

# SECURITIES AND EXCHANGE COMMISSION

## FORM 485A24E

Post-effective amendments

Filing Date: **1996-12-30**  
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### FILER

#### KEYSTONE QUALITY BOND FUND B-1

CIK: **55611** | IRS No.: **042394419** | Fiscal Year End: **1031**  
Type: **485A24E** | Act: **33** | File No.: **002-10658** | Film No.: **96688373**

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM N-1A

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Pre-Effective Amendment No. [ ]  
Post-Effective Amendment No. 96 [X]

and

REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940

Amendment No. 29 [X]  
[ ]

KEYSTONE QUALITY BOND FUND (B-1)

-----  
(Exact name of Registrant as specified in Charter)

200 Berkeley Street, Boston, Massachusetts 02116-5034

-----  
(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, including Area Code:  
(617) 338-3200

Rosemary D. Van Antwerp, Esq., 200 Berkeley Street,  
Boston, Massachusetts 02116-5034

-----  
(Name and Address of Agent for Service)

It is proposed that this filing will become effective

- [ ] immediately upon filing pursuant to paragraph (b)  
[ ] on (date) pursuant to paragraph (b)  
[ ] 60 days after filing pursuant to paragraph (a) (1)  
[X] on February 28, 1997 pursuant to paragraph (a) (1)  
[ ] 75 days after filing pursuant to paragraph (a) (2)  
[ ] on (date) pursuant to paragraph (a) (2) of Rule 485.

Pursuant to Rule 24f-2 under the Investment Company Act of 1940, the Registrant has elected to register an indefinite number of shares under the Securities Act of 1933. A Rule 24f-2 Notice for Registrant's fiscal year ended October 31, 1996 was filed on December 13, 1996.

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price Per Unit*	Proposed Maximum Aggregate Offering Price**	Amount of Registration Fee
Shares of \$1.00 Par Value	8,599,172	\$15.17	\$329,993	\$100

\* Computed under Rule 457(d) on the basis of the offering price per share at the close of business on December 17, 1996.

\*\* The calculation of the maximum aggregate offering price is made pursuant to Rule 24e-2 under the Investment Company Act of 1940. 8,577,419 shares of the Fund were redeemed during its fiscal year ended October 31, 1996. All of such shares are being used for a reduction in this filing.

KEYSTONE QUALITY BOND FUND (B-1)

CONTENTS OF  
POST-EFFECTIVE AMENDMENT NO. 96  
to  
REGISTRATION STATEMENT

This Post-Effective Amendment No. 96 to Registrant's Registration Statement No. 2-10658/811-92 consists of the following pages, items of information, and documents:

The Facing Sheet

The Contents Page

The Cross-Reference Sheet

PART A

Prospectus

PART B

Statement of Additional Information

PART C

PART C - OTHER INFORMATION - ITEMS 24(a) and 24(b)

Financial Statements

Listing of Exhibits

PART C - OTHER INFORMATION - ITEMS 25-32 - and SIGNATURE PAGES

Number of Holders of Securities

Indemnification

Business and Other Connections of Investment Adviser

Principal Underwriter

Location of Accounts and Records

Undertakings

Signatures

Exhibits (including Powers of Attorney)

KEYSTONE QUALITY BOND FUND (B-1)

Cross-Reference Sheet pursuant to Rules 404 and 495 under the Securities Act of 1933.

Items in  
Part A of  
Form N-1A  
-----

	Prospectus Caption -----
1	Cover Page
2	Expense Information
3	Financial Highlights Performance Data
4	Additional Investment Information Cover Page Fund Description Investment Objective and Policies Investment Restrictions

	Risk Factors
5	Fund Management and Expenses
5A	Not applicable
6	Dividends and Taxes Fund Description Fund Shares Shareholder Services
7	Distribution Plan How to Buy Shares Pricing Shares Shareholder Services
8	How to Redeem Shares
9	Not applicable

KEYSTONE QUALITY BOND FUND (B-1)

Cross-Reference Sheet continued.

Items in Part B of Form N-1A -----	Statement of Additional Information Caption -----
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11	Table of Contents
12	Not applicable
13	The Fund Investment Restrictions Appendix
14	Trustees and Officers
15	Additional Information
16	Additional Information Distribution Plan Expenses Investment Adviser Principal Underwriter Sales Charges
17	Brokerage
18	Declaration of Trust
19	Distribution Plan Additional Information Valuation of Securities
20	Distributions and Taxes
21	Principal Underwriter
22	Standardized Total Return and Yield Quotations
23	Financial Statements

KEYSTONE QUALITY BOND FUND (B-1)

PART A

PROSPECTUS

-----  
PROSPECTUS FEBRUARY , 1997  
-----

KEYSTONE QUALITY BOND FUND (B-1)

CALL TOLL FREE 1-800-343-2898

Keystone Quality Bond Fund (B-1) (the "Fund") is a mutual fund that seeks the highest possible income consistent with preservation of principal. The Fund invests primarily in high and investment grade corporate bonds, which possess a high degree of dependability of interest payments.

Your purchase payment is fully invested. There is no sales charge when you buy the Fund's shares. The Fund may impose a deferred sales charge, which declines from 4% to 1%, if you redeem your shares within four years of purchase.

The Fund has adopted a Distribution Plan pursuant to Rule 12b-1 under the Investment Company Act of 1940 (the "1940 Act") under which it bears some of the costs of selling its shares to the public.

This prospectus sets forth concisely the information about the Fund that you should know before investing. Please read it and retain it for future reference.

Additional information about the Fund is contained in a statement of additional information dated February \_\_, 1997, which has been filed with the Securities and Exchange Commission and is incorporated by reference into this prospectus. For a free copy, or for other information about the Fund, write to the address or call the telephone number listed above.

SHARES OF THE FUND ARE NOT DEPOSITS OR OBLIGATIONS OF, OR GUARANTEED OR ENDORSED BY, ANY BANK, AND SHARES ARE NOT INSURED OR OTHERWISE PROTECTED BY THE U.S. GOVERNMENT, THE FEDERAL DEPOSIT INSURANCE CORPORATION, THE FEDERAL RESERVE BOARD, OR ANY OTHER GOVERNMENT AGENCY AND INVOLVE RISK INCLUDING THE POSSIBLE LOSS OF PRINCIPAL.

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

KEYSTONE QUALITY BOND FUND (B-1)

The purpose of the fee table is to assist investors in understanding the costs and expenses that an investor in the Fund will bear directly or indirectly. For more complete descriptions of the various costs and expenses, see the following sections of this prospectus: "Fund Management and Expenses"; "How to Buy Shares"; "Distribution Plan"; and "Shareholder Services."

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SHAREHOLDER TRANSACTION EXPENSES

<S>		<C>
Maximum Deferred Sales Load(1) .....		4.00%
(as a percentage of the lesser of original purchase price or redemption proceeds, as applicable)		
Exchange Fee .....		None

ANNUAL FUND OPERATING EXPENSES (2)	
(as a percentage of average net assets)	
Management Fees .....	0.60%
12b-1 Fees (3) .....	1.00%
Other Expenses .....	0.35%
	----
Total Fund Operating Expenses .....	1.95%
	====

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EXAMPLE (4)	1 YEAR	3 YEARS	5 YEARS	10 YEARS
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
You would pay the following expenses on a \$1,000 investment, assuming (1) 5% annual return and (2) redemption at the end of each period .....				
	\$60	\$81	\$105	\$227
You would pay the following expenses on the same investment, assuming no redemption .....				
	\$20	\$61	\$105	\$227

AMOUNTS SHOWN IN THE EXAMPLE SHOULD NOT BE CONSIDERED A REPRESENTATION OF PAST OR FUTURE EXPENSES; ACTUAL EXPENSES MAY BE GREATER OR LESS THAN THOSE SHOWN.

<FN>

(1) The deferred sales charge declines from 4% to 1% of amounts redeemed within four calendar years after purchase. No deferred sales charge is imposed thereafter.

(2) Expense ratios are for the Fund's fiscal year ended October 31, 1996. Total Fund Operating Expenses include indirectly paid expenses.

(3) Long-term shareholders may pay more than the economic equivalent of the maximum front-end sales charge permitted by rules adopted by the National Association of Securities Dealers, Inc. ("NASD").

(4) The Securities and Exchange Commission requires use of a 5% annual return figure for purposes of this example. Actual return for the Fund may be greater or less than 5%.

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</TABLE>

FINANCIAL HIGHLIGHTS  
KEYSTONE QUALITY BOND FUND (B-1)  
(For a share outstanding throughout each year)

The following table contains important financial information relating to the Fund and has been audited by KPMG Peat Marwick LLP, the Fund's independent auditors. The table appears in the Fund's Annual Report and should be read in conjunction with the Fund's financial statements and related notes, which also appear, together with the independent auditors' report, in the Fund's Annual Report. The Fund's financial statements, related notes and independent auditors' report are incorporated by reference into the statement of additional information. Additional information about the Fund's performance is contained in its Annual Report, which will be made available upon request and without charge.

<TABLE>										
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	YEAR ENDED OCTOBER 31,									
	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
NET ASSET VALUE										
BEGINNING OF YEAR ..	\$15.42	\$14.44	\$16.40	\$15.92	\$15.92	\$15.11	\$15.85	\$15.71	\$15.52	\$17.30
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
INCOME FROM INVESTMENT OPERATIONS:										
Net investment income	0.75	0.87	0.76	0.96	1.04	1.08	1.11	1.21	1.19	1.20
Net realized and unrealized gain (loss) on investments, closed futures contracts and foreign currency related transactions	(0.16)	1.05	(1.76)	0.66	0.15	0.99	(0.53)	0.25	0.32	(1.59)
Total from investment operations .....	0.59	1.92	(1.00)	1.62	1.19	2.07	0.58	1.46	1.51	(0.39)
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
LESS DISTRIBUTIONS FROM:										
Net investment income	(0.76)	(0.87)	(0.76)	(0.96)	(1.04)	(1.08)	(1.18)	(1.32)	(1.32)	(1.39)
In excess of net investment income ..	0	(0.05)	(0.09)	(0.18)	(0.15)	(0.18)	(0.14)	0	0	0
Tax basis return of capital .....	(0.06)	(0.02)	(0.11)	0	0	0	0	0	0	0
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Total distributions .	(0.82)	(0.94)	(0.96)	(1.14)	(1.19)	(1.26)	(1.32)	(1.32)	(1.32)	(1.39)
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----

NET ASSET VALUE END OF YEAR .....	\$15.19 =====	\$15.42 =====	\$14.44 =====	\$16.40 =====	\$15.92 =====	\$15.92 =====	\$15.11 =====	\$15.85 =====	\$15.71 =====	\$15.52 =====
TOTAL RETURN (a) .....	3.99%	13.69%	(6.27%)	10.50%	7.71%	14.09%	3.93%	9.82%	10.09%	(2.44%)
RATIOS/SUPPLEMENTAL DATA										
RATIOS TO AVERAGE NET ASSETS:										
Total expenses ....	1.95% (b)	1.96% (b)	1.86%	1.94%	2.01%	2.04%	1.95%	1.82%	1.64%	1.56%
Net investment income .....	5.06%	5.86%	5.05%	5.85%	6.40%	6.95%	7.45%	7.61%	7.49%	7.32%
Portfolio turnover rate .....	231%	244%	169%	190%	102%	158%	117%	116%	153%	127%
NET ASSETS END OF YEAR (THOUSANDS)	\$228,649	\$310,791	\$327,276	\$458,925	\$456,912	\$453,528	\$408,330	\$462,425	\$447,454	\$440,836

<FN>

(a) Excluding applicable sales charges.

(b) The ratio of total expenses to average net assets includes indirectly paid expenses. Excluding indirectly paid expenses, the expense ratios would have been 1.93% and 1.94% for the years ended October 31, 1996 and 1995, respectively.

</FN>

</TABLE>

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FUND DESCRIPTION  
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The Fund is an open-end, diversified, management investment company, commonly known as a mutual fund. The Fund was created under Pennsylvania law as a common law trust and has been offering its shares continuously since September 11, 1935. The Fund is one of more than thirty funds advised and managed by Keystone Investment Management Company ("Keystone"), the Fund's investment adviser.

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INVESTMENT OBJECTIVE AND POLICIES  
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INVESTMENT OBJECTIVE

The Fund's investment objective is to provide shareholders with the highest possible income consistent with preservation of principal.

The investment objective of the Fund cannot be changed without a vote of the holders of a majority (as defined in the 1940 Act), which means the lesser of (i) 67% of the shares represented at a meeting at which more than 90% of the outstanding shares are represented or (ii) more than 50% of the outstanding shares (a "1940 Act Majority").

Any investment involves risk, and there is no assurance that the Fund will achieve its investment objective.

INVESTMENTS AND INVESTMENT POLICIES

The Fund invests at least 65% of its assets in high grade bonds (bonds rated A or better by Moody's Investors Service ("Moody's") or by Standard & Poor's Corporation ("S&P")). In addition the Fund invests in investment grade bonds and short-term money market instruments at such times and in such proportions as seem appropriate to best achieve its objective.

Bonds will include obligations of the United States ("U.S.") government or its agencies (e.g., Government National Mortgage Association ("GNMA") certificates, U.S. Treasury securities and such other securities as are issued by or guaranteed as to principal and interest by the full faith and credit of the U.S. government) and other bond issues of high or investment grade, including high grade municipal bonds. The Fund invests in municipal bonds when the spreads between municipal and taxable bonds have narrowed. Such bonds possess a high degree of dependability of interest payments with price action affected almost exclusively by the trend and level of money rates.

The Fund has a fundamental policy that allows it to invest up to 25% of its assets in investment grade convertible bonds.

In addition, the Fund may invest a limited portion of its assets in bonds rated Baa by Moody's or BBB by S&P or, if unrated, deemed to be of comparable quality by Keystone. These are the lowest rated bonds in which the Fund will invest.

Bonds rated Baa by Moody's are considered to be medium grade obligations, i.e., 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 have speculative characteristics as well. Debt rated BBB by S&P is regarded as having

an adequate capacity to pay interest and repay principal. While 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.

Short-term investments in which the Fund may invest, which must mature within one year of their purchase, consist of U.S. government securities; instruments of banks having assets of at least \$500 million, including U.S. branches of foreign banks and foreign branches of U.S. banks, such as certificates of deposit, demand and time deposits and bankers' acceptances; high grade commercial paper; and repurchase agreements secured by U.S. government securities.

The Fund may invest up to 25% of its assets in foreign securities issued by issuers located in developing countries as well as certain countries with emerging markets. For this purpose, countries with emerging markets are generally those where the per capita income is in the low to middle ranges, as determined by the International Bank for Reconstruction and Development.

The Fund may invest in restricted securities, including securities eligible for resale pursuant to Rule 144A under the Securities Act of 1933 (the "1933 Act"). Generally, Rule 144A establishes a safe harbor from the registration requirements of the 1933 Act for resales by large institutional investors of securities not publicly traded in the U.S. The Fund may purchase Rule 144A securities when such securities present an attractive investment opportunity and otherwise meet the Fund's selection criteria. The Board of Trustees has adopted guidelines and procedures pursuant to which the liquidity of the Fund's Rule 144A securities is determined by Keystone and the Board of Trustees monitors Keystone's implementation of such guidelines and procedures.

At the present time, the Fund cannot accurately predict exactly how the market for Rule 144A securities will develop. A Rule 144A security that was readily marketable upon purchase may subsequently become illiquid. In such an event, the Board of Trustees will consider what action, if any, is appropriate.

The Fund may also (1) write covered call options; (2) purchase put and call options to close out existing positions; (3) enter into reverse repurchase agreements and firm commitment and when-issued transactions for securities and currencies; (4) enter into currency and other financial futures contracts and related options transactions for hedging purposes and not for speculation; (5) employ new investment techniques with respect to options and futures contracts and related options; and (6) invest in limited partnerships, including master limited partnerships.

In addition to the options, futures contracts and forwards mentioned above, the Fund may also invest in certain other types of derivative instruments, including collateralized mortgage obligations, structured notes, interest rate swaps, index swaps, currency swaps and caps and floors. These basic vehicles can also be combined to create more complex products called hybrid derivatives or structured securities.

For further information about the types of investments and investment techniques available to the Fund, including the associated risks, see "Risk Factors" and "Additional Investment Information" sections of this prospectus as well as the statement of additional information.

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INVESTMENT RESTRICTIONS  
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The Fund has adopted the fundamental restrictions summarized below, which may not be changed without the vote of a 1940 Act Majority of the Fund's outstanding shares. These restrictions and certain other fundamental and non-fundamental restrictions are set forth in the statement of additional information.

The Fund may not do the following: (1) with respect to 75% of its total assets; invest more than 5% of the value of its total assets determined at market or other fair value at the time of purchase, in the securities of any one issuer or invest in more than 10% of the outstanding voting securities of any one issuer, all as determined immediately after such investment; provided that these limitations do not apply to investments in securities issued or guaranteed by the U.S. government or its agencies or instrumentalities; (2) borrow money, except that the Fund may borrow money from banks for temporary or emergency purposes in aggregate amounts up to 10% of the value of the Fund's net assets (computed at cost) or enter into reverse repurchase agreements, provided that bank borrowings and reverse repurchase agreements, in aggregate, shall not exceed 10% of the value of the Fund's net assets; and (3) invest more than 25%



of its total assets in securities of issuers in the same industry other than securities issued by banks and savings and loan associations or securities issued or guaranteed by the U.S. government, its agencies or instrumentalities.

The Fund intends to follow policies of the Securities and Exchange Commission as they are adopted from time to time with respect to illiquid securities, including, at this time, (1) treating as illiquid, securities that may not be sold or disposed of in the ordinary course of business within seven days at approximately the value at which the Fund has valued the investment on its books and (2) limiting its holdings of such securities to 15% of net assets.

In addition, the Fund may, notwithstanding any other investment policy or restriction, invest all of its assets in the securities of a single open-end management investment company with substantially the same fundamental investment objective, policies and restrictions as the Fund. The Fund does not currently intend to implement this policy and would do so only if the Trustees were to determine such action to be in the best interest of the Fund and its shareholders. In the event of such implementation, the Fund will comply with such requirements as to written notice to shareholders as are then in effect.

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#### RISK FACTORS

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Like any investment, your investment in the Fund involves an element of risk. Before you invest in the Fund, you should carefully evaluate your ability to assume the risks your investment in the Fund poses. You can lose money by investing in the Fund. Your investment is not guaranteed. A decrease in the value of the Fund's portfolio securities can result in a decrease in the value of your investment.

Certain risks related to the Fund are discussed below. To the extent not discussed in this section, specific risks relating to individual securities or investment practices are discussed in "Additional Investment Information" and the statement of additional information.

Should the Fund need to raise cash to meet a large number of redemptions, it might have to sell portfolio securities at a time when it would be disadvantageous to do so.

By itself, the Fund does not constitute a balanced investment plan. You should take into account your own investment objectives as well as your other investments when considering an investment in the Fund.

**FIXED INCOME RISKS.** The Fund stresses earning income by investing in fixed-income securities, which are generally considered to be interest rate sensitive. Specifically, the market value (and the Fund's price per share) of fixed-income securities generally varies inversely with changes in interest rates (i.e., decreasing when interest rates rise and increasing when interest rates fall). For example, if interest rates increase after the security is purchased, the security, if sold prior to maturity, may return less than its cost.

When choosing among bond funds, you should consider the anticipated yield together with potential changes in share price, as these two factors determine each fund's total return. Generally the yield and potential price changes of a fund depend on the quality and maturity of the obligations in its portfolio, as well as on market conditions. The Fund is for investors who seek the highest possible income, but want a portfolio of primarily high and investment grade bonds.

To the extent that investments are made in debt securities (other than U.S. government securities), derivatives or structured securities, such investments, despite favorable credit ratings, are subject to some risk of default.

**GOVERNMENT SECURITIES.** While certain of the securities in which the Fund may invest are issued by or guaranteed as to principal and interest by the full faith and credit of the U.S. government, the market value of such securities is not guaranteed.

**DERIVATIVES.** The market value of derivatives or structured securities may vary depending upon the manner in which the investments have been structured. As a result, the value of such investments may change at a more rapid rate than that of traditional fixed-income securities.

For more detailed information on derivatives and other investment techniques,

see "Additional Investment Information" and the statement of additional information.

**FOREIGN RISK.** The Fund may invest up to 25% of its assets in securities that are principally traded in securities markets outside the U.S. While investing in foreign securities is intended to reduce risk by providing further diversification, such investments do involve the following risks: publicly available information on issuers and securities may be scarce; many foreign countries do not follow the same accounting, auditing, and financial reporting standards as are used in the U.S.; market trading volumes may be smaller, resulting in less liquidity and more price volatility compared to U.S. securities of comparable quality; there may be less regulation of securities trading and its participants; the possibility may exist for expropriation, confiscatory taxation, nationalization, establishment of exchange controls, political or social instability or negative diplomatic development; and dividend or interest withholding may be imposed at the source.

Investing in securities of issuers in emerging markets countries involves exposure to economic systems that are generally less mature and political systems that are generally less stable than those of developed countries. In addition, investing in companies in emerging markets countries may also involve exposure to national policies that may restrict investment by foreigners and undeveloped legal systems governing private and foreign investments and private property. The typically small size of the markets for securities issued by companies in emerging markets countries and the possibility of a low or nonexistent volume of trading in those securities may also result in a lack of liquidity and in price volatility of those securities.

Fluctuations in foreign exchange rates impose an additional level of risk, possibly affecting the value of the Fund's foreign investments and earnings, as well as gains and losses realized through trades, and the unrealized appreciation or depreciation of investments. The Fund may also incur costs when it shifts assets from one country to another.

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#### PRICING SHARES

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The Fund computes its net asset value as of the close of trading (currently 4:00 p.m. eastern time) on each day that the New York Stock Exchange (the "Exchange") is open. However, the Fund does not compute its net asset value on days when changes in the value of the Fund's securities do not affect the current net asset value of its shares. The Exchange is currently closed on New Year's Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. The net asset value per share is arrived at by determining the value of all of the Fund's assets, subtracting all liabilities and dividing the result by the number of shares outstanding.

Current values for the Fund's portfolio securities are determined as follows:

(1) short-term investments purchased with maturities of sixty days or less are valued at amortized cost (original purchase price as adjusted for amortization of premium or accretion of discount), which, when combined with accrued interest, approximates market;

(2) short-term investments maturing in more than sixty days for which market quotations are readily available are valued at market value;

(3) short-term investments maturing in more than sixty days when purchased that are held on the sixtieth day prior to maturity are valued at amortized cost (market value on the sixtieth day adjusted for amortization of premium or accretion of discount), which, when combined with accrued interest, approximates market.

All other investments are valued at market value or, where market quotations are not readily available, at fair value as determined in good faith by the Fund's Board of Trustees.

The Fund believes that reliable market quotations are generally not readily available for purposes of valuing fixed income securities. As a result, it is likely that most of the valuations for such securities will be based upon their fair value determined under procedures that have been approved by the Fund's Board of Trustees. The Board of Trustees has authorized the use of a pricing service to determine the fair value of the Fund's fixed income securities and certain other securities.

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#### DIVIDENDS AND TAXES

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The Fund has qualified and intends to continue to qualify as a regulated investment company (a "RIC") under the Internal Revenue Code of 1986, as amended

(the "Code"). The Fund qualifies if, among other things, it distributes to its shareholders at least 90% of its net investment income for its fiscal year. The Fund also intends to make timely distributions, if necessary, sufficient in amount to avoid the nondeductible 4% excise tax imposed on a RIC when it fails to distribute, with respect to each calendar year, at least 98% of its ordinary income for such calendar year and 98% of its net capital gains for the one-year period ending on October 31 of such calendar year.

If the Fund qualifies as a RIC and if it distributes all of its net investment income and net capital gains, if any, to shareholders, it will be relieved of any federal income tax liability.

The Fund will make distributions from its net investment income to its shareholders by the 15th day of each month and net capital gains, if any, at least annually. Shareholders receive Fund distributions in the form of additional shares of the Fund or at the shareholder's election (which must be made before the record date for the distribution), in cash. Fund distributions in the form of additional shares are made at net asset value without the imposition of a sales charge.

Dividends and distributions are taxable whether they are received in cash or in shares. Income dividends and net short-term gains distributions are taxable as ordinary income. Net long-term gains distributions are taxable as capital gains regardless of how long the Fund's shares are held. If Fund shares held for less than six months are sold at a loss, however, such loss will be treated for tax purposes as a long-term capital loss to the extent of any long-term capital gains dividends received. Any taxable dividend declared in October, November, or December to shareholders of record in such a month and paid by the following January 31 will be includable in the taxable income of the shareholders as if paid on December 31 of the year in which the dividend was declared. Dividends and distributions may also be subject to state and local taxes.

The Fund advises its shareholders annually as to the federal tax status of all distributions made during the year. Any income from tax free bonds is not expected to be tax-exempt to the shareholder.

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FUND MANAGEMENT AND EXPENSES  
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FUND MANAGEMENT

The Fund's Board of Trustees has absolute and exclusive control over the management and disposition of all assets of the Fund. Subject to the authority of the Fund's Board of Trustees, Keystone provides investment advice, management and administrative services to the Fund.

INVESTMENT ADVISER

Keystone has provided investment advisory and management services to investment companies and private accounts since 1932. Keystone is a wholly-owned subsidiary of Keystone Investments, Inc. ("Keystone Investments"). Keystone Investments provides accounting, bookkeeping, legal, personnel and general corporate services to Keystone, its affiliates and the Keystone Investments Families of Funds. Both Keystone and Keystone Investments are located at 200 Berkeley Street, Boston, Massachusetts 02116-5034.

On December 11, 1996, Keystone Investments succeeded to the business of a corporation with the same name, but under different ownership. Keystone Investments is a wholly-owned subsidiary of First Union National Bank of North Carolina ("FUNB"). FUNB is a subsidiary of First Union Corporation ("First Union"), the sixth largest bank holding company in the U.S. based on total assets as of September 30, 1996.

First Union is headquartered in Charlotte, North Carolina, and had \$133.9 billion in consolidated assets as of September 30, 1996. First Union and its subsidiaries provide a broad range of financial services to individuals and businesses throughout the U.S. The Capital Management Group of FUNB, together with Lieber & Company and Evergreen Asset Management Corp., wholly-owned subsidiaries of FUNB, manage or otherwise oversee the investment of over \$50 billion in assets belonging to a wide range of clients, including the Evergreen Family of Funds.

Pursuant to its Investment Advisory and Management Agreement with the Fund (the "Advisory Agreement"), Keystone manages the investment and reinvestment of the Fund's assets, supervises the operation of the Fund and provides all necessary office space, facilities and equipment.

The Fund pays Keystone a fee for its services at the annual rate set forth below

ANNUAL AGGREGATE  
NET ASSET VALUE  
OF THE SHARES

2.0% of  
Gross Dividend and  
Interest Income, Plus

0.50% of the first	\$100,000,000 plus
0.45% of the next	\$100,000,000 plus
0.40% of the next	\$100,000,000 plus
0.35% of the next	\$100,000,000 plus
0.30% of the next	\$100,000,000 plus
0.25% of amounts over	\$500,000,000.

Keystone's fee is computed as of the close of business on each business day and payable daily.

The Advisory Agreement continues in effect for two years from its effective date and, thereafter, from year to year only so long as such continuance is specifically approved at least annually by the Board of Trustees or by the vote of shareholders of the Fund. In addition, the terms and annual continuance of the Advisory Agreement must be approved by the vote of a majority of the Independent Trustees (Trustees who are not interested persons (as defined in the 1940 Act) of the Fund and who have no direct or indirect financial interest in the Fund's Distribution Plan or any agreement related thereto), cast in person at a meeting called for the purpose of voting on such approval. The Advisory Agreement may be terminated, without penalty, on 60 days' written notice by the Fund or Keystone or may be terminated by a vote of shareholders of the Fund. The Advisory Agreement will terminate automatically upon its assignment.

#### PRINCIPAL UNDERWRITER

Evergreen Keystone Distributor, Inc. (formerly Evergreen Funds Distributor, Inc.) ("EKD"), a wholly-owned subsidiary of Furman Selz LLC ("Furman Selz"), which is not affiliated with First Union, is now the Fund's principal underwriter (the "Principal Underwriter"). EKD replaces Evergreen Keystone Investment Services, Inc. (formerly Keystone Investment Distributors Company) ("EKIS") as the Fund's principal underwriter. EKIS may no longer act as principal underwriter of the Fund due to regulatory restrictions imposed by the Glass-Steagall Act upon national banks such as FUNB and their affiliates, that prohibit such entities from acting as the underwriters or distributors of mutual fund shares. While EKIS may no longer act as principal underwriter of the Fund as discussed above, EKIS may continue to receive compensation from the Fund or the Principal Underwriter in respect of underwriting and distribution services performed prior to the termination of EKIS as principal underwriter. In addition, EKIS may also be compensated by the Principal Underwriter for the provision of certain marketing support services to the Principal Underwriter at an annual rate of up to 0.75% of the average daily net assets of the Fund, subject to certain restrictions. Both EKD and Furman Selz are located at 230 Park Avenue, New York, New York 10169.

#### SUB-ADMINISTRATOR

Furman Selz provides officers and certain administrative services to the Fund pursuant to a sub-administration agreement. For its services under that agreement, Furman Selz receives a fee from Keystone at the maximum annual rate of 0.01% of the average daily net assets of the Fund.

#### CODE OF ETHICS

The Fund has adopted a Code of Ethics incorporating policies on personal securities trading as recommended by the Investment Company Institute.

#### PORTFOLIO MANAGER

Christopher P. Conkey has been the Fund's Portfolio Manager since January 1995. He is a Keystone Senior Vice President and Group Leader for the high grade fixed income area. Mr. Conkey joined Keystone as a fixed income portfolio manager in 1988.

#### FUND EXPENSES

The Fund will pay all of its expenses. In addition to the investment advisory and distribution plan fees described in this prospectus, the principal expenses that the Fund is expected to pay include, but are not limited to, transfer, dividend disbursing, and shareholder servicing agent expenses; custodian expenses; fees of its independent auditors; fees of its Independent Trustees; fees of legal counsel to the Fund and to its Independent Trustees; fees payable to government agencies, including registration and qualification fees attributable to the Fund and its shares under federal and state securities laws; and certain extraordinary expenses. In addition to such expenses, the Fund pays its brokerage commissions, interest charges and taxes. For the fiscal year ended October 31, 1996, the Fund paid expenses, including indirectly paid expenses, equal to 1.95% of its average net assets.

During the fiscal year ended October 31, 1996, the Fund paid or accrued to Keystone Management, Inc., the Fund's former investment manager, investment management and administrative services fees of \$1,578,211 (0.60% of the Fund's average daily net assets). Of such amount, \$1,341,479 was paid to Keystone for its investment advisory services to the Fund. During the same period, the Fund paid or accrued \$23,191 to Keystone Investments for certain accounting services

and \$627,068 to Evergreen Keystone Service Company (formerly Keystone Investor Resource Center, Inc.) ("EKSC"), for services rendered as the Fund's transfer and dividend disbursing agent. EKSC, a wholly-owned subsidiary of Keystone, is located at 200 Berkeley Street, Boston, Massachusetts 02116-5034.

#### SECURITIES TRANSACTIONS

Under policies established by the Board of Trustees, Keystone selects broker-dealers to execute transactions subject to the receipt of best execution. When selecting broker-dealers to execute portfolio transactions for the Fund, Keystone may consider the number of shares of the Fund sold by such broker-dealers. In addition, broker-dealers executing portfolio transactions may, from time to time, be affiliated with the Fund, Keystone, the Principal Underwriter or their affiliates.

#### PORTFOLIO TURNOVER

The Fund's portfolio turnover rates for the fiscal years ended October 31, 1995 and 1996 were 244% and 231%, respectively. High portfolio turnover may involve correspondingly greater brokerage commissions and other transaction costs, which will be borne directly by the Fund, as well as additional realized gains and/or losses to shareholders. For further information about brokerage and distributions, see the statement of additional information.

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#### DISTRIBUTION PLAN

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The Fund bears some of the costs of selling its shares under a Distribution Plan adopted pursuant to Rule 12b-1 under the 1940 Act. The Fund's Distribution Plan provides that the Fund may expend up to 0.3125% quarterly (approximately 1.25% annually) of the average daily net asset value of its shares to pay distribution costs for sales of its shares and to pay shareholder service fees. The NASD currently limits such annual expenditures to 1.00% of the aggregate average daily net asset value of its shares, of which 0.75% may be used to pay distribution costs and 0.25% may be used to pay shareholder service fees. The NASD also limits the aggregate amount that the Fund may pay for such distribution costs to 6.25% of gross share sales since the inception of the Fund's Distribution Plan plus interest at the prime rate plus 1% on such amounts (less any contingent deferred sales charges ("CDSCs") paid by shareholders to the Principal Underwriter or its predecessor) remaining unpaid from time to time.

Payments under the Distribution Plan are currently made to the Principal Underwriter (which may reallocate all or part to others, such as broker-dealers) or its predecessor, (1) as commissions for Fund shares sold, (2) as shareholder service fees in respect of shares maintained by the recipient and outstanding on the Fund's books for specified periods and (3) as interest. Amounts paid or accrued to the Principal Underwriter in the aggregate may not exceed the annual limitations referred to above.

The Principal Underwriter generally allows to broker-dealers or others a commission equal to 4.00% of the price paid for each Fund share sold. In addition, the Principal Underwriter generally allows to broker-dealers or others a shareholder service fee at a rate of 0.25% per annum of the net asset value of shares maintained by such recipient and outstanding on the books of the Fund for specified periods. See also "Arrangements with Broker-Dealers and Others" below.

The financing of payments made by the Principal Underwriter to compensate broker-dealers or other persons for distributing shares of the Fund will be provided by FUNB or its affiliates.

If the Fund is unable to pay the Principal Underwriter a commission on a new sale because the annual maximum (0.75% of average daily net assets) has been reached, the Principal Underwriter intends, but is not obligated, to continue to accept new orders for the purchase of Fund shares and to pay or accrue commissions and service fees to broker-dealer in excess of the amount it currently receives from the Fund ("Advances"). While the Fund is under no contractual obligation to reimburse the Principal Underwriter or its predecessor for Advances, the Principal Underwriter and its predecessor intend to seek full payment for such Advances from the Fund (together with interest at the rate of prime plus 1.00%) at such time in the future as, and to the extent that, payment thereof by the Fund would be within permitted limits. EKIS, the predecessor to the Principal Underwriter currently intends to seek payment of interest only on such Advances paid or accrued by EKIS subsequent to July 7, 1992. If the Fund's Independent Trustees authorize such payments, the effect will be to extend the period of time during which the Fund incurs the maximum amount of costs allowed by the Distribution Plan.

As of October 31, 1996, the maximum uncollected amounts for which EKIS, the predecessor to the Principal Underwriter, may seek payment from the Fund under its Distribution Plan was \$9,151,321 ( \_\_\_\_ % of the Fund's net asset value).

The amounts and purposes of expenditures under the Distribution Plan must be reported to the Independent Trustees quarterly. The Independent Trustees may

require or approve changes in the operation of the Distribution Plan, and may require that total expenditures by the Fund under the Distribution Plan be kept within limits lower than the maximum amount permitted by the Distribution Plan as stated above. Unless limited by the Independent Trustees, such costs could, for some period of time, be higher than such costs permitted by most other plans presently adopted by other investment companies.

The Distribution Plan may be terminated at any time by vote of the Fund's Independent Trustees, or by vote of a majority of the outstanding voting shares of the Fund. If the Distribution Plan is terminated, the Principal Underwriter will ask the Independent Trustees to take whatever action they deem appropriate under the circumstances with respect to payment of Advances.

Any change in the Distribution Plan that would materially increase the distribution expenses of the Fund provided for in the Distribution Plan requires shareholder approval. Otherwise, the Distribution Plan may be amended by votes of the majority of both (1) the Fund's Trustees and (2) the Independent Trustees cast in person at a meeting called for the purpose of voting on such amendment.

While the Distribution Plan is in effect, the Fund is required to commit the selection and nomination of candidates for Independent Trustees to the discretion of the Independent Trustees.

#### ARRANGEMENTS WITH BROKER-DEALERS AND OTHERS

Upon written notice to broker-dealers, the Principal Underwriter may, at its own expense periodically sponsor programs that offer additional compensation in connection with sales of Fund shares. Participation in such programs may be available to all dealers or to selected broker-dealers who have sold or are expected to sell significant amounts of shares. Additional compensation may also include financial assistance to broker-dealers in connection with preapproved seminars, conferences and advertising. No such programs or additional compensation will be offered to the extent they are prohibited by the laws of any state or any self-regulatory agency, such as the NASD.

The Principal Underwriter may, at its own expense, pay concessions in addition to those described above to broker-dealers that satisfy certain criteria established from time to time by the Principal Underwriter. These conditions relate to increasing sales of shares of the Keystone funds over specified periods and certain other factors. Such payments, depending on the broker-dealer's satisfaction of the required conditions, may be periodic and may be up to 1.00% of the value of shares sold by such dealer.

The Principal Underwriter also may pay banks and other financial services firms that facilitate transactions in shares of the Fund for their clients a transaction fee up to the level of payments made allowable to broker-dealers for the sale of such shares as described above.

The Glass-Steagall Act and other banking laws and regulations presently prohibit member banks of the Federal Reserve System ("Member Banks") or their non-bank affiliates from sponsoring, organizing, controlling, or distributing the shares of registered open-end investment companies such as the Fund. Such laws and regulations also prohibit banks from issuing, underwriting or distributing securities in general. However, under the Glass-Steagall Act and such other laws and regulations, a Member Bank or an affiliate thereof may act as investment adviser, transfer agent or custodian to a registered open-end investment company and may also act as agent in connection with the purchase of shares of such an investment company upon the order of its customer. Keystone and its affiliates, since they are direct or indirect subsidiaries of FUNB, are subject to and in compliance with the aforementioned laws and regulations. In the event the Glass-Steagall Act is deemed to prohibit depository institutions from accepting certain payments from the Fund, or should Congress relax current restrictions on depository institutions, the Board of Trustees will consider what action, if any, is appropriate.

In addition, state securities laws on this issue may differ from the interpretations of federal law expressed herein, and banks and financial institutions may be required to register as dealers pursuant to state law.

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HOW TO BUY SHARES  
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You may purchase shares of the Fund from any broker-dealer that has a selling agreement with the Principal Underwriter.

In addition, you may purchase Fund shares by mailing to the Fund, c/o Evergreen Keystone Service Company, P.O. Box 2121, Boston, Massachusetts 02106-2121, a completed account application and a check payable to the Fund. You may also telephone 1-800-343-2898 to obtain the number of an account to which you can wire or electronically transfer funds and then send in a completed account application. Subsequent investments in the Fund's shares in any amount may be made by check, by wiring Federal funds, by direct deposit or by an

electronic funds transfer ("EFT").

The Fund's shares are sold at the public offering price, which is equal to the net asset value per share next computed after the Fund receives the purchase order. The initial purchase must be at least \$1,000 except for purchases by participants in certain retirement plans for which the minimum is waived. There is no minimum for subsequent purchases. Purchase payments are fully invested at net asset value. There are no sales charges on purchases of Fund shares at the time of purchase.

#### CONTINGENT DEFERRED SALES CHARGE

With certain exceptions, when shares are redeemed within four calendar years after their purchase, a CDSC may be imposed at rates ranging from a maximum of 4.00% of amounts redeemed during the same calendar year of purchase to 1.00% of amounts redeemed during the fourth calendar year after purchase. No CDSC is imposed on amounts redeemed thereafter. If imposed, the CDSC is deducted from the redemption proceeds otherwise payable to you. CDSCs are, to the extent permitted by NASD, paid to the Principal Underwriter or its predecessor.

The CDSC is a declining percentage of the lesser of (1) the net asset value of the shares redeemed or (2) the total cost of such shares. No CDSC is imposed on amounts derived from (1) increases in the value of the shares redeemed (the value of the account with respect to shares purchased prior to January 1, 1997) above the total cost of such shares due to increases in the net asset value per share of the Fund; (2) certain shares with respect to which the Fund did not pay a commission on issuance, including shares acquired through reinvestment of dividend income and capital gains distributions; or (3) shares held in all or part of more than four consecutive calendar years.

Upon request for redemption, shares not subject to a CDSC will be redeemed first. Thereafter, shares held the longest will be the first to be redeemed. No CDSC is payable on permitted exchanges of shares between funds in the Keystone Fund Family that have adopted distribution plans pursuant to Rule 12b-1 under the 1940 Act. For purposes of computing CDSCs, when shares of one fund are exchanged for shares of another fund, the date of purchase of the shares being acquired by exchanges is deemed to be the date the shares being tendered for exchange were originally purchased.

#### WAIVER OF DEFERRED SALES CHARGE

No CDSC is imposed on a redemption of shares of the Fund in the event of (1) death or disability of the shareholder; (2) a lump-sum distribution from a 401 (k) plan or other benefit plan qualified under the Employee Retirement Income Security Act of 1974 ("ERISA"); (3) automatic withdrawals from ERISA plans if the shareholder is at least 59 1/2 years old; (4) involuntary redemptions of accounts having an aggregate net asset value of less than \$1,000; (5) automatic withdrawals under Systematic Income Plan of up to 1% per month of the shareholder's initial account balance; (6) withdrawals consisting of loan proceeds to a retirement plan participant; (7) financial hardship withdrawals made by a retirement plan participant; or (8) withdrawals consisting of returns of excess contributions or excess deferral amounts made to a retirement plan participant.

Shares also may be sold, to the extent permitted by applicable law, at net asset value without the payment of commissions or the imposition of a CDSC to (1) certain officers, Directors, Trustees, officers and employees of the Fund, Keystone and certain of their affiliates; (2) registered representatives of firms with dealer agreements with the Principal Underwriter; and (3) a bank or trust company acting as trustee for a single account. See the statement of additional information for more details

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#### HOW TO REDEEM SHARES

  
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You may redeem Fund shares for cash at the redemption value by the writing to the Fund, c/o Evergreen Keystone Service Company, Box 2121, Boston, Massachusetts 02106-2121 and presenting a properly endorsed share certificate (if certificates have been issued) to the Fund. Your signature(s) on the written order and certificates must be guaranteed as described below.

You may also redeem your shares through your broker-dealer. The Principal Underwriter, acting as agent for the Fund, stands ready to repurchase Fund shares upon orders from broker-dealers and will calculate the net asset value on the same terms as those orders for the purchase of shares received from broker-dealers and described under "How to Buy Shares." If the Principal Underwriter has received proper documentation, it will pay the redemption proceeds, less any applicable CDSC, to the broker-dealer placing the order within seven days thereafter. The Principal Underwriter charges no fee for this service. Your broker-dealer, however, may charge a service fee.

