as ordinary income rather than capital gain. This rule may

increase the amount of ordinary income dividends received by shareholders.

Shares of the Portfolio would not be a suitable investment for tax-exempt institutions and may not be a suitable investment for retirement plans qualified under Section 401 of the Code, H.R. 10 plans and individual retirement accounts, because such plans

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and accounts are generally tax-exempt and, therefore, would not gain any additional benefit from the receipt of exempt-interest dividends from the Portfolio. Moreover, subsequent distributions of such dividends to the beneficiaries will be taxable.

In addition, the Portfolio may not be an appropriate investment for entities that are "substantial users" of facilities financed by private activity bonds or "related persons" thereof. A "substantial user" is defined under United States Treasury Regulations to include a non-exempt person who regularly uses a part of such facilities in his trade or business and, unless such facility, or part thereof, is constructed, reconstructed or acquired specifically for the non-exempt person, whose gross revenue derived with respect to the facilities financed by the issuance of bonds is more than 5% of the total revenue derived by all users of such facilities. "Related persons" include certain related natural persons, affiliated corporations, partnerships and their partners and S Corporations and their shareholders. The foregoing is not a complete statement of all of the provisions of the Code covering the definitions of "substantial user" and "related person". For additional information, investors should consult their tax advisers before investing in the Portfolio.

All or a portion of the exempt-interest dividends received by certain foreign corporations may be subject to the federal branch profits tax. Likewise, all or a portion of the exempt-interest dividends may be taxable to certain Subchapter S Corporations that have Subchapter C earnings and profits and substantial passive investment income. In addition, the exempt-interest dividends may reduce the deduction for loss reserves for certain insurance companies. Such corporations and insurance companies should consult their tax advisers before investing in the Portfolio. The Code may also require shareholders that receive exempt-interest dividends to treat as taxable income a portion of certain otherwise nontaxable social security and railroad retirement benefit payments.

#### SHAREHOLDER SERVICES

**Systematic Withdrawal Plan.** You may establish a plan for redemptions to be made automatically at monthly, quarterly, semiannual or annual intervals with payments sent directly to you or to persons designated by you as recipients of the withdrawals (the "Withdrawal Plan"). Requests for this service not made on the initial application require signature guarantees unless the payments are to be made to you and mailed to the address of record on your account. You are required to have a minimum account value of \$10,000 per Portfolio in order to establish this plan. The Withdrawal Plan provides for monthly or other periodic checks in any amount not less than \$50. Maintenance of a Withdrawal Plan concurrently with purchases of additional shares may be disadvantageous to you because of the front end sales charge on certain purchases and the CDSC on certain redemptions.

The Fund acts as agent for the shareholder in redeeming sufficient full and fractional shares to provide the amount of the periodic withdrawal payment. The Withdrawal Plan may be terminated at any time, and, while no fee is currently charged (although a CDSC may be applicable to certain redemptions that exceed 12% annually of the value of the account), the Fund reserves the right to initiate a fee of up to \$5 per withdrawal upon 30 days' written notice to the shareholder.

Withdrawal payments should not be considered as dividends, yield, or income. If periodic withdrawals continuously exceed reinvested dividends and capital gains distributions, the shareholder's original investment will be correspondingly reduced and ultimately exhausted.

Furthermore, each withdrawal constitutes a redemption of shares, and any gain or loss realized must be recognized for federal income tax purposes. Withdrawals which are made concurrently with purchases of additional shares are generally inadvisable because of the front end sales charges and CDSCs which may be applicable to the purchase of additional shares or to redemptions.

**Automatic Investment Plan.** A shareholder who wishes to make additional investments in the Fund on a regular basis may do so by authorizing the Fund on the Shareholder Application to deduct a fixed amount (not less than \$50) each month from the shareholder's checking account at his or her bank. This amount will automatically be invested on the same day that the pre-authorized check is issued. The shareholder will receive a confirmation from the Fund, and the checking account statement will show the amount charged.

**Tax Deferred Retirement Plans.** Retirement plans are either available or

expected to be available for use by Individual Retirement Accounts ("IRAs"), plans under Section 403(b)(7) of the Code, and other retirement plans. Adoption of such plans should be on advice of legal counsel or a tax adviser. With the exception of the National Municipal Bond Fund, the Portfolio may be available for purchase through retirement plans or other programs offering deferral of or exemption from income taxes, which may produce superior after-tax returns over time. For example, a \$1,000 investment earning a taxable return of 10% annually would have an after-tax value of \$1,949 after ten years, assuming tax was deducted from the return each year at a 31% rate. An equivalent

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tax-deferred investment would have an after-tax value of \$2,099.86 after ten years, assuming tax was deducted at a 31% rate from the deferred earnings at the end of the ten year period.

For further information regarding plan administration, custodial fees and other details, investors should contact their broker or Wood Logan or call the shareholder inquiry number for the Fund.

#### GENERAL

##### Adviser's Rationale for Multi-Manager Fund

Every investment adviser has different strengths and weaknesses. Finding the right investment adviser is an important part of choosing the right family of mutual funds. That is why the Fund has selected thirteen companies that are, in the opinion of the Adviser, among the world's most distinguished asset management firms. Each of these firms has been recognized as among the finest in the world for their particular investment style or area of investment expertise. The Adviser believes that together the Portfolios offer investors a unique opportunity to benefit from some of the industry's finest investment professionals.

It is well recognized that one of the basic principles of managing money is diversification. The Fund is designed, in the opinion of the Adviser, to make it easy for investors to create a sound and diversified investment program that can help them meet their current and future investment needs. The Fund is specifically designed to enable investors to allocate their assets effectively across a spectrum of investment Portfolios representing particular investment styles or asset classes. As conditions change, investors in the Fund can easily adjust the allocation of their assets among the Fund's investment Portfolios.

Global Equity Fund. The investment objective of the Global Equity Fund (prior to October 1, 1996, the "Global Growth Fund") is long-term capital appreciation. Morgan Stanley manages the Global Equity Fund and seeks to attain this objective by investing primarily in common and preferred stocks, convertible securities, rights and warrants to purchase common stocks, American and Global Depository Receipts and other equity securities of issuers throughout the world, including issuers in the U.S. and emerging market countries.

Under normal circumstances, at least 65% of the value of the total assets of the Global Equity Fund will be invested in equity securities and at least 20% of the value of the portfolio's total assets will be invested in the common stocks of U.S. issuers. The Subadviser's approach is oriented to individual stock selection and is value driven. In selecting stocks for the portfolio, the Subadviser initially identifies those stocks that it believes to be undervalued in relation to the issuer's assets, cash flow, earnings and revenues, and then evaluates the future value of such stocks by running the results of an in-depth study of the issuer through a dividend discount model. In selecting investments, the Subadviser utilizes the research of a number of sources, including Morgan Stanley Capital International, an affiliate of the Subadviser located in Geneva, Switzerland. Portfolio holdings are regularly reviewed and subjected to fundamental analysis to determine whether they continue to conform to the Subadviser's value criteria. equity securities which no longer conform to such investment criteria will be sold.

Foreign securities in which the Global Equity Fund may invest include emerging market securities. The Subadviser's approach to emerging markets investing is based on the Subadviser's evaluation of both short-term and long-term international economic trends and the relative attractiveness of emerging markets and individual emerging market securities. Emerging markets describes any country which is generally considered to be an emerging, or developing country by the international financial community such as the International Bank for Reconstruction and Development (more commonly known as the World Bank) and the International Finance Corporation. There are currently over 130 countries which are generally considered to be emerging or developing countries by the international financial community, approximately 40 of which currently have stock markets.

Growth Equity Fund. The investment objective of the Growth Equity Fund is to seek long-term growth of capital. Founders manages the Growth Equity Fund and will pursue this objective by investing at least 65% of its assets in common stocks of well-established, high-quality growth companies. These companies tend

to have strong performance records, solid market positions and reasonable financial strength, and have continuous operating records of three years or more. The Portfolio may also invest up to 30% of its assets in foreign securities, with no more than 25% invested in any one foreign country.

The Growth Equity Fund may invest in convertible securities, preferred stocks, bonds, debentures and other corporate obligations when Founders believes that these investments offer opportunities for capital appreciation. Current income will not be a substantial factor in the selection of these securities. The Portfolio will only invest in bonds, debentures and corporate obligations--other than convertible securities and preferred stock--rated investment-grade (BBB or higher by Moody's and Baa or higher by S&P) or, if unrated, of comparable

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quality in the opinion of Founders at the time of purchase. Convertible securities and preferred stocks purchased by the Portfolio may be rated in medium and lower categories by Moody's or S&P (Ba or lower by Moody's and BB or lower by S&P) but will not be rated lower than B. The Portfolio may also invest in unrated convertible securities and preferred stocks in instances in which Founders believes that the financial condition of the issuer or the protection afforded by the terms of the securities limits risk to a level similar to that of securities rated in categories no lower than B. The Portfolio is not required to dispose of debt securities whose ratings are down-graded below these ratings subsequent to the Portfolio's purchase of the securities.

International Growth and Income Fund. The International Growth and Income Fund seeks long-term growth of capital and income. The Portfolio is designed for investors with a long-term investment horizon who want to diversify their investments by adding international securities and take advantage of investment opportunities outside the United States.

J.P. Morgan seeks to achieve its objective by investing, under normal circumstances, at least 65% of its total assets in equity securities of foreign issuers, consisting of common stocks and other securities with equity characteristics such as preferred stock, warrants, rights and convertible securities. The Portfolio will focus primarily on the common stock of established companies based in developed countries outside the United States. Such investments will be made in at least three foreign countries. The Portfolio may also invest in securities of issuers located in emerging markets countries. The Portfolio invests in securities listed on foreign or domestic securities exchanges and securities traded in foreign or domestic over-the-counter markets, and may invest in certain restricted or unlisted securities. Under normal circumstances, the International Growth and Income Fund expects to invest primarily in equity securities. However, the Portfolio may invest up to 35% of its assets in corporate or sovereign issuers rated A or higher by Moody's or S&P, or if unrated, of equivalent credit quality as determined by the Subadviser.

In pursuing the International Growth and Income Fund's objective, J.P. Morgan will actively manage the assets of the Portfolio through country allocation and stock valuation and selection. Based on fundamental research, quantitative valuation techniques and experienced judgment, J.P. Morgan uses a structured decision-making process to allocate the Portfolio primarily across the developed countries of the world outside the United States. This universe is typically represented by the Morgan Stanley Europe, Australia and Far East Index (the "EAFE Index").

Growth and Income Fund. The Growth and Income Fund seeks long-term growth of capital and income consistent with prudent investment risk by investing primarily in a diversified portfolio of dividend-paying common stocks of U.S. issuers believed to be of high quality. In selecting investments for this Fund, Wellington Management emphasizes medium to large capitalization companies having: leadership position within their industries; solid balance sheets and low leverage; relatively high return on equity; steady or increasing dividends; and strong management. The Growth and Income Fund is structured to provide, in the opinion of the Adviser, an excellent opportunity for investors to participate in the growth of the U.S. stock market through a conservatively managed, well-diversified portfolio of stocks. By investing primarily in medium to large capitalization issuers with above-average dividend yields, the Fund seeks to reduce the volatility generally experienced by stocks through the income cushion provided by dividend income. In addition to providing potential downside protection, over the past 30 years reinvested dividends have accounted for approximately 70% of the total appreciation of the S&P 500. An important feature of the Fund is its exposure to convertible securities. The Fund dedicates a portion of its assets to convertible securities, which, in general, provide higher yields than common stocks while participating in the stock's capital appreciation potential.

Strategic Income Fund. The Strategic Income Fund seeks a high level of total return consistent with preservation of capital by giving SBAM broad discretion to deploy the Fund's assets among various segments of the fixed income market. SBAM may deploy the Fund's assets based on their analysis of current economic

and market conditions and the relative risks and opportunities present in a wide range of market segments, including: U.S. Government securities; mortgage-backed securities; high yield corporate bonds; high yield international bonds; and investment quality corporate and foreign bonds.

SBAM expects that the Fund's investments will emphasize U.S. Government securities, high yield corporate bonds and high yield international bonds. SBAM believes that there is a low correlation among these distinct bond markets and, historically, they have rarely reacted to interest rate changes and economic conditions at the same time or in the same manner. Diversifying the portfolio among securities in markets with low correlation is designed to reduce the risk of owning securities in just one bond market. While there is no guarantee that this market diversification will produce the results intended, SBAM believes that it can help to alleviate the risk of investing in less than investment grade securities.

Investment Quality Bond Fund. The Investment Quality Bond Fund seeks a high level of current income consistent with the maintenance of principal and liquidity by investing primarily in a diversified portfolio of investment grade corporate bonds and U.S. government bonds with intermediate to longer-term maturities. In the present low interest rate environment, high quality U.S.

Government securities and investment grade corporate bonds can offer an opportunity for investors to achieve rates of return higher than those available from short-term investments such as certificates of deposit, savings accounts, and money market funds. Historically, investors have achieved consistently higher levels of income from investment grade corporate bonds than U.S. Treasury securities. Nevertheless, investment grade bonds are subject to greater credit risk than U.S. Treasury securities. In addition, certificates of deposit and savings accounts are insured and offer a fixed rate of return and money market funds seek to provide a stable net asset value. The investment returns and principal value of the Investment Quality Bond Fund will fluctuate with changes in market conditions.

This Fund will be invested primarily in investment grade corporate bonds, mortgage-related bonds and U.S. government bonds with intermediate to long-term maturities. This Fund may also invest up to 20% of its assets in non-investment grade fixed income securities. Wellington Management, in managing the Fund's investments, emphasizes a sector rotation strategy which seeks to identify relative value among these three major sectors of the fixed income marketplace.

U.S. Government Securities Fund. The U.S. Government Securities Fund seeks a high level of current income consistent with preservation of capital and maintenance of liquidity by investing in securities issued or guaranteed as to the timely payment of interest or principal by the U.S. government, its agencies or instrumentalities. The U.S. Government Securities Fund, managed by SBAM, is designed to provide investors with high current income and a high degree of credit safety in one fund. To date, the U.S. Government has never defaulted on or delayed payments of principal or interest on its obligations. In addition, under normal market conditions, the medium and long-term U.S. Government securities in which the Fund invests have historically provided higher yields than short-term securities. Moreover, U.S. Government securities are considered to be highly liquid.

National Municipal Bond Fund. The National Municipal Bond Fund seeks to achieve a high level of current income exempt from regular federal income taxes, consistent with the preservation of capital, by investing primarily in a portfolio of municipal obligations. A fund that invests in municipal bonds can provide income free from federal income tax liability, even as taxes rise. In addition, earnings may grow more quickly when they are permitted to compound without federal income taxation.

An investor may want to determine which investment, tax-exempt or taxable, will provide a higher after-tax return. To determine the taxable equivalent yield, simply divide the yield from the tax-exempt investment by the sum of (1 minus the investor's marginal tax rate). The tables below are provided for making this calculation for selected tax-exempt yield and taxable income levels. These yields are presented for purposes of illustration only and are not representative of any yield that the Fund may generate. The tables are based upon the 1996 federal tax rates (in effect as of January 1, 1997.)

Taxable Equivalent Yields

<TABLE>  
<CAPTION>

Single	Joint	Marginal Federal Income Tax Rate	A Tax-Exempt Yield of:					
			3%	4%	5%	6%	7%	8%
Taxable Income**								

Is Equivalent to a Taxable Yield of:

<S>	<C>	<C>	<C>
under \$24,000	under \$40,100	15%	3.53, 4.71, 5.88, 7.06, 8.24, 9.41
\$24,000-\$58,150	\$40,100-\$96,900	28%	4.17, 5.56, 6.94, 8.33, 9.72, 11.11
\$58,150-\$121,300	\$96,900-\$147,700	31%	4.35, 5.80, 7.25, 8.70, 10.14, 11.59
\$121,300-\$263,750	\$147,700-\$263,750	36%	4.69, 6.25, 7.81, 9.38, 10.94, 12.50
over \$263,750	over \$263,750	39.6%	4.97, 6.62, 8.28, 9.93, 11.59, 13.25

</TABLE>

\* Certain taxpayers may, to the extent such taxpayers itemize deductions or claim personal exemptions, be subject to a higher marginal rate. In addition, the tax rate on net capital gains of individuals may not exceed 28%.

\*\*Taxable Income amounts apply for taxable years beginning in 1996. The amounts are indexed annually for inflation.

Fund Shares

The Fund's Declaration of Trust permits its Trustees to issue an unlimited number of full and fractional shares of beneficial interest and to divide or combine the shares into a greater or lesser number of shares without thereby changing the proportionate beneficial interests in the Fund.

At a meeting of the Board of Trustees held on December 16, 1993, the Trustees, including each Trustee who is not an "interested person," as such term is defined under the Investment Company Act of 1940, as amended, unanimously approved amendments to the Declaration of Trust to permit implementation of the Multiple Pricing System. Shareholders of the Fund approved these amendments at a special meeting held February 18, 1994. The Multiple Pricing System was implemented on April 1, 1994. All shares of the Fund have equal voting rights and will be voted in the aggregate, and not by series (Portfolio) or class, except where voting by series or class is required by law or where the matter involved affects only one series or class (for example, matters pertaining to the plan of distribution relating to Class A shares will only be voted on by Class A shares). Matters required by the 1940 Act to be voted upon by each affected series include changes to (i) the Advisory Agreement, (ii) a Subadvisory Agreement and (iii) the fundamental investment objectives and policies.

Shares of each class of a Portfolio represent interests in that Portfolio in proportion to each share's net asset value. Certain operating expenses which are specifically allocable to a class of a Portfolio may be so allocated by the Trustees. Upon the Fund's liquidation, all shareholders of a class would share pro rata in the net assets of that class available for distribution to shareholders of the Portfolio, but, as shareholders of such class of such Portfolio, would not be entitled to share in the distribution of assets belonging to any other class or Portfolio. As of the date of this Statement of Additional Information, the Trustees have designated thirty-two Portfolios of the Fund and three classes of Shares in each Portfolio: Class A, Class B and Class C shares.

Certificates representing shares are issued only upon written request to the Fund.

Redemption in Kind

Although it is each of the Portfolios' present policy to make payment of redemption proceeds in cash, if the Trustees determine it appropriate, redemption proceeds may be paid in whole or in part by a distribution in kind of marketable securities held by that Portfolio subject to the limitation that each Portfolio is obligated to redeem shares solely in cash up to the lesser of \$250,000 or 1% of the net asset value of the Portfolio during any 90-day period for any one account. If a redemption in kind is made, a shareholder might be required to bear transaction costs, including brokerage commissions, to dispose of such securities. The Fund will endeavor to only distribute securities for which there is an active trading market.

Repurchase of Shares

The Distributor is authorized to repurchase Portfolio shares through certain securities dealers who have entered into dealer agreements with the Distributor. The offer to repurchase may be suspended by the Distributor at any time. Dealers may charge for their services in connection with a repurchase, but neither the Fund nor the Distributor makes any such charge. Repurchase

arrangements differ from redemptions in that the dealer buys the shares as principal from his customer in lieu of tendering shares to the Fund for redemption as agent for the customer. The proceeds to the shareholder will be the net asset value of the shares repurchased as next determined after receipt of the repurchase order by the dealer. By a repurchase, the customer should be able to receive the sale proceeds from the dealer more quickly. Shareholders should contact their dealers for further information as to how to effect a repurchase and the dealer's charges applicable thereto.

#### Payment for the Shares Presented

Payment for shares presented for redemption will be based on the net asset value of the applicable class of the applicable Portfolio next computed after a request is received in proper form at the Transfer Agent's office. As described in the Prospectus under the caption "PURCHASE OF SHARES -- Class B Shares", certain redemptions of Class A, B and C shares may be subject to a CDSC, which will be deducted from the redemption proceeds. Payment proceeds will be mailed within seven days following receipt of all required documents. However, payment may be postponed or the right of redemption suspended (i) for any period during which the New York Stock Exchange is closed for other than customary weekend and holiday closing or during which trading on the New York Stock Exchange is restricted; (ii) for any period during which an emergency exists as a result of which disposal by the Fund of securities owned by it is not reasonably practicable or it is not reasonably practicable for the Fund fairly to determine the value of its net assets; or (iii) for such other periods as the Commission may by order permit for the protection of shareholders,

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provided that applicable rules and regulations of the Commission shall govern as to whether the conditions described in (i) and (ii) exist. Payment of proceeds may also be delayed if the shares to be redeemed or repurchased were purchased by check and that check has not cleared (which may be up to 15 days or more).

#### Transfer Agent

State Street Bank and Trust Company acts as the Fund's transfer agent, provides shareholder services and acts as dividend disbursing and redemption agent. Its mailing address is P.O. Box 8505, Boston, Massachusetts 02266-8505. State Street Bank and Trust Company also serves as the custodian for all Portfolios of the Fund.

#### REPORTS TO SHAREHOLDERS

The financial statements of the Fund at October 31, 1996 are incorporated herein by reference from its annual report to shareholders filed with the Securities and Exchange Commission pursuant to Section 30(b) of the Investment Company Act of 1940 and Rule 30b2-1.

#### Independent Accountants

The financial statements of the Fund at October 31, 1996, including the Financial Highlights which appear in the prospectus, have been audited by Coopers & Lybrand L.L.P., independent auditors, as indicated in their report with respect thereto, and are included herein in reliance upon said report given on the authority of said firm as experts in accounting and auditing. Coopers & Lybrand, L.L.P. has offices at One Post Office Square, Boston Massachusetts 02109.

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#### PART B

#### PART C

#### OTHER INFORMATION

#### Item 24. Financial Statements and Exhibits

##### (a) Financial Statements:

(1) Audited Financial Statements for period ended October 31, 1996.

Report of Independent Public Accountants, December 30, 1996 -- Part B

Statements of Assets and Liabilities at October 31, 1996 -- Part B

Statements of Operations for the year ended October 31, 1996 -- Part B

Statements of Changes in Net Assets for the periods October 31, 1996 and October 31, 1995 -- Part B

Financial Highlights -- Parts A and B

Portfolio of Investments owned -- Part B

Notes to Financial Statements, October 31, 1996 -- Part B

(b) Exhibits

(1) (a) Agreement and Declaration of Trust dated September 28, 1988 -- previously filed as Exhibit (b) (1) to North American Security Trust's initial registration statement on Form N-1A (File No. 33-27958) dated April 5, 1989.

(1) (b) Amended and Restated Agreement and Declaration of Trust dated June 1, 1993 -- previously filed as Exhibit (b) (1) (b) to North American Fund's Post-Effective Amendment No. 13 on Form N-1A (File No. 33-27958) dated June 1, 1993.

(1) (c) Amended and Restated Agreement and Declaration of Trust dated February 18, 1994 -- filed herewith.

(1) (d) Declaration of Trust Amendment -- Establishment and Designation of Additional Series of Shares for the International Growth and Income Fund, dated December 28, 1994 -- filed herewith.

(1) (e) Declaration of Trust Amendment - Establishment and Designation of Classes A, B and C, dated March 17, 1994 -- filed herewith.

