

SECURITIES AND EXCHANGE COMMISSION

FORM 485A24E

Post-effective amendments

Filing Date: **1995-07-28**  
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FILER

**AGE HIGH INCOME FUND INC**

CIK: **2768** | IRS No.: **941693697** | State of Incorpor.: **CO** | Fiscal Year End: **0531**  
Type: **485A24E** | Act: **33** | File No.: **002-30203** | Film No.: **95556984**

Mailing Address

777 MARINERS ISLAND BLVD  
SAN MATEO CA 94404

Business Address

777 MARINERS ISLAND BLVD  
SAN MATEO CA 94404  
4153122000

As filed with the Securities and Exchange Commission on July 27, 1995.

File Nos.  
2-30203  
811-1608

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form N-1A

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Pre-Effective Amendment No. \_\_\_\_\_

Post Effective Amendment No. 34 (X)

and/or

REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940

Amendment No. 19 (X)

AGE High Income Fund, Inc.  
(Exact Name of Registrant as Specified in Charter)

777 MARINERS ISLAND BLVD., SAN MATEO, CA 94404 (Address  
of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Including Area Code (415) 312-2000

Harmon E. Burns, 777 Mariners Island Blvd., San Mateo, CA 94404  
(Name and Address of Agent for Service of Process)

Approximate Date of Proposed Public Offering:  
It is proposed that this filing will become effective (check  
appropriate box)

- immediately upon filing pursuant to paragraph (b)
- on (date) pursuant to paragraph (b)
- 60 days after filing pursuant to paragraph (a) (i)
- on October 1, 1995 pursuant to paragraph (a) (i)
- 75 days after filing pursuant to paragraph (a) (ii)
- on (date), pursuant to paragraph (a) (ii) of Rule 485

If appropriate, check the following box:

- This post-effective amendment designates a new effective date for a previously filed post-effective amendment.

Calculation of Registration Fee Under the Securities Act of 1933

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price Per Share	Proposed Aggregate Price*	Amount of Offering Fee*
Common Stock	10,092,468 Shares	\$2.90	\$290,000	\$100

\*Registrant elects to calculate the maximum aggregate offering price pursuant to Rule 24e-2, 242,966,844 shares were redeemed during the fiscal year ended May 31, 1995. 232,974,376 shares were used for reductions pursuant to Paragraph (d) of Rule 24f-2 during the current year. 9,992,468 shares is the amount of redeemed shares used for reduction in this amendment. Pursuant to Rule 457(d) under the Securities Act of 1933, the maximum public offering price of \$2.90 per share on July 20, 1995 is the price used as the basis for these calculations. The Fund's maximum public offering price per share varies and, thus, may be higher or lower than \$2.90 in the future. While no fee is required for the 9,992,468 shares, the registrant has elected to register, for \$100, an additional \$290,000 of shares (approximately 100,000 shares at \$2.90 per share).

As a part of its initial Registration Statement, the Registrant has elected to register an indefinite number of shares pursuant to Rule 24f-2 under the investment Company Act of 1940, as amended and hereby continues such election. The Registrant filed the notice required by Rule 24f-2 for its most recent fiscal year on July 27, 1995.

AGE High Income Fund, Inc.

CROSS REFERENCE SHEET  
FORM N-1A

<TABLE>  
<CAPTION>

N-1A Item No.	Item	Location in Registration Statement
Part A: Information Required in Prospectus		
<S>	<C>	<C>
1.	Cover Page	Cover Page
2.	Synopsis	"Expense Table"
3.	Condensed Financial Information	"Financial Highlights"; "Performance"
4.	General Description of Registrant	"About the Fund"; "Investment Objectives and Policies of the Fund"; "General Information"
5.	Management of the Fund	"Management of the Fund"
5A.	Management's Discussion of Fund Performance	The response to this item is contained in Registrant's Annual Report to Shareholders
6.	Capital Stock and Other Securities	"Distributions to Shareholders"; "General Information"
7.	Purchase of Securities Being Offered	"How to Buy Shares of the Fund"; "Taxation of the Fund and Its Shareholders"; "Purchasing Shares of the Fund in Connection with Retirement Plans Involving Tax-Deferred Investments"; "Other Programs and Privileges Available to Fund Shareholders"; "Exchange Privilege"; "Valuation of Fund Shares"
8.	Redemption or Repurchase	"Exchange Privilege"; "How to Sell Shares of the Fund"; "Valuation of Fund Shares"; "How to Get Information Regarding an Investment in the Fund"; "General Information"
9.	Pending Legal Proceedings	Not applicable
Part B: Information Required in Statement of Additional Information		
10.	Cover Page	Cover Page
11.	Table of Contents	Contents
12.	General Information and History	Cover Page; (See also the Prospectus "About the Fund")
13.	Investment Objective	"Additional Information Regarding the Fund's Investment Objectives and Policies" (See also the Prospectus "Investment Objectives and Policies of the Fund")
14.	Management of the Fund	"Officers and Directors"

15.	Control Persons and Principal Holders of Securities	"Officers and Directors"
16.	Investment Advisory and Other Services	"Investment Advisory and Other Services" (See also the Prospectus "Management of the Fund")
17.	Brokerage Allocation and Other Practices	"The Fund's Policies Regarding Brokers Used on Portfolio Transactions"
18.	Capital Stock and Other Securities	See the Prospectus "How to Get Information Regarding an Investment in the Fund" and "General Information"
19.	Purchase, Redemption and Pricing of Securities Being Offered	"Additional Information Regarding Fund Shares" (See also the Prospectus "How to Buy Shares of the Fund"; "How to Sell Shares of the Fund"; "Valuation of Fund Shares")
20.	Tax Status	"Additional Information Regarding Taxation" (See also the Prospectus "Taxation of the Fund and Its Shareholders")
21.	Underwriters	"The Fund's Underwriter"
22.	Calculation of Performance Data	"General Information"
23.	Financial Statements	Financial Statements

</TABLE>

FRANKLIN'S  
AGE HIGH  
INCOME FUND

PROSPECTUS

OCTOBER 1, 1995

777 Mariners Island Blvd., P.O. Box 7777  
San Mateo, CA 94403-7777 1-800/DIAL BEN

AGE High Income Fund, Inc. (the "Fund") is a diversified, open-end management investment company with the principal investment objective of earning a high level of current income. The Fund will also seek capital appreciation as a secondary objective. The assets of the Fund will generally be invested in high yield, high risk, lower rated, fixed-income debt securities and dividend-paying common or preferred stocks. The Fund may invest in domestic and foreign securities as described under "Investment Objectives and Policies of the Fund."

THE FUND MAY INVEST UP TO 100% OF ITS PORTFOLIO IN NON-INVESTMENT GRADE BONDS, COMMONLY KNOWN AS "JUNK BONDS," WHICH ENTAIL DEFAULT AND OTHER RISKS GREATER THAN THOSE ASSOCIATED WITH HIGHER RATED SECURITIES. INVESTORS SHOULD CAREFULLY ASSESS THE RISKS ASSOCIATED WITH AN INVESTMENT IN THE FUND IN LIGHT OF THE SECURITIES IN WHICH THE FUND INVESTS. SEE "RISK CONSIDERATIONS - HIGH YIELDING, FIXED-INCOME SECURITIES."

This Prospectus is intended to set forth in a clear and concise manner information about the Fund that a prospective investor should know before investing. After reading the Prospectus, it should be retained for future reference; it contains information about the purchase and sale of shares and other items which a prospective investor will find useful to have.

The Fund offers two classes to its investors: AGE High Income Fund - Class I ("Class I") and AGE High Income Fund - Class II ("Class II"). Investors can choose between Class I shares, which generally bear a higher front-end sales charge and lower ongoing Rule 12b-1 distribution fees ("Rule 12b-1 fees"), and Class II shares, which generally have a lower front-end sales charge and higher ongoing Rule 12b-1 fees. Investors should consider the differences between the two classes, including the impact of sales charges and distribution fees, in choosing the more suitable class given their anticipated investment amount and time horizon. See "How to Buy Shares of the Fund - Differences Between Class I and Class II."

SHARES OF THE FUND ARE NOT DEPOSITS OR OBLIGATIONS OF, OR GUARANTEED OR ENDORSED BY, ANY BANK; FURTHER, SUCH SHARES ARE NOT FEDERALLY INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION, THE FEDERAL RESERVE BOARD, OR ANY OTHER AGENCY. SHARES OF THE FUND INVOLVE INVESTMENT RISKS, INCLUDING THE POSSIBLE LOSS OF PRINCIPAL.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS.

ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

A Statement of Additional Information (the "SAI"), concerning the Fund, dated October 1, 1995, as may be amended from time to time, provides a further discussion of certain areas in this Prospectus and other matters which may be of interest to some investors. It has been filed with the Securities and Exchange Commission ("SEC") and is incorporated herein by reference. A copy is available without charge from the Fund or the Fund's principal underwriter, Franklin/Templeton Distributors, Inc. ("Distributors"), at the address or telephone number shown above.

THIS PROSPECTUS IS NOT AN OFFERING OF THE SECURITIES HEREIN DESCRIBED IN ANY STATE IN WHICH THE OFFERING IS NOT AUTHORIZED. NO SALES REPRESENTATIVE, DEALER, OR OTHER PERSON IS AUTHORIZED TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS. FURTHER INFORMATION MAY BE OBTAINED FROM THE UNDERWRITER.

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## Appendix

## EXPENSE TABLE

The purpose of this table is to assist an investor in understanding the various costs and expenses that a shareholder will bear directly or indirectly in connection with an investment in the Fund. These figures are based on aggregate operating expenses of Fund shares for the fiscal year ended May 31, 1995.

&lt;TABLE&gt;

&lt;CAPTION&gt;

<S>	CLASS I <C>	CLASS II <C>
SHAREHOLDER TRANSACTION EXPENSES		
Maximum Sales Charge Imposed on Purchases (as a percentage of offering price)	4.25%	1.00%^
Deferred Sales Charge	NONE+	1.00%++
Exchange Fee (per transaction)	\$5.00*	\$5.00*
ANNUAL OPERATING EXPENSES (as a percentage of average net assets)		
Management Fees	0.46%	0.46%
Rule 12b-1 Fees	0.07%**	0.65%**
Other Expenses:		
Shareholder Servicing Costs	0.04%	0.04%
Reports to Shareholders	0.05%	0.05%
Other	0.04%	0.04%
Total Other Expenses	0.13%** -----	0.13%** -----
Total Fund Operating Expenses	0.66% =====	1.24% =====

^Although Class II has a lower front-end sales charge than Class I, over time the higher Rule 12b-1 fee for Class II may cause shareholders to pay more for Class II shares than for Class I shares. Given the maximum front-end sales charge and the rate of Rule 12b-1 fees of each class, it is estimated that this will take less than six years for shareholders who maintain total shares valued at less than \$100,000 in the Franklin Templeton Funds. Shareholders with larger investments in the Franklin Templeton Funds will reach the crossover point more quickly. (See "How to Buy Shares of the Fund - Purchase Price of Fund Shares" for the definition of Franklin Templeton Funds and similar references.)

+Class I investments of \$1 million or more are not subject to a front-end sales charge; however, a contingent deferred sales charge of 1% is generally imposed on certain redemptions within a "contingency period" of 12 months of the calendar month following such investments. See "How to Sell Shares of the Fund - Contingent Deferred Sales Charge."

++Class II shares redeemed within a "contingency period" of 18 months of the calendar month following such investments are subject to a 1% contingent deferred sales charge. See "How to Sell Shares of the Fund - Contingent Deferred Sales Charge."

\*\$5.00 fee imposed only on Timing Accounts as described under "Exchange Privilege." All other exchanges are processed without a fee.

\*\*Rule 12b-1 fees incurred by the Class II shares represented an annualized rate of 0.65%. Total Class II operating expenses for the fiscal year ended May 31, 1995 have been restated to reflect the maximum Rule 12b-1 fees allowed pursuant to its plan of distribution as though the plan had been in effect for the entire fiscal year. Class II's plan was effective May 15, 1995. Consistent with National Association of Securities Dealers, Inc.'s rules, it is possible that the combination of front-end sales charges and Rule 12b-1 fees could cause long-term shareholders to pay more than the economic equivalent of the maximum front-end sales charges permitted under those same rules.

Investors should be aware that the above table is not intended to reflect in precise detail the fees and expenses associated with an individual's own investment in the Fund. Rather the table has been provided only to assist investors in gaining a more complete understanding of fees, charges and expenses. For a more detailed discussion of these matters, investors should refer to the appropriate sections of this Prospectus.

EXAMPLE

As required by SEC regulations, the following example illustrates the expenses, including the maximum front-end sales charge and applicable contingent deferred sales charges, that apply to a \$1,000 investment in the Fund over various time periods assuming (1) a 5% annual rate of return and (2) redemption at the end of each time period.

<CAPTION>

	ONE YEAR	THREE YEARS	FIVE YEARS	TEN YEARS
<S>	<C>	<C>	<C>	<C>
Class I*	\$49	\$63	\$78	\$121
Class II	\$32	\$49	\$77	\$158

\*assumes that a contingent deferred sales charge will not apply to Class I shares.

A shareholder would pay the following expenses on the same investment, assuming no redemption.

<CAPTION>

	ONE YEAR	THREE YEARS	FIVE YEARS	TEN YEARS
<S>	<C>	<C>	<C>	<C>
CLASS II	\$23	\$49	\$77	\$158

THIS EXAMPLE IS BASED ON THE RESTATED ANNUAL OPERATING EXPENSES SHOWN ABOVE AND SHOULD NOT BE CONSIDERED A REPRESENTATION OF PAST OR FUTURE EXPENSES, WHICH MAY BE MORE OR LESS THAN THOSE SHOWN. The operating expenses are borne by the Fund and only indirectly by shareholders as a result of their investment in the Fund. In addition, federal securities regulations require the example to assume an annual return of 5%, but the Fund's actual return may be more or less than 5%.

</TABLE>

FINANCIAL HIGHLIGHTS

Set forth below is a table containing financial highlights for Class I and Class II shares of the Fund. The offering of Class II shares began May 16, 1995. The information for each of the five fiscal years in the period ended May 31, 1995 has been audited by Coopers & Lybrand L.L.P., independent auditors, whose audit report appears in the financial statements in the Fund's SAI. The remaining figures, which are audited, are not covered by the auditors' current report. Information regarding Class II shares will be included in this table after they have been offered to the public for a reasonable period of time. See the discussion "Reports to Shareholders" under "General Information."

<TABLE>

<CAPTION>

	Class I					
	Six months Ended November 30, 1994	Year ended May 31,				
	1994	1993	1992	1991	1990	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Per Share Operating Performance*						
Net asset value at beginning of year..	\$2.70	\$ 2.81	\$ 2.72	\$ 2.37	\$ 2.53	\$ 3.18
Net investment income.....	0.13	0.27	0.30	0.31	0.34	0.41
Net realized & unrealized gains (losses) on securities.....	(0.98)	(0.113)	0.054	.340	(0.122)	(0.636)
Total from investment operations.....	0.032	0.157	0.354	.650	0.218	(0.226)
Less distributions:						
Dividends from net investment income..	(0.132)	(0.267)	(0.264)	(.300)	(0.359)	(0.424)
Distributions from realized capital gains	--	--	--	--	--	--
Distributions from						

paid-in capital ...	--	--	--	--	(0.019)	--
Total distributions.	(0.132)	(0.267)	(0.264)	(.300)	(0.378)	(0.424)
Net asset value at end of year.....	\$2.60	\$ 2.70	\$2.81	2.72	\$ 2.37	\$ 2.53
Total Return**.....	1.19%	5.19%	13.33%	28.48%	10.18%	(8.13)
Ratios/Supplemental Data						
Net assets at end of year (in 000's)	\$1,696,488	\$1,817,481	\$1,935,919	\$1,864,195	\$1,587,656	\$1,675,212
Ratio of expenses to average net assets.	0.62%+	.59%	.56%	.58%	.59%	.56%
Ratio of net investment income to average net assets.....	9.68%+	9.61%	10.78%	12.18%	14.87%	14.47%
Portfolio turnover rate	19.05%	42.32%	38.33%	43.70%	28.55%	17.59%

<TABLE>  
<CAPTION>

	Year ended May 31,			
	1989	1988	1987	1986
<S>	<C>	<C>	<C>	<C>
Per Share Operating Performance*				
Net asset value at beginning of year..	\$ 3.37	\$ 3.58	\$3.83	\$ 3.71
Net investment income.....	0.43	0.44	0.44	0.48
Net realized & unrealized gains (losses) on securities.....	(0.188)	(0.218)	(0.228)	0.133
Total from investment operations.....	0.242	0.222	0.212	0.613
Less distributions:				
Dividends from net investment income..	(0.432)	(0.432)	(0.462)	(0.492)
Distributions from realized capital gains	--	--	--	(0.001)
Distributions from paid-in capital ...	--	--	--	--
Total distributions.	(0.432)	(0.432)	(0.462)	(0.493)
Net asset value at end of year.....	\$ 3.18	\$ 3.37	\$ 3.58	\$ 3.83
Total Return**.....	6.97%	6.32%	5.25%	17.02%
Ratios/Supplemental Data				
Net assets at end of year (in 000's).	\$2,243,494	\$1,828,108	\$1,639,596	\$ 669,782
Ratio of expenses to average net assets.	.56%	.57%	.59%	.67%
Ratio of net investment income to average net assets.....	13.06%	12.72%	11.46%	11.66%
Portfolio turnover rate	28.82%	24.11%	22.50%	21.88%

\*Total return measures the change in value of an investment over the periods indicated. It is not annualized. It does not include the maximum front-end sales charge or the deferred contingent sales charge. The total return for Class I shares also assumes reinvestment of dividends at the maximum offering price and capital gains, if any, at net asset value. Effective May 1, 1994, with the implementation of the Rule 12b-1 distribution plan, as discussed in this Prospectus, the sales charge on reinvested dividends was eliminated.

\*\*Annualized

ABOUT THE FUND



The Fund is a diversified, open-end management investment company commonly called a "mutual fund." The Fund was incorporated in Colorado in January 1968 under the sponsorship of the Assembly of Governmental Employees and registered with the SEC under the Investment Company Act of 1940, as amended (the "1940 Act"). The Fund has two classes of shares of capital stock with a par value of \$.01: AGE High Income Fund - Class I and AGE High Income Fund - Class II. All Fund shares outstanding before May 15, 1995, have been redesignated as Class I shares, and will retain their previous rights and privileges, except for legally required modifications to shareholder voting procedures, as discussed in "General Information - Voting Rights."

Shares of the Fund may be purchased (minimum investment of \$100 initially and \$25 thereafter) at the current public offering price. The current public offering price of the Class I shares is equal to the net asset value (see "Valuation of Fund Shares"), plus a variable sales charge not exceeding 4.25% of the offering price depending upon the amount invested. The current public offering price of the Class II shares is equal to the net asset value, plus a sales charge of 1.0% of the amount invested. (See "How to Buy Shares of the Fund.")

#### INVESTMENT OBJECTIVES AND POLICIES OF THE FUND

The Fund's principal investment objective is to earn a high level of current income. As a secondary objective, the Fund seeks capital appreciation to the extent it is possible and consistent with the Fund's principal objective. The investment objectives are fundamental policies of the Fund and may not be changed without shareholder approval.

#### TYPE OF SECURITIES THE FUND MAY PURCHASE

Yield and expected return are the primary criteria used by the Fund in selecting portfolio securities. The Fund may invest in both fixed-income debt securities and instruments (sometimes referred to as "corporate bonds") and dividend-paying common or preferred stocks, and will seek to invest in whatever type of security is offering the highest yield and expected total return without excessive risk at the time of purchase. When purchasing fixed-income debt securities, the Fund may invest in investment grade or lower grade securities, depending upon prevailing market and economic conditions and may, for defensive purposes, invest its assets in government securities, commercial paper (short-term debt securities of large corporations), various bank debt instruments or other money market instruments. The Fund may invest in both domestic and foreign securities and instruments.

The Fund may invest up to 100% of its portfolio in non-investment grade bonds, commonly known as junk bonds, which entail default and other risks greater than those associated with higher rated securities. Investors should carefully assess the risks associated with an investment in the Fund in light of the securities in which the Fund invests.

Various investment services publish ratings of some of the types of securities in which the Fund may invest. Higher yields are ordinarily available from securities in the lower rated categories of the recognized rating services (that is, securities rated Ba or lower by Moody's Investors Service ["Moody's"] or BB or lower by Standard & Poor's Corporation ["S&P"]) or from unrated securities of comparable quality. A list of these ratings is shown in the Appendix to this Prospectus. These ratings, which represent the opinions of the rating services with respect to the issuer's ability to pay interest and repay principal, although they do not purport to reflect the risk of fluctuations in market value and are not absolute standards of quality, will be considered in connection with the investment of the Fund's assets, but will not be a determining or limiting factor. The Fund may invest in securities regardless of their rating (including securities in the lowest rating categories) or in securities which are not rated. It is the Fund's intent, however, not to purchase securities rated below CCC. With respect to unrated securities, it is the Fund's intent not to purchase securities which, in the view of the Fund's investment manager, would be comparable to securities rated below B by Moody's or S&P. Securities rated B and CCC are regarded by S&P, on balance, as predominantly speculative with respect to the capacity to pay interest and repay principal in accordance with the terms of the obligation. As of May 31, 1995, approximately 83.4% of the Fund's net assets were invested in lower rated bonds (those having a rating below the four highest grades assigned by the rating services) or in unrated bonds with comparable credit characteristics. (A breakdown of the bonds' ratings is included under "Risk Considerations - Asset Composition Table.") As noted above, the Fund will not invest in securities which are felt by management to involve excessive risk. In the event the rating on an issue held in the Fund's portfolio is changed by the ratings service or the security goes into default, such event will be considered by the Fund in its evaluation of the overall investment merits of that security but will not generally result in an automatic sale of

the security.

Rather than relying principally on the ratings assigned by rating services, the investment analysis of securities being considered for the Fund's portfolio may also include, among other things, consideration of relative values, based on such factors as anticipated cash flow, interest or dividend coverage, asset coverage, earnings prospects, the experience and managerial strength of the issuer, responsiveness to changes in interest rates and business conditions, debt maturity schedules and borrowing requirements and the issuer's changing financial condition and public recognition thereof. Since a substantial portion of the Fund's portfolio at any particular time may consist of debt securities, changes in the level of interest rates, among other things, will likely affect the value of the Fund's holdings and thus the value of a shareholder's investment. Certain of the high yield, fixed income securities in which the Fund may invest may be purchased at a discount to par value. Such securities, when held to maturity or retired, may include an element of capital gain. The Fund does not generally intend to hold securities solely for the purpose of achieving such capital gain, but will generally hold them as long as expected returns on such securities remain attractive. A capital loss may be realized when a security is purchased at a premium, that is, in excess of its stated or par value, is held to maturity or is called or redeemed at a price lower than its purchase price. A capital gain or loss also may be realized upon the sale of securities, whether purchased at par, a discount or a premium.

The Fund's average annual compounded rates of return for the Class I shares, as calculated pursuant to the formula prescribed by the SEC, for the one-, five- and ten-year periods ended on May 31, 1995, were 8.52%, 13.31% and 9.43%, respectively. See "Performance."

**FOREIGN SECURITIES.** The Fund may purchase foreign securities which are traded in the United States or purchase American Depository Receipts ("ADRs") which are certificates issued by U.S. banks representing the right to receive securities of a foreign issuer deposited with that bank or a correspondent bank. The Fund may also purchase the securities of foreign issuers directly in foreign markets and may purchase securities of U.S. issuers which are denominated in foreign currency. See "Risk Considerations - Foreign Securities."

Investments may be in securities of foreign issuers, whether located in developed or undeveloped countries, but investments will not be made in any equity securities issued without stock certificates or in debt securities which are not issued and transferable in fully registered form. Securities which are acquired by the Fund outside the United States and which are publicly traded in the United States, on a foreign securities exchange or in a foreign securities market are not considered by the Fund to be an illiquid asset so long as the Fund acquires and holds the security with the intention of reselling the security in the foreign trading market, the Fund reasonably believes it can readily dispose of the security for cash in the U.S. or foreign market and current market quotations are readily available. The Fund presently has no intention of investing more than 10% of its net assets in foreign securities not publicly traded in the United States.

**FORWARD CURRENCY EXCHANGE CONTRACTS.** The Fund may enter into forward currency exchange contracts ("Forward Contracts") to attempt to minimize the risk to the Fund from adverse changes in the relationship between currencies or to enhance income. A Forward Contract is an obligation to purchase or sell a specific currency for an agreed price at a future date which is individually negotiated and privately traded by currency traders and their customers.

**OPTIONS ON FOREIGN CURRENCIES.** The Fund may purchase and write put and call options on foreign currencies (traded on U.S. and foreign exchanges or over-the-counter) for hedging purposes to protect against declines in the U.S. dollar value of foreign portfolio securities and against increases in the U.S. dollar cost of foreign securities or other assets to be acquired. As in the case of other kinds of options, however, the writing of an option on foreign currency will constitute only a partial hedge, up to the amount of the premium received, and the Fund could be required to purchase or sell foreign currencies at disadvantageous exchange rates, thereby incurring losses. The purchase of an option on foreign currency may constitute an effective hedge against fluctuations in exchange rates although, in the event of rate movements adverse to the Fund's position, the Fund may forfeit the entire amount of the premium plus related transaction costs.

**OPTIONS ON SECURITIES.** Although the Fund's policies permit it to write covered call options, it does not currently anticipate that it will use such authority. If, in the future, the Fund should engage in covered call options writing, it is not limited in the extent to which it may write such options. Prior to engaging

in options writing the Fund will amend the Prospectus to discuss its transactions in options.

**INTEREST RATE SWAPS.** The Fund may also participate in interest rate swaps. An interest rate swap is the transfer between two counterparties of interest rate obligations, one of which has an interest rate fixed to maturity while the other has an interest rate that changes in accordance with changes in a designated benchmark (e.g., London Interbank Offered Rate (LIBOR), prime, commercial paper, or other benchmarks). The obligations to make repayment of principal on the underlying securities are not exchanged. Such transactions generally require the participation of an intermediary, frequently a bank. The entity holding the fixed rate obligation will transfer the obligation to the intermediary, and such entity will then be obligated to pay to the intermediary a floating rate of interest, generally including a fractional percentage as a commission for the intermediary. The intermediary also makes arrangements with a second entity which has a floating-rate obligation which substantially mirrors the obligation desired by the first party. In return for assuming a fixed obligation, the second entity will pay the intermediary all sums that the intermediary pays on behalf of the first entity, plus an arrangement fee and other agreed upon fees.

The Fund intends to participate in interest rate swaps with regard to obligations held in the Fund's portfolio. To the extent, however, the Fund does not own the underlying obligation, the Fund will maintain, in a segregated account with the Fund's custodian, cash or liquid debt securities having an aggregate value equal to the amount of the Fund's outstanding swap obligation.

Interest rate swaps are generally entered into to permit the party seeking a floating rate obligation the opportunity to acquire such obligation at a lower rate than is directly available in the credit market, while permitting the party desiring a fixed rate obligation the opportunity to acquire such a fixed rate obligation, also frequently at a price lower than is available in the capital markets. The success of such a transaction depends in large part on the availability of fixed rate obligations at a low enough coupon rate to cover the cost involved.

**REPURCHASE AGREEMENTS.** The Fund may engage in repurchase transactions, in which the Fund purchases a U.S. government security subject to resale to a bank or dealer at an agreed-upon price and date. The transaction requires the collateralization of the seller's obligation by the transfer of securities with an initial market value, including accrued interest, equal to at least 102% of the dollar amount invested by the Fund in each agreement, with the value of the underlying security marked-to-market daily to maintain coverage of at least 100%. A default by the seller might cause the Fund to experience a loss or delay in the liquidation of the collateral securing the repurchase agreement. The Fund might also incur disposition costs in liquidating the collateral. The Fund, however, intends to enter into repurchase agreements only with financial institutions such as broker-dealers and banks which are deemed creditworthy by the Fund's investment manager. A repurchase agreement is deemed to be a loan by the Fund under the 1940 Act. The U.S. government security subject to resale (the collateral) will be held on behalf of the Fund by a custodian approved by the Fund's Board of Directors and will be held pursuant to a written agreement.

**SHORT-TERM INVESTMENTS.** The Fund may invest its uninvested daily cash balances in shares of Franklin Money Fund and other money market funds in the Franklin Group of Funds provided i) its purchases and redemptions of such money market fund shares may not be subject to any purchase or redemption fees, ii) its investments may not be subject to duplication of management fees, nor to any charge related to the expense of distributing the Fund's shares (as determined under Rule 12b-1, as amended under the federal securities laws) and iii) provided aggregate investments by the Fund in any such money market fund do not exceed (A) the greater of (i) 5% of the Fund's total net assets or (ii) \$2.5 million, or (B) more than 3% of the outstanding shares of any such money market fund.

**TRADE CLAIMS.** The Fund may invest a portion of its assets in trade claims. Trade claims are purchased from creditors of companies in financial difficulty. For purchasers such as the Fund, trade claims offer the potential for profits since they are often purchased at a significantly discounted value and, consequently, may generate capital appreciation in the event that the value of the claim increases as the debtor's financial position improves. In the event that the debtor is able to pay the full obligation on the face of the claim as a result of a restructuring or an improvement in the debtor's financial condition, trade claims offer the potential for higher income due to the difference in the face value of the claim as compared to the discounted purchase price.

An investment in trade claims is speculative and carries a high degree of risk. There can be no guarantee that the debtor will ever be able to satisfy the obligation on the trade claim. Trading in claims is not regulated by federal securities laws or the SEC. Currently, trading in claims is regulated primarily by bankruptcy laws. Because trade claims are unsecured, holders of trade claims may have a lower priority in terms of payment than most other creditors in a

bankruptcy proceeding. In light of the nature and risk of trade claims, the Fund's investment in these instruments will not exceed 5% of its net assets at time of acquisition.

**DEFAULTED DEBT SECURITIES.** The Fund may purchase defaulted debt securities if, in the opinion of the investment manager, it appears likely that the issuer may resume interest payments or other advantageous developments appear likely in the near term. Such securities may be illiquid. The Fund will not invest more than 10% of its total assets (at the time of purchase) in defaulted debt securities, although this is not a fundamental policy and may be changed by the Board of Directors without shareholder approval.

**LOAN PARTICIPATIONS.** The Fund is authorized to acquire loan participations and other related direct or indirect bank debt obligations ("Loan Participations"), in which the Fund will purchase from a lender a portion of a larger loan which it has made to a borrower. Generally, such Loan Participations are sold without guarantee or recourse to the lending institution and are subject to the credit risks of both the borrower and the lending institution. Such Loan Participations, however, may enable the Fund to acquire an interest in a loan from a financially strong borrower which it could not do directly. While Loan Participations generally trade at par value, the Fund will be permitted to purchase such securities which sell at a discount because of the borrower's credit problems. To the extent the borrower's credit problems are resolved, such Loan Participations may appreciate in value.

Investment in Loan Participations is permitted to the extent that such securities, all of which may have speculative characteristics and some of which may be in default, and other defaulted securities represent no more than 15% of the Fund's net assets (at the time of investment).

#### INVESTMENT POLICIES OF THE FUND WHEN-ISSUED AND DELAYED DELIVERY TRANSACTIONS

The Fund may purchase debt obligations on a "when-issued" or "delayed delivery" basis. Such securities are subject to market fluctuation prior to delivery to the Fund and generally do not earn interest until their scheduled delivery date. When the Fund is the buyer in such a transaction, it will maintain, in a segregated account with its custodian, cash or high-grade marketable securities having an aggregate value equal to the amount of such purchase commitments until payment is made. To the extent the Fund engages in when-issued and delayed delivery transactions, it will do so only for the purpose of acquiring portfolio securities consistent with the Fund's investment objectives and policies, and not for the purpose of investment leverage. (The Fund's SAI contains a more complete discussion regarding when-issued and delayed delivery transactions.)

**LOANS OF PORTFOLIO SECURITIES.** Consistent with procedures approved by the Board of Directors and subject to the following conditions, the Fund may lend its portfolio securities to qualified securities dealers or other institutional investors, provided that such loans do not exceed 10% of the value of the Fund's total assets at the time of the most recent loan. The borrower must deposit with the Fund's custodian collateral with an initial market value at least 102% of the initial market value of the securities loaned, including any accrued interest, with the value of the collateral and loaned securities marked-to-market daily to maintain collateral coverage of at least 100%. Such collateral shall consist of cash, securities issued by the U.S. Government, its agencies or instrumentalities, or irrevocable letters of credit. The lending of securities is a common practice in the securities industry. The Fund engages in security loan arrangements with the primary objective of increasing the Fund's income either through investing the cash collateral in short-term interest bearing obligations or by receiving a loan premium from the borrower. Under the securities loan agreement, the Fund continues to be entitled to all dividends or interest on any loaned securities. As with any extension of credit, there are risks of delay in recovery and loss of rights in the collateral should the borrower of the security fail financially.

**CONCENTRATION.** The Fund will not invest more than 25% of the value of its total assets in any one particular industry.

**BORROWING.** The Fund does not borrow money or mortgage or pledge any of its assets, except that it may borrow for temporary or emergency purposes in an amount not to exceed 5% of the Fund's total assets.

**ILLIQUID INVESTMENTS.** It is the policy of the Fund that illiquid securities (securities that cannot be disposed of within seven days in the normal course of business at approximately the amount at which the Fund has valued the securities) may not constitute, at the time of purchase, more than 10% of the value of the total net assets of the Fund. Subject to this limitation, the Board of Directors has authorized the Fund to invest in restricted securities where such investments are consistent with the Fund's investment objectives and has authorized such securities to be considered liquid to the extent the investment manager determines on a daily basis that there is a liquid institutional or

other market for such securities. Notwithstanding the determinations in this regard, the Board of Directors remains responsible for such determinations and will consider appropriate action to maximize the Fund's liquidity and its ability to meet redemption demands if a security should become illiquid subsequent to its purchase. To the extent the Fund invests in restricted securities that are deemed liquid, the general level of illiquidity in the Fund may be increased if qualified institutional buyers become uninterested in purchasing these securities or the market for these securities contracts. See "Additional Information Regarding the Fund's Investment Objectives and Policies" in the SAI.

#### GENERAL

It is the present policy of the Fund (which may be changed without the approval of shareholders) not to invest more than 5% of its total assets in companies which have a record of less than three years continuous operations, including predecessors; nor to invest in puts, calls, straddles or spreads, or any combination thereof, except in connection with option writing activities; nor to engage in joint or joint and several trading accounts in securities, except that an order to purchase or sell may be combined with orders from other persons to obtain lower brokerage commissions.

So long as these percentage restrictions are observed by the Fund at the time of purchase of any such security, changes in values of particular Fund assets or the assets of the Fund as a whole will not cause a violation of any of the foregoing restrictions.

The Fund is subject to a number of additional investment restrictions, some of which may be changed only with the approval of shareholders, which limit its activities to some extent. For a list of these restrictions and more information concerning the policies discussed herein, please see the SAI.

The Fund's investment in options, forward contracts, options on foreign currencies and foreign securities may be limited by the requirements of the Internal Revenue Code of 1986, as amended (the "Code") for qualification as a regulated investment company and are subject to special tax rules that may affect the amount, timing and character of distributions to shareholders. These securities require the application of complex and special tax rules and elections, more information about which is included in the SAI.

The Fund's investment in zero coupon and delayed interest bonds, or bonds that provide for payment of interest in kind may cause the Fund to recognize income and make distributions to shareholders prior to the receipt of cash payments. Payment-in-kind obligations are subject to special tax rules concerning the amount, character and timing of income required to be accrued by the Fund.

The Fund may also be required under the Code and U.S. Treasury regulations to accrue income for income tax purposes on defaulted obligations and to distribute such income to the Fund's shareholders even though the Fund is not currently receiving interest or principal payments on such obligations. In order to generate cash to satisfy any or all of these distribution requirements, the Fund may be required to dispose of portfolio securities that it otherwise would have continued to hold or to use cash flows from other sources such as the sale of Fund shares.

#### RISK CONSIDERATIONS

##### HIGH YIELDING, FIXED-INCOME SECURITIES

Because of the Fund's policy of investing in higher yielding, higher risk securities, an investment in the Fund is accompanied by a higher degree of risk than is present with an investment in higher rated, lower yielding securities. Accordingly, an investment in the Fund should not be considered a complete investment program, and should be carefully evaluated for its appropriateness in light of the investor's overall investment needs and goals. Persons on fixed incomes, such as retired persons, should also consider the increased risk of loss to principal which is present with an investment in higher risk securities such as those in which the Fund invests.

The market values of lower rated, fixed-income securities and unrated securities of comparable quality tend to reflect individual corporate developments to a greater extent than do higher-rated securities, which react primarily to fluctuations in the general level of interest rates. Such lower rated securities also tend to be more sensitive to economic conditions than higher rated securities. These lower-rated fixed-income securities are considered by the NRSROs, on balance, to be predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligation and will generally involve more credit risk than securities in the higher rating categories. Even bonds rated BBB by S&P or Baa by Moody's, ratings which are considered investment grade, possess some speculative characteristics.

Companies that issue high yielding, fixed-income securities are often highly leveraged and may not have more traditional methods of financing available to them. Therefore, the risk associated with acquiring the securities of such issuers is generally greater than is the case with higher rated securities. For example, during an economic downturn or a sustained period of rising interest rates, highly leveraged issuers of high yielding securities may experience financial stress. During these periods, such issuers may not have sufficient cash flow to meet their interest 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 the issuer may be significantly greater for the holders of high yielding securities because such securities are generally unsecured and are often subordinated to other creditors of the issuer. As of May 31, 1995, two issues (from one separate issuer) out of 174 issues (excluding short-term securities and cash equivalents) in the Fund's portfolio were in default. In the fiscal year ended May 31, 1995, two issues defaulted, and a total of seven issues defaulted over the prior three years of which the Fund still holds the two issues mentioned above. Defaulted issues represented 0.04% of the net assets of the Fund at May 31, 1995. Current prices for defaulted bonds, however, are generally significantly lower than their purchase price, and the Fund may have unrealized losses on such defaulted securities which are reflected in the price of the Fund's shares. In general, securities which default lose much of their value in the time period prior to the actual default so that the Fund's net assets are impacted prior to the default. The Fund may retain an issue which has defaulted because such issue may present an opportunity for subsequent price recovery. The high yield securities market is relatively new and much of its growth prior to 1990 paralleled a long economic expansion. The recent recession disrupted the market for high yield securities and adversely affected the value of outstanding securities and the ability of issuers of such securities to meet their obligations. Those adverse effects may continue even as the economy recovers.

High yielding, fixed-income securities frequently have call or buy-back features which permit an issuer to call or repurchase the securities from the Fund. Although such securities are typically not callable for a period from three to five years after their issuance, if a call were exercised by the issuer during periods of declining interest rates, the Fund would likely have to replace such called securities with lower yielding securities, thus decreasing the net investment income to the Fund and dividends to shareholders. The premature disposition of a high yielding security due to a call or buy-back feature, the deterioration of the issuer's creditworthiness, or a default may also make it more difficult for the Fund to manage the timing of its receipt of income, which may have tax implications. Further information is included under "Taxation of the Fund and Its Shareholders."

The Fund may have difficulty disposing of certain high yielding securities because there may be a thin trading market for a particular security at any given time. The market for lower rated, fixed-income securities generally tends to be concentrated among a smaller number of dealers than is the case for securities which trade in a broader secondary retail market. Generally, purchasers of these securities are predominantly dealers and other institutional buyers, rather than individuals. To the extent the secondary trading market for a particular high yielding, fixed-income security does exist, it is generally not as liquid as the secondary market for higher rated securities. Reduced liquidity in the secondary market may have an adverse impact on market price and the Fund's ability to dispose of particular issues, when necessary, to meet the Fund's liquidity needs or in response to a specific economic event, such as the deterioration in the creditworthiness of the issuer. Reduced liquidity in the secondary market for certain securities may also make it more difficult for the Fund to obtain market quotations based on actual trades for purposes of valuing the Fund's portfolio. Current values for these high yield issues are obtained from pricing services and/or a limited number of dealers and may be based upon factors other than actual sales. (See "Valuation of Fund Shares.")

The Fund is authorized to acquire high yielding, fixed-income securities that are sold without registration under the federal securities laws and therefore carry restrictions on resale. While many recent high yielding securities have been sold with registration rights, covenants and penalty provisions for delayed registration, if the Fund is required to sell such restricted securities before the securities have been registered, it may be deemed an underwriter of such securities as defined in the Securities Act of 1933, which entails special responsibilities and liabilities. The Fund may incur special costs in disposing of such securities; however, the Fund will generally incur no costs when the issuer is responsible for registering the securities.

The Fund may acquire high yielding, fixed-income securities during an initial underwriting. Such securities involve special risks because they are new issues. The Fund has no arrangement with its underwriters or any other person concerning the acquisition of such securities, and the investment manager will carefully

review the credit and other characteristics pertinent to such new issues.

Factors adversely impacting the market value of high yielding securities will adversely impact the Fund's net asset value. For example, adverse publicity regarding lower rated bonds, which appeared during 1989 and 1990, along with highly publicized defaults of some high yield issuers, and concerns regarding a sluggish economy which continued in 1993, depressed the prices for many such securities. In addition, the Fund may incur additional expenses to the extent it is required to seek recovery upon a default in the payment of principal or interest on its portfolio holdings. The Fund will rely on the investment manager's judgment, analysis and experience in evaluating the creditworthiness of an issuer. In this evaluation, the investment manager will take into consideration, among other things, the issuer's financial resources, its sensitivity to economic conditions and trends, its operating history, the quality of the issuer's management and regulatory matters.

The credit risk factors pertaining to lower rated securities also apply to lower rated zero coupon, deferred interest and pay-in-kind bonds. Such bonds carry an additional risk in that, unlike bonds which pay interest throughout the period to maturity, the Fund will realize no cash until the cash payment date and, if the issuer defaults, the Fund may obtain no return at all on its investment. Zero coupon, deferred interest and pay-in-kind bonds involve additional special considerations.

Zero coupon or deferred interest securities are debt obligations which do not entitle the holder to any periodic payments of interest prior to maturity or a specified date when the securities begin paying current interest (the "cash payment date") and therefore are generally issued and traded at a discount from their face amounts or par value. The discount varies depending on the time remaining until maturity or cash payment date, prevailing interest rates, liquidity of the security and the perceived credit quality of the issuer. The discount, in the absence of financial difficulties of the issuer, typically decreases as the final maturity or cash payment date of the security approaches. The market prices of zero coupon securities are generally more volatile than the market prices of securities that pay interest periodically and are likely to respond to changes in interest rates to a greater degree than do non-zero coupon or deferred interest securities having similar maturities and credit quality. Current federal income tax law requires that a holder of a zero coupon security report as income each year the portion of the original issue discount on such security that accrues that year, even though the holder receives no cash payments of interest during the year.

Pay-in-kind bonds are securities which pay interest through the issuance of additional bonds. The Fund will be deemed to receive interest over the life of such bonds and be treated as if interest were paid on a current basis for federal income tax purposes, although no cash interest payments are received by the Fund until the cash payment date or until the bonds mature. The Fund, however, intends to continue to qualify as a regulated investment company under the Code. Accordingly, during periods when the Fund receives no cash interest payments on its zero coupon securities or deferred interest or pay-in-kind bonds, it may be required to dispose of portfolio securities to meet the distribution requirements and such sales may be subject to the risk factors discussed above. The Fund is not limited in the amount of its assets that may be invested in such securities. Further information is included under "Taxation of the Fund and Its Shareholders."

#### ASSET COMPOSITION TABLE

A credit rating by an NRSRO evaluates only the safety of principal and interest of the bond, and does not consider the market value risk associated with an investment in such a bond. The table below shows the percentage invested in each of the specific S&P rating categories and those that are not rated by the NRSROs but deemed by the investment manager to be of the same credit quality. The information was prepared based on a dollar weighted average of the Fund's portfolio composition based on month-end assets for each of the 12 months in the fiscal year ended May 31, 1995. The Appendix includes a description of each rating category.

S&P RATING	AVERAGE WEIGHTED PERCENTAGE OF ASSETS
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AAA	6.33%
A-	0.59%
BBB	0.33%
BBB-	2.34%
BB+	5.15%
BB	4.73%

BB-	12.41%
B+	17.44%
B*	32.45%
B-	13.89%
CCC+	1.59%
CCC	1.07%
CCC-	1.47%
D	0.21%

\*7.09% of these securities, which are unrated by an NRSRO, have been included in the B rating category.

