

SECURITIES AND EXCHANGE COMMISSION

FORM 485BPOS

Post-effective amendments [Rule 485(b)]

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FILER

COLONIAL TRUST III

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Business Address
*ONE FINANCIAL CTR
BOSTON MA 02111
6174263750*

Registration Nos.: 2-15184
811-881

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form N-1A

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933		X	
Pre-Effective Amendment No.			
Post-Effective Amendment No. 94		X	
REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940		X	
Amendment No. 35		X	

COLONIAL TRUST III

(Exact Name of Registrant as Specified in Charter)

One Financial Center, Boston, Massachusetts 02111
(Address of Principal Executive Offices)

617-426-3750

(Registrant's Telephone Number, including Area Code)

Name and Address of Agent for Service -----	Copy to -----
Arthur O. Stern, Esq. Colonial Management Associates, Inc. One Financial Center Boston, Massachusetts 02111	John M. Loder, Esq. Ropes & Gray One International Place Boston, Massachusetts 02110-2624

It is proposed that the filing will become effective (check appropriate box):

	X		immediately upon filing pursuant to paragraph (b)
			on (date) pursuant to paragraph (b)
			60 days after filing pursuant to paragraph (a)(i)
			on (date) pursuant to paragraph (a)(i) of Rule 485
			75 days after filing pursuant to paragraph (a)(ii)
			on (date) pursuant to paragraph (a)(ii) of Rule 485

If appropriate, check the following box:

			this post-effective amendment designates a new effective date for a previously filed post-effective amendment.
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STATEMENT PURSUANT TO RULE 24F-2

The Registrant has registered an indefinite number or amount of its shares of beneficial interest under the Securities Act of 1933 pursuant to Rule 24f-2 under the Investment Company Act of 1940 and on December 29, 1994, the Registrant filed the Rule 24f-2 Notice for the Registrant's most recent fiscal year ended October 31, 1994.

COLONIAL TRUST III

Cross Reference Sheet (The Colonial Fund)

Item Number of Form N-1A	Prospectus Location or Caption
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Part A

1.	Cover page
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2. Summary of expenses
3. The Fund's financial history
4. Organization and history; How the Fund pursues its objectives; The Fund's investment objectives
5. Cover page; How the Fund is managed; Organization and history
6. Organization and history; Distributions and taxes; How to buy shares
7. Summary of expenses; How to buy shares; How the Fund values its shares; Cover page; 12b-1 Plans; Back cover
8. Summary of expenses; How to sell shares; How to exchange shares; Telephone transactions
9. Not applicable

[THIS IS A NEW PROSPECTUS OFFERING ONLY CLASS Z SHARES AND THEREFORE IS NOT MARKED TO SHOW CHANGES FROM THE CURRENT PROSPECTUS OFFERING CLASSES A AND B]

July 28, 1995

THE COLONIAL FUND
CLASS Z SHARES

Prospectus

BEFORE YOU INVEST

Colonial Management Associates, Inc. (Adviser) and your full-service financial adviser want you to understand both the risks and benefits of mutual fund investing.

While mutual funds offer significant opportunities and are professionally managed, they also carry risks including possible loss of principal. Unlike savings accounts and certificates of deposit, mutual funds are not insured or guaranteed by any financial institution or government agency.

Please consult your full-service financial adviser to determine how investing in this mutual fund may suit your unique needs, time horizon and risk tolerance.

The Colonial Fund (Fund), a diversified portfolio of Colonial Trust III (Trust), an open-end management investment company, seeks primarily income and capital growth and, secondarily, capital preservation.

The Fund is managed by the Adviser, an investment adviser since 1931.

This Prospectus explains concisely what you should know before investing in Class Z shares of the Fund.

TF-xxxxxx-0795

Class Z shares may be purchased only by (i) certain institutions (including certain insurance companies and banks investing for their own account, trusts, endowment funds, foundations and investment companies) and defined benefit retirement plans investing a minimum of \$5 million in the Fund and (ii) affiliates of the Adviser and its affiliates.

Read this Prospectus carefully and retain it for future reference. More detailed information about the Fund is in the February 28, 1995, Revised July 28, 1995, Statement of Additional Information which has been filed with the Securities and Exchange Commission and is obtainable free of charge by calling the Adviser at 1-800-248-2828.

The Statement of Additional Information is incorporated by reference in (which means it is considered to be a part of) this Prospectus.

Contents	Page
Summary of expenses	
The Fund's financial history	
The Fund's investment objectives	
How the Fund pursues its objectives	
How the Fund measures its performance	
How the Fund is managed	
How the Fund values its shares	
Distributions and taxes	
How to buy shares	
How to sell shares	
How to exchange shares	
Telephone transactions	
Organization and history	

FUND SHARES ARE NOT DEPOSITS OR OBLIGATIONS OF, OR GUARANTEED, ENDORSED OR INSURED BY, ANY BANK OR GOVERNMENT AGENCY.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.
SUMMARY OF EXPENSES

Expenses are one of several factors to consider when investing in the Fund. The following tables summarize your maximum transaction costs and annual expenses for an investment in Class Z shares of the Fund.

Shareholder Transaction Expenses (1) (2)

Maximum Initial Sales Charge Imposed on a Purchase (as a % of offering price)	0.00%
Maximum Contingent Deferred Sales Charge (as a % of offering price)	0.00%

(1) For accounts less than \$1,000 an annual fee of \$10 may be deducted. See "How to sell shares."

(2) Redemption proceeds exceeding \$5,000 sent via federal funds wire will be subject to a \$7.50 charge per transaction.

Annual Operating Expenses (as a % of net assets)

Management fee	0.55%
12b-1 fee	0.00
Other expenses	0.37

Total expenses	0.92%
	=====

Example

The following Example shows the cumulative expenses attributable to a hypothetical \$1,000 investment in the Class Z shares of the Fund for the periods specified, assuming a 5% annual return with or without redemption at period end. The 5% return and expenses used in this Example should not be considered indicative of actual or expected Fund performance or expenses, both of which will vary:

Period:	
1 year	\$ 9
3 years	\$ 29
5 years	\$ 51
10 years	\$113

THE FUND'S FINANCIAL HISTORY

The following schedule of financial highlights for a share outstanding throughout each period has been audited by Price Waterhouse LLP, independent accountants. Their unqualified report is included in the Fund's 1994 Annual Report, and is incorporated by reference into the Statement of Additional Information. The schedule has been restated to reflect the 3:1 split which occurred on December 10, 1993. The information presented is for other classes of shares offered by the Fund. Prior to July 28, 1995, no Class Z shares had been issued.

<TABLE>
<CAPTION>

CLASS A

	(Unaudited)			
	Six months ended	Year Ended October 31		
	April 30			
	1995 (a)	1994 (a)	1993 (b)	1992 (b)
<S>	<C>	<C>	<C>	<C>
Net asset value - Beginning of period	\$8.060	\$8.410	\$7.390	\$7.050
Income from investment operations:				
Net investment income	0.209	0.171	0.156	0.173
Net realized and unrealized gain (loss) on investments	0.429	(0.116)	1.293	0.489
Total from investment operations	0.638	0.055	1.449	0.662
Less distributions declared to shareholders:				
From net investment income	(0.107)	(0.160)	(0.147)	(0.185)
From net realized gain on investments	(0.501)	(0.245)	(0.282)	(0.137)
Total distributions declared to shareholders	(0.608)	(0.405)	(0.429)	(0.322)
Net asset value - End of period	\$8.090	\$8.060	\$8.410	\$7.390
Total return(c)	8.83%	0.74%	20.21%	9.65%
Ratios to average net assets:				
Expenses	1.15%	1.14%	1.10%	1.09%
Net investment income	2.65%	2.07%	1.94%	2.52%
Portfolio turnover	64%	54%	14%	37%
Net assets at end of period (000)	\$618,768	\$555,275	\$520,706	\$413,228

</TABLE>

<TABLE>

<CAPTION>

CLASS A

	Year Ended October 31			

	1991 (b)	1990 (b)	1989 (b)	1988 (b)
<S>	<C>	<C>	<C>	<C>
Net asset value - Beginning of period	\$5.700	\$6.850	\$6.320	\$5.530
Income from investment operations:				
Net investment income	0.218	0.256	0.270	0.299
Net realized and unrealized gain (loss) on investments	1.509	(0.979)	0.768	0.944
Total from investment operations	1.727	(0.723)	1.038	1.243
Less distributions declared to shareholders:				
From net investment income	(0.222)	(0.276)	(0.305)	(0.263)
From net realized gain on investments	(0.155)	(0.151)	(0.203)	(0.190)
Total distributions declared to shareholders	(0.377)	(0.427)	(0.508)	(0.453)
Net asset value - End of period	\$7.050	\$5.700	\$6.850	\$6.320
Total return(c)	31.23%	(11.17)%	17.16%	23.60%
Ratios to average net assets:				
Expenses	1.06%	1.04%	0.97%	0.92%
Net investment income	3.35%	4.05%	4.34%	4.92%
Portfolio turnover	36%	41%	27%	27%
Net assets at end of period (000)	\$366,808	\$285,265	\$319,419	\$258,178

</TABLE>

<TABLE>

<CAPTION>

	CLASS A		

	Year Ended October 31		

	1987 (b)	1986 (b)	1985 (b)
	-----	-----	-----
<S>	<C>	<C>	<C>
Net asset value - Beginning of period	\$6.450	\$5.220	\$4.640
	-----	-----	-----
Income from investment operations:			
Net investment income	0.216	0.283	0.313
Net realized and unrealized gain (loss) on investments	(0.387)	1.397	0.560
	-----	-----	-----
Total from investment operations	(0.171)	1.680	0.873
	-----	-----	-----
Less distributions declared to shareholders:			
From net investment income	(0.310)	(0.300)	(0.300)
From net realized gain on investments	(0.439)	(0.150)	0.000
	-----	-----	-----
Total distributions declared to shareholders	(0.749)	(0.450)	(0.300)
	-----	-----	-----
Net asset value - End of period	\$5.530	\$6.450	\$5.220
	=====	=====	=====
Total return(c)	(3.49)%	33.91%	19.44%
	=====	=====	=====
Ratios to average net assets:			
Expenses	0.97%	1.06%	1.05%
Net investment income	3.99%	4.70%	6.32%
Portfolio turnover	47%	48%	69%
Net assets at end of period (000)	\$240,971	\$168,399	\$104,920

</TABLE>

- (a) Per share data were calculated using average shares outstanding during the period.
- (b) All per share amounts have been restated to reflect the 3-for-1 stock split effective December 10, 1993.
- (c) Total return at net asset value assuming all distributions reinvested and no initial or contingent deferred sales charge.
- (d) Not annualized.
- (e) Annualized.

THE FUND'S FINANCIAL HISTORY (CONT'D)

<TABLE>

<CAPTION>

	CLASS B			

	(Unaudited)	Year ended October 31		
	Six months ended	-----		
	April 30	1994 (a)	1993 (b)	1992 (b) (c)
	-----	-----	-----	-----
	1995 (a)			

<S>	<C>	<C>	<C>	<C>
Net asset value - Beginning of period	\$8.050	\$8.400	\$7.390	\$7.440
	-----	-----	-----	-----
Net investment income	0.152	0.109	0.104	0.052
Net realized and unrealized gain (loss) on investments	0.457	(0.111)	1.282	(0.044)
	-----	-----	-----	-----
Total from investment operations	0.609	(0.002)	1.386	0.008
	-----	-----	-----	-----
Less distributions declared to shareholders:				
From net investment income	(0.078)	(0.103)	(0.094)	(0.058)
From net realized gains on investments	(0.501)	(0.245)	(0.282)	0.000
	-----	-----	-----	-----
Total distributions declared to shareholders	(0.579)	(0.348)	(0.376)	(0.058)
	-----	-----	-----	-----
Net asset value - End of period	\$8.080	\$8.050	\$8.400	\$7.390
	=====	=====	=====	=====
Total return(d)	8.42%	(e) (0.04)%	19.38%	(0.31)% (e)
	-----	-----	-----	-----

Ratios to average net assets					
Expenses	1.90%	(f)	1.89%	1.85%	1.84%(f)
Net investment income	1.90%	(f)	1.32%	1.19%	1.77%(f)
Portfolio turnover	64%	(f)	54%	14%	37%(f)
Net assets at end of period (000)	\$296,885		\$264,122	\$124,161	\$15,582

</TABLE>

- (a) Per share data were calculated using average shares outstanding during the period.
- (b) All per share amounts have been restated to reflect the 3-for-1 stock split effective December 10, 1993.
- (c) Class B shares were initially offered on May 5, 1992. Per share amounts reflect activity from that date.
- (d) Total return at net asset value assuming all distributions reinvested and no initial or contingent deferred sales charge.
- (e) Not annualized.
- (f) Annualized.

Further performance information is contained in the Fund's Annual and Semiannual Reports to shareholders, which are obtainable without charge by calling 1-800-248-2828.

THE FUND'S INVESTMENT OBJECTIVES

The Fund seeks primarily income and capital growth and, secondarily, capital preservation.

HOW THE FUND PURSUES ITS OBJECTIVES

The Fund may invest without limit in U.S. stock exchange or NASDAQ NMS listed common stocks and foreign common stocks which, when purchased, meet the following quantitative standards which in the Adviser's judgment indicate above average financial soundness and high intrinsic value relative to price. The issuer of any such common stock must have net worth in excess of total debt, except for banking institutions and electric utilities, whose net worth must exceed 35% of total capitalization. In addition, each such common stock must also meet one of the following criteria:

1. Earnings yield equals or exceeds the average yield to maturity of the five most recently issued, actively traded long-term U.S. government bonds; or
2. Dividend yield equals or exceeds 66% of the prevailing average yield to maturity of the five most recently issued, actively traded long-term U.S. government bonds; or
3. Per share going-concern value (as estimated by the Adviser) exceeds book value and market value. No purchases will be made based on this criterion if at the time more than 25% of the Fund's total market value of common stocks was purchased on this criterion.

Up to 5% of the Fund's net assets may be invested in common stocks not meeting any of the foregoing criteria at the time of purchase.

The Fund may also invest in debt securities, but currently intends to limit those investments to U.S. government and agency obligations (except for temporary or defensive investments). The market value of debt securities will fluctuate with changing interest rates; this could affect the value of Fund shares.

The portion of total assets invested in common stocks and debt securities will vary based on the availability of common stocks meeting the foregoing criteria and the Adviser's judgment of the investment merit of common stocks relative to debt securities.

Foreign Investments. The Fund may invest without limit in common stocks traded or issued by companies located outside of the U.S. Foreign securities will subject the Fund to special considerations related to political, economic and legal conditions outside of the U.S. These considerations include the possibility of unfavorable currency exchange rates, exchange control regulations (including currency blockage), expropriation, nationalization, withholding taxes on income and difficulties in enforcing judgments. Foreign securities may be less liquid and more volatile than comparable U.S. securities. Some foreign issuers are subject to less comprehensive accounting and

disclosure requirements than similar U.S. issuers.

The Fund may purchase foreign currencies on a spot or forward basis in conjunction with its investments in foreign securities and to hedge against fluctuations in foreign currencies. The precise matching of foreign currency exchange transactions and portfolio securities will not generally be possible since the future value of such securities in foreign currencies will change as a consequence of market movements which cannot be precisely forecast. Currency hedging does not eliminate fluctuations in the underlying prices of securities, but rather establishes a rate of exchange at some future point in time. Although hedging may lessen the risk of loss due to a decline in the value of the hedged currency, it tends to limit potential gain from increases in currency values.

Transactions in foreign securities include currency conversion costs. Brokerage and custodial costs may be higher for foreign securities than for U.S. securities. See "Foreign Securities" and "Foreign Currency Transactions" in the Statement of Additional Information for more information about foreign investments.

Other Investment Practices. The Fund may engage in the following investment practices, some of which are described in more detail in the Statement of Additional Information.

The Fund may invest temporarily available cash in certificates of deposit, bankers' acceptances, high quality commercial paper, Treasury bills and repurchase agreements. Under a repurchase agreement, the Fund buys a security, subject to the requirement to sell it back at a fixed price and time, the proceeds of which are the Fund's cost plus accrued interest. The transaction may be viewed as a loan by the Fund, collateralized by the security. The Fund will enter into repurchase agreements only with well capitalized banks and certain broker-dealers meeting high credit standards. The agreements require that at all times the issuer's obligations are at least 100% collateralized by U.S. government securities maintained in a segregated account of the Fund's custodian. The Fund may experience costs and delays in liquidating the collateral if the issuer defaults or enters bankruptcy and may incur a loss. Not more than 10% of the Fund's total assets will be invested in repurchase agreements maturing in more than 7 days and other illiquid assets.

In periods of unusual market conditions, when the Adviser considers it appropriate, the Fund may invest all or any part of the Fund's assets in cash, U.S. government securities, high quality commercial paper, bankers' acceptances, repurchase agreements and certificates of deposit.

The Statement of Additional Information describes other investment techniques that the Fund may use, but currently has no intention in the foreseeable future of using.

Other. The Fund may not always achieve its investment objectives. The Fund's investment objectives and non-fundamental policies may be changed without shareholder approval. The Fund will notify investors at least 30 days prior to any material change in the Fund's investment objectives. If there is a change in the investment objectives shareholders should consider whether the Fund remains an appropriate investment in light of their then current financial position and needs. The Fund's fundamental policies listed in the Statement of Additional Information cannot be changed without the approval of a majority of the Fund's outstanding voting securities. Additional information concerning certain of the securities and investment techniques described above is contained in the Statement of Additional Information.

HOW THE FUND MEASURES ITS PERFORMANCE

Performance may be quoted in sales literature and advertisements. Average annual total returns are calculated in accordance with the Securities and Exchange Commission's formula and assume the reinvestment of all distributions. Other total returns differ from average annual total return only in that they may relate to different time periods and may represent aggregate as opposed to average annual total returns.

Yield, which differs from total return because it does not consider changes in net asset value, is calculated in accordance with the Securities and Exchange Commission's formula. Distribution rate is

calculated by dividing the most recent quarter's distributions, annualized, by the net asset value at the end of the quarter. Performance may be compared to various indices. Quotations from various publications may be included in sales literature and advertisements. See "Performance Measures" in the Statement of Additional Information for more information. All performance information is historical and does not predict future results.

HOW THE FUND IS MANAGED

The Trustees formulate the Fund's general policies and oversee the Fund's affairs as conducted by the Adviser.

The Adviser is a subsidiary of The Colonial Group, Inc. Colonial Investment Services, Inc. (Distributor) is a subsidiary of the Adviser and serves as the distributor for the Fund's shares. The Colonial Group, Inc. is the parent of Colonial Investors Service Center, Inc. (Transfer Agent), which serves as the shareholder services and transfer agent for the Fund. The Colonial Group, Inc. is a direct subsidiary of Liberty Financial Companies, Inc. which is in turn an indirect subsidiary of Liberty Mutual Insurance Company (Liberty Mutual). Liberty Mutual is considered to be the controlling entity of The Colonial Group, Inc. Liberty Mutual is an underwriter of worker's compensation insurance and a property and casualty insurer in the U.S.

The Adviser furnishes the Fund with investment management, accounting and administrative personnel and services, office space and other equipment and services at the Adviser's expense. For these services, the Fund paid the Adviser 0.55% of the Fund's average net assets for fiscal year 1994.

Daniel Rie, Senior Vice President of the Adviser, has managed the Fund since 1993 and has managed various other Colonial equity funds since 1986.

The Adviser also provides pricing and bookkeeping services to the Fund for a monthly fee of \$2,250 plus a percentage of the Fund's average net assets over \$50 million. The Transfer Agent provides transfer agency and shareholder services to the Fund for a fee of 0.25% annually of average net assets plus out-of-pocket expenses.

Each of the foregoing fees is subject to any reimbursement or fee waiver to which the Adviser may agree.

The Adviser places all orders for the purchase and sale of portfolio securities. In selecting broker-dealers, the Adviser may consider research and brokerage services furnished to it and its affiliates. Subject to seeking best execution, the Adviser may consider sales of shares of the Fund (and of certain other Colonial funds) in selecting broker-dealers for portfolio security transactions.

HOW THE FUND VALUES ITS SHARES

Per share net asset value is calculated by dividing the total net asset value attributable to Class Z shares by the number of Class Z shares outstanding. Shares are valued as of the close of the New York Stock Exchange (Exchange) each day the Exchange is open. Portfolio securities for which market quotations are readily available are valued at market. Short-term investments maturing in 60 days or less are valued at amortized cost when it is determined, pursuant to procedures adopted by the Trustees, that such cost approximates market value. All other securities and assets are valued at fair value following procedures adopted by the Trustees.

DISTRIBUTIONS AND TAXES

The Fund intends to qualify as a "regulated investment company" under the Internal Revenue Code and to distribute to shareholders virtually all net income and any net realized gain at least annually.

The Fund generally declares and pays income distributions quarterly. Distributions are invested in additional Class Z shares at net asset value unless the shareholder elects to receive cash. Regardless of the shareholder's election, distributions of \$10 or less will not be paid in cash but will be invested in additional Class Z shares at net asset value. To change your election, call the Transfer Agent for information.

Whether you receive distributions in cash or in additional Fund shares, you must report them as taxable income unless you are a tax-exempt institution. If you buy shares shortly before a distribution is declared, the distribution will be taxable although it is in effect a partial return of the amount invested. Each January, information on the amount and nature of distributions for the prior year is sent to shareholders.

HOW TO BUY SHARES

Class Z shares are offered continuously at net asset value without a sales charge. Orders received in good form prior to the time at which the Fund values its shares (or placed with a financial service firm before such time and transmitted by it before the Fund processes that day's share transactions) will be processed based on that day's closing net asset value. Certificates will not be issued for Class Z shares. The Fund may refuse any purchase order for its shares. See the Statement of Additional Information for more information.

Shareholder Services. A variety of shareholder services are available. For more information about these services or your account, call 1-800-345-6611. Some services are described in the attached account application. A shareholder's manual explaining all available services will be provided upon request.

Other Classes of Shares. In addition to Class Z shares, the Fund offers two other classes of shares through a separate Prospectus. Class A shares are offered at net asset value plus a maximum 5.75% sales charge imposed at the time of purchase, and are subject to an ongoing 0.25% annual Rule 12b-1 fee and a 1.00% contingent deferred sales charge on certain redemptions made within 18 months after purchase. Class B shares are offered at net asset value and are subject to a 1.00% annual Rule 12b-1 fee and a contingent deferred sales charge on redemptions made within six years after purchase. The contingent deferred sales charge is 5.00% on redemptions made in year one, and declines to 0 after six years. Class B shares convert to Class A after approximately eight years. The maximum purchase amount allowed for Class B shares is \$250,000.

Other than the sales charges and Rule 12b-1 fees described above, the fees and expenses relating to Classes A and B are the same as those for Class Z shares.

Classes A and B are exchangeable into the same class of any other Colonial fund offering such class. Class Z shares are exchangeable into the Class Z shares of any other Colonial fund offering Class Z so long as the investor is eligible to purchase the Class Z shares of that fund. Class Z shares otherwise are exchangeable into the Class A shares of the other Colonial funds.

Which Class is more beneficial to an investor depends on the amount and intended length of the investment. In general, anyone eligible to purchase Class Z shares should do so.

Financial service firms may receive different compensation rates for selling different classes of shares. The Distributor may pay additional compensation to financial service firms which have made or may make significant sales. Initial or contingent deferred sales charges may be reduced or eliminated for certain persons or organizations purchasing Fund shares alone or in combination with certain other Colonial funds. See the Statement of Additional Information for more information.

HOW TO SELL SHARES

Shares may be sold on any day the Exchange is open, either directly to the Fund or through your financial service firm. Sale proceeds generally are sent within seven days (usually on the next business day after your request is received in good form). However, for shares recently purchased by check, the Fund will send proceeds as soon as the check has cleared (which may take up to 15 days).

Selling Shares Directly To The Fund. Send a signed letter of instruction or stock power form to the Transfer Agent, along with any certificates for shares to be sold. The sale price is the net asset value next calculated after the Fund receives the request in proper form. Signatures must be guaranteed by a bank, a member firm of a

national stock exchange or another eligible guarantor. Stock power forms are available from your financial service firm, the Transfer Agent and many banks. Additional documentation is required for sales by corporations, agents, fiduciaries, surviving joint owners and individual retirement account holders. For details contact:

Colonial Investors Service Center, Inc.
P.O. Box 1722
Boston, MA 02105-1722
1-800-345-6611

Selling Shares Through Financial Service Firms. Financial service firms must receive requests before the time at which the Fund's shares are valued to receive that day's price, are responsible for furnishing all necessary documentation to the Transfer Agent and may charge for this service.

General. The sale of shares is a taxable transaction for federal tax purposes. See the Statement of Additional Information for more information. Under unusual circumstances, the Fund may suspend repurchases or postpone payment for up to seven days or longer, as permitted by federal securities law. In June of any year, the Fund may deduct \$10 (payable to the Transfer Agent) from accounts valued at less than \$1,000 unless the account value has dropped solely as a result of share value depreciation. Shareholders will receive 60 days' written notice to increase the account value before the fee is deducted.

HOW TO EXCHANGE SHARES

The only other Colonial funds which currently offer Class Z shares are the Colonial Newport Tiger Fund and Colonial Small Stock Fund. Class Z shares may be exchanged at net asset value into the Class Z shares of any other Colonial fund offering Class Z so long as the investor is eligible to purchase the Class Z shares of that fund. Class Z shares otherwise are exchangeable at net asset value into the Class A shares of any other Colonial fund. If a Class Z shareholder exchanges into another Colonial fund and then exchanges back to the Fund, the latter exchange may be made into the Fund's Class Z shares only if the shareholder continues to own Class Z shares at the time. If not, the latter exchange will be made into Class A shares. Carefully read the prospectus of the fund into which you are exchanging before submitting the request. Call 1-800-248-2828 to receive a prospectus and an exchange authorization form. Call 1-800-422-3737 to exchange shares by telephone. An exchange is a taxable capital transaction. The exchange service may be changed, suspended or eliminated on 60 days' written notice.

TELEPHONE TRANSACTIONS

All shareholders and/or their financial advisers may redeem up to \$50,000 of Fund shares by telephone, and may elect telephone redemption privileges for larger amounts on the account application. All exchanges may be accomplished by telephone. See the Statement of Additional Information for more information. The Adviser, the Transfer Agent and the Fund will not be liable when following telephone instructions reasonably believed to be genuine and a shareholder may suffer a loss from unauthorized transactions. The Fund will employ reasonable procedures to confirm that instructions communicated by telephone are genuine and may be liable if reasonable procedures are not employed. Shareholders and/or their financial advisers will be required to provide their name, address and account number. Financial advisers will also be required to provide their broker number. Proceeds and confirmations of telephone transactions will be mailed or sent to the address of record. Telephone redemptions are not available on accounts with an address change in the preceding 60 days. All telephone transactions are recorded. Shareholders are not obligated to transact by telephone.

ORGANIZATION AND HISTORY

The Fund was organized in 1986 as successor to a corporation organized in 1904. It is a series of the Trust, which is a Massachusetts business trust organized in 1986. The Fund represents the entire interest in a separate portfolio of the Trust. The Trust is not required to hold annual shareholder meetings, but special meetings may be called for purposes such as electing Trustees or approving a

management contract. You receive one vote for each of your Fund shares. Shares of the Trust vote together except when required by law to vote separately by fund or by class. Shareholders owning in the aggregate ten percent of Trust shares may call meetings to consider removal of Trustees. Under certain circumstances, the Trust will provide information to assist shareholders in calling such a meeting. See the Statement of Additional Information.

Investment Adviser
Colonial Management Associates, Inc.
One Financial Center
Boston, MA 02111-2621

Distributor
Colonial Investment Services, Inc.
One Financial Center
Boston, MA 02111-2621

Custodian
Boston Safe Deposit and Trust Company
One Boston Place
Boston, MA 02108

Shareholder Services and Transfer Agent
Colonial Investors Service Center, Inc.
One Financial Center
Boston, MA 02111-2621
1-800-345-6611

Independent Accountants
Price Waterhouse LLP
160 Federal Street
Boston, MA 02110-2624

Legal Counsel
Ropes & Gray
One International Place
Boston, MA 02110-2624

Your financial service firm is:

Printed in U.S.A.