The redemption value equals the net asset value adjusted for fractions of a cent and may be more or less than your cost depending upon changes in the value of the Fund's portfolio securities between purchase and redemption. The Fund may impose a CDSC at the time of redemption of certain shares as explained in "How



to Buy Shares." If imposed, the Fund deducts the CDSC from the redemption proceeds otherwise payable to you.

#### REDEMPTION OF SHARES IN GENERAL

At various times, the Fund may be requested to redeem shares for which it has not yet received good payment. In such a case, the Fund will mail the redemption proceeds upon clearance of the purchase check, which may take up to 15 days or more. Any delay may be avoided by purchasing shares with a certified check, by Federal Reserve or bank wire of funds, by direct deposit or by EFT. Although the mailing of a redemption check may be delayed, the redemption value will be determined and the redemption processed in the ordinary course of business upon receipt of proper documentation. In such a case, after the redemption and prior to the release of the proceeds, no appreciation or depreciation will occur in the value of the redeemed shares, and no interest will be paid on the redemption proceeds. If the payment of a redemption has been delayed, the check will be mailed or the proceeds wired or sent EFT promptly after good payment has been collected.

The Fund computes the amount due you at the close of the Exchange at the end of the day on which it has received all proper documentation from you. Payment of the amount due on redemption, less any applicable CDSC, will be made within seven days thereafter, except as discussed herein.

For your protection, SIGNATURES ON CERTIFICATES, STOCK POWERS AND ALL WRITTEN ORDERS OR AUTHORIZATIONS MUST BE GUARANTEED BY A U.S. STOCK EXCHANGE MEMBER, A BANK OR OTHER PERSONS ELIGIBLE TO GUARANTEE SIGNATURES UNDER THE SECURITIES EXCHANGE ACT OF 1934 AND EKSC'S POLICIES. The Fund and EKSC may waive this requirement or may require additional documents in certain cases. Currently, the requirement for a signature guarantee has been waived on redemptions of \$50,000 or less when the account address of record has been the same for a minimum period of 30 days. The Fund and EKSC reserve the right to withdraw this waiver at any time.

If the Fund receives a redemption or repurchase order, but you have not clearly indicated the amount of money or number of shares involved, the Fund cannot execute the order. In such cases, the Fund will request the missing information from the shareholder and process the order the day it receives such information.

#### TELEPHONE REDEMPTIONS

Under ordinary circumstances, you may redeem up to \$50,000 from your account by telephone by calling toll free 1-800-343-2898. As mentioned above, to engage in telephone transactions generally, you must complete the appropriate sections of the Fund's application.

In order to insure that instructions received by EKSC are genuine when you initiate a telephone transaction, you will be asked to verify certain criteria specific to your account. At the conclusion of the transaction, you will be given a transaction number confirming your request. Written confirmation of your transaction will be mailed the next business day. Your telephone instructions will be recorded. Redemptions by telephone are allowed only if the address and bank account of record have been the same for a minimum period of 30 days.

If you cannot reach the Fund by telephone, you should follow the procedures for redeeming by mail or through a broker-dealer as set forth above.

#### SMALL ACCOUNTS

Because of the high cost of maintaining small accounts, the Fund reserves the right to redeem your account if its value has fallen below \$1,000, the current minimum investment level, as a result of your redemptions (but not as a result of market action). You will be notified in writing and allowed 60 days to increase the value of your account to the minimum investment level. No CDSCs are applied to such redemptions.

#### GENERAL

The Fund reserves the right at any time to terminate, suspend or change the terms of any redemption method described in this prospectus, except redemption by mail, and to impose fees.

Except as otherwise noted, neither the Fund, EKSC nor the Principal Underwriter assumes responsibility for the authenticity of any instructions received by any of them from a shareholder in writing, over the Keystone Automated Response Line ("KARL") or by telephone. EKSC will employ reasonable procedures to confirm that instructions received over KARL or by telephone are genuine. Neither the Fund, EKSC nor the Principal Underwriter will be liable when following instructions received over KARL or by telephone that EKSC reasonably believes to be genuine.

The Fund may temporarily suspend the right to redeem its shares when (1) the Exchange is closed, other than customary weekend and holiday closings; (2) trading on the Exchange is restricted; (3) the Fund cannot dispose of its investments or fairly determine their value; or (4) the Securities and Exchange



Commission so orders.

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SHAREHOLDER SERVICES  
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Details on all shareholder services may be obtained by writing to EKSC or calling toll free 1-800-343-2898.

KEYSTONE AUTOMATED RESPONSE LINE

The Keystone Automated Response Line offers shareholders specific fund account information and price and yield quotations as well as the ability to do account transactions, including investments, exchanges and redemptions. Shareholders may access KARL by dialing toll free 1-800-346-3858 on any touch-tone telephone, 24 hours a day, seven days a week.

EXCHANGES

If you have obtained the appropriate prospectus you may exchange shares of the Fund for shares of any other fund in the Keystone Fund Family on the basis of their respective net asset values by calling toll free 1-800-343-2898 or by writing Evergreen Keystone Service Company, P.O. Box 2121, Boston, Massachusetts 02106-2121. (See "How to Redeem Shares" for additional information with respect to telephone transactions.)

Fund shares purchased by check may be exchanged for shares of any of the funds in the Keystone Fund Family, other than Keystone Precious Metals Holdings, Inc. ("KPMH"). In order to exchange Fund shares for shares of KPMH, a shareholder must have held such Fund shares for a period of at least six months. All exchanges may be made without a fee. If the shares being tendered for exchange have been held for less than four years and are still subject to a CDSC, such charge will carry over to the shares being acquired in the exchange transaction. The Fund reserves the right, after 60 days' notice to shareholders, to terminate this exchange offer or to change its terms, including the right to charge for any exchange.

Orders to exchange shares of the Fund for shares of Keystone Liquid Trust ("KLT") will be executed by redeeming the shares of the Fund and purchasing shares of KLT at the net asset value of KLT shares determined after the proceeds from such redemption become available, which may be up to seven days after such redemption. In all other cases, orders for exchanges received by the Fund prior to 4:00 p.m. eastern time on any day the funds are open for business will be executed at the respective net asset values determined as of the close of business that day. Orders for exchanges received after 4:00 p.m. eastern time on any business day will be executed at the respective net asset values determined at the close of the next business day.

An excessive number of exchanges may be disadvantageous to the Fund. Therefore, the Fund, in addition to its right to reject any exchange, reserves the right to terminate the exchange privilege of any shareholder who makes more than five exchanges of shares in a year or three in a calendar quarter.

An exchange order must comply with the requirements for a redemption or repurchase order and must specify the dollar value or number of shares to be exchanged. Exchanges are subject to the minimum initial purchase requirements of the fund being acquired. An exchange constitutes a sale for federal income tax purposes.

The exchange privilege is available only in states where shares of the fund being acquired may legally be sold.

RETIREMENT PLANS

The Fund has various retirement plans available to you, including: Individual Retirement Accounts (IRAs); Rollover IRAs; Simplified Employee Pension Plans (SEPs); Salary Reduction Plans (SAREPs); Tax Sheltered Annuity Plans (TSAs); 403(b)(7) Plans; 401(k) Plans; Keogh Plans; Corporate Profit-Sharing Plans; Pension and Target Benefit Plans; and Money Purchase Plans. For details, including fees and application forms, call EKSC toll free at 1-800-247-4075 or write to EKSC at P.O. Box 2121, Boston, Massachusetts 02106-2121.

AUTOMATIC INVESTMENT PLAN

With a Keystone Automatic Investment Plan, you can automatically transfer as little as \$100 per month or quarter from your bank account or KLT to the Keystone fund of your choice. Your bank account will be debited for each transfer. You will receive confirmation with your next bank account statement.

To establish or terminate an Automatic Investment Plan or to change the amount

or schedule of your automatic investments, you may write to or call EKSC. Please include your account number(s). Termination of an Automatic Investment Plan may take up to 30 days.

#### SYSTEMATIC INCOME PLAN

Under a Systematic Income Plan, you may arrange for regular monthly or quarterly fixed withdrawal payments. Each payment must be at least \$100 and may be as much as 1% per month or 3% per quarter of the total net asset value of the Fund shares in your account when a Systematic Income Plan is opened. Fixed withdrawal payments are not subject to a CDSC. Excessive withdrawals may decrease or deplete the value of your account.

#### OTHER SERVICES

Under certain circumstances, shareholders may, within 30 days after a redemption, reinstate their accounts at current net asset value.

#### PERFORMANCE DATA

From time to time, the Fund may advertise "total return" and "current yield." BOTH FIGURES ARE BASED ON HISTORICAL RESULTS. PAST PERFORMANCE SHOULD NOT BE CONSIDERED REPRESENTATIVE OF RESULTS FOR ANY FUTURE PERIOD OF TIME. Total return refers to the Fund's average annual compounded rates of return over specified periods determined by comparing the initial amount invested to the ending redeemable value of that amount. The resulting equation assumes reinvestment of all dividends and distributions and deduction of all recurring charges, if any, applicable to all shareholder accounts. The deduction of the CDSC is reflected in the applicable years. The exchange fee is not included in the calculation.

Current yield quotations represent the yield on an investment for a stated 30-day period computed by dividing net investment income earned per share during the base period by the maximum offering price per share on the last day of the base period.

The Fund may include comparative performance information in advertising or marketing the Fund's shares, such as data from Lipper Analytical Services, Inc., Morningstar, Inc., CDS-Weisenberger and Value Line, or other industry publications.

#### FUND SHARES

The Fund currently issues one class of shares, which participate equally in dividends and distributions and have equal voting, liquidation and other rights. When issued and paid for, the shares will be fully paid and nonassessable by the Fund. Shares may be exchanged as explained under "Shareholder Services," but will have no other preference, conversion, exchange or preemptive rights. Shareholders are entitled to one vote for each full share owned and fractional votes for fractional shares. Shares are redeemable, transferable and freely assignable as collateral. There are no sinking fund provisions. The Fund may establish additional classes or series of shares.

The Fund does not have annual meetings. The Fund will have special meetings from time to time as required under its Restatement of Trust Agreement (the "Trust Agreement") and under the 1940 Act. As provided in the Trust Agreement, shareholders have the right to remove Trustees by an affirmative vote of two-thirds of the outstanding shares. A special meeting of the shareholders will be held when holders of 10% of the outstanding shares request a meeting for the purpose of removing a Trustee. The Fund is prepared to assist shareholders in communications with one another for the purpose of convening such a meeting as prescribed by Section 16(c) of the 1940 Act.

#### ADDITIONAL INFORMATION

When the Fund determines from its records that more than one account in the Fund is registered in the name of a shareholder or shareholders having the same address, upon written notice to those shareholders, the Fund intends, when an annual report or semi-annual report of the Fund is required to be furnished, to mail one copy of such report to that address.

Except as otherwise stated in this prospectus or required by law, the Fund reserves the right to change the terms of the offer stated in this prospectus

without shareholder approval, including the right to impose or change fees for services provided.

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ADDITIONAL INVESTMENT INFORMATION  
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DESCRIPTIONS OF CERTAIN TYPES OF INVESTMENTS AND  
INVESTMENT TECHNIQUES AVAILABLE TO THE FUND

The Fund may engage in the following investment practices to the extent described in the prospectus and the statement of additional information.

OBLIGATIONS OF FOREIGN BRANCHES OF UNITED STATES BANKS

The obligations of foreign branches of U.S. banks may be general obligations of the parent bank in addition to the issuing branch or may be limited by the terms of a specific obligation and by government regulation. Payment of interest and principal upon these obligations may also be affected by governmental action in the country of domicile of the branch (generally referred to as sovereign risk). In addition, evidences of ownership of such securities may be held outside the U.S., and the Fund may be subject to the risks associated with the holding of such property overseas. Examples of governmental actions would be the imposition of currency controls, interest limitations, withholding taxes, seizure of assets or the declaration of a moratorium. Various provisions of federal law governing domestic branches do not apply to foreign branches of domestic banks.

OBLIGATIONS OF UNITED STATES BRANCHES OF FOREIGN BANKS

Obligations of U.S. branches of foreign banks may be general obligations of the parent bank in addition to the issuing branch or may be limited by the terms of a specific obligation and by federal and state regulation as well as by governmental action in the country in which the foreign bank has its head office. In addition, there may be less publicly available information about a U.S. branch of a foreign bank than about a domestic bank.

MASTER DEMAND NOTES

Master demand notes are unsecured obligations that permit the investment of fluctuating amounts by the Fund at varying rates of interest pursuant to direct arrangements between the Fund, as lender, and the issuer, as borrower. Master demand notes may permit daily fluctuations in the interest rate and daily changes in the amounts borrowed. The Fund 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. The borrower may repay up to the full amount of the note without penalty. Notes purchased by the Fund permit the Fund to demand payment of principal and accrued interest at any time (on not more than seven days' notice). Notes acquired by the Fund may have maturities of more than one year, provided that (1) the Fund is entitled to payment of principal and accrued interest upon not more than seven days' notice, and (2) the rate of interest on such notes is adjusted automatically at periodic intervals which normally will not exceed 31 days, but may extend up to one year. The notes are deemed to have a maturity equal to the longer of the period remaining to the next interest rate adjustment or the demand notice period. Because these types of notes are direct lending arrangements between the lender and borrower, such instruments are not normally traded, and there is no secondary market for these notes, although they are redeemable and thus repayable by the borrower at face value plus accrued interest at any time. Accordingly, the Fund's right to redeem is dependent on the ability of the borrower to pay principal and interest on demand. In connection with master demand note arrangements, Keystone considers, under standards established by the Board of Trustees, earning power, cash flow and other liquidity ratios of the borrower and will monitor the ability of the borrower to pay principal and interest on demand. These notes are not typically rated by credit rating agencies. Unless rated, the Fund will invest in them only if at the time of an investment the issuer meets the criteria established for commercial paper discussed in the statement of additional information (which limits such investments to commercial paper rated A-1 by S&P, Prime-1 by Moody's or F-1 by Fitch Investors Service, Inc.).

REPURCHASE AGREEMENTS

The Fund may enter into repurchase agreements with member banks of the Federal Reserve System having at least \$1 billion in assets, primary dealers in U.S. government securities or other financial institutions believed by Keystone to be credit-worthy. Such persons must be registered as U.S. government securities dealers with an appropriate regulatory organization. Under such agreements, the bank, primary dealer or other financial institution agrees, upon entering into the contract, to repurchase the security at a mutually agreed upon date and price, thereby determining the yield during the term of the agreement. This results in a fixed rate of return insulated from market fluctuations during such period. Under a repurchase agreement, the seller must maintain the value of the securities subject to the agreement at not less than the repurchase price, such value being determined on a daily basis by marking the underlying securities to their market value. Although the securities subject to the repurchase agreement might bear maturities exceeding a year, the Fund only intends to enter into repurchase agreements that provide for settlement within a year and usually within seven days. Securities subject to repurchase agreements will be held by

the Fund's custodian or in the Federal Reserve book entry system. The Fund does not bear the risk of a decline in the value of the underlying security unless the seller defaults under its repurchase obligation. In the event of a bankruptcy or other default of a seller of a repurchase agreement, the Fund could experience both delays in liquidating the underlying securities and losses, including (1) possible declines in the value of the underlying securities during the period while the Fund seeks to enforce its rights thereto; (2) possible subnormal levels of income and lack of access to income during this period; and (3) expenses of enforcing its rights. The Board of Trustees has established procedures to evaluate the creditworthiness of each party with whom the Fund enters into repurchase agreements by setting guidelines and standards of review for Keystone and monitoring Keystone's actions with regard to repurchase agreements.

#### REVERSE REPURCHASE AGREEMENTS

Under a reverse repurchase agreement, the Fund would sell securities and agree to repurchase them at a mutually agreed upon date and price. The Fund intends to enter into reverse repurchase agreements to avoid otherwise having to sell securities during unfavorable market conditions in order to meet redemptions. At the time the Fund enters into a reverse repurchase agreement, it will establish a segregated account with the Fund's custodian containing liquid assets such as U.S. government securities or other high grade debt securities, having a value not less than the repurchase price (including accrued interest) and will subsequently monitor the account to ensure such value is maintained. Reverse repurchase agreements involve the risk that the market value of the securities the Fund is obligated to repurchase may decline below the repurchase price.

#### "WHEN ISSUED" AND "FORWARD COMMITMENT" TRANSACTIONS

The Fund may also purchase securities and currencies on a when issued and delayed delivery basis and may purchase or sell securities on a forward commitment basis. When issued and delayed delivery transactions arise when securities are purchased or sold by the Fund with payment and delivery taking place in the future in order to secure what is considered to be an advantageous price and yield to the Fund at the time of purchase. A forward commitment transaction is an agreement by the Fund to purchase or sell securities at a specified future date. The Fund may also enter into foreign currency forward contracts which are described in more detail in the section of the Exhibit entitled "Foreign Currency Transactions." When the Fund engages in these transactions, the Fund relies on the buyer or seller, as the case may be, to consummate the sale. Failure to do so may result in the Fund missing the opportunity to obtain a price or yield considered to be advantageous. When issued, delayed delivery and forward commitment transactions may be expected to occur a month or more before delivery is due. However, no payment or delivery is made by the Fund, however, until it receives payment or delivery from the other party to the transaction. The Securities and Exchange Commission has established certain requirements to assure that the Fund is able to meet its obligations under these contracts, for example, a separate account of liquid assets equal to the value of such purchase commitments may be maintained until payment is made. When issued, delayed delivery and forward commitment transactions are subject to risks from changes in value based upon changes in the level of interest rates, currency rates and other market factors, both before and after delivery. The Fund does not accrue any income on such securities or currencies prior to their delivery. To the extent the Fund engages in any of these transactions, it will do so consistent with its investment objective and policies and not for the purpose of investment leverage. The Fund currently does not intend to invest more than 5% of its assets in when issued or delayed delivery transactions.

#### LOANS OF SECURITIES TO BROKER-DEALERS

The Fund may lend securities to brokers and dealers pursuant to agreements requiring that the loans be continuously secured by cash or securities of the U.S. government, its agencies or instrumentalities, or any combination of cash and such securities, as collateral equal at all times in value to at least the market value of the securities loaned. Such securities loans will not be made with respect to the Fund if as a result the aggregate of all outstanding securities loans exceeds 15% of the value of the Fund's total assets taken at their current value. The Fund continues to receive interest or dividends on the securities loaned and simultaneously earns interest on the investment of the cash loan collateral in U.S. Treasury notes, certificates of deposit, other high-grade, short-term obligations or interest bearing cash equivalents. Although voting rights attendant to securities loaned pass to the borrower, such loans may be called at any time and will be called so that the securities may be voted by the Fund if, in the opinion of the Fund, a material event affecting the investment is to occur. There may be risks of delay in receiving additional collateral or in recovering the securities loaned or even loss of rights in the collateral should the borrower of the securities fail financially. Loans may be made, however, to borrowers deemed to be of good standing, under standards approved by the Board of Trustees, when the income to be earned from the loan justifies the attendant risks.

#### DERIVATIVES

The Fund may only use derivatives in furtherance of its investment objective. Derivatives are financial contracts whose value depends on, or is derived from,

the value of an underlying asset, reference rate or index. These assets, rates, and indices may include bonds, stocks, mortgages, commodities, interest rates, currency exchange rates, bond indices and stock indices. Derivatives can be used to earn income or protect against risk, or both. For example, one party with unwanted risk may agree to pass that risk to another party who is willing to accept the risk, the second party being motivated, for example, by the desire either to earn income in the form of a fee or premium from the first party, or to reduce its own unwanted risk by attempting to pass all or part of that risk to the first party.

Derivatives can be used by investors such as the Fund to earn income and enhance returns, to hedge or adjust the risk profile of the portfolio, and either in place of more traditional direct investments or to obtain exposure to otherwise inaccessible markets. The use of derivatives for non-hedging purposes entails greater risks than if derivatives were used solely for hedging purposes. The Fund uses futures contracts and related options as well as forwards for hedging purposes. Derivatives are a valuable tool, which, when used properly, can provide significant benefit to Fund shareholders. With respect to the Fund, Keystone does not currently intend to aggressively use derivatives. The Fund may take positions in those derivatives that are within its investment policies if, in Keystone's judgement, this represents an effective response to current or anticipated market conditions. Keystone's use of derivatives is subject to continuous risk assessment and control from the standpoint of the Fund's investment objective and policies.

Derivatives may be (1) standardized, exchange-traded contracts or (2) customized, privately negotiated contracts. Exchange-traded derivatives tend to be more liquid and subject to less credit risk than those that are privately negotiated.

There are four principal types of derivative instruments--options, futures, forwards and swaps--from which virtually any type of derivative transaction can be created. Further information regarding options, futures, forwards and swaps is provided later in this section and is provided in the Fund's statement of additional information.

Debt instruments that incorporate one or more of these building blocks for the purpose of determining the principal amount of and/or rate of interest payable on the debt instruments are often referred to as "structured securities." An example of this type of structured security is indexed commercial paper. The term is also used to describe certain securities issued in connection with the restructuring of certain foreign obligations. See "Indexed Commercial Paper" and "Structured Securities" below. The term "derivative" is also sometimes used to describe securities involving rights to a portion of the cash flows from an underlying pool of mortgages or other assets from which payments are passed through to the owner of, or that collateralize, the securities. See "Mortgage Related Securities," "Collateralized Mortgage Obligations," "Adjustable Rate Mortgage Securities," "Stripped Mortgage Securities," "Mortgage Securities -- Special Considerations," and "Other Asset-Backed Securities" and the Fund's statement of additional information.

While the judicious use of derivatives by experienced investment managers such as Keystone can be beneficial, derivatives also involve risks different from, and, in certain cases, greater than, the risks presented by more traditional investments. Following is a general discussion of important risk factors and issues concerning the use of derivatives that investors should understand before investing in the Fund.

- \* Market Risk -- This is the general risk attendant to all investments that the value of a particular investment will decline or otherwise change in a way detrimental to the Fund's interest.
- \* Management Risk -- Derivative products are highly specialized instruments that require investment techniques and risk analyses different from those associated with stocks and bonds. The use of a derivative requires an understanding not only of the underlying instrument, but also of the derivative itself, without the benefit of observing the performance of the derivative under all possible market conditions. In particular, the use and complexity of derivatives require the maintenance of adequate controls to monitor the transactions entered into, the ability to assess the risk that a derivative adds to the Fund's portfolio and the ability to forecast price, interest rate or currency exchange rate movements correctly.
- \* Credit Risk -- This is the risk that a loss may be sustained by the Fund as a result of the failure of another party to a derivative (usually referred to as a "counterparty") to comply with the terms of the derivative contract. The credit risk for exchange-traded derivatives is generally less than for privately negotiated derivatives, since the clearing house, which is the issuer or counterparty to each exchange-traded derivative, provides a guarantee of performance. This guarantee is supported by a daily payment system (i.e., margin requirements) operated by the clearing house in order to reduce overall credit risk. For privately negotiated derivatives, there is no similar clearing agency guarantee. Therefore, the Fund considers the

creditworthiness of each counterparty to a privately negotiated derivative in evaluating potential credit risk.

- \* Liquidity Risk -- Liquidity risk exists when a particular instrument is difficult to purchase or sell. If a derivative transaction is particularly large or if the relevant market is illiquid (as is the case with many privately negotiated derivatives), it may not be possible to initiate a transaction or liquidate a position at an advantageous price.
- \* Leverage Risk -- Since many derivatives have a leverage component, adverse changes in the value or level of the underlying asset, rate or index can result in a loss substantially greater than the amount invested in the derivative itself. In the case of swaps, the risk of loss generally is related to a notional principal amount, even if the parties have not made any initial investment. Certain derivatives have the potential for unlimited loss, regardless of the size of the initial investment.
- \* Other Risks -- Other risks in using derivatives include the risk of mispricing or improper valuation and the inability of derivatives to correlate perfectly with underlying assets, rates and indices. Many derivatives, in particular privately negotiated derivatives, are complex and often valued subjectively. Improper valuations can result in increased cash payment requirements to counterparties or a loss of value to the Fund. Derivatives do not always perfectly or even highly correlate or track the value of the assets, rates or indices they are designed to closely track. Consequently, the Fund's use of derivatives may not always be an effective means of, and sometimes could be counterproductive to, furthering the Fund's investment objective.

#### OPTIONS TRANSACTIONS

WRITING COVERED OPTIONS. The Fund may write (i.e., sell) covered call and put options. By writing a call option, the Fund becomes obligated during the term of the option to deliver the securities underlying the option upon payment of the exercise price. By writing a put option, the Fund becomes obligated during the term of the option to purchase the securities underlying the option at the exercise price if the option is exercised. The Fund also may write straddles (combinations of covered puts and calls on the same underlying security).

The Fund may only write "covered" options. This means that so long as the Fund is obligated as the writer of a call option it will own the underlying securities subject to the option or, in the case of call options on U.S. Treasury bills, the Fund might own substantially similar U.S. Treasury bills. If the Fund has written options against all of its securities that are available for writing options, the Fund may be unable to write additional options unless it sells a portion of its portfolio holdings to obtain new securities against which it can write options. If this were to occur, higher portfolio turnover and correspondingly greater brokerage commissions and other transaction costs may result. The Fund does not expect, however, that this will occur.

The Fund will be considered "covered" with respect to a put option it writes if, so long as it is obligated as the writer of the put option, it deposits and maintains with its custodian in a segregated account liquid assets having a value equal to or greater than the exercise price of the option.

The principal reason for writing call or put options is to obtain, through a receipt of premiums, a greater current return than would be realized on the underlying securities alone. The Fund receives a premium from writing a call or put option, which it retains whether or not the option is exercised. By writing a call option, the Fund might lose the potential for gain on the underlying security while the option is open, and, by writing a put option, the Fund might become obligated to purchase the underlying security for more than its current market price upon exercise.

PURCHASING OPTIONS. The Fund may purchase put or call options, including put or call options for the purpose of offsetting previously written put or call options of the same series.

If the Fund is unable to effect a closing purchase transaction with respect to covered options it has written, the Fund will not be able to sell the underlying securities or dispose of assets held in a segregated account until the options expire or are exercised.

An option position may be closed out only in a secondary market for an option of the same series. Although the Fund generally will write only those options for which there appears to be an active secondary market, there is no assurance that a liquid secondary market will exist for any particular option at any particular time, and, for some options, no secondary market may exist. In such event, it might not be possible to effect a closing transaction in a particular option.

Options on some securities are relatively new, and it is impossible to predict the amount of trading interest that will exist in such options. There can be no assurance that viable markets will develop or continue. The failure of such markets to develop or continue could significantly impair the Fund's ability to use such options to achieve its investment objective.

OPTIONS TRADING MARKETS. Options in which the Fund will trade are generally listed on national securities exchanges. Exchanges on which such options currently are traded include the Chicago Board Options Exchange and the New York, American, Pacific and Philadelphia Stock Exchanges. Options on some securities may not be listed on any exchange, but traded in the over-the-counter market. Options traded in the over-the-counter market involve the additional risk that securities dealers participating in such transactions could fail to meet their obligations to the Fund. The use of options traded in the over-the-counter market may be subject to limitations imposed by certain state securities authorities. In addition to the limits on its use of options discussed herein, the Fund is subject to the investment restrictions described in this prospectus and in the statement of additional information.

The staff of the Securities and Exchange Commission is of the view that the premiums that the Fund pays for the purchase of unlisted options and the value of securities used to cover unlisted options written by the Fund are considered to be invested in illiquid securities or assets for the purpose of calculating whether the Fund is in compliance with its policies on illiquid securities.

#### FUTURES TRANSACTIONS

The Fund may enter into currency and other financial futures contracts and write options on such contracts. The Fund intends to enter into such contracts and related options for hedging purposes. The Fund will enter into securities, currency or index-based futures contracts in order to hedge against changes in interest or exchange rates or securities prices. A futures contract on securities or currencies is an agreement to buy or sell securities or currencies at a specified price during a designated month. A futures contract on a securities index does not involve the actual delivery of securities, but merely requires the payment of a cash settlement based on changes in the securities index. The Fund does not make payment or deliver securities upon entering into a futures contract. Instead, it puts down a margin deposit, which is adjusted to reflect changes in the value of the contract and which continues until the contract is terminated.

The Fund may sell or purchase futures contracts. When a futures contract is sold by the Fund, the value of the contract will tend to rise when the value of the underlying securities or currencies declines and to fall when the value of such securities or currencies increases. Thus, the Fund sells futures contracts in order to offset a possible decline in the value of its securities or currencies. If a futures contract is purchased by the Fund, the value of the contract will tend to rise when the value of the underlying securities or currencies increases and to fall when the value of such securities or currencies declines. The Fund intends to purchase futures contracts in order to fix what is believed by Keystone to be a favorable price and rate of return for securities or favorable exchange rate for currencies the Fund intends to purchase.

The Fund also intends to purchase put and call options on futures contracts for hedging purposes. A put option purchased by the Fund would give it the right to assume a position as the seller of a futures contract. A call option purchased by the Fund would give it the right to assume a position as the purchaser of a futures contract. The purchase of an option on a futures contract requires the Fund to pay a premium. In exchange for the premium, the Fund becomes entitled to exercise the benefits, if any, provided by the futures contract, but is not required to take any action under the contract. If the option cannot be exercised profitably before it expires, the Fund's loss will be limited to the amount of the premium and any transaction costs.

The Fund may enter into closing purchase and sale transactions in order to terminate a futures contract and may sell put and call options for the purpose of closing out its options positions. The Fund's ability to enter into closing transactions depends on the development and maintenance of a liquid secondary market. There is no assurance that a liquid secondary market will exist for any particular contract or at any particular time. As a result, there can be no assurance that the Fund will be able to enter into an offsetting transaction with respect to a particular contract at a particular time. If the Fund is not able to enter into an offsetting transaction, the Fund will continue to be required to maintain the margin deposits on the contract and to complete the contract according to its terms, in which case, it would continue to bear market risk on the transaction.

Although futures and related options transactions are intended to enable the Fund to manage market, interest rate or exchange rate risk, unanticipated changes in interest rates, exchange rates or market prices could result in poorer performance than if it had not entered into these transactions. Even if Keystone correctly predicts interest or exchange rate movements, a hedge could be unsuccessful if changes in the value of the Fund's futures position did not correspond to changes in the value of its investments. This lack of correlation between the Fund's futures and securities or currencies positions may be caused by differences between the futures and securities or currencies markets or by differences between the securities or currencies underlying the Fund's futures position and the securities or currencies held by or to be purchased for the Fund. Keystone will attempt to minimize these risks through careful selection and monitoring of the Fund's futures and options positions.



The Fund does not intend to use futures transactions for speculation or leverage. The Fund has the ability to write options on futures, but intends to write such options only to close out options purchased by the Fund. The Fund will not change these policies without supplementing the information in its prospectus and statement of additional information.

#### FOREIGN CURRENCY TRANSACTIONS

As discussed above, the Fund may invest in securities of foreign issuers. When the Fund invests in foreign securities, they usually will be denominated in foreign currencies, and the Fund temporarily may hold funds in foreign currencies. Thus, the value of Fund shares will be affected by changes in exchange rates.

As one way of managing exchange rate risk, in addition to entering into currency futures contracts, the Fund may enter into forward currency exchange contracts (agreements to purchase or sell currencies at a specified price and date). The exchange rate for the transaction (the amount of currency the Fund will deliver or receive when the contract is completed) is fixed when the Fund enters into the contract. The Fund usually will enter into these contracts to stabilize the U.S. dollar value of a security it has agreed to buy or sell. The Fund intends to use these contracts to hedge the U.S. dollar value of a security it already owns, particularly if the Fund expects a decrease in the value of the currency in which the foreign security is denominated. Although the Fund will attempt to benefit from using forward contracts, the success of its hedging strategy will depend on Keystone's ability to predict accurately the future exchange rates between foreign currencies and the U.S. dollar. The value of the Fund's investments denominated in foreign currencies will depend on the relative strength of those currencies and the U.S. dollar, and the Fund may be affected favorably or unfavorably by changes in the exchange rates or exchange control regulations between foreign currencies and the dollar. Changes in foreign currency exchange rates also may affect the value of dividends and interest earned, gains and losses realized on the sale of securities and net investment income and gains, if any, to be distributed to shareholders by the Fund. Although the Fund does not currently intend to do so, the Fund may also purchase and sell options related to foreign currencies. The Fund does not intend to enter into foreign currency transactions for speculation or leverage.

INTEREST RATE TRANSACTIONS (SWAPS, CAPS AND FLOORS). If the Fund enters into interest rate swap, cap or floor transactions, it expects to do so primarily for hedging purposes, which may include preserving a return or spread on a particular investment or portion of its portfolio or protecting against an increase in the price of securities the Fund anticipates purchasing at a later date. The Fund does not currently intend to use these transactions in a speculative manner.

Interest rate swaps involve the exchange by the Fund with another party of their respective commitments to pay or receive interest (e.g., an exchange of floating rate payments for fixed rate payments). Interest rate caps and floors are similar to options in that the purchase of an interest rate cap or floor entitles the purchaser, to the extent that a specified index exceeds (in the case of a cap) or falls below (in the case of a floor) a predetermined interest rate, to receive payments of interest on a contractually-based principal ("notional") amount from the party selling the interest rate cap or floor. The Fund may enter into interest rate swaps, caps and floors on either an asset-based or liability-based basis, depending upon whether it is hedging its assets or liabilities, and will usually enter into interest rate swaps on a net basis (i.e., the two payment streams are netted out, with the Fund receiving or paying, as the case may be, only the net amount of the two payments).

The swap market has grown substantially in recent years, with a large number of banks and investment banking firms acting as principals and as agents utilizing standardized swap documentation. As a result, the swap market has become more established and relatively liquid. Caps and floors are less liquid than swaps. These transactions also involve the delivery of securities or other underlying assets and principal. Accordingly, the risk of loss to the Fund from interest rate transactions is limited to the net amount of interest payments that the Fund is contractually obligated to make.

INDEXED COMMERCIAL PAPER. Indexed commercial paper may have its principal linked to changes in foreign currency exchange rates whereby its principal amount is adjusted upwards or downwards (but not below zero) at maturity to reflect changes in the referenced exchange rate. If permitted by its investment policies, the Fund will purchase such commercial paper with the currency in which it is denominated and, at maturity, will receive interest and principal payments thereon in that currency, but the amount of principal payable by the issuer at maturity will change in proportion to the change (if any) in the exchange rate between the two specified currencies between the date the instrument is issued and the date the instrument matures. While such commercial paper entails the risk of loss of principal, the potential for realizing gains as a result of changes in foreign currency exchange rates enables the Fund to hedge (or cross-hedge) against a decline in the U.S. dollar value of investments denominated in foreign currencies while providing an attractive money market rate of return.



MORTGAGE-RELATED SECURITIES. The mortgage-related securities in which the Fund may invest typically are securities representing interests in pools of mortgage loans made to home owners. Mortgage-related securities bear interest at either a fixed rate or an adjustable rate determined by reference to an index rate. The mortgage loan pools may be assembled for sale to investors (such as the Fund) by governmental or private organizations. Mortgage-related securities issued by the Government National Mortgage Association ("GNMA") are backed by the full faith and credit of the U.S. government; those issued by Federal National Mortgage Association ("FNMA") and Federal Home Loan Mortgage Corporation ("FHLMC") are not so backed.

Securities representing interests in pools created by private issuers generally offer a higher rate of interest than securities representing interests in pools created by governmental issuers because there are no direct or indirect governmental guarantees of the underlying mortgage payments. However, private issuers sometimes obtain committed loan facilities, lines of credit, letters of credit, surety bonds or other forms of liquidity and credit enhancement to support the timely payment of interest and principal with respect to their securities if the borrowers on the underlying mortgages fail to make their mortgage payments. The ratings of such non-governmental securities are generally dependent upon the ratings of the providers of such liquidity and credit support and would be adversely affected if the rating of such an enhancer were downgraded. The Fund may buy mortgage-related securities without credit enhancement if the securities meet the Fund's investment standards. Although the market for mortgage-related securities is becoming increasingly liquid, those of certain private organizations may not be readily marketable.

One type of mortgage-related security is of the "pass-through" variety. The holder of a pass-through security is considered to own an undivided beneficial interest in the underlying pool of mortgage loans and receives a pro rata share of the monthly payments made by the borrowers on their mortgage loans, net of any fees paid to the issuer or guarantor of the securities. Prepayments of mortgages resulting from the sale, refinancing or foreclosure of the underlying properties are also paid to the holders of these securities. Some mortgage-related securities, such as securities issued by GNMA, are referred to as "modified pass-through" securities. The holders of these securities are entitled to the full and timely payment of principal and interest, net of certain fees, regardless of whether payments are actually made on the underlying mortgages. Another form of mortgage-related security is a "pay-through" security, which is a debt obligation of the issuer secured by a pool of mortgage loans pledged as collateral that is legally required to be paid by the issuer regardless of whether payments are actually made on the underlying mortgages.

COLLATERALIZED MORTGAGE OBLIGATIONS. ("CMOs") are the predominant type of "pay-through" mortgage-related security. CMOs are designed to reduce the risk of prepayment for investors by issuing multiple classes of securities, each having different maturities, interest rates and payment schedules, and with the principal and interest on the underlying mortgages allocated among the several classes in various ways. The collateral securing the CMOs may consist of a pool of mortgages, but may also consist of mortgage-backed bonds or pass-through securities. CMOs may be issued by a U.S. government instrumentality or agency or by a private issuer. Although payment of the principal of, and interest on, the underlying collateral securing privately issued CMOs may be guaranteed by GNMA, FNMA or FHLMC, these CMOs represent obligations solely of the private issuer and are not insured or guaranteed by GNMA, FNMA, FHLMC, any other governmental agency or any other person or entity.

INVERSE FLOATING RATE COLLATERALIZED MORTGAGE OBLIGATIONS. In addition to investing in fixed rate and adjustable rate CMOs, if consistent with its investment objective, the Fund may also invest in CMOs with rates that move inversely to market rates ("inverse floaters").

An inverse floater bears an interest rate that resets in the opposite direction of the change in a specified interest rate index. As market interest rates rise, the interest rate on the inverse floater goes down, and vice versa. Inverse floaters tend to exhibit greater price volatility than fixed-rate bonds of similar maturity and credit quality. The interest rates on inverse floaters may be significantly reduced, even to zero, if interest rates rise. Moreover, the secondary market for inverse floaters may be limited in rising interest rate environments.

ADJUSTABLE RATE MORTGAGE SECURITIES. Another type of mortgage-related security, known as adjustable-rate mortgage securities ("ARMS"), bears interest at a rate determined by reference to a predetermined interest rate or index. There are two main categories of rates or indices: (1) rates based on the yield on U.S. Treasury securities and (2) indices derived from a calculated measure such as a cost of funds index or a moving average of mortgage rates. Some rates and indices closely mirror changes in market interest rate levels, while others tend to lag changes in market rate levels and tend to be somewhat less volatile.

ARMS may be secured by adjustable-rate mortgages or fixed-rate mortgages. ARMS secured by fixed-rate mortgages generally have lifetime caps on the coupon rates of the securities. To the extent that general interest rates increase faster

than the interest rates on the ARMS, these ARMS will decline in value. The adjustable-rate mortgages that secure ARMS will frequently have caps that limit the maximum amount by which the interest rate or the monthly principal and interest payments on the mortgages may increase. These payment caps can result in negative amortization (i.e., an increase in the balance of the mortgage loan). Furthermore, since many adjustable-rate mortgages only reset on an annual basis, the values of ARMS tend to fluctuate to the extent that changes in prevailing interest rates are not immediately reflected in the interest rates payable on the underlying adjustable-rate mortgages.

**STRIPPED MORTGAGE SECURITIES.** Stripped mortgage-related securities ("SMRS") are mortgage-related securities that are usually structured with two classes of securities collateralized by a pool of mortgages or a pool of mortgaged-backed bonds or pass-through securities, with each class receiving different proportions of the principal and interest payments from the underlying assets. A common type of SMRS has one class of interest-only securities ("IOs") receiving all of the interest payments from the underlying assets, while the other class of securities, principal-only securities ("POs"), receives all of the principal payments from the underlying assets. IOs and POs are extremely sensitive to interest rate changes and are more volatile than mortgage-related securities that are not stripped. IOs tend to decrease in value as interest rates decrease, while POs generally increase in value as interest rates decrease. If prepayments of the underlying mortgages are greater than anticipated, the amount of interest earned on the overall pool will decrease due to the decreasing principal balance of the assets. Changes in the values of IOs and POs can be substantial and occur quickly, such as occurred in the first half of 1994 when the value of many POs dropped precipitously due to increase in interest rates. For this reason the Fund does not rely on IOs and POs as the principal means of furthering its investment objective.

**MORTGAGE-RELATED SECURITIES -- SPECIAL CONSIDERATIONS.** The value of mortgage-related securities is affected by a number of factors. Unlike traditional debt securities, which have fixed maturity dates, mortgage-related securities may be paid earlier than expected as a result of prepayment of the underlying mortgages. If property owners make unscheduled prepayments of their mortgage loans, these prepayments will result in the early payment of the applicable mortgage-related securities. In that event the Fund may be unable to invest the proceeds from the early payment of the mortgage-related securities in an investment that provides as high a yield as the mortgage-related securities. Consequently, early payment associated with mortgage-related securities causes these securities to experience significantly greater price and yield volatility than experienced by traditional fixed-income securities. The occurrence of mortgage prepayments is affected by the level of general interest rates, general economic conditions and other social and demographic factors. During periods of falling interest rates, the rate of mortgage prepayments tends to increase, thereby tending to decrease the life of mortgage-related securities. During periods of rising interest rates, the rate of mortgage prepayments usually decreases, thereby tending to increase the life of mortgage-related securities. If the life of a mortgage-related security is inaccurately predicted, the Fund may not be able to realize the rate of return it expected.

As with fixed-income securities generally, the value of mortgage-related securities can also be adversely affected by increases in general interest rates relative to the yield provided by such securities. Such adverse effect is especially possible with fixed-rate mortgage securities. If the yield available on other investments rises above the yield of the fixed-rate mortgage securities as a result of general increases in interest rate levels, the value of the mortgage-related securities will decline. Although the negative effect could be lessened if the mortgage-related securities were to be paid earlier (thus permitting the Fund to reinvest the prepayment proceeds in investments yielding the higher current interest rate), as described above the rate of mortgage prepayments and earlier payment of mortgage-related securities generally tends to decline during a period of rising interest rates.

Although the value of ARMS may not be affected by rising interest rates as much as the value of fixed-rate mortgage securities is affected by rising interest rates, ARMS may still decline in value as a result of rising interest rates. Although, as described above, the yield on ARMS varies with changes in the applicable interest rate or index, there is often a lag between increases in general interest rates and increases in the yield on ARMS as a result of relatively infrequent interest rate reset dates. In addition, adjustable-rate mortgages and ARMS often have interest rate or payment caps that limit the ability of the adjustable-rate mortgages or ARMS to fully reflect increases in the general level of interest rates.

