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STATEMENT OF ADDITIONAL INFORMATION

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This Statement of Additional Information is not a prospectus and should be read in conjunction with the Prospectus of IMG Mutual Funds, Inc., (the "Funds"), dated May 24, 1995. Requests for copies of the Prospectus should be made by writing to IMG Mutual Funds, Inc., 2203 Grand Avenue, Des Moines, IA 50312-5338; or by calling one of the numbers listed above.

IMG MUTUAL FUNDS, INC.

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No person has been authorized to give any information or to make any representations other than those contained in this Statement of Additional Information and the Prospectus dated May 24, 1995, and if given or made, such information or representations may not be relied upon as having been authorized

by the Funds.

This Statement of Additional Information does not constitute an offer to sell securities.

INVESTMENT POLICIES AND TECHNIQUES

The following information supplements the discussion of the Funds' investment objectives, policies, and techniques that are described in detail in the Prospectus under the captions "INVESTMENT OBJECTIVES AND POLICIES" and "IMPLEMENTATION OF POLICIES AND RISKS".

Fixed Income Securities

The IMG Bond Fund is invested primarily in Fixed Income Securities. In addition to its investments in Equity Securities, the IMG Core Stock Fund may also invest, when a more conservative approach is warranted, in Fixed Income Securities. These include, without limitation, the following:

1. U.S. government securities, including bills, notes, bonds, and other debt securities differing as to maturity and rates of interest, which are either issued or guaranteed by the U.S. Treasury or are issued or guaranteed by U.S. government agencies or instrumentalities. U.S. government agency securities include securities issued by (a) the Federal Housing Administration, Farmers Home Administration, Export-Import Bank of the United States, Small Business Administration, and the Government National Mortgage Association, whose securities are supported by the full faith and credit of the United States; (b) the Federal Home Loan Banks, Federal Intermediate Credit Banks, and the Tennessee Valley Authority, whose securities are supported by the right of the agency to borrow from the U.S. Treasury; (c) the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, whose securities are supported by the discretionary authority of the U.S. government to purchase certain obligations of the agency or instrumentality; and (d) the Student Loan Marketing Association, the Interamerican Development Bank, and the International Bank for Reconstruction and Development, whose securities are supported only by the credit of such agencies. While the U.S. government provides financial support to such U.S. government-sponsored agencies or instrumentalities, no assurance can be given that it always will do so since it is not obligated by law. The U.S. government, its agencies and instrumentalities do not guarantee the market value of their securities, and consequently, the value of such securities may fluctuate.
2. Certificates of deposit issued against funds deposited in a bank or savings and loan association. Such certificates are for a definite period of time, earn a specified rate of return, and are normally negotiable. If such certificates of deposit are nonnegotiable, they will be considered illiquid securities and be subject to each Fund's 10 percent restriction

on investments in illiquid securities. Pursuant to the certificate of deposit, the issuer agrees to pay the amount deposited plus interest to the bearer of the certificate on the date specified thereon. Under current FDIC regulations, the maximum insurance payable as to any one certificate of deposit is \$100,000; therefore, certificates of deposit purchased by a Fund will not generally be fully insured.

3. Bankers' acceptances which are short-term credit instruments used to finance commercial transactions. Generally, an acceptance is a time draft drawn on a bank by an exporter or an importer to obtain a stated amount of funds to pay for specific merchandise. The draft is then "accepted" by a bank that, in effect, unconditionally guarantees to pay the face value of the instrument on its maturity date. The acceptance may then be held by the accepting bank as an asset or it may be sold in the secondary market at the going rate of interest for a specific maturity.
4. Repurchase agreements which involve purchases of debt securities. In such a transaction, at the time a Fund purchases the security, it simultaneously agrees to resell and redeliver the security to the seller, who also simultaneously agrees to buy back the security at a fixed price and time. This assures a predetermined yield for the Fund during its holding period since the resale price is always greater than the purchase price and reflects an agreed-upon market rate. Such transactions afford an opportunity for a Fund to invest temporarily available cash. A Fund may enter into repurchase agreements only with respect to obligations of the U.S. government, its agencies or instrumentalities; certificates of deposit; or bankers' acceptances in which the Fund may invest. Repurchase agreements may be considered loans to the seller, collateralized by the underlying securities. The risk to the Fund is limited to the ability of the seller to pay the agreed-upon sum on the repurchase date; in the event of default, the repurchase agreement provides that the Fund is entitled to sell the underlying collateral. If the value of the collateral declines after the agreement is entered into, however, and if the seller defaults under a repurchase agreement when the value of the underlying collateral is less than the repurchase price, the Fund could incur a loss of both principal and interest. The value of the collateral is monitored at the time the transaction is consummated and at all times during the term of the repurchase agreement to insure that the value of the collateral always equals or exceeds the agreed-upon repurchase price to be paid to the Fund. If the seller were to become subject to a federal bankruptcy proceeding, the ability of the Fund to liquidate the collateral could be delayed or impaired because of certain provisions of the bankruptcy laws.
5. Bank time deposits, which are monies kept on deposit with banks or savings and loan associations for a stated period of time at a fixed rate of interest. There may be penalties for the early withdrawal of such time deposits, in which case the yields of these investments will be reduced.
6. Commercial paper consists of short-term unsecured promissory notes, including variable rate and master demand notes issued by corporations to

finance their current operations. Master demand notes are direct lending arrangements between a Fund and the corporation. There is no secondary market for the notes. However, they are redeemable by the Fund at any time. In purchasing commercial paper, the financial condition of the corporation (e.g., earning power, cash flow, and other liquidity ratios) will be evaluated and will continuously be monitored because a Fund's liquidity might be impaired if the corporation were unable to pay principal and interest on demand. Investments in commercial paper will be limited to commercial paper rated in the two highest categories of a nationally recognized statistical rating organization ("NRSRO") or unrated commercial paper which is of comparable quality.

Illiquid Securities

Each Fund may invest in illiquid securities, which include restricted securities (privately placed securities) and other securities without readily available market quotations. However, a Fund will not acquire such securities and other illiquid securities or securities without readily available market quotations, such as repurchase agreements maturing in more than seven days, options traded in the over-the-counter market, and private issuer interest-only and principal-only stripped mortgage-backed securities, if as a result they would comprise more than 10 percent of the value of the Fund's net assets.

The Board of Directors has the ultimate authority to determine, to the extent permissible under the federal securities laws, which securities are liquid or illiquid for purposes of the 10 percent limitation. Certain securities exempt from registration or issued in transactions exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"), may be considered liquid. The Board of Directors has delegated to the Advisor the day-to-day determination of the liquidity of a security, although it has retained oversight and ultimate responsibility for such determinations. Although no definitive liquidity criteria are used, the Board of Directors has directed the Advisor to look to such factors as (i) the nature of the market for a security (including the institutional private resale market), (ii) the terms of certain securities or other instruments allowing for the disposition to a third party or the issuer thereof (e.g., certain repurchase obligations and demand instruments), (iii) the availability of market quotations, and (iv) other permissible relevant factors. Certain securities, such as repurchase obligations maturing in more than seven days and other securities that are not readily marketable, are currently considered illiquid.

Restricted securities may be sold only in privately negotiated transactions or in a public offering with respect to which a registration statement is in effect under the Securities Act. Where registration is required, a Fund may be obligated to pay all or part of the registration expenses and a considerable period may elapse between the time of the decision to sell and the time the Fund may be permitted to sell a security under an effective registration statement. If, during such a period, adverse market conditions were to develop, the Fund might obtain a less favorable price than prevailed when it decided to sell. Restricted securities will be priced at fair value as determined in good faith by the Board of Directors. If through the appreciation of illiquid securities or

the depreciation of liquid securities, a Fund should be in a position where more than 10 percent of the value of its net assets are invested in illiquid assets, including restricted securities which are not readily marketable, the Fund will take steps as deemed advisable, if any, to protect liquidity.

Delayed Delivery Transactions

The Funds may buy and sell securities on a delayed delivery or when-issued basis. (See "IMPLEMENTATION OF POLICIES AND RISKS -Delayed Delivery Securities in the Prospectus.) These transactions involve a commitment by the Funds to purchase or sell specific securities at a predetermined price and/or yield, with payment and delivery taking place after the customary settlement period for that type of security (and more than seven days in the future). Typically, no interest accrues to the purchaser until the security is delivered. The Funds may receive fees for entering into delayed delivery transactions.

When purchasing securities on a delayed delivery basis, a Fund assumes the rights and risks of ownership, including the risk of price and yield fluctuations. Because the Fund is not required to pay for the securities until the delivery date, these risks are in addition to the risks associated with the Fund's other investments. If the Fund remains substantially fully invested at a time when delayed delivery purchases are outstanding, the delayed delivery purchases may result in a form of leverage. When delayed delivery purchases are outstanding, the Fund will set aside liquid assets; i.e., readily marketable debt securities, U.S. government securities and/or cash, in a segregated custodial account to cover its purchase obligations. When a Fund has sold a security on a delayed delivery basis, the Fund does not participate in further gains or losses with respect to the security. If the other party to a delayed delivery transaction fails to deliver or pay for the securities, the Fund could miss a favorable price or yield opportunity, or could suffer a loss.

A Fund may dispose of or renegotiate delayed delivery transactions after they are entered into, and may sell underlying securities before they are delivered, which may result in capital gains or losses.

Stripped Mortgage-Backed Securities

As described in the Prospectus, the Funds may invest a portion of their assets in stripped mortgage-backed securities ("SMBS") which are derivative multiclass mortgage securities issued by agencies or instrumentalities of the U.S. government, or by private originators, or investors in mortgage loans, including savings and loan institutions, mortgage banks, commercial banks and investment banks.

SMBS are usually structured with two classes that receive different proportions of the interest and principal distributions from a pool of Mortgage Assets. A common type of SMBS will have one class receiving some of the interest and most of the principal from the Mortgage Assets, while the other class will receive most of the interest and the remainder of the principal. In the most extreme case, one class will receive all of the interest while the other class will receive all of the principal. If the underlying Mortgage Assets experience

greater than anticipated prepayments of principal, a Fund may fail to fully recoup its initial investment in these securities. The market value of the class consisting primarily or entirely of principal payments generally is unusually volatile in response to changes in interest rates.

Reverse Repurchase Agreements

In a reverse repurchase agreement, a Fund sells a security to another party, such as a bank or broker-dealer, in return for cash and agrees to repurchase the instrument at a particular price and time.

While a reverse repurchase agreement is outstanding, the Fund will maintain cash and appropriate liquid assets; i.e., readily marketable debt securities and U.S. government securities, in a segregated custodial account to cover its obligation under the agreement. The Funds will enter into reverse repurchase agreements only with parties whose creditworthiness is deemed satisfactory by the Funds' Advisor, Investors Management Group ("IMG").

Securities Lending

Each of the Funds may seek to increase its income by lending Fund securities. Such loans will usually be made only to member banks of the Federal Reserve System and to member firms (and subsidiaries thereof) of the New York Stock Exchange ("NYSE") and would be required to be secured continuously by collateral in cash, cash equivalents, or U.S. government securities maintained on a current basis at an amount at least equal to the market value of the securities loaned. Investment of the collateral underlying the Funds' securities lending activities will be limited to short-term, liquid debt securities. A Fund would have the right to call a loan and obtain the securities loaned at any time on customary industry settlement notice (which will usually not exceed five days). During the existence of a loan, a Fund would continue to receive the equivalent of the interest or dividends paid by the issuer on the securities loaned and would also receive compensation based on investment of the collateral. A Fund would not, however, have the right to vote any securities having voting rights during the existence of the loan, but would call the loan in anticipation of an important vote to be taken among holders of the securities or of the giving or withholding of their consent on a material matter affecting the investment. As with other extensions of credit, there are risks of delay in recovery or even loss of rights in the collateral should the borrower fail financially. However, the loans would be made only to firms deemed to be of good standing, and when the consideration which could be earned currently from securities loans of this type justifies the attendant risk. The value of the securities loaned will not exceed 30 percent of the value of a Fund's total assets.

Loan Participations and Other Direct Indebtedness

Each of the Funds may purchase loan participations and other direct claims against a borrower. In purchasing a loan participation, a Fund acquires some or all of the interest of a bank or other lending institution in a loan to a corporate borrower. Many such loans are secured, although some may be unsecured. Such loans may be in default at the time of purchase. Loans that are fully

secured offer the Fund more protection than an unsecured loan in the event of non-payment of scheduled interest or principal. However, there is no assurance that the liquidation of collateral from a secured loan would satisfy the corporate borrower's obligation, or that the collateral can be liquidated.

These loans are made generally to finance internal growth, mergers, acquisitions, stock repurchases, leveraged buy-outs and other corporate activities. Such loans are typically made by a syndicate of lending institutions, represented by an agent lending institution which has negotiated and structured the loan and is responsible for collecting interest, principal and other amounts due on its own behalf and on behalf of the others in the syndicate, and for enforcing its and their rights against the borrower. Alternately, such loans may be structured as a novation, pursuant to which the Fund would assume all of the rights of the lending institution in a loan, or as an assignment, pursuant to which the Fund would purchase an assignment of a portion of a lender's interest in a loan either directly from the lender or through an intermediary. A Fund may also purchase trade claims or other claims against companies, which generally represent money owned by the company to a supplier of goods or services. These claims may also be purchased at a time when the company is in default.

