

# SECURITIES AND EXCHANGE COMMISSION

## FORM N-14

Initial registration statement filed on Form N-14 for open-end investment company, including those filed with automatic effectiveness under Rule 488 (business combinations)

Filing Date: **1999-09-10**  
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### FILER

#### **KAYNE ANDERSON MUTUAL FUNDS**

CIK: **1018593** | IRS No.: **956981193** | State of Incorporation: **DE** | Fiscal Year End: **1231**  
Type: **N-14** | Act: **33** | File No.: **333-86947** | Film No.: **99709865**

Mailing Address	Business Address
1800 AVENUE OF THE STARS, 2ND FLOOR LOS ANGELES CA 90067	1800 AVENUE OF THE STARS, 2ND FLOOR LOS ANGELES CA 90067

U.S. SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM N-14

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

KAYNE ANDERSON MUTUAL FUNDS  
(Exact Name of Registrant as Specified in Charter)

(310) 556-2721  
(Registrant's Telephone Number, Including Area Code)

1800 Avenue of the Stars, Second Floor  
Los Angeles, California 90067  
(Address of Principal Executive Offices)

David J. Shladovsky, Esq.  
1800 Avenue of the Stars, 2nd Floor  
Los Angeles, California 90067  
(Name and Address of Agent for Service)

Copy to:

David Hearth, Esq.  
Paul, Hastings, Janofsky & Walker LLP  
345 California Street  
San Francisco, California 94104

Approximate Date of Proposed Public Offering: As soon as practicable after this Registration Statement becomes effective. The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

No filing fee is required under the Securities Act of 1933, as amended, because an indefinite number of shares of beneficial interest, with par value \$0.01 per share, has previously been registered pursuant to Rule 24f-2 under the Investment Company Act of 1940, as amended.

CROSS REFERENCE SHEET

FORM N-14 PART A, ITEM -----	LOCATION IN PROSPECTUS/PROXY STATEMENT -----
1	Front Cover; Cross Reference
2	Table of Contents
3	Introduction; Description of the Proposed Reorganization; Comparison of the Funds; Risk Factors
4	Introduction, The Proposal, Description of the Proposed Reorganization
5, 6	Comparison of the Funds; Risk Factors; Further Information About the Acquired Fund and the Acquiring Fund
7	Shares and Voting; Vote Required
8	Not Applicable
9	Not Applicable

FORM N-14 PART B, ITEM	LOCATION IN STATEMENT OF ADDITIONAL INFORMATION
10	Cover Page
11	Table of Contents
12	Incorporation of Documents by Reference in Statement of Additional Information
13	Not Applicable
14	Incorporation of Documents by Reference in Statement of Additional Information

FORM N-14 PART C

Information required to be included in Part C is set forth under the appropriate item, so numbered, in Part C of Form N-14.

THE FOLLOWING ITEMS ARE HEREBY INCORPORATED BY REFERENCE:

From Post-Effective Amendment No. 7 of Kayne Anderson Mutual Funds, filed May 5, 1999 (SEC File No. 811-07705):

Combined Prospectus for Kayne Anderson Rising Dividends Fund, Kayne Anderson Small Cap Rising Dividends Fund, Kayne Anderson Intermediate Total Return Bond Fund and Kayne Anderson Intermediate Tax-Free Bond Fund (with another fund of Kayne Anderson Mutual Funds), dated May 5, 1999.

Combined Statement of Additional Information for Kayne Anderson Rising Dividends Fund, Kayne Anderson Small Cap Rising Dividends Fund, Kayne Anderson Intermediate Total Return Bond Fund and Kayne Anderson Intermediate Tax-Free Bond Fund (with another fund of Kayne Anderson Mutual Funds), dated May 5, 1999.

From Post-Effective Amendment No. 8 of Sefton Funds Trust, filed April 29, 1999 (SEC File No. 811-8948):

Combined Prospectus for Sefton U.S. Government Fund, Sefton California Tax-Free Fund, Sefton Equity Value Fund and Sefton Small Company Value Fund, dated April 30, 1999.

Combined Statement of Additional Information for Sefton U.S. Government Fund, Sefton California Tax-Free Fund, Sefton Equity Value Fund and Sefton Small Company Value Fund, dated April 30, 1999.

As previously sent to shareholders of Kayne Anderson Rising Dividends Fund, Kayne Anderson Small Cap Rising Dividends Fund, Kayne Anderson Intermediate Total Return Bond Fund and Kayne Anderson Intermediate Tax-Free Bond Fund; and to shareholders of Sefton U.S. Government Fund, Sefton California Tax-Free Fund, Sefton Equity Value Fund and Sefton Small Company Value Fund, and as filed with the SEC pursuant to Rule 30b2-1:

Annual Report for the Kayne Anderson Rising Dividends Fund, Kayne Anderson Small Cap Rising Dividends Fund, Kayne Anderson Intermediate Total Return Bond Fund and Kayne Anderson Intermediate Tax-Free Bond Fund (with another fund of Kayne Anderson Mutual Funds), for the fiscal year ended December 31, 1998, as contained in the Annual Report for Kayne Anderson Mutual Funds dated as of and for the periods ended December 31, 1998.

Annual Report for the Sefton U.S. Government Fund, Sefton California Tax-Free Fund, Sefton Equity Value Fund and Sefton Small Company Value Fund, for the fiscal year ended December 31, 1998, as contained in the Annual Report for Sefton Funds Trust dated as of and for the periods ended December 31, 1998.

PART A

COMBINED PROXY STATEMENT AND PROSPECTUS  
FOR THE REORGANIZATION OF

SEFTON EQUITY VALUE FUND,  
SEFTON SMALL COMPANY VALUE FUND,

INTO

KAYNE ANDERSON RISING DIVIDENDS FUNDS,  
KAYNE ANDERSON SMALL CAP RISING DIVIDENDS FUND  
KAYNE ANDERSON INTERMEDIATE TOTAL RETURN BOND FUND, AND  
KAYNE ANDERSON INTERMEDIATE TAX-FREE BOND FUND

-----  
[LETTERHEAD OF SEFTON CAPITAL MANAGEMENT/SEFTON FUNDS TRUST]

[DATE]

[TO BE FILED IN NEXT PRE-EFFECTIVE AMENDMENT]

SEFTON FUNDS TRUST  
3435 Stelzer Road  
Columbus, Ohio 43219  
(800) 524-2276

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS  
OF

SEFTON EQUITY VALUE FUND  
SEFTON SMALL COMPANY VALUE FUND  
SEFTON U.S. GOVERNMENT FUND  
SEFTON CALIFORNIA TAX-FREE FUND

TO BE HELD \_\_\_\_\_, 1999

To the Shareholders of Sefton Equity Value Fund, Sefton Small Company Value Fund, Sefton U.S. Government Fund and Sefton California Tax-Free Fund,:

You are cordially invited to attend a special meeting of shareholders at the offices of the administrator for the funds, Bisys, 3435 Stelzer Road, Columbus, Ohio 43219, on \_\_\_\_\_, 1999, at 10:00 a.m., local time. At the meeting, we will ask you to vote on:

1. A proposal to approve an Agreement and Plan of Reorganization (the "Plan") for each Fund, and the transactions contemplated thereby, which include (a) the transfer of all of the assets of Sefton Equity Value Fund, Sefton Small Company Value Fund, Sefton U.S. Government Fund, and Sefton California Tax-Free Fund (each, an "Acquired Fund") to Kayne Anderson Rising Dividends Funds, Kayne Anderson Small Cap Rising Dividends Fund and Kayne Anderson Intermediate Total Return Bond Fund and Kayne Anderson California Intermediate Tax-Free Bond Fund (each, an "Acquiring Fund"), respectively, in exchange for shares of the corresponding Acquiring Fund, and the assumption by each Acquiring Fund of stated liabilities of the corresponding Acquired Fund, (b) the distribution of shares of the corresponding Acquiring Fund to shareholders of each Acquired Fund, and, for the Sefton Small Company Value Fund shareholders only, (c) the immediate increase to \$3 billion as the maximum market capitalization of small cap companies in which the Sefton Small Company Value Fund may invest.
2. Any other business that properly comes before the meeting.

SHAREHOLDERS OF EACH ACQUIRED FUND WILL VOTE SEPARATELY ON THE PLAN FOR THAT ACQUIRED FUND.

Only shareholders of record at the close of business on \_\_\_\_\_, 1999 (the Record Date), will be entitled to receive this notice and to vote at the meeting.

By Order of the Board of Trustees

-----  
[Title]

YOUR VOTE IS IMPORTANT REGARDLESS OF HOW MANY SHARES YOU OWNED ON THE RECORD DATE.

PLEASE VOTE ON THE ENCLOSED PROXY FORM, DATE AND SIGN IT, AND RETURN IT IN THE PRE-ADDRESSED ENVELOPE PROVIDED. NO POSTAGE IS NECESSARY IF MAILED IN THE UNITED STATES. IN ORDER TO AVOID THE ADDITIONAL EXPENSE AND DISRUPTION OF FURTHER SOLICITATION, WE REQUEST YOUR COOPERATION IN VOTING PROMPTLY.

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SEFTON FUNDS TRUST  
3435 Stelzer Road  
Columbus, Ohio 43219  
(800) 524-2276

"ACQUIRED FUND"	CORRESPONDING "ACQUIRING FUND"
SEFTON EQUITY VALUE FUND	KAYNE ANDERSON RISING DIVIDENDS FUND
SEFTON SMALL COMPANY VALUE FUND	KAYNE ANDERSON SMALL CAP RISING DIVIDENDS FUND
SEFTON U.S. GOVERNMENT FUND	KAYNE ANDERSON INTERMEDIATE TOTAL RETURN BOND FUND
SEFTON CALIFORNIA TAX-FREE FUND	KAYNE ANDERSON INTERMEDIATE TAX-FREE BOND FUND

COMBINED PROXY STATEMENT AND PROSPECTUS

Dated: \_\_\_\_\_, 1999

WHAT IS THIS DOCUMENT AND WHY DID WE SEND IT TO YOU?

Sefton Capital Management ("Sefton") and Kayne Anderson Investment Management, LLC ("Kayne Anderson") agreed to propose to shareholders of the above-named mutual funds in the Sefton family of mutual funds to reorganize each mutual fund in Sefton Funds Trust ("Sefton Trust") into a corresponding series of Kayne Anderson Mutual Funds ("KA Funds"). We sent this document to you because the shareholders of each Sefton fund must approve its reorganization into the corresponding KA Fund in order to proceed.

This matter was presented to the Board of Trustees of Sefton Trust, and the Board of Trustees, after a careful deliberation, approved a plan to (1) reorganize the Sefton Equity Value Fund into the Kayne Anderson Rising Dividends Fund, (2) reorganize the Sefton Small Company Value Fund into the Kayne Anderson Small Cap Rising Dividends Fund, (3) reorganize the Sefton U.S. Government Fund into the Kayne Anderson Intermediate Total Return Bond Fund, and (4) reorganize the Sefton California Tax-Free Fund into the Kayne Anderson Intermediate Tax-Free Bond Fund (each transaction is referred to as a "Reorganization" and are collectively referred to as the "Reorganizations"). Each series of Sefton Trust involved in a Reorganization is called an "Acquired Fund" and collectively are called the "Acquired Funds." Similarly, each series of KA Funds involved in the Reorganization is called an "Acquiring Fund" and collectively are called the "Acquiring Funds." Shareholders of each series of Sefton Trust must approve the Reorganization before the Reorganization for that series can be completed. The shareholder meeting will be held on \_\_\_\_\_, 1999 (the "Shareholder Meeting"). We are sending this document to you for your use in deciding whether to approve the Reorganizations at the Shareholder Meeting.

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As a technical matter, each Reorganization will have three steps:

- \* the transfer of the assets and liabilities of an Acquired Fund to the corresponding Acquiring Fund in exchange for shares of the Acquiring Fund (the "Acquiring Fund Shares") of equivalent value to the net assets transferred,
- \* the pro rata distribution of those Acquiring Fund Shares to shareholders of record of each corresponding Acquired Fund as of the effective date of the Reorganization (the "Effective Date") in full redemption of those shareholders' shares in the corresponding Acquired Fund, and
- \* the immediate liquidation and termination of each Acquired Fund.

In addition, if shareholders of the Sefton Small Company Value Fund approve its Reorganization, that Fund may begin immediately investing up to all of (but not less than 65%) its assets in stocks of companies having total market capitalizations of up to \$3 billion, to the extent appropriate to permit the Fund to invest in the common stocks also held by the Kayne Anderson Small Cap Rising Dividends Fund.

AS A RESULT OF THE REORGANIZATIONS, SHAREHOLDERS OF EACH ACQUIRED FUND WOULD INSTEAD HOLD ACQUIRING FUND SHARES HAVING THE SAME TOTAL VALUE AS THE SHARES OF THE CORRESPONDING ACQUIRED FUND HELD IMMEDIATELY BEFORE THE

REORGANIZATIONS. Legal counsel for the independent Trustees of the Sefton Trust will issue an opinion to the effect that, for federal income tax purposes, the Reorganizations will be treated as tax-free reorganizations that will not cause any Acquiring Fund's shareholders to recognize a gain or loss for federal income tax purposes (other than the tax effects that may be caused by certain special distributions that will be further discussed below). Please see Section II.A.3 below.

The investment objective of each Acquired Fund is similar to that of each corresponding Acquiring Fund. For a full comparison of the different investment objectives and strategies, please see Section I.B. below.

This Combined Proxy Statement and Prospectus sets forth the basic information that you should know before voting on the proposal. We encourage you to read it and keep it for future reference.

#### WHAT OTHER IMPORTANT DOCUMENTS SHOULD I KNOW ABOUT?

Each Acquired Fund is a series of the Sefton Trust, an open-end management investment company. Each Acquiring Fund is a series of KA Funds, also an open-end management investment company. The following documents are on file with the Securities and Exchange Commission (the "SEC") and are deemed to be legally part of this document:

- \* Combined Prospectus for the Kayne Anderson Rising Dividends Fund, Kayne Anderson Small Cap Rising Dividends Fund, Kayne Anderson Intermediate Total Return Bond Fund and Kayne Anderson Intermediate Tax-Free Bond Fund (former name of the proposed Kayne Anderson California Intermediate Tax-Free Bond Fund) (as well as the Kayne Anderson International Rising Dividends Fund, which is not involved in the Reorganizations) dated May 5, 1999

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- \* A supplement to the Combined Prospectus relating to the Kayne Anderson Intermediate Tax-Free Bond Fund dated \_\_\_\_\_, 1999
- \* Combined Statement of Additional Information relating to the Kayne Anderson Rising Dividends Fund, Kayne Anderson Small Cap Rising Dividends Fund, Kayne Anderson Intermediate Total Return Bond Fund and Kayne Anderson Intermediate Tax-Free Bond Fund (as well as the Kayne Anderson International Rising Dividends Fund, which is no involved in the Reorganizations) dated May 5, 1999
- \* Combined Prospectus for the Sefton U.S. Government Fund, Sefton California Tax-Free Fund, Sefton Equity Value Fund and Sefton Small Company Value Fund dated April 30, 1999
- \* Combined Owner's Manual for the Sefton U.S. Government Fund, Sefton California Tax-Free Fund, Sefton Equity Value Fund and Sefton Small Company Value Fund dated April 30, 1999
- \* Combined Statement of Additional Information for the Sefton U.S. Government Fund, Sefton California Tax-Free Fund, Sefton Equity Value Fund and Sefton Small Company Value Fund dated April 30, 1999
- \* Statement of Additional Information relating to this Combined Proxy Statement and Prospectus

Those documents are available without charge by writing to Sefton Funds Trust at 3435 Stelzer Road, Columbus, Ohio 43219 or by calling Sefton Funds Trust at (800) 524-2276; or by writing to Kayne Anderson Mutual Funds at 1800 Avenue of the Starts, Second Floor, Los Angeles, California 90067, or by calling Kayne Anderson Mutual Funds at (800) 231-7414.

The Annual Report to Shareholders of each Acquired Fund for the year ended December 31, 1998, containing audited financial statements of each Acquired Fund, has been previously mailed to shareholders. If you do not have a copy, additional copies of that Annual Report are available without charge by writing or calling the Sefton Trust at its address and telephone number listed above. The Annual Report to Shareholders of each Acquiring Fund for the year ended December 31, 1998, containing audited financial statements of each Acquiring Fund, has been previously mailed to shareholders. If you do not have a copy, additional copies of that Annual Report to Shareholders are available without charge by writing or calling the KA Funds at its address and telephone number listed above.

It is expected that this Combined Proxy Statement and Prospectus will be mailed to shareholders on or about \_\_\_\_\_, 1999.

THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED OR DISAPPROVED THESE SECURITIES OR PASSED ON THE ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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## I. INTRODUCTION

## A. GENERAL

The Board of Trustees of Sefton Funds Trust (as defined above, "Sefton Trust") called this shareholder meeting to allow shareholders to consider and vote on the proposed Reorganization of each Acquired Fund into the corresponding Acquiring Fund. The Board of Trustees of Sefton Trust, including a majority of the independent trustees (those trustees who are not "interested" persons under the Investment Company Act of 1940 (the "Investment Company Act")), voted on August 27, 1999, to approve the Reorganizations subject to the approval of shareholders of each Acquired Fund. If shareholders of one or more Acquired Fund(s) do not approve the proposal, the Board of Trustees of Sefton Trust may decide to proceed with the Reorganizations of other Acquired Funds whose shareholders have approved their Reorganizations.

Sefton Capital Management ("Sefton") serves as the investment adviser for each Acquired Fund. The independent Trustees of the Sefton Trust recommend that you approve the Reorganizations because they believe the combination of assets of the two fund groups would be beneficial to the shareholders of Sefton Funds. If the proposed Reorganizations of each Acquired Fund into each Acquiring Fund are approved and completed, each Acquiring Fund's asset size will increase, which may create certain economies of scale; and each Acquired Fund will become part of a fund with a similar investment objective as well as larger assets, which should permit it to operate more efficiently in accordance with its investment policies and objective.

Each Acquired Fund offers only one class of shares and sells its shares directly to the public at net asset value, without any sales load or Rule 12b-1 fee. Each Acquiring Fund currently also offers only one class of shares directly to the public at net asset value, without any sales load or Rule 12b-1 fee. If a Reorganization is completed, all remaining shareholders of an Acquired Fund

would receive shares of the corresponding Acquiring Fund (I.E., shareholders of Sefton U.S. Government Fund would receive shares of Kayne Anderson Intermediate Total Return Bond Fund; shareholders of Sefton California Tax-Free Fund would receive shares of Kayne Anderson California Intermediate Tax-Free Bond Fund; shareholders of Sefton Equity Value Fund would receive shares of Kayne Anderson Rising Dividends Fund; shareholders of Sefton Small Company Value Fund would receive shares of Kayne Anderson Small Cap Rising Dividends Fund).

## B. THE PROPOSAL

At the Shareholder Meeting, the shareholders of each Acquired Fund will be asked to approve a proposed Reorganization of that Acquired Fund into the corresponding Acquiring Fund. Each Reorganization will include the transfer of substantially all of the assets and liabilities of an Acquired Fund to the corresponding Acquiring Fund. All remaining Acquired Fund shareholders will receive corresponding Acquiring Fund Shares in exchange. Each Acquired Fund will then be terminated and liquidated.

The primary purposes of each proposed Reorganization is to seek to achieve future economies of scale and eliminate certain costs associated with operating the Acquired Funds and the Acquiring Funds separately. Each Acquired Fund and its corresponding Acquiring Fund have a similar investment objective, as described in detail below. The Reorganization will result in combining the assets of each Acquiring Fund and its corresponding Acquired Fund and consolidating their operations.

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Combining the assets of the Acquired Funds and the Acquiring Funds is intended to provide various benefits to shareholders of the Acquired Funds who become shareholders of the Acquiring Funds (as well as to existing and future investors in the Acquiring Funds). For example, higher asset levels should enable the Acquiring Funds to spread fixed and relatively fixed costs, such as accounting, legal and printing expenses, over a larger asset base, thereby reducing per-share expense levels. Higher asset levels also should benefit portfolio management by permitting larger individual portfolio investments (such as "round-lots" or other quantities that may result in reduced transaction costs and/or more favorable pricing) and by providing, when desired, the opportunity for greater portfolio diversity. In addition, consolidating the operations of the Acquired Funds and the Acquiring Funds should generally benefit the Acquired Funds by promoting more efficient operations on a more cost-effective basis. These benefits, in turn, should have a favorable effect on the relative performance of the Acquiring Funds (although such improvement cannot be guaranteed). Finally, shareholders of the Acquired Funds will generally benefit from the lower total expense ratios (after fee waivers) of the Acquiring Funds as compared with the Acquired Funds (other than the case of the Sefton U.S. Government Fund where the Kayne Anderson Intermediate Total Return Bond Fund had a net total expense ratio which was comparable to that of the Sefton U.S. Government Fund).

The completion of the Reorganization is subject to the satisfaction of a number of conditions (such as approval by the Acquired Funds' shareholders), which are summarized below in "The Proposed Transaction-Agreement and Plan of Reorganization" section. These conditions are stated in the Agreement and Plan of Reorganization (as defined above, the "Plan"), which is attached as EXHIBIT B to this Combined Prospectus/Proxy Statement. There can be no assurance that the benefits described here can be achieved.

The investment objective of the Sefton Equity Value Fund is to seek to provide investors with long-term capital appreciation. The investment objective of the Kayne Anderson Rising Dividends Fund is to seek long-term capital appreciation, with dividend income as a secondary consideration, by investing in companies with consistent, rising dividends.

The investment objective of the Sefton Small Company Value Fund is to seek to provide investors with long-term capital appreciation. The investment objective of the Kayne Anderson Small Cap Rising Dividends Fund is to seek long-term capital appreciation, with dividend income as a secondary consideration, by investing in small-cap companies with consistent, rising dividends.

The investment objective of the Sefton U.S. Government Fund is to seek to provide investors with as high a level of current income as is consistent with preservation of capital. The investment objective of the corresponding Kayne Anderson Intermediate Total Return Bond Fund is to seek to maximize total return (mainly through current income with capital appreciation as a secondary factor) by investing primarily in investment-grade bonds.

The investment objective of the Sefton California Tax-Free Fund is to seek to provide investors with as high a level of current income exempt from both federal and California personal income taxes as is consistent with preservation of capital. The investment objective of the corresponding Kayne Anderson Intermediate Tax-Free Bond Fund is to seek current income exempt from federal



income tax by investing primarily in investment-grade municipal bonds. Even though Kayne Anderson Intermediate Tax-Free Bond Fund currently is not required

to invest primarily in California municipal bonds as is the case of the Sefton California Tax-Free Fund, the KA Trust is in the process of soliciting (and anticipates) approval by shareholders of the Kayne Anderson Intermediate Tax-Free Bond Fund to change the investment objective of that fund to one that seeks current income exempt from both federal and California personal income taxes by investing primarily in investment-grade California municipal bonds.

Investments in the Acquiring Funds and the Acquired Funds are subject to substantially similar risks. Please see Section II.C. below. The purchase and redemption arrangements of the Acquiring Funds and the Acquired Funds are similar. The Acquiring Funds and the Acquired Funds also have similar distribution and exchange arrangements, which are discussed in Section II.B. below.

Sefton, Kayne Anderson and the Board of Trustees of both the Sefton Trust and KA Funds believe that the proposed Reorganizations are in the best interests of each Acquired Fund, each Acquiring Fund, and their respective shareholders, and that the interests of existing shareholders of the Acquired Funds and the Acquiring Funds will not be diluted as a result of the proposed Reorganizations. Please see Section II.D. below.

Kayne Anderson will pay the costs of the Reorganizations, the Shareholder Meeting and solicitation of proxies, including the cost of copying, printing and mailing proxy materials. In addition to solicitations by mail, Sefton and Kayne Anderson also may solicit proxies, without special compensation, by telephone, facsimile or otherwise.

C. COMPARISON OF EXPENSES

The following table shows the comparative fees and expenses you may pay if you buy and hold shares of the Acquired Funds and the Acquiring Funds (collectively, the "Funds"). The Funds do not impose any front-end or deferred sales loads and they do not charge shareholders for exchanging shares or reinvesting dividends.

FEES AND EXPENSES OF THE FUNDS

<TABLE>

<CAPTION>

	Sefton Equity Value Fund ----- <C>	Kayne Anderson Rising Dividends Fund ----- <C>	Kayne Anderson Rising Dividends Fund (pro forma)* ----- <C>
<S>			
SHAREHOLDER FEES (fees paid directly from your investment)	None	None	None
ANNUAL FUND OPERATING EXPENSES (expenses that are deducted from Fund assets)			
Management Fee	1.00%	0.75%	0.75%
Distribution/Service (12b-1) Fee	0.00%	0.00%	0.00%
Other Expenses	0.39%	0.36%	[---]%
	-----	-----	-----
TOTAL ANNUAL FUND OPERATING EXPENSES	1.39%	1.11%	[---]%
Fee Reduction and/or Expense Reimbursement	0.00%	0.00%	0.00%
NET EXPENSES	1.39%	1.11%	[---]%
	Sefton Small Company Value Fund -----	Kayne Anderson Small Cap Rising Dividends Fund -----	Kayne Anderson Small Cap Rising Dividends Fund (pro forma)* -----
SHAREHOLDER FEES (fees paid directly from your investment)	None	None	None
ANNUAL FUND OPERATING EXPENSES (expenses that are deducted from Fund assets)			
Management Fee	1.25%	0.85%	0.85%
Distribution/Service (12b-1) Fee	0.00%	0.00%	0.00%
Other Expenses	0.50%	0.50%	[---]%
	-----	-----	-----
TOTAL ANNUAL FUND OPERATING EXPENSES	1.75%	1.35%	[---]%
Fee Reduction and/or Expense Reimbursement	0.20% (1)	0.05% (2)	[---]%(2)
	-----	-----	-----

NET EXPENSES	1.55% (1) =====	1.30% (2) =====	1.30% (2) =====
</TABLE>			
9			
<TABLE>			
<CAPTION>			
	Sefton U.S. Government Fund -----	Kayne Anderson Intermediate Total Return Bond Fund -----	Kayne Anderson Intermediate Total Return Bond Fund (pro forma)* -----
<S>	<C>	<C>	<C>
SHAREHOLDER FEES (fees paid directly from your investment)	None	None	None
ANNUAL FUND OPERATING EXPENSES (expenses that are deducted from Fund assets)			
Management Fee	0.60%	0.50%	0.50%
Distribution/Service (12b-1) Fee	0.00%	0.00%	0.00%
Other Expenses	0.44%	0.50%	[-.---]%
TOTAL ANNUAL FUND OPERATING EXPENSES	1.04%	1.00%	[-.---]%
Fee Reduction and/or Expense Reimbursement	0.10% (1)	0.05% (2)	[-.---]%(2)
NET EXPENSES	0.94% (1) =====	0.95% (2) =====	0.95% (2) =====

	Sefton California Tax-Free Fund -----	Kayne Anderson Intermediate Tax-Free Bond Fund(3) -----	Kayne Anderson Intermediate Tax-Free Bond Fund(3) (pro forma)* -----
SHAREHOLDER FEES (fees paid directly from your investment)	None	None	None
ANNUAL FUND OPERATING EXPENSES (expenses that are deducted from Fund assets)			
Management Fee	0.60%	0.50%	0.50%
Distribution/Service (12b-1) Fee	0.00%	0.00%	0.00%
Other Expenses	0.44%	1.73%	[-.---]%
TOTAL ANNUAL FUND OPERATING EXPENSES	1.04%	2.23%	[-.---]%
Fee Reduction and/or Expense Reimbursement	0.15% (1)	1.48% (2)	[-.---]%(2)
NET EXPENSES	0.89% (1) =====	0.75% (2) =====	0.75% (2) =====

</TABLE>

\* Estimated by giving effect to the proposed Reorganizations.