(1) (f) Declaration of Trust Amendment - Establishment and Designation of Additional Series of Shares for the Growth Equity, International Small Cap, and Small/mid Cap Funds dated February 28, 1996. - Filed herewith

(1) (g) Declaration of Trust Amendment - Redesignation of Series Of Shares of Beneficial Interest known as the Growth Fund dated February 28, 1996. - Filed herewith

(1) (h) Declaration of Trust Amendment - Redesignation of Series of Shares of Beneficial Interest known as the Global Growth Fund and the Asset Allocation Fund dated October 1, 1996. - Filed herewith

(2) By-laws of North American Security Trust -- previously filed as Exhibit (b) (2) to North American Security Trust's initial registration statement on Form N-1A (File No. 33-27958) dated April 5, 1989.

(3) Not applicable.

(4) (a) Specimen Share Certificate for Global Growth Trust -- previously filed as Exhibit No. (b) (4) (a) to North American Security Trust's Post-Effective Amendment No. 3 on Form N-1A (File No. 33-27958) dated February 1, 1991.

(b) Specimen Share Certificate for Growth Trust -- previously filed as Exhibit (b) (4) (a) to North American Security Trust's Post-Effective Amendment No. 1 on Form N-1A (File No. 33-27958) dated December 29, 1989.

(c) Specimen Share Certificate for Growth and Income Trust --previously filed as Exhibit (b) (4) (c) to North American Security Trust's Post-Effective Amendment No. 4 on Form N-1A (File No. 33-27958) dated February 22, 1991.

(d) Specimen Share Certificate for Investment Quality Bond Trust previously filed as Exhibit (b) (4) (d) to North American Security

- (e) Specimen Share Certificate for U.S. Government Securities Trust -- previously filed as Exhibit (b) (4) (b) to North American Security Trust's Post-Effective Amendment No. 1 on Form N-1A (File No. 33-27958) dated December 29, 1989.
  - (f) Specimen Share Certificate for Money Market Trust -- previously filed as Exhibit (b) (4) (c) to North American Security Trust's Post-Effective Amendment No. 1 on Form N-1A (File No. 33-27958) dated December 29, 1989.
  - (g) Specimen Share Certificate for Asset Allocation Trust --previously filed as Exhibit (b) (4) (g) to North American Security Trust's Post-Effective Amendment No. 8 on Form N-1A (File No. 33-27958) dated May 12, 1992.
  - (h) Forms of Specimen Share Certificates for Strategic Income Fund, National Municipal Bond Fund, California Municipal Bond Fund, Global Growth Fund, Growth Fund, Growth and Income Fund, U.S. Government Securities Fund, Money Market Fund and Asset Allocation Fund -- previously filed as Exhibit (b) (4) (h) to North American Funds' Post-Effective Amendment No. 13 on Form N-1A (File No. 33-27958) dated June 30, 1993.
  - (i) Forms of Specimen Share Certificates: for Strategic Income Fund -A, Investment Quality Bond Fund - A, National Municipal Bond Fund - A, California Municipal Bond Fund - A, Global Growth Fund - A, Growth Fund - A, Growth and Income Fund - A, U.S. Government Securities Fund -A, Money Market Fund - A, Asset Allocation Fund - A; for Strategic Income Fund - B, Investment Quality Bond Fund - B, National Municipal Bond Fund - B, California Municipal Bond Fund - B, Global Growth Fund-B, Growth Fund - B, Growth and Income Fund -B, U.S. Government Securities Fund - B, Money Market Fund - B, Asset Allocation Fund -B; for Strategic Income Fund - C, Investment Quality Bond Fund - C, National Municipal Bond Fund - C, California Municipal Bond Fund - C, Global Growth Fund - C, Growth Fund - C, Growth and Income Fund - C, U.S. Government Securities Fund - C, Money Market Fund - C, and Asset Allocation Fund - C --previously filed as Exhibit (b) (4) (i) to North American Funds' Post-Effective Amendment No. 17 on Form N-1A (File No. 33-27958) dated April 1, 1994.
  - (j) Forms of Specimen Share Certificates for International Growth and Income Fund: A, B, C and D -- previously filed as Exhibit (b) (4) (j) to North American Funds' Post-Effective Amendment No. 18 on Form N-1A (File No. 33-27958) dated October 20, 1994.
  - (k) Forms of Specimen Share Certificates, for the Small/Mid Cap, the International Small Cap and the Growth Equity Fund - A,B and C. -- previously filed as Exhibit (b) (4) (k) to North American Funds Post effective Amendment No. 21 on Form N1-A (File No. 33-27958) dated December 15, 1995.
5. (a) (ix) Form of Amended and Restated Advisory Agreement between North American Funds and NASL Financial Services, Inc. -- previously filed as Exhibit (b) (5) (a) (ix) to North American Funds Post effective Amendment No. 21 on Form N1-A (File No. 33-27958) dated December 15, 1995.
- (b) Subadvisory Agreement Between NASL Financial Services, Inc. and Oechsle International Advisors, L.P. dated January 1, 1996 -- previously filed as Exhibit (b) (5) (b) to North American Funds Post-Effective Amendment No. 22 on Form N-1A (File No. 33-27958) dated February 23, 1996.
  - (c) Subadvisory Agreement Between NASL Financial Services, Inc. and Wellington Management Company dated January 1, 1996 -- previously filed as Exhibit (b) (5) (c) to North American Funds Post-Effective Amendment No. 22 on Form N-1A (File No. 33-27958) dated February 23, 1996.
  - (d) Subadvisory Agreement Between NASL Financial Services, Inc. and Salomon Brothers Asset Management Inc dated January 1, 1996 -- previously filed as Exhibit (b) (5) (d) to North American Funds Post-Effective Amendment No. 22 on Form N-1A (File No. 33-27958) dated February 23, 1996.

- (d) (i) Subadvisory Consulting Agreement Between Salomon Brothers Asset Management Inc and Salomon Brothers Asset Management Limited on behalf of Strategic Income Fund dated January 1, 1996 -- previously filed as Exhibit (b) (5) (d) (i) to North American Funds Post-Effective Amendment No. 22 on Form N-1A (File No. 33-27958) dated February 23, 1996.
- (e) Subadvisory Agreement Between NASL Financial Services, Inc. and Goldman Sachs Asset Management dated January 1, 1996 -- previously filed as Exhibit (b) (5) (e) to North American Funds Post-Effective Amendment No. 22 on Form N-1A (File No. 33-27958) dated February 23, 1996.
- (f) Subadvisory Agreement between NASL Financial Services, Inc. and J.P. Morgan Investment Management Inc. dated January 1, 1996 -- previously filed as Exhibit (b) (5) (f) to North American Funds Post-Effective Amendment No. 22 on Form N-1A (File No. 33-27958) dated February 23, 1996.
- (g) Form of Subadvisory Agreement between NASL Financial Services, Inc. and Fred Alger Management, Inc., dated January 2, 1996 - previously filed as Exhibit (b) (5) (g) to North American Funds Post-Effective Amendment No. 22 on Form N-1A (File No. 33-27958) dated February 23, 1996.
- (h) Form of Subadvisory Agreement between NASL Financial Services, Inc. and Founders Asset Management, Inc., dated January 2, 1996 - previously filed as Exhibit (b) (5) (h) to North American Funds Post-Effective Amendment No. 22 on Form N-1A (File No. 33-27958) dated February 23, 1996.
- (i) Form of Subadvisory Agreement between NASL Financial Services, Inc. and Morgan Stanley Asset Management Inc. dated October 1, 1996 -Filed herewith
- (j) Form of Subadvisory Agreement between NASL Financial Services, Inc. and T. Rowe Price Associates Inc. dated October 1, 1996 -Filed herewith
- (k) Form of Subadvisory Agreement between NASL Financial Services, Inc. and Manufacturers Adviser Corporation dated October 1, 1996 - Filed herewith
- (l) Form of Amendment to Subadvisory Agreement between NASL Financial Services, Inc. and Founders Asset Management, Inc. dated October 1, 1996 - Filed herewith
- (6) (a) Distribution Agreement Between North American Funds and NASL Financial Services, Inc. -- previously filed as Exhibit (b) (6) (a) to North American Funds Post-Effective Amendment No. 22 on Form N-1A (File No. 33-27958) dated February 23, 1996.
- (b) (i) Amended and Restated Promotional Agent Agreement Among NASL Financial Services, Inc., Wood Logan Associates, Inc., and North American Security Life Insurance Company dated June 15, 1990 -- previously filed as Exhibit (b) (6) (b) (i) to North American Security Trust's Post-Effective Amendment No. 2 on Form N-1A (File No. 33-27958) dated August 29, 1990.
- (b) (ii) Form of Assignment from Wood Logan Associates, Inc. to Wood Logan Distributors, Inc., dated July 27, 1990 -- previously filed as Exhibit (b) (6) (b) (ii) to North American Security Trust's Post-Effective Amendment No. 2 on Form N-1A (File No. 33-27958) dated August 29, 1990.
- (c) (i) Form of Dealer Agreement Among NASL Financial Services, Inc., Wood Logan Associates, Inc. and Selected Broker-Dealer -- previously filed as Exhibit (b) (6) (c) to North American Security Trust's initial registration statement on Form N-1A (File No. 33-27958) dated April 5, 1989.
- (c) (ii) Form of Dealer Agreement -- previously filed as Exhibit (b) (6) (c) (ii) to North American Fund's Post-Effective Amendment 19 on Form N-1A (File No. 33-27958) filed December 29, 1994.
- (c) (iii) Form of Dealer Agreement Among NASL Financial Services, Inc., Wood Logan Associates, Inc. and Selected Broker-Dealer - previously filed

as Exhibit (b) (6) (c) (iii) to North American Fund's Post-Effective Amendment 20 on Form N-1A (File No. 33-27958) filed June 30, 1995.

- (7) Not applicable.
- (8) (a) Custodian Agreement Between North American Security Trust and Boston Safe Deposit and Trust Company -- previously filed as Exhibit (b) (8) (a) to North American Security Trust's initial registration statement on Form N-1A (File No. 33-27958) dated November 1, 1991.
- (b) Custodian Agreement Between North American Security Trust and State Street Bank and Trust Company -- previously filed as Exhibit (b) (8) (a) to North American Security Trust's initial registration statement on Form N-1A (File No. 33-27958) dated April 5, 1989.
- (c) Transfer and Shareholder Services Contract Between North American Security Trust and State Street Bank and Trust Company -- previously filed as Exhibit (b) (8) (b) to North American Security Trust's initial registration statement on Form N-1A (File No. 33-27958) dated April 5, 1989.
- (d) Forms of Sub-Custodian Agreements Between State Street Bank and Trust Company and the Bank of New York, Chemical Bank and Bankers Trust --
- previously filed as Exhibit (8) (d) to North American Funds' Post-Effective Amendment No. 17 on Form N-1A (File No. 33-27958) dated April 1, 1994.
- (9) Not applicable.
- (10) (a) Opinion of Ruth Ann Fleming, Esq. -- previously filed as Exhibit (b) (10) to North American Security Trust's Post-Effective Amendment No. 2 on Form N-1A (File No. 33-27958) dated August 29, 1990.
- (b) Opinion of Christina M. Perrino, Esq. -- previously filed as Exhibit (b) (10) (b) to North American Security Trust's Post-Effective Amendment No. 6 on Form N-1A (File No. 33-27958) dated April 22, 1991.
- (c) Opinion of Christina M. Perrino, Esq. -- previously filed as Exhibit (b) (10) (c) to North American Security Trust's Post-Effective Amendment No. 7 on Form N-1A (File No. 33-27958) dated November 1, 1991.
- (d) Opinion of Christina M. Perrino, Esq. -- previously filed as Exhibit (b) (10) (d) to North American Security Trust's Post-Effective Amendment No. 9 on Form N-1A (File No. 33-27958) dated July 7, 1992.
- (e) Opinion of Jeffrey M. Ulness, Esq. -- previously filed as Exhibit (b) (10) (e) to North American Security Trust's Post-Effective Amendment No. 13 on Form N-1A (File No. 33-27958) dated June 29, 1993.
- (f) Opinion of Tracy A. Kane, Esq. -- previously filed as Exhibit (10) (f) to North American Funds' Post-Effective Amendment No. 17 on Form N-1A (File No. 33-27958) dated April 1, 1994.
- (g) Opinion of Counsel of Betsy Anne Seel, Esq. -- previously filed as Exhibit (b) (10) (g) to North American Fund's Post Effective Amendment No. 19 on Form N-1A (File No. 33-27958) filed December 29, 1994.
- (h) Opinion of Counsel of Betsy Anne Seel, Esq. -- previously filed as Exhibit (b) (10) (h) to North American Funds Post effective Amendment No. 21 on Form N1-A (File No. 33-27958) dated December 15, 1995.
- (11) Consent of Coopers & Lybrand -- Filed herewith.
- (12) Not applicable.
- (13) Letter Containing Investment Undertaking of North American Life Assurance Company -- previously filed as Exhibit (b) (13) to North American Security Trust's Post-Effective Amendment No. 2 on Form N-1A (File No. 33-27958) dated August 29, 1990.
- (14) Model Plans Documents for Custodial IRAs -- previously filed as Exhibit (b) (14) to North American Security Trust's Post-Effective Amendment No. 1 on Form N-1A (File No. 33-27958) dated December 29, 1989.

- (15) (a) Distribution Plan of North American Security Trust as amended March 26, 1993 -- previously filed as Exhibit (15) (a) to North American Funds' Post-Effective Amendment No. 13 on Form N-1A (File No. 33-27958) dated June 30, 1993.
- (b) Distribution Plan of North American Funds as amended June 18, 1993-- previously filed as Exhibit (15) (b) to North American Funds' Post-Effective Amendment No. 13 on Form N-1A (File No. 33-27958) dated June 30, 1993.
- (c) Distribution Plan of North American Funds as amended September 30, 1993 -- previously filed as Exhibit (15) (d) to North American Funds' Post-Effective Amendment No. 14 on Form N-1A (File No. 33-27958) dated November 30, 1993.
- (d) Class A Distribution Plan -- previously filed as Exhibit (15) (d) to North American Funds' Post-Effective Amendment No. 16 on Form N-1A (File No. 33-27958) dated January 31, 1994.
- (e) Class B Distribution Plan -- previously filed as Exhibit (15) (e) to North American Funds' Post-Effective Amendment No. 16 on Form N-1A (File No. 33-27958) dated January 31, 1994
- (f) Class C Distribution Plan -- previously filed as Exhibit (15) (f) to North American Funds' Post-Effective Amendment No. 16 on Form N-1A (File No. 33-27958) dated January 31, 1994.
- (g) Class A, B and C Distribution Plans as amended March 18, 1994 -- previously filed as Exhibit (15) (g) to North American Funds' Post-Effective Amendment No. 17 on Form N-1A (File No. 33-27958) dated April 1, 1994.
- (h) Form of Class D Distribution Plan -- previously filed as Exhibit (15) (h) to North American Funds' Post-Effective Amendment No. 18 on Form N-1A (File No. 33-27958) dated October 20, 1994.
- (i) Amendment to 12b-1 Distribution Plans for J.P. Morgan International Growth and Income Fund - Classes A, B, and C -- previously filed as Exhibit 15. to North American Funds' Post Effective Amendment No. 19 on Form N-1A on December 29, 1994.
- (j) Amendment to 12b-1 Plans for the Small/Mid Cap, International Small Cap and Growth Equity Fund Classes A, B and C -- previously filed as Exhibit (b) (15) (j) to North American Funds Post effective Amendment No. 21 on Form N1-A (File No. 33-27958) dated December 15, 1995.
- (16) (a) Schedule of Computations of Total Return and Yield Figures for the Growth and Income, Investment Quality Bond and Global Growth Trusts --previously filed as Exhibit (b) (16) (a) to North American Security Trust's Post-Effective Amendment No. 7 on Form N-1A (File No. 33-27958) dated November 1, 1991.
- (b) Schedule of Computations of Total Return and Yield Figures for the Growth, U.S. Government and Asset Allocation Trusts -- previously filed as Exhibit (b) (16) to North American Security Trust's Post-Effective Amendment No. 1 on Form N-1A (File No. 33-27958) filed December 29, 1989.
- (c) Schedule of Computations of Total Return and Yield Figures for Class A, Class B and Class C shares -- previously filed as Exhibit (16) (c) to North American Funds' Post-Effective Amendment No. 17 on Form N-1A (File No. 33-27958) dated April 1, 1994.
- (d) Schedule of Computations of Total Return and Yield Figures for Strategic Income Fund Class A, Class B and Class C shares -- previously filed as Exhibit (b) (16) (d) to North American Fund's Post-Effective Amendment No. 19 on Form N-1A (File No. 33-27958) filed December 29, 1994.
- (e) Schedule of Computations of Total Return Figures for the International Growth and Income Fund, Class A, Class B and Class C Shares --previously filed as Exhibit (b) (16) (e) to North American Fund's Post-Effective Amendment No. 20 on Form N-1A (File No. 33-27958) filed June 30, 1995.
- (17) Financial Data Schedule for financials statements for the year ended October 31, 1996 - Filed herewith.

- (18) Rule 18f-3 plan, as amended -- previously filed as Exhibit (b)(18) to North American Funds Post effective Amendment No. 21 on Form N1-A (File No. 33-27958) dated December 15, 1995.
- (19) (a) Power of Attorney - previously filed as Exhibit (b)(17) to North American Security Trust's Post-Effective Amendment No. 10 on Form N-1A (File No. 33-27958) filed December 30, 1992.
- (b) Power of Attorney - Frederick W. Gorbet -- previously filed as Exhibit (b)(16) to North American Funds' Post-Effective Amendment No. 16 on Form N-1A (File No. 33-27958) dated January 31, 1994.
- (c) Powers of Attorney -- previously filed as Exhibit (17)(c) to North American Funds' Post-Effective Amendment No. 18 on Form N-1A (File No. 33-27958) dated October 20, 1994.
- (d) Powers of Attorney -- Richard Hirtle, Treasurer, Chief Financial Officer and Joseph Scott, President, dated September 27, 1996 - Filed herewith

Item 25. Persons Controlled by or Under Common Control with Registrant  
-----

No person is directly or indirectly controlled by the Registrant. With respect to the other portfolios of the Registrant, no person controls the Registrant by virtue of share ownership in the Registrant. While the Registrant disclaims any such control relationship, it may be deemed to be controlled by its investment adviser by virtue of the advisory relationship. In such case, the Registrant and its adviser, NASL Financial Services, Inc., a Massachusetts corporation, may be deemed to be under common control of the adviser's parent corporations. NASL Financial Services, Inc. is 100% owned by North American Security Life Insurance Company, a stock life insurance company organized under the laws of Delaware, which in turn is a subsidiary controlled by The Manufacturers Life Insurance Company. A list of all companies under the control of The Manufacturers Life Insurance Company is set forth on the following pages.

THE MANUFACTURERS LIFE INSURANCE COMPANY  
(Subsidiaries Organization Chart  
- including certain Significant Investments)

The Manufacturers Life Insurance Company (Canada)

1. ManuLife Holdings (Hong Kong) Limited - H.K. (100%)
2. ManuLife Financial Systems (Hong Kong) Limited - H.K. (100%)
3. P.T. Asuransi Jiwa Dharmala Manulife - Indonesia (51%)
4. WT (SW) Properties Ltd. - U.K. (100%)
5. OUB Manulife Pte. Ltd. - Singapore (50%)
6. Manulife (Malaysia) SDN. BHD. - Malaysia (100%)
7. Manulife (Thailand) Ltd. - Thailand (100%)
8. Young Poong Manulife Insurance Company - Korea (50%)
9. Ennal, Inc. - Ohio (100%)
10. First North American Realty, Inc. - Minnesota (100%)
11. NAL Resources Limited - Alberta (100%)
  - (a) Nottingham Gas Limited - Saskatchewan (31%)
12. Nottingham Gas Limited - Saskatchewan (31%)
13. 484551 Ontario Limited - Ontario (100%)
  - (a) 911164 Ontario Limited - Ontario (100%)
14. Peel-de Maisonneuve Investments Ltd. - Canada (50%)

- (a) 2932121 Canada Inc. - Canada (100%)
  - 15. Balmoral Developments Inc. - Canada (100%)
  - 16. KY Holding Corporation - Canada (100%)
  - 17. 165351 Canada Limited - Canada (100%)
  - 18. 172846 Canada Limited - Canada (100%)
  - 19. 576986 Ontario Inc. - Ontario (100%)
  - 20. Cantay Holdings Inc. - Ontario (100%)
  - 21. Manufacturers Life Capital Corporation Inc. - Canada (100%)
  - 22. Elliott & Page Asset Management Ltd. - Canada (100%)
  - 23. 495603 Ontario Limited - Ontario (100%)
  - 24. 994744 Ontario Inc. - Ontario (100%)
  - 25. The North American Group Inc. - Ontario (100%)
  - 26. Manulife Investment Management Corporation - Canada (100%)
    - (a) 159139 Canada Inc. - Canada (50%)
      - i. Altamira Management Ltd. - Canada (60.96%)
        - A. ACI2 Limited - Cayman (100%)
          - a/ Regent Pacific Group Limited-Cayman (63.8%)
            - a.1 Manulife Regent Investment Corporation - Barbados (100%) [50% by Regent Pacific Group Limited and 50% by Manulife Data Services Inc.]
        - b.1 Manulife Regent Investment Asia Limited - Hong Kong (100%)
      - B. Altamira Financial Services Inc. - Ontario (100%)
        - a/ AIS Securities (Partnership) - Ontario (100%) [5% by Altamira Financial Services, Inc. and 95% by Altamira Investment Services Inc.]
        - b/ Altamira Investment Services Inc. - Ontario (100%)
          - (a) AIS Securities (Partnership) - Ontario (100%) [95% by Altamira Investment Services Inc. and 5% by Altamira Financial Services Inc.]
          - (b) Altamira (Alberta) Ltd. - Alberta (100%)
          - (c) Capital Growth Financial Services Inc. - Ontario (100%)
27. Manulife International Investment Management Limited - U.K. (100%)
  - (a) Manulife International Fund Management Limited - U.K. (100%)
28. Manulife (International) Limited - Bermuda (100%)
  - (a) The Manufacturers (Pacific Asia) Insurance Company Limited - Hong Kong (100%)
  - (b) Newtime Consultants Limited - Hong Kong (100%)