Certain of the loan participations acquired by a Fund may involve revolving credit facilities or other standby financing commitments which obligate the Fund to pay additional cash on a certain date or on demand. These commitments may have the effect of requiring the Fund to increase its investment in a company at a time when the Fund might not otherwise decide to do so (including at a time when the company's financial condition makes it unlikely that such amounts will be repaid). To the extent that the Fund is committed to advance additional funds, it will at all times hold and maintain in a segregated account cash or other high grade debt obligations in an amount sufficient to meet such commitments.

A Fund's ability to receive payment of principal, interest and other amounts due in connection with these investments will depend primarily on the financial condition of the borrower. In selecting the loan participations and other direct investments which the Funds will purchase, the Advisor will rely upon their own credit analysis of the borrower (and not that of the original lending institution). As a Fund may be required to rely upon another lending institution to collect and pass on to the Fund amounts payable with respect to the loan and to enforce the Fund's rights under the loan, an insolvency, bankruptcy or reorganization of the lending institution may delay or prevent the Fund from receiving such amounts. In such cases, the Fund will evaluate as well the creditworthiness of the lending institution and will treat both the borrower and the lending institution as an "issuer" of the loan participation for purposes of certain investment restrictions pertaining to the diversification of the Fund's investments. The highly leveraged nature of many such loans may make such loans especially vulnerable to adverse changes in economic or market conditions. Investments in such loans may involve additional risk to the Fund. For example, if a loan is foreclosed, the Fund could become part owner of any collateral, and would bear the costs and liabilities associated with owning and disposing of the collateral. In addition, it is conceivable that under emerging legal theories of

lender liability, the Fund could be held liable as a co-lender. It is unclear whether loans and other forms of direct indebtedness offer securities law protections against fraud and misrepresentation. In the absence of definitive regulatory guidance, the Fund relies on the Advisor's research in an attempt to avoid situations where fraud and misrepresentation could adversely affect the Fund. In addition, loan participations and other direct investments may not be in the form of securities or may be subject to restrictions on transfer, and only limited opportunities may exist to resell such instruments. As a result, the Fund may be unable to sell such investments at an opportune time or may have to resell them at less than fair market value. To the extent that the Advisor determines that any such investments are illiquid, the Fund will include them in the investment limitations on Illiquid Securities described above.

Futures Contracts

Each Fund may enter into interest rate futures contracts (hereinafter referred to as "Futures" or "Futures Contracts"), as a hedge against changes in prevailing levels of interest rates in order to establish more definitely the effective return on securities held or intended to be acquired by the Fund. A Fund's hedging may include sales of Futures as an offset against the effect of expected increases in interest rates or decline in the market value of its securities and purchases of Futures as an offset against the effect of expected declines in interest rates.

A Fund will not enter into Futures Contracts for speculation and will, to the extent required by regulatory authorities, enter only into Futures Contracts which are traded on national futures exchanges and are standardized as to maturity date and, if applicable, underlying financial instruments. The principal futures exchanges in the United States are the Board of Trade of the City of Chicago and the Chicago Mercantile Exchange. Futures exchanges and trading are regulated under the Commodity Exchange Act by the Commodity Futures Trading Commission (the "CFTC.")

Although techniques other than sales and purchases of Futures Contracts could be used to reduce a Fund's exposure to interest rate fluctuations, the Fund may be able to hedge its exposure more effectively, and perhaps at a lower cost, through using Futures Contracts, since Futures Contracts involve fewer transaction costs than options on securities transactions.

A Fund will not enter into a Futures Contract if, as a result thereof, (i) more than 30 percent of the Fund's net assets would be represented by Futures Contracts (including the then current aggregate Futures market prices of financial instruments required to be delivered under open Futures Contract sales plus the then current aggregate purchase prices of financial instruments required to be purchased under open Futures Contract purchases) or (ii) more than 5 percent of the Fund's total assets (taken at market value at the time of entering into the contract) would be committed to initial margin deposits on such Futures Contracts and options on Futures Contracts.

An interest rate Futures Contract provides for the future sale by one party and purchase by another party of a specified amount of a specified instrument (debt

security) for a specified price at a designated date, time, and place. Transactions costs are incurred when a Futures Contract is bought or sold and margin deposits must be maintained. A Futures Contract may be satisfied by delivery or purchase, as the case may be, of the instrument. More commonly, Futures Contracts are closed out prior to delivery by entering into an offsetting transaction in a matching Futures Contract. If the offsetting purchase price is less than the original sale price, the Fund realizes a gain; if it is more, the Fund realizes a loss. Conversely, if the offsetting sale price is more than the original purchase price, the Fund realizes a gain; if it is less, the Fund realizes a loss. The transaction cost must also be included in these calculations. There can be no assurance, however, that a Fund will be able to enter into an offsetting transaction with respect to a particular Futures 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 Futures Contract.

As an example of an offsetting transaction in which the underlying financial instrument is not delivered pursuant to an interest rate Futures Contract, the contractual obligations arising from the sale of one Futures Contract of September Treasury Bills on an exchange may be fulfilled at any time before delivery is required (i.e., on a specified date in September, the "delivery month") by the purchase of one Futures Contract of September 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.

Persons who trade in Futures Contracts may be broadly classified as "hedgers" and "speculators". Hedgers, such as the Funds, whose business activity involves investment or other commitments in securities or other obligations, use the Futures markets primarily to offset unfavorable changes in value that may occur because of fluctuations in the value of the securities or obligations held or expected to be acquired by them. Debtors and other obligors may also hedge the interest cost of their obligations. The speculator, like the hedger, generally expects neither to deliver nor to receive the financial instrument underlying the Futures Contract, but, unlike the hedger, hopes to profit from fluctuations in prevailing interest rates or financial markets.

A public market exists in interest rate Futures Contracts covering primarily the following financial instruments: U.S. Treasury bonds; U.S. Treasury notes; Government National Mortgage Association ("GNMA") modified pass-through mortgage-backed securities; three-month U.S. Treasury bills; 90-day commercial paper; bank certificates of deposit; and Eurodollar certificates of deposit. It is expected that Futures Contracts trading in additional financial instruments will be authorized. The standard contract size is generally \$100,000 for Futures Contracts in U.S. Treasury bonds, U.S. Treasury notes, and GNMA pass-through securities and \$1,000,000 for the other designated Futures Contracts.

Each Fund's Futures 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. As evidence of this hedging intent, the Fund expects that approximately 75 percent of such Futures Contract purchases will be "completed"; that is, upon the sale of these long Futures Contracts, equivalent amounts of related securities will have been or are then being purchased by the Fund in the cash market.

Margin is the amount of funds that must be deposited by a Fund with its custodian in a segregated account in the name of the futures commission merchant in order to initiate Futures trading and to maintain the Fund's open positions in Futures Contracts. A margin deposit is intended to ensure the Fund's performance of the Futures Contract. The margin required for a particular Futures Contract is set by the exchange on which the Futures Contract is traded, and may be significantly modified from time to time by the exchange during the term of the Futures Contract. Futures Contracts are customarily purchased and sold on margins that may range upward from less than 5 percent of the value of the Futures Contract being traded.

If the price of an open Futures Contract changes (by increase in the case of a sale or by decrease in the case of a purchase) so that the loss on the Futures Contract reaches a point at which the margin on deposit does not satisfy margin requirements, the broker will require an increase in the margin. However, if the value of a position increases because of favorable price changes in the Futures Contract so that the margin deposit exceeds the required margin, the broker will pay the excess to the Fund. In computing daily net asset value, the Fund will mark to market the current value of its open Futures Contracts. The Funds expect to earn interest income on margin deposits.

The prices of Futures Contracts are volatile and are influenced, among other things, by actual and anticipated changes in interest rates and fluctuations in the general level of stock prices, which in turn are affected by fiscal and monetary policies and national and international political and economic events.

At best, the correlation between changes in prices of the Futures Contracts and of the securities being hedged can be only approximate. The degree of imperfection of correlation depends upon circumstances such as: variation in speculative market demand for Futures and for debt securities, including technical influences in Futures trading and differences between the financial instruments being hedged and the instruments underlying the standard Futures Contracts available for trading. For example, in the case of interest rate Futures Contracts, the interest rate levels, maturities and creditworthiness of the issues underlying the Futures Contract may differ from the financial instruments held in the Fund. A decision of whether, when, and how to hedge involves skill and judgment, and even a well-conceived hedge may be unsuccessful to some degree because of unexpected market behavior, interest rate or market trends.

Because of the low margin deposits required, Futures trading involves an extremely high degree of leverage. As a result, a relatively small price movement in a Futures Contract may result in immediate and substantial loss, as well as gain, to the investor. For example, if at the time of purchase, 10

percent of the value of the Futures Contract is deposited as margin, a subsequent 10 percent decrease in the value of the Futures Contract would result in a total loss of the margin deposit, before any deduction for the transaction costs, if the account were then closed out. A 15 percent decrease would result in a loss equal to 150 percent of the original margin deposit, if the Futures Contract were closed out. Thus, a purchase or sale of a Futures Contract may result in losses in excess of the amount initially invested in the Futures Contract. However, a Fund would presumably have sustained comparable losses if, instead of the Futures Contract, it had invested in the underlying financial instrument and sold it after the decline.

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

There can be no assurance that a liquid market will exist at a time when a Fund seeks to close out a Futures or Futures option position. The Fund would continue to be required to meet margin requirements until the position is closed. In addition, many of the contracts discussed above are relatively new instruments without a significant trading history. As a result, there can be no assurance that an active secondary market will develop or continue to exist.

Federal Tax Treatment of Futures Contracts

For federal income tax purposes, each Fund is required to recognize at the end of each taxable year its net unrealized gains and losses on Futures Contracts as of the end of the year as well as those actually realized during the year. Except for transactions in Futures Contracts which the taxpayer elects to classify as part of a "mixed straddle", any gain or loss recognized with respect to a Futures Contract is considered to be 60 percent long-term capital gain or loss and 40 percent short-term capital gain or loss, without regard to the holding period of the Futures Contract. In the case of a Futures transaction classified as a "mixed straddle", the recognition of losses may be deferred to a later taxable year.

Sales of Futures Contracts which are intended to hedge against a change in the value of securities held by a Fund may affect the holding period of such securities and, consequently, the nature of the gain or loss on such securities upon disposition.

In order for each Fund to continue to qualify for federal income tax treatment as a regulated investment company, at least 90 percent of its gross income for a

taxable year must be derived from qualifying income (i.e., dividends, interest, income derived from loans of securities and gains from the sale of securities, and other income (including gains on options and Futures Contracts)) derived with respect to the Fund's business of investing in securities. In addition, gains realized on the sale or other disposition of securities on Futures Contracts held for less than three months must be limited to less than 30 percent of the Fund's annual gross income. It is anticipated that any net gain realized from the closing out of Futures Contracts will be considered gain from the sale of securities and therefore be qualifying income for purposes of the 90 percent requirement. For purposes of applying these tests any increase in value on a position that is part of a designated hedge will be offset by any decrease in value (whether or not realized) on any other position that is part of such hedge. It is anticipated that unrealized gains on Futures Contracts, which have been open for less than three months as of the end of a Fund's fiscal year and which are recognized for tax purposes, will not be considered gains on securities held less than three months for purposes of the 30 percent test.

Each Fund will distribute to shareholders annually any net capital gains which have been recognized for federal income tax purposes (including unrealized gains at the end of the Fund's fiscal year) on Futures transactions. Such distributions will be combined with distributions of capital gains realized on the Fund's other investments.

Stock Index Options

The IMG Core Stock Fund may (i) purchase stock index options for any purpose, (ii) sell stock index options in order to close out existing positions, and/or (iii) write covered options on stock indexes for hedging purposes. Stock index options are put options and call options on various stock indexes. In most respects, they are identical to listed options on common stocks. The primary difference between stock options and index options occurs when index options are exercised. In the case of stock options, the underlying security, common stock, is delivered. However, upon the exercise of an index option, settlement does not occur by delivery of the securities comprising the index. The option holder who exercises the index option receives an amount of cash if the closing level of the stock index upon which the option is based is greater than, in the case of a call, or less than, in the case of a put, the exercise price of the option. This amount of cash is equal to the difference between the closing price of the stock index and the exercise price of the option expressed in dollars times a specified multiple.

A stock index fluctuates with changes in the market values of the stocks included in the index. For example, some stock index options are based on a broad market index, such as the Standard & Poor's 500 or the Value Line Composite Index or a narrower market index, such as the Standard & Poor's 100. Indexes may also be based on an industry or market segment, such as the AMEX Oil and Gas Index or the Computer and Business Equipment Index. Options on stock indexes are currently traded on the following exchanges: the Chicago Board Options Exchange, the NYSE, the American Stock Exchange, the Pacific Stock Exchange and the Philadelphia Stock Exchange.

The IMG Core Stock Fund may purchase call and put options in an attempt to either hedge against the risk of unfavorable price movements adversely affecting the value of the Fund's securities, or securities the Fund intends to buy, or otherwise in furtherance of the Fund's investment objective. The Fund will sell (write) stock index options for hedging purposes or in order to close out positions in stock index options which the Fund has purchased. The IMG Core Stock Fund may only write "covered" options. The Fund may cover a call option on a stock index it writes by, for example, having a portfolio of securities which approximately correlates with the stock index.

