

SECURITIES AND EXCHANGE COMMISSION

FORM N-1A EL/A

Registration statements of open end management investment companies [amend]

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FILER

KEYSTONE SMALL CAP STOCK FUND

CIK: **1005027** | State of Incorporation: **MA** | Fiscal Year End: **0531**
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Mailing Address
*200 BERKELEY STREET
BOSTON MA 02106*

Business Address
*200 BERKELEY STREET
BOSTON MA 02106*

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-1A

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Pre-Effective Amendment No.	1	X
Post-Effective Amendment No.	—	—

and

REGISTRATION STATEMENT UNDER THE
INVESTMENT COMPANY ACT OF 1940

Amendment No.	1	X
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KEYSTONE SMALL COMPANY GROWTH FUND II
(FORMERLY KEYSTONE SMALL CAP STOCK FUND)
(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, MA 02116-5034
(Name and Address of Agent for Service)

Registrant declares that it hereby elects pursuant to Rule 24f-2 promulgated under the Investment Company Act of 1940 to register by this Registration Statement an indefinite number or amount of its securities under the Securities Act of 1933, as amended.

Approximate Date of Proposed Public Offering:
As soon as possible after the effective date of
Registration Statement.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment that specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

KEYSTONE SMALL COMPANY GROWTH FUND II

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REGISTRATION STATEMENT

This Registration Statement consists of the
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Undertakings

Signatures

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KEYSTONE SMALL COMPANY GROWTH FUND II

Cross-Reference Sheet pursuant to Rule 495 under the Securities Act of 1933.

Items in Part A of Form N-1A -----	Prospectus Caption -----
1	Cover Page
2	Fee Table
3	Performance Data
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5	Fund Management and Expenses
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7	How to Buy Shares Pricing Shares Shareholder Services
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9	Not Applicable

KEYSTONE SMALL COMPANY GROWTH FUND II

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14	Fundees and Officers
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17	Brokerage
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22	Standardized Total Return and Yield Quotations
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KEYSTONE SMALL COMPANY GROWTH FUND II

PART A

PROSPECTUS

KEYSTONE SMALL COMPANY GROWTH FUND II
PROSPECTUS FEBRUARY , 1996

Keystone Small Company Growth Fund II (the "Fund") is a mutual fund whose goal is long-term growth of capital.

Generally, the Fund offers three classes of shares. Information on share classes and their fee and sales charge structures may be found in the Fund's fee table, "Alternative Sales Options," "Contingent Deferred Sales Charge and Waiver of Sales Charges," "Distribution Plans" and "Fund Shares."

This prospectus concisely states 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 , 1996, 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 provided on this page.

KEYSTONE SMALL COMPANY GROWTH FUND II
200 BERKELEY STREET
BOSTON, MASSACHUSETTS 02116-5034
CALL TOLL FREE 1-800-343-2898

SHARES OF THE FUND ARE NOT DEPOSITS OR OBLIGATIONS OF, OR GUARANTEED OR ENDORSED BY, ANY BANK, AND SHARES ARE NOT FEDERALLY INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION, THE FEDERAL RESERVE BOARD OR ANY OTHER AGENCY.

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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.

FEE TABLE
KEYSTONE SMALL COMPANY GROWTH FUND II

The purpose of this fee table is to assist investors in understanding the costs and expenses that an investor in each class 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 Plans" and "Shareholder Services."

<TABLE> <CAPTION>	CLASS A SHARES FRONT END LOAD OPTION	CLASS B SHARES BACK END LOAD OPTION<F1>	CLASS C SHARES LEVEL LOAD OPTION<F2>
	-----	-----	-----
SHAREHOLDER TRANSACTION EXPENSES			
<S>	<C>	<C>	<C>
Sales Charge	5.75%<F3>	None	None
(as a percentage of offering price)			
Contingent Deferred Sales Charge	0.00%<F4>	5.00% in the first year declining to 1.00% in the sixth year and 0.00% thereafter	1.00% in the first year and 0.00% thereafter
(as a percentage of the lesser of cost or market value of shares redeemed)			
Exchange Fee (per exchange)<F5>	\$10.00	\$10.00	\$10.00
ANNUAL FUND OPERATING EXPENSES<6> (as a percentage of average net assets)			
Management Fees	0.70%	0.70%	0.70%
12b-1 Fees	0.25%	1.00%<F7>	1.00%<F7>
Other Expenses	1.45%	1.45%	1.45%
	----	----	----
Total Fund Operating Expenses	2.40%	3.15%	3.15%
	=====	=====	=====

<CAPTION> EXAMPLES<F8>	1 YEAR -----	3 YEARS -----
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:		
<S>	<C>	<C>
Class A	\$80	\$128
Class B	\$82	\$127
Class C	\$42	\$ 97
You would pay the following expenses on the same investment, assuming no redemption at the end of each period:		
Class A	\$80	\$128
Class B	\$32	\$ 97
Class C	\$32	\$ 97

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>
<F1> Class B shares convert tax free to Class A shares after eight years. See "Class B shares" for more information.

- <F2> Class C shares are available only through dealers who have entered into special distribution agreements with Keystone Investment Distributors Company, the Fund's principal underwriter.
- <F3> The sales charge applied to purchases of Class A shares declines as the amount invested increases. See "Class A Shares."
- <F4> Purchases of Class A shares in the amount of \$1,000,000 or more and/or purchases made by certain qualifying retirement or other plans are not subject to a sales charge, but may be subject to a contingent deferred sales charge for the 24 month period following the date of purchase. See the "Class A Shares" and "Contingent Deferred Sales Charge and Waiver of Sales Charges" sections of this prospectus for an explanation of the charge.
- <F5> There is no fee for exchange orders received by the Fund directly from a shareholder over the Keystone Automated Response Line ("KARL"). (For a description of KARL, see "Shareholder Services.")
- <F6> Expense ratios are estimated for the Fund's fiscal period ending May 31, 1996.
- <F7> Long-term shareholders may pay more than the economic equivalent of the maximum front end sales charges permitted by the National Association of Securities Dealers, Inc. ("NASD").
- <F8> 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%.

</TABLE>

THE FUND

The Fund is an open-end, diversified management investment company, commonly known as a mutual fund. The Fund was formed as a Massachusetts business trust on December 13, 1995. The Fund is one of 32 mutual funds advised by Keystone Investment Management Company (formerly named Keystone Custodian Funds, Inc.) ("Keystone"), the Fund's investment adviser.

INVESTMENT OBJECTIVE AND POLICIES

The Fund's investment objective is to provide shareholders with long-term growth of capital. The Fund invests, under normal circumstances, at least 65% of its total assets in equity securities of companies with small market capitalizations. For this purpose, companies with small market capitalizations are generally those with market capitalization of less than \$1 billion at the time of the Fund's investment. Companies whose capitalization falls outside this range after the purchase continue to be considered small cap for this purpose.

While the Fund focuses on small cap stocks, it may also invest in other types of securities without regard to the market capitalization of the issuer and may be listed on national exchanges or traded over the counter, including other common stocks, debt securities convertible into common stocks or having common stock characteristics, and rights and warrants to purchase common stocks. In addition to its other investment options, the Fund may invest in limited partnerships, including master limited partnerships, and up to 25% of its assets in foreign securities. The Fund does not currently intend to invest more than 5% of its assets in foreign securities.

When market conditions warrant, the Fund may adopt a defensive position to preserve shareholders' capital by investing in money market instruments. Such instruments, which must mature within one year of their purchase, consist of United States ("U.S.") government securities; instruments, including certificates of deposit, demand and time deposits and bankers' acceptances, of banks that are members of the Federal Deposit Insurance Corporation and have at least \$1 billion in assets as of the date of their most recently published financial statements, including U.S. branches of foreign banks and foreign branches of U.S. banks; and prime commercial paper, including master demand notes.

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 which 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.

The Fund may invest in restricted equity 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 Keystone determines the liquidity of the Fund's Rule 144A securities. The Board 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 enter into repurchase and reverse repurchase agreements, purchase and sell securities and currencies on a when issued and delayed delivery basis and purchase or sell securities on a forward commitment basis, write covered call and put options and purchase call and put options to close out existing positions and may employ new investment techniques with respect to such options. The Fund may also enter into currency and other financial futures contracts and related options transactions for hedging purposes and not for speculation, and may employ new investment techniques with respect to such futures contracts and related options.

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

Of course, there can be no assurance that the Fund will achieve its investment objective since there is uncertainty in every investment.

The investment objective of the Fund cannot be changed without a vote of the holders of a majority (as defined in the Investment Company Act of 1940 ("1940 Act")) of the Fund's outstanding shares.

INVESTMENT RESTRICTIONS

The Fund has adopted the fundamental investment restrictions summarized below, which may not be changed without the vote of a majority (as defined in the 1940 Act) of the Fund's outstanding shares. These restrictions and certain other fundamental and nonfundamental restrictions are set forth in the statement of additional information.

The Fund may not do the following: (1) invest more than 5% of its total assets in the securities of any one issuer (other than U.S. government securities), except that up to 25% of its total assets may be invested without regard to this limit; and (2) borrow, except that the Portfolio may borrow from banks for temporary or emergency purposes, provided that, immediately after any such borrowing there is asset coverage of at least 300% for all such borrowings, and the Fund may enter into reverse repurchase agreements.

RISK FACTORS

Like any investment, your investment in the Fund involves some degree of risk. Before you buy shares of 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.

The Fund seeks to provide long-term growth of capital by investing principally in equity securities of companies with small market capitalizations. The Fund is best suited to patient investors who can afford to maintain their investment over a relatively long period of time, and who are seeking a fund which is aggressive and has the potential for high returns. The Fund involves a high degree of risk and is not an appropriate investment for conservative investors who are seeking preservation of capital and/or income.

Certain risks related to the Fund are discussed below. To the extent not discussed in this section, specific risks, including risks of investing in foreign securities and derivatives, attendant to individual securities or investment practices are discussed in "Additional Investment Information".

FUND RISKS. Investing in companies with small market capitalizations involves greater risk than investing in larger companies. Their stock prices can rise very quickly and drop dramatically in a short period of time. This volatility results from a number of factors, including reliance by these companies on limited product lines, markets and financial and management resources. These and other factors may make small cap companies more susceptible to setbacks or downturns. These companies may experience higher rates of bankruptcy or other failures than larger companies. They may be more likely to be negatively affected by changes in management. In addition, the stock of small cap companies may be thinly traded.

A need for cash due to large liquidations from the Fund when the prices of small cap stocks are declining could result in losses to the Fund.

Investing in the Fund involves the risk common to investing in any security, that is that the value of the securities held by the Fund will fluctuate in response to changes in economic conditions or public expectations about those

securities. The net asset value of the Fund's shares will change accordingly.

OTHER CONSIDERATIONS. The Fund, which normally invests at least 65% of its assets in small cap stocks does not, by itself, constitute a balanced investment plan. The Fund may be appropriate as part of an overall investment program. Investors may wish to consult their financial advisers when considering what portion of their total assets to invest in small cap stocks.

Past performance should not be considered representative of results for any future period of time.

PRICING SHARES

The net asset value of a Portfolio share is computed each day on which the New York Stock Exchange (the "Exchange") is open as of the close of trading on the Exchange (currently 4:00 p.m. eastern time for purposes of pricing Fund shares) except on days when changes in the value of the Portfolio's securities do not affect the current net asset value of its shares. The Exchange currently is closed on weekends, 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 of the Portfolio is arrived at by determining the value of the Portfolio's assets, subtracting its liabilities and dividing the result by the number of its shares outstanding.

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

1. securities that are traded on a national securities exchange or on the over-the-counter National Market System ("NMS") are valued on the basis of the last sales price on the exchange where primarily traded or NMS prior to the time of the valuation, provided that a sale has occurred and that this price reflects current market value according to procedures established by the Board of Trustees;

2. securities traded in the over-the-counter market, other than NMS, for which market quotations are readily available, are valued at the mean of the bid and asked prices at the time of valuation;

3. instruments having maturities of more than sixty days for which market quotations are readily available are valued at current market value; where market quotations are not available, such instruments are valued at fair value as determined by the Board of Trustees;

4. instruments that are purchased with maturities of sixty days or less (including all master demand notes) 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; instruments 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 which, in either case, reflects fair value as determined by the Fund's Board of Trustees; and

5. the following securities are valued at prices deemed in good faith to be fair under procedures established by the Board of Trustees: (a) securities, including restricted securities, for which complete quotations are not readily available; (b) listed securities or those on NMS 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.

Foreign securities for which market quotations are not readily available are valued on the basis of valuations provided by a pricing service, approved by the Fund's Board of Trustees, which uses information with respect to transactions in such securities, quotations from broker-dealers, market transactions in comparable securities and various relationships between securities and yield to maturity in determining value.

DIVIDENDS AND TAXES

The Fund has qualified and intends to qualify in the future as a regulated investment company under the Internal Revenue Code (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 regulated investment company to the extent that 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. 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 shareholder as if paid on December 31 of the year in which such dividend was declared. If the Fund qualifies 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 and net capital gains, if any, annually. Because Class A shares bear most of the costs of distribution of such shares through payment of a front end sales charge while Class B and Class C shares bear such expenses through a higher annual distribution fee, expenses attributable to Class B shares and Class C shares will generally be higher, and income distributions paid by the Portfolio with respect to Class A shares will generally be greater than those paid with respect to Class B and Class C shares.

Shareholders receive Fund distributions in the form of additional shares of that class of shares upon which the distribution is based or, at the shareholder's option, 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 dividends are taxable as ordinary income, and net long-term gains dividends 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. The Fund advises its shareholders annually as to the federal tax status of all distributions made during the year.

FUND MANAGEMENT AND EXPENSES

BOARD OF TRUSTEES

Under Massachusetts law, 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, the Fund's investment adviser, provides investment advice, management and administrative services to the Fund.

INVESTMENT ADVISER

Keystone, located at 200 Berkeley Street, Boston, Massachusetts 02116-5034, has provided investment advisory and management services to investment companies and private accounts since it was organized in 1932. Keystone is a wholly-owned subsidiary of Keystone Investments, Inc. ("Keystone Investments"), located at 200 Berkeley Street, Boston, Massachusetts 02116-5034.

Keystone Investments is a corporation privately owned by current and former members of management and certain employees of Keystone and its affiliates. The shares of Keystone Investments common stock beneficially owned by management are held in a number of voting trusts, the trustees of which are George S. Bissell, Albert H. Elfner, III, Edward F. Godfrey and Ralph J. Spuehler, Jr. Keystone Investments provides accounting, bookkeeping, legal, personnel and general corporate services to Keystone Management, Inc., Keystone, their affiliates and the Keystone Investments Family of Funds.

Pursuant to its Investment Advisory and Management Agreement (the "Advisory Agreement") with the Fund, Keystone provides investment advisory and management services to the Fund. Keystone manages the investment and reinvestment of the Fund's assets, supervises the operation of the Fund, provides all necessary office space, facilities, equipment and personnel and arranges, at the request of the Fund, for its employees to serve as officers or agents of the Fund.

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

MANAGEMENT FEE	AGGREGATE NET ASSET VALUE OF THE SHARES OF THE FUND
0.70% of the first	\$ 100,000,000, plus
0.65% of the next	\$ 100,000,000, plus
0.60% of the next	\$ 100,000,000, plus
0.55% of the next	\$ 100,000,000, plus
0.50% of the next	\$ 100,000,000, plus
0.45% of the next	\$ 500,000,000, plus
0.40% of the next	\$ 500,000,000, plus
0.35% of amounts over	\$1,500,000,000.

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

The Advisory Agreement continues in effect from year to year only so long as such continuance is specifically approved at least annually by the Board of Trustees or by vote of a majority of the outstanding shares of the Fund. In either case, the terms of the Advisory Agreement and continuance thereof must be approved by the vote of a majority of Independent Trustees 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.

PORTFOLIO MANAGER

Keystone's Small Cap Growth Team has been the Fund's Portfolio Manager since its inception. Members of the team are Christopher R. Ely, Philip C. Fine and David L. Smith. Mr. Ely is a Senior Vice President and Senior Portfolio Manager and has more than 15 years' investment experience. Mr. Fine is a Vice President and Portfolio Manager and has more than 7 years' investment experience. Mr. Smith is a Vice President and Portfolio Manager and has more than 10 years' investment experience. Messrs. Ely, Fine and Smith are also Chartered Financial Analysts.

FUND EXPENSES

The Fund will pay all of its expenses. In addition to the investment management and distribution plan fees discussed herein, the principal expenses that the Fund is expected to pay include, but are not limited to, expenses of certain of its Trustees; transfer, dividend disbursing and shareholder servicing agent expenses; custodian expenses; fees of its independent auditors and legal counsel to its 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, each class will pay all of the expenses attributable to it. Such expenses are currently limited to Distribution Plan expenses. The Fund also pays its brokerage commissions, interest charges and taxes.

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 follow a policy of considering as a factor the number of shares of the Fund sold by such broker-dealer. In addition, broker-dealers executing portfolio transactions may, from time to time, be affiliated with the Fund, Keystone, the Fund's principal underwriter, or their affiliates.

The Fund may pay higher commissions to broker-dealers that provide research services. Keystone may use these services in advising the Fund as well as in advising its other clients.

PORTFOLIO TURNOVER

The Fund's portfolio turnover rate is expected, generally, not to exceed 75% to 100%. High portfolio turnover may involve correspondingly greater brokerage commissions and other transaction costs, which would 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.

HOW TO BUY SHARES

You may purchase shares of the Fund from any broker-dealer that has a selling agreement with Keystone Investment Distributors Company (formerly named Keystone Distributors, Inc.) (the "Principal Underwriter"), the Fund's principal underwriter. The Principal Underwriter, a wholly-owned subsidiary of Keystone, is located at 200 Berkeley Street, Boston, Massachusetts 02116-5034.

In addition, you may open an account for the purchase of shares of the Fund by mailing to the Fund c/o Keystone Investor Resource Center, Inc., P.O. Box 2121, Boston, Massachusetts 02106-2121, a completed account application and a check payable to the Fund, or you may 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 any amount may be made by check, by wiring Federal funds or by an electronic funds transfer ("EFT").

Orders for the purchase of shares of the Fund will be confirmed at an offering price equal to the net asset value per share next determined after receipt of the order in proper form by the Principal Underwriter (generally as of the close of the Exchange on that day) plus, in the case of Class A shares, the front end sales charge. Orders received by dealers or other firms prior to the close of the Exchange and received by the Principal Underwriter prior to the close of its business day will be confirmed at the offering price effective as of the close of the Exchange on that day. The Fund reserves the right to determine the net asset value more frequently than once a day if deemed desirable. Dealers and other financial services firms are obligated to transmit orders promptly.

Orders for shares received by broker-dealers prior to that day's close of trading on the Exchange and transmitted to the Fund prior to its close of business that day will receive the offering price equal to the net asset value

per share computed at the close of trading on the Exchange on the same day plus, in the case of Class A shares, the front end sales charge. Orders received by broker-dealers after that day's close of trading on the Exchange and transmitted to the Fund prior to the close of business on the next business day will receive the next business day's offering price.

Orders for shares received directly by the Fund from you will receive the offering price equal to the net asset value per share next computed after the Fund receives the purchase order plus, in the case of Class A shares, the front end sales charge.

The initial purchase must be at least \$1,000. There is no minimum amount for subsequent purchases.

The Fund reserves the right to withdraw all or any part of the offering made by this prospectus and to reject purchase orders.

Shareholder inquiries should be directed to KIRC by calling toll free 1-800-343-2898 or writing to KIRC or to the firm from which you received this prospectus.

ALTERNATIVE SALES OPTIONS

Generally, the Fund offers three classes of shares:

CLASS A SHARES -- FRONT END LOAD OPTION

Class A shares are sold with a sales charge at the time of purchase. Class A shares are not subject to a deferred sales charge when they are redeemed except as follows: Class A shares purchased (1) in an amount equal to or exceeding \$1,000,000 or (2) by a corporate qualified retirement plan or a non-qualified deferred compensation plan sponsored by a corporation having 100 or more eligible employees (a "Qualifying Plan"), in either case without a front end sales charge, will be subject to a contingent deferred sales charge for the 24 month period following the date of purchase.

CLASS B SHARES -- BACK END LOAD OPTION

Class B shares are sold without a sales charge at the time of purchase, but are, with certain exceptions, subject to a contingent deferred sales charge if redeemed during the 72 month period commencing with and including the month of purchase. Class B shares that have been outstanding for eight years from and including the month of purchase will automatically convert to Class A shares without the imposition of a front-end sales charge or exchange fee.

CLASS C SHARES -- LEVEL LOAD OPTION

Class C shares are sold without a sales charge at the time of purchase, but are subject to a deferred sales charge if they are redeemed within one year after the date of purchase. Class C shares are available only through dealers who have entered into special distribution agreements with the Principal Underwriter.

Each class of shares, pursuant to its Distribution Plan or other plan, pays an annual service fee of 0.25% of the Fund's average daily net assets attributable to that class. In addition to the 0.25% service fee, the Class B and C Distribution Plans provide for the payment of an annual distribution fee of up to 0.75% of the average daily net assets attributable to their respective classes. As a result, income distributions paid by the Fund with respect to Class B and Class C shares will generally be less than those paid with respect to Class A shares.

Investors who would rather pay the entire cost of distribution at the time of investment, rather than spreading such cost over time, might consider Class A shares. Other investors might consider Class B or Class C shares, in which case 100% of the purchase price is invested immediately, depending on the amount of the purchase and the intended length of investment.

The Fund will not normally accept any purchase of Class B shares in the amount of \$250,000 or more and will not normally accept any purchase of Class C shares in the amount of \$1,000,000 or more.

CLASS A SHARES

Class A shares are offered at net asset value plus an initial sales charge as follows:

<TABLE>
<CAPTION>

AMOUNT OF PURCHASE	AS A % OF OFFERING PRICE	AS A % OF NET AMOUNT INVESTED<F1>	CONCESSION TO DEALERS AS A % OF OFFERING PRICE
<S> Less than \$50,000	<C> 5.75%	<C> 6.10%	<C> 5.25%

\$50,000 but less than \$100,000	4.75%	4.99%	4.25%
\$100,000 but less than \$250,000	3.75%	3.90%	3.25%
\$250,000 but less than \$500,000	2.50%	2.56%	2.25%
\$500,000 but less than \$1,000,000	1.50%	1.52%	1.50%

<FN>
 <F1> Rounded to the nearest one-hundredth percent.
 </TABLE>

Purchases of the Fund's Class A shares in the amount of \$1 million or more and/or purchases of Class A shares made by a Qualifying Plan or a tax sheltered annuity plan sponsored by a public educational entity having 5,000 or more eligible employees (a "TSA Plan") will be at net asset value without the imposition of a front-end sales charge (each such purchase, an "NAV Purchase").

With respect to NAV Purchases, the Principal Underwriter will pay broker/dealers or others concessions based on (1) the investor's cumulative purchases during the one-year period beginning with the date of the initial NAV Purchase and (2) the investor's cumulative purchases during each subsequent one-year period beginning with the first NAV Purchase following the end of the prior period. For such purchases, concessions will be paid at the following rate: 1.00% of the investment amount up to \$2,999,999; plus 0.50% of the investment amount between \$3,000,000 and \$4,999,999; plus 0.25% of the investment amount over \$4,999,999.

With the exception of Class A shares acquired by a TSA Plan, Class A shares acquired in an NAV Purchase are subject to a contingent deferred sales charge of 1.00% upon redemption during the 24 month period commencing on the date the shares were originally purchased. Class A shares acquired by a TSA Plan in an NAV Purchase are not subject to a contingent deferred sales charge.

The sales charge is paid to the Principal Underwriter, which in turn normally reallows a portion to your broker-dealer. In addition, your broker-dealer currently will be paid periodic service fees at an annual rate of up to 0.25% of the average daily net asset value of Class A shares maintained by such recipient outstanding on the books of the Fund for specified periods.

Upon written notice to dealers with whom it has dealer agreements, the Principal Underwriter may reallocate up to the full applicable sales charge.

Initial sales charges may be eliminated for persons purchasing Class A shares which are included in a broker-dealer or investment adviser managed fee based program (a "wrap account") with broker dealers or investment advisers who have entered into special agreements with the Principal Underwriter. Initial sales charges may be reduced or eliminated for persons or organizations purchasing Class A shares of the Fund alone or in combination with Class A shares of other Keystone America Funds. See Exhibit A to this prospectus.

Upon prior notification to the Principal Underwriter, Class A shares may be purchased at net asset value by clients of registered representatives within six months after a change in the registered representative's employment, where the amount invested represents redemption proceeds from a registered open-end management investment company not distributed or managed by Keystone or its affiliates; and the shareholder either (1) paid a front end sales charge, or (2) was at some time subject to, but did not actually pay, a contingent deferred sales charge with respect to the redemption proceeds.

Upon prior notification to the Principal Underwriter, Class A shares may be purchased at net asset value by clients of registered representatives within six months after the redemption of shares of any registered open-end investment company not distributed or managed by Keystone or its affiliates, where the amount invested represents redemption proceeds from such unrelated registered open-end investment company, and the shareholder either (1) paid a front end sales charge, or (2) was at some time subject to, but did not actually pay, a contingent deferred sales charge with respect to the redemption proceeds. This special net asset value purchase is currently being offered on a calendar month by month basis and may be modified or terminated in the future.

CLASS A DISTRIBUTION PLAN

The Fund has adopted a Distribution Plan with respect to its Class A shares (the "Class A Distribution Plan") that provides for expenditures by the Fund currently limited to 0.25% annually of the average daily net asset value of Class A shares, in connection with the distribution of Class A shares. Payments under the Class A Distribution Plan are currently made to the Principal Underwriter (which may reallocate all or part to others, such as dealers), as service fees at an annual rate of up to 0.25% of the average daily net asset value of Class A shares maintained by the recipients outstanding on the books of the Fund for specified periods.

Since February 20, 1996 through May 31, 1996 ("Offering Period"), the Principal Underwriter will reallocate to brokers or others a commission based on the price paid for each Class A Fund share sold, at the following rates: full allowance plus an additional .50% for each Class A Fund share sold with respect to purchases in an amount not exceeding \$499,999, and full allowance for each Class A Fund share sold with respect to purchases in an amount in excess of \$499,999. Such payments will be made to those dealers and others selling such shares who pay to their registered representatives making such sales a portion of the additional amount payable under this special dealer offer, determined in accordance with their regular payment arrangements with such persons for sales not made under a special dealer offer.

CLASS B SHARES

Class B shares are offered at net asset value, without an initial sales charge.

The Fund, with certain exceptions, imposes a deferred sales charge on Class B shares in accordance with the following schedule:

REDEMPTION TIMING -----	DEFERRED SALES CHARGE IMPOSED -----
First twelve month period	5.00%
Second twelve month period	4.00%
Third twelve month period	3.00%
Fourth twelve month period	3.00%
Fifth twelve month period	2.00%
Sixth twelve month period	1.00%

No deferred sales charge is imposed on amounts redeemed thereafter.

When imposed, the deferred sales charge is deducted from the redemption proceeds otherwise payable to you. The deferred sales charge is retained by the Principal Underwriter. Amounts received by the Principal Underwriter under the Class B Distribution Plans are reduced by deferred sales charges retained by the Principal Underwriter. See "Contingent Deferred Sales Charges and Waiver of Sales Charges" below.

Class B shares that have been outstanding for eight years from and including the month of purchase will automatically convert to Class A shares (which are subject to a lower Distribution Plan charge) without imposition of a front-end sales charge or exchange fee. (Conversion of Class B shares represented by stock certificates will require the return of the stock certificates to KIRC.) The Class B shares so converted will no longer be subject to the higher expenses borne by Class B shares. Because the net asset value per share of Class A shares may be higher or lower than that of the Class B shares at the time of conversion, although the dollar value will be the same, a shareholder may receive more or fewer Class A shares than the number of Class B shares converted. Under current law, it is the Fund's opinion that such a conversion will not constitute a taxable event under federal income tax law. In the event that this ceases to be the case, the Board of Trustees will consider what action, if any, is appropriate and in the best interests of such Class B shareholders.

CLASS B DISTRIBUTION PLAN

The Fund has adopted a Distribution Plan with respect to its Class B shares (the "Class B Distribution Plan") that provide for expenditures by the Fund at an annual rate of up to 1.00% of the average daily net asset value of Class B shares to pay expenses of the distribution of Class B shares. Payments under the Class B Distribution Plan are currently made to the Principal Underwriter (which may reallocate all or part to others, such as dealers) (1) as commissions for Class B shares sold and (2) as shareholder service fees. Amounts paid or accrued to the Principal Underwriter under (1) and (2) in the aggregate may not exceed the annual limitation referred to above.

The Principal Underwriter generally reallocate to brokers or others a commission equal to 4.00% of the price paid for each Class B share sold plus the first year's service fee in advance in the amount of 0.25% of the price paid for each Class B share sold. Beginning approximately 12 months after the purchase of a Class B share, the broker or other party will receive service fees at an annual rate of 0.25% of the average daily net asset value of such Class B share maintained by the recipient outstanding on the books of the Fund for specified periods. See "Distribution Plans" below.

Since February 20, 1996 through May 31, 1996 ("Offering Period"), the

Principal Underwriter will reallocate to brokers or others a commission equal to 4.75% of the price paid for each Class B Fund share sold as well as payment in advance of a shareholder service fee at a rate of 0.25% per annum of the net asset value of shares maintained by such recipients outstanding on the books of the Fund for specified periods, as described in the Fund's prospectus. Such payments will be made to those dealers and others selling such shares who pay to their registered representatives making such sales a portion of the additional amount payable under this special dealer offer, determined in accordance with their regular payment arrangements with such persons for sales not made under a special dealer offer.

CLASS C SHARES

Class C shares are offered only through dealers who have special distribution agreements with the Principal Underwriter. Class C shares are offered at net asset value, without an initial sales charge. With certain exceptions, the Fund imposes a deferred sales charge of 1.00% on shares redeemed within one year after the date of purchase. No deferred sales charge is imposed on amounts redeemed thereafter. If imposed, the deferred sales charge is deducted from the redemption proceeds otherwise payable to you. The deferred sales charge is retained by the Principal Underwriter. See "Contingent Deferred Sales Charges and Waiver of Sales Charges" below.

CLASS C DISTRIBUTION PLAN

The Fund has adopted a Distribution Plan with respect to Class C shares (the "Class C Distribution Plan") that provides for expenditures by the Fund at an annual rate of up to 1.00% of the average daily net asset value of Class C shares to pay expenses of the distribution of Class C shares. Payments under the Class C Distribution Plan are currently made to the Principal Underwriter (which may reallocate all or part to others, such as dealers) (1) as commissions for Class C shares sold and (2) as shareholder service fees. Amounts paid or accrued to the Principal Underwriter under (1) and (2) in the aggregate may not exceed the annual limitation referred to above.

The Principal Underwriter generally reallocate to brokers or others a commission in the amount of 0.75% of the price paid for each Class C share sold, plus the first year's service fee in advance in the amount of 0.25% of the price paid for each Class C share sold, and, beginning approximately fifteen months after purchase, a commission at an annual rate of 0.75% (subject to NASD rules -- see "Distribution Plans") plus service fees which are paid at the annual rate of 0.25%, respectively, of the average daily net asset value of each Class C share maintained by the recipients outstanding on the books of the Fund for specified periods. See "Distribution Plans" below.

CONTINGENT DEFERRED SALES CHARGE AND WAIVER OF SALES CHARGES

Any contingent deferred sales charge imposed upon the redemption of Class A, Class B or Class C shares is a percentage of the lesser of (1) the net asset value of the shares redeemed or (2) the net asset value at the time of purchase of such shares.

No contingent deferred sales charge is imposed when you redeem amounts derived from (1) increases in the value of your account above the net cost of such shares due to increases in the net asset value per share of such shares; (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; (3) certain Class A shares held for more than one or two years, as the case may be, from the date of purchase; (4) Class B shares held for more than 72 months after purchase, as the case may be; or (5) Class C shares held for more than one year from the date of purchase. Upon request for redemption, shares not subject to the contingent deferred sales charge will be redeemed first. Thereafter, shares held the longest will be the first to be redeemed.

With respect to Class A shares purchased by a Qualifying Plan at net asset value or Class C shares purchased by a Qualifying Plan, no contingent deferred sales charge will be imposed on any redemptions made specifically by an individual participant in the Qualifying Plan. This waiver is not available in the event a Qualifying Plan (as a whole) redeems substantially all of its assets.

In addition, no contingent deferred sales charge 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 an automatic withdrawal plan of up to 1 1/2% 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.

The Fund may also sell Class A, Class B or Class C shares at net asset value without any initial sales charge or a contingent deferred sales charge to certain Directors, Trustees, officers and employees of the Fund and Keystone and certain of their affiliates, to registered representatives of firms with dealer agreements with the Principal Underwriter and to a bank or trust company acting as a trustee for a single account.

ARRANGEMENTS WITH BROKER-DEALERS AND OTHERS

The Principal Underwriter may, from time to time, provide promotional incentives, including reallowance of up to the entire sales charge, to certain dealers whose representatives have sold or are expected to sell significant amounts of Fund shares. In addition, dealers may, from time to time, receive additional cash payments. The Principal Underwriter may also provide written information to dealers with whom it has dealer agreements that relates to sales incentive campaigns conducted by such dealers for their representatives as well as financial assistance in connection with pre-approved 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. Dealers to whom substantially the entire sales charge on Class A shares is reallowed may be deemed to be underwriters as that term is defined under the 1933 Act.

The Principal Underwriter may, at its own expense, pay concessions in addition to those described above to dealers which 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 may, depending on the dealer's satisfaction of the required conditions, be periodic and may be up to 0.25% of the value of shares sold by such dealer.

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

The Glass-Steagall Act currently limits the ability of a depository institution (such as a commercial bank or a savings and loan association) to become an underwriter or distributor of securities. In the event the Glass-Steagall Act is deemed to prohibit depository institutions from accepting payments under the arrangement described above, 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.

DISTRIBUTION PLANS

As discussed above, the Fund bears some of the costs of selling its shares under Distribution Plans adopted with respect to its Class A, Class B and Class C shares pursuant to Rule 12b-1 under the 1940 Act.

The NASD limits the amount that a Fund may pay annually in distribution costs for the sale of its shares and shareholder service fees. The NASD limits annual expenditures to 1% of the aggregate average daily net asset value of its shares, 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 12b-1 Distribution Plan, plus interest at the prime rate plus 1% on such amounts (less any deferred sales charges paid by shareholders to the Principal Underwriter), remaining unpaid from time to time.

The Principal Underwriter intends, but is not obligated, to continue to pay or accrue distribution charges incurred in connection with the Class B Distribution Plans that exceed current annual payments permitted to be received by the Principal Underwriter from the Fund. The Principal Underwriter intends to seek full payment of such charges from the Fund (together with annual interest thereon at the prime rate plus one percent) at such time in the future as, and to the extent that, payment thereof by the Fund would be within the permitted limits.

If the Fund's Independent Trustees authorize such payments, the effect would be to extend the period of time during which the Fund incurs the maximum amount of costs allowed by a Distribution Plan. If a 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 such amounts.

In connection with financing its distribution costs, including commission advances to dealers and others, the Principal Underwriter has sold to a

financial institution substantially all of its 12b-1 fee collection rights and contingent deferred sales charge collection rights in respect of Class B shares sold during the period beginning with the commencement of the Fund's operations through approximately May 31, 1997. The Fund has agreed not to reduce the rate of payment of 12b-1 fees in respect of such Class B shares, unless it terminates such shares' Distribution Plan completely. If it terminates such Distribution Plan, the Fund may be subject to possible adverse distribution consequences.

Each of the Distribution Plans may be terminated at any time by vote of the Independent Trustees or by vote of a majority of the outstanding voting shares of the respective class.