- (1) During the last fiscal year, Sefton has voluntarily agreed to reduce its Management Fee so that the Net Expense of each Acquired Fund (other than Sefton Equity Value Fund where no fee reduction applied) were as follows: Sefton Small Company Value Fund (1.55%); Sefton U.S. Government Fund (0.94%); and Sefton California Tax-Free Fund (0.89%).
- (2) Kayne Anderson has contractually agreed to reduce its fees and/or absorb expenses to limit each Acquiring Fund's (other than Kayne Anderson Rising Dividends Fund's) total annual operating expenses (excluding interest and tax expenses) to the following amount: Kayne Anderson Small Cap Rising Dividend Fund (1.30%); Kayne Anderson Intermediate Total Return Bond Fund (0.95%); and Kayne Anderson Intermediate Tax-Free Bond Fund (0.75%). This contract has a one-year term, renewable at the end of each fiscal year. Kayne Anderson expects to renew this contract.
- (3) Please note that the information is provided for the Kayne Anderson Intermediate Tax-Free Bond Fund which, during the fiscal year ending December 1998, did not have an investment objective of primarily investing in California municipal securities. As described above, this Fund is in the process of seeking shareholder approval to change its investment objective. Therefore, the financial information shown here may not reflect accurately the expense to be incurred after the Fund changes its investment objective.

EXAMPLE OF FUND EXPENSES: This table is intended to help you compare the cost of investing in the Funds with the cost of investing in other mutual funds.

The table below shows what you would pay in expenses over time, whether or not you sold your shares at the end of each period. It assumes a \$10,000 initial investment, 5% total return each year and the charges specified above. These examples are for comparison purposes only. They do not necessarily represent a Fund's actual expenses or returns.

FUND EXPENSES

Fund	EXPENSES			
	1 Year	3 Years	5 Years	10 Years
-----	-----	-----	-----	-----
Sefton Equity Value Fund	\$142	\$ 440	\$ 761	\$1,669
Kayne Anderson Rising Dividends Fund	\$113	\$ 352	\$ 610	\$1,348
Kayne Anderson Rising Dividends Fund (pro forma)	\$113	\$[---]	\$[---]	\$[----]
Fund	1 Year	3 Years	5 Years	10 Years
-----	-----	-----	-----	-----
Sefton Small Company Value Fund	\$178	\$ 551	\$ 949	\$2,062
Kayne Anderson Small Cap Rising Dividends Fund	\$132	\$ 422	\$ 733	\$1,614
Kayne Anderson Small Cap Rising Dividends Fund (pro forma)	\$132	\$[---]	\$[---]	\$[----]
Fund	1 Year	3 Years	5 Years	10 Years
-----	-----	-----	-----	-----
Sefton U.S. Government Fund	\$106	\$ 331	\$ 574	\$1,271
Kayne Anderson Intermediate Total Return Bond Fund	\$ 97	\$ 313	\$ 547	\$1,217
Kayne Anderson Intermediate Total Return Bond Fund (pro forma)	\$ 97	\$[---]	\$[---]	\$[----]
Fund	1 Year	3 Years	5 Years	10 Years
-----	-----	-----	-----	-----
Sefton California Tax-Free Fund	\$106	\$ 331	\$ 574	\$1,271
Kayne Anderson California Intermediate Tax-Free Bond Fund	\$ 76	\$ 553	\$1,056	\$2,438
Kayne Anderson California Intermediate Tax-Free Bond Fund (pro forma)	\$ 76	\$[---]	\$ [---]	\$[----]

The figures in each example after the first year for each Fund assume that the reduction in fees and expenses noted above is not extended beyond one year. However, the KA Funds and Kayne Anderson currently expect to renew their expense limitation agreement throughout the periods shown.

D. SHARES AND VOTING

Each of the Sefton Trust and the KA Funds is a Delaware business trust registered with the SEC as an open-end management investment company. The Sefton Trust currently has four operating series, or funds, which are the Acquired Funds. The KA Funds currently has five operating series, four of which are involved with the proposed Reorganizations as the Acquiring Funds. Each Acquired Fund and each corresponding Acquiring Fund has its own investment objective and policies and operates independently for purposes of investments, dividends, other distributions and redemptions. Each Acquired Fund and each Acquiring Fund has only one class of shares.

If the Reorganization is approved and completed, in exchange for their shares, shareholders of Sefton U.S. Government Fund will receive shares of Kayne Anderson Intermediate Total Return Bond Fund; shareholders of Sefton California Tax-Free Fund will receive shares of Kayne Anderson Intermediate Tax-Free Bond Fund (proposed to be changed to the Kayne Anderson California Intermediate Tax-Free Bond Fund); shareholders of Sefton Equity Value Fund will receive shares of Kayne Anderson Rising Dividends Fund; and shareholders of Sefton Small Company Value Fund will receive shares of Kayne Anderson Small Cap Rising Dividends Fund.

Each whole or fractional share of an Acquired Fund is entitled to one vote or corresponding fraction at the Shareholder Meeting. At the close of business on \_\_\_\_\_, 1999, the record date for the determination of shareholders entitled to vote at the Shareholder Meeting (the "Record Date"), the shareholders ownership information for each Acquired Fund are as follows:

Sefton Equity Value Fund:

\_\_\_\_\_ shares outstanding held by \_\_\_\_\_ record holders;

Sefton Small Company Value Fund:

\_\_\_\_\_ shares outstanding held by \_\_\_\_\_ record holders;

Sefton U.S. Government Fund:

\_\_\_\_\_ shares outstanding held by \_\_\_\_\_ record holders; and

Sefton California Tax-Free Fund:

\_\_\_\_\_ shares outstanding held by \_\_\_\_\_ record holders.

In each instance, the number of record holders include omnibus accounts representing multiple underlying beneficial owners such as those in the names of brokers.

All shares represented by each properly signed proxy received before the Shareholder Meeting will be voted at the Shareholder Meeting. If a shareholder specifies how the proxy is to be voted on any business properly to come before the Shareholder Meeting, it will be voted in accordance with the instruction given. If no choice is indicated on the proxy, it will be voted FOR approval of the Reorganization, as more fully described in this Combined Proxy Statement and Prospectus. A proxy may be revoked by a shareholder at any time before its use by written notice to the Sefton Trust, by submission of a later-dated proxy or by voting in person at the Shareholder Meeting. If any other matters come before the Shareholder Meeting, proxies will be voted by the persons named as proxies in accordance with their best judgment.

THE PROPOSAL WILL BE VOTED ON SEPARATELY BY SHAREHOLDERS OF EACH ACQUIRED FUND. The presence in person or by proxy of shareholders of entitled to cast at least one-third of the votes entitled to be cast at the Shareholder Meeting will constitute a quorum for each Acquired Fund. When a quorum is present for an Acquired Fund, a "majority of the outstanding voting securities" shall decide the proposal for that Acquired Fund. As defined by the Investment Company Act, a "majority of the outstanding voting securities" means the vote of (i) 67% or more of the Acquired Fund's outstanding shares present at the Shareholder Meeting, if the holders of more than 50% of the outstanding shares of the

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Acquired Fund are present or represented by proxy at the Special Meeting, or (ii) more than 50% of the Acquired Fund's outstanding shares, whichever is less. Any proxy is properly executed and received in time to be voted at the Shareholder Meeting will be counted in determining whether a quorum is present and will be voted in accordance with the instructions given. In the absence of any instructions, that proxy will be voted in favor of the approval of the Plan. If the Plan is approved at the Shareholder Meeting, the effective date of the Reorganization ("Closing Date") is expected to be on or about \_\_\_\_\_, 1999. Abstentions and "broker non-votes" (I.E., proxies from brokers or nominees indicating that those persons have not received instructions from the beneficial owners or other persons entitled to vote shares as to a particular matter with respect to which the brokers or nominees do not have discretionary power to vote) will not be counted for or against any proxy to which they relate, but will be counted for purposes of determining whether a quorum is present and will be counted as votes present for purposes of determining a "majority of the outstanding voting securities" present at the Shareholder Meeting. For this reason, abstentions and broker non-votes will have the effect of a vote against the proposals.

The Shareholder Meeting may be adjourned from time to time by a majority of the votes properly voting on the question of adjourning a meeting to another date and time, whether or not a quorum is present, and the meeting may be held as adjourned within a reasonable time after the date set for the original meeting without further notice. The persons named in the proxy will vote those shares that they are entitled to vote in favor of adjournment if adjournment is necessary to obtain a quorum or to obtain a favorable vote on any proposal. In addition, the persons named in the proxy may, in their discretion, decide to adjourn the Shareholder Meeting for one or more series of the Sefton Trust but to proceed with the Shareholder Meeting for other series of the Sefton Trust. If the adjournment requires setting a new record date or the adjournment is for more than 60 days from the date set for the original meeting (in which case the Board of Trustees of Sefton Trust will set a new record date), the Sefton Trust will give notice of the adjourned meeting to the shareholders. Business may be conducted once a quorum is present and may continue until adjournment of the Shareholder Meeting.

Proxies may be voted by mail or telephone. If voted by telephone, Sefton Trust, or its agents, will use reasonable procedures (such as requiring an identification number) to verify the authenticity of the vote cast. Each shareholder who casts a telephonic vote also will be able to validate that his or her vote was received correctly.

As of the Record Date, each Acquired Fund's and Acquiring Fund's shareholders of record and (to the respective knowledge of the Sefton Trust and KA Funds) beneficial owners who owned more than five percent of each Fund's shares are those set forth in Exhibit A. Also, except as listed below, as of the

Record Date, the officers and trustees of the Sefton Trust and Sefton, as a group, owned of record and beneficially less than one percent of the outstanding voting securities of each Acquired Fund and the officers and trustees of KA Funds and Kayne Anderson, as a group, owned of record and beneficially less than one percent of the outstanding voting securities of each Acquiring Fund. Harley K. Sefton, the Chief Executive Officer and controlling shareholder of Sefton and a Trustee of the Sefton Trust, together with one or more trusts and other entities or accounts for which Mr. Sefton and members of his immediate family are beneficiaries, owned beneficially the following portion of the shares of each series of the Sefton Trust:

Name of Fund -----	Sefton Family Ownership -----
Sefton Equity Value Fund	%
Sefton Small Company Value Fund	%
Sefton U. S. Government Fund	%
Sefton California Tax-Free Fund	%

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## II. THE PROPOSAL

### A. DESCRIPTION OF THE PROPOSED REORGANIZATIONS

#### 1. THE REORGANIZATIONS

If a Reorganization is approved, on the Effective Date an Acquiring Fund will acquire substantially all of the assets and liabilities of the corresponding Acquired Fund. At that time, an Acquiring Fund will issue to the corresponding Acquired Fund the number of Acquiring Fund Shares determined by dividing the value of the Acquired Fund's net assets so transferred by the net asset value of one Acquiring Fund Share. The net asset value of an Acquiring Fund and the net asset value of the corresponding Acquired Fund will be calculated at the close of business on the date immediately preceding the Effective Date (the "Valuation Date") in accordance with each Acquiring Funds' valuation procedures described in the combined prospectus of the Acquiring Funds dated May 5, 1999.

At the same time as that asset transfer, each Acquired Fund will distribute the corresponding Acquired Fund Shares it receives pro rata to each remaining shareholder of the Acquired Fund based on the percentage of the outstanding shares of each Acquired Fund held of record by that shareholder on the Valuation Date. For example, on June 30, 1999, the value of the aggregate net assets of the Sefton Equity Value Fund was approximately \$\_\_\_\_\_ and each share of the Sefton Equity Value Fund was valued at \$\_\_\_\_\_ per share. The net asset value of each Kayne Anderson Rising Dividends Fund on that date was \$\_\_\_\_\_. Therefore, if the Effective Date had been June 30, 1999, the Sefton Equity Value Fund would then have redeemed each of its then outstanding shares in exchange for \_\_\_ Kayne Anderson Rising Dividends Fund Shares.

This distribution of Acquiring Fund Shares to the corresponding Acquired Fund's shareholders will be accomplished by the establishment of accounts on each Acquiring Fund's share records in the names of those shareholders, representing the respective pro rata number of Acquiring Fund Shares deliverable to them. Fractional shares will be carried to the third decimal place. Certificates evidencing the Acquiring Fund Shares will not be issued to the Acquired Fund's shareholders.

Immediately following each Acquired Fund's pro rata liquidating distribution of the corresponding Acquiring Fund Shares to each Acquired Fund's shareholders, each Acquired Fund will liquidate and terminate.

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In addition, if shareholders of the Sefton Small Company Value Fund approve its Reorganization, that Fund may begin immediately investing up to all (but not less than 65%) of its assets in stocks of companies having total market capitalizations of up to \$3 billion. This Sefton Fund now requires that at least 65% of its total assets be invested in stocks of companies having total market capitalizations of \$1 billion or less. Sefton believes that this authority would allow the more orderly alignment of the Acquired Fund's portfolio before the Reorganization is completed.

Completion of each Reorganization is subject to approval by the shareholders of that Acquired Fund. Each Reorganization may be abandoned at any time before the Effective Date by a majority of either the Sefton Trust's or the KA Funds' Board of Trustees. Furthermore, if shareholders of one or more Acquired Funds fail to approve the Reorganization for that specific Acquired Fund(s), the Board of the Sefton Trust and the KA Funds may determine to proceed

with the Reorganizations for those Acquired Funds whose shareholders have approved the Reorganizations.

Kayne Anderson will pay all costs and expenses of the Reorganizations up to certain limits, including those associated with the Shareholder Meeting, the copying, printing and distribution of this Combined Proxy Statement and Prospectus, and the solicitation of proxies for the Shareholder Meeting. None of the Acquired Funds, the Acquiring Funds nor their respective shareholders will bear those expenses. Certain expenses in excess of the limits agreed to by Kayne Anderson will be paid by Sefton, as the advisor to the Acquired Funds.

The above is a summary of the Reorganizations. The summary is not a complete description of the terms of the Reorganizations, which are set forth in the Agreement and Plan of Reorganization attached as Exhibit B to this document.

## 2. EFFECT OF THE REORGANIZATIONS

If a Reorganization is approved by an Acquired Fund's shareholders and completed, shareholders of an Acquired Fund as of the Effective Date will become shareholders of the corresponding Acquiring Fund. The total net asset value of the corresponding Acquiring Fund Shares held by each shareholder of an Acquired Fund immediately after completion of a Reorganization will be equivalent to the total net asset value of the Acquired Fund Shares held by that same shareholder immediately before completion of a Reorganization.

On or before the Effective Date each Acquired Fund intends to distribute all of its then-remaining net investment income and realized capital gains.

After the Reorganizations, various services previously provided to the Acquired Funds will be provided by new service providers who already have agreements in place to service the Acquiring Funds. Under the current arrangements of the Acquiring Funds, Kayne Anderson serves as investment adviser to each Acquiring Fund; First Fund Distributors, Inc., an affiliate of the administrator for each Acquiring Fund, serves as distributor, and each Acquiring Fund will continue to be managed in accordance with its existing investment objective and policies.

## 3. FEDERAL INCOME TAX CONSEQUENCES

As a condition to closing the Reorganizations, each of Sefton Trust and KA Funds, on behalf of each Fund involved in the Reorganizations, must have received a favorable legal opinion from Ropes & Gray, legal counsel to the independent Trustees of the Sefton Trust, substantially to the effect that, for federal income tax purposes with respect to each Acquired Fund and the corresponding Acquiring Fund:

- (a) No gain or loss will be recognized by the Acquiring Fund upon the receipt of the assets of the Acquired Fund in exchange for Acquiring Fund Shares and the assumption by the Acquiring Fund of the liabilities of the Acquired Fund.
- (b) The basis in the hands of the Acquiring Fund of the assets of the Acquired Fund transferred to the Acquiring Fund in the Reorganization will be the same as the basis of such assets in the hands of the Acquired Fund immediately prior to the transfer;
- (c) The holding periods of the assets of the Acquired Fund in the hands of Acquiring Fund will include the periods during which such assets were held by the Acquired Fund;
- (d) No gain or loss will be recognized by the Acquired Fund upon the transfer of the Acquired Fund's assets to the Acquiring Fund in exchange for the Acquiring Fund Shares and the assumption by the Acquiring Fund of the liabilities of the Acquired Fund, or upon the distribution of the Acquiring Fund Shares by the Acquired Fund to its shareholders in liquidation;
- (e) No gain or loss will be recognized by the Acquired Fund shareholders upon the exchange of their Acquired Fund Shares for Acquiring Fund Shares;
- (f) The aggregate basis of Acquiring Fund Shares an Acquired Fund shareholder receives in connection with the Transaction will be the same as the aggregate basis of his or her Acquired Fund Shares exchanged therefor; and
- (g) An Acquired Fund shareholder's holding period for his or her Acquiring Fund Shares will be determined by including the period for which he or she held the Acquired Fund Shares exchanged therefor, provided that he or she held such the Acquired Shares as capital assets.

Neither the Sefton Trust nor KA Funds intend to seek a private letter ruling from the Internal Revenue Service with respect to the tax effects of the Reorganizations, and one is not required.

Although each Reorganization is expected to be a tax-free transaction, there may be certain tax consequences to the shareholders of each Acquired Fund because of portfolio transactions before the Effective Date of the proposed Reorganizations. A substantial portion of the equity securities held by each of the Sefton Equity Value Fund and Sefton Small Company Value Fund is expected to be sold before the proposed Reorganizations. Substantially all of the resulting recognized gains, if any, will be distributed to the shareholders of those Funds, and are expected to be taxable. The net effect of those pre-Reorganization portfolio transactions by the Sefton Small Company Value Fund would be net capital losses. Those losses, which could otherwise provide tax benefits for certain shareholders of that Fund, will instead be shared proportionately by all shareholders of the Kayne Anderson Small Cap Rising Dividends Fund after its Reorganization, and be subject to various limitations that otherwise would not apply.

4. INTEREST OF CERTAIN PERSONS IN THE REORGANIZATIONS

Kayne Anderson has agreed to engage Harley K. Sefton, the Chief Executive Officer and controlling owner of Sefton and a Trustee of the Sefton Trust, as a consultant if the Reorganizations are consummated. For those consulting services, he will be paid a consulting fee equal to approximately 40% of net advisory fees received by Kayne Anderson with respect to investments by Acquired Fund shareholders transferred to the Acquiring Funds. Kayne Anderson also has agreed to pay certain employee severance expenses expected to be incurred by Sefton in connection with winding-up its business following the Reorganizations.

5. DESCRIPTION OF THE ACQUIRING FUND SHARES

Each Acquiring Fund Share issued to corresponding Acquired Fund shareholders pursuant to the Reorganizations will be duly authorized, validly issued, fully paid and nonassessable when issued, will be transferable without restriction and will have no preemptive or conversion rights. Each Acquiring Fund Share will represent an equal interest in the assets of the Acquiring Fund. The Acquiring Fund Shares will be sold and redeemed based upon the net asset value of the Acquiring Fund next determined after receipt of the purchase or redemption request, as described in the Acquired Fund's Prospectus.

6. CAPITALIZATION

The capitalization figures for the Funds as of June 30, 1998, and their pro forma combined capitalization as of that date after giving effect to the proposed Reorganizations, are as follows:

	Sefton Equity Value Fund -----	Kayne Anderson Rising Dividends Fund -----	Pro Forma Combined -----
Aggregate net assets	\$ _____	\$ _____	\$ _____
Shares outstanding*	_____	_____	_____
Net asset value per share	\$ _____	\$ _____	\$ _____

	Sefton Small Company Value Fund -----	Kayne Anderson Small Cap Rising Dividends Fund -----	Pro Forma Combined -----
Aggregate net assets	\$ _____	\$ _____	\$ _____
Shares outstanding*	_____	_____	_____
Net asset value per share	\$ _____	\$ _____	\$ _____

	Sefton U.S. Government Fund -----	Kayne Anderson Intermediate Total Return Bond Fund -----	Pro Forma Combined -----
Aggregate net assets	\$ _____	\$ _____	\$ _____
Shares outstanding*	_____	_____	_____
Net asset value per share	\$ _____	\$ _____	\$ _____

	Sefton California Tax-Free Fund -----	Kayne Anderson Intermediate Tax-Free Bond Fund -----	Pro Forma Combined -----
Aggregate net assets	\$ _____	\$ _____	\$ _____
Shares outstanding*	_____	_____	_____
Net asset value per share	\$ _____	\$ _____	\$ _____

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\* Each Fund is authorized to issue an indefinite number of shares.

## B. COMPARISON OF THE FUNDS

A brief comparison of each Acquiring Fund and the corresponding Acquired Fund is set forth below. Please see Section II.F. for more information.

### 1. INVESTMENT OBJECTIVES AND POLICIES

The investment objective of each Acquired Fund is substantially similar to those of the corresponding Acquiring Fund, except as noted below. The investment objective of each Fund is "fundamental" which means that it may not be changed without the consent of a majority of the Fund's outstanding shares, as defined in the Investment Company Act.

- \* SEFTON EQUITY VALUE FUND
- \* KAYNE ANDERSON RISING DIVIDENDS FUND

The Sefton Equity Value Fund's investment objective is to seek to provide investors with long-term capital appreciation. The Kayne Anderson Rising Dividends Fund's investment objective is to seek long-term capital appreciation, with dividend income as a secondary consideration, by investing in companies with consistent rising dividends.

The Sefton Equity Value Fund and The Kayne Anderson Rising Dividends Fund both seek to achieve their investment objective by investing primarily in common stocks. The Sefton Equity Value Fund seeks to achieve its investment objective by investing primarily in common stocks of both domestic and foreign companies with a range of capitalizations that Sefton believes are undervalued by the market. The Sefton Equity Value Fund focuses on companies in the capitalization range of \$1 billion to \$10 billion even though it may also invest in smaller companies with market capitalizations of less than \$1 billion if Sefton believes the company is undervalued by the market.

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In contrast, the Kayne Anderson Rising Dividends Fund seek to achieve its investment objective investment objective by using a blended growth and value strategy to invest in companies generally having a market capitalization of \$1 billion or more. At least 65% of the Fund's assets will be invested in consistently growing, highly profitable, low-debt companies of all sizes that meet the Fund's "rising dividends" criteria detailed below. In normal market conditions, at least 80% of the Fund's assets will be invested in common stocks. In selecting securities, Kayne Anderson uses a rising dividends philosophy. It will invest in companies with rising dividends, significant reinvestment of cash flow and low debt. To be considered for investment, a company typically must meet the following growth and quality criteria: (1) consistent dividend increases-it must have increased its dividend in at least seven of the past ten years and not cut its dividends once during that period (the company should have increased dividends at least 100% in the past ten years.); (2) high reinvestment for growth-the company must pay no more than 65% of current earnings towards dividends; and (3) strong balance sheet-the company's long-term debt should be "A" rated or not more than 35% of total capitalization. If a company meets these criteria, Kayne Anderson researches and analyzes that company's relative position in the industry and the industry cycle. Kayne Anderson also considers whether the company's stock price is currently under- or over-valued.

- \* SEFTON SMALL COMPANY VALUE FUND
- \* KAYNE ANDERSON SMALL CAP RISING DIVIDENDS FUND

The Sefton Small Company Value Fund's investment objective is to seek to provide investors with long-term capital appreciation. The Kayne Anderson Small Cap Rising Dividends Fund's investment objective is to seek long-term capital appreciation, with dividend income as a secondary consideration, by investing in small-cap companies with consistent rising dividends.

Both Sefton Small Company Value Fund and Kayne Anderson Small-Cap Rising Dividends Fund seek to achieve their respective investment objective by investing primarily in common stocks. Sefton Small Company Value Fund seeks to achieve its investment objective by investing primarily in common stocks of both domestic and foreign companies with market capitalizations of \$1 billion or less and that Sefton believes are relatively undervalued. Shareholder approval of the Reorganization for this Acquired Fund would also be deemed to authorize Sefton to invest immediately in companies with the same capitalization range as is used by the corresponding Acquiring Fund as described below.

In contrast, the Kayne Anderson Small Cap Rising Dividends Fund seeks to achieve its investment objective by using a blended growth and value strategy to invest in companies generally having a market capitalization of up to \$3 billion. At least 65% of the Fund's assets will be invested in consistently growing, highly profitable, low-debt companies with market capitalizations of



between \$50 million and \$3 billion and that meet the Fund's "rising dividends" criteria detailed below. The Fund will seek to maintain a simple (non-weighted) average market capitalization of approximately \$1 billion for companies in which it invests. In normal market conditions, at least 80% of the Fund's assets will be invested in common stocks. In selecting securities, Kayne Anderson uses a rising dividends philosophy. It will invest in companies with rising dividends, significant reinvestment of cash flow and low debt. To be considered for investment, a company must meet the following growth and quality criteria: (1) Consistent dividend increases-it must have increased its dividend in at least three of the past five years without cutting dividends during that time (the company should have increased dividends at a rate that would double them in ten years); (2) High reinvestment for growth-the company must pay no more than 65%

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of current earnings towards dividends; and (3) Strong balance sheet-the company's long-term debt should be "A" rated or not more than 35% of total capitalization. If a company meets these criteria, Kayne Anderson researches and analyzes that company's relative position in the industry and the industry cycle. Kayne Anderson also considers whether the company's stock price is currently under- or over-valued.

\* SEFTON U.S. GOVERNMENT FUND

\* KAYNE ANDERSON INTERMEDIATE TOTAL RETURN BOND FUND

The Sefton U.S. Government Fund's investment objective is to seek to provide investors with as high a level of current income as is consistent with preservation of capital. Kayne Anderson Intermediate Total Return Bond Fund has a substantially similar objective, which is to seek to maximize total return (mainly through current income with capital appreciation as a secondary factor) by investing primarily in investment-grade bonds.