Put options may be purchased in order to hedge against an anticipated decline in stock market prices that might adversely affect the value of the Fund's securities or in an attempt to capitalize on an anticipated decline in stock market prices. If the Fund purchases a put option on a stock index, the amount of the payment it receives upon exercising the option depends on the extent of any decline in the level of the stock index below the exercise price. Such payments would tend to offset a decline in the value of the Fund securities. If, however, the level of the stock index increases and remains above the exercise price while the put option is outstanding, the Fund will not be able to profitably exercise the option and will lose the amount of the premium and any transaction costs. Such loss may be offset by an increase in the value of the Fund securities.

Call options on stock indexes may be purchased in order to participate in an anticipated increase in stock market prices or to hedge against higher prices for securities that the Fund intends to buy in the future. If the Fund purchases a call option on a stock index, the amount of the payment it receives upon exercising the option depends on the extent of any increase in the level of the stock index above the exercise price. Such payments would in effect allow the Fund to benefit from stock market appreciation even though it may not have had sufficient cash to purchase the underlying stocks. Such payments may also offset increases in the price of stocks that the Fund intends to purchase. If, however, the level of the stock index declines and remains below the exercise price while the call option is outstanding, the Fund will not be able to exercise the option profitably and will lose the amount of the premium and transaction costs. Such loss may be offset by a reduction in the price the Fund pays to buy additional securities.

The use of stock index options by the IMG Core Stock Fund is subject to certain risks. Successful use by the Fund of options on stock indexes will be subject to the ability to correctly predict movements in the directions of the stock market. This requires different skills and techniques than predicting changes in the prices of individual securities. In addition, the Fund's ability to effectively hedge all or a portion of the securities in its portfolio, in anticipation of or during a market decline through transactions in put options on stock indexes, depends on the degree to which price movements in the underlying index correlate with the price movements in the Fund's securities. Inasmuch as the Fund's securities will not duplicate the components of an index, the correlation will not be perfect. Consequently, the Fund will bear the risk that the prices of its securities being hedged will not move in the same amount as the prices of the Fund put options on the stock indexes. It is also possible

that there may be a negative correlation between the index and the securities which would result in a loss on both such Fund securities and the options on stock indexes acquired by the Fund.

All index options purchased by the Fund will be listed and traded on a national securities exchange. However, there is no assurance that a liquid secondary market on an exchange will exist for any particular option, or at any particular time, and for some options no secondary market may exist. If the Fund is unable to effect a closing sale transaction with respect to options that it has purchased, it would have to exercise the options in order to realize any profit.

The hours of trading for options may not conform to the hours during which the underlying securities are traded. To the extent that the options markets close before the markets for the underlying securities, significant price and rate movements can take place in the underlying markets that cannot be reflected in the options markets. The purchase of options is a highly specialized activity which involves investment techniques and risks different from those associated with ordinary Fund securities transactions. The purchase of stock index options involves the risk that the premium and transaction costs paid by each Fund in purchasing an option will be lost as a result of unanticipated movements in prices of the securities comprising the stock index on which the option is based.

In the case of transactions involving "non-equity options", each Fund will treat any gain or loss arising from the lapse, closing out or exercise of such positions as 60 percent long-term and 40 percent short-term gain or loss as required by Section 1256 of the Internal Revenue Code (the "Code"). In addition, such positions must be marked-to-market as of the last business day of the year and gain or loss recognized for federal income tax purposes in accordance with the 60/40 rule discussed above even though the position has not been terminated. A "non-equity option" includes an option with respect to any group of stocks or a stock index if there is in effect a designation by the Commodity Futures Trading Commission of a contract market for a contract based on such group of stocks or indexes. For example, transactions involving broad-based stock indexes such as the Standard & Poor's 500 and 100 Indexes would be "non-equity options" within the meaning of Code Section 1256.

Options on Futures

Each Fund may also purchase put and write call options on Futures Contracts and enter into closing transactions with respect to such options to terminate an existing position. A futures option gives the holder the right, in return for the premium paid, to assume a long position (call) or short position (put) in a Futures Contract at a specified exercise price prior to the expiration of the option. Upon exercise of a call option, the holder acquires a long position in the Futures Contract and the writer is assigned the opposite short position. In the case of a put option, the opposite is true. Prior to exercise or expiration, a futures option may be closed out by an offsetting purchase or sale of a futures option of the same series.

Each Fund may use its options on Futures Contracts in connection with hedging

strategies. Generally, these strategies would be employed under the same market and market sector conditions in which the Fund uses put and call options on securities. (See "Covered Call and Put Options" below.) The purchase of put options on Futures Contracts is analogous to the purchase of puts on securities so as to hedge the Fund's securities against the risk of declining market prices. The writing of a call option on a Futures Contract constitutes a partial hedge against declining prices of the securities being hedged. If the futures price at expiration of a written call option is below the exercise price, the Fund will retain the full amount of the option premium which provides a partial hedge against any decline that may have occurred in the Fund's holdings of securities. If the futures price when the option is exercised is above the exercise price, however, the Fund will incur a loss, which may be offset, in whole or in part, by the increase in the value of the securities that were being hedged.

As with investments in Futures Contracts, each Fund is also required to deposit and maintain margin with respect to options on Futures Contracts written by it. Such margin deposits will vary depending on the nature of the underlying Futures Contracts (and the related initial margin requirements), the current market value of the option and other futures positions held by each Fund.

The risks associated with the use of options on Futures Contracts include the risk that a Fund may close out its position as a writer of an option only if a liquid secondary market exists for such options, which cannot be assured. The Fund's successful use of options on Futures Contracts also depends on the ability to correctly predict the movement in prices of Futures Contracts and the underlying instruments, which may prove to be incorrect. In addition, there may be imperfect correlation between the instruments being hedged and the Futures Contract subject to the option. (See "Futures Contracts".)

Neither Fund will purchase or write options on Futures Contracts if, as a result (i) the aggregate market value of all Fund securities covering the Fund's options (including options on Futures Contracts and Fund securities) exceeds 25 percent of the Fund's net assets; (ii) the value of all options (including options on Futures Contracts and Fund securities) exceeds 5 percent of the Fund's total assets; (iii) the aggregate premiums paid for all options (including options on Futures Contracts and Fund securities) held exceeds 5 percent of the Fund's net assets; or (iv) more than 5 percent of the Fund's total assets (taken at market value at the time of entering into the contract) would be committed to initial margin and premiums paid on Futures Contracts and options on Futures Contracts.

Covered Call and Put Options

Each Fund may write (sell) covered call options and purchase options to close out options previously written by the Fund. The purpose of writing covered call options is to reduce the effect of price fluctuations of the securities owned by the Fund (and involved in the options) on the Fund's net asset value per share. Although premiums may be generated through the use of covered call options, the Advisor does not consider such premiums as the primary reason for writing covered call options.

A call option gives the holder (buyer) the right to purchase a security at a specified price (the exercise price) at any time until a certain date (the expiration date). So long as the obligation of the writer of a call option continues, such writer may be assigned an exercise notice by the broker-dealer through whom such option was sold, requiring the writer to deliver the underlying security against payment of the exercise price. This obligation terminates upon the expiration of the call option, or such earlier time at which the writer effects a closing purchase transaction by repurchasing the option the writer previously sold. To secure the writer's obligation to deliver the underlying security in the case of a call option, the writer is required to deposit in escrow the underlying security or other assets in accordance with the rules of the clearing corporations and of the exchanges. A put option gives the holder (buyer) the right to sell a security at a specified price (the exercise price) at any time until a certain date (the expiration date). A Fund will only write covered call options and purchase covered put options. This means that the Fund will only write a call option or purchase a put option on a security that the Fund already owns. The Fund will not write call options on when-issued securities. The Fund will write covered call options and purchase covered put options in standard contracts, which may be quoted on NASDAQ or on national securities exchanges, or write covered call options with and purchase covered put options directly from investment dealers meeting the creditworthiness criteria of the Advisor. In order to comply with the requirements of the securities laws in several states, a Fund will not write a covered call option or purchase a put option on Fund securities if, as a result, (i) the aggregate market value of all Fund securities covering the Fund's options (including options on Futures Contracts and Fund securities) exceeds 25 percent of the Fund's net assets; (ii) the value of all options (including options on Futures Contracts and Fund securities) exceeds 5 percent of the Fund's total assets; or (iii) the aggregate premiums paid for all options (including options on Futures Contracts and Fund securities) held exceeds 5 percent of the Fund's net assets.

Securities on which put options will be purchased and call options may be written will be purchased solely on the basis of investment considerations consistent with each Fund's investment objective. The writing of covered call options is a conservative investment technique believed to involve relatively little risk (in contrast to the writing of naked or uncovered options, which the Funds will not do), but capable of enhancing each Fund's total return. When writing a covered call option, the Fund, in return for the premium, gives up the opportunity for profit from a price increase in the underlying security above the exercise price, but conversely retains the risk of loss should the price of the security decline. If a call option which the Fund has written expires, the Fund will realize a gain in the amount of the premium; however, such gain may be offset by a decline in the market value of the underlying security during the option period. If the call option is exercised, the Fund will realize a gain or loss from the sale of the underlying security. Each Fund will purchase put options involving Fund securities only when a temporary defensive position is desirable in light of market conditions and the Fund will hold the Fund security. As a result, the purchase of put options will be utilized to protect a Fund's holdings in an underlying security against a substantial decline in market value. Such protection is, of course, only provided during the life of

the put option when a Fund, as the holder of the put option, is able to sell the underlying security at the put exercise price regardless of any decline in the underlying security's market price. By using put options in this manner, the Funds will reduce any profit they might otherwise have realized in their underlying security by the premium paid for the put option and by transaction costs. The securities covering the call option will be maintained in a segregated account of the Custodian. The Funds do not consider a security covered by a call option or put option to be "pledged" as that term is used in each Fund's policy limiting the pledging or mortgaging of its assets.

The premium received is the market value of an option. The premium a Fund will receive from writing a call option will reflect, among other things, the current market price of the underlying security, the relationship of the exercise price to such market price, the historical price volatility of the underlying security, the length of the option period, the general supply of and demand for credit and the general interest rate environment. The premium received by the Fund for writing covered call options 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 at which the net asset value per share of the Fund is computed (close of the New York Stock Exchange), or, in the absence of such sale, the latest asked price. 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 the exercise of the option.

The premium paid by each Fund when purchasing a put option will be recorded as an asset in the Fund's Statement of Assets and Liabilities. This asset will be adjusted daily to the option's current market value, which will be the latest sale price at the time at which the net asset value per share of the Fund is computed (close of the New York Stock Exchange), or, in the absence of such sale, the latest bid price. The asset will be extinguished upon expiration of the option, the selling (writing) of an identical option in a closing transaction or the delivery of the underlying security upon the exercise of the option.

Each Fund will only purchase a call option to close out a covered call option it has written. A Fund will only write a put option to close out a put option it has purchased. Such closing transactions will be effected in order to realize a profit on an outstanding call or put option, to prevent an underlying security from being called or put, or to permit the sale of the underlying security. Furthermore, effecting a closing transaction will permit the Fund to write another call option on the underlying security with either a different exercise price or expiration date or both. If the Fund desires to sell a particular security from its portfolio on which it has written a call option or purchased a put option, it will seek to effect a closing transaction prior to, or concurrently with, the sale of the security. There is, of course, no assurance that the Fund will be able to effect such closing transactions at a favorable price. If the Fund cannot enter into such a transaction, it may be required to hold a security that it might otherwise have sold, in which case it would continue to be at market risk on the security. This could result in higher transaction costs, including brokerage commissions. The Fund will pay brokerage

commissions in connection with the writing or purchase of options to close out previously written options. Such brokerage commissions are normally higher than the transaction costs applicable to purchases and sales of Fund securities.

Call options written by each Fund will normally have expiration dates between three and nine months from the date written. The exercise price of the options may be below, equal to, or above the current market values of the underlying securities at the time the options are written. From time to time, the Fund may purchase an underlying security for delivery in accordance with an exercise notice of a call option assigned to it rather than delivering such security from its portfolio. In such cases additional transaction costs will be incurred.

A Fund will realize a profit or loss from a closing purchase transaction if the cost of the transaction is less or more than the premium received from the writing of the call option; however, any loss so incurred in a closing purchase transaction may be partially or entirely offset by the premium received from a simultaneous or subsequent sale of a different call or put option. Also, because increases in the market price of a call option will generally reflect increases in the market price of the underlying security, any loss resulting from the repurchase of a call option is likely to be offset in whole or in part by appreciation of the underlying security owned by the Fund.

Over-The-Counter Options

Subject to restrictions on investments in Illiquid Securities, and its own investment limitations, each Fund may invest in over-the-counter options. Unlike transactions entered into by the Funds in Futures Contracts or exchange-traded options, over-the-counter options on securities are not traded on contract markets regulated by the CFTC or the United States Securities and Exchange Commission ("SEC"). To the contrary, such instruments are traded through financial institutions acting as market-makers. In an over-the-counter trading environment, many of the protections afforded to exchange participants will not be available. For example, there are no daily price fluctuation limits, and adverse market movements could therefore continue to an unlimited extent over a period of time. Although the purchaser of an option cannot lose more than the amount of the premium plus related transaction costs, this entire amount could be lost. Moreover, the option writer could lose amounts substantially in excess of their initial investments, due to the margin and collateral requirements associated with such positions.