#### FOREIGN SECURITIES

Investments in foreign securities where delivery takes place outside the U.S. may involve risks that are different from investments in U.S. securities. These risks may include future unfavorable political and economic developments, possible withholding taxes, seizure of foreign deposits, currency exchange controls, including currency blockage, higher transactional costs due to a lack of negotiated commissions, or other governmental restrictions which might affect the amount and types of foreign investments made or the payment of principal or interest on securities the Fund holds. In addition, there may be less information available about these securities and it may be more difficult to obtain or enforce a court judgment in the event of a lawsuit. Fluctuations in currency convertibility or exchange rates could result in investment losses for the Fund. Investment in foreign securities may also subject the Fund to losses due to nationalization, expropriation or differing accounting practices and treatments.

#### HOW SHAREHOLDERS PARTICIPATE IN THE RESULTS OF THE FUND'S ACTIVITIES

The assets of the Fund are invested in portfolio securities. If the securities owned by the Fund increase in value, the value of the shares of the Fund which the shareholder owns will increase. If the securities owned by the Fund decrease in value, the value of the shareholder's shares will also decline. In this way, shareholders participate in any change in the value of the securities owned by the Fund.

In addition to the factors which affect the value of individual securities, as described in the preceding sections, a shareholder may anticipate that the value of Fund shares will fluctuate with movements in the broader equity and bond markets, as well. To the extent the Fund's investments consist of debt securities, changes in interest rates will affect the value of the Fund's portfolio and thus its share price. Increased rates of interest which frequently accompany higher inflation and/or a growing economy are likely to have a negative effect on the value of Fund shares. To the extent the Fund's investments consist of common stocks, a decline in the market, expressed for example by a drop in the Dow Jones Industrials or the S&P's 500 average or any other equity based index, may also be reflected in declines in the Fund's share price. History reflects both increases and decreases in the prevailing rate of interest and in the valuation of the market, and these may reoccur unpredictably in the future.

#### MANAGEMENT OF THE FUND

The Board of Directors (the "Board") has the primary responsibility for the overall management of the Fund and for electing the officers of the Fund who are responsible for administering its day-to-day operations.

The Board has carefully reviewed the multiclass structure to ensure that no material conflict exists between the two classes of shares. Although the Board does not expect to encounter material conflicts in the future, the Board will continue to monitor the Fund and will take appropriate action to resolve such conflicts if any should later arise.

In developing the multiclass structure the Fund has retained the authority to establish additional classes of shares. It is the Fund's present intention to offer only two classes of shares, but new classes may be offered in the future.

Franklin Advisers, Inc. ("Advisers" or "Manager") serves as the Fund's investment manager. Advisers is a wholly-owned subsidiary of Franklin Resources, Inc. ("Resources"), a publicly owned holding company, the principal shareholders of which are Charles B. Johnson and Rupert H. Johnson, Jr., who own approximately 20% and 16%, respectively, of Resources' outstanding shares. Resources is engaged in various aspects of the financial services industry



through its various subsidiaries (the "Franklin Templeton Group"). Advisers acts as investment manager or administrator to 34 U.S. registered investment companies (112 separate series) with aggregate assets of over \$76 billion.

Pursuant to the management agreement, the Manager supervises and implements the Fund's investment activities and provides certain administrative services and facilities which are necessary to conduct the Fund's business.

During the fiscal year ended May 31, 1995, management fees totaling 0.46% of the average monthly net assets of the Fund were paid to Advisers.

Among the responsibilities of the Manager under the management agreement is the selection of brokers and dealers through whom transactions in the Fund's portfolio securities will be effected. The Manager tries to obtain the best execution on all such transactions. If it is felt that more than one broker is able to provide the best execution, the Manager will consider the furnishing of quotations and of other market services, research, statistical and other data for the Manager and its affiliates, as well as the sale of shares of the Fund, as factors in selecting a broker. Further information is included under "The Fund's Policies Regarding Brokers Used on Portfolio Transactions" in the SAI.

Shareholder accounting and many of the clerical functions for the Fund are performed by Franklin/Templeton Investor Services, Inc. ("Investor Services" or "Shareholder Services Agent"), in its capacity as transfer agent and dividend-paying agent. Investor Services is a wholly-owned subsidiary of Resources.

During the fiscal year ended May 31, 1995, expenses borne by Class I shares of the Fund, including fees paid to Advisers and to Investor Services, totaled 0.66% of the average monthly net assets of such class. Class II's annualized expenses for the period from May 15, 1995, to May 31, 1995, total 1.24%.

#### PLANS OF DISTRIBUTION

A separate Plan of Distribution has been approved and adopted for each class ("Class I Plan" and "Class II Plan," respectively, or "Plans") pursuant to Rule 12b-1 under the 1940 Act. The Rule 12b-1 fees charged to each class will be based solely on the distribution and servicing fees attributable to that particular class. Any portion of fees remaining from either Plan after distribution to securities dealers of up to the maximum amount permitted under each Plan may be used by the class to reimburse Distributors for routine ongoing promotion and distribution expenses incurred with respect to such class. Such expenses may include, but are not limited to, the printing of prospectuses and reports used for sales purposes, expenses of preparing and distributing sales literature and related expenses, advertisements, and other distribution-related expenses, including a prorated portion of Distributors' overhead expenses attributable to the distribution of Fund shares, as well as any distribution or service fees paid to securities dealers or their firms or others who have executed a servicing agreement with the Fund, Distributors or its affiliates.

The maximum amount which the Fund may pay to Distributors or others under the Class I Plan for such distribution expenses is 0.15% per annum of Class I's average daily net assets payable on a quarterly basis. All expenses of distribution and marketing in excess of 0.15% per annum will be borne by Distributors, or others who have incurred them, without reimbursement from the Fund.

Under the Class II Plan, the Fund pays to Distributors for distribution expenses and related expenses up to 0.50% per annum of Class II's daily net assets, payable quarterly. Such fees may be used in order to compensate Distributors or others for providing distribution and related services and bearing certain expenses of the Class. All expenses of distribution, marketing and related services over that amount will be borne by Distributors or others who have incurred them, without reimbursement by the Fund. In addition, the Class II Plan provides for an additional payment by the Fund of up to 0.15% per annum of Class II's average daily net assets as a servicing fee, payable quarterly. This fee will be used to pay securities dealers or others for, among other things, assisting in establishing and maintaining customer accounts and records; assisting with purchase and redemption requests; receiving and answering correspondence; monitoring dividend payments from the Fund on behalf of customers, or similar activities related to furnishing personal services and/or maintaining shareholder accounts.

During the first year following the purchase of Class II shares, Distributors will retain 0.50% per annum of Class II's average daily net assets to partially

recoup fees Distributors pays to securities dealers. Distributors, or its affiliates, may pay, from its own resources, a commission of up to 1% of the amount invested to securities dealers who initiate and are responsible for purchases of Class II shares.

Both Plans also cover any payments to or by the Fund, Advisers, Distributors, or other parties on behalf of the Fund, Advisers or Distributors, to the extent such payments are deemed to be for the financing of any activity primarily intended to result in the sale of shares issued by the Fund within the context of Rule 12b-1. The payments under the Plans are included in the maximum operating expenses which may be borne by each class of the Fund. For more information, including a discussion of the Board's policies with regard to the amount of each Plan's fees, please see the SAI.

#### DISTRIBUTIONS TO SHAREHOLDERS

There are two types of distributions which the Fund may make to its shareholders:

1. INCOME DIVIDENDS. The Fund receives income in the form of dividends, interest and other income derived from its investments. This income, less the expenses incurred in the Fund's operations, is its net investment income from which income dividends may be distributed. Thus, the amount of dividends paid per share may vary with each distribution.
2. CAPITAL GAIN DISTRIBUTIONS. The Fund may derive capital gains or losses in connection with sales or other dispositions of its portfolio securities. Distributions by the Fund derived from net short-term and net long-term capital gains (after taking into account any net capital loss carryovers) may generally be made once a year in December to reflect any net short-term and net long-term capital gains realized by the Fund as of October 31 of the current fiscal year and any undistributed net capital gains from the prior fiscal year. These distributions, when made, will generally be fully taxable to the Fund's shareholders. The Fund may make more than one distribution derived from net short-term and net long-term capital gains in any year or adjust the timing of these distributions for operational or other reasons.

#### DISTRIBUTIONS TO EACH CLASS OF SHARES

According to the requirements of the Code, dividends and capital gains will be calculated and distributed in the same manner for Class I and Class II shares. The per share amount of any income dividends will generally differ only to the extent that each class is subject to different Rule 12b-1 fees.

#### DISTRIBUTION DATE

Although subject to change by the Board of Directors, without prior notice to or approval by shareholders, the Fund's current policy is to declare income dividends monthly for shareholders of record on the last business day of the month, payable on or about the 15th day of the following month. The amount of income dividend payments by the Fund is dependent upon the amount of net income received by the Fund from its portfolio holdings, is not guaranteed and is subject to the discretion of the Board of Directors. Fund shares are quoted ex-dividend on the first business day following the record date. THE FUND DOES NOT PAY "INTEREST" OR GUARANTEE ANY FIXED RATE OF RETURN ON AN INVESTMENT IN ITS SHARES.

In order to be entitled to a dividend, an investor must have acquired Fund shares prior to the close of business on the record date. An investor considering purchasing Fund shares shortly before the record date of a distribution should be aware that because the value of the Fund's shares is based directly on the amount of its net assets, rather than on the principle of supply and demand, any distribution of income or capital gain will result in a decrease in the value of the Fund's shares equal to the amount of the distribution. While a dividend or capital gain distribution received shortly after purchasing shares represents, in effect, a return of a portion of the shareholder's investment, it may be taxable as dividend income or capital gain.

#### DIVIDEND REINVESTMENT

Unless otherwise requested, income dividends and capital gain distributions, if any, will be automatically reinvested in the shareholder's account in the form of additional shares, valued at the closing net asset value (without a sales charge) on the dividend reinvestment date. Dividend and capital gain distributions are only eligible for reinvestment at net asset value in the same class of shares of the Fund or the same class of another of the Franklin Templeton Funds. Shareholders have the right to change their election with respect to the receipt of distributions by notifying the Fund, but any such change will be effective only as to distributions for which the record date is seven or more business days after the Fund has been notified. See the SAI for

more information.

Many of the Fund's shareholders receive their distributions in the form of additional shares. This is a convenient way to accumulate additional shares and maintain or increase the shareholder's earnings base. Of course, any shares so acquired remain at market risk.

#### DISTRIBUTIONS IN CASH

A shareholder may elect to receive income dividends, or both income dividends and capital gain distributions, in cash. By completing the "Special Payment Instructions for Distributions" section of the Shareholder Application included with this Prospectus, a shareholder may direct the selected distributions to the same class of another fund in the Franklin Templeton Funds, to another person, or directly to a checking account. If the bank at which the account is maintained is a member of the Automated Clearing House, the payments may be made automatically by electronic funds transfer. If this last option is requested, the shareholder should allow at least 15 days for initial processing. Dividends which may be paid in the interim will be sent to the address of record. Additional information regarding automated fund transfers may be obtained from Franklin's Shareholder Services Department. See "Purchases at Net Asset Value" under "How to Buy Shares of the Fund."

#### TAXATION OF THE FUND AND ITS SHAREHOLDERS

The following discussion reflects some of the tax considerations that affect mutual funds and their shareholders. Additional information on tax matters relating to the Fund and its shareholders is included in the section entitled "Additional Information Regarding Taxation" in the SAI.

The Fund intends to continue to qualify for treatment as a regulated investment company under Subchapter M of the Code. By distributing all of its income and meeting certain other requirements relating to the sources of its income and diversification of its assets, the Fund will not be liable for federal income or excise taxes.

Foreign securities, which meet the definition in the Code of a Passive Foreign Investment Company ("PFIC"), may subject the Fund to an income tax and interest charge with respect to such investment. To the extent possible, the Fund will avoid such treatment by not investing in PFIC securities or by adopting other tax strategies for any PFIC securities it does purchase.

For federal income tax purposes, any income dividends which the shareholder receives from the Fund, as well as any distributions derived from the excess of net short-term capital gain over net long-term capital loss, are treated as ordinary income whether the shareholder has elected to receive them in cash or in additional shares.

Distributions derived from the excess of net long-term capital gain over net short-term capital loss are treated as long-term capital gain regardless of the length of time the shareholder has owned Fund shares and regardless of whether such distributions are received in cash or in additional shares.

Pursuant to the Code, certain distributions which are declared in October, November or December but which, for operational reasons, may not be paid to the shareholder until the following January, will be treated for tax purposes as if paid by the Fund and received by the shareholder on December 31 of the calendar year in which they are declared.

Redemptions and exchanges of Fund shares are taxable events on which a shareholder may realize a gain or loss. Any loss incurred on the sale or exchange of Fund shares, held for six months or less, will be treated as a long-term capital loss to the extent of capital gain dividends received with respect to such shares.

For corporate shareholders, it is anticipated that only a small portion of the Fund's dividends during the current fiscal year will qualify for the corporate dividends-received deduction because of the Fund's principal investment in domestic debt securities. To the extent that the Fund pays dividends which qualify for this deduction, the availability of the deduction is subject to certain holding period and debt financing restrictions imposed under the Code on the corporation claiming the deduction.

The Fund will inform shareholders of the source of their dividends and distributions at the time they are paid and will, promptly after the close of each calendar year, advise them of the tax status for federal income tax purposes of such dividends and distributions.

Shareholders who are not U.S. persons for purposes of federal income taxation should consult with their financial or tax advisors regarding the applicability of U.S. withholding or other taxes to distributions received by them from the Fund and the application of foreign tax laws to these distributions.

Shareholders should also consult their tax advisors with respect to the applicability of any state and local intangible property or income taxes to their shares of the Fund and distributions and redemption proceeds received from the Fund.

#### HOW TO BUY SHARES OF THE FUND

Shares of the Fund are continuously offered through securities dealers which execute an agreement with Distributors, the principal underwriter of the Fund's shares. The use of the term "securities dealer" shall include other financial institutions which, pursuant to an agreement with Distributors (directly or through affiliates), handle customer orders and accounts with the Fund. Such reference, however, is for convenience only and does not indicate a legal conclusion of capacity. The minimum initial investment is \$100 and subsequent investments must be \$25 or more. These minimums may be waived when the shares are purchased through plans established by the Franklin Templeton Group. The Fund and Distributors reserve the right to refuse any order for the purchase of shares.

**DIFFERENCES BETWEEN CLASS I AND CLASS II.** The difference between Class I and Class II shares lies primarily in their front-end and contingent deferred sales charges and Rule 12b-1 fees as described below.

**CLASS I.** All Fund shares outstanding before the implementation of the multiclass structure have been redesignated as Class I shares, and will retain their previous rights and privileges. Voting rights of each class will be the same on matters affecting the Fund as a whole, but each will vote separately on matters affecting its class. Class I shares are generally subject to a variable sales charge upon purchase and not subject to any sales charge upon redemption. Class I shares are subject to Rule 12b-1 fees of up to an annual maximum of 0.15% of average daily net assets of such shares. With this multiclass structure, Class I shares have higher front-end sales charges than Class II shares and comparatively lower Rule 12b-1 fees. Class I shares may be purchased at a reduced front-end sales charges or at net asset value if certain conditions are met. In most circumstances, contingent deferred sales charges will not be assessed against redemptions of Class I shares. See "Management of the Fund," and "How to Sell Shares of the Fund" for more information.

**CLASS II.** The current public offering price of Class II shares is equal to the net asset value, plus a front-end sales charge of 1% of the amount invested. Class II shares are also subject to a contingent deferred sales charge of 1% if shares are redeemed within 18 months of the calendar month following purchase. In addition, Class II shares are subject to Rule 12b-1 fees of up to a maximum of 0.65% per annum of average daily net assets of such shares, 0.50% of which will be retained by Distributors during the first year of investment. Class II shares have lower front-end sales charges than Class I shares and comparatively higher Rule 12b-1 fees. See "Contingent Deferred Sales Charge" under "How to Sell Shares of the Fund".

Purchases of Class II shares are limited to purchases below \$1 million. Any purchases of \$1 million or more will automatically be invested in Class I shares, since that is more beneficial to investors. Such purchases, however, may be subject to a contingent deferred sales charge. Investors may exceed \$1 million in Class II shares by cumulative purchases over a period of time. Investors who intend to make investments exceeding \$1 million, however, should consider purchasing Class I shares through a Letter of Intent instead of purchasing Class II shares.

**DECIDING WHICH CLASS TO PURCHASE.** Investors should carefully evaluate their anticipated investment amount and time horizon prior to determining which class of shares to purchase. Generally, an investor who expects to invest less than \$100,000 in the Franklin Templeton Funds and who expects to make substantial redemptions within approximately six years or less of investment should consider purchasing Class II shares. However, the higher annual Rule 12b-1 fees on the

Class II shares will result in slightly higher operating expenses and lower income dividends for Class II shares, which will accumulate over time to outweigh the difference in initial sales charges. For this reason, Class I shares may be more attractive to long-term investors even if no sales charge reductions are available to them.

Investors who qualify to purchase Class I shares at reduced sales charges definitely should consider purchasing Class I shares, especially if they intend to hold their shares approximately six years or more. Investors who qualify to purchase Class I shares at reduced sales charges but who intend to hold their shares less than approximately six years should evaluate whether it is more economical to purchase Class I shares through a Letter of Intent or under Rights of Accumulation or other means, rather than purchasing Class II shares.  
 INVESTORS INVESTING \$1 MILLION OR MORE IN A SINGLE PAYMENT AND OTHER INVESTORS WHO QUALIFY TO PURCHASE CLASS I SHARES AT NET ASSET VALUE WILL BE PRECLUDED FROM PURCHASING CLASS II SHARES.

Each class represents the same interest in the investment portfolio of the Fund and has the same rights, except that each class has a different sales charge, bears the separate expenses of its Rule 12b-1 distribution plan, and has exclusive voting rights with respect to such plan. The two classes also have separate exchange privileges.

PURCHASE PRICE OF FUND SHARES

Shares of both classes of the Fund are offered at their respective public offering prices, which are determined by adding the net asset value per share plus a front-end sales charge, next computed (1) after the shareholder's securities dealer receives the order which is promptly transmitted to the Fund or (2) after receipt of an order by mail from the shareholder directly in proper form (which generally means a completed Shareholder Application accompanied by a negotiable check).

CLASS I. The sales charge for Class I shares is a variable percentage of the offering price depending upon the amount of the sale. The offering price will be calculated to two decimal places using standard rounding criteria. A description of the method of calculating net asset value per share is included under the caption "Valuation of Fund Shares."

Set forth below is a table of total front-end sales charges or underwriting commissions and dealer concessions for Class I shares.

<TABLE>  
 <CAPTION>

SIZE OF TRANSACTION AT OFFERING PRICE - - - - -	TOTAL SALES CHARGE		
	AS A PERCENTAGE OF OFFERING PRICE	AS A PERCENTAGE OF NET AMOUNT INVESTED	DEALER CONCESSION AS A PERCENTAGE OF OFFERING PRICE
<S>	<C>	<C>	<C>
Less than \$100,000	4.25%	4.44%	4.00%
\$100,000 but less than \$250,000	3.50%	3.63%	3.25%
\$250,000 but less than \$500,000	2.75%	2.83%	2.50%
\$500,000 but less than \$1,000,000	2.15%	2.20%	2.00%
\$1,000,000 or more	NONE	NONE	(see below)**

\*Financial institutions or their affiliated brokers may receive an agency transaction fee in the percentages set forth above.

\*\*The following commissions will be paid by Distributors, out of its own resources, to securities dealers who initiate and are responsible for purchases of \$1 million or more: 0.75% on sales of \$1 million but less than \$2 million, plus 0.60% on sales of \$2 million but less than \$3 million, plus 0.50% on sales of \$3 million but less than \$50 million, plus 0.25% on sales of \$50 million but less than \$100 million, plus 0.15% on sales of \$100 million or more. Dealer concession breakpoints are reset every 12 months for purposes of additional purchases.

\*\*\*At the discretion of Distributors, all sales charges may at times be allowed to the securities dealer. If 90% or more of the sales commission is allowed, such securities dealer may be deemed to be an underwriter as that term is defined in the Securities Act of 1933, as amended.

No front-end sales charge applies on investments of \$1 million or more, but a

contingent deferred sales charge of 1% is imposed on certain redemptions of all or a portion of investments of \$1 million or more within the contingency period. See "How to Sell Shares of the Fund - Contingent Deferred Sales Charge."

The size of a transaction which determines the applicable sales charge on the purchase of Fund shares is determined by adding the amount of the shareholder's current purchase plus the cost or current value (whichever is higher) of a shareholder's existing investment in one or more of the funds in the Franklin Group of Funds (Registered Trademark) and the Templeton Group of Funds. Included for these aggregation purposes are (a) the mutual funds in the Franklin Group of Funds except Franklin Valuemark Funds and Franklin Government Securities Trust (the "Franklin Funds"), (b) other investment products underwritten by Distributors or its affiliates (although certain investments may not have the same schedule of sales charges and/or may not be subject to reduction) and (c) the U.S. registered mutual funds in the Templeton Group of Funds except Templeton Capital Accumulator Fund, Inc., Templeton Variable Annuity Fund, and Templeton Variable Products Series Fund (the "Templeton Funds"). (Franklin Funds and Templeton Funds are collectively referred to as the "Franklin Templeton Funds.") Sales charge reductions based upon aggregate holdings of (a), (b) and (c) above ("Franklin Templeton Investments") may be effective only after notification to Distributors that the investment qualifies for a discount.

OTHER PAYMENTS TO SECURITIES DEALERS. Distributors, or one of its affiliates, may make payments, out of its own resources, of up to 0.75% of the amount purchased to securities dealers who initiate and are responsible for purchases made at net asset value by non-designated retirement plans, and up to 1% of the amount purchased to securities dealers who initiate and are responsible for purchases made at net asset value by certain designated retirement plans (excluding IRA and IRA rollovers), certain trust companies and trust departments of banks and certain retirement plans of organizations with collective retirement plan assets of \$10 million or more. See definitions under "Description of Special Net Asset Value Purchases" and as set forth in the SAI.

Class II. Unlike Class I shares, the front-end sales charges and dealer concessions for Class II shares do not vary depending on the amount of purchase. See table below:

<TABLE>  
<CAPTION>

SIZE OF TRANSACTION AT OFFERING PRICE	TOTAL SALES CHARGE		
	AS A PERCENTAGE OF OFFERING PRICE	AS A PERCENTAGE OF NET AMOUNT INVESTED	DEALER CONCESSION AS A PERCENTAGE OF OFFERING PRICE*
<S>	<C>	<C>	<C>
Any Amount (less than \$1,000,000)	1.00%	1.01%	1.00%

\*Distributors, or one of its affiliates, may make additional payments to securities dealers, from its own resources, of up to 1% of the amount invested. During the first year following a purchase of Class II shares, Distributors will keep a portion of the Rule 12b-1 fees assessed to those shares to partially recoup fees Distributors pays to securities dealers.

Class II shares redeemed within 18 months of their purchase will be assessed a contingent deferred sales charge of 1% on the lesser of the then-current net asset value or the net asset value of such shares at the time of purchase, unless such charge is waived as described under "How to Sell Shares of the Fund - - Contingent Deferred Sales Charge."

Distributors, or one of its affiliates, out of its own resources, may also provide additional compensation to securities dealers in connection with sales of shares of the Franklin Templeton Funds. Compensation may include financial assistance to securities dealers in connection with conferences, sales or training programs for their employees, seminars for the public, advertising, sales campaigns and/or shareholder services and programs regarding one or more of the Franklin Templeton Funds and other dealer-sponsored programs or events. In some instances, this compensation may be made available only to certain securities dealers whose representatives have sold or are expected to sell significant amounts of shares of the Franklin Templeton Funds. Compensation may include payment for travel expenses, including lodging, incurred in connection with trips taken by invited registered representatives and members of their families to locations within or outside of the United States for meetings or seminars of a business nature. Securities dealers may not use sales of the Fund's shares to qualify for this compensation to the extent such may be

prohibited by the laws of any state or any self-regulatory agency, such as the National Association of Securities Dealers, Inc. None of the aforementioned additional compensation is paid for by the Fund or its shareholders.

Additional terms concerning the offering of the Fund's shares are included in the SAI.

Certain officers and directors of the Fund are also affiliated with Distributors. A detailed description is included in the SAI.

#### QUANTITY DISCOUNTS IN SALES CHARGES - CLASS I SHARES ONLY

Class I shares may be purchased under a variety of plans which provide for a reduced sales charge. To be certain to obtain the reduction of the sales charge, the investor or the securities dealer should notify Distributors at the time of each purchase of shares which qualifies for the reduction. In determining whether a purchase qualifies for a discount, an investment in any of the Franklin Templeton Investments may be combined with those of the investor's spouse and children under the age of 21 and grandchildren under the age of 21. In addition, the aggregate investments of a trustee or other fiduciary account (for an account under exclusive investment authority) may be considered in determining whether a reduced sales charge is available, even though there may be a number of beneficiaries of the account. The value of Class II shares owned by the investor may also be included for this purpose.

In addition, an investment in Class I shares may qualify for a reduction in the sales charge under the following programs:

1. RIGHTS OF ACCUMULATION. The cost or current value (whichever is higher) of existing investments in the Franklin Templeton Investments may be combined with the amount of the current purchase in determining the sales charge to be paid.
2. LETTER OF INTENT. An investor may immediately qualify for a reduced sales charge on a purchase of Class I shares by completing the Letter of Intent section of the Shareholder Application (the "Letter of Intent" or "Letter"). By completing the Letter, the investor expresses an intention to invest during the next 13 months a specified amount which, if made at one time, would qualify for a reduced sales charge and grants to Distributors a security interest in the reserved shares and irrevocably appoints Distributors as attorney-in-fact with full power of substitution to surrender for redemption any or all shares for the purpose of paying any additional sales charge due. Purchases under the Letter will conform with the requirements of Rule 22d-1 under the 1940 Act. The investor or the investor's securities dealer must inform Investor Services or Distributors that this Letter is in effect each time a purchase is made.

AN INVESTOR (EXCEPT FOR CERTAIN EMPLOYEE BENEFIT PLANS WHICH ARE LISTED UNDER "DESCRIPTION OF SPECIAL NET ASSET VALUE PURCHASES") ACKNOWLEDGES AND AGREES TO THE FOLLOWING PROVISIONS BY COMPLETING THE LETTER OF INTENT SECTION OF THE SHAREHOLDER APPLICATION: Five percent (5%) of the amount of the total intended purchase will be reserved in Class I shares registered in the investor's name, to assure that the full applicable sales charge will be paid if the intended purchase is not completed. The reserved shares will be included in the total shares owned as reflected on periodic statements; income and capital gain distributions on the reserved shares will be paid as directed by the investor. The reserved shares will not be available for disposal by the investor until the Letter of Intent has been completed or the higher sales charge paid. For more information, see "Additional Information Regarding Purchases" in the SAI.

Although the sales charges on Class II shares cannot be reduced through these programs, the value of Class II shares owned by the investor may be included in determining a reduced sales charge to be paid on Class I shares pursuant to the Letter of Intent and Rights of Accumulation programs.

#### GROUP PURCHASES OF CLASS I SHARES

An individual who is a member of a qualified group, such as the Assembly of Governmental Employees ("AGE"), may also purchase Class I shares of the Fund at the reduced sales charge applicable to the group as a whole. The sales charge is based upon the aggregate dollar value of shares previously purchased and still owned by the members of the group, plus the amount of the current purchase. For example, if members of the group had previously invested and still held \$80,000 of Fund shares and now were investing \$25,000, the sales charge would be 3.50%. Members of AGE who participate in the payroll deduction plan described below or the group accumulation plan discussed above are eligible for a reduced sales charge of 1% on investments of \$500 or more. In addition, as stated above, no front-end sales charge applies on investments of \$1 million or more by individuals or groups, but a contingent deferred sales charge of 1% is imposed

on certain redemptions within 12 months of the calendar month of the purchase. Information concerning the current sales charge applicable to a group may be obtained by contacting Distributors.

A "qualified group" is one which (i) has been in existence for more than six months, (ii) has a purpose other than acquiring Fund shares at a discount and (iii) satisfies uniform criteria which enable Distributors to realize economies of scale in its costs of distributing shares. A qualified group must have more than 10 members, be available to arrange for group meetings between representatives of the Fund or Distributors and the members, agree to include sales and other materials related to the Fund in its publications and mailings to members at reduced or no cost to Distributors, and seek to arrange for payroll deduction or other bulk transmission of investments to the Fund.

AGE members who select a payroll deduction plan should complete the payroll deduction plan section of the supplement to the Shareholder Application and submit it to their employer. Investments may be in any amount, with a minimum of \$12.50. Payroll deduction plans will normally be identified by a member's social security number, therefore, such plans must be limited to one payroll deduction account per member. Subsequent investments will be automatic and will continue until such time as the investor notifies the Fund and the investor's employer to discontinue further investments. Due to the varying procedures used to prepare, process and forward the payroll deduction information to the Fund, there may be a delay between the time of the payroll deduction and the time the money reaches the Fund. The investment in the Fund will be made at the offering price per share determined on the day that both the check and payroll deduction data are received in required form by the Fund.

#### PURCHASES AT NET ASSET VALUE

Class I shares may be purchased without the imposition of a front-end sales charge ("net asset value") or a contingent deferred sales charge by (1) officers, trustees, directors, and full-time employees of the Fund, any of the Franklin Templeton Funds, or of the Franklin Templeton Group, and by their spouses and family members, including any subsequent payments made by such parties after cessation of employment; (2) companies exchanging shares with or selling assets pursuant to a merger, acquisition or exchange offer; (3) insurance company separate accounts for pension plan contracts; (4) accounts managed by the Franklin Templeton Group; (5) shareholders of Templeton Institutional Funds, Inc. reinvesting redemption proceeds from that fund under an employee benefit plan qualified under Section 401 of the Code in shares of the Fund; (6) certain unit investment trusts and unit holders of such trusts reinvesting their distributions from the trusts in the Fund; (7) registered securities dealers and their affiliates, for their investment account only, and (8) registered personnel and employees of securities dealers and by their spouses and family members, in accordance with the internal policies and procedures of the employing securities dealer.

For either Class I or Class II, the same class of shares of the Fund may be purchased at net asset value by persons who have redeemed, within the previous 365 days, their shares of the Fund or another of the Franklin Templeton Funds which were purchased with a front-end sales charge or assessed a contingent deferred sales charge on redemption. If a different class of shares is purchased, the full front-end sales charge must be paid at the time of purchase of the new shares. An investor may reinvest an amount not exceeding the redemption proceeds. While credit will be given for any contingent deferred sales charge paid on the shares redeemed and subsequently repurchased, a new contingency period will begin. Matured shares will be reinvested at net asset value and will not be subject to a new contingent deferred sales charge. Shares of the Fund redeemed in connection with an exchange into another fund (see "Exchange Privilege") are not considered "redeemed" for this privilege. In order to exercise this privilege, a written order for the purchase of shares of the Fund must be received by the Fund or the Fund's Shareholder Services Agent within 365 days after the redemption. The 365 days, however, do not begin to run on redemption proceeds placed immediately after redemption in a Franklin Bank Certificate of Deposit ("CD") until the CD (including any rollover) matures. Reinvestment at net asset value may also be handled by a securities dealer or other financial institution, who may charge the shareholder a fee for this service. The redemption is a taxable transaction but reinvestment without a sales charge may affect the amount of gain or loss recognized and the tax basis of the shares reinvested. If there has been a loss on the redemption, the loss may be disallowed if a reinvestment in the same fund is made within a 30-day period. Information regarding the possible tax consequences of such a reinvestment is included in the tax section of this Prospectus and the SAI.

For either Class I or Class II, the same class of shares of the Fund or of another of the Franklin Templeton Funds may be purchased at net asset value and without a contingent deferred sales charge by persons who have received dividends and capital gains distributions in cash from investments in that class of shares of the Fund within 365 days of the payment date of such distribution.



To exercise this privilege, a written request to reinvest the distribution must accompany the purchase order. Additional information may be obtained from Shareholder Services at 1-800/632-2301. See "Distributions in Cash" under "Distributions to Shareholders."

Class I shares may be purchased at net asset value and without the imposition of a contingent deferred sales charge by investors who have, within the past 60 days, redeemed an investment in a mutual fund which is not part of the Franklin Templeton Funds and which was subject to a front-end sales charge or a contingent deferred sales charge upon redemption and which has investment objectives similar to those of the Fund.

Class I shares may be purchased at net asset value and without the imposition of a contingent deferred sales charge by broker dealers who have entered into a supplemental agreement with Distributors, or by registered investment advisors affiliated with such broker-dealers, on behalf of their clients who are participating in a comprehensive fee program (sometimes known as a wrap fee program).

Class I shares may be purchased at net asset value and without the imposition of a contingent deferred sales charge by anyone who has taken a distribution from an existing retirement plan already invested in the Franklin Templeton Funds (including former participants of the Franklin Templeton Profit Sharing 401(k) plan, to the extent of such distribution. In order to exercise this privilege a written order for the purchase of shares of the Fund must be received by Franklin Templeton Trust Company (the "Trust Company"), the Fund or Investor Services, within 365 days after the plan distribution.

Class I shares may also be purchased at net asset value and without the imposition of a contingent deferred sales charge by any state, county, or city, or any instrumentality, department, authority or agency thereof which has determined that the Fund is a legally permissible investment and which is prohibited by applicable investment laws from paying a sales charge or commission in connection with the purchase of shares of any registered management investment company ("an eligible governmental authority"). SUCH INVESTORS SHOULD CONSULT THEIR OWN LEGAL ADVISORS TO DETERMINE WHETHER AND TO WHAT EXTENT THE SHARES OF THE FUND CONSTITUTE LEGAL INVESTMENTS FOR THEM. Municipal investors considering investment of proceeds of bond offerings into the Fund should consult with expert counsel to determine the effect, if any, of various payments made by the Fund or its investment manager on arbitrage rebate calculations. If an investment by an eligible governmental authority at net asset value is made through a securities dealer who has executed a dealer agreement with Distributors, Distributors or one of its affiliates may make a payment, out of their own resources, to such securities dealer in an amount not to exceed 0.25% of the amount invested. Contact Franklin's Institutional Sales Department for additional information.

#### DESCRIPTION OF SPECIAL NET ASSET VALUE PURCHASES

Class I shares may also be purchased at net asset value and without the imposition of a contingent deferred sales charge by certain designated retirement plans, including profit sharing, pension, 401(k) and simplified employee pension plans ("designated plans"), subject to minimum requirements with respect to number of employees or amount of purchase, which may be established by Distributors. Currently, those criteria require that the employer establishing the plan have 200 or more employees or that the amount invested or to be invested during the subsequent 13-month period in the Fund or in any of the Franklin Templeton Investments totals at least \$1,000,000. Employee benefit plans not designated above or qualified under Section 401 of the Code ("non-designated plans") may be afforded the same privilege if they meet the above requirements as well as the uniform criteria for qualified groups previously described under "Group Purchases" which enable Distributors to realize economies of scale in its sales efforts and sales related expenses.

Class I shares may be purchased at net asset value and without the imposition of a contingent deferred sales charge by trust companies and bank trust departments for funds over which they exercise exclusive discretionary investment authority and which are held in a fiduciary, agency, advisory, custodial or similar capacity. Such purchases are subject to minimum requirements with respect to amount of purchase, which may be established by Distributors. Currently, those criteria require that the amount invested or to be invested during the subsequent 13-month period in this Fund or any of the Franklin Templeton Investments must total at least \$1,000,000. Orders for such accounts will be accepted by mail accompanied by a check or by telephone or other means of electronic data transfer directly from the bank or trust company, with payment by federal funds received by the close of business on the next business day

following such order.

Class I shares may be purchased at net asset value and without the imposition of a contingent deferred sales charge by trustees or other fiduciaries purchasing securities for certain retirement plans of organizations with collective retirement plan assets of \$10 million or more, without regard to where such assets are currently invested.

Refer to the SAI for further information regarding net asset value purchases of Class I shares.

#### PURCHASING CLASS I AND CLASS II SHARES

When placing purchase orders, investors should clearly indicate which class of shares they intend to purchase. A purchase order that fails to specify a class will automatically be invested in Class I shares. Purchases of \$1 million or more in a single payment will be invested in Class I shares. There are no conversion features attached to either class of shares.

Investors who qualify to purchase Class I shares at net asset value should purchase Class I rather than Class II shares. See the section "Purchases at Net Asset Value" and "Description of Special Net Asset Value Purchases" above for a discussion of when shares may be purchased at net asset value.

#### GENERAL

Securities laws of states in which the Fund's shares are offered for sale may differ from the interpretations of federal law, and banks and financial institutions selling Fund shares may be required to register as dealers pursuant to state law.

#### PURCHASING SHARES OF THE FUND IN CONNECTION WITH RETIREMENT PLANS INVOLVING TAX-DEFERRED INVESTMENTS

Shares of the Fund may be used for individual or employer-sponsored retirement plans involving tax-deferred investments. The Fund may be used as an investment vehicle for an existing retirement plan, or Franklin Templeton Trust Company (the "Trust Company") may provide the plan documents and serve as custodian or trustee. A plan document must be adopted in order for a retirement plan to be in existence.

The Trust Company, an affiliate of Distributors, can serve as custodian or trustee for retirement plans. Brochures for the Trust Company plans contain important information regarding eligibility, contribution and deferral limits and distribution requirements. Please note that an application other than the one contained in this Prospectus must be used to establish a retirement plan account with the Trust Company. To obtain a retirement plan brochure or application, call 1-800/DIAL BEN (1-800/342-5236).

Please see "How to Sell Shares of the Fund" for specific information regarding redemptions from retirement plan accounts. Specific forms are required to be completed for distributions from Franklin Templeton Trust Company retirement plans.

Individuals and plan sponsors should consult with legal, tax or benefits and pension plan consultants before choosing a retirement plan. In addition, retirement plan investors should consider consulting their investment representatives or advisers concerning investment decisions within their plans.

#### OTHER PROGRAMS AND PRIVILEGES AVAILABLE TO FUND SHAREHOLDERS

CERTAIN OF THE PROGRAMS AND PRIVILEGES DESCRIBED IN THIS SECTION MAY NOT BE AVAILABLE DIRECTLY FROM THE FUND TO SHAREHOLDERS WHOSE SHARES ARE HELD, OF RECORD, BY A FINANCIAL INSTITUTION OR IN A "STREET NAME" ACCOUNT OR NETWORKED ACCOUNT THROUGH THE NATIONAL SECURITIES CLEARING CORPORATION ("NSCC") (SEE THE SECTION CAPTIONED "ACCOUNT REGISTRATIONS" IN THIS PROSPECTUS).

#### SHARE CERTIFICATES

Shares for an initial investment, as well as subsequent investments, including the reinvestment of dividends and capital gain distributions, are generally credited to an account in the name of an investor on the books of the Fund, without the issuance of a share certificate. Maintaining shares in uncertificated form (also known as "plan balance") minimizes the risk of loss or theft of a share certificate. A lost, stolen or destroyed certificate cannot be replaced without obtaining a sufficient indemnity bond. The cost of such a bond,

which is generally borne by the shareholder, can be 2% or more of the value of the lost, stolen or destroyed certificate. A certificate will be issued if requested by the shareholder or by the securities dealer.

#### CONFIRMATIONS

A confirmation statement will be sent to each shareholder quarterly to reflect the dividends reinvested during that period and after each other transaction which affects the shareholder's account. This statement will also show the total number of shares owned by the shareholder, including the number of shares in "plan balance" for the account of the shareholder.

#### AUTOMATIC INVESTMENT PLAN

Under the Automatic Investment Plan, a shareholder may be able to arrange to make additional purchases of shares automatically on a monthly basis by electronic funds transfer from a checking account, if the bank which maintains the account is a member of the Automated Clearing House, or by preauthorized checks drawn on the shareholder's bank account. A shareholder may, of course, terminate the program at any time. The Automatic Investment Plan Application included with this Prospectus contains the requirements applicable to this program. In addition, shareholders may obtain more information concerning this program from their securities dealers or from Distributors.

The market value of each class of the Fund's shares is subject to fluctuation. Before undertaking any plan for systematic investment, the investor should keep in mind that such a program does not assure a profit or protect against a loss.

#### SYSTEMATIC WITHDRAWAL PLAN

A shareholder may establish a Systematic Withdrawal Plan and receive regular periodic payments from the account, provided that the net asset value of the shares held by the shareholder is at least \$5,000. There are no service charges for establishing or maintaining a Systematic Withdrawal Plan. The minimum amount which the shareholder may withdraw is \$50 per withdrawal transaction, although this is merely the minimum amount allowed under the plan and should not be mistaken for a recommended amount. Retirement plans subject to mandatory distribution requirements are not subject to the \$50 minimum. The plan may be established on a monthly, quarterly, semiannual or annual basis. If the shareholder establishes a plan, any capital gain distributions and income dividends paid by the Fund will be reinvested for the shareholder's account in additional shares at net asset value. Payments will then be made from the liquidation of shares at net asset value on the day of the transaction (which is generally the first business day of the month in which the payment is scheduled) with payment generally received by the shareholder three to five days after the date of liquidation. By completing the "Special Payment Instructions for Distributions" section of the Shareholder Application included with this Prospectus, a shareholder may direct the selected withdrawals to another of the Franklin Templeton Funds, to another person, or directly to a checking account. If the bank at which the account is maintained is a member of the Automated Clearing House, the payments may be made automatically by electronic funds transfer. If this last option is requested, the shareholder should allow at least 15 days for initial processing. Payments which may be paid in the interim will be sent to the address of record. Liquidation of shares may reduce or possibly exhaust the shares in the shareholder's account, to the extent withdrawals exceed shares earned through dividends and distributions, particularly in the event of a market decline. If the withdrawal amount exceeds the total plan balance, the account will be closed and the remaining balance will be sent to the shareholder. As with other redemptions, a liquidation to make a withdrawal payment is a sale for federal income tax purposes. Because the amount withdrawn under the plan may be more than the shareholder's actual yield or income, part of the payment may be a return of the shareholder's investment.

The maintenance of a Systematic Withdrawal Plan concurrently with purchases of additional shares of the Fund would be disadvantageous because of the sales charge on the additional purchases. Also, redemptions of Class I shares and Class II shares may be subject to a contingent deferred sales charge if the shares are redeemed within 12 months (Class I shares) or 18 months (Class II shares) of the calendar month following purchase. The shareholder should ordinarily not make additional investments of less than \$5,000 or three times the annual withdrawals under the plan during the time such a plan is in effect.

With respect to Class I shares, the contingent deferred sales charge is waived for redemptions through a Systematic Withdrawal Plan set up prior to February 1, 1995. With respect to Systematic Withdrawal Plans set up on or after February 1, 1995, however, the applicable contingent deferred sales charge is waived for Class I and Class II share redemptions of up to 1% monthly of an account's net asset value (12% annually, 6% semiannually, 3% quarterly). For example, if a Class I account maintained an annual balance of \$1,000,000, only \$120,000 could

be withdrawn through a once-yearly Systematic Withdrawal Plan free of charge; any amount over that \$120,000 would be assessed a 1% (or applicable) contingent deferred sales charge. Likewise, if a Class II account maintained an annual balance of \$10,000, only \$1,200 could be withdrawn through a once-yearly Systematic Withdrawal Plan free of charge.

A Systematic Withdrawal Plan may be terminated on written notice by the shareholder or the Fund, and it will terminate automatically if all shares are liquidated or withdrawn from the account, or upon the Fund's receipt of notification of the death or incapacity of the shareholder. Shareholders may change the amount (but not below the specified minimum) and schedule of withdrawal payments, or suspend one such payment by giving written notice to Investor Services at least seven business days prior to the end of the month preceding a scheduled payment. Share certificates may not be issued while a Systematic Withdrawal Plan is in effect.

#### INSTITUTIONAL ACCOUNTS

There may be additional methods of purchasing, redeeming or exchanging shares of the Fund available to institutional accounts. For further information, contact the Franklin Templeton Institutional Services Department at 1-800/321-8563.

#### EXCHANGE PRIVILEGE

The Franklin Templeton Funds consist of a number of mutual funds with various investment objectives or policies. The shares of most of these mutual funds are offered to the public with a sales charge. If a shareholder's investment objective or outlook for the securities markets changes, the Fund shares may be exchanged for the same class of shares of other Franklin Templeton Funds which are eligible for sale in the shareholder's state of residence and in conformity with such fund's stated eligibility requirements and investment minimums. Some funds, however, may not offer Class II shares. Class I shares may be exchanged for Class I shares of any Franklin Templeton Funds. Class II shares may be exchanged for Class II shares of any Franklin Templeton Funds. No exchanges between different classes of shares will be allowed. A contingent deferred sales charge will not be imposed on exchanges. If, however, the exchanged shares were subject to a contingent deferred sales charge in the original fund purchased and shares are subsequently redeemed within 12 months (Class I shares) or 18 months (Class II shares) of the calendar month following the original purchase date, a contingent deferred sales charge will be imposed. Before making an exchange, investors should review the prospectus of the fund they wish to exchange from and the fund they wish to exchange into for all specific requirements or limitations on exercising the exchange privilege, for example, minimum holding periods or applicable sales charges.

