FORM 485BPOS

Post-effective amendments [Rule 485(b)]

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FILER

IDS FEDERAL INCOME FUND INC
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Business Address
80 SOUTH 8TH STREET
MINNEAPOLIS MN 55440
6123722772

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. 28 (File No. 2-96512) [X]

and/or

REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940

Amendment No. 31 (File No. 811-4260) [X]

AXP FEDERAL INCOME FUND, INC.
(formerly known as IDS Federal Income Fund, Inc.)
IDS Tower 10
Minneapolis, Minnesota 55440-0010

Leslie L. Ogg - 901 S. Marquette Avenue, Suite 2810,
Minneapolis, MN 55402-3268
(612) 330-9283

Approximate Date of Proposed Public Offering:

It is proposed that this filing will become effective:
[ ] immediately upon filing pursuant to paragraph (b)
[X] on July 30, 1999 pursuant to paragraph (b)
[ ] 60 days after filing pursuant to paragraph (a)(1)
[ ] on (date) pursuant to paragraph (a)(1)
[ ] 75 days after filing pursuant to paragraph (a)(2)
[ ] on (date) pursuant to paragraph (a)(2) 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.

AXP Federal Income Fund, Inc. has adopted a master/feeder operating structure. This Post-Effective Amendment includes a signature page for Income Trust, the master fund.

AXPSM
Federal Income Fund
PROSPECTUS
July 30, 1999

AXP Federal Income Fund seeks to provide shareholders with a high level of current income and safety of principal consistent with investment in U.S. government and government agency securities.

Please note that this Fund:
* is not a bank deposit
* is not federally insured
* is not endorsed by any bank or government agency
* is not guaranteed to achieve its goal

Like all mutual funds, the Securities and Exchange Commission has not approved or disapproved these securities or passed upon the adequacy of this prospectus. Any representation to the contrary is a criminal offense.

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TAKE A CLOSER LOOK AT:

FUND INFORMATION KEY

Goal and Investment Strategy
The Fund's particular investment goal and the strategies it intends to use in pursuing its goal.

Risks
The major risk factors associated with the Fund.

Fees and Expenses
The overall costs incurred by an investor in the Fund, including sales charges and annual expenses.

Management
The individual or group designated by the investment manager to handle the Fund's day-to-day management.

Master/Feeder Structure
Describes the Fund's investment structure.

Financial Highlights
Tables showing the Fund's financial performance.

The Fund

GOAL
AXP Federal Income Fund (the Fund) seeks to provide shareholders with a high level of current income and safety of principal consistent with an investment in U.S. government and government agency securities. Because any investment involves risk, achieving this goal cannot be guaranteed.

INVESTMENT STRATEGY
The Fund's assets primarily are invested in debt obligations. Under normal market conditions, at least 65% of the Fund's total assets are invested in securities issued or guaranteed as to principal and interest by the U.S. government, its agencies or instrumentalities. Although the Fund may invest in any U.S. government securities, it is anticipated that U.S. government securities representing part ownership in pools of mortgage loans (mortgage-backed securities) will comprise a large percentage of the Fund's investments. Additionally, the Fund will aggressively utilize derivative instruments and when-issued securities to produce incremental earnings, to hedge existing positions and to increase flexibility. The Fund's potential losses from the use of these instruments could extend beyond its initial investment.

The selection of debt obligations is the primary decision in building the investment portfolio.

In pursuit of the Fund's goal, American Express Financial Corporation (AEFC), the Fund's investment manager, chooses investments by:

* Reviewing credit characteristics and the interest rate outlook.
* Identifying and buying securities that:

-- are high quality or have similar qualities, in AEFC's opinion, even though they are not rated or have been given a lower rating by a rating agency, and
-- have short or intermediate-term maturities.

In evaluating whether to sell a security, AEFC considers, among other factors, whether:

-- the interest rate or economic outlook changes,
-- the security is overvalued,
-- AEFC wishes to lock-in profits,
-- AEFC identifies a more attractive opportunity, and
-- the issuer or the security continues to meet the other standards described above.

Although not a primary investment strategy, the Fund also may invest in other instruments, such as money market securities and investment grade non-governmental debt obligations.

During weak or declining markets, the Fund may invest more of its assets in money market securities. Although the Fund primarily will invest in these securities to avoid losses, this type of investing also could cause the Fund to lose the opportunity to participate in market improvement. During these times, AEFC may make frequent securities trades that could result in increased fees, expenses, and taxes. Additionally, the Fund's portfolio turnover may be affected by short-term investment strategies. High portfolio turnovers could result in increases in transaction costs and may result in realized capital gains that would be taxable distributions to shareholders.

For more information on strategies and holdings, see the Fund's Statement of Additional Information (SAI) and the annual/semiannual reports.

RISKS

Please remember that with any mutual fund investment you may lose money. Principal risks associated with an investment in the Fund include:

Market Risk

Correlation Risk

Interest Rate Risk

Call/Prepayment Risk

Market Risk

The market may drop and you may lose money. Market risk may affect a single issuer, sector of the economy, industry, or the market as a whole. The market value of all securities may move up and down, sometimes rapidly and unpredictably.

Correlation Risk
The risk that a given transaction may fail to achieve its objectives due to an imperfect relationship between markets. Certain investments may react more negatively than others in response to changing market conditions.

Interest Rate Risk
The risk of losses attributable to changes in interest rates. This term is generally associated with bond prices (when interest rates rise, bond prices fall). In general, the longer the maturity of a debt obligation, the higher its yield and the greater the sensitivity to changes in interest rates.

Call/Prepayment Risk
The risk that a bond or other security might be called (or otherwise converted, prepaid, or redeemed) before maturity.

The following bar chart and table indicate the risks and variability of investing in the Fund by showing: * how the Fund's performance has varied for each full calendar year shown on the chart below, and * how the Fund's average annual total returns compare to other recognized indexes below.

How the Fund has performed in the past does not indicate how the Fund will perform in the future.

<TABLE>
<CAPTION>

Class A Performance (based on calendar years)

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
+10.59%	+9.95%	+11.00%	+6.47%	+6.00%	-0.26%	-13.90%	+4.21%	+7.86%	+6.93%
1989	1990	1991	1992	1993	1994	1995	1996	1997	1998

</TABLE>

During the period shown in the bar chart, the highest return for a calendar quarter was +4.44% (quarter ending June 1989) and the lowest return for a calendar quarter was -1.51% (quarter ending March 1994).

The 5% sales charge applicable to Class A shares of the Fund is not reflected in the bar chart; if reflected, returns would be lower than those shown. The performance of Class B and Class Y may vary from that shown above because of differences in sales charges and fees.

The Fund's year to date return as of March 31, 1999 was +0.64%.
<TABLE>
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Average Annual Total Returns (as of Dec. 31, 1998)

	1 year	5 years	10 years (A)	Since inception (B&Y)
Federal Income:				
<S>	<C>	<C>	<C>	
Class A	+1.58%	+5.34%	+7.05%--	
Class B	+2.14%	--	--	+6.32%a
Class Y	+7.03%	--	--	+7.93%a
Lehman Brothers Aggregate Bond Index	+7.44%	+6.97%	+9.10%	+8.79%b
Merrill Lynch 1-5 Year Government Index	+7.68%	+6.28%	+7.95%	+7.51%b

a Inception date was March 20, 1995.
b Measurement period started April 1, 1995.
</TABLE>

This table shows total returns from hypothetical investments in Class A, Class B and Class Y shares of the Fund. These returns are compared to the indexes shown for the same periods. The performance of Classes A, B and Y vary because of differences in sales charges and fees. Past performance for Class Y for the periods prior to March 20, 1995 may be calculated based on the performance of Class A, adjusted to reflect differences in sales charges, although not for other differences in expenses.

For purposes of this calculation we assumed:
* a sales charge of 5% for Class A shares,
* sales at the end of the period and deduction of the applicable contingent deferred sales charge (CDSC) for Class B shares,
* no sales charge for Class Y shares, and
* no adjustments for taxes paid by an investor on the reinvested income and capital gains.

Lehman Brothers Aggregate Bond Index is an unmanaged index made up of a representative list of government, corporate, asset-backed and mortgage-backed securities. The index is frequently used as a general measure of bond market performance. However, the securities used to create the index may not be representative of the bonds held in the Fund.

Merrill Lynch 1-5 Year Government Index is an unmanaged index made up of a representative list of government bonds. The index is frequently used as a general measure of government bond performance. However, the securities used to create the index may not be representative of the bonds held in the Fund.

The indexes reflect reinvestment of all distributions and changes in market prices, but exclude brokerage commissions or other fees.

FEES AND EXPENSES

Fund investors pay various expenses. The table below describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment)

	Class A	Class B	Class Y
Maximum sales charge (load) imposed on purchasesa (as a percentage of offering price)	5%	none	none
Maximum deferred sales charge (load) imposed on sales (as a percentage of offering price at time of purchase)	none	5%	none

Annual Fund operating expensesb (expenses that are deducted from Fund assets)

As a percentage of average daily net assets:	Class A	Class B	Class Y
Management fees	0.50%	0.50%	0.50%
Distribution (12b-1) fees	0.25%	1.00%	0.00%
Other expensesc	0.23%	0.22%	0.31%
Total	0.98%	1.72%	0.81%

a This charge may be reduced depending on your total investments in American Express funds. See "Sales Charges."

b Both in this table and the following example, fund operating expenses include expenses charged by both the Fund and its Master Portfolio as described under "Management." Expenses for Class A, Class B and Class Y are based on actual expenses for the last fiscal year, restated to reflect current fees.

c Other expenses include an administrative services fee, a shareholder services fee for Class Y, a transfer agency fee and other nonadvisory expenses.

Example

This example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

Assume you invest $10,000 and the Fund earns a 5% annual return. The operating expenses remain the same each year. If you hold your shares until the end of the years shown, your costs would be:

	1 year	3 years	5 years	10 years
Class Aa	$595	$797	$1,015	$1,646
Class Bb	$675	$942	$1,134	$1,838d
Class Bc	$175	$542	$ 934	$1,838d
Class Y	$ 83	$259	$ 450	$1,006

a Includes a 5% sales charge.

b Assumes you sold your Class B shares at the end of the period and incurred the applicable CDSC.
c Assumes you did not sell your Class B shares at the end of the period.
d Based on conversion of Class B shares to Class A shares in the ninth year of ownership.

This example does not represent actual expenses, past or future. Actual expenses may be higher or lower than those shown.

MANAGEMENT
The Fund's assets are invested in Government Income Portfolio (the Portfolio), which is managed by AEFC. Jim Snyder, vice president and senior portfolio manager, joined AEFC in 1989 as an investment analyst. He has managed the assets of the Fund since 1993.

Buying and Selling Shares

VALUING FUND SHARES
The public offering price for Class A is the net asset value (NAV) adjusted for the sales charge. For Class B and Class Y, it is the NAV.

The NAV is the value of a single Fund share. The NAV usually changes daily, and is calculated at the close of business of the New York Stock Exchange, normally 3 p.m. Central Standard Time (CST), each business day (any day the New York Stock Exchange is open).

The Fund's investments are valued based on market quotations, or where market quotations are not readily available, based on methods selected in good faith by the board. If the Fund's investment policies permit it to invest in securities that are listed on foreign stock exchanges that trade on weekends or other days when the Fund does not price its shares, the value of the Fund's underlying investments may change on days when you could not buy or sell shares of the Fund. Please see the SAI for further information.

INVESTMENT OPTIONS
1. Class A shares are sold to the public with a sales charge at the time of purchase and an annual distribution (12b-1) fee.

2. Class B shares are sold to the public with a CDSC and an annual distribution (12b-1) fee.

3. Class Y shares are sold to qualifying institutional investors without a sales charge or distribution fee. Please see the SAI for information on eligibility to purchase Class Y shares.

Investment options summary:

Class A	Maximum sales charge of 5%
	Initial sales charge waived or reduced for certain purchases
	Annual distribution fee of 0.25% of average daily net assets*
	Lower annual expenses than Class B shares
Class B	No initial sales charge
	CDSC on shares sold in the first six years (maximum of 5% in first year, reduced to 0% after year six)
	CDSC waived in certain circumstances
	Shares convert to Class A in ninth year of ownership
	Annual distribution fee of 1.00% of average daily net assets*

	Higher annual expenses than Class A shares
Class Y	No initial sales charge
	No annual distribution fee
	Service fee of 0.10% of average daily net assets
	Available only to certain qualifying institutional investors

* The Fund has adopted a plan under Rule 12b-1 of the Investment Company Act of 1940 that allows it to pay distribution and servicing-related fees for the sale of Class A and Class B shares. Because these fees are paid out of the Fund's assets on an on-going basis, the fee may cost long-term shareholders more than paying other types of sales charges imposed by some mutual funds.

Should you purchase Class A or Class B shares?

If your investments in American Express funds total $250,000 or more, Class A shares may be the better option. If you qualify for a waiver of the sales charge, Class A shares will be the best option.

If you invest less than $250,000, consider how long you plan to hold your shares. Class B shares have a higher annual distribution fee and a CDSC for six years. To help you determine what is best for you, consult your financial advisor.

Class B shares convert to Class A shares in the ninth calendar year of ownership. Class B shares purchased through reinvested dividends and distributions also will convert to Class A shares in the same proportion as the other Class B shares.

PURCHASING SHARES

If you do not have a mutual fund account, you need to establish one. Your financial advisor will help you fill out and submit an application. Once your account is set up, you can choose among several convenient ways to invest.

When you purchase shares for a new or existing account, your order will be priced at the next NAV calculated after your order is accepted by the Fund. If your application does not specify which class of shares you are purchasing, we will assume you are investing in Class A shares.

Important: When you open an account, you must provide your correct Taxpayer Identification Number (TIN), which is either your Social Security or Employer Identification number.

If you do not provide the correct TIN, you could be subject to backup withholding of 31% of taxable distributions and proceeds from certain sales and exchanges. You also could be subject to further penalties, such as:

* a $50 penalty for each failure to supply your correct TIN,
* a civil penalty of $500 if you make a false statement that results in no backup withholding, and
* criminal penalties for falsifying information.

You also could be subject to backup withholding if the IRS requires us to do so or if you failed to report required interest or dividends on your tax return.

<TABLE>
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How to determine the correct TIN
<S> <C>

For this type of account:	Use the Social Security or Employer Identification number of:

Individual or joint account	The individual or one of the individuals listed on the joint account
Custodian account of a minor (Uniform Gifts/Transfers to Minors Act)	The minor
A revocable living trust	The grantor-trustee (the person who puts the money into the trust)
An irrevocable trust, pension trust or estate	The legal entity (not the personal representative or trustee, unless no legal entity is designated in the account title)
Sole proprietorship	The owner
Partnership	The partnership
Corporate	The corporation
Association, club or tax-exempt organization	The organization

</TABLE>

For details on TIN requirements, ask your financial advisor or contact your local American Express Financial Advisors office to obtain a copy of federal Form W-9, "Request for Taxpayer Identification Number and Certification."

Three ways to invest

1 By mail:
Once your account has been established, send your check with the account number on it to:

American Express Financial Advisors Inc.
P.O. Box 74
Minneapolis, MN 55440-0074

Minimum amounts

Initial investment:	$2,000
Additional investments:	$100
Account balances:	$300
Qualified accounts:	none

If your account balance falls below $300, you will be asked to increase it to $300 or establish a scheduled investment plan. If you do not do so within 30 days, your shares can be sold and the proceeds mailed to you.

2 By scheduled investment plan:

Contact your financial advisor for assistance in setting up one of the following scheduled plans:
* automatic payroll deduction,
* bank authorization,
* direct deposit of Social Security check, or
* other plan approved by the Fund.

Minimum amounts

Initial investment:	$100
Additional investments:	$50/mo. for qualified accounts; $100/mo. for nonqualified accounts
Account balances:	none (on active plans with monthly payments)

If your account balance is below $2,000, you must make payments at least monthly.

3 By wire or electronic funds transfer:
If you have an established account, you may wire money to:

Norwest Bank Minnesota
Routing Transit No. 091000019
Give these instructions:

Credit American Express Financial Advisors Account #0000030015 for personal account # (your account number) for (your name). Please remember that you need to provide all 10 digits.

If this information is not included, the order may be rejected, and all money received by the Fund, less any costs the Fund or American Express Client Service Corporation (AECSC) incurs, will be returned promptly.

Minimum amounts
Each wire investment: $1,000

If you are in a wrap fee program sponsored by AEFA and your balance falls below the required program minimum or your program is terminated, your shares will be sold and the proceeds will be mailed to you.

SALES CHARGES

Class A -- initial sales charge alternative
When you purchase Class A shares, you pay a 5% sales charge on the first $50,000 of your total investment and less on investments after the first $50,000:

Total investment	Sales charge as percentage of:a	
	Public offering priceb	Net amount invested
Up to $50,000	5.0%	5.26%
Next $50,000	4.5	4.71
Next $400,000	3.8	3.95
Next $500,000	2.0	2.04
$1,000,000 or more	0.0	0.00

a To calculate the actual sales charge on an investment greater than $50,000 and less than $1,000,000, you must total the amounts of all increments that apply.
b Offering price includes a 5% sales charge.

The sales charge on Class A shares may be lower than 5%, depending on the total amount:

* you now are investing in this Fund,
* you have previously invested in this Fund, or
* you and your primary household group are investing or have invested in other American Express funds that have a sales charge. (The primary household group consists of accounts in any ownership for spouses or domestic partners and their unmarried children under 21. For purposes of this policy, domestic partners are individuals who maintain a shared primary residence and have joint property or other insurable interests.) AXP Tax-Free Money Fund and Class A shares of AXP Cash Management Fund do not have sales charges.

Other Class A sales charge policies:

* IRA purchases or other employee benefit plan purchases made through a payroll deduction plan or through a plan sponsored by an employer, association of employers, employee organization or other similar group, may be added together to reduce sales charges for all shares purchased through that plan, and
* if you intend to invest $1 million over a period of 13 months, you can reduce the sales charges in Class A by filing a letter of intent. For more details, please see the SAI.

Waivers of the sales charge for Class A shares

Sales charges do not apply to:

* current or retired board members, officers or employees of the Fund or AEFC

or its subsidiaries, their spouses or domestic partners and unmarried children under 21.

* current or retired American Express financial advisors, their spouses or domestic partners and unmarried children under 21.

* investors who have a business relationship with a newly associated financial advisor who joined AEFA from another investment firm provided that (1) the purchase is made within sixmonths of the advisor's appointment date with AEFA, (2) the purchase is made with proceeds of shares sold that were sponsored by the financial advisor's previous broker-dealer, and (3) the proceeds are the result of a sale of an equal or greater value where a sales load was assessed.

* qualified employee benefit plans using a daily transfer recordkeeping system offering participants daily access to American Express funds. Eligibility must be determined in advance by AEFA. For assistance, please contact your financial advisor. (Participants in certain qualified plans where the initial sales charge is waived may be subject to a deferred sales charge of up to 4%.)

* shareholders who have at least $1 million invested in American Express funds. If the investment is sold in the first year after purchase, a CDSC of 1% will be charged. The CDSC will be waived only in the circumstances described for waivers for Class B shares.

* purchases made within 30 days after a sale of shares (up to the amount sold):

  -- of a product distributed by AEFA in a qualified plan subject to a deferred sales charge, or

  -- in a qualified plan or account where American Express Trust Company has a recordkeeping, trustee, investment management, or investment servicing relationship.

Send the Fund a written request along with your payment, indicating the date and the amount of the sale.

* purchases made:
  -- with dividend or capital gain distributions from this Fund or from the same class of another American Express fund that has a sales charge,
  -- through or under a wrap fee product sponsored by AEFA,
  -- within the University of Texas System ORP,
  -- within a segregated separate account offered by Nationwide Life Insurance Company or Nationwide Life and Annuity Insurance Company,
  -- within the University of Massachusetts After-Tax Savings Program,
  -- with the proceeds from IDS Life Real Estate Variable Annuity surrenders, or
  -- through or under a subsidiary of AEFC offering Personal Trust Services' Asset-Based pricing alternative.

Class B -- contingent deferred sales charge (CDSC) alternative
A CDSC is based on the sale amount and the number of calendar years -- including the year of purchase -- between purchase and sale. The following table shows how CDSC percentages on sales decline after a purchase:

If the sale is made during the:	The CDSC percentage rate is:
First year	5%
Second year	4%
Third year	4%
Fourth year	3%
Fifth year	2%
Sixth year	1%
Seventh year	0%

If the amount you are selling causes the value of your investment in Class B shares to fall below the cost of the shares you have purchased during the last six years including the current year, the CDSC is based on the lower of the cost of those shares purchased or market value.

Example:

Assume you had invested $10,000 in Class B shares and that your investment had appreciated in value to $12,000 after 15 months, including reinvested dividends and capital gain distributions. You could sell up to $2,000 worth of shares without paying a CDSC ($12,000 current value less $10,000 purchase amount). If you sold $2,500 worth of shares, the CDSC would apply to the $500 representing part of your original purchase price. The CDSC rate would be 4% because the sale was made during the second year after the purchase.

Because the CDSC is imposed only on sales that reduce your total purchase payments, you never have to pay a CDSC on any amount that represents appreciation in the value of your shares, income earned by your shares, or capital gains. In addition, the CDSC rate on your sale will be based on your oldest purchase payment. The CDSC on the next amount sold will be based on the next oldest purchase payment.

The CDSC on Class B shares will be waived on sales of shares:

* in the event of
the shareholder's death,

* held in trust for an employee benefit plan, or

* held in IRAs or certain qualified plans if American Express Trust Company is the custodian, such as Keogh plans, tax-sheltered custodial accounts or corporate pension plans, provided that the shareholder is:
  -- at least 591/2 years old AND
  -- taking a retirement distribution (if the sale is part of a transfer to an IRA or qualified plan in a product distributed by AEFA, or a custodian-to-custodian transfer to a product not distributed by AEFA, the CDSC will not be waived) OR
  -- selling under an approved substantially equal periodic payment arrangement.

EXCHANGING/SELLING SHARES

Exchanges
You can exchange your Fund shares at no charge for shares of the same class of any other publicly offered American Express fund. Exchanges into AXP Tax-Free Money Fund may only be made from Class A shares. For complete information on the other funds, including fees and expenses, read that fund's prospectus carefully. Your exchange will be priced at the next NAV calculated after it is accepted by that fund.

You may make up to three exchanges within any 30-day period, with each limited to $300,000. These limits do not apply to scheduled exchange programs and certain employee benefit plans or other arrangements through which one shareholder represents the interests of several. Exceptions may be allowed with pre-approval of the Fund.

Other exchange policies:

* Exchanges must be made into the same class of shares of the new fund.

* If your exchange creates a new account, it must satisfy the minimum investment amount for new purchases.

* Once we receive your exchange request, you cannot cancel it.

* Shares of the new fund may not be used on the same day for another exchange.

* If your shares are pledged as collateral, the exchange will be delayed until AECSC receives written approval from the secured party.

AECSC and the Fund reserve the right to reject any exchange, limit the amount, or modify or discontinue the exchange privilege, to prevent abuse or adverse effects on the Fund and its shareholders. For example, if exchanges are too numerous or too large, they may disrupt the Fund's investment strategies or increase its costs.

Selling Shares

You can sell your shares at any time. AECSC will mail payment within seven days after accepting your request.

When you sell shares, the amount you receive may be more or less than the amount you invested. Your sale price will be the next NAV calculated after your request is accepted by the Fund, minus any applicable CDSC.

You can change your mind after requesting a sale and use all or part of the proceeds to purchase new shares in the same account from which you sold. If you reinvest in Class A, you will purchase the new shares at NAV rather than the offering price on the date of a new purchase. If you reinvest in Class B, any CDSC you paid on the amount you are reinvesting also will be reinvested. To take advantage of this option, send a request within 30 days of the date your sale request was received and include your account number. This privilege may be limited or withdrawn at any time and may have tax consequences.

Requests to sell shares of the Fund are not allowed within 30 days of a telephoned-in address change.

The Fund reserves the right to redeem in kind.

Important: If you request a sale of shares you recently purchased by a check or money order that is not guaranteed, the Fund will wait for your check to clear. It may take up to 10 days from the date of purchase before payment is made. (Payment may be made earlier if your bank provides evidence satisfactory to the Fund and AECSC that your check has cleared.)

For more details and a description of other sales policies, please see the SAI.

Two ways to request an exchange or sale of shares

1 By letter:
Include in your letter:

* the name of the fund(s),
* the class of shares to be exchanged or sold,
* your mutual fund account number(s) (for exchanges, both funds must be registered in the same ownership),
* your TIN,
* the dollar amount or number of shares you want to exchange or sell,
* signature(s) of all registered account owners,
* for sales, indicate how you want your money delivered to you, and
* any paper certificates of shares you hold.

Regular mail:

American Express Client Service Corporation
Attn: Transactions
P.O. Box 534
Minneapolis, MN 55440-0534

Express mail:

American Express Client Service Corporation
Attn: Transactions
733 Marquette Ave.
Minneapolis, MN 55402

2 By telephone:

American Express Financial Advisors

Telephone Transaction Service

800-437-3133

* The Fund and AECSC will use reasonable procedures to confirm authenticity of telephone exchange or sale requests.

* Telephone exchange and sale privileges automatically apply to all accounts except custodial, corporate or qualified retirement accounts. You may request that these privileges NOT apply by writing AECSC. Each registered owner must sign the request.

* Acting on your instructions, your financial advisor may conduct telephone transactions on your behalf.

* Telephone privileges may be modified or discontinued at any time.

Minimum sale amount: $100 Maximum sale amount: $50,000

Three ways to receive payment when you sell shares

1 By regular or express mail:
* Mailed to the address on record.
* Payable to names listed on the account.
NOTE: The express mail delivery charges you pay will vary depending on the courier you select.

2 By wire or electronic funds transfer:
* Minimum wire: $1,000.
* Request that money be wired to your bank.
* Bank account must be in the same ownership as the American Express fund account.
NOTE: Pre-authorization required. For instructions, contact your financial advisor or AECSC.

3 By scheduled payout plan:
* Minimum payment: $50.
* Contact your financial advisor or AECSC to set up regular payments on a monthly, bimonthly, quarterly, semiannual or annual basis.
* Purchasing new shares while under a payout plan may be disadvantageous because of the sales charges.

Distributions and Taxes
As a shareholder you are entitled to your share of the Fund's net income and net gains. The Fund distributes dividends and capital gains to qualify as a regulated investment company and to avoid paying corporate income and excise taxes.

DIVIDENDS AND CAPITAL GAIN DISTRIBUTION
The Fund's net investment income is distributed to you as dividends. Capital gains are realized when a security is sold for a higher price than was paid for it. Net short-term capital gains are included in net investment income. Long-term capital gains are realized when a security is held for more than one year. The Fund offsets any net realized capital gains by any available capital loss carryovers. Net realized long-term capital gains, if any, are distributed by the end of the calendar year as capital gain distributions.

REINVESTMENTS
Dividends and capital gain distributions are automatically reinvested in additional shares in the same class of the Fund, unless:

* you request distributions in cash, or
* you direct the Fund to invest your distributions in the same class of any publicly offered American Express fund for which you have previously opened an account.

We reinvest the distributions for you at the next calculated NAV after the distribution is paid.

If you choose cash distributions, you will receive cash only for distributions declared after your request has been processed.

TAXES

Distributions are subject to federal income tax and may be subject to state and local taxes in the year they are declared. You must report distributions on your tax returns, even if they are reinvested in additional shares.

Income received by the Fund may be subject to foreign tax and withholding. Tax conventions between certain countries and the U.S. may reduce or eliminate these taxes. You may be entitled to claim foreign tax credits or deductions subject to provisions and limitations of the Internal Revenue Code.

If you buy shares shortly before the record date of a distribution you will pay taxes on money earned by the Fund before you were a shareholder. You will pay the full pre-distribution price for the shares, then receive a portion of your investment back as a distribution, which is taxable.

For tax purposes, an exchange is considered a sale and purchase, and may result in a gain or loss. A sale is a taxable transaction. If you sell shares for more than their cost, the difference is a capital gain. Your gain may be short term (for shares held for one year or less) or long term (for shares held for more than one year). If you sell shares for less than their cost, the difference is a capital loss. If you buy Class A shares of this or another American Express fund and within 91 days exchange into this Fund, you may not include the sales charge in your calculation of tax gain or loss on the sale of the first fund you purchased. The sales charge may be included in the calculation of your tax gain or loss on a subsequent sale.

Selling shares held in an IRA or qualified retirement account may subject you to federal taxes, penalties and reporting requirements. Please consult your tax advisor.

Important: This information is a brief and selective summary of some of the tax rules that apply to this Fund. Because tax matters are highly individual and complex, you should consult a qualified tax advisor.

Personalized Shareholder Information

To help you track and evaluate the performance of your investments, AECSC provides these individualized reports:

QUARTERLY STATEMENTS

List your holdings and transactions during the previous three months, as well as individualized return information.

YEARLY TAX STATEMENTS

Feature average-cost-basis reporting of capital gains or losses if you sell your shares, along with distribution information to simplify tax calculations.

PERSONALIZED MUTUAL FUND PROGRESS REPORTS

Detail returns on your initial investment and cash-flow activity in your account. This report calculates a total return reflecting your individual history in owning Fund shares and is available from your financial advisor.

Master/Feeder Structure

This Fund uses a master/feeder structure. This means that the Fund (a feeder fund) invests all of its assets in the Portfolio (the master fund). Other feeder funds also invest in the Portfolio. The master/feeder structure offers the potential for reduced costs because it spreads fixed costs of portfolio management over a larger pool of assets. The Fund may withdraw its assets from the Portfolio at any time if the Fund's board determines that it is best. In that event, the board would consider what action should be taken, including whether to hire an investment advisor to manage the Fund's assets directly or to invest all of the Fund's assets in another pooled investment entity. Here is an illustration of the structure:

Investors buy shares in the Fund

The Fund buys units in the Portfolio

The Portfolio invests in securities, such as stocks or bonds

Other feeders may include mutual funds and institutional accounts. These feeders buy the Portfolio's securities on the same terms and conditions as the Fund and pay their proportionate share of the Portfolio's expenses. However, their operating costs and sales charges are different from those of the Fund. Therefore, the investment returns for other feeders are different from the returns of the Fund. Information about other feeders may be obtained by calling American Express Financial Advisors at 800-AXP-SERV.