29. Manulife Data Services Inc.- Barbados (100%)  
(a) Manulife Regent Investment Corporation - Barbados - (100%)
- [50%] by Manulife Data Services Inc. and 50% by Regent  
Pacific Group Limited]
- (b) Manulife Regent Investment Asia Limited - Hong Kong (100%)
30. FNA Financial Inc. - Canada (100%)  
(a) NAL Trustco Inc. - Ontario (100%)  
(b) First North America Insurance Company - Canada (100%)  
(c) Elliott & Page Limited - Ontario (100%)  
(d) Seamark Asset Management Ltd. - Canada (69.175%)  
(e) NAL Resources Management Limited - Canada (100%)  
(i) NAL Energy Inc. - Alberta (100%)
31. ManuCab Ltd. - Canada (100%)  
(a) Plazcab Service Limited - Canada (100%)
32. Townvest Inc. - Ontario (100%)
33. Manulife Reinsurance Corporation (U.S.A.) - Michigan (100%)  
(a) The Manufacturers Life Insurance Company (U.S.A.) - Michigan (100%)  
(b) Manulife Holding Corporation - Delaware (100%)  
i. Manufacturers Life Mortgage Securities Corporation - Delaware (100%)  
ii. Manulife Property Management of Washington, D.C., Inc. - Washington D.C. (100%)  
iii. Capital Design Corporation - California - (100%)  
iv. ManEquity, Inc. - Colorado (100%)  
v. Manulife Service Corporation - Colorado (100%)  
vi. Succession Planning International Inc. - Wisconsin (100%)  
(c) The Manufacturers Life Insurance Company of America - Michigan (100%)  
i. Manulife Series Fund, Inc. - Maryland (100%)  
ii. Manufacturers Adviser Corporation - Colorado (100%)  
(d) Manulife Reinsurance Limited - Bermuda (100%)
34. The Manufacturers Investment Corporation - Michigan (100%)
35. Capitol Bankers Life Insurance Company - Minnesota (100%)
36. NAWL (North American Wood Logan Holding Company) - Delaware (85%)  
(a) Wood Logan Associates Inc. - Connecticut (100%)  
(i) Wood Logan Distributors - Connecticut (100%)  
(b) North American Security Life Insurance Company - Delaware (100%)  
(i) NASL Financial Services, Inc. - Massachusetts (100%)  
(ii) First North American Life Assurance Company - New York (100%)

37. Manulife (International) Reinsurance Limited - Bermuda (100%)

(a) Manulife (International) P&C Limited - Bermuda (100%)

(b) Manufacturers P&C Limited - Barbados (100%)

38. Manulife Financial Holdings Limited - Ontario (100%)

(a) 742166 Ontario Inc. - Ontario (100%)

(b) Family Realty Firstcorp Limited - Ontario (100%)

(c) Thos. N. Shea Investment Corporation Limited - Ontario (100%)

(d) Manulife Bank of Canada - Canada (100%)

i. Manulife Securities International Ltd. - Canada (100%)

Item 26. Number of Holders of Securities

-----

As of December 13, 1996, the number of holders of the shares of beneficial interest of each class of each series of shares of the Registrant was as follows:

<TABLE>  
<CAPTION>

Title of Series -----	Number of Record Holders -----		
	Class A -----	Class B -----	Class C -----
<S>	<C>	<C>	<C>
Global Equity Fund Shares of Beneficial Interest	1,168	2,640	5,326
Value Equity Fund Shares of Beneficial Interest*	1,310	2,521	6,242
Growth and Income Fund Shares of Beneficial Interest	988	2,668	4,505
Strategic Income Fund Shares of Beneficial Interest	624	1,387	845
Balanced Fund Shares of Beneficial Interest	469	1,087	4,337
Investment Quality Bond Fund Shares of Beneficial Interest	499	379	427

</TABLE>

<TABLE>  
<CAPTION>

Title of Series -----	Number of Record Holders -----		
	Class A -----	Class B -----	Class C -----
<S>	<C>	<C>	<C>
U.S. Government Securities Fund Shares of Beneficial Interest	2,787	892	873
National Municipal Bond Fund Shares of Beneficial Interest	136	132	131
Money Market Fund Shares of Beneficial Interest	752	267	749
International Growth and Income Fund Shares of Beneficial Interest	522	1,382	951
Small/Mid Cap Fund Shares of Beneficial Interest	555	885	933
International Small Cap Fund Shares of Beneficial Interest	329	570	586
Growth Equity Fund Shares of			

\*Formerly the Growth Fund

Item 27. Indemnification  
-----

Sections 6.4 and 6.5 of the Agreement and Declaration of Trust of the Registrant provide that the Registrant shall indemnify each of its Trustees and officers against all liabilities, including but not limited to amounts paid in satisfaction of judgments, in compromise or as fines and penalties, and against all expenses, including but not limited to accountants and counsel fees, reasonably incurred in connection with the defense or disposition of any action, suit or other proceeding, whether civil or criminal, before any court or administrative or legislative body, in which such trustee or officer may be or may have been involved as a party or otherwise or with which such person may be or may have been threatened, while in office or thereafter, by reason of being or having been such a trustee or officer, except that indemnification shall not be provided if it shall have been finally adjudicated in a decision on the merits by the court or other body before which the proceeding was brought that such trustee or officer (i) did not act in good faith in the reasonable belief that his or her action was in the best interests of the Registrant or (ii) is liable to the Registrant or its shareholders by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person's office.

Registrant has previously provided the undertaking set forth in Rule 481 under the Securities Act of 1933.

Item 28. Business and Other Connections of Investment Adviser  
-----

See "Management of the Fund" in the Prospectus and Statement of Additional Information and "Investment Management Arrangements" in the Statement of Additional Information for information regarding the business of the Adviser and each of the Subadvisers. For information as to the business, profession, vocation or employment of a substantial nature of each director, officer or partner of the Adviser and each of the Subadvisers, reference is made to the respective Form ADV, as amended, filed under the Investment Advisers Act of 1940, each of which is herein incorporated by reference.

Item 29. Principal Underwriters  
-----

a. NASL Financial Services, Inc. also acts a principal underwriter for NASL Variable Account, a separate account of North American Security Life Insurance Company, and as investment adviser of NASL Series Trust, the shares of which are the underlying investments of that separate account.

b. Officers and Directors of Principal Underwriter

<TABLE>

<CAPTION>

Name and Principal Business Address	Position and Offices with Underwriter	Offices with Registrant
<S>	<C>	<C>
John D. DesPrez III***	Director	
Brian L. Moore *	Chairman & Director	Chairman
Richard C. Hirlte ***	President & Director	Treasurer
John G. Vrysen ***	Vice President & Treasurer	Vice President
James R. Boyle**	Chief Administrative Officer	Vice President,
James D. Gallagher***	Vice President, Secretary & General Counsel	Secretary

</TABLE>

\* 200 Bloor Street East

South Tower, 11th Floor  
Toronto, Ontario  
Canada M4W-1E5

\*\* 116 Huntington Avenue  
Boston, MA 02116

\*\*\* 73 Tremont Street  
Boston, MA 02108

c. None.

Item 30. Location of Accounts and Records  
-----

All accounts, books and other documents required to be maintained under Section 31(a) of the Investment Company Act of 1940 are kept by NASL Financial Services, Inc., the Registrant's investment adviser, at its offices at 116 Huntington Avenue, Boston, Massachusetts 02116, by Wellington Management Company, the investment subadviser to the Growth and Income Fund and the Investment Quality Bond Fund at its offices at 75 State Street, Boston, Massachusetts 02109, by Salomon Brothers Asset Management Inc, the investment subadviser to the U.S. Government Securities Fund, Strategic Income Fund and National Municipal Bond Fund at its offices at 7 World Trade Center, New York, New York 10048, by Salomon Brothers Asset Management Limited, who provides certain advisory services to SBAM relating to currency transactions and investments in non-dollar denominated debt securities for the benefit of the Strategic Income Fund at its offices at Victoria Plaza, 111 Buckingham Palace Road, London SW1W 0SB, England, by J.P. Morgan Investment Management Inc., the investment subadviser to the International Growth and Income Fund at its offices at 522 5th Avenue, New York, New York 10036, by Fred Alger Management, Inc., the investment adviser to the Small/Mid Cap Fund at its offices at 30 Montgomery Street, Jersey City, New Jersey 07302, by Founders Asset Management, Inc., the investment adviser to the International Small Cap and Growth Equity Fund at its offices at 2930 East Third Avenue, Denver, Colorado 80206, by the Registrant at its principal business office located at 116 Huntington Avenue, Boston, Massachusetts 02116, by T. Rowe Price Associates, Inc., the investment subadviser to the Value Equity Trust, at its offices at 100 East Pratt Street, Baltimore, MD 21202, by Morgan Stanley Asset Management, Inc., the investment subadviser of the Global Equity Trust, at its offices at 1221 Avenue of the Americas, New York, New York 10020, by Manufacturers Adviser Corporation, the investment subadviser to the Money Market Trust, at its offices at 200 Bloor Street East, Toronto, Ontario, Canada M4W 1E5, by Boston Safe Deposit and Trust Company, One Boston Place, Boston, Massachusetts 02108, custodian for the Global Growth Fund's assets or by State Street Bank and Trust Company, the custodian and transfer agent for all the other portfolios of the Registrant, at its offices at 225 Franklin Street, Boston, Massachusetts 02110.

Item 31. Management Services  
-----

Not applicable.

Item 32. Undertakings  
-----

Previously furnished

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933 and the Investment Company Act of 1940 the Registrant, North American Funds, certifies that it meets all of the requirements for effectiveness of this Registration Statement pursuant to Rule 485(b) under the Securities Act of 1933 and has duly caused this amendment to its Registration Statement to be signed on its behalf by the undersigned, thereto duly authorized, in the City of Boston, and Commonwealth of Massachusetts on the 30th day of December, 1996.

NORTH AMERICAN FUNDS  
-----  
(Registrant)

By: Joseph Scott  
-----  
Joseph Scott, President

Attest:

Betsy Anne Seel  
-----  
Assistant Secretary

Pursuant to the requirements of the Securities Act of 1933, this amended Registration Statement has been signed by the following persons in the capacities and on the date indicated.

<TABLE>		
<CAPTION>		
<S>	<C>	<C>
* ----- Don B. Allen	Trustee	December 30, 1996 ----- (Date)
* ----- Charles L. Bardelis	Trustee	December 30, 1996 ----- (Date)
* ----- Samuel Hoar	Trustee	December 30, 1996 ----- (Date)
* ----- Brian L. Moore	Trustee and Chairman	December 30, 1996 ----- (Date)
* ----- Robert J. Myers	Trustee	December 30, 1996 ----- (Date)
* ----- Richard C. Hirtle	Vice President and Treasurer (Prin- cipal Financial and Accounting Officer)	December 30, 1996 ----- (Date)
Joseph Scott ----- Joseph Scott	President (Chief Executive Officer)	December 30, 1996 ----- (Date)
*By: James D. Gallagher ----- James D. Gallagher Attorney-in-Fact Pursuant to Powers of Attorney		December 30, 1996 ----- (Date)
</TABLE>		

EXHIBIT INDEX  
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<TABLE>		
<CAPTION>		
Exhibit No.	Description	Page No. Where Exhibit Located
<S>	<C>	<C>
(b) (1) (c)	Amended & Restated Agreement and Declaration of Trust	
(b) (1) (d)	Declaration of Trust Amendment	
(b) (1) (e)	Declaration of Trust Amendment	
(b) (1) (f)	Declaration of Trust Amendment	
(b) (1) (g)	Declaration of Trust Amendment	
(b) (1) (h)	Declaration of Trust Amendment	
(b) (5) (i)	Morgan Stanley Asset Management Subadvisory Agreement	
(b) (5) (j)	T. Rowe Price Associates, Inc	

(b) (5) (k)	Subadvisory Agreement Manufacturers Adviser Corporation Subadvisory Agreement
(b) (5) (l)	Amendment to Founders Asset Management, Inc. Subadvisory Agreement
(b) (11)	Consent of Coopers and Lybrand
(b) (17)	Financial Data Schedule
(b) (19) (d)	Powers of Attorney

</TABLE>

## NORTH AMERICAN FUNDS

## AMENDED AND RESTATED AGREEMENT AND DECLARATION OF TRUST

## NORTH AMERICAN FUNDS

## AMENDED AND RESTATED AGREEMENT AND DECLARATION OF TRUST

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NORTH AMERICAN FUNDS

-----

AMENDED AND RESTATED AGREEMENT AND DECLARATION OF TRUST

-----

AGREEMENT AND DECLARATION OF TRUST, made at Boston, Massachusetts, September 28, 1988, establishing the North American Security Trust and amended on June 1, 1993, is hereby amended and restated, this 18th day of February, 1994, by the Trustees hereunder and by the holders of shares of beneficial interest issued hereunder as hereinafter provided.

W I T N E S S E T H

WHEREAS, this Trust has been formed to carry on the business of an

investment company and exercise all powers necessary and appropriate to the conduct of such operations;

WHEREAS, this Trust is authorized to issue its shares of beneficial interest in separate series, each separate series to be a Sub-Trust hereunder, all in accordance with the provisions hereinafter set forth; and

WHEREAS, the Trustees have agreed to manage all property coming into their hands as trustees of a Massachusetts business trust in accordance with the provisions hereinafter set forth;

NOW, THEREFORE, the Trustees hereby declare that they will hold all cash, securities and other assets which they may from time to time acquire in any manner as Trustees hereunder IN TRUST to manage and dispose of the same upon the following terms and conditions for the benefit of the holders from time to time of shares of beneficial interest in this Trust or in the Sub-Trusts created hereunder as hereinafter set forth.

ARTICLE I

-----

NAME AND DEFINITIONS

-----

Section 1.1 Name. This Trust shall be known as "North American Funds", and

----

the Trustees shall conduct the business of the Trust under that name or any other name or names as they may from time to time determine.

Section 1.2 Definitions. Whenever used herein, unless otherwise required

-----

by the context or specifically provided:

(a) The "Trust" refers to the Massachusetts business trust established by this Declaration of Trust, as amended from time to time, inclusive of each and every Sub-Trust established hereunder.

(b) "Sub-Trust" refers to each Sub-Trust of the Trust established and designated when the Trustees create each Series of Shares hereunder.

1

(c) "Trustees" refers to the Trustees of the Trust and of each Sub-Trust named herein so long as they shall continue in office and to all other individuals who may from time to time be duly appointed or elected, qualified and serving as Trustees in accordance with the provisions hereof, and reference herein to a Trustee or the Trustees shall refer to each such individual in his capacity as a trustee hereunder.

(d) "Shares" refers to the transferable units of interest into which

the beneficial interest in the Trust and each Sub-Trust (as the context may require) shall be divided from time to time, and includes (i) fractions of Shares as well as whole Shares and (ii) each separate class of Shares into which each Sub-Trust shall be divided from time to time.

(e) "Series" refers to Series of Shares established and designated under or in accordance with the provisions of Article IV, each of which Series shall represent the beneficial interest in a Sub-Trust of the Trust.

(f) "Shareholder" means a record owner of Shares.

(g) The "1940 Act" refers to the Investment Company Act of 1940 and the Rules and Regulations thereunder, all as amended from time to time.

(h) "Declaration of Trust" shall mean this Agreement and Declaration of Trust as amended or restated from time to time.

(i) "By-Laws" shall mean the By-Laws of the Trust as amended from time to time.

(j) "Affiliated Person", "Assignment", "Commission", "Interested Person", "Majority Shareholder Vote" (the 67% or 50% requirement of the third sentence of Section 2(a)(42) of the 1940 Act, whichever may be applicable) and "Principal Underwriter" shall have the meanings given them in the 1940 Act, as amended from time to time.

## ARTICLE II

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### PURPOSE OF TRUST

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The purpose of the Trust is to operate as an investment company and to offer Shareholders one or more investment programs primarily in securities and debt instruments.

## ARTICLE III

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### THE TRUSTEES

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#### Section 3.1 Number, Designation, Election, Term, etc.

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(a) Initial Trustee. Upon the execution of this Declaration of Trust or

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a counterpart hereof or some other writing in which he accepts such Trusteeship and agrees to the provisions hereof, William J. Atherton, whose address is

(b) Number. The Trustees serving as such, whether named above or

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hereafter becoming a Trustee, may increase or decrease (to not less than three) the number of Trustees to a number other than the number theretofore determined. No decrease in the number of Trustees shall have the effect of removing any Trustee from Office prior to the expiration of his term, but the number of Trustees may be decreased in conjunction with the removal of a Trustee pursuant to subsection (e) of this Section 3.1.

(c) Election and Term. The Trustees shall be elected by the

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Shareholders of the Trust at the first meeting of Shareholders. Each Trustee, whether named above or hereafter becoming a Trustee, shall serve as a Trustee of the Trust and of each Sub-Trust during the lifetime of this Trust and until its termination as hereinafter provided except as such Trustee sooner dies, resigns, retires or is removed, or becomes incapacitated to perform the duties of a Trustee. Subject to Section 16(a) of the 1940 Act, the Trustees may elect successor Trustees and may, pursuant to Section 3.1(f) hereof, appoint Trustees to fill vacancies. Trustees need not own Shares.

(d) Resignation and Retirement. Any Trustee may resign his trust or

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retire as a Trustee, by written instrument signed by him and delivered to the other Trustees or to the Chairman, if any, the President or Secretary of the Trust, and such resignation or retirement shall take effect upon such delivery or upon such later date as is specified in such instrument and shall be effective as to the Trust and each Sub-Trust.

(e) Removal. Any Trustee may be removed with or without cause at any

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time: (i) by action of two-thirds of the Trustees prior to such removal; or (ii) by vote of Shareholders holding not less than two-thirds of the Shares then outstanding, cast in person or by proxy at any meeting called for the purpose. Any such removal shall be effective as of the date of such action or such later date as may be specified in such action and as to the Trust and each Sub-Trust.

(f) Vacancies. Any vacancy or anticipated vacancy resulting from any

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reason, including without limitation the death, resignation, retirement, removal or incapacity of any of the Trustees, or resulting from an increase in the number of Trustees by the other Trustees may (but so long as there are at least three remaining Trustees, need not unless required by the 1940 Act) be filled by a majority of the remaining Trustees, subject to the provisions of Section 16(a) of the 1940 Act, through the appointment in writing of such other person as such remaining Trustees in their discretion shall determine. Until a vacancy is

filled, the Trustees in office regardless of their number, shall have all the powers granted to the Trustees and shall discharge all the duties imposed on the Trustees by this Declaration of Trust. An appointment as Trustee shall be effective upon the written acceptance of the person named therein to serve as a Trustee and agreement by such person to be bound by the provisions of this Declaration of Trust, except that any such appointment in anticipation of a vacancy to occur by reason of retirement, resignation or increase in number of Trustees to be effective at a later date shall become effective only at or after the effective date of said retirement, resignation, or increase in number of Trustees. As soon as any Trustee so appointed shall have accepted such appointment and shall have agreed in writing to be bound by this Declaration of Trust and the appointment is effective, the Trust estate shall vest in the new Trustee, together with the continuing Trustees, without any further act or conveyance.

(g) Effect of Death, Resignation, etc. The death, resignation,  
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retirement, removal or incapacity of the Trustees, or any one of them, shall not operate to annul or terminate the Trust or any Sub-Trust or to revoke or terminate any existing agency or contract created or entered into pursuant to the terms of this Declaration of Trust. When a Trustee ceases to be a Trustee, his right title and interest in the assets of the Trust shall automatically cease and vest in the remaining Trustees. Such cessation and vesting shall be effective whether or not conveyancing documents have been executed and delivered, but the individual (or his legal representative) shall execute and deliver such documents as the remaining Trustees shall require for the purpose of recording the conveyance to the remaining Trustees or the Trust of any trust property held in the name of that individual.

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(h) No Accounting. Except to the extent required by law or under  
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circumstances which would justify his removal for cause, no person ceasing to be a Trustee as a result of his death, resignation, retirement, removal or incapacity (nor the estate of any such person) shall be required to make an accounting to the Shareholders or remaining Trustees upon such cessation.

(i) Meetings. Meetings of the Trustees shall be held from time to  
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time upon the call of the Chairman, if any, the President, the Secretary or any two Trustees. Regular meetings of the Trustees may be held without call or notice at a time and place fixed by the By-Laws or by resolution of the Trustees. Notice of any other meeting shall be mailed or otherwise given as specified in the By-Laws. A quorum for all meetings of the Trustees shall be a majority of the Trustees then in office. Unless provided otherwise in this Declaration of Trust, any action of the Trustees may be taken at a meeting by vote of a majority of the Trustees present (a quorum being present). Trustees who are Interested Persons of the Trust within the meaning of Section 1.2 hereof or otherwise interested in any action to be taken may be counted for quorum

purposes under this Section and shall be entitled to vote to the extent permitted by the 1940 Act.

All or any one or more Trustees may participate in a meeting of the Trustees by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other and, subject to the 1940 Act, participating in a meeting pursuant to such communications systems shall constitute presence in person at such meeting.

Unless provided otherwise in this Declaration of Trust, and subject to the 1940 Act, any action that may be taken at a meeting by the Trustees may be taken without a meeting by written consents of a majority of the Trustees then in office.

Section 3.2 Powers of Trustees. Subject to the provisions of this

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Declaration of Trust, the business of the Trust shall be managed by the Trustees, and they shall have all powers necessary or convenient to carry out that responsibility and the purpose of the Trust. The Trustees shall have the power to conduct the business of the Trust and carry on its operations in any and all of its branches and maintain offices both within and without the Commonwealth of Massachusetts, in any and all states of the United States of America, in the District of Columbia, in any and all foreign countries and in any and all commonwealths, territories, dependencies, colonies, possessions, agencies or instrumentalities of the United States of America and of foreign governments, and to do all such other things and execute all such instruments as they deem necessary, proper or desirable in order to promote the interests of the Trust although such things are not herein specifically mentioned. The Trustees shall not in any way be bound or limited by any present or future law or custom in regard to investments by trustees. Any determination as to what is in the interests of the Trust made by the Trustees in good faith shall be conclusive. In construing the provisions of this Declaration of Trust, the presumption shall be in favor of a grant of power to the Trustees. The Trustees will not be required to obtain any court order to deal with trust property.

