

SECURITIES AND EXCHANGE COMMISSION

FORM N-30D

Initial annual and semi-annual reports mailed to investment company shareholders pursuant to Rule 30e-1 (other than those required to be submitted as part of Form NCSR)

Filing Date: **1995-07-12** | Period of Report: **1995-04-30**
SEC Accession No. **0000021847-95-000063**

([HTML Version](#) on [secdatabase.com](#))

FILER

COLONIAL TRUST III

CIK: **21847** | IRS No.: **046012903** | Fiscal Year End: **0930**
Type: **N-30D** | Act: **40** | File No.: **811-00881** | Film No.: **95553409**

Business Address
*ONE FINANCIAL CTR
BOSTON MA 02111
6174263750*

LETTER FROM THE PRESIDENT

Dear Shareholder:

I am pleased to present Colonial Federal Securities Fund's semiannual report for the six months ended April 30, 1995. Interest rates declined over the period, sparking a rally in the fixed-income markets. The Fund, which is designed to provide investors with high current return consistent with prudent longer-term investing, was an active participant in the rebound.

<TABLE>
FUND PERFORMANCE (11/1/94 - 4/30/95) [1]
<CAPTION>

	CLASS A	CLASS B
INCEPTION	3/30/84	6/8/92

<S>	<C>	<C>
Distributions declared per share	\$0.3834	\$0.3459

SEC yield on 4/30/95	6.38%	5.95%

6-month total return, assuming reinvestment of all distributions and no sales charge or CDSC	7.52%	7.12%

Net asset value per share on 4/30/95	\$ 10.30	\$ 10.30

</TABLE>
INTEREST RATE/MARKET OVERVIEW

With an expanding economy and the threat of inflation, the Federal Reserve remained committed to its tight stance on U.S. monetary policy. In November, the Fed initiated its most aggressive increase in short-term interest rates. While initially causing alarm in the bond markets, in the end, it reaffirmed investor beliefs that the Fed was determined to control inflation.

By January, several economic indicators came in lower than expected, suggesting that economic growth was slowing and rates were close to their peak. This led to improving investor confidence, supported by the fact that the Fed's February rate increase barely caused a ripple in the bond markets.

Despite the Fed's ongoing tightening, the fixed-income markets staged a comeback early in 1995. Bond markets reacted favorably to evidence suggesting that the economy was slowing toward the modest growth rate the Fed has targeted. This would reduce the threat of inflation and thus the need for further rate increases in the near term.

INVESTMENT STRATEGY

Early in the semiannual period, management began repositioning the portfolio for an eventual rally. First, they increased the position of deep discount 30-year mortgage-backed securities. Given the rise of interest rates in 1994, prices of mortgage-backed securities were far below what management perceived as their fair market value.

At the close of the semiannual period, mortgage-backed securities comprised 68% of the portfolio, with Treasuries accounting for the balance. This overweighting in mortgage-backed investments proved advantageous as this sector led the rally in government securities. In fact, the Fund's net asset value (NAV) rose from \$9.95 to \$10.30 over the semi-annual period.

[PICTURE]
John A. McNeice, Jr.
President

A second strategy involved extending the Fund's duration, a measure of an investment's price sensitivity to changes in interest rates. While lengthening a fund's duration can increase price volatility, in a stabilizing or decreasing interest rate environment, it can favorably impact price appreciation potential. The addition of selected longer-term Treasury securities increased the portfolio's duration to over six years.

Your Fund's ability to invest in both Treasuries and mortgaged-backed securities within a range of maturities has proven advantageous in this ever-changing environment. As always, our commitment to building consistent and competitive returns over the long term remains constant.

Sincerely,

/s/ John A. McNeice, Jr.

John A. McNeice, Jr.
 President
 June 10, 1995

<TABLE>

AVERAGE ANNUAL TOTAL RETURNS AS OF 4/30/95

<CAPTION>

	CLASS A		CLASS B	
	NAV	MOP	NAV	W/CDSC
<S>	<C>	<C>	<C>	<C>
1 Year	6.93%	1.85%	6.13%	1.18%
5 Years	9.11%	8.05%	--	--
10 Years	9.34%	8.81%	--	--
Since Inception	9.69%	9.21%	5.69%	4.79%

</TABLE>

[1]Net asset value (NAV) return does not include sales charges or contingent deferred sales charges (CDSC). Maximum offering price (MOP) return includes the maximum sales charge of 4.75%. The CDSC return reflects the applicable charge (one year, 5.00%; since inception, 3.00%). Past performance cannot predict future results. Return and value of an investment will vary, resulting in a gain or loss on sale. All results shown assume reinvestment of distributions. Performance for different share classes will vary based on differences in sales charges and fees associated with each class.