July 28, 1995

THE COLONIAL FUND
CLASS Z SHARES

Prospectus

The Colonial Fund seeks primarily income and capital growth and, secondarily, capital preservation.

For more detailed information about the Fund call the Adviser at 1-800-248-2828 for the February 28, 1995, Revised July 28, 1995, Statement of Additional Information.

FUND SHARES ARE NOT DEPOSITS OR OBLIGATIONS OF, OR GUARANTEED, ENDORSED OR INSURED BY, ANY BANK OR GOVERNMENT AGENCY.

Colonial Mutual Funds

Please send your completed application to:

Colonial Mutual Funds
P.O. Box 1722
Boston, Massachusetts 02105-1722

New Account Application/Revision to Existing Account

To open a new account, complete sections 1, 2, 3, & 8.
To apply for special services for a new or existing account,
complete sections 4, 5, 6, 7, or 9 as appropriate.

___ Please check here if this is a revision.

1-----Account Ownership-----
Please choose one of the following.

__Individual: Print your name, Social Security #, U.S.
citizen status.

__Joint Tenant: Print all names, the Social Security # for
the first person, and his/her U.S. citizen status.

__Uniform Gift to Minors: Name of custodian and minor,
minor's Social Security #, minor's U.S. citizen status.

__Corporation, Association, Partnership: Include full name,
Taxpayer I.D. #.

__Trust: Name of trustee, trust title & date, and trust's
Taxpayer I.D. #.

Name of account owner

Name of joint account owner

Street address

Street address

City, State, and Zip

Daytime phone number

Social Security # or Taxpayer I.D. #

Are you a U.S. citizen? Yes ___ No ___

If no, country of permanent residence

Owner's date of birth

Account number (if existing account)

2 -----Colonial Fund(s) You Are Purchasing-----

Your investment will be made in Class A shares if no class
is indicated. Certificates are not available for Class B shares.
If no distribution option is selected,
distributions will be reinvested in additional Fund shares.
Please consult your financial adviser to determine which
class of shares best suits your needs.

Fund Choice(s)

Fund

___ A Shares ___ B Shares (less than \$250,000)

___ Z Shares (\$5,000,000 or more)

\$ _____
Amount

Method of Payment

Choose one for each fund

Check payable to the Fund, enclosed

Bank wired on (Date) ____/____/____
Wire confirmation #

Dealer purchased on (Date) ____/____/____
Trade confirmation #

Ways to Receive Your Distributions

Choose one for each fund

Reinvest dividends and capital gains

Dividends in cash; reinvest capital gains

Dividends and capital gains in cash

Automatic Dividend Diversification See section 5A, inside

Direct Deposit via Colonial Cash Connection See section 4B, inside

Fund Choice(s)

Fund

A Shares B Shares (less than \$250,000)

\$ _____
Amount

Method of Payment

Choose one for each fund

Check payable to the Fund, enclosed

Bank wired on (Date) ____/____/____
Wire confirmation #

Dealer purchased on (Date) ____/____/____
Trade confirmation #

Ways to Receive Your Distributions

Choose one for each fund

Reinvest dividends and capital gains

Dividends in cash; reinvest capital gains

Dividends and capital gains in cash

Automatic Dividend Diversification See section 5A, inside

Direct Deposit via Colonial Cash Connection See section 4B, inside

Fund Choice(s)

Fund

A Shares B Shares (less than \$250,000)

Z Shares (\$5,000,000 or more)

\$ _____
Amount

Method of Payment

Choose one for each fund

Check payable to the Fund, enclosed

Bank wired on (Date) ____/____/____
Wire confirmation #

___ Dealer purchased on (Date) ___/___/___
Trade confirmation #

Ways to Receive Your Distributions

Choose one for each fund

- ___ Reinvest dividends and capital gains
- ___ Dividends in cash; reinvest capital gains
- ___ Dividends and capital gains in cash
- ___ Automatic Dividend Diversification See section 5A, inside
- ___ Direct Deposit via Colonial Cash Connection See section 4B, inside

3---Your Signature & Taxpayer I.D. Number Certification---

Each person signing on behalf of an entity represents that his/her actions are authorized.

I have received and read each appropriate Fund prospectus and understand that its terms are incorporated by reference into this application. I understand that this application is subject to acceptance. I understand that certain redemptions may be subject to a contingent deferred sales charge. I certify, under penalties of perjury, that:

1. The Social Security # or Taxpayer I.D. # provided is correct.
Cross out 2(a) or 2(b) if either is not true in your case.
2. I am not subject to 31% backup withholding because (a) I have not been notified that I am subject to backup withholding or (b) the Internal Revenue Service has notified me that I am no longer subject to backup withholding.

It is agreed that the Fund, all Colonial companies and their officers, directors, agents, and employees will not be liable for any loss, liability, damage, or expense for relying upon this application or any instruction believed genuine.

X _____
Signature

Capacity, if applicable Date

X _____
Signature

Capacity, if applicable Date

4-----Ways to Withdraw from Your Fund-----

It may take up to 30 days to activate the following features. Complete only the section(s) that apply to the features you would like.

A. Systematic Withdrawal Plan (SWP)
You can receive monthly, quarterly, or semiannual checks from your account in any amount you select, with certain limitations. Your redemption checks can be sent to you at the address of record for your account, to your bank account, or to another person you choose. The value of the shares in your account must be at least \$5,000 and you must reinvest all of your distributions. Checks will be processed on the 10th calendar day of the month or the following business day. Withdrawals in excess of 12% annually of your current account value will not be accepted. Redemptions made in addition to Plan payments may be subject to a contingent deferred sales charge for Class B shares. Please consult your financial or tax adviser before electing this option.

Funds for Withdrawal:

Name of fund

Withdrawal Amount

Redeem shares from account as follows:

Dollar amount of payment \$ _____

or

Total annual % _____

Frequency (choose one)

Monthly Quarterly Semiannually

I would like payments to begin _____ (month).

Name of fund

Withdrawal Amount

Redeem shares from account as follows:

Dollar amount of payment \$ _____

or

Total annual % _____

Frequency (choose one)

Monthly Quarterly Semiannually

I would like payments to begin _____ (month).

Name of fund

Withdrawal Amount

Redeem shares from account as follows:

Dollar amount of payment \$ _____

or

Total annual % _____

Frequency (choose one)

Monthly Quarterly Semiannually

I would like payments to begin _____ (month).

Payment Instructions

Send the payment to (choose one):

My address of record.

My bank account via Colonial Cash Connection. Please complete Section 4B and the Bank Information section below.

The payee listed at right.

Name of payee

Address of payee

City

State Zip

Payee's bank account number, if applicable

X _____
Signature of account owner(s)

X _____
Signature of account owner(s)

Signatures of all owners must be guaranteed. Provide the name, address, payment amount, and frequency for other payees (maximum of 5) on a separate sheet.

B. Direct Deposit via Colonial Cash Connection
You can arrange to have distributions from your Colonial fund account(s) or Systematic Withdrawal Plan checks automatically deposited directly into your bank checking account. Distribution deposits will be made 2 days after the Fund's payable date. Please complete Bank Information below

and attach a blank check marked "VOID."

Please deposit my:

- Dividend distributions only
- Dividend and capital gain distributions
- Systematic Withdrawal Plan payments

I understand that my bank must be a member of the Automated Clearing House system.

C. Telephone Withdrawal Options

All telephone transaction calls are recorded. These options are not available for retirement accounts.

1. Fast Cash

You are automatically eligible for this service. You or your financial adviser can withdraw up to \$50,000 from your account and have it sent to your address on our records. For your protection, this service is only available on accounts that have not had an address change within 60 days of the redemption request.

2. Telephone Redemption

I would like the Telephone Redemption privilege. You may withdraw shares from your fund account by telephone and send your money to your bank account. If you are adding this service to an existing account, complete the Bank Information section below and have all shareholder signatures guaranteed.

Colonial's and the Fund's liability is limited when following telephone instructions; a shareholder may suffer a loss from an unauthorized transaction reasonably believed by Colonial to have been authorized. Telephone redemptions exceeding \$5,000 will be sent via Federal Fund Wire, usually on the next business day (\$7.50 will be deducted). Redemptions of \$5,000 or less will be sent by check to your designated bank.

Bank Information (For A, B, or C Above)

I authorize deposits to the following bank account:

Bank name	City	Bank account number

Bank street address State Zip Bank routing # (your bank can provide this)

5-----Ways to Make Additional Investments-----

These services involve continuous investments regardless of varying share prices. Please consider your ability to continue purchases through periods of price fluctuations. Dollar cost averaging does not assure a profit or protect against loss in declining markets.

A. Automatic Dividend Diversification

Please diversify my portfolio by investing fund distributions in another Colonial fund. These investments will be made in the same share class and without sales charges. I have carefully read the prospectus for the fund(s) listed below.

From fund

Account number (if existing)

To fund

Account number (if existing)

From fund

Account number (if existing)

To fund

Account number (if existing)

From fund

Account number (if existing)

To fund

Account number (if existing)

B. Automated Dollar Cost Averaging

This program allows you to automatically have money from any Colonial fund in which you have a balance of at least \$5,000 transferred into the same share class of up to four other Colonial funds, on a monthly basis. The minimum amount for each transfer is \$100. Please complete the section below.

Fund from which shares will be sold

\$ _____
Amount to redeem monthly

Fund name

\$ _____
Amount to invest monthly

Fund name

\$ _____
Amount to invest monthly

Fund name

\$ _____
Amount to invest monthly

C. Fundamatic

Fundamatic automatically transfers the specified amount from your bank checking account to your Colonial fund account. Your bank needs to be a member of the Automated Clearing House system. Please attach a blank check marked "VOID." Also, complete the section below and Fundamatic Authorization (Section 6).

Fund name

\$ _____ _____
Amount to transfer Month to start

Frequency
__ Monthly or __ Quarterly

Date
__ 5th or __ 20th of the month

Fund name

\$ _____ _____
Amount to transfer Month to start

Frequency

Monthly or Quarterly

Date

5th or 20th of the month

Fund name

\$ _____
Amount to transfer Month to start

Frequency

Monthly or Quarterly

Date

5th or 20th of the month

6 -----Fundamatic Authorization-----
Authorization to honor checks drawn by Colonial Investors Service Center, Inc. Do Not Detach. Make sure all depositors on the bank account sign to the far right. Please attach a blank check marked "VOID" here. See reverse for bank instructions.

I authorize Colonial to draw on my bank account, by check or electronic funds transfer, for an investment in a Colonial fund. Colonial and my bank are not liable for any loss arising from delays or dishonored draws. If a draw is not honored, I understand that notice may not be given and Colonial may reverse the purchase and charge my account \$15.

Bank name

Bank street address

Bank street address

City State Zip

Bank account number

Bank routing #

X _____
Depositor's Signature(s)
Exactly as appears on bank records

X _____
Depositor's Signature(s)
Exactly as appears on bank records

7--Ways to Reduce Your Sales Charges for Class A Shares--
These services can help you reduce your sales charge while increasing your share balance over the long term.

A. Right of Accumulation
If you, your spouse or your children own Class A, B or D shares in other Colonial funds, you may be eligible for a reduced sales charge. The combined value of your accounts must be \$50,000 or more. Class A shares of money market funds are not eligible unless purchased by exchange from another Colonial fund.

The sales charge for your purchase will be based on the sum of the purchase added to the value of all shares in other Colonial funds at the previous day's public offering price.

Please link the accounts listed below for Right of Accumulation privileges, so that this and future purchases will receive any discount for which they are eligible.

Name on account

Account number

Name on account

Account number

B. Statement of Intent

If you agree in advance to invest at least \$50,000 within 13 months, you'll pay a lower sales charge on every dollar you invest. If you sign a Statement of Intent within 90 days after you establish your account, you can receive a retroactive discount on prior investments. The amount required to receive a discount varies by fund; see the sales charge table in the "How to Buy Shares" section of your fund prospectus.

I want to reduce my sales charge.
I agree to invest \$ _____
over a 13-month period starting ____/____/ 19____ (not
more than 90 days prior to this application). I understand
an additional sales charge must be paid if I do not complete
this Statement of Intent.

8-----Financial Service Firm-----
To be completed by a Representative of your financial
service firm.

This application is submitted in accordance with our selling agreement with Colonial Investment Services, Inc. (CISI), the Fund's prospectus, and this application. We will notify CISI of any purchase made under a Statement of Intent, Right of Accumulation, or Sponsored Arrangement. We guarantee the signatures on this application and the legal capacity of the signers.

Representative's name

Representative's number

Representative's phone number

Account # for client at financial
service firm

Branch office address

City

State Zip

Branch office number

Name of financial service firm

Main office address

Main office address

City

State Zip

X

Authorized signature

9--Request for a Combined Quarterly Statement Mailing--
Colonial can mail all of your quarterly statements in one envelope. This option simplifies your record keeping and helps reduce fund expenses.

__I want to receive a combined quarterly mailing for all my accounts.

Fundamatic (See Reverse Side)
Applications must be received before the start date for processing.

This program's deposit privilege can be revoked by Colonial without prior notice if any check is not paid upon presentation. Colonial has no obligation to notify the shareholder of non-payment of any draw. This program may be discontinued by Colonial by written notice at least 30 business days prior to the due date of any draw or by the shareholder at any time.

To the Bank Named on the Reverse Side:

Your depositor has authorized Colonial Investors Service Center, Inc. to collect amounts due under an investment program from his/her personal checking account. When you pay and charge the draws to the account of your depositor executing the authorization payable to the order of Colonial Investors Service Center, Inc. Colonial Management Associates, Inc., hereby indemnifies and holds you harmless from any loss (including reasonable expenses) you may suffer from honoring such draw, except any losses due to your payment of any draw against insufficient funds.

Part A of Post-Effective Amendment No. 91 filed with the Commission on December 29, 1994 (Colonial Growth Shares Fund), is incorporated herein in its entirety by reference.

Part A of Post-Effective Amendment No. 92 filed with the Commission on February 14, 1995 (Colonial Federal Securities Fund, Colonial Strategic Balanced Fund, Colonial International Fund for Growth, Colonial Global Natural Resources Fund, Colonial Global Equity Fund, The Colonial Fund), is incorporated herein in its entirety by reference.

Part A of Post-Effective Amendment No. 93 filed with the Commission on March 1, 1995 (Colonial Global Utilities Fund), is incorporated herein in its entirety by reference.

COLONIAL TRUST III
Cross Reference Sheet (The Colonial Fund)

Item Number of Form N-1A	Location or Caption in the Statement of Additional Information
Part B	
10.	Cover Page
11.	Table of Contents

- 12. Not Applicable
- 13. Investment Objectives and Policies; Fundamental Investment Policies; Other Investment Policies; Portfolio Turnover; Miscellaneous Investment Practices
- 14. Fund Charges and Expenses; Management of the Funds
- 15. Fund Charges and Expenses
- 16. Fund Charges and Expenses; Management of the Funds
- 17. Fund Charges and Expenses; Management of the Funds
- 18. Shareholder Liability
- 19. How to Buy Shares; Determination of Net Asset Value; Suspension of Redemptions; Investor Services
- 20. Taxes
- 21. Fund Charges and Expenses; Management of the Funds
- 22. Fund Charges and Expenses; Investment Performance; Performance Measures
- 23. Independent Accountants

[MARKED TO SHOW CHANGES FROM THE 2/28/95 STATEMENT OF ADDITIONAL INFORMATION]

THE COLONIAL FUND
Statement of Additional Information
February 28, 1995, Revised July 28, 1995

This Statement of Additional Information (SAI) contains information which may be useful to investors but which is not included in the Prospectus of The Colonial Fund (Fund). This SAI is not a prospectus and is authorized for distribution only when accompanied or preceded by the Prospectuses of the Fund dated February 28, 1995, Revised June 1, 1995 (Class A and B) or July 28, 1995 (Class Z). The SAI should be read together with the Prospectus. Investors may obtain a free copy of the Prospectus from Colonial Investment Services, Inc., One Financial Center, Boston, MA 02111-2621.

Part 1 of this SAI contains specific information about the Fund. Part 2 includes information about the Colonial funds generally and additional information about certain securities and investment techniques described in the Fund's Prospectus.

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TF--0795

Part 1

THE COLONIAL FUND
Statement of Additional Information

February 28, 1995, Revised July 28, 1995

DEFINITIONS

"Trust"	Colonial Trust III
"Fund"	The Colonial Fund
"Colonial"	Colonial Management Associates, Inc., the Fund's investment adviser
"CISI"	Colonial Investment Services Inc., the Fund's distributor
"CISC"	Colonial Investors Service Center, Inc., the Fund's investor services and transfer agent

INVESTMENT OBJECTIVES AND POLICIES

The Fund's Prospectus describes its investment objectives and investment policies. Part 1 includes additional information concerning, among other things, the fundamental investment policies of the Fund. Part 2 of this SAI contains additional information about the following securities and investment techniques that are described or referred to in the Prospectus.

Short-Term Trading
Foreign Securities
Written Options (calls on common stock, puts and calls on foreign currencies)
Foreign Currency Transactions
Securities Loans
Repurchase Agreements

Except as described under "Fundamental Investment Policies", the investment policies described are not fundamental, and the Trustees may change the policies without shareholder approval.

FUNDAMENTAL INVESTMENT POLICIES

The Investment Company Act of 1940 (Act) provides that a "vote of a majority of the outstanding voting securities" means the affirmative vote of the lesser of (1) more than 50% of the outstanding shares of the Fund, or (2) 67% or more of the shares present at a meeting if more than 50% of the outstanding shares are represented at the meeting in person or by proxy. The following fundamental investment policies cannot be changed without such a vote. Total assets and net assets are determined at current value for purposes of compliance with investment restrictions and policies. All percentage limitations will apply at the time of investment and are not violated unless an excess or deficiency occurs as a result of such investment. For the purpose of the Act diversification requirement, an issuer is the entity whose revenues support the security.

The Fund may:

1. Issue senior securities only through borrowing money from banks for temporary or emergency purposes up to 10% of its net assets; however, it will not purchase additional portfolio securities while borrowings exceed 5% of net assets;
2. Only own real estate acquired as the result of owning securities and not more than 5% of total assets;
3. Invest up to 10% of its net assets in illiquid assets;
4. Purchase and sell futures contracts and related options so long as the total initial margin and premiums on the contracts do not exceed 5% of its total assets;

5. Underwrite securities issued by others only when disposing of portfolio securities;
6. Make loans through lending of securities not exceeding 30% of total assets, through the purchase of debt instruments or similar evidences of indebtedness typically sold privately to financial institutions and through repurchase agreements; and
7. Not concentrate more than 25% of its total assets in any one industry or with respect to 75% of total assets purchase any security (other than obligations of the U.S. government and cash items including receivables) if as a result more than 5% of its total assets would then be invested in securities of a single issuer or purchase the voting securities of an issuer if, as a result of such purchases, the Fund would own more than 10% of the outstanding voting shares of such issuer.

OTHER INVESTMENT POLICIES

As non-fundamental investment policies which may be changed without a shareholder vote, the Fund may not:

1. Purchase securities on margin, but it may receive short-term credit to clear securities transactions and may make initial or maintenance margin deposits in connection with futures transactions;
2. Have a short securities position, unless the Fund owns, or owns rights (exercisable without payment) to acquire, an equal amount of such securities;
3. Own voting securities of any company if the Fund knows that officers and Trustees of the Trust or officers and directors of Colonial who individually own more than 0.5% of such securities together own more than 5% of such securities;
4. Invest in interests in oil, gas or other mineral exploration or development programs, including leases;
5. Purchase any security resulting in the Fund having more than 5% of its total assets invested in securities of companies (including predecessors) less than three years old;
6. Pledge more than 33% of its total assets;
7. Purchase any security if, as a result of such purchase, more than 10% of its total assets would then be invested in securities which are restricted as to disposition;
8. Purchase or sell real estate (including limited partnership interests) although it may purchase and sell (a) securities which are secured by real estate and (b) securities of companies which invest or deal in real estate; provided, however, that nothing in this restriction shall limit the Fund's ability to acquire or take possession of or sell real estate which it has obtained as a result of enforcement of its rights and remedies in connection with securities it otherwise is permitted to acquire; and
9. Invest in warrants if, immediately after giving effect to any such investment, the Fund's aggregate investment in warrants, valued at the lower of cost or market, would exceed 5% of the value of the Fund's net assets. Included within that amount, but not to exceed 2% of the value of the Fund's net assets, may be warrants which are not listed on the New York Stock Exchange or the American Stock Exchange. Warrants acquired by the Fund in units or attached to securities will be deemed to be without value.

PORTFOLIO TURNOVER

Period ended	1994	1993
April 30, 1995 (unaudited)	64%	54%
64% (annualized)	54%	14%

FUND CHARGES AND EXPENSES

Under the Fund's management agreement, the Fund pays Colonial a monthly fee at the annual rate of 0.55% of average daily net assets.

Recent Fees paid to Colonial, CISI and CISC (in thousands)

	Period ended			
	April 30 1995 (unaudited)	Year Ended 1994	Year Ended 1993	Year Ended 1992
Management fee	\$2,280	\$4,102	\$2,957	\$2,178
Bookkeeping fee	150	270	198	148
Shareholder service and transfer agent fee	1,224	2,143	1,556	1,111(a)
12b-1 fees:				
Service fee	957	1,661	963	583

Distribution fee (Class B)	1,016	1,528	470	24
----------------------------	-------	-------	-----	----

Brokerage Commissions (in thousands)

	1995	1994	1993	1992
Total commissions	\$ 742	\$ 1,080	\$ 329	\$ 387
Directed transactions (b)	\$18,404	\$ 66,091	\$68,445	\$108,312
Commissions on directed transactions	\$ 28	\$ 90	\$ 101	\$ 168

(a) Under a prior fee schedule.

(b) See "Management of the Funds-Portfolio Transactions-Brokerage and Research Services" in Part 2 of this SAI.

Trustees Fees

For the calendar year ended December 31, 1994, the Trustees received the following compensation for serving as Trustees:

Trustee	Aggregate Compensation From Fund	Pension or Retirement Benefits Accrued As Part of Fund Expense	Estimated Annual Benefits Upon Retirement	Total Compensation From Fund and Fund Complex (c)
Tom Bleasdale	\$4,384 (d)	-----	-----	\$101,000 (e)
Lora S. Collins	\$4,123	-----	-----	\$ 95,000
William D. Ireland, Jr.	\$4,767	-----	-----	\$110,000
William E. Mayer	\$3,901	-----	-----	\$ 89,752
John A. McNeice, Jr.	-----	-----	-----	-----
James L. Moody, Jr.	\$4,761	-----	-----	\$109,000
John J. Neuhauser	\$4,121	-----	-----	\$ 95,000
George L. Shinn	\$4,870	-----	-----	\$112,000
Robert L. Sullivan	\$4,556	-----	-----	\$104,561
Sinclair Weeks, Jr.	\$5,045	-----	-----	\$116,000

(c) At 12/31/94, the Colonial Fund Complex consisted of 31 open-end and 5 closed-end management investment company portfolios.

(d) Includes \$2,110 payable in later years as deferred compensation.

(e) Includes \$49,000 payable in later years as deferred compensation.

The following table sets forth the amount of compensation paid to Messrs. Birnbaum, Grinnell and Lowry in their capacities as Trustees of the Liberty All-Star Equity Fund, The Charles Allmon Trust, Inc., Liberty Financial Trust and LFC Utilities Trust (together, Liberty Funds) for service during the calendar year ended December 31, 1994:

Trustee	Pension or Retirement Benefits Accrued As Part of Fund Expense	Estimated Annual Benefits Upon Retirement	Total Compensation From Liberty Funds for the calendar year ended 12/31/94 (d)
Robert J. Birnbaum (e)	\$0	\$0	\$ 0
James E. Grinnell (e)	0	0	31,032
Richard W. Lowry (e)	0	0	31,282

(d) At 12/31/94 the Liberty Funds consisted of 5 open-end and 2 closed-end management investment company portfolios, each of which was advised by Stein Roe & Farnham Incorporated, an indirect wholly-owned subsidiary of Liberty Financial Companies, Inc. (an intermediate parent of Colonial). On March 27, 1995, four of the portfolios in the Liberty Financial Trust (now known as Colonial Trust VII) were merged into existing Colonial funds and a fifth was merged into a new portfolio of Colonial Trust III.

(e) Elected a trustee of the Colonial Funds Complex on April 21,

1995.

None of Messrs. Birnbaum, Grinnell or Lowry received any compensation from any of the Colonial funds for the calendar year.

Ownership of the Fund

At June 30, 1995, the officers and Trustees of the Trust as a group beneficially owned approximately 784,751 Class A shares representing 1.03% of the then outstanding shares. Messrs. Scoon and Stern, who are officers of the Trust, held 605,744 Class A shares, representing 0.79% of the then outstanding shares. This holding consisted entirely of shares held by them as co-Trustees of The Colonial Group, Inc. Profit-Sharing Plan with respect to which they share investment and voting power. No shareholder owned of record 5% or more of the Class A shares of the Fund as of June 30, 1995.

At June 30, 1995, the officers and Trustees of the Trust as a group beneficially owned less than 1% of the Class B shares.

At June 30, 1995, Merrill Lynch, Pierce, Fenner & Smith, 4800 Deer Lake Drive, Jacksonville, FL 32216 owned of record 2,240,038 Class B shares representing 5.99% of the then outstanding shares.

At June 30, 1995 there were 44,190 Class A and 27,519 Class B shareholders of record of the Fund.

Sales Charges (in thousands)

	Class A Shares (unaudited)			
	Period ended			
	April 30	Years ended October 31		
	1995	1994	1993	1992
Aggregate charges on				
Fund share sales	\$515	\$2,500	\$2,382	\$1,564
Sales charges				
retained by CISI	\$ 86	\$ 255	\$ 378	\$ 260

	Class B Shares (unaudited)			
	Period ended			May 5, 1992
	April 30			(Class B shares
	1995	1994	1993	initially offered)
				through October 31, 1992
Aggregate contingent				
deferred sales				
charges (CDSC)				
on Fund redemptions				
retained by CISI	\$493	\$513	\$66	\$15

12b-1 Plans, CDSCs and Conversion of Shares

The Fund offers three classes of shares - Class A, Class B and Class Z. The Fund may in the future offer other classes of shares. The Trustees have approved 12b-1 plans (Plans) pursuant to Rule 12b-1 under the Act. Under the Plans, the Fund pays CISI an annual service fee of 0.15% of the Fund's average net assets attributable to Class A shares outstanding prior to April 1, 1989 and 0.25% of the Fund's average net assets attributable to shares of Classes A and B issued thereafter. The Fund also pays CISI a distribution fee not to exceed 0.75% of average net assets attributable to its Class B shares. CISI may use the entire amount of such fees to defray the costs of commissions and service fees paid to financial service firms (FSFs) and for certain other purposes. Since the distribution and service fees are payable regardless of the amount of CISI's expenses, CISI may realize a profit from the fees.

The Plans authorize any other payments by the Fund to CISI and its affiliates (including Colonial) to the extent that such payments might be construed to be indirectly financing the distribution of Fund shares.

The Trustees believe the Plans could be a significant factor in the growth and retention of the Fund's assets resulting in more advantageous expense ratios and increased investment flexibility which could benefit each class of Fund shareholders. The Plans will continue in effect from year to year so long as continuance is specifically approved at least annually by a vote of the Trustees, including the Trustees who are not interested persons of the Fund and have no direct or indirect financial interest in the operation of the Plans or in any agreements related to the Plans (Independent Trustees), cast in person at a meeting called for the purpose of voting on the Plans. The Plans may not be amended to increase the fee materially without approval by vote of a majority of the outstanding voting securities of the relevant class of shares and all material amendments of the Plans must be approved by the Trustees in the manner provided in the foregoing sentence. The Plans may be terminated at any time by vote of a majority of the Independent Trustees or by vote of a majority of the outstanding voting securities of the relevant class of shares. The continuance of the Plans will only be effective if the selection and nomination of the Trustees who are non-interested Trustees is effected by such non-interested Trustees.

Class A shares are offered at net asset value plus varying sales charges which may include a CDSC. Class B shares are offered at net asset value subject to a CDSC if redeemed within six years of purchase. The CDSCs are described in the Prospectus. Class Z shares are offered at net asset value and are not subject to a CDSC.