**OTHER ASSET-BACKED SECURITIES.** The securitization techniques used to develop mortgage-related securities are being applied to a broad range of financial assets. Through the use of trusts and special purpose corporations, various types of assets, including automobile loans and leases, credit card receivables, home equity loans, equipment leases and trade receivables, are being securitized in structures similar to the structures used in mortgage securitizations. These asset-backed securities are subject to risks associated with changes in interest rates and prepayment of underlying obligations similar to the risks of investment in mortgage-related securities discussed above.

Each type of asset-backed security also entails unique risks depending on the type of assets involved and the legal structure used. For example, credit card receivables are generally unsecured obligations of the credit card holder and the debtors are entitled to the protection of a number of state and federal consumer credit laws, many of which give such debtors the right to set off certain amounts owed on the credit cards, thereby reducing the balance due. There have also been proposals to cap the interest rate that a credit card issuer may charge. In some transactions, the value of the asset-backed security is dependent on the performance of a third party acting as credit enhancer or servicer. Furthermore, in some transactions (such as those involving the securitization of vehicle loans or leases) it may be administratively burdensome to perfect the interest of the security issuer in the underlying collateral and the underlying collateral may become damaged or stolen.

VARIABLE, FLOATING AND LEVERAGED INVERSE FLOATING RATE INSTRUMENTS. Fixed-income securities may have fixed, variable or floating rates of interest. Variable and floating rate securities pay interest at rates that are adjusted periodically, according to a specified formula. A "variable" interest rate adjusts at predetermined intervals (e.g., daily, weekly or monthly), while a "floating" interest rate adjusts whenever a specified benchmark rate (such as the bank prime lending rate) changes.

If permitted by its investment policies, the Fund may invest in fixed-income securities that pay interest at a coupon rate equal to a base rate, plus additional interest for a certain period of time if short-term interest rates rise above a predetermined level or "cap." The amount of such an additional interest payment typically is calculated under a formula based on a short-term interest rate index multiplied by a designated factor.

An inverse floater may be considered to be leveraged to the extent that its interest rate varies by a magnitude that exceeds the magnitude of the change in the index rate of interest. The higher degree of leverage inherent in inverse floaters is associated with greater volatility in market value.

STRUCTURED SECURITIES. Structured securities represent interests in entities organized and operated solely for the purpose of restructuring the investment characteristics of sovereign debt obligations or foreign government securities. This type of restructuring involves the deposit with or purchase by an entity, such as a corporation or trust, of specified instruments (such as commercial bank loans or Brady Bonds) and the issuance by that entity of one or more classes of structured securities backed by, or representing interests in, the underlying instruments. The cash flow on the underlying instruments may be apportioned among the newly issued structured securities to create securities with different investment characteristics such as varying maturities, payment priorities and interest rate provisions, and the extent of the payments made with respect to structured securities is dependent on the extent of the cash flow on the underlying instruments. Because structured securities typically involve no credit enhancement, their credit risk generally will be equivalent to that of the underlying instruments. Structured securities of a given class may be either subordinated or unsubordinated to the right of payment of another class. Subordinated structured securities typically have higher yields and present greater risks than unsubordinated structured securities.

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KEYSTONE  
FUND FAMILY

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Quality Bond Fund (B-1)  
Diversified Bond Fund (B-2)  
High Income Bond Fund (B-4)  
Balanced Fund (K-1)  
Strategic Growth Fund (K-2)  
Growth and Income Fund (S-1)  
Mid-Cap Growth Fund (S-3)  
Small Company Growth Fund (S-4)  
International Fund Inc.  
Precious Metals Holdings, Inc.  
Tax Free Fund  
Liquid Trust

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Evergreen Keystone  
[logo] FUNDS [logo]  
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B1-P 2/97  
12M  
540110 [recycle logo]

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KEYSTONE

[graphic omitted]

QUALITY  
BOND FUND (B-1)

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[logo] Evergreen Keystone [logo]  
FUNDS

PROSPECTUS AND  
APPLICATION

KEYSTONE QUALITY BOND FUND (B-1)

PART B

STATEMENT OF ADDITIONAL INFORMATION

STATEMENT OF ADDITIONAL INFORMATION

KEYSTONE QUALITY BOND FUND (B-1)

February , 1997

This statement of additional information is not a prospectus but relates to, and should be read in conjunction with, the prospectus of Keystone Quality Bond Fund (B-1) (the "Fund") dated February 28, 1997. You may obtain a copy of the prospectus may be obtained from the Fund's principal underwriter, Evergreen Keystone Distributors, Inc. ("EKD") or your broker-dealer. EKD is located at 230 Park Avenue, New York, New York 10169, or your broker-dealer.

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THE FUND  
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The Fund is an open-end, diversified management investment company. The Fund's investment objective is to provide shareholders with the highest possible income consistent with preservation of principal.

Keystone Investment Management Company ("Keystone") is the Fund's investment adviser. Evergreen Keystone Distributors, Inc. (formerly Evergreen Funds Distributor, Inc.) ("EKD") is the Fund's principal underwriter. Evergreen Keystone Investment Services, Inc. (formerly Keystone Investment Distributors Company) ("EKIS") is the predecessor to EKD. See "Investment Adviser" and "Principal Underwriter" below.

Certain information about the Fund is contained in its prospectus. This statement of additional information provides additional information about the Fund that may be of interest to some investors.

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INVESTMENT RESTRICTIONS  
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FUNDAMENTAL INVESTMENT RESTRICTIONS

The Fund has adopted the fundamental investment restrictions set forth below, which may not be changed without a vote of the majority of the Fund's outstanding shares (as defined in the Investment Company Act of 1940 (the "1940 Act")). Unless otherwise stated, all references to Fund assets are in terms of current market value.

The Fund may not do the following:

(1) with respect to 75% of its total assets, invest more than 5% of the value of its total assets, determined at market or other fair value at the time of purchase, in the securities of any one issuer, or invest in more than 10% of the outstanding voting securities of any one issuer, all as determined immediately after such investment; provided that these limitations do not apply to investments in securities issued or guaranteed by the U.S. government or its agencies or instrumentalities;

(2) borrow money, except that the Fund may (a) borrow money from banks for temporary or emergency purposes in aggregate amounts up to 10% of the value of the Fund's net assets (computed at cost), or (b) enter into reverse repurchase agreements, provided that bank borrowings and reverse repurchase agreements, in aggregate, shall not exceed 10% of the value of the Fund's net assets;

(3) underwrite securities, except that the Fund may purchase securities from issuers thereof or others and dispose of such securities in a manner consistent with its other investment policies; in the disposition of restricted securities the Fund may be deemed to be an underwriter, as defined in the Securities Act of 1933 (the "1933 Act");

(4) purchase or sell real estate or interests in real estate, except that it may purchase and sell securities secured by real estate and securities of companies which invest in real estate, and will not purchase or sell commodities or commodity contracts, except that the Fund may engage in currency or other financial futures contracts and related options transactions;

(5) invest for the primary purpose of exercising control over or management of any one issuer;

(6) make margin purchases or short sales of securities;

(7) make loans, except that the Fund may purchase money market securities, enter into repurchase agreements, buy publicly and privately distributed debt securities and lend limited amounts of its portfolio securities to broker-dealers; all such investments must be consistent with the Fund's investment objective and policies;

(8) invest more than 25% of its assets in the securities of issuers in

any single industry other than securities issued by banks and savings and loan associations or securities issued or guaranteed by the U.S. government, its agencies or instrumentalities; and

(9) purchase the securities of any other investment company except in the open market and at customary brokerage rates and in no event more than 3% of the voting securities of any investment company.

If a percentage limit is satisfied at the time of investment or borrowing, a later increase or decrease resulting from a change in the value of a security or a decrease in Fund assets is not a violation of the limit.

The Fund has no current intention of attempting to increase its net income by borrowing and intends to repay any borrowings made in accordance with the fourth investment restriction enumerated above before it makes any additional investments.

NON-FUNDAMENTAL INVESTMENT RESTRICTIONS

With respect to illiquid securities, the Fund intends to follow the policies of the Securities and Exchange Commission. Currently, the Fund will not invest more than 15% of its net assets in illiquid securities. Also, the Fund will treat securities as illiquid if it may not sell or dispose of the security in the ordinary course of business within seven days at approximately the value at which the Fund has valued such securities on its books.

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VALUATION OF SECURITIES  
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Current values for the Fund's portfolio securities are determined in the following manner:

(1) securities traded on the established exchanges are valued on the basis of the last sales price on the exchange where the securities are primarily traded prior to the time of the valuation;

(2) securities traded in the over-the-counter market, for which complete quotations are readily available, are valued at the mean of the bid and asked prices at the time of valuation;

(3) short-term investments maturing in sixty days or less are valued at amortized cost (original purchase cost as adjusted for amortization of premium or accretion of discount), which, when combined with accrued interest, approximates market;

(4) short-term investments maturing in more than sixty days for which market quotations are readily available are valued at market value;

(5) short-term investments maturing in more than sixty days when purchased that are held on the sixtieth day prior to maturity are valued at amortized cost (market value on the sixtieth day adjusted for amortization of premium or accretion of discount), which, when combined with accrued interest, approximates market; and

(6) the Board of Trustees values the following at prices it deems in good faith to be fair: (a) securities, including restricted securities, for which complete quotations are not readily available, (b) listed securities if in the Fund's opinion the last sales price does not reflect a current market value or if no sale occurred, and (c) other assets.

The Fund believes that reliable market quotations are generally not readily available for purposes of valuing fixed income securities. As a result, depending on the particular securities owned by the Fund, it is likely that most of the valuations for such securities will be based upon their fair value determined under procedures that have been approved by the Fund's Board of Trustees. The Fund's Board of Trustees has authorized the use of a pricing service to determine the fair value of the Fund's fixed income securities and certain other securities.

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DISTRIBUTIONS AND TAXES  
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You will ordinarily receive distributions in shares, unless you elect before the record date to receive them as cash. Unless the Fund receives instructions to the contrary, it will assume that you wish to receive that distribution and future gains and income distributions in shares. Your

instructions continue in effect until changed in writing. If you have not opted to receive cash, the Fund will determine the number of shares that you should receive based on its net asset value per share as computed at the close of business on the ex-dividend date after adjustment for the distribution. The Fund will mail your account statement and/or check to you by the 15th day of the appropriate month.

Capital gains distributions that reduce the net asset value of your shares below your cost are, to the extent of the reduction, a return of your investment. Since distributions of capital gains depend upon profits realized from the sale of the Fund's portfolio securities, they may or may not occur.

Distributions are taxable whether you receive them in cash or additional shares. Long-term capital gains distributions are taxable as such regardless of (1) how long you have held the shares or (2) whether you receive them in cash or in additional shares. If, however, you hold the Fund's shares for less than six months and redeem them at a loss, you will recognize a long-term capital loss to the extent of the long-term capital gain distribution received in connection with such shares. The Fund intends to distribute only such net capital gains and income as it has predetermined, to the best of its ability, to be taxable as ordinary income. Since the Fund's income distributions are largely derived from interest on bonds and thus are not to any significant degree eligible in whole or in part for the corporate 70% dividends received deduction. Distributions designated by the Fund as capital gains are not eligible for the corporate 70% dividends received deduction.

The Fund will advise you annually as to the federal income tax status of your distributions. These comments relating to the taxation of dividends and distributions paid on the Fund's shares relate solely to federal income taxation. Your dividends and distributions may also be subject to state and local taxes.

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SALES CHARGES  
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The Fund may charge a contingent deferred sales charge (a "CDSC") when you redeem certain of its shares within four calendar years after the month in which you purchase the shares. The Fund charges a CDSC as reimbursement for certain expenses, such as commissions or shareholder servicing fees, that it has incurred in connection with the sale of its shares (see "Distribution Plan"). If imposed, the Fund deducts the CDSC from the redemption proceeds you would otherwise receive. CDSCs attributable to your shares are, to the extent permitted by the National Association of Securities Dealers, Inc. ("NASD"), paid to EKD.

CALCULATING THE CDSC

The CDSC is a declining percentage of the lesser of (1) the net asset value of the shares you redeemed, or (2) the total cost of such shares. The CDSC is calculated according to the following schedule:

Redemption Timing	CDSC
During the calendar year of purchase.....	4.00%
During the calendar year after the year of purchase.....	3.00%
During the second calendar year after the year of purchase.....	2.00%
During the third calendar year after the year of purchase.....	1.00%
Thereafter.....	0.00%

In determining whether a CDSC is payable and, if so, the percentage charge applicable, the Fund will first redeem shares not subject to a CDSC and will then redeem shares you have held the longest.

SHARES THAT ARE NOT SUBJECT TO A SALES CHARGE OR CDSC

Sales charge waivers. The Fund may sell shares at the public offering price, which is equal to net asset value, without the imposition of a sales charge to:

1. any Director, Trustee, officer, full-time employee or sales representative of the Fund, Keystone, Keystone Investments, EKD or their affiliates, who has held such position for at least ninety days; and
2. the pension and profit-sharing plans established by such companies and their affiliates, for the benefit of their Directors, Trustees,

officers, full-time employees and sales representatives.

However, we will only sell shares to these parties upon the purchaser's written assurance that he or she is buying the shares for investment purposes only. Such purchasers may not resell the securities except through redemption by the Fund.

CDSC WAIVERS. The Fund does not impose a CDSC when the amount you are redeeming represents:

1. an increase in the value of the shares redeemed (the value of your account with respect to shares purchased prior to January 1, 1997) above the total cost of such shares due to increases in the net asset value per share of the Fund;
2. certain shares for which the Fund did not pay a commission on issuance, including shares acquired through reinvestment of dividend income and capital gains distributions;
3. shares you have held for all or part of more than four consecutive calendar years;
4. shares that are held in the accounts of a shareholder who has died or become disabled;
5. a lump-sum distribution from a 401(k) plan or other benefit plan qualified under the Employee Retirement Income Security Act of 1974 ("ERISA");
6. automatic withdrawals from the ERISA plan of a shareholder who is at least 59 1/2 years old;
7. shares in an account that the Fund has closed because the account has an aggregate net asset value of less than \$1,000;
8. automatic withdrawals under a Systematic Income Plan of up to 1% per month of your initial account balance;
9. withdrawals consisting of loan proceeds to a retirement plan participant;
10. financial hardship withdrawals made by a retirement plan participant;
11. withdrawals consisting of returns of excess contributions or excess deferral amounts made to a retirement plan; or
12. shares purchased by a bank or trust company in a single account in the name of such bank or trust company as trustee if the initial investment in shares of the Fund, any other Fund in the Keystone Fund Family, Keystone Precious Metals Holdings, Inc., Keystone International Fund Inc., Keystone Tax Free Fund, Keystone Liquid Trust and/or any Keystone America Fund, is at least \$500,000 and any commission paid by the Fund and such other fund at the time of such purchase is not more than 1% of the amount invested.

EXCHANGES. The Fund does not charge a CDSC on exchanges of shares between funds in the Keystone Fund Family that have adopted distribution plans pursuant to Rule 12b-1 under the 1940 Act. If you do exchange shares of one such fund for shares of another such fund, the Fund will deem the calendar year of the exchange, for purposes of any future CDSC, to be the year the shares tendered for exchange were originally purchased.

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DISTRIBUTION PLAN  
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Rule 12b-1 under the 1940 Act permits investment companies, such as the Fund, to use their assets to bear the expenses of distributing their shares if they comply with various conditions, including the adoption of a distribution plan containing certain provisions set forth in Rule 12b-1. The Fund bears some of the costs of selling its shares under a distribution plan adopted pursuant to Rule 12b-1 (the "Distribution Plan").

The Fund's Distribution Plan provides that the Fund may expend up to 0.3125% quarterly (approximately 1.25% annually) of the average daily net asset value of its shares to pay distribution costs for sales of its shares and to pay shareholder service fees. The NASD limits such annual expenditures to 1.00%, of which 0.75% may be used to pay such distribution costs and 0.25% may be used to



pay shareholder service fees. The NASD also limits the aggregate amount that the Fund may pay for such distribution costs to 6.25% of gross share sales since the inception of the Fund's Distribution Plan plus interest at the prime rate plus 1.00% on unpaid amounts thereof (less any CDSCs paid by shareholders to EKD or EKIS).

Payments under the Distribution Plan are currently made to EKD (which may reallocate all or part to others, such as broker-dealers) (1) as commissions for Fund shares sold; (2) as shareholder service fees in respect of shares maintained by the recipient and outstanding on the Fund's books for specific periods; and (3) as interest. Amounts paid or accrued to EKD in the aggregate may not exceed the annual limitation referred to above. EKD generally reallocates to broker-dealers or others a commission equal to 4.00% of the price paid for each Fund share sold. In addition, EKD generally reallocates to broker-dealers or others a shareholder service fee at a rate of 0.25% per annum of the net asset value of shares maintained by such recipient and outstanding on the books of the Fund for specified periods.

If the Fund is unable to pay EKD a commission on a new sale because the annual maximum (0.75% of average daily net assets) has been reached, EKD intends, but is not obligated, to continue to accept new orders for the purchase of Fund shares and to pay commissions and service fees to broker-dealers in excess of the amount it currently receives from the Fund ("Advances"). While the Fund is under no contractual obligation to reimburse Advances, EKD and EKIS, its predecessor, intend to seek full reimbursement for Advances from the Fund (together with interest at the prime rate plus 1.00%) at such time in the future as, and to the extent that, payment thereof by the Fund would be within permitted limits. If the Fund's Independent Trustees (Trustees who are not interested persons, as defined in the 1940 Act, of the Fund and who have no direct or indirect financial interest in the operation of the Fund's Distribution Plan or any agreement related thereto) authorize such payments, the effect will be to extend the period of time during which the Fund incurs the maximum amount of costs allowed by the Distribution Plan.

The total amounts paid by the Fund under the foregoing arrangements may not exceed the maximum Distribution Plan limit specified above, and the amounts and purposes of expenditures under the Distribution Plan must be reported to the Independent Trustees quarterly. The Independent Trustees may require or approve changes in the implementation or operation of the Distribution Plan, and may require that total expenditures by the Fund under the Distribution Plan be kept within limits lower than the maximum amount permitted by the Distribution Plan as stated above. If such costs are not limited by the Independent Trustees, such costs could, for some period of time, be higher than such costs permitted by most other plans presently adopted by other investment companies.

The Distribution Plan may be terminated at any time by vote of the Independent Trustees, or by vote of a majority of the outstanding shares of the Fund. If the Distribution Plan is terminated, EKD will ask the Independent Trustees to take whatever action they deem appropriate under the circumstances with respect to payment of Advances.

Any change in the Distribution Plan that would materially increase the distribution expenses of the Fund provided for in the Distribution Plan requires shareholder approval. Otherwise, the Distribution Plan may be amended by votes of both (1) the Fund's Trustees and (2) the Independent Trustees cast in person at a meeting called for the purpose of voting on such amendment.

While the Distribution Plan is in effect, the Fund is required to commit the selection and nomination of candidates for Independent Trustees to the discretion of the Independent Trustees.

The Independent Trustees of the Fund have determined that the sales of the Fund's shares resulting from payments under the Distribution Plan have benefitted the Fund.

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THE TRUST AGREEMENT  
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TRUST AGREEMENT

The Fund is a Pennsylvania common law trust established under a Trust Agreement dated July 15, 1935, restated and amended as of December 19, 1989 (the "Trust Agreement"). The Trust Agreement provides for a Board of Trustees, and enables the Fund to enter into an agreement with an investment manager and/or adviser to provide the Fund with investment advisory, management and administrative services. A copy of the Trust Agreement is filed as an exhibit to the Fund's Registration Statement, of which this statement of additional information is a part. This summary is qualified in its entirety by reference to the Trust Agreement.

DESCRIPTION OF SHARES

The Trust Agreement authorizes the issuance of an unlimited number of shares of beneficial interest and the creation of additional series and/or classes of series of Fund shares. Each share represents an equal proportionate interest in the Fund with each other share of that class. Upon liquidation, shares are entitled to a pro rata share in the net assets of their class of Fund shares. Shareholders shall have no preemptive or conversion rights. Shares are transferable. The Fund currently intends to issue only one class of shares.

#### SHAREHOLDER LIABILITY

Pursuant to court decisions or other theories of law, shareholders of a Pennsylvania common law trust, could possibly be held personally liable for the obligations of the trust. The possibility of the Fund's shareholders incurring financial loss under such circumstances appears to be remote, however, because the Trust Agreement (1) contains an express disclaimer of shareholder liability for obligations of the Fund; (2) requires that notice of such disclaimer be given in each agreement, obligation or instrument entered into or executed by the Fund or the Trustees; and (3) provides for indemnification out of Fund property for any shareholder held personally liable for the obligations of the Fund.

#### VOTING RIGHTS

Under the terms of the Trust Agreement, the Fund does not hold annual meetings. At meetings called for the initial election of Trustees or to consider other matters, shares are entitled to one vote per share. Shares generally vote together as one class on all matters. No amendment may be made to the Trust Agreement that adversely affects any class of shares without the approval of a majority of the shares of that class. There shall be no cumulative voting in the election of Trustees.

After a meeting as described above, no further meetings of shareholders for the purpose of electing Trustees will be held, unless required by law until such time as less than a majority of the Trustees holding office have been elected by shareholders, at which time the Trustees then in office will call a shareholders' meeting for the election of Trustees.

Except as set forth above, the Trustees shall continue to hold office indefinitely unless otherwise required by law and may appoint successor Trustees. A Trustee may cease to hold office or may be removed from office (as the case may be) (1) at any time by a two-thirds vote of the remaining Trustees; (2) when such Trustee becomes mentally or physically incapacitated; or (3) at a special meeting of shareholders by a two-thirds vote of the outstanding shares. Any Trustee may voluntarily resign from office.

#### LIMITATION OF TRUSTEES' LIABILITY

The Trust Agreement provides that a Trustee shall be liable only for his own willful defaults and, if reasonable care has been exercised in the selection of officers, agents, employees or investment advisers, shall not be liable for any neglect or wrongdoing of any such person; provided, however, that nothing in the Trust Agreement shall protect a Trustee against any liability for his willful misfeasance, bad faith, gross negligence or reckless disregard of his duties.

The Trustees have absolute and exclusive control over the management and disposition of all assets of the Fund and may perform such acts as in their sole judgment and discretion are necessary and proper for conducting the business and affairs of the Fund or promoting the interests of the Fund and the shareholders.

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INVESTMENT ADVISER  
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Subject to the general supervision of the Fund's Board of Trustees, Keystone provides investment advice, management and administrative services to the Fund. Keystone, organized in 1932, is a wholly-owned subsidiary of Keystone Investments. Keystone Investments provides accounting, bookkeeping, legal, personnel, and general corporate services to Keystone and its affiliates and the Keystone Investments Families of Funds. Both Keystone and Keystone Investments are located at 200 Berkeley Street, Boston, Massachusetts 02116-5034.

On December 11, 1996, the predecessor corporation to Keystone Investments, and indirectly each subsidiary of Keystone Investments, including Keystone, were acquired (the "Acquisition") by First Union National Bank of North Carolina ("FUNB"), a wholly-owned subsidiary of First Union Corporation ("First Union"). The predecessor corporation to Keystone Investments was acquired by FUNB by merger into a wholly-owned subsidiary of FUNB, which entity then assumed the name "Keystone Investments, Inc." and succeeded to the business

of the predecessor corporation. Contemporaneously with the Acquisition, the Fund entered into a new investment advisory agreement with Keystone and into a principal underwriting agreement with EKD, a wholly-owned subsidiary of BISYS Fund Services, Inc. ("BISYS"). The new investment advisory agreement (the "Advisory Agreement") was approved by the shareholders of the Fund on December 9, 1996, and became effective on December 11, 1996. As a result of the above transactions, Keystone Management, Inc. ("Keystone Management"), which, prior to the Acquisition, acted as the Fund's investment manager, no longer acts as such to the Fund. Keystone currently provides the Fund with all the services that may previously have been provided by Keystone Management.

Keystone Investments and each of its subsidiaries, including Keystone, are now indirectly owned by First Union. First Union is headquartered in Charlotte, North Carolina, and had \$133.9 billion in consolidated assets as of September 30, 1996. First Union and its subsidiaries provide a broad range of financial services to individuals and businesses throughout the United States. The Capital Management Group of FUNB, together with Lieber & Company and Evergreen Asset Management Corp., wholly-owned subsidiaries of FUNB, manage or otherwise oversee the investment of over \$50 billion in assets belonging to a wide range of clients, including the Evergreen Family of Funds.

Pursuant to the Advisory Agreement and subject to the supervision of the Fund's Board of Trustees, Keystone furnishes to the Fund investment advisory, management and administrative services, office facilities, and equipment in connection with its services for managing the investment and reinvestment of the Fund's assets. Keystone pays for all of the expenses incurred in connection with the provision of its services.

All charges and expenses, other than those specifically referred to as being borne by Keystone, will be paid by the Fund, including, but not limited to, (1) custodian charges and expenses; (2) bookkeeping and auditors' charges and expenses; (3) transfer agent charges and expenses; (4) fees of Independent Trustees; (5) brokerage commissions, brokers' fees and expenses; (6) issue and transfer taxes; (7) costs and expenses under the Distribution Plans; (8) taxes and trust fees payable to governmental agencies; (9) the cost of share certificates; (10) fees and expenses of the registration and qualification of the Fund and its shares with the Commission or under state or other securities laws; (11) expenses of preparing, printing and mailing prospectuses, statements of additional information, notices, reports and proxy materials to shareholders of the Fund; (12) expenses of shareholders' and Trustees' meetings; (13) charges and expenses of legal counsel for the Fund and for the Independent Trustees of the Fund on matters relating to the Fund; and (14) charges and expenses of filing annual and other reports with the Commission and other authorities, and all extraordinary charges and expenses of the Fund.

The Fund pays Keystone a fee for its services at the annual rate set forth below:

Annual Management Fee	Income	Aggregate Net Asset Value of the Shares of the Fund
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	2% of Gross Dividend and Interest Income, Plus	
0.50% of the first		\$ 100,000,000 plus
0.45% of the next		\$ 100,000,000 plus
0.40% of the next		\$ 100,000,000 plus
0.35% of the next		\$ 100,000,000 plus
0.30% of the next		\$ 100,000,000 plus
0.25% of amounts over		\$ 500,000,000.

Keystone's fee is computed as of the close of business each business day and payable daily.

Under the Advisory Agreement, any liability of Keystone in connection with rendering services thereunder is limited to situations involving its willful misfeasance, bad faith, gross negligence or reckless disregard of its duties.

The Advisory Agreement continues in effect for two years from its effective date and, thereafter, from year to year only if approved at least annually by the Board of Trustees of the Fund or by a vote of a majority of the Fund's outstanding shares (as defined in the 1940 Act). In either case, the terms of the Advisory Agreement and continuance thereof must be approved by the vote of a majority of the Independent Trustees cast in person at a meeting called for the purpose of voting on such approval. The Advisory Agreement may be terminated, without penalty, on 60 days' written notice by the Fund's Board of Trustees or by a vote of a majority of outstanding shares. The Advisory Agreement will terminate automatically upon its assignment.

TRUSTEES AND OFFICERS

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The Trustees and officers of the Fund, their addresses, their principal occupations and some of their affiliations over the last five years are as follows:

- FREDERICK AMLING: Trustee of the Fund; Trustee or Director of all other funds in the Keystone Investments Families of Funds; Professor, Finance Department, George Washington University; President, Amling & Company (investment advice); and former Member, Board of Advisers, Credito Emilano (banking).
- LAURENCE B. ASHKIN: Trustee of the Fund; Trustee or Director of all other funds in the Keystone Investments Families of Funds; Trustee of all the Evergreen funds other than Evergreen Investment Trust; real estate developer and construction consultant; and President of Centrum Equities and Centrum Properties, Inc.
- CHARLES A. AUSTIN III: Trustee of the Fund; Trustee or Director of all other funds in the Keystone Investments Families of Funds; Investment Counselor to Appleton Partners, Inc.; and former Managing Director, Seaward Management Corporation (investment advice).
- FOSTER BAM: Trustee of the Fund; Trustee or Director of all other funds in the Keystone Investments Families of Funds; Trustee of all the Evergreen funds other than Evergreen Investment Trust; Partner in the law firm of Cummings & Lockwood; Director, Symmetrix, Inc. (sulphur company) and Pet Practice, Inc. (veterinary services); and former Director, Chartwell Group Ltd. (Manufacturer of office furnishings and accessories), Waste Disposal Equipment Acquisition Corporation and Rehabilitation Corporation of America (rehabilitation hospitals).
- \*GEORGE S. BISSELL: Chief Executive Officer of the Fund and each of the other funds in the Keystone Investments Families of Funds; Chairman of the Board and Trustee of the Fund; Chairman of the Board and Trustee or Director of all other funds in the Keystone Investments Families of Funds; Chairman of the Board and Trustee of Anatolia College; Trustee of University Hospital (and Chairman of its Investment Committee); former Director and Chairman of the Board of Hartwell Keystone; and former Chairman of the Board, Director and Chief Executive Officer of Keystone Investments.
- EDWIN D. CAMPBELL: Trustee of the Fund; Trustee or Director of all other funds in the Keystone Investments Families of Funds; Principal, Padanaram Associates, Inc.; and former Executive Director, Coalition of Essential Schools, Brown University.
- CHARLES F. CHAPIN: Trustee of the Fund; Trustee or Director of all other funds in the Keystone Investments Families of Funds; and former Director, Peoples Bank (Charlotte, NC).
- K. DUN GIFFORD: Trustee of the Fund; Trustee or Director of all other funds in the Keystone Investments Families of Funds; Trustee, Treasurer and Chairman of the Finance Committee, Cambridge College; Chairman Emeritus and Director, American Institute of Food and Wine; Chairman and President, Oldways Preservation and Exchange Trust (education); former Chairman of the Board, Director, and Executive Vice President, The London Harness Company; former Managing Partner, Roscommon Capital Corp.; former Chief Executive Officer, Gifford Gifts of Fine Foods; former Chairman, Gifford, Drescher & Associates (environmental consulting); and former Director, Keystone Investments and Keystone.
- JAMES S. HOWELL: Trustee of the Fund; Trustee or Director of all other funds in the Keystone Investments Families of Funds; Chairman and Trustee of the Evergreen funds; former Chairman of the Distribution Foundation for the

Carolinas; and former Vice President of Lance Inc. (food manufacturing).

LEROY KEITH, JR.: Trustee of the Fund; Trustee or Director of all other funds in the Keystone Investments Families of Funds; Chairman of the Board and Chief Executive Officer, Carson Products Company; Director of Phoenix Total Return Fund and Equifax, Inc.; Trustee of Phoenix Series Fund, Phoenix Multi-Portfolio Fund, and The Phoenix Big Edge Series Fund; and former President, Morehouse College.

F. RAY KEYSER, JR.: Trustee of the Fund; Trustee or Director of all other funds in the Keystone Investments Families of Funds; Chairman and Of Counsel, Keyser, Crowley & Meub, P.C.; Member, Governor's (VT) Council of Economic Advisers; Chairman of the Board and Director, Central Vermont Public Service Corporation and Lahey Hitchcock Clinic; Director, Vermont Yankee Nuclear Power Corporation, Grand Trunk Corporation, Grand Trunk Western Railroad, Union Mutual Fire Insurance Company, New England Guaranty Insurance Company, Inc., and the Investment Company Institute; former Director and President, Associated Industries of Vermont; former Director of Keystone, Central Vermont Railway, Inc., S.K.I. Ltd., and Arrow Financial Corp.; and former Director and Chairman of the Board, Proctor Bank and Green Mountain Bank.

GERALD M. MCDONELL: Trustee of the Fund; Trustee or Director of all other funds in the Keystone Investments Families of Funds; Trustee of the Evergreen funds; and Sales Representative with Nucor-Yamato, Inc. (Steel producer).

THOMAS L. MCVERRY: Trustee of the Fund; Trustee or Director of all other funds in the Keystone Investments Families of Funds; Trustee of the Evergreen funds; former Vice President and Director of Rexham Corporation; and former Director of Carolina Cooperative Federal Credit Union.

\*WILLIAM WALT PETTIT: Trustee of the Fund; Trustee or Director of all other funds in the Keystone Investments Families of Funds; Trustee of the Evergreen funds; and Partner in the law firm of Holcomb and Pettit, P.A.

DAVID M. RICHARDSON: Trustee of the Fund; Trustee or Director of all other funds in the Keystone Investments Families of Funds; Vice Chair and former Executive Vice President, DHR International, Inc. (executive recruitment); former Senior Vice President, Boyden International Inc. (executive recruitment); and Director, Commerce and Industry Association of New Jersey, 411 International, Inc., and J&M Cumming Paper Co.

RUSSELL A. SALTON, III MD: Trustee of the Fund; Trustee or Director of all other funds in the Keystone Investments Families of Funds; Trustee of the Evergreen funds; Medical Director, U.S. Health Care/Aetna Health Services; and former Managed Health Care Consultant; former President, Primary Physician Care.

MICHAEL S. SCOFIELD: Trustee of the Fund; Trustee or Director of all other funds in the Keystone Investments Families of Funds; Trustee of the Evergreen funds; and Attorney, Law Offices of Michael S. Scofield.

RICHARD J. SHIMA: Trustee of the Fund; Trustee or Director of all other funds in the Keystone Investments Families of Funds; Chairman, Environmental Warranty, Inc. (Insurance agency); Executive Consultant, Drake Beam Morin, Inc. (executive outplacement); Director of Connecticut Natural Gas Corporation, Hartford Hospital, Old State House Association, Middlesex Mutual Assurance Company, and Enhance Financial Services, Inc.; Chairman, Board of Trustees, Hartford Graduate Center; Trustee, Greater Hartford YMCA; former Director, Vice Chairman and Chief Investment Officer, The Travelers Corporation; former Trustee, Kingswood-Oxford School; and former Managing Director and Consultant, Russell Miller, Inc.

\*ANDREW J. SIMONS: Trustee of the Fund; Trustee or Director of all other

funds in the Keystone Investments Families of Funds; Partner, Farrell, Fritz, Caemmerer, Cleary, Barnosky & Armentano, P.C.; Adjunct Professor of Law and former Associate Dean, St. John's University School of Law; Adjunct Professor of Law, Touro College School of Law; and former President, Nassau County Bar Association.

JOHN J. PILEGGI: President and Treasurer of the Fund; President and Treasurer of all other funds in the Keystone Investments Families of Funds; President and Treasurer of the Evergreen funds; Senior Managing Director, Furman Selz LLC since 1992; Managing Director from 1984 to 1992; 230 Park Avenue, Suite 910, New York, NY.

GEORGE O. MARTINEZ: Secretary of the Fund; Secretary of all other funds in the Keystone Investments Families of Funds; Senior Vice President and Director of Administration and Regulatory Services, BISYS Fund Services; 3435 Stelzer Road, Columbus, Ohio.

\* This Trustee may be considered an "interested person" of the Fund within the meaning of the 1940 Act.

Mr. Bissell is deemed an "interested person" of the Fund by virtue of his ownership of stock of First Union Corporation ("First Union"), of which Keystone is an indirect wholly-owned subsidiary. See "Investment Adviser." Mr. Pettit and Mr. Simons may each be deemed an "interested person" as a result of certain legal services rendered to a subsidiary of First Union by their respective law firms, Holcomb and Pettit, P.A. and Farrell, Fritz, Caemmerer, Cleary, Barnosky & Armentano, P.C. As of the date hereof, Mr. Pettit and Mr. Simons are each applying for an exemption from the Securities and Exchange Commission ("SEC") which would allow them to retain their status as an Independent Trustee.

All of the officers of the Fund are officers and/or employees of BISYS. BISYS is located at 3435 Stelzer Road, Columbus, Ohio.

The Fund does not pay any direct remuneration to any officer or Trustee who is an "affiliated person" of either FUNB or Keystone, or their affiliates. See "Investment Adviser." During the fiscal year ended October 31, 1996, the unaffiliated Trustees (who numbered 10 during that period) received retainers or fees totaling \$31,867 from the Fund. Annual retainers and meeting fees paid by all funds in the Keystone Investments Families of Funds (which includes over 30 mutual funds) for the calendar year ended December 31, 1996 totaled approximately \$ . As of November 30, 1996, the Trustees and officers beneficially owned less than 1% of each of the Fund's then outstanding shares.

Except as set forth above, the address of all of the Fund's Trustees and officers and the address of the Fund is 200 Berkeley Street, Boston, Massachusetts 02116-5034.

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PRINCIPAL UNDERWRITER  
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The Fund has entered into a Principal Underwriting Agreement (the "Underwriting Agreement") with EKD. EKD, which is not affiliated with First Union, replaces EKIS as the Funds' principal underwriter. EKIS may no longer act as principal underwriter of the Funds due to regulatory restrictions imposed by the Glass-Steagall Act upon national banks such as FUNB and their affiliates, that prohibit such entities from acting as the underwriters of mutual fund shares. While EKIS may no longer act as principal underwriter of the Funds as discussed above, EKIS may continue to receive compensation from the Fund or EKD in respect of underwriting and distribution services performed prior to the termination of EKIS as principal underwriter. In addition, EKIS may also be compensated by EKD for the provision of certain marketing support services to EKD at an annual rate of up to .75% of the average daily net assets of the Fund, subject to certain restrictions.

EKD, as agent, has agreed to use its best efforts to find purchasers for the shares. EKD may retain and employ representatives to promote distribution of the shares and may obtain orders from broker-dealers, and others, acting as principals, for sales of shares to them. The Underwriting Agreement provides that EKD will bear the expense of preparing, printing, and distributing advertising and sales literature and prospectuses used by it. In its capacity as principal underwriter, EKD or EKIS, its predecessor, may receive payments from the Fund pursuant to the Fund's Distribution Plan.

The Underwriting Agreement provides that it will remain in effect as long as its terms and continuance are approved annually (i) by a vote of a majority of the Independent Trustees, and (ii) by vote of a majority of the Trustees, in each case, cast in person at a meeting called for that purpose.

The Underwriting Agreement may be terminated, without penalty, on 60 days' written notice by the Board of Trustees or by a vote of a majority of outstanding shares. The Underwriting Agreement will terminate automatically upon its assignment.

From time to time, if, in EKD's judgment, it could benefit the sales of Fund shares, EKD may provide to selected broker-dealers promotional materials and selling aids, including, but not limited to, personal computers, related software and Fund data files.

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SUB-ADMINISTRATOR

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BISYS will provide personnel to serve as officers of the Funds, and certain administrative services to the Funds pursuant to a sub-administration agreement. For its services under that agreement, BISYS receives a fee from Keystone at the maximum annual rate of .01% of the average daily net assets of the Fund.

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BROKERAGE

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SELECTION OF BROKERS

In effecting transactions in portfolio securities for the Fund, Keystone seeks the best execution of orders at the most favorable prices. Keystone determines whether a broker has provided the Fund with best execution and price in the execution of a securities transaction by evaluating, among other things:

1. overall direct net economic result to the Fund,
2. the efficiency with which the transaction is effected,
3. the broker's ability to effect the transaction where a large block is involved,
4. the broker's readiness to execute potentially difficult transactions in the future,
5. the financial strength and stability of the broker, and
6. the receipt of research services, such as analyses and reports concerning issuers, industries, securities, economic factors and trends and other statistical and factual information ("research services").

The Fund's management weighs these considerations in determining the overall reasonableness of the brokerage commissions paid.

Should the Fund or Keystone receive services from a broker, the Fund would consider such services to be in addition to, and not in lieu of, the services Keystone is required to perform under the Advisory Agreement. Keystone believes that the cost, value and specific application of such services are indeterminable and cannot be practically allocated between the Fund and its other clients who may indirectly benefit from the availability of such information. Similarly, the Fund may indirectly benefit from information made available as a result of transactions effected for Keystone's other clients. Under the Advisory Agreement, Keystone is permitted to pay higher brokerage commissions for brokerage and research services in accordance with Section 28(e) of the Securities Exchange Act of 1934. In the event Keystone follows such a practice, it will do so on a basis that is fair and equitable to the Fund.

Neither the Fund nor Keystone intends on placing securities transactions with any particular broker. The Fund's Board of Trustees has determined, however, that the Fund may consider sales of Fund shares as a factor when selecting brokers to execute portfolio transactions, subject to the requirements of best execution described above.

BROKERAGE COMMISSIONS

The Fund expects to purchase and sell its securities and temporary instruments through principal transactions. Bonds and money market instruments

are normally purchased directly from the issuer or from an underwriter or market maker for the securities. In general, the Fund will not pay brokerage commissions for such purchases. Purchases from underwriters will include the underwriting commission or concession, and purchases from dealers serving as market makers will include a dealer's mark-up or reflect a dealer's mark-down. Where transactions are made in the over-the-counter market, the Fund will deal with primary market makers unless more favorable prices are otherwise obtainable.

GENERAL BROKERAGE POLICIES

In order to take advantage of the availability of lower purchase prices, the Fund may participate, if and when practicable, in group bidding for the direct purchase from an issuer of certain securities.

Keystone makes investment decisions for the Fund independently from those of its other clients. It may frequently develop, however, that Keystone will make the same investment decision for more than one client. Simultaneous transactions are inevitable when the same security is suitable for the investment objective of more than one account. When two or more of its clients are engaged in the purchase or sale of the same security, Keystone will allocate the transactions according to a formula that is equitable to each of its clients. Although, in some cases, this system could have a detrimental effect on the price or volume of the Fund's securities, the Fund believes that in other cases its ability to participate in volume transactions will produce better executions.

The Fund does not purchase portfolio securities from or sell portfolio securities to Keystone, EKD or any of their affiliated persons, as defined in the 1940 Act.

The Board of Trustees periodically reviews the Fund's brokerage policy. In the event of further regulatory developments affecting the securities exchanges and brokerage practices generally, the Board of Trustees may change, modify or eliminate any of the foregoing practices.

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 EXPENSES  
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INVESTMENT ADVISORY FEES

For each of the Fund's last three fiscal years, the table below lists the total dollar amounts paid by (1) the Fund to Keystone Management, the Fund's former investment manager, for investment management and administrative services rendered and (2) by Keystone Management to Keystone for investment advisory services rendered. For more information, see "Investment Adviser."

Fiscal Year Ended October 31,	Fee Paid to Keystone Management under the Management Agreement	Percent of Fund's Average Net Assets represented by Keystone Management's Fee	Fee Paid to Keystone under the Advisory Agreement
1996	\$		
1995	\$1,876,672	0.60%	\$1,595,171
1994	\$2,193,543	0.56%	\$1,864,514

DISTRIBUTION PLAN EXPENSES

For the fiscal year ended October 31, 1996, the Fund paid \$2,645,899 to EKD under its Distribution Plan. For more information, see "Distribution Plans."