Without limiting the foregoing, the Trustees may:

(a) By-Laws. Adopt By-Laws, not inconsistent with this Declaration

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of Trust, providing for the conduct of the business and affairs of the Trust and may amend and repeal them to the extent that such By-Laws do not reserve that right to the Shareholders;

(b) Sub-Trusts. From time to time in accordance with the provisions

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hereof, establish Sub-Trusts, each Sub-Trust to operate as a separate and distinct investment medium and with separately defined investment objectives and policies; allocate assets, liabilities and expenses of the Trust to a particular Sub-Trust or apportion the same among two or more Sub-Trusts, provided that any liabilities or

expenses incurred or arising in connection with a particular Sub-Trust, as determined by the Trustees, shall be payable solely out of the assets of that Sub-Trust;

(c) Officers, Agents, etc. As they consider appropriate, elect and  
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remove officers and appoint and terminate agents and consultants and hire and terminate employees, any one or more of the foregoing of whom may be a Trustee, and may provide for the compensation of all of the foregoing;

(d) Committees. Appoint from their own number, and terminate, any  
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one or more committees consisting of two or more Trustees, including without implied limitation an executive committee, which may, when the Trustees are not in session and subject to the 1940 Act, exercise some or all of the power and authority of the Trustees as the Trustees may determine; notice, quorum, voting and other procedures for each committee shall be as determined by the Trustees or, in the absence of such determination, shall be the same as the procedures that apply to meetings and other proceedings of the Trustees;

(e) Advisory Boards. Appoint one or more advisory boards for the  
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Trust or for one or more Sub-Trusts, the members of each of which shall not be Trustees and need not be Shareholders;

(f) Advise and Custody. Employ one or more advisers, administrators,  
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depositories and custodians and may authorize any depository or custodian to employ domestic and foreign subcustodians or agents and to deposit all or any part of such assets in one or more domestic or foreign systems for the central handling of securities;

(g) Transfer and Dividend Agents. Retain transfer, dividend,  
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accounting or Shareholder servicing agents or any of the foregoing;

(h) Distribution. Provide for the distribution of Shares by the  
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Trust through one or more distributors, principal underwriters or otherwise;

(i) Record Dates. Set record dates or times for the determination of  
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Shareholders or various of them with respect to various matters;

(j) Compensation. Compensate or provide for the compensation of the  
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Trustees, officers, advisers, administrators, custodians, other agents,

consultants and employees of the Trust or the Trustees on such terms as they may deem appropriate;

(k) Delegation. In general, delegate to any officer of the Trust, to  
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any committee of the Trustees and to any employee, adviser, administrator, distributor, depository, custodian, transfer and dividend disbursing agent, or any other agent or consultant of the Trust such authority, powers, functions and duties as they consider desirable or appropriate for the conduct of the business and affairs of the Trust, including without implied limitation the power and authority to act in the name of the Trust and of the Trustees, to sign documents and to act as attorney-in-fact for the Trustees;

(l) Investments. Invest and reinvest cash and other property, and  
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hold cash or other property uninvested;

(m) Disposition of Assets. Sell, exchange, lend, pledge, mortgage,  
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hypothecate, write options on and lease any or all of the assets of the Trust;

(n) Ownership Powers. Vote or give assent, or exercise any rights of  
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ownership with respect to stock or other securities, including debt instruments, or other property; and execute and deliver proxies or powers of attorney to such person or persons as the Trustees shall deem proper, granting to such

person or persons such power and discretion with relation to securities or other property as the Trustees shall deem proper;

(o) Subscription. Exercise powers and rights of subscription or  
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otherwise which in any manner arise out of ownership of securities;

(p) Form of Holding. Hold any security or other property in a form  
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not indicating any trust, whether in bearer, unregistered or other negotiable form, or in the name of the Trustees or of the Trust or of any Sub-Trust or in the name of a custodian, subcustodian or other depository or a nominee or nominees or otherwise;

(q) Reorganization, etc. Consent to or participate in any plan for  
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the reorganization, consolidation or merger of any corporation or issuer, any security of which is or was held in the Trust; consent to any contract, lease, mortgage, purchase or sale of property by such corporation or issuer; and pay calls or subscriptions with respect to any security held in the Trust;

(r) Voting Trusts, etc. Join with other holders of any securities in  
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acting through a committee, depository, voting trustee or otherwise, and in that connection deposit any security with, or transfer any security to, any such committee, depository or trustee, and delegate to them such power and authority with relation to any security (whether or not so deposited or transferred) as the Trustees shall deem proper, and agree to pay, and pay, such portion of the expenses and compensation of such committee, depository or trustee as the Trustees shall deem proper;

(s) Compromise. Compromise, prosecute, defend, arbitrate or  
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otherwise adjust any claims, actions, suits, proceedings, or demands in favor of or against the Trust or any Sub-Trust or class thereof on any matter in controversy, including but not limited to claims for taxes;

(t) Partnerships, etc. Enter into joint ventures, general or limited  
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partnerships and any other combinations or associations;

(u) Borrowing and Security. Borrow funds and mortgage and pledge the  
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assets of the Trust or any part thereof to secure obligations arising in connection with such borrowing;

(v) Guarantees, etc. Endorse or guarantee the payment of any notes  
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or other obligations of any person; make contracts of guaranty or suretyship, or otherwise assume liability for payment thereof; and mortgage and pledge the Trust property or any part thereof to secure any of or all such obligations;

(w) Indemnification. To the extent permitted by law, indemnify any  
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person with whom the Trust has dealings, including any investment adviser, administrator, transfer agent, distributor, principal underwriter and selected dealers to such extent as the Trustees shall determine;

(x) Insurance. Purchase and pay for entirely out of Trust property  
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such insurance as they may deem necessary or appropriate for the conduct of the business, including, without limitation, insurance policies insuring the assets of the Trust and payment of distributions and principal on its portfolio investments, and, subject to the 1940 Act, insurance policies insuring the Shareholders, trustees, officers, employees, agents, consultants, investment advisers, managers, administrators, distributors, principal underwriters, or independent contractors, or any thereof (or any person connected therewith), of the Trust individually against all claims and liabilities of every nature arising by reason of holding or having held any such office or position, or by reason of any action alleged to have been taken or omitted by any such person in any such capacity, including any action taken or omitted that may be determined

to constitute negligence, whether or not the Trust would have the power to indemnify such persons against such liability;

(y) Pensions, etc. Pay pensions for faithful service, as deemed

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appropriate by the Trustees, and adopt, establish and carry out pension, profit-sharing, share bonus, share purchase, savings, thrift and other retirement, incentive and benefit plans, trust and provisions, including the purchasing of life insurance and annuity contracts as a means of providing such retirement and other benefits, for any or all of the Trustees, officers, employees and agents of the Trust; and

(z) Minimum Total Investment. Establish, from time to time, a

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minimum total investment for Shareholders, and require redemption of the Shares of any Shareholders whose investment is less than such minimum.

Section 3.3 Certain Contracts. Subject to compliance with the

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provisions of the 1940 Act, but notwithstanding any limitations of any present or future law or custom in regard to delegation of powers by trustees generally, the Trustees may, at any time and from time to time and without limiting the generality of their power and authority otherwise set forth herein, enter into one or more contracts with any one or more corporations, trusts, associations, partnerships, limited partnerships, other types of organizations, and individuals, including North American Life Assurance Company and its affiliates ("Contracting Party"), to provide for the performance and assumption of services, duties and responsibilities to, for or on behalf of the Trust, any Sub-Trust and any classes thereof or the Trustees, including but not limited to those set forth in paragraphs (a) to (g) below, as the Trustees may determine appropriate.

(a) Advisory. Subject to the general supervision of the Trustees and

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in conformity with the stated policy of the Trustees with respect to the investments of the Trust or of the assets belonging to any Sub-Trust of the Trust, to manage such investments and assets, make investment decisions with respect thereto, furnish statistical and research facilities and services, and to place purchase and sale orders for portfolio transactions relating to such investments and assets. The Trustees may, subject to applicable requirements of the 1940 Act, including those related to Shareholder approval, authorize the investment adviser to employ one or more subadvisers, from time to time, to perform such of the acts and services of the investment adviser, and upon such terms and conditions, as may be agreed upon between the investment adviser and subadviser;

(b) Administration. Subject to the general supervision of the

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Trustees and in conformity with any policies of the Trustees with respect to the operations of the Trust and each Sub-Trust, to supervise all or any part of the operations of the Trust and each Sub-Trust, and to provide all or any part of the administrative and clerical personnel, office space and office equipment and services appropriate for the efficient administration and operations of the Trust and each Sub-Trust;

(c) Distribution. To distribute the Shares of the Trust and each  
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Sub-Trust and each class thereof, to be principal underwriter of such Shares, and to act as agent of the Trust and each Sub-Trust in the sale of Shares and the acceptance or rejection of orders for the purchase of Shares;

(d) Custodian and Depository. To act as a depository for and to  
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maintain custody of property of the Trust and each Sub-Trust and accounting records in connection therewith;

(e) Transfer and Dividend Disbursing Agency. To maintain records of  
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the ownership of outstanding Shares, the issuance and redemption and the transfer thereof, and to disburse any dividends declared by the Trustees and in accordance with the policies of the Trustees and the instructions of any particular Shareholder to reinvest any such dividends;

(f) Shareholder Servicing. To provide service with respect to the  
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relationship of the Trust and its Shareholders, records with respect to Shareholders and their Shares, and similar matters; and

(g) Accounting. To handle all or any part of the accounting  
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responsibilities, whether with respect to the Trust's properties, Shareholders or otherwise.

Section 3.4 Parties to Contracts. The same person may be the  
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Contracting Party for some or all of the services, duties and responsibilities to, for and of the Trust and the Trustees, and the contracts with respect thereto may contain such terms interpretive of or in addition to the delineation of the services, duties and responsibilities provided for, including provisions that are not inconsistent with the 1940 Act relating to the standard duty of and the rights to indemnification of the Contracting Party and others, as the Trustees may determine. Nothing herein shall preclude, prevent or limit the Trust or a Contracting Party from entering into subcontractual arrangements relative to any of the matters referred to in Sections 3.3(a) through (g)

hereof.

The fact that:

(a) any of the Shareholders, Trustees, or officers of the Trust is a shareholder, director, officer, partner, trustee, employee, manager, adviser, principal underwriter or distributor or agent of or for any Contracting Party, or of or for any parent or affiliate of any Contracting Party or that the Contracting Party or any parent or affiliate thereof is a Shareholder or has an interest in the Trust or any Sub-Trust, or that

(b) any Contracting Party may have a contract providing for the rendering of any similar services to one or more other corporations, trusts, associations, partnerships, limited partnerships or other organizations, or have other business or interests,

shall not affect the validity of any contract for the performance and assumption of services, duties and responsibilities to, for or of the Trust or any Sub-Trust or the Trustees or disqualify any Shareholder, Trustee or officer of the Trust from voting upon or executing the same or create any liability or accountability to the Trust, any Sub-Trust or Shareholders, provided that in the case of any relationship or interest referred to in the preceding clause (a) on the part of any Trustee or officer of the Trust either:

(c) the material facts as to such relationship or interest have been disclosed to or are known by the Trustees not having any such relationship or interest and the contract involved is approved in good faith by a majority of such Trustees not having any such relationship or interest (even though such unrelated or disinterested Trustees are less than a quorum of all the Trustees),

(d) the material facts as to such relationship or interest and as to the contract have been disclosed to or are known by the Shareholders entitled to vote thereon and the contract involved is specifically approved in good faith by vote of the Shareholders, or

(e) the specific contract involved is fair to the Trust as of the time it is authorized, approved or ratified by the Trustees or by the Shareholders.

Section 3.5 Payment of Trust Expenses and Compensation of Trustees. The

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Trustees are authorized to pay or cause to be paid out of the principal or income of the Trust or any Sub-Trust or classes thereof, or partly out of principal and partly out of income, and to charge or allocate the same to, between or among such one or more of the Sub-Trusts or classes thereof that may be established and designated pursuant to Article IV, as the Trustees deem fair, all expenses, fees, charges, taxes and

liabilities incurred or arising in connection with the Trust or any Sub-Trust or classes thereof or in connection with the management thereof, including, but not limited to, the Trustees' compensation and such expenses and charges for the services of the Trust's officers, employees, investment adviser, administrator, distributor, principal underwriter, auditor, counsel, depository, custodian, transfer agent, dividend disbursing agent, accounting agent, Shareholder servicing agent, and such other agents, consultants, and independent contractors and such other expenses and charges as the Trustees may deem necessary or proper to incur; provided, however, that all expenses, fees, charges, taxes and liabilities incurred or arising in connection with a particular Sub-Trust or class thereof as determined by the Trustees, shall be payable solely out of the assets of that Sub-Trust or class thereof. Without limiting the generality of any other provision hereof, the Trustees shall be entitled to reasonable compensation from the Trust for their services as Trustees and may fix the amount of such compensation.

Section 3.6 Ownership of Assets of the Trust. Title to all of the assets  
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of each Sub-Trust and of the Trust shall at all times be considered as vested in the Trustees. No Shareholder shall be deemed to have a severable ownership in any individual asset of the Trust or any Sub-Trust or any right of partition or possession thereof, but each Shareholder shall have an undivided beneficial interest in each Sub-Trust in which he is a Shareholder.

ARTICLE IV  
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SHARES  
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Section 4.1 Description of Shares. The beneficial interest in the  
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Trust shall be divided into Shares, par value \$0.001 per share.

(a) Series of Shares and Sub-Trusts. The Trustees shall have the  
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authority from time to time to divide the Shares into two or more Series of Shares as they deem necessary of desirable. Each Series of Shares shall be a separate and distinct Sub-Trust of the Trust. Each Sub-Trust established hereunder shall be deemed to be a separate trust under Massachusetts General Laws Chapter 182. The Trustees shall have exclusive power without the requirement of shareholder approval to establish and designate such separate and distinct Sub-Trusts, and to fix and determine the relative rights and preferences as between the Shares of the separate Sub-Trusts as to purchase price, right of redemption and the price, terms and manner of redemption, special and relative rights as to dividends and other distributions and on liquidation, sinking or purchase fund provisions, conversion rights, and conditions under which the several Sub-Trusts shall have separate voting rights

or no voting rights.

Each Share of a Sub-Trust shall represent a beneficial interest only in the assets belonging to that Sub-Trust, and such interest shall not extend to the assets of any other Sub-Trust or to the assets of the Trust generally. Shareholders of a particular Sub-Trust shall not be entitled to participate in a derivative or class action on behalf of any other Sub-Trust or the Shareholders of any other Sub-Trust.

The establishment and designation of any Sub-Trust in addition to those established and designated in Section 4.2 shall be effective upon the execution by a majority of the Trustees of an instrument setting forth such establishment and designation and the relative rights and preferences of the Shares of such Sub-Trust. At any time that there are no Shares outstanding of any particular Sub-Trust previously established and designated, the Trustees may by an instrument executed by a majority of their number abolish that Sub-Trust and the establishment and designation thereof. Each instrument referred to in this paragraph shall have the status of an amendment to this Declaration of Trust.

Any Trustee, officer or other agent of the Trust, and any organization in which any such person is interested, may acquire, own, hold and dispose of Shares of any Sub-Trust to the same extent as if such person were not a Trustee, officer or other agent of the Trust; the Trust may issue and sell or cause to be issued and sold and may purchase Shares of any Sub-Trust from any such person or any such organization subject only to the general limitations, restrictions or other provisions applicable to the sale or purchase of Shares of such Sub-Trust generally.

(b) Classes of Shares. The Trustees shall have the authority,

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without action or approval of the Shareholders, from time to time to divide the Shares of any sub-Trust into classes and to fix and determine the different rights and preferences as between the Shares of separate classes within a particular Sub-Trust as to purchase price, right of redemption and the price, terms and manner of redemption, dividends and other distributions and rights on liquidation, conversion rights, voting rights and such other rights as the Trustees may determine, and may designate the specific classes of shares of each Sub-Trust. The fact that a Sub-Trust shall have initially been established and designated without any specific establishment or designation of classes (i.e.,

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that all Shares of such Sub-Trust are initially of a single class), or that a Sub-Trust shall have more than one established and designated class, shall not limit the authority of the Trustees to establish and designate separate classes, or one or more further classes, of said Sub-Trust without approval of the holders of the initial class thereof, or previously established and designated class or classes thereof, provided that the establishment and designation of such further separate classes would not adversely affect the rights of the

holders of the initial or previously established and designated class or classes within the meaning of Section 77 of the Massachusetts General Laws Chapter 156B. The division of Shares into classes and the terms and conditions pursuant to which the Shares of the classes will be issued, must be made in compliance with the 1940 Act. The establishment and designation of any class of Shares of a Sub-Trust shall be effective upon the execution by a majority of the then Trustees of an instrument setting forth such establishment and designation and the relative rights and preferences of the Shares of such class. Each such instrument shall have the status of an amendment to this Declaration of Trust.

(c) Number and Issuance of Shares. The number of authorized Shares

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is unlimited as is the number of Shares of each Sub-Trust and of each class that may be issued. The Trustees may issue Shares of any Sub-Trust and of any class for such consideration and on such terms as they may determine (or for no consideration if pursuant to a Share dividend or split-up), all without action or approval of the Shareholders. All Shares when so issued on the terms determined by the Trustees shall be fully paid and non-assessable (but may be subject to mandatory contribution back to the Trust as provided in subsection (i) of Section 4.2). The Trustees may classify or reclassify any unissued Shares or any Shares previously issued and reacquired into one or more Sub-Trusts or classes thereof that may be established and designated from time to time. The Trustees may hold as treasury shares, reissue for such consideration and on such terms as they may determine, or cancel, at their discretion from time to time, any Shares of any Sub-Trust or class thereof reacquired by the Trust. The Trustees may from time to time divide or combine the shares of any Series or any class into a greater or lesser number without thereby changing the proportionate beneficial interest in the Series or class. The Trustees may from time to time close the transfer books or establish record dates and time for the purposes of determining the holders of Shares entitled to be treated as such, to the extent provided or referred to in Section 5.5

Section 4.2 Establishment and Designation of Sub-Trusts and Classes.

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Without limiting the authority of the Trustees set forth in Section 4.1 to establish and designate any further Sub-Trusts, the Trustees hereby establish and designate ten Sub-Trusts:

1. Growth Fund
2. Investment Quality Bond Fund
3. Money Market Fund
4. Global Growth Fund
5. U.S. Government Securities Fund

6. Growth and Income Fund
7. Asset Allocation Fund
8. Strategic Income Fund
9. National Municipal Bond Fund
10. California Municipal Bond Fund

The Shares of these Sub-Trusts and any Shares of any further Sub-Trusts that may from time to time be established and designated by the Trustees shall have the relative rights and preferences described below in this Section 4.2; provided that the Trustees may determine otherwise with respect to some further Sub-Trust at the time of establishing and designating the same; and provided further that the Trustees, in their absolute discretion, may amend any previously established relative rights and preferences as they may deem necessary or desirable to enable the Trust to comply with the 1940 Act or other applicable law.

(a) Assets Belonging to Sub-Trusts. All consideration received by the

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Trust for the issue or sale of Shares of a particular Sub-Trust or classes thereof, together with all assets in which such consideration is invested or reinvested, all income, earnings, profits, and proceeds thereof, including any proceeds derived from the sale, exchange or liquidation of such assets, and any funds or payments derived from any reinvestment of such proceeds in whatever form the same may be (collectively, "Specific Asset Items"), shall be held by the Trustees in trust for the benefit of the holders of Shares of that Sub-Trust and shall irrevocably belong to that Sub-Trust and be allocable to any classes thereof for all purposes, and shall be so recorded upon the books of account of the Trust. In the event that there are any assets, income, earnings, profits, and proceeds thereof, funds or payments which are not readily identifiable as belonging to any particular Sub-Trust (collectively, "General Asset Items), the Trustees shall allocate such General Asset Items to and among any one or more of the Sub-Trusts established and designated from time to time in such manner and on such basis as they, in their sole discretion, deem fair and equitable; and any General Asset Items so allocated to a particular Sub-Trust shall belong to that Sub-Trust and be allocable to any classes thereof. Each allocation of assets by the Trustees shall be conclusive and binding upon the Shareholders of all Sub-Trusts for all purposes. The Specific Asset Items of a Sub-Trust together with any General Asset Items allocated to that Sub-Trust are herein referred to as "assets belonging to" that Sub-Trust.

(b) Liabilities Belonging to Sub-Trusts. The assets belonging to each

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particular Sub-Trust shall be charged with all the liabilities, expenses, costs, charges and reserves which, as determined by the Trustees, are readily identifiable as belonging to that particular Sub-Trust (collectively, "Specific Liability Items"). Any general liabilities, expenses, costs, charges or reserves of the Trust which are not readily identifiable as belonging to any particular Sub-Trust (collectively, "General Liability Items") shall be

allocated and charged by the Trustees to and among any one or more of the Sub-Trusts established and designated from time to time in such manner and on such basis as the Trustees, in their sole discretion, deem fair and equitable. Each allocation of liabilities, expenses, costs, charges and reserves by the Trustees shall be conclusive and binding upon the Shareholders of all Sub-Trusts and of all classes for all purposes. The Specific Liability Items of a Sub-Trust together with any General Liability Items allocated to that Sub-Trust are herein referred to as "liabilities belonging to" that Sub-Trust. General liabilities, expenses, costs, charges or reserves being borne solely by a class of Shares or pertaining

solely to a class of shares are herein referred to as "expenses being borne solely" by a class. Expenses being borne solely by a particular class of Shares may be allocable to, or borne by, only such class of Shares (as determined by the Trustees). Under no circumstances shall the assets belonging to any particular Sub-Trust or class be charged with the liabilities belonging to any other Sub-Trust or class. All persons who have extended credit which the Trustees have allocated to a particular Sub-Trust, or who have a claim or contract which the Trustees have allocated to a particular Sub-Trust, shall look only to the assets of that particular Sub-Trust for payment of such credit, claim or contract.

(c) Income and Capital. The Trustees shall have full discretion, to the extent not inconsistent with the 1940 Act, to determine which items shall be treated as income and which items as capital; and each such determination and allocation shall be conclusive and binding upon the Shareholders.

(d) Dividends and Distributions. The Trustees shall from time to time distribute ratably among the Shareholders of a Sub-Trust or class such proportion of the net profits, surplus (including paid-in surplus), capital, or assets held by the Trustees with respect to that Sub-Trust or class as they may deem proper with any expenses being borne solely by a class of Shares of a Sub-Trust being reflected in the net profits or other assets being distributed to such class. Dividends and distributions may be paid with such frequency as the Trustees may determine, which may be daily or otherwise, pursuant to a standing resolution or resolutions adopted only once or with such frequency as the Trustees may determine. Distributions may be made in cash or property (including without limitation any type of obligations of the Trust or any assets thereof), and the Trustees may distribute ratably among the Shareholders additional Shares issuable hereunder in such manner, at such times, and on such terms as the Trustees deem proper. Such distributions may be among the Shareholders of record at the time of declaring a distribution or among the Shareholders of record at such later date as the Trustees shall determine. The Trustees may always retain from the net profits of a Sub-Trust or class such amount as they may deem necessary to pay the liabilities belonging to the Sub-Trust or class or to meet obligations of the Sub-Trust or class, or as they may

deem desirable to use in the conduct of its affairs or to retain for future requirements or extensions of the business. The Trustees may adopt and offer to Shareholders such dividend reinvestment plans, cash dividend payout plans or related plans as the Trustees shall deem appropriate.

Inasmuch as the computation of net income and gains for Federal income tax purposes may vary from the computation thereof on the books, the above provisions shall be interpreted to give the Trustees the power in their discretion to distribute for any fiscal year as ordinary dividends and as capital gains distributions, respectively, additional amounts sufficient to enable the Trust and the Sub-Trusts to avoid or reduce liability for taxes.

(e) Liquidation. In the event of the liquidation or dissolution of the  
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Trust or of any Sub-Trust, the Shareholders of each affected Sub-Trust shall be entitled to receive, when and as declared by the Trustees, the excess of the assets belonging to that Sub-Trust over the liabilities belonging to that Sub-Trust. The assets so distributable to the Shareholders of any particular Sub-Trust shall be distributed among the Shareholders of each class according to their respective rights taking into account the proper allocation of expenses being borne solely by any class of Shares of that Sub-Trust.

(f) Voting. Shareholders shall be entitled to vote only with respect to  
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such matters as may be required by law, the Declaration of Trust or the By-Laws and such additional matters as the Trustees may consider necessary or desirable. On each matter submitted to a vote of the Shareholders, each holder of a Share shall be entitled to one vote for each whole Share and to a proportionate fractional vote for each fractional Share standing in his name on the books of the Trust. All Shares of the Trust then entitled to vote shall be voted by Sub-Trust, except that when voting for the election of Trustees and when otherwise permitted by the 1940 Act, shares shall be voted in the aggregate and not by Sub-Trust. As to any matter which does not affect the interest of a particular Sub-Trust, only the holders of Shares of the one or more affected Sub-Trusts shall be entitled to vote. As to any matter relating to expenses being

borne solely by a class of a Sub-Trust or to any other matter which only affects the interests of a particular class of a particular Sub-Trust, only the holders of Shares of the affected class of the Sub-Trust shall be entitled to vote.