<TABLE>

INVESTMENT PORTFOLIO (UNAUDITED, IN THOUSANDS) APRIL 30, 1995

<CAPTION>

U.S. GOVERNMENT & AGENCY

OBLIGATIONS - 115.8% PAR VALUE

GOVERNMENT AGENCIES - 78.8%

<S>	Coupon	Maturities from/to	<C>	<C>
Federal Home Loan Mortgage Corp:				
	7.500%	2016	\$ 1,607	\$ 1,571
	8.000%	2016	6,420	6,405
	8.500%	2007	5,337	5,407
	8.750%	2009	2,208	2,234
	9.000%	2001-2022	8,589	8,851
	9.250%	2008	8,038	8,254
	9.500%	2004-2008	3,326	3,468
	9.750%	2008	1,315	1,361
	10.000%	2019	3,830	4,097
	10.250%	2009	860	913
	10.500%	2019	3,118	3,363
	11.250%	2011	3,387	3,627
	11.500%	2015	160	173
	12.000%	2013	134	146

Collateralized Mortgage Obligation:

	5.000%	2013	10,341	8,913
	6.500%	2014	18,764	17,128
	6.750%	2020-2021	26,878	24,320
	8.500%	2021	3,236	3,284
	8.750%	2020	15,900	16,377

119,892

Federal National Mortgage Association:

	6.500%	2008-2050	71,865	68,622
	6.500%	(a)	70,000	66,263
	7.000%	2024	205,574 (b)	195,486
	7.000%	(a)	111,000	105,330
	7.500%	2010	20,510	20,412
	7.500%	(a)	90,000	89,353
	8.000%	2008	4,624	4,674
	8.250%	2010	2,163	2,157
	8.500%	2011	8,919	9,176
	9.000%	2007-2016	34,355	35,672
	9.500%	2010-2016	3,002	3,141
	10.500%	2004	141	152

600,438

Government National Mortgage Association:

	6.500%	2023	96,960	88,718
--	--------	------	--------	--------

6.500%	(a)	8,750	8,001
7.500%	2006	1,564	1,566
8.000%	2005-2006	120	122
9.000%	2008-2016	11,796	12,345
9.000%	(a)	50,000	52,125
9.500%	2009-2018	71,154	75,349
10.000%	2001-2009	15,977	17,140
10.500%	2025	42,224	45,971
11.000%	2010	7	7
11.500%	2013	80	90
11.750%	2013	427	469
12.000%	2012-2015	1,481	1,658
12.500%	2010	9,542	10,783
13.000%	2011	4,043	4,569

318,913

Total government agencies (cost \$1,028,319) 1,039,243

GOVERNMENT OBLIGATIONS - 37.0%

U.S. Treasury bonds:

12.000%	08/15/13 (b)	131,608	183,038
12.750%	11/15/10 (c)	46,873	65,673

248,711

U.S. Treasury notes:

6.875%	03/31/00	46,000	45,964
7.500%	11/15/24	23,286	23,599
7.750%	01/31/00	24,058	24,877
7.875%	11/15/04	52,000	54,844
10.375%	11/15/12	71,994	89,677

238,961

Total government obligations (cost \$504,880) 487,672

Total investments (cost \$1,533,199) (d) 1,526,915

SHORT-TERM OBLIGATIONS - 8.4%

Repurchase agreement with Bankers Trust

Securities Corp., dated 4/28/95 due at
05/01/95 at 5.92%, collateralized by U.S.
Treasury notes with various maturities
to 1998, market value \$122,553, (repurchase
proceeds \$111,606) 111,551 111,551

OTHER ASSETS & LIABILITIES, NET - (24.2)% (319,626)

NET ASSETS - 100.0% \$1,318,840

<FN>

Notes to investment portfolio:

- (a) These securities have been purchased on a delayed delivery basis, whereby the terms that are fixed are the purchase price, interest rate, and the settlement date. The exact quantity purchased may be slightly more or less than the amount shown.
- (b) These securities, or portion thereof, with a total market value of \$378,524, are being used to collateralize the delayed delivery purchases indicated in note (a) above.
- (c) These securities, or a portion thereof, with a total market value of \$917, are being used to collateralize open futures contracts.
- (d) Cost for federal income tax purposes is the same.