<TABLE>
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About the Company

BUSINESS STRUCTURE

<S>	<C>		<C>	<C>
			Shareholders	
			Your American Express financial advisor and other servicing agents May receive a fee for their sales efforts and ongoing service.	
Transfer Agent: American Express Client Service Corporation Maintains shareholder accounts and records for the Fund; receives a fee based on the number of accounts it services.	Administrative Services Agent: American Express Financial Corporation Provides administrative and accounting services for the Fund; receives a fee based on average daily net assets.	<- The Fund invests its assets in the Portfolio. The Fund and/or the Portfolio have contracts with certain service providers.	The Fund	-> Distributor and Shareholder Services Agent: American Express Financial Advisors Markets and distributes shares; receives a portion of the sales charge or CDSC and distribution fee. Also provides a variety of ongoing shareholder services.
	Investment Manager: American Express Financial Corporation			Custodian: American Express Trust Company

Manages the Portfolio's investments and receives a fee based on average daily net assets.*	<-	The Portfolio	->	Provides safekeeping of assets; receives a fee that varies based on the number of securities held.

* The Portfolio pays AEFC a fee for managing its assets. The Fund pays its proportionate share of the fee. Under the Investment Management Services Agreement, the fee for the most recent fiscal year was 0.50% of its average daily net assets. Under the Agreement, the Portfolio also pays taxes, brokerage commissions and nonadvisory expenses.

</TABLE>

AMERICAN EXPRESS FINANCIAL CORPORATION

AEFC has been a provider of financial services since 1894. Its family of companies offers not only mutual funds but also insurance, annuities, investment certificates and a broad range of financial management services.

In addition to managing assets of more than $89 billion for all American Express funds, AEFC manages investments for itself and its subsidiaries, IDS Certificate Company and IDS Life Insurance Company. Total assets under management as of the end of the most recent fiscal year were more than $223 billion.

AEFA serves individuals and businesses through its nationwide network of more than 180 offices and more than 9,200 advisors.

AEFC, located at IDS Tower 10, Minneapolis, MN 55440-0010, is a wholly-owned subsidiary of American Express Company, a financial services company with headquarters at American Express Tower, World Financial Center, New York, NY 10285.

YEAR 2000

The Fund could be adversely affected if the computer systems used by AEFC and the Fund's other service providers do not properly process and calculate date-related information from and after Jan. 1, 2000. While Year 2000-related computer problems could have a negative effect on the Fund, AEFC is working to avoid such problems and to obtain assurances from service providers that they are taking similar steps.

The companies, governments or international markets in which the Fund invests also may be adversely affected by Year 2000 issues. To the extent a portfolio holding is adversely affected by a Year 2000 processing issue, the Fund's return could be adversely affected.

Quick Telephone Reference

AMERICAN EXPRESS FINANCIAL ADVISORS
TELEPHONE TRANSACTION SERVICE

Sales and exchanges, dividend payments or reinvestments and automatic payment arrangements: 800-437-3133

AMERICAN EXPRESS CLIENT SERVICE CORPORATION
Fund performance, fund prices, account values, recent account transactions and account inquiries: 800-862-7919

TTY SERVICE
For the hearing impaired: 800-846-4852

<TABLE>
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Financial Highlights

Fiscal period ended May 31,
Per share income and capital changesa

	Class A				
	1999	1998	1997	1996b	1995
<S>	<C>	<C>	<C>	<C>	<C>
Net asset value, beginning of period	$5.08	$4.98	$4.92	$4.97	$4.85
Income from investment operations:					
Net investment income (loss)	.27	.30	.32	.28	.32
Net gains (losses) (both realized and unrealized)	(.07)	.10	.06	(.04)	.11
Total from investment operations	.20	.40	.38	.24	.43
Less distributions:					
Dividends from net investment income	(.27)	(.30)	(.32)	(.29)	(.31)
Distributions from realized gains	(.07)	--	--	--	--
Total distributions	(.34)	(.30)	(.32)	(.29)	(.31)
Net asset value, end of period	$4.94	$5.08	$4.98	$4.92	$4.97
Ratios/supplemental data					
Net assets, end of period (in millions)	$1,723	$1,403	$1,267	$1,095	$977
Ratio of expenses to average daily net assetsd	.88%	.86%	.90%	.91%c	.79%
Ratio of net investment income (loss) to average daily net assets	5.36%	5.89%	6.37%	6.34%c	6.59%
Portfolio turnover rate					
(excluding short-term securities)	278%	159%	146%	115%	213%
Total returne	4.07%	8.15%	7.73%	5.04%	9.25%

a For a share outstanding throughout the period. Rounded to the nearest cent.
b The Fund's fiscal year-end was changed from June 30 to May 31, effective 1996.
c Adjusted to an annual basis.
d Effective fiscal year 1996, expense ratio is based on total expenses of the Fund before reduction of earnings credits on cash balances.
e Total return does not reflect payment of a sales charge.
</TABLE>

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<CAPTION>

Fiscal period ended May 31,
Per share income and capital changesa

	Class B					Class Y				
	1999	1998	1997	1996c	1995b	1999	1998	1997	1996c	1995b
Net asset value,										
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
beginning of period	$5.08	$4.98	$4.92	$4.96	$4.87	$5.08	$4.98	$4.92	$4.97	$4.87

Income from investment operations:										
Net investment income (loss)	.23	.26	.28	.26	.06	.28	.30	.32	.29	.07
Net gains (losses) (both realized and unrealized)	(.07)	.10	.06	(.04)	.14	(.07)	.10	.06	(.04)	.15
Total from investment operations	.16	.36	.34	.22	.20	.21	.40	.38	.25	.22
Less distributions:										
Dividends from net investment income	(.23)	(.26)	(.28)	(.26)	(.11)	(.28)	(.30)	(.32)	(.30)	(.12)
Distributions from realized gains	(.07)	--	--	--	--	(.07)	--	--	--	--
Total distributions	(.30)	(.26)	(.28)	(.26)	(.11)	(.35)	(.30)	(.32)	(.30)	(.12)
Net asset value, end of period	$4.94	$5.08	$4.98	$4.92	$4.96	$4.94	$5.08	$4.98	$4.92	$4.97
Ratios/supplemental data										
Net assets, end of period (in millions)	$1,498	$1,045	$820	$520	$292	$191	$119	$115	$99	$85
Ratio of expenses to average daily net assetse	1.63%	1.61%	1.66%	1.67%d	1.74%d	.80%	.78%	.73%	.74%d	.75%d
Ratio of net investment income (loss) to average daily net assets	4.61%	5.13%	5.60%	5.59%d	6.21%d	5.44%	5.97%	6.54%	6.53%d	7.20%d
Portfolio turnover rate (excluding short-term securities)	278%	159%	146%	115%	213%	278%	159%	146%	115%	213%
Total returnf	3.31%	7.32%	6.90%	4.30%	4.10%	4.15%	8.23%	7.91%	5.22%	4.48%

a For a share outstanding throughout the period. Rounded to the nearest cent.
b Inception date was March 20, 1995.
c The Fund's fiscal year-end was changed from June 30 to May 31, effective 1996.
d Adjusted to an annual basis.
e Effective fiscal year 1996, expense ratio is based on total expenses of the Fund before reduction of earnings credits on cash balances.
f Total return does not reflect payment of a sales charge.
</TABLE>

The information in these tables has been audited by KPMG LLP, independent auditors. The independent auditors' report and additional information about the performance of the Fund are contained in the Fund's annual report which, if not included with this prospectus, may be obtained without charge.

This Fund, along with the other American Express funds, is distributed by American Express Financial Advisors Inc. and can be found under the "Amer Express" banner in most mutual fund quotations.

Additional information about the Fund and its investments is available in the Fund's Statement of Additional Information (SAI), annual and semiannual reports to shareholders. In the Fund's annual report, you will find a discussion of market conditions and investment strategies that significantly affected the Fund during its last fiscal year. The SAI is incorporated by reference in this prospectus. For a free copy of the SAI, the annual report or the semiannual report contact American Express Client Service Corporation.

American Express Client Service Corporation
P.O. Box 534, Minneapolis, MN 55440-0534

800-862-7919 TTY: 800-846-4852
Web site address:

http://www.americanexpress.com/advisors

You may review and copy information about the Fund, including the SAI, at the Securities and Exchange Commission's (Commission) Public Reference Room in Washington, D.C. (for information about the public reference room call 1-800-SEC-0330). Reports and other information about the Fund are available on the Commission's Internet site at http://www.sec.gov. Copies of this information may be obtained by writing and paying a duplicating fee to the Public Reference Section of the Commission, Washington, D.C. 20549-6009.

Investment Company Act File #811-4260

TICKER SYMBOL
Class A: IFINX   Class B: ISHOX   Class Y: IDFYX
S-6042-99 P (7/99)

STATEMENT OF ADDITIONAL INFORMATION

FOR

AXPSM FEDERAL INCOME FUND (the Fund)

July 30, 1999

This Statement of Additional Information (SAI) is not a prospectus. It should be read together with the prospectus and the financial statements contained in the most recent Annual Report to shareholders (Annual Report) that may be obtained from your American Express financial advisor or by writing to American Express Shareholder Service, P.O. Box 534, Minneapolis, MN 55440-0534 or by calling 800-862-7919.

The Independent Auditors' Report and the Financial Statements, including Notes to the Financial Statements and the Schedule of Investments in Securities, contained in the Annual Report are incorporated in this SAI by reference. No other portion of the Annual Report, however, is incorporated by reference. The prospectus for the Fund, dated the same date as this SAI, also is incorporated in this SAI by reference.

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MUTUAL FUND CHECKLIST

- |X| Mutual funds are NOT guaranteed or insured by any bank or government agency. You can lose money.
- |X| Mutual funds ALWAYS carry investment risks. Some types carry more risk than others.
- |X| A higher rate of return typically involves a higher risk of loss.
- |X| Past performance is not a reliable indicator of future performance.
- |X| ALL mutual funds have costs that lower investment return.
- |X| You can buy some mutual funds by contacting them directly. Others, like this one, are sold mainly through brokers, banks, financial planners, or insurance agents. If you buy through these financial professionals, you generally will pay a sales charge.
- |X| Shop around. Compare a mutual fund with others of the same type before you buy.

OTHER IDEAS FOR SUCCESSFUL MUTUAL FUND INVESTING:

Develop a Financial Plan

Have a plan - even a simple plan can help you take control of your financial future. Review your plan with your advisor at least once a year or more frequently if your circumstances change.

Dollar-Cost Averaging

An investment technique that works well for many investors is one that eliminates random buy and sell decisions. One such system is dollar-cost averaging. Dollar-cost averaging involves building a portfolio through the investment of fixed amounts of money on a regular basis regardless of the price or market condition. This may enable an investor to smooth out the effects of the volatility of the financial markets. By using this strategy, more shares will be purchased when the price is low and less when the price is high. As the accompanying chart illustrates, dollar-cost averaging tends to keep the average price paid for the shares lower than the average market price of shares purchased, although there is no guarantee.

While this does not ensure a profit and does not protect against a loss if the market declines, it is an effective way for many shareholders who can continue investing through changing market conditions to accumulate shares to meet long-term goals.

Dollar-cost averaging:

Regular Investment	Market Price of a Share	Shares Acquired
$100	$6.00	16.7
100	4.00	25.0
100	4.00	25.0
100	6.00	16.7
100	5.00	20.0
$500	$25.00	103.4

Average market price of a share over 5 periods: $5.00 ($25.00 divided by 5)
The average price you paid for each share: $4.84 ($500 divided by 103.4)

Diversify

Diversify your portfolio. By investing in different asset classes and different economic environments you help protect against poor performance in one type of investment while including investments most likely to help you achieve your important goals.

Understand Your Investment

Know what you are buying. Make sure you understand the potential risks, rewards, costs, and expenses associated with each of your investments.

FUNDAMENTAL INVESTMENT POLICIES

The Fund pursues its investment objective by investing all of its assets in Government Income Portfolio (the Portfolio) of Income Trust (the Trust), a separate investment company, rather than by directly investing in and managing its own portfolio of securities. The Portfolio has the same investment objectives, policies, and restrictions as the Fund. References to "Fund" in this SAI, where applicable, refer to the Fund and Portfolio, collectively, to the Fund, singularly, or to the Portfolio, singularly.

Fundamental investment policies adopted by the Fund cannot be changed without the approval of a majority of the outstanding voting securities of the Fund as defined in the Investment Company Act of 1940, as amended (the 1940 Act).

Notwithstanding any of the Fund's other investment policies, the Fund may invest its assets in an open-end management investment company having substantially the same investment objectives, policies, and restrictions as the Fund for the purpose of having those assets managed as part of a combined pool.

The policies below are fundamental policies that apply to the Fund and may be changed only with shareholder approval. Unless holders of a majority of the outstanding voting securities agree to make the change, the Fund will not:

- Act as an underwriter (sell securities for others). However, under the securities laws, the Fund may be deemed to be an underwriter when it purchases securities directly from the issuer and later resells them.
- Borrow money or property, except as a temporary measure for extraordinary or emergency purposes, in an amount not exceeding one-third of the market value of its total assets (including borrowings) less liabilities (other than borrowings) immediately after the borrowing.
- Make cash loans if the total commitment amount exceeds 5% of the Fund's total assets.
- Purchase more than 10% of the outstanding voting securities of an issuer.
- Invest more than 5% of its total assets in securities of any one company, government, or political subdivision thereof, except the limitation will not apply to investments in securities issued by the U.S. government, its agencies, or instrumentalities, and except that up to 25% of the Fund's total assets may be invested without regard to this 5% limitation.
- Buy or sell real estate, unless acquired as a result of ownership of

securities or other instruments, except this shall not prevent the Fund from investing in securities or other instruments backed by real estate or securities of companies engaged in the real estate business or real estate investment trusts. For purposes of this policy, real estate includes real estate limited partnerships.

- Buy or sell physical commodities unless acquired as a result of ownership of securities or other instruments, except this shall not prevent the Fund from buying or selling options and futures contracts or from investing in securities or other instruments backed by, or whose value is derived from, physical commodities.

- Make a loan of any part of its assets to American Express Financial Corporation (AEFC), to the board members and officers of AEFC or to its own board members and officers.

- Lend Fund securities in excess of 30% of its net assets.

- Issue senior securities, except as permitted under the 1940 Act.

- Concentrate in any one industry. According to the present interpretation by the Securities and Exchange Commission (SEC), this means no more than 25% of the Fund's total assets, based on current market value at the time of purchase, can be invested in any one industry.

Except for the fundamental investment policies listed above, the other investment policies described in the prospectus and in this SAI are not fundamental and may be changed by the board at any time.

INVESTMENT STRATEGIES AND TYPES OF INVESTMENTS

This table shows various investment strategies and investments that many funds are allowed to engage in and purchase. It also lists certain percentage guidelines that are generally followed by the Fund's investment manager. This table is intended to show the breadth of investments that the investment manager may make on behalf of the Fund. For a description of principal risks, please see the prospectus. Notwithstanding the Fund's ability to utilize these strategies and techniques, the investment manager is not obligated to use them at any particular time. For example, even though the investment manager is authorized to adopt temporary defensive positions and is authorized to attempt to hedge against certain types of risk, these practices are left to the investment manager's sole discretion.

Investment strategies & types of investments:	Allowable for the Fund?
Agency and Government Securities	yes
Borrowing	yes
Cash/Money Market Instruments	yes
Collateralized Bond Obligations	yes
Commercial Paper	yes
Common Stock	no
Convertible Securities	no
Corporate Bonds	yes
Debt Obligations	yes
Depositary Receipts	no
Derivative Instruments	yes
Foreign Currency Transactions	no
Foreign Securities	yes
High-Yield (High-Risk) Securities (Junk Bonds)	no
Illiquid and Restricted Securities	yes
Indexed Securities	yes
Inverse Floaters	yes
Investment Companies	yes
Lending of Portfolio Securities	yes
Loan Participations	yes
Mortgage- and Asset-Backed Securities	yes
Mortgage Dollar Rolls	yes
Municipal Obligations	yes
Preferred Stock	no

Real Estate Investment Trusts	yes
Repurchase Agreements	yes
Reverse Repurchase Agreements	yes
Short Sales	no
Sovereign Debt	yes
Structured Products	yes
Variable- or Floating-Rate Securities	yes
Warrants	yes
When-Issued Securities	yes
Zero-Coupon, Step-Coupon, and Pay-in-Kind Securities	yes

The following are guidelines that may be changed by the board at any time:

- Under normal market conditions, at least 65% of the Fund's total assets will be invested in securities issued or guaranteed as to principal and interest by the U.S. government, its agencies or instrumentalities.
- No more than 5% of the Fund's net assets can be used at any one time for good faith deposits on futures and premiums for options on futures that do not offset existing investment positions.
- No more than 10% of the Fund's net assets will be held in securities and other instruments that are illiquid.
- Ordinarily, less than 25% of the Fund's total assets are invested in money market instruments.
- The Fund will not buy on margin or sell short, except the Fund may enter into interest rate futures contracts.
- The Fund will not invest more than 10% of its total assets in securities of investment companies.
- The Fund will not invest in a company to control or manage it.

INFORMATION REGARDING RISKS AND INVESTMENT STRATEGIES

RISKS

The following is a summary of common risk characteristics. Following this summary is a description of certain investments and investment strategies and the risks most commonly associated with them (including certain risks not described below and, in some cases, a more comprehensive discussion of how the risks apply to a particular investment or investment strategy). Please remember that a mutual fund's risk profile is largely defined by the fund's primary securities and investment strategies. However, most mutual funds are allowed to use certain other strategies and investments that may have different risk characteristics. Accordingly, one or more of the following types of risk will be associated with the Fund at any time (for a description of principal risks, please see the prospectus):

Call/Prepayment Risk

The risk that a bond or other security might be called (or otherwise converted, prepaid, or redeemed) before maturity. This type of risk is closely related to "reinvestment risk."

Correlation Risk

The risk that a given transaction may fail to achieve its objectives due to an imperfect relationship between markets. Certain investments may react more negatively than others in response to changing market conditions.

Credit Risk

The risk that the issuer of a security, or the counterparty to a contract, will default or otherwise become unable to honor a financial obligation (such as payments due on a bond or a note). The price of junk bonds may react more to the ability of the issuing company to pay interest and principal when due than to changes in interest rates. They have greater price fluctuations and are more likely to experience a default.

Event Risk

Occasionally, the value of a security may be seriously and unexpectedly changed by a natural or industrial accident or occurrence.

Foreign/Emerging Markets Risk

The following are all components of foreign/emerging markets risk:

Country risk includes the political, economic, and other conditions of a country. These conditions include lack of publicly available information, less government oversight (including lack of accounting, auditing, and financial reporting standards), the possibility of government-imposed restrictions, and even the nationalization of assets.

Currency risk results from the constantly changing exchange rate between local currency and the U.S. dollar. Whenever the Fund holds securities valued in a foreign currency or holds the currency, changes in the exchange rate add or subtract from the value of the investment.

Custody risk refers to the process of clearing and settling trades. It also covers holding securities with local agents and depositories. Low trading volumes and volatile prices in less developed markets make trades harder to complete and settle. Local agents are held only to the standard of care of the local market. Governments or trade groups may compel local agents to hold securities in designated depositories that are not subject to independent evaluation. The less developed a country's securities market is, the greater the likelihood of problems occurring.

Emerging markets risk includes the dramatic pace of change (economic, social, and political) in emerging market countries as well as the other considerations listed above. These markets are in early stages of development and are extremely volatile. They can be marked by extreme inflation, devaluation of currencies, dependence on trade partners, and hostile relations with neighboring countries.

Inflation Risk

Also known as purchasing power risk, inflation risk measures the effects of continually rising prices on investments. If an investment's yield is lower than the rate of inflation, your money will have less purchasing power as time goes on.

Interest Rate Risk

The risk of losses attributable to changes in interest rates. This term is generally associated with bond prices (when interest rates rise, bond prices fall). In general, the longer the maturity of a debt obligation, the higher its yield and the greater the sensitivity to changes in interest rates.

Issuer Risk

The risk that an issuer, or the value of its stocks or bonds, will perform poorly. Poor performance may be caused by poor management decisions, competitive pressures, breakthroughs in technology, reliance on suppliers, labor problems or shortages, corporate restructurings, fraudulent disclosures, or other factors.

Legal/Legislative Risk

Congress and other governmental units have the power to change existing laws affecting securities. A change in law might affect an investment adversely.

Leverage Risk

Some derivative investments (such as options, futures, or options on futures) require little or no initial payment and base their price on a security, a currency, or an index. A small change in the value of the underlying security, currency, or index may cause a sizable gain or loss in the price of the instrument.

Liquidity Risk

Securities may be difficult or impossible to sell at the time that the Fund would like. The Fund may have to lower the selling price, sell other investments, or forego an investment opportunity.

Management Risk

The risk that a strategy or selection method utilized by the investment manager may fail to produce the intended result. When all other factors have been accounted for and the investment manager chooses an investment, there is always the possibility that the choice will be a poor one.

Market Risk

The market may drop and you may lose money. Market risk may affect a single issuer, sector of the economy, industry, or the market as a whole. The market value of all securities may move up and down, sometimes rapidly and unpredictably.

Reinvestment Risk

The risk that an investor will not be able to reinvest their income or principal at the same rate as it currently is earning.

Sector/Concentration Risk

Investments that are concentrated in a particular issuer, geographic region, or industry will be more susceptible to changes in price (the more you diversify, the more you spread risk).

Small Company Risk

Investments in small and medium companies often involve greater risks than investments in larger, more established companies because small and medium companies may lack the management experience, financial resources, product diversification, and competitive strengths of larger companies. In addition, in many instances the securities of small and medium companies are traded only over-the-counter or on regional securities exchanges and the frequency and volume of their trading is substantially less than is typical of larger companies.

INVESTMENT STRATEGIES

The following information supplements the discussion of the Fund's investment objectives, policies, and strategies that are described in the prospectus and in this SAI. The following describes many strategies that many mutual funds use and types of securities that they purchase. Please refer to the section entitled Investment Strategies and Types of Investments to see which are applicable to the Fund.

Agency and Government Securities

The U.S. government and its agencies issue many different types of securities. U.S. Treasury bonds, notes, and bills and securities including mortgage pass through certificates of the Government National Mortgage Association (GNMA) are guaranteed by the U.S. government. Other U.S. government securities are issued or guaranteed by federal agencies or government-sponsored enterprises but are not guaranteed by the U.S. government. This may increase the credit risk associated with these investments.

Government-sponsored entities issuing securities include privately owned, publicly chartered entities created to reduce borrowing costs for certain sectors of the economy, such as farmers, homeowners, and students. They include the Federal Farm Credit Bank System, Farm Credit Financial Assistance Corporation, Federal Home Loan Bank, FHLMC, FNMA, Student Loan Marketing Association (SLMA), and Resolution Trust Corporation (RTC). Government-sponsored entities may issue discount notes (with maturities ranging from overnight to 360 days) and bonds. Agency and government securities are subject to the same concerns as other debt obligations. (See also Debt Obligations and Mortgage- and Asset-Backed Securities.)

Although one or more of the other risks described in this SAI may apply, the largest risks associated with agency and government securities include: Call/Prepayment Risk, Inflation Risk, Interest Rate Risk, Management Risk, and Reinvestment Risk.

Borrowing

The Fund may borrow money from banks for temporary or emergency purposes and make other investments or engage in other transactions permissible under the 1940 Act that may be considered a borrowing (such as derivative instruments). Borrowings are subject to costs (in addition to any interest that may be paid) and typically reduce the Fund's total return. Except as qualified above, however, the Fund will not buy securities on margin.

Although one or more of the other risks described in this SAI may apply, the largest risks associated with borrowing include: Inflation Risk and Management Risk.

Cash/Money Market Instruments

The Fund may maintain a portion of its assets in cash and cash-equivalent investments. Cash-equivalent investments include short-term U.S. and Canadian government securities and negotiable certificates of deposit, non-negotiable fixed-time deposits, bankers' acceptances, and letters of credit of banks or savings and loan associations having capital, surplus, and undivided profits (as of the date of its most recently published annual financial statements) in excess of $100 million (or the equivalent in the instance of a foreign branch of a U.S. bank) at the date of investment. The Fund also may purchase short-term notes and obligations of U.S. and foreign banks and corporations and may use repurchase agreements with broker-dealers registered under the Securities Exchange Act of 1934 and with commercial banks. (See also Commercial Paper, Debt Obligations, Repurchase Agreements, and Variable- or Floating-Rate Securities.) These types of instruments generally offer low rates of return and subject the Fund to certain costs and expenses.

See the appendix for a discussion of securities ratings.

Although one or more of the other risks described in this SAI may apply, the largest risks associated with cash/money market instruments include: Credit Risk, Inflation Risk, and Management Risk.

Collateralized Bond Obligations

Collateralized bond obligations (CBOs) are investment grade bonds backed by a pool of junk bonds. CBOs are similar in concept to collateralized mortgage obligations (CMOs), but differ in that CBOs represent different degrees of credit quality rather than different maturities. (See also Mortgage- and Asset-Backed Securities.) Underwriters of CBOs package a large and diversified pool of high-risk, high-yield junk bonds, which is then separated into "tiers." Typically, the first tier represents the higher quality collateral and pays the lowest interest rate; the second tier is backed by riskier bonds and pays a higher rate; the third tier represents the lowest credit quality and instead of receiving a fixed interest rate receives the residual interest payments--money that is left over after the higher tiers have been paid. CBOs, like CMOs, are substantially overcollateralized and this, plus the diversification of the pool backing them, earns them investment-grade bond ratings. Holders of third-tier CBOs stand to earn high yields or less money depending on the rate of defaults in the collateral pool. (See also High-Yield (High-Risk) Securities.)

Although one or more of the other risks described in this SAI may apply, the largest risks associated with CBOs include: Call/Prepayment Risk, Credit Risk, Interest Rate Risk, and Management Risk.

Commercial Paper

Commercial paper is a short-term debt obligation with a maturity ranging from 2 to 270 days issued by banks, corporations, and other borrowers. It is sold to investors with temporary idle cash as a way to increase returns on a short-term basis. These instruments are generally unsecured, which increases the credit risk associated with this type of investment. (See also Debt Obligations and Illiquid and Restricted Securities.)

Although one or more of the other risks described in this SAI may apply, the largest risks associated with commercial paper include: Credit Risk, Liquidity Risk, and Management Risk.

Common Stock

Common stock represents units of ownership in a corporation. Owners typically are entitled to vote on the selection of directors and other important matters as well as to receive dividends on their holdings. In the event that a corporation is liquidated, the claims of secured and unsecured creditors and owners of bonds and preferred stock take precedence over the claims of those who own common stock.

The price of common stock is generally determined by corporate earnings, type of products or services offered, projected growth rates, experience of management, liquidity, and general market conditions for the markets on which the stock trades.

Although one or more of the other risks described in this SAI may apply, the largest risks associated with common stock include: Issuer Risk, Management Risk, Market Risk, and Small Company Risk.

Convertible Securities

Convertible securities are bonds, debentures, notes, preferred stocks, or other securities that may be converted into common stock of the same or a different issuer within a particular period of time at a specified price. Some convertible securities, such as preferred equity-redemption cumulative stock (PERCs), have mandatory conversion features. Others are voluntary. A convertible security entitles the holder to receive interest normally paid or accrued on debt or the dividend paid on preferred stock until the convertible security matures or is redeemed, converted, or exchanged. Convertible securities have unique investment characteristics in that they generally (i) have higher yields than common stocks but lower yields than comparable non-convertible securities, (ii) are less subject to fluctuation in value than the underlying stock since they have fixed income characteristics, and (iii) provide the potential for capital appreciation if the market price of the underlying common stock increases.

The value of a convertible security is a function of its "investment value" (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its "conversion value" (the security's worth, at market value, if converted into the underlying common stock). The investment value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors also may have an effect on the convertible security's investment value. The conversion value of a convertible security is determined by the market price of the underlying common stock. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. Generally, the conversion value decreases as the convertible security approaches maturity. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security will be increasingly influenced by its conversion value. A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed income security.

Although one or more of the other risks described in this SAI may apply, the largest risks associated with convertible securities include: Call/Prepayment Risk, Interest Rate Risk, Issuer Risk, Management Risk, Market Risk, and Reinvestment Risk.

Corporate Bonds

Corporate bonds are debt obligations issued by private corporations, as distinct from bonds issued by a government agency or a municipality. Corporate bonds typically have four distinguishing features: (1) they are taxable; (2) they have a par value of $1,000; (3) they have a term maturity, which means they come due all at once; and (4) many are traded on major exchanges. Corporate bonds are subject to the same concerns as other debt obligations. (See also Debt Obligations and High-Yield (High-Risk) Securities.)

Corporate bonds may be either secured or unsecured. Unsecured corporate bonds are generally referred to as "debentures." See the appendix for a discussion of securities ratings.

Although one or more of the other risks described in this SAI may apply, the largest risks associated with corporate bonds include: Call/Prepayment Risk, Credit Risk, Interest Rate Risk, Issuer Risk, Management Risk, and Reinvestment Risk.

Debt Obligations

Many different types of debt obligations exist (for example, bills, bonds, or notes). Issuers of debt obligations have a contractual obligation to pay interest at a specified rate on specified dates and to repay principal on a specified maturity date. Certain debt obligations (usually intermediate- and long-term bonds) have provisions that allow the issuer to redeem or "call" a bond before its maturity. Issuers are most likely to call these securities during periods of falling interest rates. When this happens, an investor may have to replace these securities with lower yielding securities, which could result in a lower return.

The market value of debt obligations is affected primarily by changes in prevailing interest rates and the issuers perceived ability to repay the debt. The market value of a debt obligation generally reacts inversely to interest rate changes. When prevailing interest rates decline, the price usually rises, and when prevailing interest rates rise, the price usually declines.

In general, the longer the maturity of a debt obligation, the higher its yield and the greater the sensitivity to changes in interest rates. Conversely, the shorter the maturity, the lower the yield but the greater the price stability.

As noted, the values of debt obligations also may be affected by changes in the credit rating or financial condition of their issuers. Generally, the lower the quality rating of a security, the higher the degree of risk as to the payment of interest and return of principal. To compensate investors for taking on such increased risk, those issuers deemed to be less creditworthy generally must offer their investors higher interest rates than do issuers with better credit ratings. (See also Agency and Government Securities, Corporate Bonds, and High-Yield (High-Risk) Securities.)

All ratings limitations are applied at the time of purchase. Subsequent to purchase, a debt security may cease to be rated or its rating may be reduced below the minimum required for purchase by the Fund. Neither event will require the sale of such a security, but it will be a factor in considering whether to continue to hold the security. To the extent that ratings change as a result of changes in a rating organization or their rating systems, the Fund will attempt to use comparable ratings as standards for selecting investments.

See the appendix for a discussion of securities ratings.

Although one or more of the other risks described in this SAI may apply, the largest risks associated with debt obligations include: Call/Prepayment Risk, Credit Risk, Interest Rate Risk, Issuer Risk, Management Risk, and Reinvestment Risk.