No CDSC will be imposed on distributions or on amounts which represent an increase in the value of the shareholder account resulting from representing capital appreciation. In determining the applicability and rate of any CDSC, it will be assumed that a redemption is made first of shares representing capital appreciation, next of shares representing reinvestment of distributions and finally of other shares held by the shareholder for the longest period of time.

Eight years after the end of the month in which a Class B share is purchased, such share and a pro rata portion of any shares issued on the reinvestment of distributions will be automatically converted into Class A shares having an equal value, which are not subject to the distribution fee.

Sales-related expenses (dollars in thousands) of CISI were as follows:

	(unaudited)		Year ended	
	Period ended		October 31, 1994	
	April 30, 1995	April 30, 1995	Class A	Class B
Fees to FSFs	\$595	\$1,057	\$1,121	\$5,043
Cost of sales material relating to the Fund	50	77	189	353
Allocated travel, entertainment and other promotional	105	155	290	542

INVESTMENT PERFORMANCE

The Fund's Class A and Class B yields for the months ended October 31, 1994 and April 30, 1995 were 2.54% and 1.94% (October 31, 1994) and 2.41% and 1.81% (April 30, 1995), respectively.

The Fund's Class A average annual total returns at April 30, 1995 were as follows:

	November 1, 1994			
	through April 30, 1995	1 year	5 years	10 years
With sales charge of 5.75%	2.57%	3.74%	10.17%	12.43%
Without sales charge	8.83%	10.07%	11.48%	13.10%

The Fund's Class B total returns at April 30, 1995 were as

follows:

	November 1, 1994		May 5, 1992
		(Class B shares initially offered)	
	through April 30, 1995	1 year	through October 31, 1994
With CDSC of 5.00%	3.42%	4.14%	8.03%
Without CDSC	8.42%	9.14%	8.89%

The Fund's Class A and Class B distribution rates at October 31, 1994 and April 30, 1995, based on the previous calendar quarter's distributions, annualized, and the maximum offering price at the end of each period, were 2.10% and 1.51% (October 31, 1994) and 2.38% and 1.83% (April 30, 1995), respectively.

See Part 2 of this SAI, "Performance Measures," for how calculations are made.

CUSTODIAN

Boston Safe Deposit and Trust Company is the Fund's custodian. The custodian is responsible for safeguarding the Fund's cash and securities, receiving and delivering securities and collecting the Fund's interest and dividends.

INDEPENDENT ACCOUNTANTS

Price Waterhouse LLP are the Fund's independent accountants providing audit and tax return preparation services and assistance and consultation in connection with the review of various SEC filings. The financial statements incorporated by reference in this SAI and the financial highlights included in the Prospectus have been so included, in reliance upon the report of Price Waterhouse LLP given on the authority of said firm as experts in accounting and auditing.

The financial statements and Report of Independent Accountants appearing on pages 3 through 13 of the October 31, 1994 Annual Report, and the financial statements appearing on pages 6 through 24 of the April 30, 1995 Semiannual Report (unaudited), are incorporated in this SAI by reference.

STATEMENT OF ADDITIONAL INFORMATION

PART 2

The following information applies generally to your Fund and to the other Colonial funds. In certain cases the discussion applies to some but not all of the funds, and you should refer to your Fund's Prospectus and to Part 1 of this SAI to determine whether the matter is applicable to your Fund. You will also be referred to Part 1 for certain data applicable to your Fund.

MISCELLANEOUS INVESTMENT PRACTICES

Part 1 of this Statement lists on page b which of the following investment practices are available to your Fund.

Short-Term Trading

In seeking the Fund's objective, Colonial will buy or sell portfolio securities whenever Colonial believes it appropriate. Colonial's decision will not generally be influenced by how long the Fund may have owned the security. From time to time the Fund will buy securities intending to seek short-term trading profits. A change in the securities held by the Fund is known as "portfolio turnover" and generally involves some expense to the Fund. These expenses may include brokerage commissions or dealer mark-ups and other transaction costs on both the sale of securities and the reinvestment of the proceeds in other securities. If sales of portfolio securities cause the Fund to realize net short-term capital gains, such gains will be taxable as ordinary income. As a result of the Fund's investment policies, under certain market conditions the Fund's portfolio turnover rate may be higher than that of other mutual funds. Portfolio turnover rate for a fiscal year is the ratio of the lesser of purchases or sales of portfolio securities to the monthly average of the value of portfolio securities, excluding securities whose maturities at acquisition were one year or less. The Fund's portfolio turnover rate is not a limiting factor when Colonial considers a change in the Fund's portfolio.

Lower Rated Bonds

Lower rated bonds are those rated lower than Baa by Moody's, BBB by S&P, or comparable unrated securities. Relative to comparable securities of higher quality:

1. the market price is likely to be more volatile because:
 - a. an economic downturn or increased interest rates may have a more significant effect on the yield, price and potential for default;
 - b. the secondary market may at times become less liquid or respond to adverse publicity or investor perceptions, increasing the difficulty in valuing or disposing of the bonds;
 - c. existing or future legislation limits and may further limit (i) investment by certain institutions or (ii) tax deductibility of the interest by the issuer, which may adversely affect value; and
 - d. certain lower rated bonds do not pay interest in cash on a current basis. However, the Fund will accrue and distribute this interest on a current basis, and may have to sell securities to generate cash for distributions.
2. the Fund's achievement of its investment objective is more dependent on Colonial's credit analysis.
3. lower rated bonds are less sensitive to interest rate changes, but are more sensitive to adverse economic developments.

Small Companies

Smaller, less well established companies may offer greater opportunities for capital appreciation than larger, better established companies, but may also involve certain special risks related to limited product lines, markets, or financial resources and dependence on a small management group. Their securities may trade less frequently, in smaller volumes, and fluctuate more sharply in value than securities of larger companies.

Foreign Securities

The Fund may invest in securities traded in markets outside the United States. Foreign investments can be affected favorably or unfavorably by changes in currency rates and in exchange control regulations. There may be less publicly available information about a foreign company than about a U.S. company, and foreign companies may not be subject to accounting, auditing and financial reporting standards comparable to those applicable to U.S. companies. Securities of some foreign companies are less liquid or more volatile than securities of U.S. companies, and foreign brokerage commissions and custodian fees may be higher than in the United States. Investments in foreign securities can involve other risks different from those affecting U.S. investments, including local political or economic developments, expropriation or nationalization of assets and imposition of withholding taxes on dividend or interest payments. Foreign securities, like other assets of the Fund, will be held by the Fund's custodian or by a subcustodian or depository. See also "Foreign Currency Transactions" below.

The Fund may invest in certain Passive Foreign Investment Companies (PFICs) which may be subject to U.S. federal income tax on a portion of any "excess distribution" or gain (PFIC tax) related to the investment. The PFIC tax is the highest ordinary income rate and it could be increased by an interest charge on the deemed tax deferral.

The Fund may possibly elect to include in its income its pro rata share of the ordinary earnings and net capital gain of PFICs. This election requires certain annual information from the PFICs which in many cases may be difficult to obtain. An alternative election would permit the Fund to recognize as income any appreciation (but not depreciation) on its holdings of PFICs as of the end of its fiscal year.

Zero Coupon Securities (Zeros)

The Fund may invest in debt securities which do not pay interest, but

instead are issued at a deep discount from par. The value of the security increases over time to reflect the interest accreted. The value of these securities may fluctuate more than similar securities which are issued at par and pay interest periodically. Although these securities pay no interest to holders prior to maturity, interest on these securities is reported as income to the Fund and distributed to its shareholders. These distributions must be made from the Fund's cash assets or, if necessary, from the proceeds of sales of portfolio securities. The Fund will not be able to purchase additional income producing securities with cash used to make such distributions and its current income ultimately may be reduced as a result.

Step Coupon Bonds (Steps)

The Fund may invest in debt securities which do not pay interest for a stated period of time and then pay interest at a series of different rates for a series of periods. In addition to the risks associated with the credit rating of the issuers, these securities are subject to the volatility risk of zero coupon bonds for the period when no interest is paid.

Pay-In-Kind (PIK) Securities

The Fund may invest in securities which pay interest either in cash or additional securities at the issuer's option. These securities are generally high yield securities and in addition to the other risks associated with investing in high yield securities are subject to the risks that the interest payments that are securities are also subject to the risks of high yield securities.

Money Market Instruments

Government obligations are issued by the U.S. or foreign government, its subdivisions, agencies and instrumentalities. Supranational obligations are issued by supranational entities and are generally designed to promote economic improvements. Certificates of deposits are issued against funds deposited in a commercial bank with a defined return and maturity. Banker's acceptances are used to finance the import, export or storage of goods and are "accepted" when guaranteed at maturity by a bank. Commercial paper are promissory notes issued by businesses to finance short-term needs (including those with floating or variable interest rates, or including a frequent interval put feature). Short-term corporate obligations are bonds and notes (with one year or less to maturity at the time of purchase) issued by businesses to finance long-term needs. Participation Interests include the underlying securities and any related guaranty, letter of credit, or collateralization arrangement which the Fund would be allowed to invest in directly.

Securities Loans

The Fund may make secured loans of its portfolio securities amounting to not more than the percentage of its total assets specified in Part 1 of this SAI, thereby realizing additional income. The risks in lending portfolio securities, as with other extensions of credit, consist of possible delay in recovery of the securities or possible loss of rights in the collateral should the borrower fail financially. As a matter of policy, securities loans are made to banks and broker-dealers pursuant to agreements requiring that loans be continuously secured by collateral in cash or short-term debt obligations at least equal at all times to the value of the securities on loan. The borrower pays to the Fund an amount equal to any dividends or interest received on securities lent. The Fund retains all or a portion of the interest received on investment of the cash collateral or receives a fee from the borrower. Although voting rights, or rights to consent, with respect to the loaned securities pass to the borrower, the Fund retains the right to call the loans at any time on reasonable notice, and it will do so in order that the securities may be voted by the Fund if the holders of such securities are asked to vote upon or consent to matters materially affecting the investment. The Fund may also call such loans in order to sell the securities involved.

Forward Commitments

The Fund may enter into contracts to purchase securities for a fixed price at a future date beyond customary settlement time ("forward commitments" and "when issued securities") if the Fund holds until the settlement date, in a segregated account, cash or high-grade debt obligations in an amount sufficient to meet the purchase price, or if the Fund enters into offsetting contracts for the forward sale of other securities it owns. Forward commitments may be considered securities in themselves, and involve a risk of loss if the value of the security to be purchased declines prior to the settlement date.

Where such purchases are made through dealers, the Fund relies on the dealer to consummate the sale. The dealer's failure to do so may result in the loss to the Fund of an advantageous yield or price. Although the Fund will generally enter into forward commitments with the intention of acquiring securities for its portfolio or for delivery pursuant to options contracts it has entered into, the Fund may dispose of a commitment prior to settlement if Colonial deems it appropriate to do so. The Fund may realize short-term profits or losses upon the sale of forward commitments.

Repurchase Agreements

The Fund may enter into repurchase agreements. A repurchase agreement is a contract under which the Fund acquires a security for a relatively short period (usually not more than one week) subject to the obligation of the seller to repurchase and the Fund to resell such security at a fixed time and price (representing the Fund's cost plus interest). It is the Fund's present intention to enter into repurchase agreements only with commercial banks and registered broker-dealers and only with respect to obligations of the U.S. government or its agencies or instrumentalities. Repurchase agreements may also be viewed as loans made by the Fund which are collateralized by the securities subject to repurchase. Colonial will monitor such transactions to determine that the value of the underlying securities is at least equal at all times to the total amount of the repurchase obligation, including the interest factor. If the seller defaults, the Fund could realize a loss on the sale of the underlying security to the extent that the proceeds of sale including accrued interest are less than the resale price provided in the agreement including interest. In addition, if the seller should be involved in bankruptcy or insolvency proceedings, the Fund may incur delay and costs in selling the underlying security or may suffer a loss of principal and interest if the Fund is treated as an unsecured creditor and required to return the underlying collateral to the seller's estate.

Reverse Repurchase Agreements

In a reverse repurchase agreement, a Fund sells a security and agrees to repurchase the same security at a mutually agreed upon date and price. A reverse repurchase agreement may also be viewed as the borrowing of money by the Fund and, therefore, as a form of leverage. The Fund will invest the proceeds of borrowings under reverse repurchase agreements. In addition, a Fund will enter into a reverse repurchase agreement only when the interest income expected to be earned from the investment of the proceeds is greater than the interest expense of the transaction. A Fund will not invest the proceeds of a reverse repurchase agreement for a period which exceeds the duration of the reverse repurchase agreement. A Fund may not enter into reverse repurchase agreements exceeding in the aggregate one-third of the market value of its total assets, less liabilities other than the obligations created by reverse repurchase agreements. Each Fund will establish and maintain with its custodian a separate account with a segregated portfolio of securities in an amount at least equal to its purchase obligations under its reverse repurchase agreements. If interest rates rise during the term of a reverse repurchase agreement, entering into the reverse repurchase agreement may have a negative impact on a money market fund's ability to maintain a net asset value of \$1.00 per share.

Options on Securities

Writing covered options. The Fund may write covered call options and covered put options on securities held in its portfolio when, in the opinion of Colonial, such transactions are consistent with the Fund's investment objectives and policies. Call options written by the Fund give the purchaser the right to buy the underlying securities from the Fund at a stated exercise price; put options give the purchaser the right to sell the underlying securities to the Fund at a stated price.

The Fund may write only covered options, which means that, so long as the Fund is obligated as the writer of a call option, it will own the underlying securities subject to the option (or comparable securities satisfying the cover requirements of securities exchanges). In the case of put options, the Fund will hold cash and/or high-grade short-term debt obligations equal to the price to be paid if the option is exercised. In addition, the Fund will be considered to have covered a put or call option if and to the extent that it holds an option that offsets some or all of the risk of the option it has written. The Fund may write combinations of covered puts and calls on the same underlying security.

The Fund will receive a premium from writing a put or call option, which increases the Fund's return on the underlying security if the option expires unexercised or is closed out at a profit. The amount of the premium reflects, among other things, the relationship between the exercise price and the current market value of the underlying security, the volatility of the underlying security, the amount of time remaining until expiration, current interest rates, and the effect of supply and demand in the options market and in the market for the underlying security. By writing a call option, the Fund limits its opportunity to profit from any increase in the market value of the underlying security above the exercise price of the option but continues to bear the risk of a decline in the value of the underlying security. By writing a put option, the Fund assumes the risk that it may be required to purchase the underlying security for an exercise price higher than its then-current market value, resulting in a potential capital loss unless the security subsequently appreciates in value.

The Fund may terminate an option that it has written prior to its expiration by entering into a closing purchase transaction in which it purchases an offsetting option. The Fund realizes a profit or loss from a closing transaction if the cost of the transaction (option premium plus transaction costs) is less or more than the premium received from writing the option. Because increases in the market price of a call option generally reflect increases in the market price of the security underlying the option, any loss resulting from a closing purchase transaction may be offset in whole or in part by unrealized appreciation of the underlying security.

If the Fund writes a call option but does not own the underlying security, and when it writes a put option, the Fund may be required to deposit cash or securities with its broker as "margin" or collateral for its obligation to buy or sell the underlying security. As the value of the underlying security varies, the Fund may have to deposit additional margin with the broker. Margin requirements are complex and are fixed by individual brokers, subject to minimum requirements currently imposed by the Federal Reserve Board and by stock exchanges and other self-regulatory organizations.

Purchasing put options. The Fund may purchase put options to protect its portfolio holdings in an underlying security against a decline in market value. Such hedge protection is provided during the life of the put option since the Fund, as holder of the put option, is able to sell the underlying security at the put exercise price regardless of any decline in the underlying security's market price. For a put option to be profitable, the market price of the underlying security must decline sufficiently below the exercise price to cover the premium and transaction costs. By using put options in this manner, the Fund will reduce any profit it might otherwise have realized from appreciation of the underlying security by the premium paid for the put option and by transaction costs.

Purchasing call options. The Fund may purchase call options to hedge against an increase in the price of securities that the Fund wants ultimately to buy. Such hedge protection is provided during the life of the call option since the Fund, as holder of the call option, is able to buy the underlying security at the exercise price regardless of any increase in the underlying security's market price. In order for a call option to be profitable, the market price of the underlying security must rise sufficiently above the exercise price to cover the premium and transaction costs. These costs will reduce any profit the Fund might have realized had it bought the underlying security at the time it purchased the call option.

Over-the-Counter (OTC) options. The Staff of the Division of Investment Management of the Securities and Exchange Commission has taken the position that OTC options purchased by the Fund and assets held to cover OTC options written by the Fund are illiquid securities. Although the Staff has indicated that it is continuing to evaluate this issue, pending further developments, the Fund intends to enter into OTC options transactions only with primary dealers in U.S. Government Securities and, in the case of OTC options written by the Fund, only pursuant to agreements that will assure that the Fund will at all times have the right to repurchase the option written by it from the dealer at a specified formula price. The Fund will treat the amount by which such formula price exceeds the amount, if any, by which the option may be "in-the-money" as an illiquid investment. It is the present policy of the Fund not to enter into any OTC option transaction if, as a result, more than 15%

(10% in some cases, refer to your Fund's Prospectus) of the Fund's net assets would be invested in (i) illiquid investments (determined under the foregoing formula) relating to OTC options written by the Fund, (ii) OTC options purchased by the Fund, (iii) securities which are not readily marketable, and (iv) repurchase agreements maturing in more than seven days.

Risk factors in options transactions. The successful use of the Fund's options strategies depends on the ability of Colonial to forecast interest rate and market movements correctly.

When it purchases an option, the Fund runs the risk that it will lose its entire investment in the option in a relatively short period of time, unless the Fund exercises the option or enters into a closing sale transaction with respect to the option during the life of the option. If the price of the underlying security does not rise (in the case of a call) or fall (in the case of a put) to an extent sufficient to cover the option premium and transaction costs, the Fund will lose part or all of its investment in the option. This contrasts with an investment by the Fund in the underlying securities, since the Fund may continue to hold its investment in those securities notwithstanding the lack of a change in price of those securities.

The effective use of options also depends on the Fund's ability to terminate option positions at times when Colonial deems it desirable to do so. Although the Fund will take an option position only if Colonial believes there is a liquid secondary market for the option, there is no assurance that the Fund will be able to effect closing transactions at any particular time or at an acceptable price.

If a secondary trading market in options were to become unavailable, the Fund could no longer engage in closing transactions. Lack of investor interest might adversely affect the liquidity of the market for particular options or series of options. A marketplace may discontinue trading of a particular option or options generally. In addition, a market could become temporarily unavailable if unusual events -- such as volume in excess of trading or clearing capability -- were to interrupt normal market operations.

A marketplace may at times find it necessary to impose restrictions on particular types of options transactions, which may limit the Fund's ability to realize its profits or limit its losses.

Disruptions in the markets for the securities underlying options purchased or sold by the Fund could result in losses on the options. If trading is interrupted in an underlying security, the trading of options on that security is normally halted as well. As a result, the Fund as purchaser or writer of an option will be unable to close out its positions until options trading resumes, and it may be faced with losses if trading in the security reopens at a substantially different price. In addition, the Options Clearing Corporation (OCC) or other options markets may impose exercise restrictions. If a prohibition on exercise is imposed at the time when trading in the option has also been halted, the Fund as purchaser or writer of an option will be locked into its position until one of the two restrictions has been lifted. If a prohibition on exercise remains in effect until an option owned by the Fund has expired, the Fund could lose the entire value of its option.

Special risks are presented by internationally-traded options. Because of time differences between the United States and the various foreign countries, and because different holidays are observed in different countries, foreign options markets may be open for trading during hours or on days when U.S. markets are closed. As a result, option premiums may not reflect the current prices of the underlying interest in the United States.

Futures Contracts and Related Options

The Fund will enter into futures contracts only when, in compliance with the SEC's requirements, cash or cash equivalents, (or, in the case of a fund investing primarily in foreign equity securities, such equity securities), equal in value to the commodity value (less any applicable margin deposits) have been deposited in a segregated account of the Fund's custodian.

A futures contract sale creates an obligation by the seller to deliver the type of instrument called for in the contract in a specified delivery month for a stated price. A futures contract purchase creates an obligation by the purchaser to take delivery of

the type of instrument called for in the contract in a specified delivery month at a stated price. The specific instruments delivered or taken at settlement date are not determined until on or near that date. The determination is made in accordance with the rules of the exchanges on which the futures contract was made. Futures contracts are traded in the United States only on commodity exchange or boards of trade -- known as "contract markets" -- approved for such trading by the Commodity Futures Trading Commission (CFTC), and must be executed through a futures commission merchant or brokerage firm which is a member of the relevant contract market.

Although futures contracts by their terms call for actual delivery or acceptance of commodities or securities, the contracts usually are closed out before the settlement date without the making or taking of delivery. Closing out a futures contract sale is effected by purchasing a futures contract for the same aggregate amount of the specific type of financial instrument or commodity with the same delivery date. If the price of the initial sale of the futures contract exceeds the price of the offsetting purchase, the seller is paid the difference and realizes a gain. Conversely, if the price of the offsetting purchase exceeds the price of the initial sale, the seller realizes a loss. Similarly, the closing out of a futures contract purchase is effected by the purchaser's entering into a futures contract sale. If the offsetting sale price exceeds the purchase price, the purchaser realizes a gain, and if the purchase price exceeds the offsetting sale price, the purchaser realizes a loss.

Unlike when the Fund purchases or sells a security, no price is paid or received by the Fund upon the purchase or sale of a futures contract, although the Fund is required to deposit with its custodian in a segregated account in the name of the futures broker an amount of cash and/or U.S. Government Securities. This amount is known as "initial margin". The nature of initial margin in futures transactions is different from that of margin in security transactions in that futures contract margin does not involve the borrowing of funds by the Fund to finance the transactions. Rather, initial margin is in the nature of a performance bond or good faith deposit on the contract that is returned to the Fund upon termination of the futures contract, assuming all contractual obligations have been satisfied. Futures contracts also involve brokerage costs.

Subsequent payments, called "variation margin", to and from the broker (or the custodian) are made on a daily basis as the price of the underlying security or commodity fluctuates, making the long and short positions in the futures contract more or less valuable, a process known as "marking to market."

The Fund may elect to close some or all of its futures positions at any time prior to their expiration. The purpose of making such a move would be to reduce or eliminate the hedge position then currently held by the Fund. The Fund may close its positions by taking opposite positions which will operate to terminate the Fund's position in the futures contracts. Final determinations of variation margin are then made, additional cash is required to be paid by or released to the Fund, and the Fund realizes a loss or a gain. Such closing transactions involve additional commission costs.

Options on futures contracts. The Fund will enter into written options on futures contracts only when, in compliance with the SEC's requirements, cash or equivalents equal in value to the commodity value (less any applicable margin deposits) have been deposited in a segregated account of the Fund's custodian. The Fund may purchase and write call and put options on futures contracts it may buy or sell and enter into closing transactions with respect to such options to terminate existing positions. The Fund may use such options on futures contracts in lieu of writing options directly on the underlying securities or purchasing and selling the underlying futures contracts. Such options generally operate in the same manner as options purchased or written directly on the underlying investments.

As with options on securities, the holder or writer of an option may terminate his position by selling or purchasing an offsetting option. There is no guarantee that such closing transactions can be effected.

The Fund will be required to deposit initial margin and maintenance margin with respect to put and call options on futures contracts written by it pursuant to brokers' requirements similar to those described above.

Risks of transactions in futures contracts and related options. Successful use of futures contracts by the Fund is subject to Colonial's ability to predict correctly movements in the direction of interest rates and other factors affecting securities markets.

Compared to the purchase or sale of futures contracts, the purchase of call or put options on futures contracts involves less potential risk to the Fund because the maximum amount at risk is the premium paid for the options (plus transaction costs). However, there may be circumstances when the purchase of a call or put option on a futures contract would result in a loss to the Fund when the purchase or sale of a futures contract would not, such as when there is no movement in the prices of the hedged investments. The writing of an option on a futures contract involves risks similar to those risks relating to the sale of futures contracts.

There is no assurance that higher than anticipated trading activity or other unforeseen events might not, at times, render certain market clearing facilities inadequate, and thereby result in the institution, by exchanges, of special procedures which may interfere with the timely execution of customer orders.

To reduce or eliminate a hedge position held by the Fund, the Fund may seek to close out a position. The ability to establish and close out positions will be subject to the development and maintenance of a liquid secondary market. It is not certain that this market will develop or continue to exist for a particular futures contract. Reasons for the absence of a liquid secondary market on an exchange include the following: (i) there may be insufficient trading interest in certain contracts or options; (ii) restrictions may be imposed by an exchange on opening transactions or closing transactions or both; (iii) trading halts, suspensions or other restrictions may be imposed with respect to particular classes or series of contracts or options, or underlying securities; (iv) unusual or unforeseen circumstances may interrupt normal operations on an exchange; (v) the facilities of an exchange or a clearing corporation may not at all times be adequate to handle current trading volume; or (vi) one or more exchanges could, for economic or other reasons, decide or be compelled at some future date to discontinue the trading of contracts or options (or a particular class or series of contracts or options), in which event the secondary market on that exchange (or in the class or series of contracts or options) would cease to exist, although outstanding contracts or options on the exchange that had been issued by a clearing corporation as a result of trades on that exchange would continue to be exercisable in accordance with their terms.

Use by tax-exempt funds of U.S. Treasury security futures contracts and options. A Fund investing in tax-exempt securities issued by a governmental entity may purchase and sell futures contracts and related options on U.S. Treasury securities when, in the opinion of Colonial, price movements in Treasury security futures and related options will correlate closely with price movements in the tax-exempt securities which are the subject of the hedge. U.S. Treasury securities futures contracts require the seller to deliver, or the purchaser to take delivery of, the type of U.S. Treasury security called for in the contract at a specified date and price. Options on U.S. Treasury security futures contracts give the purchaser the right in return for the premium paid to assume a position in a U.S. Treasury futures contract at the specified option exercise price at any time during the period of the option.

In addition to the risks generally involved in using futures contracts, there is also a risk that price movements in U.S. Treasury security futures contracts and related options will not correlate closely with price movements in markets for tax-exempt securities.

Index futures contracts. An index futures contract is a contract to buy or sell units of an index at a specified future date at a price agreed upon when the contract is made. Entering into a contract to buy units of an index is commonly referred to as buying or purchasing a contract or holding a long position in the index. Entering into a contract to sell units of an index is commonly referred to as selling a contract or holding a short position. A unit is the current value of the index. The Fund may enter into stock index futures contracts, debt index futures contracts, or other index futures contracts appropriate to its objective(s). The Fund may also purchase and sell options on index futures contracts.

There are several risks in connection with the use by the Fund of index futures as a hedging device. One risk arises because of the imperfect correlation between movements in the prices of the index futures and movements in the prices of securities which are the subject of the hedge. Colonial will attempt to reduce this risk by selling, to the extent possible, futures on indices the movements of which will, in its judgment, have a significant correlation with movements in the prices of the Fund's portfolio securities sought to be hedged.

Successful use of the index futures by the Fund for hedging purposes is also subject to Colonial's ability to predict correctly movements in the direction of the market. It is possible that, where the Fund has sold futures to hedge its portfolio against a decline in the market, the index on which the futures are written may advance and the value of securities held in the Fund's portfolio may decline. If this occurs, the Fund would lose money on the futures and also experience a decline in the value in its portfolio securities. However, while this could occur to a certain degree, Colonial believes that over time the value of the Fund's portfolio will tend to move in the same direction as the market indices which are intended to correlate to the price movements of the portfolio securities sought to be hedged. It is also possible that, if the Fund has hedged against the possibility of a decline in the market adversely affecting securities held in its portfolio and securities prices increase instead, the Fund will lose part or all of the benefit of the increased value of those securities that it has hedged because it will have offsetting losses in its futures positions. In addition, in such situations, if the Fund has insufficient cash, it may have to sell securities to meet daily variation margin requirements.