Exchanges may be made in any of the following ways:

#### EXCHANGES BY MAIL

Send written instructions signed by all account owners and accompanied by any outstanding share certificates properly endorsed. The transaction will be effective upon receipt of the written instructions together with any outstanding share certificates.

#### EXCHANGES BY TELEPHONE

SHAREHOLDERS, OR THEIR INVESTMENT REPRESENTATIVE OF RECORD, IF ANY, MAY EXCHANGE SHARES OF THE FUND BY TELEPHONE BY CALLING INVESTOR SERVICES AT 1-800/632-2301 OR THE AUTOMATED FRANKLIN TELEFACTS (REGISTERED TRADEMARK) SYSTEM (DAY OR NIGHT) AT 1-800/247-1753. IF THE SHAREHOLDER DOES NOT WISH THIS PRIVILEGE EXTENDED TO A PARTICULAR ACCOUNT, THE FUND OR INVESTOR SERVICES SHOULD BE NOTIFIED.

The Telephone Exchange Privilege allows a shareholder to effect exchanges from the Fund into an identically registered account of the same class of shares in one of the other available Franklin Templeton Funds. The Telephone Exchange Privilege is available only for uncertificated shares or those which have previously been deposited in the shareholder's account. The Fund and Investor Services will employ reasonable procedures to confirm that instructions communicated by telephone are genuine. Please refer to "Telephone Transactions - Verification Procedures."

During periods of drastic economic or market changes, it is possible that the Telephone Exchange Privilege may be difficult to implement and the TeleFACTS option may not be available. In this event, shareholders should follow the other exchange procedures discussed in this section, including the procedures for processing exchanges through securities dealers.

## EXCHANGES THROUGH SECURITIES DEALERS

As is the case with all purchases and redemptions of the Fund's shares, Investor Services will accept exchange orders from securities dealers who execute a dealer or similar agreement with Distributors. See also "Exchanges By Telephone" above. Such a dealer-ordered exchange will be effective only for uncertificated shares on deposit in the shareholder's account or for which certificates have previously been deposited. A securities dealer may charge a fee for handling an exchange.

## ADDITIONAL INFORMATION REGARDING EXCHANGES

Exchanges of the same class of shares are made on the basis of the net asset values of the class involved, except as set forth below. Exchanges of shares of a class which were originally purchased without a sales charge will be charged a sales charge in accordance with the terms of the prospectus of the fund and the class of shares being purchased, unless the original investment on which no sales charge was paid was transferred in from a fund on which the investor paid a sales charge. Exchanges of Class I shares of the Fund which were purchased with a lower sales charge into a fund which has a higher sales charge will be charged the difference in sales charges, unless the shares were held in the Fund for at least six months prior to executing the exchange.

When an investor requests the exchange of the total value of the Fund account, declared but unpaid income dividends and capital gain distributions will be transferred to the fund being exchanged into and will be invested at net asset value. Because the exchange is considered a redemption and purchase of shares, the shareholder may realize a gain or loss for federal income tax purposes. Backup withholding and information reporting may also apply. Information regarding the possible tax consequences of such an exchange is included in the tax section in this Prospectus and in the SAI.

If a substantial portion of the Fund's shareholders should, within a short period, elect to redeem their shares of the Fund pursuant to the exchange privilege, the Fund might have to liquidate portfolio securities it might otherwise hold and incur the additional costs related to such transactions. On the other hand, increased use of the exchange privilege may result in periodic large inflows of money. If this should occur, it is the general policy of the Fund to initially invest this money in short-term, interest-bearing money market instruments, unless it is felt that attractive investment opportunities consistent with the Fund's investment objectives exist immediately. Subsequently, this money will be withdrawn from such short-term money market instruments and invested in portfolio securities in as orderly a manner as is possible when attractive investment opportunities arise.

The Exchange Privilege may be modified or discontinued by the Fund at any time upon 60 days' written notice to shareholders.

## EXCHANGES OF CLASS I SHARES

The contingency period during which a contingent deferred sales charge may be assessed for Class I shares will be tolled (or stopped) for the period such shares are exchanged into and held in a Franklin or Templeton Class I money market fund. If a Class I account has shares subject to a contingent deferred sales charge, Class I shares will be exchanged into the new account on a "first-in, first-out" basis. See also "How to Sell Shares of the Fund - Contingent Deferred Sales Charge."

## EXCHANGES OF CLASS II SHARES

When an account is composed of Class II shares subject to the contingent deferred sales charge and Class II shares that are not, the shares will be transferred proportionately into the new fund. Shares received from reinvestment of dividends and capital gains are referred to as "free shares," shares which were originally subject to a contingent deferred sales charge but to which the contingent deferred sales charge no longer applies are called "matured shares," and shares still subject to the contingent deferred sales charge are referred to as "CDSC liable shares." CDSC liable shares held for different periods of time are considered different types of CDSC liable shares. For instance, if a shareholder has \$1,000 in free shares, \$2,000 in matured shares, and \$3,000 in CDSC liable shares, and the shareholder exchanges \$3,000 into a new fund, \$500 will be exchanged from free shares, \$1,000 from matured shares, and \$1,500 from CDSC liable shares. Similarly, if CDSC liable shares have been purchased at different periods, a proportionate amount will be taken from shares held for each period. If, for example, a shareholder holds \$1,000 in shares bought 3 months ago, \$1,000 bought 6 months ago, and \$1,000 bought 9 months ago, and the

shareholder exchanges \$1,500 into the new fund, \$500 from each of these shares will be deemed exchanged into the new fund.

The only money market fund exchange option available to Class II shareholders is the Franklin Templeton Money Fund II ("Money Fund II"), a series of the Franklin Templeton Money Fund Trust. No drafts (checks) may be written on Money Fund II accounts, nor may shareholders purchase shares of Money Fund II directly. Class II shares exchanged for shares of Money Fund II will continue to age and a contingent deferred sales charge will be assessed if CDSC liable shares are redeemed. No other money market funds are available for Class II shareholders for exchange purposes. Class I shares may be exchanged for shares of any of the money market funds in the Franklin Templeton Funds except Money Fund II. Draft writing privileges and direct purchases are allowed on these other money market funds as described in their respective prospectuses.

To the extent shares are exchanged proportionately, as opposed to another method, such as first-in first-out, or free-shares followed by CDSC liable shares, the exchanged shares may, in some instances, be CDSC liable even though a redemption of such shares, as discussed elsewhere herein, may no longer be subject to a CDSC. The proportional method is believed by management to more closely meet and reflect the expectations of Class II shareholders in the event shares are redeemed during the contingency period. For federal income tax purposes, the cost basis of shares redeemed or exchanged is determined under the Code without regard to the method of transferring shares chosen by the Fund.

#### TRANSFERS

Transfers between identically registered accounts in the same fund and class are treated as non-monetary and non-taxable events, and are not subject to a contingent deferred sales charge. The transferred shares will continue to age from the date of original purchase. Shares of each class will be transferred on the same basis as described above for exchanges.

#### CONVERSION RIGHTS

It is not presently anticipated that Class II shares will be convertible to Class I shares. A shareholder may, however, sell his Class II shares and use the proceeds to purchase Class I shares, subject to all applicable sales charges.

#### RETIREMENT PLAN ACCOUNTS

Franklin Templeton IRA and 403(b) retirement plan accounts may accomplish exchanges directly. Certain restrictions may apply, however, to other types of retirement plans. See "Restricted Accounts" under "Telephone Transactions."

#### TIMING ACCOUNTS

Accounts which are administered by allocation or market timing services to purchase or redeem shares based on predetermined market indicators ("Timing Accounts") will be charged a \$5.00 administrative service fee per each such exchange. All other exchanges are without charge.

#### RESTRICTIONS ON EXCHANGES

In accordance with the terms of their respective prospectuses, certain funds do not accept or may place differing limitations than those below on exchanges by Timing Accounts.

The Fund reserves the right to temporarily or permanently terminate the exchange privilege or reject any specific purchase order for any Timing Account or any person whose transactions seem to follow a timing pattern who: (i) makes an exchange request out of the Fund within two weeks of an earlier exchange request out of the Fund, or (ii) makes more than two exchanges out of the Fund per calendar quarter, or (iii) exchanges shares equal in value to at least \$5 million, or more than 1/4 of 1% of the Fund's net assets. Accounts under common ownership or control, including accounts administered so as to redeem or purchase shares based upon certain predetermined market indicators, will be aggregated for purposes of the exchange limits.

The Fund also reserves the right to refuse the purchase side of an exchange request by any Timing Account, person, or group if, in the Manager's judgment, the Fund would be unable to invest effectively in accordance with its investment objectives and policies, or would otherwise potentially be adversely affected. A shareholder's purchase exchanges may be restricted or refused if the Fund receives or anticipates simultaneous orders affecting significant portions of the Fund's assets. In particular, a pattern of exchanges that coincide with a "market timing" strategy may be disruptive to the Fund and therefore may be

refused.

The Fund and Distributors also, as indicated in "How to Buy Shares of the Fund," reserve the right to refuse any order for the purchase of shares.

#### HOW TO SELL SHARES OF THE FUND

A shareholder may at any time liquidate shares owned and receive from the Fund the value of the shares. Shares may be redeemed in any of the following ways:

#### REDEMPTIONS BY MAIL

Send a written request, signed by all registered owners, to Investor Services, at the address shown on the back cover of this Prospectus, and any share certificates which have been issued for the shares being redeemed, properly endorsed and in order for transfer. The shareholder will then receive from the Fund the value of the class of shares redeemed based upon the net asset value per share (less a contingent deferred sales charge, if applicable) next computed after the written request in proper form is received by Investor Services. Redemption requests received after the time at which the net asset value is calculated at the scheduled close of the New York Stock Exchange ("Exchange"), which is generally 1:00 p.m. Pacific time, each day that the Exchange is open for business will receive the price calculated on the following business day. Shareholders are requested to provide a telephone number(s) where they may be reached during business hours, or in the evening if preferred. Investor Services' ability to contact a shareholder promptly when necessary will speed the processing of the redemption.

TO BE CONSIDERED IN PROPER FORM, SIGNATURE(S) MUST BE GUARANTEED IF THE REDEMPTION REQUEST INVOLVES ANY OF THE FOLLOWING:

- (1) the proceeds of the redemption are over \$50,000;
- (2) the proceeds (in any amount) are to be paid to someone other than the registered owner(s) of the account;
- (3) the proceeds (in any amount) are to be sent to any address other than the shareholder's address of record, preauthorized bank account or brokerage firm account;
- (4) share certificates, if the redemption proceeds are in excess of \$50,000; or
- (5) the Fund or Investor Services believes that a signature guarantee would protect against potential claims based on the transfer instructions, including, for example, when (a) the current address of one or more joint owners of an account cannot be confirmed, (b) multiple owners have a dispute or give inconsistent instructions to the Fund, (c) the Fund has been notified of an adverse claim, (d) the instructions received by the Fund are given by an agent, not the actual registered owner, (e) the Fund determines that joint owners who are married to each other are separated or may be the subject of divorce proceedings, or (f) the authority of a representative of a corporation, partnership, association, or other entity has not been established to the satisfaction of the Fund.

Signature(s) must be guaranteed by an "eligible guarantor institution" as defined under Rule 17Ad-15 under the Securities Exchange Act of 1934. Generally, eligible guarantor institutions include (1) national or state banks, savings associations, savings and loan associations, trust companies, savings banks, industrial loan companies and credit unions; (2) national securities exchanges, registered securities associations and clearing agencies; (3) securities dealers which are members of a national securities exchange or a clearing agency or which have minimum net capital of \$100,000; or (4) institutions that participate in the Securities Transfer Agent Medallion Program ("STAMP") or other recognized signature guarantee medallion program. A notarized signature will not be sufficient for the request to be in proper form.

Share Certificates - Where shares to be redeemed are represented by share certificates, the request for redemption must be accompanied by the share certificate and a share assignment form signed by the registered shareholders exactly as the account is registered, with the signature(s) guaranteed as referenced above. Shareholders are advised, for their own protection, to send the share certificate and assignment form in separate envelopes if they are being mailed in for redemption.

Liquidation requests of corporate, partnership, trust and custodianship accounts, and accounts under court jurisdiction require the following documentation to be in proper form:

Corporation - (1) Signature guaranteed letter of instruction from the authorized

officer(s) of the corporation and (2) a corporate resolution.

Partnership - (1) Signature guaranteed letter of instruction from a general partner and (2) pertinent pages from the partnership agreement identifying the general partners or a certification for a partnership agreement.

Trust - (1) Signature guaranteed letter of instruction from the trustee(s) and (2) a copy of the pertinent pages of the trust document listing the trustee(s) or a Certification for Trust if the trustee(s) are not listed on the account registration.

Custodial (other than a retirement account) - Signature guaranteed letter of instruction from the custodian.

Accounts under court jurisdiction - Check court documents and the applicable state law since these accounts have varying requirements, depending upon the state of residence.

Payment for redeemed shares will be sent to the shareholder within seven days after receipt of the request in proper form.

#### REDEMPTIONS BY TELEPHONE

Shareholders who complete the Franklin Templeton Telephone Redemption Authorization Agreement (the "Agreement"), included with this Prospectus, may redeem shares of the Fund by telephone, subject to the Restricted Account exception noted under "Telephone Transactions - Restricted Accounts." INFORMATION MAY ALSO BE OBTAINED BY WRITING TO THE FUND OR INVESTOR SERVICES AT THE ADDRESS SHOWN ON THE COVER OR BY CALLING 1-800/632-2301. THE FUND AND INVESTOR SERVICES WILL EMPLOY REASONABLE PROCEDURES TO CONFIRM THAT INSTRUCTIONS GIVEN BY TELEPHONE ARE GENUINE. SHAREHOLDERS, HOWEVER, BEAR THE RISK OF LOSS IN CERTAIN CASES AS DESCRIBED UNDER "TELEPHONE TRANSACTIONS - VERIFICATION PROCEDURES."

For shareholder accounts with the completed Agreement on file, redemptions of uncertificated shares or shares which have previously been deposited with the Fund or Investor Services may be made for up to \$50,000 per day per Fund account. Telephone redemption requests received before the scheduled close of the Exchange (generally 1:00 p.m. Pacific time) on any business day will be processed that same day. The redemption check will be sent within seven days, made payable to all the registered owners on the account, and will be sent only to the address of record. Redemption requests by telephone will not be accepted within 30 days following an address change by telephone. In that case, a shareholder should follow the other redemption procedures set forth in this Prospectus. Institutional accounts (certain corporations, bank trust departments, government entities, and qualified retirement plans which qualify to purchase shares at net asset value pursuant to the terms of this Prospectus) which wish to execute redemptions in excess of \$50,000 must complete an Institutional Telephone Privileges Agreement which is available from the Franklin Templeton Institutional Services Department by telephoning 1-800/321-8563.

#### REDEEMING SHARES THROUGH SECURITIES DEALERS

The Fund will accept redemption orders from securities dealers who have entered into an agreement with Distributors. This is known as a repurchase. The only difference between a normal redemption and a repurchase is that if the shareholder redeems shares through a dealer, the redemption price will be the net asset value next calculated after the shareholder's dealer receives the order which is promptly transmitted to the Fund, rather than on the day the Fund receives the shareholder's written request in proper form. The documents, as described in the preceding section, are required even if the shareholder's securities dealer has placed the repurchase order. After receipt of a repurchase order from the dealer, the Fund will still require a signed letter of instruction and all other documents set forth above. A shareholder's letter should reference the Fund and the class, the account number, the fact that the repurchase was ordered by a dealer and the dealer's name. Details of the dealer-ordered trade, such as trade date, confirmation number, and the amount of shares or dollars, will help speed processing of the redemption. The seven-day period within which the proceeds of the shareholder's redemption will be sent will begin when the Fund receives all documents required to complete ("settle") the repurchase in proper form. The redemption proceeds will not earn dividends or interest during the time between receipt of the dealer's repurchase order and the date the redemption is processed upon receipt of all documents necessary to settle the repurchase. Thus, it is in a shareholder's best interest to have the required documentation completed and forwarded to the Fund as soon as possible. The shareholder's dealer may charge a fee for handling the order. The SAI contains more information on the redemption of shares.



In order to recover commissions paid to securities dealers, Class I investments of \$1 million or more and any Class II investments redeemed within the contingency period of 12 months (Class I) or 18 months (Class II) of the calendar month following their purchase will be assessed a contingent deferred sales charge, unless one of the exceptions described below applies. The charge is 1% of the lesser of the value of the shares redeemed (exclusive of reinvested dividends and capital gain distributions) or the net asset value at the time of purchase of such shares, and is retained by Distributors. The contingent deferred sales charge is waived in certain instances.

In determining if a contingent deferred sales charge applies, shares not subject to a contingent deferred sales charge are deemed to be redeemed first, in the following order: (i) A calculated number of shares representing amounts attributable to capital appreciation of those shares held less than the contingency period (12 months in the case of Class I shares and 18 months in the case of Class II shares); (ii) shares purchased with reinvested dividends and capital gain distributions; and (iii) other shares held longer than the contingency period; and followed by any shares held less than the contingency period, on a "first in, first out" basis. For tax purposes, a contingent deferred sales charge is treated as either a reduction in redemption proceeds or an adjustment to the cost basis of the shares redeemed.

The contingent deferred sales charge on each class of shares is waived, as applicable, for: exchanges; any account fees; distributions to participants or their beneficiaries in Trust Company individual retirement plan accounts due to death, disability or attainment of age 59 1/2; tax-free returns of excess contributions from employee benefit plans; distributions from employee benefit plans, including those due to termination or plan transfer; redemptions through a Systematic Withdrawal Plan set up for shares prior to February 1, 1995, and for Systematic Withdrawal Plans set up thereafter, redemptions of up to 1% monthly of an account's net asset value (3% quarterly, 6% semiannually or 12% annually); redemptions initiated by the Fund due to a shareholder's account falling below the minimum specified account size; and redemptions following the death of the shareholder or the beneficial owner.

All investments made during a calendar month, regardless of when during the month the investment occurred, will age one month on the last day of that month and each subsequent month.

Requests for redemptions for a SPECIFIED DOLLAR amount, unless otherwise specified, will result in additional shares being redeemed to cover any applicable contingent deferred sales charge, while requests for redemption of a SPECIFIC NUMBER of shares will result in the applicable contingent deferred sales charge being deducted from the total dollar amount redeemed.

#### ADDITIONAL INFORMATION REGARDING REDEMPTIONS

The Fund may delay the mailing of the redemption check, or a portion thereof, until the clearance of the check used to purchase Fund shares, which may take up to 15 days or more. Although the use of a certified or cashier's check will generally reduce this delay, shares purchased with these checks will also be held pending clearance. Shares purchased by federal funds wire are available for immediate redemption. In addition, the right of redemption may be suspended or the date of payment postponed if the Exchange is closed (other than customary closing) or upon the determination of the SEC that trading on the Exchange is restricted or an emergency exists, or if the SEC permits it, by order, for the protection of shareholders. Of course, the amount received may be more or less than the amount invested by the shareholder, depending on fluctuations in the market value of securities owned by the Fund.

#### RETIREMENT PLAN ACCOUNTS

Retirement plan account liquidations require the completion of certain additional forms to ensure compliance with IRS regulations. To liquidate a retirement plan account, a shareholder or securities dealer may call Franklin's Retirement Plans Department to obtain the necessary forms.

Tax penalties will generally apply to any distribution from such plans to a participant under age 59 1/2, unless the distribution meets one of the exceptions set forth in the Code.

## OTHER

For any information required about a proposed liquidation, a shareholder may call Franklin's Shareholder Services Department or the securities dealer may call Franklin's Dealer Services Department.

## TELEPHONE TRANSACTIONS

Shareholders of the Fund and their investment representative of record, if any, may be able to execute various transactions by calling Investor Services at 1-800/632-2301.

All shareholders will be able to: (i) effect a change in address, (ii) change a dividend option (see "Restricted Accounts" below), (iii) transfer Fund shares in one account to another identically registered account in the Fund, and (iv) request the issuance of certificates (to be sent to the address of record only) and (v) exchange Fund shares as described in this Prospectus by telephone. In addition, shareholders who complete and file an Agreement as described under "How to Sell Shares of the Fund - Redemptions by Telephone" will be able to redeem shares of the Fund.

## VERIFICATION PROCEDURES

The Fund and Investor Services will employ reasonable procedures to confirm that instructions communicated by telephone are genuine. These will include: recording all telephone calls requesting account activity by telephone, requiring that the caller provide certain personal and/or account information requested by the telephone service agent at the time of the call for the purpose of establishing the caller's identification, and by sending a confirmation statement on redemptions to the address of record each time account activity is initiated by telephone. So long as the Fund and Investor Services follow instructions communicated by telephone which were reasonably believed to be genuine at the time of their receipt, neither they nor their affiliates will be liable for any loss to the shareholder caused by an unauthorized transaction. The Fund and Investor Services may be liable for any losses due to unauthorized or fraudulent instructions in the event such reasonable procedures are not followed. Shareholders are, of course, under no obligation to apply for or accept telephone transaction privileges. In any instance where the Fund or Investor Services is not reasonably satisfied that instructions received by telephone are genuine, the requested transaction will not be executed, and neither the Fund nor Investor Services will be liable for any losses which may occur because of a delay in implementing a transaction.

## RESTRICTED ACCOUNTS

Telephone redemptions and dividend option changes may not be accepted on Franklin Templeton retirement accounts. To assure compliance with all applicable regulations, special forms are required for any distribution, redemption, or dividend payment. While the telephone exchange privilege is extended to Franklin Templeton IRA and 403(b) retirement accounts, certain restrictions may apply to other types of retirement plans. Changes to dividend options must also be made in writing.

To obtain further information regarding distribution or transfer procedures, including any required forms, retirement account shareholders may call to speak to a Retirement Plan Specialist at 1-800/527-2020 for Franklin accounts, or 1-800/354-9191 (press "2" when prompted to do so) for Templeton accounts.

## GENERAL

During periods of drastic economic or market changes, it is possible that the telephone transaction privileges will be difficult to execute because of heavy telephone volume. In such situations, shareholders may wish to contact their investment representative for assistance, or to send written instructions to the Fund as detailed elsewhere in this Prospectus.

Neither the Fund nor Investor Services will be liable for any losses resulting from the inability of a shareholder to execute a telephone transaction.

The telephone transaction privilege may be modified or discontinued by the Fund at any time upon 60 days' written notice to shareholders.

## VALUATION OF FUND SHARES

The net asset value per share of each class of the Fund is determined as of the scheduled close of the Exchange (generally 1:00 p.m. Pacific time) each day that the Exchange is open for trading. Many newspapers carry daily quotations of the prior trading day's closing "bid" (net asset value) and "ask" (offering price,

which includes the maximum sales charge of each class of shares of the Fund).

The net asset value per share for each class of the Fund is determined in the following manner: The aggregate of all liabilities, is deducted from the aggregate gross value of all assets, and the difference is divided by the number of shares of the respective class outstanding at the time. For the purpose of determining the aggregate net assets of the Fund, cash and receivables are valued at their realizable amounts. Interest is recorded as accrued and dividends are recorded on the ex-dividend date. Portfolio securities listed on a securities exchange or on the NASDAQ National Market System for which market quotations are readily available are valued at the last quoted sale price of the day or, if there is no such reported sale, within the range of the most recent quoted bid and ask prices. [The value of a foreign security is determined as of the close of trading on the foreign exchange on which it is traded or as of the schedule closing of trading on the Exchange, if that is earlier, and that value is then converted into its U.S. dollar equivalent at the foreign exchange rate in effect at noon, New York time, on the day the value of the foreign security is determined. If no sale is reported at that time, the mean between the current bid and ask price is used. Occasionally, events which affect the values of foreign securities and foreign exchange rates may occur between the times at which they are determined and the close of the exchange and will, therefore, not be reflected in the computation of the Fund's net asset value. If events which materially affect the value of these foreign securities occur during such period, then these securities will be valued at fair value as determined by management and approved in good faith by the Board of Directors.] Trading in securities on European and Far Eastern securities exchanges and over-the-counter markets is normally completed well before the scheduled close of business of the Exchange on each day on which the Exchange is open. Trading in European or Far Eastern securities generally, or in a particular country or countries, may not take place on every Exchange business day. Furthermore, trading takes place in various foreign markets on days which are not business days for the Exchange and on which the Fund's net asset value is not calculated. The Fund calculates net asset value per share, and therefore effects sales and redemptions of its shares, as of the close of the Exchange each day on which the Exchange is open. Such calculation does not take place contemporaneously with the determination of the prices of many of the portfolio securities used in such calculation and, if events occur which materially affect the value of these foreign securities, they will be valued at fair value as determined by the management and approved in good faith by the Board of Directors.

Portfolio securities which are traded both in the over-the-counter market and on a stock exchange are valued according to the broadest and most representative market as determined by the Manager. Other securities for which market quotations are readily available are valued at the current market price, which may be obtained from a pricing service, based on a variety of factors, including recent trades, institutional size trading in similar types of securities (considering yield, risk and maturity) and/or developments related to specific issues. Securities and other assets for which market prices are not readily available are valued at fair value as determined following procedures approved by the Board of Directors. With the approval of directors, the Fund may utilize a pricing service, bank or securities dealer to perform any of the above described functions.

Each of the Fund's classes will bear, pro-rata, all of the common expenses of the Fund. The net asset value of all outstanding shares of each class of the Fund will be computed on a pro-rata basis for each outstanding share based on the proportionate participation in the Fund represented by the value of shares of such classes, except that the Class I and Class II shares will bear the Rule 12b-1 expenses payable under their respective plans. Due to the specific distribution expenses and other costs that will be allocable to each class, the dividends paid to each class of the Fund may vary.

#### HOW TO GET INFORMATION REGARDING AN INVESTMENT IN THE FUND

Any questions or communications regarding a shareholder's account should be directed to Investor Services at the address shown on the back cover of this Prospectus.

From a touch-tone phone, Franklin and Templeton shareholders may access an automated system (day or night) which offers the following features:

By calling the Franklin TeleFACTS (Registered Trademark) system at 1-800/247-1753, shareholders may obtain Class I and Class II account information, current price and, if available, yield or other performance information specific to the Fund or any Franklin Templeton Fund. In addition, Franklin Class I shareholders may process an exchange, within the same class, into an identically registered Franklin account; and request duplicate confirmation or year-end statements, money fund checks, if applicable, and

deposit slips.

Franklin Class I and Class II share codes for the Fund, which will be needed to access system information are 105 and 205, respectively. The system's automated operator will prompt the caller with easy to follow step-by-step instructions from the main menu. Other features may be added in the future.

To assist shareholders and securities dealers wishing to speak directly with a representative, the following is a list of the various Franklin or Templeton departments, telephone numbers and hours of operation to call. The same numbers may be used when calling from a rotary phone:

DEPARTMENT NAME	TELEPHONE NO.	HOURS OF OPERATION (PACIFIC TIME)
Shareholder Services	1-800/632-2301	6:00 a.m. to 5:00 p.m.
Dealer Services	1-800/524-4040	6:00 a.m. to 5:00 p.m.
Fund Information	1-800/DIAL BEN	6:00 a.m. to 8:00 p.m. 8:30 a.m. to 5:00 p.m. (Saturday)
Retirement Plans	1-800/527-2020	6:00 a.m. to 5:00 p.m.
TDD (hearing impaired)	1-800/851-0637	6:00 a.m. to 5:00 p.m.

In order to ensure that the highest quality of service is being provided, telephone calls placed to or by representatives in Franklin's service departments may be accessed, recorded and monitored. These calls can be determined by the presence of a regular beeping tone.

#### PERFORMANCE

Advertisements, sales literature and communications to shareholders may contain various measures of the a class' performance, including current yield, various expressions of total return and current distribution rate. They may occasionally cite statistics to reflect its volatility or risk.

Average annual total return figures as prescribed by the SEC represent the average annual percentage change in value of \$1,000 invested at the maximum public offering price (offering price includes sales charge) for one-, five- and ten-year periods, or portion thereof, to the extent applicable, through the end of the most recent calendar quarter, assuming reinvestment of all distributions. The Fund may also furnish total return quotations for each class for other periods or based on investments at various sales charge levels or at net asset value. For such purposes, total return equals the total of all income and capital gain paid to shareholders, assuming reinvestment of all distributions, plus (or minus) the change in the value of the original investment, expressed as a percentage of the purchase price.

Current yield for each class reflects the income per share earned by the Fund's portfolio investments; it is calculated for each class by dividing that class' net investment income per share during a recent 30-day period by the maximum public offering price for that class of shares on the last day of that period and annualizing the result.

Yield for each class, which is calculated according to a formula prescribed by the SEC (see the SAI), is not indicative of the dividends or distributions which were or will be paid to the Fund's shareholders. Dividends or distributions paid to shareholders of a class are reflected in the current distribution rate, which may be quoted to shareholders. The current distribution rate is computed by dividing the total amount of dividends per share paid by a class during the past 12 months by a current maximum offering price for that class of shares. Under certain circumstances, such as when there has been a change in the amount of dividend payout or a fundamental change in investment policies, it might be appropriate to annualize the dividends paid during the period such policies were in effect, rather than using the dividends during the past 12 months. The current distribution rate differs from the current yield computation because it may include distributions to shareholders from sources other than dividends and interest, such as premium income from option writing and short-term capital gain, and is calculated over a different period of time.

In each case, performance figures are based upon past performance, reflect all recurring charges against a class' income and will assume the payment of the maximum sales charge on the purchase of that class of shares. When there has been a change in the sales charge structure, the historical performance figures will be restated to reflect the new rate. The investment results of each class, like all other investment companies, will fluctuate over time; thus, performance figures should not be considered to represent what an investment may earn in the future or what a class' yield, distribution rate or total return may be in any future period.

Because Class II shares were not offered prior to May 15, 1995, no performance

data is available for these shares. After a sufficient period of time has passed, Class II performance data will be available.

#### GENERAL INFORMATION

As of May 15, 1995, the full name of each class is as follows: AGE High Income Fund, Inc., AGE High Income Fund Series, AGE High Income Fund - Class I, and AGE High Income Fund, Inc., AGE High Income Fund Series, AGE High Income Fund - Class II.

#### REPORTS TO SHAREHOLDERS

The Fund's fiscal year ends May 31. Annual Reports containing audited financial statements of the Fund, including the auditors' report, and Semi-Annual Reports containing unaudited financial statements are automatically sent to shareholders. Copies may be obtained, without charge, upon request to the Fund at the telephone number or address set forth on the cover page of this Prospectus.

Additional information on Fund performance is included in the Fund's Annual Report to Shareholders and the SAI.

#### ORGANIZATION AND VOTING RIGHTS

The Fund's authorized capital stock consists of 5,000,000,000 shares of common stock of \$.01 par value divided into two classes. Two billion, five hundred million (2,500,000,000) shares of capital stock have been allocated to Class I and Two billion, five hundred million (2,500,000,000) shares of stock have been allocated to Class II. All shares have one vote and, when issued, are fully paid and nonassessable. All shares have equal voting, participation and liquidation rights, but have no subscription, preemptive or conversion rights.

To the extent required by applicable law, the Fund holds regular annual meetings of its security holders. Shares of the Fund have noncumulative voting rights which means that in all elections of directors, the holders of more than 50% of the shares voting can elect 100% of the directors if they choose to do so, and in such event, the holders of the remaining shares voting will not be able to elect any person or persons to the Board of Directors.

Shares of each class represent proportionate interests in the assets of the Fund and have the same voting and other rights and preferences as the other class of the Fund for matters that affect the Fund as a whole. For matters that only affect a certain class of the Fund's shares, however, only shareholders of that class will be entitled to vote. Therefore each class of shares will vote separately on matters (1) affecting only that class, (2) expressly required to be voted on separately by Class by state corporation law, or (3) required to be voted on separately by Class by the 1940 Act, or the rules adopted thereunder. For instance, if a change to the Rule 12b-1 plan relating to Class I shares requires shareholder approval, only shareholders of Class I may vote on the change to the Rule 12b-1 plan affecting that class. Similarly, if a change to the Rule 12b-1 plan relating to Class II shares requires approval, only shareholders of Class II may vote on changes to such plan. On the other hand, if there is a proposed change to the investment objective of the Fund, this affects all shareholders, regardless of which class of shares they hold and, therefore, each share has the same voting rights.

#### REDEMPTIONS BY THE FUND

The Fund reserves the right to redeem, at net asset value, shares of any shareholder whose account has a value of less than \$50, but only where the value of such account has been reduced by the shareholder's prior voluntary redemption of shares and has been inactive (except for the reinvestment of distributions) for a period of at least six months, provided advance notice is given to the shareholder. More information is included in the SAI.

#### OTHER INFORMATION

Distribution or redemption checks sent to shareholders do not earn interest or any other income during the time such checks remain uncashed and neither the Fund nor its affiliates will be liable for any loss to the shareholder caused by the shareholder's failure to cash such check(s).

"Cash" payments to or from the Fund may be made by check, draft or wire. The Fund has no facility to receive, or pay out, cash in the form of currency.

#### ACCOUNT REGISTRATIONS

An account registration should reflect the investor's intentions as to ownership. Where there are two co-owners on the account, the account will be

registered as "Owner 1" and "Owner 2"; the "or" designation is not used except for money market fund accounts. If co-owners wish to have the ability to redeem or convert on the signature of only one owner, a limited power of attorney may be used.

Accounts should not be registered in the name of a minor, either as sole or co-owner of the account. Transfer or redemption for such an account may require court action to obtain release of the funds until the minor reaches the legal age of majority. The account should be registered in the name of one "Adult" as custodian for the benefit of the "Minor" under the Uniform Transfer or Gifts to Minors Act.

A trust designation such as "trustee" or "in trust for" should only be used if the account is being established pursuant to a legal, valid trust document. Use of such a designation in the absence of a legal trust document may cause difficulties and require court action for transfer or redemption of the funds.

Shares, whether in certificate form or not, registered as joint tenants or "Jt Ten" shall mean "as joint tenants with rights of survivorship" and not "as tenants in common."

Except as indicated, a shareholder may transfer an account in the Fund carried in "street" or "nominee" name by the shareholder's securities dealer to a comparably registered Fund account maintained by another securities dealer. Both the delivering and receiving securities dealers must have executed dealer agreements on file with Distributors. Unless a dealer agreement has been executed and is on file with Distributors, the Fund will not process the transfer and will so inform the shareholder's delivering securities dealer. To effect the transfer, a shareholder should instruct the securities dealer to transfer the account to a receiving securities dealer and sign any documents required by the securities dealer(s) to evidence consent to the transfer. Under current procedures, the account transfer may be processed by the delivering securities dealer and the Fund after the Fund receives authorization in proper form from the shareholder's delivering securities dealer. In the future it may be possible to effect such transfers electronically through the services of the NSCC.

The Fund may conclusively accept instructions from an owner or the owner's nominee listed in publicly available nominee lists, regardless of whether the account was initially registered in the name of or by the owner, the nominee, or both. If a securities dealer or other representative is of record on an investor's account, the investor will be deemed to have authorized the use of electronic instructions on the account, including, without limitation, those initiated through the services of the NSCC, to have adopted as instruction and signature any such electronic instructions received by the Fund and the Shareholder Services Agent, and to have authorized them to execute the instructions without further inquiry. At the present time, such services which are available include the NSCC's "Networking," "Fund/SERV," and "ACATS" systems.

Any questions regarding an intended registration should be answered by the securities dealer handling the investment, or by calling Franklin's Fund Information Department.

#### IMPORTANT NOTICE REGARDING TAXPAYER IRS CERTIFICATIONS

Pursuant to the Code and U.S. Treasury regulations, the Fund may be required to report to the IRS any taxable dividend, capital gain distribution, or other reportable payment (including share redemption proceeds) and withhold 31% of any such payments made to individuals and other non-exempt shareholders who have not provided a correct taxpayer identification number ("TIN") and made certain required certifications that appear in the Shareholder Application. A shareholder may also be subject to backup withholding if the IRS or a securities dealer notifies the Fund that the number furnished by the shareholder is incorrect or that the shareholder is subject to backup withholding for previous under-reporting of interest or dividend income.

The Fund reserves the right to (1) refuse to open an account for any person failing to provide a TIN along with the required certifications and (2) close an account by redeeming its shares in full at the then-current net asset value upon receipt of notice from the IRS that the TIN certified as correct by the shareholder is in fact incorrect or upon the failure of a shareholder who has completed an "awaiting TIN" certification to provide the Fund with a certified TIN within 60 days after opening the account.

#### PORTFOLIO OPERATIONS

The following persons are primarily responsible for the day-to-day management of the Fund's portfolio: R. Martin Wiskemann since 1972 and Chris Molumphy since

1991.

R. Martin Wiskemann Senior Vice President of Advisers

Mr. Wiskemann holds a degree in business administration from the Handelsschule of the State of Zurich, Switzerland. He has been with Advisers since 1972 and in the securities business for more than 30 years, managing mutual fund equity and fixed income portfolios, and private investment accounts. He is a member of several securities industry associations.

Chris Molumphy Portfolio Manager of Advisers

Mr. Molumphy holds a bachelor of arts degree in economics from Stanford University and a master's degree in finance from the University of Chicago. He has been with Advisers since 1988. He is a Chartered Financial Analyst (CFA) and a member of several securities industry associations.

#### APPENDIX

##### DESCRIPTION OF MOODY'S CORPORATE BOND RATINGS

AAA - Bonds which are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt-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 which are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risks appear somewhat larger than in Aaa securities.

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

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

BA - Bonds which are rated Ba are judged to have predominantly 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 which are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

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

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

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

##### DESCRIPTION OF S&P CORPORATE BOND RATINGS

AAA - This is the highest rating assigned by S&P to a debt obligation and indicates an extremely strong capacity to pay principal and interest.

AA - Bonds rated AA also qualify as high-quality debt obligations. Capacity to pay principal and interest is very strong and, in the majority of instances, they differ from AAA issues only in small degree.

A - Bonds rated A have a strong capacity to pay principal and interest, although they are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions.

BBB - Bonds rated BBB are regarded as having an adequate capacity to pay principal and interest. Whereas they normally exhibit protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay principal and interest for bonds in this category than for bonds in the A category.

BB, B, CCC, CC - Bonds rated BB, B, CCC and CC are regarded, on balance, as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations. BB indicates the lowest degree of speculation and CC the highest degree of speculation. While such bonds will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.

C - This rating is reserved for income bonds on which no interest is being paid.

D - Debt rated D is in default, and payment of interest and/or repayment of principal is in arrears

FRANKLIN'S  
AGE HIGH  
INCOME FUND

STATEMENT OF  
ADDITIONAL INFORMATION  
OCTOBER 1, 1995

777 MARINERS ISLAND BLVD., P.O. BOX 7777  
SAN MATEO, CA 94403-7777 1-800/DIAL BEN

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Additional Information Regarding  
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and Policies (See also the Prospectus  
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The Fund's Policies Regarding Brokers  
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Additional Information Regarding Fund  
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"How to Buy Shares of the Fund";  
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"Taxation of the Fund and Its Shareholders")

The Fund's Underwriter

General Information

Financial Statements

AGE High Income Fund, Inc. (the "Fund") is a diversified, open-end management investment company with the principal investment objective of earning a high level of current income. The Fund also seeks capital appreciation as a secondary objective. The Fund's assets will generally be invested in both fixed-income debt securities and dividend-paying common or preferred stocks.

A Prospectus for the Fund, dated October 1, 1995, as may be amended from time to time, provides the basic information an investor should know before investing in the Fund and may be obtained without charge from the Fund or from its principal underwriter, Franklin/Templeton Distributors, Inc. ("Distributors") at the address shown above.



As explained in the Prospectus, this Fund offers two classes of shares to its investors: AGE High Income Fund - Class I ("Class I") and AGE High Income Fund - Class II ("Class II"). This new multiclass structure allows investors to consider, among other features, the impact of sales charges and distribution fees ("Rule 12b-1 fees") on their investments in this Fund.

THIS STATEMENT OF ADDITIONAL INFORMATION (THE "SAI") IS NOT A PROSPECTUS. IT CONTAINS INFORMATION IN ADDITION TO AND IN MORE DETAIL THAN SET FORTH IN THE PROSPECTUS. THIS SAI IS INTENDED TO PROVIDE INVESTORS WITH ADDITIONAL INFORMATION REGARDING THE ACTIVITIES AND OPERATIONS OF THE FUND, AND SHOULD BE READ IN CONJUNCTION WITH THE FUND'S PROSPECTUS.

ADDITIONAL INFORMATION REGARDING THE  
FUND'S INVESTMENT OBJECTIVES AND POLICIES

#### INVESTMENT OBJECTIVES AND POLICIES

**LOANS OF PORTFOLIO SECURITIES.** As stated in the Prospectus, the Fund may make loans of its portfolio securities, up to 10% of its total assets, in accordance with guidelines adopted by the Fund's Board of Directors. The lending of securities is a common practice in the securities industry. The Fund will engage in security loan arrangements with the primary objective of increasing the Fund's income either through investing the collateral in short-term, interest bearing obligations or by receiving loan premiums from the borrower. The Fund will continue to be entitled to all dividends or interest on any loaned securities. As with any extension of credit, there are risks of delay in recovery and loss of rights in the collateral should the borrower of the security fail financially. The Fund will not lend its portfolio securities if such loans are not permitted by the laws or regulations of any state in which its shares are qualified for sale. Loans will be subject to termination by the Fund in the normal settlement time, currently five business days after notice, or by the borrower on one day's notice. Borrowed securities must be returned when the loan is terminated. Any gain or loss in the market price of the borrowed securities which occurs during the term of the loan inures to the Fund and its shareholders. The Fund may pay reasonable finders', borrowers', administrative and custodial fees in connection with a loan of its securities.

**RESTRICTED SECURITIES.** A restricted security is a security which has been purchased through a private offering and cannot be sold without prior registration under the Securities Act of 1933, unless such sale is pursuant to an exemption therefrom. In recent years, the Fund's portfolio has included several issues of such securities.

Notwithstanding the restriction on the sale of such securities, a secondary market exists for many of these securities. As with other securities in the Fund's portfolio, if there are readily available market quotations for a restricted security, it will be valued, for purposes of determining the Fund's net asset value, within the range of the bid and ask prices. To the extent that no such quotations are available, the securities will be valued at fair value in accordance with procedures adopted by the Board of Directors. The Fund's purchases of restricted securities can result in the receipt of commitment fees. For example, the transaction may involve an individually negotiated purchase of short-term increasing rate notes. Maturities for this type of security typically range from one to five years. Such notes are usually issued as temporary or "bridge" financing to be replaced ultimately with permanent financing for the project or transaction which the issuer seeks to finance. Typically, at the time of commitment, the Fund receives the security and sometimes a cash commitment fee. Because the transaction could possibly involve a delay between the time the Fund commits to purchase the security and the Fund's payment for and receipt of that security, the Fund will maintain, in a segregated account with its custodian, cash or high-grade marketable securities having an aggregate value equal to the amount of such purchase commitments until payment is made. The Fund will not purchase restricted securities in order to generate commitment fees, although the receipt of such fees will assist the Fund in achieving its principal objective of earning a high level of current income.

The Fund may also receive consent fees based on a variety of situations. For example, the Fund may receive consent fees in situations where an issuer seeks to "call" a bond it has issued which does not contain a provision permitting the issuer to call the bond. The Fund may also receive a consent fee in situations where its consent is required to facilitate a merger or other business combination transaction. Such fees are received only occasionally, are privately negotiated and may be in any amount. As is the case with commitment fees, the Fund will not purchase securities with a view to generating consent fees, although the receipt of such fees is consistent with the Fund's principal investment objective.