Depositary Receipts

Some foreign securities are traded in the form of American Depositary Receipts (ADRs). ADRs are receipts typically issued by a U.S. bank or trust company evidencing ownership of the underlying securities of foreign issuers. European Depositary Receipts (EDRs) and Global Depositary Receipts (GDRs) are receipts typically issued by foreign banks or trust companies, evidencing ownership of underlying securities issued by either a foreign or U.S. issuer. Generally, depositary receipts in registered form are designed for use in the U.S. and depositary receipts in bearer form are designed for use in securities markets outside the U.S. Depositary receipts may not necessarily be denominated in the same currency as the underlying securities into which they may be converted. Depositary receipts involve the risks of other investments in foreign securities. In addition, ADR holders may not have all the legal rights of shareholders and may experience difficulty in receiving shareholder communications. (See also Common Stock and Foreign Securities.)

Although one or more of the other risks described in this SAI may apply, the largest risks associated with depositary receipts include: Foreign/Emerging Markets Risk, Issuer Risk, Management Risk, and Market Risk.

Derivative Instruments

Derivative instruments are commonly defined to include securities or contracts whose values depend, in whole or in part, on (or "derive" from) the value of one or more other assets, such as securities, currencies, or commodities.

A derivative instrument generally consists of, is based upon, or exhibits characteristics similar to options or forward contracts. Such instruments may be used to maintain cash reserves while remaining fully invested, to offset anticipated declines in values of investments, to facilitate trading, to reduce transaction costs, or to pursue higher investment returns. Derivative instruments are characterized by requiring little or no initial payment. Their value changes daily based on a security, a currency, a group of securities or currencies, or an index. A small change in the value of the underlying security, currency, or index can cause a sizable gain or loss in the price of the derivative instrument.

Options and forward contracts are considered to be the basic "building blocks" of derivatives. For example, forward-based derivatives include forward contracts, swap contracts, and exchange-traded futures. Forward-based derivatives are sometimes referred to generically as "futures contracts." Option-based derivatives include privately negotiated, over-the-counter (OTC) options (including caps, floors, collars, and options on futures) and exchange-traded options on futures. Diverse types of derivatives may be created by combining options or futures in different ways, and by applying these structures to a wide range of underlying assets.

Options. An option is a contract. A person who buys a call option for a security has the right to buy the security at a set price for the length of the contract. A person who sells a call option is called a writer. The writer of a call option agrees for the length of the contract to sell the security at the set price when the buyer wants to exercise the option, no matter what the market price of the security is at that time. A person who buys a put option has the right to sell a security at a set price for the length of the contract. A person who writes a put option agrees to buy the security at the set price if the purchaser wants to exercise the option during the length of the contract, no matter what the market price of the security is at that time. An option is covered if the writer owns the security (in the case of a call) or sets aside the cash or securities of equivalent value (in the case of a put) that would be required upon exercise.

The price paid by the buyer for an option is called a premium. In addition to the premium, the buyer generally pays a broker a commission. The writer receives a premium, less another commission, at the time the option is written. The premium received by the writer is retained whether or not the option is exercised. A writer of a call option may have to sell the security for a below-market price if the market price rises above the exercise price. A writer of a put option may have to pay an above-market price for the security if its market price decreases below the exercise price.

When an option is purchased, the buyer pays a premium and a commission. It then pays a second commission on the purchase or sale of the underlying security when the option is exercised. For record keeping and tax purposes, the price obtained on the sale of the underlying security is the combination of the exercise price, the premium, and both commissions.

One of the risks an investor assumes when it buys an option is the loss of the premium. To be beneficial to the investor, the price of the underlying security must change within the time set by the option contract. Furthermore, the change must be sufficient to cover the premium paid, the commissions paid both in the acquisition of the option and in a closing transaction or in the exercise of the option and sale (in the case of a call) or purchase (in the case of a put) of the underlying security. Even then, the price change in the underlying security does not ensure a profit since prices in the option market may not reflect such a change.

Options on many securities are listed on options exchanges. If the Fund writes listed options, it will follow the rules of the options exchange. Options are valued at the close of the New York Stock Exchange. An option listed on a national exchange, CBOE, or NASDAQ will be valued at the last quoted sales price or, if such a price is not readily available, at the mean of the last bid and ask prices.

Options on certain securities are not actively traded on any exchange, but may be entered into directly with a dealer. These options may be more difficult to close. If an investor is unable to effect a closing purchase transaction, it will not be able to sell the underlying security until the call written by the investor expires or is exercised.

Futures Contracts. A futures contract is a sales contract between a buyer (holding the "long" position) and a seller (holding the "short" position) for an asset with delivery deferred until a future date. The buyer agrees to pay a fixed price at the agreed future date and the seller agrees to deliver the asset. The seller hopes that the market price on the delivery date is less than the agreed upon price, while the buyer hopes for the contrary. Many futures contracts trade in a manner similar to the way a stock trades on a stock exchange and the commodity exchanges.

Generally, a futures contract is terminated by entering into an offsetting transaction. An offsetting transaction is effected by an investor taking an opposite position. At the time a futures contract is made, a good faith deposit called initial margin is set up. Daily thereafter, the futures contract is valued and the payment of variation margin is required so that each day an investor would pay out cash in an amount equal to any decline in the contract's value or receive cash equal to any increase. At the time a futures contract is closed out, a nominal commission is paid, which is generally lower than the commission on a comparable transaction in the cash market.

Futures contracts may be based on various securities, securities indices (such as the S&P 500 Index), foreign currencies and other financial instruments and indices.

Options on Futures Contracts. Options on futures contracts give the holder a right to buy or sell futures contracts in the future. Unlike a futures contract, which requires the parties to the contract to buy and sell a security on a set date (some futures are settled in cash), an option on a futures contract merely entitles its holder to decide on or before a future date (within nine months of the date of issue) whether to enter into a contract. If the holder decides not to enter into the contract, all that is lost is the amount (premium) paid for the option. Further, because the value of the option is fixed at the point of sale, there are no daily payments of cash to reflect the change in the value of the underlying contract. However, since an option gives the buyer the right to enter into a contract at a set price for a fixed period of time, its value does change daily.

One of the risks in buying an option on a futures contract is the loss of the premium paid for the option. The risk involved in writing options on futures contracts an investor owns, or on securities held in its portfolio, is that there could be an increase in the market value of these contracts or securities. If that occurred, the option would be exercised and the asset sold at a lower price than the cash market price. To

some extent, the risk of not realizing a gain could be reduced by entering into a closing transaction. An investor could enter into a closing transaction by purchasing an option with the same terms as the one previously sold. The cost to close the option and terminate the investor's obligation, however, might still result in a loss. Further, the investor might not be able to close the option because of insufficient activity in the options market. Purchasing options also limits the use of monies that might otherwise be available for long-term investments.

Options on Stock Indexes. Options on stock indexes are securities traded on national securities exchanges. An option on a stock index is similar to an option on a futures contract except all settlements are in cash. A fund exercising a put, for example, would receive the difference between the exercise price and the current index level.

Tax Treatment. As permitted under federal income tax laws and to the extent the Fund is allowed to invest in futures contacts, the Fund intends to identify futures contracts as mixed straddles and not mark them to market, that is, not treat them as having been sold at the end of the year at market value. Such an election may result in the Fund being required to defer recognizing losses incurred on futures contracts and on underlying securities identified as hedged positions.

Federal income tax treatment of gains or losses from transactions in options on futures contracts and indexes will depend on whether the option is a section 1256 contract. If the option is a non-equity option, the Fund will either make a 1256(d) election and treat the option as a mixed straddle or mark to market the option at fiscal year end and treat the gain/loss as 40% short-term and 60% long-term.

The IRS has ruled publicly that an exchange-traded call option is a security for purposes of the 50%-of-assets test and that its issuer is the issuer of the underlying security, not the writer of the option, for purposes of the diversification requirements.

Accounting for futures contracts will be according to generally accepted accounting principles. Initial margin deposits will be recognized as assets due from a broker (the Fund's agent in acquiring the futures position). During the period the futures contract is open, changes in value of the contract will be recognized as unrealized gains or losses by marking to market on a daily basis to reflect the market value of the contract at the end of each day's trading. Variation margin payments will be made or received depending upon whether gains or losses are incurred. All contracts and options will be valued at the last-quoted sales price on their primary exchange.

Other Risks of Derivatives.

Derivatives are risky investments.

The primary risk of derivatives is the same as the risk of the underlying asset, namely that the value of the underlying asset may go up or down. Adverse movements in the value of an underlying asset can expose an investor to losses. Derivative instruments may include elements of leverage and, accordingly, the fluctuation of the value of the derivative instrument in relation to the underlying asset may be magnified. The successful use of derivative instruments depends upon a variety of factors, particularly the investment manager's ability to predict movements of the securities, currencies, and commodity markets, which requires different skills than predicting changes in the prices of individual securities. There can be no assurance that any particular strategy will succeed.

Another risk is the risk that a loss may be sustained as a result of the failure of a counterparty to comply with the terms of a derivative instrument. The counterparty risk for exchange-traded derivative instruments is generally less than for privately-negotiated or OTC derivative instruments, since generally a clearing agency, which is the issuer or counterparty to each exchange-traded instrument, provides a guarantee of performance. For privately-negotiated instruments, there is no similar clearing agency guarantee. In all transactions, an investor will bear the risk that the counterparty will default, and this could result in a loss of the expected benefit of the derivative transaction and possibly other losses.

When a derivative transaction is used to completely hedge another position, changes in the market value of the combined position (the derivative instrument plus the position being hedged) result from an imperfect correlation between the price movements of the two instruments. With a perfect hedge, the value of the combined position remains unchanged for any change in the price of the underlying asset. With an imperfect hedge, the values of the derivative instrument and its hedge are not perfectly correlated. For example, if the value of a derivative instrument used in a short hedge (such as writing a call option, buying a put option, or selling a futures contract) increased by less than the decline in value of the hedged investment, the hedge would not be perfectly correlated. Such a lack of correlation might occur due to factors unrelated to the value of the investments being hedged, such as speculative or other pressures on the markets in which these instruments are traded.

Derivatives also are subject to the risk that they cannot be sold, closed out, or replaced quickly at or very close to their fundamental value. Generally, exchange contracts are very liquid because the exchange clearinghouse is the counterparty of every contract. OTC transactions are less liquid than exchange-traded derivatives since they often can only be closed out with the other party to the transaction.

Another risk is caused by the legal unenforcibility of a party's obligations under the derivative. A counterparty that has lost money in a derivative transaction may try to avoid payment by exploiting various legal uncertainties about certain derivative products.

(See also Foreign Currency Transactions.)

Although one or more of the other risks described in this SAI may apply, the largest risks associated with derivative instruments include: Leverage Risk, Liquidity Risk, and Management Risk.

Foreign Currency Transactions

Since investments in foreign countries usually involve currencies of foreign countries, the value of an investor's assets as measured in U.S. dollars may be affected favorably or unfavorably by changes in currency exchange rates and exchange control regulations. Also, an investor may incur costs in connection with conversions between various currencies. Currency exchange rates may fluctuate significantly over short periods of time causing a fund's NAV to fluctuate. Currency exchange rates are generally determined by the forces of supply and demand in the foreign exchange markets, actual or anticipated changes in interest rates, and other complex factors. Currency exchange rates also can be affected by the intervention of U.S. or foreign governments or central banks, or the failure to intervene, or by currency controls or political developments. Many funds utilize diverse types of derivative instruments in connection with their foreign currency exchange transactions.

(See also Derivative Instruments and Foreign Securities.)

Although one or more of the other risks described in this SAI may apply, the largest risks associated with foreign currency transactions include: Correlation Risk, Interest Rate Risk, Leverage Risk, Liquidity Risk, and Management Risk.

Foreign Securities and Domestic Companies with Foreign Operations

Foreign securities, foreign currencies, and securities issued by U.S. entities with substantial foreign operations involve special risks, including those set forth below, which are not typically associated with investing in U.S. securities. Foreign companies are not generally subject to uniform accounting, auditing, and financial reporting standards comparable to those applicable to domestic companies. Additionally, many foreign stock markets, while growing in volume of trading activity, have substantially less volume than the New York Stock Exchange, and securities of some foreign companies are less liquid and more volatile than securities of domestic companies. Similarly, volume and liquidity in most foreign bond markets are less than the volume and liquidity in the U.S. and, at times, volatility of price can be greater than in the U.S. Further, foreign markets have different clearance, settlement, registration, and communication procedures and in certain markets there have been times when settlements have been unable to keep pace with the volume of securities transactions making it difficult to conduct such transactions. Delays in such procedures could result in temporary periods when assets are uninvested and no return is earned on them. The inability of an investor to make intended security purchases due to such problems could cause the investor to miss attractive investment opportunities. Payment for securities without delivery may be required in certain foreign markets and, when participating in new issues, some foreign countries require payment to be made in advance of issuance (at the time of issuance, the market value of the security may be more or less than the purchase price). Some foreign markets also have compulsory depositories (i.e., an investor does not have a choice as to where the securities are held). Fixed commissions on some foreign stock exchanges are generally higher than negotiated commissions on U.S. exchanges. Further, an investor may encounter difficulties or be unable to pursue legal remedies and obtain judgments in foreign courts. There is generally less government supervision and regulation of business and industry practices, stock exchanges, brokers, and listed companies than in the U.S. It may be more difficult for an investor's agents to keep currently informed about corporate actions such as stock dividends or other matters that may affect the prices of portfolio securities. Communications between the U.S. and foreign countries may be less reliable than within the U.S., thus increasing the risk of delays or loss of certificates for portfolio securities. In addition, with respect to certain foreign countries, there is the possibility of nationalization, expropriation, the imposition of additional withholding or confiscatory taxes, political, social, or economic instability, diplomatic developments that could affect investments in those countries, or other unforeseen actions by regulatory bodies (such as changes to settlement or custody procedures).

The risks of foreign investing may be magnified for investments in emerging markets, which may have relatively unstable governments, economies based on only a few industries, and securities markets that trade a small number of securities.

The introduction of a single currency, the euro, on January 1, 1999 for participating European nations in the Economic and Monetary Union ("EU") presents unique uncertainties, including whether the payment and operational systems of banks and other financial institutions will be ready by the scheduled launch date; the creation of suitable clearing and settlement payment systems for the new currency; the legal treatment of certain outstanding financial contracts after January 1, 1999 that refer to existing currencies rather than the euro; the establishment and maintenance of exchange rates; the fluctuation of the euro relative to non-euro currencies during the transition period from January 1, 1999 to December 31, 2000 and beyond; whether the interest rate, tax or labor regimes of European countries participating in the euro will converge over time; and whether the conversion of the currencies of other EU countries such as the United Kingdom, Denmark, and Greece into the euro and the admission of other non-EU countries such as Poland, Latvia, and Lithuania as members of the EU may have an impact on the euro.

Although one or more of the other risks described in this SAI may apply, the largest risks associated with foreign securities include: Foreign/Emerging Markets Risk, Issuer Risk, and Management Risk.

High-Yield (High-Risk) Securities (Junk Bonds)

High yield (high-risk) securities are sometimes referred to as "junk bonds." They are non-investment grade (lower quality) securities that have speculative characteristics. Lower quality securities, while generally offering higher yields than investment grade securities with similar maturities, involve greater risks, including the possibility of default or bankruptcy. They are regarded as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal. The special risk considerations in connection with investments in these securities are discussed below.

See the appendix for a discussion of securities ratings. (See also Debt Obligations.)

The lower-quality and comparable unrated security market is relatively new and its growth has paralleled a long economic expansion. As a result, it is not clear how this market may withstand a prolonged recession or economic downturn. Such conditions could severely disrupt the market for and adversely affect the value of such securities.

All interest-bearing securities typically experience appreciation when interest rates decline and depreciation when interest rates rise. The market values of lower-quality and comparable unrated securities 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. Lower-quality and comparable unrated securities also tend to be more sensitive to economic conditions than are higher-rated securities. As a result, they generally involve more credit risks than securities in the higher-rated categories. During an economic downturn or a sustained period of rising interest rates, highly leveraged issuers of lower-quality securities may experience financial stress and may not have sufficient revenues to meet their payment obligations. The issuer's ability to service its debt obligations also may be adversely affected by specific corporate developments, the issuer's inability to meet specific projected business forecast, or the unavailability of additional financing. The risk of loss due to default by an issuer of these securities is significantly greater than issuers of higher-rated securities because such securities are generally unsecured and are often subordinated to other creditors. Further, if the issuer of a lower quality security defaulted, an investor might incur additional expenses to seek recovery.

Credit ratings issued by credit rating agencies are designed to evaluate the safety of principal and interest payments of rated securities. They do not, however, evaluate the market value risk of lower-quality securities and, therefore, may not fully reflect the true risks of an investment. In addition, credit rating agencies may or may not make timely changes in a rating to reflect changes in the economy or in the condition of the issuer that affect the market value of the securities. Consequently, credit ratings are used only as a preliminary indicator of investment quality.

An investor may have difficulty disposing of certain lower-quality and comparable unrated securities because there may be a thin trading market for such securities. Because not all dealers maintain markets in all lower quality and comparable unrated securities, there is no established retail secondary market for many of these securities. To the extent a secondary trading market does exist, it is generally not as liquid as the secondary market for higher-rated securities. The lack of a liquid secondary market may have an adverse impact on the market price of the security. The lack of a liquid secondary market for certain securities also may make it more difficult for an investor to obtain accurate market quotations. Market quotations are generally available on many lower-quality and comparable unrated issues only from a limited number of dealers and may not necessarily represent firm bids of such dealers or prices for actual sales.

Legislation may be adopted from time to time designed to limit the use of certain lower quality and comparable unrated securities by certain issuers.

Although one or more of the other risks described in this SAI may apply, the largest risks associated with high-yield (high-risk) securities include: Call/Prepayment Risk, Credit Risk, Currency Risk, Interest Rate Risk, and Management Risk.

Illiquid and Restricted Securities

The Fund may invest in illiquid securities (i.e., securities that are not readily marketable). These securities may include, but are not limited to, certain securities that are subject to legal or contractual restrictions on resale, certain repurchase agreements, and derivative instruments.

To the extent the Fund invests in illiquid or restricted securities, it may encounter difficulty in determining a market value for such securities. Disposing of illiquid or restricted securities may involve time-consuming negotiations and legal expense, and it may be difficult or impossible for the Fund to sell such an investment promptly and at an acceptable price.

Although one or more of the other risks described in this SAI may apply, the largest risks associated with illiquid and restricted securities include: Liquidity Risk and Management Risk.

Indexed Securities

The value of indexed securities is linked to currencies, interest rates, commodities, indexes, or other financial indicators. Most indexed securities are short- to intermediate-term fixed income securities whose values at maturity or interest rates rise or fall according to the change in one or more specified underlying instruments. Indexed securities may be more volatile than the underlying instrument itself and they may be less liquid than the securities represented by the index. (See also Derivative Instruments.)

Although one or more of the other risks described in this SAI may apply, the largest risks associated with indexed securities include: Liquidity Risk, Management Risk, and Market Risk.

Inverse Floaters

Inverse floaters are created by underwriters using the interest payment on securities. A portion of the interest received is paid to holders of instruments based on current interest rates for short-term securities. The remainder, minus a servicing fee, is paid to holders of inverse floaters. As interest rates go down, the holders of the inverse floaters receive more income and an increase in the price for the inverse floaters. As interest rates go up, the holders of the inverse floaters receive less income and a decrease in the price for the inverse floaters. (See also Derivative Instruments.)

Although one or more of the other risks described in this SAI may apply, the largest risks associated with inverse floaters include: Interest Rate Risk and Management Risk.

Investment Companies

The Fund may invest in securities issued by registered and unregistered investment companies. These investments may involve the duplication of advisory fees and certain other expenses.

Although one or more of the other risks described in this SAI may apply, the largest risk associated with the securities of other investment companies includes: Management Risk and Market Risk.

Lending of Portfolio Securities

The Fund may lend certain of its portfolio securities to broker-dealers. The current policy of the Fund's board is to make these loans, either long- or short-term, to broker-dealers. In making loans, the Fund receives the market price in cash, U.S. government securities, letters of credit, or such other collateral as may be permitted by regulatory agencies and approved by the board. If the market price of the loaned securities goes up, the Fund will get additional collateral on a daily basis. The risks are that the borrower may not provide additional collateral when required or return the securities when due. During the existence of the loan, the Fund receives cash payments equivalent to all interest or other distributions paid on the loaned securities. The Fund may pay reasonable administrative and custodial fees in connection with a loan and may pay a negotiated portion of the interest earned on the cash or money market instruments held as collateral to the borrower or placing broker. The Fund will receive reasonable interest on the loan or a flat fee from the borrower and amounts equivalent to any dividends, interest, or other distributions on the securities loaned.

Although one or more of the other risks described in this SAI may apply, the largest risks associated with the lending of portfolio securities include: Credit Risk and Management Risk.

Loan Participations

Loans, loan participations, and interests in securitized loan pools are interests in amounts owed by a corporate, governmental, or other borrower to a lender or consortium of lenders (typically banks, insurance companies, investment banks, government agencies, or international agencies). Loans involve a risk of loss in case of default or insolvency of the borrower and may offer less legal protection to an investor in the event of fraud or misrepresentation.

Although one or more of the other risks described in this SAI may apply, the largest risks associated with loan participations include: Credit Risk and Management Risk.

Mortgage- and Asset-Backed Securities

Mortgage-backed securities represent direct or indirect participations in, or are secured by and payable from, mortgage loans secured by real property, and include single- and multi-class pass-through securities and Collateralized Mortgage Obligations (CMOs). These securities may be issued or guaranteed by U.S. government agencies or instrumentalities (see also Agency and Government Securities), or by private issuers, generally originators and investors in mortgage loans, including savings associations, mortgage bankers, commercial banks, investment bankers, and special purpose entities. Mortgage-backed securities issued by private lenders may be supported by pools of mortgage loans or other mortgage-backed securities that are guaranteed, directly or indirectly, by the U.S. government or one of its agencies or instrumentalities, or they may be issued without any governmental guarantee of the underlying mortgage assets but with some form of non-governmental credit enhancement.

Stripped mortgage-backed securities are a type of mortgage-backed security that receive differing proportions of the interest and principal payments from the underlying assets. Generally, there are two classes of stripped mortgage-backed securities: Interest Only (IO) and Principal Only (PO). IOs entitle the holder to receive distributions consisting of all or a portion of the interest on the underlying pool of mortgage loans or mortgage-backed securities. POs entitle the holder to receive distributions consisting of all or a portion of the principal of the underlying pool of mortgage loans or mortgage-backed securities. The cash flows and yields on IOs and POs are extremely sensitive to the rate of principal payments (including prepayments) on the underlying mortgage loans or mortgage-backed securities. A rapid rate of principal payments may adversely affect the yield to maturity of IOs. A slow rate of principal payments may adversely affect the yield to maturity of POs. If prepayments of principal are greater than anticipated, an investor in IOs may incur substantial losses. If prepayments of principal are slower than anticipated, the yield on a PO will be affected more severely than would be the case with a traditional mortgage-backed security.

CMOs are hybrid mortgage-related instruments secured by pools of mortgage loans or other mortgage-related securities, such as mortgage pass through securities or stripped mortgage-backed securities. CMOs may be structured into multiple classes, often referred to as "tranches," with each class bearing a different stated maturity and entitled to a different schedule for payments of principal and interest, including prepayments. Principal prepayments on collateral underlying a CMO may cause it to be retired substantially earlier than its stated maturity.

The yield characteristics of mortgage-backed securities differ from those of other debt securities. Among the differences are that interest and principal payments are made more frequently on mortgage-backed securities, usually monthly, and principal may be repaid at any time. These factors may reduce the expected yield.

Asset-backed securities have structural characteristics similar to mortgage-backed securities. Asset-backed debt obligations represent direct or indirect participation in, or secured by and payable from, assets such as motor vehicle installment sales contracts, other installment loan contracts, home equity loans, leases of various types of property, and receivables from credit card or other revolving credit arrangements. The credit quality of most asset-backed securities depends primarily on the credit quality of the assets underlying such securities, how well the entity issuing the security is insulated from the credit risk of the originator or any other affiliated entities, and the amount and quality of any credit enhancement of the securities. Payments or distributions of principal and interest on asset-backed debt obligations may be supported by non-governmental credit enhancements including letters of credit, reserve funds, overcollateralization, and guarantees by third parties. The market for privately issued asset-backed debt obligations is smaller and less liquid than the market for government sponsored mortgage-backed securities. (See also Derivative Instruments.)

Although one or more of the other risks described in this SAI may apply, the largest risks associated with mortgage- and asset-backed securities include: Call/Prepayment Risk, Credit Risk, Interest Rate Risk, Liquidity Risk, and Management Risk.

Mortgage Dollar Rolls

Mortgage dollar rolls are investments whereby an investor would sell mortgage-backed securities for delivery in the current month and simultaneously contract to purchase substantially similar securities on a specified future date. While an investor would forego principal and interest paid on the mortgage-backed securities during the roll period, the investor would be compensated by the difference between the current sales price and the lower price for the future purchase as well as by any interest earned on the proceeds of the initial sale. The investor also could be compensated through the receipt of fee income equivalent to a lower forward price.

Although one or more of the other risks described in this SAI may apply, the largest risks associated with mortgage dollar rolls include: Credit Risk, Interest Rate Risk, and Management Risk.

Municipal Obligations

Municipal obligations include debt obligations issued by or on behalf of states, territories, possessions, or sovereign nations within the territorial boundaries of the United States (including the District of Columbia). The interest on these obligations is generally exempt from federal income tax. Municipal obligations are generally classified as either "general obligations" or "revenue obligations."

General obligation bonds are secured by the issuer's pledge of its full faith, credit, and taxing power for the payment of interest and principal. Revenue bonds are payable only from the revenues derived from a project or facility or from the proceeds of a specified revenue source. Industrial development bonds are generally revenue bonds secured by payments from and the credit of private users. Municipal notes are issued to meet the short-term funding requirements of state, regional, and local governments. Municipal notes include tax anticipation notes, bond anticipation notes, revenue anticipation notes, tax and revenue anticipation notes, construction loan notes, short-term discount notes, tax-exempt commercial paper, demand notes, and similar instruments.

Municipal lease obligations may take the form of a lease, an installment purchase, or a conditional sales contract. They are issued by state and local governments and authorities to acquire land, equipment, and facilities. An investor may purchase these obligations directly, or it may purchase participation interests in such obligations. Municipal leases may be subject to greater risks than general obligation or revenue bonds. State constitutions and statutes set forth requirements that states or municipalities must meet in order to issue municipal obligations. Municipal leases may contain a covenant by the state or municipality to budget for and make payments due under the obligation. Certain municipal leases may, however, provide that the issuer is not obligated to make payments on the obligation in future years unless funds have been appropriated for this purpose each year.

Yields on municipal bonds and notes depend on a variety of factors, including money market conditions, municipal bond market conditions, the size of a particular offering, the maturity of the obligation, and the rating of the issue. The municipal bond market has a large number of different issuers, many having smaller sized bond issues, and a wide choice of different maturities within each issue. For these reasons, most municipal bonds do not trade on a daily basis and many trade only rarely. Because many of these bonds trade infrequently, the spread between the bid and offer may be wider and the time needed to develop a bid or an offer may be longer than other security markets. See the appendix for a discussion of securities ratings. (See also Debt Obligations.)

Taxable Municipal Obligations. There is another type of municipal obligation that is subject to federal income tax for a variety of reasons. These municipal obligations do not qualify for the federal income exemption because (a) they did not receive necessary authorization for tax-exempt treatment from state or local government authorities, (b) they exceed certain regulatory limitations on the cost of issuance for tax-exempt financing or (c) they finance public or private activities that do not qualify for the federal income tax exemption. These non-qualifying activities might include, for example, certain types of multi-family housing, certain professional and local sports facilities, refinancing of certain municipal debt, and borrowing to replenish a municipality's underfunded pension plan.

Although one or more of the other risks described in this SAI may apply, the largest risks associated with municipal obligations include: Credit Risk, Event Risk, Inflation Risk, Interest Rate Risk, Legal/Legislative Risk, and Market Risk.

Preferred Stock

Preferred stock is a type of stock that pays dividends at a specified rate and that has preference over common stock in the payment of dividends and the liquidation of assets. Preferred stock does not ordinarily carry voting rights.

The price of a preferred stock is generally determined by earnings, type of products or services, projected growth rates, experience of management, liquidity, and general market conditions of the markets on which the stock trades.

Although one or more of the other risks described in this SAI may apply, the largest risks associated with preferred stock include: Issuer Risk, Management Risk, and Market Risk.

Real Estate Investment Trusts

Real estate investment trusts (REITs) are entities that manage a portfolio of real estate to earn profits for their shareholders. REITs can make investments in real estate such as shopping centers, nursing homes, office buildings, apartment complexes, and hotels. REITs can be subject to extreme volatility due to fluctuations in the demand for real estate, changes in interest rates, and adverse economic conditions. Additionally, the failure of a REIT to continue to qualify as a REIT for tax purposes can materially affect its value.

Although one or more of the other risks described in this SAI may apply, the largest associated with REITs include: Issuer Risk, Management Risk, and Market Risk.

Repurchase Agreements

The Fund may enter into repurchase agreements with certain banks or non-bank dealers. In a repurchase agreement, the Fund buys a security at one price, and at the time of sale, the seller agrees to repurchase the obligation at a mutually agreed upon time and price (usually within seven days). The repurchase agreement thereby determines the yield during the purchaser's holding period, while the seller's obligation to repurchase is secured by the value of the underlying security. Repurchase agreements could involve certain risks in the event of a default or insolvency of the other party to the agreement, including possible delays or restrictions upon the Fund's ability to dispose of the underlying securities.

Although one or more of the other risks described in this SAI may apply, the largest risks associated with repurchase agreements include: Credit Risk and Management Risk.

Reverse Repurchase Agreements

In a reverse repurchase agreement, the investor would sell a security and enter into an agreement to repurchase the security at a specified future date and price. The investor generally retains the right to interest and principal payments on the security. Since the investor receives cash upon entering into a reverse repurchase agreement, it may be considered a borrowing. (See also Derivative Instruments.)

Although one or more of the other risks described in this SAI may apply, the largest risks associated with reverse repurchase agreements include: Credit Risk, Interest Rate Risk, and Management Risk.

Short Sales

With short sales, an investor sells a security that it does not own in anticipation of a decline in the market value of the security. To complete the transaction, the investor must borrow the security to make delivery to the buyer. The investor is obligated to replace the security that was borrowed by purchasing it at the market price on the replacement date. The price at such time may be more or less than the price at which the investor sold the security. A fund that is allowed to utilize short sales will designate cash or liquid securities to cover its open short positions. Those funds also may engage in "short sales against the box," a form of short-selling that involves selling a security that an investor owns (or has an unconditioned right to purchase) for delivery at a specified date in the future. This technique allows an investor to hedge protectively against anticipated declines in the market of its securities. If the value of the securities sold short increased prior to the scheduled delivery date, the investor loses the opportunity to participate in the gain.

Although one or more of the other risks described in this SAI may apply, the largest risks associated with short sales include: Management Risk and Market Risk.