In addition, over-the-counter transactions can only be entered into with a financial institution willing to take the opposite side, as principal, of a Fund's position unless the institution acts as broker and is able to find another counterparty willing to enter into the transaction with the Fund. Where no such counterparty is available, it will not be possible to enter into a desired transaction. There also may be no liquid secondary market in the trading of over-the-counter contracts, and a Fund could be required to retain options purchased or written, until exercise, expiration or maturity. This in turn could limit the Fund's ability to profit from open positions or to reduce losses experienced, and could result in greater losses.

Further, over-the-counter transactions are not subject to the guarantee of an exchange clearinghouse, and a Fund will therefore be subject to the risk of default by, or the bankruptcy of, the financial institution serving as its counterparty. One or more of such institutions also may decide to discontinue their role as market-makers in a particular currency, metal or security, thereby restricting the Fund's ability to enter into desired hedging transactions. A Fund will enter into an over-the-counter transaction only with parties whose creditworthiness has been reviewed and found satisfactory by the Advisor.

Spread Transactions

Each Fund may purchase from securities dealers covered spread options. Such covered spread options are not presently exchange listed or traded. The purchase of a spread option gives the Fund the right to put or sell a security that it owns at a fixed dollar spread or fixed yield spread in relationship to another security that the Fund does not own, but which is used as a benchmark. The risk to the Fund in purchasing covered spread options is the cost of the premium paid for the spread option and any transaction costs. In addition, there is no assurance that closing transactions will be available. The purchase of spread options will be used to protect the Fund against adverse changes in prevailing credit quality spreads (i.e., the yield spread between high-quality and lower-quality securities). Such protection is only provided during the life of the spread option. The security covering the spread option will be maintained in a segregated account by the Fund's custodian. The Funds do not consider a security covered by a spread option to be "pledged" as that term is used in each Fund's policy limiting the pledging or mortgaging of its assets.

Federal Tax Treatment of Options

Certain option transactions have special tax results. Expiration of a call option written by a Fund will result in a short-term capital gain. If the call option is exercised, the Fund will realize a gain or loss from the sale of the security covering the call option, and in determining such gain or loss the premium will be included in the proceeds of the sale.

If a Fund writes options other than "qualified covered call options", as defined in the Code or purchases puts, any losses on such options transactions, to the extent they do not exceed the unrealized gains on the securities covering the options, may be subject to deferral until the securities covering the options have been sold.

In the case of transactions involving "non-equity options" and options on Futures Contracts, a Fund will treat any gain or loss arising from the lapse, closing out or exercise of such positions as 60 percent long-term and 40 percent short-term gain or loss as required by Section 1256 of the Code. In addition, such positions must be marked-to-market as of the last business day of the year and gain or loss recognized for federal income tax purposes in accordance with the 60/40 rule discussed above even though the position has not been terminated.

Certain Considerations Regarding Options

There is no assurance that a liquid secondary market on an options exchange will exist for any particular option, or at any particular time, and for some options no secondary market on an exchange or elsewhere may exist. The writing and purchasing of options is a highly specialized activity which involves investment techniques and risks different from those associated with ordinary Fund securities transactions. Imperfect correlation between the options and securities markets may detract from the effectiveness of attempted hedging. Options transactions may result in significantly higher transaction costs and portfolio turnover for a Fund.

Asset Coverage for Futures and Options Positions

Each Fund will comply with regulatory requirements of the SEC and the CFTC with respect to coverage of options and futures positions by registered investment companies. The Funds will set aside cash, and other liquid, high grade debt securities in a segregated custodial account to cover their obligations under options and futures transactions. Securities held in a segregated account cannot be sold while the futures or options position is outstanding, unless replaced with other permissible assets. As a result, there is a possibility that the segregation of a large percentage of the Fund's assets may force the Fund to close out futures and options positions and/or liquidate other Fund securities, any of which may occur at disadvantageous prices, in order for the Fund to meet redemption requests or other current obligations.

Low-Rated and Comparable Unrated Fixed Income Securities

The IMG Bond Fund may invest up to 25 percent of its total assets in non-Investment-Grade Debt Securities. Non-Investment-Grade Debt Securities (hereinafter referred to as "junk bonds" or "low-rated and comparable unrated securities") include (i) bonds rated as low as "Ba" by Moody's Investors Service, Inc. ("Moody's"), or "BB" by Standard & Poor's Corporation ("S&P"), Fitch Investors Services, Inc. ("Fitch") or Duff & Phelps, Inc. ("D&P") or of similar quality by another NRSRO; and (ii) unrated debt securities of comparable quality.

Low-rated and comparable unrated securities, while generally offering higher yields than investment-grade securities with similar maturities, involve greater risks, including the possibility of default or bankruptcy. They are regarded as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal. The special risk considerations in connection with such investments are discussed below. Refer to Appendix B of this Statement of Additional Information for a discussion of securities ratings.

Effect of Interest Rates and Economic Changes. The low-rated and comparable unrated securities market is relatively new, and its growth paralleled a long economic expansion. As a result, it is not clear how this market may withstand a prolonged recession or economic downturn. Such a prolonged economic downturn could severely disrupt the market for and adversely affect the value of such securities.

All interest-bearing securities typically experience appreciation when interest

rates decline and depreciation when interest rates rise. The market values of low-rated and comparable unrated securities tend to reflect individual corporate development to a greater extent than do higher-rated securities, which react primarily to fluctuations in the general level of interest rates. Low-rated and comparable unrated securities also tend to be more sensitive to economic conditions than are higher-rated securities. As a result, they generally involve more credit risk than securities in the higher-rated categories. During an economic downturn or a sustained period of rising interest rates, highly leveraged issuers of low-rated and comparable unrated securities may experience financial stress and may not have sufficient revenues to meet their payment obligations. The issuer's ability to service its debt obligations may also be adversely affected by specific corporate developments, the issuer's inability to meet specific projected business forecasts, or the unavailability of additional financing. The risk of loss due to default by an issuer of low-rated and comparable unrated securities is significantly greater than that of issuers of higher-rated securities because such securities are generally unsecured and are often subordinated to other creditors. Further, if the issuer of a low-rated and comparable unrated security defaulted, the Fund might incur additional expenses to seek recovery. Periods of economic uncertainty and changes would also generally result in increased volatility in the market prices of low-rated and comparable unrated securities and thus in the Fund's net asset value.

As previously stated, the value of such a security will decrease in a rising interest rate market and accordingly, so will the Fund's net asset value. If the Fund experiences unexpected net redemptions in such a market, it may be forced to liquidate a portion of its Fund securities without regard to their investment merits. Due to the limited liquidity of high-yield securities (discussed below) the Fund may be forced to liquidate these securities at a substantial discount. Any such liquidation would reduce the Fund's asset base over which expenses could be allocated and could result in a reduced rate of return for the Fund.

Payment Expectations. Low-rated and comparable unrated securities typically contain redemption, call or prepayment provisions which permit the issuer of such securities containing such provisions to, at their discretion, redeem the securities. During periods of falling interest rates, issuers of high-yield securities are likely to redeem or prepay the securities and refinance them with debt securities with a lower interest rate. To the extent an issuer is able to refinance the securities, or otherwise redeem them, the Fund may have to replace the securities with a lower-yielding security, which would result in a lower return for the Fund.

Credit Ratings. Credit ratings issued by credit-rating agencies evaluate the safety of principal and interest payments of rated securities. They do not, however, evaluate the market value risk of low-rated and comparable unrated securities and, therefore, may not fully reflect the true risks of an investment. In addition, credit-rating agencies may or may not make timely changes in a rating to reflect changes in the economy or in the condition of the issuer that affect the market value of the security. Consequently, credit ratings are used only as a preliminary indicator of investment quality. Investments in low-rated and comparable unrated securities will be more dependent on the credit analysis than would be the case with investments in

investment-grade debt securities. The Advisor employs its own credit research and analysis, which includes a study of existing debt, capital structure, ability to service debt and to pay dividends, the issuer's sensitivity to economic conditions, its operating history, and the current trend of earnings. The Advisor continually monitors the investments owned by the Funds and carefully evaluates whether to dispose of or to retain low-rated and comparable unrated securities whose credit ratings or credit quality may have changed.

Liquidity and Valuation. The Fund may have difficulty disposing of certain low-rated and comparable unrated securities because there may be a thin trading market for such securities. Because not all dealers maintain markets in low-rated and comparable unrated securities, there is no established retail secondary market for many of these securities. The Fund anticipates that such securities could be sold only to a limited number of dealers or institutional investors. To the extent a secondary trading market does exist, it is generally not as liquid as the secondary market for higher-rated securities. As a result, the Fund's asset value and the Fund's ability to dispose of particular securities, when necessary to meet the Fund's liquidity needs or in response to a specific economic event, may be impacted. The lack of a liquid secondary market for certain securities may also make it more difficult for the Fund to obtain accurate market quotations for purposes of valuing the Fund's securities. Market quotations are generally available on many low-rated and comparable unrated securities only from a limited number of dealers and may not necessarily represent firm bids of such dealers or prices for actual sales. During periods of thin trading, the spread between bid and asked prices is likely to increase significantly. In addition, adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the values and liquidity of low-rated and comparable unrated securities, especially in a thinly-traded market.

New and Proposed Legislation. Legislation has been adopted and, from time to time, proposals have been discussed regarding new legislation designed to limit the use of certain low-rated and comparable unrated securities by certain issuers. An example of legislation is a recent law which requires federally insured savings and loan associations to divest their investment in these securities over time. New legislation could further reduce the market because such securities, generally, could negatively affect the financial condition of the issuers of high-yield securities, and could adversely affect the market in general. It is not currently possible to determine the impact of the recent legislation on this market. However, it is anticipated that if additional legislation is enacted or proposed, it could have a material effect on the value of low-rated and comparable unrated securities and the existence of a secondary trading market for the securities.

INVESTMENT RESTRICTIONS

The Prospectus sets forth the investment objectives and policies applicable to each Fund under the caption "INVESTMENT OBJECTIVES AND POLICIES". The following is a list of investment restrictions applicable to each Fund. If a percentage limitation is adhered to at the time of an investment by a Fund, a later increase or decrease in percentage resulting from any change in value or net

assets will not result in a violation of the restriction.

Neither Fund's "fundamental" investment restrictions may be changed by that Fund without the approval of a majority of its shareholders, which means the vote at any shareholder meeting of the Fund, of (i) 67 percent or more of the shares present or represented by proxy at the meeting (if holders of more than 50 percent of the outstanding shares are present or represented by proxy) or (ii) more than 50 percent of the outstanding shares, whichever is less. However, except for the fundamental investment limitations set forth below, the investment policies and limitations described in this Statement of Additional Information are not fundamental, and may be changed without shareholder approval.

Except as otherwise stated, the following fundamental restrictions apply to both Funds. The Funds may not individually:

1. Purchase the securities of any issuer if such purchase would cause more than 5 percent of the value of 75 percent of the Fund's total assets to be invested in securities of any one issuer (except securities of the U.S. government or any instrumentality thereof), or purchase more than 10 percent of the outstanding voting securities of any one issuer, or more than 10 percent of the outstanding securities of any class.
2. Borrow money except for temporary or emergency purposes (but not for the purpose of purchasing investments) and then, only in an amount not to exceed 25 percent of the value of a Fund's net assets at the time the borrowing is incurred; provided, however, that a Fund may enter into transactions in options, futures and options on futures. A Fund will not purchase securities when borrowings exceed 5 percent of its total assets. If a Fund borrows money, its share price may be subject to greater fluctuation until the borrowing is paid off. To this extent, purchasing securities when borrowings are outstanding may involve an element of leverage.
3. Invest in commodities or physical commodity contracts. However, the Funds may purchase and sell financial futures contracts and options on such contracts.
4. Make loans, except that the Funds may (i) purchase and hold debt obligations in accordance with their investment objectives and policies, (ii) enter into repurchase agreements, and (iii) lend Fund securities against collateral (consisting of cash or securities issued or guaranteed by the U.S. government or its agencies or instrumentalities) equal at all times to not less than 100 percent of the value of the securities loaned provided no such loan may be made if as a result the aggregate of such loans of a Fund's securities exceeds 30 percent of the value of the Fund's total assets.
5. Invest in real estate, although they may invest in securities which are secured by real estate and securities of issuers which invest or deal in real estate.

6. Issue senior securities, bonds or debentures.
7. Underwrite securities of other issuers, except to the extent a Fund may be deemed to be an underwriter in connection with the sale of securities held by it.
8. Invest in the securities of a company for the purpose of exercising control or management.
9. Sell securities short (except where the Fund holds or has the right to obtain at no added cost a long position in the securities sold that equals or exceeds the securities sold short) or purchase any securities on margin, except that it may obtain such short-term credits as are necessary for the clearance of transactions. The deposit or payment of margin in connection with transactions in options and financial futures contracts is not considered the purchase of securities on margin.
10. Concentrate investments in any industry. However, a Fund may invest up to 25 percent of the value of its total assets in any one industry.