In addition to the possibility that there may be an imperfect correlation, or no correlation at all, between movements in the index futures and the securities of the portfolio being hedged, the prices of index futures may not correlate perfectly with movements in the underlying index due to certain market distortions. First, all participants in the futures markets are subject to margin deposit and maintenance requirements. Rather than meeting additional margin deposit requirements, investors may close futures contracts through offsetting transactions which would distort the normal relationship between the index and futures markets. Second, margin requirements in the futures market are less onerous than margin requirements in the securities market, and as a result the futures market may attract more speculators than the securities market. Increased participation by speculators in the futures market may also cause temporary price distortions. Due to the possibility of price distortions in the futures market and also because of the imperfect correlation between movements in the index and movements in the prices of index futures, even a correct forecast of general market trends by Colonial may still not result in a successful hedging transaction.

Options on index futures. Options on index futures are similar to options on securities except that options on index futures give the purchaser the right, in return for the premium paid, to assume a position in an index futures contract (a long position if the option is a call and a short position if the option is a put), at a specified exercise price at any time during the period of the option. Upon exercise of the option, the delivery of the futures position by the writer of the option to the holder of the option will be accompanied by delivery of the accumulated balance in the writer's futures margin account which represents the amount by which the market price of the index futures contract, at exercise, exceeds (in the case of a call) or is less than (in the case of a put) the exercise price of the option on the index future. If an option is exercised on the last trading day prior to the expiration date of the option, the settlement will be made entirely in cash equal to the difference between the exercise price of the option and the closing level of the index on which the future is based on the expiration date. Purchasers of options who fail to exercise their options prior to the exercise date suffer a loss of the premium paid.

Options on indices. As an alternative to purchasing call and put options on index futures, the Fund may purchase call and put options on the underlying indices themselves. Such options could be used in a manner identical to the use of options on index futures.

Foreign Currency Transactions

The Fund may engage in currency exchange transactions to protect against uncertainty in the level of future currency exchange rates.

The Fund may engage in both "transaction hedging" and "position hedging". When it engages in transaction hedging, the Fund enters into foreign currency transactions with respect to specific receivables or payables of the Fund generally arising in connection with the purchase or sale of its portfolio securities. The Fund will engage in transaction hedging when it desires to "lock in" the U.S. dollar price of a security it has agreed to purchase or sell, or the U.S. dollar equivalent of a dividend or interest payment in a foreign currency. By transaction hedging the Fund attempts to protect itself against a possible loss resulting from an adverse change in the relationship between the U.S. dollar and the applicable foreign currency during the period between the date on which the security is purchased or sold, or on which the dividend or interest payment is declared, and the date on which such payments are made or received.

The Fund may purchase or sell a foreign currency on a spot (or cash) basis at the prevailing spot rate in connection with the settlement of transactions in portfolio securities denominated in that foreign currency. The Fund may also enter into contracts to purchase or sell foreign currencies at a future date ("forward contracts") and purchase and sell foreign currency futures contracts.

For transaction hedging purposes the Fund may also purchase exchange-listed and over-the-counter call and put options on foreign currency futures contracts and on foreign currencies. Over-the-counter options are considered to be illiquid by the SEC staff. A put option on a futures contract gives the Fund the right to assume a short position in the futures contract until expiration of the option. A put option on currency gives the Fund the right to sell a currency at an exercise price until the expiration of the option. A call option on a futures contract gives the Fund the right to assume a long position in the futures contract until the expiration of the option. A call option on currency gives the Fund the right to purchase a currency at the exercise price until the expiration of the option.

When it engages in position hedging, the Fund enters into foreign currency exchange transactions to protect against a decline in the values of the foreign currencies in which its portfolio securities are denominated (or an increase in the value of currency for securities which the Fund expects to purchase, when the Fund holds cash or short-term investments). In connection with position hedging, the Fund may purchase put or call options on foreign currency and foreign currency futures contracts and buy or sell forward contracts and foreign currency futures contracts. The Fund may also purchase or sell foreign currency on a spot basis.

The precise matching of the amounts of foreign currency exchange transactions and the value of the portfolio securities involved will not generally be possible since the future value of such securities in foreign currencies will change as a consequence of market movements in the value of those securities between the dates the currency exchange transactions are entered into and the dates they mature.

It is impossible to forecast with precision the market value of portfolio securities at the expiration or maturity of a forward or futures contract. Accordingly, it may be necessary for the Fund to purchase additional foreign currency on the spot market (and bear the expense of such purchase) if the market value of the security or securities being hedged is less than the amount of foreign currency the Fund is obligated to deliver and if a decision is made to sell the security or securities and make delivery of the foreign currency. Conversely, it may be necessary to sell on the spot market some of the foreign currency received upon the sale of the portfolio security or securities if the market value of such security or securities exceeds the amount of foreign currency the Fund is obligated to deliver.

Transaction and position hedging do not eliminate fluctuations in the underlying prices of the securities which the Fund owns or intends to purchase or sell. They simply establish a rate of exchange which one can achieve at some future point in time. Additionally, although these techniques tend to minimize the risk of loss due to a decline in the value of the hedged currency, they tend to limit any potential gain which might result from the increase in value of such currency.

Currency forward and futures contracts. The Fund will enter into such contracts only when, in compliance with the SEC's requirements, cash or equivalents equal in value to the commodity value (less any

applicable margin deposits) have been deposited in a segregated account of the Fund's custodian. A forward currency contract involves an obligation to purchase or sell a specific currency at a future date, which may be any fixed number of days from the date of the contract as agreed by the parties, at a price set at the time of the contract. In the case of a cancelable contract, the holder has the unilateral right to cancel the contract at maturity by paying a specified fee. The contracts are traded in the interbank market conducted directly between currency traders (usually large commercial banks) and their customers. A contract generally has no deposit requirement, and no commissions are charged at any stage for trades. A currency futures contract is a standardized contract for the future delivery of a specified amount of a foreign currency at a future date at a price set at the time of the contract. Currency futures contracts traded in the United States are designed and traded on exchanges regulated by the CFTC, such as the New York Mercantile Exchange.

Forward currency contracts differ from currency futures contracts in certain respects. For example, the maturity date of a forward contract may be any fixed number of days from the date of the contract agreed upon by the parties, rather than a predetermined date in a given month. Forward contracts may be in any amounts agreed upon by the parties rather than predetermined amounts. Also, forward contracts are traded directly between currency traders so that no intermediary is required. A forward contract generally requires no margin or other deposit.

At the maturity of a forward or futures contract, the Fund may either accept or make delivery of the currency specified in the contract, or at or prior to maturity enter into a closing transaction involving the purchase or sale of an offsetting contract. Closing transactions with respect to forward contracts are usually effected with the currency trader who is a party to the original forward contract. Closing transactions with respect to futures contracts are effected on a commodities exchange; a clearing corporation associated with the exchange assumes responsibility for closing out such contracts.

Positions in currency futures contracts may be closed out only on an exchange or board of trade which provides a secondary market in such contracts. Although the Fund intends to purchase or sell currency futures contracts only on exchanges or boards of trade where there appears to be an active secondary market, there is no assurance that a secondary market on an exchange or board of trade will exist for any particular contract or at any particular time. In such event, it may not be possible to close a futures position and, in the event of adverse price movements, the Fund would continue to be required to make daily cash payments of variation margin.

Currency options. In general, options on currencies operate similarly to options on securities and are subject to many similar risks. Currency options are traded primarily in the over-the-counter market, although options on currencies have recently been listed on several exchanges. Options are traded not only on the currencies of individual nations, but also on the European Currency Unit ("ECU"). The ECU is composed of amounts of a number of currencies, and is the official medium of exchange of the European Economic Community's European Monetary System.

The Fund will only purchase or write currency options when Colonial believes that a liquid secondary market exists for such options. There can be no assurance that a liquid secondary market will exist for a particular option at any specified time. Currency options are affected by all of those factors which influence exchange rates and investments generally. To the extent that these options are traded over the counter, they are considered to be illiquid by the SEC staff.

The value of any currency, including the U.S. dollars, may be affected by complex political and economic factors applicable to the issuing country. In addition, the exchange rates of currencies (and therefore the values of currency options) may be significantly affected, fixed, or supported directly or indirectly by government actions. Government intervention may increase risks involved in purchasing or selling currency options, since exchange rates may not be free to fluctuate in respect to other market forces.

The value of a currency option reflects the value of an exchange rate, which in turn reflects relative values of two currencies, the U.S. dollar and the foreign currency in question. Because currency

transactions occurring in the interbank market involve substantially larger amounts than those that may be involved in the exercise of currency options, investors may be disadvantaged by having to deal in an odd lot market for the underlying currencies in connection with options at prices that are less favorable than for round lots. Foreign governmental restrictions or taxes could result in adverse changes in the cost of acquiring or disposing of currencies.

There is no systematic reporting of last sale information for currencies and there is no regulatory requirement that quotations available through dealers or other market sources be firm or revised on a timely basis. Available quotation information is generally representative of very large round-lot transactions in the interbank market and thus may not reflect exchange rates for smaller odd-lot transactions (less than \$1 million) where rates may be less favorable. The interbank market in currencies is a global, around-the-clock market. To the extent that options markets are closed while the markets for the underlying currencies remain open, significant price and rate movements may take place in the underlying markets that cannot be reflected in the options markets.

Settlement procedures. Settlement procedures relating to the Fund's investments in foreign securities and to the Fund's foreign currency exchange transactions may be more complex than settlements with respect to investments in debt or equity securities of U.S. issuers, and may involve certain risks not present in the Fund's domestic investments, including foreign currency risks and local custom and usage. Foreign currency transactions may also involve the risk that an entity involved in the settlement may not meet its obligations.

Foreign currency conversion. Although foreign exchange dealers do not charge a fee for currency conversion, they do realize a profit based on the difference (spread) between prices at which they are buying and selling various currencies. Thus, a dealer may offer to sell a foreign currency to the Fund at one rate, while offering a lesser rate of exchange should the Fund desire to resell that currency to the dealer. Foreign currency transactions may also involve the risk that an entity involved in the settlement may not meet its obligation.

Participation Interests

The Fund may invest in municipal obligations either by purchasing them directly or by purchasing certificates of accrual or similar instruments evidencing direct ownership of interest payments or principal payments, or both, on municipal obligations, provided that, in the opinion of counsel to the initial seller of each such certificate or instrument, any discount accruing on such certificate or instrument that is purchased at a yield not greater than the coupon rate of interest on the related municipal obligations will be exempt from federal income tax to the same extent as interest on such municipal obligations. The Fund may also invest in tax-exempt obligations by purchasing from banks participation interests in all or part of specific holdings of municipal obligations. Such participations may be backed in whole or part by an irrevocable letter of credit or guarantee of the selling bank. The selling bank may receive a fee from the Fund in connection with the arrangement. The Fund will not purchase such participation interests unless it receives an opinion of counsel or a ruling of the Internal Revenue Service that interest earned by it on municipal obligations in which it holds such participation interests is exempt from federal income tax.

Stand-by Commitments

When the Fund purchases municipal obligations it may also acquire stand-by commitments from banks and broker-dealers with respect to such municipal obligations. A stand-by commitment is the equivalent of a put option acquired by the Fund with respect to a particular municipal obligation held in its portfolio. A stand-by commitment is a security independent of the municipal obligation to which it relates. The amount payable by a bank or dealer during the time a stand-by commitment is exercisable, absent unusual circumstances relating to a change in market value, would be substantially the same as the value of the underlying municipal obligation. A stand-by commitment might not be transferable by the Fund, although it could sell the underlying municipal obligation to a third party at any time.

The Fund expects that stand-by commitments generally will be available without the payment of direct or indirect consideration. However, if necessary and advisable, the Fund may pay for stand-by

commitments either separately in cash or by paying a higher price for portfolio securities which are acquired subject to such a commitment (thus reducing the yield to maturity otherwise available for the same securities.) The total amount paid in either manner for outstanding stand-by commitments held in the Fund portfolio will not exceed 10% of the value of the Fund's total assets calculated immediately after each stand-by commitment is acquired. The Fund will enter into stand-by commitments only with banks and broker-dealers that, in the judgment of the Board of Trustees, present minimal credit risks.

Inverse Floaters

Inverse floaters are derivative securities whose interest rates vary inversely to changes in short-term interest rates and whose values fluctuate inversely to changes in long-term interest rates. The value of certain inverse floaters will fluctuate substantially more in response to a given change in long-term rates than would a traditional debt security. These securities have investment characteristics similar to leverage, in that interest rate changes have a magnified effect on the value of inverse floaters.

TAXES

All discussions of taxation at the shareholder level relate to federal taxes only. Consult your tax adviser for state and local tax considerations and for information about special tax considerations that may apply to shareholders that are not natural persons.

Dividends Received Deductions. Distributions will qualify for the corporate dividends received deduction only to the extent that dividends earned by the Fund qualify. Any such dividends are, however, includable in adjusted current earnings for purposes of computing corporate AMT.

Return of Capital Distributions. To the extent that a distribution is a return of capital for federal tax purposes, it reduces the cost basis of the shares on the record date and is similar to a partial return of the original investment (on which a sales charge may have been paid). There is no recognition of a gain or loss, however, unless the return of capital reduces the cost basis in the shares to below zero.

Funds that invest in U.S. Government Securities. Many states grant tax-free status to dividends paid to shareholders of mutual funds from interest income earned by the Fund from direct obligations of the U.S. government. Investments in mortgage-backed securities (including GNMA, FNMA and FHLMC Securities) and repurchase agreements collateralized by U.S. government securities do not qualify as direct federal obligations in most states. Shareholders should consult with their own tax advisers about the applicability of state and local intangible property, income or other taxes to their Fund shares and distributions and redemption proceeds received from the Fund.

Distributions from Tax-Exempt Funds. Each tax-exempt Fund will have at least 50% of its total assets invested in tax-exempt bonds at the end of each quarter so that dividends from net interest income on tax-exempt bonds will be exempt from Federal income tax when received by a shareholder. The tax-exempt portion of dividends paid will be designated within 60 days after year end based upon the ratio of net tax-exempt income to total net investment income earned during the year. That ratio may be substantially different than the ratio of net tax-exempt income to total net investment income earned during any particular portion of the year. Thus, a shareholder who holds shares for only a part of the year may be allocated more or less tax-exempt dividends than would be the case if the allocation were based on the ratio of net tax-exempt income to total net investment income actually earned while a shareholder.

The Tax Reform Act of 1986 makes income from certain "private activity bonds" issued after August 7, 1986, a tax preference item for the alternative minimum tax (AMT) at the maximum rate of 28% for individuals and 20% for corporations. If the Fund invests in private activity bonds, shareholders may be subject to the AMT on that part of the distributions derived from interest income on such bonds. Other provisions of the Tax Reform Act affect the tax treatment of distributions for corporations, casualty insurance companies and financial institutions; interest on all tax-exempt bonds is included in corporate adjusted current earnings when computing the AMT

applicable to corporations. Seventy-five percent of the excess of adjusted current earnings over the amount of income otherwise subject to the AMT is included in the corporation's alternative minimum taxable income.

Dividends derived from any investments other than tax-exempt bonds and any distributions of short-term capital gains are taxable to shareholders as ordinary income. Any distributions of net long-term gains will in general be taxable to shareholders as long-term capital gains regardless of the length of time Fund shares are held.

Shareholders receiving social security and certain retirement benefits may be taxed on a portion of those benefits as a result of receiving tax-exempt income, including tax-exempt dividends from the Fund.

Special Tax Rules Applicable to Tax-Exempt Funds. Income distributions to shareholders who are substantial users or related persons of substantial users of facilities financed by industrial revenue bonds may not be excludable from their gross income if such income is derived from such bonds. Income derived from Fund investments other than tax-exempt instruments may give rise to taxable income. Fund shares must be held for more than six months in order to avoid the disallowance of a capital loss on the sale of Fund shares to the extent of tax-exempt dividends paid during that period. A shareholder that borrows money to purchase Fund shares will not be able to deduct the interest paid with respect to such borrowed money.

Sales of Shares. In general, any gain or loss realized upon a taxable disposition of shares by a shareholder will be treated as long-term capital gain or loss if the shares have been held for more than twelve months, and otherwise as short-term capital gain or loss assuming such shares are held as a capital asset. However, any loss realized upon a taxable disposition of shares held for six months or less will be treated as long-term, rather than short-term, capital loss to the extent of any long-term capital gain distributions received by the shareholder with respect to those shares. All or a portion of any loss realized upon a taxable disposition of shares will be disallowed if other shares are purchased within 30 days before or after the disposition. In such a case, the basis of the newly purchased shares will be adjusted to reflect the disallowed loss.

Backup Withholding. Certain distributions and redemptions may be subject to a 31% backup withholding unless a taxpayer identification number and certification that the shareholder is not subject to the withholding is provided to the Fund. This number and form may be provided by either a Form W-9 or the accompanying application. In certain instances CISC may be notified by the Internal Revenue Service that a shareholder is subject to backup withholding.

Excise Tax. To the extent that the Fund does not annually distribute substantially all taxable income and realized gains, it is subject to an excise tax. Colonial intends to avoid this tax except when the cost of processing the distribution is greater than the tax.

Tax Accounting Principles. To qualify as a "regulated investment company," the Fund must (a) derive at least 90% of its gross income from dividends, interest, payments with respect to securities loans, gains from the sale or other disposition of securities or foreign currencies or other income (including but not limited to gains from options, futures or forward contracts) derived with respect to its business of investing in such securities or currencies; (b) derive less than 30% of its gross income from the sale or other disposition of certain assets held less than three months; (c) diversify its holdings so that, at the close of each quarter of its taxable year, (i) at least 50% of the value of its total assets consists of cash, cash items, U.S. Government securities, and other securities limited generally with respect to any one issuer to not more than 5% of the total assets of the Fund and not more than 10% of the outstanding voting securities of such issuer, and (ii) not more than 25% of the value of its assets is invested in the securities of any issuer (other than U.S. Government securities).

Futures Contracts. Accounting for futures contracts will be in

accordance with generally accepted accounting principles. The amount of any realized gain or loss on the closing out of a futures contract will result in a capital gain or loss for tax purposes. In addition, certain futures contracts held by the Fund (so-called "Section 1256 contracts") will be required to be "marked-to-market" (deemed sold) for federal income tax purposes at the end of each fiscal year. Sixty percent of any net gain or loss recognized on such deemed sales or on actual sales will be treated as long-term capital gain or loss, and the remainder will be treated as short-term capital gain or loss.

However, if a futures contract is part of a "mixed straddle" (i.e., a straddle comprised in part of Section 1256 contracts), a Fund may be able to make an election which will affect the character arising from such contracts as long-term or short-term and the timing of the recognition of such gains or losses. In any event, the straddle provisions described below will be applicable to such mixed straddles.

Special Tax Rules Applicable to "Straddles". The straddle provisions of the Code may affect the taxation of the Fund's options and futures transactions and transactions in securities to which they relate. A "straddle" is made up of two or more offsetting positions in "personal property," including debt securities, related options and futures, equity securities, related index futures and, in certain circumstances, options relating to equity securities, and foreign currencies and related options and futures.

The straddle rules may operate to defer losses realized or deemed realized on the disposition of a position in a straddle, may suspend or terminate the Fund's holding period in such positions, and may convert short-term losses to long-term losses in certain circumstances.

Foreign Currency-Denominated Securities and Related Hedging Transactions. The Fund's transactions in foreign currency-denominated debt securities, certain foreign currency options, futures contracts and forward contracts may give rise to ordinary income or loss to the extent such income or loss results from fluctuations in the value of the foreign currency concerned.

If more than 50% of a Fund's total assets at the end of its fiscal year are invested in securities of foreign corporate issuers, the Fund may make an election permitting its shareholders to take a deduction or credit for federal tax purposes for their portion of certain foreign taxes paid by the Fund. Colonial will consider the value of the benefit to a typical shareholder, the cost to the Fund of compliance with the election, and incidental costs to the shareholder in deciding whether to make the election. A shareholder's ability to claim such a foreign tax credit will be subject to certain limitations imposed by the Code, as a result of which a shareholder may not get a full credit for the amount of foreign taxes so paid by the Fund. Shareholders who do not itemize on their federal income tax returns may claim a credit (but no deduction) for such foreign taxes.

Certain Securities are considered to be Passive Foreign Investment Companies (PFICS) under the Code, and the Fund is liable for any PFIC-related taxes.

MANAGEMENT OF THE FUNDS

Colonial is a subsidiary of The Colonial Group, Inc. (TCG), One Financial Center, Boston, MA 02111. TCG is a subsidiary of Liberty Financial Companies, Inc. (Liberty Financial), which in turn is an indirect subsidiary of Liberty Mutual Insurance Company (Liberty Mutual). Liberty Mutual is an underwriter of worker's compensation insurance and a property and casualty insurer in the U.S. Liberty Financial's address is 600 Atlantic Avenue, Boston, MA 02210. Liberty Mutual's address is 175 Berkeley Street, Boston, MA 02117.

Trustees and Officers

Robert J. Birnbaum(1)(Age 67), Trustee, is a Trustee (formerly Special Counsel, Dechert Price & Rhoads; President and Chief Operating Officer, New York Stock Exchange, Inc.), 313 Bedford Road, Ridgewood, NJ 07450

Tom Bleasdale (Age 64), Trustee, is a Trustee (formerly Chairman of the Board and Chief Executive Officer, Shore Bank & Trust Company), 1508 Ferncroft Tower, Danvers, MA 01923

Lora S. Collins (Age 59), Trustee, is an Attorney with Kramer, Levin, Naftalis, Nessen, Kamin & Frankel, 919 Third Avenue, New York, NY 10022

James E. Grinnell(1)(Age 65), Trustee, is a Private Investor

(formerly Senior Vice President-Operations, The Rockport Company), 22 Harbor Avenue, Marblehead, MA 01945

William D. Ireland, Jr. (Age 71), Trustee, is a Trustee (formerly Chairman of the Board, Bank of New England - Worcester), 103 Springline Drive, Vero Beach, FL 32963

Richard W. Lowry(1) (Age 58), Trustee, is a Private Investor (formerly Chairman and Chief Executive Officer, U.S. Plywood Corporation), 10701 Charleston Drive, Vero Beach, FL 32963

William E. Mayer (Age 54), Trustee, is Dean, College of Business and Management, University of Maryland (formerly Dean, Simon Graduate School of Business, University of Rochester; Chairman and Chief Executive Officer, C.S. First Boston Merchant Bank; and President and Chief Executive Officer, The First Boston Corporation), College Park, MD 20742

John A. McNeice, Jr.(2) (Age 62), Trustee and President, is Chairman of the Board and Director, TCG and Colonial, Director, Liberty Financial (formerly Chief Executive Officer, Colonial and TCG)

James L. Moody, Jr. (Age 63), Trustee, is Chairman of the Board, Hannaford Bros., Co. (formerly Chief Executive Officer, Hannaford Bros. Co.), P.O. Box 1000, Portland, ME 04104

John J. Neuhauser (Age 51), Trustee, is Dean, Boston College School of Management, 140 Commonwealth Avenue, Chestnut Hill, MA 02167

George L. Shinn (Age 72), Trustee, is a Financial Consultant (formerly Chairman, Chief Executive Officer and Consultant, The First Boston Corporation), The First Boston Corporation, Tower Forty Nine, 12 East 49th Street, New York, NY 10017

Robert L. Sullivan (Age 67), Trustee, is a Management Consultant (formerly Management Consultant, Saatchi and Saatchi Consulting Ltd. and Principal and International Practice Director, Management Consulting, Peat Marwick main & Co.), 7121 Natelli Woods Lane, Bethesda, MD 20817

Sinclair Weeks, Jr. (Age 71), Trustee, is Chairman of the Board, Reed & Barton Corporation, Bay Colony Corporate Center, Suite 4550, 1000 Winter Street, Waltham, MA 02154

Harold W. Cogger (Age 59), Vice President, is President, Chief Executive Officer and Director, Colonial (formerly Executive Vice President; Colonial); President, Chief Executive Officer and Director, TCG; Executive Vice President and Director, Liberty Financial

Peter L. Lydecker (Age 41), Controller (formerly Assistant Controller), is Vice President, Colonial (formerly Assistant Vice President, Colonial)

Davey S. Scoon (Age 48), Vice President, is Executive Vice President and Director, Colonial (formerly Senior Vice President and Treasurer, Colonial); Executive Vice President and Chief Operating Officer, TCG, (formerly Vice President - Finance and Administration, TCG)

Richard A. Silver (Age 48), Treasurer and Chief Financial Officer (formerly Controller), is Senior Vice President, Director, Treasurer and Chief Financial Officer, Colonial; Treasurer and Chief Financial Officer, TCG (formerly Assistant Treasurer, TCG)

Arthur O. Stern (Age 56), Secretary, is Director, Executive Vice President, General Counsel, Clerk and Secretary, Colonial; Executive Vice President, Legal and Compliance and Clerk, TCG (formerly Vice President - Legal, TCG)

(1) Elected to the Colonial Funds Complex on April 21, 1995.

(2) Trustees who are "interested persons" (as defined in the 1940 Act) of the Fund or Colonial.

The Trustees serve as trustees of all Colonial funds for which each Trustee (except Mr. McNeice) will receive an annual retainer of \$45,000 and attendance fees of \$7,500 for each regular joint meeting and \$1,000 for each special joint meeting. Committee chairs receive an annual retainer of \$5,000. Committee members receive an annual retainer of \$1,000 and \$1,000 for each special meeting attended. Two-thirds of the Trustee fees are allocated among the Colonial funds based on the Funds' relative net assets and one-third of the fees are divided equally among the Colonial funds.

The Agreement and Declaration of Trust (Declaration) of the Trust provides that the Trust will indemnify its Trustees and officers against liabilities and expenses incurred in connection with litigation in which they may be involved because of their offices with the Trust but that such indemnification will not relieve any officer or Trustee of any liability to the Trust or its shareholders by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of his or her duties. The Trust, at its expense, provides liability insurance for the benefit of its Trustees and

officers.

Colonial or its affiliate, Colonial Advisory Services, Inc. (CASI), has rendered investment advisory services to investment company, institutional and other clients since 1931. Colonial currently serves as investment adviser for 33 open-end and 5 closed-end management investment company portfolios (collectively, Colonial funds). Trustees and officers of the Trust who are also officers of Colonial or its affiliates will benefit from the advisory fees, sales commissions and agency fees paid or allowed by the Trust. More than 30,000 financial advisers have recommended Colonial funds to over 800,000 clients worldwide, representing more than \$15.5 billion in assets.

The Management Agreement

Under a Management Agreement (Agreement), Colonial has contracted to furnish the Fund with investment research and recommendations or fund management, respectively, and accounting, and administrative personnel and services, and with office space, equipment and other facilities, at Colonial's expense. For these services and facilities, the Fund pays a monthly fee based on the average of the daily closing value of the total net assets of the Fund for such month.

Colonial's compensation under the Agreement is subject to reduction in any fiscal year to the extent that the total expenses of the Fund for such year (subject to applicable exclusions) exceed the most restrictive applicable expense limitation prescribed by any state statute or regulatory authority in which the Trust's shares are qualified for sale. The most restrictive expense limitation applicable to the Fund is 2.5% of the first \$30 million of the Trust's average net assets for such year, 2% of the next \$70 million and 1.5% of any excess over \$100 million.

Under the Agreement, any liability of Colonial to the Fund and its shareholders is limited to situations involving Colonial's own willful misfeasance, bad faith, gross negligence or reckless disregard of duties.

The Agreement may be terminated with respect to the Fund at any time on 60 days' written notice by Colonial or by the Trustees of the Trust or by a vote of a majority of the outstanding voting securities of the Fund. The Agreement will automatically terminate upon any assignment thereof and shall continue in effect from year to year only so long as such continuance is approved at least annually (i) by the Trustees of the Trust or by a vote of a majority of the outstanding voting securities of the Fund and (ii) by vote of a majority of the Trustees who are not interested persons (as such term is defined in the 1940 Act) of Colonial or the Trust, cast in person at a meeting called for the purpose of voting on such approval.

Colonial pays all salaries of officers of the Trust. The Trust pays all expenses not assumed by Colonial including, but not limited to, auditing, legal, custodial, investor servicing and shareholder reporting expenses. The Trust pays the cost of typesetting for its Prospectuses and the cost of printing and mailing any Prospectuses sent to shareholders. CISI pays the cost of printing and distributing all other Prospectuses.

The Agreement provides that Colonial shall not be subject to any liability to the Trust or to any shareholder of the Trust for any act or omission in the course of or connected with rendering services to the Trust in the absence of willful misfeasance, bad faith, gross negligence or reckless disregard of its duties on the part of Colonial.