The Sefton U.S. Government Fund pursues its investment objective by investing at least 65% of its total assets in securities issued or guaranteed by the U.S. Government and agency obligations. The Sefton U.S. Government Fund is an intermediate-term bond fund and expects that its investments in U.S. Government and agency obligations will have an average weighted maturity of five to ten years. The Fund also may invest in certificates of deposit, bankers' acceptances, and commercial paper rated in the two highest categories; investment grade corporate debt securities; investment grade corporate debt securities; investment grade mortgage and asset-backed securities; and similar securities of foreign issuers.

Unlike the Sefton U.S. Government Fund, which must invest primarily in U.S. Government and agency obligations backed by the full faith and credit of the U.S. Government, the Kayne Anderson Intermediate Total Return Bond Fund seeks to achieve its objective by investing in investment-grade bonds, both foreign and domestic which are not necessarily guaranteed by the U.S. Government. However, at least 90% of the Kayne Anderson Intermediate Total Return Bond Fund's total assets must be investment-grade at the time of purchase. This includes U.S. Government securities, corporate bonds, mortgage-related securities, asset-backed securities, and money market securities. Investment-grade bonds are those rated within the four highest grades by rating agencies such as Standard & Poor's, Moody's or Fitch. From time to time, the Fund may also invest in unrated bonds that Kayne Anderson believes are comparable to investment-grade securities. The Kayne Anderson Intermediate Total Return Bond Fund seeks to maintain a dollar-weighted average maturity of three to ten years, which is slightly shorter than the average maturity of the Sefton U.S. Government Fund. Typically, a shorter maturity means that the bond or portfolio has less sensitivity to interest rates. The Kayne Anderson Total Return Bond Fund invests in bonds that Kayne Anderson believes offer attractive yields and are undervalued relative to issues of similar quality and interest rate sensitivity.

\* SEFTON CALIFORNIA TAX-FREE FUND

\* KAYNE ANDERSON INTERMEDIATE TAX-FREE BOND FUND (PROPOSED TO BE CALLED KAYNE ANDERSON CALIFORNIA INTERMEDIATE TAX-FREE BOND FUND)

The Sefton California Tax-Free Fund's investment objective is to seek to provide investors with as high a level of current income exempt from both federal and California personal income taxes as is consistent with preservation

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of capital. The Kayne Anderson Intermediate Tax-Free Bond Fund's current investment objective is to seek current income exempt from federal income tax by investing primarily in investment-grade municipal bonds.

However, in anticipation of this proposed Reorganization and in order to provide a vehicle whereby shareholders of Sefton California Tax-Free Fund may continue to invest in a California municipal bond fund after the Reorganization, Kayne Anderson Investment Management, LLC has requested, and the Trustees of the KA Funds have approved, a change of the name and investment objective of the Kayne Anderson Intermediate Tax-Free Bond Fund so that it will be called Kayne

Anderson California Intermediate Tax-Free Bond Fund and that its investment objective will be changed to seek current income exempt from both federal and California personal income taxes by investing primarily in investment-grade California municipal bonds (instead of just seeking current income exempt from federal personal income tax). After this change becomes effective, the Kayne Anderson California Intermediate Tax-Free Bond Fund will have an investment objective that is substantially identical to that of the Sefton California Tax-Free Fund. An amendment to the KA Trust's registration statement has been filed to propose that change and is currently undergoing customary review by the SEC. Simultaneously, KA Funds are asking shareholders of the Kayne Anderson Intermediate Tax-Free Bond Fund to approve this change of investment objective. The KA Fund anticipate that approval.

The Sefton California Tax-Free Fund pursues its investment objective by investing at least 80% of its net assets in federally tax-exempt securities paying interest that is not subject to the federal alternative minimum tax; and at least 65% of its total assets in municipal securities issued by California and its local governments (California municipal securities). The Sefton California Tax-Free Fund, which invests in investment-grade municipal securities, expects that the average weighted maturity of its investments will be ten or more years. After the proposed change of the investment objective of the Kayne Anderson California Intermediate Tax-Free Bond Fund becomes effective, it is anticipated that the Fund will invest at least 80% of its assets in investment-grade California municipal bonds and notes. The assets will be invested such that at least 80% of the Fund's assets will generate income exempt from federal income tax and the federal alternative minimum tax. Furthermore, at least 90% of its assets must be investment-grade at the time of purchase. Investment-grade bonds are those rated within the four highest grades by rating agencies such as Standard & Poor's, Moody's or Fitch. From time to time, the Fund may also invest in unrated bonds that Kayne Anderson believes are of comparable quality to investment-grade securities. The Fund seeks to maintain a dollar-weighted average maturity of three to ten years. Typically, a shorter maturity means that the bond or portfolio has less sensitivity to interest rates. The Kayne Anderson California Intermediate Tax-Free Bond Fund invests in bonds that Kayne Anderson believes offer attractive yields and are undervalued relative to issues of similar quality and interest rate sensitivity.

## 2. INVESTMENT RESTRICTIONS

The fundamental investment restrictions of each Acquiring Fund are substantially similar to the corresponding Acquired Fund except for the following differences (each investment restriction discussed below, unless stated otherwise, is a fundamental policy of each Fund and cannot be changed without shareholders' approval):

(1) No Acquiring Fund may change its status as a "diversified" mutual fund under the Investment Company Act. A "diversified" mutual fund company is one which, with respect to 75% of its total assets, may not invest in the securities of any one issuer (other than U.S. Government and its agencies and

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instrumentalities) if immediately after and as a result of such investment more than 5% of the total assets of the Acquiring Fund would be invested in such issuer (the remaining 25% of the Acquiring Fund's total assets may be invested without restriction except to the extent other investment restrictions may be applicable). In addition, a diversified investment company may not purchase more than 10% of the outstanding voting securities of any one issuer. Each Acquired Fund has also elected to be a "diversified" investment company, other than the Sefton U.S. Government Fund and the Sefton California Tax-Free Fund. Therefore, the Sefton U.S. Government Fund and the Sefton California Tax-Free Fund do not need to meet the diversification requirements set forth above and would be able to concentrate their investments in a smaller number of securities.

(2) Each Acquired Fund may invest up to 15% of the value of its net assets in illiquid securities. Each Acquiring Fund, however, has a non-fundamental investment restriction which provides that it may only invest up to 10% of the value of its net assets in such securities.

(3) Each Acquired Fund may enter into reverse repurchase agreements or borrow from banks up to 5% of the current value of its net assets for temporary or emergency purposes and those borrowings may be secured by the pledge of not more than 5% of the current value of its total net assets (but investment may not be purchased by the Acquired Fund while such borrowings exist). The Acquiring Funds may enter into similar arrangements except that each Acquiring Fund may also engage in other permissible leveraging activities including dollar roll transactions that are accounted for as financings. Furthermore, unlike the Acquired Funds, which have a 5% limit on borrowings, each Acquiring Fund may borrow in an amount not in excess of one-third of the value of the Acquiring Fund's total assets (at the lesser of acquisition cost or current market value). Also, unlike the Acquired Funds, which prohibit any investments be made by an Acquired Fund so long as any borrowing exist, the Acquiring Funds restrict additional investments for the Acquiring Funds if its borrowings exceed 10% of

total assets.

(4) Each Acquired Fund may make loans of portfolio securities without limit. Each Acquiring Fund, however, may only make loans of portfolio securities of no more than one-third of each Acquiring Fund's net assets.

(5) Each Acquired Fund may not invest more than 5% of the value of an Acquired Fund's total assets in the securities of any one investment company; invest more than 10% of the value of an Acquired Fund's total assets in the aggregate in securities of investment companies as a group; or invest such that more than 3% of the outstanding voting stock of any one investment company will be owned by any Acquired Fund or by the Acquired Funds as a group. Each Acquiring Fund has a non-fundamental investment restriction that provides that each may, subject to disclosures in the prospectus and the provisions of the Investment Company Act, invest more than 10% of its assets in other investment companies as a group. Furthermore, each Acquiring Fund has also reserved the right to invest all of its assets in the securities of a single open-end investment company with substantially the same fundamental investment objectives, restrictions and policies as the Acquiring Fund, thereby converting the Acquiring Fund into a feeder fund in a master-feeder structure.

(6) Each Acquired Fund may not sell securities short (other than short sales "against the box") and may not purchase securities on margin, except that an Acquired Fund may obtain such short-term credits as may be necessary for the clearance of purchase and sale of securities. The Acquiring Funds have similar restrictions. However, in the case of the Acquiring Funds, those are non-fundamental investment restrictions and can therefore be changed by the Board without shareholders' approval.

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(7) Each Acquired Fund may not write, purchase or sell put or call options in an amount more than 5% of its total assets for purposes other than bona fide hedging. The Acquiring Funds do not have such a percentage limitation.

(8) Each Acquired Fund may not purchase or retain the securities of any issuer, if the individual officers and Trustees of the Acquired Funds, Sefton or the BISYS, each owning beneficially more than half of 1% of the securities of such issuer, together own more than 5% of the securities of such issuer.

(9) Each Acquired Fund may not invest more than 5% of its net assets in warrants that are unattached to securities, included within that amount (except for the Sefton Small Company Value Fund), no more than 2% of the value of the Acquired Fund's net assets may be warrants which are not listed on the New York or American Stock Exchanges. The Acquiring Funds do not have any specific restriction on their ability to invest in warrants.

(10) Each Acquired Fund may not invest more than 5% of the current value of its total assets in the securities of companies which, including predecessors, have a record of less than three years' continuous operation. The Acquiring Funds do not have a similar restriction.

(11) Each Acquiring Fund has a non-fundamental investment restriction that provides that it may not participate on a joint basis in any trading account in securities, although Kayne Anderson may aggregate orders for the sale or purchase of securities with other accounts it manages to reduce brokerage costs or to average prices. The Acquired Funds do not have such restrictions.

(12) Each Acquiring Fund has a non-fundamental investment restriction that provides that it may not invest more than 5% of its net assets in indexed securities. The Acquired Funds do not have such restrictions.

In the above discussion, all percentage limitations apply immediately after a purchase and, in most cases, a subsequent change in the applicable percentage resulting from market fluctuations does not require elimination of any security from the portfolio.

To the extent these restrictions reflect matters of operating policy which may be changed without shareholder vote, these restrictions may be amended upon approval by the appropriate Board and notice to shareholders.

If a percentage restriction is adhered to at the time of investment, a subsequent increase or decrease in a percentage resulting from a change in the values of assets will not constitute a violation of that restriction, except as otherwise noted.

### 3. COMPARATIVE PERFORMANCE INFORMATION

The chart below shows the risks of investing in each Fund and how each Fund's total return has varied from year-to-year. The table compares each Fund's performance to the most commonly used index for its market segment. Of course, past performance is no guarantee of future results.

## COMPARATIVE PERFORMANCE INFORMATION BETWEEN SEFTON EQUITY VALUE FUND AND KAYNE ANDERSON RISING DIVIDENDS FUND

SEFTON EQUITY VALUE FUND*			KAYNE ANDERSON RISING DIVIDENDS FUND**		
-----	-----	-----	-----	-----	-----
30.75%	25.25%	-9.40%	19.09%	30.99%	14.14%
1996	1997	1998	1996	1997	1998

\* During the three-year period described above in the bar chart, the Sefton Equity Value Fund's best quarter was Q2 1997 (+12.60%) and its worst quarter was Q3 1998 (-15.73%). The Fund's 1999 return through September 30, 1999 was \_\_\_\_\_%.

\*\* During the three-year period described above in the bar chart, the Kayne Anderson Rising Dividends Fund's best quarter was Q2 1997 (+16.43%) and its worst quarter was Q3 1998 (-13.90%). The Fund's 1999 return through September 30, 1999 was \_\_\_\_\_%.

## AVERAGE ANNUAL RETURNS THROUGH 12/31/98

	1 Year -----	Since Inception of Acquired Fund (04/03/95) -----	Since Inception of Acquiring Fund (05/01/95) -----
Sefton Equity Value Fund	-9.40%	15.60%	N/A
Kayne Anderson Rising Dividends Fund	14.14%	N/A	23.16%
S&P 500 Index	28.58%	29.59%	28.69%

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## COMPARATIVE PERFORMANCE INFORMATION BETWEEN SEFTON SMALL COMPANY VALUE FUND AND KAYNE ANDERSON SMALL CAP RISING DIVIDENDS FUND

SEFTON SMALL COMPANY VALUE FUND*	KAYNE ANDERSON SMALL CAP RISING DIVIDENDS FUND**	
-----	-----	-----
-15.69%	19.46%	16.17%
1998	1997	1998

\* During the one-year period described above in the bar chart, the Sefton Small Company Value Fund's best quarter was Q4 1998 (+5.15%) and its worst quarter was Q3 1998 (-21.34%). The Fund's 1999 return through September 30, 1999 was \_\_\_\_\_%.

\*\* During the two-year period described above in the bar chart, the Kayne Anderson Small Cap Rising Dividends Fund's best quarter was Q4 1998 (+15.43%) and its worst quarter was Q3 1998 (-10.24%). The Fund's 1999 return through September 30, 1999 was \_\_\_\_\_%.

## AVERAGE ANNUAL RETURNS THROUGH 12/31/98

	1 Year -----	Since Inception of Acquired Fund (06/30/97) -----	Since Inception of Acquiring Fund (10/28/96) -----
Sefton Small Company Value Fund	-15.69%	-6.75%	N/A
Kayne Anderson Small Cap Rising Dividends Fund	16.17%	N/A	18.12%
Russell 2000 Index	-2.55%	5.40%	10.69%

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## COMPARATIVE PERFORMANCE INFORMATION BETWEEN SEFTON U.S. GOVERNMENT FUND AND KAYNE ANDERSON INTERMEDIATE TOTAL RETURN BOND FUND

SEFTON U.S. GOVERNMENT FUND*			KAYNE ANDERSON INTERMEDIATE TOTAL RETURN BOND FUND**	
-----	-----	-----	-----	-----
1.73%	8.41%	7.42%	7.19%	7.61%

- 
- \* During the three-year period described above in the bar chart, the Sefton U.S. Government Fund's best quarter was Q4 1996 (+3.01%) and its worst quarter was Q1 1996 (-2.59%). The Fund's 1999 return through September 30, 1999 was \_\_\_\_\_%.
  - \*\* During the two-year period described above in the bar chart, the Kayne Anderson Intermediate Total Return Bond Fund's best quarter was Q3 1998 (+4.20%) and its worst quarter was Q1 1997 (-0.73%). The Fund's 1999 return through September 30, 1999 was \_\_\_\_\_%.

AVERAGE ANNUAL RETURNS THROUGH 12/31/98

	1 Year	Since Inception of Acquired Fund (04/03/95)	Since Inception of Acquiring Fund (10/28/96)
Sefton U.S. Government Fund	7.42%	7.82%	N/A
Kayne Anderson Intermediate Total Return Bond Fund	7.61%	N/A	6.88%
Lehman Brothers Intermediate Government/Corporate Bond Index	8.42%	8.21%	7.83%

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COMPARATIVE PERFORMANCE INFORMATION BETWEEN SEFTON CALIFORNIA TAX-FREE FUND AND  
KAYNE ANDERSON INTERMEDIATE TAX-FREE BOND FUND

SEFTON CALIFORNIA TAX-FREE FUND*			KAYNE ANDERSON INTERMEDIATE TAX-FREE BOND FUND**	
4.58%	8.45%	6.11%	4.26%	4.37%
1996	1997	1998	1997	1998

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- \* During the three-year period described above in the bar chart, the Sefton California Tax-Free Fund's best quarter was Q4 1996 (+2.69%) and its worst quarter was Q1 1996 (-1.48%). The Fund's 1999 return through September 30, 1999 was \_\_\_\_\_%. The Fund's 1999 return through September 30, 1999 was \_\_\_\_\_%.
  - \*\* During the two-year period described above in the bar chart, the Kayne Anderson Intermediate Tax-Free Bond Fund's best quarter was Q3 1998 (+1.78%) and its worst quarter was Q1 1997 (-0.13%). The Fund's 1999 return through September 30, 1999 was \_\_\_\_\_%.

AVERAGE ANNUAL RETURNS THROUGH 12/31/98

	1 Year	Since Inception of Acquired Fund (04/03/95)	Since Inception of Acquiring Fund (10/28/96)
Sefton California Tax-Free Fund	6.11%	7.30%	N/A
Kayne Anderson Intermediate Tax-Free Bond Fund	4.37%	N/A	3.94%
Lehman Brothers 10-Year Municipal Bond Index	6.76%	8.03%	N/A
Lehman Brothers 5-Year Municipal Bond Index	5.85%	N/A	6.17%

4. ADVISORY FEES AND OTHER EXPENSES

Sefton serves as investment adviser to the Sefton U.S. Government Fund, Sefton California Tax-Free Fund and Sefton Equity Value Fund pursuant to a Master Investment Advisory Contract and Supplements thereto effective April 3, 1995. Sefton also serves as investment adviser to the Sefton Small Company Value Fund pursuant to an Advisory Agreement effective on May 2, 1997. Kayne Anderson serves as investment adviser to the Acquiring Funds pursuant to an Investment Management Agreement dated September 30, 1996 with KA Funds on behalf of each Acquiring Fund.

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Each Acquired Fund has contractually agreed to pay Sefton an advisory fee calculated based on the average daily net assets of each Acquired Fund as set forth below:

Sefton Equity Value Fund	1.00%
Sefton Small Company Value Fund	1.25%
Sefton U.S. Government Fund	0.60%
Sefton California Tax-Free Fund	0.60%

Each Acquiring Fund has contractually agreed to pay Kayne Anderson an investment advisory fee calculated based on the average daily net assets of each Acquiring Fund as set forth below:

Rising Dividends Fund	0.75%
Small Cap Rising Dividends Fund	0.85%
Intermediate Total Return Bond Fund	0.50%
Intermediate Tax-Free Bond Fund	0.50%

As can be seen from the above tables, the contractual management fee rate for each Acquiring Fund is lower than that of the corresponding Acquired Fund. In addition, other than for the case of the Sefton U.S. Government Fund, the actual (after reductions) overall expenses of each Acquiring Fund is lower than the actual (after reductions) overall expenses of the corresponding Acquired Fund. In the case of the Sefton U.S. Government Fund, the net expenses of the Kayne Anderson Intermediate Total Return Bond Fund was higher than the Sefton U.S. Government Fund by only 0.01%.

Other than the Sefton U.S. Government Fund, the total annual expense limitation of each Acquiring Fund currently is lower than that of the corresponding Acquired Fund. Kayne Anderson agreed to those expense limitations (excluding interest and taxes) under a contract with a one-year term, renewable at the end of each fiscal year. Kayne Anderson expects to renew that contract. An Acquiring Fund is required to reimburse Kayne Anderson for any reductions in Kayne Anderson's fee or its payment of expenses only during the three years following that reduction and only if such reimbursement can be achieved within the agreed expense limits. Kayne Anderson generally seeks reimbursement for the oldest reductions and waivers before payment for fees and expenses for the current year.

For the fiscal year ended December 31, 1998, Kayne Anderson received investment advisory fees of approximately \$334,518 from the Kayne Anderson Rising Dividends Fund; approximately \$218,722 from the Kayne Anderson Small Cap Rising Dividends Fund but reduced its fee and reimbursed expenses by a total of \$12,965; approximately \$120,618 from the Kayne Anderson Intermediate Total Return Bond Fund but reduced its fee and reimbursed expenses by a total of \$15,132; and approximately \$34,150 from the Kayne Anderson Intermediate Tax-Free Bond Fund but reduced its fee and reimbursed expenses by a total of \$99,797.

## 5. PORTFOLIO MANAGERS

The investment adviser to each Acquiring Fund is Kayne Anderson Investment Management, LLC (as defined above, "Kayne Anderson"). Kayne Anderson has furnished investment advice to institutional and private clients since 1984. As of December 31, 1998, Kayne Anderson and an affiliated investment adviser, KAIM Non-Traditional, L.P., managed approximately \$4.7 billion for their clients.

ALLAN RUDNICK is the Portfolio Manager for the Kayne Anderson Rising Dividends Fund and serves as Chief Investment Officer of Kayne Anderson. Before joining Kayne Anderson as its Chief Investment Officer in 1989, he was President of Pilgrim Asset Management and Chief Investment Officer for the Pilgrim Group of Mutual Funds. Mr. Rudnick has over 25 years of experience in the investment industry since earning a BA from Trinity College and an MBA from Harvard Business School.

ROBERT SCHWARZKOPF, CFA is the Portfolio Manager for the Kayne Anderson Small Cap Rising Dividends Fund. Before joining Kayne Anderson as a Portfolio Manager in 1991, he was a Portfolio Manager for the Pilgrim Group of Mutual Funds. Mr. Schwarzkopf has 15 years of experience in the investment industry. He earned BA and MS degrees from the University of Miami.

MARK E. MILLER is the Portfolio Manager for the Kayne Anderson Intermediate Total Return Bond Fund and the Kayne Anderson Intermediate Tax-Free Bond Funds. Prior to joining Kayne Anderson as a Portfolio Manager in April, 1994, Mark was responsible for more than \$1 billion in individual and institutional fixed income portfolios with Bank of America Capital Management. Mr. Miller has over 10 years of experience in the securities business. He earned a BA from the University of California at Los Angeles.

## 6. DISTRIBUTION AND SHAREHOLDER SERVICES

Shares of the Acquired Funds are distributed by BISYS Fund Services Limited Partnership ("BISYS"), a registered broker-dealer. BISYS, which serves as the Acquired Funds' distributor and principal underwriter in a continuous public offering of the Acquired Funds' shares, has its principal offices at 3435

Stelzer Road, Columbus, Ohio 43219. The Distributor does not impose any sales charge on purchases of shares of the Acquired Funds.

Shares of the Acquiring Funds are distributed by First Fund Distributors, Inc., a registered broker-dealer with its principal offices at 4455 East Camelback Road, Suite 261E, Phoenix, Arizona 85018. Similar to the case of BISYS, First Fund Distributors, Inc. does not impose any sales charge on purchases of shares of the Acquiring Funds. Furthermore, no sales charge is imposed by on reinvestment of dividends or capital gains distributions.

The Acquired Funds generally require a minimum initial investment of \$2,000, and subsequent investments of \$50 or more. The Acquiring Funds generally require a minimum investment also of \$2,000, and subsequent investments of \$250 or more. Both the Acquiring Funds and the Acquired Funds have automatic investment plans under which selected amounts are electronically withdrawn from shareholders' accounts with banks and are applied to purchase shares of the respective Funds.

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#### 7. REDEMPTION AND EXCHANGE PROCEDURES

Shareholders of each of the Acquired Funds and the Acquiring Funds may redeem their shares at the net asset value next determined after receipt of a written redemption request or a telephone redemption order without the imposition of any fee or other charge.

Both the Acquired Funds and the Acquiring Funds may involuntarily redeem a shareholder's shares if the combined aggregate net asset value of the shares in a shareholder's account is less than \$2,000 due to redemptions. If the shareholder's account balance is not brought up to the minimum or the shareholder does not send the Funds other instructions, the Funds will redeem the shares and send the shareholder the proceeds.

Shareholders of an Acquired Fund currently may exchange their Acquired Fund Shares into another Acquired Fund with the same shareholder account registration, taxpayer identification number and address without the imposition of any sales charges or exchange fees, subject to the new Acquired Fund's \$2,000 minimum investment requirement. The Acquiring Funds have similar requirements. If the Reorganization of each Acquired Fund were approved by shareholders of the respective Acquired Fund, then, after the closing of the Reorganization for an Acquired Fund, shareholders of an Acquired Fund would be able to exchange into other Acquiring Funds. An exchange is treated as a sale and may result in a realized gain or loss for tax purposes. Furthermore, the Acquiring Funds may restrict or refuse exchanges if the KA Funds receive, or anticipate receiving, simultaneous orders affecting a large portion of an Acquiring Fund's assets or if the KA Funds detect a pattern of exchanges that suggests a market-timing strategy. In addition, the KA Funds reserve the right to refuse exchanges into an Acquiring Fund by any person or group if, in the judgment of KA Funds, the affected Acquiring Fund would be unable to effectively invest the money in accordance with its investment objective and policies, or might be adversely affected in other ways.

Other restrictions may apply. Refer to the Combined Prospectus and the Combined Statement of Additional Information for the Acquiring Funds for other exchange policies.

#### 8. INCOME DIVIDENDS, CAPITAL GAINS DISTRIBUTIONS AND TAXES

Each Acquiring Fund and each Acquired Fund distributes substantially all of its net investment income and net capital gains to shareholders each year, if any. Each Acquiring Fund and each Acquired Fund currently intends to make one or, if necessary to avoid the imposition of tax on a Fund, more distributions during each calendar year. A distribution may be made between November 1 and December 31 of each year with respect to any undistributed capital gains earned during the one-year period ended October 31 of each calendar year. Another distribution of any undistributed capital gains may also be made following the Fund's fiscal year end (December 31 for both the Acquiring Funds and the Acquired Funds).

Each Acquiring Fund and each Acquired Fund has elected and qualified as a separate "regulated investment company" under Subchapter M of the Code for federal income tax purposes and meets all other requirements that are necessary for it (but not its shareholders) to pay no federal taxes on income and capital gains paid to shareholders in the form of dividends. In order to accomplish this goal, each Fund must, among other things, distribute substantially all of its ordinary income and net capital gains on a current basis and maintain a portfolio of investments that satisfies certain diversification criteria.

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#### 9. PORTFOLIO TRANSACTIONS AND BROKERAGE COMMISSIONS

Subject to policies established by the Board of Trustees of KA Funds, Kayne Anderson is primarily responsible for arranging the execution of the Acquiring Funds' portfolio transactions and the allocation of brokerage activities. In arranging these transactions, Kayne Anderson will seek to obtain the most favorable price and execution for each Acquiring Fund, taking into account such factors as price, size of order, difficulty of execution, operational facilities of the firm involved, the firm's risk in positioning a block of securities, and research, market and statistical information provided by such firm. While Kayne Anderson generally seeks reasonably competitive commission rates, an Acquiring Fund will not necessarily always receive the lowest commission available. In fact, the Acquiring Funds may pay to those securities broker-dealers who provide brokerage and research service to Kayne Anderson a higher commission than that charged by other securities broker-dealers if Kayne Anderson determines in good faith that the amount of the commission is reasonable in relation to the value of those services in terms either of the particular transaction, or in terms of the overall responsibility of Kayne Anderson and to any other accounts over which Kayne Anderson exercises investment discretion. Kayne Anderson also may buy and sell securities for the Acquiring Funds through its affiliated broker-dealer, KA Associates, Inc. The Board of Trustees of KA Funds regularly reviews those transactions to determine that any commissions paid are fair and reasonable and meet relevant legal requirements.