Sovereign Debt

A sovereign debtor's willingness or ability to repay principal and pay interest in a timely manner may be affected by a variety of factors, including its cash flow situation, the extent of its reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the sovereign debtor's policy toward international lenders, and the political constraints to which a sovereign debtor may be subject. (See also Foreign Securities.)

With respect to sovereign debt of emerging market issuers, investors should be aware that certain emerging market countries are among the largest debtors to commercial banks and foreign governments. At times, certain emerging market countries have declared moratoria on the payment of principal and interest on external debt.

Certain emerging market countries have experienced difficulty in servicing their sovereign debt on a timely basis that led to defaults and the restructuring of certain indebtedness.

Sovereign debt includes Brady Bonds, which are securities issued under the framework of the Brady Plan, an initiative announced by former U.S. Treasury Secretary Nicholas F. Brady in 1989 as a mechanism for debtor nations to restructure their outstanding external commercial bank indebtedness.

Although one or more of the other risks described in this SAI may apply, the largest risks associated with sovereign debt include: Credit Risk, Foreign/Emerging Markets Risk, and Management Risk.

Structured Products

Structured products are over-the-counter financial instruments created specifically to meet the needs of one or a small number of investors. The instrument may consist of a warrant, an option, or a forward contract embedded in a note or any of a wide variety of debt, equity, and/or currency combinations. Risks of structured products include the inability to close such instruments, rapid changes in the market, and defaults by other parties. (See also Derivative Instruments.)

Although one or more of the other risks described in this SAI may apply, the largest risks associated with structured products include: Credit Risk, Liquidity Risk, and Management Risk.

Variable- or Floating-Rate Securities

The Fund may invest in securities that offer a variable- or floating-rate of interest. Variable-rate securities provide for automatic establishment of a new interest rate at fixed intervals (e.g., daily, monthly, semi-annually, etc.). Floating-rate securities generally provide for automatic adjustment of the interest rate whenever some specified interest rate index changes.

Variable- or floating-rate securities frequently include a demand feature enabling the holder to sell the securities to the issuer at par. In many cases, the demand feature can be exercised at any time. Some securities that do not have variable or floating interest rates may be accompanied by puts producing similar results and price characteristics.

Variable-rate demand notes include master demand notes that are obligations that permit the Fund to invest fluctuating amounts, which may change daily without penalty, pursuant to direct arrangements between the Fund as lender, and the borrower. The interest rates on these notes fluctuate from time to time. The issuer of such obligations normally has a corresponding right, after a given period, to prepay in its discretion the outstanding principal amount of the obligations plus accrued interest upon a specified number of days'

notice to the holders of such obligations. Because these obligations are direct lending arrangements between the lender and borrower, it is not contemplated that such instruments generally will be traded. There generally is not an established secondary market for these obligations. Accordingly, where these obligations are not secured by letters of credit or other credit support arrangements, the Fund's right to redeem is dependent on the ability of the borrower to pay principal and interest on demand. Such obligations frequently are not rated by credit rating agencies and may involve heightened risk of default by the issuer.

Although one or more of the other risks described in this SAI may apply, the largest risks associated with variable- or floating-rate securities include: Credit Risk and Management Risk.

Warrants

Warrants are securities giving the holder the right, but not the obligation, to buy the stock of an issuer at a given price (generally higher than the value of the stock at the time of issuance) during a specified period or perpetually. Warrants may be acquired separately or in connection with the acquisition of securities. Warrants do not carry with them the right to dividends or voting rights and they do not represent any rights in the assets of the issuer. Warrants may be considered to have more speculative characteristics than certain other types of investments. In addition, the value of a warrant does not necessarily change with the value of the underlying securities, and a warrant ceases to have value if it is not exercised prior to its expiration date.

Although one or more of the other risks described in this SAI may apply, the largest risks associated with warrants include: Management Risk and Market Risk.

When-Issued Securities

These instruments are contracts to purchase securities for a fixed price at a future date beyond normal settlement time (when-issued securities or forward commitments). The price of debt obligations purchased on a when-issued basis, which may be expressed in yield terms, generally is fixed at the time the commitment to purchase is made, but delivery and payment for the securities take place at a later date. Normally, the settlement date occurs within 45 days of the purchase although in some cases settlement may take longer. The investor does not pay for the securities or receive dividends or interest on them until the contractual settlement date. Such instruments involve a risk of loss if the value of the security to be purchased declines prior to the settlement date, which risk is in addition to the risk of decline in value of the investor's other assets. In addition, when the Fund engages in forward commitment and when-issued transactions, it relies on the counterparty to consummate the transaction. The failure of the counterparty to consummate the transaction may result in the Fund's losing the opportunity to obtain a price and yield considered to be advantageous.

Although one or more of the other risks described in this SAI may apply, the largest risks associated with when-issued securities include: Credit Risk and Management Risk.

Zero-Coupon, Step-Coupon, and Pay-in-Kind Securities

These securities are debt obligations that do not make regular cash interest payments (see also Debt Obligations). Zero-coupon and step-coupon securities are sold at a deep discount to their face value because they do not pay interest until maturity. Pay-in-kind securities pay interest through the issuance of additional securities. Because these securities do not pay current cash income, the price of these securities can be extremely volatile when interest rates fluctuate. See the appendix for a discussion of securities ratings.

Although one or more of the other risks described in this SAI may apply, the largest risks associated with zero-coupon, step-coupon, and pay-in-kind securities include: Credit Risk, Interest Rate Risk, and Management Risk.

SECURITY TRANSACTIONS

Subject to policies set by the board, AEFC is authorized to determine, consistent with the Fund's investment goal and policies, which securities will be purchased, held, or sold. In determining where the buy and sell orders are to be placed, AEFC has been directed to use its best efforts to obtain the best available price and the most favorable execution except where otherwise authorized by the board. In selecting broker-dealers to execute transactions, AEFC may consider the price of the security, including commission or mark-up, the size and difficulty of the order, the reliability, integrity, financial soundness, and general operation and execution capabilities of the broker, the broker's expertise in particular markets, and research services provided by the broker.

AEFC has a strict Code of Ethics that prohibits its affiliated personnel from engaging in personal investment activities that compete with or attempt to take advantage of planned portfolio transactions for any fund or trust for which it acts as investment manager.

The Fund's securities may be traded on a principal rather than an agency basis. In other words, AEFC will trade directly with the issuer or with a dealer who buys or sells for its own account, rather than acting on behalf of another client. AEFC does not pay the dealer commissions. Instead, the dealer's profit, if any, is the difference, or spread, between the dealer's purchase and sale price for the security.

On occasion, it may be desirable to compensate a broker for research services or for brokerage services by paying a commission that might not otherwise be charged or a commission in excess of the amount another broker might charge. The board has adopted a policy authorizing AEFC to do so to the extent authorized by law, if AEFC determines, in good faith, that such commission is reasonable in relation to the value of the brokerage or research services provided by a broker or dealer, viewed either in the light of that transaction or AEFC's overall responsibilities with respect to the Fund and the other American Express funds for which it acts as investment manager.

Research provided by brokers supplements AEFC's own research activities. Such services include economic data on, and analysis of, U.S. and foreign economies; information on specific industries; information about specific companies, including earnings estimates; purchase recommendations for stocks and bonds; portfolio strategy services; political, economic, business, and industry trend assessments; historical statistical information; market data services providing information on specific issues and prices; and technical analysis of various aspects of the securities markets, including technical charts. Research services may take the form of written reports, computer software, or personal contact by telephone or at seminars or other meetings. AEFC has obtained, and in the future may obtain, computer hardware from brokers, including but not limited to personal computers that will be used exclusively for investment decision-making purposes, which include the research, portfolio management, and trading functions and other services to the extent permitted under an interpretation by the SEC.

When paying a commission that might not otherwise be charged or a commission in excess of the amount another broker might charge, AEFC must follow procedures authorized by the board. To date, three procedures have been authorized. One procedure permits AEFC to direct an order to buy or sell a security traded on a national securities exchange to a specific broker for research services it has provided. The second procedure permits AEFC, in order to obtain research, to direct an order on an agency basis to buy or sell a security traded in the over-the-counter market to a firm that does not make a market in that security. The commission paid generally includes compensation for research services. The third procedure permits AEFC, in order to obtain research and brokerage services, to cause the Fund to pay a commission in excess of the amount another broker might have charged. AEFC has advised the Fund that it is necessary to do business with a number of brokerage firms on a continuing basis to obtain such services as the handling of large orders, the willingness of a broker to risk its own money by taking a position in a security, and the specialized handling of a particular group of securities that only certain brokers may be

able to offer. As a result of this arrangement, some portfolio transactions may not be effected at the lowest commission, but AEFC believes it may obtain better overall execution. AEFC has represented that under all three procedures the amount of commission paid will be reasonable and competitive in relation to the value of the brokerage services performed or research provided.

All other transactions will be placed on the basis of obtaining the best available price and the most favorable execution. In so doing, if in the professional opinion of the person responsible for selecting the broker or dealer, several firms can execute the transaction on the same basis, consideration will be given by such person to those firms offering research services. Such services may be used by AEFC in providing advice to all American Express funds even though it is not possible to relate the benefits to any particular fund.

Each investment decision made for the Fund is made independently from any decision made for another portfolio, fund, or other account advised by AEFC or any of its subsidiaries. When the Fund buys or sells the same security as another portfolio, fund, or account, AEFC carries out the purchase or sale in a way the Fund agrees in advance is fair. Although sharing in large transactions may adversely affect the price or volume purchased or sold by the Fund, the Fund hopes to gain an overall advantage in execution.

On a periodic basis, AEFC makes a comprehensive review of the broker-dealers and the overall reasonableness of their commissions. The review evaluates execution, operational efficiency, and research services.

The Fund paid total brokerage commissions of $2,478,231 for fiscal year ended May 31, 1999, $1,514,430 for fiscal year 1998, and $0 for fiscal year 1997. Substantially all firms through whom transactions were executed provide research services.

No transactions were directed to brokers because of research services they provided to the Fund.

As of the end of the most recent fiscal year, the Fund held no securities of its regular brokers or dealers or of the parent of those brokers or dealers that derived more than 15% of gross revenue from securities-related activities.

The portfolio turnover rate was 278% in the most recent fiscal year, and 159% in the year before. Higher turnover rates may result in higher brokerage expenses. The turnover rate was relatively high in 1999, in part due to the hedging strategies employed by the Fund. An increased level of volatility in both mortgage spreads and interest rates in general resulted in a higher level of turnover in connection with these strategies.

BROKERAGE COMMISSIONS PAID TO BROKERS AFFILIATED WITH AMERICAN EXPRESS FINANCIAL CORPORATION

Affiliates of American Express Company (of which AEFC is a wholly-owned subsidiary) may engage in brokerage and other securities transactions on behalf of the Fund according to procedures adopted by the board and to the extent consistent with applicable provisions of the federal securities laws. AEFC will use an American Express affiliate only if (i) AEFC determines that the Fund will receive prices and executions at least as favorable as those offered by qualified independent brokers performing similar brokerage and other services for the Fund and (ii) the affiliate charges the Fund commission rates consistent with those the affiliate charges comparable unaffiliated customers in similar transactions and if such use is consistent with terms of the Investment Management Services Agreement.

No brokerage commissions were paid to brokers affiliated with AEFC for the three most recent fiscal years.

PERFORMANCE INFORMATION

The Fund may quote various performance figures to illustrate past performance. Average annual total return and current yield quotations, if applicable, used by the Fund are based on standardized methods of computing performance as required by the SEC. An explanation of the methods used by the Fund to compute performance follows below.

AVERAGE ANNUAL TOTAL RETURN

The Fund may calculate average annual total return for a class for certain periods by finding the average annual compounded rates of return over the period that would equate the initial amount invested to the ending redeemable value, according to the following formula:

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

where:
P = a hypothetical initial payment of $1,000
T = average annual total return
n = number of years
ERV = ending redeemable value of a hypothetical $1,000 payment, made at the beginning of a period, at the end of the period (or fractional portion thereof)

AGGREGATE TOTAL RETURN

The Fund may calculate aggregate total return for a class for certain periods representing the cumulative change in the value of an investment in the Fund over a specified period of time according to the following formula:

$$\frac{ERV - P}{P}$$

where:
P = a hypothetical initial payment of $1,000
ERV = ending redeemable value of a hypothetical $1,000 payment, made at the beginning of a period, at the end of the period (or fractional portion thereof)

Annualized yield

The Fund may calculate an annualized yield for a class by dividing the net investment income per share deemed earned during a 30-day period by the net asset value per share on the last day of the period and annualizing the results.

Yield is calculated according to the following formula:

Yield = 2[(a-b + 1)6 - 1]
cd

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

The Fund's annualized yield was 4.83% for Class A, 4.32% for Class B and 5.17% for Class Y for the 30-day period ended May 28, 1999.

The Fund's yield, calculated as described above according to the formula prescribed by the SEC, is a hypothetical return based on market value yield to maturity for the Fund's securities. It is not necessarily indicative of the amount which was or may be paid to the Fund's shareholders. Actual amounts paid to Fund shareholders are reflected in the distribution yield.

Distribution yield

Distribution yield is calculated according to the following formula:

D divided by POPF equals DY
30 30

where:
D = sum of dividends for 30-day period
POP = sum of public offering price for 30-day period
F = annualizing factor
DY = distribution yield

The Fund's distribution yield was 4.95% for Class A, 4.44% for Class B and 5.29% for Class Y for the 30-day period ended May 28, 1999.

In its sales material and other communications, the Fund may quote, compare or refer to rankings, yields, or returns as published by independent statistical services or publishers and publications such as The Bank Rate Monitor National Index, Barron's, Business Week, CDA Technologies, Donoghue's Money Market Fund Report, Financial Services Week, Financial Times, Financial World, Forbes, Fortune, Global Investor, Institutional Investor, Investor's Business Daily, Kiplinger's Personal Finance, Lipper Analytical Services, Money, Morningstar, Mutual Fund Forecaster, Newsweek, The New York Times, Personal Investor, Shearson Lehman Aggregate Bond Index, Stanger Report, Sylvia Porter's Personal Finance, USA Today, U.S. News and World Report, The Wall Street Journal, and Wiesenberger Investment Companies Service. The Fund also may compare its performance to a wide variety of indexes or averages. There are similarities and differences between the investments that the Fund may purchase and the investments measured by the indexes or averages and the composition of the indexes or averages will differ from that of the Fund.

VALUING FUND SHARES

The value of an individual share for each class is determined by using the net asset value (NAV) before shareholder transactions for the day. On the first business day following the end of the fiscal year, the computation looked like this:

<TABLE>
<CAPTION>

Net assets before	Shares outstanding at	Net asset value

	shareholder transactions		the end of previous day		of one share
<S>	<C>		<C>		<C>
Class A	$1,715,883,476	divided by	348,756,804	equals	$4.92
Class B	1,492,196,030		303,291,876		4.92
Class Y	190,637,769		38,747,514		4.92

</TABLE>

In determining net assets before shareholder transactions, the Fund's securities are valued as follows as of the close of business of the New York Stock Exchange (the Exchange):

- Securities traded on a securities exchange for which a last-quoted sales price is readily available are valued at the last-quoted sales price on the exchange where such security is primarily traded.

- Securities traded on a securities exchange for which a last-quoted sales price is not readily available are valued at the mean of the closing bid and asked prices, looking first to the bid and asked prices on the exchange where the security is primarily traded and, if none exist, to the over-the-counter market.

- Securities included in the NASDAQ National Market System are valued at the last-quoted sales price in this market.

- Securities included in the NASDAQ National Market System for which a last-quoted sales price is not readily available, and other securities traded over-the-counter but not included in the NASDAQ National Market System, are valued at the mean of the closing bid and asked prices.

- Futures and options traded on major exchanges are valued at the last-quoted sales price on their primary exchange.

- Foreign securities traded outside the United States are generally valued as of the time their trading is complete, which is usually different from the close of the Exchange. Foreign securities quoted in foreign currencies are translated into U.S. dollars at the current rate of exchange. Occasionally, events affecting the value of such securities may occur between such times and the close of the Exchange that will not be reflected in the computation of the Fund's net asset value. If events materially affecting the value of such securities occur during such period, these securities will be valued at their fair value according to procedures decided upon in good faith by the board.

- Short-term securities maturing more than 60 days from the valuation date are valued at the readily available market price or approximate market value based on current interest rates. Short-term securities maturing in 60 days or less that originally had maturities of more than 60 days at acquisition date are valued at amortized cost using the market value on the 61st day before maturity. Short-term securities maturing in 60 days or less at acquisition date are valued at amortized cost. Amortized cost is an approximation of market value determined by systematically increasing the carrying value of a security if acquired at a discount, or reducing the carrying value if acquired at a premium, so that the carrying value is equal to maturity value on the maturity date.

- Securities without a readily available market price and other assets are valued at fair value as determined in good faith by the board. The board is responsible for selecting methods it believes provide fair value. When possible, bonds are valued by a pricing service independent from the Fund. If a valuation of a bond is not available from a pricing service, the bond will be valued by a dealer knowledgeable about the bond if such a dealer is available.

INVESTING IN THE FUND

SALES CHARGE

Shares of the Fund are sold at the public offering price. The public offering price is the NAV of one share adjusted for the sales charge for Class A. For Class B and Class Y, there is no initial sales charge so the public offering price is the same as the NAV. For Class A, the public offering price for an investment of less than $50,000, made on the first business day following the end of the fiscal year, was determined by dividing the NAV of one share, $4.92, by 0.95 (1.00-0.05 for a maximum 5% sales charge) for a public offering price of $5.18. The sales charge is paid to American Express Financial Advisors Inc. (AEFA) by the person buying the shares.

<TABLE>
<CAPTION>

Class A - Calculation of the Sales Charge

Sales charges are determined as follows:

	Within each increment, sales charge as a percentage of:	
Amount of Investment	Public Offering Price	Net Amount Invested
<S>	<C>	<C>
First $ 50,000	5.0%	5.26%
Next 50,000	4.5	4.71
Next 400,000	3.8	3.95
Next 500,000	2.0	2.04
$1,000,000 or more	0.0	0.00

</TABLE>

Sales charges on an investment greater than $50,000 and less than $1,000,000 are calculated for each increment separately and then totaled. The resulting total sales charge, expressed as a percentage of the public offering price and of the net amount invested, will vary depending on the proportion of the investment at different sales charge levels.

For example, compare an investment of $60,000 with an investment of $85,000. The $60,000 investment is composed of $50,000 that incurs a sales charge of $2,500 (5.0% x $50,000) and $10,000 that incurs a sales charge of $450 (4.5% x $10,000). The total sales charge of $2,950 is 4.92% of the public offering price and 5.17% of the net amount invested.

In the case of the $85,000 investment, the first $50,000 also incurs a sales charge of $2,500 (5.0% x $50,000) and $35,000 incurs a sales charge of $1,575 (4.5% x $35,000). The total sales charge of $4,075 is 4.79% of the public offering price and 5.04% of the net amount invested.

The following table shows the range of sales charges as a percentage of the public offering price and of the net amount invested on total investments at each applicable level.

<TABLE>
<CAPTION>

	On total investment, sales charge as a percentage of:	
	Public Offering Price	Net Amount Invested
Amount of investment	ranges from:	
<S>	<C>	<C>
First $ 50,000	5.00%	5.26%
Next 50,000 to 100,000	5.00-4.50	5.26-4.71
Next 100,000 to 500,000	4.50-3.80	4.71-3.95
Next 500,000 to 999,999	3.80-2.00	3.95-2.04
$1,000,000 or more	0.00	0.00

</TABLE>

The initial sales charge is waived for certain qualified plans. Participants in these qualified plans may be subject to a deferred sales charge on certain redemptions. The Fund will waive the deferred sales charge on certain redemptions if the redemption is a result of a participant's death, disability, retirement, attaining age 59 1/2, loans, or hardship withdrawals. The deferred sales charge varies depending on the number of participants in the qualified plan and total plan assets as follows:

Deferred Sales Charge

	Number of Participants	
Total Plan Assets	1-99	100 or more
Less than $1 million	4%	0%
$1 million or more	0%	0%

Class A - Reducing the Sales Charge

Your total investments in the Fund determine your sales charges. The amount of all prior investments plus any new purchase is referred to as your "total amount invested." For example, suppose you have made an investment of $20,000 and later decide to invest $40,000 more. Your total amount invested would be $60,000. As a result, $10,000 of your $40,000 investment qualifies for the lower 4.5% sales charge that applies to investments of more than $50,000 and up to $100,000.

Class A - Letter of Intent (LOI)

If you intend to invest $1 million over a period of 13 months, you can reduce the sales charges in Class A by filing a LOI. The agreement can start at any time and will remain in effect for 13 months. Your investment will be charged normal sales charges until you have invested $1 million. At that time, your account will be credited with the sales charges previously paid. Class A investments made prior to signing a LOI may be used to reach the $1 million total, excluding AXP Cash Management Fund and AXP Tax-Free Money Fund. However, we will not adjust for sales charges on investments made prior to the signing of the LOI. If you do not invest $1 million by the end of 13 months, there is no penalty, you will just miss out on the sales charge adjustment. A LOI is not an option (absolute right) to buy shares.

Class Y Shares

Class Y shares are offered to certain institutional investors. Class Y shares are sold without a front-end sales charge or a CDSC and are not subject to a distribution fee. The following investors are eligible to purchase Class Y shares:

- Qualified employee benefit plans* if the plan:
  - uses a daily transfer recordkeeping service offering participants daily access to American Express funds and has
    - at least $10 million in plan assets or
    - 500 or more participants; or
  - does not use daily transfer recordkeeping and has
    - at least $3 million invested in American Express funds or
    - 500 or more participants.
- Trust companies or similar institutions, and charitable organizations that meet the definition in Section 501(c)(3) of the Internal Revenue Code.* These institutions must have at least $10 million in American Express funds.
- Nonqualified deferred compensation plans* whose participants are included

in a qualified employee benefit described above.

* Eligibility must be determined in advance by AEFA. To do so, contact your financial advisor.

SYSTEMATIC INVESTMENT PROGRAMS

After you make your initial investment of $100 or more, you must make additional payments of $100 or more on at least a monthly basis until your balance reaches $2,000. These minimums do not apply to all systematic investment programs. You decide how often to make payments - monthly, quarterly, or semiannually. You are not obligated to make any payments. You can omit payments or discontinue the investment program altogether. The Fund also can change the program or end it at any time.

AUTOMATIC DIRECTED DIVIDENDS

Dividends, including capital gain distributions, paid by another American Express fund subject to a sales charge, may be used to automatically purchase shares in the same class of this Fund without paying a sales charge. Dividends may be directed to existing accounts only. Dividends declared by a fund are exchanged to this Fund the following day. Dividends can be exchanged into the same class of another American Express fund but cannot be split to make purchases in two or more funds. Automatic directed dividends are available between accounts of any ownership except:

- Between a non-custodial account and an IRA, or 401(k) plan account or other qualified retirement account of which American Express Trust Company acts as custodian;
- Between two American Express Trust Company custodial accounts with different owners (for example, you may not exchange dividends from your IRA to the IRA of your spouse); and
- Between different kinds of custodial accounts with the same ownership (for example, you may not exchange dividends from your IRA to your 401(k) plan account, although you may exchange dividends from one IRA to another IRA).

Dividends may be directed from accounts established under the Uniform Gifts to Minors Act (UGMA) or Uniform Transfers to Minors Act (UTMA) only into other UGMA or UTMA accounts with identical ownership.

The Fund's investment goal is described in its prospectus along with other information, including fees and expense ratios. Before exchanging dividends into another fund, you should read that fund's prospectus. You will receive a confirmation that the automatic directed dividend service has been set up for your account.

REJECTION OF BUSINESS

The Fund reserves the right to reject any business, in its sole discretion.

SELLING SHARES

You have a right to sell your shares at any time. For an explanation of sales procedures, please see the prospectus.

During an emergency, the board can suspend the computation of NAV, stop accepting payments for purchase of shares, or suspend the duty of the Fund to redeem shares for more than seven days. Such emergency situations would occur if:

- The Exchange closes for reasons other than the usual weekend and holiday closings or trading on the Exchange is restricted, or
- Disposal of the Fund's securities is not reasonably practicable or it is not reasonably practicable for the Fund to determine the fair value of its net assets, or
- The SEC, under the provisions of the 1940 Act, declares a period of emergency to exist.

Should the Fund stop selling shares, the board may make a deduction from the value of the assets held by the Fund to cover the cost of future liquidations of the assets so as to distribute fairly these costs among all shareholders.

The Fund has elected to be governed by Rule 18f-1 under the 1940 Act, which obligates the Fund to redeem shares in cash, with respect to any one shareholder during any 90-day period, up to the lesser of $250,000 or 1% of the net assets of the Fund at the beginning of the period. Although redemptions in excess of this limitation would normally be paid in cash, the Fund reserves the right to make these payments in whole or in part in securities or other assets in case of an emergency, or if the payment of a redemption in cash would be detrimental to the existing shareholders of the Fund as determined by the board. In these circumstances, the securities distributed would be valued as set forth in this SAI. Should the Fund distribute securities, a shareholder may incur brokerage fees or other transaction costs in converting the securities to cash.

PAY-OUT PLANS

You can use any of several pay-out plans to redeem your investment in regular installments. If you redeem Class B shares you may be subject to a contingent deferred sales charge as discussed in the prospectus. While the plans differ on how the pay-out is figured, they all are based on the redemption of your investment. Net investment income dividends and any capital gain distributions will automatically be reinvested, unless you elect to receive them in cash. If you are redeeming a tax-qualified plan account for which American Express Trust Company acts as custodian, you can elect to receive your dividends and other distributions in cash when permitted by law. If you redeem an IRA or a qualified retirement account, certain restrictions, federal tax penalties, and special federal income tax reporting requirements may apply. You should consult your tax advisor about this complex area of the tax law.

Applications for a systematic investment in a class of the Fund subject to a sales charge normally will not be accepted while a pay-out plan for any of those funds is in effect. Occasional investments, however, may be accepted.

To start any of these plans, please write American Express Shareholder Service, P.O. Box 534, Minneapolis, MN 55440-0534, or call American Express Financial Advisors Telephone Transaction Service at 800-437-3133. Your authorization must be received in the Minneapolis headquarters at least five days before the date you want your payments to begin. The initial payment must be at least $50. Payments will be made on a monthly, bimonthly, quarterly, semiannual, or annual basis. Your choice is effective until you change or cancel it.

The following pay-out plans are designed to take care of the needs of most shareholders in a way AEFC can handle efficiently and at a reasonable cost. If you need a more irregular schedule of payments, it may be necessary for you to make a series of individual redemptions, in which case you will have to send in a separate redemption request for each pay-out. The Fund reserves the right to change or stop any pay-out plan and to stop making such plans available.

Plan #1: Pay-out for a fixed period of time

If you choose this plan, a varying number of shares will be redeemed at regular intervals during the time period you choose. This plan is designed to end in complete redemption of all shares in your account by the end of the fixed period.

Plan #2: Redemption of a fixed number of shares

If you choose this plan, a fixed number of shares will be redeemed for each payment and that amount will be sent to you. The length of time these payments continue is based on the number of shares in your account.

Plan #3: Redemption of a fixed dollar amount

If you decide on a fixed dollar amount, whatever number of shares is necessary to make the payment will be redeemed in regular installments until the account is closed.

Plan #4: Redemption of a percentage of net asset value

Payments are made based on a fixed percentage of the net asset value of the shares in the account computed on the day of each payment. Percentages range from 0.25% to 0.75%. For example, if you are on this plan and arrange to take 0.5% each month, you will get $50 if the value of your account is $10,000 on the payment date.

TAXES

If you buy shares in the Fund and then exchange shares, it is considered a redemption and subsequent purchase of shares. Under the tax laws, if this exchange is done within 91 days, any sales charge waived on Class A shares on a subsequent purchase of shares is treated as if it applies to the new shares acquired in the exchange. Therefore, you cannot create a tax loss or reduce a tax gain attributable to the sales charge when exchanging shares within 91 days.

For example:

You purchase 100 shares of one fund having a public offering price of $10.00 per share. With a sales load of 5%, you pay $50.00 in sales load. With a NAV of $9.50 per share, the value of your investment is $950.00. Within 91 days of purchasing that fund, you decide to exchange out of that fund, now at a NAV of $11.00 per share, up from the original NAV of $9.50, and purchase into a second fund, at a NAV of $15.00 per share. The value of your investment is now $1,100.00 ($11.00 x 100 shares). You cannot use the $50.00 paid as a sales load when calculating your tax gain or loss in the sale of the first fund shares. So instead of having $100.00 gain ($1,100.00 - $1,000.00), you have a $150.00 gain ($1,100.00 - $950.00). You can include the $50.00 sales load in the basis of your shares in the second fund.

If you have a nonqualified investment in the Fund and you wish to move part or all of those shares to an IRA or qualified retirement account in the Fund, you can do so without paying a sales charge. However, this type of exchange is considered a redemption of shares and may result in a gain or loss for tax purposes. In addition, this type of exchange may result in an excess contribution under IRA or qualified plan regulations if the amount exchanged plus the amount of the initial sales charge applied to the amount exchanged exceeds annual contribution limitations. For example: If you were to exchange $2,000 in Class A shares from a nonqualified account to an IRA without considering the 5% ($100) initial sales charge applicable to that $2,000, you may be deemed to have exceeded current IRA annual contribution limitations. You should consult your tax advisor for further details about this complex subject.

Net investment income dividends received should be treated as dividend income for federal income tax purposes. Corporate shareholders are generally entitled to a deduction equal to 70% of that portion of the Fund's dividend that is attributable to dividends the Fund received from domestic (U.S.) securities. For the most recent fiscal year, none of the Fund's net investment income dividends qualified for the corporate deduction.

The Fund may be subject to U.S. taxes resulting from holdings in a passive foreign investment company (PFIC). A foreign corporation is a PFIC when 75% or more of its gross income for the taxable year is passive income or 50% or more of the average value of its assets consists of assets that produce or could produce passive income.

Income earned by the Fund may have had foreign taxes imposed and withheld on it in foreign countries. Tax conventions between certain countries and the U.S. may reduce or eliminate such taxes. If more than 50% of the Fund's total assets at the close of its fiscal year consists of securities of foreign corporations, the Fund will be eligible to file an election with the Internal Revenue Service under which shareholders of the Fund would be required to include their pro rata portions of foreign taxes withheld by foreign countries as gross income in their federal income tax returns. These pro rata portions of foreign taxes withheld may be taken as a credit or deduction in computing federal income taxes. If the election is filed, the Fund will report to its shareholders the per share amount of such foreign taxes withheld and the amount of foreign tax credit or deduction available for federal income tax purposes.

Capital gain distributions, if any, received by corporate shareholders should be treated as long-term capital gains regardless of how long they owned their shares. Capital gain distributions, if any, received by individuals should be treated as long-term if held for more than one year. Short-term capital gains earned by the Fund are paid to shareholders as part of their ordinary income dividend and are taxable. A special 28% rate on capital gains applies to sales of precious metals owned directly by the Fund. A special 25% rate on capital gains may apply to investments in REITs.