**ILLIQUID SECURITIES.** As noted in the Prospectus, it is the policy of the Fund that illiquid securities (including illiquid equity securities, securities with legal or contractual restrictions on resale, repurchase agreements of more than

seven days duration and other securities which are not readily marketable) may not constitute, at the time of purchase, more than 10% of the value of the total net assets of the Fund. Generally, an "illiquid security" is any security that cannot be disposed of promptly and in the ordinary course of business at approximately the amount at which the Fund has valued the instrument. Subject to this limitation, the Board of Directors has authorized the Fund to invest in restricted securities where such investment is consistent with the Fund's investment objectives and has authorized such securities to be considered liquid to the extent the Fund's investment manager determines that there is a liquid institutional or other market for such securities, such as restricted securities which may be freely transferred among qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended, and for which a liquid institutional market has developed. The Board of Directors will review on a monthly basis any determination by the Fund's investment advisor to treat a restricted security as liquid, including the investment advisor's assessment of current trading activity and the availability of reliable price information. In determining whether a restricted security is properly considered a liquid security, the Fund's investment advisor and the Board of Directors will take into account the following factors: (i) the frequency of trades and quotes for the security; (ii) the number of dealers willing to purchase or sell the security and the number of other potential purchasers; (iii) dealer undertakings to make a market in the security; and (iv) the nature of the security and the nature of the marketplace trades (e.g., the time needed to dispose of the security, the method of soliciting offers, and the mechanics of transfer). To the extent the Fund invests in restricted securities that are deemed liquid, the general level of illiquidity may be increased if qualified institutional buyers become uninterested in purchasing these securities or the market for these securities contracts.

**FORWARD CURRENCY EXCHANGE CONTRACTS.** As stated in the Prospectus, the Fund may enter into forward currency exchange contracts ("Forward Contracts") to attempt to minimize the risk to the Fund from adverse changes in the relationship between currencies or to enhance income. A Forward Contract is an obligation to purchase or sell a specific currency for an agreed price at a future date which is individually negotiated and is privately traded by currency traders and their customers. When the Fund is the buyer or a seller in such a transaction, it will either cover its position or maintain, in a segregated account with its custodian, cash or high-grade marketable securities having an aggregated value equal to the amount of such commitment until payment is made.

**WHEN-ISSUED AND DELAYED DELIVERY TRANSACTIONS.** The Fund may purchase debt securities on a "when-issued" or "delayed delivery" basis. These transactions are arrangements under which the Fund purchases securities with payment and delivery scheduled for a future time. Purchases of debt securities on a when-issued or delayed delivery basis are subject to market fluctuation and are subject to the risk that the value or yields at delivery may be more or less than the purchase price or the yields available when the transaction was entered into. Although the Fund will generally purchase debt securities on a when-issued basis with the intention of acquiring such securities, it may sell them before the settlement date if it is deemed advisable. In when-issued and delayed delivery transactions, the Fund relies on the seller to complete the transaction. The other party's failure may cause the Fund to miss a price or yield considered advantageous. Securities purchased on a when-issued or delayed delivery basis do not generally earn interest until their scheduled delivery date. The Fund is not subject to any percentage limit on the amount of its assets which may be invested in when-issued debt securities.

**OPTIONS ON SECURITIES.** The Fund may write covered call options which are listed for trading on a national securities exchange. This means that the Fund will only write options on securities which the Fund actually owns. A call option gives the buyer the right to buy the security on which the option is written for a specified period of time for a price agreed to at the time the option is sold, even though that price may be less than the value of the security at the time the option is exercised. When the Fund sells covered call options, the Fund receives a cash premium which can be used in whatever way is felt to be most beneficial to the Fund. The risks associated with covered call writing are such that in the event of a price rise on the underlying security which would likely trigger the exercise of the call option, the Fund will not participate in the increase in price beyond the exercise price. If the Fund determines that it does not wish to deliver the underlying securities from its portfolio, it would have to enter into a "closing purchase transaction," the premium on which may be higher or lower than that received by the Fund for writing the option. There is no assurance that a closing purchase transaction will be available in every instance.

**FOREIGN SECURITIES.** As noted in the Prospectus, the Fund may purchase foreign securities which are traded in the United States or purchase American Depository Receipts ("ADRs") which are certificates issued by U.S. banks representing the right to receive securities of a foreign issuer deposited with that bank or a correspondent bank. The Fund will only purchase ADRs which are "sponsored," that is, an ADR in which establishment of the issuing facility is brought about by

the participation of the issuer and the depository institution pursuant to a deposit agreement which sets out the rights and responsibilities of the issuer, the depository and the ADR holder. Under the terms of most sponsored arrangements, depositories agree to distribute notices of shareholder meetings and voting instructions, thereby ensuring that ADR holders will be able to exercise voting rights through the depository with respect to the deposited securities.

#### SECURITIES TRANSACTIONS OF THE FUND

Normally, the Fund will purchase securities with the intention of holding them for the long-term; however, it may on occasion purchase securities with the expectation of selling within a short period of time. Changes in particular portfolio holdings may be made whenever it is considered that a security no longer is suitable for the Fund's portfolio or that another security appears to offer a relatively greater opportunity, and will be made without regard to the length of time a security has been held. The portfolio turnover for the fiscal years ended May 31, 1994 and 1995 was 42.32% and 28.56%, respectively.

#### INVESTMENT RESTRICTIONS

The Fund has adopted the following restrictions as fundamental policies, which means that they may not be changed without the approval of a majority of the outstanding voting securities of the Fund. Under the Investment Company Act of 1940 (the "1940 Act"), a "vote of a majority of the outstanding voting securities" of the Fund means the affirmative vote of the lesser of (1) more than 50% of the outstanding shares of the Fund, or (2) 67% or more of the shares of the Fund present at a shareholders' meeting if more than 50% of the outstanding shares of the Fund are represented at the meeting in person or by proxy. The Fund may not:

1. Invest more than 25% of the value of the Fund's total assets in one particular industry.
2. Purchase securities, if the purchase would cause the Fund at that time to have more than 5% of the value of its total assets invested in the securities of any one company or to own more than 10% of the voting securities of any one company (except obligations issued or guaranteed by the U.S. government).
3. Underwrite or engage in the agency distributions of securities of other issuers, except insofar as the Fund may be technically deemed an underwriter in connection with the disposition of securities in its portfolio.
4. Make loans to other persons except on a temporary basis in connection with the delivery or receipt of portfolio securities which have been bought or sold, or by the purchase of bonds, debentures or similar obligations which have been publicly distributed or of a character usually acquired by institutional investors or through loans of the Fund's portfolio securities, or to the extent the entry into a repurchase agreement may be deemed a loan.
5. Borrow money in excess of 5% of the value of the Fund's total assets, and then only as a temporary measure for extraordinary or emergency purposes.
6. Sell securities short or buy on margin nor pledge or hypothecate any of the Fund's assets.
7. Buy or sell real estate (other than interests in real estate investment trusts), commodities or commodity contracts.
8. Invest in the securities of another investment company, except securities acquired in connection with a merger, consolidation or reorganization; except to the extent the Fund invests its uninvested daily cash balances in shares of the Franklin Money Fund and other money market funds in the Franklin Group of Funds provided i) its purchases and redemptions of such money market fund shares may not be subject to any purchase or redemption fees, ii) its investments may not be subject to duplication of management fees, nor to any charge related to the expense of distributing the Fund's shares (as determined under Rule 12b-1, as amended under the federal securities laws), and iii) provided aggregate investments by the Fund in any such money market fund do not exceed (A) the greater of i) 5% of the Fund's total net assets or (ii) \$2.5 million, or (B) more than 3% of the outstanding shares of any such money market fund.
9. Invest in any company for the purpose of exercising control or management.
10. Purchase the securities of any company in which any officer or director of the Fund or its investment manager owns more than 1/2 of 1% of the outstanding securities and in which all of the officers and directors of the Fund and its investment manager as a group, own more than 5% of such securities.

In response to state requirements:

(1) the Fund may not invest in warrants (valued at the lower of cost or market) in excess of 5.0% of the value of the Fund's net assets. No more than 2.0% of the value of the Fund's net assets may be invested in warrants (valued at the lower of cost or market) which are not listed on the New York or American Stock Exchanges. Warrants acquired by the Fund in units or attached to securities may be deemed to be without value;

(2) the Fund may not invest in rights (valued at the lower of cost or market) in excess of 5.0% of the value of the Fund's net assets. No more than 2.0% of the value of the Fund's net assets may be invested in rights (valued at the lower of cost or market) which are not listed on the New York or American Stock Exchanges. Rights acquired by the Fund in units or attached to securities may be deemed to be without value.

(3) the Fund will not invest in real estate limited partnerships or in interests (other than publicly traded equity securities) in oil, gas, or other mineral programs or leases, exploration or development.

(4) the Fund will limit its investments to a total of 15% of its total assets in any mix of restricted securities for which there is not a liquid market, securities of issuers which are not readily marketable, and securities of issuers which have been in operation for less than three years.

(5) the Fund will not invest more than 10% of its assets in real estate investment trusts or investment companies; and

(6) the Fund will not invest more than 5% of its assets in options, financial futures, or stock index futures, other than hedging positions or positions that are covered by cash or securities.

#### OFFICERS AND DIRECTORS

The Board of Directors has the responsibility for the overall management of the Fund, including general supervision and review of its investment activities. The directors, in turn, elect the officers of the Fund who are responsible for administering day-to-day operations of the Fund. The affiliations of the officers and directors and their principal occupations for the past five years are listed below. Directors who are deemed to be "interested persons" of the Fund, as defined in the 1940 Act, are indicated by an asterisk (\*).

Frank H. Abbott, III (74)  
1045 Sansome St.  
San Francisco, CA 94111

Director

President and Director, Abbott Corporation (an investment company); and director, trustee or managing general partner, as the case may be, of 31 of the investment companies in the Franklin Group of Funds.

\*Harmon E. Burns (50)  
777 Mariners Island Blvd.  
San Mateo, CA 94404

Vice President and Director

Executive Vice President, Secretary and Director, Franklin Resources, Inc.; Executive Vice President and Director, Franklin Templeton Distributors, Inc.; Executive Vice President, Franklin Advisers, Inc.; Director, Franklin/Templeton Investor Services, Inc.; officer and/or director, as the case may be, of other subsidiaries of Franklin Resources, Inc.; and officer and/or director or trustee of 42 of the investment companies in the Franklin Templeton Group of Funds.

Robert F. Carlson (67)  
2120 Lambeth Way  
Carmichael, CA 95608

Director

Former member and past Chairman of the Board, Sutter Community Hospitals, Sacramento, CA; former member Corporate Board, Blue Shield of California; formerly Chief Counsel, California Department of Transportation; and member and past President, Board of Administration, California Public Employees Retirement Systems.

S. Joseph Fortunato (63)

Park Avenue at Morris County  
P. O. Box 1945  
Morristown, NJ 07962-1945

Director

Member of the law firm of Pitney, Hardin, Kipp & Szuch; Director of General Host Corporation; director, trustee or managing general partner, as the case may be, of 57 of the investment companies in the Franklin Templeton Group of Funds.

Roy V. Fox (77)  
107 Deepwood Dr.  
Georgetown, TX 78628-8301

Director

Retired; formerly Publishing Consultant, Franklin Resources, Inc. and formerly National Administrative Officer of the Assembly of Governmental Employees.

\*Rupert H. Johnson, Jr. (55)  
777 Mariners Island Blvd.  
San Mateo, CA 94404

President and Director

Executive Vice President and Director, Franklin Resources, Inc. and Franklin Templeton Distributors, Inc.; President and Director, Franklin Advisers, Inc.; Director, Franklin/Templeton Investor Services, Inc.; and officer and/or director, trustee or managing general partner, as the case may be, of most other subsidiaries of Franklin Resources, Inc. and of 43 of the investment companies in the Franklin Templeton Group of Funds.

\*R. Martin Wiskemann (68)  
777 Mariners Island Blvd.  
San Mateo, CA 94404

Vice President and Director

Senior Vice President, Portfolio Manager and Director, Franklin Advisers, Inc.; Senior Vice President, Franklin Management, Inc.; Vice President, Treasurer and Director, IIA Financial Services, Inc. and Arizona Life Insurance Company of America; and officer and/or director, as the case may be, of 20 of the investment companies in the Franklin Group of Funds.

Kenneth V. Domingues (63)  
777 Mariners Island Blvd.  
San Mateo, CA 94404

Vice President - Financial Reporting and Accounting Standards

Senior Vice President, Franklin Resources, Inc., Franklin Advisers, Inc., and Franklin Templeton Distributors, Inc.; officer and/or director, as the case may be, of other subsidiaries of Franklin Resources, Inc.; and officer and/or managing general partner, as the case may be, of 37 of the investment companies in the Franklin Group of Funds.

Martin L. Flanagan (35)  
777 Mariners Island Blvd.  
San Mateo, CA 94404

Vice President and Chief Financial Officer

Senior Vice President, Chief Financial Officer and Treasurer, Franklin Resources, Inc.; Executive Vice President, Templeton Worldwide, Inc.; Senior Vice President and Treasurer, Franklin Advisers, Inc. and Franklin Templeton Distributors, Inc.; Senior Vice President, Franklin/Templeton Investor Services, Inc.; officer of most other subsidiaries of Franklin Resources, Inc.; and officer of 61 of the investment companies in the Franklin Templeton Group of Funds.

Deborah R. Gatzek (46)  
777 Mariners Island Blvd.  
San Mateo, CA 94404

Vice President and Secretary

Senior Vice President - Legal, Franklin Resources, Inc. and Franklin Templeton Distributors, Inc.; Vice President, Franklin Advisers, Inc. and officer of 37 of the investment companies in the Franklin Group of Funds.

Diomedes Loo-Tam (56)  
777 Mariners Island Blvd.  
San Mateo, CA 94404

Treasurer and Principal Accounting Officer

Employee of Franklin Advisers, Inc.; and officer of 37 of the investment companies in the Franklin Group of Funds.

Edward V. McVey (58)  
777 Mariners Island Blvd.  
San Mateo, CA 94404

Vice President

Senior Vice President/National Sales Manager, Franklin Templeton Distributors, Inc.; and officer of 32 of the investment companies in the Franklin Group of Funds.

Directors not affiliated with the investment manager ("nonaffiliated directors") are currently paid fees of \$680 per month plus \$680 per meeting attended. As indicated above, certain of the Fund's nonaffiliated directors also serve as directors, trustees or managing general partners of other investment companies in the Franklin Group of Funds(R) and the Templeton Group of Funds (the "Franklin Templeton Group of Funds") from which they may receive fees for their services. The following table indicates the total fees paid to nonaffiliated directors by the Fund and by other funds in the Franklin Templeton Group of Funds.

<TABLE>  
<CAPTION>

	TOTAL FEES RECEIVED FROM FUND*	TOTAL FEES RECEIVED FROM THE FRANKLIN TEMPLETON GROUP OF FUNDS**	NUMBER OF BOARDS IN THE FRANKLIN TEMPLETON GROUP OF FUNDS ON WHICH EACH SERVES***
NAME			
<S>	<C>	<C>	<C>
Frank H. Abbott, III	\$15,640	\$176,870	31
Robert F. Carlson	\$13,600	14,960	1
S. Joseph Fortunato	\$15,640	336,065	57
Roy V. Fox	\$14,960	14,960	1

\* For the fiscal year ended May 31, 1995.

\*\* For the calendar year ended December 31, 1994.

\*\*\* The number of boards is based on the number of registered investment companies in the Franklin Templeton Group of Funds and does not include the total number of series or funds within each investment company for which the directors are responsible. The Franklin Templeton Group of Funds currently includes 61 registered investment companies, consisting of more than 112 U.S. based mutual funds or series.

Nonaffiliated directors are reimbursed for expenses incurred in connection with attending board meetings, paid pro rata by each fund in the Franklin Templeton Group of Funds for which they serve as director, trustee or managing general partner. No officer or director received any other compensation directly from

the Fund. Certain officers or directors who are shareholders of Franklin Resources, Inc. may be deemed to receive indirect remuneration by virtue of their participation, if any, in the fees paid to its subsidiaries. For additional information concerning director compensation and expenses, please see the Fund's Annual Report to Shareholders.

As of July 5, 1995, the directors and officers, as a group, owned of record and beneficially approximately 679,644 shares or less than 1% of the total outstanding shares of the Fund. Many of the Fund's directors also own shares in various of the other funds in the Franklin Templeton Group of Funds. Charles B. Johnson and Rupert H. Johnson, Jr. are brothers.

From time to time, the number of Fund shares held in the "street name" accounts of various securities dealers for the benefit of their clients or in centralized securities depositories may exceed 5% of the total shares outstanding. To the best knowledge of the Fund, no other person holds beneficially or of record more than 5% of the Fund's outstanding shares.

#### INVESTMENT ADVISORY AND OTHER SERVICES

The investment manager of the Fund is Franklin Advisers, Inc. ("Advisers" or "Manager"). Advisers is a wholly-owned subsidiary of Franklin Resources, Inc. ("Resources"), a publicly owned holding company whose shares are listed on the New York Stock Exchange (the "Exchange"). Resources owns several other subsidiaries which are involved in investment management and shareholder services. The Manager and other subsidiary companies of Resources currently manage over \$125 billion in assets worldwide for over 3.8 million shareholders, in addition to foundations and endowments, employee benefit plans, and individuals. The preceding table indicates those officers and directors who are also affiliated persons of Distributors and Advisers.

Pursuant to the management agreement, the Manager provides investment research and portfolio management services, including the selection of securities for the Fund to purchase, hold or sell and the selection of brokers through whom the Fund's portfolio transactions are executed. The Manager's activities are subject to the review and supervision of the Fund's Board of Directors to whom the Manager renders periodic reports of the Fund's investment activities. Under the terms of the management agreement, the Manager provides office space and office furnishings, facilities and equipment required for managing the business affairs of the Fund; maintains all internal bookkeeping, clerical, secretarial and administrative personnel and services; and provides certain telephone and other mechanical services. The Manager is covered by fidelity insurance on its officers, directors and employees for the protection of the Fund. See the Statement of Operations in the financial statements included in the Fund's Annual Report to Shareholders dated May 31, 1995.

Pursuant to the management agreement, the Fund is obligated to pay the Manager a fee computed at the close of business on the last business day of each month equal to a monthly rate of  $\frac{5}{96}$  of 1% (approximately  $\frac{5}{8}$  of 1% per year) for the first \$100 million of average monthly net assets of the Fund;  $\frac{1}{24}$  of 1% (approximately  $\frac{1}{2}$  of 1% per year) on average monthly net assets of the Fund in excess of \$100 million up to \$250 million; and  $\frac{9}{240}$  of 1% (approximately  $\frac{45}{100}$  of 1% per year) of average monthly net assets of the Fund in excess of \$250 million. Each class will pay its share of the fee as determined by the proportion of the Fund that it represents.

Management fees for the fiscal years ended May 31, 1993, 1994 and 1995 were \$8,666,780, \$8,993,566 and \$8,263,271, respectively.

The management agreement specifies that the management fee will be reduced to the extent necessary to comply with the most stringent limits on the expenses which may be borne by the Fund as prescribed by any state in which the Fund's shares are offered for sale. The most stringent current limit requires the Manager to reduce or eliminate its fee to the extent that aggregate operating expenses of the Fund (excluding interest, taxes, brokerage commissions and extraordinary expenses such as litigation costs) would otherwise exceed in any fiscal year 2.5% of the first \$30 million of average net assets of the Fund, 2% of the next \$70 million of average net assets of the Fund and 1.5% of average net assets of the Fund in excess of \$100 million. Expense reductions have not been necessary based on state requirements.

The management agreement is in effect until April 30, 1996. Thereafter, it may continue in effect for successive annual periods providing such continuance is specifically approved at least annually by a vote of the Fund's Board of Directors or by a vote of the holders of a majority of the Fund's outstanding

voting securities, and in either event by a majority vote of the Fund's directors who are not parties to the management agreement or interested persons of any such party (other than as directors of the Fund), cast in person at a meeting called for that purpose. The management agreement may be terminated without penalty at any time by the Fund or by the Manager on 30 days' written notice and will automatically terminate in the event of its assignment, as defined in the 1940 Act.

Franklin/Templeton Investor Services, Inc. ("Investor Services" or "Shareholder Services Agent"), a wholly-owned subsidiary of Resources, is the shareholder servicing agent for the Fund and acts as the Fund's transfer agent and dividend-paying agent. Investor Services is compensated on the basis of a fixed fee per account.

Bank of America NT & SA, 555 California Street, 4th Floor, San Francisco, California 94104, acts as custodian of the securities and other assets of the Fund. Citibank Delaware, One Penn's Way, New Castle, Delaware 19720, acts as custodian in connection with transfer services through bank automated clearing houses. The custodians do not participate in decisions relating to the purchase and sale of portfolio securities.

Coopers & Lybrand L.L.P., 333 Market Street, San Francisco, California 94105, are the Fund's independent auditors. During the fiscal year ended May 31, 1995, their auditing services consisted of rendering an opinion on the financial statements of the Fund included in the Fund's Annual Report to Shareholders dated May 31, 1995.

#### THE FUND'S POLICIES REGARDING BROKERS USED ON PORTFOLIO TRANSACTIONS

Under the current management agreement with Advisers, the selection of brokers and dealers to execute transactions in the Fund's portfolio is made by the Manager in accordance with criteria set forth in the management agreement and any directions which the Fund's Board of Directors may give.

When placing a portfolio transaction, the Manager attempts to obtain the best net price and execution of the transaction. On portfolio transactions which are done on a securities exchange, the amount of commission paid by the Fund is negotiated between the Manager and the broker executing the transaction. The Manager seeks to obtain the lowest commission rate available from brokers which are felt to be capable of efficient execution of the transactions. The determination and evaluation of the reasonableness of the brokerage commissions paid in connection with portfolio transactions are based to a large degree on the professional opinions of the persons responsible for the placement and review of such transactions. These opinions are formed on the basis of, among other things, the experience of these individuals in the securities industry and information available to them concerning the level of commissions being paid by other institutional investors of comparable size. The Manager will ordinarily place orders for the purchase and sale of over-the-counter securities on a principal rather than agency basis with a principal market maker unless, in the opinion of the Manager, a better price and execution can otherwise be obtained. Purchases of portfolio securities from underwriters will include a commission or concession paid by the issuer to the underwriter, and purchases from dealers will include a spread between the bid and ask price. The Fund seeks to obtain prompt execution of orders at the most favorable net price.

The amount of commission is not the only relevant factor to be considered in the selection of a broker to execute a trade. If it is felt to be in the Fund's best interests, the Manager may place portfolio transactions with brokers who provide the types of services described below, even if it means the Fund will have to pay a higher commission than would be the case if no weight were given to the broker's furnishing of these services. This will be done only if, in the opinion of the Manager, the amount of any additional commission is reasonable in relation to the value of the services. Higher commissions will be paid only when the brokerage and research services received are bona fide and produce a direct benefit to the Fund or assist the Manager in carrying out its responsibilities to the Fund, or when it is otherwise in the best interest of the Fund to do so, whether or not such data may also be useful to the Manager in advising other clients.

When it is felt that several brokers are equally able to provide the best net price and execution, the Manager may decide to execute transactions through brokers who provide quotations and other services to the Fund, specifically including the quotations necessary to determine the value of the Fund's net assets, in such amount of total brokerage as may reasonably be required in light of such services, and through brokers who supply research, statistical and other data to the Fund and Manager in such amount of total brokerage as may reasonably be required.



It is not possible to place a dollar value on the special executions or on the research services received by Advisers from dealers effecting transactions in portfolio securities. The allocation of transactions in order to obtain additional research services permits Advisers to supplement its own research and analysis activities and to receive the views and information of individuals and research staff of other securities firms. As long as it is lawful and appropriate to do so, the Manager and its affiliates may use this research and data in their investment advisory capacities with other clients. Provided that the Fund's officers are satisfied that the best execution is obtained, the sale of Fund shares may also be considered as a factor in the selection of broker/dealers to execute the Fund's portfolio transactions.

Because Distributors is a member of the National Association of Securities Dealers, it is sometimes entitled to obtain certain fees when the Fund tenders portfolio securities pursuant to a tender-offer solicitation. As a means of recapturing brokerage for the benefit of the Fund, any portfolio securities tendered by the Fund will be tendered through Distributors if it is legally permissible to do so. In turn, the next management fee payable to Advisers under the management agreement will be reduced by the amount of any fees received by Distributors in cash, less any costs and expenses incurred in connection therewith.

If purchases or sales of securities of the Fund and one or more other investment companies or clients supervised by the Manager are considered at or about the same time, transactions in such securities will be allocated among the several investment companies and clients in a manner deemed equitable to all by the Manager, taking into account the respective sizes of the funds and the amount of securities to be purchased or sold. It is recognized that in some cases this procedure could possibly have a detrimental effect on the price or volume of the security so far as the Fund is concerned. In other cases it is possible that the ability to participate in volume transactions and to negotiate lower brokerage commissions will be beneficial to the Fund.

During the fiscal years ended May 31, 1993, 1994 and 1995, the Fund paid total brokerage commissions of \$103,351, \$23,257 and \$7,790, respectively. As of May 31, 1995, the Fund did not own securities of its regular broker/dealers.

#### ADDITIONAL INFORMATION REGARDING FUND SHARES

All checks, drafts, wires and other payment mediums used for purchasing or redeeming shares of the Fund must be denominated in U.S. dollars. The Fund reserves the right, in its sole discretion, to either (a) reject any order for the purchase or sale of shares denominated in any other currency, or (b) honor the transaction or make adjustments to a shareholder's account for the transaction as of a date and with a foreign currency exchange factor determined by the drawee bank.

In connection with exchanges (see the Prospectus "Exchange Privilege"), it should be noted that since the proceeds from the sale of shares of an investment company generally are not available until the fifth business day following the redemption, the funds into which the Fund shareholders are seeking to exchange reserve the right to delay issuing shares pursuant to an exchange until said fifth business day. The redemption of shares of the Fund to complete an exchange for shares of any of the investment companies will be effected at the close of business on the day the request for exchange is received in proper form at the net asset value then effective.

If a substantial portion of the Fund's shareholders should, within a short period, elect to redeem their shares of the Fund pursuant to the exchange privilege, the Fund might have to liquidate portfolio securities it might otherwise hold and incur the additional costs related to such transactions. On the other hand, increased use of the exchange privilege may result in periodic large inflows of money. If this should occur, it is the general policy of the Fund to initially invest this money in short-term, interest-bearing money market instruments, unless it is felt that attractive investment opportunities consistent with the Fund's investment objectives exist immediately. Subsequently, this money will be withdrawn from such short-term money market instruments and invested in portfolio securities in as orderly a manner as is possible when attractive investment opportunities arise.

Dividend checks which are returned to the Fund marked "unable to forward" by the postal service will be deemed to be a request by the shareholder to change the dividend option and the proceeds will be reinvested in additional shares at net asset value until new instructions are received.

The Fund may impose a \$10 charge for each returned item, against any shareholder account which, in connection with the purchase of Fund shares, submits a check or a draft which is returned unpaid to the Fund.

The Fund may deduct from a shareholder's account the costs of its efforts to locate a shareholder if mail is returned as undeliverable or the Fund is otherwise unable to locate the shareholder or verify the current mailing address. These costs may include a percentage of the account when a search company charges a percentage fee in exchange for its location services.

Under agreements with certain banks in Taiwan, Republic of China, the Fund's shares are available to such banks' discretionary trust funds at net asset value. The banks may charge service fees to their customers who participate in the discretionary trusts. Pursuant to agreements, a portion of such service fees may be paid to Distributors, or an affiliate of Distributors, to help defray expenses of maintaining a service office in Taiwan, including expenses related to local literature fulfillment and communication facilities.

Class I Shares of the Fund may be offered to investors in Taiwan through securities firms known locally as Securities Investment Consulting Enterprises. In conformity with local business practices in Taiwan, Class I shares of the Fund will be offered with the following schedule of sales charges:

SIZE OF PURCHASE -----	SALES CHARGE -----
Up to U.S. \$100,000	3%
U.S. \$100,000 to U.S. \$1,000,000	2%
Over U.S. \$1,000,000	1%

PURCHASES AND REDEMPTIONS  
THROUGH SECURITIES DEALERS

Orders for the purchase of shares of the Fund received in proper form prior to the scheduled closing of the Exchange (generally 1:00 p.m. Pacific time) any business day that the Exchange is open for trading and promptly transmitted to the Fund will be based upon the public offering price determined that day. Purchase orders received by securities dealers or other financial institutions after the scheduled closing of the Exchange will be effected at the Fund's public offering price on the day it is next calculated. The use of the term "securities dealer" herein shall include other financial institutions which, pursuant to an agreement with Distributors (directly or through affiliates), handle customer orders and accounts with the Fund. Such reference, however, is for convenience only and does not indicate a legal conclusion of capacity.

Orders for the redemption of shares are effected at net asset value subject to the same conditions concerning time of receipt in proper form. It is the securities dealer's responsibility to transmit the order in a timely fashion and any loss to the customer resulting from failure to do so must be settled between the customer and the securities dealer.

DESCRIPTION OF SPECIAL NET ASSET VALUE PURCHASES -  
CLASS I SHARES

As discussed in the Prospectus under "How to Buy Shares of the Fund - Description of Special Net Asset Value Purchases," certain categories of investors may purchase Class I shares of the Fund without a front-end sales charge ("net asset value") or a contingent deferred sales charge. Distributors or one of its affiliates may make payments, out of its own resources, to securities dealers who initiate and are responsible for such purchases, as indicated below. Distributors may make these payments in the form of contingent advance payments, which may be recovered from the securities dealer, or set off against other payments due to the securities dealer, in the event of investor redemptions made within 12 months of the calendar month following purchase. Other conditions may apply. All terms and conditions may be imposed by an agreement between Distributors, or its affiliates, and the securities dealer.

The following amounts may be paid by Distributors or one of its affiliates, out of its own resources, to securities dealers who initiate and are responsible for (i) purchases of most equity and taxable-income Franklin Templeton Funds made at net asset value by certain designated retirement plans (excluding IRA and IRA rollovers): 1.00% on sales of \$1 million but less than \$2 million, plus 0.80% on sales of \$2 million but less than \$3 million, plus 0.50% on sales of \$3 million but less than \$50 million, plus 0.25% on sales of \$50 million but less than \$100 million, plus 0.15% on sales of \$100 million or more; and (ii) purchases of most taxable income Franklin Templeton Funds made at net asset value by non-designated retirement plans: 0.75% on sales of \$1 million but less than \$2 million, plus 0.60% on sales of \$2 million but less than \$3 million, plus 0.50% on sales of \$3 million but less than \$50 million, plus 0.25% on sales of \$50 million but less than \$100 million, plus 0.15% on sales of \$100 million or more.

These payment breakpoints are reset every 12 months for purposes of additional purchases. With respect to purchases made at net asset value by certain trust companies and trust departments of banks and certain retirement plans of organizations with collective retirement plan assets of \$10 million or more, Distributors, or one of its affiliates, out of its own resources, may pay up to 1% of the amount invested.

LETTER OF INTENT. An investor may qualify for a reduced sales charge on the purchase of Class I shares of the Fund, as described in the Prospectus. At any time within 90 days after the first investment which the investor wants to qualify for the reduced sales charge, a signed Shareholder Application, with the Letter of Intent section completed, may be filed with the Fund. After the Letter of Intent is filed, each additional investment will be entitled to the sales charge applicable to the level of investment indicated on the Letter. Sales charge reductions based upon purchases in more than one of the Franklin Templeton Funds will be effective only after notification to Distributors that the investment qualifies for a discount. The shareholder's holdings in the Franklin Templeton Funds, including Class II shares, acquired more than 90 days before the Letter of Intent is filed will be counted towards completion of the Letter of Intent but will not be entitled to a retroactive downward adjustment in the sales charge. Any redemptions made by the shareholder, other than by a designated benefit plan during the 13-month period will be subtracted from the amount of the purchases for purposes of determining whether the terms of the Letter of Intent have been completed. If the Letter of Intent is not completed within the 13-month period, there will be an upward adjustment of the sales charge, depending upon the amount actually purchased (less redemptions) during the period. The upward adjustment does not apply to designated benefit plans. An investor who executes a Letter of Intent prior to a change in the sales charge structure for the Fund will be entitled to complete the Letter of Intent at the lower of (i) the new sales charge structure; or (ii) the sales charge structure in effect at the time the Letter of Intent was filed with the Fund.

As mentioned in the Prospectus, five percent (5%) of the amount of the total intended purchase will be reserved in shares of the Fund registered in the investor's name, unless the investor is a designated benefit plan. If the total purchases, less redemptions, equal the amount specified under the Letter, the reserved shares will be deposited to an account in the name of the investor or delivered to the investor or the investor's order. If the total purchases, less redemptions, exceed the amount specified under the Letter of Intent and is an amount which would qualify for a further quantity discount, a retroactive price adjustment will be made by Distributors and the securities dealer through whom purchases were made pursuant to the Letter of Intent (to reflect such further quantity discount) on purchases made within 90 days before and on those made after filing the Letter. The resulting difference in offering price will be applied to the purchase of additional shares at the offering price applicable to a single purchase or the dollar amount of the total purchases. If the total purchases, less redemptions, are less than the amount specified under the Letter, the investor will remit to Distributors an amount equal to the difference in the dollar amount of sales charge actually paid and the amount of sales charge which would have applied to the aggregate purchases if the total of such purchases had been made at a single time. Upon such remittance the reserved shares held for the investor's account will be deposited to an account in the name of the investor or delivered to the investor or to the investor's order. If within 20 days after written request such difference in sales charge is not paid, the redemption of an appropriate number of reserved shares to realize such difference will be made. In the event of a total redemption of the account prior to fulfillment of the Letter of Intent, the additional sales charge due will be deducted from the proceeds of the redemption, and the balance will be forwarded to the investor.

If a Letter of Intent is executed on behalf of a benefit plan (such plans are described under "Purchases at Net Asset Value" in the Prospectus), the level and any reduction in sales charge for these designated benefit plans will be based on actual plan participation and the projected investments in the Franklin Templeton Funds under the Letter of Intent. Benefit plans are not subject to the requirement to reserve 5% of the total intended purchase, or to any penalty as a result of the early termination of a plan, nor are benefit plans entitled to receive retroactive adjustments in price for investments made before executing the Letter of Intent.

#### REDEMPTIONS IN KIND

The Fund has committed itself to pay in cash (by check) all requests for redemption by any shareholder of record, limited in amount, however, during any 90-day period to the lesser of \$250,000 or 1% of the value of the Fund's net assets at the beginning of such period. Such commitment is irrevocable without the prior approval of the Securities and Exchange Commission ("SEC"). In the case of requests for redemption in excess of such amounts, the directors reserve the right to make payments in whole or in part in securities or other assets of

the Fund from which the shareholder is redeeming, in case of an emergency, or if the payment of such a redemption in cash would be detrimental to the existing shareholders of the Fund. In such circumstances, the securities distributed would be valued at the price used to compute the Fund's net assets. Should the Fund do so, a shareholder may incur brokerage fees in converting the securities to cash. The Fund does not intend to redeem illiquid securities in kind; however, should it happen, shareholders may not be able to timely recover their investment and may also incur brokerage costs in selling such securities.

#### REDEMPTIONS BY THE FUND

Due to the relatively high cost of handling small investments, the Fund reserves the right to redeem, involuntarily, at net asset value, the shares of any shareholder whose account has a value of less than one-half of the initial minimum investment required for that shareholder, but only where the value of such account has been reduced by the shareholder's prior voluntary redemption of shares. Until further notice, it is the present policy of the Fund not to exercise this right with respect to any shareholder whose account has a value of \$50 or more. In any event, before the Fund redeems such shares and sends the proceeds to the shareholder, it will notify the shareholder that the value of the shares in the account is less than the minimum amount and allow the shareholder 30 days to make an additional investment in an amount which will increase the value of the account to at least \$100.

#### CALCULATION OF NET ASSET VALUE

As noted in the Prospectus, the Fund generally calculates net asset value as of the scheduled closing of the Exchange (generally 1:00 p.m. Pacific time) each day that the Exchange is open for trading. As of the date of this SAI, the Fund is informed that the Exchange observes the following holidays: New Year's Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day.

As stated in the Prospectus, the net asset value per share for each class of the Fund is determined in the following manner: The aggregate of all liabilities, including, without limitation, the current market value of any outstanding options written by the Fund, accrued expenses and taxes and any necessary reserves is deducted from the aggregate gross value of all assets, and the difference is divided by the number of shares of the respective class of the Fund outstanding at the time. For the purpose of determining the aggregate net assets of the Fund, cash and receivables are valued at their realizable amounts. Interest is recorded as accrued and dividends are recorded on the ex-dividend date. Portfolio securities listed on a securities exchange or on the NASDAQ National Market System for which market quotations are readily available are valued at the last quoted sale price of the day or, if there is no such reported sale, within the range of the most recent quoted bid and ask prices. Over-the-counter portfolio securities for which market quotations are readily available are valued within the range of the most recent bid and ask prices as obtained from one or more dealers that make markets in the securities. Portfolio securities which are traded both in the over-the-counter market and on a stock exchange are valued according to the broadest and most representative market as determined by the Manager. Portfolio securities underlying actively traded call options are valued at their market price as determined above. The current market value of any option held by the Fund is its last sale price on the relevant exchange prior to the time when assets are valued. Lacking any sales that day or if the last sale price is outside the bid and ask prices, the options are valued within the range of the current closing bid and ask prices if such valuation is believed to fairly reflect the contract's market value. Other securities for which market quotations are readily available are valued at the current market price, which may be obtained from a pricing service, based on a variety of factors, including recent trades, institutional size trading in similar types of securities (considering yield, risk and maturity) and/or developments related to specific issues. Securities and other assets for which market prices are not readily available are valued at fair value as determined following procedures approved by the Board of Directors. With the approval of directors, the Fund may utilize a pricing service, bank or securities dealer to perform any of the above described functions.

The Fund's portfolio securities are valued as stated in the Prospectus. Generally, trading in corporate bonds, U.S. government securities and money market instruments is substantially completed each day at various times prior to the scheduled closing of the Exchange (generally 1:00 p.m. Pacific time). The values of such securities used in computing the net asset value of the Fund's shares are determined as of such times. Occasionally, events affecting the values of such securities may occur between the time at which they are determined and the scheduled closing of the Exchange which will not be reflected in the computation of the Funds net asset value. If events materially affecting the value of such securities occur during such period, then these securities

will be valued at their fair value as determined in good faith by the Board of Directors.

Trading in securities on European and Far Eastern securities exchanges and over-the-counter markets is normally completed well before the close of business of the Exchange on each day on which the Exchange is open. Trading in European or Far Eastern securities generally, or in a particular country or countries, may not take place on every Exchange business day. Furthermore, trading takes place in various foreign markets on days which are not business days for the Exchange and on which the Fund's net asset value is not calculated. The Fund calculates net asset value per share, and therefore effects sales and redemptions of its shares, as of the scheduled close of the Exchange each day on which the Exchange is open. Such calculation does not take place contemporaneously with the determination of the prices of many of the portfolio securities used in such calculation and, if events occur which materially affect the value of these foreign securities, they will be valued at fair value as determined by the management and approved in good faith by the Board of Directors.]

#### REINVESTMENT DATE

Shares acquired through the reinvestment of dividends will be purchased at the net asset value determined on the business day following the dividend record date (sometimes known as "ex-dividend date"). The processing date for the reinvestment of dividends may vary from month to month, and does not affect the amount or value of the shares acquired.

#### REPORTS TO SHAREHOLDERS

The Fund sends annual and semiannual reports to its shareholders regarding the Fund's performance and its portfolio holdings. Shareholders who would like to receive an interim quarterly report may phone Fund Information at 1-800/DIAL BEN.

#### SPECIAL SERVICES

The Trust and Institutional Services Division of Distributors provides specialized services, including recordkeeping, for institutional investors of the Fund. The cost of these services is not borne by the Fund.

Investor Services may pay certain financial institutions which maintain omnibus accounts with the Fund on behalf of numerous beneficial owners for recordkeeping operations performed with respect to such beneficial owners. For each beneficial owner in the omnibus account, the Fund may reimburse Investor Services an amount not to exceed the per account fee which the Fund normally pays Investor Services. Such financial institutions may also charge a fee for their services directly to their clients.

#### ADDITIONAL INFORMATION REGARDING TAXATION

As stated in the Prospectus, the Fund has elected to be treated as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"). The directors reserve the right not to maintain the qualification of the Fund as a regulated investment company if they determine such course of action to be beneficial to the shareholders. In such case, the Fund will be subject to federal and possibly state corporate taxes on its taxable income and gains, and distributions to shareholders will be taxable to the extent of the Fund's available earnings and profits.

Subject to the limitations discussed below, a portion of the income distributions paid by the Fund may be treated by corporate shareholders as qualifying dividends for purposes of the dividends-received deduction under federal income tax law. If the aggregate qualifying dividends received by the Fund (generally, dividends from U.S. domestic corporations, the stock in which is not debt-financed by the Fund and is held for at least a minimum holding period) is less than 100% of its distributable income, then the amount of the Fund's dividends paid to corporate shareholders which may be designated as eligible for such deduction will not exceed the aggregate qualifying dividends received by the Fund for the taxable year. The amount or percentage of income qualifying for the corporate dividends-received deduction will be provided by the Fund annually in a notice to shareholders mailed shortly after the end of the Fund's fiscal year.

Corporate shareholders should note that dividends paid by the Fund from sources other than the qualifying dividends it receives will not qualify for the dividends-received deduction. For example, any interest income and short-term

capital gain (in excess of any net long-term capital loss or capital loss carryover) included in investment company taxable income and distributed by the Fund as a dividend will not qualify for the dividends-received deduction.

Corporate shareholders should also note that availability of the corporate dividends-received deduction is subject to certain restrictions. For example, the deduction is eliminated unless the Fund shares have been held (or deemed held) for at least 46 days in a substantially unhedged manner. The dividends-received deduction may also be reduced to the extent interest paid or accrued by a corporate shareholder is directly attributable to its investment in Fund shares. The entire dividend, including the portion which is treated as a deduction, is includable in the tax base on which the federal alternative minimum tax is computed and may also result in a reduction in the shareholder's tax basis in its Fund shares, under certain circumstances, if the shares have been held for less than two years. Corporate shareholders whose investment in the Fund is "debt financed" for these tax purposes should consult with their tax advisors concerning the availability of the dividends-received deduction.

The Code requires all funds to distribute at least 98% of their taxable ordinary income earned during the calendar year and at least 98% of their capital gain net income earned during the 12-month period ending October 31 of each year (in addition to amounts from the prior year that were neither distributed nor taxed to the Fund) to shareholders by December 31 of each year in order to avoid the imposition of a federal excise tax. Under these rules, certain distributions which are declared in October, November or December but which, for operational reasons, may not be paid to the shareholder until the following January, will be treated for tax purposes as if paid by the Fund and received by the shareholder on December 31 of the calendar year in which they are declared. The Fund intends, as a matter of policy, to declare such dividends, if any, in December and to pay these dividends in December or January to avoid the imposition of this tax, but does not guarantee that its distributions will be sufficient to avoid any or all federal excise taxes.

Redemptions and exchanges of Fund shares are taxable transactions for federal and state income tax purposes. For most shareholders, gain or loss will be recognized in an amount equal to the difference between the shareholder's basis in the shares and the amount received, subject to the rules described below. If such shares are a capital asset in the hands of the shareholder, gain or loss will be capital gain or loss and will be long-term for federal income tax purposes if the shares have been held for more than one year.

All or a portion of the sales charge incurred in purchasing shares of the Fund will not be included in the federal tax basis of such shares sold or exchanged within ninety (90) days of their purchase (for purposes of determining gain or loss with respect to such shares) if the sales proceeds are reinvested in the Fund or in another fund in the Franklin Templeton Group and a sales charge which would otherwise apply to the reinvestment is reduced or eliminated. Any portion of such sales charge excluded from the tax basis of the shares sold will be added to the tax basis of the shares acquired in the reinvestment. Shareholders should consult with their tax advisor concerning the tax rules applicable to the redemption or exchange of Fund shares.

All or a portion of a loss realized upon a redemption of shares will be disallowed to the extent other shares of the Fund are purchased (through reinvestment of dividends or otherwise) within 30 days before or after such redemption. Any loss disallowed under these rules will be added to the tax basis of the shares purchased.

Foreign exchange gains and losses realized by the Fund in connection with certain transactions involving foreign currencies, foreign currency payables or receivables, foreign currency-denominated debt securities, foreign currency forward contracts, and options or futures contracts on foreign currencies are subject to special tax rules which may cause such gains and losses to be treated as ordinary income and losses rather than capital gains and losses and may affect the amount and timing of the Fund's income or loss from such transactions and in turn its distributions to shareholders.

In order for the Fund to qualify as a regulated investment company, at least 90% of the Fund's annual gross income must consist of dividends, interest and certain other types of qualifying income, and no more than 30% of its annual gross income may be derived from the sale or other disposition of securities or certain other instruments held for less than three months. Foreign exchange gains derived by the Fund with respect to the Fund's business of investing in

stock or securities, or options or forward contracts with respect to such stock or securities, constitute qualifying income for purposes of this 90% limitation.