(g) Redemption by Shareholder. Each holder of Shares of a particular Sub-  
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Trust or any class thereof shall have the right at such time as may be permitted by the Trust to require the Trust to redeem all or any part of his Shares of that Sub-Trust or class, subject to the terms and conditions set forth in this Declaration of Trust and to such additional terms and conditions that may be adopted by the Trustees. Shares of any particular Sub-Trust or class may be redeemed solely out of the assets belonging to that Sub-Trust or class. Payment

of the redemption price shall be in cash; provided, however, that if the Trustees determine, which determination shall be conclusive, that conditions exist which make payment wholly in cash unwise or undesirable, the Trust may make payment wholly or partly in securities or other assets belonging to the Sub-Trust or class of which the Shares being redeemed are part at the value of such securities or assets used in such determination of net asset value. The amount per Share at which the Trust redeems or repurchases Shares shall be determined by the application of a formula adopted for such purpose by resolution of the Trustees (which formula shall be consistent with the 1940 Act) provided that (i) such amount per Share shall not exceed the cash equivalent of the proportionate interest of each Share in the assets of the particular Sub-Trust or class at the time of the purchase or redemption and (ii) if so authorized by the Trustees, the Trust may, at any time and from time to time, charge fees for effecting such redemption, at such rates as the Trustees may establish, as and to the extent permitted under the 1940 Act. The procedures for effecting redemption with respect to a particular Sub-Trust shall be set forth from time to time in the Prospectus for that Sub-Trust or class.

Notwithstanding the foregoing, the Trust may postpone payment of the redemption price and may suspend the right of the holders of Shares of any Sub-Trust or class to require the Trust to redeem Shares of that Sub-Trust or class during any period or at any time when and to the extent permissible under the 1940 Act.

(h) Redemption by Trust. Each Share of each Sub-Trust and each class

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thereof is subject to redemption by the Trust at the redemption price determined pursuant to subsection (g) of this Section 4.2: (i) at any time, if the Trustees determine in their sole discretion that failure to so redeem may have materially adverse consequences to the holders of the other Shares of the Trust or any Sub-Trust or any classes thereof, or (ii) upon such other conditions as may from time to time be determined by the Trustees and described in the then current Prospectus for a Sub-Trust or class with respect to maintenance of Shareholder accounts of a minimum amount in that Sub-Trust or class. Upon such redemption the holders of the Shares so redeemed shall have no further right with respect thereto other than to receive payment of such redemption price.

(i) Net Asset Value. The net asset value of a Sub-Trust or class shall be

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the amount determined by subtracting the liabilities belonging or allocable to that Sub-Trust or class from the assets belonging or allocable to that Sub-Trust or class. The net asset value of each outstanding Share of each Sub-Trust or class shall be determined at such time or times on such days as the Trustees may determine in accordance with the 1940 Act. The method of determination of the net asset value of a Sub-Trust or class shall be determined by the Trustees from time to time and shall be as described in the Prospectus for that Sub-Trust or class. The power and duty to make the daily calculations may be delegated by the Trustees to the adviser, administrator, manager, custodian, transfer agent or such other person as the Trustees may determine. The Trustees may suspend the daily determination of net asset value to the extent permitted by the 1940 Act.

The Trustees may determine to maintain the net asset value per Share of any Sub-Trust at a designated constant dollar amount and in connection therewith may adopt procedures not inconsistent with the 1940 Act for the continuing declarations of income attributable to that Sub-Trust as dividends payable in additional Shares of that Sub-Trust at the designated constant dollar amount and for the

handling of any losses attributable to that Sub-Trust. Such procedures may provide that in the event of any loss each Shareholder shall be deemed to have contributed to the capital of the Trust attributable to that Sub-Trust his pro rata portion of the total number of Shares required to be canceled in order to permit the net asset value per Share of that Sub-Trust to be maintained, after reflecting such loss, at the designated constant dollar amount. Each Shareholder of the Trust shall be deemed to have agreed, by his investment in any Sub-Trust with respect to which the Trustees shall have adopted any such procedure, to make the contribution referred to in the preceding sentence in the event of any such loss.

(j) Transfer. All Shares shall be transferable, but transfers of Shares

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of a particular Sub-Trust or class will be recorded on the Share transfer records of the Trust applicable to that Sub-Trust or class only at such times as Shareholders shall have the right to require the Trust to redeem Shares of that Sub-Trust or class and at such other times as may be permitted by the Trustees. Shares shall be transferable on the records of the Trust upon delivery to the Trust or its transfer agent of such evidence of assignment, transfer, succession or authority to transfer as the Trustees or the transfer agent may reasonably require, accompanied by any certificate or certificates representing such shares previously issued to the transferor. Upon such delivery the transfer shall be recorded on the books of the Trust. The Trust shall be entitled to treat the record holder of Shares as shown on its books as the owner of such Shares for all purposes, including the payment of dividends and the right to receive notice and to vote with respect thereto, regardless of any transfer, pledge or other disposition of such Shares until the Shares have been transferred on the books of the Trust in accordance with the requirements of this Declaration of Trust.

(k) Equality. All Shares of each Sub-Trust shall represent an equal

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proportionate interest in the assets belonging to that Sub-Trust (subject to the liabilities belonging to that Sub-Trust); provided that such equality need not be maintained among all Shares of a Sub-Trust but shall be maintained among all Shares of each class of that Sub-Trust whenever the Trustees divide the Shares of the Sub-Trust into classes, with the expenses relating solely to the Shares of a particular class being borne by, and reflected in the net asset value, dividends and liquidation rights of, that class.

(l) Fractions. Any fractional Share of any class of any Sub-Trust, if any

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such fractional Share is outstanding, shall carry proportionately all the rights and obligations of a whole Share of that class of that Sub-Trust, including rights and obligations with respect to voting, receipt of dividends and distributions, redemption of Shares, and liquidation of the Trust.

(m) Conversion and Exchange Rights. Subject to compliance with the

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requirements of the 1940 Act, the Trustees shall have the authority to provide that holders of Shares of any class of any Sub-Trust shall have the right to convert such Shares into, or to exchange such Shares for, Shares of the same or one or more other Sub-Trusts or classes thereof in accordance with such requirements and procedures as may be established by the Trustees.

Section 4.3 Ownership of Shares. The ownership of Shares shall be

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recorded on the books of the Trust or of a transfer or similar agent for the Trust. No certificates certifying the ownership of Shares need be issued except as the Trustees may otherwise determine from time to time. The Trustees may make such rules as they consider appropriate for the issuance of Shares certificates, the use of facsimile signatures, the transfer of Shares and similar matters. The record books of the Trust as kept by the Trust or any transfer or similar agent, as the case may be, shall be conclusive for all purposes as to who are the Shareholders and as to the number of Shares of each class of each Sub-Trust held from time to time by each such Shareholder.

Section 4.4 Investments in the Trust. The Trustees may accept investments

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in the Trust and each Sub-Trust and class thereof, subject to any requirements of law, from such persons and on such terms and for such consideration, as they from time to time authorize. The Trustees may authorize any distributor, principal underwriter, custodian, transfer agent or other person to accept orders for the

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purchase of Shares that conform to such authorized terms and to reject any purchase orders for Shares whether or not conforming to such authorized terms.

Section 4.5 No Preemptive Rights. Shareholders shall have no preemptive

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or other rights to receive, purchase or subscribe to any additional Shares or other securities issued by the Trust.

Section 4.6 Trust Only. It is the intention of the Trustees to create

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only the relationship of Trustee and beneficiary between the Trustees and each Shareholder from time to time. It is not the intention of the Trustees to create a general partnership, limited partnership, joint stock association, corporation, bailment or any form of legal relationship other than a trust.

Nothing in this Declaration of Trust shall be construed to make the Shareholders, either by themselves or with the Trustees, partners or members of a joint stock association.

Section 4.7 Status of Shares and Limitation of Personal Liability. Shares  
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shall be deemed to be personal property giving only the rights provided in this instrument. Every Shareholder by virtue of having become a Shareholder shall be held to have expressly assented and agreed to the terms hereof and to have become a party hereto. The death of a Shareholder during the continuance of the Trust shall not operate to terminate the Trust or any Sub-Trust or class thereof nor entitle the representative of any deceased Shareholder to an accounting or to take any action in court or elsewhere against the Trust or the Trustees, but only to the rights of said decedent under this Trust. Ownership of Shares shall not entitle the Shareholder to any title in or to the whole or any part of the Trust property or right to call for a partition or division of the same or for an accounting, nor shall the ownership of Shares constitute the Shareholders partners. Neither the Trust nor the Trustees nor any officer, employee or agent of the Trust shall have any power to bind personally any Shareholder nor, except as specifically provided herein, to call upon any Shareholder for the payment of any sum of money or assessment whatsoever other than such as the Shareholder may at any time personally agree to pay.

ARTICLE V  
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SHAREHOLDERS' VOTING POWERS AND MEETINGS  
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Section 5.1 Voting Powers. The Shareholders shall have power to vote  
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only (i) for the election or removal of Trustees as provided in Section 3.1, (ii) with respect to any contract with a Contracting Party as provided in Section 3.3 as to which Shareholder approval is contemplated by the 1940 Act, (iii) with respect to any termination or reorganization of the Trust or any Sub-Trust to the extent and as provided in Sections 7.1 and 7.2, (iv) with respect to any amendment of the Declaration of Trust to the extent and as provided in Section 7.3, (v) to the same extent as the stockholders of a Massachusetts business corporation as to whether or not a court action, proceeding or claim should or should not be brought or maintained derivatively or as a class action on behalf of the Trust or any Sub-Trust thereof or the Shareholders (provided, however, that a Shareholder of a particular Sub-Trust shall not be entitled to bring, maintain or participate in a derivative or class action on behalf of any other Sub-Trust (or Shareholder of any other Sub-Trust) of the Trust) and (vi) with respect to such additional matters relating to the Trust as may be required by the 1940 Act, other law, this Declaration of Trust, the By-Laws or any registration of the Trust with the Commission (or any successor agency) or any state, or as the Trustees may consider necessary or desirable. Only Shareholders of record shall be entitled to vote. There shall be no cumulative voting in the election of Trustees. Until Shares are issued, the Trustees may

exercise all rights of Shareholders and may take any action required by law, this Declaration of Trust or the By-Laws to be taken by Shareholders.

Section 5.2 Proxies. At any meeting of Shareholders, any holder of

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Shares entitled to vote thereat may vote in person or by proxy, provided that no proxy shall be voted at any meeting unless it shall have been placed on file with the Secretary, or with such other officer or agent of the Trust as the Secretary may direct, for verification prior to the time at which such vote shall be taken. Pursuant to a resolution of the Trustees, proxies may be solicited in the name of one or more persons, including one or more Trustees or one or more of the officers of the Trust. When any Shares are held in the names of two or more persons, any one of them may vote at any meeting in person or by proxy in respect of such Shares, but if more than one of them shall be present at such meeting in person or by proxy, and such joint owners or their proxies so present disagree as to any vote to be cast, such vote shall not be received in respect of such Shares. If the holder of any Share is a minor or a person of unsound mind, and subject to guardianship or to the legal control of any other person as regards the charge or management of such Shares, he may vote by his guardian or such other person appointed or having such control, and such vote may be given in person or by proxy. A proxy purporting to be executed by or on behalf of a Shareholder shall be deemed valid unless challenged at or prior to its exercise, and the burden of proving invalidity shall rest on the challenger.

Section 5.3 Meetings. Meetings of Shareholders of the Trust or of

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any Sub-Trust or Sub-Trusts or classes thereof may be called by the Trustees (or such other person or persons as may be specified in the By-Laws) from time to time for the purpose of taking action upon any matter requiring the vote or authority of such Shareholders as herein provided or upon any other matter deemed by the Trustees to be necessary or desirable. Written notice of any meeting of Shareholders shall be given at least seven days before such meeting. If the Trustees (or such other person or persons as may be specified in the By-Laws) fail to call or give notice of any meeting of Shareholders for 30 days after written application by Shareholders holding at least 25% of the Shares issued and outstanding, and entitled to vote at the meeting, requesting a meeting be called for a purpose requiring action by the Shareholders as provided herein or in the By-Laws, then Shareholders holding at least 25% of the Shares then outstanding may call and give notice of such meeting, and thereupon the meeting shall be held in the manner provided for herein in case of call thereof by the Trustees.

Section 5.4 Place of Meetings. All meetings of the Shareholders

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shall be held at the principal office of the Trust or at such other place within the United States as shall be designated by the Trustees or the President of the Trust.

Section 5.5 Record Dates. For the purpose of determining the

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Shareholders who are entitled to notice of and to vote or act at any meeting or any adjournment thereof, or who are entitled to participate in any dividend or distribution, or for the purpose of any other action, the Trustees may from time to time close the transfer books for such period, not exceeding 30 days (except at or in connection with the termination of the Trust), as the Trustees may determine; or without closing the transfer books, the Trustees may fix a date and time not more than 60 days prior to the date of any meeting of Shareholders or other action as the date and time of record for the determination of Shareholders entitled to notice of and to vote at such meeting or any adjournment thereof or to be treated as Shareholders of record for purposes of such other action, and any Shareholder who was a Shareholder at the date and time so fixed shall be entitled to vote at such meeting or any adjournment thereof or to be treated as a Shareholder of record for purposes of such other action, even though he has since that date and time disposed of his Shares, and no Shareholder becoming such after that date and time shall be so entitled to vote at such meeting or any adjournment thereof or to be treated as a Shareholder of record for purposes of such other action.

Section 5.6 Quorum and Required Vote. Thirty percent of the Shares

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entitled to vote shall be a quorum for the transaction of business at a Shareholders' meeting, but any lesser number shall be sufficient for adjournments. Any adjourned session or sessions may be held, within a reasonable time after the date set for the original meeting, without the necessity of further notice. A majority of the Shares voted, at a meeting at which a quorum is present, shall decide any questions and a plurality shall

elect a Trustee, except when a different vote is required or permitted by any provision of the 1940 Act or other applicable law or by this Declaration of Trust or the By-Laws. If a Series or a class of Shares is required or permitted by the 1940 Act or other applicable law or by this Declaration of Trust or the By-Laws to have exclusive voting rights with respect to certain matters, the aforesaid quorum and voting requirements shall apply to the action to be taken on those matters by the Shareholders of such Series or class.

Section 5.7 Action by Written Consent. Subject to the provisions of

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the 1940 Act and other applicable law, any action taken by Shareholders may be taken without a meeting if the Shareholders of a majority of the outstanding shares entitled to vote on the matter (or such larger portion thereof as shall be required by the 1940 Act or by any express provision of this Declaration of Trust or the By-Laws) consent to the action in writing and such written consents are filed with the records of the meetings of Shareholders. Such consent shall be treated for all purposes as a vote taken at a meeting of Shareholders.

Section 5.8 Inspection of Records. The records of the Trust shall be

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open to inspection by Shareholders to the same extent as is permitted  
stockholders of a Massachusetts business corporation under the Massachusetts  
Business Corporation Law.

Section 5.9 Additional Provisions. The By-Laws may include further  
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provisions for Shareholders' votes and meetings and related matters not  
inconsistent with the provisions hereof.

ARTICLE VI  
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LIMITATION OF LIABILITY; INDEMNIFICATION  
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Section 6.1 Trustees, Shareholders, etc. Not Personally Liable;  
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Notice. All persons extending credit to, contracting with or having any claim  
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against the Trust shall look only to the assets of the Sub-Trust or class  
thereof with which such person dealt for payment under such credit, contract or  
claim; and neither the Shareholders of any Sub-Trust nor the Trustees nor any of  
the Trust's officers, employees or agents, whether past, present or future, nor  
any other Sub-Trust shall be personally liable therefor. Every note, bond,  
contract, instrument, certificate or undertaking and every other act or thing  
whatsoever executed or done by or on behalf of the Trust, any Sub-Trust or the  
Trustees or any of them in connection with the Trust shall be conclusively  
deemed to have been executed or done only by or for the Trust (or the Sub-Trust)  
or the Trustees and not personally. Nothing in this Declaration of Trust shall  
protect any Trustee or officer against any liability to the Trust or the  
Shareholders to which such Trustee or officer would otherwise be subject by  
reason of willful misfeasance, bad faith, gross negligence or reckless disregard  
of the duties involved in the conduct of the office of Trustee or of such  
officer.

Every note, bond, contract, instrument, certificate or undertaking  
made or issued by the Trustees or by any officers or officer shall give notice  
that this Declaration of Trust is on file with the Secretary of the Commonwealth  
of Massachusetts and shall recite to the effect that the same was executed or  
made by or on behalf of the Trust or by them as Trustees or Trustee or as  
officers or officer and not individually and that the obligations of such  
instrument are not binding upon any of them or the Shareholders individually but  
are binding only upon the assets belonging to the Trust, or the particular Sub-  
Trust or class in question, as the case may be, but the omission thereof shall  
not operate to bind any Trustees or Trustee or officers or officer or  
Shareholders or Shareholder individually.

Section 6.2 Trustee's Good Faith Action; Expert Advice; No Bond or  
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Surety. The exercise by the Trustees of their powers and discretions hereunder

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shall be binding upon everyone interested. A Trustee shall be liable for his own willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of the office of Trustee, and for nothing else, and shall not be liable

for errors of judgement or mistakes of fact or law. Subject to the foregoing, (a) the Trustees shall not be responsible or liable in any event for any neglect or wrongdoing of any officer, agent, employee, consultant, adviser, administrator, distributor or principal underwriter, custodian, or transfer, dividend disbursing, Shareholder servicing or accounting agent of the Trust, nor shall any Trustee be responsible for the act or omission of any other Trustee; (b) the Trustees may take advice of counsel or other experts with respect to the meaning and operation of this Declaration of Trust and their duties as Trustees, and shall be under no liability for any act or omission in accordance with such advice or for failing to follow such advice; and (c) in discharging their duties, the Trustees, when acting in good faith, shall be entitled to rely upon the books of account of the Trust and upon written reports made to the Trustees by any officer appointed by them, any independent public accountant, and (with respect to the subject matter of the contract involved) any officer, partner or responsible employee of a Contracting Party appointed by the Trustees pursuant to Section 3.3 The Trustees as such shall not be required to give any bond or surety or any other security for the performance of their duties.

Section 6.3 Indemnification of Shareholders. In case any Shareholder

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(or former Shareholder) of any Sub-Trust shall be charged or held to be personally liable for any obligation or liability of the Trust solely be reason of being or having been a Shareholder and not because of such Shareholder's acts or omissions or for some other reason, the Sub-Trust (upon proper and timely request by the Shareholder) shall assume the defense against such charge and satisfy any judgment thereon, and the Shareholder or former Shareholder (or his heirs, executors, administrators or other legal representatives or in the case of a corporation or other entity, its corporate or other general successor) shall be entitled to be held harmless from and indemnified against all loss and expense arising from such liability, but only out of the assets of such Sub-Trust.

Section 6.4 Indemnification of Trustees, Officers, etc. The Trust

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shall indemnify (from the assets of the Sub-Trust or Sub-Trusts in question) each of its Trustees and officers (including persons who serve at the Trust's request as directors, officers, or trustees of another organization in which the Trust has an interest as a shareholder, creditor or otherwise) (herein referred to as a "Covered Person") against all liabilities, including but not limited to amounts paid in satisfaction of judgements, in compromise or as fines and penalties, and against all expenses, including but not limited to accountants and counsel fees, reasonably incurred by any Covered Person in connection with

the defense or disposition of any action, suit or other proceeding, whether civil or criminal, before any court or administrative or legislative body, in which such Covered Person may be or may have been involved as a party or otherwise or with which such person may be or may have been threatened, while in office or thereafter, by reason of being or having been such a Trustee or officer, director or trustee, except as otherwise provided in Section 6.5. Expenses, including accountants and counsel fees so incurred by any such Covered Person (but excluding amounts paid in satisfaction of judgments, in compromise or as fines or penalties), may be paid from time to time by the Sub-Trust in question in advance of the final disposition of any such action, suit or proceeding, upon receipt of an undertaking by or on behalf of the Covered Person to repay the amounts so paid to the Sub-Trust in question if it is ultimately determined that indemnification of such expenses is not authorized under this Article, provided that (i) the Covered Person shall have provided security for such undertaking, (ii) the Trust shall be insured against losses arising by reason of any lawful advances, or (iii) a majority of a quorum of the Trustees who are neither Interested Persons of the Trust (the "disinterested Trustees") nor parties to the proceeding, or an independent legal counsel in a written opinion, shall have determined, based on a review of readily available facts (as opposed to a full trial-type inquiry), that there is reason to believe that the Covered Person ultimately will be found entitled to indemnification.

Section 6.5 Exceptions to Indemnification. Indemnification shall not

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be provided to a Covered Person under Section 6.4 if it shall have been finally adjudicated in a decision on the merits by the court or other body before which the proceeding was brought that such Covered Person (i) did not act in good faith in the reasonable belief that such Covered Person's action was in the best interests of the Trust or (ii) is liable to the Trust or its Shareholders by reason of willful misfeasance, bad faith, gross negligence

or reckless disregard of the duties involved in the conduct of such Covered Person's office (either and both of the conduct described in (i) and (ii) being referred to hereafter as "Disabling Conduct"). As to any matter disposed of (whether by a compromise payment, pursuant to a consent decree or otherwise) without a final adjudication in a decision on the merits that such Covered Person is liable by reason of Disabling Conduct, indemnification shall be provided if there has been (i) a determination by the court or other body before which the proceeding was brought that the Covered Person was not liable by reason of Disabling Conduct, (ii) a dismissal of a court action or any administrative or other proceeding against a Covered Person for insufficiency of evidence of Disabling Conduct, or (iii) a reasonable determination, based upon a review of the facts, that the Covered Person was not liable by reason of Disabling Conduct either by a vote of a majority of a quorum of disinterested Trustees who are not parties to the proceeding, or by an independent legal counsel in a written opinion. Approval by the Trustees or by independent legal counsel of indemnification as to any matter disposed of by a compromise payment by the Covered Person shall not prevent the recovery from the Covered Person of

any amount paid to such Covered Person as indemnification for such payment or for any other expenses if such Covered Person is subsequently adjudicated by a court of competent jurisdiction to be liable by reason of Disabling Conduct.

Section 6.6 Indemnification Not Exclusive, etc. The right of  
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indemnification provided by this Article shall not be exclusive of or affect any other rights to which any such Covered Person may be entitled. As used in this Article, "Covered Person" shall include such person's heirs, executors and administrators. Nothing contained in this Article shall affect any rights to indemnification to which personnel of the Trust, other than Trustees and officers, and other persons may be entitled by contract or otherwise under law, nor the power of the Trust to purchase and maintain liability insurance on behalf of any such person.

Section 6.7 Liability of Third Persons Dealing with Trustee. No  
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person dealing with the Trustees shall be bound to make any inquiry concerning the validity of any transaction made or to be made by the Trustees or to see to the application of any payments made or property transferred to the Trust or upon its order.

ARTICLE VII  
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MISCELLANEOUS  
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Section 7.1 Duration and Termination of Trust. Unless terminated as  
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provided herein, the Trust shall continue without limitation of time and, without limiting the generality of the foregoing, no change, alteration or modification with respect to any Sub-Trust shall operate to terminate the Trust. The Trust may be terminated at any time by a majority of the Trustees then in office by written notice to the Shareholders or by a Majority Shareholder Vote, Shares of each Sub-Trust voting separately by Sub-Trust. Any Sub-Trust may be terminated at any time by a majority of the Trustees then in office by written notice to the Shareholders of that Sub-Trust or by a Majority Shareholder Vote of the Shares of that Sub-Trust.