#### 10. SHAREHOLDERS' RIGHTS

Both the Sefton Trust and the KA Funds are Delaware business trusts. Because each Acquired Fund is a series of Sefton Trust and each Acquiring Fund is a series of KA Funds, their operations are governed by their respective Trust's Declaration of Trust and By-laws and applicable Delaware law.

The Funds normally will not hold meetings of shareholders except as required under the Investment Company Act and Delaware law. However, shareholders holding 10% or more of the outstanding shares of either an Acquiring Fund or an Acquired Fund may call meetings for their respective Trust for the purpose of voting on the removal of one or more of the Trustees.

Shareholders of each Fund have no preemptive, conversion or subscription rights. The shares of each Fund have non-cumulative voting rights, with each shareholder of the Funds entitled to one vote for each full share of the Funds (and a fractional vote for each fractional share) held in the shareholder's name on the books of the Funds as of the record date for the action in question. On any matter submitted to a vote of shareholders, shares of each Fund will be voted by that Fund's shareholders individually when the matter affects the specific interest of that Fund only, such as approval of that Fund's investment management arrangements. The shares of all the Funds will be voted in the aggregate on other matters, such as the election of trustees and ratification of the Board of Trustees' selection of the Funds' independent accountants.

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#### C. RISK FACTORS

Because the investment objective, policies, strategies and restrictions of each Acquired Fund and its corresponding Acquiring Fund are substantially similar, the overall level of investment risk should not materially change as a result of the Reorganization.

The following risk considerations that an investor should consider are relevant to both the Acquired Fund and the corresponding Acquiring Fund. Although Kayne Anderson will seek to achieve the investment objective of the each Acquiring Fund, there is no assurance that it will be able to do so. In addition, no single fund should be considered, by itself, to provide a complete investment program for any investor.

SPECIAL RISK FACTORS FOR KAYNE ANDERSON RISING DIVIDENDS FUND (for shareholders of Sefton Equity Value Fund.)

Both the Kayne Anderson Rising Dividends Fund and the Sefton Equity Value Fund invest in common stocks and other securities which are subject to stock market risks. The value of the stocks that the Funds hold, like the broader stock market, may decline over short or even extended periods.

However, the Kayne Anderson Rising Dividends Fund use a blended growth and value strategy whereas Sefton Equity Value Fund uses a pure value approach. Therefore, the Acquiring Fund is more likely to invest in higher price-earnings multiple growth companies than the Acquired Fund. Those growth companies tend to have more volatile stock prices and may, therefore, make the share price of the Acquiring Fund more volatile than that of the Acquired Fund.

In addition, Sefton Equity Value Fund focuses on mid-cap companies whereas Kayne Anderson Rising Dividends Fund focuses on large-cap companies. Even though large capitalization companies tend in general to be more stable, in recent years there has been a large increase in the price-earnings multiples of large capitalization stocks, which has not been matched by mid-cap stocks. Therefore,



the stock holdings in the Kayne Anderson Rising Dividends Fund on average has a higher price-earnings multiple than those in the Sefton Equity Value Fund. Thus, the stocks held by the Kayne Anderson Rising Dividends Fund may be more vulnerable to a market correction affecting growth stocks more than other types of stocks.

SPECIAL RISK FACTORS FOR KAYNE ANDERSON SMALL CAP RISING DIVIDENDS FUND (for shareholders of Sefton Small Company Value Fund.)

Both the Kayne Anderson Small Cap Rising Dividends Fund and the Sefton Small Company Value Fund invest in common stocks and other securities which are subject to stock market risks. The value of the stocks that the Funds hold, like the broader stock market, may decline over short or even extended periods.

However, the Kayne Anderson Small Cap Rising Dividends Fund use a blended growth and value strategy whereas Sefton Equity Value Fund uses a pure value fund approach. Therefore, the Acquiring Fund is more likely to invest in higher price-earnings multiple growth companies than the Acquired Fund. Those growth companies tend to have more volatile stock prices and may, therefore, make the share price of the Acquiring Fund be more volatile than that of the Acquired Fund.

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In addition, both the Acquired Fund and the Acquiring Funds focus on small-cap stocks, which may expose shareholders to additional risks. Smaller companies typically have more limited-product lines, markets and financial resources than larger companies, and their securities may trade less frequently and in more-limited volume than those of larger, more mature companies. As a result, small-cap stocks-and therefore the Funds-may fluctuate significantly more in value than larger-cap stocks and funds that focus on them.

In addition to the risks summarized above, there are additional risks with investing in the Acquiring Funds. See the Combined Prospectus and Statement of Additional Information for more information on the risks of each Acquiring Fund.

SPECIAL RISK FACTORS FOR KAYNE ANDERSON TOTAL RETURN BOND FUND (for shareholders of Sefton U.S. Government Fund)

Unlike the Sefton U.S. Government Fund, which invests primarily in U.S. Government securities backed by the full faith and credit of the U.S. Government, the Kayne Anderson Total Return Bond Fund invests primarily in domestic and foreign investment-grade bonds. The Kayne Anderson Total Return Bond Fund is a corporate bond fund which invests primarily in corporate bonds (instead of investing primarily U.S. Government bonds as in the case of Sefton U.S. Government Fund). Corporate bonds are issued by private companies and are not backed by the full faith and credit of the U.S. Government and therefore are subject to a credit risk-the risk that the issuer may default or otherwise be unable to pay the principal and/or interest of the debt when due. If this happens, you may lose a portion of your principal. However, Kayne Anderson attempts to minimize that risk by investing primarily in investment-grade bonds. In addition, the Kayne Anderson Total Return Bond Fund may also invest in foreign bonds, which may be denominated in foreign currencies. To the extent the exchange rates for those foreign currencies fluctuate unfavorably against the US dollar, the Fund may suffer a loss.

Both Funds are subject to interest rate risk. Generally, increases in interest rates may cause the value of a Fund's investments to decline. The Kayne Anderson Intermediate Total Return Bond Fund seeks to minimize the risk by emphasizing total return (which includes both income and capital gains) instead of Sefton U.S. Government Bond Fund's slightly narrower objective, which is to seek maximum current income. In the Acquiring Fund's case, Kayne Anderson may decide to invest in a security that pays lower current income in anticipation of a possibility of capital gain or in anticipation of a lesser effect of a capital loss. To the extent Kayne Anderson's projections are inaccurate, you may not be able to get as high a level of current income as you otherwise would.

SPECIAL RISK FACTORS FOR KAYNE ANDERSON INTERMEDIATE TAX-FREE BOND FUND (for shareholders of Sefton California Tax-Free Fund.)

As discussed above, the Sefton California Tax-Free Fund will be reorganized into the Kayne Anderson Intermediate Tax-Free Bond Fund. Currently, the investment objective of the Kayne Anderson Intermediate Tax-Free Bond Fund is to seek current income exempt from federal income tax. Kayne Anderson, however, is in the process of seeking shareholders' approval to change the objective of that Fund to one that is substantially identical to the Sefton California Tax-Free Fund. If shareholders of the Kayne Anderson Intermediate Tax-Free Bond Fund approve the change, the name of the Acquiring Fund will become Kayne Anderson California Intermediate Tax-Free Bond Fund and the objective of the Acquiring Fund will be to seek current income exempt from both federal income tax and California personal income tax by investing primarily in investment-grade California municipal bonds.

Because the Kayne Anderson California Intermediate Tax-Free Bond Fund and the Sefton California Tax-Free Fund both invest primarily in securities issued by entities located in a single state, each fund is more susceptible to changes in value due to political or economic changes affecting that state or its subdivisions.

#### D. RECOMMENDATION OF THE BOARD OF TRUSTEES

The Board of Trustees of the Sefton Trust and the KA Funds (including a majority of the independent Trustees each trust), after due consideration, has unanimously determined that the Reorganization is in the best interests of the shareholders of each Acquired Fund (in the case of the Sefton Trust Trustees) and each Acquiring Fund (in the case of the KA Funds Trustees) and that the interests of the existing shareholders of each Acquiring Fund and Acquired Fund, as the case may be, would not be diluted thereby. The Boards specifically considered the following factors:

- (1) The favorable efficiencies that could occur if each Acquired Fund and the corresponding Acquiring Fund's assets were combined.
- (2) The expected absence of adverse effects on the Acquiring Fund by adding the corresponding Acquired Fund's assets to it.
- (3) The favorable experience and resources of Kayne Anderson and the other service providers to the Acquiring Funds.
- (4) The favorable comparative performance and current and expected expenses of the Acquiring Funds compared to the Acquired Funds.

THE TRUSTEES OF THE SEFTON TRUST UNANIMOUSLY RECOMMEND THAT  
SHAREHOLDERS OF EACH ACQUIRED FUND VOTE FOR THE  
ADOPTION OF THE PROPOSAL.

#### E. DISSENTERS' RIGHTS OF APPRAISAL

Shareholders of an Acquired Fund who object to a proposed Reorganization will not be entitled to any "dissenters' rights" under Delaware law. However, those shareholders have the right at any time up to when the Reorganization occurs to redeem shares of the Acquired Fund at net asset value or to exchange their shares for shares of the other funds offered by the Sefton Trust without charge (however, each other series of Sefton Trust are involved with the Reorganization). After the Reorganizations, shareholders of an Acquired Fund will hold shares of the corresponding Acquiring Fund, which may also be redeemed at net asset value in accordance with the procedures described in the Acquiring Funds' Prospectus dated May 5, 1999, subject to applicable redemption procedures.

#### F. FURTHER INFORMATION ABOUT THE ACQUIRED FUND AND THE ACQUIRING FUND

Further information about each Acquired Fund and each Acquiring Fund are contained in the documents set forth at the beginning of this Combined Proxy Statement and Prospectus under the heading "WHAT OTHER IMPORTANT DOCUMENTS SHOULD I KNOW ABOUT?"

In addition, both the Sefton Trust and KA Funds are subject to the informational requirements of the Securities Exchange Act of 1934 and the Investment Company Act, and they file reports, proxy materials and other information with the SEC. These reports, proxy materials and other information can be inspected and copied at the Public Reference Room maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549, and at the SEC's regional offices at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 and 7 World Trade Center, Suite 1300, New York, New York 10048. Copies of these materials can be obtained at prescribed rates from the Public Reference Branch, Office of Consumer Affairs and Information Services, of the SEC, Washington, D.C. 20549, and on the SEC's web site (<http://www.sec.gov>).

#### G. VOTE REQUIRED

Approval of each proposed Reorganization requires the affirmative vote of the holders of a majority of the shares of each Acquired Fund present or voting by proxy at the Shareholder Meeting. If the shareholders of an Acquired Fund do not approve the proposed Reorganization for that Acquired Fund, or if the Reorganization is not consummated for any other reason, then Kayne Anderson would have no further obligation to that Acquired Fund but would satisfy its prior obligations described in this Combined Proxy Statement and Prospectus through the date of that unfavorable shareholder vote or other termination event. The Board of Trustees of Sefton Trust would then take any further action as it deems to be in the best interest of the Acquired Fund concerned and its

shareholders, including liquidation, subject to approval by the shareholders of the Acquired Fund if required by applicable law.

H. FINANCIAL HIGHLIGHTS

The financial highlights table for the Acquired Funds is intended to help you understand the Acquired Funds' financial performance. Certain information reflects financial results for a single Fund share. The total returns in the table represent the rate that an investor would have earned or lost on an investment in the Fund (assuming reinvestment of all dividends and distributions). The Financial Highlights for the fiscal year ended December 31, 1998, period ended December 31, 1997, fiscal year ended March 31, 1997 and the period from commencement of investment operations (April 3, 1995) to March 31, 1996 have been audited by \_\_\_\_\_, LLP, independent accountants, whose report thereon appears in the Sefton Trust's Annual Report and which is incorporated by reference in its Statement of Additional Information ("SAI"). In May 1997, each Acquired Fund changed its fiscal year-end from March 31 to December 31. This information should be read in conjunction with the financial statements and notes thereto which are incorporated by reference in the SAI.

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SEFTON EQUITY VALUE FUND

<TABLE>  
<CAPTION>

	6 Months Ended 6/30/99 (unaudited)	Year Ended 12/31/98	Period Ended 12/31/97 (4)	Year Ended 3/31/97	Period Ended 3/31/96 (1)
<S>	<C>	<C>	<C>	<C>	<C>
Net asset value, beginning of period .....	\$ 15.33	\$ 17.45	\$ 16.42	\$ 14.92	\$ 12.00
Income from investment operations:					
Net investment income .....	0.07	0.22	0.14	0.17	0.21
Net realized and unrealized gain (loss) on investment transactions .....	0.26	(1.87)	3.45	3.14	2.92
Total income from investment operations .....	0.33	(1.65)	3.59	3.31	3.13
Dividends and distributions to shareholders:					
Dividends from net investment income .....	(0.07)	(0.21)	(0.14)	(0.17)	(0.21)
Distributions from net realized gains from investment transactions .....	--	(0.26)	(2.42)	(1.64)	--
Total dividends and distributions .....	(0.07)	(0.47)	(2.56)	(1.81)	(0.21)
Net asset value-end of period .....	\$ 15.59	\$ 15.33	\$ 17.45	\$ 16.42	\$ 14.92
Total return .....	2.20% (2)	(9.40)%	22.13% (2)	23.15%	26.31% (2)
Ratios/Supplemental Data:					
Net assets, end of period (000's) .....	\$65,572	\$75,153	\$85,278	\$86,316	\$36,326
Ratio of net expenses to average net assets ...	1.42% (3)	1.39%	1.41% (3)	1.52%	1.55% (3)
Ratio of net investment income to average net assets .....	0.93% (3)	1.35%	1.02% (3)	1.13%	1.68% (3)
Ratio of expenses to average net assets without fee waivers .....	1.42% (3)	1.39%	1.43% (3)	1.56%	1.66% (3)
Portfolio turnover rate(5) .....	89.05%	82.44%	42.10%	77.65%	62.76%

</TABLE>

- 
- (1) Fund commenced investment operations April 3, 1995.
  - (2) Total return is not annualized.
  - (3) Annualized.
  - (4) For the period from April 1, 1997 through December 31, 1997. The Fund changed its fiscal year end from March 31 to December 31.
  - (5) A portfolio turnover rate is the percentage computed by taking the lesser of purchases or sales of portfolio securities (excluding securities with maturity dates of one year or less at the time of acquisition) for the period and dividing it by the monthly average of the market value of such securities during the period.

See Notes to Financial Statements.

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SEFTON SMALL COMPANY VALUE FUND

<TABLE>  
<CAPTION>

	6 Months Ended	Year	Period
--	----------------	------	--------

	6/30/99 (unaudited)	Ended 12/31/98	Ended 12/31/97 (1)
<S>	<C>	<C>	<C>
Net asset value, beginning of period .....	\$ 10.66	\$ 12.74	\$ 12.00
Income from investment operations:			
Net investment income .....	0.30(2)	0.11	0.07
Net realized and unrealized gain (loss) on investment transactions .....	(0.07)	(2.10)	0.74
Total income from investment operations .....	0.23	(1.99)	0.81
Dividends and distributions to shareholders:			
Dividends from net investment income .....	(0.02)	(0.09)	(0.07)
Total dividends and distributions .....	(0.02)	(0.09)	(0.07)
Net asset value-end of period .....	\$ 10.87	\$ 10.66	\$ 12.74
Total return .....	2.20%(3)	(15.69)%	6.76%(3)
Ratios/Supplemental Data:			
Net assets, end of period (000's) .....	\$17,618 =====	\$35,336 =====	\$29,680 =====
Ratio of net expenses to average net assets....	1.51%(4)	1.55%	1.59%(4)
Ratio of net investment income to average net assets .....	0.57%(4)	0.95%	1.15%(4)
Ratio of expenses to average net assets without fee waivers .....	1.88%(4)	1.75%	1.81%(4)
Portfolio turnover rate(5) .....	50.09%	59.24%	14.81%

</TABLE>

- 
- (1) Fund commenced investment operations June 30, 1997 (commencement of operations) through December 31, 1997.
  - (2) Net investment income per share was calculated using the average shares method.
  - (3) Total return is not annualized.
  - (4) Annualized.
  - (5) A portfolio turnover rate is the percentage computed by taking the lesser of purchases or sales of portfolio securities (excluding securities with maturity dates of one year or less at the time of acquisition) for the period and dividing it by the monthly average of the market value of such securities during the period.

See Notes to Financial Statements.

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SEFTON U.S. GOVERNMENT FUND

<TABLE>

<CAPTION>

	6 Months Ended 6/30/99 (unaudited)	Year Ended 12/31/98	Period Ended 12/31/97 (4)	Year Ended 3/31/97	Period Ended 3/31/96 (1)
<S>	<C>	<C>	<C>	<C>	<C>
Net asset value, beginning of period .....	\$ 12.83	\$ 12.62	\$ 12.01	\$ 12.35	\$ 12.00
Income from investment operations:					
Net investment income .....	0.34	0.69	0.52	0.69	0.71
Net realized and unrealized gain (loss) on investment transactions .....	(0.53)	0.23	0.61	(0.29)	0.37
Total income from investment operations .....	(0.19)	0.92	1.13	0.40	1.08
Dividends and distributions to shareholders:					
Dividends from net investment income .....	(0.34)	(0.69)	(0.52)	(0.69)	(0.71)
Distributions from net realized gains from investment transactions .....	--	(0.02)	--	(0.05)	(0.02)
Total dividends and distributions .....	(0.34)	(0.71)	(0.52)	(0.74)	(0.73)
Net asset value-end of period .....	\$ 12.30	\$ 12.83	\$ 12.62	\$ 12.01	\$ 12.35
Total return .....	(1.54)%(2)	7.42%	9.59%(2)	3.31%	9.06%(2)
Ratios/Supplemental Data:					
Net assets, end of period (000's) .....	\$41,595 =====	\$36,626 =====	\$35,278 =====	\$30,062 =====	\$19,096 =====
Ratio of net expenses to average net assets ...	1.00%(3)	0.94%	1.02%(3)	1.09%	1.02%(3)

Ratio of net investment income to average net assets .....	5.38%(3)	5.40%	5.60%(3)	5.64%	5.68%(3)
Ratio of expenses to average net assets without fee waivers .....	1.08%(3)	1.04%	1.17%(3)	1.39%	1.39%(3)
Portfolio turnover rate(5) .....	3.00%	12.94%	5.49%	11.94%	45.41%

</TABLE>

- 
- (1) Fund commenced investment operations April 3, 1995.
  - (2) Total return is not annualized.
  - (3) Annualized.
  - (4) For the period from April 1, 1997 through December 31, 1997. The Fund changed its fiscal year end from March 31 to December 31.
  - (5) A portfolio turnover rate is the percentage computed by taking the lesser of purchases or sales of portfolio securities (excluding securities with maturity dates of one year or less at the time of acquisition) for the period and dividing it by the monthly average of the market value of such securities during the period.

See Notes to Financial Statements.

SEFTON CALIFORNIA TAX-FREE FUND

<TABLE>

<CAPTION>

	6 Months Ended 6/30/99 (unaudited)	Year Ended 12/31/98	Period Ended 12/31/97 (4)	Year Ended 3/31/97	Period Ended 3/31/96 (1)
<S>	<C>	<C>	<C>	<C>	<C>
Net asset value, beginning of period .....	\$ 12.99	\$ 12.84	\$ 12.26	\$ 12.19	\$ 12.00
Income from investment operations:					
Net investment income .....	0.28	0.55	0.43	0.59	0.58
Net realized and unrealized gain (loss) on investment transactions .....	(0.42)	0.21	0.65	0.09	0.20
Total income from investment operations ....	(0.14)	0.76	1.08	0.68	0.78
Dividends and distributions to shareholders:					
Dividends from net investment income .....	(0.28)	(0.55)	(0.43)	(0.59)	(0.58)
Distributions from net realized gains from investment transactions .....	--	(0.06)	(0.07)	(0.02)	(0.01)
Total dividends and distributions .....	(0.28)	(0.61)	(0.50)	(0.61)	(0.59)
Net asset value-end of period .....	\$ 12.57	\$ 12.99	\$ 12.84	\$ 12.26	\$ 12.19
Total return .....	(1.13%)(2)	6.11%	8.93%(2)	5.69%	6.60%(2)
Ratios/Supplemental Data:					
Net assets, end of period (000's) .....	\$39,522	\$40,564	\$40,303	\$35,504	\$42,593
Ratio of net expenses to average net assets	0.93%(3)	0.89%	0.94%(3)	0.88%	0.83%(3)
Ratio of net investment income to average net assets .....	4.33%(3)	4.28%	4.54%(3)	4.83%	4.83%(3)
Ratio of expenses to average net assets without fee waivers .....	1.08%(3)	1.04%	1.12%(3)	1.17%	1.16%(3)
Portfolio turnover rate(5) .....	1.39%	36.44%	12.97%	14.52%	93.90%

</TABLE>

- 
- (1) Fund commenced investment operations April 3, 1995.
  - (2) Total return is not annualized.
  - (3) Annualized.
  - (4) For the period from April 1, 1997 through December 31, 1997. The Fund changed its fiscal year end from March 31 to December 31.
  - (5) A portfolio turnover rate is the percentage computed by taking the lesser of purchases or sales of portfolio securities (excluding securities with maturity dates of one year or less at the time of acquisition) for the period and dividing it by the monthly average of the market value of such securities during the period.

See Notes to Financial Statements.

The following selected per-share data and ratios for the Acquiring Funds for the period ended December 31, 1998, and December 31, 1997, have been audited by Briggs, Bunting & Dougherty, LLP. The total returns in the table represent the rate that an investor would have earned or lost on an investment in the Fund

(assuming reinvestment of all dividends and distributions). Their January 22, 1999, report appears in the 1998 Annual Report of the Funds. Audited financial information for prior periods was audited by another firm whose report is not included. This information should be read in conjunction with the financial statements and notes thereto which appear in the Annual Report for the Acquiring Funds.

KAYNE ANDERSON MUTUAL FUNDS RISING DIVIDENDS FUND

<TABLE>  
<CAPTION>

	6 Months Ended 06/31/99 (unaudited)	Year Ended 12/31/98	Year Ended 12/31/97	Year Ended 12/31/96	05/01/95* to 12/31/95
<S>	<C>	<C>	<C>	<C>	<C>
Net asset value, beginning of period .....		\$ 17.28	\$ 14.32	\$ 12.63	\$ 10.65
Income from investment operations:					
Net investment income .....		0.11	0.10	0.08	0.07
Net realized and unrealized gains on investments .....		2.38	4.34	2.35	2.13
Total income from investment operations .....		2.49	4.44	2.43	2.20
Less Distributions:					
From net investment income .....		(0.11)	(0.11)	(0.08)	(0.07)
From net realized gains .....		(2.63)	(1.37)	(0.66)	(0.15)
From paid in capital .....		0.00	0.00	0.00	0.00
Total distributions .....		(2.74)	(1.48)	(0.74)	(0.22)
Net asset value, end of period .....		\$ 17.03	\$ 17.28	\$ 14.32	\$ 12.63
Total return .....		14.14%	30.99%	19.09%	20.65%**
Net assets, end of period (in 000's) .....		\$48,581	\$35,283	\$26,118	\$20,613
Ratio of expenses to average net assets:+					
Before expense reimbursement .....		--	--	--	--
After expense reimbursement .....		1.11%	1.18%	1.37%	1.31%+
After expense reimbursement and expenses paid indirectly .....		--	--	--	--
Ratio of net investment income to average net assets:+ (net of expense reimbursement/recoupment)....		0.57%	0.55%	0.59%	0.94%+
Portfolio turnover rate .....		76%	51%	23%	28%

</TABLE>

\* Commencement of operations.

\*\* Not annualized.

+ Annualized.

See accompanying Notes to Financial Statements.

KAYNE ANDERSON MUTUAL FUNDS  
SMALL CAP RISING DIVIDENDS FUND

<TABLE>  
<CAPTION>

	6 Months Ended 06/31/99 (unaudited)	Year Ended 12/31/98	Year Ended 12/31/97	10/18/96* to 12/31/96
<S>	<C>	<C>	<C>	<C>
Net asset value, beginning of period .....		\$ 13.12	\$11.06	\$10.65
Income from investment operations:				
Net investment income .....		0.05	0.02	0.02
Net realized and unrealized gains on investments .....		2.07	2.14	0.41
Total income from investment operations .....		2.12	2.16	0.43
Less Distributions:				

From net investment income .....	(0.05)	(0.05)	(0.02)
From net realized gains .....	0.00	(0.05)	0.00
From paid in capital .....	(0.15)	0.00	0.00
	-----	-----	-----
Total distributions .....	(0.20)	(0.10)	(0.02)
	-----	-----	-----
Net asset value, end of period .....	\$ 15.04	\$13.12	\$11.06
	=====	=====	=====
Total return .....	16.17%	19.46%	4.00%**
Net assets, end of period (in 000's) .....	\$33,017	\$6,494	\$ 808
Ratio of expenses to average net assets:+			
Before expense reimbursement .....	1.35%	3.22%	18.91%+
After expense reimbursement .....	1.30%	1.30%	1.30%+
After expense reimbursement and expenses paid indirectly .....	--	--	--
Ratio of net investment income to average net assets:+			
(net of expense reimbursement/recoupment)....	0.38%	0.45%	1.58%+
Portfolio turnover rate .....	28%	47%	0%

</TABLE>

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\* Commencement of operations.

\*\* Not annualized.

+ Annualized.

See accompanying Notes to Financial Statements.

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KAYNE ANDERSON MUTUAL FUNDS  
INTERMEDIATE TOTAL RETURN BOND FUND

<TABLE>

<CAPTION>

	6 Months Ended 06/31/99 (unaudited)	Year Ended 12/31/98	Year Ended 12/31/97	10/28/96* to 12/31/96
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Net asset value, beginning of period .....	\$ 10.75	\$10.59	\$10.65	
	-----	-----	-----	
Income from investment operations:				
Net investment income .....	0.51	0.56	0.09	
Net realized and unrealized gains on investments .....	0.30	0.18	(0.07)	
	-----	-----	-----	
Total income from investment operations .....	0.81	0.74	0.02	
	-----	-----	-----	
Less Distributions:				
From net investment income .....	(0.51)	(0.58)	(0.08)	
From net realized gains .....	(0.04)	0.00	0.00	
From paid in capital .....	0.00	0.00	0.00	
	-----	-----	-----	
Total distributions .....	(0.55)	(0.58)	(0.08)	
	-----	-----	-----	
Net asset value, end of period .....	\$ 11.01	\$10.75	\$10.59	
	=====	=====	=====	
Total return .....	7.61%	7.19%	0.20%**	
Net assets, end of period (in 000's) .....	\$28,330	\$6,261	\$5,033	
Ratio of expenses to average net assets:+				
Before expense reimbursement .....	1.00%	2.23%	2.10%+	
After expense reimbursement .....	0.94%	0.95%	0.95%+	
After expense reimbursement and expenses paid indirectly .....	--	--	--	
Ratio of net investment income to average net assets:+				
(net of expense reimbursement/recoupment)....	4.93%	5.35%	4.72%+	
Portfolio turnover rate .....	49%	27%	0%	

</TABLE>

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\* Commencement of operations.