The following limitations are not fundamental and may be changed without shareholder approval. The Funds do not currently intend to:

- A. Purchase securities of any company having less than three years of continuous operation (including the operations of any predecessors) if the purchase would cause the value of a Fund's investments in all such companies to exceed 5 percent of the value of its net assets.
- B. Enter into a Futures Contract or an option thereon unless if, as a result thereof, (i) the then current aggregate futures market prices of instruments required to be delivered under open Futures Contract sales plus the then current aggregate purchase prices of instruments required to be purchased under open Futures Contract purchases would not exceed 30 percent of a Fund's net assets (taken at market value at the time of entering into the contract) and (ii) not more than 5 percent of a Fund's total assets (taken at market value at the time of entering into the contract) would be committed to initial margin and premiums paid on Futures Contracts or options on Futures Contracts. Transactions in Futures Contracts or options thereon may be entered into only for hedging purposes.
- C. Engage in the purchase and sale of put, spread or call options on specific securities or Futures Contracts, or engage in writing such options, except that a Fund may, subject to the provisions of Items B and D, (i) purchase warrants where the grantor of the warrants is the issuer of the underlying securities, provided that not more than 5 percent of a Fund's net assets may be invested in such warrants; (ii) purchase covered spread options, provided that the value of such options at any time does not exceed 5 percent of a Fund's net assets; (iii) write covered call options, and purchase covered put options with respect to all of its Fund

securities and enter into closing transactions with respect to such options; and (iv) write call options and purchase put options on Futures Contracts and enter into closing transactions with respect to such options.

- D. Purchase or write options on specific securities, Futures Contracts and indexes if as a result thereof, (i) the aggregate market value of all Fund securities covering such options (including options on Futures Contracts and Fund securities) exceeds 25 percent of a Fund's net assets; (ii) the value of all such options (including options on Futures Contracts and Fund securities) exceeds 5 percent of a Fund's total assets; (iii) the aggregate premiums paid for all such options (including options on Futures Contracts and Fund securities) held exceeds 5 percent of a Fund's net assets; or (iv) more than 5 percent of the Fund's total assets (taken at market value at the time of entering into the contract) would be committed to initial margin and premiums paid on Futures Contracts and options on Futures Contracts.
- E. Invest more than 10 percent of any Fund's total assets in securities of other open-end investment companies, invest more than 5 percent of total assets in the securities of any one investment company, or acquire more than 3 percent of the outstanding voting securities of any one investment company except in connection with a merger, consolidation or plan of reorganization.
- F. Borrow money, except (a) from a bank or (b) by engaging in reverse repurchase agreements with any party (reverse repurchase agreements are treated as borrowings for purposes of fundamental investment limitation (2)). A Fund may not purchase any security while borrowings representing more than 5 percent of its total assets are outstanding.
- G. Purchase or retain securities issued by an issuer, any of whose officers or directors or security holders is an Officer or Director of the Fund or its Advisor if, or so long as, the Officers and Directors of the Fund and of the Advisor together own beneficially more than 5 percent of any class of securities of the issuer.
- H. Invest in oil, gas or other mineral exploration or development programs, although the Funds may invest in securities of issuers which invest in or sponsor such programs.

For further discussion of the limitations of each Fund's investments which are not fundamental and may be changed without shareholder approval, see "INVESTMENT POLICIES AND TECHNIQUES" above.

DIRECTORS AND OFFICERS

Directors and Officers, together with information as to their principal business occupations during the last five years, and other information are shown below. Each Director who is deemed an "interested person", as defined in the Investment Company Act, is indicated by an asterisk.

*David W. Miles, Chairman of the Board and Director.
President, Treasurer and Senior Managing Director, Investors Management
Group, and IMG Financial Services, Inc.

*Mark A. McClurg, President and Director.
Vice President, Secretary and Senior Managing Director, Investors
Management Group, and IMG Financial Services, Inc.

*James W. Paulsen, Vice President, Treasurer and Director.
Senior Managing Director, Investors Management Group, and IMG Financial
Services, Inc.

*Richard A. Westcott, Director.
Chairman, Investors Management Group, and IMG Financial Services, Inc.

David Lundquist, Director.
Vice Chairman and CFO, New Heritage Association 1991-1995; Executive Vice
President, Heritage Communications 1980-1990.

Johnny Danos, Director.
President, Danos, Inc., a personal investment company, 1994-1995; Audit
Partner, KPMG Peat Marwick, 1963-1994.

Debra Johnson, Director.
CFO and Treasurer, Business Publications Corporation/Iowa Title Company,
1990-1995; CFO, Chart Services, Ltd., an industrial hygiene consulting
firm, 1989-1990.

Robert A. Dee, Director.
Vice Chairman, HMA, Inc., an insurance agency, 1960-1995.

Edward J. Stanek, Director.
CEO, Iowa Lottery, 1985-1995.

Ruth L. Prochaska, Secretary.
Controller / Compliance Officer, Investors Management Group, and IMG
Financial Services, Inc.

The address for Messrs. Miles, McClurg, Westcott and Paulsen, and Ms. Prochaska
is 2203 Grand Avenue, Des Moines, Iowa 50312-5338.

As of the date hereof, Officers and Director beneficially owned no shares of
common stock of the Fund.

Directors and Officers of the Fund who are officers, directors, employees, or
stockholders of the Advisor do not receive any remuneration from the Fund for
serving as Directors or Officers. Those Directors of the Funds who are not so
affiliated with the Advisor receive \$250 for each Board of Directors meeting
attended, plus reimbursement for out-of-pocket expenses in attending meetings.

PRINCIPAL SHAREHOLDERS

As of the date hereof, no persons owned of record or are known to own of record more than 5 percent of any Fund's shares other than the Advisor, Investors Management Group, which is the only shareholder.

MANAGEMENT OF THE FUNDS

The Advisor

The Funds' advisor is Investors Management Group ("IMG" or the "Advisor"), a registered investment advisor incorporated in the state of Iowa. A brief description of the Funds' investment advisory agreement is set forth in the Prospectus under "MANAGEMENT".

The Advisory Agreement, (the "Advisory Agreement"), was approved by the initial shareholder on November 17, 1994. The Advisory Agreement is required to be approved annually by the Board of Directors of the Funds or by a vote of a majority of the Funds' outstanding voting securities (as defined in the Investment Company Act). In either case, each annual renewal must be approved by the vote of a majority of the Funds' Directors who are not parties to the Advisory Agreement or interested persons of any such party, cast in person at a meeting called for the purpose of voting on such approval. The Advisory Agreement is terminable, without penalty, on 60 days' written notice by the Board of Directors of the Funds, by vote of a majority of the Funds' outstanding voting securities, or by IMG. In addition, the Advisory Agreement will terminate automatically in the event of its assignment.

Under the terms of the Advisory Agreement, IMG is responsible for all day-to-day management of the Funds, subject to the supervision of the Funds' Board of Directors.

The IMG Core Stock Fund is co-managed by James W. Paulsen, Ph.D. and James T. Richards. The IMG Bond Fund is co-managed by James W. Paulsen, Ph.D., Jeffrey D. Lorenzen, CFA, and Kathryn D. Beyer, CFA. The following is certain biographical information concerning the co-managers:

James W. Paulsen, Ph.D., Senior Managing Director. Dr. Paulsen is the firm's chief portfolio strategist and chairs IMG's Investment Policy Committee. Prior to joining IMG in 1991, Dr. Paulsen served as president of a Cedar Rapids, Iowa investment firm managing over \$700 million from 1983 to 1991. Dr. Paulsen received his Bachelor of Science degree in economics and his Doctorate in economics from Iowa State University.

James T. Richards, Managing Director. Mr. Richards is IMG's chief equity strategist, and is a member of IMG's Investment Policy Committee. Prior to joining IMG in 1991, he served as vice president and managing director--equities, for a Cedar Rapids, Iowa investment firm from 1985 to 1991. Mr. Richards received his Master of Business Administration from the University of Iowa and his Bachelor of

Arts degree in economics from Coe College.

Jeffrey D. Lorenzen, CFA, Managing Director. Mr. Lorenzen is a fixed income strategist and is a member of IMG's Investment Policy Committee. Prior to joining IMG in 1992, his experience includes serving as a securities analyst and corporate fixed income analyst for The Statesman Group from 1989 to 1992. He received his Master of Business Administration from Drake University and his Bachelor of Business Administration degree from the University of Iowa.

Kathryn D. Beyer, CFA, Managing Director. Ms. Beyer is a fixed income strategist and is a member of IMG's Investment Policy Committee. Prior to joining IMG in 1993, her experience includes serving as a securities analyst and director of mortgage-backed securities for Central Life Assurance Company from 1988 to 1993. Ms. Beyer received her Master of Business Administration from Drake University and her Bachelor of Science degree in agricultural engineering from Iowa State University.

IMG is responsible for investment decisions and supplies investment research and Fund management. At its expense, IMG provides office space and all necessary office facilities, equipment, and personnel for servicing the investments of the Funds.

Except for the expenses expressly assumed by IMG as set forth above or as described below with respect to the distribution of the Funds' shares, the Funds are responsible for all their other expenses, including, without limitation, governmental fees, interest charges, taxes, membership dues in the Investment Company Institute allocable to the Funds, brokerage commissions, and other expenses connected with the execution, recording and settlement of Fund security transactions; expenses of repurchasing and redeeming shares and servicing shareholder accounts; expenses of registering or qualifying shares for sale; expenses for preparing, printing and distributing periodic reports, notices and proxy statements to shareholders and to governmental officers and commissions; insurance premiums; fees and expenses of the Funds' custodian including safekeeping of funds and securities and maintaining required books and accounting; expenses of calculating the net asset value of shares of the Funds; fees and expenses of independent auditors, of legal counsel, and of any transfer agent, registrar or dividend disbursing agent of the Funds; compensation and expenses of Directors who are not "interested persons" of the Advisor; and expenses of shareholder meetings. Expenses relating to the issuance, registration and qualification of shares of the Funds and the preparation, printing and mailing of prospectuses are borne by the Funds except that the Funds' Distribution Agreement with IMG Financial Services, Inc. requires IMG Financial Services, Inc. to pay for prospectuses that are to be used for sales purposes.

As compensation for its services, the Funds pay to the Advisor a monthly management fee at an annual rate of 0.50 percent and 0.30 percent of average net assets of the IMG Core Stock Fund and the IMG Bond Fund respectively. (See "ADDITIONAL INVESTMENT INFORMATION -- Calculation of Net Asset Value" in the

Prospectus.) From time to time, IMG may voluntarily waive all or a portion of their management fees for one or more of the Funds. The organizational expenses of the Funds were borne by IMG and will not be reimbursed by the Funds.

The Advisory Agreement requires IMG to reimburse the Funds in the event that the expenses and charges payable by the Funds in any fiscal year, including the advisory fee but excluding taxes, interest, brokerage commissions, and similar fees, exceed that percentage of the average net asset value of the Funds for such year, which is the most restrictive percentage provided by the state laws of the various states in which the Funds' common stock is qualified for sale. Such excess is determined by valuations made as of the close of each business day of the year. No percentage limitation is currently applicable to the Funds. Reimbursement of expenses in excess of the applicable limitation will be made on a monthly basis and will be paid to the Funds by reduction of the Advisor's fee, subject to later adjustment, month by month, for the remainder of the Funds' fiscal year. IMG may from time to time voluntarily absorb expenses for the Funds in addition to the reimbursement of expenses in excess of applicable limitations.

The Distributor

The Directors of the Funds have adopted a Distribution Plan (the "Distribution Plan") pursuant to Section 12(b) of the 1940 Act and Rule 12b-1 thereunder, after having concluded that there was a reasonable likelihood that the Distribution Plan would benefit the Funds and the shareholders of the Funds. The Distribution Plan is designed to promote sales, thereby increasing the net assets of the Funds. Such an increase may reduce the expense ratio to the extent the Funds' fixed costs are spread over a larger net asset base. Also, an increase in net assets may lessen the adverse effects that could result were the Funds required to liquidate portfolio securities to meet redemptions. There is, however, no assurance that the net assets of the Funds will increase or that the other benefits referred to above will be realized.

The Distribution Plan provides that the Funds shall pay IMG Financial Services, Inc. ("IFS"), as the Funds' distributor, a daily distribution fee payable monthly and equal on an annual basis to 0.40 percent of the average daily net assets of Investor Shares of the IMG Core Stock Fund, 0.25 percent of Investor Shares of the IMG Bond Fund, and 0.15 percent of Select Shares of each Fund. The purpose of such payments is to compensate IFS for its distribution services to the Funds. IFS pays the cost of fees to broker-dealers, and for expenses of printing prospectuses and reports used for sales purposes, expenses of the preparation and printing of sales literature and other distribution-related expenses, including, without limitation, the cost necessary to provide distribution-related services, of personnel, travel, office expenses and equipment.

In accordance with Rule 12b-1, all agreements relating to the Distribution Plan entered into between either the Funds or IFS and other organizations must be approved by the Funds' Board of Directors, including a majority of the Directors who are not "interested persons" of the Funds (as defined in the 1940 Act) and who have no direct or indirect financial interest in the operation of the

Distribution Plan or in any agreement related to such Plan ("Qualified Directors"). The Distribution Plan further provides that the selection and nomination of Qualified Directors shall be committed to the discretion of the non-interested Directors then in office.