</TABLE>

<TABLE>

Short futures contracts open at April 30,1995:

<CAPTION>

Type	Par value covered by contracts	Expiration month	Unrealized depreciation at 4/30/95
<S>	<C>	<C>	<C>
U.S. Treasury bonds	13,400	June	\$324
U.S. Treasury bonds	19,500	September	\$ 41

</TABLE>

See notes to investment portfolio.

FINANCIAL STATEMENTS

<TABLE>

STATEMENT OF ASSETS & LIABILITIES (UNAUDITED)

April 30, 1995

(in thousands except for per share amounts and footnote)

<S>	<C>	<C>
ASSETS		
Investments at value (cost \$1,533,199).....		\$1,526,915
Short-term obligations.....		111,551

		1,638,466
Receivable for:		
Investments sold.....	\$ 58,171	
Interest.....	18,010	
Fund shares sold.....	777	
Other.....	1,251	78,209

Total assets.....		1,716,675

LIABILITIES

Payable for:

Investments purchased.....	386,878	
Distributions.....	8,178	
Fund shares repurchased.....	2,609	
Accrued:		
Deferred Trustee fees.....	51	
Other.....	119	

Total liabilities.....		397,835

NET ASSETS.....	\$1,318,840
	=====

Net asset value & redemption price per share -

Class A (\$1,244,754/120,896).....	\$ 10.30
	=====

Maximum offering price per share - Class A

(\$10.30/0.9525).....	\$ 10.81*
	=====

Net asset value & offering price per share -

Class B (\$74,086/7,195).....	\$ 10.30
	=====

COMPOSITION OF NET ASSETS

Capital paid in.....	\$1,596,116
Overdistributed net investment income.....	(10,774)
Accumulated net realized loss.....	(259,853)
Net unrealized depreciation on:	
Investments.....	(6,284)
Open futures contracts.....	(365)

	\$1,318,840
	=====

<FN>

* On sales of \$50,000 or more the offering price is reduced.

</TABLE>

<TABLE>

STATEMENT OF OPERATIONS (UNAUDITED)

Six months ended April 30, 1995

(in thousands)

<S>	<C>	<C>
INVESTMENT INCOME		
Interest.....		\$56,412
EXPENSES		
Management fee.....	\$ 4,220	
Service fee.....	1,656	
Distribution fee - Class B.....	267	
Transfer agent.....	1,446	
Bookkeeping fee.....	220	
Registration fees.....	24	
Audit fee.....	28	
Custodian fee.....	51	
Trustees fees.....	35	
Legal fee.....	7	
Reports to shareholders.....	12	
Other.....	91	8,057

Net investment income.....		48,355

NET REALIZED & UNREALIZED GAIN (LOSS)		
ON PORTFOLIO POSITIONS		
Net realized gain (loss) on:		
Investments.....	898	
Closed futures contracts.....	(5,006)	

Net realized loss		(4,108)
Net unrealized appreciation		
(depreciation) during the period on:		
Investments.....	59,118	
Open futures contracts.....	(7,383)	

Net unrealized appreciation		51,735

Net gain.....		47,627

Net increase in net assets from operations.....		\$95,982
		=====

</TABLE>

See notes to financial statements.

3

FINANCIAL STATEMENTS - CONTINUED

<TABLE>
STATEMENT OF CHANGES IN NET ASSETS
(in thousands)