The Fund makes no payments in connection with the sale of its shares other than the fee paid to the Fund's Principal Underwriter.

Dealers or others may receive different levels of compensation depending on which class of shares they sell. Payments pursuant to a Distribution Plan are included in the operating expenses of the class.

HOW TO REDEEM SHARES

You may redeem Fund shares for cash at their net asset value upon written order to the Fund c/o KIRC, and presentation to the Fund of a properly endorsed share certificate (if certificates have been issued). Your signature (s) on the written order and certificates must be guaranteed as described below. In order to redeem by telephone or to engage in telephone transactions generally, you must complete the authorization in your account application. Proceeds for shares redeemed on telephonic order will be deposited by wire or EFT only to the bank account designated in your account application.

The redemption value equals the net asset value per share then determined 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.

If imposed, the deferred sales charge is deducted 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 15 days or more. Any delay may be avoided by purchasing shares either with a certified check or by Federal Reserve or bank wire of funds or by EFT. Although the mailing of a redemption check or the wiring or EFT of redemption proceeds 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 contingent deferred sales charge (as described above), will be made within seven days thereafter except as discussed herein.

You may also redeem your shares through broker-dealers. The Principal Underwriter, acting as agent for the Fund, stands ready to repurchase Fund shares upon orders from 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 deferred sales charge, 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.

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 KIRC'S POLICIES. The Fund or KIRC may waive this requirement, but also 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 KIRC reserve the right to withdraw this waiver at any time.

If the Fund receives a redemption 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 you and process the order on the day such information is received.

TELEPHONE

Under ordinary circumstances, you may redeem up to \$50,000 from your account by telephone by calling toll free 1-800-343-2898. You must complete the Telephone Redemptions section of the application to enjoy telephone redemption privileges.

In order to insure that instructions received by KIRC 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, and 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 the redemption proceeds are less than \$2,500, they will be mailed by check. If they are \$2,500 or more, they will be mailed, wired or sent by EFT to your previously designated bank account as you direct. If you do not specify how you wish your redemption proceeds to be sent, they will be mailed by check.

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

SMALL ACCOUNTS

Due to 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 deferred sales charges are applied to such redemptions.

REDEMPTIONS IN KIND

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 1940 Act to redeem for cash all shares presented for redemption by any one shareholder up to the lesser of \$250,000 or 1% 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.

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, KIRC 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. KIRC will employ reasonable procedures to confirm that instructions received over KARL or by telephone are genuine. Neither the Fund, KIRC nor the Principal Underwriter will be liable when following instructions received over KARL or by telephone that KIRC 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) an emergency exists and the Fund cannot dispose of its investments or fairly determine their value; or (4) the Securities and Exchange Commission so orders.

SHAREHOLDER SERVICES

Details on all shareholder services may be obtained from KIRC by writing or by calling toll free 1-800-343-2898.

KEYSTONE AUTOMATED RESPONSE LINE

KARL offers you specific fund account information and price and yield quotations as well as the ability to do account transactions, including investments, exchanges and redemptions. You 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

A shareholder who has obtained the appropriate prospectus may exchange shares of the Fund for shares of certain other Keystone America Funds and Keystone Liquid Trust ("KLT") as follows:

Class A shares may be exchanged for Class A shares of other Keystone America Funds and Class A shares of KLT;

Class B shares, except as noted below, may be exchanged for the same type of Class B shares of other Keystone America Funds and the same type of Class B shares of KLT; and

Class C shares may be exchanged for Class C shares of other Keystone America Funds and Class C shares of KLT.

Class B shares cannot be exchanged for Class B shares of Keystone Capital Preservation and Income Fund during the 24 month period commencing with and including the month of original purchase.

The exchange of Class B shares and Class C shares will not be subject to a contingent deferred sales charge. However, if the shares being tendered for exchange are

(i) Class A shares acquired in an NAV Purchase or otherwise without a front end sales charge,

(ii) Class B shares that have been held for less than 72 months or four years, as the case may be, or

(iii) Class C shares that have been held for less than one year,

and are still subject to a deferred sales charge, such charge will carry over to the shares being acquired in the exchange transaction.

You may exchange shares for another Keystone fund for a \$10 fee by calling or writing to Keystone. The exchange fee is waived for individual investors who make an exchange using KARL. Shares purchased by check are eligible for exchange after 15 days. If the shares being tendered for exchange are still subject to a deferred sales charge, such charge will carry over to the shares being acquired in the exchange transaction. The Fund reserves the right, after providing the required notice to shareholders, to terminate this exchange offer or to change its terms, including the right to change the fee for any exchange.

Orders to exchange a certain class of shares of the Fund for the corresponding class of shares of KLT will be executed by redeeming the shares of the Fund and purchasing the corresponding class of shares of KLT at the net asset value of such shares next 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 Fund is 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 of the funds 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.

KEYSTONE AMERICA MONEY LINE

Keystone America Money Line eliminates the delay of mailing a check or the expense of wiring funds. You must request the service on your application. Keystone America Money Line allows you to authorize electronic transfers of money to purchase shares in any amount and to redeem up to \$50,000 worth of shares. You can use Keystone America Money Line like an "electronic check" to move money between your bank account and your account in the Fund with one telephone call. You must allow two business days after the call for the transfer to take place. For money recently invested, you must allow normal check clearing time before redemption proceeds are sent to your bank.

You may also arrange for systematic monthly or quarterly investments in your Keystone America account. Once proper authorization is given, your bank account will be debited to purchase shares in the Fund. You will receive confirmation from the Principal Underwriter for every transaction.

To change the amount of a Keystone America Money Line or to terminate the service (which could take up to 30 days), you must write to KIRC and include account numbers.

RETIREMENT PLANS

The Fund has various retirement plans available to investors, including Individual Retirement Accounts ("IRAs"); Rollover IRAs; Simplified Employee Pension Plans ("SEPs"); Tax Sheltered Annuity Plans ("TSAs"), 403(b) Plans; 401(k) Plans; Keogh Plans; Corporate Profit-Sharing Plans; and Money Purchase Plans. For details, including fees and application forms, call toll free 1-800-247-4075 or write to KIRC.

AUTOMATIC WITHDRAWAL PLAN

Under an Automatic Withdrawal Plan, if your account has a value of at least \$10,000, you may arrange for regular monthly or quarterly fixed withdrawal payments. Each payment must be at least \$100 and may be as much as 1.5% per month or 4.5% per quarter of the total net asset value of the Fund shares in your account when the Automatic Withdrawal Plan is opened. Fixed withdrawal payments are not subject to a deferred sales charge. Excessive withdrawals may decrease or deplete the value of your account. Moreover, because of the effect of the applicable sales charge, a Class A investor should not make continuous purchases of the Fund's shares while participating in the Automatic Withdrawal Plan.

DOLLAR COST AVERAGING

Through dollar cost averaging you can invest a fixed dollar amount each month or each quarter in any Keystone America Fund. This results in more shares being purchased when the selected fund's net asset value is relatively low and fewer shares being purchased when the fund's net asset value is relatively high and may result in a lower average cost per share than a less systematic investment approach.

Prior to participating in dollar cost averaging, you must establish an account in a Keystone America Fund or a money market fund managed or advised by Keystone. You should designate on the application (1) the dollar amount of each monthly or quarterly investment (minimum \$100) you wish to make and (2) the fund in which the investment is to be made. Thereafter, on the first day of the designated month, an amount equal to the specified monthly or quarterly investment will automatically be redeemed from your initial account and invested in shares of the designated fund. If you are a Class A investor and paid a sales charge on your initial purchase, the shares purchased will be eligible for Rights of Accumulation and the sales charge applicable to the purchase will be determined accordingly. In addition, the value of shares purchased will be included in the total amount required to fulfill a Letter of Intent. If a sales charge was not paid on the initial purchase, a sales charge will be imposed at the time of subsequent purchases, and the value of shares purchased will become eligible for Rights of Accumulation and Letters of Intent.

TWO DIMENSIONAL INVESTING

You may elect to have income and capital gains distributions from any class Keystone America Fund shares you may own automatically invested to purchase the same class of shares of any other Keystone America Fund. You may select this service on your application and indicate the Keystone America Fund(s) into which distributions are to be invested. The value of shares purchased will be ineligible for Rights of Accumulation and Letters of Intent.

OTHER SERVICES

Under certain circumstances, you may, within 30 days after a redemption, reinstate your account in the same class of shares that you redeemed at current net asset value.

PERFORMANCE DATA

From time to time the Fund may advertise "total return" and "current yield". ALL DATA IS BASED ON HISTORICAL EARNINGS AND IS NOT INTENDED TO INDICATE FUTURE PERFORMANCE. Total return and current yield are computed separately for each class of shares of the Fund. Total return refers to average annual compounded rates of return over specified periods determined by comparing the initial amount invested in a particular class to the ending redeemable value of that amount. The resulting equation assumes reinvestment of all dividends and distributions and deduction of the maximum sales charge or applicable contingent deferred sales charge and all recurring charges, if any, applicable to all shareholder accounts. 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 also include comparative performance data for each class of shares in advertising or marketing the Fund's shares, such as data from Lipper Analytical Services, Inc., Morningstar, Inc., Standard & Poor's Corporation, Ibbotson Associates or other industry publications.

FUND SHARES

The Fund currently issues one series of shares, which offers three classes of shares that participate proportionately based on their relative net asset values in dividends and distributions and have equal voting, liquidation and other rights except that (1) expenses related to the distribution of each series or class of shares or other expenses that the Board of Trustees may designate as class expenses from time to time, are borne solely by each series or class; (2) each series or class of shares has exclusive voting rights with respect to its Distribution Plan; (3) each series or class has different exchange privileges; and (4) each series or class generally has a different designation. 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. Shares are redeemable, transferable and freely assignable as collateral. The Fund is authorized to issue additional series or classes of shares.

Shareholders are entitled to one vote for each full share owned and fractional votes for fractional shares. Shares of the Fund vote together except when required by law to vote separately by series or class. The Fund does not have annual meetings. The Fund will have special meetings, from time to time, as required under its Declaration of Trust and under the 1940 Act. As provided in the Fund's Declaration of Trust, 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 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.

Under Massachusetts law, it is possible that a Fund shareholder may be held personally liable for the Fund's obligations. The Fund's Declaration of Trust provides, however, that shareholders shall not be subject to any personal liability for the Fund's obligations and provides indemnification from Fund assets for any shareholder held personally liable for the Fund's obligations. Disclaimers of such liability are included in each Fund agreement.

ADDITIONAL INFORMATION

KIRC, located at 101 Main Street, Cambridge, Massachusetts 02142-1519, is a wholly-owned subsidiary of Keystone, serves as the Fund's transfer agent and dividend disbursing agent.

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 notice to those shareholders, the Fund intends, when an annual report or a 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.

ADDITIONAL INVESTMENT INFORMATION

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) and to resell the note at any time to a third party. 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 investment, the issuer meets the criteria established for commercial paper.

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 creditworthy. 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 intends only 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 that the Fund is obligated to repurchase may decline below the repurchase price. Borrowing and reverse repurchase agreements magnify the potential for gain or loss on the portfolio securities of the Fund and, therefore, increase the possibility of fluctuation in the Fund's net asset value. Such practices may constitute leveraging. In the event the buyer of securities under a reverse repurchase agreement files for bankruptcy or becomes insolvent, such buyer or its trustee or receiver may receive an extension of time to determine whether to enforce the Fund's obligation to repurchase the securities, and the Fund's use of the proceeds of the reverse repurchase agreement may effectively be restricted pending such determination. The staff of the Securities and Exchange Commission has taken the position that a fully secured or collateralized reverse repurchase agreement is not subject to the percentage limitation on borrowing

FOREIGN SECURITIES

The Fund may invest up to 25% of its assets in securities principally traded in securities markets outside the United States. At the time the Fund does not intend to invest more than 5% of its assets in foreign securities. While investment in foreign securities is intended to reduce risk by providing further diversification, such investments involve sovereign risk in addition to the credit and market risks normally associated with domestic securities. Foreign investments may be affected favorably or unfavorably by changes in currency rates and exchange control regulations. There may be less publicly available information about a foreign company than about a U.S. company, and foreign companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to those applicable to U.S. companies. Securities of some foreign companies are less liquid or more volatile than securities of U.S. companies, and foreign brokerage commissions and custodian fees are generally higher than in the United States. Investments in foreign securities may also be subject to other risks different than those affecting U.S. investments, including local political or economic developments, expropriation or nationalization of assets, imposition of withholding taxes on dividend or interest payments and currency blockage (which would prevent cash from being brought back to the United States).

In addition, investing in securities of foreign issuers generally involves more risk than investing in securities of domestic issuers for the following reasons: (1) there may be less public information available about foreign companies than is available about U.S. companies; (2) foreign companies are not generally subject to the uniform accounting, auditing and financial reporting standards and practices applicable to U.S. companies; (3) foreign stock markets have less volume than the U.S. market, and the securities of some foreign companies are much less liquid and much more volatile than the securities of comparable U.S. companies; (4) foreign securities transactions may involve higher brokerage commissions; (5) there may be less government regulation of stock markets, brokers, listed companies and banks in foreign countries than in the U.S.; (6) the Fund may incur fees on currency exchanges when it changes investments from one country to another; (7) the Fund's foreign investments could be affected by expropriation, confiscatory taxation, nationalization, establishment of currency exchange controls, political or social instability or diplomatic developments; (8) fluctuations in foreign exchange rates will affect the value of the Fund's investments, the value of dividends and interest earned, gains and losses realized on the sale of securities, net investment income and unrealized appreciation or depreciation of investments; and (9) interest and dividends on foreign securities may be subject to withholding taxes in a foreign country that could result in a reduction of net investment income available for distribution.

Investing in securities of issuers in emerging market 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 market 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 market 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. Furthermore, investing in securities of companies in the formerly communist countries of Eastern Europe and the People's Republic of China involves additional risks to those associated with investments in companies in non-formerly communist emerging markets countries. Specifically, those countries could convert back to a single economic system, and the claims of property owners prior to the expropriation by the communist regime could be settled in favor of the former property owners, in which case the Fund could lose its entire investment in those countries. These risks are carefully considered by Keystone prior to the purchase of these securities.

"WHEN ISSUED" SECURITIES

The Fund may also purchase and sell securities and currencies on a when issued and delayed delivery basis. When issued or delayed delivery transactions arise when securities or currencies 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 entering into the transaction. When the Fund engages in when issued and delayed delivery 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 and delayed delivery transactions may be expected to occur a month or more before delivery is due. No payment or delivery is made by the Fund however, until it receives payment or delivery from the other party to the transaction. A separate account of liquid assets equal to the value of such purchase commitments will be maintained until payment is made. When issued and delayed delivery agreements 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 when issued and delayed delivery 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 only be made 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 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 Fund is permitted to use derivatives for one or more of these purposes, although the Fund generally uses derivatives primarily as direct investments in order to enhance yields and broaden portfolio diversification. Each of these uses entails greater risk than if derivatives were used solely for hedging purposes. The Fund uses futures contracts and related options for hedging purposes. Derivatives are a valuable tool which, when used properly, can provide significant benefit to Fund shareholders. Keystone is not an aggressive user of derivatives with respect to the Fund. However, 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 and futures, is provided later in this section and is provided in the Fund's statement of additional information. The Fund does not presently engage in the use of swaps.

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 a 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 purchasing 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 Fund's 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 establish 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 accurately predict 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 U.S. 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.

EXHIBIT A

REDUCED SALES CHARGES

Initial sales charges may be reduced or eliminated for persons or organizations purchasing Class A shares of the Fund alone or in combination with Class A shares of other Keystone America Funds. Only Class A shares subject to an initial or deferred sales charge are eligible for inclusion in reduced sales charge programs.

For purposes of qualifying for reduced sales charges on purchases made pursuant to Rights of Accumulation or Letters of Intent, the term "Purchaser" includes the following persons: an individual; an individual, his or her spouse and children under the age of 21; a trustee or other fiduciary of a single trust estate or single fiduciary account established for their benefit; an organization exempt from federal income tax under Section 501 (c) (3) or

(13) of the Internal Revenue Code; a pension, profit-sharing or other employee benefit plan whether or not qualified under Section 401 of the Internal Revenue Code; or other organized groups of persons, whether incorporated or not, provided the organization has been in existence for at least six months and has some purpose other than the purchase of redeemable securities of a registered investment company at a discount. In order to qualify for a lower sales charge, all orders from an organized group will have to be placed through a single investment dealer or other firm and identified as originating from a qualifying purchaser.

CONCURRENT PURCHASES

For purposes of qualifying for a reduced sales charge, a Purchaser may combine concurrent direct purchases of Class A shares of two or more of the "Eligible Funds," as defined below. For example, if a Purchaser concurrently invested \$75,000 in one of the other "Eligible Funds" and \$75,000 in the Fund, the sales charge would be that applicable to a \$150,000 purchase, i.e., 3.75% of the offering price, as indicated in the Sales Charge Schedule in the prospectus.

RIGHT OF ACCUMULATION

In calculating the sales charge applicable to current purchases of the Fund's Class A shares, a Purchaser is entitled to accumulate current purchases with the current value of previously purchased Class A shares of the Fund and Class A shares of certain other eligible funds that are still held in (or exchanged for shares of and are still held in) the same or another eligible fund ("Eligible Fund(s)"). The Eligible Funds are the Keystone America Funds and Keystone Liquid Trust.

For example, if a Purchaser held shares valued at \$99,999 and purchased an additional \$5,000, the sales charge for the \$5,000 purchase would be at the next lower sales charge of 3.75% of the offering price as indicated in the Sales Charge schedule. KIRC must be notified at the time of purchase that the Purchaser is entitled to a reduced sales charge, which reduction will be granted subject to confirmation of the Purchaser's holdings. The Right of Accumulation may be modified or discontinued at any time.

LETTER OF INTENT

A Purchaser may qualify for a reduced sales charge on a purchase of Class A shares of the Fund alone or in combination with purchases of Class A shares of any of the other Eligible Funds by completing the Letter of Intent section of the application. By so doing, the Purchaser agrees to invest within a thirteen-month period a specified amount which, if invested at one time, would qualify for a reduced sales charge. Each purchase will be made at a public offering price applicable to a single transaction of the dollar amount specified on the application, as described in this prospectus. The Letter of Intent does not obligate the Purchaser to purchase, nor the Fund to sell, the amount indicated.

After the Letter of Intent is received by KIRC, each investment made will be entitled to the sales charge applicable to the level of investment indicated on the application. The Letter of Intent may be back-dated up to ninety days so that any investments made in any of the Eligible Funds during the preceding ninety-day period, valued at the Purchaser's cost, can be applied toward fulfillment of the Letter of Intent. However, there will be no refund of sales charges already paid during the ninety-day period. No retroactive adjustment will be made if purchases exceed the amount specified in the Letter of Intent. Income and capital gains distributions taken in additional shares will not apply toward completion of the Letter of Intent.

If total purchases made pursuant to the Letter of Intent are less than the amount specified, the Purchaser will be required to remit an amount equal to the difference between the sales charge paid and the sales charge applicable to purchases actually made. Out of the initial purchase (or subsequent purchases, if necessary) 5% of the dollar amount specified on the application will be held in escrow by KIRC in the form of shares registered in the Purchaser's name. The escrowed shares will not be available for redemption, transfer or encumbrance by the Purchaser until the Letter of Intent is completed or the higher sales charge paid. All income and capital gains distributions on escrowed shares will be paid to the Purchaser or his order.

When the minimum investment specified in the Letter of Intent is completed (either prior to or by the end of the thirteen-month period), the Purchaser will be notified and the escrowed shares will be released. If the intended investment is not completed, the Purchaser will be asked to remit to the Principal Underwriter any difference between the sales charge on the amount specified and on the amount actually attained. If the Purchaser does not within 20 days after written request by the Principal Underwriter or his dealer pay such difference in sales charge, KIRC will redeem an appropriate number of the escrowed shares in order to realize such difference. Shares remaining after any such redemption will be released by KIRC. Any redemptions made by the Purchaser during the thirteen-month period will be subtracted from the amount of the purchases for purposes of determining whether the Letter of Intent has been completed. In the event of a total redemption of the account

prior to completion of the Letter of Intent, the additional sales charge due will be deducted from the proceeds of the redemption and the balance will be forwarded to the Purchaser.

By signing the application, the Purchaser irrevocably constitutes and appoints KIRC his attorney to surrender for redemption any or all escrowed shares with full power of substitution.

The Purchaser or his dealer must inform the Principal Underwriter or KIRC that a Letter of Intent is in effect each time a purchase is made.

KEYSTONE AMERICA
FUND FAMILY

O

Capital Preservation and Income Fund
Government Securities Fund
Intermediate Term Bond Fund
Strategic Income Fund
World Bond Fund
Tax Free Income Fund
California Insured Tax Free Fund
Florida Tax Free Fund
Massachusetts Tax Free Fund
Missouri Tax Free Fund
New York Insured Tax Free Fund
Pennsylvania Tax Free Fund
Texas Tax Free Fund
Fund for Total Return
Global Opportunities Fund
Hartwell Emerging Growth Fund, Inc.
Hartwell Growth Fund
Omega Fund
Fund of the Americas
Strategic Development Fund
Small Company Growth Fund II

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KEYSTONE
SMALL COMPANY GROWTH
FUND II

[logo]

PROSPECTUS AND
APPLICATION

KEYSTONE SMALL COMPANY GROWTH FUND II

PART B

STATEMENT OF ADDITIONAL INFORMATION

KEYSTONE SMALL COMPANY GROWTH FUND II

STATEMENT OF ADDITIONAL INFORMATION

This statement of additional information is not a prospectus, but relates to, and should be read in conjunction with, the prospectus of Keystone Small Company Growth Fund II (the "Fund") dated February __, 1996. A copy of the prospectus may be obtained from Keystone Investment Distributors Company (formerly named Keystone Distributors, Inc.) (the "Principal Underwriter"), the Fund's principal underwriter, 200 Berkeley Street, Boston, Massachusetts 02116-5034.

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 THE FUND

The Fund is an open-end, diversified management investment company. The Fund's investment objective is to provide shareholders with long-term growth of capital. It is the Fund's policy to invest its assets as fully as practicable.

 INVESTMENT OBJECTIVE AND POLICIES

The Fund's investment objective is to provide shareholders with long-term growth of capital. It is expected that under ordinary circumstances at least 65% of its total assets will be invested in equity securities of companies with small market capitalization. For this purpose, companies with small market capitalizations are generally those with market capitalization of less than \$1 billion at the time of the Fund's investment. Companies whose capitalization falls outside this range after the purchase continue to be considered small cap for this purpose.

FUNDAMENTAL NATURE OF INVESTMENT OBJECTIVE

The investment objective of the Fund is fundamental and may not be changed without approval of a majority (as defined in the Investment Company Act of 1940 ("1940 Act")) of the Fund's outstanding voting shares (which means the lesser of (1) 67% of the shares represented at a meeting at which more than 50% of the outstanding shares are represented or (2) more than 50% of the outstanding shares).

 INVESTMENT RESTRICTIONS

FUNDAMENTAL INVESTMENT RESTRICTIONS

The Fund has adopted the fundamental investment restrictions set forth below, which may not be changed without the vote of a majority of the Fund's outstanding voting shares. 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 United States ("U.S.") government or its agencies or instrumentalities;

(2) concentrate its investments in the securities of issuers in any one industry other than securities issued or guaranteed by the U.S. government or its agencies or instrumentalities;

(3) borrow except from banks for temporary or emergency purposes, provided that, immediately after any such borrowing there is asset coverage of at least 300% for all such borrowings, and the Fund may enter into reverse repurchase agreements;

(4) issue senior securities, except that the Fund may (a) make permitted borrowings of money; (b) enter into firm commitment agreements and collateral arrangements with respect to the writing of options on securities and engage in permitted transactions in futures and options thereon and forward contracts; and (c) issue shares of any additional permitted classes or series;

(5) engage in the business of underwriting securities issued by other persons, except insofar as the Fund may be deemed to be an underwriter in connection with the disposition of its portfolio investments;

(6) invest in real estate or commodities, except that the Fund may (a) invest in securities directly or indirectly secured by real estate and interests therein and securities of companies that invest in real estate and interests therein, including mortgages and other liens; and (b) enter into financial futures contracts and options thereon for hedging purposes and enter into forward contracts; or

(7) make loans, except that the Fund may make, purchase, or hold publicly and nonpublicly offered debt securities (including convertible securities) and other debt investments, including loans, consistent with its investment objective; (b) lend its portfolio securities to broker-dealers; and (c) enter into repurchase agreements.

OTHER FUNDAMENTAL POLICIES

Notwithstanding any other investment policy or restriction, the Fund may 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.

NON-FUNDAMENTAL INVESTMENT RESTRICTIONS

The Fund has adopted the non-fundamental policies set forth below, which may be changed without shareholder approval.

The Fund may not do the following:

(1) borrow money except for temporary or emergency purposes (not for leveraging or investment), and it will not purchase any security while borrowings representing more than 5% of its total assets are outstanding;

(2) (a) sell securities short (except by selling futures contracts or writing covered options), unless it owns, or by virtue of ownership of other securities has the right to obtain without additional consideration securities identical in kind and amount to the securities sold short; or (b) purchase securities on margin, except for such short-term credits as are necessary for the clearance of transactions, and provided that the Fund may make initial and variation so-called "margin" payments in connection with purchases or sales of futures contracts or of options on futures contracts or forwards or other similar instruments;

(3) pledge, mortgage, or hypothecate its assets, except that the Fund may pledge not more than one-third of its total assets (taken at current value) to secure borrowings made in accordance with its investment restrictions on borrowings, and provided that the Fund may make initial and variation margin payments in connection with purchases or sales of futures contracts or of

options on futures contracts or forwards or other similar instruments;

(4) purchase the securities of any other investment company, except by purchase in the open market subject only to customary broker's commissions and provided that any such purchase will not result in duplication of sales charges or management fees, and except in connection with any merger, consolidation, or reorganization;

(5) invest in oil, gas, or other mineral leases or development programs (except the Fund may invest in companies that own or invest in such interests); or

(6) invest in real estate limited partnerships.

(7) (a) write covered options, unless the securities underlying such options are listed on a national securities exchange and the options are issued by the Options Clearing Corporation; provided, however, that the securities underlying such options may be traded on an automated quotations system ("NASDAQ") of the National Association of Securities Dealers, Inc. ("NASD") if and to the extent permitted by applicable state regulations; or (b) purchase warrants, valued at the lower of cost or market, in excess of 5% of the value of the Fund's net assets; included within that amount, but not to exceed 2% of the value of the Fund's net assets, may be warrants that are not listed on the New York or American Stock Exchanges; warrants acquired by the Fund at any time in units or attached to securities are not subject to this restriction.

Although not fundamental restrictions or policies requiring a shareholders' vote to change, the Fund has undertaken to certain state securities authorities that the Fund will not:

(1) purchase securities of issuers which the Company is restricted from selling to the public without registration under the Securities Act of 1933 if by any reason thereof the value of its aggregate investment in such classes of securities will exceed 10% of its total assets;

(2) purchase securities of unseasoned issuers, including their predecessors, which have been in operation for less than three years if by reason thereof the value of its aggregate investment in such classes of securities will exceed 5% of its total assets;

(3) invest in puts, calls, straddles, spreads, and any combination thereof if by reason thereof the value of its aggregate investment in such classes of securities will exceed 5% of its total assets;

(4) purchase or hold the securities of any issuer if the officers, directors or trustees of the Fund, its advisor's or managers owning beneficially more than 1/2 of 1% of the securities of an issuer together own beneficially more than 5% of the securities of that issuer; and

(5) convert to the Master Fund/Feeder Fund structure without the prior approval of shareholders.

These undertakings will remain in effect as long as the relevant State(s) require(s) and shares of the Fund are registered in that State(s).

OTHER NON-FUNDAMENTAL POLICIES

It is the position of the staff of the Securities and Exchange Commission (sometimes referred to herein as the "SEC" or the "Commission") that investment (including holdings of debt securities) of more than 25% of the value of the Fund's assets in any one industry or group of industries represents concentration, it being understood that securities issued by the U.S. government or state governments or political subdivisions thereof are excluded from the calculation because these issuers are not considered by the staff of the Commission to be members of any industry.

In order to permit the sale of Fund shares in certain states or foreign countries, the Fund may make commitments more restrictive than the investment restrictions described above. Should the Fund determine that any such commitment is no longer in the best interests of the Fund, it may revoke the commitment by terminating sales of its shares in the state or country involved.

DISTRIBUTIONS AND TAXES

The Fund distributes to its shareholders dividends from net investment income and net realized long-term and short-term capital gains annually in

shares or, at the option of the shareholder, in cash. (Distributions of ordinary income maybe eligible in whole or in part for the corporate 70% dividends received deduction.) Shareholders who have not opted, prior to the record date for any distribution, to receive cash will have the number of distributed shares determined on the basis of the Fund's net asset value per share computed at the end of the day on the record date after adjustment for the distribution. Net asset value is used in computing the number of shares in both gains and income distribution reinvestments. Account statements and/or checks as appropriate will be mailed to shareholders by the 15th of the appropriate month. Unless the Fund receives instructions to the contrary from a shareholder before the record date, it will assume that the shareholder wishes to receive that distribution and future gains and income distributions in shares. Instructions continue in effect until changed in writing.

Distributed long-term capital gains are taxable as such to the shareholder regardless of the period of time Fund shares have been held by the shareholder. However, if such shares are held less than six months and redeemed at a loss, the shareholder will recognize a long-term capital loss on such shares to the extent of the long-term capital gain distribution received in connection with such shares. If the net asset value of the Fund's shares is reduced below a shareholder's cost by a capital gains distribution, such distribution, to the extent of the reduction, would be a return of investment though taxable as stated above. Since distributions of capital gains depend upon profits actually realized from the sale of securities by the Fund, they may or may not occur. The foregoing comments relating to the taxation of dividends and distributions paid on the Fund's shares relate solely to federal income taxation. Such dividends and distributions may also be subject to state and local taxes.

When the Fund makes a distribution, it intends to distribute only the Fund's net capital gains and such income as has been predetermined to the best of the Fund's ability to be taxable as ordinary income. Shareholders of the Fund will be advised annually of the federal income tax status of distributions.

VALUATION OF SECURITIES

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

(1) securities that are traded on a national securities exchange or the over-the-counter National Market System ("NMS") are valued on the basis of the last sales price on the exchange where primarily traded or NMS prior to the time of the valuation, provided that a sale has occurred and that this price reflects current market value according to procedures established by the Board of Trustees;

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

(3) instruments having maturities of more than sixty day for which market quotations are readily available, are valued at current market value; where market quotations are not available, such instruments are valued at fair value as determined by the Board of Trustees;

(4) instruments purchased with maturities of sixty days or less (including all master demand notes) 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; instruments 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 which, in either case, reflects fair value as determined by the Board of Trustees; and

(5) the following securities are valued at prices deemed in good faith to be fair under procedures established by the Board of Trustees: (a) securities, including restricted securities, for which complete quotations are not readily available; (b) listed securities or those on NMS 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.

Foreign securities for which market quotations are not readily available are valued on the basis of valuations provided by a pricing service, approved by the Fund's Board of Trustees, which uses information with respect to transactions in such securities, quotations from broker-dealers, market transactions in comparable securities and various relationships between securities and yield to maturity in determining value.

BROKERAGE

It is the policy of the Fund, in effecting transactions in portfolio securities, to seek best execution of orders at the most favorable prices. The determination of what may constitute best execution and price in the execution of a securities transaction by a broker involves a number of considerations, including, without limitation, the overall direct net economic result to the Fund, involving both price paid or received and any commissions and other costs paid, the efficiency with which the transaction is effected, the ability to effect the transaction at all where a large block is involved, the availability of the broker to stand ready to execute potentially difficult transactions in the future and the financial strength and stability of the broker. Such considerations are judgmental and are weighed by management in determining the overall reasonableness of brokerage commissions paid.

Subject to the foregoing, a factor in the selection of brokers is the receipt of research services, such as analyses and reports concerning issuers, industries, securities, economic factors and trends and other statistical and factual information. Any such research and other statistical and factual information provided by brokers to the Fund or Keystone is considered to be in addition to and not in lieu of services required to be performed by Keystone under its Investment Advisory and Management Agreement with the Fund. The cost, value and specific application of such information are indeterminable and cannot practicably be allocated among the Fund and other clients of Keystone 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 such other clients. Under the Investment Advisory and Management 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 does follow such a practice, they will do so on a basis which is fair and equitable to the Fund.

The Fund expects that purchases and sales of securities usually will be effected through brokerage transactions for which commissions are payable. 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.

The Fund may participate, if and when practicable, in group bidding for the direct purchase from an issuer of certain securities for the Fund in order to take advantage of the lower purchase price available to members of such a group.

Neither Keystone nor the Fund intend to place securities transactions with any particular broker-dealer or group thereof. The Fund's Board of Trustees, however, has determined that the Fund may follow a policy of considering sales of shares as a factor in the selection of broker-dealers to execute portfolio transactions, subject to the requirements of best execution, including best price, described above.

The policy of the Fund with respect to brokerage is and will be reviewed by the Fund's Board of Trustees from time to time. Because of the possibility of further regulatory developments affecting the securities exchanges and brokerage practices generally, the foregoing practices may be changed, modified or eliminated.

Investment decisions for the Fund are made independently by Keystone from those of the other funds and investment accounts managed by Keystone. It may frequently develop that the same investment decision is made for more than one fund. Simultaneous transactions are inevitable when the same security is suitable for the investment objective of more than one account. When two or more funds or accounts are engaged in the purchase or sale of the same security, the transactions are allocated as to amount in accordance with a formula which is equitable to each fund or account. It is recognized that in some cases this system could have a detrimental effect on the price or volume of the security as far as the Fund is concerned. In other cases, however, it is believed that the ability of the Fund to participate in volume transactions will produce better executions for the Fund.

In no instance are portfolio securities purchased from or sold to Keystone, the Principal Underwriter or any of their affiliated persons, as defined in the 1940 Act and rules and regulations issued thereunder.

SALES CHARGES

GENERAL

The Fund currently offers three classes of shares. Class A shares are offered with a maximum sales charge of 5.75% payable at the time of purchase ("Front End Load Option"). Class B shares are subject to a contingent deferred sales charge payable upon redemption during the 72 month period following the month of purchase. ("Back End Load Option"). Class B shares that have been outstanding eight years from and including the month of purchase will automatically convert to Class A shares without imposition of a front end sales charge or exchange fee. (Conversion of Class B shares represented by stock certificates will require the return of the stock certificates to Keystone Investor Resource Center, Inc, the Fund's transfer and dividend disbursing agent ("KIRC").) Class C shares are sold subject to a contingent deferred sales charge payable upon redemption within one year after purchase ("Level Load Option"). Class C shares are available only through dealers who have entered into special distribution agreements with the Principal Underwriter. The prospectus contains a general description of how investors may buy shares of the Funds as well as a table of applicable sales charges for Class A shares; a discussion of reduced sales charges that may apply to subsequent purchases; and a description of applicable contingent deferred sales charges.

CONTINGENT DEFERRED SALES CHARGES

In order to reimburse the Fund for certain expenses relating to the sale of its shares (see "Distribution Plan"), a contingent deferred sales charge may be imposed at the time of redemption of certain Fund shares, as follows:

CLASS A SHARES

With certain exceptions, purchases of Class A shares (1) in an amount equal to or exceeding \$1,000,000, and/or (2) purchased by a corporate qualified retirement plan or a non-qualified deferred compensation plan sponsored by a corporation having 100 or more eligible employees (a "Qualifying Plan"), in either case without a front-end sales charge, will be subject to a contingent deferred sales charge of 1.00% during the 24 month period following the date of purchase. The contingent deferred sales charge will be retained by the Principal Underwriter. See "Calculation of Contingent Deferred Sales Charge" below.