The Pricing and Bookkeeping Agreement

Colonial provides pricing and bookkeeping services to the Fund pursuant to a Pricing and Bookkeeping Agreement. The Pricing and Bookkeeping Agreement has a one-year term. Colonial is paid monthly a fee of \$2,250 by each Fund, plus a monthly percentage fee based on net assets of the Fund equal to the following:

1/12 of 0.000% of the first \$50 million;
1/12 of 0.035% of the next \$950 million;
1/12 of 0.025% of the next \$1 billion;
1/12 of 0.015% of the next \$1 billion; and
1/12 of 0.001% on the excess over \$3 billion

Portfolio Transactions

Investment decisions. Colonial also acts as investment adviser to the other Colonial funds (as defined under Management of the Fund herein) and its affiliate, CASI, advises other institutional, corporate, fiduciary and individual clients for which CASI performs various services. Various officers and Trustees of the Trust also serve as officers or Trustees of other Colonial funds and the other corporate or fiduciary clients of Colonial. The other Funds and clients advised by Colonial sometimes invest in securities in which the Fund also invests and sometimes engage in covered option writing programs and enter into transactions utilizing stock index options and stock index and financial futures and related options ("other instruments"). If the Fund, such other Funds and such other clients desire to buy or sell the same portfolio securities, options or other instruments at about the same time, the purchases and sales are normally made as nearly as practicable on a pro rata basis in proportion to the amounts desired to be purchased or sold by each. Although in some cases these practices could have a detrimental effect on the price or volume of the securities, options or other instruments as far as the Fund is concerned, in most cases it is believed that these practices should produce better executions. It is the opinion of the Trustees that the desirability of retaining Colonial as investment adviser to the Fund outweighs the disadvantages, if any, which might result from these practices.

Brokerage and research services. Consistent with the Rules of Fair Practice of the National Association of Securities Dealers, Inc., and subject to seeking "best execution" (as defined below) and such other policies as the Trustees may determine, Colonial may consider sales of shares of the Fund and of the other Colonial funds as a factor in the selection of broker-dealers to execute securities transactions for the Fund.

Colonial places the transactions of the Fund with broker-dealers selected by Colonial and, if applicable, negotiates commissions. Broker-dealers may receive brokerage commissions on portfolio transactions, including the purchase and writing of options, the effecting of closing purchase and sale transactions, and the purchase and sale of underlying securities upon the exercise of options and the purchase or sale of other instruments. The Fund from time to time also executes portfolio transactions with such broker-dealers acting as principals. The Fund does not intend to deal exclusively with any particular broker-dealer or group of broker-dealers.

Except as described below in connection with commissions paid to a clearing agent on sales of securities, it is the Fund's and Colonial's policy always to seek best execution, which is to place the Fund's transactions where the Fund can obtain the most favorable combination of price and execution services in particular transactions or provided on a continuing basis by a broker-dealer, and to deal directly with a principal market maker in connection with over-the-counter transactions, except when it is believed that best execution is obtainable elsewhere. In evaluating the execution services of, including the overall reasonableness of brokerage commissions paid to, a broker-dealer, consideration is given to, among other things, the firm's general execution and operational capabilities, and to its reliability, integrity and financial condition.

Subject to such practice of always seeking best execution, securities transactions of the Fund may be executed by broker-dealers who also provide research services (as defined below) to Colonial, the Fund and the other Colonial funds. Colonial may use all, some or none of such research services in providing investment advisory services to each of its investment company and other clients, including the Fund. To the extent that such services are used by Colonial, they tend to reduce Colonial's expenses. In Colonial's opinion, it is impossible to assign an exact dollar value for such services.

Subject to such policies as the Trustees may determine, Colonial may cause the Fund to pay a broker-dealer which provides brokerage and research services to Colonial an amount of commission for effecting a securities transaction, including the sale of an option or a closing purchase transaction, for the Fund in excess of the amount of commission which another broker-dealer would have charged for effecting that transaction. As provided in Section 28(e) of the Securities Exchange Act of 1934, "brokerage and research services" include advice as to the value of securities, the advisability of investing in, purchasing or selling securities and the availability of securities or purchasers or sellers of securities; furnishing

analyses and reports concerning issues, industries, securities, economic factors and trends and portfolio strategy and performance of accounts; and effecting securities transactions and performing functions incidental thereto (such as clearance and settlement). Colonial must determine in good faith that such greater commission is reasonable in relation to the value of the brokerage and research services provided by the executing broker-dealer viewed in terms of that particular transaction or Colonial's overall responsibilities to the Fund and all its other clients.

The Trustees have authorized Colonial to utilize the services of a clearing agent with respect to all call options written by Funds that write options and to pay such clearing agent commissions of a fixed amount per share (currently 1.25 cents) on the sale of the underlying security upon the exercise of an option written by a Fund. The Trustees may further authorize Colonial to depart from the present policy of always seeking best execution and to pay higher brokerage commissions from time to time for other brokerage and research services as described above in the future if developments in the securities markets indicate that such would be in the interests of the shareholders of the Fund.

Principal Underwriter

CISI is the principal underwriter of the Trust's shares. CISI has no obligation to buy the Fund's shares, and purchases the Fund's shares, only upon receipt of orders from authorized FSFs or investors.

Investor Servicing and Transfer Agent

CISC is the Trust's investor servicing agent (transfer, plan and dividend disbursing agent), for which it receives fees which are paid monthly by the Trust. The fee paid to CISC is based on the average daily net assets of each Colonial fund. See "Fund Charges and Expenses" in Part 1 of this SAI for information on fees received by CISC. The agreement continues indefinitely but may be terminated by 90 days' notice by the Fund to CISC or generally by 6 months' notice by CISC to the Fund. The agreement limits the liability of CISC to the Fund for loss or damage incurred by the Fund to situations involving a failure of CISC to use reasonable care or to act in good faith in performing its duties under the agreement. It also provides that the Fund will indemnify CISC against, among other things, loss or damage incurred by CISC on account of any claim, demand, action or suit made on or against CISC not resulting from CISC's bad faith or negligence and arising out of, or in connection with, its duties under the agreement.

DETERMINATION OF NET ASSET VALUE

The Fund determines net asset value (NAV) per share for each Class as of the close of the New York Stock Exchange each day the Exchange is open. Currently, the Exchange is closed Saturdays, Sundays and the following holidays: New Year's Day, Presidents' Day, Good Friday, Memorial Day, the Fourth of July, Labor Day, Thanksgiving and Christmas. Debt securities generally are valued by a pricing service which determines valuations based upon market transactions for normal, institutional-size trading units of similar securities. However, in circumstances where such prices are not available or where Colonial deems it appropriate to do so, an over-the-counter or exchange bid quotation is used. Securities listed on an exchange or on NASDAQ are valued at the last sale price. Listed securities for which there were no sales during the day and unlisted securities are valued at the last quoted bid price. Options are valued at the last sale price or in the absence of a sale, the mean between the last quoted bid and offering prices. Short-term obligations with a maturity of 60 days or less are valued at amortized cost pursuant to procedures adopted by the Trustees. The values of foreign securities quoted in foreign currencies are translated into U.S. dollars at the exchange rate for that day. Portfolio positions for which there are no such valuations and other assets are valued at fair value as determined in good faith under the direction of the Trustees.

Generally, trading in certain securities (such as foreign securities) is substantially completed each day at various times prior to the close of the Exchange. The values of these securities used in determining the NAV are computed as of such times. Also, because of the amount of time required to collect and process trading information as to large numbers of securities issues, the values of certain securities (such as convertible bonds, U.S. government securities, and tax-exempt securities) are determined based on market quotations collected earlier in the day at the latest practicable

time prior to the close of the Exchange. Occasionally, events affecting the value of such securities may occur between such times and the close of the Exchange which will not be reflected in the computation of the Fund's NAV. If events materially affecting the value of such securities occur during such period, then these securities will be valued at their fair value following procedures approved by the Trustees.

Amortized Cost for Money Market Funds

Money market funds generally value their portfolio securities at amortized cost according to Rule 2a-7 under the 1940 Act.

Portfolio instruments are valued under the amortized cost method, whereby the instrument is recorded at cost and thereafter amortized to maturity. This method assures a constant NAV but may result in a yield different than that of the same portfolio under the market value method. The Trustees have adopted procedures intended to stabilize the Fund's NAV per share at \$1.00. When the Fund's market value deviates from the amortized cost of \$1.00, and results in a material dilution to existing shareholders, the Trustees will take corrective action to: realize gains or losses; shorten the portfolio's maturity; withhold distributions; redeem shares in kind; or convert to the market value method (in which case the NAV per share may differ from \$1.00). All investments will be determined pursuant to procedures approved by the Trustees to present minimal credit risk.

See the Statement of Assets and Liabilities of the Fund for a specimen price sheet showing the computation of maximum offering price per share of Class A shares .

HOW TO BUY SHARES

The Prospectus contains a general description of how investors may buy shares of the Fund and tables of charges. This SAI contains additional information which may be of interest to investors.

The Fund will accept unconditional orders for shares to be executed at the public offering price based on the NAV per share next determined after the order is placed in good order. The public offering price is the NAV plus the applicable sales charge, if any. In the case of orders for purchase of shares placed through FSFs, the public offering price will be determined on the day the order is placed in good order, but only if the FSF receives the order before 4:00 p.m. Eastern time and transmits it to the Fund before the Fund processes that day's transactions. If the FSF fails to transmit before the Fund processes that day's transactions, the customer's entitlement to that day's closing price must be settled between the customer and the FSF. If the FSF receives the order after 4:00 p.m. Eastern time, the price will be based on the NAV determined as of the close of the Exchange on the next day it is open. If funds for the purchase of shares are sent directly to CISC they will be invested at the public offering price next determined after receipt in good order. Payment for shares of the Fund must be in U.S. dollars; if made by check, the check must be drawn on a U.S. bank.

As a convenience to investors, shares of most Colonial funds may be purchased through the Colonial Fundamatic Check Program. Preauthorized monthly bank drafts or electronic funds transfer for a fixed amount (at least \$50) are used to purchase Fund shares at the public offering price next determined after CISI receives the proceeds from the draft (normally the 5th or the 20th of each month, or the next business day thereafter, except for Class Z and T which will be the 15th of the month). Further information and application forms are available from FSFs or from CISI.

Class A Shares

Most Funds continuously offer Class A shares. The Fund receives the entire NAV of shares sold. CISI's commission is the sales charge shown in the Prospectus less any applicable FSF discount. The FSF discount is the same for all FSFs, except that CISI retains the entire sales charge on any sales made to a shareholder who does not specify an FSF on the investment account application and retains the entire contingent deferred sales charge (CDSC).

CISI offers several plans by which an investor may obtain reduced sales charges on purchases of a Fund's Class A shares. These plans may be altered or discontinued at any time.

Right of Accumulation and Statement of Intent (Class A and T Shares

only)

Reduced sales charges on Class A and T shares can be effected by combining a current purchase with prior purchases of Class A, B, D, T and Z shares of the Colonial funds. The applicable sales charge is based on the combined total of:

1. the current purchase; and
2. the value at the public offering price at the close of business on the previous day of all Colonial fund Class A shares held by the shareholder (except shares of any Colonial money market fund, unless such shares were acquired by exchange from Class A shares of another Colonial fund other than a money market fund and any Class C shares) and Class B, D, T and Z shares.

CISI must be promptly notified of each purchase which entitles a shareholder to a reduced sales charge. Such reduced sales charge will be applied upon confirmation of the shareholder's holdings by CISC. The Fund may terminate or amend this Right of Accumulation.

Any person may qualify for reduced sales charges on purchases of Class A and T shares (exclusive of reinvested distributions of all Colonial funds) made within a thirteen-month period pursuant to a Statement of Intent ("Statement"). A shareholder may include, as an accumulation credit towards the completion of such Statement, the value of all Class A, B, D, T and Z shares held by the shareholder in Colonial funds (except money market fund, unless acquired by exchange from another non-money market Colonial fund). The value is determined at the public offering price on the date of the Statement.

During the term of a Statement, CISC will hold shares in escrow to secure payment of the higher sales charge applicable to Class A or T shares actually purchased. Dividends and capital gains will be paid on all escrowed shares and these shares will be released when the amount indicated has been purchased. A Statement does not obligate the investor to buy or a Fund to sell the amount of the Statement.

If a shareholder exceeds the amount of the Statement and reaches an amount which would qualify for a further quantity discount, a retroactive price adjustment will be made at the time of expiration of the Statement. The resulting difference in offering price will purchase additional shares for the shareholder's account at the applicable offering price. As a part of this adjustment, the FSF shall return to CISI the excess commission previously paid during the thirteen-month period.

If the amount of the Statement is not purchased, the shareholder shall remit to CISI an amount equal to the difference between the sales charge paid and the sales charge that should have been paid. If the shareholder fails within twenty days after a written request to pay such difference in sales charge, CISC will redeem that number of escrowed Class A or T shares to equal such difference. The additional amount of FSF discount from the applicable offering price shall be remitted to the shareholder's FSF of record.

Additional information about and the terms of Statements of Intent are available from your FSF, or from CISC at 1-800- 345-6611.

Classes B, C, D, T and Z Shares

For those Funds offering Class B, C, D, T and Z shares, the Prospectus contains a general description of how investors may buy Class B shares of the Fund and a description of the CDSC. This SAI contains additional information which may be of interest to investors.

With respect to all classes, the Fund receives the entire NAV of shares sold. The FSF commission is the same for all FSFs selling the same classes of shares; CISI retains the entire CDSC.

Waiver of Contingent Deferred Sales Charges (CDSCs) (Classes A, B, D and T)

CDSCs may be waived on redemptions in the following situations with the proper documentation.

1. Death. CDSCs may be waived on redemptions within one year

following the death of (i) the sole shareholder on an individual account, (ii) a joint tenant where the surviving joint tenant is the deceased's spouse, or (iii) the beneficiary of a Uniform Gifts to Minors Act (UGMA), Uniform Transfers to Minors Act (UTMA) or other custodial account. If, upon the occurrence of one of the foregoing, the account is transferred to an account registered in the name of the deceased's estate, the CDSC will be waived on any redemption from the estate account occurring within one year after the death. If the Class B shares are not redeemed within one year of the death, they will remain subject to the applicable CDSC, when redeemed from the transferee's account.

2. Systematic Withdrawal Plan (SWP). CDSCs may be waived on redemptions occurring pursuant to a monthly, quarterly or semi-annual SWP established with Colonial, to the extent the redemptions do not exceed, on an annual basis, 12% of the account's value, so long as at the time of the first SWP redemption the account had had distributions reinvested for a period at least equal to the period of the SWP (e.g., if it is a quarterly SWP, distributions must have been reinvested at least for the three month period prior to the first SWP redemption; otherwise CDSCs will be charged on SWP redemptions until this requirement is met; this requirement does not apply if the SWP is set-up at the time the account is established, and distributions are being reinvested).
3. Disability. CDSCs may be waived on redemptions occurring within one year after the sole shareholder on an individual account or a joint tenant on a spousal joint tenant account becomes disabled (as defined in Section 72(m)(7) of the Internal Revenue Code). To be eligible for such waiver, (i) the disability must arise after the purchase of shares and (ii) the disabled shareholder must have been under age 65 at the time of the initial determination of disability. If the account is transferred to a new registration and then a redemption is requested, the applicable CDSC will be charged.
4. Death of a trustee. CDSCs may be waived on redemptions occurring upon dissolution of a revocable living or grantor trust following the death of the sole trustee where (i) the grantor of the trust is the sole trustee and the current beneficiary, (ii) death occurs following the purchase and (iii) the trust document provides for dissolution of the trust upon the trustee's death. If the account is transferred to a new registration (including that of a successor trustee), the applicable CDSC will be charged upon any subsequent redemption.
5. Returns of excess contributions. CDSCs may be waived on redemptions required to return excess contributions made to retirement plans or individual retirement accounts, so long as the FSF agrees to return the applicable portion of any commission paid by Colonial.
6. Qualified Retirement Plans. CDSCs may be waived on redemptions required to make distributions from qualified retirement plans following (i) normal retirement (as stated in the Plan document) or (ii) separation from service. CDSCs also will be waived on SWP redemptions made to make required minimum distributions from qualified retirement plans that have invested in Colonial funds for at least two years.

Fundamatic Check Program

As a convenience to investors, shares of most Colonial funds may be purchased through the Colonial Fundamatic Check Program. Preauthorized monthly bank drafts or electronic funds transfer for a fixed amount of at least \$50 are used to purchase Fund shares at the public offering price next determined after CISI receives the proceeds from the draft (normally the 5th or the 20th of each month, or the next business day thereafter, except for Class T and Z which will be on the 15th of each month). Further information and application forms are available from FSFs or from CISI.

Automated Dollar Cost Averaging (Classes A, B and D)
Colonial's Automated Dollar Cost Averaging Program allows you to exchange on a monthly basis from any Colonial fund in which you have a current balance of at least \$5,000 into the same class of shares of up to four other Colonial funds. Complete the Automated Dollar Cost Averaging section of the application agreeing to a monthly exchange of \$100 or more to the same class of shares of the Colonial fund you designate on your written application. The designated amount will be exchanged on the third Tuesday of each month. There is no charge for the exchanges made pursuant to the Automated Dollar Cost Averaging program. Exchanges will continue so long as your Colonial fund balance is sufficient to complete the transfers. Your normal rights and privileges as a shareholder remain in full force and effect. Thus you can: buy any Funds, exchange between the same Class of shares of Funds by written instruction or by telephone exchange if you have so elected and withdraw amounts from any Fund, subject to the imposition of any applicable CDSC.

Any additional payments or exchanges into your Fund will extend the time of the Automated Dollar Cost Averaging program.

An exchange is a taxable capital transaction for federal tax purposes.

You may terminate your program, change the amount of the exchange (subject to the \$100 minimum), or change your selection of funds, by telephone or in writing; if in writing by mailing it to Colonial Investors Service Center, P.O. Box 1722, Boston, MA 02105-1722.

You should consult your FSF or investment adviser to determine whether or not the Automated Dollar Cost Averaging program is appropriate for you.

Colonial Asset Builder Investment Program (Class A of The Colonial Fund and Colonial Growth Shares Fund only)
A reduced sales charge applies to a purchase of certain Colonial fund's Class A shares under a statement of intent for the Colonial Asset Builder Investment Program. The Program offer may be withdrawn at any time without notice. A completed Program may serve as the initial investment for a new Program, subject to the maximum of \$4,000 in initial investments per investor. CISC will escrow shares to secure payment of the additional sales charge on amounts invested if the Program is not completed. Escrowed shares are credited with distributions and will be released when the Program has ended. Prior to completion of the Program, only scheduled Program investments may be made in a Colonial fund in which an investor has a Program account. The following services are not available to Program accounts until a Program has ended:

Systematic Withdrawal Plan	Telephone Redemption	Statement of Intent
Sponsored Arrangements	Colonial Cash Connection	Share Certificates
\$50,000 Fast Cash	Reduced Sales Charges	
Automatic Dividend Diversification		
Right of Accumulation for any "person"		Exchange Privilege*

*Exchanges may be made to other Colonial funds offering the Program.

Because of the unavailability of certain services, the Program may not be suitable for all investors.

The FSF receives 3% of the investor's intended purchases under a Program at the time of initial investment and 1% after the 24th monthly payment. CISI may require the FSF to return all applicable commissions paid with respect to a Program terminated within six months of inception, and thereafter to return commissions in excess of the FSF discount applicable to shares actually purchased.

Since the Asset Builder plan involves continuous investment regardless of the fluctuating prices of Fund shares, investors should

consult their FSF to determine whether it is appropriate. The Plan does not assure a profit nor protects against loss in declining markets.

Tax-Sheltered Retirement Plans

Certain Colonial funds offer prototype tax-qualified plans, including Individual Retirement Accounts, and Pension and Profit-Sharing Plans for individuals, corporations, employees and the self-employed. The minimum initial Retirement Plan investment in any of the Funds is \$25. The First National Bank of Boston is the Trustee and charges a \$10 annual fee. Detailed information concerning these retirement plans and copies of the Retirement Plans are available from CISI.

Other Plans (Classes A and T only)

Shares of certain funds may be sold at NAV to current and retired: Trustees of funds advised by Colonial; directors, officers and employees of Colonial, CISI and other companies affiliated with Colonial; registered representatives and employees of FSFs (including their affiliates) that are parties to Dealer Agreements or other sales arrangements with CISI; and such persons' families and their beneficial accounts.

Class A and T shares of certain funds may be purchased at reduced or no sales charge pursuant to sponsored arrangements, which include programs under which an organization makes recommendations to, or permits group solicitation of, its employees, members or participants in connection with the purchase of shares of the Fund on an individual basis. The amount of the sales charge reduction will reflect the anticipated reduction in sales expense associated with sponsored arrangements. The reduction in sales expense, and therefore the reduction in sales charge will vary depending on factors such as the size and stability of the organizations group, the term of the organization's existence and certain characteristics of the members of its group. The Funds reserve the right to revise the terms of or to suspend or discontinue sales pursuant to sponsored plans at any time.

Classes A and T shares of certain funds may also be purchased at reduced or no sales charge by clients of dealers, brokers or registered investment advisers that have entered into agreements with CISI pursuant to which the Colonial funds are included as investment options in programs involving fee-based compensation arrangements. Class A shares of certain funds may also be purchased at reduced or no sales charge by investors moving from another mutual fund complex and by participants in certain retirement plans. In lieu of the commissions described in the Prospectus, Colonial will pay the FSF a finder's fee of 0.25% of the applicable account value during the first twelve months in connection with such purchases.

Consultation with a competent financial and tax advisor regarding these Plans and consideration of the suitability of Fund shares as an investment under the Employee Retirement Income Security Act of 1974 or otherwise is recommended.

INVESTOR SERVICES

Your Open Account

The following information provides more detail concerning the operation of a Colonial Open Account (an account with book entry shares only). For further information or assistance, investors should consult CISC.

The Open Account permits a shareholder to reinvest all or a portion of a recent cash distribution without a sales charge. A shareholder request must be received within 30 calendar days of the distribution. A shareholder may exercise this privilege only once. No charge is currently made for reinvestment.

The \$10 fee on small accounts is paid to CISC.

If a shareholder changes his or her address and does not notify the Fund, the Fund will reinvest all future distributions regardless of the option chosen.

The Open Account also provides a way to accumulate shares of the Fund. Checks presented for the purchase of shares of the Fund which

are returned by the purchaser's bank, or checkwriting privilege checks for which there are insufficient funds in a shareholder's account to cover redemption, will subject such purchaser or shareholder to a \$15 service fee for each check returned. Checks must be drawn on a U.S. bank and must be payable in U.S. dollars.

CISC acts as the shareholder's agent whenever it receives instructions to carry out a transaction on the shareholder's account. Upon receipt of instructions that shares are to be purchased for a shareholder's account, the designated FSF will receive the applicable sales commission. Shareholders may change FSFs at any time by written notice to CISC, provided the new FSF has a sales agreement with CISC.

Shares credited to an account are transferable upon written instructions in good order to CISC and may be redeemed as described under "How to sell shares" in the Prospectus. Certificates will not be issued for Class A shares unless specifically requested and no certificates will be issued for Class B, C, D, T or Z shares. Money market funds will not issue certificates. A shareholder may send any certificates which have been previously acquired to CISC for deposit to their account.

Shares of Funds that pay daily dividends will normally earn dividends starting with the date the Fund receives payment for the shares and will continue through the day before the shares are redeemed, transferred or exchanged.

Undelivered distribution checks returned by the post office may be invested in your account.

Reinvestment Privilege

An investor who has redeemed Class A, B, or D shares may, upon request, reinvest within one year a portion or all of the proceeds of such sale in shares of the same Class of any Colonial fund at the NAV next determined after CISC receives a written reinvestment request and payment. Any CDSC paid at the time of the redemption will be credited to the shareholder upon reinvestment. The period between the redemption and the reinvestment will not be counted in aging the reinvested shares for purposes of calculating any CDSC or conversion date. Investors who desire to exercise this Privilege should contact their FSF or CISC. Shareholders may exercise this Privilege an unlimited number of times. Exercise of this Privilege does not alter the federal income tax treatment of any capital gains realized on the prior sale of Fund shares, but to the extent any such shares were sold at a loss, some or all of the loss may be disallowed for tax purposes. Consult your tax adviser.

Exchange Privilege

Shares of the Fund may be exchanged for the same class of shares of the other continuously offered Colonial funds (with certain exceptions) on the basis of the NAVs per share at the time of exchange. The prospectus of each Fund describes its investment objective and policies, and shareholders should obtain a prospectus and consider these objectives and policies carefully before requesting an exchange. Shares of certain Colonial funds are not available to residents of all states. Consult CISC before requesting an exchange.

By calling CISC, shareholders or their FSF of record may exchange among accounts with identical registrations, provided that the shares are held on deposit. During periods of unusual market changes and shareholder activity, shareholders may experience delays in contacting CISC by telephone to exercise the Telephone Exchange Privilege. Because an exchange involves a redemption and reinvestment in another Colonial fund, completion of an exchange may be delayed under unusual circumstances, such as if the Fund suspends repurchases or postpones payment for the Fund shares being exchanged in accordance with federal securities law. CISC will also make exchanges upon receipt of a written exchange request and, share certificates, if any. If the shareholder is a corporation, partnership, agent, or surviving joint owner, CISC will require customary additional documentation. Prospectuses of the other Colonial funds are available from the Colonial Literature Department.

A loss to a shareholder may result from an unauthorized transaction reasonably believed to have been authorized. No shareholder is obligated to use the telephone to execute transactions.

You need to hold your Class A shares for five months before exchanging to certain funds having a higher maximum sales charge. Consult your FSF or CISC. In all cases, the shares to be exchanged must be registered on the records of the Fund in the name of the shareholder desiring to exchange.

Shareholders of the other Colonial open-end Funds generally may exchange their shares at NAV for the same class of shares of the Fund.

An exchange is a capital sale transaction for federal income tax purposes. The Exchange Privilege may be revised, suspended or terminated at any time.

Telephone Address Change Services

By calling CISC, shareholders or their FSF of record may change an address on a recorded telephone line. Confirmations of address change will be sent to both the old and the new addresses. The \$50,000 Fast Cash privilege is suspended for 60 days after an address change is effected.

Plans Available To Shareholders

The Plans described below are offered by most Colonial funds, are voluntary and may be terminated at any time without the imposition by the Fund or CISC of any penalty.

Checkwriting (Available only on the Class A and C shares of certain Funds)

Shares may be redeemed by check if a shareholder completed an Investment Account Application and Signature Card. Colonial will provide checks to be drawn on The First National Bank of Boston (the "Bank"). These checks may be made payable to the order of any person in the amount of not less than \$500 nor more than \$100,000. The shareholder will continue to earn dividends on shares until a check is presented to the Bank for payment. At such time a sufficient number of full and fractional shares will be redeemed at the next determined net asset value to cover the amount of the check. Certificate shares may not be redeemed in this manner.

Shareholders utilizing checkwriting drafts will be subject to the Bank's rules governing checking accounts. There is currently no charge to the shareholder for the use of checks. The shareholder should make sure that there are sufficient shares in his or her Open Account to cover the amount of any check drawn since the net asset value of shares will fluctuate. If insufficient shares are in the shareholder's Open Account, the check will be returned marked "insufficient funds" and no shares will be redeemed. It is not possible to determine in advance the total value of an Open Account because prior redemptions and possible changes in net asset value may cause the value of an Open Account to change. Accordingly, a check redemption should not be used to close an Open Account.

Systematic Withdrawal Plan

If a shareholder's Account Balance is at least \$5,000, the shareholder may establish a Systematic Withdrawal Plan (SWP). A specified dollar amount or percentage of the then current net asset value of the shareholder's investment in any Fund will be paid monthly or quarterly to a designated payee. The amount or percentage the shareholder specifies generally may not, on an annualized basis, exceed 12% of the value, as of the time the shareholder makes the election of the shareholder's investment. Withdrawals from Class B and Class D shares of a Fund under a SWP will be treated as redemptions of shares purchased through the reinvestment of Fund distributions, or, to the extent such shares in the shareholder's account are insufficient to cover Plan payments, as redemptions from the earliest purchased shares of such Fund in the shareholder's account. Generally, no CDSCs apply to a redemption pursuant to a SWP, even if, after giving effect to the redemption, the shareholder's Account Balance is less than the shareholder's Base Amount. Qualified Plan participants who are required by Internal Revenue Code regulation to withdraw more than 12%, on an annual basis, of the value of their Class B and Class D share account may do so but will be subject to a CDSC ranging from 1.00% to 5% of the amount withdrawn. If a shareholder wishes to participate in a SWP, the shareholder must elect to have all of the shareholder's income

dividends and other Fund distributions payable in shares of the Fund rather than in cash.