\*\* Not annualized.

+ Annualized.

See accompanying Notes to Financial Statements.

KAYNE ANDERSON MUTUAL FUNDS  
INTERMEDIATE TAX-FREE BOND FUND

<TABLE>  
<CAPTION>

	6 Months Ended 06/31/99 (unaudited)	Year Ended 12/31/98	Year Ended 12/31/97	10/28/96* to 12/31/96
<S>	<C>	<C>	<C>	<C>
Net asset value, beginning of period .....		\$10.74	\$10.64	\$10.65
Income from investment operations:				
Net investment income .....		0.43	0.34	0.01
Net realized and unrealized gains on investments .....		0.03	0.11	(0.01)
Total income from investment operations .....		0.46	0.45	0.00
Less Distributions:				
From net investment income .....		(0.43)	(0.35)	(0.01)
From net realized gains .....		0.00	0.00	0.00
From paid in capital .....		0.00	0.00	0.00
Total distributions .....		(0.43)	(0.35)	(0.01)
Net asset value, end of period .....		\$10.77	\$10.74	\$10.64
Total return .....		4.37%	4.26%	0.02%**
Net assets, end of period (in 000's) .....		\$9,391	\$6,015	\$5,124
Ratio of expenses to average net assets:+				
Before expense reimbursement .....		2.23%	2.29%	2.08%+
After expense reimbursement .....		0.77%	1.56%	1.81%+
After expense reimbursement and expenses paid indirectly .....		--	0.95%	0.95%+
Ratio of net investment income to average net assets:+				
(net of expense reimbursement/recoupment)....		3.88%	2.58%	0.60%+
Portfolio turnover rate .....		47%	40%	0%

</TABLE>

\* Commencement of operations.

\*\* Not annualized.

+ Annualized.

See accompanying Notes to Financial Statements.

III. MISCELLANEOUS ISSUES

A. OTHER BUSINESS

The Board of Trustees of the Sefton Trust knows of no other business to be brought before the Shareholder Meeting. If any other matters come before the Shareholder Meeting, it is the Board's intention that proxies that do not contain specific restrictions to the contrary will be voted on those matters in accordance with the judgment of the persons named in the enclosed form of proxy.

B. NEXT MEETING OF SHAREHOLDERS

The Trust is not required and does not intend to hold annual or other periodic meetings of shareholders except as required by the Investment Company Act. If a Reorganization is not completed, the next meeting of the shareholders of the remaining Fund will be held at such time as the Board of Trustees may determine or at such time as may be legally required. Any shareholder proposal intended to be presented at such meeting must be received by the Sefton Trust at



its office at a reasonable time before the meeting, as determined by the Board of Trustees, to be included in the Sefton Trust's proxy statement and form of proxy relating to that meeting, and must satisfy all other legal requirements.

C. LEGAL MATTERS

Certain legal matters in connection with the issuance of the Acquiring Fund Shares will be passed upon by Paul, Hastings, Janofsky & Walker LLP.

D. EXPERTS

The financial statements of each Acquired Fund for the year ended December 31, 1998, contained in the Sefton Trust's 1998 Annual Report to Shareholders have been audited by \_\_\_\_\_, LLP, independent auditors, as stated in its report, which is incorporated herein by reference, and has been so incorporated in reliance upon the report of such firm given its authority as an expert in accounting and auditing.

The financial statements of each Acquiring Fund for the year ended December 31, 1998, contained in the KA Funds' 1998 Annual Report to Shareholders have been audited by Briggs, Bunting & Dougherty, LLP, independent auditors, as stated in its report, which is incorporated herein by reference, and has been so incorporated in reliance upon the report of such firm given its authority as an expert in accounting and auditing.

PLEASE COMPLETE, DATE AND SIGN THE ENCLOSED PROXY AND RETURN IT PROMPTLY IN THE ENCLOSED ENVELOPE.

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EXHIBIT A

LIST OF FIVE PERCENT SHAREHOLDERS

Shareholder -----	Number of Shares Owned -----	Percentage of Fund's Outstanding Shares -----
SEFTON EQUITY VALUE FUND		
[Name] [Address] [Address]	_____	_____ %
[Name] [Address] [Address]	_____	_____ %
SEFTON SMALL COMPANY VALUE FUND		
[Name] [Address] [Address]	_____	_____ %
[Name] [Address] [Address]	_____	_____ %
SEFTON U.S. GOVERNMENT FUND		
[Name] [Address] [Address]	_____	_____ %
[Name] [Address] [Address]	_____	_____ %
SEFTON CALIFORNIA TAX-FREE FUND		
[Name] [Address] [Address]	_____	_____ %
[Name] [Address] [Address]	_____	_____ %

KAYNE ANDERSON RISING DIVIDENDS FUND

[Name]

[Address] \_\_\_\_\_ %  
[Address] \_\_\_\_\_ %

[Name]  
[Address] \_\_\_\_\_ %  
[Address] \_\_\_\_\_ %

KAYNE ANDERSON SMALL CAP RISING  
DIVIDEND FUND

[Name]  
[Address] \_\_\_\_\_ %  
[Address] \_\_\_\_\_ %

[Name]  
[Address] \_\_\_\_\_ %  
[Address] \_\_\_\_\_ %

KAYNE ANDERSON INTERMEDIATE TOTAL  
RETURN BOND FUND

[Name]  
[Address] \_\_\_\_\_ %  
[Address] \_\_\_\_\_ %

[Name]  
[Address] \_\_\_\_\_ %  
[Address] \_\_\_\_\_ %

KAYNE ANDERSON INTERMEDIATE  
TAX-FREE BOND FUND

[Name]  
[Address] \_\_\_\_\_ %  
[Address] \_\_\_\_\_ %

[Name]  
[Address] \_\_\_\_\_ %  
[Address] \_\_\_\_\_ %

EXHIBIT B

AGREEMENT AND PLAN OF REORGANIZATION

This AGREEMENT AND PLAN OF REORGANIZATION (this "AGREEMENT") is made as of this \_\_\_th day of September, 1999, by and between SEFTON FUNDS TRUST ("SEFTON TRUST"), a Delaware business trust, for itself and on behalf of Sefton Equity Value Fund, Sefton Small Company Value Fund, Sefton U.S. Government Fund and Sefton California Tax-Free Fund (each, an "ACQUIRED FUND" and, collectively, the "ACQUIRED FUNDS"), each a series of the Sefton Trust, and KAYNE ANDERSON MUTUAL FUNDS ("KA FUNDS"), a Delaware business trust, for itself and on behalf of Kayne Anderson Rising Dividends Fund, Kayne Anderson Small Cap Rising Dividends Fund, Kayne Anderson Intermediate Total Return Bond Fund and Kayne Anderson Intermediate Tax-Free Bond Fund (each, an "ACQUIRING FUND" and, collectively, the "ACQUIRING FUNDS"), each a series of KA Funds. Other than the Acquiring Funds and the Acquired Funds, no other series of Sefton Trust or KA Funds is a party to this Agreement.

In accordance with the terms and conditions set forth in this Agreement, the parties desire that all of the assets of each Acquired Fund be transferred to the Acquiring Fund corresponding thereto, as set forth in the table attached hereto as Schedule A, in exchange for shares of beneficial interest of the corresponding Acquiring Fund ("ACQUIRING FUND SHARES") and the assumption by such Acquiring Fund of the Stated Liabilities (as defined in paragraph 1.3) of the Acquired Fund, and that such Acquiring Fund Shares be distributed immediately after the Closing, as defined in this Agreement, by the Acquired Fund to its shareholders in liquidation of the Acquired Fund. This Agreement is intended to be and is adopted as a plan of reorganization within the meaning of Section 368(a)(1) of the Internal Revenue Code of 1986, as amended (the "CODE").

In consideration of the premises and of the covenants and agreements hereinafter set forth, the parties hereto, intending to be legally bound hereby, covenant and agree as follows:

1. REORGANIZATION OF ACQUIRED FUND

1.1 Subject to the terms and conditions herein set forth, and on the basis of the representations and warranties contained herein, each Acquired Fund shall assign, deliver and otherwise transfer its assets as set forth in paragraph 1.2 (the "FUND ASSETS") to its corresponding Acquiring Fund identified in Schedule

A, and the corresponding Acquiring Fund shall, as consideration therefor, on the Closing Date (as defined in paragraph 3.1), (i) deliver to such Acquired Fund full and fractional Acquiring Fund Shares, the corresponding class and number of which shall be determined by dividing:

(a) that portion of the value of the Fund Assets, net of the Acquired Fund's Stated Liabilities, computed in the manner and as of the time and date set forth in paragraph 2.1, representative of the shares of beneficial interest of the Acquired Fund, by

(b) the net asset value of one share of the Acquiring Fund's class of shares identified in Schedule A, computed in the manner and as of the time and date set forth in paragraph 2.2, and (ii) assume the Acquired Fund's Stated Liabilities. Such transfer, delivery and assumption shall take place at the closing(s) provided for in paragraph 3.1 (hereinafter sometimes referred to as the "CLOSING(S)"). Promptly after the Closing(s), each Acquired Fund shall distribute the corresponding Acquiring Fund Shares to the shareholders of the Acquired Fund in liquidation of the Acquired Fund as provided in paragraph 1.4 hereof. Such transaction(s) are hereinafter sometimes collectively referred to as the "REORGANIZATION(S)."

1.2 (a) With respect to each Acquired Fund, the Fund Assets shall consist of all property and assets of any nature whatsoever, including, without limitation, all cash, cash equivalents, securities, claims and receivables (including dividend and interest receivables) owned by the Acquired Fund, and any prepaid expenses shown as an asset on the Acquired Fund's books on the Closing Date.

(b) At least fifteen (15) business days before the Closing Date, each Acquired Fund will provide the corresponding Acquiring Fund with a schedule of its securities and other assets and its known liabilities, and such Acquiring Fund will provide such Acquired Fund with a copy of the current investment objective and policies applicable to the Acquiring Fund. Each Acquired Fund reserves the right to sell any of the securities or other assets shown on the list of the Fund Assets before the Closing Date but will not, without the prior approval of the corresponding Acquiring Fund, acquire any additional securities other than securities that the Acquiring Fund is permitted to purchase in accordance with its stated investment objective and policies. At least ten (10) business days before the Closing Date, each Acquiring Fund will advise the corresponding Acquired Fund of any investments of such Acquired Fund shown on such schedule that the Acquiring Fund would not be permitted to hold, pursuant to its stated investment objective and policies or otherwise. If an Acquired Fund holds any investments that its corresponding Acquiring Fund would not be permitted to hold under its stated investment objective or policies, the Acquired Fund, if requested by the Acquiring Fund, will dispose of such securities before the Closing Date to the extent practicable. In addition, if it is determined that the portfolios of the Acquired Fund and the corresponding Acquiring Fund, when aggregated, would contain investments exceeding certain percentage limitations to which any Acquiring Fund is or will be subject with respect to such investments, the Acquired Fund, if requested by the corresponding Acquiring Fund, will dispose of and/or reinvest a sufficient amount of such investments as may be necessary to avoid violating such limitations as of the Closing Date.

1.3 Each Acquired Fund will endeavor to discharge all of its known liabilities and obligations before the Closing Date. Each Acquiring Fund will assume all liabilities and obligations reflected on an unaudited statement of assets and liabilities of the corresponding Acquired Fund prepared by or on behalf of Sefton Trust as of the Applicable Valuation Date (as defined in paragraph 2.1), in accordance with generally accepted accounting principles consistently applied from the prior audited period ("STATED LIABILITIES"). The Acquiring Fund shall assume only the Stated Liabilities of its corresponding Acquired Fund, and no other liabilities or obligations, whether absolute or contingent, known or unknown, accrued or unaccrued.

1.4 Promptly after the Closing with respect to each Acquired Fund, the Acquired Fund will distribute the Acquiring Fund Shares received by the Acquired Fund pursuant to paragraph 1.1 pro rata to its shareholders of record determined as of the close of business on the Closing Date ("ACQUIRED FUND INVESTORS") in complete liquidation of the Acquired Fund. Such distribution will be accomplished by an instruction, signed by an appropriate officer of Sefton Trust, to transfer the Acquiring Fund Shares then credited to the Acquired Fund's account on the books of the Acquiring Fund to open accounts on the books of the Acquiring Fund established and maintained by the Acquiring Fund's transfer agent in the names of record of the Acquired Fund Investors and representing the respective pro rata number of shares of the Acquiring Fund due such Acquired Fund Investor. In exchange for Acquiring shares distributed, all

issued and outstanding shares of beneficial interest of the Acquired Fund will be redeemed and canceled simultaneously therewith on the Acquired Fund's books; any outstanding share certificates representing interests in the Acquired Fund

will represent the right to receive such number of Acquiring Fund Shares after the Closing as determined in accordance with paragraph 1.1.

1.5 If any request shall be made for a change of the registration of shares of the Acquiring Fund to another person from the account of the shareholder in which name the shares are registered in the records of the Acquired Fund it shall be a condition of such registration of shares that there be furnished the Acquiring Fund an instrument of transfer properly endorsed, accompanied by appropriate signature guarantees and otherwise in proper form for transfer and, if any of such shares are outstanding in certificated form, the certificates representing such shares, and that the person requesting such registration shall pay to the Acquiring Fund any transfer or other taxes required by reason of such registration or establish to the reasonable satisfaction of the Acquiring Fund that such tax has been paid or is not applicable.

1.6 Following the transfer of assets by each Acquired Fund to the corresponding Acquiring Fund, the assumption of such Acquired Fund's Stated Liabilities by the Acquiring Fund, and the distribution by the Acquired Fund of the Acquiring Fund Shares received by it pursuant to paragraph 1.4, Sefton Trust shall terminate the qualification, classification and registration of such Acquired Fund at all appropriate federal and state agencies. Any reporting or other responsibility of Sefton Trust is and shall remain the responsibility of Sefton Trust up to and including the date on which the particular Acquired Fund is terminated and deregistered, subject to any reporting or other obligations described in paragraph 4.9.

1.7 The failure of an Acquired Fund to consummate the transactions contemplated hereby shall not affect the consummation or validity of a Reorganization with respect to any other Acquired Fund, and each provision of this Agreement shall be construed to effect this intent, including, without limitation, as the context requires, construing the terms "ACQUIRING FUND" and "ACQUIRED FUND" as meaning only those series of KA Funds and Sefton Trust, respectively, that are involved in a Reorganization as of a Closing Date.

## 2. VALUATION

2.1 With respect to each Acquired Fund, the value of the Fund Assets shall be the value of such assets computed as of the time at which its net asset value is calculated pursuant to the valuation procedures set forth in the Acquiring Fund's then-current Prospectus and Statement of Additional Information on the Closing Date, or at such time on such earlier or later date as may mutually be agreed upon in writing between the parties hereto (such time and date being herein called the "APPLICABLE VALUATION DATE").

2.2 The net asset value of each share of a class of shares of an Acquiring Fund shall be the net asset value per share of such class computed on the Applicable Valuation Date, using the market valuation procedures set forth in each Acquiring Fund's then-current Prospectus and Statement of Additional Information.

2.3 All computations of value contemplated by this Article 2 shall be made by the respective Acquiring Fund's administrator, Investment Company Administration, L.L.C., in accordance with its regular practice as pricing agent and reviewed by its independent accountants. Each Acquiring Fund shall cause its administrator to deliver a copy of its valuation report, reviewed by its independent accountants to Sefton Trust and each Acquired Fund at the Closing.

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## 3. CLOSING(S) AND CLOSING DATE

3.1 The Closing(s) for the Reorganization(s) shall occur on Friday, November \_\_, 1999, and/or on such other date(s) as may be mutually agreed upon in writing by the parties hereto (each, a "CLOSING DATE"). The Closing(s) shall be held at the offices of the KA Funds, 1800 Avenue of the Stars, Second Floor, Los Angeles, California 90067, or at such other location as is mutually agreeable to the parties hereto. All acts taking place at the Closing(s) shall be deemed to take place simultaneously as of 4:00 p.m. Eastern Time on the Closing Date unless otherwise provided.

3.2 The Acquiring Funds' custodian shall deliver at the Closing a certificate of an authorized officer stating that:

(a) each Acquired Fund's portfolio securities, cash and any other assets have been delivered in proper form to the corresponding Acquiring Fund on the Closing Date and

(b) all necessary taxes including all applicable federal and state stock transfer stamps, if any, have been paid, or provision for payment shall have been made, by such Acquired Fund in conjunction with the delivery of portfolio securities. Proper delivery of cash shall be by wire to the Acquiring Funds' custodian, pursuant to instruction to be delivered before the Closing.

3.3 Notwithstanding anything herein to the contrary, if on the Applicable Valuation Date:

(a) the New York Stock Exchange shall be closed to trading or trading thereon shall be restricted or

(b) trading or the reporting of trading on such exchange or elsewhere shall be disrupted so that, in the judgment of KA Funds and Sefton Trust, accurate appraisal of the value of the net assets of an Acquiring Fund or an Acquired Fund is impracticable, the Applicable Valuation Date shall be postponed until the first business day after the day when trading shall have been fully resumed without restriction or disruption and reporting shall have been restored.

3.4 With respect to each Acquired Fund, Sefton Trust shall provide KA Funds and its transfer agent with immediate access from and after the Closing Date to:

(a) the computer, electronic or such other forms of records containing the names, addresses and taxpayer identification numbers of all of the Acquired Fund Investors and the number and percentage ownership of outstanding Acquired Fund shares owned by each such Acquired Fund Investor, all as of the Applicable Valuation Date, and

(b) all original documentation (including all applicable Internal Revenue Service forms, certificates, certifications and correspondence) relating to the Acquired Fund Investors' taxpayer identification numbers and their liability for or exemption from back-up withholding. The corresponding Acquiring Fund shall issue and deliver to the Secretary or Assistant Secretary of Sefton

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Trust, acting on behalf of the Acquired Fund, a confirmation evidencing the Acquiring Fund Shares credited on the Closing Date or shall provide evidence satisfactory to the Acquired Fund that such Acquiring Fund Shares have been credited to the Acquired Fund's account on the books of the Acquiring Fund. At the Closing(s), each party shall deliver to the other such bills of sale, checks, assignments, share certificates, if any, receipts or other documents of transfer, assignment or conveyance as such other party or its counsel may reasonably request.

3.5 Within thirty (30) days after the Closing Date, each Acquired Fund shall deliver, in accordance with Article 1 hereof, to the corresponding Acquiring Fund a statement of the Fund Assets and Stated Liabilities, together with a list of such Acquired Fund's portfolio securities and other assets showing the respective adjusted basis and holding periods thereof for income tax purposes, as of the Closing Date, certified by an appropriate officer of Sefton Trust.

#### 4. COVENANTS WITH RESPECT TO EACH OF THE ACQUIRING FUNDS AND THE ACQUIRED FUNDS

4.1 With respect to each Acquired Fund, Sefton Trust has called or will call a meeting of Acquired Fund shareholders to consider and act upon this Agreement and to take all other actions reasonably necessary to obtain the approval of the transactions contemplated herein, including approval for each Acquired Fund's liquidating distribution of the Acquiring Fund Shares contemplated hereby, and for Sefton Trust to terminate each Acquired Fund's qualification, classification and registration if requisite approvals are obtained with respect to each Acquired Fund. KA Funds and Sefton Trust have jointly prepared the notice of meeting, form of proxy and proxy statement (collectively, "PROXY MATERIALS") to be used in connection with such meeting; provided that KA Funds has furnished or will furnish Sefton Trust with a current, effective prospectus, including any supplements, relating to the class of shares of each Acquiring Fund corresponding to the shares of each Acquired Fund then outstanding for incorporation within and/or distribution with the Proxy Materials, and with such other information relating to the Acquiring Funds as is reasonably necessary for the preparation of the Proxy Materials.

4.2 Sefton Trust, on behalf of each Acquired Fund, covenants that the corresponding Acquiring Fund Shares to be issued hereunder are not being acquired for the purpose of making any distribution thereof, other than in accordance with the terms of this Agreement.

4.3 Sefton Trust, on behalf of each Acquired Fund, will assist each corresponding Acquiring Fund in obtaining such information as the Acquiring Fund reasonably requests concerning the beneficial ownership of shares of each class of each Acquired Fund.

4.4 Subject to the provisions hereof, KA Funds, on its own behalf and on behalf of each Acquiring Fund; and Sefton Trust, on its own behalf and on behalf of each Acquired Fund, will take, or cause to be taken, all actions, and do, or cause to be done, all things reasonably necessary, proper or advisable to consummate and make effective the transactions contemplated herein.

4.5 Sefton Trust, on behalf of each Acquired Fund, shall furnish to its corresponding Acquiring Fund on the Closing Date, a final statement of the total amount of the Acquired Fund's assets and liabilities as of the Closing Date, which statement shall be certified by an appropriate officer of Sefton Trust as

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being determined in accordance with generally accepted accounting principles consistently applied and as being valued in accordance with paragraph 2.1 hereof. As promptly as practicable, but in any case within sixty (60) days after the Closing Date, Sefton Trust, on behalf of each Acquired Fund, shall furnish its corresponding Acquiring Fund, in such form as is reasonably satisfactory to KA Funds, on behalf of the Acquiring Fund, a statement certified by an officer of Sefton Trust of such Acquired Fund's income and gains or losses for federal income tax purposes that will be carried over to the Acquiring Fund pursuant to Section 381 of the Code.

4.6 KA Funds, on behalf of each Acquiring Fund, has prepared and filed, or will prepare and file with the Securities and Exchange Commission (the "SEC") a registration statement on Form N-14 under the Securities Act of 1933, as amended (the "1933 ACT"), relating to the Acquiring Fund Shares (the "REGISTRATION STATEMENT"). Sefton Trust, on behalf of each Acquired Fund, has provided or will provide the corresponding Acquiring Fund with the Proxy Materials for inclusion in the Registration Statement, prepared in accordance with paragraph 4.1, and with such other information and documents relating to each Acquired Fund as are requested by the corresponding Acquiring Fund and as are reasonably necessary for the preparation of the Registration Statement.

4.7 KA Funds, on behalf of the Kayne Anderson Intermediate Tax-Free Bond Fund (the "KA TAX-FREE FUND"):

(a) has called or will call a meeting of the shareholders of the KA Tax-Free Fund to consider and act upon a change of its investment objective and strategy to become consistent with the exclusive focus on income exempt from California and federal income tax of the Sefton California Tax-Free Fund;

(b) will prepare appropriate proxy materials for mailing to the shareholders of that fund and complete the required filing of preliminary and definitive versions of those proxy materials with the SEC; and

(c) will prepare and file an amendment to the KA Tax-Free Fund's Prospectus and Statement of Additional Information to reflect that proposed and final change to the investment objective and strategy.

4.8 As soon after the Closing Date as is reasonably practicable, Sefton Trust, on behalf of each Acquired Fund:

(a) shall prepare and file all federal and other tax returns and reports of the Acquired Fund required by law to be filed with respect to all periods ending on or before the Closing Date but not previously filed and

(b) shall pay all federal and other taxes shown as due thereon and/or all federal and other taxes that were unpaid as of the Closing Date.

4.9 With respect to each Acquiring Fund, KA Funds agrees to use all reasonable efforts to operate in accordance with its then-current Prospectus and Statement of Additional Information prepared in accordance with Form N-1A, including qualifying as a regulated investment company under Subchapter M of the Code for fiscal years after the Closing Date.

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4.10 Following the transfer of assets by each Acquired Fund to the corresponding Acquiring Fund in exchange for Acquiring Fund Shares and the assumption of the Stated Liabilities of the Acquired Fund as contemplated herein, Sefton Trust will file any final regulatory reports, including but not limited to any Form N-SAR and Rule 24f-2 filings with respect to such Acquired Fund(s), promptly after the Closing Date and also will take all other steps as are necessary and proper to effect the termination or declassification of such Acquired Funds of Sefton Trust in accordance with the laws of State of Delaware and other applicable requirements.