CLASS B SHARES

The Fund, with certain exceptions, will impose a deferred sales charge as a percentage of net asset value or net cost of Class B shares redeemed during succeeding twelve-month periods following the month of purchase as follows: 5% during the first period; 4% during the second period; 3% during the third period; 3% during the fourth period; 2% during the fifth period, and 1% during the sixth period. No deferred sales charge is imposed on amounts redeemed thereafter.

If imposed, the deferred sales charge is deducted from the redemption proceeds otherwise payable to you. The deferred sales charge is retained by the Principal Underwriter. Amounts received by the Principal Underwriter under the Class B Distribution Plan are reduced by deferred sales charges retained by the Principal Underwriter. See "Calculation of Contingent Deferred Sales charges and Waiver of Sales Charges" below.

CLASS C SHARES

With certain exceptions, the Fund will impose a deferred sales charge of 1% on shares redeemed within one year after the date of purchase. No deferred sales charge is imposed on amounts redeemed thereafter. If imposed, the deferred sales charge is deducted from the redemption proceeds otherwise payable to you. The deferred sales charge is retained by the Principal Underwriter. See "Calculation of Contingent Deferred Sales Charge" below.

CALCULATION OF CONTINGENT DEFERRED SALES CHARGE

Any contingent deferred sales charge imposed upon the redemption of Class A, Class B or Class C shares is a percentage of the lesser of (1) the net asset value of the shares redeemed or (2) the net cost of such shares.

No contingent deferred sales charge is imposed when you redeem amounts derived from (1) increases in the value of your account above the net cost of such shares due to increases in the net asset value per share of such shares; (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; (3) certain Class A shares held for more than one or two years, as the case may be, from the date of purchase; (4) Class B shares held more than 72 months after the month of purchase; or (5) Class C shares held for more than one year from the date of purchase.

Upon request for redemption, shares not subject to the contingent

deferred sales charge will be redeemed first. Thereafter, shares held the longest will be the first to be redeemed. There is no contingent deferred sales charge when the shares of a class are exchanged for the shares of the same class of another Keystone America Fund. Moreover, when shares of one such class of a fund have been exchanged for shares of another such class of a fund, the calendar year of the purchase of the shares of the fund exchanged into is assumed to be the year shares tendered for exchange were originally purchased.

WAIVER OF SALES CHARGES

Shares of the Fund also may be sold, to the extent permitted by applicable law, regulations, interpretations or exemptions, at net asset value without the imposition of an initial sales charge to (1) certain Directors, Trustees, officers, full-time employees or sales representatives of the Fund, Keystone, Keystone Investments, Inc. (formerly named Keystone Group, Inc.) ("Keystone Investments"), Keystone Management, certain of their subsidiaries and affiliates or the Principal Underwriter and who have been such for not less than ninety days; (2) a pension and profit-sharing plan established by such companies, their subsidiaries and affiliates, for the benefit of their Directors, Trustees, officers, full-time employees and sales representatives; or (3) a registered representative of a firm with a dealer agreement with the Principal Underwriter; provided, however, that all such sales are made upon the written assurance that the purchase is made for investment purposes and that the securities will not be resold except through redemption by the Fund.

No initial sales charge is charged on purchases of shares of the Fund 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 or any Fund in the Keystone Investments Family of Funds, purchased pursuant to this waiver is at least \$500,000 and any commission paid at the time of such purchase is not more than 1% of the amount invested.

With respect to Class A shares purchased by a Qualifying Plan at net asset value or Class C shares purchased by a Qualifying Plan, no contingent deferred sales charge will be imposed on any redemptions made specifically by an individual participant in the Qualifying Plan. This waiver is not available in the event a Qualifying Plan, as a whole, redeems substantially all of its assets.

In addition, no contingent deferred sales charge 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 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 an account having an aggregate net asset value of less than \$1,000; (5) automatic withdrawals under an automatic withdrawal plan of up to 1 1/2% 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.

REDEMPTION OF SHARES

The Fund has obligated itself under the 1940 Act to redeem for cash all shares presented for redemption by any one shareholder up to the lesser of \$250,000 or 1% of the Fund's assets in any 90 day period.

DISTRIBUTION PLANS

Rule 12b-1 under the 1940 Act permits investment companies, such as the Fund, to use their assets to bear expenses of distributing their shares if they comply with various conditions, including adoption of a distribution plan containing certain provisions set forth in Rule 12b-1.

DISTRIBUTION PLANS IN GENERAL

The NASD limits the amount that the Fund may pay annually in distribution costs for sale of its shares and shareholder service fees. The NASD limits annual expenditures to 1% of the aggregate average daily net asset value of its shares, 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 12b-1 Plan, plus interest at the prime rate plus 1% on such amounts (less any contingent deferred sales charges paid by shareholders to the Principal Underwriter).

CLASS A DISTRIBUTION PLAN. The Class A Distribution Plan provides that the Fund may expend daily amounts at an annual rate, which is currently limited to 0.25%

of the Fund's average daily net asset value attributable to Class A shares, to finance any activity which is primarily intended to result in the sale of Class A shares, including, without limitation, expenditures consisting of payments to the principal underwriter of the Fund (currently the Principal Underwriter) to enable the Principal Underwriter to pay or to have paid to others (dealers) who sell Class A shares a service or other fee, at such intervals as the Principal Underwriter may determine, in respect of Class A shares maintained by any such recipients and outstanding on the books of the Fund for specified periods.

Amounts paid by the Fund under the Class A Distribution Plan are currently used to pay others, such as dealers, service fees at an annual rate of up to 0.25% of the average net asset value of Class A shares maintained by such others outstanding on the books of the Fund for specified periods.

CLASS B DISTRIBUTION PLAN. The Class B Distribution Plan provides that the Fund may expend daily amounts at an annual rate of up to 1.00% of the Fund's average daily net asset value attributable to Class B shares to finance any activity which is primarily intended to result in the sale of Class B shares, including, without limitation, expenditures consisting of payments to the principal underwriter of the Fund (currently the Principal Underwriter) (1) to enable the Principal Underwriter to pay to others (dealers) commissions in respect of Class B shares sold since inception of the Distribution Plan; and (2) to enable the Principal Underwriter to pay or to have paid to others a service fee, at such intervals as the Principal Underwriter may determine, in respect of Class B shares maintained by any such recipients and outstanding on the books of the Fund for specified periods.

The Principal Underwriter generally reallows to brokers or others a commission equal to 4.00% of the price paid for each Class B share sold plus the first year's service fee in advance in the amount of 0.25% of the price paid for each Class B share sold. Beginning approximately 12 months after the purchase of a Class B share, the broker or other party receives service fees at an annual rate of 0.25% of the average daily net asset value of such Class B share maintained by the recipient and outstanding on the books of the Fund for specified periods.

The Principal Underwriter intends, but is not obligated, to continue to pay or accrue distribution charges incurred in connection with its Class B Distribution Plan that exceed current annual payments permitted to be received by the Principal Underwriter from the Fund. The Principal Underwriter intends to seek full payment of such charges from the Fund (together with annual interest thereon at the prime rate plus 1%) at such time in the future as, and to the extent that, payment thereof by the Fund would be within the permitted limits.

If the Fund's Independent Trustees authorize such payments, the effect would be to extend the period of time during which the Fund incurs the maximum amount of costs allowed by the Class B Distribution Plan. If the Class B 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 such amounts.

In connection with financing its distribution costs, including commission advances to dealers and others, the Principal Underwriter has sold to a financial institution substantially all of its 12b-1 fee collection rights and contingent deferred sales charge collection rights in respect of Class B shares sold during a two-year period ending approximately May 31, 1997. The Fund has agreed not to reduce the rate of payment of 12b-1 fees in respect of such Class B shares unless it terminates such shares' Distribution Plan completely. If it terminates such Distribution Plan, the Fund may be subject to possible adverse distribution consequences.

CLASS C DISTRIBUTION PLAN

The Class C Distribution Plan provides that the Fund may expend daily amounts at an annual rate of up to 1.00% of the Fund's average daily net asset value attributable to Class C shares to finance any activity that is primarily intended to result in the sale of Class C shares, including, without limitation, expenditures consisting of payments to the principal underwriter of the Fund (currently the Principal Underwriter) (1) to enable the Principal Underwriter to pay to others (dealers) commissions in respect of Class C shares sold since inception of the Distribution Plan; and (2) to enable the Principal Underwriter to pay or to have paid to others a service fee, at such intervals as the Principal Underwriter may determine, in respect of Class C shares maintained by any such recipients and outstanding on the books of the Fund for specified periods.

The Principal Underwriter generally reallows to brokers or others a commission in the amount of 0.75% of the price paid for each Class C share sold plus the first year's service fee in advance in the amount of 0.25% of the price paid for each Class C share sold. Beginning approximately fifteen months after

purchase, brokers or others receive a commission at an annual rate of 0.75% (subject to NASD rules) plus service fees at the annual rate of 0.25% of the average daily net asset value of each Class C share maintained by the recipients and outstanding on the books of the Fund for specified periods.

DISTRIBUTION PLANS - GENERAL

Whether any expenditure under a Distribution Plan is subject to a state expense limit will depend upon the nature of the expenditure and the terms of the state law, regulation or order imposing the limit. A portion of the Fund's Distribution Plan expenses may be includable in the Fund's total operating expenses for purposes of determining compliance with state expense limits.

Each of the Distribution Plans may be terminated at any time by a vote of the Rule 12b-1 Trustees, or may be terminated with respect to the Fund by vote of a majority of the outstanding voting shares of the respective class of the Fund.

Any change in a Distribution Plan that would materially increase the distribution expenses of the Fund provided for in a Distribution Plan requires shareholder approval. Otherwise, a Distribution Plan may be amended by the Trustees, including the Rule 12b-1 Trustees.

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

The total amounts paid by the Fund under the foregoing arrangements may not exceed the maximum Distribution Plan limits specified above. The amounts and purposes of expenditures under a Distribution Plan must be reported to the Rule 12b-1 Trustees quarterly. The Rule 12b-1 Trustees may require or approve changes in the implementation or operation of a Distribution Plan, and may also require that total expenditures by the Fund under a Distribution Plan be kept within limits lower than the maximum amount permitted by the Distribution Plan as stated above.

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

TRUSTEES AND OFFICERS

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

*ALBERT H. ELFNER, III: President, Chief Executive Officer and Trustee of the Fund; Chairman of the Board, President and Chief Executive Officer of Keystone Investments, Keystone, Keystone Management and Keystone Software, Inc. ("Keystone Software"); President, Chief Executive Officer and Trustee or Director of all other funds in the Keystone Investments Family of Funds; Chairman of the Board and Director of Keystone Institutional Company, Inc. ("Keystone Institutional") (formerly named Keystone Investment Management Corporation) and Keystone Fixed Income Advisors ("KFIA"); Director and President of Keystone Asset Corporation, Keystone Capital Corporation and Keystone Trust Company; Director of the Principal Underwriter, KIRC and Fiduciary Investment Company, Inc. ("FICO"); Director of Boston Children's Services Association; Trustee of Anatolia College, Middlesex School, and Middlebury College; Member, Board of Governors, New England Medical Center; former Director and President of Hartwell Keystone Advisers, Inc. ("Hartwell Keystone"); former Director and Vice President, Robert Van Partners, Inc. and former Trustee of Newworld Bank.

FREDERICK AMLING: Trustee of the Fund; Trustee or Director of all other funds in the Keystone Investments Family of Funds; Professor, Finance Department, George Washington University; President, Amling & Company (investment advice); Member, Board of Advisers, Credito Emiliano (banking); and former Economics and Financial Consultant, Riggs National Bank.

CHARLES A. AUSTIN III: Trustee of the Fund; Trustee or Director of all other funds in the Keystone Investments Family of Funds; Investment Counselor to Appleton Partners, Inc.; former Managing Director, Seaward Management Corporation (investment advice) and former Director, Executive Vice President and Treasurer, State Street Research & Management Company (investment advice).

*GEORGE S. BISSELL: Chairman of the Board and Trustee of the Fund; Director of Keystone Investments; Chairman of the Board and Trustee or Director of all other funds in the Keystone Investments Family 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; former Chairman of the Board and Chief Executive Officer of Keystone Investments; and former Chief Executive Officer of the Fund.

- EDWIN D. CAMPBELL: Trustee of the Fund; Trustee or Director of all other funds in the Keystone Investments Family of Funds; Executive Director, Coalition of Essential Schools, Brown University; Director and former Executive Vice President, National Alliance of Business; former Vice President, Educational Testing Services; and former Dean, School of Business, Adelphi University.
- CHARLES F. CHAPIN: Trustee of the Fund; Trustee or Director of all other funds in the Keystone Investments Family of Funds; former Group Vice President, Textron Corp.; and former Director, Peoples Bank (Charlotte, N.C.).
- LEROY KEITH, JR.: Trustee of the Fund; Trustee or Director of all other funds in the Keystone Investments Family of Funds; 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.
- K. DUN GIFFORD: Trustee of the Fund; Trustee or Director of all other funds in the Keystone Investments Family of Funds; Chairman of the Board, Director and Executive Vice President, The London Harness Company; Managing Partner, Roscommon Capital Corp.; Trustee, Cambridge College; Chairman Emeritus and Director, American Institute of Food and Wine; Chief Executive Officer, Gifford Gifts of Fine Foods; Chairman, Gifford, Drescher & Associates (environmental consulting); President, Oldways Preservation and Exchange Trust (education); and former Director, Keystone Investments and Keystone.
- F. RAY KEYSER, JR.: Trustee of the Fund; Trustee or Director of all other funds in the Keystone Investments Family of Funds; 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 Hitchcock Clinic; Director, Vermont Yankee Nuclear Power Corporation, Vermont Electric Power Company, Inc., Grand Trunk Corporation, Central Vermont Railway, Inc., S.K.I. Ltd., Sherburne Corporation, Union Mutual Fire Insurance Company, New England Guaranty Insurance Company, Inc. and the Investment Company Institute; former Governor of Vermont; former Director and President, Associated Industries of Vermont; former Chairman and President, Vermont Marble Company; former Director of Keystone; and former Director and Chairman of the Board, Green Mountain Bank.
- DAVID M. RICHARDSON: Trustee of the Fund; Trustee or Director of all other funds in the Keystone Investments Family of Funds; 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.
- RICHARD J. SHIMA: Trustee of the Fund; Trustee or Director of all other funds in the Keystone Investments Family of Funds; Chairman, Environmental Warranty, Inc., and Consultant, Drake Beam Morin, Inc. (executive outplacement); Director of Connecticut Natural Gas Corporation, Trust Company of Connecticut, Hartford Hospital, Old State House Association and Enhanced Financial Services, Inc.; Member, Georgetown College Board of Advisors; Chairman, Board of Trustees, Hartford Graduate Center; Trustee, Kingswood-Oxford School and Greater Hartford YMCA; former Director, Executive Vice President and Vice Chairman of The Travelers Corporation; and former Managing Director of Russell Miller, Inc.
- ANDREW J. SIMONS: Trustee of the Fund; Trustee or Director of all other funds in the Keystone Investments Family of Funds; Partner, Farrell, Fritz, Caemmerer, Cleary, Barnosky & Armentano, P.C.; President, Nassau County Bar Association; former Associate Dean and Professor of Law, St. John's University School of Law.
- EDWARD F. GODFREY: Senior Vice President of the Fund; Senior Vice President of all other funds in the Keystone Investments Family of Funds; Director, Senior Vice President, Chief Financial Officer and Treasurer of Keystone Investments, the Principal Underwriter, Keystone Asset Corporation, Keystone Capital Corporation, Keystone Trust Company; Treasurer of Keystone Institutional and FICO; Treasurer and Director of Keystone Management, Keystone Software; Vice President and Treasurer of KFIA; Director of KIRC; former Treasurer and Director of Hartwell Keystone; former Treasurer of Robert Van Partners, Inc.
- JAMES R. McCALL: Senior Vice President of the Fund; Senior Vice President of all other funds in the Keystone Investments Family of Funds; and President of Keystone.
- J. KEVIN KENELY: Treasurer of the Fund; Treasurer of all other funds in the

Keystone Investments Family of Funds; Vice President of Keystone Investments, Keystone, the Principal Underwriter, FICO and Keystone Software; and former controller of Keystone Investments and certain of its affiliated operating companies.

ROSEMARY D. VAN ANTWERP: Senior Vice President and Secretary of the Fund; Senior Vice President and Secretary of all other funds in the Keystone Investments Family of Funds; Senior Vice President, General Counsel and Secretary of Keystone; Senior Vice President, General Counsel, Secretary and Director of the Principal Underwriter, Keystone Management and Keystone Software; Senior Vice President and General Counsel of Keystone Institutional; Senior Vice President, General Counsel and Director of FICO and KIRC; Vice President and Secretary of KFIA; Senior Vice President, General Counsel and Secretary of Keystone Investments, Keystone Asset Corporation, Keystone Capital Corporation and Keystone Trust Company; former Senior Vice President and Secretary of Hartwell Keystone and Robert Van Partners, Inc.

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

Mr. Elfner and Mr. Bissell are "interested persons" by virtue of their positions as officers and/or Directors of Keystone Investments and several of its affiliates including Hartwell Keystone, the Principal Underwriter and KIRC. Mr. Elfner and Mr. Bissell own shares of Keystone Investments. Mr. Elfner is Chairman of the Board, Chief Executive Officer and Director of Keystone Investments. Mr. Bissell is a Director of Keystone Investments.

Annual retainers and meeting fees paid by all Funds in the Keystone Investments Family of Funds (which includes 32 mutual funds) for the calendar year ended December 31, 1995, totalled approximately \$450,716. As of February 5, 1996, the Trustees and officers beneficially owned less than 1% of the Fund's then outstanding Class A, Class B or Class C shares.

The address of all the Fund's Trustees and officers and the address of the Fund is 200 Berkeley Street, Boston, Massachusetts 02116-5034.

INVESTMENT ADVISER

Subject to the general supervision of the Fund's Board of Trustees, Keystone, located at 200 Berkeley Street, Boston, Massachusetts 02116-5034, provides investment advice, management and administrative services to the Fund. Keystone, organized in 1932, is a wholly-owned subsidiary of Keystone Investments, located at 200 Berkeley Street, Boston, Massachusetts 02116-5034.

Keystone Investments is a corporation privately owned by current and former members of management and certain employees of Keystone and its affiliates. The shares of Keystone Investments common stock beneficially owned by management are held in a number of voting trusts, the trustees of which are George S. Bissell, Albert H. Elfner, III, Edward F. Godfrey and Ralph J. Spuehler, Jr. Keystone Investments provides accounting, bookkeeping, legal, personnel and general corporate services to Keystone, its affiliates and the Keystone Investments Family of Funds.

Except as otherwise noted below, pursuant to an Investment Advisory and Management Agreement with the Fund (the "Advisory Agreement"), and subject to the supervision of the Fund's Board of Trustees, Keystone manages and administers the Fund's operation and manages the investment and reinvestment of the Fund's assets in conformity with the Fund's investment objective and restrictions. The Advisory Agreement stipulates that Keystone shall provide office space, all necessary office facilities, equipment and personnel in connection with its services under the Advisory Agreement and pay or reimburse the Fund for the compensation of officers and trustees of the Fund who are affiliated with the investment adviser as well as pay all expenses of Keystone 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, custodian charges and expenses; bookkeeping and auditors' charges and expenses; transfer agent charges and expenses; fees of Independent Trustees; brokerage commissions; brokers' fees and expenses; issue and transfer taxes; costs and expenses under the Distribution Plans; taxes and trust fees payable to governmental agencies; the cost of share certificates; fees and expenses of the registration and qualification of the Fund and its shares with the SEC or under state or other securities laws, expenses of preparing, printing and mailing prospectuses, statements of additional information, notices, reports and proxy materials to shareholders of the Fund; expenses of shareholders' and Trustees' meetings; charges and expenses of legal counsel for the Fund and for the Trustees of the Fund on matters relating to the Fund; charges and expenses of filing annual and other reports with the SEC 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	Aggregate Net Asset Value of the shares of the Fund
0.70% of the first	\$ 100,000,000, plus
0.65% of the next	\$ 100,000,000, plus
0.60% of the next	\$ 100,000,000, plus
0.55% of the next	\$ 100,000,000, plus
0.50% of the next	\$ 100,000,000, plus
0.45% of the next	\$ 500,000,000, plus
0.40% of the next	\$ 500,000,000, plus
0.35% of amounts over	\$1,500,000,000.

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

As a continuing condition of registration of shares in a state, Keystone has agreed to reimburse the Fund annually for certain operating expenses incurred by the Fund in excess of certain percentages of the Fund's average daily net assets. However, Keystone is not required to make such reimbursements to an extent which would result in the Fund's inability to qualify as a regulated investment company under provisions of the Internal Revenue Code. This condition may be modified or eliminated in the future.

The Fund is subject to certain annual state expense limitations imposed on each of its Funds, the most restrictive of which is currently:

2.50% of the first \$30 million of a Fund's average net assets;
2.00% of the next \$70 million of a Fund's average net assets;
and 1.50% of a Fund's average net assets over \$100 million.

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 only if approved at least annually by the Board of Trustees of the Fund or by a vote of a majority (as defined in the 1940 Act) of the outstanding shares, and such renewal has been 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" as that term is defined in the 1940 Act.

PRINCIPAL UNDERWRITER

The Fund has entered into Principal Underwriting Agreements (the "Underwriting Agreements") with Keystone Investment Distributors Company, a wholly-owned subsidiary of Keystone.

The Principal Underwriter, located at 200 Berkeley Street, Boston, Massachusetts, 02116-5034, is a Delaware corporation. The Principal Underwriter, as agent, currently has the right to obtain subscriptions for and to sell shares of the Fund to the public. In so doing, the Principal Underwriter may retain and employ representatives to promote distribution of the shares and may obtain orders from brokers, dealers and others, acting as principals, for sales of shares. No such representative, dealer or broker has any authority to act as agent for the Fund. The Principal Underwriter has not undertaken to buy or to find purchasers for any specific number of shares. The Principal Underwriter may receive payments from the Fund pursuant to the Fund's Distribution Plans.

All subscriptions and sales of shares by the Principal Underwriter are at the offering price of the shares, such price being in accordance with the provisions of the Fund's Declaration of Trust, By-Laws, current prospectus and statement of additional information. All orders are subject to acceptance by the Fund and the Fund reserves the right, in its sole discretion, to reject any order received. Under the Underwriting Agreement, the Fund is not liable to anyone for failure to accept any order.

The Fund has agreed under the Underwriting Agreements to pay all expenses in connection with registration of its shares with the Commission and auditing and filing fees in connection with registration of its shares under the various state "blue-sky" laws.

The Principal Underwriter has agreed to reimburse certain expenses incurred by Mariner Financial Services, Inc. in connection with its sales of the Fund's shares.

From time to time, if in the Principal Underwriter's judgment it could benefit the sales of Fund shares, the Principal Underwriter may use its discretion in providing to selected dealers promotional materials and selling aids, including, but not limited to, personal computers, related software and Fund data files.

The Principal Underwriter has agreed that it will, in all respects, duly conform to all state and federal laws applicable to the sale of the shares. The Principal Underwriter has also agreed that it will indemnify and hold harmless the Fund and each person who has been, is or may be a Trustee or officer of the Fund against expenses reasonably incurred by any of them in connection with any claim or in connection with any action, suit or proceeding to which any of them may be a party that arises out of or is alleged to arise out of any misrepresentation or omission to state a material act on the part of the Principal Underwriter or any other person for whose acts the Principal Underwriter is responsible or is alleged to be responsible, unless such misrepresentation or omission was made in reliance upon written information furnished by the Fund.

The Underwriting Agreements will remain in effect as long as their terms and continuance are approved by a majority of the Fund's Independent Trustees at least annually at a meeting called for that purpose, and if their continuance is approved annually by vote of a majority of Trustees, or by vote of a majority of the outstanding shares of the Fund.

The Underwriting Agreements may be terminated by the Fund, without penalty, on 60 days' written notice by the Board of Trustees or by a vote of a majority of the Fund's outstanding shares. The Underwriting Agreements will terminate automatically upon their "assignment," as that term is defined in the 1940 Act.

DECLARATION OF TRUST

MASSACHUSETTS BUSINESS TRUST

The Fund is a Massachusetts business trust established under a Declaration of Trust dated December 13, 1995. The Fund is similar in most respects to a business corporation. The principal distinction between the Fund and a corporation relates to the shareholder liability described below. A copy of the Declaration of Trust (the "Declaration of Trust") is filed as an exhibit to the Registration Statement of which this statement of additional information is a part. This summary is qualified in its entirety by reference to the Declaration of Trust.

DESCRIPTION OF SHARES

The Declaration of Trust authorizes the issuance of an unlimited number of shares of beneficial interest of classes of shares. Each share of the Fund represents an equal proportionate interest with each other share of that class. Upon liquidation, shares are entitled to a pro rata share of the Fund based on the relative net assets of each class. Shareholders have no preemptive or conversion rights. Shares are redeemable and transferable. The Fund is authorized to issue additional classes or series of shares. The Fund currently issues three classes of shares, but may issue additional classes or series of shares.

SHAREHOLDER LIABILITY

Pursuant to certain decisions of the Supreme Judicial Court of Massachusetts, shareholders of a Massachusetts business trust may, under certain circumstances, be held personally liable as partners for the obligations of the trust. If the Fund were held to be a partnership, the possibility of the shareholders' incurring financial loss for that reason appears remote because (1) the Fund's Declaration of Trust contains an express disclaimer of shareholder liability for obligations of the Fund and 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 (2) because the Declaration of

Trust provides for indemnification out of the Fund's property for any shareholder held personally liable for the obligations of the Fund.

VOTING RIGHTS

Under the Declaration of Trust, 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. Classes of shares of the Fund have equal voting rights except that each class of shares has exclusive voting rights with respect to its respective Distribution Plan. No amendment may be made to the Declaration of Trust which adversely affects any class of shares without the approval of a majority of the shares of that class. Shares have non-cumulative voting rights, which means that the holders of more than 50% of the shares voting for the election of Trustees can elect 100% of the Trustees to be elected at a meeting and, in such event, the holders of the remaining 50% or less of the shares voting will not be able to elect any Trustees.

After an initial meeting as described above, no further meetings of shareholders for the purpose of electing Trustees will be held, unless required by law, unless and 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 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 be removed from or cease to hold office (as the case may be) (1) at any time by 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 Declaration of Trust provides that a Trustee will not be liable for errors of judgment or mistakes of fact or law, but nothing in the Declaration of Trust protects a Trustee against any liability to which he would otherwise be subject by reason of willful malfeasance, bad faith, gross negligence or reckless disregard of his duties involved in the conduct of his office.

STANDARDIZED TOTAL RETURN AND YIELD QUOTATIONS

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

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 does not presently intend to advertise current yield.

ADDITIONAL INFORMATION

State Street Bank and Trust Company, 225 Franklin Street, Boston, Massachusetts 02110, is custodian of all securities and cash of the Fund (the "Custodian"). 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 Independent Auditors of the Fund.

KIRC, located at 101 Main Street, Cambridge, Massachusetts 02142-1519, is a wholly-owned subsidiary of Keystone Custodian Funds, Inc. and acts as transfer agent and dividend disbursing agent for the Fund.

As of February 5, 1996, Keystone Investment Management Company owned of record 100% of the outstanding Class A shares of the Fund.

As of February 5, 1996, Keystone Investment Management Company owned of record 100% of the outstanding Class B shares of the Fund.

As of February 5, 1996, Keystone Investment Management Company owned of record 100% of the outstanding Class C shares of the Fund.

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.

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

The Fund's prospectus and 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.

The Fund is one of 16 different investment companies in the Keystone America Fund Family, which offers a range of choices to serve shareholder needs. The Keystone America Fund Family consists of the following Funds having the various investment objectives described below:

KEYSTONE CAPITAL PRESERVATION AND INCOME FUND - Seeks high current income, consistent with low volatility of principal, by investing in adjustable rate securities issued by the U.S. government, its agencies or instrumentalities.

KEYSTONE FUND FOR TOTAL RETURN - Seeks total return from a combination of capital growth and income from dividend paying common stocks, preferred stocks, convertible bonds, other fixed-income securities and foreign securities (up to 50%).

KEYSTONE GLOBAL OPPORTUNITIES FUND - Seeks long-term capital growth from foreign and domestic securities.

KEYSTONE GOVERNMENT SECURITIES FUND - Seeks income and capital preservation from U.S. government securities.

KEYSTONE AMERICA HARTWELL EMERGING GROWTH FUND, INC. - Seeks capital appreciation by investment primarily in small and medium-sized companies in a relatively early stage of development that are principally traded in the over-the-counter market.

KEYSTONE HARTWELL GROWTH FUND - Seeks capital appreciation by investment in securities selected for their long-term growth prospects.

KEYSTONE INTERMEDIATE TERM BOND FUND - Seeks income, capital preservation and price appreciation potential from investment grade corporate bonds.

KEYSTONE OMEGA FUND - Seeks maximum capital growth from common stocks and securities convertible into common stocks.

KEYSTONE STATE TAX FREE FUND - A mutual fund consisting of five separate series of shares investing in different portfolio securities which seeks the highest possible current income, exempt from federal income taxes and applicable state taxes.

KEYSTONE STATE TAX FREE FUND - SERIES II - A mutual fund consisting of two separate series of shares investing in different portfolio securities which seeks the highest possible current income, exempt from federal income taxes and applicable state taxes.

KEYSTONE STRATEGIC INCOME FUND - Seeks high yield and capital appreciation potential from corporate bonds, discount bonds, convertible bonds, preferred stock and foreign bonds (up to 25%).

KEYSTONE TAX FREE INCOME FUND - Seeks income exempt from federal income taxes and capital preservation from the four highest grades of municipal bonds.

KEYSTONE WORLD BOND FUND - Seeks total return from interest income, capital gains and losses and currency exchange gains and losses from investment in debt securities denominated in U.S. and foreign currencies.

KEYSTONE FUND OF THE AMERICAS - Seeks long-term growth of capital through investments in equity and debt securities in North America (the United States

and Canada), and Latin America (Mexico and countries in South and Central America).

KEYSTONE STRATEGIC DEVELOPMENT FUND - Seeks long-term capital growth by investing primarily in equity securities.

APPENDIX

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, Standard & Poor's Corporation (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 capulize 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 cyclicality. 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

MOODY'S PREFERRED STOCK RATINGS

Preferred stock ratings and their definitions are as follows:

1. aaa: An issue which 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 which 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 which 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 which 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 which 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 which 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 which 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 which 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.

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 "A" 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 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 which 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 which 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 which make the long term risks appear somewhat larger than in Aaa securities.

3. A - Bonds which 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 which suggest a susceptibility to impairment sometime in the future.

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

6. B - Bonds which 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.

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 which 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 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 Inter-American Development Bank, or issues insured by the Federal Deposit Insurance Corporation.

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 which are covered, which means that the Fund will own the underlying security (or other securities, such as convertible securities, which 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 returns.

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 (OCC), 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 which expire in less than three months, and in effecting closing purchases with respect to options which 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 which 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 which 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 doing so, 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 which are related to currency or other financial futures contracts for the 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 which 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

A. 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. A 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.

B. 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 initial margin. The nature of initial margin in futures transactions is different from that of 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 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 or other financial futures contracts are similar to options on stocks except that an option on a currency 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 currency or other instruments making up a financial futures index, 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 or 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 currency or other financial 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 currency or other financial 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, 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 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 AND 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 herein.

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.

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 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 only for hedging purposes, and not for speculation. The Fund may enter into currency futures contracts for other purposes if authorized to do so by the Board. The hedging strategies which 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, French Francs and Swiss 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, French 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, 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 difference between the U.S. and foreign nations. If the Fund sells small 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 payments 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 recently 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 control 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.

ADDITIONAL INFORMATION REGARDING DERIVATIVE INSTRUMENTS

Derivatives have been variously defined to include forwards, futures, options, mortgage-backed securities, other asset-backed securities and structured securities, such as interest rate swaps, equity swaps, index swaps, currency swaps and caps and floors. These basic vehicles can also be combined to create more complex products, called hybrid derivatives. Options, futures and forwards are discussed elsewhere in the Fund's prospectus and statement of additional information. The following discussion addresses mortgage backed and other asset-backed securities, structured securities and other instruments.

COLLATERALIZED MORTGAGE OBLIGATIONS

The Fund, if allowed, may also invest in fixed rate and adjustable rate collateralized mortgage obligations ("CMOs"), including CMOs with rates that move inversely to market rates that are issued by and guaranteed as to principal and interest by the U.S. government, its agencies or instrumentalities. The principal governmental issuer of CMOs is FNMA. In addition, FHLMC issues a significant number of CMOs. The Fund, if permitted to invest in CMOs, will not invest in CMOs that are issued by private issuers. CMOs are debt obligations collateralized by Mortgage Securities in which the payment of the principal and interest is supported by the credit of, or guaranteed by, the U.S. government or an agency or instrumentality of the U.S. government. The secondary market for CMOs is actively traded.

CMOs are structured by redirecting the total payment of principal and interest on the underlying Mortgage Securities used as collateral to create classes with different interest rates, maturities and payment schedules. Instead of interest and principal payments on the underlying Mortgage Securities being passed through or paid pro rata to each holder (e.g., the Fund), each class of a CMO is paid from and secured by a separate priority payment of the cash flow generated by the pledged Mortgage Securities.

Most CMO issues have at least four classes. Classes with an earlier maturity receive priority on payments to assure the early maturity. After the first class is redeemed, excess cash flow not necessary to pay interest on the remaining classes is directed to the repayment of the next maturing class until that class is fully redeemed. This process continues until all classes of the CMO issue have been paid in full. Among the CMO classes available are floating (adjustable) rate classes, which have characteristics similar to ARMS, and inverse floating rate classes whose coupons vary inversely with the rate of some market index. The Fund, if allowed to purchase CMOs, may purchase any class of CMO other than the residual (final) class.

INTEREST-RATE SWAP CONTRACTS

Interest rate swaps are over-the-counter ("OTC") agreements between parties and counterparties to make periodic payments to each other for a stated time, generally entered into for the purpose of changing the nature or amount of interest being received on debt securities held by one or both parties. The calculation of these payments is based on an agreed-upon amount called the "notional amount." The notional amount is not typically exchanged in swaps (except in currency swaps). The periodic payments may be fixed or floating. Floating payments change (positively or inversely) with fluctuations in interest or currency rates or equity or commodity prices, depending on the swap contract's terms.

Swaps may be used to hedge against adverse changes in interest rates, for instance. Thus, if permitted by its investment policies, the Fund may have a portfolio of debt instruments (ARM's, for instance) the floating interest rates of which adjust frequently because they are tied positively to changes in market interest rates. The Fund would then be exposed to interest rate risk because a decline in interest rates would reduce the interest receipts on its portfolio. If the investment adviser believed interest rates would decline, the Fund, if permitted by its investment policies, could enter into an interest rate swap with another financial institution to hedge the interest rate risk. In the swap contract, the Fund would agree to make payments based on a floating interest rate in exchange for receiving payments based on a fixed interest rate. Thereafter, if interest rates declined, the Fund's fixed rate receipts on the swap would offset the reduction in its portfolio receipts. If interest rates rose, the higher rates the Fund could obtain from new portfolio investments (assuming sale of existing investments) would offset the higher rates it paid under the swap agreement.