UNDERWRITING COMMISSIONS

For each of the Fund's last three fiscal years, the table below lists the aggregate dollar amounts of underwriting commissions (front-end sales charges, plus distribution fees, plus CDSCs) paid with respect to the public distribution of the Fund's shares. The table also indicates the aggregate dollar amount of underwriting commissions retained by EKD. For more information, see "Principal Underwriter" and "Sales Charges."

Fiscal Year Ended October 31,	Aggregate Dollar Amount of Underwriting Commissions	Aggregate Dollar Amount of Underwriting Commissions Retained by EKD or EKIS
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1996	\$	\$
1995	\$	\$
1994	\$	\$

BROKERAGE COMMISSIONS

The Fund paid no brokerage commissions for the fiscal years ended October 31, 1994, 1995 and 1996.

STANDARDIZED TOTAL RETURN AND YIELD QUOTATIONS

Total return quotations for the Fund as they may appear from time to time in advertisements are calculated by finding the average annual compounded rates of return over the one, five and ten year periods on a hypothetical \$1,000 investment which would equate the initial amount invested to the ending redeemable value. To the initial investment all dividends and distributions are added, and all recurring fees charged to all shareholder accounts are deducted. The ending redeemable value assumes a complete redemption at the end of the one, five or ten year periods.

The average annual rates of return for the one, five and ten year periods ended October 31, 1996 were %, % and %, respectively.

Current yield quotations as they may appear from time to time in advertisements will consist of a quotation based on a 30-day period ended on the date of the most recent balance sheet of the Fund, computed by dividing the net investment income per share earned during the period by the maximum offering price per share on the last day of the base period. The Fund's current yield for the 30-day period ended October 31, 1996 was %.

FINANCIAL STATEMENTS

The following financial statements of the Fund are incorporated by reference herein from the Fund's Annual Report, as filed with the SEC:

- Schedule of Investments as of October 31, 1995;
- Financial Highlights for each of the years in the ten-year period ended October 31, 1995;
- Statement of Assets and Liabilities as of October 31, 1995;
- Statement of Operations for the year ended October 31, 1995;
- Statements of Changes in Net Assets for each of the years in the two-year period ended October 31, 1995;
- Notes to Financial Statements; and
- Independent Auditors' Report dated December 8, 1995.

The following financial statements of the Fund are incorporated by reference herein from the Fund's Semiannual Report, as filed with the SEC:

- Schedule of Investments as of April 30, 1996 (unaudited);
- Financial Highlights for each of the years in the five-year period ended October 31, 1995 and for the six-month period ended April 30, 1996 (unaudited); and
- Statement of Assets and Liabilities as of April 30, 1996 (unaudited);
- Statement of Operations for the six-month period ended April 30, 1996 (unaudited);
- Statements of Changes in Net Assets for the year ended October 31, 1995 and the six-month period ended April 30, 1996 (unaudited);

A copy of the Fund's Annual Report will be furnished upon request and without charge. Requests may be made in writing to EKSC, P.O. Box 2121, Boston, Massachusetts 02106-5034, or by calling EKSC toll free at 1-800-343-2898.

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ADDITIONAL INFORMATION  
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To the best of the Fund's knowledge, as of November 30, 1996, the following was the only shareholder of record who owned 5% or more the Fund's outstanding shares:

	% of Fund
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Merrill Lynch Pierce Fenner & Smith For Sole Benefit of Its Customers Attn: Fund Administration 4800 Deer Lake Drive East, 3rd Floor Jacksonville, FL 32246-6484	12.864%

State Street Bank and Trust Company, located at 225 Franklin Street, Boston, Massachusetts 02110, is the Custodian of all securities and cash of the Fund (the "Custodian"). The Custodian may hold securities of some foreign issuers outside the U.S. The Custodian performs no investment management functions for the Fund, but, in addition to its custodial services, is responsible for accounting and related recordkeeping on behalf of the Fund.

KPMG Peat Marwick LLP, 99 High Street, Boston, Massachusetts 02110, Certified Public Accountants, are the Fund's independent auditors.

EKSC, located at 200 Berkeley Street, Boston, Massachusetts, 02116-5034, is a wholly-owned subsidiary of Keystone and serves as the Fund's transfer agent and dividend disbursing agent.

Except as otherwise stated in its prospectus or required by law, the Fund reserves the right to change the terms of the offer stated in its prospectus without shareholder approval, including the right to impose or change fees for services provided.

If conditions arise that would make it undesirable for the Fund to pay for all redemptions in cash, the Fund may authorize payment to be made in portfolio securities or other property. The Fund has obligated itself, however, under the 1040 Act, to redeem for cash all shares presented for redemption by any one shareholder up to the lesser of \$250,000 or 1.00% of the Fund's net assets in any 90-day period. Securities delivered in payment of redemptions would be valued at the same value assigned to them in computing the net asset value per share and would, to the extent permitted by law, be readily marketable. Shareholders receiving such securities would incur brokerage costs upon the securities' sale.

No dealer, salesman or other person is authorized to give any information or to make any representation not contained in the Fund's prospectus, this statement of additional information or in supplemental sales literature issued by the Fund or EKD, and no person is entitled to rely on any information or representation not contained therein.

The Fund's prospectus and this statement of additional information omit certain information contained in the registration statement filed with the SEC, which may be obtained from the SEC's principal office in Washington, D.C. upon payment of the fee prescribed by the rules and regulations promulgated by the SEC.

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APPENDIX

CORPORATE BOND RATINGS

S&P CORPORATE BOND RATINGS

An S&P corporate bond rating is a current assessment of the creditworthiness of an obligor, including obligors outside the United States, with respect to a specific obligation. This assessment may take into consideration obligors such as guarantors, insurers, or lessees. Ratings of foreign obligors do not take into account currency exchange and related uncertainties. The ratings are based on current information furnished by the issuer or obtained by S&P from other sources it considers reliable.

The ratings are based, in varying degrees, on the following considerations:

- a. Likelihood of default - capacity and willingness of the obligor as to the timely payment of interest and repayment of principal in accordance with the terms of the obligation;
- b. Nature of and provisions of the obligation; and
- c. Protection afforded by and relative position of the obligation in the event of bankruptcy, reorganization or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

PLUS (+) OR MINUS (-): To provide more detailed indications of credit quality, ratings from AA to BBB may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

Bond ratings are as follows:

1. AAA - Debt rated AAA has the highest rating assigned by S&P. Capacity to pay interest and repay principal is extremely strong.
2. AA - Debt rated AA has a very strong capacity to pay interest and repay principal and differs from the higher rated issues only in a small degree.
3. 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.
4. 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.
5. BB, B, CCC, CC AND C - Debt rated BB, B, CCC, CC and C is regarded, on balance, as predominantly speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation. BB indicates the lowest degree of speculation and C the highest degree of speculation. While such debt will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.

#### MOODY'S CORPORATE BOND RATINGS

Moody's ratings are as follows:

1. AAA - Bonds that are rated AAA 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.
2. AA - Bonds that are rated AA 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 that make the long term risks appear somewhat larger than in AAA securities.
3. A - Bonds that are rated A 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 that suggest a susceptibility to impairment sometime in the future.
4. BAA - Bonds that are rated BAA are considered as medium grade obligations, i.e., 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.
5. BA - Bonds that 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 both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

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

Moody's applies numerical modifiers, 1, 2 and 3 in each generic rating classification from AA through B in its corporate bond rating system. 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.

#### COMMON AND PREFERRED STOCK RATINGS

##### S&P'S EARNINGS AND DIVIDEND RANKINGS FOR COMMON STOCKS

Because the investment process involves assessment of various factors, such as product and industry position, corporate resources and financial policy, with results that make some common stocks more highly esteemed than others, S&P believes that earnings and dividend performance is the end result of the interplay of these factors and that, over the long run, the record of this performance has a considerable bearing on relative quality. S&P rankings, however, do not reflect all of the factors, tangible or intangible, that bear on stock quality.

Growth and stability of earnings and dividends are deemed key elements in establishing S&P earnings and dividend rankings for common stocks, which capsule the nature of this record in a single symbol.

S&P has established a computerized scoring system based on per-share earnings and dividend records of the most recent ten years, a period deemed long enough to measure a company's performance under varying economic conditions. S&P measures growth, stability within the trend line and cyclicity. The ranking system also makes allowances for company size, since large companies have certain inherent advantages over small ones. From these scores for earnings and dividends are determined.

The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample which is reviewed and sometimes modified with the following ladder of rankings:

A+ Highest	B+ Average	C Lowest
A High	B Below Average	D In Reorganization
A- Above Average	B- Lower	

S&P believes its rankings are not a forecast of future market price performance but are basically an appraisal of past performance of earnings and dividends and relative current standing.

##### MOODY'S COMMON STOCK RANKINGS

Moody's presents a concise statement of the important characteristics of a company and an evaluation of the grade (quality) of its common stock. Data presented includes: (a) capsule stock information which reveals short and long term growth and yield afforded by the indicated dividend, based on a recent price; (b) a long term price chart which shows patterns of monthly stock price movements and monthly trading volumes; (c) a breakdown of a company's capital account which aids in determining the degree of conservatism or financial leverage in a company's balance sheet; (d) interim earnings for the current year to date, plus three previous years; (e) dividend information; (f) company background; (g) recent corporate developments; (h) prospects for a company in the immediate future and the next few years; and (i) a ten year comparative statistical analysis.

This information provides investors with information on what a company does, how it has performed in the past, how it is performing currently and what its future performance prospects appear to be.

These characteristics are then evaluated and result in a grading, or indication of quality. The grade is based on an analysis of each company's financial strength, stability of earnings and record of dividend payments. Other considerations include conservativeness of capitalization, depth and caliber of management, accounting practices, technological capabilities and industry position. Evaluation is represented by the following grades:

- (1) High Grade
- (2) Investment Grade
- (3) Medium Grade
- (4) Speculative Grade

Preferred stock ratings and their definitions are as follows:

1. AAA: An issue that is rated AAA is considered to be a top-quality preferred stock. This rating indicates good asset protection and the least risk of dividend impairment within the universe of preferred stocks.
2. AA: An issue that is rated AA is considered a high-grade preferred stock. This rating indicates that there is a reasonable assurance that earnings and asset protection will remain relatively well maintained in the foreseeable future.
3. A: An issue that is rated A is considered to be an upper-medium grade preferred stock. While risks are judged to be somewhat greater than in the AAA and AA classification, earnings and asset protection are, nevertheless, expected to be maintained at adequate levels.
4. BAA: An issue that is rated BAA is considered to be a medium-grade preferred stock, neither highly protected nor poorly secured. Earnings and asset protection appear adequate at present but may be questionable over any great length of time.
5. BA: An issue that is rated BA is considered to have speculative elements and its future cannot be considered well assured. Earnings and asset protection may be very moderate and not well- safeguarded during adverse periods. Uncertainty of position characterizes preferred stocks in this class.
6. B: An issue that is rated B generally lacks the characteristics of a desirable investment. Assurance of dividend payments and maintenance of other terms of the issue over any long period of time may be small.
7. CAA: An issue that is rated CAA is likely to be in arrears on dividend payments. This rating designation does not purport to indicate the future status of payments.
8. CA: An issue that is rated CA is speculative in a high degree and is likely to be in arrears on dividends with little likelihood of eventual payments.
9. C: This is the lowest rated class of preferred or preference stock. Issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

Moody's applies numerical modifiers 1, 2 and 3 in each rating classification: 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.

#### LIMITED PARTNERSHIPS

The Fund may invest in limited and master limited partnerships. A limited partnership is a partnership consisting of one or more general partners, jointly and severally responsible as ordinary partners, and by whom the business is conducted, and one or more limited partners who contribute cash as capital to the partnership and who generally are not liable for the debts of the partnership beyond the amounts contributed. Limited partners are not involved in the day-to-day management of the partnership. They receive income, capital gains and other tax benefits associated with the partnership project in accordance with terms established in the partnership agreement. Typical limited partnerships are in real estate, oil and gas and equipment leasing, but they also finance movies, research and development and other projects.

For an organization classified as a partnership under the Internal Revenue Code, each item of income, gain, loss, deduction and credit is not taxed at the partnership level but flows through to the holder of the partnership unit. This allows the partnership to avoid taxation and to pass through income to the holder of the partnership unit at lower individual rates.

A master limited partnership is a publicly traded limited partnership. The partnership units are registered with the Securities and Exchange Commission and are freely exchanged on a securities exchange or in the over-the-counter market.

#### MONEY MARKET INSTRUMENTS

The Fund's investments in commercial paper are limited to those rated A-1 by Standard & Poor's Corporation, PRIME-1 by Moody's Investors Service, Inc. or F-1 by Fitch Investors Service, Inc. These ratings and other money market instruments are described as follows:

## COMMERCIAL PAPER RATINGS

Commercial paper rated A-1 by Standard & Poor's has the following characteristics: Liquidity ratios are adequate to meet cash requirements. The issuer's long-term senior debt is rated A or better, although in some cases BBB credits may be allowed. The issuer has access to at least two additional channels of borrowing. Basic earnings and cash flow have an upward trend with allowance made for unusual circumstances. Typically, the issuer's industry is well established and the issuer has a strong position within the industry.

The rating PRIME-1 is the highest commercial paper rating assigned by Moody's. Among the factors considered by Moody's in assigning ratings are the following: (1) evaluation of the management of the issuer; (2) economic evaluation of the issuer's industry or industries and an appraisal of speculative-type risks which may be inherent in certain areas; (3) evaluation of the issuer's products in relation to competition and customer acceptance; (4) liquidity; (5) amount and quality of long-term debt; (6) trend of earnings over a period of ten years; (7) financial strength of a parent company and the relationships that exist with the issuer; and (8) recognition by the management of obligations which may be present or may arise as a result of public preparations to meet such obligations. Relative strength or weakness of the above factors determines how the issuer's commercial paper is rated within various categories.

The rating F-1 is the highest rating assigned by Fitch. Among the factors considered by Fitch in assigning this rating are: (1) the issuer's liquidity; (2) its standing in the industry; (3) the size of its debt; (4) its ability to service its debt; (5) its profitability; (6) its return on equity; (7) its alternative sources of financing; and (8) its ability to access the capital markets. Analysis of the relative strength or weakness of these factors and others determines whether an issuer's commercial paper is rated F-1.

## UNITED STATES GOVERNMENT SECURITIES

Securities issued or guaranteed by the United States Government include a variety of Treasury securities that differ only in their interest rates, maturities and dates of issuance. Treasury bills have maturities of one year or less. Treasury notes have maturities of one to ten years and Treasury bonds generally have maturities of greater than ten years at the date of issuance.

Securities issued or guaranteed by the United States ("U.S.") Government or its agencies or instrumentalities include direct obligations of the United States Treasury and securities issued or guaranteed by the Federal Housing Administration, Farmers Home Administration, Export-Import Bank of the United States, Small Business Administration, Government National Mortgage Association, General Services Administration, Central Bank for Cooperatives, Federal Home Loan Banks, Federal Loan Mortgage Corporation, Federal Intermediate Credit Banks, Federal Land Banks, Maritime Administration, The Tennessee Valley Authority, District of Columbia Armory Board and Federal National Mortgage Association.

Some obligations of United States Government agencies and instrumentalities, such as Treasury bills and Government National Mortgage Association pass-through certificates, are supported by the full faith and credit of the United States; others, such as securities of Federal Home Loan Banks, by the right of the issuer to borrow from the Treasury; still others, such as bonds issued by the Federal National Mortgage Association, a private corporation, are supported only by the credit of the instrumentality. Because the United States Government is not obligated by law to provide support to an instrumentality it sponsors, the Fund will invest in the securities issued by such an instrumentality only when Keystone determines that the credit risk with respect to the instrumentality does not make its securities unsuitable investments. United States Government securities will not include international agencies or instrumentalities in which the United States Government, its agencies or instrumentalities participate, such as the World Bank, the Asian Development Bank or the InterAmerican Development Bank, or issues insured by the Federal Deposit Insurance Corporation.

## CERTIFICATES OF DEPOSIT

Certificates of deposit are receipts issued by a bank in exchange for the deposit of funds. The issuer agrees to pay the amount deposited plus interest to the bearer of the receipt on the date specified on the certificate. The certificate usually can be traded in the secondary market prior to maturity.

Certificates of deposit will be limited to U.S. dollar-denominated certificates of United States banks, including their branches abroad, and of U.S. branches of foreign banks that are members of the Federal Reserve System or the Federal Deposit Insurance Corporation and have at least \$1 billion in deposits as of the date of their most recently published financial statements.

## BANKERS' ACCEPTANCES

Bankers' acceptances typically arise from short term credit arrangements designed to enable businesses to obtain funds to finance commercial transactions. Generally, an acceptance is a time draft drawn on a bank by an exporter or an importer to obtain a stated amount of funds to pay for specific merchandise. The draft is then "accepted" by the bank that, in effect, unconditionally guarantees to pay the face value of the instrument on its maturity date. The acceptance may then be held by the accepting bank as an earning asset or it may be sold in the secondary market at the going rate of discount for a specific maturity. Although maturities for acceptances can be as long as 270 days, most acceptances have maturities of six months or less. Bankers' acceptances acquired by the Fund must have been accepted by U.S. commercial banks, including foreign branches of U.S. commercial banks, having total deposits at the time of purchase in excess of \$1 billion and must be payable in U.S. dollars.

#### OPTIONS TRANSACTIONS

The Fund is authorized to write (i.e., sell) covered call options and to purchase call options to close out covered call options previously written. A call option obligates a writer to sell, and gives a purchaser the right to buy, the underlying security at the stated exercise price at any time until the stated expiration date.

The Fund will only write call options that are covered, which means that the Fund will own the underlying security (or other securities, such as convertible securities, that are acceptable for escrow) when it writes the call option and until the Fund's obligation to sell the underlying security is extinguished by exercise or expiration of the call option or the purchase of a call option covering the same underlying security and having the same exercise price and expiration date. The Fund will receive a premium for writing a call option, but will give up, until the expiration date, the opportunity to profit from an increase in the underlying security's price above the exercise price. The Fund will retain the risk of loss from a decrease in the price of the underlying security. The writing of covered call options is a conservative investment technique believed to involve relatively little risk (in contrast to the writing of naked options which the Fund will not do) but capable of enhancing the Fund's total return.

The premium received by the Fund for writing a covered call option will be recorded as a liability in the Fund's statement of assets and liabilities. This liability will be adjusted daily to the option's current market value, which will be the latest sale price at the time as of which the net asset value per share of the Fund is computed (the close of the New York Stock Exchange), or, in the absence of such sale, at the latest bid quotation. The liability will be extinguished upon expiration of the option, the purchase of an identical option in a closing transaction or delivery of the underlying security upon exercise of the option.

Many options are traded on registered securities exchanges. Options traded on such exchanges are issued by the Options Clearing Corporation, a clearing corporation which assumes responsibility for the completion of options transactions.

The Fund will purchase call options only to close out a covered call option it has written. When it appears that a covered call option written by the Fund is likely to be exercised, the Fund may consider it appropriate to avoid having to sell the underlying security. Or, the Fund may wish to extinguish a covered call option which it has written in order to be free to sell the underlying security to realize a profit on the previously written call option or to write another covered call option on the underlying security. In all such instances, the Fund can close out the previously written call option by purchasing a call option on the same underlying security with the same exercise price and expiration date. (The Fund may, under certain circumstances, also be able to transfer a previously written call option.) The Fund will realize a short-term capital gain if the amount paid to purchase the call option plus transaction costs is less than the premium received for writing the covered call option. The Fund will realize a short-term capital loss if the amount paid to purchase the call option plus transaction costs is greater than the premium received for writing the covered call option.

A previously written call option can be closed out by purchasing an identical call option only in a secondary market for the call option. Although the Fund will generally write only those options for which there appears to be an active secondary market, there is no assurance that a liquid secondary market will exist for any particular option at any particular time, and for some options no secondary market may exist. In such event it might not be possible to effect a closing transaction in a particular option. If the Fund as a covered call option writer is unable to effect a closing purchase transaction, it will not be able to sell the underlying securities until the option expires or it delivers the underlying securities upon exercise.

If a substantial number of the call options written by the Fund are exercised, the Fund's rate of portfolio turnover may exceed historical levels. This would result in higher transaction costs, including brokerage commissions.

The Fund will pay brokerage commissions in connection with the writing of covered call options and the purchase of call options to close out previously written options. Such brokerage commissions are normally higher than those applicable to purchases and sales of portfolio securities.

In the past the Fund has qualified for, and elected to receive, the special tax treatment afforded regulated investment companies under Subchapter M of the Internal Revenue Code. Although the Fund intends to continue to qualify for such tax treatment, in order to do so it must, among other things, derive less than 30% of its gross income from gains from the sale or other disposition of securities held for less than three months. Because of this, the Fund may be restricted in the writing of call options where the underlying securities have been held less than three months, in the writing of covered call options that expire in less than three months, and in effecting closing purchases with respect to options that were written less than three months earlier. As a result, the Fund may elect to forego otherwise favorable investment opportunities and may elect to avoid or delay effecting closing purchases or selling portfolio securities, with the risk that a potential loss may be increased or a potential gain may be reduced or turned into a loss.

Under the Internal Revenue Code of 1954, as amended, gain or loss attributable to a closing transaction and premiums received by the Fund for writing a covered call option that is not exercised may constitute short-term capital gain or loss. Under provisions of the Tax Reform Act of 1986, effective for taxable years beginning after October 22, 1986, a gain on an option transaction that qualifies as a "designated hedge" transaction under Treasury regulations may be offset by realized or unrealized losses on such designated transaction. The netting of gain against such losses could result in a reduction in gross income from options transactions for purposes of the 30 percent test.

#### FUTURES CONTRACTS AND RELATED OPTIONS TRANSACTIONS

The Fund intends to enter into currency and other financial futures contracts as a hedge against changes in prevailing levels of interest or currency exchange rates to seek relative stability of principal and to establish more definitely the effective return on securities held or intended to be acquired by the Fund or as a hedge against changes in the prices of securities or currencies held by the Fund or to be acquired by the Fund. The Fund's hedging may include sales of futures as an offset against the effect of expected increases in interest or currency exchange rates or securities prices and purchases of futures as an offset against the effect of expected declines in interest or currency exchange rates.

For example, when the Fund anticipates a significant market or market sector advance, it will purchase a stock index futures contract as a hedge against not participating in such advance at a time when the Fund is not fully invested. The purchase of a futures contract serves as a temporary substitute for the purchase of individual securities which may then be purchased in an orderly fashion. As such purchases are made, an equivalent amount of index based futures contracts would be terminated by offsetting sales. In contrast, the Fund would sell stock index futures contracts in anticipation of or in a general market or market sector decline that may adversely affect the market value of the Fund's portfolio. To the extent that the Fund's portfolio changes in value in correlation with a given index, the sale of futures contracts on that index would substantially reduce the risk to the portfolio of a market decline or change in interest rates, and, by so doing, provide an alternative to the liquidation of the Fund's securities positions and the resulting transaction costs.

The Fund intends to engage in options transactions that are related to commodity futures contracts for hedging purposes and in connection with the hedging strategies described above.

Although techniques other than sales and purchases of futures contracts and related options transactions could be used to reduce the Fund's exposure to interest rate and/or market fluctuations, the Fund may be able to hedge its exposure more effectively and perhaps at a lower cost through using futures contracts and related options transactions. While the Fund does not intend to take delivery of the instruments underlying futures contracts it holds, the Fund does not intend to engage in such futures contracts for speculation.

#### FUTURES CONTRACTS

Futures contracts are transactions in the commodities markets rather than in the securities markets. A futures contract creates an obligation by the seller to deliver to the buyer the commodity specified in the contract at a specified future time for a specified price. The futures contract creates an obligation by the buyer to accept delivery from the seller of the commodity specified at the specified future time for the specified price. In contrast, a spot transaction creates an immediate obligation for the seller to deliver and the buyer to accept delivery of and pay for an identified commodity. In general, futures contracts involve transactions in fungible goods such as wheat, coffee and soybeans. However, in the last decade an increasing number of futures contracts have been developed that specify currencies, financial instruments or



financially based indexes as the underlying commodity.

U.S. futures contracts are traded only on national futures exchanges and are standardized as to maturity date and underlying financial instrument. The principal financial futures exchanges in the United States are The Board of Trade of the City of Chicago, the Chicago Mercantile Exchange, the International Monetary Market (a division of the Chicago Mercantile Exchange), the New York Futures Exchange and the Kansas City Board of Trade. Each exchange guarantees performance under contract provisions through a clearing corporation, a nonprofit organization managed by the exchange membership, which is also responsible for handling daily accounting of deposits or withdrawals of margin. A futures commission merchant (Broker) effects each transaction in connection with futures contracts for a commission. Futures exchanges and trading are regulated under the Commodity Exchange Act by the Commodity Futures Trading Commission (CFTC) and National Futures Association (NFA).

#### INTEREST RATE FUTURES CONTRACTS

The sale of an interest rate futures contract creates an obligation by the Fund, as seller, to deliver the type of financial instrument specified in the contract at a specified future time for a specified price. The purchase of an interest rate futures contract creates an obligation by the Fund, as purchaser, to accept delivery of the type of financial instrument specified at a specified future time for a specified price. The specific securities delivered or accepted, respectively, at settlement date, are not determined until at or near that date. The determination is in accordance with the rules of the exchange on which the futures contract sale or purchase was made.

Currently, interest rate futures contracts can be purchased or sold on 90-day U.S. Treasury bills, U.S. Treasury bonds, U.S. Treasury notes with maturities between 6 1/2 and 10 years, Government National Mortgage Association (GNMA) certificates, 90-day domestic bank certificates of deposit, 90-day commercial paper, and 90-day Eurodollar certificates of deposit. It is expected that futures contracts trading in additional financial instruments will be authorized. The standard contract size is \$100,000 for futures contracts in U.S. Treasury bonds, U.S. Treasury notes and GNMA certificates, and \$1,000,000 for the other designated contracts. While U.S. Treasury bonds, U.S. Treasury bills and U.S. Treasury notes are backed by the full faith and credit of the U.S. government and GNMA certificates are guaranteed by a U.S. government agency, the futures contracts in U.S. government securities are not obligations of the U.S. Treasury.

#### INDEX BASED FUTURES CONTRACTS

##### STOCK INDEX FUTURES CONTRACTS

A stock index assigns relative values to the common stocks included in the index. The index fluctuates with changes in the market values of the common stocks so included. stock index futures contract is a bilateral agreement by which two parties agree to take or make delivery of an amount of cash equal to a specified dollar amount times the difference between the closing value of the stock index on the expiration date of the contract and the price at which the futures contract is originally made. No physical delivery of the underlying stocks in the index is made.

Currently, stock index futures contracts can be purchased or sold on the Standard and Poor's Corporation (S&P) Index of 500 Stocks, the S&P Index of 100 Stocks, the New York Stock Exchange Composite Index, the Value Line Index and the Major Market Index. It is expected that futures contracts trading in additional stock indices will be authorized. The standard contract size is \$500 times the value of the index.

The Fund does not believe that differences between existing stock indices will create any differences in the price movements of the stock index futures contracts in relation to the movements in such indices. However, such differences in the indices may result in differences in correlation of the futures with movements in the value of the securities being hedged.

#### OTHER INDEX BASED FUTURES CONTRACTS

It is expected that bond index and other financially based index futures contracts will be developed in the future. It is anticipated that such index based futures contracts will be structured in the same way as stock index futures contracts but will be measured by changes in interest rates, related indexes or other measures, such as the consumer price index. In the event that such futures contracts are developed the Fund will sell interest rate index and other index based futures contracts to hedge against changes which are expected to affect the Fund's portfolio.

The purchase or sale of a futures contract differs from the purchase or sale of a security, in that no price or premium is paid or received. Instead, to initiate trading an amount of cash, cash equivalents, money market instruments, or U.S. Treasury bills equal to approximately 1 1/2% (up to 5%) of the contract amount must be deposited by the Fund with the Broker. This amount is known as

the initial margin. The nature of the initial margin in futures transactions is different from that of a margin in security transactions. Futures contract margin does not involve the borrowing of funds by the customer to finance the transactions. Rather, the initial margin is in the nature of a performance bond or good faith deposit on the contract which is returned to the Fund upon termination of the futures contract assuming all contractual obligations have been satisfied. The margin required for a particular futures contract is set by the exchange on which the contract is traded, and may be significantly modified from time to time by the exchange during the term of the contract.

Subsequent payments, called a variation margin, to the Broker and from the Broker, are made on a daily basis as the value of the underlying instrument or index fluctuates making the long and short positions in the futures contract more or less valuable, a process known as mark-to-market. For example, when the Fund has purchased a futures contract and the price of the underlying financial instrument or index has risen, that position will have increased in value and the Fund will receive from the Broker a variation margin payment equal to that increase in value. Conversely, where the Fund has purchased a futures contract and the price of the underlying financial instrument or index has declined, the position would be less valuable and the Fund would be required to make a variation margin payment to the Broker. At any time prior to expiration of the futures contract, the Fund may elect to close the position. A final determination of variation margin is then made, additional cash is required to be paid to or released by the Broker, and the Fund realizes a loss or gain.

The Fund intends to enter into arrangements with its Custodian and with Brokers to enable its initial margin and any variation margin to be held in a segregated account by its Custodian on behalf of the Broker.

Although interest rate futures contracts by their terms call for actual delivery or acceptance of financial instruments, and index based futures contracts call for the delivery of cash equal to the difference between the closing value of the index on the expiration date of the contract and the price at which the futures contract is originally made, in most cases such futures contracts are closed out before the settlement date without the making or taking of delivery. Closing out a futures contract sale is effected by an offsetting transaction in which the Fund enters into a futures contract purchase for the same aggregate amount of the specific type of financial instrument or index and same delivery date. If the price in the sale exceeds the price in the offsetting purchase, the Fund is paid the difference and thus realizes a gain. If the offsetting purchase price exceeds the sale price, the Fund pays the difference and realizes a loss. Similarly, the closing out of a futures contract purchase is effected by an offsetting transaction in which the Fund enters into a futures contract sale. If the offsetting sale price exceeds the purchase price, the Fund realizes a gain. If the purchase price exceeds the offsetting sale price the Fund realizes a loss. The amount of the Fund's gain or loss on any transaction is reduced or increased, respectively, by the amount of any transaction costs incurred by the Fund.

As an example of an offsetting transaction, the contractual obligations arising from the sale of one contract of September U.S. Treasury bills on an exchange may be fulfilled at any time before delivery of the contract is required (i.e., on a specified date in September, the "delivery month") by the purchase of one contract of September U.S. Treasury bills on the same exchange. In such instance the difference between the price at which the futures contract was sold and the price paid for the offsetting purchase after allowance for transaction costs represents the profit or loss to the Fund.

There can be no assurance, however, that the Fund will be able to enter into an offsetting transaction with respect to a particular contract at a particular time. If the Fund is not able to enter into an offsetting transaction, the Fund will continue to be required to maintain the margin deposits on the contract and to complete the contract according to its terms.

#### OPTIONS ON CURRENCY AND OTHER FINANCIAL FUTURES

The Fund intends to purchase call and put options on currency and other financial futures contracts and sell such options to terminate an existing position. Options on currency and other financial futures contracts are similar to options on stocks except that an option on a currency or other financial futures contract gives the purchaser the right, in return for the premium paid, to assume a position in a futures contract (a long position if the option is a call and a short position if the option is a put) rather than to purchase or sell stock, currency or other financial instruments at a specified exercise price at any time during the period of the option. Upon exercise of the option, the delivery of the futures position by the writer of the option to the holder of the option will be accompanied by delivery of the accumulated balance in the writer's futures margin account. This amount represents the amount by which the market price of the futures contract at exercise exceeds, in the case of a call, or is less than, in the case of a put, the exercise price of the option on the futures contract. If an option is exercised on the last trading day prior to the expiration date of the option, the settlement will be made entirely in cash equal to the difference between the exercise price of the option and value of the futures contract.

The Fund intends to use options on currency and other financial futures contracts in connection with hedging strategies. In the future the Fund may use such options for other purposes.

#### PURCHASE OF PUT OPTIONS ON FUTURES CONTRACTS

The purchase of protective put options on commodity futures contracts is analogous to the purchase of protective puts on individual stocks, where an absolute level of protection is sought below which no additional economic loss would be incurred by the Fund. Put options may be purchased to hedge a portfolio of stocks or debt instruments or a position in the futures contract upon which the put option is based.

#### PURCHASE OF CALL OPTIONS ON FUTURES CONTRACTS

The purchase of a call option on a commodity futures contract represents a means of obtaining temporary exposure to market appreciation at limited risk. It is analogous to the purchase of a call option on an individual stock which can be used as a substitute for a position in the stock itself. Depending on the pricing of the option compared to either the futures contract upon which it is based, or upon the price of the underlying financial instrument or index itself, the purchase of a call option may be less risky than the ownership of the interest rate or index based futures contract or the underlying securities. Call options on commodity futures contracts may be purchased to hedge against an interest rate increase or a market advance when the Fund is not fully invested.

#### USE OF NEW INVESTMENT TECHNIQUES INVOLVING CURRENCY OR OTHER FINANCIAL FUTURES CONTRACTS OR RELATED OPTIONS

The Fund may employ new investment techniques involving currency and other financial futures contracts and related options. The Fund intends to take advantage of new techniques in these areas which may be developed from time to time and which are consistent with the Fund's investment objective. The Fund believes that no additional techniques have been identified for employment by the Fund in the foreseeable future other than those described above.

#### LIMITATIONS ON PURCHASE AND SALE OF FUTURES CONTRACTS AND RELATED OPTIONS ON SUCH FUTURES CONTRACTS

The Fund will not enter into a futures contract if, as a result thereof, more than 5% of the Fund's total assets (taken at market value at the time of entering into the contract) would be committed to margin deposits on such futures contracts.

The Fund intends that its futures contracts and related options transactions will be entered into for traditional hedging purposes. That is, futures contracts will be sold to protect against a decline in the price of securities that the Fund owns or futures contracts will be purchased to protect the Fund against an increase in the price of securities it intends to purchase. The Fund does not intend to enter into futures contracts for speculation.

In instances involving the purchase of futures contracts by the Fund, an amount of cash and cash equivalents, equal to the market value of the futures contracts will be deposited in a segregated account with the Fund's Custodian and/or in a margin account with a Broker to collateralize the position and thereby insure that the use of such futures is unleveraged.

#### FEDERAL INCOME TAX TREATMENT

For federal income tax purposes, the Fund is required to recognize as income for each taxable year its net unrealized gains and losses on futures contracts as of the end of the year as well as those actually realized during the year. Any gain or loss recognized with respect to a futures contract is considered to be 60% long term and 40% short term, without regard to the holding period of the contract. In the case of a futures transaction classified as a "mixed straddle," the recognition of losses may be deferred to a later taxable year. The federal income tax treatment of gains or losses from transactions in options on futures is unclear.

In order for the Fund to continue to qualify for federal income tax treatment as a regulated investment company, at least 90% of its gross income for a taxable year must be derived from qualifying income. Any net gain realized from the closing out of futures contracts, for purposes of the 90% requirement, will be qualifying income. In addition, gains realized on the sale or other disposition of securities held for less than three months must be limited to less than 30% of the Fund's annual gross income. The 1986 Tax Act added a provision that effectively treats both positions in certain hedging transactions as a single transaction for the purpose of the 30% requirement. The provision provides that, in the case of any "designated hedge," increases and decreases in the value of positions of the hedge are to be netted for the purposes of the 30% requirement. However, in certain situations, in order to avoid realizing a gain within a three month period, the Fund may be required to defer the closing out of a contract beyond the time when it would otherwise be advantageous to do so.

## RISKS OF FUTURES CONTRACTS

Currency and other financial futures contracts prices are volatile and are influenced, among other things, by changes in stock prices, market conditions, prevailing interest rates and anticipation of future stock prices, market movements or interest rate changes, all of which in turn are affected by economic conditions, such as government fiscal and monetary policies and actions, and national and international political and economic events.

At best, the correlation between changes in prices of futures contracts and of the securities being hedged can be only approximate. The degree of imperfection of correlation depends upon circumstances, such as variations in speculative market demand for futures contracts and for securities, including technical influences in futures contracts trading; differences between the securities being hedged and the financial instruments and indexes underlying the standard futures contracts available for trading, in such respects as interest rate levels, maturities and creditworthiness of issuers, or identities of securities comprising the index and those in the Fund's portfolio. A decision of whether, when and how to hedge involves the exercise of skill and judgment, and even a well-conceived hedge may be unsuccessful to some degree because of market behavior or unexpected interest rate trends.

Because of the low margin deposits required, futures trading involves an extremely high degree of leverage. As a result, a relatively small price movement in a futures contract may result in immediate and substantial loss, as well as gain, to the investor. For example, if at the time of purchase, 10% of the value of the futures contract is deposited as margin, a 10% decrease in the value of the futures contract would result in a total loss of the margin deposit, before any deduction for the transaction costs, if the account were then closed out, and a 15% decrease would result in a loss equal to 150% of the original margin deposit. Thus, a purchase or sale of a futures contract may result in losses in excess of the amount invested in the futures contract. However, the Fund would presumably have sustained comparable losses if, instead of entering into the futures contract, it had invested in the underlying financial instrument. Furthermore, in order to be certain that the Fund has sufficient assets to satisfy its obligations under a futures contract, the Fund will establish a segregated account in connection with its futures contracts which will hold cash or cash equivalents equal in value to the current value of the underlying instruments or indices less the margins on deposit.

Most U.S. futures exchanges limit the amount of fluctuation permitted in futures contract prices during a single trading day. The daily limit establishes the maximum amount that the price of a futures contract may vary either up or down from the previous day's settlement price at the end of a trading session. Once the daily limit has been reached in a particular type of contract, no trades may be made on that day at a price beyond that limit. The daily limit governs only price movement during a particular trading day and therefore does not limit potential losses because the limit may prevent the liquidation of unfavorable positions. Futures contract prices have occasionally moved to the daily limit for several consecutive trading days with little or no trading, thereby preventing prompt liquidation of futures positions and subjecting some futures traders to substantial losses.

## RISKS OF OPTIONS ON FUTURES CONTRACTS

In addition to the risks described above for currency and other financial futures contracts, there are several special risks relating to options on futures contracts. The ability to establish and close out positions on such options will be subject to the development and maintenance of a liquid secondary market. There is no assurance that a liquid secondary market will exist for any particular contract or at any particular time. The Fund will not purchase options on any futures contract unless and until it believes that the market for such options has developed sufficiently that the risks in connection with such options are not greater than the risks in connection with the futures contracts. Compared to the use of futures contracts, the purchase of options on such futures contracts involves less potential risk to the Fund because the maximum amount at risk is the premium paid for the options (plus transaction costs). However, there may be circumstances when the use of an option on a futures contract would result in a loss to the Fund, even though the use of a futures contract would not, such as when there is no movement in the level of the futures contract.

## FOREIGN CURRENCY TRANSACTIONS

The Fund may invest in securities of foreign issuers. When the Fund invests in foreign securities they usually will be denominated in foreign currencies and the Fund temporarily may hold funds in foreign currencies. Thus, the Fund's share value will be affected by changes in exchange rates.

## FORWARD CURRENCY CONTRACTS

As one way of managing exchange rate risk, the Fund may engage in forward

currency exchange contracts (agreements to purchase or sell currencies at a specified price and date). Under the contract, the exchange rate for the transaction (the amount of currency the Fund will deliver or receive when the contract is completed) is fixed when the Fund enters into the contract. The Fund usually will enter into these contracts to stabilize the U.S. dollar value of a security it has agreed to buy or sell. The Fund also may use these contracts to hedge the U.S. dollar value of a security it already owns, particularly if the Fund expects a decrease in the value of the currency in which the foreign security is denominated. Although the Fund will attempt to benefit from using forward contracts, the success of its hedging strategy will depend on Keystone's ability to predict accurately the future exchange rate between foreign currencies and the U.S. dollar. The value of the Fund's investments denominated in foreign currencies will depend on the relative strength of those currencies and the U.S. dollar, and the Fund may be affected favorably or unfavorably by changes in the exchange rates or exchange control regulations between foreign currencies and the dollar. Changes in foreign currency exchange rates also may affect the value of dividends and interest earned, gains and losses realized on the sale of securities and net investment income and gains, if any, to be distributed to shareholders by the Fund.

#### CURRENCY FUTURES CONTRACTS

Currency futures contracts are bilateral agreements under which two parties agree to take or make delivery of a specified amount of a currency at a specified future time for a specified price. Trading of currency futures contracts in the United States is regulated under the Commodity Exchange Act by the Commodity Futures Trading Commission (CFTC) and National Futures Association (NFA). Currently the only national futures exchange on which currency futures are traded is the International Monetary Market of the Chicago Mercantile Exchange. Foreign currency futures trading is conducted in the same manner and subject to the same regulations as trading in interest rate and index based futures. The Fund intends to engage in currency futures contracts for hedging purposes, and not for speculation. The Fund may engage in currency futures contracts for other purposes if authorized to do so by the Board. The hedging strategies that will be used by the Fund in connection with foreign currency futures contracts are similar to those described above for forward foreign currency exchange contracts.

Currently, currency futures contracts for the British Pound Sterling, Canadian Dollar, Dutch Guilder, Deutsche Mark, Japanese Yen, Mexican Peso, Swiss Franc and French Franc can be purchased or sold for U.S. dollars through the International Monetary Market. It is expected that futures contracts trading in additional currencies will be authorized. The standard contract sizes are £125,000 for the Pound, 125,000 for the Guilder, Mark, Swiss and French Francs, C\$100,000 for the Canadian Dollar, ¥12,500,000 for the Yen, and 1,000,000 for the Peso. In contrast to Forward Currency Exchange Contracts which can be traded at any time, only four value dates per year are available, the third Wednesday of March, June, September and December.

#### FOREIGN CURRENCY OPTIONS TRANSACTIONS

Foreign currency options (as opposed to futures) are traded in a variety of currencies in both the United States and Europe. On the Philadelphia Stock Exchange, for example, contracts for half the size of the corresponding futures contracts on the Chicago Board Options Exchange are traded with up to nine months maturity in Marks, Sterling, Yen, Swiss francs and Canadian dollars. Options can be exercised at any time during the contract life and require a deposit subject to normal margin requirements. Since a futures contract must be exercised, the Fund must continually make up the margin balance. As a result, a wrong price move could result in the Fund losing more than the original investment as it cannot walk away from the futures contract as it can an option contract.

The Fund will purchase call and put options and sell such options to terminate an existing position. Options on foreign currency are similar to options on stocks except that an option on an interest rate and/or index based futures contract gives the purchaser the right, in return for the premium paid, to purchase or sell foreign currency, rather than to purchase or sell stock, at a specified exercise price at any time during the period of the option.

The Fund intends to use foreign currency option transactions in connection with hedging strategies.

#### PURCHASE OF PUT OPTIONS ON FOREIGN CURRENCIES

The purchase of protective put options on a foreign currency is analogous to the purchase of protective puts on individual stocks, where an absolute level of protection is sought below which no additional economic loss would be incurred by the Fund. Put options may be purchased to hedge a portfolio of foreign stocks or foreign debt instruments or a position in the foreign currency upon which the put option is based.