Under the Internal Revenue Code of 1986 (the Code), gains or losses attributable to fluctuations in exchange rates that occur between the time the Fund accrues interest or other receivables, or accrues expenses or other liabilities denominated in a foreign currency and the time the Fund actually collects such receivables or pays such liabilities generally are treated as ordinary income or ordinary loss. Similarly, gains or losses on disposition of debt securities denominated in a foreign currency attributable to fluctuations in the value of the foreign currency between the date of acquisition of the security and the date of disposition also are treated as ordinary gains or losses. These gains or losses, referred to under the Code as "section 988" gains or losses, may increase or decrease the amount of the Fund's investment company taxable income to be distributed to its shareholders as ordinary income. If the Fund incurs a loss, a portion of the dividends distributed to shareholders may be considered a return of capital.

Under federal tax law, by the end of a calendar year the Fund must declare and pay dividends representing 98% of ordinary income for that calendar year and 98% of net capital gains (both long-term and short-term) for the 12-month period ending Oct. 31 of that calendar year. The Fund is subject to an excise tax equal to 4% of the excess, if any, of the amount required to be distributed over the amount actually distributed. The Fund intends to comply with federal tax law and avoid any excise tax.

For purposes of the excise tax distributions, "section 988" ordinary gains and losses are distributable based on an Oct. 31 year end. This is an exception to the general rule that ordinary income is paid based on a calendar year end.

If a mutual fund is the holder of record of any share of stock on the record date for any dividend payable with respect to such stock, such dividend shall be included in gross income by the Fund as of the later of (1) the date such share became ex-dividend or (2) the date the Fund acquired such share. Because the dividends on some foreign equity investments may be received some time after the stock goes ex-dividend, and in certain rare cases may never be received by the Fund, this rule may cause the Fund to take into income dividend income that it has not received and pay such income to its shareholders. To the extent that the dividend is never received, the Fund will take a loss at the time that a determination is made that the dividend will not be received.

This is a brief summary that relates to federal income taxation only. Shareholders should consult their tax advisor as to the application of federal, state, and local income tax laws to Fund distributions.

AGREEMENTS

INVESTMENT MANAGEMENT SERVICES AGREEMENT

AEFC, a wholly-owned subsidiary of American Express Company, is the investment manager for the Fund. Under the Investment Management Services Agreement, AEFC, subject to the policies set by the board, provides investment management services.

For its services, AEFC is paid a fee based on the following schedule. Each class of the Fund pays its proportionate share of the fee.

Assets (billions)		Annual rate at each asset level
First	$1.0	0.520%
Next	1.0	0.495
Next	1.0	0.470
Next	3.0	0.445
Next	3.0	0.420
Over	9.0	0.395

On the last day of the most recent fiscal year, the daily rate applied to the Fund's net assets was equal to 0.489% on an annual basis. The fee is calculated for each calendar day on the basis of net assets as of the close of business two business days prior to the day for which the calculation is made.

The management fee is paid monthly. Under the agreement, the total amount paid was $14,751,038 for fiscal year 1999, $11,996,865 for fiscal year 1998, and $9,593,937 for fiscal year 1997.

Under the agreement, the Fund also pays taxes, brokerage commissions and nonadvisory expenses, which include custodian fees; audit and certain legal fees; fidelity bond premiums; registration fees for shares; office expenses; postage of confirmations except purchase confirmations; consultants' fees; compensation of board members, officers and employees; corporate filing fees; organizational expenses; expenses incurred in connection with lending securities; and expenses properly payable by the Fund, approved by the board. Under the agreement, nonadvisory expenses, net of earnings credits, paid by the Fund were $2,029,728 for fiscal year 1999, $611,351 for fiscal year 1998, and $1,219,506 for fiscal year 1997.

Administrative Services Agreement

The Fund has an Administrative Services Agreement with AEFC. Under this agreement, the Fund pays AEFC for providing administration and accounting services. The fee is calculated as follows:

Assets (billions)		Annual rate each asset level
First	$1.0	0.050%
Next	1.0	0.045
Next	1.0	0.040
Next	3.0	0.035
Next	3.0	0.030
Over	9.0	0.025

On the last day of the most recent fiscal year, the daily rate applied to the Fund's net assets was equal to 0.044% on an annual basis. The fee is calculated for each calendar day on the basis of net assets as of the close of business two business days prior to the day for which the calculation is made. Under the agreement, the Fund paid fees of $1,347,684 for fiscal year 1999, $1,114,532 for fiscal year 1998, and $895,700 for fiscal year 1997.

Transfer Agency Agreement

The Fund has a Transfer Agency Agreement with American Express Client Service Corporation (AECSC). This agreement governs AECSC's responsibility for administering and/or performing transfer agent functions, for acting as service agent in connection with dividend and distribution functions and for performing shareholder account administration agent functions in connection with the issuance, exchange and redemption or repurchase of the Fund's shares. Under the agreement, AECSC will earn a fee from the Fund determined by multiplying the number of shareholder accounts at the end of the day by a rate determined for each class per year and dividing by the number of days in the year. The rate for Class A is $19.50 per year, for Class B is $20.50 per year and for Class Y is $17.50 per year. The fees paid to AECSC may be changed by the board without shareholder approval.

DISTRIBUTION AGREEMENT

AEFA is the Fund's principal underwriter (distributor). The Fund's shares are offered on a continuous basis.

Under a Distribution Agreement, sales charges deducted for distributing Fund shares are paid to AEFA daily. These charges amounted to $46,524,933 for fiscal year 1999. After paying commissions to personal financial advisors, and other expenses, the amount retained was $(13,459,275). The amounts were $39,098,555 and $(10,327,378) for fiscal year 1998, and $33,447,456 and $(7,666,745) for fiscal year 1997.

SHAREHOLDER SERVICE AGREEMENT

With respect to Class Y shares, the Fund pays a fee for service provided to shareholders by financial advisors and other servicing agents. The fee is calculated at a rate of 0.10% of average daily net assets. During the most recent fiscal year, the Fund also paid a shareholder service fee with respect to Class A and Class B shares at a rate of 0.175% of average daily net assets. The Shareholder Service Agreement for Class A and Class B shares was converted to a Plan and Agreement of Distribution effective July 1, 1999.

PLAN AND AGREEMENT OF DISTRIBUTION

For Class A and Class B shares, to help AEFA defray the cost of distribution and servicing not covered by the sales charges received under the Distribution Agreement, the Fund and AEFA entered into a Plan and Agreement of Distribution (Plan) pursuant to Rule 12b-1 under the 1940 Act. Under the Plan, AEFA is paid a fee up to actual expenses incurred at an annual rate of up to 0.25% of the Fund's average daily net assets attributable to Class A shares and up to 1.00% for Class B shares.

Expenses covered under this Plan include sales commissions; business, employee and financial advisor expenses charged to distribution of Class A and Class B shares; and overhead appropriately allocated to the sale of Class A and Class B shares. These expenses also include costs of providing personal service to shareholders. A substantial portion of the costs are not specifically identified to any one of the American Express funds.

The Plan must be approved annually by the board, including a majority of the disinterested board members, if it is to continue for more than a year. At least quarterly, the board must review written reports concerning the amounts expended under the Plan and the purposes for which such expenditures were made. The Plan and any agreement related to it may be terminated at any time by vote of a majority of board members who are not interested persons of the Fund and have no direct or indirect financial interest in the operation of the Plan or in any agreement related to the Plan, or by vote of a majority of the outstanding voting securities of the relevant class of shares or by AEFA. The Plan (or any agreement related to it) will terminate in the event of its assignment, as that term is defined in the 1940 Act. The Plan may not be amended to increase the amount to be spent for distribution without shareholder approval, and all material amendments to the Plan must be approved by a majority of the board members, including a majority of the board members who are not interested persons of the Fund and who do not have a financial interest in the operation of the Plan or any agreement related to it. The selection and nomination of disinterested board members is the responsibility of the other disinterested board members. No board member who is not an interested person has any direct or indirect financial interest in the operation of the Plan or any related agreement. For the most recent fiscal year, under the Plan, the Fund paid fees of $9,427,039 for Class B shares. These fees were based on the 0.75% in effect for Class B shares during the most recent fiscal year. The Plan was not effective with respect to Class A shares until July 1, 1999. As a result, no fees were paid as of the most recent fiscal year for Class A shares. The fee is not allocated to any one service (such as advertising, payments to underwriters, or other uses). However, a significant portion of the fee is generally used for sales and promotional expenses.

Custodian Agreement

The Fund's securities and cash are held by American Express Trust Company, 1200 Northstar Center West, 625 Marquette Ave., Minneapolis, MN 55402-2307, through a custodian agreement. The custodian is permitted to deposit some or all of its securities in central depository systems as allowed by federal law. For its services, the Fund pays the custodian a maintenance charge and a charge per transaction in addition to reimbursing the custodian's out-of-pocket expenses.

ORGANIZATIONAL INFORMATION

The Fund is an open-end management investment company. The Fund headquarters are at 901 S. Marquette Ave., Suite 2810, Minneapolis, MN 55402-3268.

SHARES

The shares of the Fund represent an interest in that fund's assets only (and profits or losses), and, in the event of liquidation, each share of the Fund would have the same rights to dividends and assets as every other share of that Fund.

VOTING RIGHTS

As a shareholder in the Fund, you have voting rights over the Fund's management and fundamental policies. You are entitled to one vote for each share you own. Each class, if applicable, has exclusive voting rights with respect to matters for which separate class voting is appropriate under applicable law. All shares have cumulative voting rights with respect to the election of board members. This means that you have as many votes as the number of shares you own, including fractional shares, multiplied by the number of members to be elected.

Dividend Rights

Dividends paid by the Fund, if any, with respect to each class of shares, if applicable, will be calculated in the same manner, at the same time, on the same day, and will be in the same amount, except for differences resulting from differences in fee structures.

<TABLE>
<CAPTION>

FUND HISTORY TABLE FOR ALL PUBLICLY OFFERED AMERICAN EXPRESS FUNDS*

Fund	Date of Organization	Form of Organization	State of Organization	Fiscal Year End	Diversified
<S>	<C>	<C>	<C>	<C>	<C>
AXP Bond Fund, Inc.	6/27/74, 6/31/86***	Corporation	NV/MN	8/31	Yes
AXP Discovery Fund, Inc.	4/29/81, 6/13/86***	Corporation	NV/MN	7/31	Yes
AXP Equity Select Fund, Inc.**	3/18/57, 6/13/86***	Corporation	NV/MN	11/30	Yes
AXP Extra Income Fund, Inc.	8/17/83	Corporation	MN	5/31	Yes
AXP Federal Income Fund, Inc.	3/12/85	Corporation	MN	5/31	Yes
AXP Global Series, Inc.	10/28/88	Corporation	MN	10/31	
AXP Emerging Markets Fund					Yes
AXP Global Balanced Fund					Yes
AXP Global Bond Fund					No
AXP Global Growth Fund					Yes
AXP Innovations Fund					Yes
AXP Growth Series, Inc.	5/21/70, 6/13/86***	Corporation	NV/MN	7/31	
AXP Growth Fund					Yes
AXP Research Opportunities Fund					Yes

AXP High Yield Tax-Exempt Fund, Inc.	12/21/78, 6/13/86***	Corporation	NV/MN	11/30	Yes
AXP International Fund, Inc.	7/18/84	Corporation	MN	10/31	Yes
AXP Investment Series, Inc.	1/18/40, 6/13/86***	Corporation	NV/MN	9/30	
AXP Diversified Equity Income Fund					Yes
AXP Mutual					Yes
AXP Managed Series, Inc.	10/9/84	Corporation	MN	9/30	
AXP Managed Allocation Fund					Yes
AXP Market Advantage Series, Inc.	8/25/89	Corporation	MN	1/31	
AXP Blue Chip Advantage Fund					Yes
AXP Small Company Index Fund					Yes
AXP Money Market Series, Inc.	8/22/75, 6/13/86***	Corporation	NV/MN	7/31	
AXP Cash Management Fund					Yes
AXP New Dimensions Fund, Inc.	2/20/68, 6/13/86***	Corporation	NV/MN	7/31	Yes
AXP Precious Metals Fund, Inc.	10/5/84	Corporation	MN	3/31	No
AXP Progressive Fund, Inc.	4/23/68, 6/13/86***	Corporation	NV/MN	9/30	Yes
AXP Selective Fund, Inc.	2/10/45, 6/13/86***	Corporation	NV/MN	5/31	Yes
AXP Stock Fund, Inc.	2/10/45, 6/13/86***	Corporation	NV/MN	9/30	Yes
AXP Strategy Series, Inc.	1/24/84	Corporation	MN	3/31	
AXP Equity Value Fund**					Yes
AXP Small Cap Advantage Fund					Yes
AXP Strategy Aggressive Fund**					Yes
AXP Tax-Exempt Series, Inc.	9/30/76, 6/13/86***	Corporation	NV/MN	11/31	
AXP Intermediate Tax-Exempt Fund					Yes
AXP Tax-Exempt Bond Fund					Yes

AXP Tax-Free Money Fund, Inc.	2/29/80, 6/13/86***	Corporation	NV/MN	12/31	Yes
AXP Utilities Income Fund, Inc.	3/25/88	Corporation	MN	6/30	Yes
AXP California Tax-Exempt Trust	4/7/86	Business Trust****	MA	6/30	
AXP California Tax-Exempt Fund					No
AXP Special Tax-Exempt Series Trust	4/7/86	Business Trust****	MA	6/30	
AXP Insured Tax-Exempt Fund					Yes
AXP Massachusetts Tax-Exempt Fund					No
AXP Michigan Tax-Exempt Fund					No
AXP Minnesota Tax-Exempt Fund					No
AXP New York Tax-Exempt Fund					No
AXP Ohio Tax-Exempt Fund					No

* At the shareholders meeting held on June 16, 1999, shareholders of the funds listed in the table (except for AXP Small Cap Advantage Fund) approved the name change from IDS to AXP. In addition to substituting AXP for IDS, the following series changed their names: IDS Growth Fund, Inc. to AXP Growth Series, Inc., IDS Managed Retirement Fund, Inc. to AXP Managed Series, Inc., IDS Strategy Fund, Inc. to AXP Strategy Series, Inc., and IDS Tax-Exempt Bond Fund, Inc. to AXP Tax-Exempt Series, Inc.

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** At the shareholders meeting held on Nov. 9, 1994, IDS Equity Plus Fund, Inc. changed its name to IDS Equity Select Fund, Inc. At that same time IDS Strategy Aggressive Equity Fund changed its name to IDS Strategy Aggressive Fund, and IDS Strategy Equity Fund changed its name to IDS Equity Value Fund.

*** Date merged into a Minnesota corporation incorporated on 4/7/86.

**** Under Massachusetts law, shareholders of a business trust may, under certain circumstances, be held personally liable as partners for its obligations. However, the risk of a shareholder incurring financial loss on account of shareholder liability is limited to circumstances in which the trust itself is unable to meet its obligations.

BOARD MEMBERS AND OFFICERS

Shareholders elect a board that oversees the Fund's operations. The board appoints officers who are responsible for day-to-day business decisions based on policies set by the board.

The following is a list of the Fund's board members. They serve 15 Master Trust portfolios and 48 American Express funds.

H. Brewster Atwater, Jr.'
Born in 1931
4900 IDS Tower
Minneapolis, MN

Retired chairman and chief executive officer, General Mills, Inc. Director, Merck & Co., Inc. and Darden Restaurants, Inc.

Arne H. Carlson+'*
Born in 1934
901 S. Marquette Ave.
Minneapolis, MN

Chairman and chief executive officer of the Fund. Chairman, Board Services Corporation (provides administrative services to boards). Former Governor of Minnesota.

Lynne V. Cheney
Born in 1941
American Enterprise Institute
for Public Policy Research (AEI)
1150 17th St., N.W. Washington, D.C.

Distinguished Fellow AEI. Former Chair of National Endowment of the Humanities. Director, The Reader's Digest Association Inc., Lockheed-Martin, and Union Pacific Resources.

William H. Dudley'**
Born in 1932
2900 IDS Tower
Minneapolis, MN

Senior adviser to the chief executive officer of AEFC.

David R. Hubers**
Born in 1943
2900 IDS Tower
Minneapolis, MN

President, chief executive officer and director of AEFC.

Heinz F. Hutter+'
Born in 1929
P.O. Box 2187
Minneapolis, MN

Retired president and chief operating officer, Cargill, Incorporated (commodity merchants and processors).

Anne P. Jones+
Born in 1935
5716 Bent Branch Rd.
Bethesda, MD

Attorney and telecommunications consultant. Former partner, law firm of Sutherland, Asbill & Brennan. Director, Motorola, Inc. (electronics), C-Cor Electronics, Inc., and Amnex, Inc. (communications).

William R. Pearce'
Born in 1927
2050 One Financial Plaza
Minneapolis, MN

RII Weyerhaeuser World Timberfund, L.P. (develops timber resources) - management committee. Retired vice chairman of the board, Cargill, Incorporated (commodity merchants and processors). Former chairman, Board Services Corporation.

Alan K. Simpson+
Born in 1931
1201 Sunshine Ave.
Cody, WY

Director of The Institute of Politics, Harvard University. Former three-term United States Senator for Wyoming. Former Assistant Republican Leader, U.S. Senate. Director, PacifiCorp (electric power) and Biogen (bio-pharmaceuticals).

John R. Thomas+'**
Born in 1937
2900 IDS Tower
Minneapolis, MN

Senior vice president of AEFC.

C. Angus Wurtele+'
Born in 1934
Valspar Corporation
Suite 1700
Foshay Tower
Minneapolis, MN

Retired chairman of the board and chief executive officer, The Valspar Corporation (paints). Director, Valspar, Bemis Corporation (packaging) and General Mills, Inc. (consumer foods).

+ Member of executive committee.
' Member of investment review committee.
* Interested person by reason of being an officer and employee of the Fund.
**Interested person by reason of being an officer, board member, employee and/or shareholder of AEFC or American Express.

The board has appointed officers who are responsible for day-to-day business decisions based on policies it has established. In addition to Mr. Carlson, who is chairman of the board, and Mr. Thomas, who is president, the Fund's other officers are:

Leslie L. Ogg
Born in 1938
901 S. Marquette Ave.
Minneapolis, MN

President of Board Services Corporation. Vice president, general counsel and secretary for the Fund.

Officers who also are officers and employees of AEFC:

Peter J. Anderson
Born in 1942
IDS Tower 10
Minneapolis, MN

Director and senior vice president-investments of AEFC. Vice president-investments for the Fund.

Frederick C. Quirsfeld
Born in 1947
IDS Tower 10
Minneapolis, MN

Vice president - taxable mutual fund investments of AEFC. Vice president - fixed income investments for the Fund.

John M. Knight
Born in 1952
IDS Tower 10
Minneapolis, MN

Vice president - investment accounting of AEFC. Treasurer for the Fund.

COMPENSATION FOR BOARD MEMBERS

During the most recent fiscal year, the independent members of the Fund and Portfolio boards, for attending up to 27 meetings, received the following compensation:

<TABLE>
<CAPTION>

Compensation Table

Board member	Aggregate compensation from the Fund	Aggregate compensation from the Portfolio	Total cash compensation from American Express Funds and Preferred Master Trust Group
<S>	<C>	<C>	<C>
H. Brewster Atwater, Jr.	$1,550	$1,992	$113,400
Lynne V. Cheney	1,255	1,724	96,900
Heinz F. Hutter	1,325	1,767	99,900
Anne P. Jones	1,510	1,983	112,400
William R. Pearce	233	317	17,400
Alan K. Simpson	1,255	1,724	96,900
C. Angus Wurtele	1,617	2,058	117,400

</TABLE>

As of 30 days prior to the date of this SAI, the Fund's board members and officers as a group owned less than 1% of the outstanding shares of any class.

INDEPENDENT AUDITORS

The financial statements contained in the Annual Report were audited by independent auditors, KPMG LLP, 4200 Norwest Center, 90 S. Seventh St., Minneapolis, MN 55402-3900. The independent auditors also provide other accounting and tax-related services as requested by the Fund.

APPENDIX

DESCRIPTION OF RATINGS

Standard & Poor's Debt Ratings

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

The debt rating is not a recommendation to purchase, sell, or hold a security, inasmuch as it does not comment as to market price or suitability for a particular investor.

The ratings are based on current information furnished by the issuer or obtained by S&P from other sources it considers reliable. S&P does not perform an audit in connection with any rating and may, on occasion, rely on unaudited financial information. The ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of such information or based on other circumstances.

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

o Likelihood of default capacity and willingness of the obligor as to the timely payment of interest and repayment of principal in accordance with the terms of the obligation.

- o Nature of and provisions of the obligation.

- o Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

Investment Grade

Debt rated AAA has the highest rating assigned by Standard & Poor's. Capacity to pay interest and repay principal is extremely strong.

Debt rated AA has a very strong capacity to pay interest and repay principal and differs from the highest rated issues only in a small degree.

Debt rated A has a strong capacity to pay interest and repay principal, although it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher-rated categories.

Debt rated BBB is regarded as having an adequate capacity to pay interest and repay principal. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than in higher-rated categories.

Speculative grade

Debt rated BB, B, CCC, CC, and C is regarded as having predominantly speculative characteristics with respect to capacity to pay interest and repay principal. BB indicates the least degree of speculation and C the highest. While such debt will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major exposures to adverse conditions.

Debt rated BB has less near-term vulnerability to default than other speculative issues. However, it faces major ongoing uncertainies or exposure to adverse business, financial, or economic conditions that could lead to inadequate capacity to meet timely interest and principal payments. The BB rating category also is used for debt subordinated to senior debt that is assigned an actual or implied BBB- rating.

Debt rated B has a greater vulnerability to default but currently has the capacity to meet interest payments and principal repayments. Adverse business, financial, or economic conditions will likely impair capacity or willingness to pay interest and repay principal. The B rating category also is used for debt subordinated to senior debt that is assigned an actual or implied BB or BB- rating.

Debt rated CCC has a currently identifiable vulnerability to default and is dependent upon favorable business, financial, and economic conditions to meet timely payment of interest and repayment of principal. In the event of adverse business, financial, or economic conditions, it is not likely to have the capacity to pay interest and repay principal. The CCC rating category also is used for debt subordinated to senior debt that is assigned an actual or implied B or B- rating.

Debt rated CC typically is applied to debt subordinated to senior debt that is assigned an actual or implied CCC rating.

Debt rated C typically is applied to debt subordinated to senior debt that is assigned an actual or implied CCC rating. The C rating may be used to cover a situation where a bankruptcy petition has been filed, but debt service payments are continued.

The rating CI is reserved for income bonds on which no interest is being paid.

Debt rated D is in payment default. The D rating category is used when interest payments or principal payments are not made on the date due, even if the applicable grace period has not expired, unless S&P believes that such payments will be made during such grace period. The D rating also will be used upon the filing of a bankruptcy petition if debt service payments are jeopardized.

Moody's Long-Term Debt Ratings

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

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

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

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

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

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

C - Bonds that 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.

SHORT-TERM RATINGS

Standard & Poor's Commercial Paper Ratings

A Standard & Poor's commercial paper rating is a current assessment of the likelihood of timely payment of debt considered short-term in the relevant market.

Ratings are graded into several categories, ranging from A-1 for the highest quality obligations to D for the lowest. These categories are as follows:

A-1 This highest category indicates that the degree of safety regarding timely payment is strong. Those issues determined to possess extremely strong safety characteristics are denoted with a plus sign (+) designation.

A-2 Capacity for timely payment on issues with this designation is satisfactory. However, the relative degree of safety is not as high as for issues designated A-1.

A-3 Issues carrying this designation have adequate capacity for timely payment. They are, however, more vulnerable to the adverse effects of changes in circumstances than obligations carrying the higher designations.

B Issues are regarded as having only speculative capacity for timely payment.

C This rating is assigned to short-term debt obligations with doubtful capacity for payment.

D Debt rated D is in payment default. The D rating category is used when interest payments or principal payments are not made on the date due, even if the applicable grace period has not expired, unless S&P believes that such payments will be made during such grace period.

Standard & Poor's Note Ratings

An S&P note rating reflects the liquidity factors and market-access risks unique to notes. Notes maturing in three years or less will likely receive a note rating. Notes maturing beyond three years will most likely receive a long-term debt rating.

Note rating symbols and definitions are as follows:

SP-1 Strong capacity to pay principal and interest. Issues determined to possess very strong characteristics are given a plus (+) designation.

SP-2 Satisfactory capacity to pay principal and interest, with some vulnerability to adverse financial and economic changes over the term of the notes.

SP-3 Speculative capacity to pay principal and interest.

Moody's Short-Term Ratings

Moody's short-term debt ratings are opinions of the ability of issuers to repay punctually senior debt obligations. These obligations have an original maturity not exceeding one year, unless explicitly noted.

Moody's employs the following three designations, all judged to be investment grade, to indicate the relative repayment ability of rated issuers:

Issuers rated Prime-l (or supporting institutions) have a superior ability for repayment of senior short-term debt obligations. Prime-l repayment ability will often be evidenced by many of the following characteristics: (i) leading market positions in well-established industries, (ii) high rates of return on funds employed, (iii) conservative capitalization structure with moderate reliance on debt and ample asset protection, (iv) broad margins in earnings coverage of fixed financial charges and high internal cash generation, and (v) well established access to a range of financial markets and assured sources of alternate liquidity.

Issuers rated Prime-2 (or supporting institutions) have a strong ability for repayment of senior short-term debt obligations. This will normally be evidenced by many of the characteristics cited above, but to a lesser degree. Earnings trends and coverage ratios, while sound, may be more subject to variation. Capitalization characteristics, while still appropriate, may be more affected by external conditions. Ample alternate liquidity is maintained.

Issuers rated Prime-3 (or supporting institutions) have an acceptable ability for repayment of senior short-term obligations. The effect of industry characteristics and market compositions may be more pronounced. Variability in earnings and profitability may result in changes in the level of debt protection measurements and may require relatively high financial leverage.
Adequate alternate liquidity is maintained.

Issuers rated Not Prime do not fall within any of the Prime rating categories.

Moody's & S&P's
Short-Term Muni Bonds and Notes

Short-term municipal bonds and notes are rated by Moody's and by S&P. The ratings reflect the liquidity concerns and market access risks unique to notes.

Moody's MIG 1/VMIG 1 indicates the best quality. There is present strong protection by established cash flows, superior liquidity support or demonstrated broad-based access to the market for refinancing.

Moody's MIG 2/VMIG 2 indicates high quality. Margins of protection are ample although not so large as in the preceding group.

Moody's MIG 3/VMIG 3 indicates favorable quality. All security elements are accounted for but there is lacking the undeniable strength of the preceding grades. Liquidity and cash flow protection may be narrow and market access for refinancing is likely to be less well established.

Moody' s MIG 4/VMIG 4 indicates adequate quality. Protection commonly regarded as required of an investment security is present and although not distinctly or predominantly speculative, there is specific risk.

Standard & Poor's rating SP-1 indicates very strong or strong capacity to pay principal and interest. Those issues determined to possess overwhelming safety characteristics will be given a plus (+) designation.

Standard & Poor's rating SP-2 indicates satisfactory capacity to pay principal and interest.

Standard & Poor's rating SP-3 indicates speculative capacity to pay principal and interest.

Independent Auditors' Report

THE BOARD AND SHAREHOLDERS
AXP FEDERAL INCOME FUND, INC.

We have audited the accompanying statement of assets and liabilities of AXP Federal Income Fund, Inc. as of May 31, 1999, and the related statement of operations for the year then ended and the statements of changes in net assets for each of the years in the two-year period then ended, and the financial highlights for the three-year period ended May 31, 1999, the eleven months ended May 31, 1996 and the one-year period ended June 30, 1995. These financial statements and the financial highlights are the responsibility of fund management. Our responsibility is to express an opinion on these financial statements and the financial highlights based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AXP Federal Income Fund, Inc. as of May 31, 1999, and the results of its operations, changes in its net assets and the financial highlights for the periods stated in the first paragraph above, in conformity with generally accepted accounting principles.

/s/ KPMG LLP

KPMG LLP
Minneapolis, Minnesota
July 2, 1999

<TABLE>
<CAPTION>

Financial Statements

Statement of assets and liabilities
AXP Federal Income Fund, Inc.

May 31, 1999

Assets			
<S>			<C>
Investment in Government Income Portfolio (Note 1)			$3,413,553,213
Liabilities			
Dividends payable to shareholders			449,674
Accrued distribution fee			30,728
Accrued service fee			15,959
Accrued transfer agency fee			9,640
Accrued administrative services fee			4,092
Other accrued expenses			977,545
Total liabilities			1,487,638
Net assets applicable to outstanding capital stock			$3,412,065,575
Represented by			
Capital stock-- $.01 par value (Note 1)			$ 6,907,962
Additional paid-in capital			3,485,557,532
Undistributed net investment income			260,747
Accumulated net realized gain (loss)			(14,909,868)
Unrealized appreciation (depreciation) on investments			(65,750,798)
Total -- representing net assets applicable to outstanding capital stock			$3,412,065,575
Net assets applicable to outstanding shares:	Class A		$1,722,650,113
	Class B		$1,498,031,500
	Class Y		$ 191,383,962
Net asset value per share of outstanding capital stock:	Class A shares	348,756,804	$ 4.94
	Class B shares	303,291,876	$ 4.94
	Class Y shares	38,747,514	$ 4.94

See accompanying notes to financial statements.
</TABLE>

<TABLE>
<CAPTION>

Statement of operations
AXP Federal Income Fund, Inc.

Year ended May 31, 1999

Investment income	
Income:	
<S>	<C>
Interest	$ 185,740,782
Expenses (Note 2):	
Expenses allocated from Government Income Portfolio	15,203,762
Distribution fee-- Class B	9,427,039
Transfer agency fee	2,576,713
Incremental transfer agency fee	
Class A	77,553
Class B	126,465
Service fee	
Class A	2,714,645
Class B	2,188,999
Class Y	156,078
Administrative services fees and expenses	1,347,684
Compensation of board members	11,162
Postage	806,738
Registration fees	733,371
Reports to shareholders	129,270
Audit fees	10,625

Other	15,583
Total expenses	35,525,687
Earnings credits on cash balances (Note 2)	(134,049)
Total net expenses	35,391,638
Investment income (loss) -- net	150,349,144
Realized and unrealized gain (loss) -- net	
Net realized gain (loss) on:	
Security transactions	48,847,453
Financial futures contracts	(62,105,351)
Options contracts written	90,758,949
Net realized gain (loss) on investments	77,501,051
Net change in unrealized appreciation (depreciation) on investments	(129,440,332)
Net gain (loss) on investments	(51,939,281)
Net increase (decrease) in net assets resulting from operations	$ 98,409,863

See accompanying notes to financial statements.
</TABLE>

<TABLE>
<CAPTION>

Statements of changes in net assets
AXP Federal Income Fund, Inc.