EQUITY SWAP CONTRACTS

The counterparty to an equity swap contract would typically be a bank, investment banking firm or broker/dealer. For example, the counterparty would generally agree to pay the Fund the amount, if any, by which the notional amount of the equity swap contract would have increased in value if such notional amount had been invested in the stocks comprising the S&P 500 Index in proportion to the composition of the Index, plus the dividends that would have been received on those stocks. The Fund would agree to pay to the counterparty a floating rate of interest (typically the London Inter Bank Offered Rate) on the notional amount of the equity swap contract plus the amount, if any, by which that notional amount would have decreased in value had it been invested in such index stocks. Therefore, the return to the Fund on any equity swap contract should be the gain or loss on the notional amount plus dividends on the stocks comprising the S&P 500 Index less the interest paid by the Fund on the notional amount. If permitted by its investment policies, the Fund will only enter into equity swap contracts on a net basis, i.e., the two parties' obligations are netted out, with the Fund paying or receiving, as the case may be, only the net amount of any payments. Payments under equity swap contracts may be made at the conclusion of the contract or periodically during its term.

If permitted by its investment policies, the Fund may also from time to time enter into the opposite side of equity swap contracts (i.e., where the Fund is obligated to pay the increase (net of interest) or received the decrease (plus interest) on the contract) to reduce the amount of the Fund's equity market exposure consistent with the Fund's investment objective(s) and policies. These positions are sometimes referred to as "reverse equity swap contracts."

Equity swap contracts will not be used to leverage the Fund. Since the SEC considers equity swap contracts and reverse equity swap contracts to be illiquid securities, the Fund will not invest in equity swap contracts or reverse equity swap contracts if the total value of such investments together with that of all other illiquid securities that the Fund owns would exceed the Fund's limitations on investments in illiquid securities.

The Fund does not believe that its obligations under equity swap contracts or reverse equity swap contracts are senior securities and, accordingly, the Fund will not treat them as being subject to its borrowing restrictions. However, the net amount of the excess, if any, of the Fund's obligations over its respective entitlement with respect to each equity swap contract and each reverse equity swap contract will be accrued on a daily basis and an amount of cash, U. S. Government Securities or other liquid high quality debt securities having an aggregate market value at least equal to the accrued excess will be maintained in a segregated account by the Fund's Custodian.

CURRENCY SWAPS, INDEX SWAPS AND CAPS AND FLOORS

A currency swap is an agreement to exchange cash flows on a notional amount of two or more currencies based on the relative value differential among them. An index swap is an agreement to swap cash flows on a notional amount based on changes in the values of reference indices. The purchase of an interest rate cap entitles the purchaser, to the extent that a specified index exceeds an agree-upon interest rate, to receive payments of interest on a notional principal amount from the party selling such interest rate cap. The purchase of an interest rate floor entitles the purchaser to receive payments of interest on a notional principal amount from the party selling such interest rate floor. If permitted by the Fund's investment policies, the investment adviser expects to enter into these types of transactions on behalf of the Fund primarily to preserve a return or spread on a particular investment or portion of its portfolio or to protect against any increase in the price of securities the Fund anticipates purchasing at a later date rather than for speculative purposes. Accordingly, if permitted by the Fund's investment policies, the Fund intends to use these transactions as hedges and not as speculative investments and will not sell interest rate caps or floors unless it owns securities or other instruments providing the income stream the Fund may be obligated to pay. Caps and floors require segregation of assets with a value equal to the Fund's net obligation, if any.

SPECIAL RISKS OF SWAPS, CAPS AND FLOORS

As with futures, options, forward contracts, and mortgage backed and other asset-backed securities, the use of swap, cap and floor contracts exposes the Fund to additional investment risk and transaction costs. These risks include operational risk, market risk and credit risk.

Operational risk includes, among others, the risks that the investment adviser will incorrectly analyze market conditions or will not employ appropriate strategies and monitoring with respect to these instruments or will be forced to defer closing out certain hedged positions to avoid adverse tax consequences.

Market risk includes, among others, the risks of imperfect correlations between the expected values of the contracts, or their underlying bases, and movements in the prices of the securities or currencies being hedged, and the possible absence of a liquid secondary market for any particular instrument at

any time. The swap market has grown substantially in recent years with a large number of banks and investment banking firms acting both as principals and as agents utilizing standardized swap documentation. As a result, the swap market has become relatively more illiquid. Nevertheless, a secondary market for swaps is never assured, and caps and floors, which are more recent innovations for which standardized documentation has not yet been fully developed, are much less liquid than swaps.

Credit risk is primarily the risk that counterparties may be financially unable to fulfill their contracts on a timely basis, if at all. If there is a default by the counterparty to any such contract, the Fund will be limited to contractual remedies pursuant to the agreements related to the transaction. There is no assurance that contract counterparties will be able to meet contract obligations or that, in the event of default, the Fund will succeed in pursuing contractual remedies. The Fund thus assumes the risk that it may be delayed in or prevented from obtaining payments owed to it pursuant to such contracts. The Fund will closely monitor the credit of swap counterparties in order to minimize this risk. The Fund will not enter into any equity swap contract or reverse equity swap contract unless, at the time of entering into such transaction, the unsecured senior debt of the counterparty is rated at least A by Moody's or S&P.

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 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 to the broker-dealer 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 published 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

Chicago 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 which 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 or broker 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 Stock Index and Major Market Index on the Kansas City Board of Trade.

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.

KEYSTONE SMALL COMPANY GROWTH FUND II

STATEMENT OF NET ASSETS
FEBRUARY 5, 1996

ASSETS:

Cash	\$100,000
Prepaid registration	60,000
Organizational expenses (Note 2)	19,800

Total assets	179,800

LIABILITIES:

Accrued expenses	79,800

NET ASSETS	\$100,000
	=====

Net asset represented by: (Note 3)

Class A Shares: Net assets equivalent to \$10.00 per share for 4,000 shares	\$ 40,000
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Class B Shares: Net assets equivalent to \$10.00 per share for 3,000 shares	30,000
--	--------

Class C Shares: Net assets equivalent to \$10.00 per share for 3,000 shares	30,000 -----
Total net assets	\$100,000 =====
Net asset value and redemption price per share:	
Class A	\$10.00 =====
Class B	\$10.00 =====
Class C	\$10.00 =====
Offering price per share:	
Class A (Including 5.75% sales charge)	\$10.61 =====
Class B	\$10.00 =====
Class C	\$10.00 =====

See Notes to Statement of Net Assets

KEYSTONE SMALL COMPANY GROWTH FUND II

NOTES TO STATEMENT OF NET ASSETS

FEBRUARY 5, 1996

1. Keystone Small Company Growth Fund II ("Fund") was organized on December 13, 1995, and had no operations prior to February 5, 1996 other than organizational matters and activities in connection with the purchase of 10,000 shares of the Fund by Keystone Investment Management Company ("KIMCO"). The Fund is a mutual fund whose goal is long-term growth of capital.

KIMCO is a wholly-owned subsidiary of Keystone Investments, Inc. ("Keystone"), a corporation privately owned by current and former members of management and certain employees of Keystone and its affiliates.

The Fund currently offers three classes of shares. Class A shares are sold subject to a maximum sales charge of 5.75% payable at the time of purchase. Class B shares are sold subject to a contingent deferred sales charge payable on redemption which varies depending on when shares were purchased and how long they have been held. Class C shares are sold subject to a contingent deferred sales charge payable on redemption within the year of purchase. Class C shares are available only through dealers who have entered into special distribution agreements with Keystone Investment Distributors Company, the Fund's principal underwriter.

2. In the event any of the initial shares are redeemed by any holder thereof during the five year amortization period, redemption proceeds will be reduced by any unamortized organizational expenses in the same proportion as the number of initial shares of the Fund being redeemed bears to the number of initial shares of the Fund outstanding at the time of the redemption.

3. The Fund is authorized to issue an unlimited number of shares of beneficial interest, without par value.

4. Pursuant to its Investment Management and Advisory Agreement with the Fund, Keystone provides investment advisory and management services to the Fund. Keystone manages the investment and reinvestment of the Fund's assets, supervises the operation of the Fund, provides all necessary office space facilities, equipment and personnel and arranges, at the request of the Fund, for its employees to serve as officers or agents of the Fund.

The management fee is determined by applying percentage rates, that start at 0.70% and decline as net assets increase to 0.35% per annum, to the net asset value of the Fund.

5. The Fund bears some of the cost of selling its shares under Distribution Plans adopted with respect to its Class A, Class B and Class C shares pursuant to Rule 12b-1 under the Investment Company Act of 1940.

The Class A Distribution Plan provides for payments which are currently

limited to 0.25% annually of the average daily net asset value of Class A shares to pay the expenses of the distribution of Class A shares.

The Class B and Class C Distribution Plans provide for payments at an annual rate of up to 1.00% of the average daily net asset value of Class B or Class C shares, of which 0.75% may be used to pay such expenses and 0.25% may be used to pay shareholder service fees.

INDEPENDENT AUDITORS' REPORT

The Trustees and Shareholder
Keystone Small Company Growth Fund II

We have audited the accompanying statement of net assets of Keystone Small Company Growth Fund II as of February 5, 1996. This financial statement is the responsibility of the Fund's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of net assets is free of material misstatement. An audit of a statement of net assets includes examining, on a test basis, evidence supporting the amounts and disclosures in that statement of net assets. An audit of a statement of net assets also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of net assets presentation. We believe that our audit of the statement of net assets provides a reasonable basis for our opinion.

In our opinion, the statement of net assets referred to above presents fairly, in all material respects, the financial position of Keystone Small Company Growth Fund II at February 5, 1996, in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

Boston, Massachusetts
February 7, 1996

KEYSTONE SMALL COMPANY GROWTH FUND II

PART C

OTHER INFORMATION

Item 24. Financial Statements and Exhibits

Item 24(a). Financial Statements:

Financial Highlights	Not Applicable
Statement of Investments	Not Applicable
Statement of Assets and Liabilities	February 5, 1996
Statement of Operations	Not Applicable
Statement of Change in Net Assets	Not Applicable
Notes to Financial Statements	February 5, 1996
Report of Independent Auditors dated February 7, 1996	

SUPPORTING SCHEDULES

All schedules are omitted as the required information is inapplicable.

(24) (b) Exhibits

- (1) A copy of the Registrant's Declaration of Fund is filed with this Registration Statement as Exhibit 24(b) (1).
- (2) A copy of the Registrant's By-Laws is filed with this Registration Statement as Exhibit 24(b) (2).
- (3) Not applicable.
- (4) To be filed by amendment.
- (5) A copy of the form of Investment Advisory and Management Agreement between Registrant and Keystone Investment Management Company is filed with this Registration Statement as Exhibit 24(b) (5).
- (6) (A) Copies of the forms of Principal Underwriting Agreements between Registrant and Keystone Investment Distributors Company are filed with this Registration Statement as Exhibit 24(b) (6) (A).

(B) Copies of the forms of Dealer Agreements for Class A, B and C shares are filed herewith as Exhibit 24(b) (6) (B).
- (7) Not applicable.
- (8) A copy of the form of Custodian, Fund Accounting and Recordkeeping Agreement between Registrant and State Street Bank and Fund Company is filed with this Registration Statement as Exhibit 24(b) (8).
- (9) Not applicable.
- (10) Opinion of counsel as to the legality of the shares being registered is filed with this Registration Statement as Exhibit 24(b) (10).
- (11) Consent as to use of Report of Registrant's independent auditors is filed with this Registration Statement as Exhibit 24(b) (17).
- (12) Not applicable
- (13) A copy of the Subscription Agreement between Registrant and Keystone Investment Management Company is filed with this Registration Statement as Exhibit 24(b) (13).
- (14) Not applicable.
- (15) Copies of the forms of Registrant's Distribution Plans for its Class A, Class B and Class C shares are filed herewith as Exhibit 24(b) (15).
- (16) Not applicable.
- (17) Financial Data Schedules are filed with this Registration Statement as Exhibit 24(b) (17).
- (18) Not applicable.
- (19) Powers of Attorney are filed with this Registration Statement as Exhibit 24(b) (19).

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 February 5, 1996 -----
Shares of Beneficial Interest	Class A - 1 Class B - 1 Class C - 1

Item 27. Indemnification

Provisions for the indemnification of the Registrant's Fundees and officers are contained in Article VIII of Registrant's Declaration of Fund, a copy of the form of which is filed with this Registration Statement as Exhibit 24(b)(1) and is incorporated by reference herein.

Provisions for the indemnification of Fiduciary Investment Company, Inc., the Registrant's Principal Underwriter, are contained in Section 9 of the Principal Underwriting Agreements between the Registrant and Keystone Investment Distributors Company, a copy of the form of which is filed with this Registration Statement as Exhibit 24(b)(6) and is incorporated by reference herein.

Provisions for the indemnification of Keystone Investment Management Company, Registrant's investment adviser, are contained in Section 6 of the Investment Advisory and Management Agreement between Registrant and Keystone Investment Management Company, a copy of the form of which is filed with this Registration Statement as Exhibit 24(b)(5) and is incorporated by reference herein.

Item 28. Businesses and Other Connections of Investment Adviser

The following table lists the names of the various officers and directors of Keystone Investment Management Company, the Registrant's investment adviser, and their respective positions. For each named individual, the table lists, for at least the past two fiscal 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

Name	Position with Keystone Investment Management Company	Other Business Affiliations
Albert H. Elfner, III	Chairman of the Board, Chief Executive Officer, and Director	Chairman of the Board, Chief Executive Officer, President and Director: Keystone Investments, Inc. Keystone Management, Inc. Keystone Software, 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 Fund Company Director or Trustee: Fiduciary Investment Company, Inc. Keystone Investment Distributors Company Keystone Investor Resource Center, Inc. Boston Children's Services Associates Middlesex School Middlebury College Former Trustee or Director: Newworld Bank Robert Van Partners, Inc.
Philip M. Byrne	Director	President and Director: Keystone Institutional Company, Inc. Senior Vice President: Keystone Investments, 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	Director, Senior Vice President, Treasurer and Chief Financial Officer	Director, Senior Vice President Chief Financial Officer and Treasurer: Keystone Investments, Inc. Keystone Investment Distributors Company Treasurer: Keystone Institutional Company, Inc. Keystone Management, Inc. Keystone Software, Inc. Fiduciary Investment Company, Inc. Former Treasurer and Director: Hartwell Keystone Advisers, Inc.
James R. McCall	Director and President	None
Ralph J. Spuehler, Jr.	Director	President and Director: Keystone Investment Distributors Company Senior Vice President and Director: Keystone Investments, Inc. Chairman and Director: Keystone Investor Resource Center, Inc. Keystone Management, Inc. Formerly President: Keystone Management, Inc. Formerly Treasurer: The Kent Funds Keystone Investments, Inc. Keystone Investment Management Company
Rosemary D. Van Antwerp	Senior Vice President, General Counsel and Secretary	General Counsel, Senior Vice President and Secretary: Keystone Investments, Inc. Senior Vice President and General Counsel: Keystone Institutional Company, Inc. Senior Vice President, General Counsel and Director: Keystone Investor Resource Center, Inc. Fiduciary Investment Company, Inc. Keystone Investment Distributors Company Senior Vice President, General Counsel, Director and Secretary: Keystone Management, Inc. Keystone Software, Inc. Former Senior Vice President and Secretary: Hartwell Keystone Advisers, Inc. Vice President and Secretary: Keystone Fixed Income Advisers, Inc.
J. Kevin Kenely	Vice President	Keystone Investments, Inc. Keystone Investment Distributors Company Keystone Institutional Company, Inc. Keystone Management, Inc. Keystone Institutional

Company, Inc.
 Keystone Software, Inc.
 Fiduciary Investment Company,
 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.

John D. Rogol	Vice President and Controller	Vice President and Controller: Keystone Investments, Inc. Keystone Investment Distributors Company Keystone Institutional Company, Inc. Keystone Management, Inc. Keystone Software, Inc. Fiduciary Investment Company, Inc. Controller: Keystone Asset Corporation Keystone Capital Corporation
Robert K. Baumbach	Vice President	None
Betsy A. Blacher	Senior Vice President	None
Francis X. Claro	Vice President	None
Kristine R. Cloyes	Vice President	None
Christopher P. Conkey	Senior Vice President	None
Richard Cryan	Senior Vice President	None
Maureen E. Cullinane	Senior Vice President	None
George E. Dlugos	Vice President	None
Antonio T. Docal	Vice President	None
Christopher R. Ely	Senior Vice President	None
Robert L. Hockett	Vice President	None
Sami J. Karam	Vice President	None
Donald M. Keller	Senior Vice President	None
George J. Kimball	Vice President	None
JoAnn L. Lyndon	Vice President	None
John C. Madden, Jr.	Vice President	None
Stephen A. Marks	Vice President	None
Eleanor H. Marsh	Vice President	None
Walter T. McCormick	Senior Vice President	None
Barbara McCue	Vice President	None
Stanley M. Niksa	Vice President	None

Robert E. O'Brien	Vice President	None
Margery C. Parker	Vice President	None
William H. Parsons	Vice President	None
Daniel A. Rabasco	Vice President	None
David L. Smith	Vice President	None
Kathy K. Wang	Vice President	None
Judith A. Warners	Vice President	None

Joseph J. Decristofaro	Asst. Vice President	None
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Item 29. Principal Underwriter

- (a) Keystone Investment Distributors Company (formerly named Keystone Distributors, Inc.) which acts as Registrant's principal underwriter, also acts as principal underwriter for the following entities:

Keystone America Hartwell Emerging Growth Fund, Inc.
Keystone Hartwell Growth Fund
Keystone Quality 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 Capital Preservation and Income Fund
Keystone Fund for Total Return
Keystone Government Securities Fund
Keystone Intermediate Term Bond Fund
Keystone America Omega Fund, Inc.
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 International Fund Inc.
Keystone Liquid Trust
Keystone Precious Metals Holdings, Inc.
Keystone Strategic Development Fund
Keystone Tax Exempt Trust
Keystone Tax Free Fund
Master Reserves Trust

- (b) For information with respect to each director and officer of Registrant's acting principal underwriter see the following pages.

Item 29(c). - Not applicable

Item 29(b) (continued).

Name and Principal Business Address	Position and Offices with Keystone Investment Distributors Company	Position and Offices with the Fund
Ralph J. Spuehler*	Director, President	None
Edward F. Godfrey*	Director, Senior Vice President, Treasurer and Chief Financial Officer	Senior Vice President
Rosemary D. Van Antwerp	Director, Senior Vice President, General Counsel and Secretary	Senior Vice President
Albert H. Elfner, III*	Director	President
Charles W. Carr*	Senior Vice President	None
Peter M. Delehanty*	Senior Vice President	None

J. Kevin Kenely*	Vice President	Treasurer
Frank O. Gebhardt 2626 Hopeton San Antonio, TX 78230	Divisional Vice President	None
C. Kenneth Molander 8 King Edward Drive Londenderry, NH 03053	Divisional Vice President	None
David S. Ashe 32415 Beaconsfield Birmingham, MI 48025	Regional Manager and Vice President	None
David E. Achzet 60 Lawn Avenue - Greenway 27 Stamford, CT 06902	Regional Vice President	None
William L. Carey, Jr. 4 Treble Lane Malvern, PA 19355	Regional Manager and Vice President	None
John W. Crites 2769 Oakland Circle W. Aurora, CO 80014	Regional Manager and Vice President	None
Richard J. Fish 309 West 90th Street New York, NY 10024	Regional Vice President	None
Item 29(b) continued		
Name and Principal Business Address -----	Position and Offices with Keystone Distributors, Inc. -----	Position and Offices with the Fund -----
Michael E. Gathings 245 Wicklawn Way Roswell, GA 30076	Regional Manager and Vice President	None
Robert G. Holz, Jr. 313 Meadowcrest Drive Richardson, Texas 75080	Regional Manager and Vice President	None
Todd L. Kobrin 20 Iron Gate Metuchen, NJ 08840	Regional Manager and Vice President	None
Ralph H. Johnson 345 Masters Court, #2 Walnut Creek, CA 94598	Regional Manager and Vice President	None
Paul J. McIntyre	Regional Manager and Vice President	None
Dale M. Pelletier 464 Winnetka Ave. Winnetka, IL 60093	Regional Manager and Vice President	None
Juliana Perkins 2348 West Adrian Street Newbury Park, CA 91320	Regional Manager and Vice President	None
Matthew D. Twomey 9627 Sparrow Court Ellicott City, MD 21042	Regional Manager and Vice President	None
Mitchell I. Weiser 7031 Ventura Court Parkland, FL 33067	Regional Manager and Vice President	None
Welden L. Evans 490 Huntcliff Green Atlanta, GA 30350	Regional Banking Officer and Vice President	None
Russell A. Haskell*	Vice President	None
Robert J. Matson*	Vice President	None

John M. McAllister*	Vice President	None
Item 29(b) continued		
Gregg A. Mahalich 14952 Richards Drive W. Minnetonka, MN 55345	Vice President	None
Burton Robbins 1586 Folkstone Terrace Westlake Village, CA 91361	Vice President	None
Thomas E. Ryan, III*	Vice President	None
Peter Willis*	Vice President	None
Raymond P. Ajemian*	Manager and Vice President	None
Joan M. Balchunas*	Assistant Vice President	None
Thomas J. Gainey*	Assistant Vice President	None
Eric S. Jeppson*	Assistant Vice President	None
Julie A. Robinson*	Assistant Vice President	None
Peter M. Sullivan 21445 Southeast 35th Way Issaquah, WA 98027	Assistant Vice President	None
Jean S. Loewenberg*	Assistant Secretary	Assistant Secretary
Colleen L. Mette*	Assistant Secretary	Assistant Secretary
Dorothy E. Bourassa*	Assistant Secretary	Assistant Secretary

* Located at 200 Berkeley Street, Boston, Massachusetts 02116-5034

Item 30. Location of Accounts and Records

200 Berkeley Street
Boston, Massachusetts 02116-5034

Keystone Investor Resource Center, Inc.
101 Main Street
Cambridge, Massachusetts 02142

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

Data Vault Inc.
3431 Sharp Slot Road
Swansea, Massachusetts 02777

Item 31. Management Services

Not applicable.

Item 32. Undertakings

See attached undertakings.

UNDERTAKING TO FILE REPORTS

Subject to the terms and conditions of Section 15(d) of the Securities Exchange Act of 1934, the undersigned Registrant hereby undertakes to file with the Securities and Exchange Commission such supplementary and periodic information, documents, and reports as may be prescribed by any rule or

regulation of the Commission heretofore or thereafter duly adopted pursuant to authority conferred in that section.

UNDERTAKING TO FILE POST-EFFECTIVE AMENDMENT

The undersigned, Registrant, hereby undertakes to file with the Securities and Exchange Commission a Post-Effective Amendment to this Registration Statement using financial statements which need not be audited, within four to six months from the effective date of Registrant's Registration Statement.

UNDERTAKING TO COMPLY WITH SECTION 16(c) OF THE INVESTMENT COMPANY ACT OF 1940 APPLICABLE TO SHAREHOLDER COMMUNICATIONS

So long as Registrant is not required by its Declaration of Trust or otherwise to hold annual meetings, Registrant hereby undertakes to comply with the provisions of Section 16(c) of the Investment Company Act of 1940 applicable to shareholder communications.

UNDERTAKING FOR DELIVERY OF ANNUAL REPORTS

Upon request and without charge, the Registrant hereby undertakes to furnish 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 has duly caused this 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 8th day of February, 1996.

KEYSTONE SMALL COMPANY GROWTH FUND II

By: /s/ Rosemary D. Van Antwerp

Rosemary D. Van Antwerp
Senior Vice President and
Secretary

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following persons in the capacities indicated on the 8th day of February, 1996.

SIGNATURES	TITLE
-----	-----
/s/ George S. Bissell ----- George S. Bissell*	Chairman of the Board and Trustee
/s/ Albert H. Elfner, III ----- Albert H. Elfner, III*	Chief Executive Officer, President and Trustee
/s/ J. Kevin Kenely ----- J. Kevin Kenely*	Treasurer (Principal Financial and Accounting Officer)

*By: /s/ Melina M.T. Murphy

Melina M.T. Murphy**
Attorney-in-Fact

SIGNATURES TITLE

/s/ Frederick Amling Trustee

Frederick Amling*

/s/ Charles A. Austin, III Trustee

Charles A. Austin, III*

/s/ Edwin D. Campbell Trustee

Edwin D. Campbell*

/s/ Charles F. Chapin Trustee

Charles F. Chapin*

/s/ K. Dun Gifford Trustee

K. Dun Gifford*

/s/ Leroy Keith, Jr. Trustee

Leroy Keith, Jr.*

/s/ F. Ray Keyser, Jr. Trustee

F. Ray Keyser, Jr.*

/s/ David M. Richardson Trustee

David M. Richardson*

/s/ Richard J. Shima Trustee

Richard J. Shima*

/s/ Andrew J. Simons Trustee

Andrew J. Simons*

*By /s/ Melina M .T. Murphy

Melina M. T. Murphy**
Attorney-in-Fact

** Melina M. T. Murphy, by signing her 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	Page Number in Sequential Numbering System
-----	-----	-----
1	Declaration of Trust	
2	By-Laws	
5	Form of Investment Advisory and Management Agreement	
6 (A)	Forms of Principal Underwriting Agreements	
(B)	Forms of Dealer Agreements	
8	Custodian, Fund Accounting and Recordkeeping Agreement	
10	Opinion and Consent of Counsel	
11	Consent as to use of Report of Registrant's independent auditors	
13	Subscription Agreement	

15	Forms of Distributions Plans for Class A, Class B and Class C shares
17	Financial Data Schedules
18	Multiple Class Plan
19	Powers of Attorney

KEYSTONE SMALL CAP STOCK FUND

DECLARATION OF TRUST

DATED: DECEMBER 13, 1995

This DECLARATION OF TRUST of Keystone Small Cap Stock Fund, made at Boston, Massachusetts on December 13, 1995 by Frederick Amling, Charles A. Austin, III, George S. Bissell, Edwin D. Campbell, Charles F. Chapin, Albert H. Elfner, III, K. Dun Gifford, Leroy Keith, Jr., F. Ray Keyser, Jr., David M. Richardson, Richard J. Shima and Andrew J. Simons (hereinafter with their successors referred to as the "Trustees").

WITNESSETH:

WHEREAS, the Trustees have agreed to manage all property received by them as Trustees in accordance with the provisions hereinafter set forth.

NOW, THEREFORE, the Trustees hereby declare that they will hold all cash, securities and other assets which they may from time to time acquire in any manner as Trustees hereunder IN TRUST to manage and dispose of the same upon the following terms and conditions for the pro rata benefit of the holders from time to time of Shares in this Trust as hereinafter set forth.

ARTICLE I

NAME AND DEFINITIONS

Section 1. Name. This Trust shall be known as Keystone Small Cap Stock Fund and the Trustees shall conduct the business of this Trust under that name or any other name as they may from time to time determine.

Section 2. Definitions. Whenever used herein, unless otherwise required by the context or specifically provided

(a) The terms "Affiliated Person," "Assignment," "Commission", "Interested Person" and "Principal Underwriter" shall have the meanings given them in the 1940 Act;

(b) The "Trust" refers to the Massachusetts business trust established by and under this Declaration of Trust;

(c) "Declaration of Trust" shall mean this Declaration of Trust as

amended or restated from time to time;

(d) "Net Asset Value Per Share" means the net asset value per share of the Trust determined in the manner provided or authorized in Article VI, Section 4;

(e) "Shareholder" means a record owner of Shares of the Trust;

(f) "Shares" means the equal proportionate units of interest into which the beneficial interest in the Trust shall be divided from time to time or, if more than one series ("Series") or more than one class ("Class") of Shares is authorized by the Trustees, the equal proportionate units into which each such Series or Class of Shares shall be divided from time to time, and includes where appropriate fractions of a Share as well as a whole Share, unless the Trustees provide that there shall be no fractions of any particular Shares;

(g) "Trustees" refers to the Trustee or Trustees of the Trust who become such in accordance with Article IV and where appropriate means a majority or other portion of them acting in accordance with this Declaration of Trust or the By-laws of the Trust; and

(h) The "1940 Act" refers to the Investment Company Act of 1940 and the Rules and Regulations thereunder, all as amended from time to time.

ARTICLE II

PURPOSE OF TRUST

The purpose of the Trust is to provide investors a continuous source of managed investments.

ARTICLE III

BENEFICIAL INTEREST

Section 1. Shares of Beneficial Interest. The beneficial interest in the Trust shall at all times be divided into transferable Shares, without par value, each of which shall represent an equal proportionate interest in the Trust with each other Share outstanding, none having priority or preference over another, except to the extent modified by the Trustees under the provisions of this Section. The number of Shares which may be issued is unlimited. The Trustees may from time to time divide or combine the outstanding Shares into a greater or lesser number without thereby changing the proportionate beneficial interests in the Trust. Contributions to the Trust may be accepted for, and Shares shall be redeemed as, whole Shares and/or fractions.

From time to time, as they deem appropriate, the Trustees may create additional Series and/or Classes of Shares, in addition to the Shares initially

created under this instrument ("Original Series"). References in this Declaration of Trust to Shares of the Trust shall apply, as appropriate, to each such Series of Shares and to each such Class of Shares.

Any additional Series of Shares created hereunder shall represent the beneficial interest in the assets (and related liabilities) allocated by the Trustees to such Series of Shares and acquired by the Trust only after creation of the respective Series of Shares and only on account of such Series. If the Trustees create any additional Series of Shares hereunder, then the Original Series shall be deemed a separate Series of Shares. Upon creation of each Series of Shares, the Trustees may designate it appropriately and determine the investment policies with respect to the assets allocated to such Series of Shares, redemption rights, dividend policies, conversion rights, liquidation rights, voting rights, and such other rights and restrictions as the Trustees deem appropriate, to the extent not inconsistent with the provisions of this Declaration of Trust.

The Trustees may divide any Series (including the Original Series) into more than one Class of Shares. Upon creation of each additional Class of Shares, the Trustees may designate it appropriately and determine its rights and restrictions (including, without limitation, such redemption rights, dividend rights, conversion rights, liquidation rights, voting rights and such other rights and restrictions as the Trustees deem appropriate).

Section 2. Ownership of Shares. The ownership of Shares shall be recorded on the books of the Trust or a transfer agent or a similar agent. The Trustees may make such rules as they consider appropriate for the transfer of Shares and similar matters. The record books of the Trust as kept by the Trust or any transfer agent or similar agent, as the case may be, shall be conclusive as to who are the holders of Shares of each Series or Class and as to the number of Shares of each Series or Class held from time to time by each.

Section 3. Investments in the Trust. The Trustees shall accept investments in the Trust from such persons and on such terms and, subject to any requirements of law, for such consideration as the Trustees from time to time authorize and may cease offering Shares to the public at any time. After such acceptance, the number of Shares of the appropriate Series or Class to represent the contribution may, in the Trustees' discretion, be considered as outstanding, and the amount receivable by the Trustees on account of the contribution may be treated as an asset of the Series or Class.

Section 4. No Preemptive Rights. Shareholders shall have no preemptive or other right to subscribe to any additional Shares or other securities issued by the Trust.

Section 5. Provisions Relating to Series or Classes of Shares. Whenever no Shares of a Series or Class are outstanding, then the Trustees may abolish such Series or Class. Whenever more than one Series or Class of Shares is outstanding, then the following provisions shall apply:

(a) Assets Belonging to Each Series or Class. All consideration

received by the Trust for the issue or sale of Shares of a particular Series or Class, together with all assets in which such consideration is invested or reinvested, all income, earnings and proceeds thereof, and any funds derived from any reinvestment of such proceeds, shall, except to the extent specifically otherwise provided in the provisions adopted by the Board of Trustees establishing the Series or Class, irrevocably belong to that Series or Class for all purposes, subject only to the rights of creditors, and shall be so recorded upon the books of the Trust. In the event there are assets, income, earnings and proceeds thereof which are not readily identifiable as belonging to a particular Series or Class, then the Trustees shall allocate such items to the various Series or Classes then existing, in such manner and on such basis as they, in their sole discretion, deem fair and equitable. The amount of each such item allocated to a particular Series or Class by the Trustees shall then belong to that Series or Class, and each such allocation shall be conclusive and binding upon the Shareholders of all Series or Classes for all purposes.

(b) Liabilities Belonging to Each Series or Class. The assets belonging to each particular Series or Class shall, except to the extent specifically otherwise provided in the provisions adopted by the Board of Trustees establishing the Series or Class, be charged with the liabilities, expenses, costs and reserves of the Trust attributable to that Series or Class; and any general liabilities, expenses, costs and reserves of the Trust which are not readily identifiable as attributable to a particular Series or Class shall be allocated by the Trustees to the various Series or Classes then existing, in such manner and on such basis as they, in their sole discretion, deem fair and equitable. Each such allocation shall be conclusive and binding upon the Shareholders of all Series or Classes for all purposes.

(c) Series or Classes of Shares, Dividends and Liquidation. Each Share of each respective Series or Class shall, except to the extent specifically otherwise provided in the provisions adopted by the Board of Trustees establishing the Series or Class, have the same rights and pro rata beneficial interest in the assets and liabilities of the Series or Class as any other such Share. Any dividends paid on the Shares of any Series or Class shall, except to the extent specifically otherwise provided in the provisions adopted by the Board of Trustees establishing the Series or Class, only be payable from and to the extent of the assets (net of liabilities) belonging to that Series or Class. In the event of liquidation of a Series or Class, only the assets (less provision for liabilities) of that Series or Class shall be distributed to the holders of the Shares of that Series or Class.

(d) Voting by Series or Class. Except as provided in this Section or as limited by the rights and restrictions of any Series or Class, each Share of the Trust may vote with and in the same manner as any other Share on matters submitted to a vote of the Shareholders entitled to vote thereon, without differentiation among votes from the separate Series or Classes; provided, however, that (i) as to any matter with

respect to which a separate vote of any Series or Class is required by the 1940 Act, or otherwise by applicable law, such requirement as to a separate vote shall apply in lieu of the voting described above; (ii) in the event that the separate vote requirements referred to in (i) above apply with respect to one or more Series or Classes, then, subject to (iii) below, the Shares of all other Series or Classes shall vote without differentiation among their votes; and (iii) as to any matter which does not affect the interest of any particular Series or Class, only the holders of Shares of the one or more affected Series or Classes shall be entitled to vote.

Section 6. Limitation of Personal Liability. The Trustees shall have no power to bind any Shareholder personally or to call upon any Shareholder for the payment of any sum of money or assessment whatsoever other than such as the Shareholder may at any time personally agree to pay by way of subscription to any Shares or otherwise. Every note, bond, contract or other undertaking issued by or on behalf of the Trust or the Trustees relating to the Trust shall include a recitation limiting the obligation represented thereby to the Trust and its assets (but the omission of such a recitation shall not operate to bind any Shareholder).

ARTICLE IV

THE TRUSTEES

Section 1. Number of Trustees. The number of Trustees shall initially be such number as shall be elected as such by a vote of the shareholders of the Trust and thereafter shall be such number as shall be fixed from time to time by action of a majority of the Trustees.

Section 2. Election or Appointment and Term. The initial Trustees shall be the individuals signing this Declaration in that capacity and any other trustees who shall be elected as initial trustees by a vote of the shareholders of the Trust. Thereafter, subject to Section 16(a) of the 1940 Act, the Trustees may elect themselves or their successors at such intervals, as they deem proper, and may appoint Trustees to fill vacancies as provided in Section 4 hereof; provided, that Trustees shall be elected by vote of a majority of Shares voting thereon at such time or times as the Trustees shall determine that such action is advisable. Subject to Section 3 hereof, the Trustees shall have the power to set and alter the terms of office of the Trustees, and they may at any time lengthen or shorten their own terms or make their terms of unlimited duration; provided, that the term of office of any incumbent Trustee shall continue until terminated, as provided in Section 4 hereof or, if not so terminated, until the election of such Trustee's successor in office has become effective in accordance with this Section 2.