#### PURCHASE OF CALL OPTIONS ON FOREIGN CURRENCIES

The purchase of a call option on foreign currency represents a means of obtaining temporary exposure to market appreciation at limited risk. It is analogous to the purchase of a call option on an individual stock which can be used as a substitute for a position in the stock itself. Depending on the pricing of the option compared to either the foreign currency upon which it is based, or upon the price of the foreign stock or foreign debt instruments, the purchase of a call option may be less risky than the ownership of the foreign currency or the foreign securities. The Fund would purchase a call option on a foreign currency to hedge against an increase in the foreign currency or a foreign market advance when the Fund is not fully invested.

The Fund may employ new investment techniques involving forward foreign currency exchange contracts, foreign currency futures contracts and options on foreign currencies in order to take advantage of new techniques in these areas which may be developed from time to time and which are consistent with the Fund's investment objective. The Fund believes that no additional techniques have been identified for employment by the Fund in the foreseeable future other than those described above.

#### CURRENCY TRADING RISKS

Currency exchange trading may involve significant risks. The four major types of risk the Fund faces are exchange rate risk, interest rate risk, credit risk and country risk.

#### EXCHANGE RATE RISK

Exchange rate risk results from the movement up and down of foreign currency values in response to shifting market supply and demand. When the Fund buys or sells a foreign currency, an exposure called an open position is created. Until the time that position can be "covered" by selling or buying an equivalent amount of the same currency, the Fund is exposed to the risk that the exchange rate might move against it. Since exchange rate changes can readily move in one direction, a position carried overnight or over a number of days involves greater risk than one carried a few minutes or hours. Techniques such as foreign currency forward and futures contracts and options on foreign currency are intended to be used by the Fund to reduce exchange rate risk.

#### MATURITY GAPS AND INTEREST RATE RISK

Interest rate risk arises whenever there are mismatches or gaps in the maturity structure of the Fund's foreign exchange currency holdings, which is the total of its outstanding spot and forward or futures contracts.

Foreign currency transactions often involve borrowing short term and lending longer term to benefit from the normal tendency of interest rates to be higher for longer maturities. However in foreign exchange trading, while the maturity pattern of interest rates for one currency is important, it is the differential between interest rates for two currencies that is decisive.

#### CREDIT RISK

Whenever the Fund enters into a foreign exchange contract, it faces a risk, however small, that the counterparty will not perform under the contract. As a result there is a credit risk, although no extension of "credit" is intended. To limit credit risk, the Fund intends to evaluate the creditworthiness of each other party. The Fund does not intend to trade more than 5% of its net assets under foreign exchange contracts with one party.

Credit risk exists because the Fund's counterparty may be unable or unwilling to fulfill its contractual obligations as a result of bankruptcy or insolvency or when foreign exchange controls prohibit payment. In any foreign exchange transaction, each party agrees to deliver a certain amount of currency to the other on a particular date. In establishing its hedges a Fund relies on each contract being completed. If the contract is not performed, then the Fund's hedge is eliminated, and the Fund is exposed to any changes in exchange rates since the contract was originated. To put itself in the same position it would have been in had the contract been performed, the Fund must arrange a new transaction. However, the new transaction may have to be arranged at an adverse exchange rate. The trustee for a bankrupt company may elect to perform those contracts which are advantageous to the company but disclaim those contracts which are disadvantageous, resulting in losses to the Fund.

Another form of credit risk stems from the time zone differences between the U.S. and foreign nations. If the Fund sells sterling it generally must pay pounds to a counterparty earlier in the day than it will be credited with dollars in New York. In the intervening hours, the buyer can go into bankruptcy or can be declared insolvent. Thus, the dollars may never be credited to the Fund.

#### COUNTRY RISK

At one time or another, virtually every country has interfered with international transactions in its currency. Interference has taken the form of

regulation of the local exchange market, restrictions on foreign investment by residents or limits on inflows of investment funds from abroad. Governments take such measures for example to improve control over the domestic banking system or to influence the pattern of receipts and payments between residents and foreigners. In those cases, restrictions on the exchange market or on international transactions are intended to affect the level or movement of the exchange rate. Occasionally a serious foreign exchange shortage may lead to payment interruptions or debt servicing delays, as well as interference in the exchange market. It has become increasingly difficult to distinguish foreign exchange or credit risk from country risk.

Changes in regulations or restrictions usually do have an important exchange market impact. Most disruptive are changes in rules which interfere with the normal payments mechanism. If government regulations change and a counterparty is either forbidden to perform or is required to do something extra, then the Fund might be left with an unintended open position or an unintended maturity mismatch. Dealing with such unintended long or short positions could result in unanticipated costs to the Fund.

Other changes in official regulations influence international investment transactions. If one of the factors affecting the buying or selling of a currency changes, the exchange rate is likely to respond. Changes in such controls often are unpredictable and can create a significant exchange rate response.

Many major countries have moved toward liberalization of exchange and payments restrictions in recent years or accepted the principle that restrictions should be relaxed. A few industrial countries have moved in the other direction. Important liberalizations were carried out by Switzerland, the United Kingdom and Japan. They dismantled mechanisms for restricting either foreign exchange inflows (Switzerland), outflows (Britain) or elements of both (Japan). By contrast, France and Mexico have tightened foreign exchange controls.

Overall, many exchange markets are still heavily restricted. Several countries limit access to the forward market to companies financing documented export or import transactions in an effort to insulate the market from purely speculative activities. Some of these countries permit local traders to enter into forward contracts with residents but prohibit certain forward transactions with nonresidents. By comparison, other countries have strict controls on exchange transactions by residents, but permit free exchange transactions between local traders and non-residents. A few countries have established tiered markets, funneling commercial transactions through one market and financial transactions through another. Outside the major industrial countries, relatively free foreign exchange markets are rare and controls on foreign currency transactions are extensive.

Another aspect of country risk has to do with the possibility that the Fund may be dealing with a foreign trader whose home country is facing a payments problem. Even though the foreign trader intends to perform on its foreign exchange contracts, the contracts are tied to other external liabilities the country has incurred. As a result performance may be delayed, and can result in unanticipated cost to the Fund. This aspect of country risk is a major element in the Fund's credit judgment as to with whom it will deal and in what amounts.

## EXHIBIT A

### GLOSSARY OF TERMS

**CLASS OF OPTIONS.** Options covering the same underlying security.

**CLEARING CORPORATION.** The Options Clearing Corporation, Trans Canada Options, Inc., The European Options Clearing Corporation B.V., or the London Options Clearing House.

**CLOSING PURCHASE TRANSACTION.** A transaction in which an investor who is obligated as a writer of an option or seller of a futures contract terminates his obligation by purchasing on an Exchange an option of the same series as the option previously written or futures contract identical to the futures contract previously sold, as the case may be. (Such a purchase does not result in the ownership of an option or futures contract.)

**CLOSING SALE TRANSACTION.** A transaction in which an investor who is the holder or buyer of an outstanding option or futures contract liquidates his position as a holder or seller by selling an option of the same series as the option previously purchased or futures contract identical to the futures contract previously purchased. (Such sale does not result in the investor assuming the obligations of a writer or seller.)

**COVERED CALL OPTION WRITER.** A writer of a call option who, so long as he



remains obligated as a writer, owns the shares of the underlying security or holds on a share for share basis a call on the same security where the exercise price of the call held is equal to or less than the exercise price of the call written, or, if greater than the exercise price of the call written, the difference is maintained by the writer in cash, U.S. Treasury bills or other high grade, short term obligations in a segregated account with the writer's broker or custodian.

COVERED PUT OPTION WRITER. A writer of a put option who, so long as he remains obligated as a writer, has deposited Treasury bills with a value equal to or greater than the exercise price with a securities depository and has pledged them to the Options Clearing Corporation for the account of the broker-dealer carrying the writer's position or holds on a share for share basis a put on the same security as the put written where the exercise price of the put held is equal to or greater than the exercise price of the put written, or, if less than the exercise price of the put written, the difference is maintained by the writer in cash, U.S. Treasury bills or other high grade, short term obligations in a segregated account with the writer's broker or custodian.

SECURITIES EXCHANGE. A securities exchange on which call and put options are traded. The U.S. Exchanges are as follows: The Chicago Board Options Exchange; American Stock Exchange; New York Stock Exchange; Philadelphia Stock Exchange; and Pacific Stock Exchange. The foreign securities exchanges in Canada are the Toronto Stock Exchange and the Montreal Stock Exchange; in the Netherlands, the European Options Exchange; and in the United Kingdom, the Stock Exchange (London).

Those issuers whose common stocks have been approved by the Exchanges as underlying securities for options transactions are listed in various financial publications.

COMMODITIES EXCHANGE. A commodities exchange on which futures contracts are traded which is regulated by exchange rules that have been approved by the Commodity Futures Trading Commission. The U.S. exchanges are as follows: The Board of Trade of the City of Chicago, Chicago Mercantile Exchange, International Monetary Market (a division of the Chicago Mercantile Exchange), the Kansas City Board of Trade and the New York Futures Exchange.

EXERCISE PRICE. The price per unit at which the holder of a call option may purchase the underlying security upon exercise or the holder of a put option may sell the underlying security upon exercise.

EXPIRATION DATE. The latest date when an option may be exercised or a futures contract must be completed according to its terms.

HEDGING. An action taken by an investor to neutralize an investment risk by taking an investment position that will move in the opposite direction as the risk being hedged so that a loss (or gain) on one will tend to be offset by a gain (or loss) on the other.

OPTION. Unless the context otherwise requires, the term "option" means either a call or put option issued by a Clearing Corporation, as defined above. A call option gives a holder the right to buy from such Clearing Corporation the number of shares of the underlying security covered by the option at the stated exercise price by the filing of an exercise notice prior to the expiration time of the option. A put option gives a holder the right to sell to a Clearing Corporation the number of shares of the underlying security covered by the put at the stated exercise price by the filing of an exercise notice prior to the expiration time of the option. The Fund will sell ("write") and purchase puts only on U.S. Exchanges.

OPTION PERIOD. The time during which an option may be exercised, generally from the date the option is written through its expiration date.

PREMIUM. The price of an option agreed upon between the buyer and writer or their agents in a transaction on the floor of an Exchange.

SERIES OF OPTIONS. Options covering the same underlying security and having the same exercise price and expiration date.

STOCK INDEX. A stock index assigns relative values to the common stocks included in the index, and the index fluctuates with changes in the market values of the common stocks so included.

INDEX BASED FUTURES CONTRACT. An index based futures contract is a bilateral agreement pursuant to which a party agrees to buy or deliver at settlement an amount of cash equal to \$500 times the difference between the closing value of an index on the expiration date and the price at which the futures contract is originally struck. Index based futures are traded on Commodities Exchanges. Currently index based futures contracts can be purchased or sold with respect to the Standard & Poor's Corporation (S&P) 500 Stock Index and S&P 100 Stock Index on the Chicago Mercantile Exchange, the New York Stock Exchange Composite Index on the New York Futures Exchange and the Value Line



UNDERLYING SECURITY. The security subject to being purchased upon the exercise of a call option or subject to being sold upon the exercise of a put option.

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KEYSTONE QUALITY BOND FUND (B-1)  
PART C

OTHER INFORMATION

ITEM 24. FINANCIAL STATEMENTS AND EXHIBITS

ITEM 24(A). FINANCIAL STATEMENTS

The audited financial statements listed below are incorporated by reference to Registrant's Annual Report dated October 31, 1995:

Schedule of Investments	October 31, 1995
Financial Highlights	For each of the years in the ten-year period ended October 31, 1995
Statement of Assets and Liabilities	October 31, 1995
Statement of Operations	Year ended October 31, 1995
Statements of Changes in Net Assets	Two years ended October 31, 1995
Notes to Financial Statements	
Independent Auditors' Report	December 8, 1995

The unaudited financial statements listed below are incorporated by reference to Registrant's Semi annual Report dated April 30, 1996:

Schedule of Investments	April 30, 1996
Financial Highlights	For each of the years in the five-year period ended October 31, 1995, and for the period beginning November 1, 1995 through April 30, 1996
Statement of Assets and Liabilities	April 30, 1996
Statement of Operations	Six months ended April 30, 1996
Statements of Changes in Net Assets	Year ended October 31, 1995, and six months ended April 30, 1996
Notes to Financial Statements	

ITEM 24(B). EXHIBITS

- (1) Registrant's Restatement of Trust Agreement, as amended (the "Trust Agreement") (1)
- (2) Registrant's By-Laws(1)
- (3) Not applicable.
- (4) (a) The Trust Agreement, Articles III, V, VI, and VIII(1)  
(b) Registrant's By-Laws, Article 2, Section 2.5(1)
- (5) (a) Investment Advisory Agreement between Registrant and Keystone Investment Management Company (the "Advisory Agreement") (2)
- (6) (a) Form of Principal Underwriting Agreement with Evergreen Keystone Distributor, Inc. (the "Principal Underwriting Agreement") (2)

- (b) Form of Dealer Agreement(2)
- (7) Not applicable.
- (8) Custodian, Fund Accounting and Recordkeeping Agreement, as amended(1)
- (9) (a) Form of Marketing Services Agreement between Evergreen Keystone Distributor, Inc. and Keystone Investment Management Company(2)
- (b) Form of Sub-Administrator Agreement Keystone Investment Management Company(2)
- (c) Principal Underwriting Agreement with Evergreen Keystone Investment Services, Inc., Registrant's former principal underwriter (the "Continuation Agreement")(2)
- (10) Opinion and consent of counsel(2)
- (11) Consent as to use of the Independent Auditors' Report(2)
- (12) Not applicable.
- (13) Not applicable.
- (14) Copies of model plans used in the establishment of retirement plans(3)
- (15) Distribution Plan adopted pursuant to Rule 12b-1(1)
- (16) Not applicable.
- (17) Financial data schedule(2)
- (18) Not applicable.
- (19) Powers of Attorney(2)

- 
- (1) Filed with Post-Effective Amendment No. 95 ("Registration Statement No. 95") to the Registration Statement No. 2-10658/811-92 and incorporated by reference herein.
  - (2) Filed herewith.
  - (3) Filed with Post-Effective Amendment No. 66 to the Registration Statement No 2-10527/811-96 for Keystone Diversified Bond Fund (K-1) and incorporated by reference herein.

ITEM 25. PERSONS CONTROLLED BY OR UNDER COMMON CONTROL WITH REGISTRANT

Not applicable.

ITEM 26. NUMBER OF HOLDERS OF SECURITIES

Title of Class -----	Number of Record Holders as of November 30, 1996 -----
Shares of \$1.00 Par Value	11,388

ITEM 27. INDEMNIFICATION

Provisions for the indemnification of Registrant's Trustees and officers are contained in Article VIII of the Trust Agreement, which was filed with Registration Statement No. 95 and incorporated by reference herein.

Provisions for the indemnification of Evergreen Keystone Distributor, Inc., Registrant's principal underwriter, are contained in Item 9 of the Principal Underwriting Agreement, a copy of which is filed herewith.

Provisions for the indemnification of Keystone Investment Management Company, Registrant's investment adviser is contained in Section 6 of the Advisory Agreement, a copy of which is filed herewith.

Provisions for the indemnification of Evergreen Keystone Investment Services, Inc., are contained in Item 5 of the Continuation Agreement, a copy of which is filed herewith.

ITEM 28. BUSINESS AND OTHER CONNECTIONS OF INVESTMENT ADVISER

The following tables list the names of the various officers and directors of Keystone Investment Management Company, Registrant's and adviser, and their respective positions. For each named individual, the table lists, for at least the past two years, (i) any other organizations (excluding investment advisory clients) with which the officer and/or

director has had or has substantial involvement; and (ii) positions held with such organizations.

LIST OF OFFICERS AND DIRECTORS OF  
KEYSTONE INVESTMENT MANAGEMENT COMPANY

<TABLE>

<CAPTION>

Name -----	Position with Keystone Investment Management Company -----	Other Business Affiliations -----
<S>	<C>	<C>
Albert H. Elfner, III	Chairman of the Board, Chief Executive Officer	Chairman of the Board, Chief Executive Officer, President and Director: First Union Keystone Investments, Inc. Keystone Asset Corporation Keystone Capital Corporation Chairman of the Board and Director: Keystone Fixed Income Advisers, Inc. Keystone Institutional Company, Inc. President and Director: Keystone Trust Company Director or Trustee: Evergreen Keystone Investment Services, Inc. Evergreen Keystone Service Company Boston Children's Services Associates Middlesex School Middlebury College Formerly: Chairman of the Board, Chief Executive Officer, President and Director: Keystone Management, Inc. Keystone Software, Inc. Trustee or Director: Newworld Bank Robert Van Partners, Inc. Fiduciary Investment Company, Inc.
Barbara J. Colvin	Director	Chief Operating Officer Evergreen Keystone Investment Services, Inc. Senior Vice President First Union Corporation
William M. Ennis II	Director	President Evergreen Keystone Investment Services, Inc. Senior Vice President First Union Corporation
Donald McMullen	Director	Executive Vice President First Union Corporation
Philip M. Byrne	Senior Vice President	Senior Vice President: First Union Keystone Investments, Inc. Formerly: President and Director: Keystone Institutional Company, Inc.
Herbert L. Bishop, Jr.	Senior Vice President	None
Donald C. Dates	Senior Vice President	None
Gilman Gunn	Senior Vice President	None
Edward F. Godfrey	Chief Operating Officer	Director, Senior Vice President, Chief Financial Officer and Treasurer: First Union Keystone Investments, Inc. Evergreen Keystone Investment Services, Inc. Formerly: Treasurer: Keystone Institutional Company, Inc. Keystone Management, Inc. Keystone Software, Inc. Fiduciary Investment Company, Inc. Treasurer and Director: Hartwell Keystone Advisers, Inc.

James R. McCall	President	None
Rosemary D. Van Antwerp	Senior Vice President, General Counsel and Secretary	General Counsel, Senior Vice President and Secretary: First Union Keystone Investments, Inc. Senior Vice President, General Counsel and Director: Evergreen Keystone Service Company Evergreen Keystone Investment Services, Inc. Formerly: Senior Vice President and General Counsel: Keystone Institutional Company, Inc. Senior Vice President, General Counsel and Director: Fiduciary Investment Company, Inc. Senior Vice President, General Counsel, Director and Secretary: Keystone Management, Inc. Keystone Software, Inc. Senior Vice President and Secretary: Hartwell Keystone Advisers, Inc. Vice President and Secretary: Keystone Fixed Income Advisers, Inc.
J. Kevin Kenely	Vice President	Vice President: First Union Keystone Investments, Inc. Evergreen Keystone Investment Services, Inc. Formerly: Controller Keystone Investments, Inc. Keystone Investment Management Company Keystone Investment Distributors Company Keystone Institutional Company, Inc. Keystone Management, Inc. Keystone Software, Inc. Fiduciary Investment Company, Inc. Vice President: Keystone Institutional Company, Inc. Keystone Management, Inc. Keystone Software, Inc. Fiduciary Investment Company, Inc.
John D. Rogol	Vice President	Vice President and Controller: First Union Keystone Investments, Inc. Evergreen Keystone Investment Services, Inc. Formerly: Controller: Keystone Institutional Company, Inc. Keystone Management, Inc. Keystone Software, Inc. Fiduciary Investment Company, Inc.
John Addeo	Vice President	None
Andrew Baldassarre	Vice President	None
David Benhaim	Vice President	None
Donald Bisson	Vice President	None
Francis X. Claro	Vice President	None
Kristine R. Cloyes	Vice President	None
Christopher P. Conkey	Senior Vice President	None
J. Gary Craven	Senior Vice President	None
Richard Cryan	Senior Vice President	None
Maureen E. Cullinane	Senior Vice President	None
Walter T. McCormick	Senior Vice President	None
George F. Wilkins	Senior Vice President	None
John F. Addeo	Vice President	None

Andrew G. Baldassare	Vice President	None
David S. Benhaim	Vice President	None
Donald M. Bisson	Vice President	None
George E. Dlugos	Vice President	None
Antonio T. Docal	Vice President	None
Dana E. Erikson	Vice President	None
Betsy Hutchings	Sr. Vice President	None
Sami J. Karam	Vice President	None
George J. Kimball	Vice President	None
JoAnn L. Lyndon	Vice President	None
John C. Madden, Jr.	Vice President	None
Eleanor H. Marsh	Vice President	None
Walter McCormick	Sr. Vice President	None
James D. Medredefff	Vice President	None
Stanley M. Niksa	Vice President	None
Jonathan A. Noonan	Vice President	None
Robert E. O'Brien	Vice President	None
Margery C. Parker	Vice President	None
Joyce W. Petkovich	Vice President	None
Daniel A. Rabasco	Vice President	None
Harlen R. Sanderling	Vice President	None
Kathy K. Wang	Vice President	None
Judith A. Warners	Vice President	None
George Wilkins, Jr.	Sr. Vice President	None
Peter Willis	Vice President	None
Richard A. Wisentaner	Vice President	None
Cheryle E. Wanble	Vice President	None
Walter Zagrobski	Vice President	None

</TABLE>

ITEM 29. PRINCIPAL UNDERWRITER

- (a) Evergreen Funds Distributor, Inc., which acts as Registrant's principal underwriter, also acts as principal underwriter for the following entities:

Keystone Diversified Bond Fund (B-2)  
Keystone High Income Bond Fund (B-4)  
Keystone Balanced Fund (K-1)  
Keystone Strategic Growth Fund (K-2)  
Keystone Growth and Income Fund (S-1)  
Keystone Mid-Cap Growth Fund (S-3)  
Keystone Small Company Growth Fund (S-4)  
Keystone Balanced Fund II  
Keystone Capital Preservation and Income Fund  
Keystone Fund for Total Return  
Keystone Fund of the Americas  
Keystone Global Opportunities Fund  
Keystone Global Resources and Development Fund  
Keystone Government Securities Fund  
Keystone America Hartwell Emerging Growth Fund, Inc.  
Keystone Institutional Adjustable Rate Fund  
Keystone Institutional Trust  
Keystone Intermediate Term Bond Fund

Keystone International Fund Inc.  
 Keystone Liquid Trust  
 Keystone Omega Fund  
 Keystone Precious Metals Holdings, Inc.  
 Keystone Small Company Growth Fund II  
 Keystone State Tax Free Fund  
 Keystone State Tax Free Fund - Series II  
 Keystone Strategic Income Fund  
 Keystone Tax Free Fund  
 Keystone Tax Free Income Fund  
 Keystone World Bond Fund  
 Evergreen Trust  
 The Evergreen Equity Trust  
 The Evergreen Limited Market Fund, Inc.  
 Evergreen Growth and Income Fund  
 The Evergreen Total Return Fund  
 The Evergreen American Retirement Trust  
 The Evergreen Foundation Trust  
 The Evergreen Municipal Trust  
 The Evergreen Money Market Fund  
 Evergreen Investment Trust  
 Evergreen Lexicon Trust  
 Evergreen Tax Free Trust  
 Evergreen Variable Trust

(b) Information with respect to each officer and director of Registrant's principal underwriter follows.

NAME -----	POSITION WITH EVERGREEN KEYSTONE -----	POSITION WITH REGISTRANT -----
Robert A. Hering*	President	None
Michael C. Petrycki*	Vice President	None
Gordon M. Forrester*	Vice President	None
	Lawrence Wagner* Vice President, Chief Financial Officer	None
Steven D. Blecher*	Vice President, Treasurer, Secretary	None
Elizabeth Q. Solazzo*	Assistant Secretary	None
Thalia M. Cody*	Assistant Secretary	None

\* Located at 230 Park Avenue, New York, New York 10169

ITEM 29(C). - Not Applicable

ITEM 30. LOCATION OF ACCOUNTS AND RECORDS

First Union Keystone Investments, Inc.  
 200 Berkeley Street  
 Boston, Massachusetts 02116-5034

State Street Bank and Trust Company  
 1776 Heritage Drive  
 Quincy, Massachusetts 02171

Iron Mountain  
 3431 Sharpshot Road  
 Swansea, Massachusetts 02277

ITEM 31. MANAGEMENT SERVICES

Not applicable.

ITEM 32. UNDERTAKINGS

Upon request and without charge, Registrant hereby undertakes to furnish to each person to whom a copy of the Registrant's prospectus is delivered with a copy of the Registrant's latest annual report to shareholders.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933 and the Investment Company Act of 1940, the Registrant certifies that it meets all of the requirements for the effectiveness of this Amendment to its Registration Statement pursuant to Rule 485(a) 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, thereunto duly authorized, in the City of Boston, in The Commonwealth of Massachusetts, on the 30th day of December, 1996.

KEYSTONE QUALITY BOND FUND (B-1)  
By: /s/ George S. Bissell

-----  
George S. Bissell  
Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Amendment to Registrant's Registration Statement has been signed below by the following persons in the capacities indicated on the 30th day of December, 1996.

<TABLE>

<S>	<C>	<C>
/s/ George S. Bissell ----- George S. Bissell Chairman of the Board of Trustees and Chief Executive Officer	/s/ Charles F. Chapin ----- Charles F. Chapin* Trustee	----- William Walt Pettit Trustee
/s/ John J. Pileggi ----- John J. Pileggi President and Treasurer (Principal Financial and Accounting Officer)	/s/ K. Dun Gifford ----- K. Dun Gifford* Trustee	/s/ David M. Richardson ----- David M. Richardson* Trustee
/s/ Frederick Amling ----- Frederick Amling* Trustee	----- James S. Howell Trustee	----- Russell A. Salton, III MD Trustee
/s/ Laurence B. Ashkin ----- Laurence B. Ashkin Trustee	/s/ Leroy Keith, Jr. ----- Leroy Keith, Jr.* Trustee	----- Michael S. Scofield Trustee
/s/ Charles A. Austin, III ----- Charles A. Austin, III* Trustee	/s/ F. Ray Keyser, Jr. ----- F. Ray Keyser, Jr.* Trustee	/s/ Richard J. Shima ----- Richard J. Shima* Trustee
----- Foster Bam Trustee	----- Gerald M. McDonell Trustee	/s/ Andrew J. Simons ----- Andrew J. Simons* Trustee
/s/ Edwin D. Campbell ----- Edwin D. Campbell* Trustee	----- Thomas L. McVerry Trustee	

</TABLE>

\*By: /s/ James M. Wall

-----  
James M. Wall\*\*  
Attorney-in-Fact

\*\* James M. Wall, by signing his name hereto, does hereby sign this document on behalf of each of the above-named individuals pursuant to powers of attorney duly executed by such persons and attached hereto as Exhibit 24(b) (19).

INDEX TO EXHIBITS

Exhibit Number	Exhibit
1	Trust Agreement(1)
2	By-Laws (1)
5(b)	Advisory Agreement (2)
6(a)	Form of Principal Underwriting Agreement (2)
(b)	Form of Dealer Agreement (2)
8	Custodian, Fund Accounting and Recordkeeping Agreement (1)
9(a)	Form of Marketing Services Agreement (2)
(b)	Form of Sub-administrator Agreement (2)
(c)	Continuation Agreement (2)
10	Opinion and Consent of Counsel (2)
11	Independent Auditors' Consent (2)
14	Model Retirement Plans (3)
15	Distribution Plan adopted pursuant to Rule 12b-1(1)
17	Financial Data Schedule (2)
19	Powers of Attorney (2)

- 
- (1) Filed with Post-Effective Amendment No. 95 and incorporated by reference herein.
- (2) Filed herewith.
- (3) Filed with Post-Effective Amendment No. 66 to the Registration Statement No. 2-10527/811-96 for Keystone Diversified Bond Fund (K-1) and incorporated by reference herein.



## INVESTMENT ADVISORY AND MANAGEMENT AGREEMENT

AGREEMENT made the 11th day of December, 1996, by and between KEYSTONE QUALITY BOND FUND (B-1), a Pennsylvania common law trust (the "Fund"), and KEYSTONE INVESTMENT MANAGEMENT COMPANY, a Delaware corporation (the "Adviser").

WHEREAS, the Fund and the Adviser wish to enter into an Agreement setting forth the terms on which the Adviser will perform certain services for the Fund.

THEREFORE, in consideration of the promises and the mutual agreements hereinafter contained, the Fund and the Adviser agree as follows:

1. The Fund hereby employs the Adviser to manage and administer the operation of the Fund, to supervise the provision of services to the Fund by others, and to manage the investment and reinvestment of the assets of the Fund in conformity with the Fund's investment objectives and restrictions as may be set forth from time to time in the Fund's then current prospectus and statement of additional information, if any, and other governing documents, all subject to the supervision of the Board of Trustees of the Fund, for the period and on the terms set forth in this Agreement. The Adviser hereby accepts such employment and agrees during such period, at its own expense, to render the services and to assume the obligations set forth herein, for the compensation provided herein. The Adviser shall for all purposes herein be deemed to be an independent contractor and shall, unless otherwise expressly provided or authorized, have no authority to act for or represent the Fund in any way or otherwise be deemed an agent of the Fund.

2. The Adviser shall place all orders for the purchase and sale of portfolio securities for the account of the Fund with broker-dealers selected by the Adviser. In executing portfolio transactions and selecting broker-dealers, the Adviser will use its best efforts to seek best execution on behalf of the Fund. In assessing the best execution available for any transaction, the Adviser shall consider all factors it deems relevant, including the breadth of the market in the security, the price of the security, the financial condition and execution capability of the broker-dealer, and the reasonableness of the commission, if any (all for the specific transaction and on a continuing basis). In evaluating the best execution available, and in selecting the broker-dealer to execute a particular transaction, the Adviser may also consider the brokerage and research services (as those terms are used in Section 28(e) of the Securities Exchange Act of 1934 (the "1934 Act") provided to the Fund and/or other accounts over which the Adviser or an affiliate of the Adviser exercises investment discretion. The Adviser is authorized to pay a broker-dealer who provides such brokerage and research services a commission for executing a portfolio transaction for the Fund which is in excess of the amount of commission another broker-dealer would have charged for effecting that transaction if, but only if, the Adviser determines in good faith that such commission was reasonable in relation to the value of the brokerage and research services provided by such broker-dealer viewed in terms of that particular transaction or in terms of all

of the accounts over which investment discretion is so exercised.

3. The Adviser, at its own expense, shall furnish to the Fund office space in the offices of the Adviser or in such other place as may be agreed upon by the parties from time to time, all necessary office facilities, equipment and personnel in connection with its services hereunder, and shall arrange, if desired by the Fund, for members of the Adviser's organization to serve without salaries from the Fund as officers or, as may be agreed from time to time, as agents of the Fund. The Adviser assumes and shall pay or reimburse the Fund for: (1) the compensation (if any) of the Trustees of the Fund who are affiliated with the Adviser or with its affiliates, or with any adviser retained by the Adviser, and of all officers of the Fund as such, and (2) all expenses of the Adviser incurred in connection with its services hereunder. The Fund assumes and shall pay all other expenses of the Fund, including, without limitation: (1) all charges and expenses of any custodian or depository appointed by the Fund for the safekeeping of its cash, securities and other property; (2) all charges and expenses for bookkeeping and auditors; (3) all charges and expenses of any transfer agents and registrars appointed by the Fund; (4) all fees of all Trustees of the Fund who are not affiliated with the Adviser or any of its affiliates, or with any adviser retained by the Adviser; (5) all brokers' fees, expenses and commissions and issue and transfer taxes chargeable to the Fund in connection with transactions involving securities and other property to which the Fund is a party; (6) all costs and expenses of distribution of its shares incurred pursuant to a Plan of Distribution adopted under Rule 12b-1 under the Investment Company Act of 1940 ("1940 Act"); (7) all taxes and trust fees payable by the Fund to Federal, state or other governmental agencies; (8) all costs of certificates representing shares of the Fund; (9) all fees and expenses involved in registering and maintaining registrations of the Fund and of its shares with the Securities and Exchange Commission (the "Commission") and registering or qualifying its shares under state or other securities laws, including, without limitation, the preparation and printing of registration statements, prospectuses and statements of additional information for filing with the Commission and other authorities; (10) expenses of preparing, printing and mailing prospectuses and statements of additional information to shareholders of the Fund; (11) all expenses of shareholders' and Trustees' meetings and of preparing, printing and mailing notices, reports and proxy materials to shareholders of the Fund; (12) all charges and expenses of legal counsel for the Fund and for Trustees of the Fund in connection with legal matters relating to the Fund, including, without limitation, legal services rendered in connection with the Fund's existence, trust and financial structure and relations with its shareholders, registrations and qualifications of securities under Federal, state and other laws, issues of securities, expenses which the Fund has herein assumed, whether customary or not, and extraordinary matters, including, without limitation, any litigation involving the Fund, its Trustees, officers, employees or agents; (13) all charges and expenses of filing annual and other reports with the Commission and other authorities; and (14) all extraordinary expenses and charges of the Fund. In the event that the Adviser provides any of these services or pays any of these expenses, the Fund will promptly reimburse the Adviser therefor.

The services of the Adviser to the Fund hereunder are not to be deemed

exclusive, and the Adviser shall be free to render similar services to others.

4. As compensation for the Adviser's services to the Fund during the period of this Agreement, the Fund will pay to the Adviser a fee at the annual rate of:

MANAGEMENT FEE	AGGREGATE NET ASSET VALUE OF THE SHARES OF THE FUND
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2.0% of gross dividend and interest income plus

0.50% of the first	\$100,000,000, plus
0.45% of the next	\$100,000,000, plus
0.40% of the next	\$100,000,000, plus
0.35% of the next	\$100,000,000, plus
0.30% of the next	\$100,000,000, plus
0.25% of amounts over	\$500,000,000

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computed as of the close of business on each business day.

A pro rata portion of the Fund's fee shall be payable in arrears at the end of each day or calendar month as the Adviser may from time to time specify to the Fund. If and when this Agreement terminates, any compensation payable hereunder for the period ending with the date of such termination shall be payable upon such termination. Amounts payable hereunder shall be promptly paid when due.

5. The Adviser may enter into an agreement to retain, at its own expense, a firm or firms ("SubAdviser") to provide the Fund all of the services to be provided by the Adviser hereunder, if such agreement is approved as required by law. Such agreement may delegate to such SubAdviser all of Adviser's rights, obligations and duties hereunder.

6. The Adviser shall not be liable for any error of judgment or mistake of law or for any loss suffered by the Fund in connection with the performance of this Agreement, except a loss resulting from the Adviser's willful misfeasance, bad faith, gross negligence or from reckless disregard by it of its obligations and duties under this Agreement. Any person, even though also an officer, Director, partner, employee, or agent of the Adviser, who may be or become an officer, Trustee, employee or agent of the Fund, shall be deemed, when rendering services to the Fund or acting on any business of the Fund (other than services or business in connection with the Adviser's duties hereunder), to be rendering such services to or acting solely for the Fund and not as an officer, Director, partner, employee, or agent or one under the control or direction of the Adviser even though paid by it. The Fund agrees to indemnify and hold the Adviser harmless from all taxes, charges, expenses, assessments, claims and liabilities (including, without limitation, liabilities arising under the Securities Act of 1933, the 1934 Act, the 1940 Act, and any state and foreign securities and blue sky laws, as amended from time to time) and expenses, including (without limitation) attorneys' fees and disbursements, arising directly or indirectly from any action or thing which the Adviser takes or does or omits to take or do hereunder provided that the Adviser shall not be indemnified against any

liability to the Fund or to its shareholders (or any expenses incident to such liability) arising out of a breach of fiduciary duty with respect to the receipt of compensation for services, willful misfeasance, bad faith, or gross negligence on the part of the Adviser in the performance of its duties, or from reckless disregard by it of its obligations and duties under this Agreement.

7. The Fund shall cause its books and accounts to be audited at least once each year by a reputable independent public accountant or organization of public accountants who shall render a report to the Fund.

8. Subject to and in accordance with the Trust Agreement/Declaration of Trust of the Fund, the Articles of Incorporation of the Adviser and the governing documents of any SubAdviser, it is understood that Trustees, Directors, officers, agents and shareholders of the Fund or any Adviser are or may be interested in the Adviser (or any successor thereof) as Directors and officers of the Adviser or its affiliates, as stockholders of Keystone Investments, Inc. or otherwise; that Directors, officers and agents of the Adviser and its affiliates or stockholders of Keystone Investments, Inc. are or may be interested in the Fund or any Adviser as Trustees, Directors, officers, shareholders or otherwise; that the Adviser (or any such successor) is or may be interested in the Fund or any SubAdviser as shareholder, or otherwise; and that the effect of any such adverse interests shall be governed by said Trust Agreement/Declaration of Trust of the Fund, Articles of Incorporation of the Adviser and governing documents of any SubAdviser.

9. This Agreement shall continue in effect after December 10, 1998, only so long as (1) such continuance is specifically approved at least annually by the Board of Trustees of the Fund or by a vote of a majority of the outstanding voting securities of the Fund, and (2) such renewal has been approved by the vote of a majority of Trustees of the Fund who are not interested persons, as that term is defined in the 1940 Act, of the Adviser or of the Fund, cast in person at a meeting called for the purpose of voting on such approval.

10. On sixty days' written notice to the Adviser, this Agreement may be terminated at any time without the payment of any penalty by the Board of Trustees of the Fund or by vote of the holders of a majority of the outstanding voting securities of the Fund; and on sixty days' written notice to the Fund, this Agreement may be terminated at any time without the payment of any penalty by the Adviser. This Agreement shall automatically terminate upon its assignment (as that term is defined in the 1940 Act). Any notice under this Agreement shall be given in writing, addressed and delivered, or mailed postage prepaid, to the other party at the main office of such party.

11. This Agreement may be amended at any time by an instrument in writing executed by both parties hereto or their respective successors, provided that with regard to amendments of substance such execution by the Fund shall have been first approved by the vote of the holders of a majority of the outstanding voting securities of the Fund and by the vote of a majority of Trustees of the Fund who are not interested persons (as that term is defined in the 1940 Act) of the Adviser, any predecessor of the Adviser, or of the Fund, cast in person at a meeting called for the purpose of voting on such approval. A "majority of the

outstanding voting securities of the Fund" shall have, for all purposes of this Agreement, the meaning provided therefor in the 1940 Act.

12. Any compensation payable to the Adviser hereunder for any period other than a full year shall be proportionately adjusted.

13. The provisions of this Agreement shall be governed, construed and enforced in accordance with the laws of The Commonwealth of Massachusetts.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement on the day and year first above written.

KEYSTONE QUALITY BOND FUND (B-1)

/s/ GEORGE S. BISSELL

By: -----

Name: GEORGE S. BISSELL

Title: Chairman of the Board

KEYSTONE INVESTMENT MANAGEMENT COMPANY

/s/ ROSEMARY D. VAN ANTWERP

By: -----

Name: ROSEMARY D. VAN ANTWERP

Title: Senior Vice President

FORM OF  
PRINCIPAL UNDERWRITING AGREEMENT  
FOR SHARES  
OF  
KEYSTONE CUSTODIAN FUNDS

AGREEMENT made effective this \_\_\_\_ day of December 1996 by and between the investment companies set forth on Exhibit A attached hereto, (the "Funds"), and Evergreen Keystone Distributor, Inc., a Delaware corporation (the "Principal Underwriter").

The Funds, individually and/or on behalf of their series, if any, referred to above in the title of this Agreement, to which series, if any, this Agreement shall relate, as applicable (the "Funds"), may act as the distributor of certain securities of which they are the issuer pursuant to Rule 12b-1 under the Investment Company Act of 1940 (the "1940 Act"). Accordingly, it is hereby mutually agreed as follows:

1. The Funds hereby appoints the Principal Underwriter a principal underwriter of the shares of beneficial interest of the Funds ("Shares") as an independent contractor upon the terms and conditions hereinafter set forth. The general term "Shares" as used herein has the same meaning as is provided therefor in Schedule I hereto. Except as the Principal Underwriter and the Funds may from time to time agree, the Principal Underwriter will act as agent for the Funds and not as principal.

2. The Principal Underwriter will use its best efforts to find purchasers for the Shares and to promote distribution of the Shares and may obtain orders from brokers, dealers or other persons for sales of Shares to them. No such dealer, broker or other person shall have any authority to act as agent for the Funds; such dealer, broker or other person shall act only as principal in the sale of Shares.

3. Sales of Shares by the Principal Underwriter shall be at the public offering price determined in the manner set forth in the Prospectus and/or Statement of Additional Information of the Funds current at the time of a Fund's acceptance of the order for Shares. All orders shall be subject to acceptance by the Funds and the Funds reserve the right in their sole discretion to reject any order received. The Funds shall not be liable to anyone for failure to accept any order.

4. On all sales of Shares the Funds shall receive the current net asset value. The Funds shall pay the Principal Underwriter Distribution Fees (as defined in Section 14 hereof), as commissions for the sale of Shares, and shall pay over to the Principal Underwriter CDSCs (as defined in Section 14 hereof) as set forth in the Fund's current Prospectus and Statement of Additional

Information, and as required by Section 14 hereof. The Principal Underwriter shall also receive payments consisting of shareholder service fees ("Service Fees") at the rate of .25% per annum of the average daily net asset value of the Class Shares. The Principal Underwriter may allow all or a part of said Distribution Fees and CDSCs received by it (not paid to others as hereinafter provided) to such brokers, dealers or other persons as Principal Underwriter may determine.

5. Payment to the Funds for Shares shall be in New York or Boston Clearing House funds received by the Principal Underwriter within three Business Days after notice of acceptance of the purchase order and the amount of the applicable public offering price has been given to the purchaser. If such payment is not received within such period, the Funds reserve the right, without further notice, forthwith to cancel its acceptance of any such order. The Funds shall pay such issue taxes as may be required by law in connection with the issue of the Shares.

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6. The Principal Underwriter shall not make in connection with any sale or solicitation of a sale of the Shares any representations concerning the Shares except those contained in the then current Prospectus and/or Statement of Additional Information covering the Shares and in printed information approved by the Fund as information supplemental to such Prospectus and Statement of Additional Information. Copies of the then current Prospectus and Statement of Additional Information and any such printed supplemental information will be supplied by the Funds to the Principal Underwriter in reasonable quantities upon request.

7. The Principal Underwriter agrees to comply with the National Association of Securities Dealers, Inc. ("NASD") Business Conduct Rule 2830 (d) (2) (the "Business Conduct Rules") or any successor rule.

8. The Funds appoint the Principal Underwriter as its agent to accept orders for redemptions and repurchases of Shares at values and in the manner determined in accordance with the then current Prospectus and/or Statement of Additional Information of the Funds.