Currency speculation or the use of currency forward contracts or other currency instruments for non-hedging purposes may generate gains deemed to be not directly related to the Fund's principal business of investing in stock or securities and related options or forward contracts. Under current law, non-directly-related gains arising from foreign currency positions or instruments held for less than three months are treated as derived from the disposition of securities held less than three months in determining the Fund's compliance with the 30% limitation. The Fund will limit its activities involving foreign exchange gains to the extent necessary to comply with these requirements.

The federal income tax treatment of interest rate swaps is unclear in certain respects and may in some circumstances result in the realization of income not qualifying under the 90% test described above or be deemed to be derived from the disposition of securities held less than three months in determining the Fund's compliance with the 30% limitation. The Fund will limit its interest rate swaps to the extent necessary to comply with these requirements.

If the Fund owns shares in a foreign corporation that constitutes a "passive foreign investment company" (a "PFIC") for federal income tax purposes and the Fund does not elect to treat the foreign corporation as a "qualified electing fund" within the meaning of the Code, the Fund may be subject to U.S. federal income taxation on a portion of any "excess distribution" it receives from the PFIC or any gain it derives from the disposition of such shares, even if such income is distributed as a taxable dividend by the Fund to its U.S. shareholders. The Fund may also be subject to additional interest charges in respect of deferred taxes arising from such distributions or gains. Any federal income tax paid by the Fund as a result of its ownership of shares in a PFIC will not give rise to a deduction or credit to the Fund or to any shareholder. A PFIC means any foreign corporation if, for the taxable year involved, either (i) it derives at least 75 percent of its gross income from "passive income" (including, but not limited to, interest, dividends, royalties, rents and annuities), or (ii) on average, at least 50 percent of the value (or adjusted basis, if elected) of the assets held by the corporation produce "passive income."

On April 1, 1992, proposed U.S. Treasury regulations were issued regarding a special mark-to-market election for regulated investment companies. Under these regulations, the annual mark-to-market gain, if any, on shares of stock held by the Fund in a PFIC would be treated as an excess distribution received by the Fund in the current year, eliminating the deferral and the related interest charge. Such excess distribution amounts are treated as ordinary income, which the Fund will be required to distribute to shareholders even though the Fund has not received any cash to satisfy this distribution requirement. These regulations would be effective for taxable years ending after promulgation of the proposed regulations as final regulations.

#### THE FUND'S UNDERWRITER

Pursuant to an underwriting agreement in effect until April 30, 1996, Distributors acts as principal underwriter in a continuous public offering for both classes of the Fund's shares.

Distributors pays the expenses of distribution of Fund shares, including advertising expenses and the costs of printing sales material and prospectuses used to offer shares to the public. The Fund pays the expenses of preparing and printing amendments to its registration statements and prospectuses (other than those necessitated by the activities of Distributors) and of sending prospectuses to existing shareholders.

The underwriting agreement will continue in effect for successive annual periods provided that its continuance is specifically approved at least annually by a vote of the Fund's Board of Directors, or by a vote of the holders of a majority of the Fund's outstanding voting securities, and in either event by a majority vote of the Fund's directors who are not parties to the underwriting agreement or interested persons of any such party (other than as directors of the Fund), cast in person at a meeting called for that purpose. The underwriting agreement terminates automatically in the event of its assignment and may be terminated by either party on 90 days' written notice.

Until April 30, 1994, income dividends for the Class I shares were reinvested at the offering price (which includes the sales charge) and Distributors allowed 50% of the entire commission to the securities dealer of record, if any, on an account. Starting with any income dividends paid after April 30, 1994, such reinvestment is at net asset value.

In connection with the offering of the Fund's shares, aggregate underwriting commissions for the fiscal years ended May 31, 1993, 1994 and 1995 were \$7,108,307, \$7,958,366 and 5,036,874, respectively. After payments to dealers, Distributors retained \$1,021,018, \$1,044,184 and \$306,163 during the fiscal years ended May 31, 1993, 1994 and 1995, respectively. Distributors may be entitled to reimbursement or compensation under the Rule 12b-1 distribution plan relating to both classes as discussed in "Plans of Distribution" below. Except as noted, Distributors received no other compensation from the Fund with respect to the Class I shares for acting as underwriter.

#### PLANS OF DISTRIBUTION

Each class of the Fund has adopted a Distribution Plan ("Class I Plan" and "Class II Plan," respectively, or "Plans") pursuant to Rule 12b-1 under the 1940 Act.

#### THE CLASS I PLAN

Pursuant to the Class I Plan, the Fund may pay up to a maximum of 0.15% per annum (0.15 of 1%) of its average daily net assets for expenses incurred in the promotion and distribution of its shares. In implementing the Class I Plan, the Board of Directors determined that the annual fees payable thereunder will be equal to the sum of: (i) the amount obtained by multiplying 0.15% by the average daily net assets represented by Class I shares of the Fund that were acquired by investors on or after May 1, 1994 ("New Assets"), and (ii) the amount obtained by multiplying 0.05% by the average daily net assets represented by Class I shares of the Fund that were acquired before May 1, 1994 ("Old Assets"). Such fees will be paid to the current securities dealer of record on the shareholder's account. In addition, until such time as the maximum payment of 0.15% is reached on a yearly basis, up to an additional 0.02% will be paid to Distributors under the Plan. The payments to be made to Distributors will be used by Distributors to defray other marketing expenses that have been incurred in accordance with the Plan, such as advertising.

The fee relating to the Class I Plan is an expense of Class I as a whole, so that all Class I shareholders, regardless of when they purchased their shares, will bear Rule 12b-1 expenses at the same rate. That rate initially will be at least 0.07% (0.05% plus 0.02%) of Class I's average daily net assets and, as Class I shares are sold on or after May 1, 1994 (the "Effective Date"), will increase over time. Thus, as the proportion of Class I shares purchased on or after May 1, 1994 increases in relation to outstanding Class I shares, the expenses attributable to payments under the Plan will also increase (but will not exceed 0.15% of average daily net assets). While this is the currently anticipated calculation for fees payable under the Class I Plan, the Class I Plan permits the Fund's directors to allow the Fund to pay a full 0.15% on all assets at any time. The approval of the Fund's Board of Directors would be required to change the calculation of the payments to be made under the Class I Plan.

Pursuant to the Class I Plan, Distributors or others will be entitled to be reimbursed each quarter (up to the maximum as stated above) for actual expenses incurred in the distribution and promotion of Class I shares, including, but not limited to, the printing of prospectuses and reports used for sales purposes, expenses of preparing and distributing sales literature and related expenses, advertisements, and other distribution-related expenses, including a prorated portion of Distributors' overhead expenses attributable to the distribution of Class I shares, as well as any distribution or service fees paid to securities dealers or their firms or others who have executed a servicing agreement with the Fund, Distributors or its affiliates.

The Class I Plan does not permit unreimbursed expenses incurred in a particular year to be carried over to or reimbursed in subsequent years.

#### THE CLASS II PLAN

Under the Class II Plan, the Fund pays to Distributors annual distribution fees, payable quarterly, of 0.50% of Class II's average daily net assets. Such fees may be used in order to compensate Distributors or others for providing distribution and related services and bearing certain expenses of the Class. All expenses of distribution and marketing over that amount will be borne by Distributors, or others who have incurred them, without reimbursement by the Fund. In addition to this amount, under the Class II Plan, the Fund shall pay 0.15% per annum, payable quarterly, of the Class' average daily net assets as a servicing fee. This fee will be used to pay dealers or others for, among other things, assisting in establishing and maintaining customer accounts and records; assisting with purchase and redemption requests; receiving and answering



correspondence; monitoring dividend payments from the Fund on behalf of the customers, and similar activities related to furnishing personal services and maintaining shareholder accounts. Distributors may pay the securities dealer, from its own resources, a commission of up to 1% of the amount invested at the time of investment.

#### IN GENERAL

In addition to the payments to which Distributors or others are entitled under the Plans, the Plans also provide that to the extent the Fund, the Manager or Distributors or other parties on behalf of the Fund, the Manager or Distributors, make payments that are deemed to be payments for the financing of any activity primarily intended to result in the sale of each class of shares of the Fund within the context of Rule 12b-1 under the 1940 Act, then such payments shall be deemed to have been made pursuant to the Plans.

In no event shall the aggregate asset-based sales charges which include payments made under a Plan, plus any other payments deemed to be made pursuant to a Plan, exceed the amount permitted to be paid pursuant to the Rules of Fair Practice of the National Association of Securities Dealers, Inc., Article III, Section 26(d)4. The terms and provisions of the Plans relating to required reports, term, and approval are consistent with Rule 12b-1. The Plans do not permit unreimbursed expenses incurred in a particular year to be carried over or reimbursed in subsequent years.

To the extent fees are for distribution or marketing functions, as distinguished from administrative servicing or agency transactions, certain banks may not be entitled to participate in the Plans to the extent that applicable federal law prohibits certain banks from engaging in the distribution of mutual fund shares. Such banking institutions, however, are permitted to receive fees under the Plans for administrative servicing or for agency transactions. If a bank were prohibited from providing such services, its customers who are shareholders would be permitted to remain shareholders of the Fund, and alternate means for continuing the servicing of such shareholders would be sought. In such an event, changes in the services provided might occur and such shareholders might no longer be able to avail themselves of any automatic investment or other services then being provided by the bank. It is not expected that shareholders would suffer any adverse financial consequences as a result of any of these changes. Securities laws of states in which the Fund's shares are offered for sale may differ from the interpretations of federal law expressed herein, and banks and financial institutions selling shares of the Fund may be required to register as dealers pursuant to state law.

The Class I Plan was approved by shareholders on April 22, 1994, and the Class II Plan was approved by the sole initial shareholder prior to May 15, 1995, the date as of which the Class II Plan became effective. Both the Class I and Class II Plans were approved by the directors of the Fund, including those directors who are not interested persons, as defined in the 1940 Act. The Class I Plan and the Class II Plan are effective through April 30, 1996, and are renewable annually by a vote of the Fund's Board of Directors, including a majority vote of the directors who are non-interested persons of the Fund and who have no direct or indirect financial interest in the operation of the Plans, cast in person at a meeting called for that purpose. It is also required that the selection and nomination of such directors be done by the non-interested directors. The Plans and any related agreement may be terminated at any time, without any penalty, by vote of a majority of the non-interested directors on not more than 60 days' written notice, by Distributors on not more than 60 days' written notice, by any act that constitutes an assignment of the management agreement with the Manager or by vote of a majority of the Fund's outstanding shares. Distributors or any dealer or other firm may also terminate their respective distribution or service agreement at any time upon written notice.

With respect to a Plan, the Plan and any related agreements may not be amended to increase materially the amount to be spent for distribution expenses without approval by a majority of such class of the Fund's outstanding shares, and all material amendments to the Plan or any related agreements shall be approved by a vote of the non-interested directors, cast in person at a meeting called for the purpose of voting on any such amendment.

Distributors is required to report in writing to the Board of Directors at least quarterly on the amounts and purpose of any payment made under the Plans and any related agreements, as well as to furnish the Board of Directors with such other information as may reasonably be requested in order to enable the Board of Directors to make an informed determination of whether the Plans should be continued.

For the fiscal year ended May 31, 1995, the total amounts paid by the Fund pursuant to the Plans for Class I and Class II shares were \$1,293,780 and \$97, respectively, which were used for the following purposes.

	DOLLAR AMOUNT
Advertising	\$165,676
Printing and mailing of prospectuses to other than current shareholders.	\$119,509
Payments to underwriters	\$ 46,633
Payments to brokers or dealers	\$962,059

#### GENERAL INFORMATION

#### PERFORMANCE

As noted in the Prospectus, each class may from time to time quote various performance figures to illustrate its past performance. Each Class also may occasionally cite statistics to reflect its volatility or risk.

Performance quotations by investment companies are subject to rules adopted by the SEC. These rules require the use of standardized performance quotations or, alternatively, that every non-standardized performance quotation furnished by a class be accompanied by certain standardized performance information computed as required by the SEC. Current yield and average annual compounded total return quotations used by a class are based on the standardized methods of computing performance mandated by the SEC. An explanation of those and other methods used by the classes to compute or express performance follows.

#### TOTAL RETURN

The average annual total return is determined by finding the average annual compounded rates of return over one-, five- and ten-year periods that would equate an initial hypothetical \$1,000 investment to its ending redeemable value. The calculation assumes the maximum front-end sales charge is deducted from the initial \$1,000 purchase order, and income dividends and capital gains are reinvested at net asset value. The quotation assumes the account was completely redeemed at the end of each one-, five- and ten-year period and the deduction of all applicable charges and fees. If a change is made in the sales charge structure, historical performance information will be restated to reflect the maximum front-end sales charge in effect currently.

The average annual compounded rates of return for the Class I shares of the Fund for the one-, five- and ten-year periods ended on the date of the financial statements included herein were 8.52%, 13.31% and 9.43%, respectively.

These figures were calculated according to the SEC formula:

$$P(1+T)^n = ERV$$

where:

P = a hypothetical initial payment of \$1,000

T = average annual total return

n = number of years

ERV = ending redeemable value of a hypothetical \$1,000 payment made at the beginning of the one-, five- or ten-year periods at the end of the one-, five- or ten-year periods (or fractional portion thereof)

As discussed in the Prospectus, each class may quote total rates of return in addition to its average annual total return. Such quotations are computed in the same manner as a class' average annual compounded rate, except that such quotations will be based on such class' actual return for a specified period rather than on its average return over one-, five- and ten-year periods. The total rates of return for the Class I shares of the Fund for the one-, five- and ten-year periods ended on the date of the financial statements included herein were 8.52%, 86.75% and 146.26%, respectively.

In considering the quotations of total return by the Class I shares, investors should remember that the 4.25% maximum initial sales charge reflected in each quotation is a one time fee (charged on all direct purchases) which will have its greatest impact during the early stages of an investor's investment in the Fund. The actual performance of an investment will be affected less by this charge the longer an investor retains the investment in the Fund.

## YIELD

Current yield reflects the income per share earned by the Fund's portfolio investments.

Current yield for each class is determined by dividing the net investment income per share earned by a class during a 30-day base period by the maximum offering price per share on the last day of the period and annualizing the result. Expenses accrued for the period include any fees charged to all shareholders of a class during the base period. The yield for the Class I shares for the 30-day period ended on the date of the financial statements included herein was 9.26%.

This figure was obtained using the following SEC formula:

$$\text{Yield} = 2 \left[ \frac{a - b + 1}{cd} \right] - 1$$

where:

a = dividends and interest earned during the period

b = expenses accrued for the period (net of reimbursements)

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

## CURRENT DISTRIBUTION RATE

Yield, which is calculated according to a formula prescribed by the SEC, is not indicative of the amounts which were or will be paid to a class' shareholders. Amounts paid to shareholders are reflected in the quoted "current distribution rate." The current distribution rate is computed by dividing the total amount of dividends per share paid by a class during the past 12 months by a current maximum offering price. Under certain circumstances, such as when there has been a change in the amount of dividend payout, or a fundamental change in investment policies, it might be appropriate to annualize the dividends paid over the period such policies were in effect, rather than using the dividends during the past 12 months. The current distribution rate differs from the current yield computation because it may include distributions to shareholders from sources other than dividends and interest, such as premium income from option writing and short-term capital gains, and is calculated over a different period of time.

## VOLATILITY

Occasionally statistics may be used to specify Fund volatility or risk. Measures of volatility or risk are generally used to compare Fund net asset value or performance relative to a market index. One measure of volatility is beta. Beta is the volatility of a fund relative to the total market as represented by the Standard & Poor's 500 Stock Index. A beta of more than 1.00 indicates volatility greater than the market, and a beta of less than 1.00 indicates volatility less than the market. Another measure of volatility or risk is standard deviation. Standard deviation is used to measure variability of net asset value or total return around an average over a specified period of time. The premise is that greater volatility connotes greater risk undertaken in achieving performance.

## OTHER PERFORMANCE QUOTATIONS

With respect to those categories of investors who are permitted to purchase Class I shares at net asset value, sales literature pertaining to such class may quote a current distribution rate, yield, total return, average annual total return and other measures of performance as described elsewhere in this SAI with the substitution of net asset value for the public offering price.

Sales literature referring to the use of the Fund as a potential investment for Individual Retirement Accounts (IRAs), Business Retirement Plans, and other tax-advantaged retirement plans may quote a total return based upon compounding of dividends on which it is presumed no federal income tax applies.

Regardless of the method used, past performance is not necessarily indicative of future results, but is an indication of the return to shareholders only for the limited historical period used.

The Fund may include in its advertising or sales material information relating to investment objectives and performance results of funds and classes belonging

to the Templeton Group of Funds. Resources is the parent company of the advisers and underwriter of both the Franklin Group of Funds and Templeton Group of Funds.

#### COMPARISONS

To help investors better evaluate how an investment in the Fund might satisfy their investment objective, advertisements and other materials regarding the Fund may discuss various measures of Fund and class performance as reported by various financial publications. Materials may also compare performance (as calculated above) to performance as reported by other investments, indices, and averages. Such comparisons may include, but are not limited to, the following examples:

a) Dow Jones Composite Average or its component averages - an unmanaged index composed of 30 blue-chip industrial corporation stocks (Dow Jones Industrial Average), 15 utilities company stocks (Dow Jones Utilities Average), and 20 transportation company stocks. Comparisons of performance assume reinvestment of dividends.

b) Standard & Poor's 500 Stock Index or its component indices - an unmanaged index composed of 400 industrial stocks, 40 financial stocks, 40 utilities stocks, and 20 transportation stocks. Comparisons of performance assume reinvestment of dividends.

c) The New York Stock Exchange composite or component indices - unmanaged indices of all industrial, utilities, transportation, and finance stocks listed on the New York Stock Exchange.

d) Wilshire 5000 Equity Index - represents the return on the market value of all common equity securities for which daily pricing is available. Comparisons of performance assume reinvestment of dividends.

e) Lipper - Mutual Fund Performance Analysis, Lipper - Fixed Income Fund Performance Analysis and Lipper - Mutual Fund Yield Survey - measure total return and average current yield for the mutual fund industry and rank individual mutual fund performance over specified time periods, assuming reinvestment of all distributions, exclusive of any applicable sales charges.

f) CDA Mutual Fund Report, published by CDA Investment Technologies, Inc. - analyzes price, current yield, risk, total return, and average rate of return (average annual compounded growth rate) over specified time periods for the mutual fund industry.

g) Mutual Fund Source Book, published by Morningstar, Inc. - analyzes price, yield, risk, and total return for equity funds.

h) Financial publications: The Wall Street Journal and Business Week, Changing Times, Financial World, Forbes, Fortune, and Money magazines - provide performance statistics over specified time periods.

i) Consumer Price Index (or Cost of Living Index), published by the U.S. Bureau of Labor Statistics - a statistical measure of change, over time, in the price of goods and services in major expenditure groups.

j) Stocks, Bonds, Bills, and Inflation, published by Ibbotson Associates - historical measure of yield, price, and total return for common and small company stock, long-term government bonds, Treasury bills, and inflation.

k) Savings and Loan Historical Interest Rates - as published in the U.S. Savings & Loan League Fact Book.

l) Historical data supplied by the research departments of First Boston Corporation, the J. P. Morgan companies, Salomon Brothers, Merrill, Lynch, Pierce, Fenner & Smith, Lehman Brothers and Bloomberg L.P.

m) Standard & Poor's 100 Stock Index - an unmanaged index based on the prices of 100 blue-chip stocks, including 92 industrials, one utility, two transportation companies, and five financial institutions. The S&P 100 Stock Index is a smaller more flexible index for options trading.

n) Salomon Brothers Combined Corporate Index - an unmanaged composite of the Salomon High Yield Market Index and the corporate component of the Salomon Broad Investment Grade Index. The index includes corporate issues rated AAA to CCC. Comparisons of performance assume reinvestment of dividends.

o) CS First Boston High Yield Index - an unmanaged index constructed to mirror the public high yield debt market. The index represents a total of 250 sectors and contains issues rated BBB and below. Comparisons of performance assume reinvestment of dividends.

From time to time, advertisements or information for the Fund may include a discussion of certain attributes or benefits to be derived by an investment in the Fund. Such advertisements or information may include symbols, headlines, or other material which highlight or summarize the information discussed in more detail in the communication.

Advertisements or information may also compare the Fund's or class' performance to the return on certificates of deposit or other investments. Investors should be aware, however, that an investment in the Fund involves the risk of fluctuation of principal value, a risk generally not present in an investment in a certificate of deposit issued by a bank. For example, as the general level of interest rates rise, the value of the Fund's fixed-income investments, as well as the value of its shares which are based upon the value of such portfolio investments, can be expected to decrease. Conversely, when interest rates decrease, the value of the Fund's shares can be expected to increase. Certificates of deposit are frequently insured by an agency of the U.S. government. An investment in the Fund is not insured by any federal, state or private entity.

In assessing such comparisons of performance an investor should keep in mind that the composition of the investments in the reported indices and averages is not identical to the Fund's portfolio, that the indices and averages are generally unmanaged, and that the items included in the calculations of such averages may not be identical to the formula used by the Fund to calculate its figures. In addition, there can be no assurance that the Fund will continue this performance as compared to such other averages.

#### OTHER FEATURES AND BENEFITS

The Fund may help investors achieve various investment goals such as accumulating money for retirement, saving for a down payment on a home, college cost and/or other long-term goals. The Franklin College Costs Planner may assist an investor in determining how much money must be invested on a monthly basis in order to have a projected amount available in the future to fund a child's college education. (Projected college cost estimates are based upon current costs published by the College Board.) The Franklin Retirement Planning Guide leads an investor through the steps to start a retirement savings program. Of course, an investment in the Fund cannot guarantee that such goals will be met.

#### MISCELLANEOUS INFORMATION

The Fund is a member of the Franklin Templeton Group, one of the largest mutual fund organizations in the United States and may be considered in a program for diversification of assets.

Founded in 1947, Franklin, one of the oldest mutual fund organizations, has managed mutual funds for over 47 years and now services more than 2.4 million shareholder accounts. In 1992, Franklin, a leader in managing fixed-income mutual funds and an innovator in creating domestic equity funds, joined forces with Templeton Worldwide, Inc., a pioneer in international investing. Together, the Franklin Templeton Group has over \$125 billion in assets under management for more than 3.8 million shareholder accounts and offers 115 U.S.-based mutual funds. The Fund may identify itself by its NASDAQ or CUSIP number.

The Dalbar Surveys, Inc. broker/dealer survey has ranked Franklin number one in service quality for five of the past seven years.

Access persons of the Franklin Templeton Group, as defined in SEC Rule 17(j) under the 1940 Act, who are employees of Resources or its subsidiaries, are permitted to engage in personal securities transactions subject to the following general restrictions and procedures: (1) The trade must receive advance clearance from a Compliance Officer and must be completed within 24 hours after this clearance; (2) Copies of all brokerage confirmations must be sent to the Compliance Officer and within 10 days after the end of each calendar quarter, a report of all securities transactions must be provided to the Compliance Officer; (3) In addition to items (1) and (2), access persons involved in preparing and making investment decisions must file annual reports of their securities holdings each January and also inform the Compliance Officer (or other designated personnel) if they own a security that is being considered for a fund or other client transaction or if they are recommending a security in which they have an ownership interest for purchase or sale by a fund or other client.

#### OWNERSHIP AND AUTHORITY DISPUTES

In the event of disputes involving multiple claims of ownership or authority to control a shareholder's account, the Fund has the right (but has no obligation)

to: (a) freeze the account and require the written agreement of all persons deemed by the Fund to have a potential property interest in the account, prior to executing instructions regarding the account; (b) interplead disputed funds or accounts with a court of competent jurisdiction; or (c) surrender ownership of all or a portion of the account to the Internal Revenue Service in response to a Notice of Levy.

#### FINANCIAL STATEMENTS

The financial statement contained in the Annual Report to Shareholders of the Fund dated May 31, 1995, are incorporated herein by reference.

AGE High Income Fund, Inc.

File Nos. 2-30203  
811-1608

FORM N-1A

PART C  
Other Information

#### Item 24 Financial Statements and Exhibits

##### a) Financial Statements filed in Part B

- (1) Financial Statements incorporated herein by reference to the Registrant's Annual Report to Shareholders dated May 31, 1995 as filed with the SEC electronically on Form Type N-30D on July 27, 1995
  - (i) Report of Independent Auditors - June 30, 1995
  - (ii) Statement of Investments in Securities and Net Assets - May 31, 1995.
  - (iii) Statement of Assets and Liabilities - May 31, 1995.
  - (iv) Statement of Operations - for the year ended May 31, 1995.
  - (v) Statements of Changes in Net Assets - for the years ended May 31, 1995 and 1994.
  - (vi) Notes to Financial Statements

##### b) Exhibits:

The following exhibits are attached herewith, except Exhibits 6(ii), 8(ii), 8(iii), 14(i), 14(ii), 14(iii), 14(iv), 14(v) and 16(i), which are incorporated by reference as noted.

- (1) copies of the charter as now in effect;
  - (i) Restated Articles of Incorporation dated February 28, 1969
  - (ii) Articles of Amendment of Articles of Incorporation dated November 28, 1980
  - (iii) Articles of Amendment of Articles of Incorporation dated June 27, 1986
- (2) copies of the existing By-Laws or instruments corresponding thereto;
  - (i) By-Laws as amended on March 1, 1969, and July 30, 1970
  - (ii) Amendment to By-Laws dated November 15, 1973
  - (iii) Amendment to By-Laws dated September 26, 1989
  - (iv) Amendment to By-Laws dated October 23, 1992
- (3) copies of any voting trust agreement with respect to more than five

percent of any class of equity securities of the Registrant;

Not applicable

- (4) specimens or copies of each security issued by the Registrant, including copies of all constituent instruments, defining the rights of the holders of such securities, and copies of each security being registered;

Not applicable

- (5) copies of all investment advisory contracts relating to the management of the assets of the Registrant;

(i) Management Agreement between Registrant and Franklin Advisers, Inc. dated October 1, 1986

- (6) copies of each underwriting or distribution contract between the Registrant and a principal underwriter, and specimens or copies of all agreements between principal underwriters and dealers;

(i) Amended and Restated Distribution Agreement between Registrant and Franklin/Templeton Distributors, Inc. dated May 16, 1995

(ii) Form of Dealer Agreements between Franklin/Templeton Distributors, Inc. and dealers Registrant: Franklin Federal Tax-Free Income Fund Filing: Post-Effective Amendment No. 17 to Registration Statement on Form N-1A File No. 2-75925 Filing Date: March 27, 1995

- (7) copies of all bonus, profit sharing, pension or other similar contracts or arrangements wholly or partly for the benefit of directors or officers of the Registrant in their capacity as such; any such plan that is not set forth in a formal document, furnish a reasonably detailed description thereof;

Not applicable

- (8) copies of all custodian agreements and depository contracts under Section 17(f) of the 1940 Act, with respect to securities and similar investments of the Registrant, including the schedule of remuneration;

(i) Custodian Agreement between Registrant and Bank of America NT & SA dated September 17, 1991.

(ii) Copy of Custodian Agreements between Registrant and Citibank Delaware:

1. Citicash Management ACH Customer Agreement
2. Citibank Cash Management Services Master Agreement
3. Short Form Bank Agreement - Deposits and Disbursements of Funds

Registrant: Franklin Premier Return Fund  
Filing: Post-Effective Amendment No. 54 to  
Registration on Form N-1A  
File No. 2-12647  
Filing Date: February 27, 1995

(iii) Amendment to Custodian Agreement between Registrant and Bank of America

NT & SA dated December 1, 1994  
Registrant: Franklin Premier Return Fund  
Registration on Form N-1A  
File No. 2-12647  
Filing Date: February 27, 1995

- (9) copies of all other material contracts not made in the ordinary course of business which are to be performed in whole or in part at or after the date of filing the Registration Statement;

Not applicable

- (10) an opinion and consent of counsel as to the legality of the securities being registered, indicating whether they will when sold be legally issued, fully paid and nonassessable;

(i) Opinion and Consent of Counsel dated July 25, 1995

- (11) copies of any other opinions, appraisals or rulings and consents to the use thereof relied on in the preparation of this registration statement and required by Section 7 of the 1933 Act;

- (i) Consent of Independent Auditors dated July 26, 1995
- (12) all financial statements omitted from Item 23;
- Not applicable
- (13) copies of any agreements or understandings made in consideration for providing the initial capital between or among the Registrant, the underwriter, adviser, promoter or initial stockholders and written assurances from promoters or initial stockholders that their purchases were made for investment purposes without any present intention of redeeming or reselling;
- Not applicable
- (14) copies of the model plan used in the establishment of any retirement plan in conjunction with which Registrant offers its securities, any instructions thereto and any other documents making up the model plan. Such form(s) should disclose the costs and fees charged in connection therewith;
- (i) Franklin IRA Form  
Filing: Post Effective Amendment No. 26 to  
Registration Statement of Registrant on Form N-1A  
File No. 2-30203  
Filing Date: August 1, 1989
- (ii) Franklin 403(b) Retirement Plan  
Filing: Post Effective Amendment No. 26 to  
Registration Statement of Registrant on Form N-1A  
File No. 2-30203  
Filing Date: August 1, 1989
- (iii) Franklin Trust Company Insured CD IRA  
Filing: Post Effective Amendment No. 26 to  
Registration Statement of Registrant on Form N-1A  
File No. 2-30203  
Filing Date: August 1, 1989
- (iv) Franklin Business Retirement Plans  
Filing: Post Effective Amendment No. 26 to  
Registration Statement of Registrant on Form N-1A  
File No. 2-30203  
Filing Date: August 1, 1989
- (v) Franklin SEP-IRA (5305-SEP and 5305A-SEP)  
Filing: Post Effective Amendment No. 26 to  
Registration Statement of Registrant on Form N-1A  
File No. 2-30203  
Filing Date: August 1, 1989
- (15) copies of any plan entered into by Registrant pursuant to Rule 12b-1 under the 1940 Act, which describes all material aspects of the financing of distribution of Registrant's shares, and any agreements with any person relating to implementation of such plan.
- (i) Distribution Plan pursuant to Rule 12b-1 effective May 1, 1994
- (ii) Class II Distribution Plan pursuant to Rule 12b-1 dated March 30, 1995
- (16) schedule for computation of each performance quotation provided in the registration statement in response to Item 22 (which need not be audited)
- (i) Schedule for computation of performance quotation  
Registrant: Franklin Tax-Advantaged U.S.  
Government Securities Fund  
Filing: Post Effective Amendment No. 8 to  
Registration Statement of Registrant on Form N-1A  
File No. 33-11963  
Filing Date: March 1, 1995
- (17) Power of Attorney
- (i) Power of Attorney dated January 17, 1995
- (ii) Certificate of Secretary dated January 17, 1995
- (18) Copies of any plan entered into by registrant pursuant to Rule 18f-3



under the 1940 Act

(i) Form of Multiple Class Plan

(27) Financial Data Schedule Computation

(i) Financial Data Schedule for Class I shares

(ii) Financial Data Schedule for Class II Shares

Item 25 Persons Controlled by or under Common Control with Registrant

None

Item 26 Number of Holders of Securities

As of May 31, 1995, the number of record holders of the only class of securities of the Registrant was as follows:

Title of Class	Number of Record Holders	
	Class I	Class II
Capital Stock	105,435	35

Item 27 Indemnification

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

Item 28 Business and Other Connections of Investment Adviser

The officers and directors of the Registrant's investment advisor also serve as officers and/or directors for (1) the advisor's corporate parent, Franklin Resources, Inc., and/or (2) other investment companies in the Franklin Group of Funds. In addition, Mr. Charles B. Johnson is a director of General Host Corporation. For additional information please see Part B.

Item 29 Principal Underwriters

a) Franklin/Templeton Distributors, Inc., ("Distributors") also acts as principal underwriter of shares of Franklin Gold Fund, Franklin Premier Return Fund, Franklin Equity Fund, Franklin Custodian Funds, Inc., Franklin Money Fund, Franklin Templeton Money Fund, Franklin California Tax-Free Income Fund, Inc., Franklin Federal Money Fund, Franklin Tax-Exempt Money Fund, Franklin New York Tax-Free Income Fund, Inc., Franklin Federal Tax-Free Income Fund, Franklin Tax-Free Trust, Franklin California Tax-Free Trust, Franklin New York Tax-Free Trust, Franklin Investors Securities Trust, Institutional Fiduciary Trust, Franklin Balance Sheet Investment Fund, Franklin Tax-Advantaged International Bond Fund, Franklin Tax-Advantaged U.S. Government Securities Fund, Franklin Tax-Advantaged High Yield Securities Fund, Franklin Municipal Securities Trust, Franklin Managed Trust, Franklin Strategic Series, Franklin International Trust, Franklin Real Estate Securities Trust, Franklin/Templeton Global Trust, Franklin Templeton Japan Fund, Templeton American Trust, Inc., Templeton Capital Accumulator Fund, Inc., Templeton Developing Markets Trust, Templeton Funds, Inc., Templeton Global Investment Trust, Templeton Global Opportunities Trust, Templeton Growth Fund, Inc., Templeton Income Trust, Templeton Institutional Funds, Inc., Templeton Real Estate Securities Fund, Templeton Smaller Companies Growth Fund, Inc., Templeton Variable Products Series Fund

(b) The information required by this Item 29 with respect to each director and officer of Distributors is incorporated by reference to Part B of this N-1A and Schedule A of Form BD filed by Distributors with the Securities and Exchange Commission pursuant to the Securities Act of 1934 (SEC File No. 8-5889).

(c) Not Applicable. Registrant's principal underwriter is an affiliated person of an affiliated person of the Registrant.

Item 30 Location of Accounts and Records

The accounts, books or other documents required to be maintained by Section 31 (a) of the Investment Company Act of 1940 are kept by the Fund or its shareholder services agent, Franklin/Templeton Investor Services, Inc., both of whose address is 777 Mariners Island Blvd., San Mateo, CA. 94404.

Item 31 Management Services

There are no management-related service contracts not discussed in Part A or Part B.

Item 32 Undertakings

a) The Registrant hereby undertakes to comply with the information requirement in Item 5A of the Form N-1A including the required information in the Fund's annual report and to furnish each person to whom a prospectus is delivered a copy of the annual report upon request and without charge.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933 and the Investment Company Act of 1940, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized in the City of San Mateo and the State of California, on the 27th day of July 1995.

AGE HIGH INCOME FUND, INC.  
(Registrant)

By: Rupert H. Johnson, Jr.\*  
Rupert H. Johnson, Jr., President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following persons in the capacities and on the dates indicated:

Rupert H. Johnson, Jr.* (Rupert H. Johnson)	Director and Principal Executive Officer Dated: July 27, 1995
Martin L. Flanagan* (Martin L. Flanagan)	Principal Financial Officer Dated: July 27, 1995
Diomedes Loo-Tam* (Diomedes Loo-Tam)	Principal Accounting Officer Dated: July 27, 1995
Frank H. Abbott III* (Frank H. Abbott III)	Director Dated: July 27, 1995
Harmon E. Burns* (Harmon E. Burns)	Director Dated: July 27, 1995
Robert F. Carlson* (Robert F. Carlson)	Director Dated: July 27, 1995
S. Joseph Fortunato* (S. Joseph Fortunato)	Director Dated: July 27, 1995
Roy V. Fox* (Roy V. Fox)	Director Dated: July 27, 1995
R. Martin Wiskemann* (R. Martin Wiskemann)	Director Dated: July 27, 1995

\*By:/s/ Larry L. Greene  
Larry L. Greene, Attorney-in-Fact  
(Pursuant to Power of Attorney filed herewith)

AGE HIGH INCOME FUND, INC.  
REGISTRATION STATEMENT  
EXHIBITS INDEX

EXHIBIT NO.	DESCRIPTION	LOCATION
EX-99.B1(i)	Restated Articles of Incorporation dated February 28, 1969	Attached
EX-99.B1(ii)	Articles of Amendment of Articles of Incorporation dated November 28, 1980	Attached
EX-99.B1(iii)	Articles of Amendment of Articles of Incorporation dated June 27, 1986	Attached
EX-99.B2(i)	By Laws as amended on March 1, 1969, and July 30, 1970	Attached
EX-99.B2(ii)	Amendments to By-Laws dated November 15, 1973	Attached
EX-99.B2(iii)	Amendment to By-Laws dated September 26, 1989	Attached
EX-99.B2(iv)	Amendment to By-Laws dated October 23, 1992	Attached
EX-99.B5(i)	Management Agreement between Registrant and Franklin Advisers, Inc. dated October 1, 1986	Attached
EX-99.B6(i)	Amended and Restated Distribution Agreement between Registrant and Franklin/Templeton Distributors, Inc. dated May 16, 1995	Attached
EX-99.B6(ii)	Form of Dealer Agreements between Franklin/Templeton Distributors, Inc. and dealers	*
EX-99.B8(i)	Custodian Agreement between	Attached

Registrant and Bank of  
America NT & SA dated  
September 17, 1991

EX-99.B8(ii)	Copy of Custodian Agreements between Registrant and Citibank Delaware	*
EX-99.B8(iii)	Amendment to Custodian Agreement between Registrant and Bank of America NT & SA dated December 1, 1994	*
EX-99.B10(i)	Opinion and Consent of Counsel dated July 25, 1995	Attached
EX-99.B11(i)	Consent of Independent Auditors dated July 26, 1995	Attached
EX-99.B14(i)	Franklin Ira Form	*
EX-99.B14(ii)	Franklin 403(b) Retirement Plan	*
EX-99.B14(iii)	Franklin Trust Company Insured CD IRA	*
EX-99.B14(iv)	Franklin Business Retirement Plans	*
EX-99.B14(v)	Franklin SEP-IRA (5305-SEP and 5305A-SEP)	*
EX-99.B15(i)	Distribution Plan pursuant to Rule 12b-1 effective May 1, 1994	Attached
EX-99.B15(ii)	Class II Distribution Plan pursuant to Rule 12b-1 dated March 30, 1995	Attached
EX-99.B16(i)	Schedule for computation of performance quotation	*
EX-99.B17(i)	Power of Attorney dated January 17, 1995	Attached

EX-99.B17(ii)	Certificate of Secretary dated January 17, 1995	Attached
EX-99.B18(i)	Form of Multiple Class Plan	Attached
EX-27.B(i)	Financial Data Schedule for Class I shares	Attached
EX-27.B(ii)	Financial Data Schedule for Class II shares	Attached

RESTATED ARTICLES OF INCORPORATION

OF

AGE FUND, INC.

Know All Men by These Presents, That I, SAMUEL G. HANSON, President of AGE FUND, INC. a corporation duly organized and existing under and by virtue of the laws of the State of Colorado, do hereby make this Restatement of the Articles of Incorporation in accordance with the laws of the State of Colorado, and state, to wit:

FIRST. That at a meeting of the Board of Directors of said corporation, duly and regularly called as provided by the by-laws of said corporation and in accordance with the statutes of the State of Colorado, and held at 315 Montgomery Street, San Francisco, California, on the 28th day of February A. D. 1969, a resolution was presented and regularly adopted by an affirmative vote of a majority of the Board of Directors, in accordance with the statutes of the State of Colorado so made and provided, which approved the restatement of the Articles of Incorporation as follows:

ARTICLE I

The name of the corporation shall be:  
AGE FUND, INC.

ARTICLE II

The registered office of this Corporation shall be 1700 Broadway, Denver, Colorado 80202 and the initial registered agent of this Corporation at such address shall be The Corporation Company.

ARTICLE III

The nature of the business and the objects and purposes proposed to be transacted, promoted and carried on are:

To engage generally in the business of an incorporated investment company of the management type, investing and reinvesting as more specifically set forth herein, subject to the provisions of this Certificate of Incorporation, particularly the limitations of Article ELEVENTH hereof, and the By-Laws of the Corporation, its assets in all forms of securities and other personal property, of every kind and

description; to consolidate or merge with, to acquire and take over the assets of, and to assume the liabilities of, any other corporation or trust with similar powers; to make contracts; and, generally to do any or all acts and things necessary or desirable in furtherance of any of the corporate purposes or designed to protect, preserve, or enhance the value of the corporate assets, or to the extent permitted to business corporations authorized under the State of Colorado as now or may in the future be enforced; and to do any or all of the things in furtherance of the above purposes as natural persons might do.

To invest and reinvest its capital and any surplus and any reserves it may have, and to acquire by exchange, purchase, subscription, contract or otherwise, and to receive, own, hold, guarantee, sell, assign, exchange, transfer, mortgage, pledge, hypothecate, or otherwise dispose of and generally deal in and with all forms of securities and investments of every kind and description, including, but not by way of limitation, shares, stock (preferred, common and debenture) notes, bonds, debentures, script, warrants, participation certificates, mortgages, commercial papers, choses in action, evidences of indebtedness and other obligations of every kind and disposition; (a) of any private, public, quasi-public, municipal, corporation, syndicate, association, common law trust, firm or individual existing or carrying on business in the United States or elsewhere throughout the world; (b) of any government, United States or foreign, or subdivision thereof, whether state, county, municipality or other political or government division or subdivision;

And also, all trust, partnership or other certificates of rights, evidencing interest in any such securities or instruments, both within and without the State of Colorado; and while the owners of any such securities or investments to exercise all the rights, powers, privileges of ownership or interest in respect to the same, including the right to vote, to subscribe for additional stock, and to purchase or exercise "rights" in connection therewith; to do any or all acts and things for the preservation, protection, improvement, management, and enhancement in value thereof, or designated to accomplish any such purpose, all to such extent as permitted under the laws of the State of Colorado, and not otherwise;

To conduct researches, investigations, and analyses of enterprises of every kind and description in the United States and elsewhere throughout the world.

To acquire or become interested in any such securities or evidences of interest therein as aforesaid by original subscription, or otherwise, and to make payment thereon as

called for, and to subscribe for the same conditionally or otherwise.

Subject to the limitations of Article ELEVENTH of the Certificate of Incorporation, the By-Laws of the Corporation and other governing laws and regulations, to acquire, and pay for in cash, stock or evidences of indebtedness of this Corporation or otherwise, the assets and property, and to undertake or assume the whole or any part of the obligations or liabilities of any person, firm, association or corporation which is in the nature of a private investment portfolio or company or personal holding company.

To acquire, hold, use, sell, assign, lease, grant licenses in respect of, mortgage or otherwise dispose of letters patent of the United States or any foreign country, patent rights, licenses and privileges, inventions, improvements and processes, copyrights, trademarks and trade names, relating to or useful in connection with the business of this Corporation as an investment company.

To enter into, make and perform contracts of every kind and description with any person, firm, association, corporation, municipality, county, state, body politic or government or colony or dependency thereof relating to or useful in connection with the business of this Corporation as an investment company.

Subject to the limitations of Article ELEVENTH of this Certificate of Incorporation, the By-Laws of the Corporation and other governing laws and regulations, to borrow or raise moneys for any of the purposes of the Corporation and, from time to time without limit as to amount, to draw, make, accept, endorse, execute and issue promissory notes, drafts, bills of exchange, warrants, bonds, debentures and other negotiable or non-negotiable instruments and evidences of indebtedness, and to secure the payment of any thereof and of the interest thereon by pledge, conveyance or assignment in trust of the whole or any part of the property of the Corporation whether at the time owned or thereafter acquired, and to sell, pledge, or otherwise dispose of such bonds or other obligations of the Corporation for its corporate purposes.

To purchase, hold, sell and transfer the shares of its own capital stock; provided it shall not use its funds or property for the purchase of its own shares of capital stock when such use would cause any impairment of its capital except as otherwise permitted by law, and provided further that shares of its own capital stock beonging to it shall not be voted upon directly or indirectly.



To have one or more offices, to carry on all or any of its operations and business and without restriction or limit as to amount but subject to the restrictions above set forth and to the limitations of Article ELEVENTH of this Certificate of Incorporation and the By-Laws of the Corporation, to purchase or otherwise acquire, hold, own, mortgage, sell, convey or otherwise dispose of personal property of every class and description but subject to the restrictions above set forth and to the limitations of Article ELEVENTH of this Certificate of Incorporation and the By-Laws of the Corporation, in any of the states, districts, territories or colonies of the United States, and in any and all foreign countries subject to the laws of such state, district, territory, colony or country.

In general, to carry on any other activities in connection with the foregoing, and to have and exercise all the powers conferred by the laws of Colorado upon corporations formed under the General Corporation Law of the State of Colorado, and to do any or all of the things hereinbefore set forth to the same extent as natural persons might or could do; provided, however, that this shall not permit the Corporation to conduct any business other than that of an investment company.

Subject to the restrictions contained in Article ELEVENTH and the By-Laws of the Corporation, the objects and purposes specified in the foregoing clauses shall, except where otherwise expressed, be in nowise limited or restricted by reference to, or inference from, the terms of any other clauses in this Certificate of Incorporation, but the objects and purposes specified in each of the foregoing clauses of this Article shall be regarded as independent objects and purposes.