Upon termination of the Trust or any Sub-Trust, after paying or otherwise providing for all charges, taxes, expenses and liabilities, whether due or accrued or anticipated as may be determined by the Trustees, the Trust shall, in accordance with such procedures as the Trustees consider appropriate, reduce the remaining assets to distributable form in cash, securities or other property, or any combination thereof, and distribute the proceeds to the Shareholders of the Sub-Trusts involved, in conformity with the provisions of subsection (e) of Section 4.2.

Section 7.2 Reorganization. The Trust or one or more Sub-Trust may  
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merge or consolidate with any other trust, partnership, association, corporation or other organization and the Trustees may sell,

convey and transfer the assets of the Trust, or the assets belonging to any one or more Sub-Trusts ("Transferor Sub-Trust"), to another trust, partnership, association, corporation or other organization, or to the Trust to be held as assets belonging to another Sub-Trust, in exchange for cash, securities or other consideration (including, in the case of a transfer to another Sub-Trust of the Trust, Shares of such other Sub-Trust) with such transfer being made subject to, or with the assumption by the transferee of, the liabilities belonging to each Transferor Sub-Trust; provided, however, that no merger, consolidation or sale of all or substantially all the assets belonging to any particular Sub-Trust shall be effected unless the terms of such transaction shall have first been approved by a Majority Shareholder Vote of the Shareholders of that Sub-Trust.

Section 7.3 Amendments. All rights granted to the Shareholders under

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this Declaration of Trust are granted subject to the reservation of the right to amend this Declaration of Trust as herein provided, except that no amendment shall repeal the limitations on personal liability of any Shareholder or Trustee or repeal the prohibition of assessment upon the Shareholders without the express consent of each Shareholder or Trustee involved. Subject to the foregoing, the provisions of this Declaration of Trust (whether or not related to the rights of Shareholders) may be amended at any time, so long as such amendment does not adversely affect the rights of any Shareholder with respect to which such amendment is or purports to be applicable and so long as such amendment is not in contravention of applicable law, including the 1940 Act, by an instrument in writing signed by a majority of the then Trustees (or by an officer of the Trust pursuant to the vote of a majority of such Trustees). Any amendment to this Declaration of Trust that adversely affects the rights of Shareholders may be adopted at any time by an instrument in writing signed by a majority of the then Trustees (or by an officer of the Trust pursuant to a vote of a majority of such Trustees) when authorized to do so by a Majority Shareholder Vote in accordance with subsection (f) of Section 4.2.

An amendment which would affect the Shareholders of one or more Sub-Trusts but not the Shareholders of all Sub-Trusts shall be authorized by a Majority Shareholder Vote of the Shareholders of each Sub-Trust affected, and no vote of Shareholders of a Sub-Trust not affected shall be required. Subject to the foregoing, any such amendment shall be effective as provided in the instrument containing the terms of such amendment or, if there is no provision therein with respect to effectiveness, upon the execution of such instrument and of a certificate (which may be a part of such instrument) executed by a Trustee or officer of the Trust to the effect that such amendment has been duly adopted.

Section 7.4 Resident Agent. The Trustees shall have the power to

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appoint on behalf of the Trust a resident agent and maintain a resident agent

for the Trust in the Commonwealth of Massachusetts, and from time to time, to replace the resident agent so appointed. The initial resident agent shall be John D. DesPrez III, Esq., 116 Huntington Avenue, Boston, Massachusetts, 02116.

Section 7.5 Filing of Copies; References; Headings. The original or  
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a copy of this instrument and of each amendment hereto, shall be kept at the office of the Trust where it may be inspected by any Shareholder. A copy of this instrument and of each amendment hereto shall be filed by the Trust with the Secretary of The Commonwealth of Massachusetts and with the Boston City Clerk, as well as any other governmental office where such filing may from time to time be required, but the failure to make any such filing shall not impair the effectiveness of this instrument or any such amendment. Anyone dealing with the Trust may rely on a certificate by an officer of the Trust as to whether or not any such amendments have been made, as to the identities of the Trustees and officers, and as to any matters in connection with the Trust hereunder; and, with the same effect as if it were the original, may rely on a copy certified by an officer of the Trust to be a copy of this instrument or of any such amendments. A restated Declaration of Trust, containing the original Declaration of Trust and all amendments theretofore made, may be executed from time to time by a majority of the Trustees and shall, upon filing with the Secretary of The Commonwealth of Massachusetts, be conclusive evidence of all amendments contained therein and may thereafter be referred to in lieu of the original Declaration of Trust and the various amendments thereto. In this instrument and in any such amendment, references to this

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instrument, and all expressions like "herein", "hereof" and "hereunder" shall be deemed to refer to this instrument as a whole as the same may be amended or affected by any such amendments. The masculine gender shall include the female and neuter genders. Headings are placed herein for convenience of reference only and shall not be taken as a part hereof or control or affect the meaning, construction or effect of this instrument. This instrument may be executed in any number of counterparts each of which shall be deemed an original.

Section 7.6 Applicable Law. This Declaration of Trust is created  
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under and is to be governed by and construed and administered according to the laws of The Commonwealth of Massachusetts, including the Massachusetts Business Corporation Law as the same may be amended from time to time, to which reference is made with the intention that matters not specifically covered herein or as to which an ambiguity may exist shall be resolved as if the Trust were a business corporation organized in Massachusetts, but the reference to said Business Corporation Law is not intended to give the Trust, the Trustees, the Shareholders or any other person any right, power, authority or responsibility available only to or in connection with an entity organized in corporate form. The Trust shall be of the type referred to in Section 1 of Chapter 182 of the Massachusetts General Laws and of the type commonly called a Massachusetts business trust, and without limiting the provisions hereof, the Trust may

exercise all powers which are ordinarily exercised by such a trust.

Section 7.7 Reliance by Third Parties. Any certificate executed by  
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an individual who, according to the records of the Trust, appears to be a Trustee hereunder, or Secretary or Assistant Secretary of the Trust, certifying to: (a) the number or identity of Trustees or Shareholders, (b) the due authorization of the execution of any instrument or writing, (c) the form of any vote passed at a meeting of Trustees or Shareholders, (d) the fact that the number of Trustees or Shareholders present at any meeting or executing any written instruments satisfies the requirement of this Declaration of Trust, (e) the form of any By-Laws adopted by or the identity of any officers elected by the Trustees, or (f) the existence of any fact or facts which in any manner relate to the affairs of the Trust, shall be conclusive evidence as to the matters so certified in favor of any person dealing with the Trustees and their successors.

Section 7.8 Provisions in Conflict with Law or Regulations.  
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The provisions of this Declaration are severable, and if the Trustees shall determine, with the advice of counsel, that any of such provisions is in conflict with the 1940 Act, the regulated investment company provisions of the Internal Revenue Code, the laws of The Commonwealth of Massachusetts or other applicable laws and regulations, the conflicting provisions shall be deemed superseded by such law or regulation to the extent necessary to eliminate such conflict; provided, however, that such determination shall not affect any of the remaining provisions of this Declaration of Trust or render invalid or improper any action taken or omitted prior to such determination.

If any provision of this Declaration of Trust shall be held invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall pertain only to such provision in such jurisdiction and shall not in any manner affect such provision in any other jurisdiction or any other provision of this Declaration of Trust in any jurisdiction.

Section 7.9 Use of the Name "North American." North American Life  
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Assurance Company ("North American") has consented to the use by the Trust of the identifying name "North American", which is a property right of North American. The Trust will only use the name "North American" or the initials "NA" as a component of its name and for no other purpose, and will not purport to grant any third party the right to use the name "North American" or the initials "NA" for any purpose. North American or any corporate affiliate of North American may use or grant to others the right to use the name "North American" or the initials "NA", as all or a portion of a corporate or business name or for any commercial purpose, including a grant of such right to any other investment company. At the request of North American, the Trust will take such action as may be required to provide its consent to the use by North

American, or any corporate affiliate of North American, or by any person to whom North American or an affiliate of North American shall have granted the right to the use of the name "North American" or the initials "NA". At the request of North American, the Trust shall cease to use the name "North American" or the initials "NA" as a component of its name, and shall not use such name or initials as a part of its name or for any other commercial purpose, and shall cause its officers and trustees to take any and all actions which North American may request to effect the foregoing and to reconvey to North American or such corporate affiliate of North American any and all rights to such name and initials.

IN WITNESS WHEREOF, the undersigned has executed this instrument this 18th day of February, 1994.

William J. Atherton

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William J. Atherton  
Trustee

North American Funds

Establishment and Designation  
of Additional Series of Shares of Beneficial Interest  
(\$0.001 par value per share)

Establishment and Designation of Classes of Shares

The undersigned, being a majority of the Trustees of North American Funds (the "Trust"), acting pursuant to Section 4.1(a) of the Amended and Restated Agreement and Declaration of Trust, dated February 18, 1994 (the "Declaration of Trust"), hereby establish and designate a new Series of Shares (as defined in the Declaration of Trust), such Series to have the following special and relative rights:

1. The new Series of Shares shall be designated the "International Growth and Income Fund".
2. The new Series of Shares shall have the relative rights and preferences described in Section 4.2 of the Declaration of Trust, provided that the Trustees, in their absolute discretion, may amend any previously established relative rights and preferences as they may deem necessary or desirable to enable the Trust to comply with the Investment Company Act of 1940 or other applicable law.

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The undersigned, being a majority of the Trustees of the Trust, acting pursuant to Section 4.1(b) of the Declaration of Trust, hereby create three classes of shares of the International Growth and Income Fund, within the meaning of Section 4.1(b), as follows:

1. The three classes of shares are designated "Class A" shares of beneficial interest, "Class B" shares of beneficial interest and "Class C" shares of beneficial interest.
2. Class A, Class B and Class C of beneficial interest shall be entitled to all the rights and preferences accorded to Shares under the Declaration of Trust.
3. The rights and preferences of Class A, Class B and Class C of beneficial interest shall be established by the Trustees of the Trust in accordance with the Declaration of Trust and shall be set forth in the current prospectus and statement of additional information of the Trust or the International Growth and Income Fund, as amended from time to time.

In witness whereof, the undersigned have executed this instrument in duplicate original counterparts and have caused a duplicate original to be lodged among the records of the Trust this 28 day of December, 1994.

Don B. Allen  
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Don B. Allen

Charles L. Bardelis  
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Charles L. Bardelis

Samuel Hoar  
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Samuel Hoar

Robert J. Myers  
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Robert J. Myers

William J. Atherton  
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William J. Atherton

Frederick W. Gorbet  
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Frederick W. Gorbet

Brian L. Moore  
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Brian L. Moore

The Amended and Restated Agreement and Declaration of Trust of the Trust, dated February 18, 1994, a copy of which together with all amendments thereto is on file in the office of the Secretary of The Commonwealth of Massachusetts, provides that this instrument was executed by the Trustees of the Trust as Trustees and not individually and that the obligations of this instrument are not binding upon any of them or the shareholders of the Trust individually but are binding only upon the assets belonging to the Trust, or the particular Sub-Trust or class in question, as the case may be.

North American Funds

Establishment and Designation of Classes of Shares

The undersigned, being a majority of the Trustees of North American Funds (the "Trust"), acting pursuant to Section 4.1(b) of the Amended and Restated Agreement and Declaration of Trust of the Trust, dated February 18, 1994 (the "Declaration of Trust"), hereby create three classes of shares of each Series, within the meaning of Section 4.1(b), as follows:

1. The three classes of shares are designated "Class A" shares of beneficial interest, "Class B" shares of beneficial interest and "Class C" shares of beneficial interest.
2. Class A shares, Class B shares and Class C shares shall be entitled to all the rights and preferences accorded to Shares under the Declaration of Trust.
3. The rights and preferences of Class A shares, Class B shares and Class C shares shall be established by the Trustees of the Trust in accordance with the Declaration of Trust and shall be set forth in the current prospectus and statement of additional information of the Trust or any Series thereof, as amended from time to time.
4. Effective April 1, 1994, all the then outstanding shares of beneficial interest of each of the Strategic Income, Investment Quality Bond, U.S. Government Securities, National Municipal Bond, California Municipal Bond and Money Market Funds are reclassified and designated as Class A shares of beneficial interest of each such Series.
5. Effective April 1, 1994, all the then outstanding shares of beneficial interest of each of the Global Growth, Growth, Growth and Income and Asset Allocation Funds are reclassified and designated as Class C shares of beneficial interest of each such Series.

In witness whereof, the undersigned have executed this instrument in duplicate original counterparts and have caused a duplicate original to be lodged among the records of the Trust as of the 17th day of March, 1994.

Don B. Allen  
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William J. Atherton  
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Don B. Allen

William J. Atherton

Charles L. Bardelis  
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Frederick W. Gorbet  
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Charles L. Bardelis

Frederick W. Gorbet

Samuel Hoar

Brian L. Moore

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Samuel Hoar

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Brian L. Moore

Robert J. Myers

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Robert J. Myers

The Amended and Restated Agreement and Declaration of Trust of the Trust, dated February 18, 1994, a copy of which together with all amendments thereto is on file in the office of the Secretary of The Commonwealth of Massachusetts, provides that this instrument was executed by the Trustees of the Trust as Trustees and not individually and that the obligations of this instrument are not binding upon any of them or the shareholders of the Trust individually but are binding only upon the assets belonging to the Trust, or the particular Sub-Trust or class in question, as the case may be.

NORTH AMERICAN FUNDS

Establishment and Designation  
of Additional Series of Shares of Beneficial Interest  
(\$0.001 par value per share)

Establishment and Designation of Classes of Shares

The undersigned, being a majority of the Trustees of North American Funds (the "Trust"), acting pursuant to Section 4.1(a) of the Amended and Restated Agreement and Declaration of Trust, dated February 18, 1994 (the "Declaration of Trust"), hereby establish and designate a new Series of Shares (as defined in the Declaration of Trust), such Series to have the following special and relative rights:

1. The new Series of Shares shall be designated the "Small/Mid Cap Fund."
2. The new Series of Shares shall have the relative rights and preferences described in Section 4.2 of the Declaration of Trust, provided that the Trustees, in their absolute discretion, may amend any previously established relative rights and preferences as they may deem necessary or desirable to enable the Trust to comply with the Investment Company Act of 1940 or other applicable law.

\* \* \*

The undersigned, being a majority of the Trustees of the Trust, acting pursuant to Section 4.1(b) of the Declaration of Trust, hereby create three classes of shares of the new Series of Shares, within the meaning of Section 4.1(b), as follows:

1. The three classes of shares are designated "Class A" shares of beneficial interest, "Class B" shares of beneficial interest and "Class C" shares of beneficial interest.
2. Class A, Class B and Class C of beneficial interest shall be entitled to all the rights and preferences accorded to Shares under the Declaration of Trust.
3. The rights and preferences of Class A, Class B and Class C of beneficial interest shall be established by the Trustees of the Trust in accordance

with the Declaration of Trust and

shall be set forth in the current prospectus and statement of additional information of the new Series of Shares, as amended from time to time.

In witness whereof, the undersigned have executed this instrument in duplicate original counterparts and have caused a duplicate original to be lodged among the records of the Trust this 28th day of February, 1996.

Don B. Allen

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Don B. Allen

Charles L. Bardelis

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Charles L. Bardelis

Samuel Hoar

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Samuel Hoar

Robert J. Myers

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Robert J. Myers

Brian L. Moore

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Brian L. Moore

The Amended and Restated Agreement and Declaration of Trust of the Trust, dated February 18, 1994, a copy of which together with all amendments thereto is on file in the office of the Secretary of The Commonwealth of Massachusetts, provides that this instrument was executed by the Trustees of the Trust as Trustees and not individually and that the obligations of this instrument are not binding upon any of them or the shareholders of the Trust individually but are binding only upon the assets belonging to the Trust, or the particular Sub-Trust or class in question, as the case may be.

NORTH AMERICAN FUNDS

Establishment and Designation  
of Additional Series of Shares of Beneficial Interest  
(\$0.001 par value per share)

## Establishment and Designation of Classes of Shares

The undersigned, being a majority of the Trustees of North American Funds (the "Trust"), acting pursuant to Section 4.1(a) of the Amended and Restated Agreement and Declaration of Trust, dated February 18, 1994 (the "Declaration of Trust"), hereby establish and designate a new Series of Shares (as defined in the Declaration of Trust), such Series to have the following special and relative rights:

1. The new Series of Shares shall be designated the "International Small Cap Fund."
2. The new Series of Shares shall have the relative rights and preferences described in Section 4.2 of the Declaration of Trust, provided that the Trustees, in their absolute discretion, may amend any previously established relative rights and preferences as they may deem necessary or desirable to enable the Trust to comply with the Investment Company Act of 1940 or other applicable law.

\* \* \*

The undersigned, being a majority of the Trustees of the Trust, acting pursuant to Section 4.1(b) of the Declaration of Trust, hereby create three classes of shares of the new Series of Shares, within the meaning of Section 4.1(b), as follows:

1. The three classes of shares are designated "Class A" shares of beneficial interest, "Class B" shares of beneficial interest and "Class C" shares of beneficial interest.
2. Class A, Class B and Class C of beneficial interest shall be entitled to all the rights and preferences accorded to Shares under the Declaration of Trust.
3. The rights and preferences of Class A, Class B and Class C of beneficial interest shall be established by the Trustees of the Trust in accordance with the Declaration of Trust and

shall be set forth in the current prospectus and statement of additional information of the new Series of Shares, as amended from time to time.

In witness whereof, the undersigned have executed this instrument in duplicate original counterparts and have caused a duplicate original to be lodged among the records of the Trust this 28th day of February, 1996.

Don B. Allen  
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Don B. Allen

Charles L. Bardelis

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Charles L. Bardelis

Samuel Hoar

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Samuel Hoar

Robert J. Myers

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Robert J. Myers

Brian L. Moore

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Brian L. Moore

The Amended and Restated Agreement and Declaration of Trust of the Trust, dated February 18, 1994, a copy of which together with all amendments thereto is on file in the office of the Secretary of The Commonwealth of Massachusetts, provides that this instrument was executed by the Trustees of the Trust as Trustees and not individually and that the obligations of this instrument are not binding upon any of them or the shareholders of the Trust individually but are binding only upon the assets belonging to the Trust, or the particular Sub-Trust or class in question, as the case may be.

#### NORTH AMERICAN FUNDS

#### Establishment and Designation of Additional Series of Shares of Beneficial Interest (\$0.001 par value per share)

#### Establishment and Designation of Classes of Shares

The undersigned, being a majority of the Trustees of North American Funds (the "Trust"), acting pursuant to Section 4.1(a) of the Amended and Restated Agreement and Declaration of Trust, dated February 18, 1994 (the "Declaration of Trust"), hereby establish and designate a new Series of Shares (as defined in the Declaration of Trust), such Series to have the following special and relative rights:

1. The new Series of Shares shall be designated the "Growth Equity Fund."
2. The new Series of Shares shall have the relative rights and preferences described in Section 4.2 of the Declaration of Trust, provided that the

Trustees, in their absolute discretion, may amend any previously established relative rights and preferences as they may deem necessary or desirable to enable the Trust to comply with the Investment Company Act of 1940 or other applicable law.

\* \* \*

The undersigned, being a majority of the Trustees of the Trust, acting pursuant to Section 4.1(b) of the Declaration of Trust, hereby create three classes of shares of the new Series of Shares, within the meaning of Section 4.1(b), as follows:

1. The three classes of shares are designated "Class A" shares of beneficial interest, "Class B" shares of beneficial interest and "Class C" shares of beneficial interest.
2. Class A, Class B and Class C of beneficial interest shall be entitled to all the rights and preferences accorded to Shares under the Declaration of Trust.
3. The rights and preferences of Class A, Class B and Class C of beneficial interest shall be established by the Trustees of the Trust in accordance with the Declaration of Trust and

shall be set forth in the current prospectus and statement of additional information of the new Series of Shares, as amended from time to time.

In witness whereof, the undersigned have executed this instrument in duplicate original counterparts and have caused a duplicate original to be lodged among the records of the Trust this 28th day of February, 1996

Don B. Allen

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Don B. Allen

Charles L. Bardelis

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Charles L. Bardelis

Samuel Hoar

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Samuel Hoar

Robert J. Myers

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Robert J. Myers

Brian L. Moore  
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Brian L. Moore

The Amended and Restated Agreement and Declaration of Trust of the Trust, dated February 18, 1994, a copy of which together with all amendments thereto is on file in the office of the Secretary of The Commonwealth of Massachusetts, provides that this instrument was executed by the Trustees of the Trust as Trustees and not individually and that the obligations of this instrument are not binding upon any of them or the shareholders of the Trust individually but are binding only upon the assets belonging to the Trust, or the particular Sub-Trust or class in question, as the case may be.

NORTH AMERICAN FUNDS

Redesignation  
of Series of Shares of Beneficial Interest  
known as the "Growth Fund"

The undersigned, being a majority of the Trustees of North American Funds (the "Trust"), acting pursuant to the Amended and Restated Agreement and Declaration of Trust dated February 18, 1994 (the "Declaration of Trust"), hereby redesignate the Series of Shares known as the "Growth Fund" as the "Value Equity Fund" such Series to continue to have the relative rights and preferences described in Section 4.2 of the Declaration of Trust, provided that the Trustees, in their absolute discretion, may amend any previously established relative rights and preferences as they may deem necessary or desirable to enable the Trust to comply with the Investment Company Act of 1940 or other applicable law.

In witness whereof, the undersigned have executed this instrument in duplicate original counterparts and have caused a duplicate original to be lodged among the records of the Trust this 28th day of February, 1996.

Don B. Allen

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Don B. Allen

Charles L. Bardelis

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Charles L. Bardelis

Samuel Hoar

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Samuel Hoar

Robert J. Myers

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Robert J. Myers

Brian L. Moore

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Brian L. Moore

The Amended and Restated Agreement and Declaration of Trust of the Trust, dated February 18, 1994, a copy of which together with all amendments thereto is on file in the office of the Secretary of The Commonwealth of Massachusetts, provides that this instrument was executed by the Trustees of the Trust as Trustees and not individually and that the obligations of this instrument are not binding upon any of them or the shareholders of the Trust individually but are binding only upon the assets belonging to the Trust, or the particular Sub-Trust or class in question, as the case may be.

NORTH AMERICAN FUNDS

Redesignation  
of Series of Shares of Beneficial Interest

The undersigned, being a majority of the Trustees of North American Funds (the "Trust"), acting pursuant to the Amended and Restated Agreement and Declaration of Trust dated February 18, 1994 (the "Declaration of Trust"), hereby redesignate the Series of Shares set forth below, such Series to continue to have the relative rights and preferences described in Section 4.2 of the Declaration of Trust, provided that the Trustees, in their absolute discretion, may amend any previously established relative rights and preferences as they may deem necessary or desirable to enable the Trust to comply with the Investment Company Act of 1940 or other applicable law.

"Global Growth" redesignated as "Global Equity."

"Asset Allocation" redesignated as "Balanced."