Section 3. Resignation and Removal. Any Trustee may resign his trust (without need for prior or subsequent accounting) by an instrument in writing signed by him and delivered to the other Trustees, and such resignation shall be effective upon such delivery or at any later date according to the terms of the

instrument. Any Trustee may be removed by the action of two-thirds of the remaining Trustees. Upon the resignation or removal of a Trustee, or his otherwise ceasing to be a Trustee, he shall execute and deliver such documents as the remaining Trustees shall require for the purpose of conveying to the Trust or the remaining Trustees any Trust property held in his name. Upon the incapacity or death of any Trustee, his legal representative shall execute and deliver on his behalf such documents as the remaining Trustees shall require as provided in the preceding sentence. However, the execution and delivery of such documents by a former Trustee or his legal representative shall not be requisite to the vesting of title to the Trust property in the remaining Trustees.

Section 4. Vacancies. The term of office of a Trustee shall terminate and a vacancy shall occur in the event of such Trustee's death, resignation, removal, bankruptcy, adjudicated incompetence or other incapacity to perform the duties of the office of Trustee. No such vacancy shall operate to annul this Declaration of Trust or to revoke any existing agency created pursuant to the terms of this Declaration of Trust. In the case of an existing vacancy, including a vacancy existing by reason of an increase in the number of Trustees, subject to applicable law, the remaining Trustees or, if only one Trustee shall then remain in office, the sole remaining Trustee, shall appoint such individual to fill such vacancy as they or he, in their or his discretion, shall see fit. An appointment of a Trustee may be made in anticipation of a vacancy to occur at a later date by reason of retirement or resignation of a Trustee or an increase in the number of Trustees; provided, that such appointment shall not become effective prior to such retirement or resignation or such increase in the number of Trustees. Whenever a vacancy in the number of Trustees shall occur, until such vacancy is filled as provided in this Section 4, the Trustees in office, regardless of their number, shall have all the powers granted to the Trustees and shall discharge all the duties imposed upon the Trustees by this Declaration of Trust in the manner provided by this Declaration of Trust. A written instrument certifying the existence of such vacancy signed by a majority of the Trustees shall be conclusive evidence of the existence of such vacancy.

Section 5. Management of the Trust. Subject to the provisions of this Declaration of Trust, the business and affairs of the Trust shall be managed by the Trustees, and they shall have all powers necessary and desirable to carry out that responsibility. Action by the Trustees may be taken by majority vote of the Trustees at a meeting at which a quorum (which shall be a majority of the Trustees then in office) shall be present, or by a writing signed by a majority of the Trustees in office.

Without limiting the foregoing, the Trustees may adopt By-Laws not inconsistent with this Declaration of Trust providing for the conduct of the business of the Trust and may amend and repeal them to the extent that they do not reserve that right to any Shareholders; they may elect and remove such officers and appoint and terminate such agents as they consider appropriate; they may appoint from their own number and terminate any one or more committees; they may employ one or more custodians of the assets of the Trust and may authorize such custodians to employ subcustodians and to deposit all or any part of such assets in a system or systems for the central handling of securities, retain a transfer agent or a Shareholder servicing agent, or both, provide for

the distribution of Shares by the Trust, through one or more principal underwriters or otherwise, set, or otherwise provide for the setting of, record dates, and in general delegate such authority to do any or all things which the Trustees may do in the operation of the business of the Trust as they consider desirable to any officers of the Trust and committees of the Trustees and to any agent or employee, custodian or underwriter. Any action relating to the operation of the Trust provided for herein to be taken by the Trustees may be taken by any other person under authority granted by the Trustees whether or not specifically so stated, and unless specifically so stated to the contrary. A specific statement indicating that the Trustees may delegate any authority shall not give rise to any contrary implication with respect to any provision of this Declaration of Trust.

Without limiting the foregoing, the Trustees in addition to all powers granted by law shall have power and authority:

(a) To invest and reinvest cash, and to hold cash uninvested, without in anywise being bound or limited by any present or future law or custom in regard to investments by trustees;

(b) To sell, exchange, lend, pledge, mortgage, hypothecate or lease any or all of the assets of the Trust;

(c) To vote or give assent, or exercise any rights of ownership, with respect to stock or other securities or property, and to execute and deliver proxies or powers of attorney to such person or persons as the Trustees shall deem proper, granting to such person or persons such power and discretion with relation to securities or property as the Trustees shall deem proper;

(d) To exercise powers and rights of subscription or otherwise which in any manner arise out of ownership of securities;

(e) To hold any security or property in a form not indicating any trust, whether in bearer, unregistered or other negotiable form, or in the Trust's own name or in the name of a custodian or subcustodian or a nominee or nominees or otherwise;

(f) To consent to or participate in any plan for the reorganization, consolidation or merger of any corporation or concern, any security of which is held in the Trust; to consent to any contract, lease, mortgage, purchase or sale of property by such corporation or concern, and to pay calls or subscriptions with respect to any security held in the Trust;

(g) To join with other security holders in acting through a committee, depository, voting trustee or otherwise, and in that connection to deposit any security with, or transfer any security to, any such committee, depository or trustee, and to delegate to them such power and authority with relation to any security (whether or not so deposited or transferred) as the Trustees shall deem proper, and to agree to pay, and to pay, such portion of the expenses and compensation

of such committee, depository or trustee as the Trustees shall deem proper;

(h) To compromise, arbitrate, or otherwise adjust claims in favor of or against the Trust for any matter in controversy, including, but not limited to, claims for taxes; and

(i) To borrow funds.

The Trustees shall not be required to obtain any court order to deal with any assets of the Trust or take any other action hereunder.

Section 6. Ownership of Assets of the Trust. The assets of the Trust shall be held separate and apart from any assets now or hereafter held in any capacity other than as Trustee hereunder by the Trustees or by any successor Trustees. All of the assets of the Trust shall at all times be considered as vested in the Trustees. No Shareholder shall be deemed to have a severable ownership in any individual asset of the Trust or any right of partition or possession thereof, but each Shareholder shall have a proportionate undivided beneficial interest in the assets of the Series or Class of Shares of which he is a holder, subject to any rights or restrictions applicable to any Series or Class of Shares of which he is a holder.

Section 7. Payment of Expenses. The Trustees shall pay or cause to be paid out of the principal or income of the Trust, or partly out of principal and partly out of income, as they deem fair, all expenses, charges, taxes and liabilities incurred or arising in connection with the Trust, or in connection with the management thereof, including, but not limited to, the Trustees' compensation and such expenses and charges for the services of the Trust's investment adviser or manager, administrator, auditor, counsel, custodian, transfer agent, Shareholder servicing agent, and such other agents or independent contractors and such other expenses and charges as the Trustees may deem necessary or proper to incur.

Section 8. Investment Management and Other Services. Without limiting the generality of the powers of the Trustees, subject to applicable law, the Trustees may enter into a contract with any person or persons, including any firm, corporation, trust or association in which any Trustee, Shareholder or officer of the Trust may be interested, to act as investment advisers and/or managers of the Trust and to provide such investment advice and/or management as the Trustees may from time to time consider appropriate ("Adviser"). Any such contract may authorize the Adviser to determine from time to time what securities shall be acquired, held or disposed of by the Trust and what portion of the assets of the Trust shall be held uninvested and to take, on behalf of the Trust, actions which the Adviser deems necessary to implement the investment policies of the Trust, including the placement of all orders for the purchase, sale or loan of portfolio securities for the Trust's account with brokers or dealers or others selected by the Adviser and the giving of instructions to the custodian of the Trust's assets as to deliveries of securities and payments of cash for the account of the Trust.

Without limiting the generality of the powers of the Trustees, subject to applicable law, the Adviser may enter into an agreement to retain at its own expense any person or persons, including any firm, corporation, trust or association in which any Trustee, Shareholder or officer of the Trust may be interested, to provide the Trust investment advice and/or management, and any person or persons so retained may be granted all authority which has been granted to the Adviser under the contract which the Adviser entered into pursuant to the preceding paragraph.

Without limiting the generality of the powers of the Trustees, the Trustees may enter into a contract with any person or persons, including any firm, corporation, trust or association in which any Trustee, Shareholder or officer of the Trust may be interested, to act as principal underwriter for the Shares.

Section 9. Affiliations of Trustees or Officers, Etc. The fact that (i) any of the Shareholders, Trustees or officers of the Trust is a shareholder, Director, officer, partner, Trustee, employee, manager, adviser or distributor of or for any partnership, corporation, trust, association or other organization or for any parent or affiliate of any organization with which any contract, including, without limitation, contracts for services as manager, investment adviser, distributor, principal underwriter, custodian, transfer agent or dividend disbursing agent or for related services may have been or may hereafter be made, or that any such organization, or any parent or affiliate thereof, is a Shareholder of or has an interest in the Trust, or that (ii) any partnership, corporation, trust, association or other organization with which a contract referred to in (i) above may have been or may hereafter be made also has any one or more of such contracts with one or more other partnerships, corporations, trusts, associations or other organizations, or has other business or interests, shall not affect the validity of any such contract or disqualify any Shareholder, Trustee or officer of the Trust from voting upon or executing the same or create any liability or accountability to the Trust or its Shareholders.

ARTICLE V

SHAREHOLDERS' VOTING POWERS AND MEETINGS

Section 1. Voting Powers. The Shareholders shall have power to vote only (i) for the election of Trustees as provided in Section 2 of Article IV hereof and the removal of Trustees to the extent provided in Section 16(c) of the 1940 Act, (ii) with respect to approval or termination in accordance with the 1940 Act of any investment advisory or management agreement described in Article IV hereof, (iii) with respect to any amendment of this Declaration of Trust to the extent and as provided in Section 7 of Article IX hereof, (iv) to the same extent as the stockholders of a Massachusetts corporation as to whether or not a court action, proceeding or claim should or should not be brought or maintained derivatively or as a class action on behalf of the Trust or the Shareholders, and (v) with respect to such additional matters relating to the Trust as may be required by this Declaration of Trust or the By-Laws, or as to which the Trustees in their discretion shall determine such Shareholder vote to be

required by law or otherwise to be necessary, appropriate or advisable.

Each whole Share shall be entitled to one vote as to any matter on which it is entitled to vote and each fractional Share shall be entitled to a proportionate fractional vote. There shall be no cumulative voting in the election of Trustees. Shares may be voted in person or by proxy. A proxy with respect to Shares held in the name of two or more persons shall be valid if executed by any one of them unless at or prior to exercise of the proxy the Trust receives a specific written notice to the contrary from any one of them. A proxy purporting to be executed by or on behalf of a Shareholder shall be deemed valid unless challenged at or prior to its exercise, and the burden of proving invalidity shall rest on the challenger. Until Shares are issued, the Trustees may exercise all rights of Shareholders and may take any action required by law, this Declaration of Trust or any By-Laws of the Trust to be taken by Shareholders.

Section 2. Meetings. Meetings of Shareholders shall be held at such times at the principal office of the Trust or such other place as the Trustees may designate. Meetings of the Shareholders may be called by the Trustees or such other person or persons as may be specified in the By-laws. Shareholders shall be entitled to at least seven days' notice of any meeting.

Section 3. Quorum and Required Vote. Except as otherwise provided by law, to constitute a quorum for the transaction of business at a Shareholders' meeting there must be present, in person or by proxy, holders of a majority of the total number of Shares of the Trust then outstanding and entitled to vote at the meeting, but any lesser number shall be sufficient for adjournment, and any adjourned session or sessions may be held within 90 days after the date set for the original meeting without the necessity of further notice. Subject to any applicable requirements of law, a majority of the Shares present and entitled to vote on a question or election shall decide such question or election, except when a larger vote is required by any provision of this Declaration of Trust, the By-Laws of the Trust or any applicable provision of law.

Section 4. Action by Written Consent. Except as otherwise required by law, any action required or permitted to be taken at any meeting may be taken without a meeting if a consent in writing setting forth such action is signed by the Shareholders entitled to vote on the subject matter thereof holding a majority of the Shares entitled to vote thereon.

Section 5. Additional Provisions. The By-Laws may include further provisions for Shareholders' votes and meetings and related matters.

ARTICLE VI

DISTRIBUTIONS AND REDEMPTIONS

Section 1. Distributions. The Trustees may, but need not, each year distribute to the Shareholders of each Series or Class such income and gains as the Trustees may determine, after providing for actual and accrued expenses and

liabilities (including such reserves as the Trustees may establish) determined in accordance with generally accepted accounting practices. The Trustees shall have full discretion to determine which items shall be treated as income and which items as capital and their determination shall be binding upon the Shareholders. Distributions of each year's income of each Series or Class, if any be made, may be made in one or more payments, which shall be in Shares, in cash or otherwise and on a date or dates and as of a record date or dates determined by or under the authority of the Trustees. At any time and from time to time in their discretion the Trustees may distribute to the Shareholders of any one or more Series or Class as of a record date or dates determined by or under the authority of the Trustees, in Shares, in cash or otherwise, all or part of any gain realized on the sale or disposition of property of the Trust or otherwise, or all or part of any other principal of the Trust. Each distribution pursuant to this Section 1 shall be made ratably according to the number of Shares of the Series or Class held by the several Shareholders on the applicable record date thereof, provided that no distribution need be made on Shares purchased pursuant to orders received or for which payment is made after such time or times as may be determined by or under the authority of the Trustees. Any such distribution paid in Shares will be paid at the net asset value thereof as determined in accordance with Section 4 hereof.

Section 2. Redemptions. Upon offer by any Shareholder of all or part of the Shares held by the Shareholder for redemption hereunder, in accordance with such methods, upon such terms and subject to such conditions as from time to time may be determined by or under the authority of the Trustees, the Trust shall redeem the Shares so offered by distributing to the Shareholder the Net Asset Value per Share thereof determined as of a time fixed by or under the authority of the Trustees. The Trust shall have the right at its option and at any time to redeem the Shares of any Shareholder for their Net Asset Value per Share if the Shareholder owns Shares of a Series or Class having an aggregate net asset value of less than such minimum amount as may from time to time be prescribed by or under the authority of the Trustees or if ownership of such Shares by the Shareholder could create adverse tax consequences for the Trust or any Series or Class thereof. With respect to all Shares or any Series or Class of Shares, the right to redemption or the date for payment may, however, be delayed or suspended by the Trustees if there is an extraordinary closing or restriction of trading on the New York Stock Exchange as determined under rules and regulations of the Commission, or an emergency exists as a result of which it is not reasonably practicable for the Trust to dispose of securities or fairly to determine the value of its net assets, or as the Commission may permit. The completion of such distribution on redemption of Shares shall constitute a full discharge of the Trust and Trustees with respect to such Shares, and the Trustees may require that any certificate or certificates issued by the Trust to evidence the ownership of the Shares shall be surrendered to the Trustees for cancellation or notation. Shares so redeemed shall be cancelled or held by the Trust for reissue, as the Trustees may from time to time determine.

Section 3. Payment in Kind. Subject to any generally applicable limitation imposed by the Trustees, any distribution on redemption may, if authorized by the Trustees, be made wholly or partly in kind, instead of in cash. Such distribution in kind shall be made by distributing investments

constituting, in the opinion of the Trustees, a fair representation of the various types of securities then held by the Series or Class of Shares being redeemed (but not necessarily including a portion of each particular investment) and in each case having an aggregate value equal to the amount of cash instead of which such distribution in kind is made.

Section 4. Determination of Net Asset Value per Share. Subject to applicable law, the Net Asset Value per Share of each Series or Class shall be computed as of such times as may be determined by or under authority of the Trustees by determining the value of all the investments of such Series or Class in such manner as may be determined by or under authority of the Trustees, adding any other assets of such Series or Class, subtracting all liabilities of such Series or Class and dividing the result by the number of Shares of such Series or Class outstanding.

Determination of Net Asset Value per Share so made in good faith and pursuant to the provisions of the 1940 Act shall be binding on all parties concerned.

Section 5. Automatic Redemption from Small Accounts. The Trustees shall have the power to redeem shares at a redemption price determined in accordance with Section 4 of this Article if at any time the total investment in an account does not have a value of at least \$1,000 or such other minimum amount as the Trustees may from time to time determine. Before redeeming such Shares, the Shareholder will be notified that the value of his account is less than the required minimum amount and be allowed 60 days or such period as is permitted by law to make an additional investment to bring the total value of such account to such amount or more.

Section 6. Power to Modify Foregoing Procedures. Notwithstanding any of the foregoing provisions of this Article VI, the Trustees may prescribe, in their absolute discretion, such other bases and times for the declaration and payment of dividends and distributions as they may deem desirable or necessary to enable the Trust to comply with any provision of the 1940 Act or the Internal Revenue Code, including any rule or regulation adopted by the Commission or any securities association registered under the Securities Exchange Act of 1934, or any order of exemption issued by the Commission or any rule or regulation issued under the Internal Revenue Code, all as in effect now or as hereafter amended or modified.

ARTICLE VII

COMPENSATION AND LIMITATION OF LIABILITY OF TRUSTEES

Section 1. Compensation. The Trustees shall be entitled to reasonable compensation from the Trust; they may fix the amount of their compensation.

Section 2. Limitation of Liability. Provided they have exercised reasonable care in their selection, the Trustees shall not be responsible or liable in any event for any neglect or wrongdoing of any officer, agent,

employee or Adviser of the Trust nor shall any Trustee be responsible for the act or omission of any other Trustee, but nothing herein contained shall protect any Trustee against any liability to which he would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office.

Every note, bond, contract, instrument, certificate, share or undertaking and every other act or thing whatsoever executed or done by or on behalf of the Trust or the Trustees or any of them in connection with the Trust shall be conclusively deemed to have been executed or done only in their or his capacity as Trustees or Trustee, and such Trustees or Trustee shall not be personally liable thereon.

The Trustees shall use their best efforts to ensure that every note, bond, contract, instrument, certificate or undertaking made or issued by the Trustees or by any officers shall give notice of the existence of this Declaration of Trust and shall recite to the effect that the same was executed or made by or on behalf of the Trust or by them as Trustees or officers, and not individually, and is not binding upon any of them or the Shareholders individually, but is binding only upon the Trust property, or the assets of the particular Series or Class in question, as the case may be, but the omission thereof shall not operate to bind any Trustee or officer or Shareholder individually, or to subject the assets of any Series or Class to the obligations of any other Series or Class.

ARTICLE VIII

INDEMNIFICATION

Section 1. Trustees, Officers, etc. The Trust shall indemnify each of its present and former Trustees and officers and may indemnify any of its present or former employees or agents, and shall indemnify any persons who serve or have served at the Trust's request as Directors, officers or Trustees of another organization, and may indemnify persons who serve or have served at the Trust's request as employees or agents of another organization in which the Trust has any interest as a shareholder, creditor or otherwise (hereinafter referred to as a "Covered Person") against all liabilities and expenses, including, but not limited to, amounts paid in satisfaction of judgments, in compromise or as fines and penalties, and counsel fees reasonably incurred by any such Covered Person in connection with the defense or disposition of any action, suit or other proceeding, whether civil or criminal, before any court or administrative or legislative body, in which such Covered Person may be or may have been involved as a party or otherwise or with which such person may be or may have been threatened, while in office, employed or acting as agent, or thereafter, by reason of being or having been such a Trustee, officer, Director, employee or agent, except with respect to any matter as to which such Covered Person shall have been finally adjudicated in any such action, suit or other proceeding not to have acted in good faith in the reasonable belief that such Covered Person's action was in the best interest of the Trust and except that no person shall be indemnified against any liability to the Trust or its

Shareholders to which such Covered Person shall otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office. Expenses, including counsel fees so incurred by any Covered Person, may in the discretion of the Trustees be paid from time to time by the Trust in advance of the final disposition of any such action, suit or proceeding upon receipt of an undertaking by or on behalf of such Covered Person to repay amounts so paid to the Trust if it is ultimately determined that indemnification against such expenses is not authorized under this Article.

Except as otherwise provided by law, the Trust shall have power to purchase and maintain insurance on behalf of a Covered Person against any liability asserted against him and incurred by him in his capacity as a Covered Person, or arising out of his status as such, whether or not the Trust would have the power to indemnify him against the liability under the provisions of this Section.

Section 2. Compromise Payment. As to any matter disposed of by a compromise payment by any Covered Person referred to in Section 1 above, pursuant to a consent decree or otherwise, no such indemnification either for such payment or for any other expenses shall be provided unless such compromise shall be approved as in the best interests of the Trust, after notice that it involved such indemnification, (a) by a disinterested majority of the Trustees then in office; or (b) by a majority of the disinterested Trustees then in office; or (c) by any disinterested person or persons to whom the question may be referred by the Trustees, provided that in the case of approval pursuant to clause (b) or (c) there has been obtained an opinion in writing of independent legal counsel to the effect that such Covered Person appears to have acted in good faith in the reasonable belief that his action was in the best interests of the Trust and that such indemnification would not protect such person against any liability to the Trust to which such person would otherwise be subject by reason of wilful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office; or (d) by vote of a majority of the Shares voting thereon, exclusive of any Shares beneficially owned by any interested Covered Person. Approval by the Trustees pursuant to clause (a) or (b) or any disinterested person or persons pursuant to clause (c) of this Section shall not prevent the recovery from any Covered Person of any amount paid to such Covered Person in accordance with any such clauses as indemnification if such Covered Person is subsequently adjudicated by a court of competent jurisdiction not to have acted in good faith in the reasonable belief that such person's action was in the best interests of the Trust or to have been liable to the Trust or its Shareholders by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office.

Section 3. Indemnification Not Exclusive. The right of indemnification hereby provided shall not be exclusive or affect any other rights to which any such Covered Person may be entitled. As used in this Article VIII, the term "Covered Person" shall include such person's heirs, executors and administrators. An "interested Covered Person" is one against whom the action, suit or other proceeding in question or another action, suit or other proceeding

on the same or similar grounds is then or has been pending, and a "disinterested person" is a person against whom none of such actions, suits or other proceedings or another action, suit or other proceeding on the same or similar grounds is then or has been pending. Nothing contained in this Article shall affect any rights to indemnification to which personnel of the Trust other than Trustees and officers or other persons may be entitled by contract or otherwise under law.

Section 4. Shareholders. In case any Shareholder or former Shareholder shall be held to be personally liable solely by reason of his being or having been a Shareholder and not because of his acts or omissions or for some other reason, the Shareholder or former Shareholder (or his heirs, executors, administrators or other legal representatives or in the case of a corporation or other entity, its corporate or other successor) shall be entitled out of the assets of the Trust to be held harmless from and indemnified against all loss and expense arising from such liability.

ARTICLE IX

MISCELLANEOUS

Section 1. Trust Not a Partnership. It is hereby expressly declared that a trust and not a partnership is created hereby. Neither the Trust nor the Trustees, nor any officer, employee or agent of the Trust shall have any power to bind personally either the Trust's Trustees or officers or any Shareholders. All persons extending credit to, contracting with or having any claim against the Trust shall look only to the assets of the Trust for payment under such credit, contract or claim, and neither the Shareholders nor the Trustees, nor any of the Trust's officers, employees or agents, whether past, present or future, shall be personally liable therefor. Nothing in this Declaration of Trust shall protect any Trustee against any liability to which such Trustee would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of the office of Trustee hereunder.

Section 2. Trustee's Good Faith Action, Expert Advice, No Bond or Surety. The exercise by the Trustees of their powers and discretions hereunder in good faith and with reasonable care under the circumstances then prevailing shall be binding upon everyone interested. Subject to the provisions of Section 1 of this Article IX, a Trustee shall be liable for his own willful defaults, and for nothing else, and shall not be liable for errors of judgment or mistakes of fact or law. The Trustees may take advice of counsel or other experts with respect to the meaning and operation of this Declaration of Trust and, subject to the provisions of said Section 1, shall be under no liability for any act or omission in accordance with such advice or for failing to follow such advice. The Trustees shall not be required to give any bond as such, nor any surety if a bond is required.

Section 3. Liability of Third Persons Dealing with Trustees. No person dealing with the Trustees shall be bound to make any inquiry concerning the

validity of any transaction made or to be made by the Trustees pursuant hereto or to see to the application of any payments made or property transferred to the Trust or upon its order.

Section 4. Duration; Termination of Trust; Amendments; Mergers, etc.

(a) This Trust shall continue without limitation of time but subject to the provisions of this Section 4.

(b) The Trust (as used in this Section 4 the term "Trust" specifically also means any Series or Class) may be terminated by action of the Trustees.

(c) Upon the termination of the Trust:

(i) The Trust shall carry on no business except for the purpose of winding up its affairs.

(ii) The Trustees shall proceed to wind up the affairs of the Trust and all of the powers of the Trustees under this Declaration of Trust shall continue until the affairs of the Trust shall have been wound up, including the power to fulfill or discharge the contracts of the Trust, collect its assets, sell, convey, assign, exchange, transfer or otherwise dispose of all or any part of the remaining Trust property to one or more persons at public or private sale for consideration which may consist in whole or in part of cash, securities or other property of any kind, discharge or pay its liabilities, and to do all other acts appropriate to liquidate its business.

(iii) After paying or adequately providing for the payment of all liabilities, and upon receipt of such releases, indemnities and refunding agreements as they deem necessary for their protection, the Trustees shall distribute the remaining Trust property, in cash or in kind or partly each, among the Shareholders according to their respective rights and interests.

(d) After termination of the Trust and distribution to the Shareholders as herein provided, a majority of the Trustees shall execute and lodge among the records of the Trust an instrument in writing setting forth the fact of such termination, and the Trustees shall thereupon be discharged from all further liabilities and duties hereunder, and the rights and interests of all Shareholders shall thereupon cease.

(e) Upon completion of the distribution of the remaining proceeds or the remaining assets as provided in paragraphs (c) and (d), the Trust shall terminate and the Trustees shall be discharged of any and all further liabilities and duties hereunder and the right, title and interest of all parties shall be cancelled and discharged.

Section 5. Filing of Copies, References, Headings. The original or a copy of this instrument and of each Declaration of Trust supplemental hereto or Amendment hereof shall be kept at the office of the Trust where it may be inspected by any Shareholder. Anyone dealing with the Trust may rely on a certificate by an officer of the Trust as to whether or not any Supplemental Declaration of Trust or Amendments have been made and as to any matters in connection with the trust hereunder; and, with the same effect as if it were the original, may rely on a copy certified by an officer of the Trust to be a copy of this instrument or of any such Supplemental Declaration of Trust or Amendment. In this instrument or in any such Amendment or Supplemental Declaration of Trust, references to this instrument, and all expressions such as "herein," "hereof," and "hereunder," shall be deemed to refer to this instrument as amended or affected by any such Supplemental Declaration of Trust or Amendment. Headings are placed herein for convenience of reference only and in case of any conflict, the text of this instrument, rather than the headings, shall control. This instrument may be executed in any number of counterparts each of which shall be deemed an original.

Section 6. Applicable Law. The Trust set forth in this instrument is made in The Commonwealth of Massachusetts, and it is created under and is to be governed by and construed and administered according to the laws of such Commonwealth. The Trust shall be of the type commonly called a Massachusetts business trust, and, without limiting the provisions hereof, the Trust may exercise all powers which are ordinarily exercised by such a trust.

Section 7. Amendments. (a) This Declaration of Trust may be amended by a vote or written consent of the Trustees. However, if such amendment adversely affects the rights of any Shares of any Series or any Class with respect to matters to which such amendment is applicable, such amendment shall be subject to approval by holders of a majority of the Shares of such Series or Class. An amendment or other action which provides for an additional Series of Shares (and/or Class thereof), which Series (and/or Classes thereof) may vote together with Shares of other Series (and/or Classes thereof) and makes other provisions with respect to such Series (and/or Class thereof) and its relation to existing Series (and/or Classes thereof), shall not be deemed to adversely affect the rights of any other Series of Shares or Class thereof. The Trustees may also amend this Declaration of Trust without any Shareholder approval to change the name of the Trust, to supply any omission, to cure, correct or supplement any ambiguous, defective or inconsistent provision hereof, or, if they deem it necessary, to conform this Declaration of Trust to the requirements of applicable federal laws or regulations or the requirements of the Internal Revenue Code, or to eliminate or reduce any federal, state or local taxes which are or may be payable by the Trust or the Shareholders, but the Trustees shall not be liable for failing to do so.

(b) Nothing contained in this Declaration of Trust shall permit the amendment of this Declaration of Trust to impair the exemption from personal liability of the Shareholders, Trustees, officers, employees and agents of the Trust or to permit assessments upon Shareholders.

(c) A certificate signed by a majority of the Trustees or by the

Secretary or any Assistant Secretary of the Trust, setting forth an amendment by reciting that it was duly adopted by the Shareholders or by the Trustees as aforesaid, or a copy of the Declaration of Trust as amended, and executed by a majority of the Trustees or certified by the Secretary or any Assistant Secretary of the Trust, shall be conclusive evidence of such amendment when lodged among the records of the Trust.

Section 8. Merger, Consolidation and Sale of Assets. The Trust may merge into or consolidate with any other corporation, association, trust or other organization or may sell, lease or exchange all or substantially all of the Trust property, including its good will, upon such terms and conditions and for such consideration when and as authorized by the Trustees.

Section 9. Incorporation. The Trustees may cause to be organized or assist in organizing a corporation or corporations under the laws of any jurisdiction or any other trust, partnership, association or other organization to take over all the Trust property or to carry on any business in which the Trust shall directly or indirectly have any interest, and to sell, convey and transfer the Trust property to any such corporation, trust, partnership, association or organization in exchange for the shares or securities thereof or otherwise, and to lend money to, subscribe for the shares or securities of, and enter into any contracts with any such corporation, trust, partnership, association or organization in which the Trust holds or is about to acquire shares or any other interest. The Trustees may also cause a merger or consolidation between the Trust or any successor thereto and any corporation, trust, partnership, association or other organization if and to the extent permitted by law, as provided under the law then in effect. Nothing contained herein shall be construed as requiring approval of Shareholders for the Trustees to organize or assist in organizing one or more corporations, trusts, partnerships, associations or other organizations and selling, conveying or transferring the Trust property to such organizations or entities.

IN WITNESS WHEREOF, the undersigned have hereunto set their hands and seals in the City of Boston, Massachusetts, for themselves and their assigns, as of the day and year first above written.

/s/ Frederick Amling

Frederick Amling

/s/ Charles A. Austin, III

Charles A. Austin, III

/s/ George S. Bissell

George S. Bissell

/s/ Edwin D. Campbell

Edwin D. Campbell

/s/ Charles F. Chapin

Charles F. Chapin

/s/ Albert H. Elfner, III

Albert H. Elfner, III

/s/ K. Dun Gifford

K. Dun Gifford

/s/ Leroy Keith, Jr.

Leroy Keith, Jr.

/s/ F. Ray Keyser, Jr.

F. Ray Keyser, Jr.

/s/ David M. Richardson

David M. Richardson

/s/ Richard J. Shima

Richard J. Shima

/s/ Andrew J. Simons

Andrew J. Simons

FORM OF

BY-LAWS

KEYSTONE SMALL CAP STOCK FUND

ARTICLE 1.

Trust Agreement and Principal Office

1.1 Trust Agreement. These By-laws are adopted pursuant to and are subject to the terms of the Declaration of Trust ("Trust Agreement") of Keystone Small Cap Stock Fund ("Fund").

1.2 Principal Office of the Fund. The principal office of the Fund shall be located in Boston, Massachusetts, or such other place as the Trustees may designate from time to time.

ARTICLE 2.

Meetings of Shareholders

2.1 Meetings. Meetings may be called by the Trustees or by the President or by any other officers designated for the purpose by the Trustees. The portion of this Section 2.1 relating to special meetings to be called by shareholders may be altered, amended or repealed by the Trustees without action by the shareholders.

2.2 Business to be Transacted. At any meeting of shareholders, such business may be transacted as is referred to in the notice of the meeting, and any other business considered appropriate by or under authority of the Trustees.

2.3 Notice. A written notice of each meeting of the shareholders, specifying the time, place and purposes thereof, shall be given as hereinafter provided by the Secretary of the Fund or any Assistant Secretary or by a person or persons designated by either of them, to each shareholder who is entitled to vote thereat at least seven (7) days (including Sundays and holidays) before such meeting. Notice of a meeting need not be given to any shareholder if a written waiver of notice, executed by the shareholder or his attorney thereunto duly authorized before or after the meeting, is filed with the records of the meeting, or to any shareholder who attends the meeting either in person or by proxy without protesting, prior thereto or at its commencement, the lack of

notice to such shareholder. Every notice to any shareholder required or provided for herein may be given to him personally or by mailing it to him postage prepaid, addressed to him at his address specified in the records of the Trust. Notice shall be deemed to have been given at the time when it is so mailed. In respect of any share held jointly by several persons notice so given to any one of them shall be sufficient notice to all of them.

Any notice so sent to the address of any shareholder shall be deemed to have been duly sent in respect of any such share whether held by him solely or jointly with others, notwithstanding he be then deceased or be bankrupt or insolvent or legally incompetent, and whether or not the Trustees or any person sending such notice have knowledge of his death, bankruptcy or insolvency or legal incompetence, until some other person or persons shall be registered as holders. The certificate of the person or persons giving such notice shall be sufficient evidence thereof, and shall protect all persons acting in good faith in reliance on such certificate.

2.5 Voting. Shares may be voted in person by the shareholder or by proxy in form reasonably acceptable to the Trust. If the holder of any share is a minor or a person of unsound mind, or subject to guardianship or to the legal control of any other person as regards the charge or management of such share, he may vote by his guardian or such other person appointed or having such control, and such vote may be given in person or by proxy.

2.6 Record Dates. For the purpose of determining the shareholders who are entitled to vote or act at any meeting or any adjournment thereof, or who are entitled to receive payment of any dividend or of any other distribution, the Trustees may from time to time fix or authorize the fixing by others of a time as the record date for determining the shareholders having the right to notice of and to vote at such meeting and any adjournment thereof or the right to receive such dividend or distribution, and in such case only shareholders of record on such record date shall have such right, notwithstanding any transfer of shares on the books of the Fund after the record date; or without fixing such record date the Trustees may for any of such purposes close the register or transfer books for all or any part of such period.

ARTICLE 3.

Meetings of Trustees

3.1 Regular Meetings. Regular meetings of the Trustees may be held without call or notice at such places and at such times as the Trustees may from time to time determine.

3.2 Special Meetings. Special meetings of the Trustees may be held at any time and at any place designated in the call of the meeting when called by the Chairman, the President or the Treasurer, or by any other officer authorized by the Trustees to do so, or by two or more Trustees, sufficient notice thereof being given to each Trustee by the Secretary or an Assistant Secretary or by the officer or one of the Trustees calling the meeting.

3.3 Notice. It shall be sufficient notice to a Trustee of a special meeting to send notice by mail at least forty-eight hours or by telegram at least twenty-four hours before the meeting addressed to him at his usual or last known business or residence address or to give notice to him in person or by telephone at least twenty-four hours before the meeting. Notice of a meeting need not be given to any Trustee if a written waiver of notice, executed by him before or after the meeting, is filed with the records of the meeting, or to any Trustee who attends the meeting without protesting prior thereto or at its commencement the lack of notice to him. Neither notice of a meeting nor a waiver of a notice need specify the purposes of the meeting.

3.4 Quorum. At any meeting of the Trustees a majority of the Trustees then in office shall constitute a quorum. Any meeting may be adjourned from time to time by a majority of the votes cast upon the question, whether or not a quorum is present and the meeting may be held as adjourned without further notice.

3.5 Action by Vote. When a quorum is present at any meeting, a majority of the Trustees present may take any action, except when a larger vote is required by the Trust Agreement or any applicable law.

3.6 Participation by Conference Telephone. The Trustees may participate in a meeting of the Trustees by means of conference telephone or similar communications equipment. Participation by such means shall constitute presence in person at a meeting.

3.7 Action by Writing. The Trustees may act without a meeting, and the action of a majority of the Trustees then in office evidenced by a writing signed by such a majority shall be valid and binding as the action of the Trustees.

ARTICLE 4.

Trustees

4.1 Term. A Trustee shall serve until his death, retirement, resignation or removal from office or until his successor is elected and qualifies.