#### ARTICLE IV

The amount of the total authorized capital stock of this corporation is two million dollars (\$2,000,000), divided into two hundred million (200,000,000) shares of the par value of one cent (\$.01) each, all of one class. Such stock may be issued as full or fractional shares, and each fractional share shall have the same rights with respect to dividends, liquidation, voting or otherwise as a full share, but in the proportion that such fractional share bears to a full share.

#### ARTICLE V

The members of the governing Board of this corporation shall be styled directors and the number of directors may be increased or decreased in accordance with the By-Laws, provided that the number shall not be reduced to less than three. The names and post office addresses of the first Board of Directors, consisting of five members, who shall act until the first annual

meeting or until their successors shall have been elected and qualified, are as follows:

1. Samuel G. Hanson  
Assembly of Government Employees  
1108 "O" Street  
Sacramento, California 95814
2. Thomas C. Enright  
1515 State Street  
Salem, Oregon
3. Henry L. Jamieson  
315 Montgomery Street  
San Francisco, California 94104
4. George E. Jones, Jr.  
Mitchum, Jones & Templeton, Inc.  
510 S. Spring Street  
Los Angeles, California 90013
5. H. Boyd Seymour, Jr.  
315 Montgomery Street  
San Francisco, California 94104
6. David H. Meid  
315 Montgomery Street  
San Francisco, California 94104
7. Harry C. Reese  
1390 Logan Street  
Denver, Colorado 80203

#### ARTICLE VI

In furtherance and not in limitation of the powers conferred by the laws of the State of Colorado, the Board of Directors is expressly authorized:

If there be a vacancy on the Board of Directors by reason of death, resignation or otherwise, to fill such vacancy for the unexpired term by majority vote of the remaining directors; provided that after filling any such vacancy, at least two-thirds of the directors shall have been elected by the stockholders, and provided further that if at any time less than a majority of the directors then holding office were elected by the stockholders, a stockholders' meeting shall be called for the purpose of electing directors to fill existing vacancies.

From time to time to determine whether and to what extent and at what times and places and under what conditions

and regulations the books and accounts of this Corporation, or any of them other than the stock ledger, shall be open to the inspection of the stockholders. No stockholder shall have any right to inspect any account or book or document of the Corporation, except as conferred by law or authorized by resolution of the directors or of the stockholders.

This Corporation may in its By-Laws confer powers additional to the foregoing upon the directors, in addition to the powers and authorities expressly conferred upon them by law.

#### ARTICLE VII

The names and post office addresses of each of the incorporators are as follows:

Name	Post Office Address
David G. Burlingame	950 Broadway Denver, Colorado, 80201
John M. Butler	950 Broadway Denver, Colorado, 80201
George W. Ratterman	950 Broadway Denver, Colorado, 80201

#### ARTICLE VIII

The period of existence of this corporation shall be perpetual.

#### ARTICLE IX

Meetings of stockholders may be held outside the State of Colorado if the By-Laws so provide. The books of the Corporation may be kept (subject to any provision contained in the statutes) outside the State of Colorado at such place or places as may be designated from time to time by the Board of Directors or in the By-Laws of the Corporation. Elections of directors need not be by ballot unless the By-Laws of the Corporation shall so provide.

#### ARTICLE X

The shares of the capital stock of the Corporation may be issued to such persons and at such prices from time to time as the Board of Directors may determine. Such issuance shall be on a non-assessable basis and, unless it be pro rata to then existing stockholders as stock or optional dividend, stock split, or stock combination, shall be only in exchange for cash or for such other property as the Board of Directors may deem proper, which shall in no event be less than the market value as

herein defined in section (a) of this Article TENTH nor the par value of such shares, whichever shall be greater. The value of property received in exchange for the issuance of shares shall be that resulting from an appraisal of such property by the Board of Directors in such manner as shall be deemed by it to reflect its fair value and when so determined in good faith shall be conclusive. Any excess received by the Corporation upon the issuance and sale of the shares of the capital stock of the Corporation over the then par value thereof shall be carried on the books of the Corporation as paid-in surplus.

(a) The market value of a share of the capital stock of the Corporation shall be determined as soon as possible after the close of the New York Stock Exchange, on each business day on which the Exchange is open, such market price taking effect as of such close and remaining in effect until the effective time of the next succeeding determination of market value. The market value of a share of the capital stock of the Corporation shall be the net asset value thereof, and each of the aforesaid determinations shall be made as set forth in Section (d) of this Article TENTH. In addition, in its discretion, the Board of Directors may make or cause to be made a more frequent determination of the market value where it deems necessary or to comply with any applicable provision of federal or state law, which determination shall become effective at the time established by the Board of Directors; the foregoing determinations of market value shall at the discretion of the Board of Directors, be based on a calculation as set forth in Section (d) of Article TENTH on an adjustment of the market value established immediately prior thereto, such adjustment to be made in such manner as the Board of Directors shall deem reasonable to reflect any material changes in the fair value of securities and other assets held by the Corporation and any other material changes in the assets or liabilities of the Corporation and the number of its outstanding shares which shall have taken place since the immediately preceding determination of market value.

(b) So long as it has assets legally available to do so and such right is not suspended under the provisions of the Investment Company Act of 1940, the Corporation agrees to redeem any shares of its capital stock tendered to it at the next effective redemption price. In addition, the distributors of the shares of the Corporation's stock (if any) may, but are not required to, maintain a bid to repurchase the shares tendered at the last previously effective or next calculated and effective redemption price. The redemption price shall be determined as hereinafter defined in Section (c) of this Article TENTH. Payment for such shares shall be made within seven days after the date upon which such shares are deposited. If the determination of the redemption price is postponed beyond the

date on which it would normally occur by reason of a declaration by the Board of Directors suspending determination of net asset value pursuant to Section (e) of this Article TENTH, the right of the stockholder to have his shares redeemed by the corporation shall be similarly suspended and he may withdraw his certificate or certificates from deposit if he so elects, or if he does not so elect, the redemption price shall be the net asset value determined as of the close of the New York Stock Exchange, on the first business day after the suspension, upon which such a determination is made. Payment for such shares may at the option of the Board of Directors, or such officer or officers as they may duly authorize for the purpose, in their complete discretion be made in cash, or in kind, or partially in cash and partially in kind. In case of payment in kind the Board of Directors, or their delegate, shall have absolute discretion as to what security or securities shall be distributed in kind and the amount of the same, and the securities shall be valued for purposes of distribution at the figure at which they were appraised in computing the net asset value of the Fund's shares, provided that any stockholder who cannot legally acquire securities so distributed in kind by reason of the prohibitions of the Investment Company Act of 1940 shall receive cash. Shares so redeemed by the Corporation shall become authorized but unissued shares and may be resold by the Corporation.

(c) The redemption price of a share of the capital stock of the Corporation shall be determined and become effective each time the market value of a share is determined and becomes effective under the provisions of Section (a) of this Article TENTH. Such redemption price shall be the net asset value thereof, determined as set forth in Section (d) of this Article TENTH.

(d) The net asset value of a share of the capital stock of the Corporation shall be the quotient resulting from dividing the net assets of the Corporation as of the valuation time by the number of the then outstanding shares. The net assets of the Corporation shall be calculated in the following manner:

(1) The gross assets shall be valued as follows:

(A) All securities shall be appraised at the most recent quoted sales price. If there was no reported sale on the day on which such valuation is made, the security shall be valued in the manner provided by the Board of Directors at a price not lower than the most recent quoted bid nor greater than the most recent quoted asked price. If such quoted bid and asked prices are not readily available, the securities shall be appraised in such manner as the Board of Directors of the Corporation deem will reflect their fair value.

(B) All other assets of the Corporation including cash, prepaid and accrued items, dividends and other receivables, shall be appraised in such manner as will reflect their fair value.

(2) From the gross assets shall be deducted the liabilities of the Corporation, including accrued items, and other payables, and proper reserves, if any, as may be determined by the Board of Directors.

(3) The resulting difference shall be the net assets of the Corporation.

(e) The Board of Directors may declare a suspension of the determination of net asset value for the whole or any part of any period (i) during which the New York Stock Exchange is closed other than customary week-end and holiday closings, (ii) during which trading on the New York Stock Exchange is restricted, (iii) during which an emergency exists as a result of which disposal by the Corporation of securities owned by it is not reasonably practicable or it is not reasonably practicable for the Corporation fairly to determine the value of its net assets, or (iv) during any other period when the Securities and Exchange Commission (or any succeeding governmental authority) may for the protection of security holders of the Corporation by order permit suspension of the right of redemption or postponement of the date of payment on redemption; provided that applicable rules and regulations of the Securities and Exchange Commission (or any succeeding governmental authority) shall govern as to whether the conditions prescribed in (ii), (iii) or (iv) exist. Such suspension shall take effect at such time as the Board of Directors shall specify but not later than the close of business on the business day next following the declaration, and thereafter there shall be no determination of asset value until the Board of Directors shall declare the suspension at an end, except that the suspension shall terminate in any event on the first day on which said Stock Exchange shall have reopened or the period specified in (ii) or (iii) shall have expired (as to which in the absence of an official ruling by said Commission or succeeding authority, the determination of the Board of Directors shall be conclusive.

#### ARTICLE XI

The Corporation is further expressly empowered and limited as follows:

(a) The Corporation may enter into a written contract with any person, including any firm, corporation, trust or

association in which any officer, other employee, director or stockholder of this Corporation may be interested, to act as investment advisers and managers of this Corporation and to provide such advice and management as the Board of Directors of this Corporation may from time to time consider necessary for the proper management of the investment portfolio of this Corporation and also to provide such research and statistical services, office space, and/or bookkeeping services for this Corporation as the said Board of Directors may deem necessary and desirable. The compensation payable by this Corporation under such a contract shall be such as is deemed fair and equitable to both parties by the said Board of Directors.

Any such contract shall in all respects be consistent with and subject to the requirements of the investment Company Act of 1940 as then in effect and regulations of the United States Securities and Exchange Commission promulgated thereunder, such contract shall specify that it may not be amended, transferred, assigned, sold, hypothecated or pledged without the affirmative vote or written consent of the holders of a majority of the outstanding shares of the Corporation entitled to vote; in the event of the cancellation or expiration by its own terms of any such contract, no new such contract shall become effective without the affirmative vote or written consent of the holders of a majority of the outstanding shares of the Corporation entitled to vote. The foregoing sentence shall not, however, apply to the extent that by regulation, rule, or order the Securities and Exchange Commission shall exempt such contract from the provisions of the Investment Company Act of 1940.

(b) The Corporation may appoint one or more distributors or agents or both for the sale of the shares of the Corporation, may allow such person or persons a commission on the sale of such shares and may enter into such contract or contracts with such person or persons as the Board of Directors of this Corporation in its discretion may deem reasonable and proper. Any such contract or contracts for the sale of the shares of this Corporation may be made with any person even though such person may be an officer, other employee, director or stockholder of this Corporation or a corporation, partnership, trust or association in which any such officer, other employee, director or stockholder may be the investment adviser and manager retained pursuant to the powers granted in Section (a) of this Article ELEVENTH.

Such contract or contracts shall in all respects be consistent with and subject to the requirements of the Investment Company Act of 1940 as then in effect and regulations of the United States Securities and Exchange Commission promulgated thereunder and shall specify that any such person

shall offer shares of the Corporation for sale and shall purchase shares from anyone else only as agent of the Corporation.

(c) The Corporation may employ such custodian or custodians for the safekeeping of the property of the Corporation and of its shares, such dividend disbursing agent or agents, and such transfer agent or agents and registrar or registrars for its shares, and may make and perform such contracts for the aforesaid purposes as in the opinion of the Board of Directors of this Corporation may be reasonable, necessary or proper for the conduct of the affairs of the Corporation, and may pay the fees and disbursements of such custodians, dividend disbursing agent, transfer agents, and registrars out of the income and/or any other property of the Corporation. Notwithstanding any other provisions of this Certificate of Incorporation or the By-Laws of the Corporation, the Board of Directors may cause any or all of the property of the Corporation to be transferred or to be acquired and held in the name of a custodian so appointed or in the name of any nominee or nominees of this Corporation or nominee or nominees of such custodian satisfactory to the said Board of Directors.

(d) The Corporation may, by resolution of its Board of Directors adopted at a meeting thereof within thirty days before or after the beginning of any fiscal year or within thirty days before the annual meeting of stockholders appoint any reputable certified public accountant or firm of certified public accountants to act as the independent auditor of the books and records of the Corporation for such fiscal year provided that such resolution is adopted both by a majority vote of the directors then in office and a majority vote of the directors who are neither officers or employees of the Corporation nor investment advisers nor officers, directors, principal owners or otherwise affiliated with any investment adviser, selling or distributing agent or principal broker of the Corporation. Such auditor or firm shall not be financially interested directly or indirectly in the Corporation as owner or otherwise and such appointment shall be subject to ratification by a majority vote of the stockholders of the Corporation at the next annual meeting thereof.

(e) No officer, other employee or director of this Corporation and no investment adviser and manager or distributor or selling agent or any partner, officer, director, or trustee of any such investment adviser and manager or distributor or selling agent shall take "long" or "short" positions in purchasing or selling shares of the Corporation except as permitted by applicable law and regulations.

(g) Each director and officer (and his heirs,



executors, and administrators) may be indemnified by the Corporation against reasonable costs and expenses incurred by him in connection with any action, suit or proceeding to which he may be made a party by reason of his being or having been a director or officer of the Corporation, except in relation to any actions, suits or proceedings, in which he has been adjudged liable because of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office. In the absence of an adjudication which expressly absolves the director or officer of liability to the Corporation or its stockholders for willful misfeasance, bad faith, gross negligence and reckless disregard of the duties involved in the conduct of his office, or in the event of a settlement, each director and officer (and his heirs, executors and administrators) may be indemnified by the Corporation against payments made, including reasonable costs and expenses, provided that such indemnity shall be conditioned upon the prior determination by a resolution of two-thirds of those members of the Board of Directors of the Corporation who are not involved in the action, suit or proceeding that the director or officer has no liability by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office, and provided further that if a majority of the members of the Board of Directors of the Corporation are involved in action, suit or proceeding, such determination shall have been made by a written opinion of independent counsel. Amounts paid in settlement shall not exceed costs, fees and expenses which would have been reasonably incurred if the action, suit or proceeding had been litigated to a conclusion. Such determination by the Board of Directors, or by independent counsel, and the payments of amounts by the Corporation on the basis thereof shall not prevent a stockholder from challenging such indemnification by appropriate legal proceedings on the grounds that the person indemnified was liable to the Corporation or its security holders by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office. The foregoing rights and indemnification shall be exclusive of any other rights against the Corporation to which the officers and directors may be entitled according to law.

## ARTICLE XII

No shareholder of the Corporation shall be entitled as a matter of right to purchase or subscribe for any shares of the capital stock of the Corporation which it may issue or sell, whether out of the number of shares authorized by this Certificate of Incorporation or out of any shares of the capital stock of Corporation acquired by it after the issue thereof. Each share of stock the Corporation is entitled to one vote. Cumulative voting of shares of stock of the Corporation is not

authorized. Although share certificates will not to be issued automatically to persons becoming shareholders, the Corporation will issue a share certificate to any shareholder evidencing his ownership of shares of the Corporation upon request of the shareholder and upon payment of a fee by him not to exceed \$1.00 per certificate to repay the costs of issue.

ARTICLE XIII

Except as otherwise provided in the By-Laws, the Board of Directors shall have the power to make, amend and repeal the By-Laws of the Corporation which may contain any provision not inconsistent with the laws of Colorado or this Certificate of Incorporation for the regulation and management of the affairs of the Corporation.

ARTICLE XIV

The principal office of this Corporation shall be located at 315 Montgomery Street, San Francisco, California 94104.

SECOND. That the President of the said Corporation was, at said Directors meeting, duly authorized and directed to make, and file such Restated Articles of Incorporation, as provided by law, setting forth without change the corresponding provisions of the Articles of Incorporation as theretofore amended.

THIRD. That the Restated Articles of Incorporation as set forth herein, shall supersede the original Articles of Incorporation and all amendments thereto.

IN WITNESS WHEREOF, I, the President of said Corporation have hereunto set my hands this 28th day of February A.D. 1969

/s/Samuel G. Hanson  
By:Samuel G. Hanson, President

/s/William E. Courtley  
By:William E. Courtley, Secretary

STATE OF CALIFORNIA :  
: SS  
COUNTY OF SAN FRANCISCO :

Before me, /s/Karen Elayne McLennis, a Notary Public in and for the said County and State, personally appeared Samuel G. Hanson who being first duly sworn upon his oath deposes and says: that

he is the President of AGE FUND, INC., a Colorado corporation;  
that he has read the foregoing certificate of amendment by him  
subscribed, and that the facts therein set forth are true to the  
best of his knowledge and belief.

/s/Samuel G. Hanson  
By:Samuel G. Hanson

SUBSCRIBED AND SWORN TO  
BEFORE ME THIS FOURTH  
DAY OF MARCH, A.D. 1969.

My commission expires Dec 3, 1972

/s/ Karen Elayne McLennis  
By: Karen Elayne McLennis  
Notary Public

ARTICLES OF AMENDMENT  
OF  
ARTICLES OF INCORPORATION  
OF  
AGE FUND, INC.

RUPERT H. JOHNSON, JR. and HARMON E. BURNS certify that:

1. They are the vice president and secretary, respectively of AGE FUND, INC., a Colorado corporation.

2. Article I of the Articles of Incorporation of this corporation is amended to read as follows:

The name of the corporation shall be:

AGE HIGH INCOME FUND, INC.

3. The foregoing Amendment of the Articles of Incorporation has been duly approved by the corporation's board of directors.

4. The foregoing Amendment of the Articles of Incorporation was adopted by the shareholders of the corporation on November 10, 1980. The total number of shares of the only class of shares of the corporation outstanding and entitled to vote was 1,783,974.959. Of these shares, 1,199,390.186 were voted in favor of the amendment and 73,380.520 were voted against the Amendment.

/s/ RUPERT H. JOHNSON, Jr.  
By: RUPERT H. JOHNSON, Jr.

/s/ Harmon E. Burns  
By: Harmon E. Burns

The undersigned declare that the matters set forth in the foregoing Certificate are true to the best of their information and belief.

Executed at San Mateo, California on November 28, 1980.

/s/ Rupert H. Johnson, Jr.  
By: Rupert H. Johnson, Jr.

/s/ Harmon E. Burns  
By: Harmon E. Burns

STATE OF California )  
 )ss  
COUNTY OF San Mateo )

I Linda Irvine , a Notary Public in and for said County in State aforesaid, do hereby certify that the undersigned, Rupert H. Johnson, Jr. and Harmon E. Burns personally known to me to be Vice President and Secretary, respectively of AGE High Income Fund Inc. and as the persons who subscribed to the foregoing instrument appeared before me this day and acknowledged that they signed said instrument for and on behalf of said corporation.

/s/ Rupert H. Johnson, Jr.  
By: Rupert H. Johnson, November 28, 1980

/s/ Harmon E. Burns  
By: Harmon E. Burns, November 28, 1980

Given under my hand and notarial seal this 28 day of November A.D. 1980.

/s/ Linda Irvine  
By: Linda Irvine  
Notary Public

My commission expires 9/2/84

ARTICLES OF AMENDMENT

OF

ARTICLES OF INCORPORATION

OF

AGE HIGH INCOME FUND, INC.

R. MARTIN WISKEMANN and HARMON E. BURNS certify that:

1. They are the vice president and secretary, respectively of AGE HIGH INCOME FUND, INC., a Colorado corporation.

2. Article IV of the Articles of Incorporation is hereby amended to read in its entirety:

"The amount of the total authorized capital stock of this corporation is fifty million dollars (\$50,000,000) divided into five billion (5,000,000,000) shares of the par value of one cent (\$.01) each, all of one class. Such stock may be issued as full or fractional shares and each fractional share shall have the same rights with respect to dividends, liquidation, voting or otherwise as a full share, but in the proportion that such fractional share bears to a full share."

3. The foregoing Amendment of the Articles of Incorporation has been duly approved by the corporation's board of directors.

4. The foregoing Amendment of the Articles of Incorporation was adopted by the shareholders of the corporation at a special meeting held on June 27, 1986. The total number of shares of the only class of shares of the corporation outstanding and entitled to vote was 154,946,128.835. Of these shares, 105,048,601.176 were voted in favor of the Amendment and 2,920,678.147 were voted against the Amendment.

/s/ R. Martin Wiskemann  
R. Martin Wiskemann

/s/ Harmon E. Burns  
Harmon E. Burns

The undersigned declare that the matters set forth in the foregoing Certificate are true to the best of their information and belief.

Executed at San Mateo, California on June 27, 1986.

/s/ R. Martin Wiskemann  
R. Martin Wiskemann

/s/ Harmon E. Burns  
Harmon E. Burns

STATE OF California )  
 )  
COUNTY OF San Mateo )

I /s/Lenell Marie Thomas, a Notary Public in and for said County in State aforesaid, do hereby certify that the undersigned, R. Martin Wiskemann and Harmon E. Burns personally known to me to be Vice President and Secretary, respectively of AGE High Income Fund, Inc. and as the persons who subscribed to the foregoing instrument appeared before me this day and acknowledged that they signed said instrument for and on behalf of said corporation.

/s/ R. Martin Wiskemann  
R. Martin Wiskemann

/s/ Harmon E. Burns  
Harmon E. Burns

Given under my hand and notarial seal this 27 day of June A.D 1986.

/s/ Lenell Marie Thomas  
Notary Public

My commission expires December 9, 1986

BY-LAWS

OF

AGE FUND, INC.

(As amended on March 1, 1969, and July 30, 1970)

ARTICLE I  
OFFICES

Section 1. The registered office shall be in the City of Denver, State of Colorado.

Section 2. The Corporation may also have offices at such other places both within and without the State of Colorado as the Board of Directors may from time to time determine or the business of the Corporation may require.

ARTICLE II  
MEETINGS OF STOCKHOLDERS

Section 1. All meetings of the stockholders for the election of directors shall be held in the City of San Francisco, State of California, or at such place as may be fixed from time to time by the Board of Directors. Meetings of stockholders for any other purpose may be held at such time and place, within or without the State of California, as shall be stated in the notice of the meeting or in a duly executed waiver of notice thereof.

Section 2. The Annual Meeting of Shareholders shall be held on the third Thursday in November each year, if not a legal holiday; and, if a legal holiday, then on the first day following which is not a legal holiday, at 11 o'clock in the afternoon, or at such time as the Board of Directors may deem.

Section 3. Written notice of the annual meeting shall be given to each stockholder entitled to vote thereat at least ten days before the date of the meeting, stating the time and place thereof.

Section 4. The officer who has charge of the stock ledger of the Corporation shall prepare and make, at least ten days before every meeting, a complete list of the stockholders entitled to vote at the meeting, arrange in alphabetical order, showing the address of and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the



meeting, during ordinary business hours, for a period of at least ten days prior to the election, either at a place within the city, town or village where the election is to be held and which place shall be specified in the notice of the meeting, or, if not specified, at the place where said meeting is to be held, and the list shall be produced and kept at the time and place of election during the whole time thereof, and subject to the inspection of any stockholder who may be present.

Section 5. Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by statute or by the certificates of incorporation, may be called by the President and shall be called by the President or Secretary at the request in writing of a majority of the Board of Directors, or at the request in writing of stockholders owning a majority in amount of the entire capital stock of the Corporation issued and outstanding and entitled to vote. Such request shall state the purpose or purposes of the proposed meeting.

Section 6. Written notice of a special meeting of stockholders, stating the time, place and object thereof, shall be given to each stockholder entitled to vote thereat, at least ten days before the date fixed for the meeting.

Section 7. Business transacted at any special meeting of stockholders shall be limited to the purpose stated in the notice.

Section 8. The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of stockholders for the transaction of business except as otherwise provided by statute or by the Certificate of Incorporation. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time, to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented any business may be transacted which might have been transacted at the meeting as originally notified.

Section 9. When a quorum is present at any meeting, the vote of the holders of a majority of the stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which by express provision of the statutes or of the Certificate of Incorporation, a different vote is required in which case such express provision shall govern and control the decision of such question.

Section 10. Each stockholder shall at every meeting of the stockholders be entitled to one vote in person or by proxy for each share of the capital stock having voting power held by such stockholder; fractional shares, however, shall not be entitled to vote. No proxy shall be voted on after three years from its date, unless the proxy provides for a longer period, and, except where a date has been fixed as a record date for the determination of its stockholders entitled to vote, no share of stock shall be voted on at any election for directors which has been transferred on the books of the Corporation within twenty days next preceding such election of directors.

Section 11. Whenever the vote of stockholders at a meeting thereof is required or permitted to be taken in connection with any corporate action by any provisions of the statutes or of the Certificate of Incorporation, the meeting and vote of stockholders may be dispensed with, if all the stockholders who would have been entitled to vote upon the action if such meeting were held, shall consent in writing to such corporate actions being taken.

### ARTICLE III DIRECTORS

Section 1. The number of directors which shall constitute the whole board shall be not less than five nor more than eleven. The initial board of directors shall have seven members. The directors shall be elected at the annual meeting of the stockholders, except as provided in the Certificate of Incorporation; and each director elected shall hold office until his successor is elected and qualified, or until his death, resignation or removal. Directors need not be stockholders.

Section 2. Any vacancy occurring in the Board of Directors for any cause other than by reason of an increase in the number of directors may be filled by a majority of the remaining members of the Board of Directors, although such majority is less than a quorum. Any vacancy occurring by reason of an increase in the number of directors may be filled by action of a majority of the entire Board of Directors. A director elected by the Board of Directors to fill a vacancy shall be elected to hold office until the next annual meeting of stockholders or until his successor is elected and qualifies. Notwithstanding the foregoing, no vacancies occurring in the Board of Directors may be filled by vote of the remaining members of the Board if immediately after filling any such vacancy less than two-thirds of the directors then holding office shall have been elected to such office by the holders of the outstanding voting securities of the Corporation at any annual or special meeting. In the event that at any time less than a majority of the directors of the Corporation holding

office at that time were so elected by the holders of the outstanding voting securities, the Board of Directors of the Corporation shall forthwith cause to be held as promptly as possible, and in any event within 60 days, a meeting of such holders for the purpose of electing directors to fill any existing vacancies in the Board of Directors, unless such period is extended by order of the Securities and Exchange Commission.

Section 3. The business of the Corporation shall be managed by its Board of Directors which may exercise all such power of the Corporation and do all such lawful acts and things as are not by statute or by the Certificate of Incorporation or by these By-Laws directed or required to be exercised or done by the stockholders.

#### MEETINGS OF THE BOARD OF DIRECTORS

Section 4. The Board of Directors of the Corporation may hold meetings, both regular and special, either within or without the State of Colorado.

Section 5. The first meeting of each newly elected Board of Directors shall be held at such time and place as shall be fixed by the vote of the stockholders at the annual meeting and no notice of such meeting shall be necessary to the newly elected directors in order legally to constitute the meeting, provided a quorum shall be present. In the event of the failure of the stockholders to fix the time or place of such first meeting of the newly elected Board of Directors, or in the event such meeting is not held at the time and place so fixed by the stockholders, the meeting may be held at such time and place as shall be specified in a notice given as hereinafter provided for special meetings of the Board of Directors, or as shall be specified in a written waiver signed by all of the directors.

Section 6. Regular meetings of the Board of Directors may be held without notice at such time and at such place as shall from time to time be determined by the Board.

Section 7. Special meetings of the Board may be called by the Chairman of the Board or the President on one day's notice to each director, either personally or by mail or by telegram; special meetings shall be called by the Chairman of the Board, President or Secretary in like manner and on like notice on the written request of two directors.

Section 8. At all meetings of the Board, a majority of the directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors, except as may be otherwise specifically

provided by statute or by the Certificate of incorporation. If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 9. Unless otherwise restricted by the Certificate of Incorporation or these By-Laws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if prior to such action a written consent thereto is signed by all members of the Board or of such committee as the case may be, and such written consent is filed with the minutes of proceedings of the Board or committee.

#### COMMITTEES OF DIRECTORS

Section 10. The Board of Directors may, by resolution passed by a majority of the whole Board, designate one or more committees, each committee to consist of two or more of the directors of the Corporation, which, to the extent provided in the resolution, shall have and may exercise the powers of the Board of Directors in the management of the business and affairs of the Corporation and may authorize, the seal of the Corporation to be affixed to all papers which may require it. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the Board of Directors.

Section 11. Each committee shall keep regular minutes of its meetings and report the same to the Board of Directors when required.

#### COMPENSATION OF DIRECTORS

Section 12. The Directors may be paid their reasonable and necessary expenses, if any, of attendance at each meeting of the Board of Directors, or while engaged on business of the Corporation, and may be paid a fixed sum for attendance at each meeting of the Board of Directors or a stated salary as Directors, as determined by the Board of Directors. No such payment shall preclude any Directors from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

#### ARTICLE IV NOTICES

Section 1. Notices to directors and stockholders shall be in writing and delivered personally or mailed to the

directors or stockholders at their addresses appearing on the books of the Corporation. Notice by mail shall be deemed to be given at the time when the same shall be mailed. Notice to directors may also be given by telegram.

Section 2. Whenever any notice is required to be given under the provisions of the statutes or of the Certificate of Incorporation or of these By-Laws, a waiver thereof in writing signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

## ARTICLE V OFFICERS

Section 1. The officers of the Corporation shall be chosen by the Board of Directors and shall be a President, a Vice President, a Secretary and a Treasurer. The Board of Directors may choose one or more Assistant Secretaries and Assistant Treasurers. Two or more offices may be held by the same person, except that where the offices of President and Secretary are held by the same person, such person shall not hold any other office. No officer shall execute, acknowledge or verify any instrument in more than one capacity, if such instrument is required by law, the charter or these By-Laws to be executed, acknowledged or verified by two or more officers.

Section 2. The Board of Directors at its first meeting after each annual meeting of stockholders shall choose a President from among the directors, and shall choose one or more Vice Presidents, a Secretary and a Treasurer, none of whom need be a member of the Board.

Section 3. The Board of Directors may appoint such other officers and agents as it shall deem necessary who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board.

Section 4. The salaries of all officers and agents of the Corporation shall be fixed by the Board of Directors.

Section 5. The officers of the Corporation shall hold office until their successors are chosen and qualify. Any officer elected or appointed by the Board of Directors may be removed at any time by the affirmative vote of a majority of the Board of Directors. Any vacancy occurring in any office of the Corporation shall be filled by the Board of Directors.

## THE PRESIDENT

Section 6. The President shall be the chief executive officer of the Corporation, shall preside at all meetings of the stockholders and the Board of Directors at which the Chairman of the Board is not present, shall have general and active management of the business of the Corporation and shall see that all orders and resolutions of the Board of Directors are carried into effect. If an Executive Vice President is designated by the Board of Directors, the President shall have the power to delegate to the Executive Vice President such of his powers and duties as he deems should be so delegated in the interests of the proper operation of the Corporation.

Section 7. He shall execute bonds, mortgages and other contracts requiring a seal, under the seal of the Corporation, except where required or permitted by law or be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the Board of Directors to some other officer or agent of the Corporation.

#### THE VICE PRESIDENT

Section 8. The Vice President shall be the principal executive assistant to the President and, as such, shall coordinate the activities of all other officers and employees of the Corporation, shall oversee the general administration of the Corporation, and shall perform such other duties and have such other powers as shall be delegated by the Board of Directors and the President. In addition, the Vice President shall, in the absence or disability of the President, perform the duties and exercise the powers of the President.

#### THE SECRETARY AND ASSISTANT SECRETARIES

Section 9. The Secretary shall attend all meetings of the Board of Directors, and all meetings of the stockholders and record all the proceedings of the meetings of the Corporation and of the Board of Directors in a book to be kept for that purpose and shall perform like duties for the standing committees when required. He shall give, or cause to be given notice of all meetings of the stockholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors or President, under whose supervision he shall be. He shall keep in safe custody the seal of the Corporation and when authorized by the Board of Directors, affix the same to any instrument requiring it and, when so affixed, it shall be attested by his signature or by the signature of an Assistant Secretary.

Section 10. The Assistant Secretary, or if there be more than one, the Assistant Secretaries in the order determined by the Board of Directors, shall, in the absence or disability of

the Secretary, perform the duties and exercise the powers of the secretary and shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

#### THE TREASURER AND ASSISTANT TREASURERS

Section 11. The Treasurer shall keep full and accurate accounts of corporate assets and liabilities and of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors.

Section 12. He shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the President and the Board of Directors, at its regular meetings, or when the Board of Directors so requires, an account of all his transactions as Treasurer and of the financial condition of the Corporation.

Section 13. If required by the Board of Directors, he shall give the Corporation a bond (which shall be renewed every year) in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his office and for the restoration to the Corporation, in case of his death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his possession or under his control belonging to the Corporation.

Section 14. The Assistant Treasurer, or if there shall be more than one, the Assistant Treasurers in the order determined by the Board of Directors, shall, in the absence or disability of the Treasurer, perform the duties and exercise the powers of the Treasurer and shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

#### ARTICLE VI CERTIFICATES OF STOCK

Section 1. Every holder of stock in the Corporation shall be entitled to have a certificate, signed by, or in the name of the Corporation by the President, or a Vice President and the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the Corporation, certifying the number of shares owned by him in the Corporation, except that no certificate shall be issued for fractional shares.

Section 2. Where a certificate is signed (1) by a transfer agent or an assistant transfer agent or (2) by a transfer clerk

acting on behalf of the Corporation and a registrar, the signature of any such President, Vice President, Treasurer, Assistant Treasurer, Secretary or Assistant Secretary may be facsimile. In case any officer or officers who have signed, or whose facsimile signature or signatures have been used on, any such certificate or certificates shall cease to be such officer or officers of the Corporation, whether because of death, resignation or otherwise, before such certificate or certificates have been delivered by the Corporation, such certificate or certificates may nevertheless be adopted by the Corporation and be issued and delivered as though the person or persons who signed such certificate or certificates or whose facsimile signature or signatures have been used thereon had not ceased to be such officer or officers of the Corporation.

#### LOST CERTIFICATES

Section 3. The Board of Directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the corporation alleged to have been lost or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost or destroyed. When authorizing such issue of a new certificate or certificates, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as it shall require and/or to give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost or destroyed.

#### TRANSFERS OF STOCK

Section 4. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment, or authority to transfer, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

#### FIXING RECORD DATE

Section 5. The Board of Directors may fix in advance a date, not exceeding fifty nor less than ten days preceding the date of any meeting of stockholders, or the date for payment of any dividend, or the date for the allotment of rights, or the date when any change or conversion or exchange of capital stock shall go into effect, or a date in connection with obtaining such



consent as a record date for the determination of the stockholders entitled to notice of, and to vote at, any such meeting, and any adjournment thereof, or entitled to receive payment of any such dividend, or to any such allotment of rights, or to exercise the rights in respect of any change, conversion or exchange of capital stock, or to give such consent, and in such case such stockholders and only such stockholders as shall be stockholders of record on the date so fixed shall be entitled to such notice of, and to vote at, such meeting and any adjournment thereof, or to receive payment of such dividend, or to receive such allotment of rights, or to exercise such rights, or to give such consent, as the case may be notwithstanding any transfer of any stock on the books of the Corporation after any such record date fixed as aforesaid.

#### REGISTERED STOCKHOLDERS

Section 6. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Colorado.

#### ARTICLE VII GENERAL PROVISIONS DIVIDENDS

Section 1. Dividends upon the capital stock of the Corporation, subject to the provisions of the Certificate of Incorporation, if any, may be declared by the Board of Directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the Certificate of Incorporation and to the following provisions:

(a) The Board of Directors may from time to time declare and pay dividends, and, subject to the limitations contained in this Section 1, the amount of such dividends and the payment of them shall be wholly in the discretion of the Board of Directors.

(b) The total cash dividends paid for any one fiscal year, subject to the exceptions noted below, shall not substantially exceed the sum of

(1) the net income for such fiscal year, determined in accordance with good accounting practice, adjusted for amounts included as such accrued net income in the price of shares of

capital stock of the Corporation issued or repurchased, exclusive of profits or losses realized upon the sale of securities or other property; plus

(2) the excess of profits over losses on sales of securities or other property for such fiscal year.

Inasmuch as the computation of net income and gains for Federal income tax purposes may vary from the computation thereof on the books, the above provision shall be interpreted to give the Board of Directors the power in its discretion to distribute for any fiscal year as ordinary dividends and as capital gains distributions, respectively, amounts sufficient to enable the corporation as a regulated investment company to avoid any liability for Federal income tax in respect of that year.

Any dividend payment made to shareholders from any source other than (1) above shall be accompanied by a written statement showing the source or sources of such payment, and the basis of computation thereof.

The Board of Directors shall not be under any obligation to distribute any income unless it sees fit. The decision of the Board of Directors as to what, in accordance with good accounting practice, is income and what is principal shall be final, and except as specifically provided herein the decision of the Board of Directors as to what expenses and charges of the Corporation shall be charged against principal and what against the income shall be final. Any income not distributed in any year may be permitted to accumulate and as long as not distributed may be invested from time to time in the same manner as the principal funds of the Corporation.

(c) The Board of Directors shall have power, to the fullest extent permitted by the laws of Colorado, but subject to the limitation as to cash dividends imposed by paragraph (b), at any time or from time to time to declare and cause to be paid dividends payable at the election of any of the shareholders (whether exercised before or after the declaration of the dividend) either in cash or in shares of Capital Stock and to establish the particular net asset value of the shares which is to be used in determining the number of shares which a shareholder may receive in lieu of cash. In the case of a dividend payable in cash or shares of Capital Stock at the election of the shareholder, the Board of Directors may prescribe whether a shareholder failing to express his election before a given time shall be deemed to have elected to take shares rather than cash, or to take cash rather than shares, or to take shares with cash adjustment of fractions.

(d) Anything in these By-Laws to the contrary

notwithstanding the Board of Directors may at any time declare and distribute pro rata among the shareholders as of a record date fixed as provided in Article VI, Section 5, a "stock dividend" out of either authorized but unissued or treasury shares of the Corporation, or both.

Section 2. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the directors may from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the corporation, or for such other purpose as the directors shall think conducive to the interest of the Corporation, and the directors may modify or abolish any such reserve in the manner in which it was created.

#### ANNUAL STATEMENT

Section 3. The Board of Directors shall present at each annual meeting, and at any special meeting of the stockholders when called for by vote of the stockholders, a full and clear statement of the business and condition of the Corporation, including financial statements certified by an independent public accountant.

#### CHECKS

Section 4. All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

#### FISCAL YEAR

Section 5. The fiscal year of the corporation shall begin on the first day of August of each year.

#### SEAL

Section 6. The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization and the words "Corporate Seal, Colorado." The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

#### INSPECTION OF BOOKS

Section 7. The directors shall from time to time determine whether and to what extent, and at what times and places, and under what conditions and regulations the accounts and books of the Corporation or any of them shall be open to the inspection of

the stockholders; and no stockholder shall have any right of inspecting any account or book or document of the Corporation except as conferred by law or authorized by the Directors.

#### CUSTODIAN

Section 8. The Corporation shall designate a custodian for the safekeeping of cash and securities. Such custodian shall be a bank or trust company having not less than \$2 million aggregate capital, surplus and undivided profits, provided such a custodian can be found ready and willing to act. If any custodian shall resign or be unable to serve, the Corporation will use its best efforts to obtain a successor and obtain the delivery of the property of the Corporation directly to the successor custodian. If no successor custodian can be found, the property of the Corporation shall not be delivered to a person other than a qualified successor custodian unless it shall have permitted the shareholders to vote upon the question whether the Corporation shall be liquidated or function without a qualified custodian. This provision shall not prevent the termination of the agreement between the Corporation and a custodian by the vote of a majority of the stockholders of the Corporation.

#### FUNDAMENTAL POLICIES AND RESTRICTIONS

Section 9. The registrant shall not borrow money in excess of 5% of its gross assets. Borrowing in any event may only be done as a temporary measure for emergency purposes.

Section 10. The registrant will not underwrite the securities of other issuers, except in those instances where the registrant acquires portfolio securities under circumstances where it would not be free to sell them without being deemed an underwriter for purposes of the Securities Act of 1933 and without registration of such securities under that Act.

Section 11. The Corporation will not acquire any securities of companies within any one industry if, after acquisition, more than twenty five percent (25%) of the total value of the assets of the Corporation would be invested in securities of companies within such industry.

Section 12. The Corporation shall not purchase or sell real estate.

Section 13. The Corporation shall not purchase or sell commodities or commodity contracts.

Section 14. The registrant will make no loans to other persons, except on a temporary basis in connection with the delivery or receipt of portfolio securities which have been

bought or sold. However, the purchase of bonds, debentures or other debt securities, whether publicly distributed or of a type commonly purchased by institutional investors, shall not constitute the making of a loan.

Section 15. The registrant may not invest more than 5% of the value of its assets in the securities of any one issuer.

Section 16. The registrant may not acquire more than 10% of the voting securities of any one issuer.

Section 17. The Corporation may not acquire securities of any issuer for the purpose of exercising management or control.

Section 18. The registrant will not invest in securities of other investment companies, except securities purchased or acquired in connection with a plan of merger, consolidation or reorganization.

Section 19. In seeking its objective, the registrant will normally purchase securities with potential for capital growth. It is not the policy of the registrant to trade for the purpose of making short-term profits, but the registrant expects to act quickly to dispose of all or part of its position in a security if for any reason such action is deemed advisable, regardless of the length of time the security has been held.

Section 20. The registrant will not purchase securities on margin, except such short-term credits as are necessary for the clearance of transactions, and shall not participate on a joint or a joint and several basis in any trading account in securities. The registrant will not effect a short sale of any security.

Section 21. The Corporation shall not at any time purchase securities or other things of value on margin, or sell any such securities or things of value short.

#### INTERESTS OF MANAGEMENT

Section 22. The officers and directors of the Corporation, the manager and general distributor and officers and directors thereof, shall have no dealings on its behalf as principal or agent with themselves or with any corporation or partnership in which they have a financial interest, except in the case of the purchase or sale of securities on an agency or commission basis at a commission not exceeding that which would be paid any independent, established and reputable investment or brokerage firms, or except in the case of dealings in the shares of the Corporation. This prohibition shall not prevent the officers and directors of the corporation from having a financial interest in the Corporation, the manager, or the general distributor.

ARTICLE VIII  
AMENDMENTS

Section 1. These By-Laws may be altered or repealed by a majority vote of the outstanding voting securities of the Corporation (determined in accordance with the way the phrase majority vote of the outstanding voting securities is defined in the Investment Company Act of 1940) at any regular meeting of the stockholders, or at any special meeting thereof if notice of such alteration or repeal be contained in the notice of such special meeting.

Section 2. In addition, any of these By-Laws except Sections 3 through 11 of Article II, Sections 1 and 2 of Article IV, Sections 4 and 5 of Article VI, Sections 9 through 22 of Article VII, and Sections 1 and 2 of Article VIII, may be altered or repealed at any regular meeting of the Board of Directors, or at any special meeting thereof if notice of such alteration or repeal be contained in the notice of such special meeting. This shall not, however, prevent the amendment of any of these By-Laws by the Board of Directors prior to the issuance of 5,335 shares of the stock of the Corporation.

AGE FUND, INC.

AMENDMENTS TO THE BY-LAWS

November 15, 1973, Article VIII, Section 10 of the By-Laws was amended to read as follows:

Section 10. The Corporation shall not underwrite or engage in the agency distribution of securities of other issuers, and shall not acquire securities which, at the time of acquisition, could be disposed of publicly by the Fund only after registration under the Securities Act of 1933.

November 13, 1973, Article VII, Section 14 of the By-Laws was amended read as follows:

"Section 14. The Corporation will not make loans to other persons except on a temporary basis in connection with the delivery or receipt of portfolio securities which have been bought or sold or by the purchase of bonds, debentures, or similar obligations which are publicly distributed or of a character usually acquired by institutional investors; provided however, the Corporations Board of Directors may, on the request of broker-dealers or other institutional investors which it deems qualified, authorize the Corporation to lend securities, but only when the borrower pledges cash collateral to the Corporation and agrees to maintain such collateral so that it amounts to at least 100% of the value of the securities. Such security loans may not be made if as a result the aggregate of such loans exceeds 10% of the value of the Corporation's total assets at the time of most recent loan."

On May 9, 1974, Article II, Section 2 of the By-Laws was amended to read follows:

Section 2. The Annual Meeting of Shareholders shall be held on the third Friday of August of each year if not a legal holiday; and, if a legal holiday, then on the first day following which is not a legal holiday, at 11:00 o'clock in the forenoon; or on such other date and time as may be determined by the Board of Directors.

On June 18, 1976, Article III, Section 1 of the By-Laws was

amended so that the second sentence thereof reads as follows:

The Board of Directors shall be composed of 6 members.