<CAPTION>

	(unaudited) Six months ended April 30	Year ended October 31
	----- 1995 -----	----- 1994 -----
<S>		
INCREASE (DECREASE) IN NET ASSETS		
Operations		
Net investment income.....	\$ 48,355	\$ 120,333
Net realized loss.....	(4,108)	(44,423)
Net unrealized appreciation (depreciation).....	51,735	(186,929)
	-----	-----
Net increase (decrease) from operations.....	95,982	(111,019)
Distributions		
From net investment income - Class A.....	(47,915)	(107,338)
From net investment income - Class B.....	(2,455)	(4,701)
	-----	-----
	45,612	(223,058)
	-----	-----
Fund share transactions		
Receipts for shares sold - Class A.....	45,227	59,031
Value of distributions reinvested - Class A.....	22,283	48,833
Cost of shares repurchased - Class A.....	(143,898)	(352,589)
	-----	-----
	(76,388)	(244,725)
	-----	-----
Receipts for shares sold - Class B.....	9,314	28,089
Value of distributions reinvested - Class B.....	1,272	2,451
Cost of shares repurchased - Class B.....	(8,699)	(18,610)
	-----	-----
	1,887	11,930
	-----	-----
Net decrease from Fund share transactions.....	(74,501)	(232,795)
	-----	-----
Total decrease.....	(28,889)	(455,853)
NET ASSETS		
Beginning of period.....	1,347,729	1,803,582
	-----	-----
End of period (net of overdistributed net investment income of \$10,774 and \$8,191, respectively).....	\$1,318,840	\$1,347,729
	=====	=====
Number of Fund shares		
Sold - Class A.....	4,540	5,589
Issued for distributions reinvested - Class A.....	2,230	4,598
Repurchased - Class A.....	(14,357)	(33,079)
	-----	-----
	(7,587)	(22,892)
	-----	-----

Sold - Class B.....	929	2,600
Issued for distributions reinvested - Class B.....	127	232
Repurchased - Class B.....	(868)	(1,768)
	-----	-----
	188	1,064
	-----	-----
Net decrease in shares outstanding.....	(7,399)	(21,828)
Outstanding at		
Beginning of period.....	135,490	157,318
	-----	-----
End of period.....	128,091	135,490
	=====	=====

</TABLE>
See notes to financial statements.

4

FINANCIAL STATEMENTS - CONTINUED

<TABLE>
STATEMENT OF CASH FLOWS
(in thousands)

<CAPTION>

NET CHANGE IN CASH:	(Unaudited)	
	Six months ended April 30	
<S>	<C>	<C>
Cash flows from operating activities:		
Interest received.....	\$ 58,310	
Dollar roll fee income received.....	5,324	
Operating expenses paid.....	(7,991)	

Net cash provided by operating activities.....		\$ 55,643
Cash flows from investing activities:		
Purchases of securities.....	(3,118,303)	
Proceeds from sales of securities.....	3,203,532	
Futures contracts.....	(12,389)	

Net cash provided by investing activities.....		72,840

NET CASH PROVIDED BY OPERATING AND INVESTING ACTIVITIES.....		128,483
Cash flows from financing activities:		
Proceeds from shares sold.....	(101,141)	
Cash dividends paid.....	(27,342)	

Net cash provided by financing activities.....		(128,483)

Net change in cash.....		0
Cash - beginning of period.....		0

Cash - end of period.....		\$ 0
		=====

RECONCILIATION OF NET INCREASE IN NET ASSETS TO NET
CASH PROVIDED BY OPERATING AND INVESTING ACTIVITIES:

Net increase in net assets resulting from operations.....		\$ 95,982
Decrease in investments.....	\$ 218,261	
Decrease in interest and fees receivable.....	6,264	
Decrease in receivable from investments securities sold.....	122,829	
Decrease in payable for investment securities purchased.....	(314,918)	
Decrease in other assets.....	28	
Increase in accrued expenses and liabilities.....	37	

Total.....		32,501

Net cash provided by operating and investing activities.....		\$ 128,483
		=====

</TABLE>
See notes to financial statements.

5

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1. INTERIM FINANCIAL STATEMENTS

In the opinion of management of Colonial Federal Securities Fund (the Fund), a series of Colonial Trust III, the accompanying financial statements contain all normal and recurring adjustments necessary for the fair presentation of the financial position of the Fund at April 30, 1995, and the results of its operations, the changes in its net assets, and the financial highlights for the six months then ended.

NOTE 2. ACCOUNTING POLICIES

The Fund is a Massachusetts business trust, registered under the Investment Company Act of 1940, as amended, as a diversified, open-end, management investment company. The Fund may issue an unlimited number of shares. The Fund offers Class A shares sold with a front-end sales charge and Class B shares which are subject to an annual distribution fee and a contingent deferred sales charge. Class B shares will convert to Class A shares when they have been outstanding approximately eight years. The following significant accounting policies are consistently followed by the Fund in the preparation of its financial statements and conform to generally accepted accounting principles.

SECURITY VALUATION AND TRANSACTIONS

Debt securities generally are valued by a pricing service based upon market transactions for normal, institutional-size trading units of similar securities. When management deems it appropriate, an over-the-counter or exchange bid quotation is used.