In witness whereof, the undersigned have executed this instrument in duplicate original counterparts and have caused a duplicate original to be lodged among the records of the Trust this 1st day of October, 1996.

Don B. Allen

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Don B. Allen

Charles L. Bardelis

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Charles L. Bardelis

Samuel Hoar

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Samuel Hoar

Robert J. Myers

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Robert J. Myers

Brian L. Moore

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Brian L. Moore

The Amended and Restated Agreement and Declaration of Trust of the Trust, dated October 1, 1996, a copy of which together with all amendments thereto is on file in the office of the Secretary of The Commonwealth of Massachusetts, provides that this instrument was executed by the Trustees of the Trust as Trustees and not individually and that the obligations of this instrument are not binding upon any of them or the shareholders of the Trust individually but are binding only upon the assets belonging to the Trust, or the particular Sub-Trust or class in question, as the case may be.

NORTH AMERICAN FUNDS  
SUBADVISORY AGREEMENT

AGREEMENT made this 1st day of October, 1996, between NASL Financial Services, Inc., a Massachusetts corporation ("NASL Financial" or the "Adviser"), and Morgan Stanley Asset Management Inc., a Delaware Corporation (the "Subadviser"). In consideration of the mutual covenants contained herein, the parties agree as follows:

1. APPOINTMENT OF SUBADVISER

The Subadviser undertakes to act as investment subadviser to, and, subject to the supervision of the Trustees of North American Funds (the "Trust") and the terms of this Agreement, to manage the investment and reinvestment of the assets of the Portfolios specified in Appendix A to this Agreement as it shall be amended by the Adviser and the Subadviser from time to time (the "Portfolios"). The Subadviser will be an independent contractor and will have no authority to act for or represent the Trust or Adviser in any way except as expressly authorized in this Agreement or another writing by the Trust and Adviser.

2. SERVICES TO BE RENDERED BY THE SUBADVISER TO THE TRUST

- a. Subject always to the direction and control of the Trustees of the Trust, the Subadviser will manage the investments and determine the composition of the assets of the Portfolios in accordance with the Portfolios' registration statement, as amended. In fulfilling its obligations to manage the investments and reinvestments of the assets of the Portfolios, the Subadviser will:
  - i. obtain and evaluate pertinent economic, statistical, financial and other information affecting the economy generally and individual companies or industries the securities of which are included in the Portfolios or are under consideration for inclusion in the Portfolios;
  - ii. formulate and implement a continuous investment program for each Portfolio consistent with the investment objectives and related investment policies for each such Portfolio as described in the Trust's registration statement, as amended;
  - iii. take whatever steps are necessary to implement these investment programs by the purchase and sale of securities including the placing of orders for such purchases and sales;
  - iv. regularly report to the Trustees of the Trust with respect to the implementation of these investment programs; and

- v. provide determinations, in accordance with procedures and methods established by the Trustees of the Trust, of the fair value of securities held by the Portfolios for which market quotations are not readily available for purposes of enabling the Trust's Custodian to calculate net asset value.
- b. The Subadviser, at its expense, will furnish (i) all necessary investment and management facilities, including salaries of personnel required for it to execute its duties faithfully, and (ii) administrative facilities, including bookkeeping, clerical personnel and equipment necessary for the efficient conduct of the investment affairs of the Portfolios (excluding determination of net asset value and shareholder accounting services).
- c. The Subadviser will select brokers and dealers to effect all transactions subject to the following conditions: The Subadviser will place all orders with brokers, dealers, or issuers, and will negotiate brokerage

commissions if applicable. The Subadviser is directed at all times to seek to execute brokerage transactions for the Portfolios in accordance with such policies or practices as may be established by the Trustees and described in the Trust's registration statement as amended. The Subadviser may pay a broker-dealer which provides research and brokerage services a higher spread or commission for a particular transaction than otherwise might have been charged by another broker-dealer, if the Subadviser determines that the higher spread or commission is reasonable in relation to the value of the brokerage and research services that such broker-dealer provides, viewed in terms of either the particular transaction or the Subadviser's overall responsibilities with respect to accounts managed by the Subadviser. The Subadviser may use for the benefit of the Subadviser's other clients, or make available to companies affiliated with the Subadviser or to its directors for the benefit of its clients, any such brokerage and research services that the Subadviser obtains from brokers or dealers. In accordance with Section 11(a) of the Securities Exchange Act of 1934, as amended and Rule 11a2-2(T) thereunder, and subject to any other applicable laws and regulations including Section 17(e) of the Investment Company Act of 1940 (the "1940 Act") and Rule 17e-1 thereunder, the Subadviser may engage its affiliates as broker-dealers to effect portfolio transactions in securities for the Portfolios.

- d. The Subadviser will maintain all accounts, books and records with respect to the Portfolios as are required of an investment adviser of a registered investment company pursuant to the Investment Company Act of 1940 (the "Investment Company Act") and Investment Advisers Act of 1940 (the "Investment Advisers Act") and the rules thereunder.

### 3. COMPENSATION OF SUBADVISER

The Adviser will pay the Subadviser with respect to each Portfolio the compensation specified in Appendix A to this Agreement.

#### 4. LIABILITY OF SUBADVISER

Neither the Subadviser nor any of its affiliates, officers, partners or employees nor anyone who controls the Subadviser (or any of its affiliates, officers, partners or employees) within the meaning of Section 15 of the Securities Act of 1933 (the "1933 Act") shall be liable to the Adviser or Trust for any loss suffered by the Adviser or Trust resulting from any error of judgment made in the good faith exercise of the Subadviser's investment discretion in connection with selecting Portfolio investments except for losses resulting from willful misfeasance, bad faith or gross negligence of, or from reckless disregard of, the duties of the Subadviser or any of its affiliates, partners or employees; and neither the Subadviser nor any of its affiliates, officers, partners or employees, nor anyone who controls the Subadviser (or any of its affiliates, officers, partners or employees) within the meaning of Section 15 of the 1933 Act shall be liable to the Adviser or Trust for any loss suffered by the Adviser or Trust resulting from any other matters to which this Agreement relates (i.e., those other matters specified in Sections 2 and 8 of

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this Agreement), except for losses resulting from willful misfeasance, bad faith, or gross negligence in the performance of, or from disregard of, the duties of the Subadviser or any of its affiliates, partners or employees.

#### 5. SUPPLEMENTAL ARRANGEMENTS

The Subadviser may enter into arrangements with other persons affiliated with the Subadviser, including, but not limited to, Morgan Stanley Asset Management Limited, to better enable it to fulfill its obligations under this Agreement for the provision of certain personnel and facilities to the Subadviser.

#### 6. CONFLICTS OF INTEREST

It is understood that trustees, officers, agents and shareholders of the Trust are or may be interested in the Subadviser as trustees, officers, partners or otherwise; that directors, officers, agents and partners of the Subadviser are or may be interested in the Trust as trustees, officers, shareholders or otherwise; that the Subadviser may be interested

in the Trust; and that the existence of any such dual interest shall not affect the validity hereof or of any transactions hereunder except as otherwise provided in the Agreement and Declaration of Trust of the Trust and the Certificate of Incorporation of the Subadviser, respectively, or by specific provision of applicable law.

#### 7. REGULATION

The Subadviser shall submit to all regulatory and administrative bodies having jurisdiction over the services provided pursuant to this Agreement any information, reports or other material which any such body by reason of this

Agreement may request or require pursuant to applicable laws and regulations.

## 8. DURATION AND TERMINATION OF AGREEMENT

This Agreement shall become effective with respect to each Portfolio on the later of (i) its execution, (ii) the effective date of the registration statement of the Portfolio and (iii) with respect to each Portfolio except the Global Equity Portfolio (formerly, the Global Growth Portfolio), the date of the meeting of the shareholders of the Portfolio, at which meeting this Agreement is approved by the vote of a majority of the outstanding voting securities (as defined in the Investment Company Act) of the Portfolio. The Agreement will continue in effect for a period more than two years from the date of its execution only so long as such continuance is specifically approved at least annually either by the Trustees of the Trust or by a majority of the outstanding voting securities of each of the Portfolios, provided that in either event such continuance shall also be approved by the vote of a majority of the Trustees of the Trust who are not interested persons (as defined in the Investment Company Act) of any party to this Agreement cast in person at a meeting called for the purpose of voting on such approval. The required shareholder approval of the Agreement or of any continuance of the Agreement shall be effective with respect to any Portfolio if a majority of the outstanding voting securities of the series (as defined in Rule 18f-2(h) under the Investment Company Act) of shares of that Portfolio votes to approve the Agreement or its continuance, notwithstanding that the Agreement or its continuance may not have been approved by a majority of the outstanding voting securities of (a) any other Portfolio affected by the Agreement or (b) all the portfolios of the Trust.

If the shareholders of any Portfolio fail to approve the Agreement or any continuance of the Agreement that is submitted to shareholders for approval, the Subadviser will continue to act as investment subadviser with respect to such Portfolio pending the required approval of the Agreement or its continuance or of any contract with the Subadviser or a different adviser or subadviser or other definitive action; provided, that the compensation received by the Subadviser in respect of such Portfolio during such period is in compliance with Rule 15a-4 under the Investment Company Act.

This Agreement may be terminated at any time, without the payment of any penalty, by the Trustees of the Trust, by the vote of a majority of the outstanding voting securities of the Trust, or with respect to any Portfolio by the vote of a majority of the outstanding voting securities of such Portfolio, on sixty days' written notice to the Adviser and the Subadviser, or by the Adviser or Subadviser on sixty days' written notice to the Trust and the other party. This agreement will automatically terminate, without the payment of any penalty, in the event of its assignment (as defined in the Investment Company Act) or in the event the Advisory Agreement between the Adviser and the Trust terminates for any reason.

## 9. PROVISION OF CERTAIN INFORMATION BY SUBADVISER

The Subadviser will promptly notify the Adviser in writing of the occurrence of any of the following events:

- a. the Subadviser fails to be registered as an investment adviser under the Investment Advisers Act or under the laws of any jurisdiction in which the Subadviser is required to be registered as an investment adviser in order to perform its obligations under this Agreement;
- b. the Subadviser is served or otherwise receives notice of any action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, involving the affairs of the Trust;
- c. there is a change of control of the Subadviser which constitutes an assignment of this Agreement under the 1940 Act;
- d. the portfolio manager of any Portfolio changes.

#### 10. AMENDMENTS TO THE AGREEMENT

This Agreement may be amended by the parties only if such amendment is specifically approved by the vote of a majority of the outstanding voting securities of each of the Portfolios affected by the amendment and by the vote of a majority of the Trustees of the Trust who are not interested persons of any party to this Agreement cast in person at a meeting called for the purpose of voting on such approval. The required shareholder approval shall be effective with respect to any Portfolio if a majority of the outstanding voting securities of that Portfolio vote to approve the amendment, notwithstanding that the amendment may not have been approved by a majority of the outstanding voting securities of (a) any other Portfolio affected by the amendment or (b) all the portfolios of the Trust.

#### 11. HEADINGS

The headings in the sections of this Agreement are inserted for convenience of reference only and shall not constitute a part hereof.

#### 12. NOTICES

All notices required to be given pursuant to this Agreement shall be delivered or mailed to the last known business address of the Trust or applicable party in person or by registered mail or a private mail or delivery service providing the sender with notice of receipt. Notice shall be deemed given on the date delivered or mailed in accordance with this paragraph.

#### 13. SEVERABILITY

Should any portion of this Agreement for any reason be held to be void in law or in equity, the Agreement shall be construed, insofar as is possible, as if such portion had never been contained herein.

#### 14. GOVERNING LAW

The provisions of this Agreement shall be construed and interpreted in

accordance with the laws of The Commonwealth of Massachusetts, or any of the applicable provisions of the Investment Company Act. To the extent that the laws of The Commonwealth of Massachusetts, or any of the provisions in this Agreement, conflict with applicable provisions of the Investment Company Act, the latter shall control.

15. LIMITATION OF LIABILITY

The Amended and Restated Agreement and Declaration of Trust dated February 18, 1994, a copy of which, together with all amendments thereto (the "Declaration"), is on file in the office of the Secretary of The Commonwealth of Massachusetts, provides that the name "North American Funds" refers to the Trustees under the Declaration collectively as Trustees, but not as individuals or personally; and no Trustee, shareholder, officer, employee or agent of the Trust shall be held to any personal liability, nor shall resort be had to their private property, for the satisfaction of any obligation or claim, in connection with the affairs of the Trust or any portfolio thereof, but only the assets belonging to the Trust, or to the particular portfolio with which the obligee or claimant dealt, shall be liable.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed under seal by their duly authorized officers as of the date first mentioned above.

[SEAL]

NASL Financial Services, Inc.

by: Richard C. Hirtle

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Vice President Treasurer & CFO

by: James D. Gallagher

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Vice President & General Counsel

[SEAL]

Morgan Stanley Asset Management Inc.

by: James M Allwin

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James M Allwin,  
President

APPENDIX A

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The Subadviser shall serve as investment subadviser for the following portfolio of the Trust. The Adviser will pay the Subadviser, as full compensation for all services provided under this Agreement, the fee computed separately for each such Portfolio at an annual rate as follows (the "Subadviser Percentage Fee"):

Global Equity Portfolio: .500% of the first \$50,000,000, .450% between \$50,000,000 and \$200,000,000, .375% between \$200,000,000 and \$500,000,000 and .325% on the excess over \$500,000,000 of the current value of the net assets of the Portfolio;

The Subadviser Percentage Fee for each Portfolio shall be accrued for each calendar day and the sum of the daily fee accruals shall be paid monthly to the Subadviser. The daily fee accruals will be computed by multiplying the fraction of one over the number of calendar days in the year by the applicable annual rate described in the preceding paragraph, and multiplying this product by the net assets of the Portfolio as determined in accordance with the Trust's prospectus and statement of additional information as of the close of business on the previous business day on which the Trust was open for business.

If this Agreement becomes effective or terminates before the end of any month, the fee (if any) for the period from the effective date to the end of such month or from the beginning of such month to the date of termination, as the case may be, shall be prorated according to the proportion which such period bears to the full month in which such effectiveness or termination occurs.

NORTH AMERICAN FUNDS  
SUBADVISORY AGREEMENT

AGREEMENT made this 1st day of October, 1996, between NASL Financial Services, Inc., a Massachusetts corporation ("NASL Financial" or the "Adviser"), and T. Rowe Price Associates, Inc., a Maryland Corporation (the "Subadviser"). In consideration of the mutual covenants contained herein, the parties agree as follows:

1. APPOINTMENT OF SUBADVISER

The Subadviser undertakes to act as investment subadviser to, and, subject to the supervision of the Trustees of North American Funds (the "Trust") and the terms of this Agreement, to manage the investment and reinvestment of the assets of the Portfolios specified in Appendix A to this Agreement as it shall be amended by the Adviser and the Subadviser from time to time (the "Portfolios"). The Subadviser will be an independent contractor and will have no authority to act for or represent the Trust or Adviser in any way except as expressly authorized in this Agreement or another writing by the Trust and Adviser.

2. SERVICES TO BE RENDERED BY THE SUBADVISER TO THE TRUST

- a. Subject always to the direction and control of the Trustees of the Trust, the Subadviser will manage the investments and determine the composition of the assets of the Portfolios in accordance with the Portfolios' registration statement, as amended. In fulfilling its obligations to manage the investments and reinvestments of the assets of the Portfolios, the Subadviser will:
- i. obtain and evaluate pertinent economic, statistical, financial and other information affecting the economy generally and individual companies or industries the securities of which are included in the Portfolios or are under consideration for inclusion in the Portfolios;
  - ii. formulate and implement a continuous investment program for each Portfolio consistent with the investment objectives and related investment policies for each such Portfolio as described in the Trust's registration statement, as amended;
  - iii. take whatever steps are necessary to implement these investment programs by the purchase and sale of securities including the placing of orders for such purchases and sales;
  - iv. regularly report to the Trustees of the Trust with respect to the implementation of these investment programs; and

- v. provide assistance to the Trust's Custodian regarding the fair value of securities held by the Portfolios for which market quotations are not readily available.
- b. The Subadviser, at its expense, will furnish (i) all necessary investment and management facilities, including salaries of personnel required for it to execute its duties faithfully, and (ii) administrative facilities, including bookkeeping, clerical personnel and equipment necessary for the efficient conduct of the investment affairs of the Portfolios (excluding determination of net asset value and shareholder accounting services).
- c. The Subadviser will select brokers and dealers to effect all transactions subject to the following conditions: The Subadviser will place all orders with brokers, dealers, or issuers, and will negotiate brokerage commissions if applicable. The Subadviser is directed at all times to seek to execute brokerage transactions for the Portfolios in accordance with such policies or practices as may be established by the Trustees and

described in the Trust's registration statement as amended. The Subadviser may pay a broker-dealer which provides research and brokerage services a higher spread or commission for a particular transaction than otherwise might have been charged by another broker-dealer, if the Subadviser determines that the higher spread or commission is reasonable in relation to the value of the brokerage and research services that such broker-dealer provides, viewed in terms of either the particular transaction or the Subadviser's overall responsibilities with respect to accounts managed by the Subadviser. The Subadviser may use for the benefit of the Subadviser's other clients, or make available to companies affiliated with the Subadviser or to its directors for the benefit of its clients, any such brokerage and research services that the Subadviser obtains from brokers or dealers.

- d. On occasions when the Subadviser deems the purchase or sale of a security to be in the best interest of the Portfolio as well as other clients of the Subadviser, the Subadviser to the extent permitted by applicable laws and regulations, may, but shall be under no obligation to, aggregate the securities to be purchased or sold to attempt to obtain a more favorable price or lower brokerage commissions and efficient execution. In such event, allocation of the securities so purchased or sold, as well as the expenses incurred in the transaction, will be made by the Subadviser in the manner the Subadviser considers to be the most equitable and consistent with its fiduciary obligations to the Portfolio and to its other clients.
- e. The Subadviser will maintain all accounts, books and records with respect to the Portfolios as are required of an investment adviser of a registered investment company pursuant to the Investment Company Act of 1940 (the "Investment Company Act") and Investment Advisers Act of 1940 (the "Investment Advisers Act") and the rules thereunder.

### 3. COMPENSATION OF SUBADVISER

The Adviser will pay the Subadviser with respect to each Portfolio the compensation specified in Appendix A to this Agreement.

### 4. LIABILITY OF SUBADVISER

Neither the Subadviser nor any of its employees shall be liable to the Adviser or Trust for any loss suffered by the Adviser or Trust resulting from any error of judgment made in the good faith exercise of the Subadviser's investment discretion in connection with selecting Portfolio investments except for losses resulting from willful misfeasance, bad faith or gross negligence of, or from reckless disregard of, the duties of the Subadviser or any of its partners or employees; and neither the Subadviser nor any of its employees shall be liable to the Adviser or Trust for any loss suffered by the Adviser or Trust resulting from any other matters to which this Agreement relates (i.e., those

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other matters specified in Sections 2 and 8 of this Agreement), except for losses resulting from willful misfeasance, bad faith, or gross negligence in the performance of, or from disregard of, the duties of the Subadviser or any of its partners or employees.

### 5. SUPPLEMENTAL ARRANGEMENTS

The Subadviser may enter into arrangements with other persons affiliated with the Subadviser to better enable it to fulfill its obligations under this Agreement for the provision of certain personnel and facilities to the Subadviser.

### 6. CONFLICTS OF INTEREST

It is understood that trustees, officers, agents and shareholders of the Trust are or may be interested in the Subadviser as trustees, officers, partners or otherwise; that directors, officers, agents and partners of the Subadviser are or may be interested in the Trust as trustees, officers, shareholders or otherwise; that the Subadviser may be interested in the Trust; and that the existence of any such dual interest shall not affect the validity hereof or of any transactions

hereunder except as otherwise provided in the Agreement and Declaration of Trust of the Trust and the Certificate of Incorporation of the Subadviser, respectively, or by specific provision of applicable law.

### 7. REGULATION

The Subadviser shall submit to all regulatory and administrative bodies having jurisdiction over the services provided pursuant to this Agreement any information, reports or other material which any such body by reason of this Agreement may request or require pursuant to applicable laws and regulations.

## 8. DURATION AND TERMINATION OF AGREEMENT

This Agreement shall become effective with respect to each Portfolio on the later of (i) its execution, (ii) the effective date of the registration statement of the Portfolio and (iii) with respect to each Portfolio except the Value Equity Portfolio, the date of the meeting of the shareholders of the Portfolio, at which meeting this Agreement is approved by the vote of a majority of the outstanding voting securities (as defined in the Investment Company Act) of the Portfolio. The Agreement will continue in effect for a period more than two years from the date of its execution only so long as such continuance is specifically approved at least annually either by the Trustees of the Trust or by a majority of the outstanding voting securities of each of the Portfolios, provided that in either event such continuance shall also be approved by the vote of a majority of the Trustees of the Trust who are not interested persons (as defined in the Investment Company Act) of any party to this Agreement cast in person at a meeting called for the purpose of voting on such approval. The required shareholder approval of the Agreement or of any continuance of the Agreement shall be effective with respect to any Portfolio if a majority of the outstanding voting securities of the series (as defined in Rule 18f-2(h) under the Investment Company Act) of shares of that Portfolio votes to approve the Agreement or its continuance, notwithstanding that the Agreement or its continuance may not have been approved by a majority of the outstanding voting securities of (a) any other Portfolio affected by the Agreement or (b) all the portfolios of the Trust.

If the shareholders of any Portfolio fail to approve the Agreement or any continuance of the Agreement, the Subadviser will continue to act as investment subadviser with respect to such Portfolio pending the required approval of the Agreement or its continuance or of any contract with the Subadviser or a different adviser or subadviser or other definitive action; provided, that the compensation received by the Subadviser in respect of such Portfolio during such period is in compliance with Rule 15a-4 under the Investment Company Act.

This Agreement may be terminated at any time, without the payment of any penalty, by the Trustees of the Trust, by the vote of a majority of the outstanding voting securities of the Trust, or with respect to any Portfolio by the vote of a majority of the outstanding voting securities of such Portfolio, on sixty days' written notice to the Adviser and the Subadviser, or by the Adviser or Subadviser on sixty days' written notice to the Trust and the other party. This agreement will automatically terminate, without the payment of any penalty, in the event of its assignment (as defined in the Investment Company Act) or in the event the Advisory Agreement between the Adviser and the Trust terminates for any reason.

## 9. PROVISION OF CERTAIN INFORMATION BY SUBADVISER

The Subadviser will promptly notify the Adviser in writing of the occurrence of any of the following events:

- a. the Subadviser fails to be registered as an investment adviser under the Investment Advisers Act or under the laws of any jurisdiction in which the

Subadviser is required to be registered as an investment adviser in order to perform its obligations under this Agreement;

- b. the Subadviser is served or otherwise receives notice of any action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, involving the affairs of the Trust; and
- c. any change in actual control or management of the Subadviser or the portfolio manager of any Portfolio.

#### 10. PROVISION OF CERTAIN INFORMATION BY THE ADVISER

The Adviser shall furnish the Subadviser with copies of the Trust's Prospectus and Statement of Additional Information, and any reports made by the Trust to its shareholders, as soon as practicable after such documents become available. The Adviser shall furnish the Subadviser with any further documents, materials or information that the Subadviser may reasonably request to enable it to perform its duties pursuant to this Agreement."