The Distribution Plan requires that the Funds shall provide to the Directors, and the Directors shall review, at least quarterly, a written report of the amounts expended (and purposes therefor) under the Distribution Plan. The Distribution Plan may be terminated at any time by vote of a majority of the Qualified Directors or by vote of the holders of a majority of the shares of the Funds (as defined in "Investment Restrictions" above). The Distribution Plan may not be amended to increase materially the amount of permitted distribution expenses without the approval of shareholders and may not be materially amended in any case without a vote of the majority of both the Directors and the Qualified Directors.

As the distributor of the Funds, IFS acts as agent in selling shares of the Funds to dealers. From time to time, IFS, at its expense, may provide additional commissions, compensation or promotional incentives ("concessions") to dealers which sell shares of the Funds. Such concessions provided by IFS may include financial assistance to dealers in connection with preapproved conferences or seminars, sales or training programs for invited registered representatives, payment for travel expenses, including lodging, incurred by registered representatives and members of their families to various locations for such seminars or training programs, seminars for the public, advertising and sales campaigns regarding one or more Funds and/or other dealer-sponsored events. In some instances, these concessions may be offered to dealers or only to certain dealers who have sold or may sell, during specified periods, certain minimum amounts of shares of the Funds. No other concessions will be offered to the extent prohibited by the laws of any state or any self-regulatory agency, such as the National Association of Securities Dealers, Inc. Neither IFS nor dealers are permitted to delay placing orders to benefit themselves by a price change.

The Funds have entered into a Distribution Agreement (the "Distribution Agreement"), with IFS in accordance with the provisions of the Distribution Plan. Under the Agreement IFS will serve as distributor for the continuous offering of shares of the Funds. The public offering price of shares of each Fund is their net asset value next computed after the sale (see "HOW TO INVEST" in the Prospectus). The Distribution Agreement will continue in effect only if such continuance is specifically approved at least annually by vote of both a majority of the Directors and a majority of the Qualified Directors of the Funds. The Distribution Agreement will be terminated automatically if assigned, and may be terminated at any time by a majority of the Qualified Directors or by vote of the holders of a majority of the shares of the Funds.

Administrative Services Agreement

IMG provides information and administrative services for shareholders of the Funds pursuant to a Shareholder Services Plan and Administrative Services Agreement (the "Administrative Services Agreement"). IMG may enter into related arrangements with various financial services firms, such as broker-dealer firms

or banks ("firms"), that provide services and facilities for their customers or clients who are shareholders of the Funds. Such administrative services and assistance may include, but are not limited to, establishing and maintaining shareholder accounts and records, processing purchase and redemption transactions, answering routine inquiries regarding the Funds and their special features and such other services as may be agreed upon from time to time and permitted by applicable statute, rule or regulation. IMG bears all its expenses of providing services pursuant to the Administrative Services Agreement, including the payment of any services fees. For services under the Administrative Services Agreement, the Funds pay IMG a fee, payable monthly, at the annual rate of up to 0.25 percent of average daily net assets of Investor Shares of each Fund, 0.25 percent of Select Shares of the IMG Core Stock Fund, 0.15 percent of Select Shares of the IMG Bond Fund, 0.15 percent of Institutional Shares of the IMG Core Stock Fund, and 0.10 percent of Institutional Shares of the IMG Bond Fund. IMG may then pay each firm a service fee at an annual rate up to the amount received by IMG for net assets of those accounts in the Funds that the Firm maintains and services. A firm becomes eligible for the service fee based on assets in the accounts in the month following the month of purchase and the fee continues until terminated by IMG or the Funds. The fees are calculated monthly and paid quarterly.

Shareholder Services Plan

Pursuant to the "Shareholder Services Plan", adopted by the Board of Directors and reviewed at least annually, IMG may enter into related arrangements with various financial services firms that provide services and facilities for their customers or clients who are shareholders of the Funds. Such administrative services and assistance may include, but are not limited to, establishing and maintaining shareholder accounts and records, processing purchase and redemption transactions, answering routine inquiries regarding the Funds and their special features and such other services as may be agreed upon from time to time and permitted by applicable statute, rule or regulation. As long as the Administrative Services Agreement or any Amendment thereto shall remain in effect, it is understood that IMG shall be paid fees as set forth in the Administrative Services Agreement. Unless otherwise specifically approved by the Board of Directors, IMG shall be solely responsible for all costs and expenses incurred by it in delivery of such services and its sole compensation shall be the receipt of its fees.

IMG also may provide some of the above services and may retain any portion of the fee under the Administrative Services Agreement not paid to firms to compensate itself for administrative functions performed for the Funds.

Shareholder Servicing, Transfer and Dividend Disbursing Agent

IMG provides shareholder servicing, transfer agency and dividend disbursing services pursuant to a Transfer Agent, Dividend Disbursing Agent, and Shareholder Servicing Agent Agreement with the Funds (the "Agency Agreement"). IMG's responsibilities under the Agency Agreement include administering and performing transfer agent functions and the keeping of records in connection with the issuance, transfer and redemption of the shares of each Fund. For these

services, IMG receives a fee, computed and paid monthly, at the annual rate of .05 percent of average daily net assets of the Funds.

Fund Accounting Services

IMG provides fund accounting services under a Fund Accounting Agreement. Pursuant to this Agreement, IMG is responsible for maintaining all usual, customary and required books, journals and ledgers of accounts and providing pricing and reporting all computational services. Under the Agreement, IMG will be paid a fee computed and paid monthly, at the annual rate of 0.10 percent of average daily net assets of each Fund.

Custodian

Norwest Bank Minnesota, N.A., Sixth and Marquette, Minneapolis, Minnesota 55479 (the "Custodian") is the custodian of the Funds' assets. The Custodian's responsibilities include safekeeping and controlling each Fund's cash and securities, handling the receipt and delivery of securities, determining income and collecting interest and dividends on each Fund's investments, maintaining books of original entry for portfolio and fund accounting and other required books and accounts, and calculating the daily net asset value and public offering price of shares of each Fund. The Custodian does not determine the investment policies of any Fund or decide which securities a Fund will buy or sell. Any Fund may, however, invest in securities of the Custodian and may deal with the Custodian as principal in securities transactions.

FUND TRANSACTIONS AND BROKERAGE

The Advisor is responsible for decisions to buy and sell securities for each Fund and for the placement of its business and the negotiation of the commissions to be paid on such transactions. It is the policy of the Advisor to seek the best execution at the best security price available with respect to each transaction, in light of the overall quality of brokerage and research services provided to the Advisor or the Funds. In over-the-counter transactions, orders are placed directly with a principal market maker unless it is believed that a better price and execution can be achieved by using a broker. Normally, the IMG Bond Fund will pay no brokerage commissions on purchases and sales of Fund securities since most of their purchases and sales will be principal transactions. In selecting broker-dealers and in negotiating commissions, the Advisor considers the firm's reliability, the quality of its execution services on a continuing basis, and its financial condition.

Section 28(e) of the Securities Exchange Act of 1934 ("Section 28(e)") permits an investment advisor, under certain circumstances, to cause an account to pay a broker or dealer who supplies brokerage and research services a commission for effecting a transaction in excess of the amount of commission another broker or dealer would have charged for effecting the transaction. Brokerage and research services include (a) furnishing advice as to the value of securities, the advisability of investing, purchasing, or selling securities, and the availability of securities or purchasers or sellers of securities; (b) furnishing analyses and reports concerning issuers, industries, securities,

economic factors and trends, strategy, and the performance of accounts; and (c) effecting securities transactions and performing functions incidental thereto (such as clearance, settlement and custody).

In carrying out the provisions of the Advisory Agreement, the Advisor may cause the Funds to pay a broker which provides brokerage and research services to the Advisor a commission for effecting a securities transaction in excess of the amount another broker would have charged for effecting the transaction. The Advisor is of the opinion that the continued receipt of supplemental investment research services from broker-dealers is essential to its provision of high-quality management services to the Funds. The Advisory Agreement provides that such higher commissions will not be paid by the Funds unless (a) the Advisor determines in good faith that the amount is reasonable in relation to the services in terms of the particular transaction or in terms of the Advisor's overall responsibilities with respect to the accounts as to which it exercises investment discretion; (b) such payment is made in compliance with the provisions of Section 28(e), other applicable state and federal laws, and the Advisory Agreement; and (c) in the opinion of the Advisor, the total commissions paid by the Funds will be reasonable in relation to the benefits to the Funds over the long term. The investment advisory fee paid by the Funds under the Advisory Agreement is not reduced as a result of the Advisor's receipt of research services.

The Advisor is authorized to use research services provided by and to place transactions with brokerage firms that have provided assistance in the distribution of shares of the Funds or shares of other funds managed by the Advisor to the extent permitted by law.

The Advisor places portfolio transactions for other advisory accounts, including other mutual funds managed by the Advisor. Research services furnished by firms through which the Funds effect their securities transactions may be used by the Advisor in servicing all of its accounts; not all of such services may be used by the Advisor in connection with the Funds. In the opinion of the Advisor, it is not possible to separately measure the benefits from research services to each of the accounts (including the Funds) managed by the Advisor. Because the volume and nature of the trading activities of the accounts are not uniform, the amount of commissions in excess of those charged by another broker paid by each account for brokerage and research services will vary. However, in the opinion of the Advisor, such costs to the Funds will not be disproportionate to the benefits received by the Funds on a continuing basis.

The Advisor seeks to allocate portfolio transactions equitably whenever concurrent decisions are made to purchase or sell securities by the Funds and another advisory account. In some cases, this procedure could have an adverse effect on the price or the amount of securities available to the Funds. In making such allocations between the Funds and other advisory accounts, the main factors considered by the Advisor are the respective investment objectives, the relative size of portfolio holdings of the same or comparable securities, the availability of cash for investment, the size of investment commitments generally held and the opinions of the persons responsible for recommending the investment.

Consistent with the Rules of Fair Practice of the National Association of Securities Dealers, Inc. and subject to the policies set forth in the preceding paragraphs and such other policies as the Board of Directors of the Funds may determine, IMG may consider sales of shares of the Funds as a factor in the selection of broker-dealers to execute the Funds' securities transactions.

TAXES

As indicated under "DISTRIBUTIONS AND TAXES" in the Prospectus, it is the Funds' intent to qualify each of the Funds as a "regulated investment company" under the Code. This qualification does not involve governmental supervision of the Funds' management practices or policies.

A dividend or capital gains distribution received shortly after the purchase of shares reduces the net asset value of the shares by the amount of the dividend or distribution and, although in effect a return of capital, will be subject to income taxes. Net gain on sales of securities when realized and distributed, actually or constructively, is taxable as capital gain. If the net asset value of shares were reduced below a shareholder's cost by distribution of gains realized on sales of securities, such distribution would be a return of investments although taxable as stated above.

DETERMINATION OF NET ASSET VALUE

As set forth in the Prospectus under the caption "ADDITIONAL INVESTMENT INFORMATION -- Calculation of Net Asset Value," the net asset value of each Fund will be determined as of the close of trading on each day the NYSE is open for trading. The NYSE is open for trading Monday through Friday except New Year's Day, Martin Luther King, Jr. Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. Additionally, if any of the aforementioned holidays falls on a Saturday, the NYSE will not be open for trading on the preceding Friday, and when any such holiday falls on a Sunday, the NYSE will not be open for trading on the succeeding Monday unless unusual business conditions exist, such as the ending of a monthly or the yearly accounting period.

The Funds have sought an order from the Securities and Exchange Commission pursuant to Section 6(c) of the 1940 Act for exemption from the provisions of Sections 18(f), 18(g), and 18(i) of the 1940 Act. The conditional order when granted will permit the Funds (a) to issue three classes of shares, ("Investor" Shares, "Select" Shares and "Institutional" Shares), representing interests in the same portfolio of securities; and (b) to allow conversions between the classes of shares. See the Prospectus for a complete description of the Investor, Select and Institutional Shares.

SHAREHOLDER SERVICES

As described under "SHAREHOLDER SERVICES -- Automatic Dividend Reinvestment" in the Prospectus, all income dividends and capital gain distributions will be invested automatically in additional shares of the Fund paying the distribution

unless the Funds are otherwise notified in writing.

Systematic Withdrawal Plan

You can set up automatic withdrawals from your account at monthly, quarterly or annual intervals. To begin distributions, you must have an initial balance of \$24,000 in the Fund account, and a maximum of 10 percent per year may be withdrawn pursuant to the Systematic Withdrawal Plan. To establish the Systematic Withdrawal Plan, call 1-800-798-1819 and request an application. To establish the Systematic Withdrawal Plan, you appoint the Funds as your agent to effect redemptions of Fund shares held in your account for the purpose of making monthly, quarterly or annual withdrawal payments of a fixed amount to you out of your account. One request will be honored in any 12 month period

The minimum periodic withdrawal payment is \$200. Redemptions will be made on the fifth business day preceding the last day of each month or, if that day is a holiday, on the next preceding business day. The shareholder may wish to consider reinvesting dividends in additional Fund shares at net asset value. You may deposit additional Fund shares in your account at any time.

The right is reserved to amend the Systematic Withdrawal Plan on 30 days' notice. The Plan may be terminated at any time by the shareholder or the Funds.

Withdrawal payments cannot be considered to be yield or income on the shareholder's investment since portions of each payment will normally consist of a return of capital. Depending on the size or the frequency of the disbursements requested and the fluctuation in the value of a Fund's securities, redemptions for the purpose of making such disbursements may reduce or even exhaust your account.