## 5. REPRESENTATIONS AND WARRANTIES

5.1 KA Funds, on behalf of itself and each Acquiring Fund, represents and warrants to the Sefton Trust as follows:

(a) KA Funds was duly created pursuant to its Agreement and Declaration of Trust by its Trustees for the purpose of acting as a management investment company under the Investment Company Act of 1940 (the "1940 ACT") and is validly existing under the laws of the State of Delaware, and the Declaration of Trust directs those Trustees to manage the affairs of KA Funds and grants them all powers necessary or desirable to carry out such responsibility,

including supervision of KA Funds' business as currently conducted by KA Funds and as described in the current Prospectus of KA Funds; KA Funds is registered as an investment company classified as an open-end management company under the 1940 Act and its registration with the SEC as an investment company is in full force and effect;

(b) The Registration Statement and the current Prospectus and Statement of Additional Information of each Acquiring Fund conform or will conform, at all times up to and including the Closing Date, in all material respects to the applicable requirements of the 1933 Act and the 1940 Act and the regulations thereunder and do not include or will not include any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading;

(c) No Acquiring Fund is in violation of, and the execution, delivery and performance of this Agreement by KA Funds for itself and on behalf of each Acquiring Fund will not violate KA Funds' Agreement and Declaration of Trust or By-Laws, and that execution, delivery and performance will not result in a breach or violation of, or constitute a default under, any material agreement or material instrument to which KA Funds is a party or by which its properties or assets are bound;

(d) No litigation or administrative proceeding or investigation of or before any court or governmental body is presently pending or, to KA Funds' knowledge, threatened against KA Funds or its business, the Acquiring Funds or any of their properties or assets, which, if adversely determined, would materially and adversely affect KA Funds or an Acquiring Fund's financial condition or the conduct of its business, and KA Funds knows of no facts that might form the basis for the institution of any such proceeding or investigation, and no Acquiring Fund is a party to or subject to the provisions of any order, decree or judgment of any court or governmental body which materially and adversely affects, or is reasonably likely to materially and adversely affect, its business or its ability to consummate the transactions contemplated herein;

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(e) All issued and outstanding shares, including Acquiring Fund Shares, of each Acquiring Fund will, as of the Closing Date, be duly authorized and validly issued and outstanding, fully paid and non-assessable and no Acquiring Fund has outstanding any option, warrants or other rights to subscribe for or purchase any of its shares;

(f) The execution, delivery and performance of this Agreement on behalf of each Acquiring Fund will have been duly authorized before the Closing Date by all necessary action on the part of KA Funds, its Trustees and each Acquiring Fund, and this Agreement will constitute a valid and binding obligation of KA Funds and each Acquiring Fund enforceable in accordance with its terms, subject as to enforcement, to bankruptcy, insolvency, reorganization, arrangement, moratorium and other similar laws of general applicability relating to or affecting creditors' rights and to general equity principles;

(g) The Acquiring Fund Shares to be issued and delivered to the corresponding Acquired Fund for the account of the Acquired Fund Investors, pursuant to the terms hereof, will have been duly authorized as of the Closing Date and, when so issued and delivered, will be duly and validly issued, fully paid and non-assessable, and the shares of each class of each Acquiring Fund issued and outstanding before the Closing Date were offered and sold in compliance with the applicable registration requirements, or exemptions therefrom, of the 1933 Act, and all applicable state securities laws, and the regulations thereunder;

(h) On the effective date of the Registration Statement, at the time of the meeting of the Acquired Fund shareholders and on the Closing Date, any written information furnished by KA Funds with respect to an Acquiring Fund for use in the Proxy Materials, the Registration Statement or any other materials provided in connection with the Reorganization does not and will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the information provided not misleading;

(i) No governmental consents, approvals, authorizations or filings are required under the 1933 Act, the Securities Exchange Act of 1934 (the "1934 ACT"), the 1940 Act or Delaware law for the execution of this Agreement by KA Funds, for itself and on behalf of each Acquiring Fund, or the performance of the Agreement by KA Funds, for itself and on behalf of each Acquiring Fund, except for such consents, approvals, authorizations and filings as have been made or received or expressly specified in this Agreement, and except for such consents, approvals, authorizations and filings as may be required only after the Closing Date;

(j) The Statement of Assets and Liabilities, Statement of Operations and Statement of Changes in Net Assets of each Acquiring Fund as of and for the

year ended December 31, 1998, audited by Briggs, Bunting & Dougherty, LLP (copies of which have been or will be furnished to the corresponding Acquired Fund) fairly present, in all material respects, each Acquiring Fund's financial condition as of such date and its results of operations for such period in accordance with generally accepted accounting principles consistently applied and as of such dates there were no liabilities of any Acquiring Fund (contingent or otherwise) known to KA Funds that were not disclosed therein but that would be required to be disclosed therein in accordance with generally accepted accounting principles;

(k) Since the date of the most recent audited financial statements, there has not been any material adverse change in any Acquiring Fund's financial condition, assets, liabilities or business, other than changes occurring in the

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ordinary course of business or changes reflected in unaudited financial statements as of and for the period ended June 30, 1999 (for the purposes of this subparagraph (k), a decline in an Acquiring Fund's net asset value shall not be deemed to constitute a material adverse change);

(l) For each full and partial taxable year from its inception through the Closing Date, each Acquiring Fund has qualified as a separate regulated investment company under Subchapter M of the Code and has taken all necessary and required actions to maintain such status; and

(m) All federal and other tax returns and reports of KA Funds and each Acquiring Fund required by law to be filed on or before the Closing Date have been or will be filed, and all federal and other taxes owed by KA Funds on behalf of the Acquiring Funds have been or will be paid so far as due, and to the best of KA Funds' knowledge, no such return is currently under audit and no assessment has been asserted with respect to any such return.

5.2 Sefton Trust, on behalf of itself and each Acquired Fund, represents and warrants to KA Funds as follows:

(a) Sefton Trust was duly created pursuant to its Agreement and Declaration of Trust by its Trustees for the purpose of acting as a management investment company under the 1940 Act and is validly existing under the laws of the State of Delaware, and the Agreement and Declaration of Trust directs those Trustees to manage the affairs of Sefton Trust and grants them all powers necessary or desirable to carry out such responsibility, including supervision of Sefton Trust's business as currently conducted by Sefton Trust and as described in the current Prospectus of Sefton Trust; Sefton Trust is registered as an investment company classified as an open-end management company under the 1940 Act and its registration with the SEC as an investment company is in full force and effect;

(b) All of the issued and outstanding shares representing units of beneficial interest of each Acquired Fund have been offered and sold in compliance in all material respects with applicable registration requirements of the 1933 Act and state securities laws;

(c) No Acquired Fund is in violation of, and the execution and the performance of the Agreement by Sefton Trust for itself and on behalf of each Acquired Fund will not violate Sefton Trust's Agreement and Declaration of Trust or By-Laws, and that execution, delivery and performance will not result in a breach or violation of, or constitute a default under, any term of any material agreement or material instrument to which Sefton Trust is a party or by which its properties or assets are bound;

(d) No litigation or administrative proceeding or investigation of or before any court or governmental body is presently pending or, to Sefton Trust's knowledge, threatened against Sefton Trust or its business, the Acquired Funds or any of their properties or assets, which, if adversely determined, would materially and adversely affect Sefton Trust or an Acquired Fund's financial condition or the conduct of its business, and Sefton Trust knows of no facts that might form the basis for the institution of any such proceeding or investigation, and no Acquired Fund is a party to or subject to the provisions of any order, decree or judgment of any court or governmental body that materially and adversely affects, or is reasonably likely to materially and adversely affect, its business or its ability to consummate the transactions contemplated herein;

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(e) The Statement of Assets and Liabilities, Statement of Operations and Statement of Changes in Net Assets of each Acquired Fund as of and for the year ended December 31, 1998, audited by PricewaterhouseCoopers LLP (copies of which have been or will be furnished to each Acquiring Fund) fairly present, in all material respects, each Acquired Fund's financial condition as of such date and its results of operations for such period in accordance with generally accepted accounting principles consistently applied, and as of such date there



were no liabilities of any Acquired Fund (contingent or otherwise) known to Sefton Trust that were not disclosed therein but that would be required to be disclosed therein in accordance with generally accepted accounting principles;

(f) Since the date of the most recent audited financial statements, there has not been any material adverse change in any Acquired Fund's financial condition, assets, liabilities or business, other than changes occurring in the ordinary course of business or changes reflected in unaudited financial statements as of and for the period ended June 30, 1999, or any incurrence by an Acquired Fund of indebtedness maturing more than one year from the date such indebtedness was incurred, except as otherwise disclosed in writing to and accepted by the corresponding Acquiring Fund before the Closing Date (for the purposes of this subparagraph (f), a decline in an Acquired Fund's net asset value per share shall not be deemed to constitute a material adverse change);

(g) SCHEDULE 5.2 attached to this Agreement contains a complete list of all liabilities of each Acquired Fund as of a date within 30 days of the date hereof (except for non-material liabilities incurred in the ordinary course of business).

(h) All federal and other tax returns and reports of Sefton Trust and each Acquired Fund required by law have been or will be filed, and all federal and other taxes owed by Sefton Trust or the Acquired Fund shall, with respect to all period ending on or before the Closing Date, have been or will be paid so far as due, and to the best of Sefton Trust's knowledge, no such return is currently under audit and no assessment has been asserted with respect to any such return;

(i) For each full and partial taxable year from its inception through the Closing Date, each Acquired Fund has qualified as a separate regulated investment company under Subchapter M of the Code and has taken all necessary and required actions to maintain such status;

(j) All issued and outstanding shares of each Acquired Fund are, and on the Closing Date will be, duly authorized and validly issued and outstanding, and fully paid and non-assessable, and all such shares will, at the time of the Closing, be held by the persons and in the amounts set forth in the list of Acquired Fund Investors provided to the corresponding Acquiring Fund, pursuant to paragraph 3.4, and no Acquired Fund has outstanding any options, warrants or other rights to subscribe for or purchase any of its shares, nor is there outstanding any security convertible into any of its shares;

(k) At the Closing Date, each Acquired Fund will have good and marketable title to its Fund Assets and full right, power and authority to assign, deliver and otherwise transfer such Fund Assets hereunder, and upon delivery and payment for such Fund Assets as contemplated herein, the corresponding Acquiring Fund will acquire good and marketable title thereto, subject to no restrictions on the ownership or transfer thereof other than such restrictions as might arise under the 1933 Act;

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(l) The execution, delivery and performance of this Agreement on behalf of each Acquired Fund will have been duly authorized before the Closing Date by all necessary action on the part of Sefton Trust, its Trustees and each Acquired Fund, and this Agreement will constitute a valid and binding obligation of Sefton Trust and each Acquired Fund enforceable in accordance with its terms, subject as to enforcement, to bankruptcy, insolvency, reorganization, arrangement, moratorium and other similar laws of general applicability relating to or affecting creditors' rights and to general equity principles;

(m) From the effective date of the Registration Statement, through the time of the meeting of the Acquired Fund Investors, and on the Closing Date, the Proxy Materials: (i) comply in all material respects with the applicable provisions of the 1933 Act, the 1934 Act and the 1940 Act and the regulations thereunder and (ii) do not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and as of such dates and times, any written information furnished by Sefton Trust, on behalf of the Acquired Funds, for use in the Registration Statement or in any other manner that may be necessary in connection with the transactions contemplated hereby does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the information provided not misleading; and

(n) No governmental consents, approvals, authorizations or filings are required under the 1933 Act, the 1934 Act, the 1940 Act or Delaware law for the execution of this Agreement by Sefton Trust, for itself and on behalf of each Acquired Fund, or the performance of the Agreement by Sefton Trust for itself and on behalf of each Acquired Fund, except for such consents, approvals, authorizations and filings as have been made or received or expressly specified in this Agreement, and except for such consents, approvals, authorizations and filings as may be required only after the Closing Date.

## 6. CONDITIONS PRECEDENT TO OBLIGATIONS OF ACQUIRED FUNDS

The obligations of Sefton Trust to consummate the Reorganization with respect to each Acquired Fund shall be subject to the performance by KA Funds, for itself and on behalf of each Acquiring Fund, of all the obligations to be performed by it hereunder on or before the Closing Date and, in addition thereto, the following conditions:

6.1 All representations and warranties of KA Funds with respect to the Acquiring Funds contained herein shall be true and correct in all material respects as of the date hereof and, except as they may be affected by the transactions contemplated herein, as of the Closing Date with the same force and effect as if made on and as of the Closing Date.

6.2 KA Funds, on behalf of each Acquiring Fund, shall have delivered to Sefton Trust at the Closing a certificate executed on behalf of the corresponding Acquiring Fund by KA Funds' President, Treasurer or Secretary, in a form reasonably satisfactory to the Sefton Trust and dated as of the Closing Date, to the effect that the representations and warranties of KA Funds with respect to each Acquiring Fund made herein are true and correct at and as of the Closing Date, except as they may be affected by the transactions contemplated herein.

6.3 Sefton Trust shall have received at the Closing a favorable opinion of Paul, Hastings, Janofsky & Walker, LLP, counsel to KA Funds (based upon or subject to such representations, assumptions and limitations as such counsel may

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deem appropriate or necessary), dated as of the Closing Date, in a form (including the representations, assumptions and limitations or opinions of local counsel upon which it is based or to which it is subject) reasonably satisfactory to Sefton Trust, substantially to the effect that:

(a) KA Funds is a duly registered, open-end, management investment company, and its registration with the SEC as an investment company under the 1940 Act is in full force and effect;

(b) each Acquiring Fund is a duly designated series of KA Funds, which is a business trust created pursuant to its Certificate of Trust and/or Agreement and Declaration of Trust, is legally existing and in good standing under the laws of the State of Delaware, and the Agreement and Declaration of Trust directs the Trustees to manage the affairs of KA Funds and grants them all powers necessary or desirable to carry out such responsibility, including supervising KA Funds' business as described in the current Prospectuses of KA Funds;

(c) this Agreement has been duly authorized, executed and delivered on behalf of KA Funds and each Acquiring Fund and, assuming due authorization, execution and delivery of this Agreement on behalf of the Acquired Funds, is a valid and binding obligation of KA Funds enforceable against KA Funds in accordance with its terms, subject as to enforcement, to bankruptcy, insolvency, reorganization, arrangement, moratorium and other similar laws of general applicability relating to or affecting creditors' rights and to general equity principles;

(d) the Acquiring Fund Shares to be issued to the Acquired Funds Investors pursuant to this Agreement are duly registered under the 1933 Act on the appropriate form, and are duly authorized and upon such issuance will be validly issued and outstanding and fully paid and non-assessable, and no shareholder of an Acquiring Fund has any preemptive rights to subscription or purchase in respect thereof;

(e) the Registration Statement has become effective with the SEC and, to the best of such counsel's knowledge, no stop order suspending the effectiveness thereof has been issued and no proceedings for that purpose have been instituted or are pending or threatened;

(f) no consent, approval, authorization, filing or order of any court or governmental authority of the United States or any state is required for the consummation by KA Funds of the Reorganization with respect to each Acquiring Fund, except for such consents, approvals, authorizations and filings as have been made or received, and except for such consents, approvals, authorizations and filings as may be required after the Closing Date; and

(g) to the best knowledge of such counsel, no litigation or administrative proceeding or investigation of or before any court or governmental body is presently pending or threatened as to KA Funds or an Acquiring Fund or any of their properties or assets and neither KA Funds nor any Acquiring Fund is a party to or subject to the provisions of any order, decree or judgment of any court or governmental body that materially and adversely affects its business.

6.4 As of the Closing Date with respect to the Reorganization of each Acquired Fund, there shall have been no material change in the investment objective, policies and restrictions nor any material change in the investment management fees, other fees payable for services provided to the Acquiring Funds, fee reduction or expense reimbursement undertakings, or sales loads of the Acquiring Funds from those fee amounts, undertakings and sales load amounts described in the Prospectus of each Acquiring Fund delivered to the corresponding Acquired Fund pursuant to paragraph 4.1 and in the Proxy Materials.

6.5 With respect to each Acquiring Fund, the Board of Trustees of KA Funds shall have determined that the Reorganization is in the best interests of the Acquiring Fund and that the interests of the existing shareholders of the Acquiring Fund would not be diluted as a result of the Reorganization.

6.6 The shareholders of the KA Tax-Free Fund shall have approved the change of its objective and strategy specified in subparagraph 4.7(a).

#### 7. CONDITIONS PRECEDENT TO OBLIGATIONS OF ACQUIRING FUNDS

The obligations of KA Funds to consummate the Reorganization with respect to each Acquiring Fund shall be subject to the performance by Sefton Trust for itself and on behalf of each Acquired Fund, of all the obligations to be performed by it hereunder on or before the Closing Date and, in addition thereto, the following conditions:

7.1 All representations and warranties of Sefton Trust with respect to the Acquired Funds contained herein shall be true and correct in all material respects as of the date hereof and, except as they may be affected by the transactions contemplated by this Agreement, as of the Closing Date, with the same force and effect as if made on and as of the Closing Date.

7.2 Sefton Trust, on behalf of each Acquired Fund, shall have delivered to KA Funds at the Closing a certificate executed on behalf of each Acquired Fund, by Sefton Trust's President, Treasurer or Secretary, in a form satisfactory to KA Funds and dated as of the Closing Date, to the effect that the representations and warranties of Sefton Funds with respect to each Acquired Fund made herein is true and correct at and as of the Closing Date, except as they may be affected by the transactions contemplated herein.

7.3 KA Funds shall have received at the Closing a favorable opinion of Ropes & Gray, counsel to the disinterested Trustees of Sefton Trust (based upon or subject to such representations, assumptions, limitations and supporting certificates from officers of Sefton Trust as such counsel may deem appropriate or necessary), dated as of the Closing Date, in a form (including the representations, assumptions, limitations and certificates upon which it is based or to which it is subject) reasonably satisfactory to KA Funds, substantially to the effect that:

(a) Sefton Trust is a duly registered, open-end investment company, and its registration with the SEC as an investment company under the 1940 Act is in full force and effect;

(b) each Acquired Fund is a duly designated series of Sefton Trust, which is a business trust created pursuant to its Certificate of Trust and/or Agreement and Declaration of Trust, is legally existing and in good standing under the laws of the State of Delaware, and the Agreement and Declaration of Trust directs the Trustees to manage the affairs of Sefton Trust and grants them

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all powers necessary or desirable to carry out such responsibility, including supervising Sefton Trust's business as described in the current Prospectuses of Sefton Trust;

(c) this Agreement has been duly authorized, executed and delivered by Sefton Trust on behalf of each Acquired Fund and, assuming due authorization, execution and delivery of this Agreement on behalf of the Acquiring Funds, is a valid and binding obligation of Sefton Trust, enforceable against Sefton Trust in accordance with its terms, subject as to enforcement, to bankruptcy, insolvency, reorganization, arrangement, moratorium and other similar laws of general applicability relating to or affecting creditors' rights and to general equity principles;

(d) no consent, approval, authorization, filing or order of any court or governmental authority of the United States or any state is required for the consummation of the Reorganization with respect to each Acquired Fund, except for such consents, approvals, authorizations and filings as have been made or received, and except for such consents, approvals, authorizations and filings as may be required after the Closing Date; and

(e) to the best knowledge of such counsel, no litigation or administrative proceeding or investigation of or before any court or governmental body is presently pending or threatened as to Sefton Trust or an Acquired Fund or any of their properties or assets and neither Sefton Trust nor an Acquired Fund is a party to or subject to the provisions of any order, decree or judgment of any court or governmental body that materially and adversely affects its business.

7.4 KA Funds, on behalf of each Acquiring Fund, shall have received from PricewaterhouseCoopers LLP, a letter addressed to KA Funds, on behalf of each Acquiring Fund, and dated as of the Closing Date with respect to the Acquired Funds, in form and substance satisfactory to KA Funds, to the effect that:

(a) they are independent accountants with respect to Sefton Trust and each Acquired Fund within the meaning of the 1933 Act and the applicable regulations thereunder;

(b) in their opinion, the audited financial statements and the Per Share Data provided in accordance with Item 9 in new Form N-1A (the "PER SHARE DATA") of each Acquired Fund included or incorporated by reference in the Registration Statement and Proxy Statement and previously reported on by them comply as to form in all material aspects with the applicable accounting requirements of the 1933 Act and the published rules and regulations thereunder;

(c) on the basis of limited procedures agreed upon by KA Funds, on behalf of the Acquiring Funds and Sefton Trust, on behalf of the Acquired Funds, and described in such letter (but not an examination in accordance with generally accepted auditing standards), the information relating to the Acquired Funds appearing in the Registration Statement and Proxy Statement that is expressed in dollars or percentages of dollars (with the exception of performance comparisons) has been obtained from the accounting records of the Acquired Funds or from schedules prepared by officers of Sefton Trust having responsibility for financial and reporting matters and such information is in agreement with such records, schedules or computations made therefrom.

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7.5 Sefton Trust shall have delivered to the Acquiring Funds, pursuant to paragraph 5.2(e), copies of financial statements of each Acquired Fund as of and for the period ended December 31, 1998, audited by PricewaterhouseCoopers LLP.

7.6 With respect to each Acquired Fund, the Board of Trustees of Sefton Trust shall have determined that the Reorganization is in the best interests of the Acquired Fund and that the interests of the existing investors in the Acquired Fund would not be diluted as a result of the Reorganization.

#### 8. FURTHER CONDITIONS PRECEDENT TO OBLIGATIONS OF THE ACQUIRING FUNDS AND THE ACQUIRED FUNDS

The obligations of each Acquiring Fund and of the corresponding Acquired Fund herein are each subject to the further conditions that on or before the Closing Date with respect to each Acquiring Fund and the corresponding Acquired Fund:

8.1 This Agreement and the transactions contemplated herein shall have been approved by the requisite vote of the holders of the outstanding shares of beneficial interest in the Acquired Fund in accordance with the provisions of Sefton Trust's Agreement and Declaration of Trust and the requirements of the 1940 Act, and certified copies of the resolutions evidencing such approval shall have been delivered to KA Funds.

8.2 On the Closing Date, no action, suit or other proceeding shall be pending before any court or governmental agency in which it is sought to restrain or prohibit, or obtain damages or other relief in connection with, this Agreement or any of the transactions contemplated herein.

8.3 All consents of other parties and all other consents, orders, approvals and permits of federal, state and local regulatory authorities (including, without limitation, those of the SEC and of state securities authorities) deemed necessary by KA Funds, on behalf of the Acquiring Funds, or by Sefton Trust, on behalf of the Acquired Funds, to permit consummation, in all material respects, of the transactions contemplated herein shall have been obtained, except where failure to obtain any such consent, order or permit would not, in the opinion of the party asserting that the condition to closing has not been satisfied, involve a risk of a material adverse effect on the assets or properties of any of an Acquiring Fund or its corresponding Acquired Fund.

8.4 The Registration Statement shall have become effective under the 1933 Act, no stop orders suspending the effectiveness thereof shall have been issued and, to the best knowledge of the parties hereto, no investigation or proceeding for that purpose shall have been instituted or be pending, threatened or contemplated under the 1933 Act.

8.5 Each Acquired Fund shall have declared a dividend or dividends which, together with all previous such dividends, shall have the effect of distributing to the Acquired Fund's shareholders substantially all of the Acquired Fund's investment company taxable income for all taxable years ending on or before the Closing Date (computed without regard to any deduction for dividends paid) and substantially all of its net capital gain for all taxable years ending on or before the Closing Date (after reduction for any capital loss carry forward).

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8.6 The Acquiring Funds and the Acquired Funds shall have received from Briggs, Bunting & Dougherty, LLP a letter dated as of the Closing Date, in form and substance satisfactory to KA Funds and to Sefton Trust, to the effect that on the basis of limited procedures agreed upon by KA Funds, on behalf of the Acquiring Funds, and Sefton Trust, on behalf of the Acquired Funds (but not an examination in accordance with generally accepted auditing standards): (i) the data utilized in the calculations of the projected expense ratio appearing in the Registration Statement and Proxy Materials agree with underlying accounting records of the Acquiring Funds and the Acquired Funds and were found to be mathematically correct; and (ii) the calculation of net asset value per share of each Acquired Fund as of the Valuation Date was determined in accordance with generally accepted accounting practices and the corresponding portfolio valuation practices of the Acquiring Fund.

8.7 KA Funds and the Sefton Trust shall have received the opinions of Ropes & Gray, addressed to both the Acquiring Funds and the Acquired Funds substantially to the effect that, for federal income tax purposes with respect to each Acquired Fund and the corresponding Acquiring Fund:

(a) No gain or loss will be recognized by the Acquiring Fund upon the receipt of the assets of the Acquired Fund in exchange for Acquiring Fund Shares and the assumption by the Acquiring Fund of the liabilities of the Acquired Fund.

(b) The basis in the hands of the Acquiring Fund of the assets of the Acquired Fund transferred to the Acquiring Fund in the Reorganization will be the same as the basis of such assets in the hands of the Acquired Fund immediately prior to the transfer;

(c) The holding periods of the assets of the Acquired Fund in the hands of Acquiring Fund will include the periods during which such assets were held by the Acquired Fund;

(d) No gain or loss will be recognized by the Acquired Fund upon the transfer of the Acquired Fund's assets to the Acquiring Fund in exchange for the Acquiring Fund Shares and the assumption by the Acquiring Fund of the liabilities of the Acquired Fund, or upon the distribution of the Acquiring Fund Shares by the Acquired Fund to its shareholders in liquidation;

(e) No gain or loss will be recognized by the Acquired Fund shareholders upon the exchange of their Acquired Fund Shares for Acquiring Fund Shares;

(f) The aggregate basis of Acquiring Fund Shares an Acquired Fund shareholder receives in connection with the Transaction will be the same as the aggregate basis of his or her Acquired Fund Shares exchanged therefor; and

(g) An Acquired Fund shareholder's holding period for his or her Acquiring Fund Shares will be determined by including the period for which he or she held the Acquired Fund Shares exchanged therefor, provided that he or she held such the Acquired Shares as capital assets.

Notwithstanding anything herein to the contrary, neither an Acquiring Fund nor its corresponding Acquired Fund may waive the condition set forth in this paragraph 8.7.

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## 9. BROKERAGE FEES AND EXPENSES

9.1 KA Funds, for itself and on behalf of the Acquiring Funds, and Sefton Trust, on behalf of itself and on behalf of the Acquired Funds, represent and warrant that there are no brokers or finders entitled to receive any payments in connection with the transactions provided for herein.

9.2 Except as may be otherwise provided herein, each Acquired Fund and each Acquiring Fund shall be liable for their respective expenses incurred in connection with entering into and carrying out the provisions of this Agreement, whether or not the transactions contemplated hereby are consummated. The expenses payable by each Acquired Fund hereunder shall include (i) fees and expenses of its counsel, counsel to its independent Trustees and independent accountants incurred in connection with the Reorganization; (ii) all fees and

expenses related to its liquidation and related withdrawals of registration and notices and the preparation of required reports, and the preparation and filing of tax returns for each Acquired Fund; (iii) fees and expenses of the Acquired Fund's custodian, administrative, accounting and transfer agents incurred until the Reorganization; and (iv) any special pricing fees associated with the valuation of an Acquired Fund's portfolio on the Applicable Valuation Date. The expenses payable by each Acquiring Fund hereunder shall include (v) fees and expenses of its counsel and independent accountants incurred in connection with the Reorganization; (vi) expenses associated with preparing this Agreement and preparing and filing the Registration Statement under the 1933 Act covering the Acquiring Fund Shares to be issued in the Reorganization; (vii) fees and expenses of preparing and filing such forms, if any, as are necessary under applicable state securities laws to qualify the Acquiring Fund Shares to be issued in connection with the Reorganization; (viii) any fees and expenses of the Acquiring Fund's custodian and transfer agent(s) incurred in connection with the Reorganization; and (ix) any special pricing fees associated with the valuation of an Acquiring Fund's portfolio on an Applicable Valuation Date. Kayne Anderson Investment Management, LLC ("KAIM"), the investment manager for the Acquiring Funds, agrees to reimburse the Acquiring Funds for the expenses otherwise payable by the Acquiring Funds under subparagraphs (v), (vi), and (viii). KAIM also agrees to reimburse the Acquired Funds for the reasonable fees and expenses described in subparagraphs (i) and (ii) above and the reasonable printing and postage costs incurred by the Acquired Funds to print and mail the Proxy Materials to shareholders of the Acquired Funds. Sefton Capital Management agrees to reimburse the Acquired Funds for the expenses otherwise payable by the Acquired Funds for fees and expenses described in subparagraphs (i) and (ii) above that are not required to be reimbursed by KAIM.

#### 10. ENTIRE AGREEMENT; SURVIVAL OF REPRESENTATIONS AND WARRANTIES

10.1 This Agreement constitutes the entire agreement between the parties and supersedes any prior or contemporaneous understanding or arrangement with respect to the subject matter hereof.

10.2 The representations, warranties and covenants contained in this Agreement or in any document delivered pursuant hereto or in connection herewith shall not survive the consummation of the transactions contemplated herein except to the extent expressly provided in paragraph 14.7.