Year ended May 31,	1999	1998
Operations and distributions		
<S>	<C>	<C>
Investment income (loss) -- net	$ 150,349,144	$ 133,540,143
Net realized gain (loss) on investments	77,501,051	(1,501,226)
Net change in unrealized appreciation (depreciation) on investments	(129,440,332)	47,306,927
Net increase (decrease) in net assets resulting from operations	98,409,863	179,345,844
Distributions to shareholders from:		
Net investment income		
Class A	(84,487,155)	(78,592,006)
Class B	(58,371,770)	(47,677,831)
Class Y	(8,540,146)	(6,895,419)
Net realized gain		
Class A	(20,820,054)	--
Class B	(16,864,445)	--
Class Y	(1,996,962)	--
Total distributions	(191,080,532)	(133,165,256)
Capital share transactions (Note 3)		
Proceeds from sales		
Class A shares (Note 2)	1,562,041,397	1,134,422,710
Class B shares	1,583,549,222	1,136,115,029
Class Y shares	129,406,083	51,390,904
Reinvestment of distributions at net asset value		
Class A shares	89,835,865	66,667,607
Class B shares	71,896,843	45,475,793
Class Y shares	10,549,694	6,889,995
Payments for redemptions		
Class A shares	(1,284,658,374)	(1,091,759,256)
Class B shares (Note 2)	(1,162,611,233)	(973,988,889)
Class Y shares	(62,510,919)	(56,274,053)
Increase (decrease) in net assets from capital share transactions	937,498,578	318,939,840
Total increase (decrease) in net assets	844,827,909	365,120,428
Net assets at beginning of year	2,567,237,666	2,202,117,238
Net assets at end of year	$ 3,412,065,575	$ 2,567,237,666

Undistributed net investment income	$ 260,747	$ 711,325

See accompanying notes to financial statements.

</TABLE>

Notes to Financial Statements
AXP Federal Income Fund, Inc.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
The Fund is registered under the Investment Company Act of 1940 (as amended) as a diversified, open-end management investment company. The Fund has 10 billion authorized shares of capital stock.

The Fund offers Class A, Class B and Class Y shares.

- o Class A shares are sold with a front-end sales charge.
- o Class B shares may be subject to a contingent deferred sales charge and automatically convert to Class A shares during the ninth calendar year of ownership.
- o Class Y shares have no sales charge and are offered only to qualifying institutional investors.

All classes of shares have identical voting, dividend and liquidation rights. The distribution fee, transfer agency fee and service fee (class specific expenses) differs among classes. Income, expenses (other than class specific expenses) and realized and unrealized gains or losses on investments are allocated to each class of shares based upon its relative net assets.

Investment in Government Income Portfolio
The Fund invests all of its assets in Government Income Portfolio (the Portfolio), a series of Income Trust, an open-end investment company that has the same objectives as the Fund. The Portfolio invests primarily in U.S. government and government agency securities.

The Fund records daily its share of the Portfolio's income, expenses and realized and unrealized gains and losses. The financial statements of the Portfolio are included elsewhere in this report and should be read in conjunction with the Fund's financial statements.

The Fund records its investment in the Portfolio at the value that is equal to the Fund's proportionate ownership interest in the Portfolio's net assets. The percentage of the Portfolio owned by the Fund as of May 31, 1999 was 99.97%. Valuation of securities held by the Portfolio is discussed in Note 1 of the Portfolio's "Notes to financial statements" (included elsewhere in this report).

Use of estimates
Preparing financial statements that conform to generally accepted accounting principles requires management to make estimates (e.g., on assets and liabilities) that could differ from actual results.

Federal taxes
The Fund's policy is to comply with all sections of the Internal Revenue Code that apply to regulated investment companies and to distribute all of its taxable income to the shareholders. No provision for income or excise taxes is thus required.

Net investment income (loss) and net realized gains (losses) may differ for financial statement and tax purposes primarily because of deferred losses on certain futures contracts and losses deferred due to "wash sale" transactions. The character of distributions made during the year from net investment income or net realized gains may differ from their ultimate characterization for federal income tax purposes. Also, due to the timing of dividend distributions, the fiscal year in which amounts are distributed may differ from the year that the income or realized gains (losses) were recorded by the Fund.

On the statement of assets and liabilities, as a result of permanent book-to-tax differences, undistributed net investment income has been increased by $599,349 and accumulated net realized loss has been increased by $599,349.

Dividends to shareholders
Dividends from net investment income, declared daily and payable monthly, are reinvested in additional shares of the Fund at net asset value or payable in

cash. Capital gains, when available, are distributed along with the last income dividend of the calendar year.

2. EXPENSES AND SALES CHARGES

In addition to the expenses allocated from the Portfolio, the Fund accrues its own expenses as follows:

The Fund has an agreement with American Express Financial Corporation (AEFC) to provide administrative services. Under an Administrative Services Agreement, the Fund pays AEFC a fee for administration and accounting services at a percentage of the Fund's average daily net assets in reducing percentages from 0.05% to 0.025% annually. Additional administrative service expenses paid by the Fund are office expenses, consultants' fees and compensation of officers and employees. Under this agreement, the Fund also pays taxes, audit and certain legal fees, registration fees for shares, compensation of board members, corporate filing fees and any other expenses properly payable by the Fund and approved by the board.

Under a separate Transfer Agency Agreement, American Express Client Service Corporation (AECSC) maintains shareholder accounts and records. The Fund pays AECSC an annual fee per shareholder account for this service as follows:

- Class A $19.50
- Class B $20.50
- Class Y $17.50

Under terms of a prior agreement that ended Jan. 31, 1999, the Fund paid a transfer agency fee at an annual rate per shareholder account of $15.50 for Class A and $16.50 for Class B. Under terms of a prior agreement that ended March 31, 1999, the Fund paid a transfer agency fee at an annual rate per shareholder account of $15.50 for Class Y.

The Fund has agreements with American Express Financial Advisors Inc. for distribution and shareholder services. Under a Plan and Agreement of Distribution, the Fund pays a distribution fee at an annual rate of 0.75% of the Fund's average daily net assets attributable to Class B shares. Effective July 1, 1999, the Fund will pay a distribution fee at an annual rate up to 0.25% of the Fund's average daily net assets attributable to Class A shares and up to 1.00% of the Fund's average daily net assets attributable to Class B shares.

Under a Shareholder Service Agreement, the Fund pays a fee for service provided to shareholders by financial advisors and other servicing agents. The fee is calculated at a rate of 0.175% of the Fund's average daily net assets attributable to Class A and Class B shares and 0.10% of the Fund's average daily net assets attributable to Class Y shares. Effective July 1, 1999, the Fund will convert the Shareholder Service Agreement with respect to Class A and Class B shares into the Plan and Agreement of Distribution discussed above.

Sales charges received by American Express Financial Advisors Inc. for distributing Fund shares were $45,148,858 for Class A and $1,376,075 for Class B for the year ended May 31, 1999.

During the year ended May 31, 1999, the Fund's transfer agency fees were reduced by $134,049 as a result of earnings credits from overnight cash balances.

3. CAPITAL SHARE TRANSACTIONS

Transactions in shares of capital stock for the years indicated are as follows:

Year ended May 31, 1999	Class A	Class B	Class Y
Sold	308,354,414	312,726,481	25,577,003
Issued for reinvested distributions	17,789,153	14,244,033	2,090,237
Redeemed	(253,758,409)	(229,672,536)	(12,361,241)
Net increase (decrease)	72,385,158	97,297,978	15,305,999

Year ended May 31, 1998	Class A	Class B	Class Y
Sold	224,794,922	225,164,813	10,168,756
Issued for reinvested distributions	13,216,392	9,014,209	1,365,952
Redeemed	(216,322,833)	(192,999,127)	(11,146,551)
Net increase (decrease)	21,688,481	41,179,895	388,157

4. BANK BORROWINGS

The Fund has a revolving credit agreement with U.S. Bank, N.A., whereby the Fund is permitted to have bank borrowings for temporary or emergency purposes to fund shareholder redemptions. The Fund must have asset coverage for borrowings not to exceed the aggregate of 333% of advances equal to or less than five business days plus 367% of advances over five business days. The agreement, which enables the Fund to participate with other American Express funds, permits borrowings up to $200 million, collectively. Interest is charged to each Fund based on its borrowings at a rate equal to the Federal Funds Rate plus 0.30% or the Eurodollar Rate (Reserve Adjusted) plus 0.20%. Borrowings are payable up to 90 days after such loan is executed. The Fund also pays a commitment fee equal to its pro rata share of the amount of the credit facility at a rate of 0.05% per annum. The Fund had no borrowings outstanding during the year ended May 31, 1999.

5. FINANCIAL HIGHLIGHTS
"Financial highlights" showing per share data and selected financial information are presented on pages 30 and 31 of the prospectus.

Independent Auditors' Report

THE BOARD OF TRUSTEES AND UNITHOLDERS
INCOME TRUST

We have audited the accompanying statement of assets and liabilities, including the schedule of investments in securities, of Government Income Portfolio (a series of Income Trust) as of May 31, 1999, and the related statement of operations for the year then ended and the statements of changes in net assets for each of the years in the two-year period ended May 31, 1999. These financial statements are the responsibility of portfolio management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Investment securities held in custody are confirmed to us by the custodian. As to securities purchased and sold but not received or delivered, and securities on loan, we request confirmations from brokers, and where replies are not received, we carry out other appropriate auditing procedures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Government Income Portfolio as of May 31, 1999, and the results of its operations and the changes in its net assets for the periods stated in the first paragraph above, in conformity with generally accepted accounting principles.

/s/ KPMG LLP

KPMG LLP
Minneapolis, Minnesota
July 2, 1999

<TABLE>
<CAPTION>

Financial Statements

Statement of assets and liabilities
Government Income Portfolio

May 31, 1999

Assets
Investments in securities, at value (Note 1)

<S>	<C>
(identified cost $5,095,569,960)	$5,027,646,170
Accrued interest receivable	23,441,624
Receivable for investment securities sold	108,023,551

U.S. government securities held as collateral (Note 5)	186,274,424
Total assets	5,345,385,769
Liabilities	
Disbursements in excess of cash on demand deposit	1,339,205
Payable for investment securities purchased	2,045,438
Payable for securities purchased on a when-issued basis (Note 1)	1,711,037,270
Payable upon return of securities loaned (Note 5)	200,611,924
Accrued investment management services fee	45,897
Other accrued expenses	45,778
Options contracts written, at value (premium received $18,857,180) (Note 6)	15,811,823
Total liabilities	1,930,937,335
Net assets	$3,414,448,434

See accompanying notes to financial statements.
</TABLE>

<TABLE>
<CAPTION>

Statement of operations
Government Income Portfolio

Year ended May 31, 1999

Investment income
Income:

<S>	<C>
Interest	$185,904,454
Expenses (Note 2):	
Investment management services fee	14,751,038
Compensation of board members	14,863
Custodian fees	326,745
Audit fees	31,875
Other	103,176
Total expenses	15,227,697
Earnings credits on cash balances (Note 2)	(19,631)
Total net expenses	15,208,066
Investment income (loss) -- net	170,696,388
Realized and unrealized gain (loss) -- net Net realized gain (loss) on:	
Security transactions (Note 3)	48,862,091
Financial futures contracts	(62,123,351)
Options contracts written (Note 6)	90,784,558
Net realized gain (loss) on investments	77,523,298
Net change in unrealized appreciation (depreciation) on investments	(129,475,710)
Net gain (loss) on investments	(51,952,412)
Net increase (decrease) in net assets resulting from operations	$118,743,976

See accompanying notes to financial statements.
</TABLE>

<TABLE>
<CAPTION>

Statements of changes in net assets
Government Income Portfolio

Year ended May 31,	1999	1998
Operations		
<S>	<C>	<C>

Investment income (loss) -- net	$ 170,696,388	$ 148,446,162
Net realized gain (loss) on investments	77,523,298	(1,501,667)
Net change in unrealized appreciation (depreciation) on investments	(129,475,710)	47,320,048
Net increase (decrease) in net assets resulting from operations	118,743,976	194,264,543
Net contributions (withdrawals) from partners	726,433,297	171,023,648
Total increase (decrease) in net assets	845,177,273	365,288,191
Net assets at beginning of year	2,569,271,161	2,203,982,970
Net assets at end of year	$3,414,448,434	$2,569,271,161

See accompanying notes to financial statements.
</TABLE>

Notes to Financial Statements

Government Income Portfolio

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Government Income Portfolio (the Portfolio) is a series of Income Trust (the Trust) and is registered under the Investment Company Act of 1940 (as amended) as a diversified, open-end management investment company. Government Income Portfolio seeks to provide a high level of current income and safety of principal consistent with investment in U.S. government and government agency securities. The Declaration of Trust permits the Trustees to issue non-transferable interests in the Portfolio.

The Portfolio's significant accounting policies are summarized below:

Use of estimates
Preparing financial statements that conform to generally accepted accounting principles requires management to make estimates (e.g., on assets and liabilities) that could differ from actual results.

Valuation of securities
All securities are valued at the close of each business day. Securities traded on national securities exchanges or included in national market systems are valued at the last quoted sales price. Debt securities are generally traded in the over-the-counter market and are valued at a price that reflects fair value as quoted by dealers in these securities or by an independent pricing service. Securities for which market quotations are not readily available are valued at fair value according to methods selected in good faith by the board. Short-term securities maturing in more than 60 days from the valuation date are valued at the market price or approximate market value based on current interest rates; those maturing in 60 days or less are valued at amortized cost.

Option transactions
To produce incremental earnings, protect gains and facilitate buying and selling of securities for investments, the Portfolio may buy and sell put and call options and write covered call options on portfolio securities as well as write cash-secured put and call options on U.S. government securities. The Portfolio also may purchase mortgage-backed security (MBS) put spread options and write covered MBS call spread options. MBS spread options are based upon the changes in the price spread between a specified mortgage-backed security and a like-duration Treasury security. The risk in writing a call option is that the Portfolio gives up the opportunity for profit if the market price of the security increases. The risk in writing a put option is that the Portfolio may incur a loss if the market price of the security decreases and the option is exercised. The risk in buying an option is that the Portfolio pays a premium whether or not the option is exercised. The Portfolio also has the additional risk of being unable to enter into a closing transaction if a liquid secondary market does not exist. The Portfolio also may write over-the-counter options where completing the obligation depends upon the credit standing of the other party.

Option contracts are valued daily at the closing prices on their primary exchanges and unrealized appreciation or depreciation is recorded. The Portfolio will realize a gain or loss when the option transaction expires or closes. When options on debt securities or futures are exercised, the Portfolio will realize a gain or loss. When other options are exercised, the proceeds on sales for a written call option, the purchase cost for a written put option or the cost of a security for a purchased put or call option is adjusted by the amount of premium received or paid.

Futures transactions

To gain exposure to or protect itself from market changes, the Portfolio may buy and sell financial futures contracts. Risks of entering into futures contracts and related options include the possibility of an illiquid market and that a change in the value of the contract or option may not correlate with changes in the value of the underlying securities.

Upon entering into a futures contract, the Portfolio is required to deposit either cash or securities in an amount (initial margin) equal to a certain percentage of the contract value. Subsequent payments (variation margin) are made or received by the Portfolio each day. The variation margin payments are equal to the daily changes in the contract value and are recorded as unrealized gains and losses. The Portfolio recognizes a realized gain or loss when the contract is closed or expires.

Securities purchased on a when-issued basis

Delivery and payment for securities that have been purchased by the Portfolio on a forward-commitment or when-issued basis can take place one month or more after the transaction date. During this period, such securities are subject to market fluctuations, and they may affect the Portfolio's gross assets the same as owned securities. The Portfolio designates cash or liquid high-grade short-term debt securities at least equal to the amount of its commitment. As of May 31, 1999, the Portfolio had entered into outstanding when-issued or forward-commitments of $1,711,037,270.

Federal taxes

For federal income tax purposes the Portfolio qualifies as a partnership and each investor in the Portfolio is treated as the owner of its proportionate share of the net assets, income, expenses and realized and unrealized gains and losses of the Portfolio. As a "pass-through" entity, the Portfolio therefore does not pay any income dividends or capital gain distributions.

Other

Security transactions are accounted for on the date securities are purchased or sold. Interest income, including level-yield amortization of premium and discount, is accrued daily.

2. FEES AND EXPENSES

The Trust, on behalf of the Portfolio, has an Investment Management Services Agreement with AEFC to manage its portfolio. Under this agreement, AEFC determines which securities will be purchased, held or sold. The management fee is a percentage of the Portfolio's average daily net assets in reducing percentages from 0.52% to 0.395% annually.

Under the agreement, the Trust also pays taxes, brokerage commissions and nonadvisory expenses, which include custodian fees, audit and certain legal fees, fidelity bond premiums, registration fees for units, office expenses, consultants' fees, compensation of trustees, corporate filing fees, expenses incurred in connection with lending securities of the Portfolio and any other expenses properly payable by the Trust or Portfolio and approved by the board.

During the year ended May 31, 1999, the Portfolio's custodian fees were reduced by $19,631 as a result of earnings credits from overnight cash balances. The Portfolio also pays custodian fees to American Express Trust Company, an affiliate of AEFC.

According to a Placement Agency Agreement, American Express Financial Advisors Inc. acts as placement agent of the Trust's units.

3. SECURITIES TRANSACTIONS

Cost of purchases and proceeds from sales of securities (other than short-term obligations) aggregated $11,029,645,153 and $9,820,804,319 respectively, for the year ended May 31, 1999. For the same period, the portfolio turnover rate was 278%. Realized gains and losses are determined on an identified cost basis.

4. INTEREST RATE FUTURES CONTRACTS

As of May 31, 1999, investments in securities included securities valued at $87,169,209 that were pledged as collateral to cover initial margin deposits on 2,878 open purchase contracts and 9,255 open sale contracts. The market value of the open purchase contracts as of May 31, 1999, was $402,249,875 with a net unrealized loss of $7,008,641. The market value of the open sale contracts as of May 31, 1999, was $1,095,733,821 with a net unrealized gain of $6,118,521. See "Summary of significant accounting policies."

5. LENDING OF PORTFOLIO SECURITIES
As of May 31, 1999, securities valued at $191,194,646 were on loan to brokers. For collateral, the Portfolio received $14,337,500 in cash and U.S. government securities valued at $186,274,424. Income from securities lending amounted to $864,977 for the year ended May 31, 1999. The risks to the Portfolio of securities lending are that the borrower may not provide additional collateral when required or return the securities when due.

<TABLE>
<CAPTION>

6. OPTIONS CONTRACTS WRITTEN
Contracts and premium amounts associated with options contracts written are as follows:

Year ended May 31, 1999

	Puts		Calls		MBS Puts and Calls	
	Contracts	Premium	Contracts	Premium	Contracts	Premium
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance May 31, 1998	2,146	$ 4,017,648	2,380	$ 3,811,781	12,000	$123,773,405
Opened	65,972	70,254,481	72,544	88,414,568	81,280	4,288,906
Closed	(40,008)	(45,046,480)	(35,770)	(55,445,390)	(27,800)	(124,673,718)
Exercised	(4,831)	(7,585,873)	(2,263)	(3,418,658)	(14,800)	(585,233)
Expired	(20,928)	(18,477,583)	(23,502)	(19,735,111)	(30,940)	(735,563)
Balance May 31, 1999	2,351	$ 3,162,193	13,389	$13,627,190	19,740	$ 2,067,797

See "Summary of significant accounting policies."

</TABLE>

<TABLE>
<CAPTION>

Investments in Securities

Government Income Portfolio
May 31, 1999

(Percentages represent value of investments compared to net assets)

Bonds (119.2%)

Issuer	Coupon rate	Principal amount	Value(a)
Mortgage-backed securities (87.2%)			
Federal Home Loan Mtge Corp			
<S>	<C>	<C>	<C>
08-01-00	7.50%	$2,402,813	$2,422,245
07-01-03	6.50	30,230	29,980
09-01-09	6.50	4,596,267	4,589,372
10-01-10	7.00	10,975,844	11,165,177
01-01-13	6.00	11,246,575	11,008,532
11-01-23	8.00	12,150,272	12,675,286
05-01-24	7.50	4,670,818	4,775,771
07-01-24	8.00	6,747,197	7,010,892
01-01-25	9.00	5,810,305	6,167,348
03-01-25	7.00	25,500,000(b)	25,547,813
06-01-25	8.00	8,985,281	9,334,180
08-01-25	8.00	2,295,929	2,384,369
02-01-26	6.00	16,885,292	16,072,096
05-01-26	9.00	14,259,569	15,135,820
12-01-27	6.00	138,867,943	132,468,458
01-01-28	6.00	2,823,368	2,685,644
02-01-28	6.00	17,616,102	16,761,647
08-01-28	6.00	34,431,532	32,751,962
09-01-28	6.00	141,061,014	134,187,793
10-01-28	6.00	13,431,661	12,776,464
Collateralized Mtge Obligation			
08-15-03	6.50	13,311,588	13,378,521
12-07-07	5.50	42,640,000	41,826,250
04-15-12	6.25	39,000,000	37,889,280
04-15-22	8.50	9,150,000	9,487,361
11-15-22	4.00	44,310,000	39,699,150
11-15-23	4.00	7,217,867	7,009,271
11-18-25	6.50	12,750,000	12,719,018

Interest Only			
01-01-20	10.00	170,225(c)	41,151
Principal Only			
09-15-03	6.46	6,541,013(d)	5,916,008
10-15-07	8.47	45,128(d)	44,747
05-15-08	7.14	6,164,239(d)	5,264,645
05-15-08	8.13	5,881,409(d)	5,331,864
03-15-09	7.38	3,892,176(d)	3,566,814
11-15-23	7.86	2,110,513(d)	1,888,523
Federal Natl Mtge Assn			
12-01-99	7.00	3,850,254	3,871,712
09-01-07	8.50	2,878,324	2,970,804
01-15-09	5.25	5,000,000(e,g)	4,642,121
03-01-10	5.50	244,500,000(b)	233,497,500
03-01-10	6.00	321,000,000(b,g)	313,175,624
03-01-10	6.50	376,310,000(b,g)	374,663,643
05-01-13	6.00	59,530,371	58,111,354
06-01-13	6.00	48,677,285	47,516,972
08-01-13	6.00	77,900,561	76,104,174
09-01-13	6.00	17,778,506	17,354,722
11-01-21	8.00	2,277,398	2,373,664
03-01-23	9.00	1,631,201	1,744,178
04-01-23	8.50	6,009,717	6,338,870
08-25-23	6.00	14,400,000	13,442,478
09-01-23	6.50	40,879,813(g)	40,030,739
09-01-23	8.50	21,293,819	22,473,496
11-01-23	6.00	10,220,142	9,743,985
12-01-23	7.00	13,454,082	13,488,390
01-01-24	6.50	14,964,779	14,653,961
06-01-24	9.00	5,027,855	5,379,251
03-01-25	6.00	73,625,000(b)	70,012,773
03-01-25	6.50	321,950,000(b)	314,605,515
03-01-25	7.00	175,500,000(b)	175,609,688
09-01-25	6.50	19,837,557	19,394,643
11-01-25	6.50	20,417,672	19,961,746
02-01-26	6.00	543,921	517,220
02-01-26	8.00	2,234,176	2,319,543
04-01-26	6.00	299,236	284,451
05-01-26	7.50	14,605,072	14,914,992
02-01-27	6.00	2,411,048	2,291,918
04-01-27	6.00	5,585,733	5,309,742
04-01-27	6.50	12,899,750	12,611,699
04-01-27	7.00	8,270,128	8,280,879
09-01-27	7.00	6,483,062	6,491,490
03-01-28	6.00	21,967,152	20,885,902
04-01-28	6.00	9,647,509(f)	9,176,094
04-01-28	6.00	46,838,068	44,520,711
05-01-28	6.00	9,475,472	9,008,171
05-01-28	6.50	20,789,939	20,323,483
07-01-28	6.00	9,786,569	9,303,926
09-01-28	6.00	94,785,090	90,091,994
10-01-28	6.00	17,021,092	16,174,803
10-01-28	6.50	49,747,473	48,659,247
Collateralized Mtge Obligation			
09-25-08	4.50	38,000,000	34,674,886
11-25-08	5.50	2,395,610	2,330,896
10-25-10	4.50	8,204,208	8,090,005
07-25-12	7.00	2,550,729	2,573,062
01-25-19	3.00	8,130,627	8,006,228
07-18-19	5.50	13,976,000	13,700,561
10-25-20	9.00	10,426,768	10,876,371
03-25-21	8.50	12,350,000	12,936,248
01-25-22	5.75	10,000,000	9,570,622
08-25-23	6.50	15,000,000	14,849,850
05-18-26	5.00	17,000,000	15,184,917
Interest Only			
07-01-18	10.00	2,672,761(c)	663,251
08-01-18	9.50	54,430(c)	12,224
01-15-20	10.00	2,645,058(c)	736,913
09-25-20	9.50	811,365(c)	188,165
01-25-21	10.50	6,593,752(c)	1,614,234
11-25-21	9.50	2,132,183(c)	517,280
02-25-22	9.50	417,323(c)	103,850
02-25-22	10.00	15,589,974(c)	4,032,444
05-25-22	10.00	5,037,341(c)	1,211,326
07-25-22	8.50	8,946,781(c)	2,246,099

07-25-22	9.50	4,497,893(c)	1,112,652
Inverse Floater			
08-25-23	8.48	1,399,506(h)	1,293,186
03-25-24	10.12	1,781,337(h)	1,756,258
Principal Only			
06-25-21	12.57	341,438(d)	283,524
Govt Natl Mtge Assn			
08-20-19	11.00	160,230	179,452
Total			2,975,086,224
U.S. government obligations (29.9%)			
Collateralized Mtge Acceptance Corp			
12-15-30	6.50	13,792,405	13,807,852
Resolution Funding Corp			
10-15-19	8.13	8,000,000(g)	9,661,542
Zero Coupon			
04-15-02	6.15	11,170,000(i,g)	9,481,018
10-15-03	6.36	16,000,000(i,g)	12,424,042
04-15-06	5.74	4,803,000(i,g)	3,188,771
04-15-08	5.88	21,250,000(i,g)	12,404,702
07-15-08	6.13	48,500,000(i,g)	27,861,058
01-15-09	5.76	24,173,000(i,g)	13,463,370
07-15-09	5.91	32,646,000(i,g)	17,578,800
10-15-12	8.04	8,400,000(i,g)	3,617,623
04-15-17	7.28	37,700,000(i,g)	12,123,528
07-15-17	7.28	6,650,000(i,g)	2,104,785
01-15-18	7.20	8,000,000(i,g)	2,453,032
10-15-18	7.87	7,500,000(i,g)	2,180,360
U.S. Treasury			
05-31-01	5.25	69,600,000(b,g)	69,387,720
08-31-01	6.50	8,500,000(f,g)	8,685,468
10-31-01	6.25	22,000,000(g)	22,381,707
11-30-01	5.88	6,000,000(f,g)	6,053,215
04-30-02	6.63	10,000,000(g)	10,279,460
02-15-03	10.75	15,000,000(g)	17,474,957
08-15-03	5.75	18,500,000(e,g)	18,539,203
05-15-04	12.38	7,000,000(g)	8,970,695
08-15-05	6.50	5,000,000(g)	5,177,087
08-15-05	10.75	4,750,000(f,g)	5,954,582
07-15-06	7.00	35,750,000(g)	38,199,161
10-15-06	6.50	36,100,000(g)	37,551,357
11-15-08	4.75	10,100,000(e,g)	9,389,849
11-15-15	9.88	74,000,000(g)	102,655,582
05-15-16	7.25	19,500,000(g)	21,803,894
08-15-19	8.13	104,000,000(f,g)	127,839,566
08-15-20	8.75	55,000,000(e,f,g)	71,965,707
05-15-21	8.13	95,250,000(g)	118,142,880
08-15-21	8.13	124,700,000(e,g)	154,355,281
Zero Coupon			
11-15-04	5.65	33,000,000(f,g,i)	24,210,998
Total			1,021,368,852
Other (2.1%)			
California Infrastructure-			
Pacific Gas & Electric Series 1997-1			
09-25-05	6.32	20,400,000	20,538,312
San Diego Gas & Electric			
03-25-03	6.07	7,500,000	7,535,550
09-25-05	6.19	6,000,000	6,005,460
Southern California Edison			
03-25-03	6.17	13,895,000	13,980,037
Citibank Credit Card Master Trust I			
Series 1998-2 Cl A			
01-15-08	6.05	15,000,000	14,577,000
GMAC Commercial Mtge Securities			
Series 1997-C2 Cl A1			
12-15-04	6.45	9,332,196	9,319,878
Total			71,956,237
Total bonds (Cost: $4,136,297,586)			$4,068,411,313

See accompanying notes to investments in securities.
</TABLE>

<TABLE>
<CAPTION>

Options purchased (0.7%)

Issuer	Shares price	Exercise date	Expiration	Value(a)
Calls				
<S>	<C>	<C>	<C>	<C>
Sept. U.S. Treasury Bond Futures	81,000	$120	July 1999	$173,509
Sept. U.S. Treasury Note Futures, 10-year	47,900	114	Sept. 1999	209,563
Puts				
U.S. Treasury Bonds	2,920,000	98	Aug. 1999	22,082,500
Total options purchased (Cost: $22,337,237)				$22,465,572

See accompanying notes to investments in securities.
</TABLE>

<TABLE>
<CAPTION>

Short-term securities (27.4%)(g)

Issuer	Annualized yield on date of purchase	Amount payable at maturity	Value(a)
U.S. government agencies (25.4%)			
Federal Home Loan Bank Disc Nts			
<S>	<C>	<C>	<C>
06-11-99	4.72%	$8,000,000	$7,986,451
06-25-99	4.71	50,000,000	49,824,499
06-30-99	4.73	11,600,000	11,548,634
07-02-99	4.75	16,900,000	16,824,664
07-09-99	4.74	46,100,000	45,839,076
Federal Home Loan Mtge Corp Disc Nts			
06-04-99	4.71	7,600,000	7,594,059
06-04-99	4.78	24,200,000	24,180,862
06-08-99	4.72	5,500,000	5,492,804
06-11-99	4.71	11,000,000	10,981,370
06-15-99	4.77	5,900,000	5,884,125
06-16-99	4.76	25,700,000	25,627,099
06-17-99	4.74	7,900,000	7,880,320
06-18-99	4.74	7,300,000	7,280,858
06-18-99	4.75	30,100,000	30,005,985
06-21-99	4.72	1,800,000	1,793,945
06-21-99	4.74	45,000,000	44,842,179
06-22-99	4.71	1,000,000	996,507
06-22-99	4.72	17,800,000	17,744,345
06-24-99	4.75	25,900,000	25,811,710
06-29-99	4.74	26,700,000	26,591,709
06-30-99	4.75	3,600,000	3,584,896
06-30-99	4.76	25,100,000	24,994,468
07-08-99	4.77	45,600,000	45,359,840
07-09-99	4.75	17,600,000	17,505,390
07-13-99	4.80	11,200,000	11,133,220
07-14-99	4.75	13,100,000	13,014,945
07-14-99	4.79	35,200,000	34,985,906
07-16-99	4.76	5,900,000	5,862,791
07-22-99	4.83	7,500,000	7,446,000
07-23-99	4.81	45,100,000	44,748,659
08-13-99	4.83	50,000,000	49,465,278
Federal Natl Mtge Assn Disc Nts			
06-04-99	4.80	8,300,000	8,291,833
06-08-99	4.71	13,000,000	12,983,064
06-10-99	4.73	42,900,000	42,832,647
06-14-99	4.73	44,300,000	44,207,462
06-17-99	4.73	9,700,000	9,673,219
06-24-99	4.72	39,900,000	39,764,850
07-16-99	4.76	45,000,000	44,696,532
07-19-99	4.80	8,000,000	7,945,940
08-06-99	4.86	23,700,000	23,469,583
Total			866,697,724

Commercial paper (2.0%)			
ABB Treasury Center USA			
06-01-99	4.93	10,000,000(j)	9,995,892
Associates First Capital			
06-01-99	4.92	12,600,000	12,594,834
General Electric Capital			
06-01-99	4.93	15,200,000	15,193,755
GTE Funding			
06-01-99	4.80	32,300,000	32,287,080
Total			70,071,561
Total short-term securities (Cost: $936,935,137)			$936,769,285
Total investments in securities (Cost: $5,095,569,960)(k)			$5,027,646,170

See accompanying notes to investments in securities.