#### 11. SERVICES TO OTHER CLIENTS

The Adviser understand, and has advised the Trust's Board of Trustees, that the Subadviser now acts, or may in the future act, as an investment adviser to fiduciary and other managed accounts and as investment adviser or subadviser to other investment companies. Further, the Adviser understands, and has advised the Trust's Board of Trustees that the Subadviser and its affiliates may give advice and take action for its accounts, including investment companies, which differs from advice given on the timing or nature of action taken for the Portfolio. The Subadviser is not obligated to initiate transaction for the Portfolio in any security which the Subadviser, its principals, affiliates or employees may purchase or sell for their own accounts or other clients."

#### 12. AMENDMENTS TO THE AGREEMENT

This Agreement may be amended by the parties only if such amendment is specifically approved by the vote of a majority of the outstanding voting securities of each of the Portfolios affected by the amendment and by the vote of a majority of the Trustees of the Trust who are not interested persons of any party to this Agreement cast in person at a meeting called for the purpose of voting on such approval. The required shareholder approval shall be effective with respect to any Portfolio if a majority of the outstanding voting securities of that Portfolio vote to approve the amendment, notwithstanding that the amendment may not have been approved by a majority of the outstanding voting securities of (a) any other Portfolio affected by the amendment or (b) all the portfolios of the Trust.

#### 13. ENTIRE AGREEMENT

This Agreement contains the entire understanding and agreement of the parties.

#### 14. HEADINGS

The headings in the sections of this Agreement are inserted for convenience of reference only and shall not constitute a part hereof.

#### 15. NOTICES

All notices required to be given pursuant to this Agreement shall be delivered or mailed to the last known business address of the Trust or applicable party in person or by registered mail or a private mail or delivery service providing the sender with notice of receipt. Notice shall be deemed given on the date delivered or mailed in accordance with this paragraph.

#### 16. SEVERABILITY

Should any portion of this Agreement for any reason be held to be void in law or in equity, the Agreement shall be construed, insofar as is possible, as if such portion had never been contained herein.

#### 17. GOVERNING LAW

The provisions of this Agreement shall be construed and interpreted in accordance with the laws of The Commonwealth of Massachusetts, or any of the applicable provisions of the Investment Company Act. To the extent that the laws of The Commonwealth of Massachusetts, or any of the provisions in this Agreement, conflict with applicable provisions of the Investment Company Act, the latter shall control.

#### 18. LIMITATION OF LIABILITY

The Amended and Restated Agreement and Declaration of Trust dated February 18, 1994, a copy of which, together with all amendments thereto (the "Declaration"), is on file in the office of the Secretary of The Commonwealth of Massachusetts, provides that the name "North American Funds" refers to the Trustees under the Declaration collectively as Trustees, but not as individuals or personally; and no Trustee, shareholder, officer, employee or agent of the Trust shall be held to any personal liability, nor shall resort be had to their private property, for the satisfaction of any obligation or claim, in connection with the affairs of the Trust or any portfolio thereof, but only the assets belonging to the Trust, or to the particular portfolio with which the obligee or claimant dealt, shall be liable.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed under seal by their duly authorized officers as of the date first mentioned above.

[SEAL]

NASL Financial Services, Inc.

by: Richard C Hirtle

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Richard C. Hirtle  
Vice President and Treasurer

by: James D. Gallagher

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Vice President, Secretary & General Counsel

[SEAL]

T. Rowe Price Associates, Inc.

by: Nancy Morris

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Nancy Morris

APPENDIX A

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The Subadviser shall serve as investment subadviser for the following portfolio of the Trust. The Adviser will pay the Subadviser, as full compensation for all services provided under this Agreement, the fee computed separately for each such Portfolio at an annual rate as follows (the "Subadviser Percentage Fee"):

Value Equity Portfolio: .325% of the first \$50,000,000, .275% between \$50,000,000 and \$200,000,000, .225% between \$200,000,000 and \$500,000,000 and .150% on the excess over \$500,000,000 of the current value of the net assets of the Portfolio;

The Subadviser Percentage Fee for each Portfolio shall be accrued for each calendar day and the sum of the daily fee accruals shall be paid monthly to the Subadviser. The daily fee accruals will be computed by multiplying the fraction of one over the number of calendar days in the year by the applicable annual rate described in the preceding paragraph, and multiplying this product by the net assets of the Portfolio as determined in accordance with the Trust's prospectus and statement of additional information as of the close of business on the previous business day on which the Trust was open for business.

If this Agreement becomes effective or terminates before the end of any month, the fee (if any) for the period from the effective date to the end of such month or from the beginning of such month to the date of termination, as the case may be, shall be prorated according to the proportion which such period bears to the full month in which such effectiveness or termination occurs.

NORTH AMERICAN FUNDS  
SUBADVISORY AGREEMENT

AGREEMENT made this 1st day of October, 1996, between NASL Financial Services, Inc., a Massachusetts corporation ("NASL Financial" or the "Adviser"), and Manufacturers Adviser Corporation, a Colorado Corporation (the "Subadviser"). In consideration of the mutual covenants contained herein, the parties agree as follows:

1. APPOINTMENT OF SUBADVISER

The Subadviser undertakes to act as investment subadviser to, and, subject to the supervision of the Trustees of North American Funds (the "Trust") and the terms of this Agreement, to manage the investment and reinvestment of the assets of the Portfolios specified in Appendix A to this Agreement as it shall be amended by the Adviser and the Subadviser from time to time (the "Portfolios"). The Subadviser will be an independent contractor and will have no authority to act for or represent the Trust or Adviser in any way except as expressly authorized in this Agreement or another writing by the Trust and Adviser.

2. SERVICES TO BE RENDERED BY THE SUBADVISER TO THE TRUST

a. Subject always to the direction and control of the Trustees of the Trust, the Subadviser will manage the investments and determine the composition of the assets of the Portfolios in accordance with the Portfolios' registration statement, as amended. In fulfilling its obligations to manage the investments and reinvestments of the assets of the Portfolios, the Subadviser will:

- i. obtain and evaluate pertinent economic, statistical, financial and other information affecting the economy generally and individual companies or industries the securities of which are included in the Portfolios or are under consideration for inclusion in the Portfolios;
- ii. formulate and implement a continuous investment program for each Portfolio consistent with the investment objectives and related investment policies for each such Portfolio as described in the Trust's registration statement, as amended;
- iii. take whatever steps are necessary to implement these investment programs by the purchase and sale of securities including the placing of orders for such purchases and sales;
- iv. regularly report to the Trustees of the Trust with respect to the

implementation of these investment programs; and

- v. provide determinations, in accordance with procedures and methods established by the Trustees of the Trust, of the fair value of securities held by the Portfolios for which market quotations are not readily available for purposes of enabling the Trust's Custodian to calculate net asset value.
- b. The Subadviser, at its expense, will furnish (i) all necessary investment and management facilities, including salaries of personnel required for it to execute its duties faithfully, and (ii) administrative facilities, including bookkeeping, clerical personnel and equipment necessary for the efficient conduct of the investment affairs of the Portfolios (excluding determination of net asset value and shareholder accounting services).
- c. The Subadviser will select brokers and dealers to effect all transactions subject to the following conditions: The Subadviser will place all orders with brokers, dealers, or issuers, and will negotiate brokerage commissions if applicable. The Subadviser is directed at all times to seek to execute brokerage transactions for

the Portfolios in accordance with such policies or practices as may be established by the Trustees and described in the Trust's registration statement as amended. The Subadviser may pay a broker-dealer which provides research and brokerage services a higher spread or commission for a particular transaction than otherwise might have been charged by another broker-dealer, if the Subadviser determines that the higher spread or commission is reasonable in relation to the value of the brokerage and research services that such broker-dealer provides, viewed in terms of either the particular transaction or the Subadviser's overall responsibilities with respect to accounts managed by the Subadviser. The Subadviser may use for the benefit of the Subadviser's other clients, or make available to companies affiliated with the Subadviser or to its directors for the benefit of its clients, any such brokerage and research services that the Subadviser obtains from brokers or dealers.

- d. The Subadviser will maintain all accounts, books and records with respect to the Portfolios as are required of an investment adviser of a registered investment company pursuant to the Investment Company Act of 1940 (the "Investment Company Act") and Investment Advisers Act of 1940 (the "Investment Advisers Act") and the rules thereunder.

### 3. COMPENSATION OF SUBADVISER

The Adviser will pay the Subadviser with respect to each Portfolio the compensation specified in Appendix A to this Agreement.

### 4. LIABILITY OF SUBADVISER

Neither the Subadviser nor any of its officers or employees shall be liable

to the Adviser or Trust for any loss suffered by the Adviser or Trust resulting from any error of judgment made in the good faith exercise of the Subadviser's investment discretion in connection with selecting Portfolio investments except for losses resulting from willful misfeasance, bad faith or gross negligence of, or from reckless disregard of, the duties of the Subadviser or any of its partners or employees; and neither the Subadviser nor any of its officers or employees shall be liable to the Adviser or Trust for any loss suffered by the Adviser or Trust resulting from any other matters to which this Agreement relates (i.e., those other matters specified in Sections 2 and 8 of this

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Agreement), except for losses resulting from willful misfeasance, bad faith, or gross negligence in the performance of, or from disregard of, the duties of the Subadviser or any of its officers or employees.

## 5. SUPPLEMENTAL ARRANGEMENTS

The Subadviser may enter into arrangements with other persons affiliated with the Subadviser to better enable it to fulfill its obligations under this Agreement for the provision of certain personnel and facilities to the Subadviser.

## 6. CONFLICTS OF INTEREST

It is understood that trustees, officers, agents and shareholders of the Trust are or may be interested in the Subadviser as trustees, officers or otherwise; that directors, officers, agents and partners of the Subadviser are or may be interested in the Trust as trustees, officers, shareholders or otherwise; that the Subadviser may be interested in the Trust; and that the existence of any such dual interest shall not affect the validity hereof or of any transactions hereunder except as otherwise provided in the Agreement and Declaration of Trust of the Trust and the Certificate of Incorporation of the Subadviser, respectively, or by specific provision of applicable law.

## 7. REGULATION

The Subadviser shall submit to all regulatory and administrative bodies having jurisdiction over the services provided pursuant to this Agreement any information, reports or other material which any such body by reason of this Agreement may request or require pursuant to applicable laws and regulations.

## 8. DURATION AND TERMINATION OF AGREEMENT

This Agreement shall become effective with respect to each Portfolio on the later of (i) its execution, (ii) the effective date of the registration statement of the Portfolio and (iii) with respect to each Portfolio except the Money Market Portfolio, the date of the meeting of the shareholders of the Portfolio, at which meeting this Agreement is approved by the vote of a majority of the outstanding voting securities (as defined in the Investment Company Act) of the Portfolio. The Agreement will continue in effect for a period more than two years from the date of its execution only so long as such continuance is

specifically approved at least annually either by the Trustees of the Trust or by a majority of the outstanding voting securities of each of the Portfolios, provided that in either event such continuance shall also be approved by the vote of a majority of the Trustees of the Trust who are not interested persons (as defined in the Investment Company Act) of any party to this Agreement cast in person at a meeting called for the purpose of voting on such approval. The required shareholder approval of the Agreement or of any continuance of the Agreement shall be effective with respect to any Portfolio if a majority of the outstanding voting securities of the series (as defined in Rule 18f-2(h) under the Investment Company Act) of shares of that Portfolio votes to approve the Agreement or its continuance, notwithstanding that the Agreement or its continuance may not have been approved by a majority of the outstanding voting securities of (a) any other Portfolio affected by the Agreement or (b) all the portfolios of the Trust.

If the shareholders of any Portfolio fail to approve the Agreement or any continuance of the Agreement, the Subadviser will continue to act as investment subadviser with respect to such Portfolio pending the required approval of the Agreement or its continuance or of any contract with the Subadviser or a different adviser or subadviser or other definitive action; provided, that the compensation received by the Subadviser in respect of such Portfolio during such period is in compliance with Rule 15a-4 under the Investment Company Act.

This Agreement may be terminated at any time, without the payment of any penalty, by the Trustees of the Trust, by the vote of a majority of the outstanding voting securities of the Trust, or with respect to any Portfolio by the vote of a majority of the outstanding voting securities of such Portfolio, on sixty days' written notice to the Adviser and the Subadviser, or by the Adviser or Subadviser on sixty days' written notice to the Trust and the other party. This agreement will automatically terminate, without the payment of any penalty, in the event of its assignment (as defined in the Investment Company Act) or in the event the Advisory Agreement between the Adviser and the Trust terminates for any reason.

#### 9. PROVISION OF CERTAIN INFORMATION BY SUBADVISER

The Subadviser will promptly notify the Adviser in writing of the occurrence of any of the following events:

- a. the Subadviser fails to be registered as an investment adviser under the Investment Advisers Act or under the laws of any jurisdiction in which the Subadviser is required to be registered as an investment adviser in order to perform its obligations under this Agreement;
- b. the Subadviser is served or otherwise receives notice of any action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, involving the affairs of the Trust; and
- c. any change in actual control or management of the Subadviser or the portfolio manager of any Portfolio.

## 10. AMENDMENTS TO THE AGREEMENT

This Agreement may be amended by the parties only if such amendment is specifically approved by the vote of a majority of the outstanding voting securities of each of the Portfolios affected by the amendment and by the vote of a majority of the Trustees of the Trust who are not interested persons of any party to this Agreement cast in person at a meeting called for the purpose of voting on such approval. The required shareholder approval shall be effective with respect to any Portfolio if a majority of the outstanding voting securities of that Portfolio vote to approve the amendment, notwithstanding that the amendment may not have been approved by a majority of the outstanding voting securities of (a) any other Portfolio affected by the amendment or (b) all the portfolios of the Trust.

## 11. ENTIRE AGREEMENT

This Agreement contains the entire understanding and agreement of the parties.

## 12. HEADINGS

The headings in the sections of this Agreement are inserted for convenience of reference only and shall not constitute a part hereof.

## 13. NOTICES

All notices required to be given pursuant to this Agreement shall be delivered or mailed to the last known business address of the Trust or applicable party in person or by registered mail or a private mail or delivery service providing the sender with notice of receipt. Notice shall be deemed given on the date delivered or mailed in accordance with this paragraph.

## 14. SEVERABILITY

Should any portion of this Agreement for any reason be held to be void in law or in equity, the Agreement shall be construed, insofar as is possible, as if such portion had never been contained herein.

## 15. GOVERNING LAW

The provisions of this Agreement shall be construed and interpreted in accordance with the laws of The Commonwealth of Massachusetts, or any of the applicable provisions of the Investment Company Act. To the extent that the laws of The Commonwealth of Massachusetts, or any of the provisions in this Agreement, conflict with applicable provisions of the Investment Company Act, the latter shall control.

## 16. LIMITATION OF LIABILITY

The Amended and Restated Agreement and Declaration of Trust dated February

18, 1994, a copy of which, together with all amendments thereto (the "Declaration"), is on file in the office of the Secretary of The Commonwealth of Massachusetts, provides that the name "North American Funds" refers to the Trustees under the Declaration collectively as Trustees, but not as individuals or personally; and no Trustee, shareholder, officer, employee or agent of the Trust shall be held to any personal liability, nor shall resort be had to their private property, for the satisfaction of any obligation or claim, in connection with the affairs of the Trust or any portfolio thereof, but only the assets belonging to the Trust, or to the particular portfolio with which the obligee or claimant dealt, shall be liable.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed under seal by their duly authorized officers as of the date first mentioned above.

[SEAL]

NASL Financial Services, Inc.

by: Richard C. Hirtle

-----  
Vice President Treasurer & CFO

by: James D. Gallagher

-----  
Vice President, Secretary &  
General Counsel

[SEAL]

Manufacturers Adviser Corporation

by: J B Mounsey

-----  
President

#### APPENDIX A

-----

The Subadviser shall serve as investment subadviser for the following portfolio of the Trust. The Adviser will pay the Subadviser, as full compensation for all services provided under this Agreement, the fee computed separately for each such Portfolio at an annual rate as follows (the "Subadviser Percentage Fee"):

Money Market Portfolio: .075% of the first \$50,000,000, .075% between \$50,000,000 and \$200,000,000, .075% between \$200,000,000 and \$500,000,000 and .020% on the excess over \$500,000,000 of the current value of the net assets of the Portfolio;

The Subadviser Percentage Fee for each Portfolio shall be accrued for each calendar day and the sum of the daily fee accruals shall be paid monthly to the Subadviser. The daily fee accruals will be computed by multiplying the fraction of one over the number of calendar days in the year by the applicable annual rate described in the preceding paragraph, and multiplying this product by the net assets of the Portfolio as determined in accordance with the Trust's prospectus and statement of additional information as of the close of business on the previous business day on which the Trust was open for business.

If this Agreement becomes effective or terminates before the end of any month, the fee (if any) for the period from the effective date to the end of such month or from the beginning of such month to the date of termination, as the case may be, shall be prorated according to the proportion which such period bears to the full month in which such effectiveness or termination occurs.

AMENDMENT TO  
SUBADVISORY AGREEMENT  
NORTH AMERICAN FUNDS

AMENDMENT made as of this 1st day of October 1996 to the Subadvisory  
---                   -----                   -  
Agreement dated January 4, 1996 (the "Agreement"), between NASL Financial  
Services, Inc., a Massachusetts corporation (the "Adviser"), and Founders Asset  
Management, Inc., a Delaware Corporation (the "Subadvisers"). In consideration  
of the mutual covenants contained herein, the parties agree as follows:

1. CHANGE IN APPENDIX A

Providing for the appointment and compensation of the Subadviser for the  
new Balanced Portfolio. Section 3 of the Agreement, "Compensation of  
Subadviser," is hereby amended by adding an additional portfolio to Appendix A  
as follows:

1. Balanced Portfolio: .325% of the first \$50,000,000, .275% between  
\$50,000,000 and \$200,000,000, .225% between \$200,000,000 and \$500,000,000  
and .150% on the excess over \$500,000,000 of the average daily value of the  
net assets of the Portfolio.

2. SUBADVISORY AGREEMENT

In all other respects, the Agreement is confirmed and remains in full force  
and effect.

3. EFFECTIVE DATE

This Amendment shall become effective with respect to the Balanced  
Portfolio on the date of its execution.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be  
executed under seal by their duly authorized officers as of the date first  
mentioned above.

NASL Financial Services, Inc.

By: Richard C. Hirtle  
-----  
Vice President and Treasurer

By: James D. Gallagher

-----  
Vice President, Secretary and General Counsel

Founders Asset Management, Inc.

By: David L. Ray

-----  
Vice President & Treasurer

CONSENT OF INDEPENDENT ACCOUNTANTS  
-----

We consent to the inclusion through incorporation by reference into this Post-Effective Amendment No. 25 under the Securities Act of 1933 and Amendment No. 27 under the Investment Company Act of 1940 to the Trust's Registration Statement on Form N-1A (File No. 33-27958) of our report dated December 20, 1996, on our audits of the financial statements and financial highlights of the North American Funds, which are included in the Registration Statement. We also consent to the reference to our Firm as "Experts" under the caption "Independent Accountants" in Parts A and B of the Registration Statement.

Coopers & Lybrand L.L.P.

Boston, Massachusetts  
December 30, 1996

NORTH AMERICAN FUNDS

POWER OF ATTORNEY

I, Joseph Scott, do hereby constitute and appoint James. D. Gallagher, John D. DesPrez III, Richard C. Hirtle, Brian L. Moore, John G. Vyrsen and James Boyle, or any one of them, my true and lawful attorneys to execute registration statements to be filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended (the "1933 Act") and/or the Investment Company Act of 1940, as amended (the "1940 Act"), and to do any and all acts and things and to execute any and all instruments for me and in my name in the capacities indicated below, which said attorney, may deem necessary or advisable to enable North American Funds (the "Fund") to comply with the 1933 Act and the 1940 Act, and any rules, regulations and requirements of the Securities and Exchange Commission, in connection with such registration statement, including specifically, but without limitation, power and authority to sign for me or in my name and in the capacities indicated below, any and all amendments (including post-effective amendments); and I do hereby ratify and confirm all that the said attorneys, or any of them, shall do or cause to be done by virtue of this power of attorney.

Signature -----	Title -----	Date -----
Joseph Scott ----- Joseph Scott	President	September 27, 1996 -----

NORTH AMERICAN FUNDS

POWER OF ATTORNEY

I, Richard C. Hirtle, do hereby constitute and appoint James. D. Gallagher, John D. DesPrez III, Joseph Scott, Brian L. Moore, John G. Vyrsen and James Boyle, or any one of them, my true and lawful attorneys to execute registration statements to be filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended (the "1933 Act") and/or the Investment Company Act of 1940, as amended (the "1940 Act"), and to do any and all acts and things and to execute any and all instruments for me and in my name in the capacities indicated below, which said attorney, may deem necessary or

advisable to enable North American Funds (the "Fund") to comply with the 1933 Act and the 1940 Act, and any rules, regulations and requirements of the Securities and Exchange Commission, in connection with such registration statement, including specifically, but without limitation, power and authority to sign for me or in my name and in the capacities indicated below, any and all amendments (including post-effective amendments); and I do hereby ratify and confirm all that the said attorneys, or any of them, shall do or cause to be done by virtue of this power of attorney.

Signature  
-----

Title  
-----

Date  
-----

Richard C. Hirtle  
-----

Treasurer

September 27, 1996  
-----

Richard C. Hirtle

Chief Financial Officer

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM NORTH AMERICAN FUNDS ANNUAL REPORT DATED OCTOBER 31, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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<NUMBER> 113

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM NORTH AMERICAN FUNDS ANNUAL REPORT DATED OCTOBER 31, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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<NUMBER> 142

<NAME> INTERNATIONAL GROWTH & INCOME FUND

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<CURRENCY> USD

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<NUMBER> 143

<NAME> INTERNATIONAL GROWTH & INCOME FUND

<MULTIPLIER> 1

<CURRENCY> USD

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<NUMBER> 151

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<SERIES>

<NUMBER> 152

<NAME> SMALL/MID CAP FUND

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM NORTH AMERICAN FUNDS ANNUAL REPORT DATED OCTOBER 31, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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<SERIES>

<NUMBER> 153

<NAME> SMALL/MID CAP FUND

<MULTIPLIER> 1

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<NUMBER> 161

<NAME> INTERNATIONAL SMALL CAP FUND

<MULTIPLIER> 1

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<NUMBER> 162

<NAME> INTERNATIONAL SMALL CAP FUND

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<NUMBER> 163

<NAME> INTERNATIONAL SMALL CAP FUND

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM  
NORTH AMERICAN FUNDS ANNUAL REPORT DATED OCTOBER 31, 1996 AND IS  
QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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<NAME> GROWTH EQUITY FUND

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<CURRENCY> USD

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM NORTH AMERICAN FUNDS ANNUAL REPORT DATED OCTOBER 31, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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<SERIES>

<NUMBER> 172

<NAME> GROWTH EQUITY FUND

<MULTIPLIER> 1

<CURRENCY> USD

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM NORTH AMERICAN FUNDS ANNUAL REPORT DATED OCTOBER 31, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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<SERIES>

<NUMBER> 173

<NAME> GROWTH EQUITY FUND

<MULTIPLIER> 1

<CURRENCY> USD

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