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#### 11. TERMINATION

11.1 This Agreement may be terminated and the transactions contemplated hereby may be abandoned at any time before the Closing:

(a) by the mutual written consent of KA Funds and Sefton Trust;

(b) by either KA Funds or Sefton Trust by notice to the other, without liability to the terminating party on account of such termination (provided any such termination shall not excuse the terminating party from any liability arising out of a default or breach of this Agreement by such terminating party) if such Closing shall not have occurred on or before December 31, 1999; or

(c) by either KA Funds or Sefton Trust, without liability to the terminating party on account of such termination (provided any such termination shall not excuse the terminating party from any liability arising out of a material default or breach of this Agreement by such terminating party), if (i) the other party shall fail to perform in any material respect its agreements contained herein required to be performed before the Closing Date, (ii) the other party materially breaches or shall have breached any of its representations, warranties or covenants contained herein, or (iii) any other express condition precedent to the obligations of the terminating party has not been met and it reasonably appears that it will not or cannot be met.

11.2 Termination of this Agreement pursuant to paragraphs 11.1(a) or (b) shall terminate all obligations of the parties hereunder with respect to each Acquired Fund and Acquiring Fund affected by such termination, or with respect to KA Funds and Sefton Trust, as the case may be, and there shall be no liability for damages on the part of KA Funds or Sefton Trust or the trustees or officers of KA Funds or Sefton Trust, to any other party or its trustees or officers on account of termination pursuant to paragraphs 11.1(a) or (b); provided, however, that notwithstanding any termination of this Agreement pursuant to paragraph 11.1, such termination shall not relieve either party of its respective obligations pursuant to Section 9.2 hereof.

#### 12. AMENDMENTS

This Agreement may be amended, modified or supplemented in such manner as may be mutually agreed upon in writing by the authorized officers of KA Funds, acting on behalf of each Acquiring Fund, and the authorized officers of Sefton Trust, acting on behalf of each Acquired Fund; provided, however, that following the meeting of the shareholders of the Acquired Funds, no such amendment may

have the effect of changing the provisions for determining the number of shares of the corresponding Acquiring Funds to be issued to the Acquired Fund Investors under this Agreement to the detriment of such Acquired Fund Investors, or otherwise materially and adversely affecting such Acquired Fund, without the Acquired Fund's obtaining the Acquired Fund Investors' further approval except that nothing in this paragraph 12 shall be construed to prohibit any Acquiring Fund and the corresponding Acquired Fund from amending this Agreement to change the Closing Date or Applicable Valuation Date by mutual agreement.

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### 13. NOTICES

Any notice, report, statement or demand required or permitted by any provision of this Agreement shall be in writing and shall be given by prepaid telegraph, teletype, certified mail or overnight express courier addressed to:

For KA Funds, on behalf of itself and the Acquiring Funds:

David J. Shladovsky, Esq.  
Kayne Anderson Investment Management, LLC  
1800 Avenue of the Stars, 2nd Floor  
Los Angeles, California 90067

With copies to:

David A. Hearth, Esq.  
Paul, Hastings, Janofsky & Walker, LLP  
345 California Street, 29th Floor  
San Francisco, California 94104

For Sefton Trust, on behalf of itself and the Acquired Funds:

Harley K. Sefton  
Sefton Capital Management  
2550 Fifth Avenue, Suite 808  
San Diego, California 92103

With copies to:

Martin E. Lybecker, Esq.  
Ropes & Gray  
One Franklin Square  
Suite 800 East  
1301 K Street, N.W.  
Washington, D.C. 20005-3900

### 14. HEADINGS; COUNTERPARTS; GOVERNING LAW; ASSIGNMENT; LIMITATION OF LIABILITY

14.1 The article and paragraph headings contained herein are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. All references herein to Articles, paragraphs, subparagraphs or Schedules shall be construed as referring to Articles, paragraphs or subparagraphs hereof or Schedules hereto, respectively. Whenever the terms hereto, hereunder, herein or hereof are used in this Agreement, they shall be construed as referring to this entire Agreement, rather than to any individual Article, paragraph, subparagraph or sentence.

14.2 This Agreement may be executed in any number of counterparts, each of which shall be deemed an original.

14.3 This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware.

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14.4 This Agreement shall bind and inure to the benefit of the parties hereto and their respective successors and assigns, but no assignment or transfer hereof or of any rights or obligations hereunder shall be made by any party without the written consent of the other parties. Nothing herein expressed or implied is intended or shall be construed to confer upon or give any person, firm or corporation, other than the parties hereto and their respective successors and assigns, any rights or remedies under or by reason of this Agreement.

14.5 It is expressly agreed that the obligations of KA Funds hereunder shall not be binding upon any of the Trustees, shareholders, nominees, officers, agents, or employees of KA Funds personally, but shall bind only the assets and the property of the respective Acquiring Fund of KA Funds, as provided in its Agreement and Declaration of Trust. The execution and delivery by such officers shall not be deemed to have been made by any of them individually or to impose any liability on any of them personally, but shall bind only the assets and the property of the respective Acquiring Fund of KA Funds as provided in its

14.6 Except to the extent expressly provided in paragraph 14.7 below with respect to Sefton Capital Management, it is expressly agreed that the obligations of Sefton Trust hereunder shall not be binding upon any of the Trustees, shareholders, nominees, officers, agents, or employees of Sefton Trust personally, but shall bind only the assets and the property of the respective Acquired Fund of Sefton Trust, as provided in its Agreement and Declaration of Trust. The execution and delivery by such officers shall not be deemed to have been made by any of them individually or to impose any liability on any of them individually or to impose any liability on any of them personally, but shall bind only the assets and the property of the respective Acquired Fund of Sefton Trust as provided in its Agreement and Declaration of Trust.

14.7 Sefton Capital Management shall indemnify and hold harmless KA Funds, each Acquiring Fund and KAIM and all their respective affiliates, directors, trustees, officers, employees and agents (collectively, the "KA Group") from and against any and all claims, losses, judgments, liabilities, settlements, fines, penalties, interest costs and expenses (including all reasonable attorneys' fees and disbursements whether incurred in resolving indemnification issues between or among parties to this Agreement or in defending third-party claims, and collectively with such claims, etc., "LOSSES") that result from, arise out of or are connected with any breach or alleged breach of any representation or warranty set forth in paragraph 5.2 of this Agreement or any breach of any covenant set forth in Article 4 and required to be performed by the Sefton Trust or an Acquired Fund. Any member of the KA Group with an indemnification claim for Losses under this paragraph 14.7 shall notify Harley K. Sefton in writing of those Losses, together with a reasonably detailed description, within 30 calendar days after having formed a reasonable basis for those Losses. KAIM, on behalf of the member of the KA Group with that indemnification claim, may offset any amounts otherwise payable to Sefton Capital Management or Harley K. Sefton in satisfaction of those Losses and may pursue any and all other appropriate legal remedies. The representations and warranties set forth in paragraph 5.2 shall remain effective until the third anniversary of the Closing Date, but shall not relate to any period after the Closing Date. The covenants set forth in Article 4 and required to be performed by the Sefton Trust or an Acquired Fund shall survive until fully performed or discharged.

14.8 KA Funds shall indemnify and hold harmless the Sefton Trust, each Acquired Fund and Sefton Capital Management and all their respective affiliates, directors, trustees, officers, employees and agents (collectively, the "SEFTON GROUP") from and against any and all claims, losses, judgments, liabilities,

settlements, fines, penalties, interest costs and expenses (including all reasonable attorneys' fees and disbursements whether incurred in resolving indemnification issues between or among parties to this Agreement or in defending third-party claims, and collectively with such claims, etc., "LOSSES") that result from, arise out of or are connected with any breach or alleged breach of any representation or warranty set forth in paragraph 5.1 of this Agreement or any breach of any covenant set forth in Article 4 and required to be performed by the KA Funds or an Acquiring Fund. Any member of the Sefton Group with an indemnification claim for Losses under this paragraph 14.8 shall notify David J. Shladovsky in writing of those Losses, together with a reasonably detailed description, within 30 calendar days after having formed a reasonable basis for those Losses. Harley K. Sefton, on behalf of the member of the Sefton Group with that indemnification claim, may pursue any and all appropriate legal remedies. The representations and warranties set forth in paragraph 5.1 shall remain effective until the third anniversary of the Closing Date, but shall not relate to any period after the Closing Date. The covenants set forth in Article 4 and required to be performed by the KA Trust or an Acquiring Fund shall survive until fully performed or discharged.

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be duly executed by its authorized officer.

KAYNE ANDERSON MUTUAL FUNDS, for itself and on behalf of each Acquiring Fund

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_



SEFTON TRUST, for itself and on behalf of each  
Acquired Fund

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

SEFTON CAPITAL MANAGEMENT, for the purpose of  
paragraphs 9.2 and 14.7 only

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

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SCHEDULE A

Acquiring Fund -----	Acquired Fund -----
Kayne Anderson Rising Dividends Fund	Sefton Equity Value Fund
Kayne Anderson Small Cap Rising Dividend Fund	Sefton Small Company Value Fund
Kayne Anderson Intermediate Total Return Bond Fund	Sefton U.S. Government Fund
Kayne Anderson Intermediate Tax-Free Bond Fund	Sefton California Tax-Free Fund

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APPENDIX A

FORM OF PROXY

SEFTON FUNDS TRUST  
SPECIAL MEETING OF SHAREHOLDERS

\_\_\_\_\_, 1999

SOLICITED ON BEHALF OF  
THE BOARD OF TRUSTEES OF  
SEFTON FUNDS TRUST

The undersigned hereby appoints Harley K. Sefton and \_\_\_\_\_, and each of them, as proxies of the undersigned, each with the power to appoint his substitute, for the Special Meeting of Shareholders of the Fund noted below (the "Fund"), a separate series of Sefton Funds Trust (the "Trust"), to be held on \_\_\_\_\_ at the offices of the administrator for the Fund, Bisys, 3435 Stelzer Road, Columbus Ohio 43219, and at any and all adjournments thereof (the "Meeting"), to vote, as designated below, all shares of the Fund, held by the undersigned at the close of business on \_\_\_\_\_, 1999. Capitalized terms used without definition have the meanings given to them in the accompanying Combined Prospectus and Proxy Statement.

A signed proxy will be voted in favor of the Proposal listed below unless you have specified otherwise. Please sign, date and return this proxy promptly. You may vote only if you held shares in the Fund at the close of business on \_\_\_\_\_. Your signature authorizes the proxies to vote in their discretion on such other business as may properly come before the Meeting including, without limitation, all matters incident to the conduct of the Meeting.

Please vote by filling in the boxes below.



-----  
KAYNE ANDERSON MUTUAL FUNDS  
-----

1800 Avenue of the Stars, 2nd Floor  
Los Angeles, California 90067  
1-800-231-7414  
-----

STATEMENT OF ADDITIONAL INFORMATION  
DATED \_\_\_\_\_, 1999  
FOR REGISTRATION STATEMENT ON FORM N-14

This Statement of Additional Information is not a prospectus and should be read in conjunction with the Combined Proxy Statement and Prospectus dated \_\_\_\_\_, 1999, which has been filed by Kayne Anderson Mutual Funds (the "Trust") in connection with a Special Meeting of Shareholders of Sefton Equity Value Fund, Sefton Small Company Value Fund, Sefton U.S. Government Fund and Sefton California Tax-Free Fund, of Sefton Funds Trust that has been called to vote on an Agreement and Plan of Reorganization (and the transactions contemplated thereby). Copies of the Combined Proxy Statement and Prospectus may be obtained at no charge by writing to Sefton Funds Trust at 3435 Stelzer Road, Columbus, Ohio 43219 or by calling Sefton Funds Trust at (800) 524-2276; or by writing to Kayne Anderson Mutual Funds at 1800 Avenue of the Stars, Second Floor, Los Angeles, California 90067, or by calling Kayne Anderson Mutual Funds at (800) 231-7414.

Unless otherwise indicated, capitalized terms used herein and not otherwise defined have the same meanings as are given to them in the Combined Proxy Statement and Prospectus.

Further information about the Kayne Anderson Rising Dividends Fund, Kayne Anderson Small Cap Rising Dividends Fund, Kayne Anderson Intermediate Total Return Bond Fund and Kayne Anderson Intermediate Tax-Free Bond Fund (each, an "Acquiring Fund" and, together, the "Acquiring Funds") is contained in the Acquiring Funds' Combined Prospectus dated May 5, 1999, and the Annual Report of the Acquiring Funds for the fiscal year ended December 31, 1998. The Acquiring Funds' Statement of Additional Information, dated May 5, 1999, is incorporated by reference in this Statement of Additional Information and is available without charge by calling the Kayne Anderson Mutual Funds at (800) 231-7414.

Further information about the Sefton Equity Value Fund, Sefton Small Company Value Fund, Sefton U.S. Government Fund and Sefton California Tax-Free Fund (each, an "Acquired Fund", and, together, the "Acquired Funds") is contained in the Acquired Funds' Combined Prospectus dated April 30, 1999, and the Annual Report of the Acquired Funds for the fiscal year ended December 31, 1998. The Acquired Funds' Statement of Additional Information, dated April 30, 1999, is incorporated by reference in this Statement of Additional Information and is available without charge by calling the Sefton Funds Trust at (800) 524-2276.

Pro-forma financial statements are attached hereto as Exhibit A.

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GENERAL INFORMATION

The shareholders of Sefton Equity Value Fund, Sefton Small Company Value Fund, Sefton U.S. Government Fund and Sefton California Tax-Free Fund (each, an "Acquired Fund" and collectively the "Acquired Funds") are being asked to approve a form of Agreement and Plan of Reorganization (the "Plan") combining each Acquired Fund into, respectively, Kayne Anderson Rising Dividends Fund, Kayne Anderson Small Cap Rising Dividends Fund, Kayne Anderson Intermediate Total Return Bond Fund and Kayne Anderson Intermediate Tax-Free Bond Fund (each, an "Acquiring Fund" and collectively, the "Acquiring Funds") (and the transactions contemplated thereby). The Plan contemplates the transfer of all substantially all of the assets and liabilities of each Acquired Fund as of the Effective Date to the corresponding Acquiring Fund, and the assumption by the corresponding Acquiring Fund of the liabilities of the Acquired Fund, in

exchange for shares of the corresponding Acquiring Fund. Immediately after the Effective Date, each Acquired Fund will distribute to its shareholders of record as of the close of business on the Effective Date the shares of the corresponding Acquiring Fund received. The shares of the Acquiring Fund that will be issued for distribution to the Acquired Fund's shareholders will have an aggregate net asset value equal to the aggregate net asset value of the shares of the Acquired Fund held as of the Closing Date. The Sefton Funds Trust will then take all necessary steps to terminate the qualification, registration and classification of each Acquired Fund. All issued and outstanding shares of an Acquired Fund will be canceled on the Acquired Fund's books. Shares of the corresponding Acquiring Fund will be represented only by book entries; no share certificates will be issued.

A Special Meeting of each Acquired Fund's shareholders to consider the transactions will be held at the offices of the administrator for the Acquired Funds, Bisys, 3435 Stelzer Road, Columbus, Ohio 43219 on \_\_\_\_\_, 1999, at 10:00 a.m., local time.

For further information about the transaction, see the Combined Proxy Statement and Prospectus. For further information about the Sefton Funds Trust, Kayne Anderson Mutual Funds, each Acquired Fund and each Acquiring Fund, see (1) the Combined Statement of Additional Information relating to the Kayne Anderson Rising Dividends Fund, Kayne Anderson Small Cap Rising Dividends Fund, Kayne Anderson Intermediate Total Return Bond Fund and Kayne Anderson Intermediate Tax-Free Bond Fund (as well as another Kayne Anderson mutual fund not involved in the Reorganizations) dated May 5, 1999, and (2) Combined Statement of Additional Information for the Sefton Equity Value Fund, Sefton Small Company Value Fund, Sefton U.S. Government Fund and Sefton California Tax-Free Fund, dated April 30, 1999, which are available without charge by calling the Kayne Anderson Mutual Funds at (800) 231-7414 or Sefton Funds Trust at (800) 524-2276.

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Exhibit A  
[Pro Forma Financial Statements]

KAYNE ANDERSON RISING DIVIDENDS FUND  
SEFTON EQUITY VALUE FUND  
PRO FORMA COMBINING PORTFOLIO OF INVESTMENTS  
JUNE 30, 1999  
(UNAUDITED)

<TABLE> <CAPTION>						
SHARES/PAR VALUE			VALUE			
KAYNE ANDERSON (HISTORICAL)	SEFTON (HISTORICAL)	COMBINED	KAYNE ANDERSON (HISTORICAL)	SEFTON (HISTORICAL)	PRO FORMA ADJUST	COMBINED
<S>	<C>	<C>	<C>	<C>	<C>	<C>
COMMON STOCKS						
AUTOMOTIVE						
--	15,000	15,000				
			Borg-Warner Automotive, Inc.	\$ 0	\$ 825,000	\$ 825,000
BANKING						
--	20,000	20,000	Bank of America Corp.	--	1,466,249	1,466,249
--	18,000	18,000	Bank One Corp.	--	1,072,125	1,072,125
--	10,000	10,000	Chase Manhattan Corp.	--	866,250	866,250
--	11,900	11,900	KeyCorp	--	382,288	382,288
--	20,000	20,000	PNC Bank Corp.	--	1,152,500	1,152,500
				--	4,939,412	4,939,412
BASIC MATERIALS/CHEMICALS						
--	24,000	24,000	Fort James Corp.	--	908,999	908,999
--	23,000	23,000	Owens-Illinois, Inc.	--	751,813	751,813
40,130	13,000	53,130	PPG Industries, Inc.	2,370,178	767,813	3,137,991
				2,370,178	2,428,625	4,798,803
BEVERAGES						
--	16,000	16,000	Adolph Coors Co.	--	792,000	792,000
BUSINESS SERVICES						
--	14,000	14,000	Computer Services Corp.	--	968,625	968,625
--	31,000	31,000	Reynolds & Reynolds Co.	--	722,688	722,688
--	21,000	21,000	Sterling Software, Inc.	--	560,438	560,438

--	17,000	17,000	Xerox Corp.	--	1,004,062	1,004,062
				--	3,255,813	3,255,813
-----						
CAPITAL GOODS/ELECTRICAL EQUIPMENT						
38,450	--	38,450	Emerson Electric Company	2,417,543	--	2,417,543
19,300	--	19,300	General Electric Company	2,180,900	--	2,180,900
-----						
				4,598,443	--	4,598,443
-----						
CONSUMER CYCLICALS						
--	39,000	39,000	BJ's Wholesale Club, Inc.	--	1,172,438	1,172,438
--	25,000	25,000	Dillard's, Inc.	--	878,125	878,125
54,020	--	54,020	McDonald's Corporation	2,231,701	--	2,231,701
74,290	--	74,290	The Walt Disney Company	2,289,060	--	2,289,060
--	34,000	34,000	Warnaco Group, Inc.	--	909,500	909,500
-----						
				4,520,761	2,960,063	7,480,824
-----						
CONSUMER STAPLES/BEVERAGES						
19,970	--	19,970	Coca-Cola Co.	1,248,125	--	1,248,125
-----						
CONSUMER STAPLES/CONSUMER PRODUCTS						
60,610	--	60,610	Gillette Company	2,485,010	--	2,485,010
25,160	--	25,160	Procter & Gamble Company	2,245,530	--	2,245,530
-----						
				4,730,540	--	4,730,540
-----						
CONSUMER STAPLES/FOODS						
48,430	--	48,430	BestFoods	2,397,285	--	2,397,285
22,040	--	22,040	Hershey Foods Corporation	1,308,625	--	1,308,625
12,060	--	12,060	Wm. Wrigley, Jr., Company	1,085,400	--	1,085,400
-----						
				4,791,310	--	4,791,310
-----						
CAPITAL GOODS/MANUFACTURING (DIVERSIFIED)						
30,940	--	30,940	Illinois Tool Works Inc.	2,537,080	--	2,537,080
-----						
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DIVERSIFIED MANUFACTURING						
--	10,000	10,000	FMC Corp.	--	683,125	683,125
-----						
ELECTRICAL & ELECTRONIC						
--	50,000	50,000	Arrow Electronics, Inc.	--	950,000	950,000
--	15,000	15,000	Emerson Electric Co.	--	943,125	943,125
--	10,000	10,000	Hubbell, Inc. Class A	--	398,750	398,750
--	10,000	10,000	Hubbell, Inc. Class B	--	453,750	453,750
--	20,000	20,000	Thomas & Betts Corp.	--	945,000	945,000
-----						
				--	3,690,625	3,690,625
-----						
ENERGY/ PETROLEUM - INTERNATIONAL						
30,430	--	30,430	Exxon Corporation	2,346,913	--	2,346,913
--	40,000	40,000	MCN Energy Group, Inc.	--	830,000	830,000
-----						
				2,346,913	830,000	3,176,913
-----						
ENTERTAINMENT						
--	61,000	61,000	Harrah's Entertainment, Inc.	--	1,342,000	1,342,000
--	23,000	23,000	Royal Caribbean Cruises Ltd.	--	1,006,250	1,006,250
-----						
				--	2,348,250	2,348,250
-----						
FINANCIAL/BANKING						
60,720	--	60,720	Wells Fargo & Company	2,595,780	--	2,595,780
-----						
FINANCIAL/FINANCIAL SERVICES						
--	15,000	15,000	Astoria Financial Corp.	--	659,063	659,063

--	18,000	18,000	Fannie Mae	--	1,230,749	1,230,749
39,780	--	39,780	Federal National Mortgage Association	2,719,958	--	2,719,958
--	15,000	15,000	Fleet Financial Group, Inc.	--	665,625	665,625
--	32,000	32,000	Heller Financial, Inc.	--	890,000	890,000
--	20,000	20,000	Household International, Inc.	--	947,500	947,500
32,440	--	32,440	State Street Boston Corporation	2,769,565	--	2,769,565
--	25,000	25,000	Washington Mutual, Inc.	--	884,375	884,375
				5,489,523	5,277,312	10,766,835
-----						
FINANCIAL/INSURANCE						
32,610	--	32,610	Marsh & McLennan Companies Inc.	2,462,055	--	2,462,055
-----						
FOOD PRODUCTS & SERVICES						
--	43,000	43,000	Sara Lee Corp.	--	975,563	975,563
--	24,700	24,700	Suiza Foods Corp.	--	1,034,312	1,034,312
				--	2,009,875	2,009,875
-----						
HEALTH CARE/DRUGS & HOSPITAL SUPPLIES						
53,770	30,000	83,770	Abbott Laboratories	2,446,535	1,365,000	3,811,535
--	15,000	15,000	Baxter International, Inc.	--	909,375	909,375
26,980	--	26,980	Johnson & Johnson	2,644,041	--	2,644,041
36,280	16,000	52,280	Merck & Co., Inc.	2,684,720	1,184,000	3,868,720
--	16,000	16,000	Pharmacia & Upjohn, Inc.	--	909,000	909,000
				7,775,296	4,367,375	12,142,671
-----						
HEALTH CARE/MEDICAL DEVICES						
35,170	--	35,170	Medtronic, Inc.	2,738,863	--	2,738,863
-----						
LIFE & HEALTH INSURANCE						
--	30,000	30,000	Allstate Corp.	--	1,076,250	1,076,250
--	8,000	8,000	Cigna Corp.	--	712,000	712,000
--	22,000	22,000	Nationwide Financial Services, Inc.	--	995,500	995,500
				--	2,783,750	2,783,750
-----						
MANUFACTURING						
--	24,000	24,000	Dana Corp.	--	1,105,500	1,105,500
-----						
OIL COMPANIES - INTEGRATED						
--	12,100	12,100	Amerada Hess Corp.	--	719,950	719,950
--	25,000	25,000	Conoco, Inc.	--	696,875	696,875
--	18,000	18,000	Exxon Corp.	--	1,388,250	1,388,250
--	32,000	32,000	Shell Transport & Trading ADR	--	1,483,999	1,483,999
--	20,000	20,000	Texaco, Inc.	--	1,250,000	1,250,000
--	23,000	23,000	USX - Marathon Group, Inc.	--	748,938	748,938
				--	6,288,012	6,288,012
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--	16,000	16,000	PRINTING & PUBLISHING	--		
--	16,000	16,000	Knight-Ridder, Inc.	--	879,000	879,000
--	30,000	30,000	New York Times Co.	--	1,104,375	1,104,375
				--	1,983,375	1,983,375
-----						
RETAIL STORES						
--	15,000	15,000	Albertsons, Inc.	--	773,438	773,438
--	80,000	80,000	Food Lion, Inc.	--	925,000	925,000
--	20,000	20,000	May Department Stores Co.	--	817,500	817,500
				--	2,515,938	2,515,938
-----						
TECHNOLOGY/COMPUTERS & OFFICE EQUIPMENT						
26,900	11,000	37,900	Hewlett-Packard Company	2,703,451	1,105,500	3,808,951
28,220	14,000	42,220	International Business Machine	3,647,436	1,809,500	5,456,936
-----						

				6,350,887	2,915,000	9,265,887
-----						
			TECHNOLOGY/DATA SERVICES			
58,360	--	58,360	Automatic Data Processing Inc.	2,567,840	--	2,567,840
44,490	--	44,490	Electronic Data Systems Corporation	2,516,466	--	2,516,466
-----						
				5,084,306	--	5,084,306
-----						
			TECHNOLOGY/SEMICONDUCTORS			
43,920	18,000	61,920	Intel Corporation	2,613,240	1,071,000	3,684,240
-----						
			TELECOMMUNICATION			
22,900	25,000	47,900	AT&T Corporation	1,278,106	1,395,313	2,673,419
--	26,000	26,000	Bell Atlantic Corp.	--	1,699,749	1,699,749
--	23,000	23,000	US West, Inc.	--	1,351,250	1,351,250
-----						
				1,278,106	4,446,312	5,724,418
-----						
			TOBACCO			
--	15,000	15,000	Philip Morris Cos., Inc.	--	602,813	602,813
-----						
			TRANSPORTATION			
--	28,000	28,000	Burlington Northern Santa Fe	--	868,000	868,000
--	20,000	20,000	Ryder Systems, Inc.	--	520,000	520,000
-----						
				--	1,388,000	1,388,000
-----						
			UTILITIES/REITS			
--	35,700	35,700	Carramerica Realty Corp.	--	892,500	892,500
--	40,000	40,000	FirstEnergy Corp.	--	1,239,999	1,239,999
--	24,000	24,000	General Public Utility, Inc.	--	1,012,500	1,012,500
--	25,000	25,000	Highwoods Properties, Inc.	--	685,938	685,938
-----						
				--	3,830,937	3,830,937
-----						
			WASTE DISPOSAL			
--	16,000	16,000	Waste Management, Inc.	--	860,000	860,000
-----						
			TOTAL COMMON STOCKS	63,531,406	64,198,112	127,729,518
-----						

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			REPURCHASE AGREEMENT AND OTHER			
--	\$250,000	\$250,000	Union Bank of California, 5.25%, dated 6/30/99 due 7/1/99 with a maturity value of \$250,036, collateralized by \$259,937, Freddie Mac, 6.25% due 12/15/07 with a value of \$250,951	--	250,000	250,000
--	976	976	Union Bank of California - Cash Sweep	--	976	976
-----						
				--	250,976	-- 250,976
-----						
			TOTAL INVESTMENTS IN SECURITIES (Cost \$49,492,341, \$56,987,958 and \$106,480,299, respectively)*	63,531,406	64,449,088	127,980,494
			OTHER ASSETS LESS LIABILITIES	984,402	1,122,505	(6,298) 2,100,609
-----						
			NET ASSETS	\$64,515,808	\$65,571,593	\$ (6,298) \$130,081,103
=====						

\* Cost for Federal income tax purposes is the same.