9. The Funds agree to indemnify and hold harmless the Principal Underwriter, its officers and Directors and each person, if any, who controls the Principal Underwriter within the meaning of Section 15 of the Securities Act of 1933 ("1933 Act"), against any losses, claims, damages, liabilities and expenses (including the cost of any legal fees incurred in connection therewith) which the Principal Underwriter, its officers, Directors or any such controlling person may incur under the 1933 Act, under any other statute, at common law or



otherwise, arising out of or based upon:

a. any untrue statement or alleged untrue statement of a material fact contained in the Fund's registration statement, Prospectus or Statement of Additional Information (including amendments and supplements thereto); or

b. any omission or alleged omission to state a material fact required to be stated in the Fund's registration statement, Prospectus or Statement of Additional Information necessary to make the statements therein not misleading, provided, however, that insofar as losses, claims, damages, liabilities or expenses arise out of or are based upon any such untrue statement or omission or alleged untrue statement or omission made in reliance and in conformity with information furnished to the Funds by the Principal Underwriter for use in each Fund's registration statement, Prospectus or Statement of Additional Information, such indemnification is not applicable. In no case shall the Fund indemnify the Principal Underwriter or its controlling person as to any amounts incurred for any liability arising out of or based upon any action for which the Principal Underwriter, its officers and Directors or any controlling person would otherwise be subject to liability by reason of willful misfeasance, bad faith, or gross negligence in the performance of its duties or by reason of the reckless disregard of its obligations and duties under this Agreement.

10. The Principal Underwriter agrees to indemnify and hold harmless the Funds, their officers and Directors and each person, if any, who controls the Funds within the meaning of Section 15 of the 1933 Act against any loss, claims, damages, liabilities and expenses (including the cost of any legal fees incurred in connection therewith) which the Funds, its officers, Directors or any such controlling person may incur under the 1933 Act, under any other statute, at common law or otherwise arising out of the acquisition of any Shares by any person which

(a) may be based upon any wrongful act by the Principal Underwriter or any of its employees or representatives, or

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(b) may be based upon any untrue statement or alleged untrue statement of a material fact contained in each Fund's registration statement, Prospectus or Statement of Additional Information (including amendments and supplements thereto), or any omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, if such



statement or omission was made in reliance upon information furnished or confirmed in writing to the Funds by the Principal Underwriter.

11. The Funds agree to execute such papers and to do such acts and things as shall from time to time be reasonably requested by the Principal Underwriter for the purpose of qualifying the Shares for sale under the so-called "blue sky" laws of any state or for registering Shares under the 1933 Act or the Funds under the Investment Company Act of 1940 ("1940 Act"). The Principal Underwriter shall bear the expenses of preparing, printing and distributing advertising, sales literature, prospectuses, and statements of additional information. The Funds shall bear the expense of registering Shares under the 1933 Act and the Funds under the 1940 Act, qualifying Shares for sale under the so called "blue sky" laws of any state, the preparation and printing of Prospectuses, Statements of Additional Information and reports required to be filed with the Securities and Exchange Commission and other authorities, the preparation, printing and mailing of Prospectuses and Statements of Additional Information to holders of Shares, and the direct expenses of the issue of Shares.

12. The Principal Underwriter shall, at the request of the Funds, provide to the Board of Trustees or Directors (together herein called the "Directors") of the Funds in connection with sales of Shares not less than quarterly a written report of the amounts received from the Funds therefor and the purpose for which such expenditures by the Funds were made.

13. The term of this Agreement shall begin on the date hereof and, unless sooner terminated or continued as provided below, shall expire after one year. This Agreement shall continue in effect after such term if its continuance is specifically approved by a majority of the outstanding voting securities of Shares of the Funds or by a majority of the Directors of the Funds and a majority of the Directors who are not parties to this Agreement or "interested persons", as defined in the 1940 Act, of any such party and who have no direct or indirect financial interest in the operation of each Fund's Rule 12b-1 plan for Shares or in any agreements related to the plan at least annually in accordance with the 1940 Act and the rules and regulations thereunder.

This Agreement may be terminated at any time, without payment of any penalty, by vote of a majority of the Directors of the Fund, or a majority of such Directors who are not parties to this Agreement or "interested persons", as defined in the 1940 Act, of any such party and who have no direct or indirect financial interest in the operation of the Fund's Rule 12b-1 plan for Shares or in any agreement related to the plan or by a vote of a majority of the outstanding voting securities of each Fund on not more than sixty days written notice to any other party to the Agreement; and shall terminate automatically in the event of its assignment (as defined in the 1940 Act), which shall not include assignment of the Principal Underwriter's Allocable Portion of Distribution Fees (as hereinafter defined) and Allocable Portion of CDSCs provided for hereunder and/or rights related to such Allocable Portions.

14. The provisions of this Section 14 shall be applicable to the extent necessary to enable the Fund to comply with the obligation of the Fund to pay

the Principal Underwriter its Allocable Portion of Distribution Fees paid in respect of the Shares and also permit the Fund to pay, pursuant to the Principal Underwriting Agreement dated as of December 11, 1996 between the Fund and Evergreen Keystone Investment Services, Inc. (formerly Keystone Investment Distributors Company) ("EKISC") in respect of Class B-1 Shares, the Allocable Portion of Distribution Fees due EKISC in respect of Shares sold prior to December 1, 1996 (the ("EKISC Underwriting Agreement")), it being understood and agreed that notwithstanding any provision

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hereinor in Schedule I hereto to the contrary, to the extent that no amounts are payable to EKISC pursuant to the EKISC Underwriting Agreement, the Distribution Fees and CDSCs payable in respect of Shares sold prior to December 1, 1996 shall be payable to the Principal Underwriter hereunder and shall constitute a component of the Principal Underwriter's Allocable Portion of Distribution Fees and CDSCs hereunder and shall remain in effect so long as any payments are required to be made by the Fund pursuant to the irrevocable payment instructions pursuant to the Master Sale Agreement between the Principal Underwriter and Mutual Fund Funding 1994-1 dated as of December 6, 1996 (the "Master Sale Agreement") (the "Irrevocable Payment Instruction").

14.1 The Fund shall pay to the Principal Underwriter the Principal Underwriter's Allocable Portion (as hereinafter defined) of a fee (the "Distribution Fee") at the rate of .75% per annum of the average daily net asset value of the Shares, subject to the limitation on the maximum aggregate amount of such fees under the Business Conduct Rules as applicable to such Distribution Fee on the date hereof.

14.2 The Principal Underwriter's Allocable Portion of Distribution Fees paid by the Funds in respect of Shares shall mean the portion of the Asset Based Sales Charge allocable to Distributor Shares (as defined in Schedule I hereto to this Agreement) in accordance with Schedule I hereto. The Funds agree to cause its transfer agent (the "Transfer Agent") to maintain the records and arrange for the payments on behalf of the Funds at the times and in the amounts and to the accounts required by Schedule I hereto, as the same may be amended from time to time. It is acknowledged and agreed that by virtue of the operation of Schedule I hereto the Principal Underwriter's Allocable Portion of Distribution Fees paid by the Funds in respect of Shares, may, to the extent provided in Schedule I hereto, take into account Distribution Fees payable by the Funds in respect of other existing and future classes and/or subclasses of shares of the Funds which would be treated as "Shares" under Schedule I hereto. The Funds will limit amounts paid to any subsequent principal underwriters of Shares to the portion of the Asset Based Sales Charge paid in respect of Shares which is allocable to Post-distributor Shares (as defined in Schedule I hereto) in accordance with Schedule I hereto. Each Fund's payments to the Principal

Underwriter in consideration of its services in connection with the sale of Shares shall be the Distribution Fees attributable to Shares which are Distributor Shares (as defined in Schedule I hereto) and all other amounts constituting the Principal Underwriter's Allocable Portion of Distribution Fees shall be the Distribution Fees related to the sale of other Shares which are Distributor Shares (as defined in Schedule I hereto).

Each Fund shall cause its transfer agent and sub-transfer agents to withhold from redemption proceeds payable to holders of Shares on redemption thereof the contingent deferred sales charges payable upon redemption thereof as set forth in the then current Prospectus and/or Statement of Additional Information of the Funds ("CDSCs") and to pay over to the Principal Underwriter the Principal Underwriter's Allocable Portion of said CDSCs paid in respect of Shares which shall mean the portion thereof allocable to Distributor Shares (as defined in Schedule I hereto) in accordance with Schedule I hereto.

14.3 The Principal Underwriter shall be considered to have completely earned the right to the payment of its Allocable Portion of the Distribution Fee and the right to payment over to it of its Allocable Portion of the CDSC in respect of Shares as provided for hereby upon the completion of the sale of each Commission Share (as defined in Schedule I hereto) taken into account as a Distributor Share in computing the Principal Underwriter's Allocable Portion in accordance with Schedule I hereto.

14.4 Except as provided in Section 14.5 hereof in respect of Distribution Fees only, each Fund's obligation to pay the Principal Underwriter the Distribution Fees and to pay over to the Principal Underwriter CDSCs provided for hereby shall be absolute and unconditional and shall not be subject to dispute, offset, counterclaim or any defense whatsoever (it being understood that nothing in this sentence shall be deemed a

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waiver by the Fund of its right separately to pursue any claims it may have against the Principal Underwriter and enforce such claims against any assets (other than the Principal Underwriter's right to its Allocable Portion of the Distribution Fees and CDSCs (the "Collection Rights") of the Principal Underwriter).

14.5 Notwithstanding anything in this Agreement to the contrary, each Fund shall pay to the Principal Underwriter its Allocable Portion of Distribution Fees provided for hereby notwithstanding its termination as Principal Underwriter for the Shares or any termination of this Agreement and such payment of such Distribution Fees, and that obligation and the method of computing such payment, shall not be changed or terminated except to the extent required by any change in applicable law, including, without limitation, the

1940 Act, the Rules promulgated thereunder by the Securities and Exchange Commission and the Business Conduct Rules, in each case enacted or promulgated after December 1, 1996, or in connection with a Complete Termination (as hereinafter defined). For the purposes of this Section 14.5, "Complete Termination" means a termination of a Fund's Rule 12b-1 plan for Shares involving the cessation of payments of the Distribution Fees, and the cessation of payments of distribution fees pursuant to every other Rule 12b-1 plan of the Fund for every existing or future B-Class-of-Shares (as hereinafter defined) and the Fund's discontinuance of the offering of every existing or future B-Class-of-Shares, which conditions shall be deemed satisfied when they are first complied with hereafter and so long thereafter as they are complied with prior to the date upon which all of the Shares which are Distributor Shares pursuant to Schedule I hereto shall have been redeemed or converted. For purposes of this Section 14.5, the term B-Class-of-Shares means each of the Shares of the Fund and each other class of shares of the Fund hereafter issued which would be treated as Shares under Schedule I hereto or which has substantially similar economic characteristics to the current Shares taking into account the total sales charge, CDSC or other similar charges borne directly or indirectly by the holder of the shares of such class. For purposes of clarity the parties to this agreement hereby state that they intend that a new installment load class of shares which may be authorized by amendments to Rule 6(c)-10 under the 1940 Act will be considered to be a B-Class-of-Shares if it has economic characteristics substantially similar to the economic characteristics of the existing Shares taking into account the total sales charge, CDSC or other similar charges borne directly or indirectly by the holder of such shares and will not be considered to be a B-Class-of-Shares if it has economic characteristics substantially similar to the economic characteristics of the existing C Class of shares of the Fund taking into account the total sales charge, CDSC or other similar charges borne directly or indirectly by the holder of such shares.

14.6 The Principal Underwriter may assign, sell or otherwise transfer any part of its Allocable Portions and obligations of the Funds related thereto (but not the Principal Underwriter's obligations to the Funds provided for in this Agreement, provided, however, the Principal Underwriter may delegate and subcontract certain functions to other broker-dealers so long as it remains employed by the Funds) to any person (an "Assignee") and any such assignment shall be effective as to the Funds upon written notice to the Funds by the Principal Underwriter. In connection therewith the Funds shall pay all or any amounts in respect of their Allocable Portions directly to the Assignee thereof as directed in a writing by the Principal Underwriter in the Irrevocable Payment Instruction, as the same may be amended from time to time with the consent of the Funds, and the Funds shall be without liability to any person if it pays such amounts when and as so directed, except for underpayments of amounts actually due, without any amount payable as consequential or other damages due to such underpayment and without interest except to the extent that delay in payment of Distribution Fees and CDSCs results in an increase in the maximum Sales Charge allowable under the Business Conduct Rules, which increases daily at a rate of prime plus one percent per annum.

14.7 Each Fund will not, to the extent it may otherwise be empowered to do so, change or waive any CDSC with respect to Shares, except as provided in

the Fund's Prospectus or Statement of Additional Information without the Principal Underwriter's or Assignee's consent, as applicable. Notwithstanding anything to the contrary in this Agreement or any termination of this Agreement or the Principal Underwriter as principal

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underwriter for the Shares of the Fund, the Principal Underwriter shall be entitled to be paid its Allocable Portion of the CDSCs whether or not the Fund's Rule 12b-1 plan for Shares is terminated and whether or not any such termination is a Complete Termination, as defined above.

14.8 Notwithstanding anything contained herein in this Agreement to the contrary, the Funds shall comply with its obligations under the EKISC Underwriting Agreement and the attached Schedule I, and any replacement Agreement, provided that such replacement agreement does not increase the Allocable Portion currently payable to EKISC, to pay to EKISC its Allocable Portion (as defined in the EKISC Underwriting Agreement) of the Distribution Fees (as defined in the EKISC Underwriting Agreement) in respect of Shares as required therein.

15. This Agreement shall be construed in accordance with the laws of The Commonwealth of Massachusetts. All sales hereunder are to be made, and title to the Shares shall pass, in Boston, Massachusetts.

16. Keystone Tax Free Fund is a Massachusetts business trust established under a Declaration of Trust, as it may be amended from time to time. The obligations of Keystone Tax Free Fund are not personally binding upon, nor shall recourse be had against the private property of any of the Trustees, shareholders, officers, employees or agents of the Fund, but only the property of the Fund shall be bound.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed by their respective officers thereunto duly authorized at Boston, Massachusetts, on the day and year first written above.

KEYSTONE QUALITY BOND FUND (B-1)

KEYSTONE DIVERSIFIED BOND FUND (B-2)

KEYSTONE HIGH INCOME BOND FUND (B-4)

KEYSTONE BALANCED FUND (K-1)

KEYSTONE STRATEGIC GROWTH FUND (K-2)

KEYSTONE GROWTH AND INCOME FUND (S-1)

KEYSTONE MID-CAP GROWTH FUND (S-3)

KEYSTONE SMALL COMPANY  
GROWTH FUND (S-4)

KEYSTONE INTERNATIONAL FUND INC.

KEYSTONE TAX FREE FUND

KEYSTONE PRECIOUS METALS  
HOLDINGS, INC.

EVERGREEN KEYSTONE DISTRIBUTOR, INC.

By: \_\_\_\_\_  
Title: George S. Bissell,  
Chairman of the Board & CEO

By: \_\_\_\_\_  
Title: Robert Miller  
Vice President and CFO

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EXHIBIT A TO PRINCIPAL UNDERWRITING AGREEMENT  
DATED DECEMBER 11, 1996 BETWEEN

KEYSTONE CUSTODIAN FUNDS AND EVERGREEN KEYSTONE DISTRIBUTOR, INC.

Keystone Quality Bond Fund (B-1)

Keystone Diversified Bond Fund (B-2)

Keystone High Income Bond Fund (B-4)

Keystone Balanced Fund (K-1)

Keystone Strategic Growth Fund (K-2)

Keystone Growth and Income Fund (S-1)

Keystone Mid-Cap Growth Fund (S-3)

Keystone Small Company Growth Fund (S-4)

Keystone International Fund Inc.

EXHIBIT B TO PRINCIPAL UNDERWRITING AGREEMENT  
DATED DECEMBER 11, 1996 BETWEEN

KEYSTONE CUSTODIAN FUNDS AND EVERGREEN KEYSTONE DISTRIBUTOR, INC.

The Funds, as that term is defined in the Principal Underwriting Agreement Dated December 11, 1996 between each Fund and EKDI (the "Agreement") and Evergreen Keystone Distributor, Inc. ("EKDI") agree that the Collection Rights of EKDI, as such term is defined in the Agreement, paid by the Fund pursuant to the Agreement will be utilized by EKDI as follows:

(a) to the extent that the total amount of Collection Rights received by EKDI with respect to Distributor Shares of each Fund, as that term is defined in Schedule I to the Agreement, does not exceed 4% of the aggregate net asset value at the time of sale of the Distributor Shares of such Fund (except that in the case of Keystone Precious Metals Fund, the amount shall be 3%) sold on or after December 1, 1996, plus any interest and other fees, costs and expenses that may be paid in accordance with the financing of commissions paid to selling brokers (the "Brokers Commission and Expenses"), the entire amount of the Collection Rights with respect to such Fund's Distributor Shares may only be used by the Principal Underwriter for payment of the Brokers Commission and Expenses relating to such Fund and may not be used for any other purpose. To the extent that no KID Receivables, as that term is defined in Exhibit B to the Principal Underwriting Agreement dated December 11, 1996 between each Fund and Evergreen Keystone Investment Services, Inc., are payable with respect to a Fund, then the all of the fees payable pursuant to the Fund's Rule 12b-1 Distribution Plan and all contingent deferred sales charges collected upon the redemption of shares of such Fund may only be used by the Principal Underwriter for payment of the Brokers Commission and Expenses relating to such Fund and may not be used for any other purpose.

(b) to the extent that: (1) there is no longer any unrecovered Brokers Commission and Expenses with respect to a Fund as provided in (a),



above; and (2) the Principal Underwriting Agreement dated December 11, 1996 between the Fund and Evergreen Keystone Investment Services, Inc. has terminated with respect to the Fund, such Fund will pay the Principal Underwriter a fee in an amount up to the remaining Collection Rights attributable to such Shares to compensate Evergreen Keystone Investment Services, Inc., as marketing services agent for the Principal Underwriter and the Fund (the "Marketing Services Agent").

The foregoing calculations shall be the responsibility of the Transfer Agent and Administrator and not the responsibility of the Principal Underwriter.

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## SCHEDULE I

TO

PRINCIPAL UNDERWRITING AGREEMENT  
RELATING TO SHARES

OF

KEYSTONE CUSTODIAN FUNDS

TRANSFER AGENT PROCEDURES FOR DIFFERENTIATING  
AMONG DISTRIBUTOR SHARES AND POST-DISTRIBUTOR SHARES

Amounts in respect of Asset Based Sales Charges (as hereinafter defined) and CDSCs (as hereinafter defined) in respect of Shares (as hereinafter defined) of each Fund (as hereinafter defined) shall be allocated between Distributor Shares (as hereinafter defined) and Post-distributor Shares (as hereinafter defined) of such Fund in accordance with the rules set forth in clauses (B) and (C). Clause (B) sets forth the rules to be followed by the Transfer Agent for each Fund and the record owner of each Omnibus Account (as hereinafter defined) in maintaining records relating to Distributor Shares and Post-distributor Shares. Clause (C) sets forth the rules to be followed by the Transfer Agent for each Fund and the record owner of each Omnibus Account in determining what portion of the Asset Based Sales Charge (as hereinafter defined) payable in respect of each class of Shares of such Fund and what portion of the CDSC (as hereinafter defined) payable by the holders of Shares of such Fund is attributable to Distributor Shares and Post-distributor Shares, respectively.

(A) DEFINITIONS:



Generally, for purposes of this Schedule I, defined terms shall be used with the meaning assigned to them in the Agreement, except that for purposes of the following rules the following definitions are also applicable:

"Agreement" shall mean the Principal Underwriting Agreement for Shares of the Funds dated as of December 11, 1996 between the Funds and the Distributor.

"Asset Based Sales Charge" shall have the meaning set forth in National Association of Securities Dealers, Inc. ("NASD") Business Conduct Rule 2830 (d) (2) or any successor rule (the "Business Conduct Rules") it being understood that for purposes of this Schedule I such term does not include the Service Fee.

"Business Day" shall mean any day on which the banks and The New York Stock Exchange are not authorized or required to close in New York City or the State of North Carolina.

"Capital Gain Dividend" shall mean, in respect of any Share of any Fund, a Dividend in respect of such Share which is designated by such Fund as being a "capital gain dividend" as such term is defined in Section 852 of the Internal Revenue Code of 1986, as amended.

"CDSC" shall mean with respect to any Fund, the contingent deferred sales charge payable, either directly or by withholding from the proceeds of the redemption of the Shares of such Fund, by the shareholders of such Fund on any redemption of Shares of such Fund in accordance with the Prospectus relating to such

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Fund.

"Commission Share" shall mean, in respect of any Fund, a Share of such Fund issued under circumstances where a CDSC would be payable upon the redemption of such Share if such CDSC is not waived or shall have not otherwise expired.

"Date of Original Purchase" shall mean, in respect of any Commission Share of any Fund, the date on which such Commission Share was first issued by such Fund; provided, that if such Share is a Commission Share and such Fund issued the Commission Share (or portion thereof) in question in connection with a Free Exchange for a Commission Share (or portion thereof) of another Fund, the Date of Original Purchase for the Commission Share (or portion thereof) in question shall be the date on which the Commission Share (or portion thereof) of the other Fund was first issued by such other Fund (unless such Commission Share

(or portion thereof) was also issued by such other Fund in a Free Exchange, in which case this proviso shall apply to that Free Exchange and this application shall be repeated until one reaches a Commission Share (or portion thereof) which was issued by a Fund other than in a Free Exchange).

"Distributor" shall mean Evergreen Keystone Distributor, Inc., its successors and assigns.

"Distributor's Account" shall mean the account designated in the Irrevocable Payment Instructions of the Distributor.

"Distributor Inception Date" shall mean, in respect of any Fund and solely for the purpose of making the calculations contained herein, December 1, 1996 so long as the Principal Underwriting Agreement dated December 11, 1996 between Evergreen Keystone Investment Services, Inc. and the Keystone Custodian Funds (the "EKISC Agreement") remains in effect with respect to a Fund, and the inception date of each Fund once the EKISC Agreement has terminated with respect to a Fund.

"Distributor Last Sale Cut-off Date" shall mean, in respect of any Fund, the date identified as the last sale of a Commission Share during the period the Distributor served as principal underwriter under the Agreement.

"Distributor Shares" shall mean, in respect of any Fund, all Shares of such Fund the Month of Original Purchase of which is after the Distributor Inception Date and on or prior to the Distributor Last Sale Cut-off Date in respect of such Fund.

"Dividend" shall mean, in respect of any Share of any Fund, any dividend or other distribution by such Fund in respect of such Share.

"Free Exchange" shall mean any exchange of a Commission Share (or portion thereof) of one Fund (the "Redeeming Fund") for a Share (or portion thereof) of another Fund (the "Issuing Fund"), under any arrangement which defers the exchanging Shareholder's obligation to pay the CDSC in respect of the Commission Share (or portion thereof) of the Redeeming Fund so exchanged until the later redemption of the Share (or portion thereof) of the Issuing Fund received in such exchange.

"Free Share" shall mean, in respect of any Fund, each Share of such Fund other than a Commission Share, including, without limitation: (i) Shares issued in connection with the automatic reinvestment of Capital Gain Dividends or Other Dividends by such Fund; (ii) Special Free Shares issued by such Fund; and (iii) Shares (or portion thereof) issued by such Fund in connection with an exchange whereby a Free Share (or portion thereof) of another Fund is redeemed and the Net Asset Value of such redeemed Free Share (or portion thereof)

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is invested in such Shares (or portion thereof) of such Fund.

"Fund" shall mean each of the regulated investment companies or series or portfolios of regulated investment companies identified in Exhibit J to the Master Sale Agreement, as the same may be amended from time to time in accordance with the terms thereof.

"ML Omnibus Account" shall mean, in respect of any Fund, the Omnibus Account maintained by Merrill Lynch, Pierce, Fenner & Smith as subtransfer agent.

"Month of Original Purchase" shall mean, in respect of any Share of any Fund, the calendar month in which such Share was first issued by such Fund; provided, that if such Share is a Commission Share and such Fund issued the Commission Share (or portion thereof) in question in connection with a Free Exchange for a Commission Share (or portion thereof) of another Fund, the Month of Original Purchase for the Commission Share (or portion thereof) in question shall be the calendar month in which the Commission Share (or portion thereof) of the other Fund was first issued by such other Fund (unless such Commission Share (or portion thereof) was also issued by such other Fund in a Free Exchange, in which case this proviso shall apply to that Free Exchange and this application shall be repeated until one reaches a Commission Share (or portion thereof) which was issued by a Fund other than in a Free Exchange); provided, further, that if such Share is a Free Share and such Fund issued such Free Share in connection with the automatic reinvestment of dividends in respect of other Shares of such Fund, the Month of Original Purchase of such Free Share shall be deemed to be The Month of Original Purchase of the Share in respect of which such dividend was paid; provided, further, that if such Share is a Free Share and such Fund issued such Free Share in connection with an exchange whereby a Free Share (or portion thereof) of another Fund is redeemed and the Net Asset Value of such redeemed Free Share (or portion thereof) is invested in a Free Share (or portion thereof) of such Fund, the Month of Original Issue of such Free Share shall be the Month of Original Issue of the Free Share of such other Fund so redeemed (unless such Free Share of such other Fund was also issued by such other Fund in such an exchange, in which case this proviso shall apply to that exchange and this application shall be repeated until one reaches a Free Share which was issued by a Fund other than in such an exchange); and provided, finally, that for purposes of this Schedule I each of the following periods shall be treated as one calendar month for purposes of applying the rules of this Schedule I to any Fund: (i) the period of time from and including the Distributor Inception Date for such Fund to and including the last day of the calendar month in which such Distributor Inception Date occurs; (ii) the period of time commencing with the first day of the calendar month in which the Distributor Last Sale Cutoff Date in respect of such Fund occurs to and including such Distributor Last Sale Cutoff Date; and (iii) the period of time commencing on the day immediately following the Distributor Last Sale Cutoff Date in respect of such Fund to and including the last day of the calendar month in which such Distributor Last Sale Cut-off Date occurs.

"Omnibus Account" shall mean any Shareholder Account the record owner of which is a registered broker-dealer which has agreed with the Transfer Agent to provide sub-transfer agent functions relating to each Sub-shareholder Account within such Shareholder Account as contemplated by this Schedule I in respect of each of the Funds.

"Omnibus Asset Based Sales Charge Settlement Date" shall mean, in respect of each Omnibus Account, the Business Day next following the twentieth day of each calendar month for the calendar month immediately preceding such date so long as the record owner is able to allocate the Asset Based Sales Charge accruing in respect of Shares of any Fund as contemplated by this Schedule I no more frequently than monthly; provided, that at such time as the record owner of such Omnibus Account is able to provide information sufficient to allocate the Asset Based Sales Charge accruing in respect of such Shares of such Fund owned of record by such Omnibus Account as contemplated by this Schedule I on a weekly or daily basis, the Omnibus Asset Based

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Sales Charge Settlement Date shall be a weekly date as in the case of the Omnibus CDSC Settlement Date or a daily date as in the case of Asset Based Sales Charges accruing in respect of Shareholder Accounts other than Omnibus Accounts, as the case may be.

"Omnibus CDSC Settlement Date" shall mean, in respect of each Omnibus Account, the third Business Day of each calendar week for the calendar week immediately preceding such date so long as the record owner of such Omnibus Account is able to allocate the CDSCs accruing in respect of any Shares of any Fund as contemplated by this Schedule I for no more frequently than weekly; provided, that at such time as the record owner of such Shares of such Fund owned of record by such Omnibus Account is able to provide information sufficient to allocate the CDSCs accruing in respect of such Omnibus Account as contemplated by this Schedule I on a daily basis, the Omnibus CDSC Settlement Date for such Omnibus Account shall be a daily date as in the case of CDSCs accruing in respect of Shareholder Accounts other than Omnibus Accounts.

"Original Purchase Amount" shall mean, in respect of any Commission Share of any Fund, the amount paid (i.e., the Net Asset Value thereof on such date), on the Date of Original Purchase in respect of such Commission Share, by such Shareholder Account or Sub-shareholder Account for such Commission Share; provided, that if such Fund issued the Commission Share (or portion thereof) in question in connection with a Free Exchange for a Commission Share (or portion thereof) of another Fund, the Original Purchase Amount for the Commission Share (or portion thereof) in question shall be the Original Purchase Amount in respect of such Commission Share (or portion thereof) of such other Fund (unless

such Commission Share (or portion thereof) was also issued by such other Fund in a Free Exchange, in which case this proviso shall apply to that Free Exchange and this application shall be repeated until one reaches a Commission Share (or portion thereof) which was issued by a Fund other than in a Free Exchange).

"Other Dividend" shall mean in respect of any Share, any Dividend paid in respect of such Share other than a Capital Gain Dividend.

"Post-distributor Shares" shall mean, in respect of any Fund, all Shares of such Fund the Month of Original Purchase of which occurs after the Distributor Last Sale Cut-off Date for such Fund.

"Buyer" shall mean Mutual Fund Funding, as Buyer under the Master Sale Agreement, and its successors and assigns in such capacity.

"Master Sale Agreement" shall mean that certain Master Sale Agreement dated as of December 6, 1996 between Evergreen Keystone Distributors, Inc., as Seller, and Mutual Fund Funding, as Buyer.

"Share" shall mean in respect of any Fund any share of the classes of shares specified in Exhibit G to the Master Sale Agreement under the description "Keystone Custodian Funds", as the same may be amended from time to time by notice from the Distributor and the Buyer to the Fund and the Transfer Agent; provided, that such term shall include, after the Distributor Last Sale Cut-off Date, a share of a new class of shares of such Fund: (i) with respect to each record owner of Shares which is not treated in the records of each Transfer Agent and Sub-transfer Agent for such Fund as an entirely separate and distinct class of shares from the classes of shares specified Exhibit G to the Master Sale Agreement or (ii) the shares of which class may be exchanged for shares of another Fund of the classes of shares specified in Exhibit G to the Master Sale Agreement under the description "Keystone Custodian Funds" of any class existing on or prior to the Distributor Last Sale Cut-off Date; or (iii) dividends on which can be reinvested in shares of the classes specified on Exhibit G to the Master Sale Agreement under the automatic dividend reinvestment options; or (iv) which is otherwise treated as though it were of the same class as the class of shares specified on Schedule II to the Irrevocable Payment Instruction.

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"Shareholder Account" shall have the meaning set forth in clause (B)(1) hereof.

"Special Free Share" shall mean, in respect of any Fund, a Share (other than a Commission Share) issued by such Fund other than in connection with the automatic reinvestment of Dividends and other than in connection with an

exchange whereby a Free Share (or portion thereof) of another Fund is redeemed and the Net Asset Value of such redeemed Share (or portion thereof) is invested in a Share (or portion thereof) of such Fund.

"Sub-shareholder Account" shall have the meaning set forth in clause (B)(1) hereof.

"Sub-transfer Agent" shall mean, in respect of each Omnibus Account, the record owner thereof.

(B) RECORDS TO BE MAINTAINED BY THE TRANSFER AGENT FOR EACH FUND AND THE RECORD OWNER OF EACH OMNIBUS ACCOUNT:

The Transfer Agent shall maintain Shareholder Accounts, and shall cause each record owner of each Omnibus Account to maintain Sub-shareholder Accounts, each in accordance with the following rules:

(1) Shareholder Accounts and Sub-shareholder Accounts. The Transfer Agent shall maintain a separate account (a "Shareholder Account") for each record owner of Shares of each Fund. Each Shareholder Account (other than Omnibus Accounts) will represent a record owner of Shares of such Fund, the records of which will be kept in accordance with this Schedule I. In the case of an Omnibus Account, the Transfer Agent shall require that the record owner of the Omnibus Account maintain a separate account (a "Sub-shareholder Account") for each record owner of Shares which are reflected in the Omnibus Account, the records of which will be kept in accordance with this Schedule I. Each such Shareholder Account and Sub-shareholder Account shall relate solely to Shares of such Fund and shall not relate to any other class of shares of such Fund.

(2) Commission Shares. For each Shareholder Account (other than an Omnibus Account), the Transfer Agent shall maintain daily records of each Commission Share of such Fund which records shall identify each Commission Share of such Fund reflected in such Shareholder Account by the Month of Original Purchase of such Commission Share.

For each Omnibus Account, the Transfer Agent shall require that the Sub-transfer Agent in respect thereof maintain daily records of such Sub-shareholder Account which records shall identify each Commission Share of such Fund reflected in such Sub-shareholder Account by the Month of Original Purchase; provided, that until the Sub-transfer Agent in respect of the ML Omnibus Account develops the data processing capability to conform to the foregoing requirements, such Sub-transfer Agent shall maintain daily records of Sub-shareholder Accounts which identify each Commission Share of such Fund reflected in such Sub-shareholder Account by the Date of Original Purchase. Each such Commission Share shall be identified as either a Distributor Share or a Post-distributor Share based upon the Month of Original Purchase of such Commission Share (or in the case of a Sub-shareholder Account within the ML Omnibus Account, based upon the Date of Original Purchase).

(3) Free Shares. The Transfer Agent shall maintain daily records of each Shareholder Account (other than an Omnibus Account) in respect of any Fund

so as to identify each Free Share (including each Special Free Share) reflected in such Shareholder Account by the Month of Original Purchase of such Free Share. In addition, the Transfer Agent shall require that each Shareholder Account (other than an Omnibus Account) have in effect separate elections relating to reinvestment of Capital Gain Dividends and relating to reinvestment of Other Dividends in respect of any Fund. Either such Shareholder Account shall have elected to reinvest all Capital Gain Dividends or such Shareholder Account shall have elected to have all Capital Gain

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Dividends distributed. Similarly, either such Shareholder Account shall have elected to reinvest all Other Dividends or such Shareholder Account shall have elected to have all Other Dividends distributed.

The Transfer Agent shall require that the Sub-transfer Agent in respect of each Omnibus Account maintain daily records for each Sub-shareholder Account in the manner described in the immediately preceding paragraph for Shareholder Accounts (other than Omnibus Accounts); provided, that until the Sub-transfer Agent in respect of the ML Omnibus Account develops the data processing capability to conform to the foregoing requirements, such Sub-transfer Agent shall not be obligated to conform to the foregoing requirements. Each Sub-shareholder Account shall also have in effect Dividend reinvestment elections as described in the immediately preceding paragraph.

The Transfer Agent and each Sub-transfer Agent in respect of an Omnibus Account shall identify each Free Share as either a Distributor Share or a Post-distributor Share based upon the Month of Original Purchase of such Free Share; provided, that until the Sub-transfer Agent in respect of the ML Omnibus Account develops the data processing capability to conform to the foregoing requirements, the Transfer Agent shall require such Sub-transfer Agent to identify each Free Share of a given Fund in the ML Omnibus Account as a Distributor Share, or Post-distributor Share, as follows:

- (a) Free Shares of such Fund which are outstanding on the Distributor Last Sale Cutoff Date for such Fund shall be identified as Distributor Shares.
- (b) Free Shares of such Fund which are issued (whether or not in connection with an exchange for a Free Share of another Fund) to the ML Omnibus Account during any calendar month (or portion thereof) after the Distributor Last Sale Cutoff Date for such Fund shall be identified as Distributor Shares in a number computed as follows:

A \* (B/C)



where:

A = Free Shares of such Fund issued to the ML Omnibus Account during such calendar month (or portion thereof)

B = Number of Commission Shares and Free Shares of such Fund in the ML Omnibus Account identified as Distributor Shares and outstanding as of the close of business in the last day of the immediately preceding calendar month (or portion thereof)

C = Total number of Commission Shares and Free Shares of such Fund in the ML Omnibus Account and outstanding as of the close of business on the last day of the immediately preceding calendar month (or portion thereof).

(c) Free Shares of such Fund which are issued (whether or not in connection with an exchange for a free share of another Fund) to the ML Omnibus Account during any calendar month (or portion thereof) after the Distributor Last Sale Cutoff Date for such Fund shall be identified as Post-distributor Shares in a number computed as follows:

$$(A * (B/C))$$

where:

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A = Free Shares of such Fund issued to the ML Omnibus Account during such calendar month (or portion thereof)

B = Number of Commission Shares and Free Shares of such Fund in the ML Omnibus Account identified as Post-distributor Shares and outstanding as of the close of business in the last day of the immediately preceding calendar month (or portion thereof)

C = Total number of Commission Shares and Free Shares of such Fund in the ML Omnibus Account and outstanding as of the close of business on the last day of the immediately preceding calendar month (or



portion thereof).

- (d) Free Shares of such Fund which are redeemed (whether or not in connection with an exchange for Free Shares of another Fund or in connection with the conversion of such Shares into a Class A Share of such Fund) from the ML Omnibus Account in any calendar month (or portion thereof) after the Distributor Last Sale Cut-off Date for such Fund shall be identified as Distributor Shares in a number computed as follows:

$$A * (B/C)$$

where:

A = Free Shares of such Fund which are redeemed (whether or not in connection with an exchange for Free Shares of another Fund or in connection with the conversion of such Shares into a class A share of such Fund) from the ML Omnibus Account during such calendar month (or portion thereof)

B = Free Shares of such Fund in the ML Omnibus Account identified as Distributor Shares and outstanding as of the close of business on the last day of the immediately preceding calendar month.

C = Total number of Free Shares of such Fund in the ML Omnibus Account and outstanding as of the close of business on the last day of the immediately preceding calendar month.

- (e) Free Shares of such Fund which are redeemed (whether or not in connection with an exchange for Free Shares of another Fund or in connection with the conversion of such Shares into a class A share of such Fund) from the ML Omnibus Account in any calendar month (or portion thereof) after the Distributor Last Sale Cutoff Date for such Fund shall be identified as Post-distributor Shares in a number computed as follows:

$$A * (B/C)$$

where:

A = Free Shares of such Fund which are redeemed (whether or not in connection with an exchange for Free Shares of another Fund or in connection with the conversion of such Shares into a class A share of such Fund) from the ML Omnibus Account during such calendar month (or portion thereof)

B = Free Shares of such Fund in the ML Omnibus Account

Shares and outstanding as of the close of business on the last day of the immediately preceding calendar month.

C = Total number of Free Shares of such Fund in the ML Omnibus Account and outstanding as of the close of business on the last to day of the immediately preceding calendar month.

(4) Appreciation Amount and Cost Accumulation Amount. The Transfer Agent shall maintain on a daily basis in respect of each Shareholder Account (other than Omnibus Accounts) a Cost Accumulation Amount representing the total of the Original Purchase Amounts paid by such Shareholder Account for all Commission Shares reflected in such Shareholder Account as of the close of business on each day. In addition, the Transfer Agent shall maintain on a daily basis in respect of each Shareholder Account (other than Omnibus Accounts) sufficient records to enable it to compute, as of the date of any actual or deemed redemption or Free Exchange of a Commission Share reflected in such Shareholder Account an amount (such amount an "Appreciation Amount") equal to the excess, if any, of the Net Asset Value as of the close of business on such day of the Commission Shares reflected in such Shareholder Account minus the Cost Accumulation Amount as of the close of business on such day. In the event that a Commission Share (or portion thereof) reflected in a Shareholder Account is redeemed or under these rules is deemed to have been redeemed (whether in a Free Exchange or otherwise), the Appreciation Amount for such Shareholder Account shall be reduced, to the extent thereof, by the Net Asset Value of the Commission Share (or portion thereof) redeemed, and if the Net Asset Value of the Commission Share (or portion thereof) being redeemed equals or exceeds the Appreciation Amount, the Cost Accumulation Amount will be reduced to the extent thereof, by such excess. If the Appreciation Amount for such Shareholder Account immediately prior to any redemption of a Commission Share (or portion thereof) is equal to or greater than the Net Asset Value of such Commission Share (or portion thereof) deemed to have been tendered for redemption, no CDSCs will be payable in respect of such Commission Share (or portion thereof).

The Transfer Agent shall require that the Sub-transfer Agent in respect of each Omnibus Account maintain on a daily basis in respect of each Sub-shareholder Account reflected in such Omnibus Account a Cost Accumulation Amount and sufficient records to enable it to compute, as of the date of any actual or deemed redemption or Free Exchange of a Commission Share reflected in such Sub-shareholder Account an Appreciation Amount in accordance with the preceding paragraph and to apply the same to determine whether a CDSC is payable

(as though such Sub-shareholder Account were a Shareholder Account other than an Omnibus Account); provided, that until the Sub-transfer Agent in respect of the ML Omnibus Account develops the data processing capability to conform to the foregoing requirements, such Sub-transfer Agent shall maintain for each Sub-shareholder Account a separate Cost Accumulation Amount and a separate Appreciation Amount for each Date of Original Purchase of any Commission Share which shall be applied as set forth in the preceding paragraph as if each Date of Original Purchase were a separate Month of Original Purchase.

(5) Identification of Redeemed Shares. If a Shareholder Account (other than an Omnibus Account) tenders a Share of a Fund for redemption (other than in connection with an exchange of such Share for a Share of another Fund or in connection with the conversion of such Share pursuant to a Conversion Feature), such tendered Share will be deemed to be a Free Share if there are any Free Shares reflected in such Shareholder Account immediately prior to such tender. If there is more than one Free Share reflected in such Shareholder Account immediately prior to such tender, such tendered Share will be deemed to be the Free Share with the earliest Month of Original Purchase. If there are no Free Shares reflected in such Shareholder Account immediately prior to such tender, such tendered Share will be deemed to be the Commission Share with the earliest Month of Original Purchase reflected in such Shareholder Account.

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If a Sub-shareholder Account reflected in an Omnibus Account tenders a Share for redemption (other than in connection with an Exchange of such Share for a Share of another Fund or in connection with the conversion of such Share pursuant to a Conversion Feature), the Transfer Agent shall require that the record owner of each Omnibus Account supply the Transfer Agent sufficient records to enable the Transfer Agent to apply the rules of the preceding paragraph to such Sub-shareholder Account (as though such Sub-shareholder Account were a Shareholder Account other than an Omnibus Account); provided, that until the Sub-transfer Agent in respect of the ML Omnibus Account develops the data processing capability to conform to the foregoing requirements, such Sub-transfer Agent shall not be required to conform to the foregoing rules regarding Free Shares (and the Transfer Agent shall account for such Free Shares as provided in (3) above) but shall apply the foregoing rules to each Commission Share with respect to the Date of Original Purchase of any Commission Share as though each such Date were a separate Month of Original Purchase.