ARTICLE 5.

Officers

5.1 Election. The President, the Treasurer and the Secretary shall be elected annually by the Trustees and shall serve until their successors are elected and qualified or until their earlier deaths, resignations or removals. Other officers, if any, including if desired a Controller, may be elected or appointed by the Trustees at the meeting or at any other time. A Chairman of the Board may be elected or appointed by the Trustees at the meeting or at any other time. Vacancies in any office may be filled at any time by the Trustees.

5.2 Tenure. Each officer and each agent shall hold office at the pleasure of the Trustees.

5.3 Powers. Subject to law and to the other provisions of these By-laws, each officer shall have, in addition to any duties and powers set forth herein and in the Trust Agreement, such duties and powers as are commonly incident to the office occupied by him as if the Fund were organized as a Pennsylvania business corporation and such other duties and powers as the Trustees may from time to time designate.

5.4 President. Unless the Trustees otherwise provide, the President shall preside at all meetings of shareholders and of the Trustees and the President shall be the chief executive officer.

5.5 Treasurer. The Treasurer shall be the chief financial officer of the Fund. In the absence of the Treasurer, or if there is then no person serving in such office, the Controller of the Fund shall be the chief financial officer of the Fund. He shall, subject to the provisions of the Trust Agreement and subject to any arrangement made by the Trustees with a bank or other trust company or organization as custodian, be in charge of valuable papers, books of account and accounting records, and shall have such other duties and powers as may be designated from time to time by the Trustees or by the President.

5.6 Secretary. The Secretary shall record all proceedings of the shareholders and Trustees in books to be kept therefor, which books shall be kept at the principal office of the Fund. In the absence of the Secretary, an Assistant Secretary, or if there be none or if he is absent, a temporary Secretary chosen by the shareholders or the Trustees, as the case may be, shall record the proceedings in the aforesaid books.

5.7 Resignation and Removals. Any Trustee or officer may resign at any time by written instrument signed by him and deposited with the Trustees by delivering such resignation to the President or the Secretary or to a meeting of the Trustees. Such resignation shall be effective upon receipt unless specified to be effective at some other time. The Trustees may remove any officer elected by them with or without cause by vote of a majority of the Trustees then in office. Except to the extent expressly provided in a written agreement with the Fund, no Trustee or officer resigning and no officer removed shall have any right to compensation for any period following his resignation or removal, or any right to damages on account of such removal.

ARTICLE 6.

Committees

6.1 General. The Trustees may appoint from their number an executive committee to serve during their pleasure. The executive committee may, when the Trustees are not in session at a meeting, exercise such of the powers and authority of the Trustees as may be conferred from time to time by the Trustees. Rules governing the actions of the executive committee may be adopted by the Trustees

from time to time as they deem appropriate. The Trustees may appoint from their number such other committees from time to time as they deem appropriate. The number composing such committees, the powers and authority conferred upon such committees and the rules governing the actions of such committees shall be determined by the Trustees at their discretion.

6.2 Quorum; Voting. A majority of the members of any committee of the Trustees shall constitute a quorum for the transaction of business, and any action of such a committee may be taken at a meeting by a vote of a majority of the members present (a quorum being present) or evidenced by one or more writings signed by such a majority. Members of a committee may participate in a meeting of such committee by means of conference telephone or similar communications equipment. Participation by such means shall constitute presence in person at a meeting.

ARTICLE 7.

Fiscal Year and Seal

7.1 Fiscal Year. The fiscal year of the Fund shall end on the last day of May in each year.

7.2 Seal. The seal of the Fund shall consist of a flat-faced die with the name of the Fund and 1995 cut or engraved thereon.

ARTICLE 8.

Amendments

8.1 Amendment by Trustees. These By-laws may also be altered, amended or repealed by the Trustees, except with respect to any provision which by law, the Trust Agreement or these By-laws requires action by the shareholders.

INVESTMENT ADVISORY AND MANAGEMENT AGREEMENT

Agreement made the ____ day of _____, 199__ by and between KEYSTONE SMALL CAP STOCK FUND, a Massachusetts business 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.

NOW 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 its 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 that 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 or Plans of Distribution adopted under Rule 12b-1 under the Investment Company Act of 1940 ("1940 Act"); (7) all taxes and business 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, business 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 set forth below:

Management Fee	Aggregate Net Asset Value of the Shares of the Fund
0.70% of the first	\$ 100,000,000, plus
0.65% of the next	\$ 100,000,000, plus
0.60% of the next	\$ 100,000,000, plus
0.55% of the next	\$ 100,000,000, plus
0.50% of the next	\$ 100,000,000, plus
0.45% of the next	\$ 500,000,000, plus
0.40% of the next	\$ 500,000,000, plus
0.35% of amounts over	\$1,500,000,000.

The Advisers fee is computed as of the close of business each business day and payable daily.

A pro rata portion of the 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, any other firm or firms ("Sub-Adviser") 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 Sub-Adviser all of the 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 that 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 Declaration of Trust of the Fund, the Articles of Incorporation of the Adviser and the governing documents of any Adviser, 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, that Directors, officers and agents of the Adviser and its affiliates 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 such Adviser as shareholder, or otherwise; and that the effect of any such adverse interests shall be governed by said Declaration of Trust of the Fund, Articles of Incorporation of the Adviser and governing documents of any such Adviser.

9. This Agreement shall continue in effect for two years from the date set forth above and after such date 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 (60) 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 (60) days' written notice to 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 the Agreement shall be governed, construed and enforced in accordance with the laws of The Commonwealth of Massachusetts.

14. A copy of the Declaration of Trust of the Fund is on file with the Secretary of The Commonwealth of Massachusetts. This instrument is executed on behalf of the Trustees of the Fund as trustees and not individually, and the obligations of this instrument are not binding upon the Trustees or holders of shares of the Fund individually but are binding only upon the assets and property of the Fund.

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

KEYSTONE SMALL CAP STOCK FUND

By:

Name: Albert H. Elfner, III
Title: Chief Executive Officer
and President

KEYSTONE INVESTMENT MANAGEMENT
COMPANY

By:

Name: James R. McCall
Title: President

PRINCIPAL UNDERWRITING AGREEMENT

KEYSTONE SMALL CAP STOCK FUND

AGREEMENT made this ____ day of _____, 199__ by and between Keystone Small Cap Stock Fund, a Massachusetts business trust ("Fund"), and Keystone Investment Distributors Company, a Delaware corporation ("Principal Underwriter").

It is hereby mutually agreed as follows:

1. The Fund hereby appoints Principal Underwriter a principal underwriter of the Class A and Class C shares of beneficial interest of the Fund ("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. Principal Underwriter will use its best efforts to find purchasers for the Shares, to promote distribution of the Shares and may obtain orders from brokers, dealers or other persons for sales of Shares to them. No such brokers, dealers or other persons shall have any authority to act as agent for the Fund; such brokers, dealers or other persons shall act only as principal in the sale of Shares.

3. Sales of Shares by Principal Underwriter shall be at the applicable public offering price determined in the manner set forth in the prospectus and/or statement of additional information of the Fund current at the time of the Fund's acceptance of the order for Shares; provided that Principal Underwriter also shall have the right to sell Shares at net asset value, if such sale is permissible under and consistent with applicable statutes, rules, regulations and orders. All orders shall be subject to acceptance by the Fund, and the Fund reserves the right, in its sole discretion, to reject any order received. The Fund shall not be liable to anyone for failure to accept any order.

4. On all sales of Shares, the Fund shall receive the current net asset value, and Principal Underwriter shall be entitled to receive payments in accordance with the 12b-1 Plan(s) and as set forth in the then current prospectus and/or statement of additional information of the Fund, and to the contingent deferred sales charges as set forth in the then current prospectus and/or statement of additional information of the Fund. Principal Underwriter

may reallocate all or a part of the 12b-1 payments to such brokers, dealers or other persons as Principal Underwriter may determine.

5. Payment to the Fund for Shares shall be in New York or Boston Clearing House funds received by Principal Underwriter within ten (10) 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 ten-day period, the Fund reserves the right, without further notice, forthwith to cancel its acceptance of any such order. The Fund shall pay such issue taxes as may be required by law in connection with the issuance of the Shares.

6. 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 Fund to Principal Underwriter in reasonable quantities upon request.

7. Principal Underwriter agrees to comply with the Rules of Fair Practice of the National Association of Securities Dealers, Inc.

8. The Fund appoints 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 Fund.

9. 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.

10. The Principal Underwriter agrees to indemnify and hold harmless the Fund, its officers, Directors 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.

11. The Fund agrees to execute such papers and to do such acts and things as shall from time to time be reasonably requested by 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 Fund under the Investment Company Act of 1940 ("1940 Act"). Principal Underwriter shall bear the expense of preparing, printing and distributing advertising, sales literature, prospectuses and statements of additional information. The Fund shall bear the expense of registering Shares under the 1933 Act and the Fund 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 shareholders of the Fund, and the direct expenses of the issuance of Shares.

12. To the extent required by any 12b-1 Plan of the Fund, Principal Underwriter shall provide to the Board of Trustees of the Fund in connection with the 12b-1 Plan, not less than quarterly, a written report of the amounts expended pursuant to such 12b-1 Plan and the purposes for which such expenditures 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 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 any 12b-1 Plan 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 the 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).

14. 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.

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 SMALL CAP STOCK FUND

By:

Albert H. Elfner, III
Chief Executive Officer and
President

KEYSTONE INVESTMENT DISTRIBUTORS
COMPANY

By:

Ralph J. Spuehler, Jr.
President

PRINCIPAL UNDERWRITING AGREEMENT
FOR CLASS B SHARES
OF
KEYSTONE SMALL CAP STOCK FUND

AGREEMENT made this ____ day of _____ 199__ by and between Keystone Small Cap Stock Fund, a Massachusetts business trust, ("Fund"), and Keystone Investment Distributors Company, a Delaware corporation (the "Principal Underwriter").

The Fund, individually and/or on behalf of its series, if any, referred to above in the title of this Agreement, to which series, if any, this Agreement shall relate, as applicable (the "Fund"), may act as the distributor of certain securities of which it is 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 Fund hereby appoints the Principal Underwriter a principal underwriter of the Class B shares of beneficial interest of the Fund ("B 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 Fund may from time to time agree, the Principal Underwriter will act as agent for the Fund and not as principal.

2. The Principal Underwriter will use its best efforts to find

purchasers for the B Shares and to promote distribution of the B Shares and may obtain orders from brokers, dealers or other persons for sales of B Shares to them. No such dealer, broker or other person shall have any authority to act as agent for the Fund; such dealer, broker or other person shall act only as principal in the sale of B Shares.

3. Sales of B Shares by 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 Fund current at the time of the Fund's acceptance of the order for B Shares. All orders shall be subject to acceptance by the Fund and the Fund reserves the right in its sole discretion to reject any order received. The Fund shall not be liable to anyone for failure to accept any order.

4. On all sales of B Shares the Fund shall receive the current net asset value. The Fund shall pay the Principal Underwriter Distribution Fees (as defined in Section 14 hereof), as commissions for the sale of B Shares and other Shares, which shall be paid in conjunction with distribution fees paid to the Principal Underwriter by other classes of Shares of the Fund to the extent required in order to comply with Section 14 hereof, 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 B 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 Fund for B 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 Fund reserves the right, without further notice, forthwith to cancel its acceptance of any such order. The Fund shall pay such issue taxes as may be required by law in connection with the issue of the B Shares.

6. The Principal Underwriter shall not make in connection with any sale or solicitation of a sale of the B Shares any representations concerning the B 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 Fund to the Principal Underwriter in reasonable quantities upon request.

7. The Principal Underwriter agrees to comply with the Rules of Fair Practice of the National Association of Securities Dealers, Inc. (as defined in the Purchase and Sale Agreement, dated as of May 31, 1995 (the "Purchase

Agreement"), between the Principal Underwriter, Citibank, N.A. and Citicorp North America, Inc., as agent (the "Rules of Fair Practice").

8. The Fund appoints the Principal Underwriter as its agent to accept orders for redemptions and repurchases of B Shares at values and in the manner determined in accordance with the then current prospectus and/or statement of additional information of the Fund.

9. 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.

10. The Principal Underwriter agrees to indemnify and hold harmless the Fund, its officers and 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.

11. The Fund agrees 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 B Shares for sale under the so-called "blue sky" laws of any state or for registering B Shares under the 1933 Act or the Fund 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 Fund shall bear the expense of registering B Shares under the 1933 Act and the Fund under the 1940 Act, qualifying B 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 B Shares, and the direct expenses of the issue of B Shares.

12. The Principal Underwriter shall, at the request of the Fund, provide to the Board of Trustees or Directors (together herein called the "Directors") of the Fund in connection with sales of B Shares not less than quarterly a written report of the amounts received from the Fund therefor and the purpose for which such expenditures by the Fund 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 Class B of the Fund or by a majority of the Directors of the Fund and a majority of the Directors who are not parties to this Agreement or "interested persons", as defined in the Investment Company Act of 1940 (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 Class B 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 Class B

Shares or in any agreement related to the plan or by a vote of a majority of the outstanding voting securities of Class B 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 (as hereinafter defined) 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 Shares while the Fund is required to do so pursuant the Principal Underwriting Agreement, of even date herewith, in respect of Class B Shares, and shall remain in effect so long as any payments are required to be made by the Fund pursuant to the irrevocable payment instruction (as defined in the Purchase 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 Rules of Fair Practice as applicable to such Distribution Fee on the date hereof.

14.2 The Principal Underwriter's Allocable Portion of Distribution Fees paid by the Fund in respect of Shares shall be equal to 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 Fund agrees to cause its transfer agent to maintain the records and arrange for the payments on behalf of the Fund 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 Fund in respect of Shares, may, to the extent provided in Schedule I hereto, take into account Distribution Fees payable by the Fund in respect of other existing and future classes and/or sub-classes of shares of the Fund which would be treated as "Shares" under Schedule I hereto. The Fund 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. The Fund's payments to the Principal Underwriter in consideration of its services in connection with the sale of B Shares shall be the Distribution Fees attributable to B 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).

The 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 Fund ("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 be equal to 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, the 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 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, the 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 Rules of Fair Practice, in each case enacted or promulgated after May 31, 1995, or in connection with a Complete Termination (as hereinafter defined). For the purposes of this Section 14.5, "Complete Termination" means a termination of the Fund's Rule 12b-1 plan for B 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 earlier of (i) the date upon which all of the B Shares which are Distributor Shares pursuant to Schedule I hereto shall have been redeemed or converted or (ii) May 31, 2005. For purposes of this Section 14.5, the term B-Class-of-Shares means each of the B-1 Class of Shares of the Fund, the B Class of 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 B-1 or B Classes of 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. The parties agree that the

existing C Class of Shares of the Fund does not have substantially similar economic characteristics to the B-1 or B Classes of Shares taking into account the total sales charge, CDSC or other similar charges borne directly or indirectly by the holder of such shares. 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 B-1 or B Classes of Shares taking into account the total sale 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 any part of its Allocable Portions and obligations of the Fund related thereto (but not the Principal Underwriter's obligations to the Fund provided for in this Agreement) to any person (an "Assignee") and any such assignment shall be effective as to the Fund upon written notice to the Fund by the Principal Underwriter. In connection therewith the Fund shall pay all or any amounts in respect of its 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 Fund, and the Fund 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 Rules of Fair Practice, which increases daily at a rate of prime plus one percent per annum.

14.7 The Fund will not, to the extent it may otherwise be empowered to do so, change or waive any CDSC with respect to B 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 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 B Shares is terminated and whether or not any such termination is a Complete Termination, as defined above.

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. The Fund is a Massachusetts business trust established under a Declaration of Trust, as it may be amended from time to time. The obligations of the 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 SMALL CAP STOCK FUND

By:

Albert H. Elfner, III
Chief Executive Officer and
President

KEYSTONE INVESTMENT DISTRIBUTORS
COMPANY

By:

Ralph J. Spuehler, Jr.
President

SCHEDULE I

TO

PRINCIPAL UNDERWRITING AGREEMENT
FOR CLASS B SHARES

OF

KEYSTONE SMALL CAP STOCK FUND

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 Class B Shares of the Instant Fund dated as of _____, 199_ between the Instant Fund and the Distributor.

"Asset Based Sales Charge" shall have the meaning set forth in Section 26(b)(8)(C) of the Rules of Fair Practice it being understood that for purposes of this Exhibit 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.

"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 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 Keystone Investment Distributors Company, its successors and assigns.

"Distributor's Account" shall mean the account of the Distributor, account no. 9903-584-2, ABA No. 011 0000 28, entitled "General Account" maintained with State Street Bank & Trust Company or such other account as the Distributor may designate in a notice to the Transfer Agent.

"Distributor Inception Date" shall mean, in respect of any Fund, the date identified as the date Shares of such Fund are first sold by the Distributor.

"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 occurs on or after the Inception Date for such Fund 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) 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 Schedule II to the Irrevocable Payment Instruction, as the same may be amended from time to time in accordance with the terms thereof.

"Instant Fund" shall mean Keystone Small Cap Stock Fund.

"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 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.

"Program Agent" shall mean Citicorp North America, Inc., as Program Agent under the Purchase Agreement, and its successors and assigns in such capacity.

"Purchase Agreement" shall mean that certain Purchase and Sale Agreement dated as of May 31, 1995, among Keystone Investment Distributors Company, as Seller, Citibank, N.A., as Purchaser, and Citicorp North America, Inc., as Program Agent.

"Share" shall mean in respect of any Fund any share of the classes of shares specified in Schedule II to the Irrevocable Payment Instruction opposite the name of such Fund, as the same may be amended from time to time by notice from the Distributor and the Program Agent 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 Schedule II to the Irrevocable Payment Instruction or (ii) the shares of which class may be exchanged for shares of another Fund of the classes of shares specified on Schedule II to the Irrevocable Payment Instruction 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 Schedule II to the Irrevocable Payment Instruction 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.

"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 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 Cut-off 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 Cut-off Date for such Fund shall be identified as Distributor Shares in a number computed as follows:

$$A \times (B/C)$$

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 Cut-off Date for such Fund shall be identified as Post-distributor Shares in a number computed as follows:

$$(A \times (B/C))$$

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 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:

$$A \times (B/C)$$

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 Cut-off Date for such Fund shall be identified as Post-distributor Shares in a number computed as follows:

$$A \times (B/C)$$

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 Post-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.

(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) NASD CAP. On the date the distribution fees paid in respect of any class of Shares equals the maximum amount thereon under the Rules of Fair Practice, in respect of such class, all outstanding Shares of such class of such Fund shall be converted into Class A shares of such Fund and will be deemed to have been redeemed for their Net Asset Value for purposes of this Schedule I.

(6) 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.

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.

(7) 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.

(8) 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 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:

$A \times (B/C)$

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 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 Program Agent pursuant to Section 8.18 of the Purchase Agreement.

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:

$A \times ((B + C)/2)$

$$\frac{\text{-----}}{(D + E)/2}$$

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.

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

$$A \times \frac{(B + C)/2}{\text{-----}} \\ (D + E)/2$$

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 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 outstanding as of the close of business on the last day of such calendar month, 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 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 the Instant 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 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 the Instant 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 the Instant Fund.

[Logo]
KEYSTONE
I N V E S T M E N T S

200 Berkeley Street
Boston, Massachusetts 02116-5034

Dealer No. _____
(Please indicate Exchange Membership(s),
if any.) _____

Effective Date _____
CLASS A AND B SHARES

To Whom It May Concern:

Keystone Investment Distributors Company ("the Company"), principal underwriter, invites you to participate in the distribution of shares of the Keystone Fund Family, Classes A and B shares of the Keystone America Fund Family and other Funds ("Funds") designated by us which are currently or hereafter underwritten by the Company, subject to the following terms:

1. In the distribution and sale of shares, you shall not have authority to act as agent for the issuer, 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.

2. You will offer and sell shares of the Funds other than Class A shares of the Keystone America Funds only at their respective net asset values in accordance with the terms and conditions of a current prospectus of the Fund whose shares you offer. With respect to Class A shares of the Keystone America Funds and other Funds designated by us, you will offer and sell such shares at the public offering price described in a current prospectus of the Fund whose shares you offer. You will offer shares only on a forward pricing basis, i.e. orders for the purchase or repurchase 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, and orders to exchange shares of one Fund for shares of another Fund eligible for exchange placed with us prior to 3:00 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. You further agree to confirm the transaction with your customer at the price confirmed in writing by us. In the event of a difference between verbal and written price confirmations, the written confirmations shall be considered final. Prices of the Funds' shares are computed by and are subject to withdrawal by the Funds in accordance with their current respective prospectuses. 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.

3. So long as this agreement remains in effect, we will pay you commissions on

sales of shares of the Funds and service fees, all in accordance with the Schedule of Commissions and Service Fees ("Schedule") attached hereto and made a part hereof, effective June 1, 1995, which Schedule may be modified from time to time or rescinded by us, in either case without prior notice. You shall 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. You agree not to share or rebate any portion of such commissions or to otherwise grant any concessions, discounts or other allowances to 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 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.

4. Payment for all shares purchased from us shall be made to the Company and shall be received by the Company within ten 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 the shares ordered by you back to the Fund concerned in which latter case we may hold you responsible for any loss, including loss of profit, suffered by us or by the Fund resulting from your failure to make payment as aforesaid.

5. 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 that would be applicable if such shares were then tendered for redemption in accordance with the then current applicable prospectus ("repurchase price").

6. You will sell shares only --

(a) to your clients at the prices described in paragraph 2 above; or

(b) to us as agent for the Funds 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 than 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.

7. You shall not withhold placing with us orders received from your customers so as to profit yourself as a result of such withholding.

8. We will not accept from you any conditional orders for shares.

9. 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 contingent deferred sales charge 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.

10. Shares sold to you hereunder shall not be issued in certificate form or otherwise 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 a certificate for the shares sold to you in your name and forward such certificate to you. You agree to hold harmless and indemnify the Company, the Fund and its transfer agent for any loss or expense resulting from such registration.

11. No person is authorized to make any representations concerning shares of the Funds except those contained in the current applicable prospectuses and in sales literature issued by us supplemental to such prospectuses. 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 the current prospectuses and such 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 sale 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 of orders of shares of the Funds by you, your representatives, agents or sub-agents.

12. Each party hereto represents that it is 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 termination of this agreement at that time. It is further agreed that all rules or regulations of

said Association now in effect or hereafter adopted, which are binding upon underwriters and dealers in the distribution of the securities of open-end investment companies, shall be deemed to be a part of this agreement to the same extent as if set forth in full herein.

13. You will not offer the Funds for sale in any State where they are not qualified for sale under the Blue Sky Laws and regulations of such State or where you are not qualified to act as a dealer, except for States in which they are exempt from qualification.

14. This agreement supersedes and cancels any prior agreement with respect to the sales of shares of any of the Funds underwritten by the Company and the Company reserves the right to amend this agreement at any time and from time to time.

15. This agreement shall be effective upon acceptance by us in Boston, Massachusetts and all sales hereunder are to be made, and title to shares of the Funds shall pass, in Boston. This agreement is made in the Commonwealth of Massachusetts and shall be interpreted in accordance with the laws of Massachusetts.

16. All communications to the Company should be sent to the above address. Any notice to you shall be duly given if mailed or telegraphed to you at the address specified by you below.

17. Either party may terminate this agreement at any time by written notice to the other party.

Signed:

Accepted:

Boston, MA (USA) as of June 1, 1995

Dealer or Broker Name

Address

KEYSTONE INVESTMENT DISTRIBUTORS COMPANY
200 Berkeley Street, Boston, MA 02116-5034

Authorized Signature

Authorized Signature

[Logo]
KEYSTONE
I N V E S T M E N T S

Keystone Investment Distributors Company
200 Berkeley Street
Boston, Massachusetts 02116-5034

Ralph J. Spuehler, Jr.
President

June 1, 1995

Dear Financial Professional:

This Schedule of Commissions and Service Fees ("Schedule") supersedes any previous Schedules and is hereby made part of our Dealer Agreement with you ("Dealer Agreement") and will remain in effect until modified or rescinded by us. All commission rates and service fee rates set forth in this Schedule may be modified by us from time to time without prior notice.

1. KEYSTONE FUND FAMILY

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 PRECIOUS METALS HOLDINGS, INC.
KEYSTONE TAX EXEMPT TRUST AND
KEYSTONE TAX FREE FUND

1. COMMISSIONS (FOR SECTION I FUNDS EXCEPT KEYSTONE PRECIOUS METALS HOLDINGS, INC., KEYSTONE TAX EXEMPT TRUST AND KEYSTONE TAX FREE FUND*)

Except as otherwise provided for in our Dealer Agreement, we will pay you commission on sales of shares of the Funds (other than Keystone Precious Metals Holdings, Inc., Keystone Tax Exempt Trust and Keystone Tax Free Fund) at the rate of 4.0% of the aggregate net asset value of such shares sold in each eligible sale.

2. COMMISSIONS FOR KEYSTONE PRECIOUS METALS HOLDINGS, INC.

Except as otherwise provided for in our Dealer Agreement, we will pay you commissions on sales of shares of Keystone Precious Metals Holdings, Inc. as follows:

AMOUNT OF SALE	COMMISSION
Less than \$100,000	4.0%
\$ 100,000-\$249,999	2.0%
\$250,000-\$499,999	1.0%
\$500,000 and above	0.5%

3. COMMISSIONS FOR KEYSTONE TAX EXEMPT TRUST AND KEYSTONE TAX FREE FUND

Except as otherwise provided for in our Dealer Agreement, we will pay you commissions on sales of shares of Keystone Tax Exempt Trust and Keystone Tax

Free Fund at the rate of 3.0% of the aggregate net asset value of such shares sold in each eligible sale.

4. SERVICE FEES

We will also pay you service fees based on the aggregate net asset value of shares of the 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 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 clients 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 services fees earned by you on Eligible Shares of all Keystone Investments 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 90 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.

* Shares of Keystone Tax Free Fund are not continuously available for sales to persons who are not existing shareholders of the Fund.

II. KEYSTONE AMERICA FAMILY AND KEYSTONE LIQUID TRUST CLASS A SHARES

1. COMMISSIONS

Except as otherwise provided either in our Dealer Agreement, or in Paragraph 2 below, or in connection with certain types of purchases at net asset value which are described in the prospectuses for the Funds, we will pay you commissions on your sales of shares of the Funds in accordance with the following sales charge schedules* on sales where we receive a commission from the shareholder:

KEYSTONE GOVERNMENT SECURITIES FUND
KEYSTONE INTERMEDIATE TERM BOND 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

AMOUNT OF PURCHASE	SALES CHARGE AS A PERCENTAGE OF OFFERING PRICE	COMMISSION AS A PERCENTAGE OF OFFERING PRICE
Less than \$100,000	4.75%	4.25%
\$100,000-\$249,999	3.75%	3.25%
\$250,000-\$499,999	2.50%	2.25%
\$500,000-\$999,999	1.50%	1.50%

KEYSTONE FUND FOR TOTAL RETURN
KEYSTONE FUND OF THE AMERICAS
KEYSTONE GLOBAL OPPORTUNITIES FUND
KEYSTONE AMERICA HARTWELL EMERGING GROWTH FUND, INC.
KEYSTONE HARTWELL GROWTH FUND
KEYSTONE STRATEGIC DEVELOPMENT FUND
KEYSTONE AMERICA OMEGA FUND, INC.

AMOUNT OF PURCHASE	SALES CHARGE AS A PERCENTAGE OF OFFERING PRICE	COMMISSION AS A PERCENTAGE OF OFFERING PRICE
Less than \$50,000	5.75%	5.25%
\$50,000-\$99,999	4.75%	4.25%
\$100,000-\$249,999	3.75%	3.25%
\$250,000-\$499,999	2.50%	2.25%
\$500,000-\$999,999	1.50%	1.50%

KEYSTONE CAPITAL PRESERVATION AND INCOME FUND

AMOUNT OF PURCHASE	SALES CHARGE AS A PERCENTAGE OF OFFERING PRICE	COMMISSION AS A PERCENTAGE OF OFFERING PRICE
Less than \$100,000	3.00%	3.00%
\$100,000-\$249,999	2.50%	2.50%
\$250,000-\$499,999	1.50%	1.50%
\$500,000-\$999,999	1.00%	1.00%

* 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 Letters of Intent is subject to the terms described in the then current prospectus for the Fund whose shares are being purchased.

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 qualified retirement plan or non-qualified deferred compensation plan sponsored by a corporation having 100 or more eligible employees (a "Qualifying Plan"), (each such purchase an "NAV Purchase"), we will pay you commissions based on (1) the investor's cumulative purchases during the one-year period beginning with the date of the initial NAV Purchase and (2) the investor's cumulative purchases during each subsequent one-year period beginning with the first NAV Purchase

following the end of the prior period. For such purchases, commissions will be paid as follows:

KEYSTONE CAPITAL PRESERVATION AND INCOME FUND
KEYSTONE GOVERNMENT SECURITIES FUND
KEYSTONE INTERMEDIATE TERM BOND FUND
KEYSTONE STATE TAX FREE FUND
KEYSTONE STATE TAX FREE FUND - SERIES II

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

ALL OTHER KEYSTONE AMERICA FUNDS

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

3. PROMOTIONAL INCENTIVES

We may, from time to time, provide promotional incentives, including reallowance of up to the entire sales charge to certain dealers whose representatives have sold or are expected to sell significant amounts of Fund shares, and who allow their individual selling representatives to participate in additional commissions.

4. SERVICE FEES FOR KEYSTONE AMERICA FUNDS (OTHER THAN KEYSTONE STATE TAX FREE FUND, KEYSTONE STATE TAX FREE FUND - SERIES 11 AND KEYSTONE LIQUID TRUST)

We will also pay you service fees based on the aggregate net asset value of shares of the 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 clients 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 Investments 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 90 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.

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

We will also pay you service fees based on the aggregate net asset value of shares of the 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 clients 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 Keystone Investments 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 90 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.

6. SERVICE FEES FOR KEYSTONE LIQUID TRUST

We will pay you service fees based on the aggregate net asset value of all shares of Keystone Liquid Trust you have sold which remain issued and outstanding on the books of the Fund 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 clients 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 90 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

III. KEYSTONE AMERICA FAMILY AND KEYSTONE LIQUID TRUST

CLASS B SHARES

KEYSTONE CAPITAL PRESERVATION AND INCOME FUND

KEYSTONE FUND FOR TOTAL RETURN
KEYSTONE FUND OF THE AMERICAS
KEYSTONE GLOBAL OPPORTUNITIES FUND
KEYSTONE GOVERNMENT SECURITIES FUND
KEYSTONE AMERICA HARTWELL EMERGING GROWTH FUND, INC.
KEYSTONE HARTWELL GROWTH FUND
KEYSTONE INTERMEDIATE TERM BOND FUND
KEYSTONE AMERICA OMEGA FUND, INC.
KEYSTONE STATE TAX FREE FUND
KEYSTONE STATE TAX FREE FUND - SERIES II
KEYSTONE STRATEGIC DEVELOPMENT FUND
KEYSTONE STRATEGIC INCOME FUND
KEYSTONE TAX FREE INCOME FUND
KEYSTONE WORLD BOND FUND
KEYSTONE LIQUID TRUST

1. COMMISSIONS (FOR ALL SECTION III FUNDS EXCEPT KEYSTONE CAPITAL PRESERVATION AND INCOME FUND)

Except as otherwise provided in our Dealer Agreement, beginning June 1, 1995, we will pay you commissions on your sales of Class B shares of the Funds at the rate of 4.00% of the aggregate net asset value of such shares sold.

2. COMMISSIONS FOR KEYSTONE CAPITAL PRESERVATION AND INCOME FUND

Except as otherwise provided in our Dealer Agreement, beginning June 1, 1995, we will pay you commissions on your sales of Class B shares of the Funds at the rate of 2.75% of the aggregate net asset value of such shares sold.

3. PROMOTIONAL INCENTIVES

We may, from time to time, provide promotional incentives, including reallowance to dealers of increased commissions to dealers who allow their individual selling representatives to participate in such additional commissions.

4. SERVICE FEES (FOR ALL OF THE ABOVE FUNDS EXCEPT KEYSTONE STATE TAX FREE FUND AND KEYSTONE STATE TAX FREE FUND - SERIES II)

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

We will also pay you service fees 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"). We will pay you such service fees based on the aggregate net asset value of shares you have sold which have been on the books of the Funds for a minimum of 12 months from the date of purchase (plus any reinvested distributions attributable to such shares) and which are registered in the names of clients 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 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 services fees earned by you on Eligible Shares of Keystone Investments 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 90 days after the Service Fee Record Date. 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.

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

We will pay you a full year's service fee in advance on your sales of Class B shares of the Funds, at the rate of 0.15% of the aggregate net asset value of such shares sold.

We will also pay you service fees 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"). We will pay you such service fees based on the aggregate net asset value of shares you have sold which have been on the books of the Funds for a minimum of 12 months from the date of purchase (plus any reinvested distributions attributable to such shares) and which are registered in the names of clients for whom you are the 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 services fees earned by you on Eligible Shares of Keystone Investments 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 90 days after the Service Fee Record Date. 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.

[Logo]
KEYSTONE
I N V E S T M E N T S

200 Berkeley Street
Boston, Massachusetts 02116-5034

Dealer No. _____
(Please indicate Exchange Membership(s),
if any.) _____

Effective Date _____
CLASS C SHARES

To Whom It May Concern:

Keystone Investment Distributors Company ("the Company"), principal underwriter, invites you to participate in the distribution of Class C shares of

the Keystone America Fund Family, Keystone Liquid Trust and other Funds ("Funds") designated by us which are currently or hereafter underwritten by the Company, subject to the following terms:

1. In the distribution and sale of shares, you shall not have authority to act as agent for the issuer, 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.

2. You will offer and sell Class C shares of the Funds only at their respective net asset values in accordance with the terms and conditions of a current prospectus of the Fund whose shares you offer. You will offer shares only on a forward pricing basis i.e. orders for the purchase or repurchase 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, and orders to exchange shares of one Fund for shares of another Fund eligible for exchange placed with us prior to 3:00 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. You further agree to confirm the transaction with your customer at the price confirmed in writing by us. In the event of a difference between verbal and written price confirmations, the written confirmations shall be considered final. Prices of the Funds' shares are computed by and are subject to withdrawal by the Funds in accordance with their current respective prospectuses. 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.

3. So long as this agreement remains in effect, we will pay you commissions on sales of shares of the Funds and service fees, all in accordance with the Schedule of Commissions and Service Fees ("Schedule") attached hereto and made a part hereof, effective June 1, 1995, which Schedule may be modified from time to time or rescinded by us, in either case without prior notice. You shall 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. You agree not to share or rebate any portion of such commissions or to otherwise grant any concessions, discounts or other allowances to 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 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.

4. Payment for all shares purchased from us shall be made to the Company and shall be received by the Company within ten 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 the shares ordered by you back to the Fund concerned in which latter case we may hold you responsible for any loss, including loss of profit, suffered by us or by the Fund resulting from your failure to make payment as aforesaid.

5. 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 that would be applicable if such shares were then tendered for redemption in accordance with the then current applicable prospectus ("repurchase price").

6. You will sell shares only--

(a) to your clients at the prices described in paragraph 2 above; or

(b) to us as agent for the Funds 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 than 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.

7. You shall not withhold placing with us orders received from your customers so as to profit yourself as a result of such withholding.

8. We will not accept from you any conditional orders for shares.

9. 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 contingent deferred sales charge 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.

10. Shares sold to you hereunder shall not be issued in certificate form or otherwise 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 a certificate for the shares sold to you in your name and forward such certificate to you. You agree to hold harmless and indemnify the Company, the Fund and its transfer agent for any loss or expense resulting from such registration.