CERTIFICATE OF SECRETARY

I, Deborah R. Gatzek, Secretary of AGE High Income Fund (the "Fund"), a corporation organized under the laws of the State of Colorado, do hereby certify that the following resolution was adopted by a majority of the shareholders present at a meeting held at the offices of the Fund at 777 Mariners Island Boulevard, San Mateo, California, on September 26, 1989.

RESOLVED, that Article VII, Section 10 of the By-Laws will read as follows:

The Corporation will not underwrite the securities of other issuers except insofar as the Corporation may be technically deemed an underwriter in connection with the disposition of securities in its portfolio.

I declare under penalty of perjury that the matters set forth in this certificate are true and correct of my own knowledge.

Dated: 1/8/90

/s/ Deborah R. Gatzek  
Deborah R. Gatzek  
Secretary

CERTIFICATE OF SECRETARY

I, Deborah R. Gatzek, Secretary of AGE High Income Fund, Inc. (the "Fund"), a corporation organized under the laws of the State of Colorado, do hereby certify that the following resolution was adopted by a majority of the directors present at a meeting held at the Mauna Kea Beach Hotel, One Mauna Kea Beach Drive, Kohala Coast, Hawaii, on October 23, 1992:

RESOLVED, that the second sentence of Article III, Section 1, of the Corporation's By-Laws, as amended, for a Board of Directors composed of six (6) members be, and it hereby is, amended to read as follows:

The Board of Directors shall be composed of seven (7) members.

I declare under penalty of perjury that the matters set forth in this certificate are true and correct of my own knowledge.

Dated: 10/23/92  
Deborah R. Gatzek

/s/ Deborah R. Gatzek  
Secretary

AGE HIGH INCOME FUND, INC.

MANAGEMENT AGREEMENT

THIS MANAGEMENT AGREEMENT made between AGE HIGH INCOME FUND, INC., a Colorado Corporation, hereinafter called the "Fund" and FRANKLIN ADVISERS, INC., a California Corporation, hereinafter called the "Manager."

WHEREAS, the Fund has been organized and operates as an investment company registered under the Investment Company Act of 1940 for the purpose of investing and reinvesting its assets in securities, as set forth in its Articles of Incorporation, its By-Laws and its Registration Statements under the Investment Company Act of 1940 and the Securities Act of 1933, all as heretofore amended and supplemented; and the Fund desires to avail itself of the services, information, advice, assistance and facilities of an investment manager and to have an investment manager perform for its various management, statistical, research, investment advisory and other services; and,

WHEREAS, the Manager is registered as an investment adviser under the Investment Advisor's Act of 1940, is engaged in the business of rendering management, investment advisory, counselling and supervisory services to investment companies and other investment counselling clients, and desires to provide these services to the Fund.

NOW THEREFORE, in consideration of the terms and conditions hereinafter set forth, it is agreed as follows:

1. Employment of the Manager. The Fund hereby employs the Manager to manage the investment and reinvestment of the Fund's assets and to administer its affairs, subject to the direction of the Board of Directors and the officers of the Fund, for the period and on the terms hereinafter set forth. The Manager hereby accepts such employment and agrees during such period to render the services and to assume the obligations herein set forth for the compensation herein provided. The Manager shall for all purposes herein be deemed to be an independent contractor and shall, except as expressly provided or authorized (whether herein or otherwise), have no authority to act for or represent the Fund in any way or otherwise be deemed an agent of the Fund.

2. Obligations of and Services to be Provided by the Manager. The Manager undertakes to provide the services hereinafter set forth and to assume the following

obligations:

A. Office Space, Furnishings, Facilities, Equipment, and Personnel. The Manager shall furnish to the Fund adequate (i) office space, which may be space within the offices of the Manager or in such other place as may be agreed upon from time to time, (ii) office furnishings, facilities and equipment as may be reasonably required for managing the corporate affairs and conducting the business of the Fund, including complying with the corporate and securities reporting requirements of the United States and the various states in which the Fund does business, conducting correspondence and other communications with the shareholders of the Fund, maintaining all internal bookkeeping, accounting and auditing services and records in connection with the Fund's investment and business activities, and computing net asset value. The Manager shall employ or provide and compensate the executive, secretarial and clerical personnel necessary to provide such services. The Manager shall also compensate all officers and employees of the Fund who are officers or employees of the Manager.

B. Investment Management Services

(a) The Manager shall manage the Fund's assets and portfolio subject to and in accordance with the investment objectives and policies of the Fund and any directions which the Fund's Board of Directors may issue from time to time. In pursuance of the foregoing, the Manager shall make all determinations with respect to the investment of the Fund's assets and the purchase and sale of portfolio securities, and shall take such steps as may be necessary to implement the same. Such determinations and services shall also include determining the manner in which voting rights, rights to consent to corporate action and any other rights pertaining to the Fund's portfolio securities shall be exercised. The Manager shall render regular reports to the Fund, at regular meetings of the Board of Directors and at such other times as may be reasonably requested by the Fund's Board of Directors, of (i) the decisions which it has made with respect to the investment of the Fund's assets and the purchase and sale of portfolio securities, (ii) the reasons for such decisions and (iii) the extent to which those decisions have been implemented.

(b) The Manager, subject to and in accordance with any directions which the Fund's Board of Directors may issue

from time to time, shall place, in the name of the Fund, orders for the execution of the Fund's portfolio transactions. When placing such orders the Manager shall seek to obtain the best net price and execution for the Fund, but this requirement shall not be deemed to obligate the Manager to place any order solely on the basis of obtaining the lowest commission rate if the other standards set forth in this section have been satisfied. The parties recognize that there are likely to be many cases in which different brokers are equally able to provide such best price and execution and that, in selecting among such brokers with respect to particular trades, it is desirable to choose those brokers who furnish research, statistical quotations and other information to the Fund and the Manager in accord with the standards set forth below. Moreover, to the extent that it continues to be lawful to do so and so long as the Board determines that the Fund will benefit, directly or indirectly, by doing so, the Manager may place orders with a broker who charges a commission for that transaction which is in excess of the amount of commission that another broker would have charged for effecting that transaction, provided that the excess commission is reasonable in relation to the value of "brokerage and research services" (as defined in Section 28(e)(3) of the Securities Exchange Act of 1934) provided by that broker. Accordingly, the Fund and the Manager agree that the Manager shall select brokers for the execution of the Fund's portfolio transactions from among:

(i) Those brokers and dealers who provide quotations and other services to the Fund, specifically including the quotations necessary to determine the Fund's net assets, in such amount of total brokerage as may reasonably be required in light of such services;

(ii) Those brokers and dealers who supply research, statistical and other data to the Manager or its affiliates which relate directly to portfolio securities, actual or potential, of the Fund or which place the Manager in a better position to make decisions in connection with the management of the Fund's assets and portfolio, whether or not such data may also be useful to the Manager and its affiliates in managing other portfolios or advising other clients, in such amount of total brokerage as may reasonably be required.

Provided that the Fund's officers are satisfied that the best execution is obtained the sale of Fund shares may

also be considered as a factor in the selection of broker-dealers to execute the Fund's portfolio transactions.

(c) When the Manager has determined that the Fund should tender securities pursuant to a "tender offer solicitation," Franklin Distributors, Inc. ("Distributors") shall be designated as the "tendering dealer" so long as it is legally permitted to act in such capacity under the Federal securities laws and rules thereunder and the rules of any securities exchange or association of which it may be a member.

Neither the Manager nor Distributors shall be obligated to make any additional commitments of capital, expense or personnel beyond that already committed (other than normal periodic fees or payments necessary to maintain its corporate existence and membership in the National Association of Securities Dealers, Inc.) as of the date of this Agreement and this Agreement shall not obligate the Manager or Distributors (i) to act pursuant to the foregoing requirement under any circumstances in which they might reasonably believe that liability might be imposed upon them as a result of so acting, or (ii) to institute legal or other proceedings to collect fees which may be considered to be due from others to it as a result of such a tender, unless the Fund shall enter into an agreement with the Manager to reimburse them for all expenses connected with attempting to collect such fees including legal fees and expenses and that portion of the compensation due to their employees which is attributable to the time involved in attempting to collect such fees.

(d) The Manager shall render regular reports to the Fund, not more frequently than quarterly, of how much total brokerage business has been placed by the Manager with brokers falling into each of the foregoing categories and the manner in which the allocation has been accomplished.

(e) The Manager agrees that no investment decision will be made or influenced by a desire to provide brokerage for allocation in accordance with the foregoing, and that the right to make such allocation of brokerage shall not interfere with the Manager's paramount duty to obtain the best net price and execution for the Fund.

C. Provisions of Information Necessary for Preparation of Securities Registration Statements, Amendments and Other Materials. The Manager, its officers and employees will

make available and provide accounting and statistical information required by the Underwriter in the preparation of registration statements, reports and other documents required by Federal and state securities laws and with such information as the Underwriter may reasonably request for use in the preparation of such documents or of other materials necessary or helpful for the underwriting and distribution of the Fund's shares.

D. Other Obligations and Services. The Manager shall make available its officers and employees to the Board of Directors and officers of the Fund for consultation and discussions regarding the administrative management of the Fund and its investment activities.

3. Expenses of the Fund. It is understood that the Fund will pay all its expenses other than those expressly assumed by the Manager herein, which expenses payable by the Fund shall include:

A. Fees to the Manager as provided herein;

B. Expenses of all audits by independent public accountants;

C. Expenses of transfer agent, registrar, custodian, dividend disbursing agent and shareholder record-keeping services;

D. Expenses of obtaining quotations for calculating the value of the Fund's net assets;

E. Salaries and other compensation of any of its executive officers who are not officers, directors, stockholders or employees of the Manager;

F. Taxes levied against the Fund;

G. Brokerage fees and commissions in connection with the purchase and sale of portfolio securities for the Fund;

H. Costs, including the interest expense, of borrowing money;

I. Costs incident to corporate meetings of the Fund, reports to the Fund to its shareholders, the filing of reports with regulatory bodies and the maintenance of the Fund's corporate existence;

J. Legal fees, including the legal fees related to the registration and continued qualification of the Fund

shares for sale;

- K. Costs of printing stock certificates representing shares of the Fund;
- L. Directors' fees and expenses to directors who are not directors, officers, employees or stockholders of the Manager or any of its affiliates; and
- M. Its pro rata portion of the fidelity bond insurance premium.

4. Compensation of the Manager. The Fund shall pay a monthly management fee in cash to the Manager based upon a percentage of the value of the Fund's net assets, calculated as set forth below, on the first business day of each month in each year as compensation for the services rendered and obligations assumed by the Manager during the preceding month. The initial management fee under this Agreement shall be payable on the first business day of the first month following the effective date of this Agreement, and shall be reduced by the amount of any advance payments made by the Fund relating to the previous month.

- A. For purposes of calculating such fee, the value of the net assets of the Fund shall be the net assets computed as of the close of business on the last business day of the month preceding the month in which the payment is being made, determined in the same manner as the Fund uses to compute the value of its net assets in connection with the determination of the net asset value of Fund shares, all as set forth more fully in the Fund's current prospectus. The rate of the monthly management fee shall be as follows:

5/96 of 1% of the value of net assets up to and including \$100,000,000; and

1/24 of 1% of the value of net assets over \$100,000,000 and not over \$250,000,000; and

9/240 of 1% of the value of net assets in excess of \$250,000,000.

- B. The Management fee payable by the Fund shall be reduced or eliminated to the extent that Franklin Distributors, Inc. has actually received cash payments of tender offer solicitation fees less certain costs and expenses incurred in connection therewith; and to the extent necessary to comply with the limitations on expenses which may be borne by the Fund as set forth in the laws,



regulations and administrative interpretations of those states in which the Fund's shares are registered.

C. If this Agreement is terminated prior to the end of any month, the monthly management fee shall be prorated for the portion of any month in which this Agreement is in effect which is not a complete month according to the proportion which the number of calendar days in the month during which the Agreement is in effect bears to the number of calendar days in the month, and shall be payable within 10 days after the date of termination.

5. Activities of the Manager. The services of the Manager to the Fund hereunder are not to be deemed exclusive, and the Manager and any of its affiliates shall be free to render similar services to others. Subject to and in accordance with the Articles of Incorporation and By-Laws of the Fund and to Section 10(a) of the Investment Company Act of 1940, it is understood that directors, officers, agents and stockholders of the Fund are or may be interested in the Manager or its affiliates as directors, officers, agents or stockholders, and that directors, officers, agents or stockholders of the Manager or its affiliates are or may be interested in the Fund as directors, officers, agents, stockholders or otherwise, that the Manager or its affiliates may be interested in the Fund as stockholders or otherwise; and that the effect of any such interests shall be governed by said Articles of Incorporation, the By-Laws and the Act.

6. Liabilities of the Manager.

A. In the absence of willful misfeasance, bad faith, gross negligence, or reckless disregard of obligations or duties hereunder on the part of the Manager, the Manager shall not be subject to liability to the Fund or to any shareholder of the Fund for any act or omission in the course of, or connected with, rendering services hereunder or for any losses that may be sustained in the purchase, holding or sale of any security by the Fund.

B. Notwithstanding the foregoing, the Manager agrees to reimburse the Fund for any and all costs, expenses, and counsel and directors' fees reasonably incurred by the Fund in the preparation, printing and distribution of proxy statements, amendments to its Registration Statement, holdings of meetings of its shareholders or directors, the conduct of factual investigations, any legal or administrative proceedings (including any applications for exemptions or determinations by the Securities and Exchange Commission) which the Fund

incurs as the result of action or inaction of the Manager or any of its affiliates or any of their officers, directors, employees or shareholders where the action or inaction necessitating such expenditures (i) is directly or indirectly related to any transactions or proposed transaction in the shares or control of the Manager or its affiliates (or litigation related to any pending or proposed or future transaction in such shares or control) which shall have been undertaken without the prior, express approval of the Fund's Board of Directors; or, (ii) is within the control of the Manager or any of its affiliates or any of their officers, directors, employees or shareholders. The Manager shall not be obligated pursuant to the provisions of this Subsection 6(B), to reimburse the Fund for any expenditures related to the institution of an administrative proceeding or civil litigation by the Fund or a Fund shareholder seeking to recover all or a portion of the proceeds derived by any shareholder of the Manager or any of its affiliates from the sale of his shares of the Manager, or similar matters. So long as this Agreement is in effect the Manager shall pay to the Fund the amount due for expenses subject to this Subsection 6(B) Agreement within 30 days after a bill or statement has been received by the Fund therefore. This provision shall not be deemed to be a waiver of any claim the Fund may have or may assert against the Manager or others for costs, expenses or damages heretofore incurred by the Fund or for costs, expenses or damages the Fund may hereafter incur which are not reimbursable to it hereunder.

C. No provision of this Agreement shall be construed to protect any director or officer of the Fund, or the Manager, from liability in violation of Sections 17(h) and (i) of the Investment Company Act of 1940.

## 7. Renewal and Termination.

A. This Agreement shall become effective on the date written below and shall continue in effect for two years. The Agreement is renewable annually thereafter for successive periods not to exceed one year (i) by a vote of a majority of the outstanding voting securities of the Fund or by a vote of the Board of Directors of the Fund, and (ii) by a vote of a majority of the directors of the Fund who are not parties to the Agreement or interested persons of any parties to the Agreement (other than as Directors of the Fund) cast in person at a meeting called for the purpose of voting on the Agreement.

B. This Agreement.

(i) may at any time be terminated without the payment of any penalty either by vote of the Board of Directors of the Fund or by vote of a majority of the outstanding voting securities of the Fund, on 30 days' written notice to the Manager;

(ii) shall immediately terminate in the event of its assignment; and

(iii) may be terminated by the Manager on 30 days' written notice to the Fund.

C. As used in this Section the terms "assignment," "interested person" and "vote of a majority of the outstanding voting securities" shall have the meanings set forth for any such terms in the Investment Company Act of 1940, as amended.

D. Any notice under this Agreement shall be given in writing addressed and delivered, or mailed post-paid, to the other party at any office of such party.

8. Severability. If any provision of this Agreement shall be held or made invalid by a court decision, statute, rule or otherwise, the remainder of this Agreement shall not be affected thereby.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed the 1st day of October, 1986.

AGE HIGH INCOME FUND, INC.

By /s/ Charles B. Johnson

FRANKLIN ADVISERS, INC.

By /s/ Rupert H. Johnson, Jr.

AGE HIGH INCOME FUND, INC.  
777 Mariners Island Blvd.  
San Mateo, California 94404

Franklin/Templeton Distributors, Inc.  
777 Mariners Island Blvd.  
San Mateo, California 94404

Re: Amended and Restated Distribution Agreement

Gentlemen:

We (the "Fund") are a corporation or business trust operating as an open-end management investment company or "mutual fund", which is registered under the Investment Company Act of 1940 (the "1940 Act") and whose shares are registered under the Securities Act of 1933 (the "1933 Act"). We desire to issue one or more series or classes of our authorized but unissued shares of capital stock or beneficial interest (the "Shares") to authorized persons in accordance with applicable Federal and State securities laws. The Fund's Shares may be made available in one or more separate series, each of which may have one or more classes.

You have informed us that your company is registered as a broker-dealer under the provisions of the Securities Exchange Act of 1934 and that your company is a member of the National Association of Securities Dealers, Inc. You have indicated your desire to act as the exclusive selling agent and distributor for the Shares. We have been authorized to execute and deliver this Distribution Agreement ("Agreement") to you by a resolution of our Board of Directors or Trustees ("Board") passed at a meeting at which a majority of Board members, including a majority who are not otherwise interested persons of the Fund and who are not interested persons of our investment adviser, its related organizations or with you or your related organizations, were present and voted in favor of the said resolution approving this Agreement.

1. Appointment of Underwriter. Upon the execution of this Agreement and in consideration of the agreements on your part herein expressed and upon the terms and conditions set forth herein, we hereby appoint you as the exclusive sales agent for our Shares and agree that we will deliver such Shares as you may sell. You agree to use your best efforts to promote the sale of Shares, but are not obligated to sell any specific number of Shares.

However, the Fund and each series retain the right to make direct sales of its Shares without sales charges consistent with the terms of the then current prospectus and applicable law, and to engage in other legally authorized transactions in its Shares which do not involve the sale of Shares to the general public. Such other transactions may include, without limitation, transactions between the Fund or any series or class and its shareholders only,

transactions involving the reorganization of the Fund or any series, and transactions involving the merger or combination of the Fund or any series with another corporation or trust.

2. Independent Contractor. You will undertake and discharge your obligations hereunder as an independent contractor and shall have no authority or power to obligate or bind us by your actions, conduct or contracts except that you are authorized to promote the sale of Shares. You may appoint sub-agents or distribute through dealers or otherwise as you may determine from time to time, but this Agreement shall not be construed as authorizing any dealer or other person to accept orders for sale or repurchase on our behalf or otherwise act as our agent for any purpose.

3. Offering Price. Shares shall be offered for sale at a price equivalent to the net asset value per share of that series and class plus any applicable percentage of the public offering price as sales commission or as otherwise set forth in our then current prospectus. On each business day on which the New York Stock Exchange is open for business, we will furnish you with the net asset value of the Shares of each available series and class which shall be determined in accordance with our then effective prospectus. All Shares will be sold in the manner set forth in our then effective prospectus and statement of additional information, and in compliance with applicable law.

4. Compensation.

A. Sales Commission. You shall be entitled to charge a sales commission on the sale or redemption, as appropriate, of each series and class of each Fund's Shares in the amount of any initial, deferred or contingent deferred sales charge as set forth in our then effective prospectus. You may allow any sub-agents or dealers such commissions or discounts from and not exceeding the total sales commission as you shall deem advisable, so long as any such commissions or discounts are set forth in our current prospectus to the extent required by the applicable Federal and State securities laws. You may also make payments to sub-agents or dealers from your own resources, subject to the following conditions: (a) any such payments shall not create any obligation for or recourse against the Fund or any series or class, and (b) the terms and conditions of any such payments are consistent with our prospectus and applicable federal and state securities laws and are disclosed in our prospectus or statement of additional information to the extent such laws may require.

B. Distribution Plans. You shall also be entitled to compensation for your services as provided in any Distribution Plan adopted as to any series and class of any Fund's Shares pursuant to Rule 12b-1 under the 1940 Act.

5. Terms and Conditions of Sales. Shares shall be offered for sale only in those jurisdictions where they have been properly registered or are exempt from registration, and only to those groups of people which the Board may from time to time determine to be eligible to purchase such shares.

6. Orders and Payment for Shares. Orders for Shares shall be directed to the Fund's shareholder services agent, for acceptance on behalf of the Fund.

At or prior to the time of delivery of any of our Shares you will pay or cause to be paid to the custodian of the Fund's assets, for our account, an amount in cash equal to the net asset value of such Shares. Sales of Shares shall be deemed to be made when and where accepted by the Fund's shareholder services agent. The Fund's custodian and shareholder services agent shall be identified in its prospectus.

7. Purchases for Your Own Account. You shall not purchase our Shares for your own account for purposes of resale to the public, but you may purchase Shares for your own investment account upon your written assurance that the purchase is for investment purposes and that the Shares will not be resold except through redemption by us.

8. Sale of Shares to Affiliates. You may sell our Shares at net asset value to certain of your and our affiliated persons pursuant to the applicable provisions of the federal securities statutes and rules or regulations thereunder (the "Rules and Regulations"), including Rule 22d-1 under the 1940 Act, as amended from time to time.

9. Allocation of Expenses. We will pay the expenses:

- (a) Of the preparation of the audited and certified financial statements of our company to be included in any Post-Effective Amendments ("Amendments") to our Registration Statement under the 1933 Act or 1940 Act, including the prospectus and statement of additional information included therein;
- (b) Of the preparation, including legal fees, and printing of all Amendments or supplements filed with the Securities and Exchange Commission, including the copies of the prospectuses included in the Amendments and the first 10 copies of the definitive prospectuses or supplements thereto, other than those necessitated by your (including your "Parent's") activities or Rules and Regulations related to your activities where such Amendments or supplements result in expenses which we would not otherwise have incurred;
- (c) Of the preparation, printing and distribution of any reports or communications which we send to our existing shareholders; and
- (d) Of filing and other fees to Federal and State securities regulatory authorities necessary to continue offering our Shares.

You will pay the expenses:

- (a) Of printing the copies of the prospectuses and any supplements thereto and statements of additional information which are necessary to continue to offer our Shares;
- (b) Of the preparation, excluding legal fees, and printing of all Amendments and supplements to our prospectuses and statements of additional information if the Amendment or supplement arises from your (including your "Parent's") activities or Rules and Regulations related to your activities and those expenses would not otherwise have been incurred by us;
- (c) Of printing additional copies, for use by you as sales literature, of reports or other communications which we have prepared for distribution to our existing shareholders; and
- (d) Incurred by you in advertising, promoting and selling our Shares.

10. Furnishing of Information. We will furnish to you such information with respect to each series and class of Shares, in such form and signed by such of our officers as you may reasonably request, and we warrant that the statements therein contained, when so signed, will be true and correct. We will also furnish you with such information and will take such action as you may reasonably request in order to qualify our Shares for sale to the public under the Blue Sky Laws of jurisdictions in which you may wish to offer them. We will furnish you with annual audited financial statements of our books and accounts certified by independent public accountants, with semi-annual financial statements prepared by us, with registration statements and, from time to time, with such additional information regarding our financial condition as you may reasonably request.

11. Conduct of Business. Other than our currently effective prospectus, you will not issue any sales material or statements except literature or advertising which conforms to the requirements of Federal and State securities laws and regulations and which have been filed, where necessary, with the appropriate regulatory authorities. You will furnish us with copies of all such materials prior to their use and no such material shall be published if we shall reasonably and promptly object.

You shall comply with the applicable Federal and State laws and regulations where our Shares are offered for sale and conduct your affairs with us and with dealers, brokers or investors in accordance with the Rules of Fair Practice of the National Association of Securities Dealers, Inc.

12. Redemption or Repurchase Within Seven Days. If Shares are tendered to us for redemption or repurchase by us within seven business days after your acceptance of the original purchase order for such Shares, you will immediately

refund to us the full sales commission (net of allowances to dealers or brokers) allowed to you on the original sale, and will promptly, upon receipt thereof, pay to us any refunds from dealers or brokers of the balance of sales commissions reallocated by you. We shall notify you of such tender for redemption within 10 days of the day on which notice of such tender for redemption is received by us.

13. Other Activities. Your services pursuant to this Agreement shall not be deemed to be exclusive, and you may render similar services and act as an underwriter, distributor or dealer for other investment companies in the offering of their shares.

14. Term of Agreement. This Agreement shall become effective on the date of its execution, and shall remain in effect for a period of two (2) years. The Agreement is renewable annually thereafter, with respect to the Fund or, if the Fund has more than one series, with respect to each series, for successive periods not to exceed one year (i) by a vote of (a) a majority of the outstanding voting securities of the Fund or, if the Fund has more than one series, of each series, or (b) by a vote of the Board, and (ii) by a vote of a majority of the members of the Board who are not parties to the Agreement or interested persons of any parties to the Agreement (other than as members of the Board), cast in person at a meeting called for the purpose of voting on the Agreement.

This Agreement may at any time be terminated by the Fund or by any series without the payment of any penalty, (i) either by vote of the Board or by vote of a majority of the outstanding voting securities of the Fund or any series on 90 days' written notice to you; or (ii) by you on 90 days' written notice to the Fund; and shall immediately terminate with respect to the Fund and each series in the event of its assignment.

15. Suspension of Sales. We reserve the right at all times to suspend or limit the public offering of Shares upon two days' written notice to you.

16. Miscellaneous. This Agreement shall be subject to the laws of the State of California and shall be interpreted and construed to further promote the operation of the Fund as an open-end investment company. This Agreement shall supersede all Distribution Agreements and Amendments previously in effect between the parties. As used herein, the terms "Net Asset Value," "Offering Price," "Investment Company," "Open-End Investment Company," "Assignment," "Principal Underwriter," "Interested Person," "Parent," "Affiliated Person," and "Majority of the Outstanding Voting Securities" shall have the meanings set forth in the 1933 Act or the 1940 Act and the Rules and Regulations thereunder.

Nothing herein shall be deemed to protect you against any liability to us or to our securities holders to which you would otherwise be subject by reason of willful misfeasance, bad faith or gross negligence in the performance of your duties hereunder, or by reason of your reckless disregard of your obligations and duties hereunder.

If the foregoing meets with your approval, please acknowledge your acceptance by



signing each of the enclosed copies, whereupon this will become a binding agreement as of the date set forth below.

Very truly yours,

AGE HIGH INCOME FUND, INC.

By: /s/ Deborah R. Gatzek

Accepted:

Franklin/Templeton Distributors, Inc.

By:/s/ Gregory E. Johnson

DATED: May 16, 1995

## CUSTODY AGREEMENT

THIS CUSTODY AGREEMENT ("Agreement") is made and entered into as of September 17, 1991 by and between AGE High Income Fund, Inc., a Colorado Corporation (the "Fund"), and Bank of America National Trust and Savings Association, a banking association organized under the laws of the United States (the "Custodian").

### RECITALS

A. The Fund is an investment company registered under the Investment Company Act of 1940, as amended (the "Investment Company Act") that invests and reinvests, in Domestic Securities and Foreign Securities.

B. The Custodian is, and has represented to the Fund that the Custodian is, a "bank" as that term is defined in Section 2(a)(5) of the Investment Company Act of 1940, as amended and is eligible to receive and maintain custody of investment company assets pursuant to Section 17(f) and Rule 17f-2 thereunder.

C. The Fund and the Custodian desire to provide for the retention of the Custodian as the custodian of the assets of the Fund on the terms and subject to the provisions set forth herein.

### AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

#### Section 1. DEFINITIONS

For purposes of this Agreement, the following terms shall have the respective meanings specified below:

"Agreement" shall mean this Custody Agreement.

"Board of Directors" shall mean the Board of Directors of the Fund.

"Business Day" with respect to any Domestic Security means any day, other than a Saturday or Sunday, that is not a day on which banking institutions are authorized or required by law to be closed in The City of New York and, with respect to Foreign Securities, a London Business Day. "London Business Day" shall mean any day on which dealings and deposits in U.S. dollars are transacted in the London interbank market.

"Custodian" shall mean Bank of America National Trust and Savings Association.

"Domestic Securities" shall have the meaning provided in Subsection 2.1 hereof.

"Executive Committee" shall mean the executive committee of the Board of Directors.

"Foreign Custodian" shall have the meaning provided in Section 4.1 hereof.

"Foreign Securities" shall have the meaning provided in Section 2.1 hereof.

"Foreign Securities Depository" shall have the meaning provided in Section 4.1 hereof.

"Fund" shall mean the AGE High Income Fund, Inc.

"Guidelines" shall have the meaning provided in Subsection 3.5(a) hereof.

"Investment Company Act" shall mean the Investment Company Act of 1940, as amended.

"Securities" shall have the meaning provided in Section 2.1 hereof.

"Securities System" shall have the meaning provided in Section 3.1 hereof.

"Securities System Account" shall have the meaning provided in Subsection 3.8(a) hereof.

"Shares" shall mean shares of beneficial interest of the Fund.

"Subcustodian" shall have the meaning provided in Subsection 3.7 hereof, but shall not include any Foreign Custodian.

"Transfer Agent" shall mean the duly appointed and

acting transfer agent for the Fund.

"U.S." shall mean United States.

"Writing" shall mean a communication in writing, a communication by telex, the Custodian's Global Custody Instruction System<sup>TM</sup>, facsimile transmission, bankwire or other teleprocess or electronic instruction system acceptable to the Custodian.

## Section 2. APPOINTMENT OF CUSTODIAN; DELIVERY OF ASSETS

2.1 Appointment of Custodian. The Fund hereby appoints and designates the Custodian as the custodian of the assets of the Fund including cash, securities the Fund desires to be held within the United States ("Domestic Securities") and securities it desires to be held outside the United States ("Foreign Securities"). Domestic Securities and Foreign Securities are sometimes referred to herein, collectively, as "Securities." The Custodian hereby accepts such appointment and designation and agrees that it shall maintain custody of the assets of the Fund delivered to it hereunder in the manner provided for herein.

2.2 Delivery of Assets. The Fund agrees to deliver to the Custodian Securities and cash owned by the Fund, payments of income, principal or capital distributions received by the Fund with respect to Securities owned by the Fund from time to time, and the consideration received by it for such Shares or other securities of the Fund as may be issued and sold from time to time. The Custodian shall have no responsibility whatsoever for any property or assets of the Fund held or received by the Fund and not delivered to the Custodian pursuant to and in accordance with the terms hereof. All Securities accepted by the Custodian on behalf of the Fund under the terms of this Agreement shall be in "street name" or other good delivery form as determined by the Custodian.

2.3 Subcustodians. Upon receipt of Proper Instructions and a certified copy of a resolution of the Board of Directors or of the Executive Committee certified by the Secretary or an Assistant Secretary of the Fund, the Custodian may from time to time appoint one or more Subcustodians or Foreign Custodians to hold assets of the Fund in accordance with the provisions of this Agreement.

2.4 No Duty to Manage. The Custodian, a Subcustodian or a Foreign Custodian shall not have any duty or responsibility to manage or recommend investments of the assets of the Fund held by them or to initiate any purchase, sale or other investment transaction in the absence of Proper Instructions or except as

otherwise specifically provided herein.

Section 3. DUTIES OF THE CUSTODIAN WITH RESPECT TO  
ASSETS OF THE FUND HELD BY THE CUSTODIAN

3.1 Holding Securities. The Custodian shall hold and physically segregate from any property owned by the Custodian, for the account of the Fund, all non-cash property delivered by the Fund to the Custodian hereunder other than Securities which, pursuant to Subsection 3.8 hereof, are held through a registered clearing agency, a registered securities depository, the Federal Reserve's book-entry securities system (referred to herein, individually, as a "Securities System"), or held by a Subcustodian, Foreign Custodian or in a Foreign Securities Depository.

3.2 Delivery of Securities. Except as otherwise provided in Subsection 3.5 hereof, the Custodian, upon receipt of Proper Instructions, shall release and deliver Securities owned by the Fund and held by the Custodian in the following cases or as otherwise directed in Proper Instructions:

(a) except as otherwise provided herein, upon sale of such Securities for the account of the Fund and receipt by the Custodian, a Subcustodian or a Foreign Custodian of payment therefor;

(b) upon the receipt of payment by the Custodian, a Subcustodian or a Foreign Custodian in connection with any repurchase agreement related to such Securities entered into by the Fund;

(c) in the case of a sale effected through a Securities System, in accordance with the provisions of Subsection 3.8 hereof;

(d) to a tender agent or other authorized agent in connection with (i) a tender or other similar offer for Securities owned by the Fund, or (ii) a tender offer or repurchase by the Fund of its own Shares;

(e) to the issuer thereof or its agent when such Securities are called, redeemed, retired or otherwise become payable; provided, that in any such case, the cash or other consideration is to be delivered to the Custodian, a Subcustodian or a Foreign Custodian;

(f) to the issuer thereof, or its agent, for transfer into the name or nominee name of the Fund, the name or nominee name of the Custodian, the name or nominee name of any Subcustodian or Foreign Custodian; or for exchange for a different number of bonds, certificates or other evidence representing the same aggregate face amount or number of units; provided that, in any such case, the new Securities are to be delivered to the Custodian, a Subcustodian or Foreign Custodian;

(g) to the broker selling the same for examination in accordance with the "street delivery" custom;

(h) for exchange or conversion pursuant to any plan of merger, consolidation, recapitalization, or reorganization of the issuer of such Securities, or pursuant to a conversion of such Securities; provided that, in any such case, the new Securities and cash, if any, are to be delivered to the Custodian or a Subcustodian;

(i) in the case of warrants, rights or similar securities, the surrender thereof in connection with the exercise of such warrants, rights or similar Securities or the surrender of interim receipts or temporary Securities for definitive Securities; provided that, in any such case, the new Securities and cash, if any, are to be delivered to the Custodian, a subcustodian or a Foreign Custodian;

(j) for delivery in connection with any loans of Securities made by the Fund, but only against receipt by the Custodian, a Subcustodian or a Foreign Custodian of adequate collateral as determined by the Fund (and identified in Proper Instructions communicated to the Custodian), which may be in the form of cash or obligations issued by the United States government, its agencies or instrumentalities, except that in connection with any loans for which collateral is to be credited to the account of the Custodian, a Subcustodian or a Foreign Custodian in the Federal Reserve's book-entry securities system, the Custodian will not be held liable or responsible for the delivery of Securities owned by the Fund prior to the receipt of such collateral;

(k) for delivery as security in connection with any borrowings by the Fund requiring a pledge of assets by the Fund, but only against receipt by the

Custodian, a Subcustodian or a Foreign Custodian of amounts borrowed;

(l) for delivery in accordance with the provisions of any agreement among the Fund, the Custodian, a Subcustodian or a Foreign Custodian and a broker-dealer relating to compliance with the rules of registered clearing corporations and of any registered national securities exchange, or of any similar organization or organizations, regarding escrow or other arrangements in connection with transactions by the Fund;

(m) for delivery in accordance with the provisions of any agreement among the Fund, the Custodian, a Subcustodian or a Foreign Custodian and a futures commission merchant, relating to compliance with the rules of the Commodity Futures Trading Commission and/or any contract market, or any similar organization or organizations, regarding account deposits in connection with transactions by the Fund;

(n) upon the receipt of instructions from the Transfer Agent for delivery to the Transfer Agent or to the holders of Shares in connection with distributions in kind in satisfaction of requests by holders of Shares for repurchase or redemption; and

(o) for any other proper purpose, but only upon receipt of Proper Instructions, and a certified copy of a resolution of the Directors or of the Executive Committee certified by the Secretary or an Assistant Secretary of the Fund, specifying the securities to be delivered, setting forth the purpose for which such delivery is to be made, declaring such purpose to be a proper purpose, and naming the person or persons to whom delivery of such securities shall be made.

3.3 Registration of Securities. Securities held by the Custodian, a Subcustodian or a Foreign Custodian (other than bearer Securities) shall be registered in the name or nominee name of the Fund, in the name or nominee name of the Custodian or in the name or nominee name of any Subcustodian or Foreign Custodian. The Fund agrees to hold the Custodian, any such nominee, Subcustodian or Foreign Custodian harmless from any liability as a holder of record of such Securities.

3.4 Bank Accounts. The Custodian shall open and maintain a separate bank account or accounts for the Fund, subject only to draft or order by the Custodian acting pursuant

to the terms of this Agreement, and shall hold in such account or accounts, subject to the provisions hereof, all cash received by it hereunder from or for the account of the Fund, other than cash maintained by the Fund in a bank account established and used in accordance with Rule 17f-3 under the Investment Company Act. Funds held by the Custodian for the Fund may be deposited by it to its credit as Custodian in the banking departments of the Custodian, a Subcustodian or a Foreign Custodian. It is understood and agreed by the Custodian and the Fund that the rate of interest, if any, payable on such funds (including foreign currency deposits) that are deposited with the Custodian may not be a market rate of interest and that the rate of interest payable by the Custodian to the Fund shall be agreed upon by the Custodian and the Fund from time to time. Such funds shall be deposited by the Custodian in its capacity as Custodian and shall be withdrawable by the Custodian only in that capacity.

3.5 Collection of Income; Trade Settlement; Crediting of Accounts. The Custodian shall collect income payable with respect to Securities owned by the Fund, settle Securities trades for the account of the Fund and credit and debit the Fund's account with the Custodian in connection therewith as follows:

(a) Upon receipt of Proper Instructions, the Custodian shall effect the purchase of a Security by charging the account of the Fund on the contractual settlement date; provided, however, that in the case of Foreign Securities, Proper Instructions are provided to the Custodian by the Fund prior to the contractual settlement date in accordance with, and within the time period specified in the "Global Custody Guidelines for the AGE High Income Fund, Inc." (the "Guidelines") as adopted for the use of this Fund, as may be amended by the Custodian from time to time in its sole discretion. The Custodian shall have no liability of any kind to any person, including the Fund, if the Custodian effects payment on behalf of the Fund as provided for herein or in Proper Instructions, and the seller or selling broker fails to deliver the Securities purchased.

(b) Upon receipt of Proper Instructions, the Custodian shall effect the sale of a Security by delivering a certificate or other indicia of ownership, and shall credit the account of the Fund with the proceeds of such sale on the contractual settlement date; provided, however, that in the case of Foreign Securities, Proper Instructions are provided to the Custodian by the Fund prior to the contractual settlement date in accordance with, and within the time period specified in, the Guidelines. The Custodian



shall have no liability of any kind to any person, including the Fund, if the Custodian delivers such a certificate(s) or other indicia of ownership as provided for herein or in Proper Instructions, and the purchaser or purchasing broker fails to effect payment to the Fund within a reasonable time period, as determined by the Custodian in its sole discretion. In such event, the Custodian shall be entitled to reimbursement of the amount so credited to the account of the Fund in connection with such sale.

(c) The Fund is responsible for ensuring that the Custodian receives timely and accurate Proper Instructions to enable the Custodian to effect settlement of any purchase or sale. If the Custodian does not receive such instructions within the required time period, the Custodian shall have no liability of any kind to any person, including the Fund, for failing to effect settlement on the contractual settlement date. However, the Custodian shall use its best reasonable efforts to effect settlement as soon as possible after receipt of Proper Instructions.

(d) The Custodian shall credit the account of the Fund with interest income payable on interest bearing Securities on payable date. Interest income on cash balances will be credited monthly to the account of the Fund on the first Business Day (on which the Custodian is open for business) following the end of each month. Dividends and other amounts payable with respect to Domestic Securities and Foreign Securities shall be credited to the account of the Fund when received by the Custodian. The Custodian shall not be required to commence suit or collection proceedings or resort to any extraordinary means to collect such income and other amounts payable with respect to Securities owned by the Fund. The collection of income due the Fund on Domestic Securities loaned pursuant to the provisions of Subsection 3.2(j) shall be the responsibility of the Fund. The Custodian will have no duty or responsibility in connection therewith, other than to provide the Fund with such information or data as may be necessary to assist the Fund in arranging for the timely delivery to the Custodian of the income to which the Fund is entitled. The Custodian shall have no liability to any person, including the Fund, if the Custodian credits the account of the Fund with such income or other amounts payable with respect to Securities owned by the Fund (other than Securities loaned by the Fund pursuant to Subsection 3.2(j) hereof) and the Custodian

subsequently is unable to collect such income or other amounts from the payors thereof within a reasonable time period, as determined by the Custodian in its sole discretion. In such event, the Custodian shall be entitled to reimbursement of the amount so credited to the account of the Fund.

3.6 Payment of Fund Monies. Upon receipt of Proper Instructions the Custodian shall pay out monies of the Fund in the following cases or as otherwise directed in Proper Instructions:

(a) upon the purchase of Securities, futures contracts or options on futures contracts for the account of the Fund but only, except as otherwise provided herein, (i) against the delivery of such securities, or evidence of title to futures contracts or options on futures contracts, to the Custodian or a Subcustodian registered pursuant to Subsection 3.3 hereof or in proper form for transfer; (ii) in the case of a purchase effected through a Securities System, in accordance with the conditions set forth in Subsection 3.8 hereof; or (iii) in the case of repurchase agreements entered into between the Fund and the Custodian, another bank or a broker-dealer (A) against delivery of the Securities either in certificated form to the Custodian or a Subcustodian or through an entry crediting the Custodian's account at the appropriate Federal Reserve Bank with such Securities or (B) against delivery of the confirmation evidencing purchase by the Fund of Securities owned by the Custodian or such broker-dealer or other bank along with written evidence of the agreement by the Custodian or such broker-dealer or other bank to repurchase such Securities from the Fund;

(b) in connection with conversion, exchange or surrender of Securities owned by the Fund as set forth in Subsection 3.2 hereof;

(c) for the redemption or repurchase of Shares issued by the Fund;

(d) for the payment of any expense or liability incurred by the Fund, including but not limited to the following payments for the account of the Fund: custodian fees, interest, taxes, management, accounting, transfer agent and legal fees and operating expenses of the Fund whether or not such expenses are to be in whole or part capitalized or treated as deferred expenses; and

(e) for the payment of any dividends or distributions declared by the Board of Directors with respect to the Shares.

3.7 Appointment of Subcustodians. The Custodian may, upon receipt of Proper Instructions, appoint another bank or trust company, which is itself qualified under the Investment Company Act to act as a custodian (a "Subcustodian"), as the agent of the Custodian to carry out such of the duties of the Custodian hereunder as the Custodian may from time to time direct; provided, however, that the appointment of any Subcustodian shall not relieve the Custodian of its responsibilities or liabilities hereunder.

3.8 Deposit of Securities in Securities Systems. The Custodian may deposit and/or maintain Domestic Securities owned by the Fund in a Securities System in accordance with applicable Federal Reserve Board and Securities and Exchange Commission rules and regulations, if any, and subject to the following provisions:

(a) the Custodian may hold Domestic Securities of the Fund in the Depository Trust Company or the Federal Reserve's book entry system or, upon receipt of Proper Instructions, in another Securities System provided that such securities are held in an account of the Custodian in the Securities System ("Securities System Account") which shall not include any assets of the Custodian other than assets held as a fiduciary, custodian or otherwise for customers;

(b) the records of the Custodian with respect to Domestic Securities of the Fund which are maintained in a Securities System shall identify by book-entry those Domestic Securities belonging to the Fund;

(c) the Custodian shall pay for Domestic Securities purchased for the account of the Fund upon (i) receipt of advice from the Securities System that such securities have been transferred to the Securities System Account, and (ii) the making of an entry on the records of the Custodian to reflect such payment and transfer for the account of the Fund. The Custodian shall transfer Domestic Securities sold for the account of the Fund upon (A) receipt of advice from the Securities System that payment for such securities has been transferred to the Securities System Account, and (B) the making of an entry on the records of the Custodian to reflect such transfer and payment for the

account of the Fund. Copies of all advices from the Securities System of transfers of Domestic Securities for the account of the Fund shall be maintained for the Fund by the Custodian and be provided to the Fund at its request. Upon request, the Custodian shall furnish the Fund confirmation of each transfer to or from the account of the Fund in the form of a written advice or notice; and

(d) upon request, the Custodian shall provide the Fund with any report obtained by the Custodian on the Securities System's accounting system, internal accounting control and procedures for safeguarding domestic securities deposited in the Securities System.