</TABLE>

Notes to investments in securities

(a) Securities are valued by procedures described in Note 1 to the financial statements.

(b) At May 31, 1999, the cost of securities purchased, including interest purchased, on a when-issued basis was $1,711,037,270.

(c) Interest-only represents securities that entitle holders to receive only interest payments on the underlying mortgages. The yield to maturity of an interest-only is extremely sensitive to the rate of principal payments on the underlying mortgage assets. A rapid (slow) rate of principal repayments may have an adverse (positive) effect on yield to maturity. The principal amount shown is the notional amount of the underlying mortgages.

(d) Principal-only represents securities that entitle holders to receive only principal payments on the underlying mortgages. The yield to maturity of a principal-only is sensitive to the rate of principal payments on the underlying mortgage assets. A slow (rapid) rate of principal repayments may have an adverse (positive) effect on yield to maturity. Interest rate disclosed represents current yield based upon the current cost basis and estimated timing of future cash flows.

(e) Security is partially or fully on loan. See Note 5 to the financial statements.

(f) Partially pledged as initial deposit on the following open interest rate futures contracts (see Note 4 to the financial statements):

Type of security	Notional amount
Purchase contracts	
Eurodollar March 2000, 90-day	$34,750,000
Eurodollar June 2000, 90-day	34,750,000
Eurodollar Sept. 2000, 90-day	45,250,000
Eurodollar Dec. 2000, 90-day	34,750,000
U.S. Treasury Bonds June 1999	116,400,000
U.S. Treasury Notes Sept. 1999, 10-year	111,600,000
Sale contracts	
U.S. Treasury Bonds Sept. 1999	648,400,000
U.S. Treasury Notes June 1999, 2-year	52,000,000
U.S. Treasury Notes June 1999, 5-year	122,200,000
U.S. Treasury Notes June 1999, 10-year	126,200,000
U.S. Treasury Notes Sept. 1999, 5-year	1,200,000

<TABLE>
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(g) At May 31, 1999, securities valued at $1,734,155,920 were held to cover open call options written as follows:

Issuer	Principal	Exercise price	Expiration date	Value(a)
<S>	<C>	<C>	<C>	<C>
Mortgage-Backed Security (MBS Spread)	1,974,000	$99	July 1999	$1,665,563
U.S. Treasury Bond Futures July 1999	322,000	119	July 1999	130,813
U.S. Treasury Bond Futures Sept. 1999	828,000	118	Sept. 1999	1,384,308
U.S. Treasury Bond Futures Sept. 1999	2,480,000	120	Sept. 1999	2,363,738
U.S. Treasury Bond Futures Sept. 1999	261,000	122	Sept. 1999	130,500
U.S. Treasury Bond Futures Sept. 1999	870,000	128	Sept. 1999	54,375
U.S. Treasury Note Futures Sept. 1999, 5-year	3,917,000	110	Sept. 1999	2,642,870
U.S. Treasury Note Futures Sept. 1999, 10-year	4,711,000	113	Sept. 1999	3,322,579
Total				$11,694,746

At May 31, 1999, cash or short-term securities were designated to cover open put options written as follows:

Issuer	Principal	Exercise price	Expiration date	Value(a)
U.S. Treasury Bond Futures Sept. 1999	435,000	$114	Sept. 1999	$305,857
U.S. Treasury Bond Futures Sept. 1999	44,000	118	Sept. 1999	96,937
U.S. Treasury Bond Futures Sept. 1999	435,000	120	Sept. 1999	1,502,107
U.S. Treasury Note Futures Sept. 1999, 10-year	88,000	110	Sept. 1999	64,274
U.S. Treasury Note Futures Sept. 1999, 10-year	435,000	111	Sept. 1999	462,188
U.S. Treasury Note Futures Sept. 1999, 10-year	479,000	112	Sept. 1999	740,951
U.S. Treasury Note Futures Sept. 1999, 10-year	435,000	113	Sept. 1999	944,763
Total				$4,117,077

(h) Inverse floaters represent securities that pay interest at a rate that increases (decreases) in the same magnitude as, or in a multiple of, a decline (increase) in the LIBOR (London InterBank Offering Rate) Index. Interest rate disclosed is the rate in effect on May 31, 1999. Inverse floaters in the aggregate represent 0.09% of the Portfolio's net assets as of May 31, 1999.

(i) For zero coupon bonds, the interest rate disclosed represents the annualized effective yield on the date of acquisition.

(j) Commercial paper sold within terms of a private placement memorandum, exempt from registration under Section 4(2) of the Securities Act of 1933, as amended, and may be sold only to dealers in that program or other "accredited investors." This security has been determined to be liquid under guidelines established by the board.

(k) At May 31, 1999, the cost of securities for federal income tax purposes was $5,098,614,583 and the aggregate gross unrealized appreciation and depreciation based on that cost was:

Unrealized appreciation	$24,603,781
Unrealized depreciation	(95,572,194)
Net unrealized depreciation	$(70,968,413)

</TABLE>

PART C. OTHER INFORMATION

Item 23. Exhibits

(a) Articles of Incorporation, as amended October 17, 1988, filed as Exhibit 1 to Registrant's Post-Effective Amendment No. 7 to Registration Statement No. 2-96512, are incorporated by reference.

(b) By-laws, as amended January 10, 1996, filed as Exhibit 2 to Registrant's Post-Effective Amendment No. 24 to Registration Statement No. 2-96512, are incorporated by reference.

(c) Stock Certificate for common stock, filed as Exhibit No. 4 to Registration Statement No. 2-96512, is incorporated by reference.

(d) Investment Management Services Agreement between Registrant and American Express Financial Corporation, dated March 20, 1995, filed electronically as Exhibit 5 to Registrant's Post-Effective Amendment No. 19 to Registration Statement No. 2-96512, is incorporated by reference. The agreement was assumed by the Portfolio when the Fund adopted the master/feeder structure.

(e) Distribution Agreement between Registrant and American Express Financial Advisors Inc., dated March 20, 1995, is incorporated by reference to Exhibit 6 to Registrant's Post-Effective Amendment No. 26 filed on or about July 30, 1998.

(f) All employees are eligible to participate in a profit sharing plan. Entry into the plan is Jan. 1 or July 1. The Registrant contributes each year an amount up to 15 percent of their annual salaries, the maximum deductible amount permitted under Section 404(a) of the Internal Revenue Code.

(g)(1) Custodian Agreement between Registrant and American Express Trust Company, dated March 20, 1995, is incorporated by reference to Exhibit 8(a) to Registrant's Post-Effective Amendment No. 26 filed on or about July 30, 1998.

(g)(2) Addendum to Custodian Agreement between IDS Federal Income Fund, Inc., American Express Trust Company and American Express Financial Corporation, dated June 10, 1996, filed electronically as Exhibit 8(c) to Registrant's Post-Effective Amendment No. 24 to Registration Statement No. 2-96512, is incorporated by reference.

(g)(3) Custodian Agreement Amendment between IDS International Fund, Inc. and American Express Trust Company, dated October 9, 1997, filed electronically on or about December 23, 1997 as Exhibit 8(c) to IDS International Fund, Inc.'s Post-Effective Amendment No. 26 to Registration Statement No. 2-92309, is incorporated by reference. Registrant's Custodian Agreement Amendment differs from the one incorporated by reference only by the fact that Registrant is one executing party.

(h)(1) Administrative Services Agreement between Registrant and American Express Financial Corporation, dated March 20, 1995, is incorporated by reference to Exhibit 9(e) to Registrant's Post-Effective Amendment No. 26 filed on or about July 30, 1998.

(h)(2) Agreement and Declaration of Unitholders between IDS Federal Income Fund, Inc. and Strategist Income Fund, Inc., dated June 10, 1996, filed electronically as Exhibit 9(f) to Registrant's Post-Effective Amendment No. 24 to Registration Statement No. 2-96512, is incorporated by reference.

(h)(3) License Agreement between Registrant and IDS Financial Corporation, dated January 25, 1988, filed as Exhibit 9(b) to Post-Effective Amendment No. 7 to Registration Statement No. 2-96512, is incorporated by reference.

(h)(4) Agreement and Plan of Reorganization, dated Sept. 8, 1994, between IDS Strategy Fund, Inc, and IDS Federal Income Fund, Inc., filed electronically as Exhibit 4 to Registrant's Pre-Effective Amendment No. 1, on Form N-14, is incorporated by reference.

(h)(5) Class Y Shareholder Service Agreement between IDS Precious Metals Fund, Inc. and American Express Financial Advisors Inc., dated May 9, 1997, filed electronically on or about May 27, 1997 as Exhibit 9(e) to IDS Precious Metals Fund, Inc.'s Post-Effective Amendment No. 30 to Registration Statement No. 2-93745, is incorporated by reference. Registrant's Class Y Shareholder Service Agreement differs from the one incorporated by reference only by the fact that Registrant is one executing party.

(h)(6) Transfer Agency Agreement dated Feb. 1, 1999 between Registrant and American Express Client Service Corporation is incorporated by reference to Exhibit (h)(7) to Registrant's Post-Effective Amendment No. 27 filed on or about May 26, 1999.

(i) Opinion and consent of counsel as to the legality of the securities being registered is incorporated by reference to Exhibit (i) to Registrant's Post-Effective Amendment No. 27 filed on or about May 26, 1999.

(j) Independent Auditors' Consent is filed electronically herewith.

(k) Omitted Financial Statements: Not Applicable

(l) Letter of IDS Financial Services Inc. as sole shareholder, filed as Exhibit No. 13 to Pre-Effective Amendment No. 2 to Registration Statement No. 2-96512, is incorporated by reference.

(m) Plan and Agreement of Distribution dated July 1, 1999 between AXP Discovery Fund, Inc. and American Express Financial Advisors Inc. is incorporated by reference to Exhibit (m) to AXP Discovery Fund, Inc. Post-Effective Amendment No. 36 to Registration Statement File No. 2-72174 filed on or about July 30, 1999. Registrant's Plan and Agreement of Distribution differs from the one incorporated by reference only by the fact that Registrant is one executing party.

(n) Financial Data Schedules: Not Applicable.

(o) Rule 18f-3 Plan, dated April 1999, is incorporated by reference to Exhibit o to IDS Precious Metals Fund, Inc. Post-Effective Amendment No. 33, File No. 2-93745 filed on or about May 21, 1999.

(p)(1) Directors' Power of Attorney to sign Amendments to this Registration Statement, dated January 14, 1999, is incorporated by reference to Exhibit (p)(1) to Registrant's Post-Effective Amendment No. 27 filed on or about May 26, 1999.

(p)(2) Officers' Power of Attorney to sign Amendments to this Registration Statement, dated March 1, 1999, is incorporated by reference to Exhibit (p)(2) to Registrant's Post-Effective Amendment No. 27 filed on or about May 26, 1999.

(p)(3) Trustees' Power of Attorney, dated January 14, 1999, is incorporated by reference to Exhibit (p)(3) to Registrant's Post-Effective Amendment No. 27 filed on or about May 26, 1999.

(p)(4) Officers' Power of Attorney, dated March 1, 1999, is incorporated by reference to Exhibit (p)(4) to Registrant's Post-Effective Amendment No. 27 filed on or about May 26, 1999.

Item 24. Persons Controlled by or Under Common Control with Registrant

None.

Item 25. Indemnification

The Articles of Incorporation of the registrant provide that the Fund shall indemnify any person who was or is a party or is threatened to be made a party, by reason of the fact that she or he is or was a director, officer, employee or agent of the Fund, or is or was serving at the request of the Fund as a director, officer, employee or agent of another company, partnership, joint venture, trust or other enterprise, to any threatened, pending or completed action, suit or proceeding, wherever brought, and the Fund may purchase liability insurance and advance legal expenses, all to the fullest extent permitted by the laws of the State of Minnesota, as now existing or hereafter amended. The By-laws of the registrant provide that present or former directors or officers of the Fund made or threatened to be made a party to or involved (including as a witness) in an actual or threatened action, suit or proceeding shall be indemnified by the Fund to the full extent authorized by the Minnesota Business Corporation Act, all as more fully set forth in the By-laws filed as an exhibit to this registration statement.

Insofar as indemnification for liability 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.

Any indemnification hereunder shall not be exclusive of any other rights of indemnification to which the directors, officers, employees or agents might otherwise be entitled. No indemnification shall be made in violation of the Investment Company Act of 1940.

<TABLE>
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Item 26. Business and Other Connections of Investment Adviser (American Express Financial Corporation)

Directors and officers of American Express Financial Corporation who are directors and/or officers of one or more other companies:

<S> Name and Title	<C> Other company(s)	<C> Address	<C> Title within other company(s)
Ronald G. Abrahamson, Vice President	American Express Client Service Corporation	IDS Tower 10 Minneapolis, MN 55440	Director and Vice President
	American Express Financial Advisors Inc.		Vice President
	Public Employee Payment Company		Director and Vice President
Douglas A. Alger, Director and Senior Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Senior Vice President
Peter J. Anderson, Director and Senior Vice President	Advisory Capital Strategies Group Inc.	IDS Tower 10 Minneapolis, MN 55440	Director
	American Express Asset Management Group Inc.		Director and Chairman of the Board
	American Express Asset Management International, Inc.		Director, Chairman of the Board and Executive Vice President
	American Express Financial Advisors Inc.		Senior Vice President
	IDS Capital Holdings Inc.		Director and President
	IDS Futures Corporation		Director
	NCM Capital Management Group, Inc.	2 Mutual Plaza 501 Willard Street Durham, NC 27701	Director
Ward D. Armstrong, Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
	American Express Service Corporation		Vice President
	American Express Trust Company		Director and Chairman of the Board

John M. Baker, Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
	American Express Trust Company		Senior Vice President
Joseph M. Barsky III, Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
Timothy V. Bechtold, Vice President	American Centurion Life Assurance Company	IDS Tower 10 Minneapolis, MN 55440	Director and President
	American Express Financial Advisors Inc.		Vice President
	IDS Life Insurance Company		Executive Vice President
	IDS Life Insurance Company of New York	P.O. Box 5144 Albany, NY 12205	Director and President
John C. Boeder, Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
	IDS Life Insurance Company of New York	P.O. Box 5144 Albany, NY 12205	Director
Douglas W. Brewers, Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
Karl J. Breyer, Director, Corporate Senior Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Senior Vice President
	American Express Financial Advisors Japan Inc.		Director
	American Express Minnesota Foundation		Director
Cynthia M. Carlson, Vice President	American Enterprise Investment Services Inc.	IDS Tower 10 Minneapolis, MN 55440	Director, President and Chief Executive Officer
	American Express Financial Advisors Inc.		Vice President
	American Express Service Corporation		Vice President
Mark W. Carter, Director, Senior Vice President and Chief Marketing Officer	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Senior Vice President and Chief Marketing Officer
	IDS Life Insurance Company		Executive Vice President
James E. Choat, Director and Senior Vice President	American Centurion Life Assurance Company	IDS Tower 10 Minneapolis, MN 55440	Executive Vice President
	American Enterprise Life Insurance Company		Director, President and Chief Executive Officer
	American Express Financial Advisors Inc.		Senior Vice President
	American Express Insurance Agency of Idaho Inc.		Vice President

	American Express Insurance Agency of Nevada Inc.		Vice President
	American Express Insurance Agency of Oregon Inc.		Vice President
	American Express Property Casualty Insurance Agency of Kentucky Inc.		Vice President
	American Express Property Casualty Insurance Agency of Maryland Inc.		Vice President
	American Express Property Casualty Insurance Agency of Pennsylvania Inc.		Vice President
	IDS Insurance Agency of Alabama Inc.		Vice President
	IDS Insurance Agency of Arkansas Inc.		Vice President
	IDS Insurance Agency of Massachusetts Inc.		Vice President
	IDS Insurance Agency of New Mexico Inc.		Vice President
	IDS Insurance Agency of North Carolina Inc.		Vice President
	IDS Insurance Agency of Ohio Inc.		Vice President
	IDS Insurance Agency of Wyoming Inc.		Vice President
	IDS Life Insurance Company of New York	P.O. Box 5144 Albany, NY 12205	Executive Vice President
Kenneth J. Ciak, Vice President and General Manager	AMEX Assurance Company	IDS Tower 10 Minneapolis, MN 55440	Director and President
	American Express Financial Advisors Inc.		Vice President and General Manager
	IDS Property Casualty Insurance Company	1 WEG Blvd. DePere, WI 54115	Director and President
Paul A. Connolly, Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
Colleen Curran, Vice President and Assistant General Counsel	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President and Assistant General Counsel
	American Express Service Corporation		Vice President and Chief Legal Counsel
Luz Maria Davis Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
Douglas K. Dunning, Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
Gordon L. Eid, Director, Senior Vice President, General Counsel	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Senior Vice President, General Counsel and Chief Compliance Officer

and Chief Compliance Officer			
	American Express Financial Advisors Japan Inc.		Vice President and Chief Compliance Officer
	American Express Insurance Agency of Arizona Inc.		Director and Vice President
	American Express Insurance Agency of Idaho Inc.		Director and Vice President
	American Express Insurance Agency of Nevada Inc.		Director and Vice President
	American Express Insurance Agency of Oregon Inc.		Director and Vice President
	American Express Property Casualty Insurance Agency of Kentucky Inc.		Director and Vice President
	American Express Property Casualty Insurance Agency of Maryland Inc.		Director and Vice President
	American Express Property Casualty Insurance Agency of Pennsylvania Inc.		Director and Vice President
	IDS Insurance Agency of Alabama Inc.		Director and Vice President
	IDS Insurance Agency of Arkansas Inc.		Director and Vice President
	IDS Insurance Agency of Massachusetts Inc.		Director and Vice President
	IDS Insurance Agency of New Mexico Inc.		Director and Vice President
	IDS Insurance Agency of North Carolina Inc.		Director and Vice President
	IDS Insurance Agency of Ohio Inc.		Director and Vice President
	IDS Insurance Agency of Wyoming Inc.		Director and Vice President
	IDS Real Estate Services, Inc.		Vice President
	Investors Syndicate Development Corp.		Director
Robert M. Elconin, Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
	IDS Life Insurance Company		Vice President
Gordon M. Fines, Vice President	American Express Asset Management Group Inc.	IDS Tower 10 Minneapolis, MN 55440	Senior Vice President and Chief Investment Officer
	American Express Financial Advisors Inc.		Vice President
Douglas L. Forsberg, Vice President	American Centurion Life Assurance Company	IDS Tower 10 Minneapolis, MN 55440	Director
	American Express Financial Advisors Inc.		Vice President

	American Express Financial Advisors Japan Inc.		Director, President and Chief Executive Officer
Jeffrey P. Fox, Vice President and Corporate Controller	American Enterprise Life Insurance Company	IDS Tower 10 Minneapolis, MN 55440	Vice President and Controller
	American Express Financial Advisors Inc.		Vice President and Corporate Controller
Harvey Golub, Director	American Express Company	American Express Tower World Financial Center New York, NY 10285	Chairman and Chief Executive Officer
	American Express Travel Related Services Company, Inc.		Chairman and Chief Executive Officer
David A. Hammer, Vice President and Marketing Controller	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President and Marketing Controller
	IDS Plan Services of California, Inc.		Director and Vice President
Lorraine R. Hart, Vice President	AMEX Assurance Company	IDS Tower 10 Minneapolis, MN 55440	Vice President
	American Centurion Life Assurance Company		Vice President
	American Enterprise Life Insurance Company		Vice President
	American Express Financial Advisors Inc.		Vice President
	American Partners Life Insurance Company		Director and Vice President
	IDS Certificate Company		Vice President
	IDS Life Insurance Company		Vice President
	IDS Life Series Fund, Inc.		Vice President
	IDS Life Variable Annuity Funds A and B		Vice President
	Investors Syndicate Development Corp.		Director and Vice President
	IDS Life Insurance Company of New York	P.O. Box 5144 Albany, NY 12205	Vice President
	IDS Property Casualty Insurance Company	1 WEG Blvd. DePere, WI 54115	Vice President
Scott A. Hawkinson, Vice President and Controller	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President and Controller
Janis K. Heaney, Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
Darryl G. Horsman, Vice President	American Express Trust Company	IDS Tower 10 Minneapolis, MN 55440	Director and President

Jeffrey S. Horton, Vice President and Corporate Treasurer	AMEX Assurance Company	IDS Tower 10 Minneapolis, MN 55440	Vice President, Treasurer and Assistant Secretary
	American Centurion Life Assurance Company		Vice President and Treasurer
	American Enterprise Investment Services Inc.		Vice President and Treasurer
	American Enterprise Life Insurance Company		Vice President and Treasurer
	American Express Asset Management Group Inc.		Vice President and Treasurer
	American Express Asset Management International Inc.		Vice President and Treasurer
	American Express Client Service Corporation		Vice President and Treasurer
	American Express Corporation		Vice President and Treasurer
	American Express Financial Advisors Inc.		Vice President and Treasurer
	American Express Financial Advisors Japan Inc.		Vice President and Treasurer
	American Express Insurance Agency of Arizona Inc.		Vice President and Treasurer
	American Express Insurance Agency of Idaho Inc.		Vice President and Treasurer
	American Express Insurance Agency of Nevada Inc.		Vice President and Treasurer
	American Express Insurance Agency of Oregon Inc.		Vice President and Treasurer
	American Express Minnesota Foundation		Vice President and Treasurer
	American Express Property Casualty Insurance Agency of Kentucky Inc.		Vice President and Treasurer
	American Express Property Casualty Insurance Agency of Maryland Inc.		Vice President and Treasurer
	American Express Property Casualty Insurance Agency of Pennsylvania Inc.		Vice President and Treasurer
	American Partners Life Insurance Company		Vice President and Treasurer
	IDS Cable Corporation		Director, Vice President and Treasurer
	IDS Cable II Corporation		Director, Vice President and Treasurer
	IDS Capital Holdings Inc.		Vice President, Treasurer and Assistant Secretary
	IDS Certificate Company		Vice President and Treasurer
	IDS Insurance Agency of Alabama Inc.		Vice President and Treasurer

	IDS Insurance Agency of Arkansas Inc.		Vice President and Treasurer
	IDS Insurance Agency of Massachusetts Inc.		Vice President and Treasurer
	IDS Insurance Agency of New Mexico Inc.		Vice President and Treasurer
	IDS Insurance Agency of North Carolina Inc.		Vice President and Treasurer
	IDS Insurance Agency of Ohio Inc.		Vice President and Treasurer
	IDS Insurance Agency of Wyoming Inc.		Vice President and Treasurer
	IDS Life Insurance Company		Vice President, Treasurer and Assistant Secretary
	IDS Life Insurance Company of New York	P.O. Box 5144 Albany, NY 12205	Vice President and Treasurer
	IDS Life Series Fund Inc.		Vice President and Treasurer
	IDS Life Variable Annuity Funds A & B		Vice President and Treasurer
	IDS Management Corporation		Director, Vice President and Treasurer
	IDS Partnership Services Corporation		Vice President and Treasurer
	IDS Plan Services of California, Inc.		Vice President and Treasurer
	IDS Real Estate Services, Inc.		Vice President and Treasurer
	IDS Realty Corporation		Vice President and Treasurer
	IDS Sales Support Inc.		Vice President and Treasurer
	Investors Syndicate Development Corp.		Vice President and Treasurer
	IDS Property Casualty Insurance Company	1 WEG Blvd. DePere, WI 54115	Vice President, Treasurer and Assistant Secretary
	Public Employee Payment Company		Vice President and Treasurer
David R. Hubers, Director, President and Chief Executive Officer	AMEX Assurance Company	IDS Tower 10 Minneapolis, MN 55440	Director
	American Express Financial Advisors Inc.		Chairman, President and Chief Executive Officer
	American Express Service Corporation		Director and President
	IDS Certificate Company		Director
	IDS Life Insurance Company		Director
	IDS Plan Services of California, Inc.		Director and President

	IDS Property Casualty Insurance Company	1 WEG Blvd. DePere, WI 54115	Director
Martin G. Hurwitz, Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
Debra A. Hutchinson Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
James M. Jensen, Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
	IDS Life Insurance Company		Vice President
	IDS Life Series Fund, Inc.		Director
Marietta L. Johns, Director and Senior Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Senior Vice President
Nancy E. Jones, Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
	American Express Service Corporation		Vice President
Ora J. Kaine, Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
Linda B. Keene, Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
G. Michael Kennedy, Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
Susan D. Kinder, Director and Senior Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Senior Vice President
Richard W. Kling, Director and Senior Vice President	AMEX Assurance Company	IDS Tower 10 Minneapolis, MN 55440	Director
	American Centurion Life Assurance Company		Director and Chairman of the Board
	American Enterprise Life Insurance Company		Director and Chairman of the Board
	American Express Corporation		Director and President
	American Express Financial Advisors Inc.		Senior Vice President
	American Express Insurance Agency of Arizona Inc.		Director and President
	American Express Insurance Agency of Idaho Inc.		Director and President
	American Express Insurance Agency of Nevada Inc.		Director and President
	American Express Insurance		Director and President

	Agency of Oregon Inc.		
	American Express Property Casualty Insurance Agency of Kentucky Inc.		Director and President
	American Express Property Casualty Insurance Agency of Maryland Inc.		Director and President
	American Express Property Casualty Insurance Agency of Pennsylvania Inc.		Director and President
	American Express Service Corporation		Vice President
	American Partners Life Insurance Company		Director and Chairman of the Board
	IDS Certificate Company		Director and Chairman of the Board
	IDS Insurance Agency of Alabama Inc.		Director and President
	IDS Insurance Agency of Arkansas Inc.		Director and President
	IDS Insurance Agency of Massachusetts Inc.		Director and President
	IDS Insurance Agency of New Mexico Inc.		Director and President
	IDS Insurance Agency of North Carolina Inc.		Director and President
	IDS Insurance Agency of Ohio Inc.		Director and President
	IDS Insurance Agency of Wyoming Inc.		Director and President
	IDS Life Insurance Company		Director and President
	IDS Life Series Fund, Inc.		Director and President
	IDS Life Variable Annuity Funds A and B		Manager, Chairman of the Board and President
	IDS Property Casualty Insurance Company	1 WEG Blvd. DePere, WI 54115	Director
	IDS Life Insurance Company of New York	P.O. Box 5144 Albany, NY 12205	Director and Chairman of the Board
John M. Knight	American Express Financial Advisors	IDS Tower 10 Minneapolis, MN 55440	Vice President
Paul F. Kolkman, Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
	IDS Life Insurance Company		Director and Executive Vice President
	IDS Life Series Fund, Inc.		Vice President and Chief Actuary
	IDS Property Casualty Insurance Company	1 WEG Blvd. DePere, WI 54115	Director
Claire Kolmodin,	American Express Financial	IDS Tower 10	Vice President

Vice President	Advisors Inc.	Minneapolis, MN 55440	
Steve C. Kumagai, Director and Senior Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Director and Senior Vice President
Kurt A Larson, Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
Lori J. Larson, Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
Daniel E. Laufenberg, Vice President and Chief U.S. Economist	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President and Chief U.S. Economist
Peter A. Lefferts, Director and Senior Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Senior Vice President
	American Express Trust Company		Director
	IDS Plan Services of California, Inc.		Director
Douglas A. Lennick, Director and Executive Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Director and Executive Vice President
Mary J. Malevich, Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
Fred A. Mandell, Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
Timothy J. Masek Vice President and Director of Global Research	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President and Director of Global Research
Sarah A. Mealey, Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
Paula R. Meyer, Vice President	American Enterprise Life Insurance Company	IDS Tower 10 Minneapolis, MN 55440	Vice President
	American Express Corporation		Director
	American Express Financial Advisors Inc.		Vice President
	American Partners Life Insurance Company		Director and President
	IDS Certificate Company		Director and President
	IDS Life Insurance Company		Director and Executive Vice President
	Investors Syndicate Development Corporation		Director, Chairman of the Board and President
William P. Miller,	Advisory Capital	IDS Tower 10	Vice President

Vice President and Senior Portfolio Manager	Strategies Group Inc.	Minneapolis, MN 55440	
	American Express Asset Management Group Inc.		Senior Vice President and Chief Investment Officer
	American Express Financial Advisors Inc.		Vice President and Senior Portfolio Manager
Shashank B. Modak Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
Pamela J. Moret, Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
	American Express Trust Company		Vice President
	IDS Life Insurance Company		Executive Vice President
Barry J. Murphy, Director and Senior Vice President	American Express Client Service Corporation	IDS Tower 10 Minneapolis, MN 55440	Director and President
	American Express Financial Advisors Inc.		Senior Vice President
	IDS Life Insurance Company		Director and Executive Vice President
Mary Owens Neal, Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
Michael J. O'Keefe, Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
James R. Palmer, Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
	IDS Life Insurance Company		Vice President
Carla P. Pavone, Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
	Public Employee Payment Company		Director and President
Thomas P. Perrine, Director and Senior Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Senior Vice President
Susan B. Plimpton, Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
Ronald W. Powell, Vice President and Assistant General Counsel	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President and Assistant General Counsel
	IDS Cable Corporation		Vice President and Assistant Secretary
	IDS Cable II Corporation		Vice President and Assistant Secretary
	IDS Management Corporation		Vice President and Assistant Secretary