A shareholder or a shareholder's FSF of record may establish a SWP account by telephone on a recorded line. However, SWP checks will be payable only to the shareholder and sent to the address of record. SWPs from retirement accounts cannot be established by telephone.

A shareholder may not establish a SWP if the shareholder holds shares in certificate form. Purchasing additional shares (other than through dividend and distribution reinvestment) while receiving SWP payments is ordinarily disadvantageous because of duplicative sales charges. For this reason, a shareholder may not maintain a plan for the accumulation of shares of a Fund (other than through the reinvestment of dividends) and a SWP at the same time.

SWP payments are made through share redemptions, which may result in a gain or loss for tax purposes, may involve the use of principal and may eventually use up all of the shares in a shareholder's Open Account.

The Funds may terminate a shareholder's SWP if the shareholder's Account Balance falls below \$5,000 due to any transfer or liquidation of shares other than pursuant to the SWP. SWP payments will be terminated on receiving satisfactory evidence of the death or incapacity of a shareholder. Until this evidence is received, CISC will not be liable for any payment made in accordance with the provisions of a SWP.

The cost of administering SWPs for the benefit of shareholders who participate in them is borne by the Funds as an expense of all shareholders.

Shareholders whose positions are held in "street name" by certain FSFs may not be able to participate in a SWP. If a shareholder's Fund shares are held in "street name", the shareholder should consult his or her FSF to determine whether he or she may participate in a SWP.

Colonial cash connection. Dividends and any other distributions, including SWP payments, may be automatically deposited to a shareholder's bank account via electronic funds transfer. Shareholders wishing to avail themselves of this electronic transfer procedure should complete the appropriate sections of the Investment Account Application.

Automatic dividend diversification. The automatic dividend diversification reinvestment program (ADD) generally allows shareholders to have all distributions from a Fund automatically invested in the same class of shares of the other Colonial funds. An ADD account must be in the same name as the shareholder's existing Open Account with the particular fund. Call CISC for more information at 1-800- 422-3737.

Telephone Redemptions. Shareholders and/or their financial advisers may select telephonic redemptions on their account application. A redemption of up to \$50,000 may be sent to a shareholder's address without preauthorization, by calling 1-800-422-3737 between 9:00 a.m. and 4:00 p.m. (NY time) on business days. CISC will employ reasonable procedures to confirm that instructions communicated by telephone are genuine. Telephone redemptions are not available on accounts with an address change in the preceding 60 days and proceeds and confirmations will be mailed or sent to the address of record. Shareholders and/or their financial advisers will be required to provide their name, address and account number. Financial advisers will also be required to provide their broker number. All telephone transactions are recorded. A loss to a shareholder may result from an unauthorized transaction reasonably believed to have been authorized. No shareholder is obligated to execute the telephone authorization form or to use the telephone to execute transactions.

Non cash Redemptions. For redemptions of any single shareholder within any 90-day period exceeding the lesser of \$250,000 or 1% of the Fund's net asset value, the Fund may make the payment or a portion of the payment with portfolio securities held by the Fund

instead of cash, in which case the redeeming shareholder may incur brokerage and other costs in selling the securities received.

SUSPENSION OF REDEMPTIONS

The Fund may not suspend shareholders' right of redemption or postpone payment for more than seven days unless the New York Stock Exchange is closed for other than customary weekends or holidays, or if permitted by the rules of the SEC during periods when trading on the Exchange is restricted or during any emergency which makes it impracticable for the Fund to dispose of its securities or to determine fairly the value of its net assets, or during any other period permitted by order of the SEC for protection of investors.

SHAREHOLDER LIABILITY

Under Massachusetts law, shareholders could, under certain circumstances, be held personally liable for the obligations of the Fund. However, the Declaration disclaims shareholder liability for acts or obligations of the Fund and requires that notice of such disclaimer be given in each agreement, obligation, or instrument entered into or executed by the Fund or the Trustees. The Declaration provides for indemnification out of Fund property for all loss and expense of any shareholder held personally liable for the obligations of the Fund. Thus, the risk of a shareholder incurring financial loss on account of shareholder liability is limited to circumstances in which the Fund would be unable to meet its obligations. The likelihood of such circumstances is remote.

As described under the caption "Organization and history" in the Prospectus, the Fund will not hold annual shareholders' meetings. The Trustees may fill any vacancies in the Board of Trustees except that the Trustees may not fill a vacancy if, immediately after filling such vacancy, less than two-thirds of the Trustees then in office would have been elected to such office by the shareholders. In addition, at such times as less than a majority of the Trustees then in office have been elected to such office by the shareholders, the Trustees must call a meeting of shareholders. Trustees may be removed from office by a written consent signed by a majority of the outstanding shares of the Trust or by a vote of the holders of a majority of the outstanding shares at a meeting duly called for the purpose, which meeting shall be held upon written request of the holders of not less than 10% of the outstanding shares of the Trust. Upon written request by the holders of 1% of the outstanding shares of the Trust stating that such shareholders of the Trust, for the purpose of obtaining the signatures necessary to demand a shareholder's meeting to consider removal of a Trustee, request information regarding the Trust's shareholders the Trust will provide appropriate materials (at the expense of the requesting shareholders). Except as otherwise disclosed in the Prospectus and this SAI, the Trustees shall continue to hold office and may appoint their successors.

At any shareholders' meetings that may be held, shareholders of all series would vote together, irrespective of series, on the election of Trustees or the selection independent accountants, but each series would vote separately from the others on other matters, such as changes in the investment policies of that series or the approval of the investment advisory agreement for that series.

PERFORMANCE MEASURES

Total Return

Standardized average annual total return. Average annual total return is the actual return on a \$1,000 investment in a particular class of shares of a Fund, made at the beginning of a stated period, adjusted for the maximum sales charge or applicable CDSC for the class of shares of the Fund and assuming that all distributions were reinvested at NAV, converted to an average annual return assuming annual compounding.

Nonstandardized total return. Nonstandardized total returns differ from standardized average annual total returns only in that they may relate to nonstandardized periods, represent aggregate rather than average annual total returns or in that the sales charge or CDSC is not deducted.

Yield

Money market. A Money Market fund's yield and effective yield is computed in accordance with the SEC's formula for money market fund yields.

Non money market. The yield for each class of shares is determined by (i) calculating the income (as defined by the SEC for purposes of advertising yield) during the base period and subtracting actual expenses for the period (net of any reimbursements), and (ii) dividing the result by the product of the average daily number of shares of the Fund entitled to dividends for the period and the maximum offering price of the Fund on the last day of the period, (iii) then annualizing the result assuming semi-annual compounding. Tax-equivalent yield is calculated by taking that portion of the yield which is exempt from income tax and determining the equivalent taxable yield which would produce the same after tax yield for any given Federal and State tax rate, and adding to that the portion of the yield which is fully taxable. Adjusted yield is calculated in the same manner as yield except that expenses voluntarily borne or waived by Colonial have been added back to actual expenses.

Distribution rate. The distribution rate for each class of shares is calculated by annualizing the most current period's distributions and dividing by the maximum offering price on the last day of the period. Generally, a Fund's distribution rate reflects total amounts actually paid to shareholders, while yield reflects the current earning power of a Fund's portfolio securities (net of a Fund's expenses). A Fund's yield for any period may be more or less than the amount actually distributed in respect of such period.

A Fund may compare its performance to various unmanaged indices published by such sources as listed in Appendix II.

A Fund may also refer to quotations, graphs and electronically transmitted data from sources believed by Colonial to be reputable, and publications in the press pertaining to a Fund's performance or to Colonial or its affiliates, including comparisons with competitors and matters of national and global economic and financial interest. Examples include Forbes, Business Week, MONEY Magazine, The Wall Street Journal, The New York Times, The Boston Globe, Barron's National Business & Financial Weekly, Financial Planning, Changing Times, Reuters Information Services, Wiesenberger Mutual Funds Investment Report, Lipper Analytical Services Corporation, Morningstar, Inc., Sylvia Porter's Personal Finance Magazine, Money Market Directory, SEI Funds Evaluation Services, FTA World Index and Disclosure Incorporated.

All data is based on past performance and does not predict future results.

APPENDIX I

DESCRIPTION OF BOND RATINGS

S&P

AAA The highest rating assigned by S&P indicates an extremely strong capacity to repay principal and interest.

AA bonds also qualify as high quality. Capacity to repay principal and pay interest is very strong, and in the majority of instances, they differ from AAA only in small degree.

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

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

BB, B, CCC, and CC bonds are regarded, on balance, as predominantly speculative with respect to capacity to pay interest and principal in accordance with the terms of the obligation. BB indicates the lowest degree of speculation and CC the highest degree. While likely to have some quality and protection characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.

C ratings are reserved for income bonds on which no interest is being paid.

D bonds are in default, and payment of interest and/or principal is in arrears.

Plus(+) or minus (-) are modifiers relative to the standing within the major rating categories.

MOODY'S

Aaa bonds are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edge". Interest payments are protected by a large or by an exceptionally stable

margin and principal is secure. While various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

Aa bonds are judged to be of high quality by all standards. Together with Aaa bonds they comprise what are generally known as high-grade bonds. They are rated lower than the best bonds because margins of protective elements may be of greater amplitude or there may be other elements present which make the long-term risk appear somewhat larger than in Aaa securities. Those bonds in the Aa through B groups that Moody's believes possess the strongest investment attributes are designated by the symbol Aal, Al and Baal.

A bonds possess many of the 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 sometime in the future.

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

Ba bonds are judged to have speculative elements: their future cannot be considered as well secured. 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 these bonds.

B bonds generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

Caa bonds are of poor standing. They may be in default or there may be present elements of danger with respect to principal or interest.

Ca bonds are speculative in a high degree, often in default or having other marked shortcomings.

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

APPENDIX II
1994

SOURCE	CATEGORY	RETURN (%)
Donoghue	Tax-Free Funds	2.25
Donoghue	U.S. Treasury Funds	3.34
Dow Jones Industrials		5.03
Morgan Stanley Capital		8.06
International EAFE Index		
Morgan Stanley Capital		8.21
International EAFE GDP Index		
Libor	Six-month Libor	6.9375
Lipper	Adjustable Rate Mortgage	-2.20
Lipper	California Municipal Bond Funds	-7.52
Lipper	Connecticut Municipal Bond Funds	-7.04
Lipper	Closed End Bond Funds	-6.86
Lipper	Florida Municipal Bond Funds	-7.76
Lipper	General Bond Fund	-5.98
Lipper	General Municipal Bonds	-6.53
Lipper	General Short-Term Tax-Exempt Bonds	-0.28
Lipper	Global Flexible Portfolio Funds	-3.03
Lipper	Growth Funds	-2.15
Lipper	Growth & Income Funds	-0.94
Lipper	High Current Yield Bond Funds	-3.83
Lipper	High Yield Municipal BondDebt	-4.99
Lipper	Fixed Income Funds	-3.62
Lipper	Insured Municipal Bond Average	-6.47
Lipper	Intermediate Muni Bonds	-3.53
Lipper	Intermediate (5-10) U.S. Government Funds	-3.72
Lipper	Massachusetts Municipal Bond Funds	-6.35
Lipper	Michigan Municipal Bond Funds	-5.89
Lipper	Mid Cap Funds	-2.05
Lipper	Minnesota Municipal Bond	-5.87

Lipper	Funds	
	U.S. Government Money Market	3.58
Lipper	Funds	
	Natural Resources	-4.20
Lipper	New York Municipal Bond Funds	-7.54
Lipper	North Carolina Municipal Bond	-7.48
	Funds	
Lipper	Ohio Municipal Bond Funds	-6.08
Lipper	Small Company Growth Funds	-0.73
Lipper	Specialty/Miscellaneous Funds	-2.29
Lipper	U.S. Government Funds	-4.63
Shearson Lehman Composite		-3.37
Government Index		
Shearson Lehman		-3.51
Government/Corporate Index		
Shearson Lehman Long-term		-7.73
Government Index		
S&P 500	S&P	1.32
S&P Utility Index	S&P	-7.94
Bond Buyer	Bond Buyer Price Index	-18.10
First Boston	High Yield Index	-0.97
Swiss Bank	10 Year U.S. Government	-6.39
	(Corporate Bond)	
Swiss Bank	10 Year United Kingdom	-5.29
	(Corporate Bond)	
Swiss Bank	10 Year France (Corporate	-1.37
	Bond)	
Swiss Bank	10 Year Germany (Corporate	4.09
	Bond)	
Swiss Bank	10 Year Japan (Corporate	7.95
	Bond)	
Swiss Bank	10 Year Canada (Corporate	-14.10
	Bond)	
Swiss Bank	10 Year Australia (Corporate	0.52
	Bond)	
Morgan Stanley Capital	10 Year Hong Kong (Equity)	-28.90
International		
Morgan Stanley Capital	10 Year Belgium (Equity)	9.43
International		
Morgan Stanley Capital	10 Year Spain (Equity)	-3.93
International		

SOURCE	CATEGORY	RETURN (%)
Morgan Stanley Capital	10 Year Austria (Equity)	-6.05
International		
Morgan Stanley Capital	10 Year France (Equity)	-4.70
International		
Morgan Stanley Capital	10 Year Netherlands (Equity)	12.66
International		
Morgan Stanley Capital	10 Year Japan (Equity)	21.62
International		
Morgan Stanley Capital	10 Year Switzerland (Equity)	4.18
International		
Morgan Stanley Capital	10 Year United Kingdom	-1.63
International	(Equity)	
Morgan Stanley Capital	10 Year Germany (Equity)	5.11
International		
Morgan Stanley Capital	10 Year Italy (Equity)	12.13
International		
Morgan Stanley Capital	10 Year Sweden (Equity)	18.80
International		
Morgan Stanley Capital	10 Year United States	2.00
International	(Equity)	
Morgan Stanley Capital	10 Year Australia (Equity)	6.48
International		
Morgan Stanley Capital	10 Year Norway (Equity)	24.07
International		
Inflation	Consumer Price Index	2.67
FHLB-San Francisco	11th District Cost-of-Funds	4.367
	Index	
Federal Reserve	Six-Month Treasury Bill	6.49
Federal Reserve	One-Year Constant-Maturity	7.14
	Treasury Rate	
Federal Reserve	Five-Year Constant-Maturity	7.78
	Treasury Rate	

*in U.S. currency

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

<TABLE> <CAPTION>			
COMMON STOCKS - 83.5%	COUNTRY	SHARES	VALUE
<S>	<C>	<C>	<C>
CONSTRUCTION - 0.8%			
BUILDING CONSTRUCTION - 0.7%			
Enterprise Jean Lefebvre SA	Fr	7	\$ 521
Koninklijke Volker Stevin NV	Ne	74	4,495
Lennar Corp.		84	1,388

			6,404

HEAVY CONSTRUCTION-NON BUILDING CONSTRUCTION - 0.1%			
Cubiertas y Mzov SA	Sp	20	1,264

FINANCE, INSURANCE & REAL ESTATE - 15.5%			
DEPOSITORY INSTITUTIONS - 4.7%			
Banco de Santander SA	Sp	18	655
Bank of Boston Corp.		56	1,876
Bank of Montreal	Ca	398	8,148
Banque Nationale de Belgique	Be	1	1,534
Canadian Imperial Bank of Commerce	Ca	273	6,828
First Empire State Corp.		4	642
First Interstate BanCorp.		17	1,330
Great Western Financial Corp.		143	3,019
J.P. Morgan & Co., Inc.		93	6,090
National Australia Bank Ltd.	Au	1,000	8,646
Nations Bank Corp.		24	1,210
Regions Financial Corp.		66	2,294
Toronto Dominion Bank	Ca	50	733

			43,005

HOLDING & OTHER INVESTMENT COMPANIES - 1.3%			
Avalon Properties, Inc.		59	1,148
Amev NV	Ne	99	5,211
Manufactured Home Communities		63	984
Sofina SA	Be	8	4,084

			11,427

INSURANCE AGENTS & BROKERS - 0.1%			
Acordia, Inc.		30	934
INSURANCE CARRIERS - 8.3%			
Ambac, Inc.		106	4,311
Aetna Life And Casualty Co.		137	7,809
American Bankers Insurance Group, Inc.		165	5,228
American General Corp.		38	1,267
Aon Corp.		105	3,853
Capitol American Financial Corp.		88	1,923
Cigna Corp.		239	17,379
Conseco, Inc.		117	5,062

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Investment Portfolio/April 30, 1995

<TABLE> <CAPTION>			
COMMON STOCKS - CONT.	COUNTRY	SHARES	VALUE
<S>	<C>	<C>	<C>
Lincoln National Corp.		73	\$ 2,975
MBIA, Inc.		148	9,281
Orion Capital Corp.		20	719
Providian Corp.		41	1,413
Reliastar Financial Corp.		56	2,023

St. Paul Companies	134	6,425
Safeco Corp.	13	746
USLife Corp.	141	5,373

		75,787

NONDEPOSITORY CREDIT INSTITUTIONS - 0.6%		
Green Tree Financial Corp.	144	5,894

REAL ESTATE - 0.0%		
Societe Francaise d'Investissements		
Immobiliers et de Gestion	Fr	4
		263

SECURITY BROKERS & DEALERS - 0.5%		
A.G. Edwards, Inc.	1	29
Alex Brown, Inc.	75	3,086
American Express Co.	50	1,738

		4,853

MANUFACTURING - 45.2%		
APPAREL - 0.3%		
V F Corp.	62	3,111

CHEMICALS - 5.2%		
Akzo Nobel NV	63	3,677
American Home Products Corp.	60	4,628
Borden Chemicals & Plastic	115	1,942
Bristol-Myers Squibb Co.	19	1,263
Glaxo Wellcome PLC ADR	UK	42
		985
Marion Merrell Dow, Inc.	93	2,216
Rohm & Haas Co.	24	1,366
Sherwin-Williams Co.	34	1,226
Union Carbide Corp.	533	17,046
Upjohn Co.	343	12,418
Wellman, Inc.	30	821

		47,588

ELECTRONIC & ELECTRICAL EQUIPMENT - 2.4%		
Alcatel Alsthom Compagnie Generale		
d'Electricite	Fr	65
		1,205
CTS Corp.	31	1,027
General Electric Co.	22	1,243
Helen of Troy Ltd.	17	285
Texas Instruments, Inc.	132	13,992
United Industrial Corp.	140	858
Whirlpool Corp.	51	2,792

		21,402

</TABLE>

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Investment Portfolio/April 30, 1995

<TABLE>
<CAPTION>

COMMON STOCKS - CONT.	COUNTRY	SHARES	VALUE
<S>	<C>	<C>	<C>
MANUFACTURING - CONT.			
FABRICATED METAL - 0.3%			
Amcast Industrial Corp.		20	\$ 408
Ball Corp.		50	1,713
Masco Corp.		34	867

			2,988

FOOD & KINDRED PRODUCTS - 3.1%

Bongrain SA	Fr	(b)	225
CPC International			16
Golden Enterprises, Inc.			5
H J Heinz Co.			26
IBP, Inc.			271
International Multifoods Corp.			58
Korn-OG Foderstof Kompagniet AS	De		9
Lancaster Colony Corp.			19
Pepsico, Inc.			29
Seagrams Co. Ltd.			431

			28,676

FURNITURE & FIXTURES - 0.0%			
Kimball International, Series B			4

			106

LEATHER - 0.4%			
Justin Industries, Inc.			308

			3,404

MACHINERY & COMPUTER EQUIPMENT - 12.3%			
Apple Computer, Inc.			353
Bucher Holdings AG	Sz		6
Caterpillar, Inc.			60
Cummins Engine Co., Inc.			373
Diebold, Inc.			29
Deere & Co.			265
Dresser Industries, Inc.			499
Hewlett-Packard Co.			117
Kaydon Corp.			22
Seagate Technology, Inc. (a)			495
Sun Microsystems, Inc. (a)			175
Tandem Computers, Inc. (a)			532
Wynn's International, Inc.			129

			112,045

MEASURING & ANALYZING INSTRUMENTS - 2.5%			
Baxter International, Inc.			447
Emerson Electric Co.			22
Raytheon Co.			78

			22,668

PAPER & PAPER MILLS - 1.8%			
Kimberly Clark Corp.			24
Louisiana-Pacific Corp.			511

</TABLE>

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Investment Portfolio/April 30, 1995

<TABLE>

<CAPTION>

COMMON STOCKS - CONT.	COUNTRY	SHARES	VALUE
<S>	<C>	<C>	<C>
Minnesota Mining & Manufacturing Co.		19	\$ 1,109
Pope & Talbot, Inc.		32	525
Willamette Industries, Inc.		5	261

			16,259

PETROLEUM REFINING - 2.1%			
Amoco Corp.		62	4,036
British Petroleum Co. PLC	UK	13	1,110
Elcor Corp. (a)		59	1,008
Exxon Corp.		36	2,507
Mobil Corp.		58	5,455
Texaco, Inc.		78	5,313

			19,429

PRIMARY METAL - 0.1%			
LTV Corp. (a)	25		357
Worthington Industries, Inc.	16		310
			667

PRIMARY SMELTING - 0.7%			
National Power PLC ADR	UK	34	987
Phelps Dodge Corp.		98	5,527
			6,514

PRINTING & PUBLISHING - 0.6%			
CSS Industries, Inc.(a)		25	419
E.W. Scripps Co.		22	635
John H. Harland Co.		78	1,738
New York Times Co., Class A		36	810
Standard Register Co.		84	1,558
			5,160

RUBBER & PLASTIC - 1.5%			
Goodyear Tire & Rubber Co.		354	13,463
Myers Industries, Inc.		34	493
			13,956

TEXTILE MILL PRODUCTS - 0.0%			
Interface, Inc.		25	350

TOBACCO PRODUCTS - 2.3%			
American Brands, Inc.		529	21,412

TRANSPORTATION EQUIPMENT - 9.6%			
A.O. Smith Corp.		32	754
Clarcor, Inc.		16	340
Eaton Corp.		70	3,993
Ford Motor Co.		200	5,400
Harsco Corp.		20	933
Lockheed Martin Corp.		396	22,846
McDonnell Douglas Corp.		188	11,644

</TABLE>

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Investment Portfolio/April 30, 1995

<TABLE>			
<CAPTION>			
COMMON STOCKS - CONT.	COUNTRY	SHARES	VALUE

<S>	<C>	<C>	<C>
MANUFACTURING - CONT.			
TRANSPORTATION EQUIPMENT - CONT.			
Modine Manufacturing Co.		115	\$ 3,889
Paccar, Inc.		74	3,385
Peugeot SA	Fr	20	2,884
Rockwell International Corp.		25	1,091
Simpson Industries, Inc.		204	2,214
Societe Europeane de Propulsion SA	Fr	2	111
Textron, Inc.		337	19,186
Thiokol Corp.		273	7,599
Toyota Motor Corp.		35	1,418
			87,687

MINING & ENERGY - 0.7%			
METAL MINING - 0.3%			
Cleveland-Cliffs, Inc.		35	1,282
Cyprus Amax Minerals Co.		52	1,461

			2,743

NONMETALLIC, EXCEPT FUELS - 0.4%			
Potash Corp. of Saskatchewan, Inc.	Ca	74	3,938

RETAIL TRADE - 5.8%			
APPAREL & ACCESSORY STORES - 0.1%			
DEB Shops, Inc.		25	108
J. Baker, Inc.		74	921

			1,029

GENERAL MERCHANDISE STORES - 5.3%			
Dillard Department Stores Inc., Class A		340	8,785
J.C. Penney Co., Inc.		514	22,501
May Department Stores Co.		9	337
Sears, Roebuck & Co.		67	3,608
Venture Stores, Inc.		351	3,818
Waban, Inc. (a)		583	9,687

			48,736

HOME FURNISHINGS & EQUIPMENT - 0.2%			
Sun Television and Appliances		164	1,373

MISCELLANEOUS RETAIL - 0.2%			
Rite Aid Corp.		98	2,272

SERVICES - 0.8%			
ENGINEERING, ACCOUNTING, RESEARCH & MANAGEMENT - 0.3%			
International-Muller NV	Ne	36	2,323

HOTELS, CAMPS & LODGING - 0.4%			
Club Med, Inc.		56	1,595

</TABLE>

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Investment Portfolio/April 30, 1995

<TABLE>			
<CAPTION>			
COMMON STOCKS - CONT.	COUNTRY	SHARES	VALUE
<S>	<C>	<C>	<C>
Harbour Centre Development	HK	416	\$ 481
New World Development Co., Ltd.	HK	500	1,298

			3,374

PERSONAL SERVICES - 0.1%			
Service Corp. International		40	1,130

TRANSPORTATION, COMMUNICATION, ELECTRIC, GAS & SANITARY SERVICES - 13.0%			
AIR TRANSPORTATION - 0.1%			
British Airways PLC	UK	7	433
Federal Express Corp. (a)		10	694

			1,127

COMMUNICATIONS - 5.4%			
Ameritech Corp.		105	4,725

Bell Atlantic Corp.		80	4,390
GTE Corp.		36	1,225
NYNEX Corp.		457	18,676
Pacific Telesis Group, Inc.		60	1,856
Southern New England Telecommunications Corp.		148	4,892
Southwestern Bell Corp.		262	11,578
Telefonos de Mexico SA	Mx	79	2,375

			49,717

ELECTRIC, GAS & SANITARY SERVICES - 1.1%			
Gas y Electricidad SA	Sp	224	10,379

ELECTRIC SERVICES - 1.7%			
Detroit Edison Co.		101	2,850
Empresa Nacional Electrica	ADR Sp	23	1,066
NIPSCO Industries, Inc.		35	1,126
New England Electric System		57	1,720
Peco Energy Co.		105	2,691
Pinnacle West Capital Corp.		126	2,705
Unicom Corp.		80	2,100
Union Electrica Fenosa SA	Sp	177	740

			14,998

GAS SERVICES - 0.3%			
Energen Corp.		78	1,707
Laclede Gas Co.		47	878

			2,585

PIPELINES - 0.1%			
Enron Global Power and Pipelines		53	1,272

RAILROAD - 0.9%			
CSX Corp.		68	5,414
Norfolk Southern Corp.		47	3,167

			8,581

</TABLE>

11

<TABLE>
<CAPTION>

Investment Portfolio/April 30, 1995

COMMON STOCKS - CONT.	COUNTRY	SHARES	VALUE
<S>	<C>	<C>	<C>
TRANSPORTATION, COMMUNICATION, ELECTRIC, GAS & SANITARY SERVICES - CONT.			
SANITARY SERVICES - 2.4%			
North West Water PLC	UK	1,096	\$ 9,802
Northumbrian Water Group PLC	UK	352	5,034
Severn Trent Water PLC	UK	403	3,456
Yorkshire Water PLC	UK	412	3,629

			21,921

TRANSPORTATION SERVICES - 0.1%			
Cross Harbour Tunnel Co.	HK	307	583

WATER TRANSPORTATION - 0.9%			
American Presidents Cos.		292	6,787
Overseas Shipholding Group, Inc.		45	894

			7,681

WHOLESALE TRADE - 1.7%			
DURABLE GOODS - 1.6%			
Beers N.V. (a)	Ne	43	5,481
Handleman Co.		278	2,949
Pioneer Standard Electronics, Inc.		338	6,581
			15,011
NONDURABLE GOODS - 0.1%			
Nash-Finch Co.		60	948
TOTAL COMMON STOCKS (cost of \$653,920)			764,974

</TABLE>
<TABLE>
<CAPTION>

BONDS AND NOTES - 11.5%	RATE	MATURITIES FROM/TO	PAR	
U.S. GOVERNMENT & AGENCY OBLIGATIONS - 11.2%				
<S>	<C>	<C>	<C>	<C>
GOVERNMENT AGENCIES - 7.2%				
Federal National Mortgage Association	6.500%	2007-2009	\$ 68,786	65,840
GOVERNMENT OBLIGATIONS - 4.0%				
U.S. Treasury Notes	7.875%	4/15/98	35,085	36,143
TOTAL U.S. GOVERNMENT & AGENCY OBLIGATIONS (cost of \$105,665)				101,983
CORPORATE FIXED-INCOME BONDS & NOTES - 0.2%				
MANUFACTURING - 0.2%				
CHEMICALS - 0.1%				
Freeport-McMoRan	(c)	08/05/06	2,700	999
PRINTING & PUBLISHING - 0.1%				
Time Warner, Inc.	8.750%	01/10/15	1,100	1,102

</TABLE>

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<TABLE>

Investment Portfolio/April 30, 1995

Investment Portfolio/April 30, 1995			
<S>	<C>	<C>	<C>
TOTAL CORPORATE FIXED-INCOME BONDS & NOTES (cost of \$2,133)			2,101
CORPORATE ADJUSTABLE RATE BONDS & NOTES - 0.1%			
TRANSPORTATION, COMMUNICATION, ELECTRIC, GAS & SANITARY SERVICES - 0.1%			
PIPELINES			
SFP Pipeline Holdings (d) (cost of \$720)	11.163%	08/15/10	600 \$ 762
TOTAL BONDS & NOTES (cost of \$108,518)			104,846
PREFERRED STOCKS - 0.1%		SHARES	
SERVICES - 0.1%			
BUSINESS SERVICES			
General Motors, \$3.25 (cost of \$1,148)		21	1,288
WARRANTS (a) - 0.0%		COUNTRY	
MANUFACTURING - 0.0%			

MACHINERY & COMPUTER EQUIPMENT
 Bucher Holdings AG (expires 10/01/95)
 (cost of \$104)

Sz 6 2

TOTAL INVESTMENTS - 95.1% (cost of \$763,690) (e) 871,110

SHORT-TERM OBLIGATIONS - 4.2% PAR

Repurchase agreement with Bankers Trust
 Securities Corp., dated 04/28/95, due 05/01/95
 at 5.920% collateralized by U.S. Treasury
 notes with various maturities to 1998, market
 value \$41,730 (repurchase proceeds \$38,003) \$ 37,984 37,984

OTHER ASSETS & LIABILITIES, NET - 0.7% 6,559

NET ASSETS - 100.0% \$ 915,653

NOTES TO INVESTMENT PORTFOLIO:

</TABLE>

- (a) Non-income producing.
- (b) Rounds to less than one.
- (c) Zero coupon bond.
- (d) Interest rates change quarterly. The rate listed is as of April 30, 1995.
- (e) Cost for federal income tax purposes is \$763,732.