Options are valued at the last reported sale price, or in the absence of a sale, the mean between the last quoted bid and offering price.

Futures contracts are valued based on the difference between the last sale price and the opening price of the contract.

Short-term obligations with a maturity of 60 days or less are valued at amortized cost.

Portfolio positions which cannot be valued as set forth above are valued at fair value under procedures approved by the Trustees.

Security transactions are accounted for on the date the securities are purchased or sold.

Cost is determined and gains and losses are based upon the specific identification method for both financial statement and federal income tax purposes.

The Fund may enter into dollar roll transactions. A dollar roll transaction involves a sale by the Fund of securities that it holds with an agreement by the Fund to repurchase substantially similar securities at an agreed upon price and date.

The Fund may trade securities on other than normal settlement terms. This may increase the risk if the other party to the transaction fails to deliver and causes the Fund to subsequently invest at less advantageous prices.

DETERMINATION OF CLASS NET ASSET VALUES AND FINANCIAL HIGHLIGHTS

All income, expenses (other than the Class B distribution fee), realized and unrealized gains (losses) are allocated to each class proportionately on a daily basis for purposes of determining the net asset value of each class.

Class B per share data and ratios are calculated by adjusting the expense and net investment income per share data and ratios for the Fund for the entire period by the distribution fee applicable to Class B shares only.

FEDERAL INCOME TAXES

Consistent with the Fund's policy to qualify as a regulated investment company and to distribute all of its taxable income, no federal income tax has been accrued.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

INTEREST INCOME, DEBT DISCOUNT AND PREMIUM

Interest income is recorded on the accrual basis. Original issue discount is accreted to interest income over the life of a security with a corresponding increase in the cost basis; premium and market discount are not amortized or accreted.

DISTRIBUTIONS TO SHAREHOLDERS

The Fund declares and records distributions daily and pays monthly.

The amount and character of income and gains to be distributed are determined in accordance with income tax regulations which may differ from generally accepted accounting principles.

DOLLAR ROLL TRANSACTIONS

During the period between the sale and and repurchase of dollar roll transactions, the Fund will not be entitled to accrue interest and receive principal payments on the securities sold. Dollar roll transactions involve the risk that the market value of the securities sold by the Fund may decline below the repurchase price of those securities. The Fund maintains a segregated account with its custodian bank in which it will maintain cash, U.S. government securities or other liquid high grade debt obligations equal in value to its obligations with respect to dollar rolls. In the event the buyer of securities under a dollar roll transaction files for bankruptcy or becomes insolvent, the Fund's use of proceeds of the transaction may be restricted pending a determination by the other party.

FUTURES CONTRACTS

The Fund sells municipal and Treasury bond futures contracts to manage overall portfolio interest rate exposure and not for trading purposes. The use of futures contracts involves certain risks, which include (1) imperfect correlation between the price movement of the contracts and the underlying securities, (2) inability to close out positions due to different trading hours, or the temporary absence of a liquid market, for either the contracts or the underlying securities, or (3) an inaccurate prediction by the Adviser of the future direction of interest rates. Any of these risks may involve amounts exceeding the initial or variation margin recorded in the Fund's Statement of Assets and Liabilities at any given time.

OTHER

The Fund's custodian takes possession through the federal book-entry system of securities collateralizing repurchase agreements. Collateral is marked-to-market daily to ensure that the market value of the underlying assets remains sufficient to protect the Fund. The Fund may experience costs and delays in liquidating the collateral if the issuer defaults or enters bankruptcy.

NOTE 3. FEES AND COMPENSATION PAID TO AFFILIATES

<TABLE>

MANAGEMENT FEE

Colonial Management Associates, Inc. (the Adviser) is the investment adviser of the Fund and furnishes accounting and other services and office facilities for a monthly fee based on the Fund's average net assets as follows:

<CAPTION>

Average Net Assets	Annual Fee Rate
-----	-----
<S>	<C>
First \$1 billion.....	0.65%
Next \$1 billion.....	0.60%
Over \$2 billion.....	0.50%

</TABLE>

<TABLE>

BOOKKEEPING FEE

The Adviser provides bookkeeping and pricing services for \$27,000 per year plus a percentage of the Fund's average net assets as follows:

<CAPTION>

Average Net Assets	Annual Fee Rate
-----	-----
<S>	<C>
First \$50 million.....	No charge
Next \$950 million.....	0.035%
Next \$1 billion.....	0.025%
Next \$1 billion.....	0.015%

</TABLE>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

TRANSFER AGENT

Colonial Investors Service Center, Inc. (the Transfer Agent), an affiliate of the Adviser, provides shareholder services for a monthly fee equal to 0.18% annually of the Fund's average net assets and receives a reimbursement for certain out of pocket expenses.