You may vary the amount or frequency of withdrawal payments, temporarily discontinue them, or change the designated payee or payee's address by notifying the Funds.

Automatic Investment Plan

An Automatic Investment Plan may be established at any time. By participating in the Automatic Investment Plan, you may automatically make purchases of shares of any Fund on a regular, convenient basis. You may choose to make contributions on the fifth and/or twentieth day of each month in an amount of \$50 or more.

Under the Automatic Investment Plan, your bank or other financial institution debits preauthorized amounts drawn on your account each month and applies such amounts to the purchase of shares of the Funds. The Automatic Investment Plan can be implemented with any financial institution that is a member of the Automated Clearinghouse. You may obtain an application to establish the Automatic Investment Plan from the Funds. No service fee is charged by the Funds for participating in the Automatic Investment Plan.

General Procedures for Shareholder Accounts

As set forth under "CAPITAL STOCK" in the Prospectus, certificates for Fund shares will not be issued.

Either an investor or the Funds, by written notice to the other, may terminate the investor's participation in the plans, programs, privileges, or other services described under "SHAREHOLDER SERVICES" in the Prospectus without penalty at any time, except as discussed in the Prospectus.

Your account may be terminated by the Funds on not less than 30 days' notice if, at the time of any transfer or redemption of shares in the account, the value of the remaining shares in the account at the current net asset value falls below \$1,000 (\$250 for UF/TMA and IRA accounts). Upon any such termination, the shares will be redeemed at the then current net asset value and a check for the proceeds of redemption sent within seven days of such redemption.

Telephone Exchange Privilege and Automatic Exchange Plan

A discussion of the Telephone Exchange Privilege and Automatic Exchange Plan is set forth in the Prospectus under the captions "SHAREHOLDER SERVICES -- Telephone Exchange and Redemption Privilege" and -- "Automatic Exchange Plan".

Shares of each Fund may be exchanged for each other at relative net asset values. Exchanges will be effected by redemption of shares of the Fund held and purchase of shares of the Fund for which Fund shares are being exchanged (the "New Fund"). Investments in the New Fund will be made into the lowest fee class of shares for which the shareholder is eligible in the New Fund. For federal income tax purposes, any such exchange constitutes a sale upon which a capital gain or loss will be realized, depending upon whether the value of the shares being exchanged is more or less than the shareholder's adjusted cost basis. Upon a telephone exchange, the transfer agent establishes a new account in the New Fund with the same registration and dividend and capital gains options as the redeemed account, unless otherwise specified, and confirms the purchase to you. In order to establish a Systematic Withdrawal Plan for the new account, however, an exchanging shareholder must file a specific written request.

The Telephone Exchange Privilege and Automatic Exchange Plan are available only in states where shares of the New Fund may be sold, and the privilege may be modified or discontinued at any time. Additional information concerning these exchange privileges is contained in the Funds' Prospectus.

SHAREHOLDER MEETINGS

The Maryland Corporation Law permits registered investment companies, such as the Funds, to operate without an annual meeting of shareholders under specified circumstances if an annual meeting is not required by the Investment Company Act of 1940. The Company has adopted the appropriate Bylaw provisions and may not hold an annual meeting in any year in which the election of Directors is not required to be acted on by shareholders under the 1940 Act.

The Bylaws also contain procedures for the removal of Directors by shareholders. At any meeting of shareholders, duly called and at which a quorum is present,

the shareholders may, by the affirmative vote of the holders of a majority of the votes entitled to be cast thereon, remove any Director or Directors from office and may elect a successor or successors to fill any resulting vacancies for the unexpired terms of removed Directors.

Upon the written request of the holders of shares entitled to not less than 10 percent of all the votes entitled to be cast at such meeting, the Secretary of the Funds shall promptly call a special meeting of shareholders for the purpose of voting upon the question of removal of any Director. Whenever 10 or more shareholders of record who have been such for at least six months preceding the date of application, and who hold in the aggregate either shares having a net asset value of at least \$25,000 or at least 1 percent of the total outstanding shares, whichever is less, shall apply to the Secretary in writing, stating that they wish to communicate with other shareholders with a view to obtaining signatures to a request for a meeting as described above and accompanied by a form of communication and request which they wish to transmit, the Secretary shall within five business days after such application either: (1) afford to such applicants access to a list of the names and addresses of all shareholders of record; or (2) inform such applicants as to the approximate number of shareholders of record and the approximate cost of mailing to them the proposed communication and form of request.

If the Secretary elects to follow the course specified in clause (2) of the last sentence of the preceding paragraph, the Secretary, upon the written request of such applicants, accompanied by a tender of the material to be mailed and of the reasonable expenses of mailing, shall, with reasonable promptness, mail such material to all shareholders of record at their addresses as recorded on the books unless within five business days after such tender the Secretary shall mail to such applicants and file with the SEC, together with a copy of the material to be mailed, a written statement signed by at least a majority of the Board of Directors to the effect that in their opinion either such material contains untrue statements of fact or omits to state facts necessary to make the statements contained therein not misleading, or would be in violation of applicable law, and specifying the basis of such opinion.

After opportunity for hearing upon the objections specified in the written statement so filed, the SEC may, and if demanded by the Board of Directors or by such applicants shall, enter an order either sustaining one or more of such objections or refusing to sustain any of them. If the SEC shall enter an order refusing to sustain any of such objections, or if, after the entry of an order sustaining one or more of such objections, the SEC shall find, after notice and opportunity for hearing, that all objections so sustained have been met, and shall enter an order so declaring, the Secretary shall mail copies of such material to all shareholders with reasonable promptness after the entry of such order and the renewal of such tender.

VALUATION OF FUND SECURITIES

Each Fund's net asset value per share is determined by the Custodian, under procedures established by the Board of Directors. Fund securities are valued primarily on the basis of valuations furnished by a pricing service which uses

both dealer-supplied valuations and electronic data processing techniques that take into account appropriate factors such as institutional-size trading in similar groups of securities, yield, quality, coupon rate, maturity, type of issue, trading characteristics and other market data, with exclusive reliance upon quoted prices or exchange or over-the-counter prices, since such valuations are believed to reflect more accurately the fair value of such securities. Use of the pricing service has been approved by the Board of Directors. There are a number of pricing services available, and the Directors, or Officers acting on behalf of the Directors, on the basis of ongoing evaluation of these services, may use other pricing services or discontinue the use of any pricing service in whole or in part.

Securities not valued by the pricing service and for which quotations are readily available are valued at market values determined on the basis of their latest available bid prices as furnished by recognized dealers in such securities. Futures contracts and options are valued on the basis of market quotations, if available. Securities and other assets for which quotations or pricing service valuations are not readily available are valued at their fair value as determined in good faith under consistently applied procedures under the general supervision of the Board of Directors.

PERFORMANCE INFORMATION

As described in the "PERFORMANCE INFORMATION" section of the Funds' Prospectus, the historical performance or return of each Fund may be shown in the form of "yield", "average annual total return", "total return", and "cumulative total return".

Each class of shares' average annual total return quotation is computed in accordance with a standardized method prescribed by rules of the SEC. The average annual total return for a specific period is found by first taking a hypothetical \$10,000 investment ("initial investment") in the Fund's respective shares on the first day of the period and computing the "redeemable value" of that investment at the end of the period. The redeemable value is then divided by the initial investment, and this quotient is taken to the Nth root (N representing the number of years in the period) and 1 is subtracted from the result, which is then expressed as a percentage. The calculation assumes that all income and capital gains dividends paid by the Fund have been reinvested at net asset value on the reinvestment dates during the period.

Calculation of a Fund's total return is subject to a standardized format. Total return performance for a specific period is calculated by first taking an investment (assumed below to be \$10,000) ("initial investment") in the shares on the first day of the period and computing the "ending value" of that investment at the end of the period. The total return percentage is then determined by subtracting the initial investment from the ending value and dividing the remainder by the initial investment and expressing the result as a percentage. The calculation assumes that all income and capital gains dividends paid by the Fund have been reinvested at net asset value on the reinvestment dates during the period. Total return may also be shown as the increased dollar value of the hypothetical investment over the period.

Cumulative total return represents the simple change in value of your investment over a stated period and may be quoted as a percentage or as a dollar amount. Total returns may be broken down into their components of income and capital (including capital gains and changes in share price) in order to illustrate the relationship between these factors and their contributions to total return.

Yield for the shares of the IMG Bond Fund is computed in accordance with a standardized method prescribed by rules of the SEC. Under that method, the current yield quotation for each Fund is based on a one month or 30-day period. Yield is computed by dividing the net investment income per share earned during the 30-day or one month period by the maximum offering price per share on the last day of the period, according to the following formula:

$$\text{YIELD} = \frac{2 \left[\frac{a-b}{cd} + 1 \right]^{.6} - 1}{.6}$$

Where a = dividends and interest earned during the period.
b = expenses accrued for the period (net of reimbursement).
c = the average daily number of shares outstanding during the period that were entitled to receive dividends. d = the maximum offering price per share on the last day of the period.

In computing yield, the Fund follows certain standardized accounting practices specified by SEC rules. These practices are not necessarily consistent with those that the Fund uses to prepare annual and interim financial statements in conformity with generally accepted accounting principles. Therefore, the quoted yields as calculated above may differ from the actual dividends paid.

Performance figures are based upon historical results and are not necessarily representative of future performance. Returns and net asset value will fluctuate and shares are redeemable at the then current net asset value, which may be more or less than original cost. Factors affecting performance include general market conditions, operating expenses and investment management. Any additional fees charged by a dealer or other financial services firm would reduce the returns described in this section.

Each Fund may compare its share performance to that of U.S. Treasury bonds, bills or notes because such instruments represent alternative income producing products. Treasury obligations are issued in selected denominations. Rates of Treasury obligations are fixed at the time of issuance and payment of principal and interest is backed by the full faith and credit of the United States Treasury. The market value of such instruments will generally fluctuate inversely with interest rates prior to maturity and will equal par value at maturity. Generally, the values of obligations with shorter maturities will fluctuate less than those with longer maturities.

From time to time, in marketing and other Fund literature, performance may be compared to the performance of other mutual funds in general or to the

performance of particular types of mutual funds, with similar investment goals, as tracked by independent organizations. Among these organizations, Lipper Analytical Services, Inc. ("Lipper"), a widely used independent research firm which ranks mutual funds by overall performance, investment objectives, and assets, may be cited. Lipper performance figures are based on changes in net asset value, with all income and capital gain dividends reinvested. Such calculations do not include the effect of any sales charges. Shares of each Fund will be compared to Lipper's appropriate fund category; that is, by Fund objective and holdings. Lipper also issues a monthly yield analysis for Fixed Income Securities and the Funds may, from time to time, advertise those rankings.

Performance may also be compared to the performance of other mutual funds by Morningstar, Inc. which rates funds on the basis of historical risk and total return. Morningstar's ratings range from five stars (highest) to one star (lowest) and represent Morningstar's assessment of the historical risk level and total return of a fund as a weighted average for three, five, and ten year periods. Ratings are not absolute or necessarily predictive of future performance.

Evaluations of performance made by independent sources may also be used in advertisements concerning the Funds, including reprints of, or selections from, editorials or articles about the Funds, especially those with similar objectives. Sources for the performance information and articles about the Funds may include publications such as Money, Forbes, Kiplinger's, Financial World, Business Week, U.S. News and World Report, The Wall Street Journal, Barron's and a variety of investment newsletters. The Funds may compare Fund performance to a wide variety of indices including, but not limited to the following:

IMG Core Stock Fund

- Standard & Poor's
- NASDAQ Over-the-Counter Composite Index
- Russell 1000 Index
- Russell 2000 Small Stock Index
- Russell 2500 Index
- Russell 3000 Index
- Wilshire 5000 Equity Index

IMG Bond Fund

- Lehman Brothers Government Corporate Index
- Lehman Brothers Intermediate Bond Index
- Merrill Lynch Government Corporate Master Index
- Lehman Brothers All Government Bond Index
- Lehman Brothers One to Three Years Government Bond Index
- Merrill Lynch Government Master Index
- Merrill Lynch Short-Term U.S. Treasury Index
- Merrill Lynch Intermediate-Term U.S. Treasury Index
- Merrill Lynch All Mortgages Index
- Merrill Lynch All GNMA's
- IBC/Donoghue Money Fund Index

There are differences and similarities between the investments which each Fund may purchase and the investments measured by the indices which are noted herein. The market prices and yields of bonds will fluctuate. There are important differences among the various investments included in the indices that should be considered in reviewing this information.

Investors may want to compare each Fund's performance to that of certificates of deposit offered by banks and other depository institutions. Certificates of deposit represent an alternative (taxable) income producing product. Certificates of deposit may offer fixed or variable interest rates and principal is guaranteed and may be insured. Withdrawal of the deposits prior to maturity normally will be subject to a penalty. Rates offered by banks and other depository institutions are subject to change at any time specified by the issuing institution. The bonds held by the IMG Bond Fund are generally of longer term than most certificates of deposit and may reflect longer term market rate fluctuations.

Investors may also want to compare performance of the Funds to that of money market funds. Money market fund yields will fluctuate and shares are not insured, but share values usually remain stable.

GENERAL INFORMATION

The Advisor believes that actively managing each Fund's investments is the best way to achieve each Fund's objective. This policy is based on a fundamental belief that economic and financial conditions create favorable and unfavorable investment periods and sectors, and that these different periods require different investment approaches.