<TABLE>
 <CAPTION>

Investment Portfolio/April 30, 1995

NOTES TO INVESTMENT PORTFOLIO - CONT.

Summary of Securities by Country	Country	Value	% of Total
<S>	<C>	<C>	<C>
United States		\$767,305	88.1
United Kingdom	UK	25,436	2.9
Netherlands	Ne	17,510	2
Spain	Sp	14,104	1.6
Canada	Ca	19,647	2.3
Australia	Au	8,646	1
France	Fr	5,209	0.6
Belgium	Be	5,618	0.6
Switzerland	Sz	3,621	0.4
Hong Kong	HK	2,362	0.3
Denmark	De	1,652	0.2
		\$871,110	100.0

</TABLE>

Certain securities are listed by country of underlying exposure but may trade predominantly on other exchanges.

See notes to financial statements.

STATEMENT OF ASSETS & LIABILITIES
 APRIL 30, 1995 (UNAUDITED)

(In thousands except for per share amounts and footnote)

<TABLE>

<u><S></u>	<u><C></u>	<u><C></u>	
ASSETS			
Investments at value (cost \$763,690)		\$	871,110
Short-term obligations			37,984

			909,094
Cash held in foreign banks (cost \$63)	\$		63
Receivable for:			
Investments sold		13,064	
Dividends		2,011	
Fund shares sold		1,368	
Interest		520	
Foreign tax reclaims		119	
Other		86	17,231

Total Assets			926,325
LIABILITIES			
Payable for:			
Investments bought		8,797	
Fund shares repurchased		1,799	
Accrued:			
Deferred Trustees fees		7	
Other		69	

Total Liabilities			10,672

NET ASSETS		\$	915,653

Net asset value & redemption price per share - Class A (\$618,768/76,464)			\$8.09

Maximum offering price per share - Class A (\$8.09/0.9425)			\$8.58 *

Net asset value & offering price per share - Class B (\$296,885/36,747)			\$8.08

COMPOSITION OF NET ASSETS			
Capital paid in		\$	770,119
Undistributed net investment income			930
Accumulated net realized gain			37,189
Net unrealized appreciation (depreciation) on:			
Investments		107,420	
Foreign currency transactions		(5)	

		\$	915,653
			=====

*On sales of \$50,000 or more the offering price is reduced.
 See notes to financial statements.

</TABLE>

(in thousands)

<TABLE>	<S>	<C>	<C>
INVESTMENT INCOME			
Dividends			\$ 10,802
Interest			4,940

Total investment income (net of nonrebatable foreign taxes withheld at source which amounted to \$235)			15,742
EXPENSES			
Management fee	\$	2,280	
Service fee		957	
Distribution fee - Class B		1,016	
Transfer agent		1,224	
Bookkeeping fee		150	
Trustees fee		19	
Custodian fee		32	
Audit fee		22	
Legal fee		6	
Registration fee		45	
Reports to shareholders		9	
Other		30	5,790
		-----	-----
Net Investment Income			9,952

NET REALIZED & UNREALIZED GAIN (LOSS) ON PORTFOLIO POSITIONS			
Net realized gain on:			
Investments		36,898	
Foreign currency transactions		28	

Net Realized Gain			36,926
Net unrealized appreciation (depreciation) during the period on:			
Investments		24,877	
Foreign currency transactions		(5)	

Net Unrealized Appreciation			24,872

Net Gain			61,798

Net Increase in Assets From Operations			\$ 71,750
			=====

See notes to financial statements.

</TABLE>

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STATEMENT OF CHANGES IN NET ASSETS
(in thousands)

<TABLE>		
<CAPTION>	(Unaudited)	
	Six months ended	Year ended
	April 30	October 31
	-----	-----
	1995	1994
<S>	<C>	<C>
INCREASE (DECREASE) IN NET ASSETS		
Operations:		
Net investment income	\$ 9,952	\$ 13,905
Net realized gain	36,926	50,974
Net unrealized appreciation (depreciation)	24,872	(61,930)
	-----	-----

Net Increase from Operations	71,750	2,949
Distributions:		
From net investment income - Class A	(7,461)	(10,658)
From net realized gains - Class A	(34,321)	(15,320)
From net investment income - Class B	(2,691)	(2,687)
From net realized gains - Class B	(16,631)	(4,145)
	-----	-----
	10,646	(29,861)
	-----	-----
Fund Share Transactions:		
Receipts for shares sold - Class A	30,247	96,683
Receipts for shares issued in the acquisition of Liberty Financial Growth and Income Fund	36,806	
Value of distributions reinvested - Class A	37,486	22,779
Cost of shares repurchased - Class A	(48,095)	(62,378)
	-----	-----
	56,444	57,084
	-----	-----
Receipts for shares sold - Class B	33,263	169,110
Value of distributions reinvested - Class B	18,207	6,421
Cost of shares repurchased - Class B	(22,304)	(28,224)
	-----	-----
	29,166	147,307
	-----	-----
Net Increase from Fund Share Transactions	85,610	204,391
	-----	-----
Total Increase	96,256	174,530
NET ASSETS		
Beginning of period	819,397	644,867
	-----	-----
End of period (including undistributed net investment income of \$930 and \$1,133, respectively)	\$ 915,653	\$ 819,397
	=====	=====
NUMBER OF FUND SHARES		
Sold - Class A	3,927	11,383
Issued in acquisition of Liberty Financial Growth and Income Fund	4,735	
Issued for distributions reinvested - Class A	5,166	2,821
Repurchased - Class A	(6,259)	(7,202)
	-----	-----
	7,569	7,002
	-----	-----
Sold - Class B	4,316	20,623
Issued for distributions reinvested - Class B	2,512	794
Repurchased - Class B	(2,904)	(3,371)
	-----	-----
	3,924	18,046
	-----	-----
Net Increase in Shares Outstanding	11,493	25,048
	=====	=====
See notes to financial statements.		

</TABLE>

NOTES TO FINANCIAL STATEMENTS
APRIL 30, 1995 (UNAUDITED)

NOTE 1. INTERIM FINANCIAL STATEMENTS

In the opinion of management of The Colonial 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

ORGANIZATION: 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: Equity securities are valued at the last sale price or, in the case of unlisted or listed securities, for which there were no sales during the day, at current quoted bid prices.

Debt securities 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.

Forward currency contracts are valued based on the weighted value of the exchange traded contracts with similar durations.

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 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.

Notes to Financial Statements/April 30, 1995

Per share data was calculated using the average shares outstanding during the period. In addition, Class B net investment income per share data reflects the distribution fee per share applicable to Class B shares only.

Class B ratios are calculated by adjusting the expense and net investment income 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.

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: Distributions to shareholders are recorded on the ex-date.

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.

FOREIGN CURRENCY TRANSACTIONS: The Fund has adopted Statement of Position 93-4, Foreign Currency Accounting and Financial Statement Presentation for Investment Companies. Accordingly, net realized and unrealized gains (losses) on foreign currency transactions includes the fluctuation in exchange rates on gains and losses between trade and settlement dates on securities transactions, gains and losses arising from the disposition of foreign currency, and currency gains and losses between the accrual and payment dates on dividends and interest income and foreign withholding taxes.

The Fund does not distinguish that portion of gains and losses on investments which is due to changes in foreign exchange rates from that which is due to

changes in market prices of the investments. Such fluctuations are included with the net realized and unrealized gains and losses from investments.

FORWARD CURRENCY CONTRACTS: The Fund may enter into forward currency contracts to purchase or sell foreign currencies at predetermined exchange rates in connection with the settlement of purchases and sales of securities. The Fund may also enter into forward currency contracts to hedge certain other foreign currency denominated assets. The contracts are used to minimize the exposure to foreign exchange rate fluctuations during the period between trade and settlement date of the contracts. All contracts are marked-to-market daily, resulting in unrealized gains or losses which become realized at the time the forward currency contracts are closed or mature. Realized and unrealized gains (losses) arising from such transactions are included in net realized and unrealized gains (losses) on foreign currency transactions. Forward currency contracts do not eliminate fluctuations in the prices of the Fund's portfolio securities. While the maximum potential loss from such contracts

Notes to Financial Statements/April 30, 1995

FOREIGN CURRENCY CONTRACTS - CONT.

is the aggregate face value in U.S. dollars at the time the contract was opened, the actual exposure is typically limited to the change in value of the contract (in U.S. dollars) over the period it remains open. Risks may also arise if counterparties fail to perform their obligations under the contracts.

OTHER: Corporate actions are recorded on the ex-date (except for certain foreign securities which are recorded as soon after ex-date as the Fund becomes aware of such), net of nonrebutable tax withholdings. Where a high level of uncertainty as to collection exists, income on securities is recorded net of all tax withholdings with any rebates recorded when received.

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

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 equal to 0.55% annually of the Fund's average net assets.

BOOKKEEPING FEE: The Adviser provides bookkeeping and pricing services for \$27,000 per year plus 0.035% of the Fund's average net assets over \$50 million.

TRANSFER AGENT: Colonial Investors Service Center, Inc., (the Transfer Agent), an affiliate of the Adviser, provides shareholder services and receives a monthly fee equal to 0.25% 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. For the six months ended April 30, 1995, the Distributor retained net underwriting discounts of \$85,919 on sales of the Fund's Class A shares and received contingent deferred sales charges (CDSC) of \$493,293 on Class B share redemptions.

The Fund has adopted a 12b-1 plan which requires the payment of a distribution fee equal to 0.75% annually of the average net assets attributable to Class B shares. The plan also requires the payment of a service fee to the Distributor as follows:

<TABLE>

<CAPTION>

Value of shares outstanding on the 20th of each month which were issued	Annual Fee Rate
<S>	<C>
Prior to April 1, 1989	0.15%
On or after April 1, 1989	0.25%

Notes to Financial Statements/April 30, 1995

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

INVESTMENT ACTIVITY: During the six months ended April 30, 1995, purchases and sales of investments, other than short-term obligations, were \$293,228,922 and \$357,219,636, respectively, of which \$4,583,079 and \$4,753,009, respectively, were U.S. government securities.

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

<TABLE>	
<S>	<C>
Gross unrealized appreciation	\$ 131,882,202
Gross unrealized depreciation	(24,503,863)

Net unrealized appreciation	\$ 107,378,339
	=====

</TABLE>

OTHER: There are certain additional risks involved when investing in foreign securities that are not inherent with investments in domestic securities. These risks may involve foreign currency exchange rate fluctuations, adverse political and economic developments and the possible prevention of currency exchange or other foreign governmental laws or restrictions.

The Fund may focus its investments in certain industries, subjecting it to greater risk than a fund that is more diversified.

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 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, 74,003,431 voted for the new Management Agreement, 1,075,852 voted against and 3,340,423 abstained. Of the shares of beneficial interest outstanding that abstained 347,522, represented broker non-votes.

Notes to Financial Statements/April 30, 1995

NOTE 6. MERGER INFORMATION

On March 24, 1995, Liberty Financial Growth and Income Fund (LFGIF) was merged into the Fund by a non-taxable exchange of 4,734,891 shares of the Fund (valued at \$36,806,337) for the 4,713,999 of LFGIF shares then outstanding. The assets of LFGIF acquired included unrealized appreciation of \$1,319,964. The aggregate net assets of the Fund and LFGIF immediately after the merger were \$879,529,274.

FINANCIAL HIGHLIGHTS (a)

(Selected date for a share of each class outstanding through each period are as follows:)

<TABLE>
<CAPTION>

<S>	(unaudited) Six months ended April 30		Year ended October 31			
	1995		1994		1993 (b)	
	Class A	Class B	Class A	Class B	Class A	Class B
Net asset value- Beginning of period	\$8.060	\$8.050	\$8.410	\$8.400	\$7.390	\$7.390
INCOME FROM INVESTMENT OPERATIONS:						
Net investment income	0.209	0.152	0.171	0.109	0.156	0.104
Net realized and unrealized gain (loss)	0.429	0.457	(0.116)	(0.111)	1.293	1.282
Total from Investment Operations	0.638	0.609	0.055	(0.002)	1.449	1.386
LESS DISTRIBUTIONS DECLARED TO SHAREHOLDERS:						
From net investment income	(0.107)	(0.078)	(0.160)	(0.103)	(0.147)	(0.094)
From net realized gains	(0.501)	(0.501)	(0.245)	(0.245)	(0.282)	(0.282)
Total Distributions Declared to Shareholders	(0.608)	(0.579)	(0.405)	(0.348)	(0.429)	(0.376)
Net asset value- End of period	\$8.090	\$8.080	\$8.060	\$8.050	\$8.410	\$8.400
Total return (d)	8.83% (e)	8.42% (e)	0.74%	(0.04%)	20.21%	19.38%
RATIOS TO AVERAGE NET ASSETS						
Expenses	1.15% (f)	1.90% (f)	1.14%	1.89%	1.10%	1.85%
Net investment income	2.65% (f)	1.90% (f)	2.07%	1.32%	1.94%	1.19%
Portfolio turnover	64% (f)	64% (f)	54%	54%	14%	14%
Net assets at end of period (000)	\$618,768	\$296,885	\$555,275	264,122	520,706	124,161

</TABLE>

(a) Per share data was calculated using average shares outstanding during the period.

(b) All per share amounts have been restated to reflect the 3-for-1 stock split effective December 10, 1993.

(c) Class B shares were initially offered on May 5, 1992. Per share amounts reflect activity from that date.

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

(e) Not annualized.

(f) Annualized.

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FINANCIAL HIGHLIGHTS (A) -CONTINUED

(Selected date for a share of each class outstanding throughout each period are as follows:)

<TABLE>
<CAPTION>

Year ended October 31

<S>	1992 (B)		1991 (B)	1990 (B)
	Class A	Class B(c)	Class A	Class A
Net asset value- Beginning of period	\$ 7.050	\$ 7.440	\$5.700	\$6.850
INCOME FROM INVESTMENT OPERATIONS:				
Net investment income	0.173	0.052	0.218	0.256
Net realized and unrealized gain (loss)	0.489	(0.044)	1.509	(0.979)
Total from Investment Operations	0.662	0.008	1.727	(0.723)
LESS DISTRIBUTIONS DECLARED TO SHAREHOLDERS:				
From net investment income	(0.185)	(0.058)	(0.222)	(0.276)
From net realized gains	(0.137)	--	(0.155)	(0.151)
Total Distributions Declared to Shareholders	(0.322)	(0.058)	(0.377)	(0.427)
Net asset value- End of period	\$ 7.390	\$ 7.390	\$7.050	\$5.700
Total return(d)	9.65%	(0.31%) (e)	31.23%	(11.17%)
RATIOS TO AVERAGE NET ASSETS				
Expenses	1.09%	1.84% (f)	1.06%	1.04%
Net investment income	2.52%	1.77% (f)	3.35%	4.05%
Portfolio turnover	37%	37% (f)	36%	41%
Net assets at end of period (000)	\$413,228	\$15,582	\$366,808	\$285,265

(a) Per share data was calculated using average shares outstanding during the period.

(b) All per share amounts have been restated to reflect the 3 for 1 stock split effective December 10, 1993.

(c) Class B shares were initially offered on May 5, 1992. Per share amounts reflect activity from that date.

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

(e) Not annualized.

(f) Annualized.

Part B of Post-Effective Amendment No. 91 filed with the Commission on December 29, 1994 (Colonial Growth Shares Fund), is incorporated herein in its entirety by reference.

Part B of Post-Effective Amendment No. 92 filed with the Commission on February 14, 1995 (Colonial Federal Securities Fund, Colonial Strategic Balanced Fund, Colonial International Fund for Growth, Colonial Global Natural Resources Fund, Colonial Global Equity Fund, The Colonial Fund), is incorporated herein in its entirety by reference.

Part B of Post-Effective Amendment No. 93 filed with the Commission on March 1, 1995 (Colonial Global Utilities Fund), is

incorporated herein in its entirety by reference.

PART C OTHER INFORMATION

Item 24. Financial Statements and Exhibits

(a) Financial Statements:

Included in Part A

Summary of expenses (for Colonial Growth Shares Fund incorporated herein by reference to Part A of Post-Effective Amendment No. 91 filed with the Commission on December 29, 1994)

Summary of expenses (for Colonial Global Natural Resources Fund, Colonial Federal Securities Fund, Colonial Global Equity Fund, Colonial International Fund for Growth and Colonial Strategic Balanced Fund, incorporated by reference to Part A of Post-Effective Amendment No. 92 filed with the Commission on February 14, 1995)

Summary of expenses (Colonial Global Utilities Fund) (incorporated herein by reference to Part A of Post-Effective Amendment No. 93 filed with the Commission on March 1, 1995)

The Fund's financial history (for Colonial Growth Shares Fund incorporated herein by reference to Part A of Post-Effective Amendment No. 91 filed with the Commission on December 29, 1994)

The Fund's financial history (Colonial Global Natural Resources Fund, Colonial Federal Securities Fund, Colonial Global Equity Fund, Colonial International Fund for Growth and Colonial Strategic Balanced Fund, incorporated by reference to Part A of Post-Effective Amendment No. 92 filed with the Commission on February 14, 1995)

The Fund's financial history (Colonial Global Utilities Fund) (incorporated herein by reference to Part A of Post-Effective Amendment No. 93 filed with the Commission on March 1, 1995)

Included in Part B

Colonial Global Utilities Fund (CGUF) (incorporated herein by reference to Part B of Post-Effective Amendment No. 93 filed with the Commission on March 1, 1995)

Investment portfolio, October 31, 1994
Statement of assets and liabilities, October 31, 1994
Statement of operations, Period ended October 31, 1994
Statement of changes in net assets, Period ended October 31, 1994
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Colonial International Fund for Growth (CIFFG) (incorporated herein by reference to Part B of Post-Effective Amendment No. 92 filed with the Commission on February 14, 1995)

Investment portfolio, October 31, 1994
Statement of assets and liabilities, October 31, 1994
Statement of operations, Period ended October 31, 1994
Statement of changes in net assets, Period ended October 31, 1994
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Colonial Growth Shares Fund (CGSF) (incorporated

herein by reference to Part B of Post-Effective Amendment No. 91 filed with the Commission on December 29, 1994)

Investment portfolio, October 31, 1994
Statement of assets and liabilities, October 31, 1994
Statement of operations, Year ended October 31, 1994
Statement of changes in net assets,
Years ended October 31, 1994 and 1993
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The Colonial Fund (TCF) (October 31, 1994 financial statements are incorporated herein by reference to Part B of Post-Effective Amendment No. 92 filed with the Commission on February 14, 1995)

Investment portfolio, October 31, 1994
Statement of assets and liabilities, October 31, 1994
Statement of operations, Year ended October 31, 1994
Statement of changes in net assets, Years ended
October 31, 1994 and 1993
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Investment Portfolio, April 30, 1995 (unaudited)
Statement of assets and liabilities, April 30, 1995
(unaudited)
Statement of operations, for the six months ended
April 30, 1995 (unaudited)
Statement of changes in net assets for the six months
ended April 30, 1995 (unaudited)
Notes to Financial Statements (unaudited)
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Colonial Federal Securities Fund (CFSF) (incorporated herein by reference to Part B of Post-Effective Amendment No. 92 filed with the Commission on February 14, 1995)

Investment portfolio, October 31, 1994
Statement of assets and liabilities, October 31, 1994
Statement of operations, Year ended October 31, 1994
Statement of changes in net assets, Years ended
October 31, 1994 and 1993
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Colonial Global Equity Fund (CGEF) (incorporated herein by reference to Part B of Post-Effective Amendment No. 92 filed with the Commission on February 14, 1995)

Investment portfolio, October 31, 1994
Statement of assets and liabilities, October 31, 1994
Statement of operations, Year ended October 31, 1994
Statement of changes in net assets, Year ended
October 31, 1994 and Period ended October 31, 1993
Notes to Financial Statements
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Colonial Global Natural Resources Fund (CGNRF) (incorporated herein by reference to Part B of Post-Effective Amendment No. 92 filed with the Commission on February 14, 1995)

Investment portfolio, October 31, 1994
Statement of assets and liabilities, October 31, 1994
Statement of operations, Year ended October 31, 1994
Statement of changes in net assets, Years ended
October 31, 1994 and 1993
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Colonial Strategic Balanced Fund (CSBF) (incorporated

herein by reference to Part B of Post-Effective
Amendment No. 92 filed with the Commission on
February 14, 1995)

Investment portfolio, October 31, 1994
Statement of assets and liabilities, October 31, 1994
Statement of operations, Period ended October 31,
1994
Statement of changes in net assets, Period ended
October 31, 1994
Notes to Financial Statements
Financial Highlights
Report of Independent Accountants

(b) Exhibits:

- 1 Amendment No. 3 to the Agreement
and Declaration of Trust (4)
- 2 By-Laws (4)
2(a) By-Laws as amended (10/9/92) (7)
- 3 Not Applicable
- 4 Form of Specimen of share
certificate (4)
- 5(a) Form of Management Agreement (TCF)
5(b) Form of proposed Management
Agreement (CFSF, CNRF, CGEF and CSBF) (4)
5(c) Management Agreement between CIFFG
and Colonial Management Associates, Inc. (9)
5(d) Sub-Advisory Agreement Among
Gartmore Capital Management Ltd., Colonial
Management Associates, Inc. and Colonial
Trust III (CIFFG). (9)
- 6(a) Form of Distributor's Contract
with Colonial Investment Services
(incorporated herein by reference to
Exhibit 6(i) (b) to Post-Effective Amendment
No. 22 to the Registration Statement of
Colonial Trust II, Registration Nos 2-66976
and 811-3009, filed with the Commission on
October 28, 1994)
- 6(b) Form of Selling Agreement with
Colonial Investment Services (10)
- 6(c) Form of Bank and Bank Affiliated
Selling Agreement (incorporated herein by
reference to Exhibit 6(c) to Post-Effective
Amendment No. 5 to the Registration
Statement of Colonial Trust VI,
Registration Nos. 33-45117 and 811-6529,
filed with the Commission on October 11,
1994)
- 6(d) Mutual Fund Agreement between NCNB
Securities, Inc. and Colonial Investment
Services (incorporated herein by reference
to Exhibit 6(f) to Post-Effective Amendment
No. 3 to the Registration Statement of
Colonial Massachusetts Tax-Exempt Trust,
Registration Nos. 33-12109 and 811-5030,
filed with the Commission on May 11, 1989)
- 6(e) Form of Asset Retention Agreement
(incorporated by reference to Exhibit 6(e)
to Post-Effective Amendment No. 5 to the
Registration Statement of Colonial Trust
VI, Registration Nos. 33-45117 and 811-
6529, filed with the Commission on October
11, 1994).
- 7 Not Applicable
- 8 Proposed form of Custodian
Agreement with Boston Safe Deposit and
Trust Company (incorporated herein by
reference to Exhibit 8(k) to Post-Effective
Amendment No. 36 to the Registration
Statement of Colonial Trust IV,
Registration Nos. 2-62492 and 811-2865,

filed with the Commission on March 12,
1993)

- 9(a) Form of Amended and Restated Shareholders' Servicing and Transfer Agent Agreement as amended with Colonial Investors Service Center, Inc. (formerly Citadel Service Company, Inc.) and Colonial Management Associates, Inc. (incorporated herein by reference to Exhibit 9(a) to Post-Effective Amendment No. 5 to the Registration Statement of Colonial Trust VI, Registration Nos. 33-45117 and 811-6529, filed with the Commission on October 11, 1994)
- 9(b) Pricing and Bookkeeping Agreement with Colonial Management Associates, Inc. (6)
- 9(c) Investment Account Application (incorporated herein by reference to Prospectus)
- 9(d) Form of proposed Agreement and Plan of Reorganization (incorporated herein by reference to Exhibit 9(c) to Post-Effective Amendment No. 67 to the Registration Statement of The Colonial Fund, Registration File Nos. 2-15392 and 811-895, filed with the Commission on February 26, 1987) (TCF)
- 9(e) Form of proposed Agreement and Plan of Reorganization (CGSF) (1)
- 9(f) Form of Agreement and Plan of Reorganization (TCF and CFSF) (5)
- 9(g) Form of Colonial Asset Builder Account Application (TCF, CGSF) (8)
- 9(h) Form of Administration Agreement between Colonial Trust III, with respect to CGUF, and Colonial Management Associates, Inc. (12)
- 10 Opinion and Consent of Counsel (CGSF) (2)
- 10(a) Opinion and Consent of Counsel (incorporated herein by reference to Exhibit 10 to Pre-Effective Amendment No. 1 to the Registration Statement of Colonial Government Securities Plus Trust, Registration File Nos. 2-87530 and 811-3895, filed with the Commission on January 6, 1984) (CFSF)
- 10(b) Opinion and Consent of Counsel (incorporated herein by reference to Exhibit 10 to Post-Effective Amendment No. 67 to the Registration Statement of The Colonial Fund, Registration File Nos. 2-15392 and 811-895, filed with the Commission on February 26, 1987) (TCF)
- 11(a) Consent of Independent Accountants (TCF, CFSF, CGEF, CIFFG, CSBF and CGNRF) (14)
- 11(b) Consent of Independent Accountants (CGSF) (12)
- 11(c) Consent of Independent Accountants (CGUF) (15)
- 12 Not Applicable
- 13 Not Applicable
- 14(a) Form of Colonial Mutual Funds Money Purchase Pension and Profit Sharing Plan Document and Trust Agreement (incorporated herein by reference to Exhibit 14(a) to Post-Effective Amendment No. 5 to the Registration Statement of Colonial Trust VI, Registration Nos. 33-45117 and 811-6529, filed with the Commission on October 11, 1994)
- 14(b) Form of Colonial Mutual Funds Money Purchase Pension and Profit Sharing Plan Establishment Booklet (incorporated

herein by reference to Exhibit 14(b) to Post-Effective Amendment No. 5 to the Registration Statement of Colonial Trust VI, Registration Nos. 33-45117 and 811-6529, filed with the Commission on October 11, 1994)