11. No person is authorized to make any representations concerning shares of the Funds except those contained in the current applicable prospectuses and in sales literature issued by us supplemental to such prospectuses. 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 the current prospectuses and such 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 sale 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 of orders of shares of the Funds by you, your representatives, agents or sub-agents.

12. Each party hereto represents that it is 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 termination of this agreement at that time. It is further agreed that all rules or regulations of said Association now in effect or hereafter adopted, which are binding upon underwriters and dealers in the distribution of the securities of open-end investment companies, shall be deemed to be a part of this agreement to the same extent as if set forth in full herein.

13. You will not offer the Funds for sale in any State where they are not qualified for sale under the Blue Sky Laws and regulations of such State or where you are not qualified to act as a dealer, except for States in which they are exempt from qualification.

14. This agreement supersedes and cancels any prior agreement with respect to the sales of shares of any of the Funds underwritten by the Company and the Company reserves the right to amend this agreement at any time and from time to time.

15. This agreement shall be effective upon acceptance by us in Boston, Massachusetts and all sales hereunder are to be made, and title to shares of the Funds shall pass, in Boston. This agreement is made in the Commonwealth of Massachusetts and shall be interpreted in accordance with the laws of Massachusetts.

16. All communications to the Company should be sent to the above address. Any

notice to you shall be duly given if mailed or telegraphed to you at the address specified by you below.

17. Either party may terminate this agreement at any time by written notice to the other party.

Signed:

Accepted:

Boston, MA (USA) as of June 1, 1995

Dealer or Broker Name

Address

KEYSTONE INVESTMENT DISTRIBUTORS COMPANY
200 Berkeley Street, Boston, MA 02116-5034

Authorized Signature

Authorized Signature

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KEYSTONE
I N V E S T M E N T S

Keystone Investment Distributors Company
200 Berkeley Street
Boston, Massachusetts 02116-5034

Ralph J. Spuehler, Jr.
President

June 1, 1995

Dear Financial Professional:

This Schedule of Commissions and Service Fees ("Schedule") supersedes any previous Schedules and is hereby made part of our Dealer Agreement with you ("Dealer Agreement") and will remain in effect until modified or rescinded by us. All commission rates and service fee rates set forth in this Schedule may be modified by us from time to time without prior notice.

KEYSTONE AMERICA FAMILY AND KEYSTONE LIQUID TRUST
CLASS C SHARES
KEYSTONE CAPITAL PRESERVATION AND INCOME FUND
KEYSTONE FUND FOR TOTAL RETURN
KEYSTONE FUND OF THE AMERICAS
KEYSTONE GLOBAL OPPORTUNITIES FUND

KEYSTONE GOVERNMENT SECURITIES FUND
KEYSTONE AMERICA HARTWELL EMERGING GROWTH FUND, INC.
KEYSTONE HARTWELL GROWTH FUND
KEYSTONE INTERMEDIATE TERM BOND FUND
KEYSTONE AMERICA OMEGA FUND, INC.
KEYSTONE STATE TAX FREE FUND
KEYSTONE STATE TAX FREE FUND - SERIES II
KEYSTONE STRATEGIC DEVELOPMENT FUND
KEYSTONE STRATEGIC INCOME FUND
KEYSTONE TAX FREE INCOME FUND
KEYSTONE WORLD BOND FUND
KEYSTONE LIQUID TRUST

1. COMMISSIONS

Except as provided in our Dealer Agreement, we will pay you commissions on your sales of Class C shares of the Funds, at the rate of 0.75% of the aggregate net asset value of such shares sold in each eligible sale.

We will also pay you commissions on the fifteenth day of the third month of each calendar quarter (March 15, June 15, September 15 and December 15, each hereinafter a "Commission Record Date"). We will pay you such commissions based on the aggregate net asset value of shares 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) and which are registered in the names of clients 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 aggregate net asset value of all such Eligible Shares (approximately 0.75% annually) on the Commission Record Date. Commissions will be payable within 90 days after the Commission Record Date. 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 the Funds, at the rate of 0.25% of the aggregate net asset value of such shares sold.

We will also pay you service fees 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"). We will pay you such service fees based on the aggregate net asset value of shares 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) and which are registered in the names of clients 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 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 services fees earned by you on Eligible Shares of Keystone Investments 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 90 days after the Service Fee Record Date. 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
CUSTODIAN, FUND ACCOUNTING AND RECORDKEEPING AGREEMENT

BY AND BETWEEN

KEYSTONE SMALL CAP STOCK FUND

AND

STATE STREET BANK AND TRUST COMPANY

Agreement made as of this ____ day of _____, 199__ by and between KEYSTONE SMALL CAP STOCK FUND, a Massachusetts business trust, ("Fund") having its principal place of business at 200 Berkeley Street, Boston, Massachusetts, 02116, and STATE STREET BANK AND TRUST COMPANY, a Massachusetts banking corporation ("State Street"), having its principal place of business at 225 Franklin Street, Boston, Massachusetts 02110.

In consideration of the mutual agreements herein contained, the Fund and State Street agree as follows:

1. The Fund appoints State Street as its Custodian, subject to the provisions hereof. State Street hereby accepts such appointment as Custodian. As such Custodian, State Street shall retain all securities, cash and other assets now owned or hereafter acquired by the Fund, and the Fund shall deliver and pay or cause to be delivered and paid to State Street, as Custodian, all securities, cash and other assets now owned or hereafter acquired by the Fund during the period of this Agreement.

2. All securities delivered to State Street (other than in bearer form) shall be properly endorsed and in proper form for transfer into or in the name of the Fund, of a nominee of State Street for the exclusive use of the Fund or of such other nominee as may be mutually agreed upon by State Street and the Fund.

3. The Fund shall deliver to State Street certified or authenticated copies of its Declaration of Trust and By-Laws, all amendments thereto, a certified copy of the resolution of the Fund's Board of Trustees appointing State Street to act in the capacities covered by this Agreement and authorizing the signing of this Agreement and copies of such resolutions of its Board of Trustees, contracts and other documents as may be reasonably required by State Street in the performance of its duties hereunder.

4. As Custodian, State Street shall promptly:

A. Safekeeping. Keep safely in a separate account the securities and other assets of the Fund, including without limitation all securities in bearer form, other than (a) securities which are maintained pursuant to paragraph 4B in a Securities System (as defined in paragraph 4B) and (b) commercial paper of an issuer for which State Street Bank and Trust Company acts as issuing and paying agent ("Direct Paper") which is deposited and/or maintained in the Direct Paper System of State Street pursuant to paragraph 4C, and, on behalf of the Fund, receive delivery of certificates, including without limitation all securities in bearer form, for safekeeping and keep such certificates physically segregated at all times from those of any other person. State Street shall maintain records of all receipts, deliveries and locations of such securities, together with a current inventory thereof and shall conduct periodic physical inspections of certificates representing bonds and other securities held by it under this Agreement at least annually in such manner as State Street shall determine from time to time to be advisable in order to verify the accuracy of such inventory. State Street shall provide the Fund with copies of any reports of its internal count or other verification of the securities of the Fund held in its custody, including reports on its own system of internal accounting control. In addition, if and when independent certified public accountants retained by State Street shall count or otherwise verify the securities of the Fund held in State Street's custody, State Street shall provide the Fund with a copy of the report of such accountants. With respect to securities held by any agent or Subcustodian appointed pursuant to paragraph 7C hereof, State Street may rely upon certificates from such agent or Subcustodian as to the holdings of such agent or Subcustodian, it being understood that such reliance in no way releases State Street of its responsibilities or liabilities under this Agreement. State Street shall promptly report to the Fund the results of such inspections, indicating any shortages or discrepancies uncovered thereby, and take appropriate action to remedy any such shortages or discrepancies.

B. Deposit of Fund Assets in Securities Systems.

Notwithstanding any other provision of this Agreement, State Street may deposit and/or maintain securities owned by the Fund in Depository Trust Company, a clearing agency registered with the Securities and Exchange Commission ("Commission") under Section 17A of the Securities Exchange Act of 1934 ("Exchange Act"), which acts as a securities depository, in any other clearing agency registered under Section 17A of the Exchange Act and which has been authorized by the Fund's Board of Trustees, in the book-entry system authorized by the U.S. Department of the Treasury and certain federal agencies or in any other book entry system which the Commission has authorized for use by investment companies as a securities depository by order or interpretive or no-action letter and which has been authorized by the Fund's Board of Trustees, collectively referred to herein as "Securities System(s)," in accordance with applicable Federal Reserve Board and Commission rules and regulations, if any, and subject to the following provisions:

1) State Street may keep securities of the Fund in a Securities System provided that such securities are deposited in an account ("Account") of State Street in the Securities System which shall not include any

assets of State Street other than assets held as a fiduciary, custodian or otherwise for customers;

2) The records of State Street with respect to securities of the Fund which are maintained in a Securities System shall identify by book entry those securities belonging to the Fund;

3) State Street shall pay for securities purchased for the account of the Fund upon (i) receipt of advice from the Securities System that such securities have been transferred to the Account, and (ii) the making of an entry on the records of State Street to reflect such payment and transfer for the account of the Fund. State Street shall transfer securities sold for the account of the Fund upon (i) receipt of advice from the Securities System that payment for such securities has been transferred to the Account, and (ii) the making of an entry on the records of State Street to reflect such transfer and payment for the account of the Fund. Copies of all advises from the Securities System of transfers of securities for the account of the Fund shall identify the Fund, be maintained for the Fund State Street and be provided to the Fund at its request. State Street shall furnish the Fund confirmation of each transfer to or from the account of the Fund in the form of a written advice or notice and shall furnish to the Fund copies of daily transaction sheets reflecting each day's transactions in the Securities System for the account of the Fund on the next business day;

4) State Street shall promptly provide the Fund with any report obtained by State Street on the Securities System's accounting system, internal accounting control and procedures for safeguarding securities deposited in the Securities System. State Street shall promptly provide the Fund with any report on State Street's accounting system, internal accounting control and procedures for safeguarding securities deposited with State Street which is reasonably requested by the Fund;

5) Anything to the contrary in this Agreement notwithstanding, State Street shall be liable to the Fund for any claim, loss, liability, damage or expense to the Fund, including attorney's fees, resulting from use of a Securities System by reason of any negligence, misfeasance or misconduct of State Street, its agents or any of its or their employees or from failure of State Street or any such agent to enforce effectively such rights as it may have against a Securities System. At the election of the Fund, it shall be entitled to be subrogated to the rights of State Street or its agents with respect to any claim against the Securities System or any other person which State Street or its agents may have as a consequence of any such claim, loss, liability, damage or expense if and to the extent that the Fund has not been made whole for any such loss or damage.

C. Assets Held in State Street's Direct Paper System. State Street may deposit and/or maintain securities owned by the Fund in the Direct Paper System of State Street subject to the following provisions:

1) No transaction relating to securities in the Direct Paper System will be effected in the absence of Proper Instructions;

2) State Street may keep securities of the Fund in the Direct Paper System only if such securities are represented in an account ("Account") of State Street in the Direct Paper System which shall not include any assets of State Street other than assets held as a fiduciary, custodian or otherwise for customers;

3) The records of State Street with respect to securities of the Fund which are maintained in the Direct Paper System shall identify by book-entry those securities belonging to the Fund;

4) State Street shall pay for securities purchased for the account of the Fund upon the making of an entry on the records of State Street to reflect such payment and transfer of securities to the account of the Fund. State Street shall transfer securities sold for the account of the Fund upon the making of an entry on the records of State Street to reflect such transfer and receipt of payment for the account of the Fund;

5) State Street shall furnish the Fund confirmation of each transfer to or from the account of the Fund, in the form of a written advice or notice, of Direct Paper on the next business day following such transfer and shall furnish to the Fund copies of daily transaction sheets reflecting each day's transaction in the Securities System for the account of the Fund;

6) State Street shall provide the Fund with any report on its system of internal accounting control as the Fund may reasonably request from time to time.

D. State Street's Records. The records of State Street (and its agents and Subcustodians) with respect to its services for the Fund shall at all times during the regular business hours of State Street (or its agents or Subcustodians) be open for inspection by duly authorized officers, employees or agents of the Fund and employees and agents of the Commission.

E. Delivery of Securities. State Street shall release and deliver securities owned by the Fund held by State Street or in a Securities System account of State Street or in State Street's Direct Paper book entry system account ("Direct Paper System Account") only upon receipt of Proper Instructions, which may be continuing instructions when deemed appropriate by the parties, and only in the cases specified in paragraphs 4F, 4G, 4H, 4I, 4J, 4K, 4L, 4M, 4N and 4O hereof.

F. Registered Name, Nominee. Register securities of the Fund held by State Street in the name of the Fund, of a nominee of State Street for the exclusive use of the Fund, or of such other nominee as may be mutually agreed upon, or of any mutually acceptable nominee of any agent or Subcustodian appointed pursuant to paragraph 7C hereof.

G. Purchases. Upon receipt of proper instructions (as defined in paragraph 6A hereof; hereafter "Proper Instructions") and insofar as cash is available for the purpose, pay for and receive all securities purchased for the

account of the Fund, payment being made only upon receipt of the securities by State Street (or any bank, banking firm, responsible commercial agent or trust company doing business in the United States and appointed pursuant to paragraph 7C hereof as State Street's agent or Subcustodian for this purpose) registered as provided in paragraph 4F hereof or in form for transfer satisfactory to State Street, or, in the case of repurchase agreements entered into between the Fund and a bank or a dealer, delivery of the securities either in certificate form or through an entry crediting State Street's account at the Federal Reserve Bank with such securities, or, upon receipt by State Street of a facsimile copy of a letter of understanding with respect to a time deposit account of the Fund signed by any bank, whether domestic or foreign, and pursuant to Proper Instructions from the Fund, for transfer to the time deposit account of the Fund in such bank; such transfer may be effected prior to receipt of a confirmation from a broker and/or the applicable bank or in the case of a purchase involving the Direct Paper System, in accordance with the conditions set forth in paragraph 4C. All securities accepted by State Street shall be accompanied by payment of, or a "due bill" for, any dividends, interest or other distributions of the issuer due the purchaser. In any and every case of a purchase of securities for the account of the Fund where payment is made by State Street in advance of receipt of the securities purchased, State Street shall be absolutely liable to the Fund for such securities to the same extent as if the securities had been received by State Street, except that in the case of repurchase agreements entered into by the Fund with a bank which is a member of the Federal Reserve System, State Street may transfer funds to the account of such bank prior to the receipt of written evidence that the securities subject to such repurchase agreement have been transferred by book-entry into a segregated nonproprietary account of State Street maintained with the Federal Reserve Bank of Boston, provided that such securities have in fact been so transferred by book-entry; provided, further, however, that State Street and the Fund agree to use their best efforts to insure receipt by State Street of copies of documentation for each such transaction as promptly as possible.

H. Exchanges. Upon receipt of Proper Instructions, exchange securities, interim receipts or temporary securities held by it or by any agent or Subcustodian appointed by it pursuant to paragraph 7C hereof for the account of the Fund for other securities alone or for other securities and cash, and expend cash insofar as cash is available in connection with any merger, consolidation, reorganization, recapitalization, split-up of shares, changes of par value, conversion or in connection with the exercise of warrants, subscription or purchase rights, or otherwise, and deliver securities to the designated depository or other receiving agent or Subcustodian in response to tender offers or similar offers to purchase received in writing; provided that in any such case the securities and/or cash to be received as a result of any such exchange, expenditure or delivery are to be delivered to State Street (or its agents or Subcustodians). State Street shall give notice as provided under paragraph 14 hereof to the Fund in connection with any transaction specified in this paragraph and at the same time shall specify to the Fund whether such notice relates to securities held by an agent or Subcustodian appointed pursuant to paragraph 7C hereof, so that the Fund may issue to State Street Proper Instructions for State Street to act thereon prior to any expiration date (which shall be presumed to be two business days prior to such date unless State Street

has previously advised the Fund of a different period). The Fund shall give to State Street full details of the time and method of submitting securities in response to any tender or similar offer, exercising any subscription or purchase right or making any exchange pursuant to this paragraph. When such securities are in the possession of an agent or Subcustodian appointed by State Street pursuant to paragraph 7C hereof, the Proper Instructions referred to in the preceding sentence must be received by State Street in timely enough fashion (which shall be presumed to be three business days unless State Street has advised the Fund in writing of a different period) for State Street to notify the agent or Subcustodian in sufficient time to permit such agent to act prior to any expiration date.

I. Sales. Upon receipt of Proper Instructions and upon receipt of full payment therefor, release and deliver securities which have been sold for the account of the Fund. At the time of delivery all such payments are to be made in cash, by a certified check upon or a treasurer's or cashier's check of a bank, by effective bank wire transfer through the Federal Reserve Wire System or, if appropriate, outside of the Federal Reserve Wire System and subsequent credit to the Fund's custodian account, or, in case of delivery through a stock clearing company, by book-entry credit by the stock clearing company in accordance with the then current "street" custom.

J. Purchases by Issuer. Upon receipt of Proper Instructions, release and deliver securities owned by the Fund to the issuer thereof or its agent when such securities are called, redeemed, retired or otherwise become payable; provided that in any such case, the cash or other consideration is to be delivered to State Street.

K. Changes of Name and Denomination. Upon receipt of Proper Instructions, release and deliver securities owned by the Fund to the issuer thereof or its agent for transfer into the name of the Fund or of a nominee of State Street or of the Fund for the exclusive use of the Fund or for exchange for a different number of bonds, certificates or other evidence representing the same aggregate face amount or number of units bearing the same interest rate, maturity date and call provisions if any; provided that in any such case, the new securities are to be delivered to State Street.

L. Street Delivery. In connection with delivery in New York City and upon receipt of Proper Instructions, which in the case of registered securities may be standing instructions, release securities owned by the Fund upon receipt of a written receipt for such securities to the broker selling the same for examination in accordance with the existing "street delivery" custom. In every instance, either payment in full for such securities shall be made or such securities shall be returned to State Street that same day. In the event existing "street delivery" custom is modified, State Street shall obtain authorization from the Board of Trustees of the Fund prior to any use of such modified "street delivery" custom.

M. Release of Securities for Use as Collateral. Upon receipt of Proper Instructions and subject to the Declaration of Trust, release securities belonging to the Fund to any bank or trust company for the purpose of

pledge, mortgage or hypothecation to secure any loan incurred by the Fund; provided, however, that securities shall be released only upon payment to State Street of the monies borrowed, except that in cases where additional collateral is required to secure a borrowing already made, subject to proper prior authorization from the Fund, further securities may be released for that purpose. Upon receipt of Proper Instructions, pay such loan upon redelivery to it of the securities pledged or hypothecated therefor and upon surrender of the note or notes evidencing the loan.

N. Compliance with Applicable Rules and Regulations of The Options Clearing Corporation and National Securities or Commodities Exchanges or Commissions. Upon receipt of Proper Instructions, deliver securities of the Fund in accordance with the provisions of any agreement among the Fund, State Street and a broker-dealer registered under the Exchange Act and a member of the National Association of Securities Dealers, Inc. ("NASD") relating to compliance with the rules of The Options Clearing Corporation and of any registered national securities exchange, or of any similar organization or organizations, regarding escrow or other arrangements in connection with transactions by the Fund; or, upon receipt of Proper Instructions, deliver securities in accordance with the provisions of any agreement among the Fund, State Street, and a Futures Commission Merchant registered under the Commodity Exchange Act relating to compliance with the rules of the Commodity Futures Trading Commission and/or any contract market, or any similar organization or organizations, regarding account deposits in connection with transactions by the Fund.

O. Release or Delivery of Securities for Other Purposes. Upon receipt of Proper Instructions, release or deliver any securities held by it for the account of the Fund for any other purpose (in addition to those specified in paragraphs 4E, 4F, 4G, 4H, 4I, 4J, 4K, 4L, 4M and 4N hereof) which the Fund declares is a proper corporate purpose pursuant to Proper Instructions.

P. Proxies, Notices, Etc. State Street shall, upon receipt, promptly forward to the Fund all forms of proxies and all notices of meetings and any other notices or announcements affecting or relating to the securities, including without limitation, notices relating to class action claims and bankruptcy claims, and upon receipt of Proper Instructions execute and deliver or cause its nominee to execute and deliver such proxies or other authorizations as may be required. State Street, its nominee or its agents or Subcustodian shall not vote upon any of the securities or execute any proxy to vote thereon or give any consent or take any other action with respect thereto (except as otherwise herein provided) unless ordered to do so by Proper Instructions. State Street shall require its agents and Subcustodians appointed pursuant to paragraph 7C hereof to forward any such announcements and notices to State Street upon receipt.

Q. Segregated Account. State Street shall, upon receipt of Proper Instructions, establish and maintain a segregated account or accounts for and on behalf of the Fund, into which account or accounts may be transferred cash and/or securities, including securities maintained in an account by State Street pursuant to paragraph 4B hereof, (i) in accordance with the provisions of any agreement among the Fund, State Street and a broker-dealer registered under

the Exchange Act and a member of the NASD (or any futures commission merchant registered under the Commodity Exchange Act), relating to compliance with the rules of The Options Clearing Corporation and of any registered national securities exchange (or the Commodity Futures Trading Commission or any registered contract market), or of any similar organization or organizations, regarding escrow or other arrangements in connection with transactions by the Fund, (ii) for purposes of segregating cash or government securities in connection with options purchased, sold or written by the Fund or commodity futures contracts or options thereon purchased or sold by the Fund, (iii) for the purposes of compliance by the Fund with the procedures required by Investment Company Act Release No. 10666, or any subsequent release or releases of the Commission relating to the maintenance of segregated accounts by registered investment companies and (iv) for other proper corporate purposes, but only, in the case of clause (iv), upon receipt of, in addition to Proper Instructions, a certified copy of a resolution of the Board of Trustees signed by an officer of the Fund and certified by the Secretary or an Assistant Secretary, setting forth the purpose or purposes of such segregated account and declaring such purposes to be proper corporate purposes.

R. Property of the Fund Held Outside of the United States.

(1) Appointment of Foreign Subcustodians. State Street is authorized and instructed to employ as Subcustodians for the Fund's securities and other assets maintained outside of the United States, the foreign banking institutions and foreign securities depositories designated on Schedule B hereto as revised from time to time ("Foreign Subcustodians"). Upon receipt of Proper Instructions, together with a certified resolution of the Fund's Board of Trustees, State Street and the Fund may agree to amend Schedule B hereto from time to time to designate additional foreign banking institutions and foreign securities depositories to act as Foreign Subcustodians. Upon receipt of Proper Instructions, the Fund may instruct State Street to cease the employment of any one or more of such Subcustodians for maintaining custody of the Fund's assets.

(2) Assets to be Held. State Street shall limit the securities and other assets maintained in the custody of the Foreign Subcustodians to: (a) "foreign securities," as defined in paragraph (c) (1) of Rule 17f-5 under the Investment Company Act of 1940 ("1940 Act"), and (b) cash and cash equivalents in such amounts as State Street or the Fund may determine to be reasonably necessary to effect the Fund's foreign securities transactions.

(3) Foreign Securities Depositories. Except as may otherwise be agreed upon in writing by State Street and the Fund, assets of the Fund shall be maintained in foreign securities depositories only through arrangements implemented by the foreign banking institutions serving as Foreign Subcustodians pursuant to the terms hereof.

(4) Segregation of Securities. State Street shall identify on its books as belonging to the Fund the foreign securities of the Fund held by each Foreign Subcustodian. Each agreement pursuant to which State Street employs a foreign banking institution shall require that such institution establish a custody account for State Street on behalf of the Fund and physically segregate in that

account securities and other assets of the Fund, and, in the event that such institution deposits the Fund's securities in a foreign securities depository, that it shall identify on its books as belonging to State Street, as agent for the Fund, the securities so deposited (all collectively referred to as the "account").

(5) Agreements with Foreign Banking Institutions. Each agreement with a foreign banking institution shall be substantially in the form set forth in Schedule C hereto and shall provide that: (a) the Fund's assets will not be subject to any right, charge, security interest, lien or claim of any kind in favor of the foreign banking institution or its creditors or agent, except a claim of payment for their safe custody or administration; (b) the Foreign Subcustodian shall maintain insurance covering the Fund's assets; (c) beneficial ownership of the Fund's assets will be freely transferable without the payment of money or value other than for custody or administration; (d) adequate records will be maintained identifying the assets as belonging to the Fund; (e) officers or auditors employed by, or other representatives of State Street, including, to the extent permitted under applicable law, the independent public accountants for the Fund, will be given access to the books and records of the foreign banking institution relating to its actions under its agreement with State Street; (f) assets of the Fund held by the Foreign Subcustodian will be subject only to the instructions of State Street or its agents; and (g) the Foreign Subcustodian will provide periodic reports with respect to the safekeeping of the Fund's assets, including notification of any transfer to or from the Fund's account.

(6) Access of Independent Accountants of the Fund. Upon request of the Fund, State Street will use its best efforts to arrange for the independent accountants of the Fund to be afforded access to the books and records of any foreign banking institution employed as a Foreign Subcustodian insofar as such books and records relate to the performance of such foreign banking institution under its agreement with State Street.

(7) Reports by State Street. State Street will supply to the Fund from time to time, as mutually agreed upon, statements in respect of the securities and other assets of the Fund held by Foreign Subcustodians, including, but not limited to, an identification of entities having possession of the Fund's securities and other assets and advices or notifications of any transfers of securities to or from each custodial account maintained by a foreign banking institution for State Street on behalf of the Fund indicating, as to securities acquired for the Fund, the identity of the entity having physical possession of such securities.

(8) Transactions in Foreign Custody Account. (a) Upon receipt of Proper Instructions, which may be continuing instructions when deemed appropriate by the parties, State Street shall make or cause its Foreign Subcustodians to transfer, exchange or deliver foreign securities owned by the Fund, but, except to the extent explicitly provided in paragraph 4R(8)(b), only in any of the cases specified in this Agreement. Upon receipt of Proper Instructions, which may be continuing instructions when deemed appropriate by the parties, State Street shall pay out or cause its Foreign Subcustodians to pay out monies of the

Fund, but, except to the extent explicitly provided in paragraph 4R(8)(b), only in any of the cases specified in this Agreement.

(b) Notwithstanding any provision of this Agreement to the contrary, settlement and payment for securities received for the account of the Fund and delivery of securities maintained for the account of the Fund may be effected in accordance with the customary or established securities trading or securities processing practices and procedures in the jurisdiction or market in which the transaction occurs, including, without limitation, delivering securities to the purchaser thereof or to a dealer therefor (or an agent for such purchaser or dealer) against a receipt with the expectation of receiving later payment for such securities from such purchaser or dealer. Securities maintained in the custody of a Foreign Subcustodian may be maintained in the name of such entity's nominee to the same extent as set forth in paragraphs 2 and 4F of this Agreement, and the Fund agrees to hold any such nominee harmless from any liability as a holder of record of such securities.

(9) Liability of Foreign Subcustodians. Each agreement pursuant to which State Street employs a foreign banking institution as a Foreign Subcustodian shall require the institution to exercise reasonable care in the performance of its duties and to indemnify, and hold harmless, State Street and Fund from and against any loss, damage, cost, expense, liability or claim arising out of or in connection with the institution's performance of such obligations. At the election of the Fund, it shall be entitled to be subrogated to the rights of State Street with respect to any claims against a foreign banking institution as a consequence of any such loss, damage, cost, expense, liability or claim if and to the extent that the Fund has not been made whole for any such loss, damage, cost, expense, liability or claim.

(10) Liability of State Street. State Street shall be liable to the Fund for the acts or omissions of a foreign banking institution appointed pursuant to these provisions to the same extent that such foreign banking institution is liable to State Street as provided under paragraph 4R(9); provided however that State Street shall not be liable to the Fund for any loss resulting from or caused by nationalization, expropriation, currency restrictions, acts of war or terrorism or other similar events or acts.

(11) Monitoring Responsibilities. State Street shall furnish annually to the Fund, during the month of June, information concerning the Foreign Subcustodians employed by State Street. Such information shall be similar in kind and scope to that furnished to the Fund in connection with the initial approval of this Agreement. In addition, State Street will promptly inform the Fund in the event that State Street learns of a material adverse change in the financial condition of a Foreign Subcustodian or any material loss in the assets of the Fund, or is notified by a foreign banking institution employed as a Foreign Subcustodian that there appears to be a substantial likelihood that its shareholders' equity will decline below \$200 million (U.S. dollars or the equivalent thereof) or that its shareholders equity has declined below \$200 million (in each case computed in accordance with generally accepted U.S. accounting principles).

(12) Branches of U.S. Banks. Except as otherwise set forth in this Agreement, the provisions hereof shall not apply where the custody of the Fund's assets are maintained in a foreign branch of a banking institution which is a "bank" as defined by Section 2(a)(5) of the 1940 Act and which meets the qualifications set forth in Section 26(a) of the 1940 Act. The appointment of any such branch as a subcustodian shall be governed by paragraph 7C of this Agreement.

S. Miscellaneous. In general, attend to all nondiscretionary details in connection with the sale, exchange, substitution, purchase, transfer or other dealing with such securities or property of the Fund, except as otherwise directed by the Fund pursuant to Proper Instructions. State Street shall render to the Fund daily a report of all monies received or paid on behalf of the Fund, an itemized statement of the securities and cash for which it is accountable to the Fund under this Agreement and an itemized statement of security transactions which settled the day before and shall render to the Fund weekly an itemized statement of security transactions which failed to settle as scheduled. At the end of each week State Street shall provide a list of all security transactions that remain unsettled at such time.

5. Additionally, as Custodian, State Street shall promptly:

A. Bank Account. Retain safely all cash of the Fund, other than cash maintained by the Fund in a bank account established and used in accordance with Rule 17f-3 under the 1940 Act, in the banking department of State Street in a separate account or accounts in the name of the Fund, subject only to draft or order by State Street acting pursuant to the terms of this Agreement. If and when authorized by Proper Instructions in accordance with a vote of the Board of Trustees of the Fund, State Street may open and maintain an additional account or accounts in such other bank or trust companies as may be designated by such instructions, such account or accounts, however, to be solely in the name of State Street in its capacity as Custodian and subject only to its draft or order in accordance with the terms of this Agreement. State Street shall furnish to the Fund, not later than thirty (30) calendar days after the last business day of each month, a statement reflecting the current status of its internal reconciliation of the closing balance as of that day in all accounts described in this paragraph to the balance shown on the daily cash report for that day rendered to the Fund.

B. Collections. Unless otherwise instructed by receipt of Proper Instructions, collect, receive and deposit in the bank account or accounts maintained pursuant to paragraph 5A hereof all income and other payments with respect to the securities held hereunder, execute ownership and other certificates and affidavits for all federal and state tax purposes in connection with the collection of bond and note coupons, do all other things necessary or proper in connection with the collection of such income, and without waiving the generality of the foregoing:

- 1) present for payment on the date of payment all coupons and other income items requiring presentation;

- 2) present for payment all securities which may mature or be called, redeemed, retired or otherwise become payable on the date such securities become payable;
- 3) endorse and deposit for collection, in the name of the Fund, checks, drafts or other negotiable instruments on the same day as received.

In any case in which State Street does not receive any such due and unpaid income within a reasonable time after it has made proper demands for the same (which shall be presumed to consist of at least three demand letters and at least one telephonic demand), it shall so notify the Fund in writing, including copies of all demand letters, any written responses thereto, and memoranda of all oral responses thereto and to telephonic demands, and await proper instruction; State Street shall not be obliged to take legal action for collection unless and until reasonably indemnified to its satisfaction for the reasonable costs of such legal action for collection. It shall also notify the Fund as soon as reasonably practicable whenever income due on securities is not collected in due course.

C. Sale of Shares of the Fund. Make such arrangements with the Transfer Agent of the Fund as will enable State Street to make certain it receives the cash consideration due to the Fund for shares of beneficial interest ("shares") of the Fund as may be issued or sold from time to time by the Fund, all in accordance with the Fund's Declaration of Trust and By-Laws, as amended.

D. Dividends and Distributions. Upon receipt of Proper Instructions, release or otherwise apply cash insofar as cash is available for the purpose of the payment of dividends or other distributions to shareholders of the Fund.

E. Redemption of Shares of the Fund. From such funds as may be available for the purpose, but subject to the limitation of the Fund's Declaration of Trust and By-Laws, as amended, and applicable resolutions of the Board of Trustees of the Fund pursuant thereto, make funds available for payment to shareholders who have delivered to the Transfer Agent a request for redemption of their shares by the Fund pursuant to such Declaration of Trust, as amended.

In connection with the redemption of shares of the Fund pursuant to the Fund's Declaration of Trust and By-Laws, as amended, State Street is authorized and directed upon receipt of Proper Instructions from the Transfer Agent of the Fund to make funds available for transfer through the Federal Reserve Wire System or by other bank wire to a commercial bank account designated by the redeeming stockholder.

F. Stock Dividends, Rights, Etc. Receive and collect all stock dividends, rights and other items of like nature; and deal with the same pursuant to Proper Instructions relative thereto.

G. Disbursements. Upon receipt of Proper Instructions, make or cause to be made, insofar as cash is available for the purpose, disbursements for the payment on behalf of the Fund of its expenses, including without limitation, interest, taxes and fees or reimbursement to State Street or to the Fund's investment advisers for their payment of any such expenses.

H. Other Proper Corporate Purposes. Upon receipt of Proper Instructions, make or cause to be made, insofar as cash is available for the purpose, disbursements for any other purpose (in addition to the purposes specified in paragraphs 4G, 4H, 5D, 5E, and 5G of this Agreement) which the Fund declares is a proper corporate purpose.

I. Records. Create, maintain and retain all records relating to its activities and obligations under this Agreement in such manner as shall meet the obligations of the Fund under the 1940 Act, particularly Section 31 thereof and Rules 31a-1 and 31a-2 thereunder or as reasonably requested from time to time by the Fund. All records maintained by State Street in connection with the performance of its duties under this Agreement shall remain the property of the Fund, and, in the event of termination of this Agreement, shall be delivered in accordance with the terms of paragraph 10 below.

J. Miscellaneous. Assist generally in the preparation of routine reports to holders of shares of the Fund, to the Commission, including form N-SAR, to state "Blue Sky" authorities, to others in the auditing of accounts and in other matters of like nature and as otherwise reasonably requested by the Fund.

K. Fund Accounting and Net Asset Value Computation. State Street shall maintain the general ledger and all other books of account of the Fund, including the accounting of the Fund. In addition, upon receipt of Proper Instructions, which may be deemed to be continuing instructions, State Street shall daily compute the net asset value of the shares of the Fund and the total net asset value of the Fund. State Street shall, in addition, perform such other services incidental to its duties hereunder as may be reasonably requested from time to time by the Fund.

6. State Street and the Fund further agree as follows:

A. Proper Instructions. State Street shall be deemed to have received Proper Instructions upon receipt of written instructions signed by the Fund's Trustees or by one or more person or persons as the Fund's Board of Trustees shall have from time to time authorized to give the particular class of instructions for different purposes. Different persons may be authorized to give instructions for different purposes. A copy of a resolution or action of the Trustees certified by the Secretary or an Assistant Secretary of the Fund may be received and accepted by State Street as conclusive evidence of the instruction of the Fund's Board of Trustees and/or the authority of any person or persons to act on behalf of the Fund and may be considered as in full force and effect until receipt of written notice to the contrary. Such instruction may be general or specific in terms. Oral instructions will be considered Proper Instructions if State Street reasonably believes them to have been given by a person

authorized by the Board of Trustees to give such oral instructions with respect to the class of instruction involved. The Fund shall cause all oral instructions to be confirmed in writing. Proper instructions may include communications effected directly between electromechanical or electronic devices provided that the Fund and State Street are satisfied that such procedures afford adequate safeguards for the assets of the Fund. Use by the Fund of such communication systems shall constitute approval by the Fund of the safeguards available therewith.