UNDERWRITING DISCOUNTS, SERVICE AND DISTRIBUTION FEES

The Adviser, through Colonial Investment Services, Inc., (the Distributor), is the Fund's principal underwriter. During the six months ended April 30, 1995, the Distributor retained net underwriting discounts of \$24,640 on sales of the Fund's Class A shares and received contingent deferred sales charge (CDSC) of \$165,231 on Class B share redemptions.

The Fund has adopted a 12b-1 plan which requires it to pay the Distributor a service fee equal to 0.25% annually of the Fund's net assets as

of the 20th of each month. The plan also requires the payment of a distribution fee to the Distributor equal to 0.75% of the average net assets attributable to Class B shares.

The CDSC and the fees received from the 12b-1 plan are used principally as repayment to the Distributor for amounts paid by the Distributor to dealers who sold such shares.

OTHER

The Fund pays no compensation to its officers, all of whom are employees of the Adviser.

The Fund's Trustees may participate in a deferred compensation plan which may be terminated at any time. Obligations of the plan will be paid solely out of the Fund's assets.

NOTE 4. PORTFOLIO INFORMATION

During the six months ended April 30, 1995, purchases and sales of investments, other than short-term obligations, were \$2,803,384,693 and \$3,019,565,332, respectively.

<TABLE>

Unrealized appreciation (depreciation) at April 30, 1995, based on cost of investments for both financial statement and federal income tax purposes was approximately:

<S>	<C>
Gross unrealized appreciation.....	\$ 22,648,000
Gross unrealized depreciation.....	(28,932,000)

Net unrealized depreciation.....	\$ (6,284,000)
	=====

</TABLE>

<TABLE>

CAPITAL LOSS CARRYFORWARDS

At October 31, 1994, capital loss carry-forwards available (to the extent provided in regulations) to offset future realized gains were approximately as follows:

<CAPTION>

YEAR OF EXPIRATION	CAPITAL LOSS CARRYFORWARD
-----	-----
<S>	<C>
1997.....	\$111,580,000
1998.....	22,515,000
1999.....	36,282,000
2000.....	595,000
2002.....	43,843,000

	\$214,815,000
	=====

</TABLE>

Expired capital loss carryforwards, if any, are recorded as a reduction of capital paid in.

To the extent loss carryforwards are used to offset any future realized gains, it is unlikely that such gains would be distributed since they may be taxable to shareholders as ordinary income.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 5. RESULTS OF SPECIAL SHAREHOLDERS MEETING

On February 15, 1995, a special meeting of shareholders was held and a new Management Agreement between the Trust and Colonial Management Associates, Inc. was approved that became effective upon the completion of the merger of The Colonial Group, Inc. and Apple Merger Corporation, a subsidiary of Liberty Financial Companies, Inc. on March 24, 1995. Out of the shares of beneficial interest outstanding on December 9, 1994, 86,881,288 voted for the new Management Agreement, 1,618,906 voted against and 4,872,677 abstained. Of the shares of beneficial interest outstanding that abstained 769,984 represented broker non-votes.

 ABOUT OUR COVER...

[GRAPHIC] The symbol on the cover of this Report represents the Fund's primary investment focus on government bonds.

SHAREHOLDER SERVICES AND TRANSFER AGENT
 Colonial Investors Service Center, Inc.
 P.O. Box 1722
 Boston, MA 02105-1722
 1-800-345-6611

Colonial Federal Securities Fund mails one shareholder report to each shareholder address. If you would like more than one report, please call our Literature Department at 1-800-248-2828 and additional reports will be sent to you.

This material may be used with potential investors if it is preceded or accompanied by a current Fund prospectus containing more complete information including fees, risks, and expenses.