3.9 Segregated Account. The Custodian shall upon receipt of Proper Instructions establish and maintain a segregated account or accounts for and on behalf of the Fund, into which account or accounts may be transferred cash and/or Securities, including Securities maintained in an account by the Custodian pursuant to Section 3.8 hereof, (i) in accordance with the provisions of any agreement among the Fund, the Custodian and a broker-dealer or futures commission merchant, relating to compliance with the rules of registered clearing corporations and of any national securities exchange (or the Commodity Futures Trading Commission or any registered contract market), or of any similar organization or organizations, regarding escrow or other arrangements in connection with transactions by the Fund, (ii) for purposes of segregating cash or securities in connection with options purchased, sold or written by the Fund or commodity futures contracts or options thereon purchased or sold by the Fund and (iii) for other proper corporate purposes, but only, in the case of this clause (iii), upon receipt of, in addition to Proper Instructions, a certified copy of a resolution of the Board of Directors or of the Executive Committee certified by the Secretary or an Assistant Secretary, setting forth the purpose or purposes of such segregated account and declaring such purposes to be proper corporate purposes.

3.10 Ownership Certificates for Tax Purposes. The Custodian shall execute ownership and other certificates and affidavits for all federal and state tax purposes in connection with receipt of income or other payments with respect to domestic securities of the Fund held by it and in connection with transfers of such securities.

3.11 Proxies. The Custodian shall, with respect to the Securities held hereunder, promptly deliver to the Fund all proxies, all proxy soliciting materials and all notices relating to such Securities. If the Securities are registered otherwise

than in the name of the Fund or a nominee of the Fund, the Custodian shall use its best reasonable efforts, consistent with applicable law, to cause all proxies to be promptly executed by the registered holder of such Securities in accordance with Proper Instructions.

3.12 Communications Relating to Fund Portfolio Securities. The Custodian shall transmit promptly to the Fund all written information (including, without limitation, pendency of calls and maturities of Securities and expirations of rights in connection therewith and notices of exercise of put and call options written by the Fund and the maturity of futures contracts purchased or sold by the Fund) received by the Custodian from issuers of Securities being held for the Fund. With respect to tender or exchange offers, the Custodian shall transmit promptly to the Fund all written information received by the Custodian from issuers of the Securities whose tender or exchange is sought and from the party (or its agents) making the tender or exchange offer. If the Fund desires to take action with respect to any tender offer, exchange offer or any other similar transaction, the Fund shall notify the Custodian at least three Business Days prior to the date of which the Custodian is to take such action.

3.13 Reports by Custodian. The Custodian shall supply to the Fund the daily, weekly and monthly reports described in the Guidelines as well as any other reports which the Custodian and the Fund may agree upon from time to time.

Section 4. CERTAIN DUTIES OF THE CUSTODIAN WITH RESPECT TO ASSETS OF THE FUND HELD OUTSIDE THE UNITED STATES

4.1 Custody outside the United States. The Fund authorizes the Custodian to hold Foreign Securities and cash in custody accounts which have been established by the Custodian with (i) its foreign branches, (ii) foreign banking institutions, foreign branches of United States banks and subsidiaries of United States banks or bank holding companies (each a "Foreign Custodian") and (iii) Foreign Securities depositories or clearing agencies (each a "Foreign Securities Depository"); provided, however, that the Board of Directors or the Executive Committee has approved in advance the use of each such Foreign Custodian and Foreign Securities Depository and the contract between the Custodian and each Foreign Custodian and that such approval is set forth in Proper Instructions and a certified copy of a resolution of the Board of Directors or of the Executive Committee certified by the Secretary or an Assistant Secretary of the Fund. Unless expressly provided to the contrary in this Section 4, custody of Foreign Securities and assets held outside the United States by the Custodian, a Foreign Custodian or through a Foreign Securities Depository shall be governed by Section 3 hereof.

4.2 Assets to be Held. The Custodian shall limit the securities and other assets maintained in the custody of its foreign branches, Foreign Custodians and Foreign Securities Depositories to: (i) "foreign securities", as defined in paragraph (c) (1) of Rule 17f-5 under the Investment Company Act, and (ii) cash and cash equivalents in such amounts as the Custodian or the Fund may determine to be reasonably necessary to effect the Fund's Foreign Securities transactions.

4.3 Foreign Securities Depositories. Except as may otherwise be agreed upon in writing by the Custodian and the Fund, assets of the Fund shall be maintained in Foreign Securities Depositories only through arrangements implemented by the Custodian or Foreign Custodians pursuant to the terms hereof.

4.4 Segregation of Securities. The Custodian shall identify on its books and records as belonging to the Fund, the Foreign Securities of the Fund held by each Foreign Custodian.

4.5 Agreements with Foreign Custodians. Each agreement with a Foreign Custodian shall provide generally that: (a) the Fund's assets will not be subject to any right, charge, security interest, lien or claim of any kind in favor of the Foreign Custodian or its creditors, except a claim of payment for their safe custody or administration; (b) beneficial ownership for the Fund's assets will be freely transferable without the payment of money or value other than for custody or administration; (c) adequate records will be maintained identifying the assets as belonging to the Fund; (d) the independent public accountants for the Fund, will be given access to the records of the Foreign Custodian relating to the assets of the Fund or confirmation of the contents of those records; (e) the disposition of assets of the Fund held by the Foreign Custodian will be subject only to the instructions of the Custodian or its agents; (f) the Foreign Custodian shall indemnify and hold harmless the Custodian and the Fund from and against any loss, damage, cost, expense, liability or claim arising out of or in connection with the Foreign Custodian's performance of its obligations under such agreement; (g) to the extent practicable, the Fund's assets will be adequately insured in the event of loss; and (h) the Custodian will receive periodic reports with respect to the safekeeping of the Fund's assets, including notification of any transfer to or from the Fund's account.

4.6 Access of Independent Accountants of the Fund. Upon request of the Fund, the Custodian will use its best reasonable efforts to arrange for the independent accountants of the Fund to be afforded access to the books and records of any Foreign Custodian insofar as such books and records relate to the

custody by any such Foreign Custodian of assets of the Fund.

4.7 Transactions in Foreign Custody Accounts. Upon receipt of Proper Instructions, the Custodian shall instruct the appropriate Foreign Custodian to transfer, exchange or deliver Foreign Securities owned by the Fund, but, except to the extent explicitly provided herein, only in any of the cases specified in Subsection 3.2. Upon receipt of Proper Instructions, the Custodian shall pay out or instruct the appropriate Foreign Custodian to pay out monies of the Fund in any of the cases specified in Subsection 3.6. Notwithstanding anything herein to the contrary, settlement and payment for Foreign Securities received for the account of the Fund and delivery of Foreign Securities maintained for the account of the Fund may be effected in accordance with the customary or established securities trading or securities processing practices and procedures in the jurisdiction or market in which the transaction occurs, including, without limitation, delivering securities to the purchaser thereof or to a dealer therefor (or an agent for such purchaser or dealer) against a receipt with the expectation of receiving later payment for such securities from such purchaser or dealer. Foreign Securities maintained in the custody of a Foreign Custodian may be maintained in the name of such entity or its nominee name to the same extent as set forth in Section 3.3 of this Agreement and the Fund agrees to hold any Foreign Custodian and its nominee harmless from any liability as a holder of record of such securities.

4.8 Liability of Foreign Custodian. Each agreement between the Custodian and a Foreign Custodian shall require the Foreign Custodian to exercise reasonable care in the performance of its duties and to indemnify and hold harmless the Custodian and the Fund from and against any loss, damage, cost, expense, liability or claim arising out of or in connection with the Foreign Custodian's performance of such obligations. At the election of the Fund, it shall be entitled to be subrogated to the rights of the Custodian with respect to any claims against a Foreign Custodian as a consequence of any such loss, damage, cost, expense, liability or claim if and to the extent that the Fund has not been made whole for any such loss, damage, cost, expense, liability or claim.

4.9 Monitoring Responsibilities.

(a) The Custodian will promptly inform the Fund in the event that the Custodian learns of a material adverse change in the financial condition of a Foreign Custodian or is notified by (i) a foreign banking institution employed as a Foreign Custodian that there appears to be a substantial likelihood that its shareholders' equity will decline below \$200

million or that its shareholders' equity has declined below \$200 million (in each case computed in accordance with generally accepted United States accounting principles) and denominated in U.S. dollars, or (ii) a subsidiary of a United States bank or bank holding company acting as a Foreign Custodian that there appears to be a substantial likelihood that its shareholders' equity will decline below \$100 million or that its shareholders' equity has declined below \$100 million (in each case computed in accordance with generally accepted United States accounting principles) and denominated in U.S. dollars.

(b) The custodian will furnish such information as may be reasonably necessary to assist the Fund's Board of Directors in its annual review and approval of the continuance of all contracts or arrangements with Foreign Subcustodians.

## Section 5. PROPER INSTRUCTIONS

As used in this Agreement, the term "Proper Instructions" means instructions of the Fund received by the Custodian via telephone or in Writing which the Custodian believes in good faith to have been given by Authorized Persons (as defined below) or which are transmitted with proper testing or authentication pursuant to terms and conditions which the Custodian may specify. Any Proper Instructions delivered to the Custodian by telephone shall promptly thereafter be confirmed in Writing by an Authorized Person, but the Fund will hold the Custodian harmless for its failure to send such confirmation in writing, the failure of such confirmation to conform to the telephone instructions received or the Custodian's failure to produce such confirmation at any subsequent time. Unless otherwise expressly provided, all Proper Instructions shall continue in full force and effect until cancelled or superseded. If the Custodian requires test arrangements, authentication methods or other security devices to be used with respect to Proper Instructions, any Proper Instructions given by the Fund thereafter shall be given and processed in accordance with such terms and conditions for the use of such arrangements, methods or devices as the Custodian may put into effect and modify from time to time. The Fund shall safeguard any testkeys, identification codes or other security devices which the Custodian shall make available to it. The Custodian may electronically record any Proper Instructions given by telephone, and any other telephone discussions, with respect to its activities hereunder. As used in this Agreement, the term "Authorized Persons" means such officers or such agents of the Fund as have been designated by a resolution of the Board of trustees or of the Executive Committee, a certified copy of which has been provided to the



Custodian, to act on behalf of the Fund under this Agreement. Each of such persons shall continue to be an Authorized Person until such time as the Custodian receives Proper Instructions that any such officer or agent is no longer an Authorized Person.

#### Section 6. ACTIONS PERMITTED WITHOUT EXPRESS AUTHORITY

The Custodian may in its discretion, without express authority from the Fund:

(a) make payments to itself or others for minor expenses of handling Securities or other similar items relating to its duties under this Agreement, provided that all such payments shall be accounted for to the Fund;

(b) endorse for collection, in the name of the Fund, checks, drafts and other negotiable instruments; and

(c) in general, attend to all non-discretionary details in connection with the sale, exchange, substitution, purchase, transfer and other dealings with the Securities and property of the Fund except as otherwise provided in Proper Instructions.

#### Section 7. EVIDENCE OF AUTHORITY

The Custodian shall be protected in acting upon any instructions (conveyed by telephone or in Writing), notice, request, consent, certificate or other instrument or paper believed by it to be genuine and to have been properly given or executed by or on behalf of the Fund. The Custodian may receive and accept a certified copy of a resolution of the Board of Directors or Executive Committee as conclusive evidence (a) of the authority of any person to act in accordance with such resolution or (b) of any determination or of any action by the Board of Directors or Executive Committee as described in such resolution, and such resolution may be considered as in full force and effect until receipt by the Custodian of written notice by an Authorized Person to the contrary.

#### Section 8. DUTY OF CUSTODIAN TO SUPPLY INFORMATION

The Custodian shall cooperate with and supply necessary information in its possession (to the extent permissible under applicable law) to the entity or entities appointed by the Board of Directors to keep the books of account of the Fund and/or

compute the net asset value per Share of the outstanding Shares of the Fund.

#### Section 9. RECORDS

The Custodian shall create and maintain all records relating to its activities under this Agreement which are required with respect to such activities under Section 31 of the Investment Company Act and Rules 31a-1 and 31a-2 thereunder. All such records shall be the property of the Fund and shall at all times during the regular business hours of the Custodian be open for inspection by duly authorized officers, employees or agents of the Fund and employees and agents of the Securities and Exchange Commission. The Custodian shall, at the Fund's request, supply the Fund with a tabulation of Securities owned by the Fund and held by the Custodian and shall, when requested to do so by the Fund and for such compensation as shall be agreed upon between the Fund and the Custodian, include certificate numbers in such tabulations.

#### Section 10. COMPENSATION OF CUSTODIAN

The Custodian shall be entitled to reasonable compensation for its services and expenses as Custodian, as agreed upon from time to time between the Fund and the Custodian.

#### Section 11. RESPONSIBILITY OF CUSTODIAN

The Custodian shall be responsible for the performance of only such duties as are set forth herein or contained in Proper Instructions and shall use reasonable care in carrying out such duties. The Custodian shall be liable to the Fund for any loss which shall occur as the result of the failure of a Foreign Custodian or a Foreign Securities Depository engaged by such Foreign Custodian or the Custodian to exercise reasonable care with respect to the safekeeping of securities and other assets of the Fund to the same extent that the Custodian would be liable to the Fund if the Custodian itself were holding such securities and other assets. In the event of any loss to the Fund by reason of the failure of the Custodian, a Foreign Custodian or a Foreign Securities Depository engaged by such Foreign Custodian or the Custodian to utilize reasonable care, the Custodian shall be liable to the Fund to the extent of the Fund's damages, to be determined based on the market value of the property which is the subject of the loss at the date of discovery of such loss and without reference to any special conditions or circumstances. The Custodian shall be held to the exercise of reasonable care in carrying out this Agreement. The Fund agrees to indemnify and

hold harmless the Custodian and its nominees from all taxes, charges, expenses, assessments, claims and liabilities (including legal fees and expenses) incurred by any of them in connection with the performance of this Agreement, except such as may arise from any negligent action, negligent failure to act or willful misconduct on the part of the indemnified entity or any Foreign Custodian or Foreign Securities Depository. The Custodian shall be entitled to rely, and may act, on advice of counsel (who may be counsel for the Fund) on all matters and shall be without liability for any action reasonably taken or omitted pursuant to such advice. The Custodian need not maintain any insurance for the benefit of the Fund.

All collections of funds or other property paid or distributed in respect of Securities held by the Custodian, agent, Subcustodian or Foreign Custodian hereunder shall be made at the risk of the Fund. The Custodian shall have no liability for any loss occasioned by delay in the actual receipt of notice by the Custodian, agent, Subcustodian or by a Foreign Custodian of any payment, redemption or other transaction regarding securities in respect of which the Custodian has agreed to take action as provided in Section 3 hereof. The Custodian shall not be liable for any action taken in good faith upon Proper Instructions or upon any certified copy of any resolution of the Board of Directors and may rely on the genuineness of any such documents which it may in good faith believe to be validly executed. The Custodian shall not be liable for any loss resulting from, or caused by, the direction of the Fund to maintain custody of any Securities or cash in a foreign country including, but not limited to, losses resulting from nationalization, expropriation, currency restrictions, civil disturbance, acts of war or terrorism, insurrection, revolution, nuclear fusion, fission or radiation or other similar occurrences or events beyond the control of the Custodian. Finally, the Custodian shall not be liable for any taxes, including interest and penalties with respect thereto, that may be levied or assessed upon or in respect of any assets of the Fund held by the Custodian.

## Section 12. LIMITED LIABILITY OF THE FUND

The Custodian acknowledges that it has received notice of and accepts the limitations of the Fund's liability as set forth in its Agreement and Declaration of Fund. The Custodian agrees that the Fund's obligation hereunder shall be limited to the assets of the Fund, and that the Custodian shall not seek satisfaction of any such obligation from the shareholders of the Fund nor from any Director, officer, employee, or agent of the Fund.

## Section 13.

### EFFECTIVE PERIOD; TERMINATION

This Agreement shall become effective as of the date of its execution and shall continue in full force and effect until terminated as hereinafter provided. This Agreement may be terminated by the Fund or the Custodian by 60 days notice in Writing to the other provided that any termination by the Fund shall be authorized by a resolution of the Board of Directors, a certified copy of which shall accompany such notice of termination, and provided further, that such resolution shall specify the names of the persons to whom the Custodian shall deliver the assets of the Fund held by it. If notice of termination is given by the Custodian, the Fund shall, within 60 days following the giving of such notice, deliver to the Custodian a certified copy of a resolution of the Board of Directors specifying the names of the persons to whom the Custodian shall deliver assets of the Fund held by it. In either case the Custodian will deliver such assets to the persons so specified, after deducting therefrom any amounts which the Custodian determines to be owed to it hereunder (including all costs and expenses of delivery or transfer of Fund assets to the persons so specified). If within 60 days following the giving of a notice of termination by the Custodian, the Custodian does not receive from the Fund a certified copy of a resolution of the Board of Directors specifying the names of the persons to whom the Custodian shall deliver the assets of the Fund held by it, the Custodian, at its election, may deliver such assets to a bank or trust company doing business in the State of California to be held and disposed of pursuant to the provisions of this Agreement or may continue to hold such assets until a certified copy of one or more resolutions as aforesaid is delivered to the Custodian. The obligations of the parties hereto regarding the use of reasonable care, indemnities and payment of fees and expenses shall survive the termination of this Agreement.

## Section 14.

### MISCELLANEOUS

14.1 Relationship. Nothing contained in this Agreement shall (i) create any fiduciary, joint venture or partnership relationship between the Custodian and the Fund or (ii) be construed as or constitute a prohibition against the provision by the Custodian or any of its affiliates to the Fund of investment banking, securities dealing or brokerages services or any other banking or financial services.

14.2 Further Assurances. Each party hereto shall furnish to the other party hereto such instruments and other documents as such other party may reasonably request for the purpose of carrying out or evidencing the transactions

contemplated by this Agreement.

14.3 Attorneys' Fees. If any lawsuit or other action or proceeding relating to this Agreement is brought by a party hereto against the other party hereto, the prevailing party shall be entitled to recover reasonable attorneys' fees, costs and disbursements (including allocated costs and disbursements of in-house counsel), in addition to any other relief to which the prevailing party may be entitled.

14.4 Notices. Except as otherwise specified herein, each notice or other communication hereunder shall be in Writing and shall be delivered to the intended recipient at the following address (or at such other address as the intended recipient shall have specified in a written notice given to the other parties hereto):

if to the Fund :

AGE High Income Fund, Inc.  
c/o Franklin Resources, Inc.  
777 Mariners Island Blvd.  
San Mateo, CA 94404  
Attention: Fund Manager

if to the Custodian:

Bank of America NT&SA  
International Securities Services  
25 Cannon Street  
London EC4P HN  
England  
Attention: Manager

14.5 Headings. The underlined headings contained herein are for convenience of reference only, shall not be deemed to be a part of this Agreement and shall not be referred to in connection with the interpretation hereof.

14.6 Counterparts. This Agreement may be executed in counterparts, each of which shall constitute an original and both of which, when taken together, shall constitute one agreement.

14.7 Governing Law. This Agreement shall be construed in accordance with, and governed in all respects by, the laws of the State of California (without giving effect to principles of conflict of laws).

14.8 Force Majeure. Subject to the provisions of Section 11 hereof regarding the Custodian's general standard of care, no failure, delay or default in performance of any

obligation hereunder shall constitute an event of default or a breach of this agreement, or give rise to any liability whatsoever on the part of one party hereto to the other, to the extent that such failure to perform, delay or default arises out of a cause beyond the control and without negligence of the party otherwise chargeable with failure, delay or default; including, but not limited to: action or inaction of governmental, civil or military authority; fire; strike; lockout or other labor dispute; flood; war; riot; theft; earthquake; natural disaster; breakdown of public or common carrier communications facilities; computer malfunction; or act, negligence or default of the other party. This paragraph shall in no way limit the right of either party to this Agreement to make any claim against third parties for any damages suffered due to such causes.

14.9 Successors and Assigns. This Agreement shall be binding upon, and shall inure to the benefit of, the parties hereto and their respective successors and assigns, if any.

14.10 Waiver. No failure on the part of any person to exercise any power, right, privilege or remedy hereunder, and no delay on the part of any person in the exercise of any power, right, privilege or remedy hereunder, shall operate as a waiver thereof; and no single or partial exercise of any such power, right, privilege or remedy shall preclude any other or further exercise thereof or of any other power, right, privilege or remedy.

14.11 Amendments. This Agreement may not be amended, modified, altered or supplemented other than by means of an agreement or instrument executed on behalf of each of the parties hereto.

14.12 Severability. In the event that any provision of this Agreement, or the application of any such provision to any person or set of circumstances, shall be determined to be invalid, unlawful, void or unenforceable to any extent, the remainder of this Agreement, and the application of such provision to persons or circumstances other than those as to which it is determined to be invalid, unlawful, void or unenforceable, shall not be impaired or otherwise affected and shall continue to be valid and enforceable to the fullest extent permitted by law.

14.13 Parties in Interest. None of the provisions of this Agreement is intended to provide any rights or remedies to any person other than the Fund and the Custodian and their respective successors and assigns, if any.

14.14 Entire Agreement. This Agreement sets forth the entire understanding of the parties hereto and supersedes all

prior agreements and understandings between the parties hereto relating to the subject matter hereof.

14.15 Variations of Pronouns. Whenever required by the context hereof, the singular number shall include the plural, and vice versa; the masculine gender shall include the feminine and neuter genders; and the neuter gender shall include the masculine and feminine genders.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and delivered as of the date first above written.

"Custodian":

BANK OF AMERICA NATIONAL TRUST  
AND SAVINGS ASSOCIATION

By: /s/ John B. Housen

Its \_\_\_\_\_

"Fund"

AGE High Income Fund, Inc.

By: /s/ Rupert H. Johnson, Jr.

Its: President

Stradley Ronon Stevens and Young  
2600 One Commerce Square  
Philadelphia, Pennsylvania 19103-7098

Direct Dial: (215) 564-8101

July 25, 1995

AGE High Income Fund, Inc.  
777 Mariners Island Boulevard  
San Mateo, Ca 94404

Re: AGE High Income Fund, Inc.

Gentlemen:

We have examined the Articles of Incorporation of AGE High Income Fund, Inc. ("Fund"), a corporation organized under Colorado law, the Bylaws of the Fund, and its form of Share Certificate, all as amended to date, and the various pertinent corporate documents and proceedings we deem material. We have also examined the Notification of Registration and the Registration Statements filed under the Investment Company Act of 1940 ("Investment Company Act") and the Securities Act of 1933 ("Securities Act"), all as amended to date, as well as other items we deem material to this opinion.

You have indicated that, pursuant to Section 24(e)(1) of the Investment Company Act, the Fund intends to file Post-Effective Amendment No. 34 to its registration statement under the Securities Act to register 10,092,468 additional shares for sale pursuant to its currently effective registration statement under the Securities Act.

Based upon the foregoing information and examination, it is our opinion that the Fund is a valid and subsisting corporation organized under the laws of the State of Colorado and that the proposed registration of the 10,092,468 shares is proper and such shares, when issued for a consideration deemed by the Board of Directors to be consistent with the Articles of Incorporation, and as described in the Fund's prospectus contained in its Securities Act registration statement, will be legally outstanding, fully-paid and non-assessable shares, and the holders of such shares will have all the rights provided for with respect to such holding by the Articles of Incorporation as amended and the laws of the State of Colorado.

We hereby consent to the use of this opinion as an exhibit to Post-Effective Amendment No. 34 to be filed by the Fund, covering the registration of the said shares under the Securities Act and the applications



and registration statements, and amendments thereto, filed in accordance with the securities laws of the several states in which shares of the Fund are offered, and we further consent to reference in the Prospectus and Statement of Additional Information of the Fund to the fact that this opinion concerning the legality of the issue has been rendered by us.

Very truly yours,

STRADLEY, RONON, STEVENS & YOUNG

By: /s/ Audrey C. Talley  
Audrey C. Talley

CONSENT OF INDEPENDENT AUDITORS

To the Board of Directors  
AGE High Income Fund, Inc.

We consent to the incorporation by reference in Post-Effective Amendment No. 34 to the Registration Statement of AGE High Income Fund, Inc. on Form N-1A (File No.811-1608 and 2-30203) of our report dated June 30, 1995 on our audit of the financial statements and financial highlights of the Fund, which report is included in the Annual Report to Shareholders for the year ended May 31, 1995 which is incorporated by reference in the Registration Statement.

/s/ Coopers & Lybrand L.L.P.  
COOPERS & LYBRAND L.L.P.

San Francisco, California  
July 26, 1995

AGE HIGH INCOME FUND, INC.

Preamble to Distribution Plan

The following Distribution Plan (the "Plan") has been adopted pursuant to Rule 12b-1 under the Investment Company Act of 1940 (the "Act") by AGE High Income Fund, Inc. (the "Fund"), which Plan shall take effect on the 1st day of May, 1994 (the "Effective Date of the Plan"). The Plan has been approved by a majority of the Board of Directors of the Fund (the "Board of Directors"), including a majority of the directors who are not interested persons of the Fund and who have no direct or indirect financial interest in the operation of the Plan (the "non-interested directors"), cast in person at a meeting called for the purpose of voting on such Plan.

In reviewing the Plan, the Board of Directors considered the schedule and nature of payments and terms of the Management Agreement between the Fund and Franklin Advisers, Inc. ("Advisers") and the terms of the Underwriting Agreement between the Fund and Franklin/Templeton Distributors, Inc. ("Distributors"). The Board of Directors concluded that the compensation of Advisers under the Management Agreement, and of Distributors, under the Underwriting Agreement, was fair and not excessive; however, the Board of Directors also recognized that uncertainty may exist from time to time with respect to whether payments to be made by the Fund to Advisers, Distributors, or others or by Advisers or Distributors to others may be deemed to constitute distribution expenses. Accordingly, the Board of Directors determined that the Plan should provide for such payments and that adoption of the Plan would be prudent and in the best interest of the Fund and its shareholders. Such approval included a determination that in the exercise of their reasonable business judgment and in light of their fiduciary duties, there is a reasonable likelihood that the Plan will benefit the Fund and its shareholders.

DISTRIBUTION PLAN

1. The Fund shall reimburse Distributors or others for all expenses incurred by Distributors or others in the promotion and distribution of the shares of the Fund, including but not limited to, the printing of prospectuses and reports used for sales purposes, expenses of preparing and distributing sales literature and related expenses, advertisements, and other distribution-related expenses, including a prorated portion of Distributors'

overhead expenses attributable to the distribution of Fund shares, as well as any distribution or service fees paid to securities dealers or their firms or others who have executed a servicing agreement with the Fund, Distributors or its affiliates, which form of agreement has been approved from time to time by the directors, including the non-interested directors.

2. The maximum amount which may be reimbursed by the Fund to Distributors or others pursuant to Paragraph 1 herein shall be 0.15% per annum of the average daily net assets of the Fund. Said reimbursement shall be made quarterly by the Fund to Distributors or others.

3. In addition to the payments which the Fund is authorized to make pursuant to paragraphs 1 and 2 hereof, to the extent that the Fund, Advisers, Distributors or other parties on behalf of the Fund, Advisers or Distributors make payments that are deemed to be payments for the financing of any activity primarily intended to result in the sale of shares issued by the Fund within the context of Rule 12b-1 under the Act, then such payments shall be deemed to have been made pursuant to the Plan.

In no event shall the aggregate asset-based sales charges which include payments specified in paragraphs 1 and 2, plus any other payments deemed to be made pursuant to the Plan under this paragraph, exceed the amount permitted to be paid pursuant to the Rules of Fair Practice of the National Association of Securities Dealers, Inc., Article III, Section 26(d).

4. Distributors shall furnish to the Board of Directors, for their review, on a quarterly basis, a written report of the monies reimbursed to it and to others under the Plan, and shall furnish the Board of Directors with such other information as the Board of Directors may reasonably request in connection with the payments made under the Plan in order to enable the Board of Directors to make an informed determination of whether the Plan should be continued.

5. The Plan shall continue in effect for a period of more than one year only so long as such continuance is specifically approved at least annually by a vote of the Board of Directors, including the non-interested directors, cast in person at a meeting called for the purpose of voting on the Plan.

6. The Plan, and any agreements entered into pursuant to this Plan, may be terminated at any time, without penalty, by vote of a majority of the outstanding voting securities of the or by vote of a majority of the non-interested directors, on not more than sixty (60) days' written notice, or by Distributors on not more than sixty (60) days' written notice, and shall terminate automatically in the event of any act that constitutes an

assignment of the Management Agreement between the Fund and Advisers.

7. The Plan, and any agreements entered into pursuant to this Plan, may not be amended to increase materially the amount to be spent for distribution pursuant to Paragraph 2 hereof without approval by a majority of the Fund's outstanding voting securities.

8. All material amendments to the Plan, or any agreements entered into pursuant to this Plan, shall be approved by a vote of the non-interested directors cast in person at a meeting called for the purpose of voting on any such amendment.

9. So long as the Plan is in effect, the selection and nomination of the Fund's non-interested directors shall be committed to the discretion of such non-interested directors.

This Plan and the terms and provisions thereof are hereby accepted and agreed to by the Fund and Distributors as evidenced by their execution hereof.

AGE HIGH INCOME FUND, INC.

By: /s/ Deborah R. Gatzek

FRANKLIN/TEMPLETON DISTRIBUTORS, INC.

By: /s/ Harmon E. Burns

## CLASS II DISTRIBUTION PLAN

I. Investment Company: AGE HIGH INCOME FUND, INC.

II. Fund: AGE HIGH INCOME FUND, INC.

III. Maximum Per Annum Rule 12b-1 Fees for Class II Shares  
(as a percentage of average daily net assets of the class)

A. Distribution Fee: 0.50%

B. Service Fee: 0.15%

### PREAMBLE TO CLASS II DISTRIBUTION PLAN

The following Distribution Plan (the "Plan") has been adopted pursuant to Rule 12b-1 under the Investment Company Act of 1940 (the "Act") by the Investment Company named above ("Investment Company") for the class II shares (the "Class") of each Fund named above ("Fund"), which Plan shall take effect as of the date class II shares are first offered (the "Effective Date of the Plan"). The Plan has been approved by a majority of the Board of Directors or Trustees of the Investment Company (the "Board"), including a majority of the Board members who are not interested persons of the Investment Company and who have no direct, or indirect financial interest in the operation of the Plan (the "non-interested Board members"), cast in person at a meeting called for the purpose of voting on such Plan.

In reviewing the Plan, the Board considered the schedule and nature of payments and terms of the Management Agreement between the Investment Company and Franklin Advisers, Inc. and the terms of the Underwriting Agreement between the Investment Company and Franklin/Templeton Distributors, Inc. ("Distributors"). The Board concluded that the compensation of Advisers, under the Management Agreement, and of Distributors, under the Underwriting Agreement, was fair and not excessive. The approval of the Plan included a determination that in the exercise of their reasonable business judgment and in light of their fiduciary duties, there is a reasonable likelihood that the Plan will benefit the Fund and its shareholders.

### DISTRIBUTION PLAN

1. (a) The Fund shall pay to Distributors a quarterly fee not to exceed the above-stated maximum distribution fee per annum of the Class' average daily net assets represented by shares of

the Class, as may be determined by the Board from time to time.

(b) In addition to the amounts described in (a) above, the Fund shall pay (i) to Distributors for payment to dealers or others, or (ii) directly to others, an amount not to exceed the above-stated maximum service fee per annum of the Class' average daily net assets represented by shares of the Class, as may be determined by the Fund's Board from time to time, as a service fee pursuant to servicing agreements which have been approved from time to time by the Board, including the non-interested Board members.

2. (a) Distributors shall use the monies paid to it pursuant to Paragraph 1(a) above to assist in the distribution and promotion of shares of the Class. Payments made to Distributors under the Plan may be used for, among other things, the printing of prospectuses and reports used for sales purposes, expenses of preparing and distributing sales literature and related expenses, advertisements, and other distribution-related expenses, including a pro-rated portion of Distributors' overhead expenses attributable to the distribution of Class shares, as well as for additional distribution fees paid to securities dealers or their firms or others who have executed agreements with the Investment Company, Distributors or its affiliates, which form of agreement has been approved from time to time by the Trustees, including the non-interested trustees. In addition, such fees may be used to pay for advancing the commission costs to dealers or others with respect to the sale of Class shares.

(b) The monies to be paid pursuant to paragraph 1(b) above shall be used to pay dealers or others for, among other things, furnishing personal services and maintaining shareholder accounts, which services include, among other things, assisting in establishing and maintaining customer accounts and records; assisting with purchase and redemption requests; arranging for bank wires; monitoring dividend payments from the Fund on behalf of customers; forwarding certain shareholder communications from the Fund to customers; receiving and answering correspondence; and aiding in maintaining the investment of their respective customers in the Class. Any amounts paid under this paragraph 2(b) shall be paid pursuant to a servicing or other agreement, which form of agreement has been approved from time to time by the Board.

3. In addition to the payments which the Fund is authorized to make pursuant to paragraphs 1 and 2 hereof, to the extent that the Fund, Advisers, Distributors or other parties on behalf of the Fund, Advisers or Distributors make payments that are deemed to be payments by the Fund for the financing of any activity primarily intended to result in the sale of Class shares issued

by the Fund within the context of Rule 12b-1 under the Act, then such payments shall be deemed to have been made pursuant to the Plan.

In no event shall the aggregate asset-based sales charges which include payments specified in paragraphs 1 and 2, plus any other payments deemed to be made pursuant to the Plan under this paragraph, exceed the amount permitted to be paid pursuant to the Rules of Fair Practice of the National Association of Securities Dealers, Inc., Article III, Section 26(d).

4. Distributors shall furnish to the Board, for its review, on a quarterly basis, a written report of the monies reimbursed to it and to others under the Plan, and shall furnish the Board with such other information as the Board may reasonably request in connection with the payments made under the Plan in order to enable the Board to make an informed determination of whether the Plan should be continued.

5. The Plan shall continue in effect for a period of more than one year only so long as such continuance is specifically approved at least annually by the Board, including the non-interested Board members, cast in person at a meeting called for the purpose of voting on the Plan.

6. The Plan, and any agreements entered into pursuant to this Plan, may be terminated at any time, without penalty, by vote of a majority of the outstanding voting securities of the Fund or by vote of a majority of the non-interested Board members, on not more than sixty (60) days' written notice, or by Distributors on not more than sixty (60) days' written notice, and shall terminate automatically in the event of any act that constitutes an assignment of the Management Agreement between the Fund and Advisers.

7. The Plan, and any agreements entered into pursuant to this Plan, may not be amended to increase materially the amount to be spent for distribution pursuant to Paragraph 1 hereof without approval by a majority of the Fund's outstanding voting securities.

8. All material amendments to the Plan, or any agreements entered into pursuant to this Plan, shall be approved by the non-interested Board members cast in person at a meeting called for the purpose of voting on any such amendment.

9. So long as the Plan is in effect, the selection and nomination of the Fund's non-interested Board members shall be committed to the discretion of such non-interested Board members.

This Plan and the terms and provisions thereof are hereby



accepted and agreed to by the Investment Company and Distributors  
as evidenced by their execution hereof.

Date: March 30, 1995

Investment Company

By: /s/ Deborah R. Gatzek

Franklin/Templeton Distributors, Inc.

By: /s/ Gregory E. Johnson

POWER OF ATTORNEY

The undersigned officers and directors of AGE HIGH INCOME FUND, INC. (the "Registrant") hereby appoint HARMON E. BURNS, DEBORAH R. GATZEK, KAREN L. SKIDMORE, LARRY L. GREENE AND MARK H. PLAFKER, (with full power to each of them to act alone) his attorney-in-fact and agent, in all capacities, to execute, and to file any of the documents referred to below relating to Post-Effective Amendments to the Registrant's registration statement on Form N-1A under the Investment Company Act of 1940, as amended, and under the Securities Act of 1933 covering the sale of shares by the Registrant under prospectuses becoming effective after this date, including any amendment or amendments increasing or decreasing the amount of securities for which registration is being sought, with all exhibits and any and all documents required to be filed with respect thereto with any regulatory authority. Each of the undersigned grants to each of said attorneys, full authority to do every act necessary to be done in order to effectuate the same as fully, to all intents and purposes as he could do if personally present, thereby ratifying all that said attorneys-in-fact and agents, may lawfully do or cause to be done by virtue hereof.

The undersigned officers and directors hereby execute this Power of Attorney as of this 17th day of January 1995.

/s/ Rupert H. Johnson, Jr.  
Rupert H. Johnson, Jr.,  
Director  
Principal Executive Officer  
and Director

/s/ Frank H. Abbott  
Frank H. Abbott, III,

/s/ Harmon E. Burns  
Harmon E. Burns, Director

/s/ Robert F. Carlson  
Robert F. Carlson, Director

/s/ Roy V. Fox  
Roy V. Fox, Director

/s/ S. Joseph Fortunato  
S. Joseph Fortunato, Director

/s/ R. Martin Wiskemann  
R. Martin Wiskemann, Director

/s/ Martin L. Flanagan  
Martin L. Flanagan, Principal  
Financial Officer

/s/ Diomedes Loo-Tam  
Diomedes Loo-Tam,  
Principal Accounting Officer

CERTIFICATE OF SECRETARY

I, Deborah R. Gatzek, certify that I am Secretary of AGE High Income Fund, Inc. (the "Fund").

As Secretary of the Fund, I further certify that the following resolution was adopted by a majority of the Directors of the Fund present at a meeting held at 777 Mariners Island Boulevard, San Mateo, California, on January 17, 1995.

RESOLVED, that a Power of Attorney, substantially in the form of the Power of Attorney presented to this Board, appointing Harmon E. Burns, Deborah R. Gatzek, Karen L. Skidmore, Larry L. Greene and Mark H. Plafker as attorneys-in-fact for the purpose of filing documents with the Securities and Exchange Commission, be executed by each Director and designated officer.

I declare under penalty of perjury that the matters set forth in this certificate are true and correct of my own knowledge.

Dated: January 17, 1995

/s/ Deborah R. Gatzek  
Deborah R. Gatzek  
Secretary

Franklin

Fund

Form of Multiple Class Plan

This Multiple Class Plan (the "Plan") has been adopted by a majority of the Board of [Directors/Trustees] of the Franklin Fund (the "Fund") [for its series]. The Board has determined that the Plan is in the best interests of each class and the Fund as a whole. The Plan sets forth the provisions relating to the establishment of multiple classes of shares for the Fund.

1. The Fund shall offer two classes of shares, to be

known as Franklin Fund - Class I and Franklin Fund - Class II.

2. Class I shares shall carry a front-end sales charge ranging from

[ % - %], and Class II shares shall carry a front-end sales charge of 1.00%.

3. Class I shares shall not be subject to a contingent deferred sales charge ("CDSC") except in the following limited circumstances. On investments of \$1 million or more, a contingent deferred sales charge of 1.00% of the lesser of the then-current net asset value or the original net asset value at the time of purchase applies to redemptions of those investments within the contingency period of 12 months from the calendar month following their purchase. The CDSC is waived in certain circumstances, as described in the Fund's prospectus.

4. Class II shares redeemed within 18 months of their purchase shall be assessed a CDSC of 1.00% on the lesser of the then-current net asset value or the original net asset value at the time of purchase. The CDSC is waived in certain circumstances as described in the Fund's prospectus.

5. The Rule 12b-1 Plan associated with Class I shares may be used to reimburse Franklin/Templeton Distributors, Inc. (the "Distributor") or others for expenses incurred in the promotion and distribution of the shares of Class I. Such expenses include, but are not limited to, the printing of prospectuses and reports used for sales purposes, expenses of preparing and distributing sales literature and related expenses, advertisements, and other distribution-related expenses, including a prorated portion of the Distributor's overhead expenses attributable to the distribution of Class shares, as well as any distribution or service fees paid to securities dealers or their firms or others who have executed a servicing agreement with the Fund for the Class, the Distributor or its affiliates.

The Rule 12b-1 Plan associated with Class II shares has two components. The first component is a shareholder servicing fee, to be paid to broker-dealers, banks, trust companies and others who will provide personal assistance to shareholders in servicing their accounts. The second component is an asset-based sales charge to be retained by the Distributor during the first year after sale of shares, and, in subsequent years, to be paid to dealers or retained by the Distributor to be used in the promotion and distribution of Class II shares, in a manner similar to that described above for (Class I shares).

The Plans shall operate in accordance with the Rules of Fair Practice of the National Association of Securities Dealers, Inc., Article III, section 26(d).

6. The only difference in expenses as between Class I and Class II shares shall relate to differences in the Rule 12b-1 plan expenses of each class, as described in each class' Rule 12b-1 Plan.

7. There shall be no conversion features associated with the Class I and Class II shares.

8. Shares of Class I of the Fund may only be exchanged for shares of Class I of any other fund in the Franklin/Templeton Group and may not be exchanged into the Franklin/Templeton Money Fund I! of the Franklin/Templeton Money Fund Trust. Shares of Class II of the Fund may only be exchanged for shares of Class II of any other fund in the Franklin/Templeton Group and may also be exchanged into the Franklin/Templeton Money Fund II of the Franklin/Templeton Money Fund Trust.

9. Each Class will vote separately with respect to the Rule 12b-1 Plan related to that Class.

10. On an ongoing basis, the [directors/trustees] pursuant to their fiduciary responsibilities under the 1940 Act and otherwise, will monitor the Fund for the existence of any material conflicts between the interests of the two classes of shares. The [directors/trustees], including a majority of the independent [directors/trustees], shall take such action as is reasonably necessary to eliminate any such conflict that may develop. Franklin Advisers, Inc. and Franklin/Templeton Distributors, Inc. shall be responsible for alerting the Board to any material conflicts that arise.

11. All material amendments to this Plan must be approved by a majority of the [directors/trustees] of the Fund, including a majority of the [directors/trustees] who are not interested persons of the Fund.

#### SCHEDULE A

INVESTMENT COMPANY	FUND & CLASS; TITAN NUMBER
Franklin Gold Fund	Franklin Gold Fund - Class II; 232
Franklin Equity Fund	Franklin Equity Fund - Class II; 234
AGE High Income Fund, Inc.	AGE High Income Fund - Class II; 205
Franklin Custodian Funds, Inc.	Growth Series - Class II; 206

Utilities Series - Class II; 207  
Income Series - Class II; 209  
U.S. Government Securities  
Series - Class II; 210

Franklin California Tax-Free Income Fund, Inc.	Franklin California Tax-Free Income Fund - Class II; 212
Franklin New York Tax-Free Income Fund, Inc.	Franklin New York Tax-Free Income Fund - Class II; 215
Franklin Federal Tax-Free Income Fund	Franklin Federal Tax-Free Income Fund - Class II; 216
Franklin Managed Trust	Franklin Rising Dividends Fund - Class II; 258
Franklin California Tax-Free Trust	Franklin California Insured Tax-Free Income Fund - Class II; 224
Franklin New York Tax-Free Trust	Franklin New York Insured Tax-Free Income Fund - Class II; 281
Franklin Investors Securities Trust	Franklin Global Government Income Fund - Class II; 235 Franklin Equity Income Fund - Class II; 239
Franklin Strategic Series	Franklin Global Utilities Fund - Class II; 297
Franklin Real Estate Securities Trust	Franklin Real Estate Securities Fund - Class II; 292

INVESTMENT COMPANY      FUND AND CLASS; TITAN NUMBER

Franklin Tax-Free Trust	Franklin Alabama Tax-Free Income Fund - Class II; 264 Franklin Arizona Tax-Free Income Fund - Class II; 226 Franklin Colorado Tax-Free Income Fund - Class II; 227 Franklin Connecticut Tax Free Income Fund - Class II; 266 Franklin Florida Tax-Free Income Fund - Class II; 265 Franklin Georgia Tax-Free Income Fund - Class II; 228 Franklin High Yield Tax-Free Income Fund - Class II; 230 Franklin Insured Tax-Free Income Fund - Class II; 221 Franklin Louisiana Tax-Free Income Fund - Class II; 268
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Franklin Maryland Tax-Free Income Fund - Class II; 269  
Franklin Massachusetts Insured Tax-Free Income  
Fund - Class II; 218  
Franklin Michigan Insured Tax-Free Income  
Fund - Class II; 219  
Franklin Minnesota Insured Tax-Free Income  
Fund - Class II; 220  
Franklin Missouri Tax-Free Income Fund - Class II; 260  
Franklin New Jersey Tax-Free Income  
  
Fund - Class II; 271  
Franklin North Carolina Tax-Free Income  
Fund - Class II; 270  
Franklin Ohio Insured Tax-Free Income  
Fund - Class II; 222  
Franklin Oregon Tax-Free Income Fund - Class II; 261  
Franklin Pennsylvania Tax-Free Income  
Fund - Class II; 229  
Franklin Puerto Rico Tax-Free Income  
Fund - Class II; 223  
Franklin Texas Tax-Free Income Fund - Class II; 262  
Franklin Virginia Tax-Free Income Fund - Class II; 263

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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM AGE HIGH INCOME FUND, INC. MAY 31, 1995 ANNUAL REPORT AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM AGE HIGH INCOME FUND, INC. MAY 31, 1995 ANNUAL REPORT AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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