Financial goals vary from person to person. Investors may choose one or more of the Funds to help them reach their financial goals. To help you better understand each of the Funds and determine which Fund or combination of Funds best meets your personal investment objectives, study the Prospectus carefully before you invest.

INDEPENDENT AUDITORS

KPMG Peat Marwick LLP, P.O. Box 772, Des Moines, Iowa, 50309, have been selected as the independent accountants for the Funds.

APPENDIX A

BOND RATINGS

Standard & Poor's Bond Ratings

A Standard & Poor's corporate rating is a current assessment of the creditworthiness of an obligor with respect to a specific obligation. This assessment may take into consideration obligors such as guarantors, insurers or lessees.

The debt rating is not a recommendation to purchase, sell or hold a security, inasmuch as it does not comment as to market price or suitability for a particular investor. The ratings are based on current information furnished by the issuer or obtained by Standard & Poor's from other sources it considers reliable. Standard & Poor's does not perform an audit in connection with any rating and may, on occasion, rely on unaudited financial information. The ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of, such information, or for other circumstances.

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

1. 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.
2. Nature of and provisions of the obligation.
3. 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.

"AAA" Bonds have the highest rating assigned by Standard & Poor's. Capacity to pay interest and repay principal is extremely strong.

"AA" Bonds have a very strong capacity to pay interest and repay principal and differ from the highest rated issues only in small degrees.

"A" Bonds have a strong capacity to pay interest and repay principal although they are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher rated categories.

"BBB" Bonds are regarded as having an adequate capacity to pay interest and repay principal. Whereas they normally exhibit 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 bonds in this category than in higher rated categories.

"BB", "B", "CCC", "CC" and "C" Bonds are 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 least 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. A "C" rating is typically applied to debt subordinated to senior debt which is assigned an actual or implied "CCC" rating. It may also be used to cover a situation where a bankruptcy petition has been filed, but debt service payments are continued.

Moody's Bond Ratings

"Aaa" Bonds are judged to be of the best quality. They carry the smallest degree

of investment risk and are generally referred to as "gilt edged". Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

"Aa" Bonds 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 protection elements may be of greater amplitude or there may be other elements present which make the long-term risks appear somewhat larger than in "Aaa" securities.

"A" Bonds 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 some time in the future.

"Baa" Bonds 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.

"Ba" Bonds 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.

"B" Bonds 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.

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

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

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

Fitch Investors Services, Inc. Bond Ratings

The Fitch Bond Rating provides a guide to investors in determining the investment risk associated with a particular security. The rating represents its assessment of the issuer's ability to meet the obligations of a specific debt issue. Fitch bond ratings are not recommendations to buy, sell or hold

securities since they incorporate no information on market price or yield relative to other debt instruments.

The rating takes into consideration special features of the issue, its relationship to other obligations of the issuer, the record of the issuer and of any guarantor, as well as the political and economic environment that might affect the future financial strength and credit quality of the issuer.

Bonds which have the same rating are of similar but not necessarily identical investment quality since the limited number of rating categories cannot fully reflect small differences in the degree of risk. Moreover, the character of the risk factor varies from industry to industry and between corporate, health care and municipal obligations.

In assessing credit risk, Fitch Investors Services relies on current information furnished by the issuer and/or guarantor and other sources which it considers reliable. Fitch does not perform an audit of the financial statements used in assigning a rating.

Ratings may be changed, withdrawn or suspended at any time to reflect changes in the financial condition of the issuer, the status of the issue relative to other debt of the issuer, or any other circumstances that Fitch considers to have a material effect on the credit of the obligor.

"AAA" rated Bonds are considered to be investment grade and of the highest credit quality. The obligor has an extraordinary ability to pay interest and repay principal, which is unlikely to be affected by reasonably foreseeable events.

"AA" rated Bonds are considered to be investment grade and of very high credit quality. The obligor's ability to pay interest and repay principal, while very strong, is somewhat less than for "AAA" rated securities or more subject to possible change over the term of the issue.

"A" rated Bonds are considered to be investment grade and of high credit quality. The obligor's ability to pay interest and repay principal is considered to be strong, but may be more vulnerable to adverse changes in economic conditions and circumstances than bonds with higher ratings.

"BBB" rated Bonds are considered to be investment grade and of satisfactory credit quality. The obligor's ability to pay interest and repay principal is considered to be adequate. Adverse changes in economic conditions and circumstances, however, are more likely to weaken this ability than bonds with higher ratings.

"BB" rated bonds are considered speculative and of low investment grade. The obligor's ability to pay interest and repay principal is not strong and is considered likely to be affected over time by adverse economic changes.

"B" rated Bonds are considered highly speculative. Bonds in this class are highly protected as to the obligor's ability to pay interest over the life of

the issue and repay principal when due.

"CCC" rated Bonds may have certain identifiable characteristics which, if not remedied, could lead to the possibility of default in either principal or interest payments.

"CC" rated Bonds are minimally protected. Default in payment of interest and/or principal seems probable.

"C" rated Bonds are in actual or imminent default in payment of interest or principal.

Duff & Phelps, Inc. Long-Term Ratings

These ratings represent a summary opinion of the issuer's long-term fundamental quality. Rating determination is based on qualitative and quantitative factors which may vary according to the basic economic and financial characteristics of each industry and each issuer. Important considerations are vulnerability to economic cycles as well as risks related to such factors as competition, government action, regulation, technological obsolescence, demand shifts, cost structure and management depth and expertise. The projected viability of the obligor at the trough of the cycle is a critical determination. Each rating also takes into account the legal form of the security, (e.g., first mortgage bonds, subordinated debt, preferred stock, etc.). The extent of rating dispersion among the various classes of securities is determined by several factors, including relative weightings of the different security classes in the capital structure, the overall credit strength of the issuer, and the nature of covenant protection. Review of indenture restrictions is important to the analysis of a company's operating and financial constraints. The Credit Rating Committee formally reviews all ratings once per quarter (more frequently, if necessary).

Rating
Scale

Definition

AAA	Highest credit quality. The risk factors are negligible, being only slightly more than for risk-free U.S. Treasury debt.
AA+	High credit quality. Protection factors are strong. Risk is modest, but may vary slightly from time to time because of economic conditions.
AA	
AA-	
A+	Protection factors are average but adequate. However, risk factors are more variable and greater in periods of economic stress.
A	
A-	
BBB+	Below average protection factors but still considered sufficient for prudent investment. Considerable variability in risk during economic cycles.
BBB	
BBB-	
BB+	Below investment grade but deemed likely to meet obligations when due Present or prospective financial protection factors fluctuate
BB	

BB-	according to industry conditions or company fortunes. Overall quality may move up or down frequently within this category.
B+	Below investment grade and possessing risk that obligations will not be met when due. Financial protection factors will fluctuate widely according to economic cycles, industry conditions and/or company fortunes. Potential exists for frequent changes in the rating within this category or into a higher or lower rating grade.
B	
B-	
CCC	Well below investment grade securities. Considerable uncertainty exists as to timely payment of principal, interest or preferred dividends. Protection factors are narrow and risk can be substantial with unfavorable economic/industry conditions, and/or with unfavorable company developments.
DD	Defaulted debt obligations. Issuer failed to meet scheduled principal and/or interest payments.
DP	Preferred stock with dividend averages.

SHORT-TERM RATINGS

Standard & Poor's Commercial Paper Ratings

A Standard & Poor's commercial paper rating is a current assessment of the likelihood of timely payment of debt having an original maturity of no more than 365 days. The categories are as follows:

"A" Issues assigned this highest rating are regarded as having the greatest capacity for timely payment. Issues within this category are delineated with the numbers 1, 2 and 3 to indicate the relative degree of safety.

"A-1" Designation indicates that the degree of safety regarding timely payment is either overwhelming or very strong. Those issues determined to possess overwhelming safety characteristics are designated "A-1+".

"A-2" Designation indicates that the capacity for timely payment is strong. However, the relative degree of safety is not as high as for issues designated "A-1".

"A-3" Designation indicates a satisfactory capacity for timely payment. Issues with this designation, however, are somewhat more vulnerable to the adverse effects of changes in circumstances than obligations carrying the higher designations.

"B" Issues are regarded as having only an adequate capacity for timely payment. They are, however, somewhat more vulnerable to the adverse effects of changes in circumstances than obligations carrying the higher designations.

"C" Issues have a doubtful capacity for payment.

"D" Issues are in payment default. The "D" rating category is used when interest payments or principal payments are not made on the due date even if the applicable grace period has not expired, unless Standard & Poor's believes that such payments will be made during such grace period.

Moody's Commercial Paper Ratings

Moody's rates commercial paper as either Prime, which contains three categories, or Not Prime. The commercial paper ratings are as follows:

"P-1" Issuers (or related supporting institutions) have a superior capacity for repayment of short-term promissory obligations, normally evidenced by the following characteristics: (i) leading market positions in well established industries, (ii) high rates of return on funds employed, (iii) conservative capitalization structures with moderate reliance on debt and ample asset protection, (iv) broad margins in earnings coverage of fixed financial charges and high internal cash generation, and (v) well established access to a range of financial markets and assured sources of alternate liquidity.

"P-2" Issuers (or related supporting institutions) have a strong capacity for repayment of short-term promissory obligations, normally evidenced by many of the characteristics of a "P-1" rating, but to a lesser degree. Earnings trends and coverage ratios, while sound, will be more subject to variation. Capitalization characteristics, while still appropriate, may be more affected by external conditions. Ample alternate liquidity is maintained.

"P-3" Issuers (or related supporting institutions) have an acceptable capacity for repayment of short-term promissory obligations. The effect of industry characteristics and market composition may be more pronounced. Variability in earnings and profitability may result in changes in the level of debt protection measurements and the requirement for relatively high financial leverage. Adequate alternate liquidity is maintained. "Not Prime" Issuers (or related supporting institutions) do not fall within any of the Prime rating categories.

Fitch Investors Services, Inc. Short-Term Ratings

Fitch-1+ (Exceptionally Strong Credit Quality) Issues assigned this rating are regarded as having the strongest degree of assurance for timely payment.

Fitch-1 (Very Strong Credit Quality) Issues assigned this rating reflect an assurance of timely payment only slightly less in degree than issues rated Fitch-1+.

Fitch-2 (Good Credit Quality) Issues carrying this rating have a satisfactory degree of assurance for timely payment but the margin of safety is not as great as the two higher categories.

Fitch-3 (Fair Credit Quality) Issues carrying this rating have characteristics suggesting that the degree of assurance for timely payment is adequate; however, near-term adverse change is likely to cause these securities to be rated below

investment grade.

Fitch-S (Weak Credit Quality) Issues carrying this rating have characteristics suggesting a minimal degree of assurance for timely payment and are vulnerable to near term adverse changes in financial and economic conditions.

D (Default) Issues carrying this rating are in actual or imminent payment default.

Duff & Phelps, Inc. Short-Term Ratings

Duff & Phelps' short-term ratings are consistent with the rating criteria utilized by money market participants. The ratings apply to all obligations with maturities of under one year, including commercial paper, the uninsured portion of certificates of deposit, unsecured bank loans, master notes, bankers acceptances, irrevocable letters of credit and current maturities of long-term debt.

Asset-backed commercial paper is also rated according to this scale.

Emphasis is placed on liquidity which is defined as not only cash from operations, but also access to alternative sources of funds, including trade credit, banklines and the capital markets. An important consideration is the level of an obligor's reliance on short-term funds on an ongoing basis.

A. Category 1: High Grade

Duff 1+ Highest certainty of timely payment. Short-term liquidity, including internal operating factors and/or access to alternative sources of funds, is outstanding, and safety is just below risk-free U.S. Treasury short-term obligations.

Duff 1 Very high certainty of timely payment. Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

Duff 1- High certainty of timely payment. Liquidity factors are strong and supported by good fundamental protection factors. Risk factors are very small.

B. Category 2: Good Grade

Duff 2 Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Although ongoing funding needs may enlarge total financing requirements, access to capital markets is good. Risk factors are small.

C. Category 3: Satisfactory Grade

Duff 2 Satisfactory liquidity and other protection factors qualify issue as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

D. Category 4: Non-investment Grade

Duff 4 Speculative investment characteristics. Liquidity is not sufficient to insure against disruption in debt service. Operating factors and market access may be subject to a high degree of variation.

E. Category 5: Default

Duff 5 Issuer failed to meet scheduled principal and/or interest payments.

Thomas Bankwatch (TBW) Short-Term Ratings

The TBW Short-Term Ratings apply to commercial paper, other senior short-term obligations and deposit obligations of the entities to which the rating has been assigned.

The TBW Short-Term Ratings apply only to unsecured instruments that have a maturity of one year or less. The TBW Short-Term Ratings specifically assess the likelihood of an untimely payment of principal or interest.

TBW-1 The highest category; indicates a very high degree of likelihood that principal and interest will be paid on a timely basis.

TBW-2 The second highest category; while the degree of safety regarding timely repayment of principal and interest is strong, the relative degree of safety is not as high as for issues rated TBW-1.

TBW-3 The lowest investment grade category; indicates that while more susceptible to adverse developments (both internal and external) than obligations with higher ratings, capacity to service principal and interest in a timely fashion is considered adequate.

TBW-4 The lowest rating category; this rating is regarded as non-investment grade and therefore speculative.