(6) Identification of Exchanged Shares. When a Shareholder Account (other than an Omnibus Account) tenders Shares of one Fund (the "Redeeming Fund") for redemption where the proceeds of such redemption are to be automatically reinvested in shares of another Fund (the "Issuing Fund") to effect an exchange (whether or not pursuant to a Free Exchange) into Shares of

the Issuing Fund: (1) such Shareholder Account will be deemed to have tendered Shares (or portions thereof) of the Redeeming Fund with each Month of Original Purchase represented by Shares of the redeeming Fund reflected in such Shareholder Account immediately prior to such tender in the same proportion that the number of Shares of the redeeming Fund with such Month of Original Purchase reflected in such Shareholder immediately prior to such tender bore to the total number of Shares of the Redeeming Fund reflected in such Shareholder Account immediately prior to such tender, and on that basis the tendered Shares of the Redeeming Fund will be identified as Distributor Shares or Post-distributor Shares; (2) such Shareholder Account will be deemed to have tendered Commission Shares (or portions thereof) and Free Shares (or portions thereof) of the Redeeming Fund of each category (i.e., Distributor Shares or Post-distributor Shares) in the same proportion that the number of Commission Shares or Free Shares (as the case may be) of the Redeeming Fund in such category reflected in such Shareholder Account bore to the total number of Shares of the Redeeming Fund in such category reflected in such Shareholder Account immediately prior to such tender, (3) the Shares (or portions thereof) of the Issuing Fund issued in connection with such exchange will be deemed to have the same Months of Original Purchase as the Shares (or portions thereof) of the Redeeming Fund so tendered and will be categorized as Distributor Shares and Post-distributor Shares accordingly, and (4) the Shares (or portions thereof) of each Category of the Issuing Fund issued in connection with such exchange will be deemed to be Commission Shares and Free Shares in the same proportion that the Shares of such Category of the Redeeming Fund were Commission Shares and Free Shares.

The Transfer Agent shall require that each record owner of an Omnibus Account maintain records relating to each Sub-shareholder Account in such Omnibus Account sufficient to apply the foregoing rules to each such Sub-shareholder Account (as though such Sub-shareholder Account were a Shareholder Account other than an Omnibus Account); provided, that until the Sub-transfer Agent in respect of the ML Omnibus Account develops the data processing capability to conform to the foregoing requirements, such Sub-transfer Agent shall not be required to conform to the foregoing rules relating to Free Shares (and the Sub-transfer Agent shall account for such Free Shares as provided in (3) above) and shall apply a first-in-first-out procedure (based upon the Date of Original Purchase) to determine which Commission Shares (or portions thereof) of a Redeeming Fund were redeemed in connection with an exchange.

(7) Identification of Converted Shares. The Transfer Agent records maintained for each Shareholder Account (other than an Omnibus Account) will treat each Commission Share of a Fund as though it were redeemed at its Net Asset Value on the date such Commission Share converts into a Class A share of such Fund in accordance with an applicable Conversion Feature applied with reference to its Month of Original Purchase and will treat each Free Share of such Fund with a given Month of Original Purchase as though it

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were redeemed at its Net Asset Value when it is simultaneously converted to a Class A share at the time the Commission Shares of such Fund with such Month of Original Purchase are so converted.

The Transfer Agent shall require that each record owner of an Omnibus Account maintain records relating to each Sub-shareholder Account in such Omnibus Account sufficient to apply the foregoing rules to each such Sub-shareholder Account (as though such Sub-shareholder Account were a Shareholder Account other than an Omnibus Account) ; provided, that until the Sub-transfer Agent in respect of the ML Omnibus Account develops the data processing capability to conform to the foregoing requirements, such Sub-transfer Agent shall apply the foregoing rules to Commission Shares with reference to the Date of Original Issue of each Commission Share (as though each such date were a separate Month of Original Issue) and shall not be required to apply the foregoing rules to Free Shares (and the Sub-transfer Agent shall account for such Free Shares as provided in (3) above).

(C) ALLOCATIONS OF ASSET BASED SALE CHARGES AND CDSCs AMONG DISTRIBUTOR SHARES AND POST-DISTRIBUTOR SHARES:

The Transfer Agent shall use the following rules to allocate the amounts of Asset Based Sales Charges and CDSCs payable by each Fund in respect of Shares between Distributor Shares and Post-distributor Shares:

(1) Receivables Constituting CDSCs: CDSCs will be treated as relating to Distributor Shares or Post-distributor Shares depending upon the Month of Original Purchase of the Commission Share the redemption of which gives rise to the payment of a CDSC by a Shareholder Account.

The Transfer Agent shall cause each Sub-transfer Agent to apply the foregoing rule to each Sub-shareholder Account based on the records maintained by such Sub-transfer Agent; provided, that until the Sub-transfer Agent in respect of the ML Omnibus Account develops the data processing capability to conform to the foregoing requirements, such Sub-transfer Agent shall apply the foregoing rules to each Sub-shareholder Account with respect to the Date of Original Purchase of any Commission Share as though each such date were a separate Month of Original Purchase.

(2) Receivables Constituting Asset Based Sales Charges:

The Asset Based Sales Charges accruing in respect of each Shareholder Account (other than an Omnibus Account) shall be allocated to each Share reflected in such Shareholder Account as of the close of business on such day on an equal per share basis. For example, the Asset Based Sales Charges attributable to Distributor Shares on any day shall be computed and allocated as follows:

$$A * (B/C)$$

where:

- A = Total amount of Asset Based Sales Charge accrued in respect of such Shareholder Account (other than an Omnibus Account) on such day.
- B = Number of Distributor Shares reflected in such Shareholder Account (other than an Omnibus Account) on the close of business on such day
- C = Total number of Distributor Shares and Post-distributor Shares reflected in such Shareholder Account (other than an Omnibus Account) and outstanding as of the close of business on such

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day.

The Portion of the Asset Based Sales Charges of such Fund accruing in respect of such Shareholder Account for such day allocated to Post-distributor Shares will be obtained using the same formula but substituting for "B" the number of Post-distributor Shares, as the case may be, reflected in such Shareholder Account and outstanding on the close of business on such day. The foregoing allocation formula may be adjusted from time to time by notice to the Fund and the transfer agent for the Fund from the Seller and the Buyer.

The Transfer Agent shall, based on the records maintained by the record owner of such Omnibus Account, allocate the Asset Based Sales Charge accruing in respect of each Omnibus Account on each day among all Sub-shareholder Accounts reflected in such Omnibus Account on an equal per share basis based upon the total number of Distributor Shares and Post-distributor Shares reflected in each such Sub-shareholder Account as of the close of business on such day. In addition, the Transfer Agent shall apply the foregoing rules to each Sub-shareholder Account (as though it were a Shareholder Account other than an Omnibus Account), based on the records maintained by the record owner, to allocate the Asset Based Sales Charge so allocated to any Sub-shareholder Account among the Distributor Shares and Post-distributor Shares reflected in each such Sub-shareholder Account in accordance with the rules set forth in the preceding paragraph; provided, that until the Sub-transfer Agent in respect of the ML Omnibus Account develops the data processing capacity to apply the rules of this Schedule I as applicable to Sub-shareholder Accounts other than ML Omnibus Accounts, the Transfer Agent shall allocate the Asset Based Sales Charge accruing in respect of Shares of any Fund in the ML Omnibus Account during any calendar month (or portion thereof) among Distributor Shares and

Post-distributor Shares as follows:

- (a) The portion of such Asset Based Sales Charge allocable to Distributor Shares shall be computed as follows:

$$A * ((B + C) / 2) / ((D + E) / 2)$$

where:

A = Total amount of Asset Based Sales Charge accrued during such calendar month (or portion thereof) in respect of Shares of such Fund in the ML Omnibus Account

B = Shares of such Fund in the ML Omnibus Account and identified as Distributor Shares and outstanding as of the close of business on the last day of the immediately preceding calendar month (or portion thereof), times Net Asset Value per Share as of such time

C = Shares of such Fund in the ML Omnibus Account and identified as Distributor Shares and outstanding as of the close of business on the last day of such calendar month (or portion thereof), times Net Asset Value per Share as of such time

D = Total number of Shares of such Fund in the ML Omnibus Account and outstanding as of the close of business on the last day of the immediately preceding calendar month (or portion thereof), times Net Asset Value per Share as of such time.

E = Total number of Shares of such Fund in the ML Omnibus Account and outstanding as of the close of business on the last day of such calendar month (or portion thereof), times Net Asset Value per Share as of such time.

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- (b) The portion of such Asset Based Sales Charge allocable to Post-distributor Shares shall be computed as follows:

$$A * ((B + C) / 2)$$



where:

- A = Total amount of Asset Based Sales Charge accrued during such calendar month (or portion thereof) in respect of Shares of such Fund in the ML Omnibus Account
- B = Shares of such Fund in the ML Omnibus Account and identified as Post-distributor Shares and outstanding as of the close of business on the last day of the immediately preceding calendar month (or portion thereof), times Net Asset Value per Share as of such time
- C = Shares of such Fund in the ML Omnibus Account and identified as Post-distributor Shares and outstanding as of the close of business on the last day of such calendar month (or portion thereof), times Net Asset Value per Share as of such time
- D = Total number of Shares of such Fund in the ML Omnibus Account and outstanding as of the close of business on the last day of the immediately preceding calendar month (or portion thereof), times Net Asset Value per Share as of such time.
- E = Total number of Shares of such Fund in the ML Omnibus Account and outstanding as of the close of business on the last day of such calendar month (or portion thereof), times Net Asset Value per Share as of such time.

(3) Payments on behalf of each Fund.

On the close of business on each day, or to the extent the parties agree less frequently, the Transfer Agent shall cause payment to be made of the amount of the Asset Based Sales Charge and CDSCs accruing on such day in respect of the Shares of such Fund owned of record by Shareholder Accounts (other than Omnibus Accounts) by two separate wire transfers, directly from accounts of such Fund as follows:

1. The Asset Based Sales Charge and CDSCs accruing in respect of Shareholder Accounts other than Omnibus Accounts and allocable to Distributor Shares in accordance with the preceding rules shall be paid to the Distributor's Account, unless the Distributor otherwise instructs the Fund in any irrevocable payment instruction; and
2. The Asset Based Sales Charges and CDSCs accruing in respect



of Shareholder Accounts other than Omnibus Accounts and allocable to Post-distributor Shares in accordance with the preceding rules shall be paid in accordance with direction received from any future distributor of Shares of a Fund.

On each Omnibus CDSC Settlement Date, the Transfer Agent for each Fund shall cause the applicable Sub-transfer Agent to cause payment to be made of the amount of the CDSCs accruing during the period to which such Omnibus CDSC Settlement Date relates in respect of the Shares of such Fund owned of record by each Omnibus Account by two separate wire transfers directly from the account of such Fund maintained by

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such Transfer Agent, as follows:

1. The CDSCs accruing in respect of such Omnibus Account and allocable to Distributor Shares in accordance with the preceding rules shall be paid to the Distributor's Account, unless the Distributor otherwise instructs the Fund in any irrevocable payment instruction; and
2. The CDSCs accruing in respect of such Omnibus Account and allocable to Post-distributor Shares in accordance with the preceding rules shall be paid in accordance with direction received from any future distributor of Shares of a Fund.

On each Omnibus Asset Based Sales Charge Settlement Date the Transfer Agent for each Fund shall cause payment to be made of the amount of the Asset Based Sales Charge accruing for the period to which such Omnibus Asset Based Sales Charge Settlement Date relates in respect of the Shares of such Fund owned of record by each Omnibus Account by two separate wire transfers directly from accounts of such Fund as follows:

1. The Asset Based Sales Charge accruing in respect of such Omnibus Account and allocable to Distributor Shares shall be paid to the Distributor's Collection Account, unless the Distributor otherwise instructs the Fund in any irrevocable payment instruction; and
2. The Asset Based Sales Charge accruing in respect of such Omnibus Account and allocable to Post-Distributor Shares shall be paid in accordance with direction received from any future distributor of Shares of a Fund.

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EVERGREEN KEYSTONE  
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[logo] FUNDS [logo]  
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EVERGREEN KEYSTONE DISTRIBUTOR, INC.  
230 PARK AVENUE  
NEW YORK, NEW YORK 10169

December 12, 1996  
Effective January 1, 1997

To Whom It May Concern:

You currently have a dealer agreement ("Agreement") with Evergreen Keystone Distributor, Inc. ("Company"). Effective January 1, 1997 the Agreement is amended and restated in its entirety as set forth below.

The Company, principal underwriter, invites you to participate in the distribution of shares, including separate classes of shares, ("Shares") of the Keystone Fund Family, the Keystone America Fund Family, the Evergreen Fund Family and to the extent applicable their separate investment series (collectively "Funds" and each individually a "Fund") designated by us which are currently or hereafter underwritten by the Company, subject to the following terms:

1. You will offer and sell Shares of the Funds at the public offering price with respect to the applicable class described in the then current prospectus and/or statement of additional information ("Prospectus") of the Fund whose Shares you offer. You will offer Shares only on a forward pricing basis, i.e. orders for the purchase, repurchase or exchange of Shares accepted by you prior to the close of the New York Stock Exchange and placed with us the same day prior to the close of our business day, 5:00 p.m. Eastern Time, shall be confirmed at the closing price for that business day. You agree to place orders for Shares only with us and at such closing price. In the event of a difference between verbal and written price confirmation, the written confirmations shall be considered final. Prices of a Fund's Shares are computed by and are subject to withdrawal by each Fund in accordance with its Prospectus. You agree to place orders with us only through your central order department unless we accept your written Power of Attorney authorizing others to place orders on your behalf. This Agreement on your part runs to us and the respective Fund and is for the benefit and enforceable by each.
2. In the distribution and sale of Shares, you shall not have authority to act as agent for the Fund, the Company or any other dealer in any respect in such transactions. All orders are subject to acceptance by us and become effective only upon confirmation by us. The Company reserves the unqualified right not to accept any specific order for the purchase or exchange of Shares.
3. In addition to the distribution services provided by you with respect to a Fund you may be asked to render administrative, account maintenance and other services as necessary or desirable for shareholders of such Fund ("Shareholder Services").
4. Notwithstanding anything else contained in this Agreement or in any other agreement between us, the Company hereby acknowledges and agrees that any information received from you concerning your customer in the course of this arrangement is confidential. Except as requested by the customer or as required by law and except for the respective Fund, its officers, directors, employees, agents or service providers, the Company will not provide nor permit access to such information by any person or entity, including any First Union Corporation bank or First Union Brokerage Services, Inc.
5. So long as this Agreement remains in effect, we will pay you commissions on sales of Shares of the Funds and service fees for Shareholder Services, in accordance with the Schedule of Commissions and Service Fees ("Schedule") attached hereto and made a part hereof, which Schedule may be modified from time to time or rescinded by us, in either case without prior notice. You have no vested right to receive any continuing service fees, other fees, or other commissions which we may elect to pay to you from time to time on Shares previously sold by you or by any person who is not a broker or dealer actually engaged in the investment banking or securities business. You will receive commissions in accordance with the attached Schedule on all purchase transactions in shareholder accounts (excluding reinvestment of income dividends and capital gains distributions) for which you are designated as Dealer of Record except where we determine that any such purchase was made with the proceeds of a redemption or repurchase of Shares of the same Fund or another Fund, whether or not the transaction constitutes the exercise of the exchange privilege. Commissions will be paid to you twice a month. You will receive service fees for shareholder accounts for which you are designated Dealer of Record as provided in the Schedule. You hereby represent that

receipt of such service fees by you will be disclosed to your customers.

You hereby authorize us to act as your agent in connection with all transactions in shareholder accounts in which you are designated as Dealer of Record. All designations of Dealer of Record and all authorizations of the Company to act as your agent shall cease upon the termination of this Agreement or upon the shareholder's instruction to transfer his or her account to another Dealer of Record.

6. Payment for all Shares purchased from us shall be made to the Company and shall be received by the Company within three business days after the acceptance of your order or such shorter time as may be required by law. If such payment is not received by us, we reserve the right, without prior notice, forthwith to cancel the sale, or, at our option, to sell such Shares back to the respective Fund in which case we may hold you responsible for any loss, including loss of profit, suffered by us or by such Fund resulting from your failure to make payment as aforesaid.

7. You agree to purchase Shares of the Funds only from us or from your customers. If you purchase Shares from us, you agree that all such purchases shall be made only to cover orders already received by you from your customers, or for your own bonafide investment without a view to resale. If you purchase Shares from your customers, you agree to pay such customers the applicable net asset value per Share less any contingent deferred sales charge ("CDSC") that would be applicable under the Prospectus ("repurchase price").

8. You will sell Shares only (a) to your customers at the prices described in paragraph 2 above; or (b) to us as agent for a Fund at the repurchase price. In such a sale to us, you may act either as principal for your own account or as agent for your customer. If you act as principal for your own account in purchasing Shares for resale to us, you agree to pay your customer not less nor more than the repurchase price which you receive from us. If you act as agent for your customer in selling Shares to us, you agree not to charge your customer more than a fair commission for handling the transaction. You shall not withhold placing with us orders received from your customers so as to profit yourself as a result of such withholding.

10. We will not accept from you any conditional orders for Shares.

11. If any Shares sold to you under the terms of this Agreement are repurchased by a Fund, or are tendered for redemption, within seven business days after the date of our confirmation of the original purchase by you, it is agreed that you shall forfeit your right to any commissions on such sales even though the shareholder may be charged a CDSC by the Fund.

We will notify you of any such repurchase or redemption within the next ten business days after the date on which the certificate or written request for redemption is delivered to us or to the Fund, and you shall forthwith refund to us the full amount of any commission you received on such sale. We agree, in the event of any such repurchase or redemption, to refund to the Fund any commission we retained on such sale and, upon receipt from you of the commissions paid to you, to pay such commissions forthwith to the Fund.

12. Shares sold to you hereunder shall not be issued until payment has been received by the Fund concerned. If transfer instructions are not received from you within 15 days after our acceptance of your order, the Company reserves the right to instruct the transfer agent for the Fund concerned to register Shares sold to you in your name and notify you of such. You agree to hold harmless and indemnify the Company, the Fund and its transfer agent for any loss or expense resulting from such registration.

13. You agree to comply with any compliance standards that may be furnished to you by us regarding when each class of Shares of a Fund may appropriately be sold to particular customers.

14. No person is authorized to make any representations concerning Shares of a Fund except those contained in the Prospectus and in sales literature issued by us supplemental to such Prospectus. In purchasing Shares from us you shall rely solely on the representations contained in the appropriate Prospectus and in such sales literature. We will furnish additional copies of such Prospectuses and sales literature and other releases and information issued by us in reasonable quantities upon request. You agree that you will in all respects duly conform with all laws and regulations applicable to the sales of Shares of the Funds and will indemnify and hold harmless the Funds, their directors and trustees and the Company from any damage or expenses on account of any wrongful act by you, your representatives, agents or sub-agents in connection with any orders or solicitation or orders of Shares of the Funds by you, your representatives, agents or sub-agents.

15. Each party hereto represents that it is (1) a member of the National Association of Securities Dealers, Inc., and agrees to notify the other should it cease to be a member of such Association and agrees to the automatic



AMOUNT OF PURCHASE	COMMISSION	AMOUNT OF PURCHASE	COMMISSION
Less than \$100,000	4%	\$250,000-\$499,999	1%
\$100,000-\$249,999	2%	\$500,000 and above	0.5%

### 3. SERVICE FEES

We will pay you service fees based on the aggregate net asset value of Shares of the Keystone Funds (other than Keystone Precious Metals Holdings, Inc.) you have sold on or after June 1, 1983 and of Keystone Precious Metals Holdings, Inc. you have sold on or after November 19, 1984, which remain issued and outstanding on the books of such Funds on the fifteenth day of the third month of each calendar quarter (March 15, June 15, September 15 and December 15, each hereinafter a "Service Fee Record Date") and which are registered in the names of customers for whom you are dealer of record ("Eligible Shares"). Such service fees will be calculated quarterly at the rate of 0.0625% per quarter of the aggregate net asset value of all such Eligible Shares (approximately 0.25% annually) on the Service Fee Record Date; provided, however, that in any calendar quarter in which service fees earned by you on Eligible Shares of all Funds (except Keystone Liquid Trust Class A Shares) are less than \$50.00 in the aggregate, no service fees will be paid to you nor will such amounts be carried over for payment in a future quarter. Service fees will be payable within five business days after the Service Fee Record Date. Service fees will only be paid by us to the extent that such amounts have been paid to us by the Funds.

### 4. PROMOTIONAL INCENTIVES

We may, from time to time, provide promotional incentives, including reallowance and/or payment of additional commissions to certain dealers. Such incentives may, at our discretion, be limited to dealers who allow their individual selling representatives to participate in such additional commissions.

<TABLE>

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## II. KEYSTONE AMERICA FUNDS AND EVERGREEN FUNDS

### KEYSTONE AMERICA FUNDS

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KEYSTONE GOVERNMENT SECURITIES FUND  
 KEYSTONE STATE TAX FREE FUND  
 KEYSTONE STATE TAX FREE FUND - SERIES II  
 KEYSTONE STRATEGIC INCOME FUND  
 KEYSTONE TAX FREE INCOME FUND  
 KEYSTONE WORLD BOND FUND  
 KEYSTONE FUND OF THE AMERICAS  
 KEYSTONE GLOBAL OPPORTUNITIES FUND  
 KEYSTONE AMERICA HARTWELL EMERGING GROWTH FUND, INC.  
 KEYSTONE GLOBAL RESOURCES AND DEVELOPMENT FUND

<C>

KEYSTONE OMEGA FUND  
 KEYSTONE SMALL COMPANY GROWTH FUND - II  
 KEYSTONE FUND FOR TOTAL RETURN  
 KEYSTONE BALANCED FUND - II  
 (COLLECTIVELY "KEYSTONE EQUITY AND LONG TERM INCOME FUNDS")  
 KEYSTONE CAPITAL PRESERVATION AND INCOME FUND  
 KEYSTONE INTERMEDIATE TERM BOND FUND  
 (COLLECTIVELY "KEYSTONE INTERMEDIATE INCOME FUNDS")  
 KEYSTONE LIQUID TRUST

### EVERGREEN FUNDS

EVERGREEN U.S. GOVERNMENT FUND  
 EVERGREEN HIGH GRADE TAX FREE FUND  
 EVERGREEN FLORIDA MUNICIPAL BOND FUND  
 EVERGREEN GEORGIA MUNICIPAL BOND FUND  
 EVERGREEN NEW JERSEY MUNICIPAL BOND FUND  
 EVERGREEN NORTH CAROLINA MUNICIPAL BOND FUND  
 EVERGREEN SOUTH CAROLINA MUNICIPAL BOND FUND  
 EVERGREEN VIRGINIA MUNICIPAL BOND FUND  
 EVERGREEN FLORIDA HIGH INCOME MUNICIPAL BOND FUND  
 EVERGREEN FUND  
 EVERGREEN U.S. REAL ESTATE EQUITY FUND  
 EVERGREEN LIMITED MARKET FUND  
 EVERGREEN AGGRESSIVE GROWTH FUND  
 EVERGREEN INTERNATIONAL EQUITY FUND  
 EVERGREEN GLOBAL LEADERS FUND  
 EVERGREEN EMERGING MARKETS FUND  
 EVERGREEN GLOBAL REAL ESTATE EQUITY FUND  
 EVERGREEN BALANCED FUND  
 EVERGREEN GROWTH & INCOME FUND  
 EVERGREEN VALUE FUND

EVERGREEN AMERICAN RETIREMENT FUND  
 EVERGREEN FOUNDATION FUND  
 EVERGREEN TAX STRATEGIC FOUNDATION FUND  
 EVERGREEN UTILITY FUND  
 EVERGREEN TOTAL RETURN FUND  
 EVERGREEN SMALL CAP EQUITY INCOME FUND  
 (COLLECTIVELY "EVERGREEN EQUITY AND LONG TERM INCOME FUNDS")

EVERGREEN MONEY MARKET FUND  
 EVERGREEN TAX EXEMPT MONEY MARKET FUND  
 EVERGREEN TREASURY MONEY MARKET FUND  
 EVERGREEN PENNSYLVANIA TAX FREE MONEY MARKET FUND  
 (COLLECTIVELY "EVERGREEN MONEY MARKET FUNDS")  
 EVERGREEN SHORT-INTERMEDIATE BOND FUND  
 EVERGREEN INTERMEDIATE-TERM BOND FUND  
 EVERGREEN INTERMEDIATE-TERM GOVERNMENT SECURITIES FUND  
 EVERGREEN SHORT-INTERMEDIATE MUNICIPAL FUND  
 EVERGREEN SHORT-INTERMEDIATE MUNICIPAL FUND -- CALIFORNIA  
 (COLLECTIVELY "EVERGREEN INTERMEDIATE INCOME AND MONEY MARKET FUNDS")

</TABLE>

## A. CLASS A SHARES

### 1. COMMISSIONS

Except as otherwise provided in our Agreement, in paragraph 2 below or in connection with certain types of purchases at net asset value which are described in the Prospectuses for the Keystone America Funds and the Evergreen

Funds, we will pay you commissions on your sales of Shares of such Funds in accordance with the following sales charge schedules\* on sales where we receive a commission from the shareholder:

KEYSTONE AMERICA AND EVERGREEN EQUITY AND LONG TERM INCOME FUNDS

AMOUNT OF PURCHASE	SALES CHARGE AS A PERCENTAGE OF OFFERING PRICE	COMMISSION AS A PERCENTAGE OF OFFERING PRICE
Less than \$50,000	4.75%	4.25%
\$50,000-\$99,999	4.50%	4.25%
\$100,000-\$249,999	3.75%	3.25%
\$250,000-\$499,999	2.50%	2.00%
\$500,000-\$999,999	2.00%	1.75%
Over \$1,000,000	None	See paragraph 2

KEYSTONE AMERICA AND EVERGREEN INTERMEDIATE INCOME FUNDS

AMOUNT OF PURCHASE	SALES CHARGE AS A PERCENTAGE OF OFFERING PRICE	COMMISSION AS A PERCENTAGE OF OFFERING PRICE
Less than \$50,000	3.25%	2.75%
\$50,000-\$99,999	3.00%	2.75%
\$100,000-\$249,999	2.50%	2.25%
\$250,000-\$499,999	2.00%	1.75%
\$500,000-\$999,999	1.50%	1.25%
Over \$1,000,000	None	See paragraph 2

KEYSTONE LIQUID TRUST AND EVERGREEN MONEY MARKET FUNDS

No sales charge for any amount of purchase.

2. COMMISSIONS FOR CERTAIN TYPES OF PURCHASES

With respect to (a) purchases of Class A Shares in the amount of \$1 million or more and/or (b) purchases of Class A Shares made by a corporate or certain other qualified retirement plan or a non-qualified deferred compensation plan or a Title I tax sheltered annuity or TSA Plan sponsored by an organization having 100 or more eligible employees (a "Qualifying Plan"), (each such purchase a "NAV Purchase"), we will pay you commissions as follows:

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a. Purchases described in 2(a) above

AMOUNT OF PURCHASE	COMMISSION AS A PERCENTAGE OF OFFERING PRICE
\$1,000,000-\$2,999,999	1.00% of the first \$2,999,999, plus
\$3,000,000-\$4,999,999	0.50% of the next \$2,000,000, plus
\$5,000,000	0.25% of amounts equal to or over \$5,000,000

b. Purchases described in 2(b) above .50% of amount of purchase (subject to recapture upon early redemption)

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\* These sales charge schedules apply to purchases made at one time or pursuant to Rights of Accumulation or Letters of Intent. Any purchase which is made pursuant to Rights of Accumulation or Letter of Intent is subject to the terms described in the Prospectus(es) for the Fund(s) whose Shares are being purchased.

3. PROMOTIONAL INCENTIVES

We may, from time to time, provide promotional incentives, including reallowance and/or payment of up to the entire sales charge to certain dealers. Such incentives may, at our discretion, be limited to dealers who allow their individual selling representatives to participate in such additional commissions.

4. SERVICE FEES FOR EVERGREEN FUNDS (OTHER THAN EVERGREEN MONEY MARKET FUNDS) AND KEYSTONE AMERICA FUNDS (OTHER THAN KEYSTONE STATE TAX FREE FUND, KEYSTONE STATE TAX FREE FUND - SERIES II, KEYSTONE CAPITAL PRESERVATION AND INCOME FUND AND KEYSTONE LIQUID TRUST)

a. Keystone America Funds Only. Until March 31, 1997, we will pay you service fees based on the aggregate net asset value of Shares of such Funds you have sold which remain issued and outstanding on the books of such Funds on the fifteenth day of the third month of each calendar quarter (March 15,

June 15, September 15 and December 15, each hereinafter a "Service Fee Record Date") and which are registered in the names of customers for whom you are dealer of record ("Eligible Shares"). Such service fees will be calculated quarterly at the rate of 0.0625% per quarter of the aggregate net asset value of all such Eligible Shares (approximately 0.25% annually) on the Service Fee Record Date; provided, however, that in any calendar quarter in which total service fees earned by you on Eligible Shares of all Keystone Funds (except Keystone Liquid Trust Class A Shares) are less than \$50.00 in the aggregate, no service fees will be paid to you nor will such amounts be carried over for payment in a future quarter. Service fees will be paid within five days after the Service Fee Record Date. Service fees will only be paid by us to the extent that such amounts have been paid to us by the Funds.

b. Evergreen Funds and Keystone America Funds (after March 31, 1997). We will pay you service fees based on the average daily net asset value of Shares of such Funds you have sold which are issued and outstanding on the books of such Funds during each calendar quarter and which are registered in the names of customers for whom you are dealer of record ("Eligible Shares"). Such service fees will be calculated quarterly at the rate of 0.0625% per quarter of the daily average net asset value of all such Eligible Shares (approximately 0.25% annually) during such quarter; provided, however, that in any calendar quarter in which total service fees earned by you on Eligible Shares of all Funds (except Keystone Liquid Trust Class A Shares) are less than \$50.00 in the aggregate, no service fees will be paid to you nor will such amounts be carried over for payment in a future quarter. Service fees will be paid by the twentieth day of the month before the end of the respective quarter. Service fees will only be paid by us to the extent that such amounts have been paid to us by the Funds.

5. SERVICE FEES FOR KEYSTONE STATE TAX FREE FUND AND KEYSTONE STATE TAX FREE FUND - SERIES II

a. Until March 31, 1997, we will pay you service fees based on the aggregate net asset value of Shares of such Funds you have sold which remain issued and outstanding on the books of the Funds on the fifteenth day of the third month of each calendar quarter (March 15, June 15, September 15 and December 15, each hereinafter a "Service Fee Record Date") and which are registered in the names of customers for whom you are dealer of record ("Eligible Shares"). Such service fees will be calculated quarterly at the rate of 0.0375% per quarter of the aggregate net asset value of all such Eligible Shares (approximately 0.15% annually) on the Service Fee Record Date; provided, however, that in any calendar quarter in which total service fees earned by you on Eligible Shares of all Funds (except Keystone Liquid Trust Class A Shares) are less than \$50.00 in the aggregate, no service fees will be paid to you nor will such amounts be carried over for payment in a future quarter. Service fees will be paid within five days after the Service Fee Record Date. Service fees will only be paid by us to the extent that such amounts have been paid to us by the Funds.

b. After March 31, 1997 we will pay you service fees calculated as provided in section II (A) (4) (b) except that the quarterly rate will be 0.0375% (approximately 0.15% annually).

c. After June 30, 1997, we will pay you service fees calculated as provided in section II (A) (4) (b) above on Shares sold on or after July 1, 1997.

6. SERVICE FEES FOR KEYSTONE CAPITAL PRESERVATION AND INCOME FUND

a. Until March 31, 1997, we will pay you service fees calculated as provided in section II (A) (4) (a) except that for Eligible Shares sold after January 1, 1997 the quarterly rate will be 0.025% (approximately 0.10% annually).

b. After March 31, 1997 we will pay you service fees calculated as provided in section II (A) (4) (b) except that for Eligible Shares sold after January 1, 1997 the quarterly rate will be 0.025% (approximately 0.10% annually).

7. SERVICE FEES FOR KEYSTONE LIQUID TRUST

We will pay you service fees based on the aggregate net asset value of all Shares of such Fund you have sold which remain issued and outstanding on the books on the fifteenth day of the third month of each calendar quarter (March 15, June 15, September 15 and December 15, each hereinafter a "Service Fee Record Date") and which are registered in the names of customers for whom you are dealer of record ("Eligible Shares"). Such service fees will be calculated at the rates set forth below and based on the aggregate net asset value of all such Eligible Shares on the Service Fee Record Date; provided, however, that no such service fees will be paid to you for any quarter if the aggregate net asset value of such Eligible Shares on the last business day of the quarter is less than \$2 million; and provided further, however, that service fees will only be paid to us to the extent that such amounts have been paid to us by the Fund. Service fees will be paid within 5 days after the Service Fee Record Date. The quarterly rates at which such service fees are payable and the net asset value to which such rates will be applied are set forth below:



ANNUAL RATE	QUARTERLY PAYMENT RATE	AGGREGATE NET ASSET VALUE OF SHARES
0.00000%	0.00000%	of the first \$1,999,999, plus
0.15000%	0.03750%	of the next \$8,000,000, plus
0.20000%	0.05000%	of the next \$15,000,000, plus
0.25000%	0.06250%	of the next \$25,000,000, plus
0.30000%	0.07500%	of amounts over \$50,000,000

#### 8. SERVICE FEES FOR EVERGREEN MONEY MARKET FUNDS

We will pay you service fees calculated as provided in section II (A) (4) (b) except that the quarterly rate will be 0.075% (approximately 0.30% annually.)

#### B. CLASS B SHARES

##### ALL KEYSTONE AMERICA AND EVERGREEN FUNDS

#### 1. COMMISSIONS

Except as otherwise provided in our Agreement, we will pay you commissions on your sales of Class B Shares of the Keystone America Funds and the Evergreen Funds at the rate of 4.00% of the aggregate Offering Price of such Shares, when sold in an eligible sale.

#### 2. PROMOTIONAL INCENTIVES

We may, from time to time, provide promotional incentives, including reallowance and/or payment of additional commissions, to certain dealers. Such incentives may, at our discretion, be limited to dealers who allow their individual selling representatives to participate in such additional commissions.

#### 3. SERVICE FEES FOR EVERGREEN FUNDS AND KEYSTONE AMERICA FUNDS (OTHER THAN KEYSTONE STATE TAX FREE FUND AND KEYSTONE STATE TAX FREE FUND - SERIES II)

a. Keystone America Funds - Until March 31, 1997, we will pay you service fees calculated as provided in section II (A) (4) (a) above.

b. Evergreen Funds and Keystone America Funds (after March 31, 1997). We will pay you service fees calculated as provided in section II (A) (4) (b) above.

#### 4. SERVICE FEES FOR KEYSTONE STATE TAX FREE FUND AND KEYSTONE STATE TAX FREE FUND - SERIES II

a. Until March 31, 1997, we will pay you service fees calculated as provided in section II (A) (5) (a) above.

b. After March 31, 1997, we will pay you service fees calculated as provided in section II (A) (5) (b) above.

c. After June 30, 1997, we will pay you service fees calculated as provided in section II (A) (5) (c) above.

#### C. CLASS C SHARES

##### ALL KEYSTONE AMERICA AND EVERGREEN FUNDS

#### 1. COMMISSIONS

Except as provided in our Agreement, we will pay you initial commissions on your sales of Class C Shares of the Keystone America and the Evergreen Funds at the rate of 0.75% of the aggregate Offering Price of such Shares sold in each eligible sale.

We will also pay you commissions based on the average daily net asset value of Shares of such Funds you have sold which have been on the books of the Funds for a minimum of 14 months from the date of purchase (plus any reinvested distributions attributable to such Shares), which have been issued and outstanding on the books of such Funds during the calendar quarter and which are registered in the names of customers for whom you are dealer of record ("Eligible Shares"). Such commissions will be calculated quarterly at the rate of 0.1875% per quarter of the average daily net asset value of all such Eligible Shares (approximately 0.75% annually) during such quarter. Such commissions will be paid by the twentieth day of the month before the end of the respective quarter. Such commissions will continue to be paid to you quarterly so long as aggregate payments do not exceed applicable NASD limitations and other governing regulations.

#### 2. SERVICE FEES

We will pay you a full year's service fee in advance on your sales of Class C Shares of such Funds at the rate of 0.25% of the aggregate net asset value of such Shares.

We will pay you service fees based on the average daily net asset value of Shares of such Funds you have sold which have been on the books of the Funds for a minimum of 14 months from the date of purchase (plus any reinvested distributions attributable to such Shares), which have been issued and outstanding during the respective quarter and which are registered in the names of customers for whom you are the dealer of record ("Eligible Shares"). Such service fees will be calculated quarterly at the rate of 0.0625% per quarter of the average daily net asset value of all such Eligible Shares (approximately 0.25% annually); provided, however, that in any calendar quarter in which total service fees earned by you on Eligible Shares of Funds (except Keystone Liquid Trust Class A Shares) are less than \$50.00 in the aggregate, no service fees will be paid to you nor will such amounts be carried over for payment in a future quarter. Service fees will be paid by the twentieth day of the month before the end of the respective quarter. Service fees other than those paid in advance will only be paid by us to the extent that such amounts have been paid to us by the Funds.

FORM OF  
MARKETING SERVICES AGREEMENT

AGREEMENT made this \_\_\_th day of December 1996 by and between Evergreen Keystone Distributor, Inc., a Delaware corporation (the "Principal Underwriter"), and Evergreen Keystone Investment Services, Inc. ("Marketing Services Agent").

WHEREAS, the Keystone \_\_\_\_\_ Fund (the "Fund"), has adopted one or more Plans of Distribution (each a "Plan", or collectively the "Plans") with respect to certain Classes of shares of the Fund and to the extent applicable certain Classes of shares of its separate investment series (the "Shares"), pursuant to Rule 12b-1 under the Investment Company Act of 1940, as amended (the "1940 Act") which Plans authorize the Fund to enter into agreements regarding the distribution of such Shares set forth on Exhibit A; and

WHEREAS, the Fund has entered into a principal underwriting agreement with the Principal Underwriter pursuant to which the Principal Underwriter has agreed to facilitate the distribution of the Shares; and

WHEREAS, the Fund has authorized the Principal Underwriter under the terms of the principal underwriting agreement to enter into a marketing services agreement with the Marketing Services Agent pursuant to which the Principal Underwriter has agreed to facilitate the distribution of the Shares;

NOW, THEREFORE, in consideration of the agreements hereinafter contained, it is agreed as follows:

1. Services as Marketing Services Agent.

1.1. The Marketing Services Agent shall assist the Principal Underwriter in promoting Shares of the Fund and will undertake such advertising and marketing services as it believes reasonable in connection therewith. In the event that the Fund establishes additional investment series with respect to which it has retained the Principal Underwriter to act as principal underwriter for one or more Classes hereunder, the Principal Underwriter shall promptly notify the Marketing Services Agent in writing. If the Marketing Services Agent is willing to render such services it shall notify the Principal Underwriter in writing whereupon the applicable Class or Classes of shares of such investment series shall become "Shares" hereunder.

1.2. All activities by the Marketing Services Agent and its agents and employees as the Marketing Services Agent shall comply with all applicable laws, rules and regulations, including, without limitation, all rules and regulations made or adopted pursuant to the 1940 Act by the Securities and Exchange Commission (the "Commission") or any securities association registered under the Securities Exchange Act of 1934, as amended (the "1934 Act").

1.3. In assisting the Principal Underwriter in promoting shares of the Fund and undertaking any advertising and marketing services on behalf of the Fund, the Marketing Services Agent shall use its best efforts in all respects duly to conform with the requirements of all Federal and state laws

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relating to the sale of such securities. Neither the Marketing Services Agent, Principal Underwriter, any selected dealer or any other person is authorized by the Fund to give any information or to make any representations, other than those contained in the Fund's registration statement (the "Registration Statement") or related prospectus and statement of additional information ("Prospectus" and "Statement of Additional Information") and any sales literature specifically approved by the Fund.

## 2. Duties of the Principal Underwriter.

2.1. The Principal Underwriter shall furnish from time to time, for use in connection with the sale of Shares such information with respect to the Shares as the Marketing Services Agent may reasonably request; and the Principal Underwriter warrants that any such information shall be true and correct.

## 3. Representations of the Principal Underwriter.

3.1. The Principal Underwriter represents to the Marketing Services Agent that it is a broker-dealer registered with the ^ Commission, is a member of the National Association of Securities Dealers, Inc. ("NASD") and that the Fund is registered under the 1940 Act and that the Shares have been registered under the Securities Act of 1933, as amended (the "Securities Act").

3.2 That the principal underwriting agreement between the Fund and the Principal Underwriter has been duly approved and continues in full force and effect.

## 4. Indemnification.

4.1. The Marketing Services Agent agrees to indemnify and hold harmless the Principal Underwriter and each of its directors, officers, employees, agents and each person, if any, who controls the Principal Underwriter within the meaning of the Securities Act ^ against any losses, claims, damages or liabilities to which the Principal Underwriter ^ may become subject, insofar as such losses, claims, damages, ^ liabilities, or expense (or actions in respect thereof) (i) arise out of or are based upon the actions of the Marketing Services Agent or (ii) result from a breach of a material provision of this

Agreement by the Marketing Services Agent. The Marketing Services Agent will reimburse any legal or other expenses reasonably incurred by the Principal Underwriter or any such ^ controlling person in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the Marketing Services Agent will not be liable for indemnification hereunder to the extent that any such loss, claim, damage or liability arises out of or is based upon the gross negligence or willful misconduct of the Principal Underwriter, its respective directors, officers, employees, agents or any controlling person herein defined in performing their obligations under this Agreement.

(b) The Principal Underwriter agrees to indemnify and hold harmless the Marketing Services Agent, and each of its directors, officers, employees, agents and each person, if any, who controls the Marketing Services Agent within the meaning of the 1933 Act against any losses, claims, damages or liabilities to which the Marketing Services Agent, or any such director, officer, employee, agent or

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controlling person may become subject, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) (i) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement ^ or sales literature of the Fund prepared or approved in writing by the Principal Underwriter or arise out of, or are based upon, the omission or the alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or (ii) result from a breach by it of a material provision of this Agreement. The Principal Underwriter will reimburse any legal or other expenses reasonably incurred by the Marketing Services Agent, or any such director, officer, employee, agent, or controlling person in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the Principal Underwriter will not be liable for indemnification hereunder to the extent that any such loss, claim, damage or liability arises out of, or is based upon, the gross negligence or willful misconduct of the Marketing Services Agent, or its respective directors, officers, employees, agents or any controlling person herein defined in the performance of their obligations under this Agreement.

(c) Promptly after receipt by an indemnified party hereunder of notice of the commencement of an action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party hereunder, notify the indemnifying party of the commencement thereof; but the omission so to notify the indemnifying party will not relieve it from any liability that it may have to any indemnified party otherwise than under this Section 4. In case any

such action is brought against any indemnified party, and it notifies the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein and, to the extent that it may wish to, assume the defense thereof, with counsel satisfactory to such indemnified party, and after notice from the indemnifying party to such indemnified party of its election to assume the defense thereof, the indemnifying party will not be liable to such indemnified party under this Section 4 for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation.

#### 5. Amendments to Registration Statement and Other Material Events.

5.1. The Principal Underwriter agrees to advise the Marketing Services Agent as soon as reasonably practical by a notice in writing delivered to the Marketing Services Agent: (a) of any request or action taken by the Commission which is material to the Marketing Services Agent's obligations or rights hereunder or (b) any material fact of which the Principal Underwriter becomes aware which affects the Marketing Services Agent's obligations or rights hereunder.