- 14(c) Form of Colonial Mutual Funds Individual Retirement Account and Application (incorporated herein by reference to Exhibit 14(c) to Post-Effective Amendment No. 5 to the Registration Statement of Colonial Trust VI, Registration Nos. 33-45117 and 811-6529, filed with the Commission on October 11, 1994)
- 14(d) Form of Colonial Mutual Funds Simplified Employee Pension Plan and Salary Reduction Simplified Employee Pension Plan (incorporated herein by reference to Exhibit 14(d) to Post-Effective Amendment No. 5 to the Registration Statement of Colonial Trust VI, Registration Nos. 33-45117 and 811-6529, filed with the Commission on October 11, 1994)
- 14(e) Form of Colonial Mutual Funds 401(k) Plan Document and Trust Agreement (incorporated herein by reference to Exhibit 14(e) to Post-Effective Amendment No. 5 to the Registration Statement of Colonial Trust VI, Registration Nos. 33-45117 and 811-6529, filed with the Commission on October 11, 1994)
- 14(f) Form of Colonial Mutual Funds 401(k) Plan Establishment Booklet (incorporated herein by reference to Exhibit 14(f) to Post-Effective Amendment No. 5 to the Registration Statement of Colonial Trust VI, Registration Nos. 33-45117 and 811-6529, filed with the Commission on October 11, 1994)
- 14(g) Form of Colonial Mutual Funds 401(k) Employee Reports Booklet (incorporated herein by reference to Exhibit 14(g) (a) to Post-Effective Amendment No. 5 to the Registration Statement of Colonial Trust VI, Registration Nos. 33-45117 and 811-6589, filed with the Commission on October 11, 1994)
- 15 Distribution Plan adopted pursuant to Section 12b-1 of the Investment Company Act of 1940, incorporated by reference to the Distributor's Contracts filed as Exhibit 6(a) hereto
- 16(a) Calculation of Performance Information (CGSF) (13)
- 16(b) Calculation of Yield (CGSF) (13)
- 16(c) Calculation of Performance Information (CFSE) (14)
- 16(d) Calculation of Yield (CFSE) (14)
- 16(e) Calculation of Performance Information at 10/31/94 (TCF) (14)
- 16(f) Calculation of Yield at 10/31/94 (TCF) (14)
- 16(g) Calculation of Performance Information (CGEF) (14)
- 16(h) Calculation of Yield (CGEF) (14)
- 16(i) Calculation of Performance Information (CGNRF) (14)
- 16(j) Calculation of Yield (CGNRF) (14)
- 16(k) Calculation of Performance Information (CSBF) (14)
- 16(l) Calculation of Yield (CSBF) (14)
- 16(m) Calculation of Performance Information (CIFFG) (14)
- 16(n) Calculation of Yield (CIFFG) (14)
- 16(o) Calculation of Performance Information (CGUF)

16(p) Not Applicable (CGUF)
 16(q) Calculation of Performance Information at 4/30/95.
 16(r) Calculation of Yield at 4/30/95

17(a) Financial Data Schedule (Class A) (CFSF) (14)
 17(b) Financial Data Schedule (Class B) (CFSF) (14)
 17(c) Not applicable (Class D) (CFSF)
 17(d) Financial Data Schedule at 10/31/94 (Class A) (TCF) (14)
 17(e) Financial Data Schedule at 10/31/94 (Class B) (TCF) (14)
 17(f) Not applicable (Class D) (TCF)
 17(g) Financial Data Schedule (Class A) (CGEF) (14)
 17(h) Financial Data Schedule (Class B) (CGEF) (14)
 17(i) Financial Data Schedule (Class A) (CGNRF) (14)
 17(j) Financial Data Schedule (Class B) (CGNRF) (14)
 17(k) Financial Data Schedule (Class A) (CSBF) (14)
 17(l) Financial Data Schedule (Class B) (CSBF) (14)
 17(m) Financial Data Schedule (Class D) (CSBF) (14)
 17(n) Financial Data Schedule (Class A) (CIFFG) (14)
 17(o) Financial Data Schedule (Class B) (CIFFG) (14)
 17(p) Financial Data Schedule (Class D) (CIFFG) (14)
 17(q) Not Applicable (Class A) (CGSF)
 17(r) Not Applicable (Class B) (CGSF)
 17(s) Financial Data Schedule (Hub) (CGUF) (15)
 17(t) Financial Data Schedule (Spoke) (CGUF) (15)
 17(u) Financial Data Schedule at 4/30/95 (Class A)
 17(v) Financial Data Schedule at 4/30/95 (Class B)

18 Power of Attorney for: Tom Bleasdale, Lora S. Collins, William D. Ireland, Jr., William E. Mayer, John A. McNeice, Jr., James L. Moody, Jr., John J. Neuhauser, George L. Shinn, Robert L. Sullivan and Sinclair Weeks, Jr. (incorporated herein by reference to Exhibit 16 to Post-Effective Amendment No. 38 to the Registration Statement of Colonial Trust IV, Registration Nos. 2-62492 and 811-2865, filed with the Commission on March 11, 1994)

18(a) Power of Attorney for: Robert J. Birnbaum, James E. Grinnell and Richard W. Lowry (incorporated herein by reference to Exhibit 18(a) to Post-Effective Amendment No. 18 to the Registration Statement of Colonial Trust V, Registration Nos. 811-5030 and 33-12109, filed with the Commission on May 22, 1995)

- (1) Incorporated by reference to Post-Effective Amendment No. 70 to Form N-1A filed on or about June 2, 1986
- (2) Incorporated by reference to Post-Effective Amendment No. 71 to Form N-1A filed on or about August 27, 1986
- (3) Incorporated by reference to Post-Effective Amendment No. 75 to Form N-1A filed on or about May 31, 1990
- (4) Incorporated by reference to Post-Effective Amendment No. 78 to Form N-1A filed on or about December 17, 1991.
- (5) Incorporated by reference to Post-Effective Amendment No. 79 to Form N-1A filed on or about February 11, 1992.
- (6) Incorporated by reference to Post-Effective Amendment No. 80 to Form N-1A filed on or about July 13, 1992.
- (7) Incorporated by reference to Post-Effective Amendment No. 81 to Form N-1A filed on or about November 19, 1992.
- (8) Incorporated by reference to Post-Effective Amendment No. 85 to Form N-1A filed on or about July 30, 1993.
- (9) Incorporated by reference to Post-Effective Amendment No. 86 to Form N-1A filed on or about January 12, 1994.
- (10) Incorporated by reference to Post-Effective Amendment No. 87 to Form N-1A filed on or about

February 9, 1994.

(11) Incorporated by reference to Post-Effective Amendment No. 88 to Form N-1A filed on or about April 20, 1994.

(12) Incorporated by reference to Post-Effective Amendment No. 90 to Form N-1A filed on or about December 21, 1994.

(13) Incorporated by reference to Post-Effective Amendment No. 91 to Form N-1A filed on or about December 29, 1994.

(14) Incorporated by reference to Post-Effective Amendment No. 92 to Form N-1A filed on or about February 14, 1995.

(15) Incorporated by reference to Post-Effective Amendment No. 93 to Form N-1A filed on or about March 1, 1995.

Item 25. Persons Controlled by or under Common Group Control with Registrant

None

Item 26. Number of Holders of Securities

(1)	(2)
Title of Class	Number of Record Holders as of June 30, 1995
Shares of Beneficial Interest	13,089 - Class A record holders 5,884 - Class B record holders (CGSF)
Shares of Beneficial Interest	61,148 - Class A record holders 3,004 - Class B record holders (CFSF)
Shares of Beneficial Interest	44,190 - Class A record holders 27,519 - Class B record holders 0 - Class D record holders (TCF)
Shares of Beneficial Interest	5,902 - Class A record holders 2,345 - Class B record holders (CGNRF)
Shares of Beneficial Interest	1,346 - Class A record holders 5,664 - Class B record holders (CGEF)
Shares of Beneficial Interest	690 - Class A record holders 1,556 - Class B record holders 132 - Class D record holders (CSBF)
Shares of Beneficial Interest	6,378 - Class A record holders 10,573 - Class B record holders 84 - Class D record holders (CIFFG)
Shares of Beneficial Interest	24,046 - Class A record holders 20 - Class B record

Item 27. Indemnification

See Article VIII of Amendment No. 3 to the Agreement and Declaration of Trust filed as Exhibit 1 hereto.

Item 28. Business and Other Connections of Investment Adviser

The following sets forth business and other connections of each director and officer of Colonial Management Associates, Inc. (see next page):

ITEM 28.
 - - - - -

Registrant's investment adviser, Colonial Management Associates, Inc., is registered as an investment adviser under the Investment Advisers Act of 1940 (1940 Act). Colonial Advisory Services, Inc. (CASI), an affiliate of Colonial Management Associates, Inc., is also registered as an investment adviser under the 1940 Act. At June 30, 1995, CASI had one institutional, corporate or other accounts under management or supervision, the market value of which was approximately \$30.9 million. At June 30, 1995, Colonial Management Associates, Inc. was the investment adviser to the 36 mutual funds in the Colonial Group of Funds, the market value of which investment companies was approximately \$15,913.6 million. Colonial Investment Services, Inc., a subsidiary of Colonial Management Associates, Inc., is the principal underwriter and the national distributor of all of the funds in the Colonial Group of Funds, including the Registrant.

The following sets forth the business and other connections of each director and officer of Colonial Management Associates, Inc.:

(1) Name and principal business addresses* of officers and directors of investment adviser - - - - -	(2) Affiliation with investment adviser -----	(3) Period is through 3/1/95. Other business, profession, vocation or employment connection -----	(4) Affiliation -----
Archer, Joseph A.	V.P.		
Augustine, Jeffrey B.	V.P.		
Berliant, Allan	V.P.		
Bertelson, Lisa	V.P.		
Bissonette, Michael	V.P.		
Boatman, Bonny E.	Dir.; Sr.V.P.; IPC Mbr.		
Carnabucci, Dominick	V.P.		
Carroll, Sheila A.	Sr.V.P.; Dir.		
Citrone, Frank	V.P.		
Cogger, Harold W.	Dir.; Pres.; CEO; IPC Mbr. Exe. Cmte.	The Colonial Group, Inc. Colonial Trusts I through VI Colonial High Income Municipal Trust Colonial InterMarket Income Trust I Colonial Intermediate High Income Fund Colonial Investment Grade Municipal Trust Colonial Municipal Income Trust	Dir.; Pres.; CEO V.P. V.P. V.P. V.P. V.P. V.P.

		Liberty Financial Companies, Inc.	Exec V.P.; Dir.
Cogger (cont'd)			
Collins, Anne	V.P.		
Conlin, Nancy	V.P.; Asst. Sec.; Asst. Clerk and Counsel	Colonial Investors Service Center, Inc. The Colonial Group, Inc. Colonial Advisory Services, Inc. Colonial Investment Services, Inc.	Asst. Clerk Asst. Clerk Asst. Clerk Asst. Clerk
Cordes, Susan	V.P.		
Daniszewski, Joseph J.	V.P.	Colonial Investment Services, Inc.	V.P.
DiSilva, Linda	V.P.		
Ericson, Carl C.	V.P.	Colonial Intermediate High Income Fund	V.P.
Evans, C. Frazier	Dir.; Sr.V.P.	Colonial Investment Services, Inc.	Sr. V.P.
Feingold, Andrea	V.P.	Colonial Intermediate High Income Fund	V.P.
Finnemore, Leslie W.	V.P.		
Gerokoulis, Stephen A.	V.P.	Colonial Investment Services, Inc.	Sr. V.P.
Harasimowicz, Stephen	V.P.		
Hartford, Brian	V.P.		
Haynie, James P.	V.P.	Colonial Advisory Services, Inc.	V.P.
Koonce, Michael H.	V.P.; Asst. Sec.; Asst. Clerk & Counsel	Colonial Trusts I through VI Colonial High Income Municipal Trust Colonial InterMarket Income Trust I Colonial Intermediate High Income Fund Colonial Investment Grade Municipal Trust Colonial Municipal Income Trust	Asst. Sec. Asst. Sec. Asst. Sec. Asst. Sec. Asst. Sec. Asst. Sec. Asst. Sec.
Koonce (cont'd)		Colonial Investment Services, Inc. Colonial Investors Service Center, Inc. The Colonial Group, Inc. Colonial Advisory Services, Inc.	Asst. Clerk Asst. Clerk Asst. Clerk Asst. Clerk
Lennon, John E.	V.P.	Colonial Advisory Services, Inc.	V.P.
Lenzi, Sharon	V.P.		
Lilienfeld, Jonathan	V.P.		
Loring, William C.	V.P.		
Lydecker, Peter L.	V.P.; Asst. Treasurer	Colonial Trusts I through VI Colonial High Income Municipal Trust Colonial InterMarket Income Trust I Colonial Intermediate High Income Fund Colonial Investment Grade Municipal Trust Colonial Municipal Income Trust	Controller Controller Controller Controller Controller Controller Controller
MacKinnon, Donald S.	Dir.; Sr.V.P.		

Name and Principal Business Address*	Position and Offices with Principal Underwriter	Positions and Offices with Registrant
Ballou, Rich	Regional V.P.	None
Balzano, Christine R.	V.P.	None
Barsokas, David	Regional V.P.	None
Buckley, Anne P.	Compliance Officer	None
Cairns, David	Regional V.P.	None
Chrzanowski, Daniel	Regional V.P.	None
Clapp, Elizabeth A.	V.P.	None
Daniszewski, Joseph J.	V.P.	None
Davey, Cynthia	Sr. V.P.	None
Eckelman, Bryan	Sr. V.P.	None
Eldridge, Kenneth	Sr. V.P.	None
Emerson, Kim P.	Regional V.P.	None
Erickson, Cynthia G.	V.P.	None
Evans, C. Frazier	Sr. V.P.	None
Feldman, David	Regional V.P.	None
Flaherty, Michael	Regional V.P.	None
Gerokoulis, Stephen A.	Sr. V.P.	None
Goldberg, Matthew	Regional V.P.	None
Guillette, Andrew	V.P.	None
Hanselman, J. Michael	Regional V.P.	None
Harasimowicz, Stephen	V.P.	None
Hayes, Mary Elizabeth	V.P.	None
Hodgkins, Joseph	Regional V.P.	None
Howard, Craig	Sr. V.P.	None
Karagiannis, Marilyn	Sr. V.P.	None
Kelley, Terry M.	Regional V.P.	None
Kelson, David W.	Sr. V.P.	None
Kilkenny Ann R.	Sr. V.P.	None
Lloyd, Judith H.	Sr. V.P.	None
Mahoney, D. Scott	Sr. V.P.	None
McCabe, Joanne	Regional V.P.	None
McGregor, Jeffrey L.	Director, CEO, President, COO	None
Meyer, Wayne	Regional V.P.	None

Murphy, Robert F.	Sr. V.P.	None
Norwood, Steve	Regional V.P.	None
O'Neill, Charles A.	Exec. V.P.	None
Penitsch, Marilyn L.	Regional V.P.	None
Potter, Cheryl	Regional V.P.	None
Reed, Christopher B.	Regional V.P.	None
Ross, Gary J.	Regional V.P.	None
Scott, Michael W.	Sr. V.P.	None
Silver, Richard A.	Director, Treasurer, CFO	Treasurer, CFO
Sorrells, Elizabeth	Sr. V.P.	None
Stern, Arthur O.	Clerk and Counsel, Dir., Chairman	Secretary
VanEtten, Keith H.	V.P.	None
Villanova, Paul	Regional V.P.	None
Wallace, John	V.P.	None

* The address for each individual is One Financial Center, Boston, MA 02111.

Item 30. Location of Accounts and Records

Registrant's accounts and records required to be maintained by Section 31(a) of the Investment Company Act of 1940 and the Rules thereunder are in the physical possession of the following:

Registrant

Rule 31a-1 (b) (4)
Rule 31a-2 (a) (1)

Colonial Management Associates, Inc.

One Financial Center, Boston, Massachusetts 02111
Rule 31a-1 (b) (1), (2), (3), (5), (6),
(7), (8), (9), (10), (11), (12)
Rule 31a-1 (d), (f)
Rule 31a-2 (a) (1), (2), (c), (e)

Colonial Investment Services, Inc.

One Financial Center, Boston, Massachusetts 02111
Rule 31a-1 (d)
Rule 31a-2 (c)

Boston Safe Deposit and Trust Company

One Boston Place, Boston, Massachusetts 02108
Rule 31a-1 (b), (2), (3)
Rule 31a-2 (a) (2)

Colonial Investors Service Center, Inc.

P. O. Box 1722, Boston, Massachusetts 02105-1722
Rule 31a-1 (b) (2)
Rule 31a-1 (a) (2)

Item 31. Management Services

See Item 5, Part A and Item 16, Part B

Item 32. Undertakings

(a) Not Applicable

(b) The Registrant hereby undertakes to promptly call a meeting of shareholders for the purpose of voting upon the question of removal of any trustee when requested in writing to do so by the record holders of not less than 10 per cent of the Registrant's outstanding shares and to assist its shareholders in the communicating with other shareholders in accordance with the requirements of Section 16(c) of the Investment Company Act of 1940.

(c) The Registrant hereby undertakes to furnish free of charge to each person to whom a prospectus is delivered, a copy of the applicable series' annual report to shareholders containing the information required by Item 5A of Form N-1A.

Part C of Post-Effective Amendment No. 91 filed with the Commission on December 29, 1994 (Colonial Growth Shares Fund), is incorporated herein in its entirety by reference.

Part C of Post-Effective Amendment No. 92 filed with the Commission on February 14, 1995 (Colonial International Fund for Growth, Colonial Federal Securities Fund, Colonial Global Equity Fund, Colonial Global Natural Resources Fund, The Colonial Fund, Colonial Strategic Balanced Fund), is incorporated herein by reference in its entirety by reference.

Part C of Post-Effective Amendment No. 93 filed with the Commission on March 1, 1995 (Colonial Global Utilities Fund), is incorporated herein in its entirety by reference.

NOTICE

A copy of the Agreement and Declaration of Trust, as amended, of Colonial Trust III is on file with the Secretary of The Commonwealth of Massachusetts and notice is hereby given that the instrument has been executed on behalf of the Trust by an officer of the Trust as an officer and by the Trust's Trustees as trustees and not individually and the obligations of or arising out of the instrument are not binding upon any of the Trustees, officers or shareholders individually but are binding only upon the assets and property of the Trust.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933 and the Investment Company Act of 1940, the Registrant, Colonial Trust III, certifies that it meets all the requirements for effectiveness of this Registration Statement pursuant to Rule 485(b) and has duly caused this Post-Effective Amendment No. 94 to its Registration Statement under the Securities Act of 1933 and Amendment No. 35 under the Investment Company Act of 1940, to be signed in this City of Boston, and The Commonwealth of Massachusetts on this 28th day of July, 1995.

COLONIAL TRUST III

By: John A. McNeice, Jr.

President

Pursuant to the requirements of the Securities Act of 1933, this Post-Effective Amendment to its Registration Statement has been signed below by the following persons in their capacities and on the date indicated.

SIGNATURES	TITLE	DATE
John A. McNeice, Jr. ----- John A. McNeice, Jr.	President (chief executive officer) and Trustee	July 28, 1995
Richard A. Silver ----- Richard A. Silver	Treasurer (principal financial officer)	July 28, 1995
Peter L. Lydecker ----- Peter L. Lydecker	Controller (principal accounting officer)	July 28, 1995
----- Robert J. Birnbaum	Trustee	
----- Tom Bleasdale	Trustee	
----- Lora S. Collins	Trustee	
----- James E. Grinnell	Trustee	
----- William D. Ireland, Jr.	Trustee	
----- Richard W. Lowry	Trustee	
----- William E. Mayer	Trustee	
----- James L. Moody, Jr.	Trustee	Michael H. Koonce ----- Michael H. Koonce Attorney-in-fact For each Trustee July 28, 1995
----- John J. Neuhauser	Trustee	
----- George L. Shinn	Trustee	
----- Robert L. Sullivan	Trustee	
----- Sinclair Weeks, Jr.	Trustee	

EXHIBIT INDEX

Exhibit

5(a) Form of Management Agreement
16(q) Calculation of Performance Information at

4/30/95 (TCF)

16(r) Calculation of Yield at 4/30/95 (TCF)
17(u) Financial Data Schedule at 4/30/95 (Class A)
17(v) Financial Data Schedule at 4/30/95 (Class B)

MANAGEMENT AGREEMENT

AGREEMENT dated as of _____, between COLONIAL TRUST III, a Massachusetts business trust (Trust), with respect to _____ and COLONIAL MANAGEMENT ASSOCIATES, INC., a Massachusetts corporation (Adviser).

In consideration of the promises and covenants herein, the parties agree as follows:

1. The Adviser will manage the investment of the assets of the Fund in accordance with its prospectus and statement of additional information and will perform the other services herein set forth, subject to the supervision of the Board of Trustees of the Trust. The Adviser may delegate its investment responsibilities to a sub-adviser.
2. In carrying out its investment management obligations, the Adviser shall:
 - (a) evaluate such economic, statistical and financial information and undertake such investment research as it shall believe advisable; (b) purchase and sell securities and other investments for the Fund in accordance with the procedures described in its prospectus and statement of additional information; and (c) report results to the Board of Trustees of the Trust.
3. The Adviser shall furnish at its expense the following:
 - (a) office space, supplies, facilities and equipment; (b) executive and other personnel for managing the affairs of the Fund (including preparing financial information of the Fund and reports and tax returns required to be filed with public authorities, but exclusive of those related to custodial, transfer, dividend and plan agency services, determination of net asset value and maintenance of records required by Section 31(a) of the Investment Company Act of 1940, as amended, and the rules thereunder (1940 Act)); and (c) compensation of Trustees who are directors, officers, partners or employees of the Adviser or its affiliated persons (other than a registered investment company).
4. The Adviser shall be free to render similar services to others so long as its services hereunder are not impaired thereby.

5. The Fund shall pay the Adviser monthly a fee at the annual rate of % of the average daily net assets of the Fund.
6. If the operating expenses of the Fund for any fiscal year exceed the most restrictive applicable expense limitation for any state in which shares are sold, the Adviser's fee shall be reduced by the excess but not to less than zero. Operating expenses shall not include brokerage, interest, taxes, deferred organization expenses, Rule 12b-1 distribution fees, service fees and extraordinary expenses, if any. The Adviser may waive its compensation (and bear expenses of the Fund) to the extent that expenses of the Fund exceed any expense limitation the Adviser declares to be effective.
7. This Agreement shall become effective as of the date of its execution, and
 - (a) unless otherwise terminated, shall continue until two years from its date of execution and from year to year thereafter so long as approved annually in accordance with the 1940 Act; (b) may be terminated without penalty on sixty days' written notice to the Adviser either by vote of the Board of Trustees of the Trust or by vote of a majority of the outstanding shares of the Fund; (c) shall automatically terminate in the event of its assignment; and (d) may be terminated without penalty by the Adviser on sixty days' written notice to the Trust.
8. This Agreement may be amended in accordance with the 1940 Act.
9. For the purpose of the Agreement, the terms "vote of a majority of the outstanding shares", "affiliated person" and "assignment" shall have their respective meanings defined in the 1940 Act and exemptions and interpretations issued by the Securities and Exchange Commission under the 1940 Act.
- 10 In the absence of willful misfeasance, bad faith or gross negligence on the part of the Adviser, or reckless disregard of its obligations and duties hereunder, the Adviser shall not be subject to any liability to the Trust or the Fund, to any shareholder of the Trust or the Fund or to any other person, firm or organization, for any act or omission in the course of, or connected with, rendering services hereunder.

COLONIAL TRUST III on behalf of

By: _____
Title: Controller

COLONIAL MANAGEMENT ASSOCIATES, INC.

By: _____
Title: Executive Vice President

A copy of the document establishing the Trust is filed with the Secretary of The Commonwealth of Massachusetts. This Agreement is executed by officers not as individuals and is not binding upon any of the Trustees, officers or shareholders of the Trust individually but only upon the assets of the Fund.

<TABLE>

PERFORMANCE CALCULATION

THE COLONIAL FUND - CLASS A

Period End: 4/30/95

<CAPTION>

	6 MONTHS ENDED 4/30/95		1 YEAR ENDED 4/30/95		5 YEARS ENDED 4/30/95		10 YEARS ENDED 4/30/95	
	Standard	Non-Standard	Standard	Non-Standard	Standard	Non-Standard	Standard	Non-Standard
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Initial Inv.	\$1,000.00	\$1,000.00	\$1,000.00	\$1,000.00	\$1,000.00	\$1,000.00	\$1,000.00	\$1,000.00
Max. Load	5.75%		5.75%		5.75%		5.75%	
Amt. Invested	\$942.50	\$1,000.00	\$942.50	\$1,000.00	\$942.50	\$1,000.00	\$942.50	\$1,000.00
Initial NAV	\$8.06	\$8.06	\$8.06	\$8.06	\$6.42	\$6.42	\$4.95	\$4.95
Initial Share	116.935	124.069	116.935	124.069	146.807	155.763	190.276	201.884
Shares From D	9.848	10.449	11.302	11.992	53.818	57.103	208.542	221.263
End of Period	\$8.09	\$8.09	\$8.09	\$8.09	\$8.09	\$8.09	\$8.09	\$8.09
Total Return	2.57%	8.83%	3.74%	10.07%	62.31%	72.21%	222.64%	242.33%
Average Annual Total Return	N/A	N/A	3.74%	10.07%	10.17%	11.48%	12.43%	13.10%

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PERFORMANCE CALCULATION

THE COLONIAL FUND - CLASS B

Period End: 4/30/95

Inception Date: 5/5/92

<CAPTION>

	6 MONTHS ENDED 4/30/95		1 YEAR ENDED 4/30/95		SINCE INCEPTION: 5/5/92 TO 4/30/95	
	Standard	Non-Standard	Standard	Non-Standard	Standard	Non-Standard
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Initial Inv.	\$1,000.00	\$1,000.00	\$1,000.00	\$1,000.00	\$1,000.00	\$1,000.00
Amt. Invested	\$1,000.00	\$1,000.00	\$1,000.00	\$1,000.00	\$1,000.00	\$1,000.00
Initial NAV	\$8.05	\$8.05	\$8.06	\$8.06	\$7.47	\$7.47
Initial Shares	124.224	124.224	124.069	124.069	133.869	133.869
Shares From Di	9.965	9.965	11.010	11.010	13.386	13.386
End of Period	\$8.08	\$8.08	\$8.08	\$8.08	\$8.08	\$8.08
CDSC	5.00%		5.00%		3.00%	
Total Return	3.42%	8.42%	4.14%	9.14%	15.98%	18.98%
Average Annual Total Return	N/A	N/A	4.14%	9.14%	6.13%	7.22%

</TABLE>

THE COLONIAL FUND
 FUND YIELD CALCULATION
 (CALENDAR MONTH-END METHOD)
 30-DAY BASE PERIOD ENDED 4/30/95

$$\text{FUND YIELD} = \frac{a - b}{cd} + \frac{1}{1}$$

a = dividends and interest earned during the month	\$2,765,997
b = expenses (exclusive of distribution fee) accrued during the month.....	826,374
c = average dividend shares outstanding during the month	113,111,860
d = class A maximum offering price per share on the last day of the month	\$8.58

CLASS A YIELD	2.41%
	=====
Class A yield/(1-Load)	
ie: 2.41%/(1-.0575)=yield on NAV=	2.56%
Less: Distribution fee	(.75)

CLASS B YIELD	1.81%
	=====

WARNING: THE EDGAR SYSTEM ENCOUNTERED ERROR(S) WHILE PROCESSING THIS SCHEDULE.

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM FINANCIAL STATEMENTS OF THE COLONIAL FUND, CLASS A YEAR END OCT-31-1995 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS OF THE COLONIAL FUND, CLASS A YEAR END OCT-31-1995.

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<SERIES>

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<MULTIPLIER> 1,000

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM FINANCIAL STATEMENTS OF THE COLONIAL FUND, CLASS B YEAR END OCT-31-1995 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS OF THE COLONIAL FUND, CLASS B YEAR END OCT-31-1995.

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<SERIES>

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