<TABLE>

FINANCIAL HIGHLIGHTS

Selected data for a share of each class outstanding throughout each period as follows:

<CAPTION>

	(UNAUDITED)		YEAR ENDED OCTOBER 31					
	SIX MONTHS ENDED APRIL 30		1994		1993		1992	
	1995		CLASS A	CLASS B	CLASS A	CLASS B	CLASS A	CLASS B (a)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Net asset value - Beginning of period.....	\$ 9.950	\$ 9.950	\$11.460	\$11.460	\$10.750	\$10.750	\$10.800	\$10.730
Income (loss) from investment operations:								
Net investment income.....	0.363	0.326	0.821	0.741	0.819	0.737	0.796	0.286
Net realized and unrealized gain (loss) on investments.....	0.370	0.370	(1.560)	(1.560)	0.739	0.739	0.157	0.095
Total from investment operations.....	0.733	0.696	(0.739)	(0.819)	1.558	1.476	0.953	0.381
Less distributions declared to shareholders:								
From net investment income.....	(0.383)	(0.346)	(0.771)	(0.691)	(0.781)	(0.706)	(0.796)	(0.286)
In excess of net investment income.....	--	--	--	--	(0.067)	(0.060)	--	--
From capital paid in (b).....	--	--	--	--	--	--	(0.207)	(0.075)
Total distributions declared to shareholders.....	(0.383)	(0.346)	(0.771)	(0.691)	(0.848)	(0.766)	(1.003)	(0.361)
Net asset value - End of period.....	\$10.300	\$10.300	\$ 9.950	\$ 9.950	\$11.460	\$11.460	\$10.750	\$10.750
Total return (c).....	7.52% (d)	7.12% (d)	(6.57)%	(7.28)%	14.94%	14.11%	9.15%	3.47% (d)
Ratios to average net assets								
Expenses.....	1.18% (e)	1.93% (e)	1.16%	1.91%	1.17%	1.92%	1.24%	1.99% (e)
Net investment income.....	7.35% (e)	6.60% (e)	7.80%	7.05%	7.37%	6.62%	7.36%	6.61% (e)
Portfolio turnover.....	347% (e)	347% (e)	121%	121%	252%	252%	18%	18%
Net assets at end of period (in millions).....	\$1,245	\$74	\$1,278	\$70	\$1,736	\$6	\$1,809	\$28

<FN>

(a) Class B shares were initially offered on June 8, 1992. Per share amounts reflect activity from that date.

- (b) Because of differences between book and tax basis accounting, approximately \$0.247 and \$0.095, respectively, of the Fund's aggregate distributions were a return of capital for federal income purposes.
- (c) Total return at net asset value assuming all distributions reinvested and no initial sales charge or CDSC.
- (d) Not annualized.
- (e) Annualized.

10

<TABLE>

FINANCIAL HIGHLIGHTS

Selected data for a share of each class outstanding throughout each period as follows:

<CAPTION>

	Year ended October 31	
	1991	1990
	Class A	Class A
<S>	<C>	<C>
Net asset value - Beginning of period.....	\$10.420	\$11.330
Income (loss) from investment operations:		
Net investment income.....	0.854	0.917
Net realized and unrealized gain (loss) on investments.....	0.671	(0.627)
Total from investment operations.....	1.525	0.290
Less distributions declared to shareholders:		
From net investment income.....	(0.854)	(0.917)
In excess of net investment income.....	--	--
From capital paid in (b).....	(0.291)	(0.283)
Total distributions declared to shareholders.....	(1.145)	(1.200)
Net asset value - End of period.....	\$10.800	\$10.420
Total return (c).....	15.33%	2.85%
Ratios to average net assets		
Expenses.....	1.21%	1.16%
Net investment income.....	8.05%	8.55%
Portfolio turnover.....	11%	6%
Net assets at end of period (in millions).....	\$ 2,028	\$ 2,186

<FN>

(a) Because of differences between book and tax basis accounting, approximately \$0.315 and \$0.300, respectively, of the Fund's aggregate distributions were a return of capital for federal income purposes.

(b) Total return at net asset value assuming all distributions reinvested and no initial sales charge or CDSC.

</TABLE>

11

[LOGO] COLONIAL
MUTUAL FUNDS

[GRAPHIC]

COLONIAL
FEDERAL SECURITIES
FUND

SEMIANNUAL REPORT
APRIL 30, 1995

[LOGO] COLONIAL
MUTUAL FUNDS

[RECYCLE LOGO] Printed on recycled paper.

FS-03/977A-0495
COLONIAL INVESTMENT SERVICES, INC. [COPYRIGHT]1995