For purposes of this section, informal requests by or acts of the Staff of the Commission shall not be deemed actions of or requests by the Commission.

#### 6. Compensation of Marketing Services Agent.

6.1. (a) As promptly as possible after the first Business Day (as defined in the Prospectus) of each month this Agreement is in effect, the Principal Underwriter shall compensate the Marketing Services Agent for its services rendered during the previous month (but not prior to the commencement date of this Agreement); by making payment to the Marketing Services Agent in the

amounts set forth on Exhibit A annexed hereto with respect to each Class of Shares of the Fund or, if applicable, each of its separate investment series to which this Agreement relates. In connection therewith the Principal Underwriter hereby agrees that it is obligated under this Agreement to comply with Paragraph 7 of the principal underwriting agreement. The compensation by the Principal Underwriter of the Marketing Services Agent is authorized pursuant to the Plan or Plans adopted by the Fund pursuant to Rule 12b-1 under the 1940 Act.

(b) Under this Agreement, the Marketing Services Agent shall: (i) incur the expense of obtaining such support services, telephone facilities and shareholder services as may reasonably be required in connection with its duties

hereunder; (ii) formulate and implement marketing and promotional activities, including, but not limited to, direct mail promotions and television, radio, newspaper, magazine and other mass media advertising; (iii) prepare, print and distribute sales literature; (iv) prepare, print and distribute Prospectuses of the Series and reports for recipients other than existing shareholders of the Series; and (v) provide to the Fund such information, analyses and opinions with respect to marketing and promotional activities as the Fund may, from time to time, reasonably request.

(c) The Marketing Services Agent shall prepare and deliver reports to the Principal Underwriter on a regular, at least monthly, basis, showing the distribution expenditures incurred by the Principal Underwriter in connection with its services rendered pursuant to this Agreement and the Plan and the purposes therefor, as well as any supplemental reports to the Fund's Board, from time to time, as the Principal Underwriter may reasonably request.

## 7. Confidentiality, Non-Exclusive Agency.

7.1. The Marketing Services Agent agrees on behalf of itself and its employees to treat confidentially and as proprietary information of the Principal Underwriter all records and other information relative to the or, if applicable, each of its separate investment series, and its prior, present or potential shareholders, and not to use such records and information for any purpose other than performance of its responsibilities and in connection with the financing described in Paragraph 7 (f) to obtain approval in writing by the Principal Underwriter, which approval shall not be unreasonably withheld and may not be withheld where the Marketing Services Agent may be exposed to civil or criminal contempt proceedings for failure to comply, when requested to divulge such information by duly constituted authorities.

7.2. Nothing contained in this Agreement shall prevent the Marketing Services Agent, or any affiliated person of the Marketing Services Agent, from performing services similar to those to be performed hereunder for any other person, firm, or corporation or for its or their own accounts or for the accounts of others.

## 8. Term.

8.1. This Agreement shall continue until December \_\_, 1998 and thereafter for successive annual periods, provided such continuance is specifically approved with respect to the Fund or, if applicable, each of its separate investment series at least annually by vote cast in person at a meeting

called for the purpose of voting on such approval by (i) a vote of the majority of the members of the Fund's Board and (ii) a vote of a majority of the members who are not "interested persons" of the Fund, as that term is defined in the 1940 Act or who do not have any direct or indirect financial interest in the Fund's Distribution Plan or any related agreements, voting separately. This Agreement is terminable at any time, with respect to the Fund or, if applicable, each of its separate investment series, without penalty, (a) on not less than 60 days' written notice by vote of a majority of the Independent Trustees, or by vote of the holders of a majority of the outstanding voting securities of the Fund or, if applicable, each of its separate investment series, or (b) upon not less than 60 days' written notice by the Marketing Services Agent. This Agreement may remain in effect with respect to a separate investment series even if it has been terminated in accordance with this paragraph with respect to one or more other separate investment series of the Fund. This Agreement will also terminate automatically in the event of its assignment. (As used in this Agreement, the terms "majority of the outstanding voting securities", "interested persons", and "assignment" shall have the same meaning as such terms have in the 1940 Act.)

9. Miscellaneous.

9.1. This Agreement shall be governed by the laws of the State of New York.

9.2. The captions in this Agreement are included for convenience of reference only and in no way define or delimit any of the provisions hereof or otherwise affect their constructions or effect.

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be executed by their officers designated below as of the \_\_\_th day of December, 1996.

EVERGREEN KEYSTONE DISTRIBUTOR, INC.

EVERGREEN KEYSTONE INVESTMENT SERVICES, INC.

By: \_\_\_\_\_  
Title:

By: \_\_\_\_\_  
Title:

EXHIBIT A

To Marketing Services Agreement between Evergreen Funds Distributor, Inc. and KEYSTONE INVESTMENT DISTRIBUTORS COMPANY



SERIES AND CLASSES COVERED BY THIS AGREEMENT:

[KEYSTONE] [EVERGREEN] \_\_\_\_\_ FUND

CLASS B[-2] SHARES

Marketing Services Fees

The Principal Underwriter agrees to pay the Marketing Servicing Agent a fee at the rate of up to .75 of 1% of average daily net assets of the shares of each Class set forth above, provided however that the payment of such fee shall: (i) be subject and subordinate to the obligation of the Fund to make payments to the Principal Underwriter pursuant to the provisions of the Distribution Agreement dated \_\_\_\_\_, 1996 between the Fund and its Principal Underwriter, Evergreen Keystone Funds Distributor Inc.; (ii) be subject and subordinate to the obligation of the Fund to make payments to any entity with respect to shares sold prior to December 1, 1996; and (iii) not result in an aggregate fee being paid to the Marketing Service Agent and Principal Underwriter that would exceed .75 of 1% of the Fund's average daily net assets on an annual basis or otherwise exceed the limit imposed on asset based and deferred sales charges under subsection (d) of Section 26 of Article III of the Rules of Fair Practice of the National Association of Securities Dealers, Inc.

IN WITNESS WHEREOF, the parties hereto have caused this Exhibit A to the Distribution Agreement between the parties dated December \_\_, 1996 to be executed by their officers designated below as of the \_\_th day of December, 1996.

EVERGREEN KEYSTONE DISTRIBUTOR, INC.

EVERGREEN KEYSTONE INVESTMENT  
SERVICES, INC.

By: \_\_\_\_\_  
Title:

By: \_\_\_\_\_  
Title:

FORM OF  
SUB-ADMINISTRATOR AGREEMENT

This Sub-Administrator Agreement is made as of this 1st day of January, 1997 between Keystone Investment Management Company, a Delaware corporation (herein called "KIMCO"), and Furman Selz LLC, a Delaware limited liability corporation (herein called "Furman Selz").

WHEREAS, KIMCO has been appointed as investment adviser to certain open-end management investment companies, or to one or more separate investment series thereof, listed on Schedule A, as the same may be amended from time to time to reflect additions or deletions of such companies or series, which are registered under the Investment Company Act of 1940 (the "Funds");

WHEREAS, in its capacity as investment adviser to the Funds, KIMCO has the obligation to provide, or engage others to provide, certain administrative services to the Funds; and

WHEREAS, KIMCO desires to retain Furman Selz as Sub-Administrator to the Funds for the purpose of providing the Funds with personnel to act as officers of the Funds and to provide certain administrative services in addition to those provided by KIMCO ("Sub-Administrative Services"), and Furman Selz is willing to render such services;

NOW, THEREFORE, in consideration of the premises and mutual covenants set forth herein, the parties hereto agree as follows:

1. Appointment of Sub-Administrator. KIMCO hereby appoints Furman Selz as Sub-Administrator for the Funds on the terms and conditions set forth in this Agreement and Furman Selz hereby accepts such appointment and agrees to perform the services and duties set forth in Section 2 of this Agreement in consideration of the compensation provided for in Section 4 hereof.

2. Services and Duties. As Sub-Administrator, and subject to the supervision and control of KIMCO and the Trustees or Directors of the Funds, Furman Selz will hereafter provide facilities, equipment and personnel to carry out the following Sub-Administrative services to assist in the operation of the business and affairs of the Funds:

(a) provide individuals reasonably acceptable to the Funds for nomination, appointment or election as officers of the Funds and who will be responsible for the management of certain of each Fund's affairs as determined from time to time by the Trustees or Directors of the Funds;

(b) review filings with the Securities and Exchange Commission and state securities authorities that have been prepared on behalf of the Funds by the administrator and take such actions as may be reasonably

requested by the administrator to effect such filings;

(c) verify, authorize and transmit to the custodian, transfer agent and dividend disbursing agent of each Fund all necessary instructions for the disbursement of cash, issuance of

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shares, tender and receipt of portfolio securities, payment of expenses and payment of dividends; and

(d) advise the Trustees or Directors of the Funds on matters concerning the Funds and their affairs.

Furman Selz may, in addition, agree in writing to perform additional Sub-Administrative Services for the Funds. Sub-Administrative Services shall not include investment advisory services or any duties, functions, or services to be performed for the Funds by their distributor, custodian or transfer agent pursuant to their agreements with the Funds.

3. Expenses. Furman Selz shall be responsible for expenses incurred in providing office space, equipment and personnel as may be necessary or convenient to provide the Sub-Administrative Services to the Funds. KIMCO and/or the Funds shall be responsible for all other expenses incurred by Furman Selz on behalf of the Funds pursuant to this Agreement at the direction of KIMCO, including without limitation postage and courier expenses, printing expenses, registration fees, filing fees, fees of outside counsel and independent auditors, insurance premiums, fees payable to Trustees or Directors who are not Furman Selz employees, and trade association dues.

4. Compensation. For the Sub-Administrative Services provided, KIMCO hereby agrees to pay and Furman Selz hereby agrees to accept as full compensation for its services rendered hereunder a sub-administrative fee, calculated daily and payable monthly at an annual rate based on the aggregate average daily net assets of the Funds, or separate series thereof, set forth on Schedule A and determined in accordance with the table below.

Sub-Administrative Fee as a % of Average Annual Daily Net Assets	Aggregate Daily Net Assets of Funds For Which KIMCO, Evergreen Asset Management Corp., First Union National Bank of North Carolina or any Affiliates Thereof Serve as Investment Adviser or Administrator And For Which Furman Selz Serves as Sub-Administrator
.0100%	on the first \$7 billion
.0075%	on the next \$3 billion

.0050%  
.0040%

on the next \$15 billion  
on assets in excess of \$25 billion

5. Indemnification and Limitation of Liability of Furman Selz. The duties of Furman Selz shall be limited to those expressly set forth herein or later agreed to in writing by Furman Selz, and no implied duties are assumed by or may be asserted against Furman Selz hereunder. Furman Selz shall not be liable for any error of judgment or mistake of law or for any loss arising out of any act or omission in carrying out its duties hereunder, except a loss resulting from willful misfeasance, bad faith or negligence in the performance of its duties, or by reason of reckless disregard of its obligations and duties hereunder, except as may otherwise be provided under provisions of applicable law which cannot be waived or

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modified hereby. (As used in this Section, the term "Furman Selz" shall include partners, officers, employees and other agents of Furman Selz as well as Furman Selz itself)

So long as Furman Selz acts in good faith and with due diligence and without negligence, KIMCO shall indemnify Furman Selz and hold it harmless from any and all actions, suits and claims, and from any and all losses, damages, costs, charges, reasonable counsel fees and disbursements, payments, expenses and liabilities (including reasonable investigation expenses) arising directly or indirectly out of Furman Selz' actions taken or nonactions with respect to the performance of services hereunder. The indemnity and defense provisions set forth herein shall survive the termination of this Agreement for a period of three years.

The rights hereunder shall include the right to reasonable advances of defense expenses in the event of any pending or threatened litigation with respect to which indemnification hereunder may ultimately be merited. In order that the indemnification provision contained herein shall apply, however, it is understood that if in any case KIMCO may be asked to indemnify or hold Furman Selz harmless, KIMCO shall be fully and promptly advised of all pertinent facts concerning the situation in question, and it is further understood that Furman Selz will use all reasonable care to identify and notify KIMCO promptly concerning any situation which presents or appears likely to present the probability of such a claim for indemnification against KIMCO.

KIMCO shall be entitled to participate at its own expense or, if it so elects, to assume the defense of any suit brought to enforce any claims subject to this indemnity provision. If KIMCO elects to assume the defense of any such

claim, the defense shall be conducted by counsel chosen by KIMCO and satisfactory to Furman Selz, whose approval shall not be unreasonably withheld. In the event that KIMCO elects to assume the defense of any suit and retain counsel, Furman Selz shall bear the fees and expenses of any additional counsel retained by it. If KIMCO does not elect to assume the defense of a suit, it will reimburse Furman Selz for the reasonable fees and expenses of any counsel retained by Furman Selz.

Furman Selz may apply to KIMCO at any time for instructions and may consult counsel for KIMCO or its own counsel and with accountants and other experts with respect to any matter arising in connection with Furman Selz' duties, and Furman Selz shall not be liable or accountable for any action taken or omitted by it in good faith in accordance with such instruction or with the opinion of such counsel, accountants or other experts.

Any person, even though also an officer, director, partner, employee or agent of Furman Selz, who may be or become an officer, trustee, employee or agent of the Funds, shall be deemed, when rendering services to a Fund or acting on any business of a Fund (other than services or business in connection with the duties of Furman Selz hereunder) to be rendering such services to or acting solely for the Fund and not as an officer, director, partner, employee or agent or one under the control or direction of Furman Selz even though paid by Furman Selz.

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## 6. Duration and Termination.

(a) The initial term of this Agreement (the "Initial Term") shall commence on the date this Agreement is executed by both parties, shall continue until April 30, 1998, and shall continue in effect for a Fund from year to year thereafter, provided it is approved, at least annually, by a vote of a majority of Directors/Trustees of the Funds, including a majority of the disinterested Directors/Trustees. Notwithstanding the foregoing, this Agreement shall only become effective if (i) Keystone Investments, the parent of KIMCO, has previously been acquired by First Union National Bank of North Carolina, and (ii) the Funds have appointed Evergreen Funds Distributor, Inc. as their Principal Underwriter. In the event of any breach of this Agreement by either party, the non-breaching party shall notify the breaching party in writing of such breach and upon receipt of such notice, the breaching party shall have 45 days to remedy the breach except in the case of a breach resulting from fraud or other acts which materially and adversely affects the operations or financial

position of the Funds. In the event any material breach is not remedied within such time period, the nonbreaching party may immediately terminate this Agreement.

Notwithstanding the foregoing, after such termination for so long as Furman Selz, with the written consent of KIMCO, in fact continues to perform any one or more of the services contemplated by this Agreement or any schedule or exhibit hereto, the provisions of this Agreement, including without limitation the provisions dealing with indemnification, shall continue in full force and effect. Compensation due Furman Selz and unpaid by KIMCO upon such termination shall be immediately due and payable upon and notwithstanding such termination. Furman Selz shall be entitled to collect from KIMCO, in addition to the compensation described herein, all costs reasonably incurred in connection with Furman Selz's activities in effecting such termination, including without limitation, the delivery to the Funds and/or their designees of each Fund's property, records, instruments and documents, or any copies thereof. To the extent that Furman Selz may retain in its possession copies of any Fund documents or records subsequent to such termination which copies had not been requested by or on behalf of a Fund in connection with the termination process described above, Furman Selz will provide such Fund with reasonable access to such copies; provided, however, that, in exchange therefor, KIMCO shall reimburse Furman Selz for all costs reasonably incurred in connection therewith.

(b) Subject to (c) below, this Agreement may be terminated at any time, without payment of any penalty, on sixty (60) day's prior written notice by KIMCO, or by Furman Selz and, with respect to one or more of the Funds a vote of a majority of such Fund's or Funds' Directors/Trustees.

(c) If, during the first six months this Agreement is in effect it is terminated for a Fund or Funds in accordance with (b) above, for any reason other than a material breach of this Agreement, the merger of a Fund or Funds for which KIMCO, Evergreen Asset Management Corp., First Union National Bank of North Carolina or any affiliates thereof act as investment adviser, or any other event that leads to the termination of the existence of a Fund or Funds, and Furman Selz is replaced as sub-administrator, then KIMCO shall make a one-time cash payment to Furman Selz equal to the unpaid balance due Furman Selz for the first six-months this Agreement in effect, assuming for

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purposes of calculation of the payment that the asset level of each Fund on the date Furman Selz is replaced will remain constant for the balance of such term. Once this Agreement has been in effect for more than six months from the commencement date, this paragraph (c) shall be null, void and of no further

effect.

7. Amendment. No provision of this Agreement may be changed, waived, discharged or terminated orally, but only by an instrument in writing signed by the party against which an enforcement of the change, waiver, discharge or termination is sought.

8. Notices. Notices of any kind to be given to KIMCO hereunder by Furman Selz shall be in writing and shall be duly given if delivered to KIMCO at the following address: Keystone Investment Management Company, 200 Berkeley Street, Boston, Massachusetts 02116 ATT: General Counsel. Notices of any kind to be given to Furman Selz hereunder by EAMC or the Funds shall be in writing and shall be duly given if delivered to Furman Selz at 3435 Stelzer Road, Columbus, Ohio 43219 Attention: George O. Martinez, Senior Vice President.

9. Limitation of Liability. Furman Selz is hereby expressly put on notice of the limitations of liability as set forth in the Declarations of Trust of the Funds that are Massachusetts business trusts or series thereof and agrees that the obligations pursuant to this Agreement of a particular Fund be limited solely to the assets of that particular Fund, and Furman Selz shall not seek satisfaction of any such obligation from the assets of any other Fund, the shareholders of any Fund, the Trustees, officers, employees or agents of any Fund, or any of them.

10. Miscellaneous. The captions in this Agreement are included for convenience of reference only and in no way define or delimit any of the provisions hereof or otherwise affect their construction or effect. If any provision of this Agreement shall be held or made invalid by a court or regulatory agency decision, statute, rule or otherwise, the remainder of this Agreement shall not be affected thereby. Subject to the provisions of Section 5 hereof, this Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and shall be governed by New York law; provided, however, that nothing herein shall be construed in a manner inconsistent with the Investment Company Act of 1940 or any rule or regulation promulgated by the Securities and Exchange Commission thereunder.

D:\JPW\LIEBER\AGREEMENT\SUBADMIN\SUBADM1.KEY

5

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be executed by their officers designated below as of the day and year first above written.

By \_\_\_\_\_

Its: \_\_\_\_\_

Attest: \_\_\_\_\_

FURMAN SELZ LLC

By \_\_\_\_\_

its \_\_\_\_\_

Attest: \_\_\_\_\_

D:\JPW\LIEBER\AGREEMENT\SUBADMIN\SUBADM1.KEY

SCHEDULE A  
SUB-ADMINISTRATOR AGREEMENT

- Keystone America Hartwell Emerging Growth Fund ("Emerging Growth")
- Keystone Balanced Fund II ("Balanced Fund")
- Keystone Capital Preservation and  
Income Fund ("Capital Preservation and Income")
- Keystone Emerging Markets Fund ("Emerging Markets")
- Keystone Fund For Total Return ("Total Return")
- Keystone Fund of the Americas ("Fund of the Americas")
- Keystone Global Opportunities Fund ("GlobalOpportunities")
- Keystone Global Resources and Development Fund ("GlobalResources")
- Keystone Government Securities Fund ("Government Securities")
- Keystone Intermediate Term Bond Fund ("Intermediate Term")
- Keystone Liquid Trust("Liquid Trust")
- Keystone Omega Fund ("Omega")
- Keystone Small Company Growth Fund II ("Small Company Growth")
- Keystone State Tax Free Fund ("State Tax Free")
  - Florida Tax Free Fund ("Florida Tax Free")
  - Massachusetts Tax Free Fund ("Massachusetts Tax Free")
  - Pennsylvania Tax Free Fund ("Pennsylvania Tax Free")
  - New York Insured Tax Free Fund ("New York Insured")
- Keystone State Tax Free Fund-Series II ("State Tax Free II")
  - California Insured Tax Free Fund ("California Insured")
  - Missouri Tax Free Fund ("Missouri Tax Free")
- Keystone Strategic Income Fund ("Strategic Income")



Keystone Tax Free Income Fund ("Tax Free Income")  
Keystone Quality Bond Fund (B-1) ("B-1") Keystone  
Diversified Bond Fund (B-2) ("B-2")  
Keystone High Income Bond Fund (B-4) ("B-4")  
Keystone Balanced Fund (K-1) ("K-1")  
Keystone Strategic Growth Fund (K-2) ("K-2")  
Keystone Growth and Income Fund (S-1) ("S-1")  
Keystone Mid-Cap Growth Fund (S-3) ("S-3")  
Keystone Small Company Growth Fund (S-4) ("S-4")  
Keystone Institutional Adjustable Rate Fund ("Adjustable Rate")  
Keystone Institutional Trust ("Institutional")  
Keystone International Fund Inc. ("International")  
Keystone Precious Metals Holdings, Inc. ("Precious Metals")  
Keystone Tax Free Fund ("Tax Free")

D:\JPW\LIEBER\AGREMENT\SUBADMIN\SUBADM1.KEY

PRINCIPAL UNDERWRITING AGREEMENT

KEYSTONE FAMILY OF FUNDS

AGREEMENT made this 11th day of December, 1996 by and between each of the parties listed on Exhibit A attached hereto and made a part hereof, each for itself and not jointly (each a "Fund"), and Evergreen Keystone Investment Services, Inc., a Delaware corporation ("Principal Underwriter").

It is hereby mutually agreed as follows:

1. The Fund hereby appoints Principal Underwriter a principal underwriter of the shares of beneficial interest of the Fund sold prior to December 11, 1996 (the "Shares") as an independent contractor upon the terms and conditions hereinafter set forth. Except as the Fund may from time to time agree, Principal Underwriter will act as agent for the Fund and not as principal.

2. Having assigned all rights to commission payments for Shares sold on or after December 1, 1996 but before December 11, 1996 to Evergreen Keystone Distributor, Inc., Principal Underwriter will not be entitled to commissions on such Shares. Principal Underwriter shall be entitled to commissions on Shares outstanding prior to December 1, 1996 and as set forth on Exhibit B attached hereto and made a part hereof and in the then current prospectus and/or statement of additional information of the Fund. Principal Underwriter may reallocate all or a part of such commissions to such of its representatives, or to such brokers or dealers, as Principal Underwriter may determine.

3. Principal Underwriter shall not make, or permit any representative, broker or dealer to make, any representations concerning the Shares except those contained in the then current prospectus and/or statement of additional information covering the Shares and in printed information approved by the Fund as information supplemental to such prospectus and statement of additional information.

4. Principal Underwriter agrees to comply with the Business Conduct Rules of the National Association of Securities Dealers, Inc.

5. The Fund agrees to indemnify and hold harmless the Principal Underwriter, its officers and Directors and each person, if any, who controls the Principal Underwriter within the meaning of Section 15 of the Securities Act of 1933 ("1933 Act"), against any losses, claims, damages, liabilities and expenses (including the cost of any legal fees incurred in connection therewith) which the Principal Underwriter, its officers, Directors or any such controlling person may incur under the 1933 Act, under any other statute, at common law or otherwise, arising out of or based upon

a) any untrue statement or alleged untrue statement of a

material fact contained in the Fund's registration statement, prospectus or statement of additional information (including amendments and supplements thereto), or

b) any omission or alleged omission to state a material fact required to be stated in the Fund's registration statement, prospectus or statement of additional information necessary to make the statements therein not misleading, provided, however, that insofar as losses, claims, damages, liabilities or expenses arise out of or are based upon any such untrue statement or omission or alleged untrue statement or omission made in reliance and in conformity with information furnished to the Fund by the Principal Underwriter for use in the Fund's registration statement, prospectus or statement of additional information, such indemnification is not applicable. In no case shall the Fund indemnify the Principal Underwriter or its controlling person as to any amounts incurred for any liability arising out of or based upon any action for which the Principal Underwriter, its officers and Directors or any controlling person would otherwise be subject to liability by reason of willful misfeasance, bad faith or gross negligence in the performance of its duties or by reason of the reckless disregard of its obligations and duties under this Agreement.

6. The Principal Underwriter agrees to indemnify and hold harmless the Fund, its officers, Trustees and each person, if any, who controls the Fund within the meaning of Section 15 of the 1933 Act against any loss, claims, damages, liabilities and expenses (including the cost of any legal fees incurred in connection therewith) which the Fund, its officers, Directors or any such controlling person may incur under the 1933 Act, under any other statute, at common law or otherwise arising out of the acquisition of any Shares by any person which

a) may be based upon any wrongful act by the Principal Underwriter or any of its employees or representatives, or

b) may be based upon any untrue statement or alleged untrue statement of a material fact contained in the Fund's registration statement, prospectus or statement of additional information (including amendments and supplements thereto), or any omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, if such statement or omission was made in reliance upon information furnished or confirmed in writing to the Fund by the Principal Underwriter.

7. To the extent required by the Fund's 12b-1 Plan, Principal Underwriter shall provide to the Board of Trustees of the Fund in connection with such 12b-1 Plan, not less than quarterly, a written report of the amounts expended pursuant to such 12b-1 Plan and the purpose for which such expenditures were made.

8. The term of this Agreement shall begin on the date hereof and, unless sooner terminated or continued as provided below, shall expire after two

years. This Agreement shall continue in effect after such term if its continuance is specifically approved by a majority of the Trustees of the Fund and a majority of the 12b-1 Trustees referred to in the 12b-1 Plans of the Fund ("Rule 12b-1 Trustees") at least annually in accordance with the 1940 Act and the rules and regulations thereunder.

This Agreement may be terminated at any time, without payment of any penalty, by vote of a majority of any Rule 12b-1 Trustees or by a vote of a majority of the Fund's outstanding Shares on not more than sixty (60) days written notice to any other party to the Agreement; and shall terminate automatically in the event of its assignment (as defined in the 1940 Act).

9. This Agreement shall be construed in accordance with the laws of The Commonwealth of Massachusetts.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized at Boston, Massachusetts, on the day and year first written above.

KEYSTONE QUALITY BOND FUND (B-1)  
KEYSTONE DIVERSIFIED BOND FUND (B-2)  
KEYSTONE HIGH INCOME BOND FUND (B-4)  
KEYSTONE BALANCED FUND (K-1)  
KEYSTONE STRATEGIC GROWTH FUND (K-2)  
KEYSTONE GROWTH AND INCOME FUND (S-1)  
KEYSTONE MID-CAP GROWTH FUND (S-3)  
KEYSTONE SMALL COMPANY GROWTH FUND (S-4)  
each for itself and not jointly

By: /s/ George S. Bissell

---

George S. Bissell, Chairman

EVERGREEN KEYSTONE INVESTMENT  
SERVICES, INC.

By: /s/ Rosemary D. Van Antwerp

---

Rosemary D. Van Antwerp  
Senior Vice President

EXHIBIT A

TO

PRINCIPAL UNDERWRITING AGREEMENT

DATED DECEMBER 11, 1996

BETWEEN EVERGREEN KEYSTONE INVESTMENT SERVICES, INC.

AND

KEYSTONE FAMILY OF FUNDS

KEYSTONE QUALITY BOND FUND (B-1)  
KEYSTONE DIVERSIFIED BOND FUND (B-2)  
KEYSTONE HIGH INCOME BOND FUND (B-4)  
KEYSTONE BALANCED FUND (K-1)  
KEYSTONE STRATEGIC GROWTH FUND (K-2)  
KEYSTONE AND INCOME FUND (S-1)  
KEYSTONE MID-CAP GROWTH FUND (S-3)  
KEYSTONE SMALL COMPNAY GROWTH FUND (S-4)

EXHIBIT B

TO

PRINCIPAL UNDERWRITING AGREEMENT

DATED DECEMBER 11, 1996

BETWEEN EVERGREEN KEYSTONE INVESTMENT SERVICES, INC.

AND

KEYSTONE FAMILY OF FUNDS

Until such time as each Fund has paid to the Principal Underwriter an amount equal to the aggregate amount set forth for such Fund in the table entitled "KID Receivables," the calculation of the distribution fees and contingent deferred sales charges (collectively the "Fees") that the Principal Underwriter is entitled to receive hereunder with respect to such Fund pursuant to Paragraph 2 in respect of the Shares sold before December 1, 1996 shall be based upon only those assets of that Fund that are attributable to Shares sold before December 1, 1996 (the "Pre-Acquisition Shares"). The Fees calculated in accordance with the foregoing sentence will be used to pay amounts in respect of KID Receivables or, to the extent for any month amounts are payable by the Principal Underwriter with respect to Travelers/KID Receivables in respect of the amounts set forth for each Fund in the table entitled "Travelers/KID Receivables," amounts in respect of Travelers/KID Receivables.

Once a Fund has paid the aggregate amount of KID Receivables attributable to such Fund, or in the event there are no KID Receivables attributable to such Fund at the time this Agreement is entered into, the

Principal Underwriter shall no longer be entitled to payment of any Fees hereunder so long as any amounts remain payable with respect to the Fund to Evergreen Keystone Distributor, Inc. ("EKDI") under the Principal Underwriting Agreement between EKDI and the Fund dated as of December 11, 1996 (the "Post-Acquisition Underwriting Agreement"). To the extent that no amounts are payable to EKDI with respect to a Fund as provided for in subparagraph (a) of Exhibit B of the Post-Acquisition Underwriting Agreement as of any month end, for that month and that month only, the Principal Underwriter will be entitled to the payment of Fees hereunder, such payment to be payable from the Fees calculated with respect to the entire net assets of the Fund and not just those assets attributable to Pre-Acquisition Shares, up to an amount equal to the aggregate amount set forth for such Fund in the table entitled "Travelers/KID Receivables," if any. Once a Fund has made payments hereunder in an aggregate amount equal to the sum of the KID Receivables and the Travelers/KID Receivables, no further amounts shall be payable under this Principal Underwriting Agreement for such Fund and it shall terminate.

For purposes of this Principal Underwriting Agreement and Exhibit B, Pre-Acquisition Shares shall be such shares which are defined in Schedule I attached hereto as "Distributor Shares" calculated as though the Distributor Last Sale Cut-off Date, as such term is defined in said Schedule I, was November 30, 1996.

#### KID Receivables

Keystone Quality Bond Fund (B-1)	\$ 1,417,312.63
Keystone Diversified Bond Fund (B-2)	\$ 5,538,666.38
Keystone High Income Bond Fund (B-4)	\$ 3,303,927.43
Keystone Balanced Fund (K-1)	\$ 4,102,973.74
Keystone Strategic Growth Fund (K-2)	None
Keystone Growth and Income Fund (S-1)	None
Keystone Mid-Cap Growth Fund (S-3)	None
Keystone Small Company Growth Fund (S-4)	\$11,000,687.71

#### Travelers/KID Receivables

Keystone Quality Bond Fund (B-1)	\$ 7,603,267.21
Keystone Diversified Bond Fund (B-2)	\$11,894,293.78
Keystone High Income Bond Fund (B-4)	\$ 974,711.00
Keystone Balanced Fund (K-1)	None
Keystone Strategic Growth Fund (K-2)	None
Keystone Growth and Income Fund (S-1)	None
Keystone Mid-Cap Growth Fund (S-3)	None
Keystone Small Company Growth Fund (S-4)	None

December 30, 1996

Keystone Quality Bond Fund (B-1)  
200 Berkeley Street  
Boston, Massachusetts 02116-5034

Gentlemen:

I am Senior Vice President of and General Counsel to Keystone Investment Management Company, investment adviser to Keystone Quality Bond Fund (B-1) (the "Fund"). You have asked for my opinion with respect to the proposed issuance of 8,599,172 additional shares of the Fund.

To my knowledge, a Prospectus is on file with the Securities and Exchange Commission (the "Commission") as part of Post-Effective Amendment No. 95 to the Fund's Registration Statement, which covers the public offering and sale of the Fund shares currently registered with the Commission.

In my opinion, such additional shares, if issued and sold in accordance with the Fund's Restatement of Trust Agreement, as amended (the "Trust Agreement") and offering Prospectus, will be legally issued, fully paid, and nonassessable by the Fund, entitling the holders thereof to the rights set forth in the Trust Agreement and subject to the limitations set forth therein.

My opinion is based upon my examination of the Trust Agreement and By-Laws; a review of the minutes of the Fund's Board of Trustees authorizing the issuance of such additional shares; and the Fund's Prospectus. In my examination of such documents, I have assumed the genuineness of all signatures and the conformity of copies to originals.

I hereby consent to the use of this opinion in connection with Post-Effective Amendment No. 96 to the Fund's Registration Statement, which covers the registration of such additional shares.

Very truly yours,

/s/ Rosemary D. Van Antwerp

Rosemary D. Van Antwerp  
Senior Vice President and  
General Counsel

The Trustees and Shareholders  
Keystone Quality Bond Fund (B-1)

We consent to the use of our report dated December 8, 1995 incorporated by reference herein and to the reference to our firm under the caption "Financial Highlights" in the prospectus.

/s/ KPMG Peat Marwick LLP  
KPMG Peat Marwick LLP

Boston, Massachusetts  
December 30, 1996



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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM ACCOUNTING RECORDS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH ACCOUNTING RECORDS.

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## POWER OF ATTORNEY

I, the undersigned, hereby constitute Roger T. Wickers, Rosemary D. Van Antwerp, Jean S. Loewenberg, Dorothy E. Bourassa, James M. Wall and Melina M. T. Murphy, each of them singly, my true and lawful attorneys, with full power to them and each of them to sign for me and in my name in the capacity indicated below any and all registration statements, including, but not limited to, Forms N-8A, N-8B-1, S-5, N-1 and N-1A, as amended from time to time, and any and all amendments thereto to be filed with the Securities and Exchange Commission for the purpose of registering from time to time all investment companies of which I am now or hereafter a Director or Trustee and/or Chairman of the Board and Chief Executive Officer and for which Keystone Custodian Funds, Inc. serves as Adviser or Manager and registering from time to time the shares of such companies, and generally to do all such things in my name and in my behalf to enable such investment companies to comply with the provisions of the Securities Act of 1933, as amended, the Investment Company Act of 1940, as amended, and all requirements and regulations of the Securities and Exchange Commission thereunder, hereby ratifying and confirming my signature as it may be signed by my said attorneys to any and all registration statements and amendments thereto.

/s/ George S. Bissell  
George S. Bissell  
Director/Trustee,  
Chairman of the Board

Dated: December 14, 1994

## POWER OF ATTORNEY

I, the undersigned, hereby constitute Roger T. Wickers, Rosemary D. Van Antwerp, Jean S. Loewenberg, Dorothy E. Bourassa, James M. Wall and Melina M. T. Murphy, each of them singly, my true and lawful attorneys, with full power to them and each of them to sign for me and in my name in the capacity indicated below any and all registration statements, including, but not limited to, Forms N-8A, N-8B-1, S-5, N-1 and N-1A, as amended from time to time, and any and all amendments thereto to be filed with the Securities and Exchange Commission for

the purpose of registering from time to time all investment companies of which I am now or hereafter a Director or Trustee and for which Keystone Custodian Funds, Inc. serves as Adviser or Manager and registering from time to time the shares of such companies, and generally to do all such things in my name and in my behalf to enable such investment companies to comply with the provisions of the Securities Act of 1933, as amended, the Investment Company Act of 1940, as amended, and all requirements and regulations of the Securities and Exchange Commission thereunder, hereby ratifying and confirming my signature as it may be signed by my said attorneys to any and all registration statements and amendments thereto.

/s/ Frederick Amling  
Frederick Amling  
Director/Trustee

Dated: December 14, 1994

#### POWER OF ATTORNEY

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/s/ Charles A. Austin III  
Charles A. Austin III  
Director/Trustee

Dated: December 14, 1994

POWER OF ATTORNEY

I, the undersigned, hereby constitute Roger T. Wickers, Rosemary D. Van Antwerp, Jean S. Loewenberg, Dorothy E. Bourassa, James M. Wall and Melina M. T. Murphy, each of them singly, my true and lawful attorneys, with full power to them and each of them to sign for me and in my name in the capacity indicated below any and all registration statements, including, but not limited to, Forms N-8A, N-8B-1, S-5, N-1 and N-1A, as amended from time to time, and any and all amendments thereto to be filed with the Securities and Exchange Commission for the purpose of registering from time to time all investment companies of which I am now or hereafter a Director or Trustee and for which Keystone Custodian Funds, Inc. serves as Adviser or Manager and registering from time to time the shares of such companies, and generally to do all such things in my name and in my behalf to enable such investment companies to comply with the provisions of the Securities Act of 1933, as amended, the Investment Company Act of 1940, as amended, and all requirements and regulations of the Securities and Exchange Commission thereunder, hereby ratifying and confirming my signature as it may be signed by my said attorneys to any and all registration statements and amendments thereto.

/s/ Edwin D. Campbell  
Edwin D. Campbell  
Director/Trustee

Dated: December 14, 1994

POWER OF ATTORNEY

I, the undersigned, hereby constitute Roger T. Wickers, Rosemary D. Van Antwerp, Jean S. Loewenberg, Dorothy E. Bourassa, James M. Wall and Melina M. T. Murphy, each of them singly, my true and lawful attorneys, with full power to them and each of them to sign for me and in my name in the capacity indicated below any and all registration statements, including, but not limited to, Forms N-8A, N-8B-1, S-5, N-1 and N-1A, as amended from time to time, and any and all amendments thereto to be filed with the Securities and Exchange Commission for the purpose of registering from time to time all investment companies of which I

am now or hereafter a Director or Trustee and for which Keystone Custodian Funds, Inc. serves as Adviser or Manager and registering from time to time the shares of such companies, and generally to do all such things in my name and in my behalf to enable such investment companies to comply with the provisions of the Securities Act of 1933, as amended, the Investment Company Act of 1940, as amended, and all requirements and regulations of the Securities and Exchange Commission thereunder, hereby ratifying and confirming my signature as it may be signed by my said attorneys to any and all registration statements and amendments thereto.

/s/ Charles F. Chapin  
Charles F. Chapin  
Director/Trustee

Dated: December 14, 1994

#### POWER OF ATTORNEY

I, the undersigned, hereby constitute Roger T. Wickers, Rosemary D. Van Antwerp, Jean S. Loewenberg, Dorothy E. Bourassa, James M. Wall and Melina M. T. Murphy, each of them singly, my true and lawful attorneys, with full power to them and each of them to sign for me and in my name in the capacity indicated below any and all registration statements, including, but not limited to, Forms N-8A, N-8B-1, S-5, N-1 and N-1A, as amended from time to time, and any and all amendments thereto to be filed with the Securities and Exchange Commission for the purpose of registering from time to time all investment companies of which I am now or hereafter a Director or Trustee and for which Keystone Custodian Funds, Inc. serves as Adviser or Manager and registering from time to time the shares of such companies, and generally to do all such things in my name and in my behalf to enable such investment companies to comply with the provisions of the Securities Act of 1933, as amended, the Investment Company Act of 1940, as amended, and all requirements and regulations of the Securities and Exchange Commission thereunder, hereby ratifying and confirming my signature as it may be signed by my said attorneys to any and all registration statements and amendments thereto.

/s/ K. Dun Gifford  
K. Dun Gifford  
Director/Trustee

Dated: December 14, 1994

POWER OF ATTORNEY

I, the undersigned, hereby constitute Roger T. Wickers, Rosemary D. Van Antwerp, Jean S. Loewenberg, Dorothy E. Bourassa, James M. Wall and Melina M. T. Murphy, each of them singly, my true and lawful attorneys, with full power to them and each of them to sign for me and in my name in the capacity indicated below any and all registration statements, including, but not limited to, Forms N-8A, N-8B-1, S-5, N-1 and N-1A, as amended from time to time, and any and all amendments thereto to be filed with the Securities and Exchange Commission for the purpose of registering from time to time all investment companies of which I am now or hereafter a Director or Trustee and for which Keystone Custodian Funds, Inc. serves as Adviser or Manager and registering from time to time the shares of such companies, and generally to do all such things in my name and in my behalf to enable such investment companies to comply with the provisions of the Securities Act of 1933, as amended, the Investment Company Act of 1940, as amended, and all requirements and regulations of the Securities and Exchange Commission thereunder, hereby ratifying and confirming my signature as it may be signed by my said attorneys to any and all registration statements and amendments thereto.

/s/ Leroy Keith, Jr.  
Leroy Keith, Jr.  
Director/Trustee

Dated: December 14, 1994

POWER OF ATTORNEY

I, the undersigned, hereby constitute Roger T. Wickers, Rosemary D. Van Antwerp, Jean S. Loewenberg, Dorothy E. Bourassa, James M. Wall and Melina M. T. Murphy, each of them singly, my true and lawful attorneys, with full power to them and each of them to sign for me and in my name in the capacity indicated below any and all registration statements, including, but not limited to, Forms N-8A, N-8B-1, S-5, N-1 and N-1A, as amended from time to time, and any and all amendments thereto to be filed with the Securities and Exchange Commission for the purpose of registering from time to time all investment companies of which I am now or hereafter a Director or Trustee and for which Keystone Custodian Funds, Inc. serves as Adviser or Manager and registering from time to time the

shares of such companies, and generally to do all such things in my name and in my behalf to enable such investment companies to comply with the provisions of the Securities Act of 1933, as amended, the Investment Company Act of 1940, as amended, and all requirements and regulations of the Securities and Exchange Commission thereunder, hereby ratifying and confirming my signature as it may be signed by my said attorneys to any and all registration statements and amendments thereto.

/s/ F. Ray Keyser, Jr.  
F. Ray Keyser, Jr.  
Director/Trustee

Dated: December 14, 1994

#### POWER OF ATTORNEY

I, the undersigned, hereby constitute Roger T. Wickers, Rosemary D. Van Antwerp, Jean S. Loewenberg, Dorothy E. Bourassa, James M. Wall and Melina M. T. Murphy, each of them singly, my true and lawful attorneys, with full power to them and each of them to sign for me and in my name in the capacity indicated below any and all registration statements, including, but not limited to, Forms N-8A, N-8B-1, S-5, N-1 and N-1A, as amended from time to time, and any and all amendments thereto to be filed with the Securities and Exchange Commission for the purpose of registering from time to time all investment companies of which I am now or hereafter a Director or Trustee and for which Keystone Custodian Funds, Inc. serves as Adviser or Manager and registering from time to time the shares of such companies, and generally to do all such things in my name and in my behalf to enable such investment companies to comply with the provisions of the Securities Act of 1933, as amended, the Investment Company Act of 1940, as amended, and all requirements and regulations of the Securities and Exchange Commission thereunder, hereby ratifying and confirming my signature as it may be signed by my said attorneys to any and all registration statements and amendments thereto.

/s/ David M. Richardson  
David M. Richardson  
Director/Trustee

Dated: December 14, 1994



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/s/ Richard J. Shima  
Richard J. Shima  
Director/Trustee

Dated: December 14, 1994

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/s/ Andrew J. Simons  
Andrew J. Simons  
Director/Trustee

Dated: December 14, 1994