	IDS Partnership Services Corporation		Vice President and Assistant Secretary
	IDS Plan Services of California, Inc.		Vice President and Assistant Secretary
	IDS Realty Corporation		Vice President and Assistant Secretary
James M. Punch, Vice President and Project Manager	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President and Project Manager
Frederick C. Quirsfeld, Director and Senior Vice President	American Express Asset Management Group Inc.	IDS Tower 10 Minneapolis, MN 55440	Senior Vice President and Senior Portfolio Manager
	American Express Financial Advisors Inc.		Senior Vice President
Rollyn C. Renstrom, Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
ReBecca K. Roloff, Director and Senior Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Senior Vice President
Stephen W. Roszell, Director and Senior Vice President	Advisory Capital Strategies Group Inc.	IDS Tower 10 Minneapolis, MN 55440	Director
	American Express Asset Management Group Inc.		Director, President and Chief Executive Officer
	American Express Asset Management International, Inc.		Director
	American Express Asset Management Ltd.		Director
	American Express Financial Advisors Inc.		Senior Vice President
	American Express Trust Company		Director
Erven A. Samsel, Director and Senior Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Senior Vice President
	American Express Insurance Agency of Idaho Inc.		Vice President
	American Express Insurance Agency of Nevada Inc.		Vice President
	American Express Insurance Agency of Oregon Inc.		Vice President
	American Express Property Casualty Insurance Agency of Kentucky Inc.		Vice President
	American Express Property Casualty Insurance Agency of Maryland Inc.		Vice President
	American Express Property Casualty Insurance Agency		Vice President

	of Pennsylvania Inc.		
	IDS Insurance Agency of Alabama Inc.		Vice President
	IDS Insurance Agency of Arkansas Inc.		Vice President
	IDS Insurance Agency of Massachusetts Inc.		Vice President
	IDS Insurance Agency of New Mexico Inc.		Vice President
	IDS Insurance Agency of North Carolina Inc.		Vice President
	IDS Insurance Agency of Ohio Inc.		Vice President
	IDS Insurance Agency of Wyoming Inc.		Vice President
Theresa M. Sapp Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
Stuart A. Sedlacek, Director, Senior Vice President and Chief Financial Officer	AMEX Assurance Company	IDS Tower 10 Minneapolis, MN 55440	Director
	American Enterprise Life Insurance Company		Executive Vice President
	American Express Financial Advisors Inc.		Senior Vice President and Chief Financial Officer
	American Express Trust Company		Director
	American Partners Life Insurance Agency		Director and Vice President
	IDS Certificate Company		Director and President
	IDS Life Insurance Company		Executive Vice President and Controller
	IDS Property Casualty Insurance Company	1 WEG Blvd. DePere, WI 54115	Director
Donald K. Shanks, Vice President	AMEX Assurance Company	IDS Tower 10 Minneapolis, MN 55440	Senior Vice President
	American Express Financial Advisors Inc.		Vice President
	IDS Property Casualty Insurance Company	1 WEG Blvd. DePere, WI 54115	Senior Vice President
F. Dale Simmons, Vice President	AMEX Assurance Company	IDS Tower 10 Minneapolis, MN 55440	Vice President
	American Centurion Life Assurance Company		Vice President
	American Enterprise Life Insurance		Vice President
	American Express Financial Advisors Inc.		Vice President

	American Partners Life Insurance Company		Vice President
	IDS Certificate Company		Vice President
	IDS Life Insurance Company		Vice President
	IDS Partnership Services Corporation		Director and Vice President
	IDS Real Estate Services Inc.		Chairman of the Board and President
	IDS Realty Corporation		Director and Vice President
	IDS Life Insurance Company of New York	P.O. Box 5144 Albany, NY 12205	Vice President
Judy P. Skoglund, Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
Bridget Sperl, Vice President	American Express Client Service Corporation	IDS Tower 10 Minneapolis, MN 55440	Vice President
	American Express Financial Advisors Inc.		Vice President
	Public Employee Payment Company		Director and President
Lisa A. Steffes, Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
William A. Stoltzmann, Vice President and Assistant General Counsel	American Enterprise Life Insurance Company	IDS Tower 10 Minneapolis, MN 55440	Director, Vice President, General Counsel and Secretary
	American Express Corporation		Director, Vice President and Secretary
	American Express Financial Advisors Inc.		Vice President and Assistant General Counsel
	American Partners Life Insurance Company		Director, Vice President, General Counsel and Secretary
	IDS Life Insurance Company		Vice President, General Counsel and Secretary
	IDS Life Series Fund Inc.		General Counsel and Assistant Secretary
	IDS Life Variable Annuity Funds A & B		General Counsel and Assistant Secretary
James J. Strauss, Vice President and General Auditor	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
Jeffrey J. Stremcha, Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
Barbara Stroup Stewart, Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
Keith N. Tufte Vice President and Director	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President and Director of Equity Research

of Equity Research			
Norman Weaver Jr., Director and Senior Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Senior Vice President
	American Express Insurance Agency of Arizona Inc.		Vice President
	American Express Insurance Agency of Idaho Inc.		Vice President
	American Express Insurance Agency of Nevada Inc.		Vice President
	American Express Insurance Agency of Oregon Inc.		Vice President
	American Express Property Casualty Insurance Agency of Kentucky Inc.		Vice President
	American Express Property Casualty Insurance Agency of Maryland Inc.		Vice President
	American Express Property Casualty Insurance Agency of Pennsylvania Inc.		Vice President
	IDS Insurance Agency of Alabama Inc.		Vice President
	IDS Insurance Agency of Arkansas Inc.		Vice President
	IDS Insurance Agency of Massachusetts Inc.		Vice President
	IDS Insurance Agency of New Mexico Inc.		Vice President
	IDS Insurance Agency of North Carolina Inc.		Vice President
	IDS Insurance Agency of Ohio Inc.		Vice President
	IDS Insurance Agency of Wyoming Inc.		Vice President
Michael L. Weiner, Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
	IDS Capital Holdings Inc.		Vice President
	IDS Futures Brokerage Group		Vice President
	IDS Futures Corporation		Vice President, Treasurer and Secretary
	IDS Sales Support Inc.		Director, Vice President and Assistant Treasurer
Lawrence J. Welte, Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
Jeffry F. Welter, Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Vice President
Edwin M. Wistrand,	American Express Financial	IDS Tower 10	Vice President and

Vice President and Assistant General Counsel	Advisors Inc.	Minneapolis, MN 55440	Assistant General Counsel
	American Express Financial Advisors Japan Inc.		Vice President and Chief Legal Officer
Michael D. Wolf, Vice President	American Express Asset Management Group Inc.	IDS Tower 10 Minneapolis, MN 55440	Executive Vice President and Senior Portfolio Manager
	American Express Financial Advisors Inc.		Vice President
Michael R. Woodward, Director and Senior Vice President	American Express Financial Advisors Inc.	IDS Tower 10 Minneapolis, MN 55440	Senior Vice President
	American Express Insurance Agency of Idaho Inc.		Vice President
	American Express Insurance Agency of Nevada Inc.		Vice President
	American Express Insurance Agency of Oregon Inc.		Vice President
	American Express Property Casualty Insurance Agency of Kentucky Inc.		Vice President
	American Express Property Casualty Insurance Agency of Maryland Inc.		Vice President
	American Express Property Casualty Insurance Agency of Pennsylvania Inc.		Vice President
	IDS Insurance Agency of Alabama Inc.		Vice President
	IDS Insurance Agency of Arkansas Inc.		Vice President
	IDS Insurance Agency of Massachusetts Inc.		Vice President
	IDS Insurance Agency of New Mexico Inc.		Vice President
	IDS Insurance Agency of North Carolina Inc.		Vice President
	IDS Insurance Agency of Ohio Inc.		Vice President
	IDS Insurance Agency of Wyoming Inc.		Vice President
	IDS Life Insurance Company of New York	P.O. Box 5144 Albany, NY 12205	Director

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Item 27. Principal Underwriters.

(a) American Express Financial Advisors acts as principal underwriter for the following investment companies:

AXP Bond Fund, Inc.; AXP California Tax-Exempt Trust; AXP Discovery Fund, Inc.; AXP Equity Select Fund, Inc.; AXP Extra Income Fund, Inc.; AXP Federal Income Fund, Inc.; AXP Global Series, Inc.; AXP Growth Fund, Inc.; AXP High Yield Tax-Exempt Fund, Inc.; AXP International

Fund, Inc.; AXP Investment Series, Inc.; AXP Managed Retirement Fund, Inc.; AXP Market Advantage Series, Inc.; AXP Money Market Series, Inc.; AXP New Dimensions Fund, Inc.; AXP Precious Metals Fund, Inc.; AXP Progressive Fund, Inc.; AXP Selective Fund, Inc.; AXP Special Tax-Exempt Series Trust; AXP Stock Fund, Inc.; AXP Strategy Fund, Inc.; AXP Tax-Exempt Bond Fund, Inc.; AXP Tax-Free Money Fund, Inc.; AXP Utilities Income Fund, Inc., Growth Trust; Growth and Income Trust; Income Trust, Tax-Free Income Trust, World Trust and IDS Certificate Company.

(b) As to each director, officer or partner of the principal underwriter:

Name and Principal Business Address	Position and Offices with Underwriter	Offices with Registrant
<S>	<C>	<C>
Ronald G. Abrahamson IDS Tower 10 Minneapolis, MN 55440	Vice President-Service Quality and Reengineering	None
Douglas A. Alger IDS Tower 10 Minneapolis, MN 55440	Senior Vice President-Human Resources	None
Peter J. Anderson IDS Tower 10 Minneapolis, MN 55440	Senior Vice President-Investment Operations	Vice President-Investments
Ward D. Armstrong IDS Tower 10 Minneapolis, MN 55440	Vice President-American Express Retirement Services	None
John M. Baker IDS Tower 10 Minneapolis, MN 55440	Vice President-Plan Sponsor Services	None
Joseph M. Barsky III IDS Tower 10 Minneapolis, MN 55440	Vice President - Mutual Fund Equities	None
Timothy V. Bechtold IDS Tower 10 Minneapolis, MN 55440	Vice President-Risk Management Products	None
John D. Begley Suite 100 7760 Olentangy River Rd. Columbus, OH 43235	Group Vice President-Ohio/Indiana	None
Brent L. Bisson Suite 900, E. Westside Twr 11835 West Olympic Blvd. Los Angeles, CA 90064	Group Vice President-Los Angeles Metro	None
John C. Boeder IDS Tower 10 Minneapolis, MN 55440	Vice President-Nonproprietary Products	None
Walter K. Booker Suite 200, 3500 Market Street Camp Hill, NJ 17011	Group Vice President-New Jersey	None
Bruce J. Bordelon 1333 N. California Blvd., Suite 200 Walnut Creek, CA 94596	Group Vice President - San Francisco Area	None
Charles R. Branch Suite 200 West 111 North River Dr. Spokane, WA 99201	Group Vice President-Northwest	None
Douglas W. Brewers IDS Tower 10 Minneapolis, MN 55440	Vice President-Sales Support	None

Karl J. Breyer IDS Tower 10 Minneapolis, MN 55440	Corporate Senior Vice President	None
Cynthia M. Carlson IDS Tower 10 Minneapolis, MN 55440	Vice President-American Express Securities Services	None
Mark W. Carter IDS Tower 10 Minneapolis, MN 55440	Senior Vice President and Chief Marketing Officer	None
James E. Choat IDS Tower 10 Minneapolis, MN 55440	Senior Vice President - Third Party Distribution	None
Kenneth J. Ciak IDS Property Casualty 1400 Lombardi Avenue Green Bay, WI 54304	Vice President and General Manager-IDS Property Casualty	None
Paul A. Connolly IDS Tower 10 Minneapolis, MN 55440	Vice President-Advisor Staffing, Training and Support	None
Henry J. Cormier Commerce Center One 333 East River Drive East Hartford, CT 06108	Group Vice President-Connecticut	None
John M. Crawford Suite 200 10800 Financial Ctr Pkwy Little Rock, AR 72211	Group Vice President-Arkansas/ Springfield/Memphis	None
Kevin F. Crowe Suite 312 7300 Carmel Executive Pk Charlotte, NC 28226	Group Vice President-Carolinas/Eastern Georgia	None
Colleen Curran IDS Tower 10 Minneapolis, MN 55440	Vice President and Assistant General Counsel	None
Luz Maria Davis IDS Tower 10 Minneapolis, MN 55440	Vice President-Communications	None
Arthur E. Delorenzo 4 Atrium Drive, #100 Albany, NY 12205	Group Vice President - Upstate New York	None
Scott M. DiGiammarino Suite 500, 8045 Leesburg Pike Vienna, VA 22182	Group Vice President-Washington/Baltimore	None
Bradford L. Drew Two Datran Center Penthouse One B 9130 S. Dadeland Blvd. Miami, FL 33156	Group Vice President-Eastern Florida	None
Douglas K. Dunning IDS Tower 10 Minneapolis, MN 55440	Vice President-Assured Assets Product Development and Management	None
James P. Egge 4305 South Louise, Suite 202 Sioux Falls, SD 57103	Group Vice President-Western Iowa, Nebraska, Dakotas	None
Gordon L. Eid IDS Tower 10 Minneapolis, MN 55440	Senior Vice President, General Counsel and Chief Compliance Officer	None
Robert M. Elconin IDS Tower 10	Vice President-Government Relations	None

Minneapolis, MN 55440		
Phillip W. Evans Suite 600 6985 Union Park Center Midvale, UT 84047-4177	Group Vice President-Rocky Mountain	None
Gordon M. Fines IDS Tower 10 Minneapolis, MN 55440	Vice President-Mutual Fund Equity Investments	None
Douglas L. Forsberg IDS Tower 10 Minneapolis, MN 55440	Vice President - International	None
Jeffrey P. Fox IDS Tower 10 Minneapolis, MN 55440	Vice President and Corporate Controller	None
William P. Fritz Suite 160 12855 Flushing Meadows Dr St. Louis, MO 63131	Group Vice President-Gateway	None
Carl W. Gans 8500 Tower Suite 1770 8500 Normandale Lake Blvd. Bloomington, MN 55437	Group Vice President-Twin City Metro	None
David A. Hammer IDS Tower 10 Minneapolis, MN 55440	Vice President and Marketing Controller	None
Teresa A. Hanratty Suites 6&7 169 South River Road Bedford, NH 03110	Group Vice President-Northern New England	None
Robert L. Harden Two Constitution Plaza Boston, MA 02129	Group Vice President-Boston Metro	None
Lorraine R. Hart IDS Tower 10 Minneapolis, MN 55440	Vice President-Insurance Investments	None
Scott A. Hawkinson IDS Tower 10 Minneapolis, MN 55440	Vice President and Controller-Private Client Group	None
Brian M. Heath Suite 150 801 E. Campbell Road Richardson, TX 75081	Group Vice President-North Texas	None
Janis K. Heaney IDS Tower 10 Minneapolis, MN 55440	Vice President-Incentive Management	None
Jon E. Hjelm 319 Southbridge Street Auburn, MA 01501	Group Vice President-Rhode Island/Central-Western Massachusetts	None
David J. Hockenberry 30 Burton Hills Blvd. Suite 175 Nashville, TN 37215	Group Vice President-Tennessee Valley	None
Jeffrey S. Horton IDS Tower 10 Minneapolis, MN 55440	Vice President and Treasurer	None
David R. Hubers IDS Tower 10 Minneapolis, MN 55440	Chairman, President and Chief Executive Officer	Board member

Martin G. Hurwitz IDS Tower 10 Minneapolis, MN 55440	Vice President-Senior Portfolio Manager	None
Debra A. Hutchinson IDS Tower 10 Minneapolis, MN 55440	Vice President - Relationship Leader	None
James M. Jensen IDS Tower 10 Minneapolis, MN 55440	Vice President-Insurance Product Development and Management	None
Marietta L. Johns IDS Tower 10 Minneapolis, MN 55440	Senior Vice President-Field Management	None
Nancy E. Jones IDS Tower 10 Minneapolis, MN 55440	Vice President-Business Development	None
Ora J. Kaine IDS Tower 10 Minneapolis, MN 55440	Vice President-Financial Advisory Services	None
Linda B. Keene IDS Tower 10 Minneapolis, MN 55440	Vice President-Market Development	None
G. Michael Kennedy IDS Tower 10 Minneapolis, MN 55440	Vice President - Senior Portfolio Manager	None
Susan D. Kinder IDS Tower 10 Minneapolis, MN 55440	Senior Vice President-Distribution Services	None
Richard W. Kling IDS Tower 10 Minneapolis, MN 55440	Senior Vice President-Products	None
John M. Knight IDS Tower 10 Minneapolis, MN 55440	Vice President-Investment Accounting	Treasurer
Paul F. Kolkman IDS Tower 10 Minneapolis, MN 55440	Vice President-Actuarial Finance	None
Claire Kolmodin IDS Tower 10 Minneapolis, MN 55440	Vice President-Service Quality	None
David S. Kreager Suite 108 Trestle Bridge V 5136 Lovers Lane Kalamazoo, MI 49002	Group Vice President-Greater Michigan	None
Steven C. Kumagai IDS Tower 10 Minneapolis, MN 55440	Director and Senior Vice President-Field Management and Business Systems	None
Mitre Kutanovski Suite 680 8585 Broadway Merrillville, IN 48410	Group Vice President-Chicago Metro	None
Kurt A. Larson IDS Tower 10 Minneapolis, MN 55440	Vice President-Senior Portfolio Manager	None
Lori J. Larson IDS Tower 10 Minneapolis, MN 55440	Vice President-Brokerage and Direct Services	None
Daniel E. Laufenberg	Vice President and Chief U.S.	None

IDS Tower 10 Minneapolis, MN 55440	Economist	
Peter A. Lefferts IDS Tower 10 Minneapolis, MN 55440	Senior Vice President-Corporate Strategy and Development	None
Douglas A. Lennick IDS Tower 10 Minneapolis, MN 55440	Director and Executive Vice President-Private Client Group	None
Mary J. Malevich IDS Tower 10 Minneapolis, MN 55440	Vice President-Senior Portfolio Manager	None
Fred A. Mandell IDS Tower 10 Minneapolis, MN 55440	Vice President-Field Marketing Readiness	None
Daniel E. Martin Suite 650 5700 Corporate Drive Pittsburgh, PA 15237	Group Vice President-Pittsburgh Metro	None
Timothy J. Masek IDS Tower 10 Minnapolis, MN 55440	Vice President and Director of Global Research	None
Sarah A. Mealey IDS Tower 10 Minneapolis, MN 55440	Vice President-Mutual Funds	None
Paula R. Meyer IDS Tower 10 Minneapolis, MN 55440	Vice President-Assured Assets	None
William P. Miller IDS Tower 10 Minneapolis, MN 55440	Vice President and Senior Portfolio Manager	None
Shashank B. Modak IDS Tower 10 Minneapolis, MN 55440	Vice President - Technology Leader	None
Pamela J. Moret IDS Tower 10 Minneapolis, MN 55440	Vice President-Variable Assets	None
Alan D. Morgenstern Suite 200 3500 Market Street Camp Hill, NJ 17011	Group Vice President-Central California/Western Nevada	None
Barry J. Murphy IDS Tower 10 Minneapolis, MN 55440	Senior Vice President-Client Service	None
Mary Owens Neal IDS Tower 10 Minneapolis, MN 55440	Vice President-Mature Market Segment	None
Thomas V. Nicolosi Suite 220 500 Mamaroneck Avenue Harrison, NY 10528	Group Vice President-New York Metro Area	None
Michael J. O'Keefe IDS Tower 10 Minneapolis, MN 55440	Vice President-Advisory Business Systems	None
James R. Palmer IDS Tower 10 Minneapolis, MN 55440	Vice President-Taxes	None
Marc A. Parker 10200 SW Greenburg Road	Group Vice President-Portland/Eugene	None

Suite 110 Portland, OR 97223		
Carla P. Pavone IDS Tower 10 Minneapolis, MN 55440	Vice President-Compensation and Field Administration	None
Thomas P. Perrine IDS Tower 10 Minneapolis, MN 55440	Senior Vice President-Group Relationship Leader/American Express Technologies Financial Services	None
Susan B. Plimpton IDS Tower 10 Minneapolis, MN 55440	Vice President-Marketing Services	None
Larry M. Post One Tower Bridge 100 Front Street 8th Fl West Conshohocken, PA 19428	Group Vice President-Philadelphia Metro	None
Ronald W. Powell IDS Tower 10 Minneapolis, MN 55440	Vice President and Assistant General Counsel	None
Diana R. Prost 3030 N.W. Expressway Suite 900 Oklahoma City, OK 73112	Group Vice President-Kansas/Oklahoma	None
James M. Punch IDS Tower 10 Minneapolis, MN 55440	Vice President and Project Manager-Platform I Value Enhanced	None
Frederick C. Quirsfeld IDS Tower 10 Minneapolis, MN 55440	Senior Vice President-Fixed Income	Vice President - Fixed Income Investments
Rollyn C. Renstrom IDS Tower 10 Minneapolis, MN 55440	Vice President-Corporate Planning and Analysis	None
R. Daniel Richardson III Suite 800 Arboretum Plaza One 9442 Capital of Texas Hwy N. Austin, TX 78759	Group Vice President-Southern Texas	None
ReBecca K. Roloff IDS Tower 10 Minneapolis, MN 55440	Senior Vice President-Field Management and Financial Advisory Service	None
Stephen W. Roszell IDS Tower 10 Minneapolis, MN 55440	Senior Vice President-Institutional	None
Max G. Roth Suite 201 S IDS Ctr 1400 Lombardi Avenue Green Bay, WI 54304	Group Vice President-Wisconsin/Upper Michigan	None
Erven A. Samsel 45 Braintree Hill Park Suite 402 Braintree, MA 02184	Senior Vice President-Field Management	None
Theresa M. Sapp IDS Tower 10 Minneapolis, MN 55440	Vice President - Relationship Leader	None
Russell L. Scalfano Suite 201 101 Plaza East Blvd. Evansville, IN 47715	Group Vice President-Illinois/Indiana/Kentucky	None
William G. Scholz	Group Vice President-Arizona/Las	None

Suite 205 7333 E Doubletree Ranch Rd Scottsdale, AZ 85258	Vegas	
Stuart A. Sedlacek IDS Tower 10 Minneapolis, MN 55440	Senior Vice President and Chief Financial Officer	None
Donald K. Shanks IDS Tower 10 Minneapolis, MN 55440	Vice President-Property Casualty	None
F. Dale Simmons IDS Tower 10 Minneapolis, MN 55440	Vice President-Senior Portfolio Manager, Insurance Investments	None
Judy P. Skoglund IDS Tower 10 Minneapolis, MN 55440	Vice President-Quality and Service Support	None
James B. Solberg 466 Westdale Mall Cedar RapIDS, IA 52404	Group Vice President-Eastern Iowa Area	None
Bridget Sperl IDS Tower 10 Minneapolis, MN 55440	Vice President-Geographic Service Teams	None
Paul J. Stanislaw Suite 1100 Two Park Plaza Irvine, CA 92714	Group Vice President-Southern California	None
Lisa A. Steffes IDS Tower 10 Minneapolis, MN 55440	Vice President - Marketing Offer Development	None
Lois A. Stilwell Suite 433 9900 East Bren Road Minnetonka, MN 55343	Group Vice President-Outstate Minnesota Area/ North Dakota/Western Wisconsin	None
William A. Stoltzmann IDS Tower 10 Minneapolis, MN 55440	Vice President and Assistant General Counsel	None
James J. Strauss IDS Tower 10 Minneapolis, MN 55440	Vice President and General Auditor	None
Jeffrey J. Stremcha IDS Tower 10 Minneapolis, MN 55440	Vice President-Information Resource Management/ISD	None
Barbara Stroup Stewart IDS Tower 10 Minneapolis, MN 55440	Vice President-Channel Development	None
Craig P. Taucher Suite 150 4190 Belfort Road Jacksonville, FL 32216	Group Vice President-Orlando/Jacksonville	None
Neil G. Taylor Suite 425 101 Elliott Avenue West Seattle, WA 98119	Group Vice President-Seattle/Tacoma/Hawaii	None
John R. Thomas IDS Tower 10 Minneapolis, MN 55440	Senior Vice President	Board Member
Keith N. Tufte IDS Tower 10 Minneapolis, MN 55440	Vice President and Director of Equity Research	None

Peter S. Velardi Suite 180 1200 Ashwood Parkway Atlanta, GA 30338	Group Vice President-Atlanta/Birmingham	None
Charles F. Wachendorfer 8115 East Jefferson Avenue Detroit, MI 48214	Group Vice President-Detroit Metro	None
Donald F. Weaver 3500 Market Street, Suite 200 Camp Hill, PA 17011	Group Vice President-Greater Pennsylvania	None
Norman Weaver Jr. 1010 Main St. Suite 2B Huntington Beach, CA 92648	Senior Vice President - Alliance Group	None
Michael L. Weiner IDS Tower 10 Minneapolis, MN 55440	Vice President-Tax Research and Audit	None
Lawrence J. Welte IDS Tower 10 Minneapolis, MN 55440	Vice President-Investment Administration	None
Jeffry M. Welter IDS Tower 10 Minneapolis, MN 55440	Vice President-Equity and Fixed Income Trading	None
Thomas L. White Suite 200 28601 Chagrin Blvd. Woodmere, OH 44122	Group Vice President-Cleveland Metro	None
Eric S. Williams Suite 250 3951 Westerre Parkway Richmond, VA 23233	Group Vice President-Virginia	None
William J. Williams Two North Tamiami Trail Suite 702 Sarasota, FL 34236	Group Vice President-Western Florida	None
Edwin M. Wistrand IDS Tower 10 Minneapolis, MN 55440	Vice President and Assistant General Counsel	None
Michael D. Wolf IDS Tower 10 Minneapolis, MN 55440	Vice President-Senior Portfolio Manager	None
Michael R. Woodward 32 Ellicott St Suite 100 Batavia, NY 14020	Senior Vice President-Field Management	None

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Item 27(c). Not applicable.

Item 28. Location of Accounts and Records

American Express Financial Corporation
IDS Tower 10
Minneapolis, MN 55440

Item 29. Management Services

Not Applicable.

Item 30. Undertakings

Not Applicable.

SIGNATURES

Pursuant to the requirements of the Securities Act and the Investment Company Act, the Registrant, AXP Federal Income Fund, Inc. certifies that it meets all of the requirements for effectiveness of this registration statement under rule 485(b) under the Securities Act and has duly caused this amendment to its registration statement to be signed on its behalf by the undersigned, duly authorized, in the City of Minneapolis and the State of Minnesota on the 27th day of July, 1999.

AXP FEDERAL INCOME FUND, INC.

By /s/ Arne H. Carlson**
Arne H. Carlson, Chief Executive Officer

By /s/ John M. Knight
John M. Knight, Treasurer

Pursuant to the requirements of the Securities Act, this amendment to the registration statement has been signed below by the following persons in the capacities indicated on the 27th day of July, 1999.

Signature	Capacity
/s/ H. Brewster Atwater, Jr.* H. Brewster Atwater, Jr.	Director
/s/ Arne H. Carlson* Arne H. Carlson	Chairman of the Board
/s/ Lynne V. Cheney* Lynne V. Cheney	Director
/s/ William H. Dudley* William H. Dudley	Director
/s/ David R. Hubers* David R. Hubers	Director
/s/ Heinz F. Hutter* Heinz F. Hutter	Director
/s/ Anne P. Jones* Anne P. Jones	Director
/s/ William R. Pearce* William R. Pearce	Director
/s/ Alan K. Simpson* Alan K. Simpson	Director

Signature	Capacity
/s/ John R. Thomas* John R. Thomas	Director
/s/ C. Angus Wurtele* C. Angus Wurtele	Director

*Signed pursuant to Directors' Power of Attorney, dated January 14, 1999, filed electronically as Exhibit (p)(1) to Registrant's Post-Effective Amendment No. 27, by:

/s/ Leslie L. Ogg

Leslie L. Ogg

**Signed pursuant to Officers' Power of Attorney, dated March 1, 1999, filed electronically as Exhibit (p)(2) to Registrant's Post-Effective Amendment No. 27, by:

/s/ Leslie L. Ogg
Leslie L. Ogg

SIGNATURES

Pursuant to the requirements of the Securities Act and the Investment Company Act, INCOME TRUST consents to the filing of this amendment to the registration statement of AXP Federal Income Fund, Inc. signed on its behalf by the undersigned, duly authorized, in the City of Minneapolis and the State of Minnesota on the 27th day of July, 1999:

INCOME TRUST

By /s/ Arne H. Carlson****
Arne H. Carlson, Chief Executive Officer

By /s/ John M. Knight
John M. Knight, Treasurer

Pursuant to the requirements of the Securities Act, this amendment to the registration statement has been signed below by the following persons in the capacities indicated on the 27th day of July, 1999.

Signature	Capacity
/s/ H. Brewster Atwater, Jr.*** H. Brewster Atwater, Jr.	Trustee
/s/ Arne H. Carlson*** Arne H. Carlson	Chariman of the Board
/s/ Lynne V. Cheney*** Lynne V. Cheney	Trustee
/s/ William H. Dudley*** William H. Dudley	Trustee
/s/ David R. Hubers*** David R. Hubers	Trustee
/s/ Heinz F. Hutter*** Heinz F. Hutter	Trustee
/s/ Anne P. Jones*** Anne P. Jones	Trustee
/s/ William R. Pearce*** William R. Pearce	Trustee
/s/ Alan K. Simpson*** Alan K. Simpson	Trustee

Signature	Capacity
/s/ John R. Thomas*** John R. Thomas	Trustee

/s/ C. Angus Wurtele*** Trustee
C. Angus Wurtele

***Signed pursuant to Trustees' Power of Attorney, dated January 14, 1999, filed electronically as Exhibit (p)(3) to Registrant's Post-Effective Amendment No. 27, by:

/s/ Leslie L. Ogg
Leslie L. Ogg

****Signed pursuant to Officers' Power of Attorney, dated March 1, 1999, filed electronically as Exhibit (p)(4) to Registrant's Post-Effective Amendment No. 27, by:

/s/ Leslie L. Ogg
Leslie L. Ogg

CONTENTS OF THIS POST-EFFECTIVE AMENDMENT NO. 28
TO REGISTRATION STATEMENT NO. 2-96512

This Post-Effective Amendment comprises the following papers and documents:

The facing sheet.

Part A.

The prospectus.

Part B.

The Statement of Additional Information.
The Financial Statements.

Part C.

Other information.

The signatures.

Exhibit Index

(j) Independent Auditors' Consent

Independent auditors' consent

The board and shareholders
AXP Federal Income Fund, Inc.:

The board of trustees and unitholders Income Trust:
Government Income Portfolio

We consent to the use of our reports incorporated herein by reference and to the references to our Firm under the headings "Financial Highlights" in Part A and "INDEPENDENT AUDITORS" in Part B of the Registration Statement.

/s/ KPMG LLP

KPMG LLP
Minneapolis, Minnesota
July 27, 1999