B. Investments, Limitations. In performing its duties generally, and more particularly in connection with the purchase, sale and exchange of securities made by or for the Fund, State Street may take cognizance of the provisions of the Declaration of Trust of the Fund, as amended; provided, however, that except as otherwise expressly provided herein, State Street may assume unless and until notified in writing to the contrary that instructions purporting to be Proper Instructions received by it are not in conflict with or in any way contrary to any provision of the Declaration of Trust of the Fund, as amended, or resolutions or proceedings of the Board of Trustees of the Fund.

7. State Street and the Fund further agree as follows:

A. Indemnification. State Street, as Custodian, shall be entitled to receive and act upon advice of counsel (who may be counsel for the Fund) and shall be without liability for any action reasonably taken or thing reasonably done pursuant to such advice; provided that such action is not in violation of applicable federal or state laws or regulations or contrary to written instructions received from the Fund, and shall be indemnified by the Fund and without liability for any action taken or thing done by it in carrying out the terms and provisions of this Agreement in good faith and without negligence, misfeasance or misconduct. In order that the indemnification provision contained in this paragraph shall apply, however, if the Fund is asked to indemnify or save State Street harmless, the Fund shall be fully and promptly advised of all pertinent facts concerning the situation in question, and State Street shall use all reasonable care to identify and notify the Fund fully and promptly concerning any situation which presents or appears likely to present the probability of such a claim for indemnification against the Fund. The Fund shall have the option to defend State Street against any claim which may be the subject of this indemnification, and, in the event that the Fund so elects, it will so notify State Street, and thereupon the Fund shall take over complete defense of the claim, and State Street shall initiate no further legal or other expenses for which it shall seek indemnification under this paragraph. State Street shall in no case confess any claim or make any compromise in any case in which the Fund will be asked to indemnify State Street except with the Fund's prior written consent.

B. Expenses Reimbursement. State Street shall be entitled to receive from the Fund on demand reimbursement for its cash disbursements, expenses and charges, excluding salaries and usual overhead expenses with respect to the Fund, as set forth in Schedule A.

C. Appointment of Agents and Subcustodians. State Street, as

Custodian, may appoint (and may remove), only in compliance with the terms and conditions of the Fund's Declaration of Trust and By-Laws, as amended, any other bank, trust company or responsible commercial agent as its agent or Subcustodian to carry out such of the provisions of this Agreement as State Street may from time to time direct; provided, however, that the appointment of any such agent or Subcustodian shall not relieve State Street of any of its responsibilities under this Agreement.

D. Reliance on Documents. So long as and to the extent that it is in good faith and in the exercise of reasonable care, State Street, as Custodian, shall not be responsible for the title, validity or genuineness of any property or evidence of title thereto received by it or delivered by it pursuant to this Agreement, shall be protected in acting upon any instructions, notice, request, consent, certificate or other instrument or paper reasonably believed by it to be genuine and to constitute Proper Instructions under this Agreement and shall, except as otherwise specifically provided in this Agreement, be entitled to receive as conclusive proof of any fact or matter required to be ascertained by it hereunder a certificate signed by the Fund's Trustees, the Secretary or an Assistant Secretary of the Fund or any other person expressly authorized by the Board of Trustees of the Fund.

E. Access to Records. Subject to security requirements of State Street applicable to its own employees having access to similar records within State Street and such regulations as to the conduct of such monitors as may be reasonably imposed by State Street after prior consultation with an authorized officer of the Fund, books and records of State Street pertaining to its actions under this Agreement shall be open to inspection and audit at reasonable times by the Trustees of, attorneys for, auditors employed by the Fund or any other person as the Fund's Board of Trustees shall direct.

F. Recordkeeping. State Street shall maintain such records as shall enable the Fund to comply with the requirements of all federal and state laws and regulations applicable to the Fund with respect to the matters covered by this Agreement.

8. If the Fund requires State Street to advance cash or securities for any purpose or in the event that State Street or its nominee shall incur or be assessed any taxes, charges, expenses, assessments, claims or liabilities in connection with the performance of this Agreement, except such as may arise from its or its nominee's own negligent action, negligent failure to act or willful misconduct, any property at any time held for the account of the Fund shall be security therefor and should the Fund fail to repay State Street promptly, State Street shall be entitled to utilize available cash and to dispose of the Fund's assets to the extent necessary to obtain reimbursement; provided, however, that the total value of any property of the Fund which at any time is security for any payment by State Street hereunder shall not exceed 15% of the Fund's total net asset value.

9. The Fund shall pay State Street for its services as Custodian such compensation as shall be specified on the attached Schedule A. Such compensation shall remain fixed until otherwise agreed in writing by the parties hereto,

unless this Agreement is terminated as provided in paragraph 10.

10. State Street and the Fund further agree as follows:

A. Effective Period, Termination, Amendment and Interpretive and Additional Provisions. This Agreement shall become effective as of the date of its execution, shall continue in full force and effect until terminated as hereinafter provided, may be amended at any time by mutual agreement of the parties hereto and may be terminated by either party by an instrument in writing delivered or mailed, postage prepaid, to the other party, such termination to take effect sixty (60) days after the date of such delivery or mailing; and further provided that the Fund may, by action of the Fund's Board of Trustees, substitute another bank or trust company for State Street by giving notice as provided above to State Street, provided, however that State Street shall not act under paragraphs 4B or 4C hereof in the absence of receipt of an initial certificate of the Secretary or an Assistant Secretary that the Board of Trustees of the Fund has approved the initial use of a particular Securities System and the receipt of an annual certificate of the Secretary or an Assistant Secretary that the Board of Trustees has reviewed the use by the Fund of such Securities System, as required in each case by Rule 17f-4 under the 1940 Act, and that State Street shall not act under paragraph 4C hereof in the absence of receipt of an initial certificate of the Secretary or an Assistant Secretary that the Board of Trustees has approved the initial use of the Direct Paper System and the receipt of an annual certificate of the Secretary or an Assistant Secretary that the Board of Trustees has reviewed the use by the Fund of the Direct Paper System. The Fund or State Street shall not amend or terminate this Agreement in contravention of any applicable federal or state laws or regulations, or any provision of the Declaration of Trust of the Fund, as amended; provided, however, that in the event of such termination State Street shall remain as Custodian hereunder for a reasonable period thereafter if the Fund after using its best efforts is unable to find a Successor Custodian.

In connection with the operation of this Agreement, State Street and the Fund may agree from time to time on such provisions interpretive of or in addition to the provisions of this Agreement as may in their joint opinion be consistent with the general tenor of this Agreement, any such interpretive or additional provision to be signed by both parties and annexed hereto, provided that no such interpretive or additional provisions shall contravene any applicable federal or state laws or regulations, or any provision of the Fund's Declaration of Trust as amended. No interpretive provisions made as provided in the preceding sentence shall be deemed to be an amendment of this Agreement.

B. Successor Custodian. Upon termination hereof or the inability of State Street to continue to serve hereunder, the Fund shall pay to State Street such compensation as may be due for services through the date of such termination and shall likewise reimburse State Street for its costs, expenses and disbursements incurred prior to such termination in accordance with paragraph 7B hereof and such reasonable costs, expenses and disbursements as may be incurred by State Street in connection with such termination.

If a Successor Custodian is appointed by the Board of Trustees of the

Fund in accordance with the Fund's Declaration of Trust, as amended, State Street shall, upon termination, deliver to such Successor Custodian at the office of State Street, properly endorsed and in proper form for transfer, all securities then held hereunder, all cash and other assets of the Fund deposited with or held by it hereunder.

If no such Successor Custodian is appointed, State Street shall, in like manner at its office, upon receipt of a certified copy of a resolution of the shareholders pursuant to the Fund's Declaration of Trust and By-Laws, as amended, deliver such securities, cash and other properties in accordance with such resolutions.

In the event that no written order designating a Successor Custodian or certified copy of a resolution of the shareholders shall have been delivered to State Street on or before the date when such termination shall become effective, then State Street shall have the right to deliver to a bank or trust company doing business in Boston, Massachusetts of its own selection, having an aggregate capital, surplus and undivided profits, as shown by its last published report, of not less than \$5,000,000, all securities, cash and other properties held by State Street and all instruments held by it relative thereto and all other property held by it under this Agreement. Thereafter, such bank or trust company shall be the Successor of State Street under this Agreement and subject to the restrictions, limitations and other requirements of the Fund's Declaration of Trust and By-Laws, both as amended.

In the event that securities, funds, and other properties remain in the possession of State Street after the date of termination hereof owing to failure of the Fund to procure the certified copy above referred to, or of the Fund's Board of Trustees to appoint a Successor Custodian, State Street shall be entitled to fair compensation for its services during such period, and the provisions of this Agreement relating to the duties and obligations of State Street shall remain in full force and effect.

C. Duplicate Records and Backup Facilities. State Street shall not be liable for loss of data occurring by reason of circumstances beyond its control, including but not limited to acts of civil or military authority, national emergencies, fire, flood or catastrophe, acts of God, insurrection, war, riots or failure of transportation, communication or power supply. However, State Street shall keep in a separate and safe place additional copies of all records required to be maintained pursuant to this Agreement or additional tapes, disks or other sources of information necessary to reproduce all such records. Furthermore, at all times during this Agreement, State Street shall maintain a contractual arrangement whereby State Street will have a back-up computer facility available for its use in providing the services required hereunder in the event circumstances beyond State Street's control result in State Street not being able to process the necessary work at its principal computer facility, State Street shall, from time to time, upon request from the Fund provide written evidence and details of its arrangement for obtaining the use of such a back-up computer facility. State Street shall use its best efforts to minimize the likelihood of all damage, loss of data, delays and errors resulting from an uncontrollable event, and should such damage, loss of data,

delays or errors occur, State Street shall use its best efforts to mitigate the effects of such occurrence. Representatives of the Fund shall be entitled to inspect the State Street premises and operating capabilities within reasonable business hours upon reasonable notice to State Street, and, upon request of such representative or representatives, State Street shall from time to time as appropriate, furnish to the Fund a letter setting forth the insurance coverage thereon, any changes in such coverage which may occur and any claim relating to the Fund which State Street may have made under such insurance.

D. Confidentiality. State Street agrees to treat all records and other information relative to the Fund confidentially and State Street, on behalf of itself and its officers, employees and agents, agrees to keep confidential all such information, except after prior notification to and approval by the Fund (which approval shall not be unreasonably withheld and may not be withheld where State Street may be exposed to civil or criminal contempt proceedings), when requested to divulge such information by duly constituted authorities or when so requested by a properly authorized person.

State Street and the Fund agree that they, their officers, employees and agents shall maintain all information disclosed to them by the other in connection with this Agreement in confidence and will not disclose any such information to any other person, nor use such information for their own benefit or for the benefit of third parties without the consent in writing of the other; provided, however, that each party shall have the right to use any such information for its own necessary internal purposes while this Agreement is in effect. The provisions of the paragraph shall not apply to information which (i) is in or becomes part of the public domain, or (ii) is demonstrably known previously to the party to whom it is disclosed, or (iii) is independently developed outside this Agreement by the party to whom it is disclosed or (iv) is rightfully obtained from third parties by the party to whom it is disclosed.

11. The Fund shall not circulate any printed matter which contains any reference to State Street without the prior written approval of State Street, excepting solely such printed matter as merely identifies State Street as Custodian. The Fund will submit printed matter requiring approval to State Street in draft form, allowing sufficient time for review by State Street and its counsel prior to any deadline for printing.

12. In the event of a reorganization of the Fund through a merger, consolidation, sale of assets or other reorganization, State Street, at the request of the Fund, shall act as Custodian for shares of any investment company or other company obtained in any such reorganization by the Fund for distribution to those Fund shareholders whose shares are represented by certificates. The Fund shall give notice to each such shareholder of his or her right to exchange his or her Fund shares represented by certificates for shares held by State Street upon surrender to State Street of his or her certificates representing such Fund shares properly endorsed and in proper form for transfer. Upon the surrender of such Fund certificates, State Street will issue a certificate or certificates to the surrendering shareholder for an approximate number of shares held by State Street, unless such shareholder establishes an Open Account Plan or other similar account at that time in which case such

shares will be credited to his or her account. State Street shall not be required to issue certificates for any fractional shares held by it. Instead, fractional interests in such shares shall be distributed to the shareholder in cash at their then current market value or, if the fractional share represents an interest in an investment company, it shall be redeemed by State Street at the then current redemption price for such shares and the proceeds of such redemption shall be distributed to such shareholder in cash. State Street shall not release to any shareholder any such shares held by it until such shareholder has properly surrendered for exchange his or her Fund shares represented by certificates.

13. This Agreement is executed and delivered in The Commonwealth of Massachusetts and shall be subject to and be construed in accordance with the laws of the Commonwealth.

14. Notices and other writings delivered or mailed postage prepaid to Keystone Omega Fund, c/o Keystone Investment Management Company, 200 Berkeley Street, Boston, Massachusetts 02116, or to State Street at 225 Franklin Street, Boston, Massachusetts 02110, or to such other address as the Fund or State Street may hereafter specify, shall be deemed to have been properly delivered or given hereunder to the respective address.

15. This Agreement shall be binding upon and shall inure to the benefit of the Fund and State Street and their respective successors or assigns.

16. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original.

17. This Agreement is made on behalf of the Fund by an officer or Trustee of the Fund, not individually but solely as an officer or Trustee under the Fund's Declaration of Trust, and the obligations under this Agreement are not binding upon, nor shall resort be had to the property of any of the Trustees, shareholders, officers, employees or agents of the fund personally, but are binding only on the property of the Fund.

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed in its name and on its behalf by a duly authorized officer as of the day and year first above written.

ATTEST:

KEYSTONE SMALL CAP STOCK FUND

By:

Albert H. Elfner, III
Chief Executive Officer and
President

ATTEST:

STATE STREET BANK AND TRUST
COMPANY

By:

Name:

Title:

***SEE State Street Fee Schedule for Fees

December 19, 1995

Keystone Small Cap Stock Fund
200 Berkeley Street
Boston, MA 02116-5034

Gentlemen:

You have asked for my opinion with respect to the issuance of Class A, B and C shares of Keystone Small Cap Stock Fund (the "Fund") under the Declaration of Trust of the Fund dated December 13, 1995. A prospectus and statement of additional information are expected to be filed with the Securities and Exchange Commission as part of the Fund's Registration Statement covering the registration of the Fund as an investment company and the public offering and sale of the Fund's Class A, B and C shares. In my opinion, after the effectiveness of the Registration Statement, such shares, when issued and sold, will be legally issued, fully paid and non-assessable by the Fund, entitling the holders thereof to the rights set forth in the Declaration of Trust, and subject to the limitations stated therein.

My opinion is based upon my examination of the Fund's Declaration of Trust and the Fund's prospectus and statement of additional information as they are proposed to be filed in the Registration Statement.

I hereby consent to the use of this opinion in connection with the registration of the Fund and its shares with the Securities and Exchange Commission.

Very truly yours,

/s/ Rosemary D. Van Antwerp
Rosemary D. Van Antwerp
Senior Vice President, Secretary
and General Counsel

CONSENT OF INDEPENDENT AUDITORS

The Trustees and Shareholder
Keystone Small Company Growth Fund II

We consent to the use of our report dated February 7, 1996 included herein and to the reference to our firm under the caption "ADDITIONAL INFORMATION" in the statement of additional information.

KPMG PEAT MARWICK LLP

Boston, Massachusetts
February 8, 1996

December 19, 1995

Albert H. Elfner, III, President and
Chief Executive Officer
Keystone Small Cap Stock Fund
200 Berkeley Street
Boston, Massachusetts 02116-5034

RE: Subscription for Shares

Dear Mr. Elfner:

Keystone Investment Management Company, in consideration of the formation of Keystone Small Cap Stock Fund ("Fund") as a Massachusetts business trust, hereby subscribes to 10,000 Shares of beneficial interest without par value of the Fund ("Shares") and agrees to pay \$100,000 for such shares (\$10.00 each).

This subscription shall be payable and the shares subscribed for in this letter shall be issued prior to the effective date of the registration of such shares under the Securities Act of 1933. The payment of this subscription shall be in cash.

The purchase of shares pursuant to this subscription will be made for investment purposes and not with a view to the distribution of such shares.

Please indicate your agreement and acceptance of this subscription by signing below.

KEYSTONE INVESTMENT MANAGEMENT
COMPANY

By: /s/ Rosemary D. Van Antwerp

Rosemary D. Van Antwerp
Senior Vice President, Secretary
and General Counsel

Accepted and Agreed to on
December 19, 1995

KEYSTONE SMALL CAP STOCK FUND

By /s/ Albert H. Elfner, III

Albert H. Elfner, III

President

FORM OF

KEYSTONE SMALL CAP STOCK FUND
CLASS A DISTRIBUTION PLAN

SECTION 1. Keystone Small Cap Stock Fund ("Fund") may act as the distributor of securities of which it is the issuer, pursuant to Rule 12b-1 under the Investment Company Act of 1940 ("1940 Act") according to the terms of this Distribution Plan ("Plan").

SECTION 2. The Fund may expend daily amounts at an annual rate of 0.75% of the average daily net asset value of Class A shares of the Fund to finance any activity which is principally intended to result in the sale of Class A shares of Fund common stock ("shares"), including, without limitation, expenditures consisting of payments to a principal underwriter of the Fund ("Principal Underwriter") in order (i) to enable the Principal Underwriter to pay to others commissions in respect of sales of Class A shares of the Fund since inception of the Plan; (ii) to enable the Principal Underwriter to pay or to have paid to others who sell Class A shares a maintenance or other fee, at such intervals as the Principal Underwriter may determine, in respect of Class A shares previously sold by any such others and remaining outstanding during the period in respect of which such fee is or has been paid; and/or (iii) to compensate the Principal Underwriter for its efforts in respect of sales of Class A shares of the Fund since inception of the Plan.

SECTION 3. This Plan shall not take effect until it has been approved by a vote of at least a majority (as defined in the 1940 Act) of the outstanding Class A shares of the Fund.

SECTION 4. This Plan shall not take effect until it has been approved together with any related agreements of the Fund by votes of a majority of both (a) the Board of Trustees of the Fund and (b) those Trustees of the Fund who are not "interested persons" of the Fund (as defined in the 1940 Act) and who have no direct or indirect financial interest in the operation of this Plan or any agreements of the Fund or any other person related to this Plan ("Rule 12b-1 Trustees"), cast in person at a meeting called for the purpose of voting on this Plan or such agreements.

SECTION 5. Unless sooner terminated pursuant to Section 7, this Plan shall continue in effect for a period of one year from the date it takes effect and thereafter shall continue in effect so long as such continuance is specifically

approved at least annually in the manner provided for approval of this Plan in Section 4.

SECTION 6. Any person authorized to direct the disposition of monies paid or payable by the Fund pursuant to this Plan or any related agreement shall provide to the Fund's Board of Trustees and the Board shall review at least quarterly a written report of the amounts so expended and the purposes for which such expenditures were made.

SECTION 7. This Plan may be terminated at any time by vote of a majority of the Rule 12b-1 Trustees, or by vote of a majority of the Fund's outstanding Class A shares.

SECTION 8. Any agreement of the Fund related to this Plan shall be in writing, and shall provide:

- A. That such agreement may be terminated at any time, without payment of any penalty, by vote of a majority of the Rule 12b-1 Trustees or by a vote of a majority of the Fund's outstanding Class A shares on not more than sixty days written notice to any other party to the agreement; and
- B. That such agreement shall terminate automatically in the event of its assignment.

SECTION 9. This Plan may not be amended to increase materially the amount of distribution expenses provided for in Section 2 hereof unless such amendment is approved in the manner provided in Section 3 hereof and no material amendment to this Plan shall be made unless approved in the manner provided for in Section 4 hereof.

DISTRIBUTION PLAN
FOR
CLASS B SHARES
OF
KEYSTONE SMALL CAP STOCK FUND

Section 1. Keystone Small Cap Stock Fund, individually and/or on behalf of its series, if any, referred to above in the title of this 12b-1 Plan (the

"Plan"), to which series this Plan shall then relate, as applicable (the "Fund"), may act as the distributor of certain securities of which it is the issuer pursuant to Rule 12b-1 under the Investment Company Act of 1940 (the "1940 Act") according to the terms of this Distribution Plan.

Section 2. The Fund may expend daily amounts at an annual rate of up to 1.00% of the average daily net asset value of the Fund attributable to the Fund's Class B shares (the "Shares"). Such amounts may be expended to finance any activity that is principally intended to result in the sale of Shares, including, without limitation, expenditures consisting of payments to a principal underwriter of the Fund or others as sales commissions or other compensation for services provided or to be provided ("Distribution Fees") or as reimbursement for expenses that are incurred or accrued at any time during which this Plan is in effect, together with interest on any such amounts, at rates approved by the Rule 12b-1 Trustees (as defined below) in the manner referred to below, all whether or not this Plan has been otherwise terminated, if such payment of such expenditures is for services theretofore provided or for reimbursement of expenses theretofore incurred or accrued prior to termination of this Plan in other respects and if such payment is or has been so approved by such Rule 12b-1 Trustees, or agreed to by the Fund with such approval, all subject to such specific implementation as such 12b-1 Trustees may approve; provided that, at the time any such payment is made, whether or not this Plan has been otherwise terminated, the making of such payment will not cause the limitation upon such payments set forth in the preceding sentence to be exceeded. Without limiting the generality of the foregoing, the Fund may pay to, or on the order of, any person who has served from time to time as principal underwriter (a "Principal Underwriter") amounts for distribution services pursuant to a principal underwriting agreement or otherwise. No principal underwriting agreement or other agreement shall be an agreement related to this Plan, as referred to in Rule 12b-1 of the Securities and Exchange Commission, unless it specifically states that it is such a related agreement. Any such principal underwriting agreement may, but need not, provide that such Principal Underwriter may be paid for distribution services to Class B Shares and/or other specified classes of shares of the Fund (together the "B-Class-of-Shares"), a fee which may be designated a Distribution Fee and may be paid at a rate per annum up to .75% of the average daily net asset value of such B-Class-of-Shares of the Fund and may, but need not, also provide: (I) that a Principal Underwriter will be deemed to have fully earned its "Allocable Portion" of the Distribution Fee upon the sale of the Commission Shares (as defined in the Allocation Schedule) taken into account in determining its Allocable Portion; (II) that the Fund's obligation to pay such Principal Underwriter its Allocable Portion of the Distribution Fees shall be absolute and unconditional and shall not be subject to dispute, offset, counterclaim or any defense whatsoever (it being understood that such provision is not a waiver of the Fund's right to pursue such Principal Underwriter and enforce such claims against the assets of such Principal Underwriter other than its right to its Allocable Portion of the Distribution Fees and CDSCs (as defined below)); (III) that the Fund's obligation to pay such Principal Underwriter its Allocable Portion of the Distribution Fees shall not be changed or terminated except to the extent required by any change in applicable law, including without limitation, the Investment Company Act of 1940, the Rules promulgated thereunder by the

Securities and Exchange Commission and the Rules of Fair Practice of the National Association of Securities Dealers, Inc., in each case enacted or promulgated after June 1, 1995, or in connection with a "Complete Termination" (as hereinafter defined); (IV) that the Fund will not waive or change any contingent deferred sales charge ("CDSC") in respect of the Distributor's Allocable Portion thereof, except as provided in the Fund's prospectus or statement of additional information without the consent of the Principal Underwriter or any assignee of such Principal Underwriter's rights to its Allocable Portion; (V) that the termination of the Principal Underwriter, the principal underwriting agreement or this Plan will not terminate such Principal Underwriter's rights to its Allocable Portion of the CDSCs; and (VI) that any Principal Underwriter may assign its rights to its Allocable Portion of the Distribution Fees and CDSCs (but not such Principal Underwriter's obligations to the Fund under its principal underwriting agreement) to raise funds to make expenditures described in Section 2 above and in connection therewith, and upon receipt of notice of such assignment, the Fund shall pay to the assignee such portion of the Principal Underwriter's Allocable Portion of the Distribution Fees and CDSCs so assigned. For purposes of such principal underwriting agreement, the term Allocable Portion of Distribution Fees as applied to any Principal Underwriter may mean the portion of the Distribution Fee allocable to Distributor Shares in accordance with the "Allocation Schedule" attached to such Principal Underwriter's principal underwriting agreement. For purposes of such principal underwriting agreement, the term Allocable Portion of CDSCs as applied to any Principal Underwriter may mean the portion of the CDSCs allocable to Distributor Shares in accordance with the Allocation Schedule attached to such Principal Underwriter's principal underwriting agreement. For purposes of such principal underwriting agreement, the term "Complete Termination" may mean a termination of this Plan involving the cessation of payments of the Distribution Fees thereunder, 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 and the cessation of the offering by the Fund of existing or future B-Class-of-Shares, which conditions shall be deemed to be satisfied when they are first complied with and so long thereafter as they are complied with prior to the earlier of (i) the date upon which all of the B Shares which are Distributor Shares pursuant to the Allocation Schedule shall have been redeemed or converted or (ii) a specified date, after either of which times such conditions need no longer be complied with. For purposes of such principal underwriting agreement, the term "B-Class-of-Shares" may mean the B Class of Shares of the Fund and each other class of shares of the Fund hereafter issued which would be treated as "Shares" under such Allocation Schedule or which has economic characteristics substantially similar to those of the B Class of 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 classes. The parties may agree that the existing C Class of Shares of the Fund does not have substantially similar economic characteristics to the B Class of Shares taking into account the total sales charge, CDSC or other similar charges borne directly or indirectly by the holder of such shares. For purposes of clarity the parties to such principal underwriting agreement may 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 B Class of 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. For purposes of such principal underwriting agreement, "Allocation Schedule" may mean a schedule which shall be approved by Trustees (as defined below) in connection with their required approval of such principal underwriting agreement as assigning to each Principal Underwriter of Shares the portion of the total Distribution Fees payable by the Fund under such principal underwriting agreement which has been earned by such Principal Underwriter to the extent necessary so that the continued payments thereof if such Principal Underwriter ceases to serve in that capacity does not penalize the Fund by requiring it to pay for services that have not been earned.

Section 3. This Plan shall not take effect until it has been approved by a vote of at least a majority (as defined in the 1940 Act) of the outstanding Shares.

Section 4. This Plan, and the specific implementation of expenditures provided for under this Plan, shall not take effect until this Plan, and such implementation, have been approved, together with any related agreements of the Fund, by votes of both (a) a majority of the Board of Trustees (the "Trustees") of the Fund and (b) a majority of those Trustees of the Fund who are not "interested persons" of the Fund (as said term is defined in the 1940 Act) and who have no direct or indirect financial interest in the operation of this Plan or any agreements of the Fund or any other person related to this Plan (the "Rule 12b-1 Trustees"), cast in person at a meeting called for the purpose of voting on this Plan or such agreements.

Section 5. Unless sooner terminated pursuant to Section 7 hereof, this Plan shall continue in effect for a period of one year from the date it takes effect and thereafter shall continue in effect so long as such continuance is specifically approved at least annually in the manner provided for approval of this Plan in Section 4 hereof, except that, if terminated except for payments provided to be made after termination of other aspects of this Plan, such payments may be made pursuant to approvals made, and or agreements approved, as provided above.

Section 6. Any person authorized to direct the disposition of monies paid or payable by the Fund pursuant to this Plan or any related agreement shall provide to the Fund's Board of Trustees, and the Board shall review, at least quarterly a written report of the amounts so expended and the purposes for which such expenditures were made.

Section 7. This Plan may be terminated, in whole or in part, at any time by vote of a majority of the Rule 12b-1 Trustees or by vote of a majority of the outstanding Shares, with the effects provided for in Section 2, as applicable.

Section 8. Any agreement of the Fund related to this Plan shall be in writing, and shall provide as follows:

- (a) That such agreement may be terminated at any time, without payment of any penalty, by vote of a majority of the Rule 12b-1 Trustees or by a vote of a majority of the outstanding Shares on not more than sixty days written notice to any other party to the agreement; and
- (b) That such agreement shall terminate automatically in the event of its assignment.

Section 9. This Plan may not be amended to increase materially the amount of distribution expenses provided for in Section 2 hereof unless such amendment is approved in the manner provided in Section 3 hereof, and no material amendment to this Plan shall be made unless approved in the manner provided for in Section 4 hereof.

FORM OF

KEYSTONE SMALL CAP STOCK FUND
CLASS C DISTRIBUTION PLAN

SECTION 1. Keystone Small Cap Stock Fund (the "Fund") may act as the distributor of securities of which it is the issuer pursuant to Rule 12b-1 under the Investment Company Act of 1940 (the "1940 Act") according to the terms of this Distribution Plan ("Plan").

SECTION 2. The Fund may expend daily amounts at an annual rate of 1.00% of the average daily net asset value of the Fund attributable to the Fund's Class C shares to finance any activity that is principally intended to result in the sale of Class C shares, including, without limitation, expenditures consisting of payments to a principal underwriter of the Fund ("Principal Underwriter") or others as sales commissions or other compensation for their services that have been earned or as reimbursement for expenses that have been incurred or accrued at any time during which this Plan has been in effect together with interest at a rate approved from time to time by the Rule 12b-1 Trustees (as defined below) on any such amounts.

SECTION 3. This Plan shall not take effect until it has been approved by a vote of at least a majority (as defined in the 1940 Act) of the outstanding Class C shares.

SECTION 4. This Plan shall not take effect until it has been approved together with any related agreements of the Fund by votes of a majority of both (a) the Board of Trustees of the Fund and (b) those Trustees of the Fund who are not "interested persons" of the Fund (as said term is defined in the 1940 Act) and who have no direct or indirect financial interest in the operation of this Plan or any agreements of the Fund or any other person related to this Plan (the "Rule 12b-1 Trustees"), cast in person at a meeting called for the purpose of voting on this Plan or such agreements.

SECTION 5. Unless sooner terminated pursuant to Section 7 hereof, this Plan shall continue in effect for a period of one year from the date it takes effect and thereafter shall continue in effect so long as such continuance is specifically approved at least annually in the manner provided for approval of this Plan in Section 4 hereof.

SECTION 6. Any person authorized to direct the disposition of monies paid or payable by the Fund pursuant to this Plan or any related agreement shall provide to the Fund's Board of Trustees and the Board shall review at least quarterly a written report of the amounts so expended and the purposes for which such expenditures were made.

SECTION 7. This Plan may be terminated at any time by vote of a majority of the Rule 12b-1 Trustees or by vote of a majority of the outstanding Class C shares.

SECTION 8. Any agreement of the Fund related to this Plan shall be in writing, and shall provide as follows:

- (a) That such agreement may be terminated at any time, without payment of any penalty, by vote of a majority of the Rule 12b-1 Trustees or by a vote of a majority of the outstanding Class C shares on not more than sixty days written notice to any other party to the agreement; and
- (b) That such agreement shall terminate automatically in the event of its assignment.

SECTION 9. This Plan may not be amended to increase materially the amount of distribution expenses provided for in Section 2 hereof unless such amendment is approved in the manner provided in Section 3 hereof and no material amendment to this Plan shall be made unless approved in the manner provided for in Section 4 hereof.

MULTIPLE CLASS PLAN FOR KEYSTONE SMALL CAP STOCK FUND

Keystone Small Cap Stock Fund (the "Fund") currently offers three classes of shares with the following class provisions and current offering and exchange characteristics. Additional classes of shares, when created, may have characteristics that differ from those described. References to percentages not otherwise defined are to percentages of average daily net assets of a class.

I. CLASSES

1. Class A Shares

Class A Shares have a distribution plan adopted pursuant to Rule 12b-1 under the Investment Company Act of 1940 ("Rule 12b-1") and/or a shareholder services plan. The plans provide for payments annually for distribution and/or shareholder services fees based on a percentage of average daily net assets of the Fund.

Class A Shares are offered with a front-end sales load, except that purchases of Class A Shares made under certain circumstances (i) are not subject to a front-end sales load but are subject to a contingent deferred sales charge ("CDSC") of limited duration or (ii) are not subject to a front-end sales load or a CDSC.

Class A Shares may be exchanged for Class A Shares of other Keystone America Funds and Class A Shares of Keystone Liquid Trust. Class A Shares subject to a CDSC when exchanged will remain subject to the CDSC after the exchange.

2. Class B Shares

Class B Shares have distribution plans adopted pursuant to Rule 12b-1 and may have a shareholder services plan, which plans provide for payments annually for distribution and/or shareholder services fees based on a percentage of average daily net assets of the Fund. Class B Shares are offered at net asset value without a front-end sales load but with a CDSC, which is a declining percentage on the lesser of current net asset value or initial cost and is of limited duration.

Class B Shares automatically convert to Class A Shares within a specified number of years without a sales load or exchange fee.

Class B Shares may be exchanged for Class B Shares of other Keystone America Funds issued after June 1, 1995 and Class B Shares of Keystone Liquid Trust issued after June 1, 1995. Class B Shares subject to a CDSC when exchanged will remain subject to the CDSC after the exchange.

3. Class C Shares

Class C Shares have a distribution plan adopted pursuant to Rule 12b-1, and may have a shareholder services plan, which plans provide for payments annually for distribution and/or shareholder services fees based on a percentage of average daily net assets of the Fund. Class C Shares are subject to a CDSC, which is a percentage of the lesser of current net asset value or initial cost applied for a limited duration.

Class C Shares are offered at net asset value without a front-end sales load.

Class C Shares may be exchanged for Class C Shares of other Keystone America Funds and Keystone Liquid Trust. Class C Shares subject to a CDSC when exchanged will remain subject to the CDSC after the exchange.

II. CLASS EXPENSES

Each class bears the expenses of its Rule 12b-1 plan and/or shareholder services plan. There currently are no other class specific expenses.

III. EXPENSE ALLOCATION METHOD

All income, realized and unrealized capital gains and losses and expenses not assigned to a class will be allocated to each class based on the relative net asset value of each class.

IV. VOTING RIGHTS

Each class shall have exclusive voting rights on any matter submitted to its shareholders that relates solely to its class arrangement.

Each class shall have separate voting rights on any matter submitted to shareholders where the interests of one class differ from the interests of any other class.

Each class has in all other respects the same rights and obligations as each other class.

V. EXPENSE WAIVERS OR REIMBURSEMENTS

Any expense waivers or reimbursements shall be in compliance with Rule 18f-3 issued under the Investment Company Act of 1940.

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/or 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/ Albert H. Elfner, III
Albert H. Elfner, III
Director/Trustee,
President and Chief
Executive Officer

Dated: December 14, 1994

POWER OF ATTORNEY

I, the undersigned, hereby constitute 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, Trustee or officer and for which Keystone Investment Management Company 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/ J. Kevin Kenely

J. Kevin Kenely
Treasurer

Dated: December 15, 1995

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

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/s/ Edwin D. Campbell
Edwin D. Campbell

Dated: December 14, 1994

POWER OF ATTORNEY

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/s/ Charles F. Chapin
Charles F. Chapin
Director/Trustee

Dated: December 14, 1994

POWER OF ATTORNEY

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/s/ K. Dun Gifford
K. Dun Gifford
Director/Trustee

Dated: December 14, 1994

POWER OF ATTORNEY

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/s/ Leroy Keith, Jr.
Leroy Keith, Jr.
Director/Trustee

Dated: December 14, 1994

POWER OF ATTORNEY

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/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

POWER OF ATTORNEY

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/s/ Richard J. Shima
Richard J. Shima
Director/Trustee

Dated: December 14, 1994

POWER OF ATTORNEY

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/s/ Andrew J. Simons
Andrew J. Simons
Director/Trustee

Dated: December 14, 1994

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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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<PERIOD-START> DEC-13-1995

<PERIOD-END> FEB-05-1996

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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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<PERIOD-START> DEC-13-1995

<PERIOD-END> FEB-05-1996

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<RECEIVABLES> 0

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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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<PERIOD-START> DEC-13-1995

<PERIOD-END> FEB-05-1996

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