Net unrealized appreciation consists of:

Gross unrealized appreciation	\$14,724,181	\$ 8,123,515	\$ 22,847,696
Gross unrealized depreciation	(685,116)	(662,385)	(1,347,501)
Net unrealized appreciation	\$14,039,065	\$ 7,461,130	\$ 21,500,195

</TABLE>

See accompanying notes to pro forma combining financial statements.

KAYNE ANDERSON RISING DIVIDENDS FUND  
SEFTON EQUITY VALUE FUND  
PRO FORMA COMBINING STATEMENT OF ASSETS AND LIABILITIES  
JUNE 30, 1999  
(UNAUDITED)

<TABLE>

<CAPTION>

	KAYNE ANDERSON (HISTORICAL)	SEFTON (HISTORICAL)	PRO FORMA ADJUST	PRO FORMA COMBINED
<S>	<C>	<C>	<C>	<C>
<b>ASSETS</b>				
Investments in securities, at market (cost of \$49,492,341, \$56,987,958 and \$106,480,299, respectively)	\$63,531,406	\$64,449,088		\$ 127,980,494
Cash	623,309	224,848		848,157
Receivable for:				
Investment securities sold	1,594,280	962,758		2,557,038
Dividends and interest	65,120	72,768		137,888
Prepaid expenses	12,681	7,185		19,866
Deferred organization costs, net	5,846	6,298	(6,298)	5,846
Total assets	65,832,642	65,722,945	(6,298)	131,549,289
<b>LIABILITIES</b>				
Payables:				
Investment securities purchased	1,255,896	--		1,255,896
Capital shares redeemed	--	64,654		64,654
Due to investment advisor	42,218	53,971		96,189
Other accrued expenses	18,720	32,727		51,447
Total liabilities	1,316,834	151,352	--	1,468,186
NET ASSETS	\$64,515,808	\$65,571,593	\$ (6,298)	\$130,081,103
Number of shares issued and outstanding (unlimited shares authorized without par value)				
	3,399,813	4,206,304	(751,863)	6,854,254
Net asset value, offering and redemption price per share	\$ 18.98	\$ 15.59		\$ 18.98

</TABLE>

See accompanying notes to pro forma combining financial statements.

KAYNE ANDERSON RISING DIVIDENDS FUND  
SEFTON EQUITY VALUE FUND  
PRO FORMA COMBINING STATEMENT OF OPERATIONS  
FOR THE SIX MONTHS ENDED JUNE 30, 1999  
(UNAUDITED)

<TABLE>

<CAPTION>

	KAYNE ANDERSON (HISTORICAL)	SEFTON (HISTORICAL)	PRO FORMA ADJUST	PRO FORMA COMBINED
<S>	<C>	<C>	<C>	<C>
<b>INVESTMENT INCOME:</b>				
Income:				
Dividend income	\$ 361,700	\$ 719,372		\$ 1,081,072
Interest income	11,134	55,942		67,076
Total income	372,834	775,314	--	1,148,148
Expenses:				
Investment advisory fees	208,079	328,388	(82,097)	454,370
Custodian fees	7,439	3,349		10,788
Administration fees	18,831	49,574		68,405
Fund accounting fees	16,336	15,798		32,134
Transfer agent fees	11,136	11,556		22,692
Shareholder servicing fees	--	14,747	(14,747)	--
Professional fees	12,406	19,182		31,588
Insurance expense	643	--		643
Miscellaneous expenses	1,736	26,846		28,582



Reports to shareholders	2,736	--		2,736
Registration fees	8,688	--		8,688
Trustees' fees	1,933	--		1,933
Amortization of deferred organization expenses	3,531	--		3,531
Total expenses	293,494	469,440	(96,844)	666,090
Less: Expenses reimbursed	--	--	--	--
Net expenses	293,494	469,440	(96,844)	666,090
NET INVESTMENT INCOME	79,340	305,874	96,844	482,058
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:				
Net realized gain (loss) on investments	4,663,814	(3,476,788)		1,187,026
Net change in unrealized appreciation (depreciation) of investments	2,264,819	4,316,526		6,581,345
Net gain (loss) on investments	6,928,633	839,738	--	7,768,371
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	\$7,007,973	\$ 1,145,612	\$ 96,844	\$8,250,429

</TABLE>

See accompanying notes to pro forma combining financial statements.

KAYNE ANDERSON RISING DIVIDENDS FUND  
SEFTON EQUITY VALUE FUND  
PRO FORMA COMBINING STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 1998  
(UNAUDITED)

<TABLE>  
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	KAYNE ANDERSON (HISTORICAL)	SEFTON (HISTORICAL)	PRO FORMA ADJUST	PRO FORMA COMBINED
<S>	<C>	<C>	<C>	<C>
INVESTMENT INCOME:				
Income:				
Dividend income	\$ 696,723	\$ 2,229,632		\$ 2,926,355
Interest income	57,488	--		57,488
Total income	754,211	2,229,632	--	2,983,843
Expenses:				
Investment advisory fees	334,518	813,278	(203,320)	944,477
Custodian fees	14,080	7,060		21,140
Administration fees	30,783	121,991		152,774
Fund accounting fees	34,739	32,672		67,411
Transfer agent fees	23,398	28,811		52,209
Shareholder servicing fees	--	14,721	(14,721)	--
Professional fees	22,757	52,643		75,400
Insurance expense	1,647	--		1,647
Miscellaneous expenses	4,038	57,338		61,376
Reports to shareholders	3,001	--		3,001
Registration fees	17,961	--		17,961
Trustees' fees	4,701	--		4,701
Amortization of deferred organization expenses	6,081	--	--	6,081
Total expenses	497,704	1,128,514	(218,041)	1,408,178
Less: Expenses reimbursed/waived	--	--	--	--
Net expenses	497,704	1,128,514	(218,041)	1,408,178
NET INVESTMENT INCOME	256,507	1,101,118	218,041	1,575,666
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:				
Net realized gain (loss) on investments	5,326,022	2,418,491		7,744,513
Net change in unrealized appreciation (depreciation) of investments	(98,265)	(10,739,830)		(10,838,095)
Net gain (loss) on investments	5,227,757	(8,321,339)	--	(3,093,582)
NET INCREASE (DECREASE) IN NET				

ASSETS RESULTING FROM OPERATIONS      \$ 5,484,264      \$ (7,220,221)      \$ 218,041      \$(1,517,917)

</TABLE>

See accompanying notes to pro forma combining financial statements.

KAYNE ANDERSON SMALL CAP RISING DIVIDENDS FUND  
 SEFTON SMALL COMPANY VALUE FUND  
 PRO FORMA COMBINING PORTFOLIO OF INVESTMENTS  
 JUNE 30, 1999  
 (UNAUDITED)

SHARES/PAR VALUE			VALUE				
KAYNE ANDERSON (HISTORICAL)	SEFTON (HISTORICAL)	COMBINED	KAYNE ANDERSON (HISTORICAL)	SEFTON (HISTORICAL)	PRO FORMA ADJUST	COMBINED	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	
COMMON STOCKS							
AEROSPACE/DEFENSE							
--	15,000	15,000	Primex Technologies, Inc.	\$ 0	\$ 323,438	\$ 323,438	\$ 323,438
AUTOMOTIVE							
--	12,000	12,000	Superior Industries International, Inc.	--	327,750	327,750	327,750
BANKING							
--	9,600	9,600	Alabama National Bancorporation	--	240,000	240,000	240,000
--	12,700	12,700	Bank of the Ozarks, Inc.	--	230,188	230,188	230,188
--	8,400	8,400	F.N.B. Corp.	--	226,800	226,800	226,800
--	27,100	27,100	First Essex Bancorp Inc.	--	440,375	440,375	440,375
--	13,000	13,000	Independent Bank Corp.	--	225,875	225,875	225,875
--	9,000	9,000	Merchants Bancshares, Inc.	--	204,750	204,750	204,750
71,107	--	--	National Commerce Bancorp	1,555,466	--	1,555,466	1,555,466
--	16,100	16,100	Trico Bancshares	--	297,850	297,850	297,850
61,092	--	--	Washington Federal, Inc.	1,370,752	--	1,370,752	1,370,752
			-----				
			2,926,218	1,865,838	4,792,056	4,792,056	
BASIC INDUSTRY							
--	6,200	6,200	Synthetic Industries, Inc.	--	182,900	182,900	182,900
BASIC MATERIALS/PACKAGING							
40,427	--	40,427	Bemis Company	1,606,973	--	1,606,973	1,606,973
25,749	--	25,749	Liqui-Box Corporation	1,384,008	--	1,384,008	1,384,008
			-----				
			2,990,981	--	2,990,981	2,990,981	
BASIC MATERIALS/PAINTS AND COATING							
15,118	--	15,118	Benjamin Moore & Co.	1,420,147	--	1,420,147	1,420,147
BUILDING PRODUCTS							
--	37,500	37,500	Cameron Ashley Building Products, Inc.	--	391,406	391,406	391,406
--	14,000	14,000	Drew Industries, Inc.	--	172,375	172,375	172,375
--	16,000	16,000	Hussmann International, Inc.	--	265,000	265,000	265,000
			-----				
			--	828,781	828,781	828,781	
BUSINESS SERVICES							
--	12,000	12,000	Advo, Inc.	--	249,000	249,000	249,000
--	10,000	10,000	Analytical Surveys, Inc.	--	248,750	248,750	248,750
--	14,000	14,000	World Color Press, Inc.	--	385,000	385,000	385,000
			-----				
			--	882,750	882,750	882,750	
CAPITAL GOODS/MACHINERY EQUIPMENT							
60,427	--	60,427	Federal Signal Corporation	1,280,297	--	1,280,297	1,280,297
24,894	--	24,894	Nordson Corporation	1,524,757	--	1,524,757	1,524,757
			-----				

				2,805,054	--	2,805,054	2,805,054
-----							
			CHEMICALS				
--	15,000	15,000	A. Schulman, Inc.	--	257,813	257,813	257,813
--	3,500	3,500	Ferro Corp.	--	96,250	96,250	96,250
-----							
				--	354,063	354,063	354,063
-----							
			CONSUMER CYCLICALS				
--	20,000	20,000	Burlington Coat Factory Warehouse Corp.	--	386,250	386,250	386,250
60,130	--	60,130	Claire's Stores Inc.	1,540,831	--	1,540,831	1,540,831
76,952	--	76,952	LA-Z Boy Chair Company	1,769,896	--	1,769,896	1,769,896
--	10,000	10,000	Libbey, Inc.	--	290,000	290,000	290,000
--	25,000	25,000	Pier One Imports, Inc.	--	281,250	281,250	281,250
59,552	--	59,552	Strayer Education Inc.	1,827,502	--	1,827,502	1,827,502
--	8,000	8,000	Tropical Sportswear International Corp.	--	255,000	255,000	255,000
-----							
				5,138,229	1,212,500	6,350,729	6,350,729
-----							
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			CONSUMER STAPLES/FOOD				
--	9,200	9,200	Great Atlantic & Pacific Tea Co.	--	311,075	311,075	311,075
39,157	--	39,157	Tootsie Roll Industries, Inc.	1,512,439	--	1,512,439	1,512,439
-----							
				1,512,439	311,075	1,823,514	1,823,514
-----							
			DISTRIBUTORS/WHOLESALE				
--	25,000	25,000	Merkert American Corp.	--	237,500	237,500	237,500
--	7,500	7,500	SCP Pool Corp.	--	194,063	194,063	194,063
-----							
				--	431,563	431,563	431,563
-----							
			ELECTRICAL & ELECTRONICS				
--	35,000	35,000	Pioneer Standard Electronics, Inc.	--	420,000	420,000	420,000
-----							
			ENERGY/OIL & GAS PRODUCTION				
--	24,000	24,000	Avista Corp.	--	390,000	390,000	390,000
--	11,000	11,000	Cleco Corp.	--	334,125	334,125	334,125
32,494	--	32,494	Devon Energy Corporation	1,161,661	--	1,161,661	1,161,661
--	25,000	25,000	Midcoast Energy Resources, Inc.	--	403,125	403,125	403,125
-----							
				1,161,661	1,127,250	2,288,911	2,288,911
-----							
			FINANCE/INSURANCE				
57,834	--	57,834	American Heritage Life Insurance Corporation	1,416,934	--	1,416,934	1,416,934
--	10,000	10,000	Harleysville Group, Inc.	--	205,000	205,000	205,000
--	15,000	15,000	Liberty Financial Companies, Inc.	--	436,875	436,875	436,875
--	13,000	13,000	Litchfield Financial Corp.	--	220,188	220,188	220,188
34,253	--	34,253	Mutual Risk Management Ltd.	1,143,193	--	1,143,193	1,143,193
-----							
				2,560,127	862,063	3,422,190	3,422,190
-----							
			FINANCE/FINANCIAL SERVICES				
70,442	--	70,442	Eaton Vance Corporation	2,425,846	--	2,425,846	2,425,846
11,430	--	11,430	Fiduciary Trust Company	545,809	--	545,809	545,809
-----							
				2,971,655	--	2,971,655	2,971,655
-----							
			HEALTH CARE				
--	20,000	20,000	AmeriPath, Inc.	--	172,500	172,500	172,500
--	5,000	5,000	Barr Laboratories, Inc.	--	199,375	199,375	199,375
70,450	--	70,450	Hooper Holmes Inc.	1,435,419	--	1,435,419	1,435,419
53,900	--	53,900	Landauer Inc.	1,590,051	--	1,590,051	1,590,051
--	12,500	12,500	Maxxim Medical, Inc.	--	291,406	291,406	291,406
--	14,000	14,000	National Dentex Corp.	--	241,500	241,500	241,500
-----							
				3,025,470	904,781	3,930,251	3,930,251
-----							

--	12,000	12,000	LOTTERY SERVICES Grech Holdings Corp.	--	282,750	282,750	282,750
-----							
--	25,800	25,800	MANUFACTURING Citation Corp.	--	414,412	414,412	414,412
--	20,000	20,000	Mark IV Industries, Inc.	--	422,499	422,499	422,499
--	17,000	17,000	Masotech, Inc.	--	287,938	287,938	287,938
--	15,000	15,000	Meade Instruments Corp.	--	258,750	258,750	258,750
--	14,900	14,900	Standard Products Co.	--	381,812	381,812	381,812
--	29,150	29,150	Supreme Industries, Inc.	--	282,391	282,391	282,391
-----							
				--	2,047,802	2,047,802	2,047,802
-----							
--	18,000	18,000	OIL & GAS PRODUCTS & SERVICES Energen Corp.	--	335,250	335,250	335,250
--	12,000	12,000	Nui Corp.	--	300,000	300,000	300,000
--	27,900	27,900	World Fuel Services Corp.	--	411,525	411,525	411,525
-----							
				--	1,046,775	1,046,775	1,046,775
-----							
--	7,700	7,700	RESTAURANTS Benihana, Inc.	--	111,650	111,650	111,650
--	11,000	11,000	Garden Fresh Restaurant Corp.	--	206,250	206,250	206,250
-----							
				--	317,900	317,900	317,900
-----							
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	<C>	<C>		<C>	<C>	<C>	<C>
			TECHNOLOGY/COMPUTER & OFFICE EQUIPMENT				
76,462	--	76,462	Reynolds & Reynolds Inc., Class A	1,782,520	--	1,782,520	1,782,520
--	10,000	10,000	Smart Modular Technologies	--	173,750	173,750	173,750
-----							
				1,782,520	173,750	1,956,270	1,956,270
-----							
113,005	--	113,005	TECHNOLOGY/SOFTWARE & SERVICE Timberline Software Corporation	1,779,828	--	1,779,828	1,779,828
-----							
--	31,100	31,100	TRANSPORT - EQUIPMENT & LEASING Rollins Truck Leasing Corp.	--	345,988	345,988	345,988
--	14,500	14,500	Willis Lease Finance Corp.	--	236,531	236,531	236,531
-----							
				--	582,519	582,519	582,519
-----							
73,216	--	73,216	TRANSPORTATION/AIR TRANSPORT Air Express International Corporation	1,857,857	--	1,857,857	1,857,857
--	25,000	25,000	Railtex, Inc.	--	346,875	346,875	346,875
-----							
				1,857,857	346,875	2,204,732	2,204,732
-----							
--	20,000	20,000	UTILITIES/REITS Bedford Property Investors, Inc.	--	357,500	357,500	357,500
--	7,400	7,400	Central Hudson Gas & Electric Corp.	--	310,800	310,800	310,800
--	21,000	21,000	EastGroup Property Investors, Inc.	--	421,312	421,312	421,312
--	13,000	13,000	J.P. Realty, Inc.	--	267,313	267,313	267,313
--	10,000	10,000	Pacific Gulf Properties, Inc.	--	226,250	226,250	226,250
--	10,000	10,000	Pan Pacific Retail Properties, Inc.	--	194,375	194,375	194,375
--	20,000	20,000	RFS Hotel Investors, Inc.	--	251,250	251,250	251,250
--	16,000	16,000	Tri Net Corporate Realty Trust, Inc.	--	442,999	442,999	442,999
-----							
				--	2,471,799	2,471,799	2,471,799
-----							
			TOTAL COMMON STOCKS	31,932,186	17,304,922	49,237,108	49,237,108
-----							
\$ 0	\$28,000	\$28,000	REPURCHASE AGREEMENT AND OTHER Union Bank of California, 5.25% dated 6/30/99 due 7/1/99 with a maturity value of \$28,004, collaterized by \$29,113, Freddie Mac, 6.25% due 12/15/07 with a				

--	684	684	value of \$28,106	--	28,000	28,000	28,000
			Union Bank of California - Cash Sweep	--	684	684	684
				--	28,684		28,684
			TOTAL INVESTMENTS IN SECURITIES (Cost \$28,608,593, \$15,797,578 and \$44,406,171, respectively)*	31,932,186	17,333,606		49,265,792
			OTHER ASSETS LESS LIABILITIES	1,077,698	284,733	(14,756)	1,347,675
			NET ASSETS	\$33,009,884	\$17,618,339	\$(14,756)	\$50,613,467

\* Cost for Federal income tax purpose is the same.

Net unrealized appreciation consists of:			
Gross unrealized appreciation	\$3,837,377	\$2,064,047	\$5,901,424
Gross unrealized depreciation	(513,784)	(528,019)	(1,041,803)
Net unrealized appreciation	\$3,323,593	\$1,536,028	\$4,859,621

</TABLE>

See accompanying notes to pro forma combining financial statements.

KAYNE ANDERSON SMALL CAP RISING DIVIDENDS FUND  
SEFTON SMALL COMPANY VALUE FUND  
PRO FORMA COMBINING STATEMENT OF ASSETS AND LIABILITIES  
JUNE 30, 1999  
(UNAUDITED)

<TABLE>  
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	KAYNE ANDERSON (HISTORICAL)	SEFTON (HISTORICAL)	PRO FORMA ADJUST	PRO FORMA COMBINED
<S>	<C>	<C>	<C>	<C>
<b>ASSETS</b>				
Investments in securities, at market (cost of \$28,608,593, \$15,797,578 and \$44,406,171, respectively)	\$31,932,186	\$17,333,606		\$ 49,265,792
Cash	2,596,754	40,499		2,637,253
Receivable for:				
Investment securities sold	--	659,727		659,727
Dividends and interest	50,472	--		50,472
Prepaid expenses	18,166	3,969		22,135
Deferred organization costs, net	9,847	14,756	(14,756)	9,847
<b>Total assets</b>	<b>34,607,425</b>	<b>18,052,557</b>	<b>(14,756)</b>	<b>52,645,226</b>
<b>LIABILITIES</b>				
Payables:				
Investment securities purchased	1,574,859	408,377		1,983,236
Due to investment advisor	21,495	8,823		30,318
Other accrued expenses	1,187	17,018		18,205
<b>Total liabilities</b>	<b>1,597,541</b>	<b>434,218</b>	<b>--</b>	<b>2,031,759</b>
<b>NET ASSETS</b>	<b>\$33,009,884</b>	<b>\$17,618,339</b>	<b>\$(14,756)</b>	<b>\$50,613,467</b>
Number of shares issued and outstanding (unlimited shares authorized without par value)	2,021,500	1,621,443	(543,453)	3,099,490
Net asset value, offering and redemption price per share	\$ 16.33	\$ 10.87		\$ 16.33

</TABLE>

See accompanying noates to pro forma combining financial statements.

KAYNE ANDERSON SMALL CAP RISING DIVIDENDS FUND  
SEFTON SMALL COMPANY VALUE FUND  
PRO FORMA COMBINING STATEMENT OF OPERATIONS  
FOR THE SIX MONTHS ENDED JUNE 30, 1999  
(UNAUDITED)

<TABLE>  
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	KAYNE ANDERSON (HISTORICAL)	SEFTON (HISTORICAL)	PRO FORMA ADJUST	PRO FORMA COMBINED
<S>	<C>	<C>	<C>	<C>
INVESTMENT INCOME:				
Income:				
Dividend income	\$ 271,345	\$ 218,981		\$ 490,326
Interest income	16,578	25,504		42,082
Total income	287,923	244,485	--	532,408
Expenses:				
Investment advisory fees	140,274	146,852	(46,993)	240,133
Custodian fees	5,455	1,258		6,713
Administration fees	12,377	17,622		29,999
Fund accounting fees	16,364	15,750		32,114
Transfer agent fees	7,636	5,871		13,507
Shareholder servicing fees	--	5,509	(5,509)	--
Professional fees	9,216	13,833		23,049
Insurance expense	45	--		45
Miscellaneous expenses	1,240	13,941		15,181
Reports to shareholders	744	--		744
Registration fees	8,296	--		8,296
Trustees' fees	2,933	--		2,933
Amortization of deferred organization expenses	2,107	--		2,107
Total expenses	206,687	220,636	(52,502)	374,821
Less: Expenses reimbursed (recouped)	7,593	(42,963)	27,792	(7,578)
Net expenses	214,280	177,673	(24,710)	367,243
NET INVESTMENT INCOME	73,643	66,812	24,710	165,165
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:				
Net realized gain (loss) on investments	2,682,777	(7,422,560)		(4,739,783)
Net change in unrealized appreciation (depreciation) of investments	(125,197)	5,842,765		5,717,568
Net gain (loss) on investments	2,557,580	(1,579,795)	--	977,785
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	\$ 2,631,223	\$ (1,512,983)	\$ 24,710	\$ 1,142,950

</TABLE>

See accompanying notes to pro forma combining financial statements.

KAYNE ANDERSON SMALL CAP RISING DIVIDENDS FUND  
SEFTON SMALL COMPANY VALUE FUND  
PRO FORMA COMBINING STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 1998  
(UNAUDITED)

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	KAYNE ANDERSON (HISTORICAL)	SEFTON (HISTORICAL)	PRO FORMA ADJUST	PRO FORMA COMBINED
<S>	<C>	<C>	<C>	<C>
INVESTMENT INCOME:				
Income:				
Dividend income	\$ 399,531	\$ 834,496		\$ 1,234,027
Interest income	31,685	--		31,685
Total income	431,216	834,496	--	1,265,712
Expenses:				
Investment advisory fees	218,722	417,794	(133,694)	502,822
Custodian fees	9,966	3,607		13,573
Administration fees	26,052	50,135		76,187
Fund accounting fees	30,570	32,584		63,154

Transfer agent fees	21,456	10,398		31,854
Shareholder servicing fees	--	32	(32)	--
Professional fees	7,849	35,839		43,688
Insurance expense	91	--		91
Miscellaneous expenses	3,846	34,814		38,660
Reports to shareholders	2,688	--		2,688
Registration fees	16,577	--		16,577
Trustees' fees	4,734	--		4,734
Amortization of deferred organization expenses	4,249	--	--	4,249
Total expenses	346,800	585,203	(133,726)	798,277
Less: Expenses reimbursed/waived	(12,965)	(66,847)	61,637	(18,175)
Net expenses	333,835	518,356	(72,089)	780,102
NET INVESTMENT INCOME	97,381	316,140	72,089	485,610
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:				
Net realized gain (loss) on investments	(168,179)	60,757	(107,422)	
Net change in unrealized appreciation (depreciation) of investments	3,090,369	(6,191,721)	(3,101,352)	
Net gain (loss) on investments	2,922,190	(6,130,964)	--	(3,208,774)
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	\$ 3,019,571	\$ (5,814,824)	\$ 72,089	(\$2,723,164)

</TABLE>

See accompanying notes to pro forma combining financial statements.

KAYNE ANDERSON INTERMEDIATE TOTAL RETURN BOND FUND  
SEFTON U.S. GOVERNMENT FUND  
PRO FORMA COMBINING PORTFOLIO OF INVESTMENTS  
JUNE 30, 1999  
(UNAUDITED)

<TABLE>

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PAR VALUE			VALUE			
KAYNE ANDERSON (HISTORICAL)	SEFTON (HISTORICAL)	COMBINED	KAYNE ANDERSON (HISTORICAL)	SEFTON (HISTORICAL)	PRO FORMA ADJUST	COMBINED
<S>	<C>	<C>	<C>	<C>	<C>	<C>
DEBT SECURITIES						
U.S. TREASURY OBLIGATIONS						
U.S. Treasury Notes/Bonds						
\$ 376,000	\$ 0	\$ 376,000	\$ 377,292	\$ 0		\$ 377,292
--	1,000,000	1,000,000	--	1,034,688		1,034,688
875,000	1,500,000	2,375,000	887,578	1,521,563		2,409,141
--	2,000,000	2,000,000	--	2,097,500		2,097,500
--	2,200,000	2,200,000	--	2,237,813		2,237,813
--	1,000,000	1,000,000	--	1,000,313		1,000,313
2,050,000	--	2,050,000	2,520,860	--		2,520,860
1,330,000	2,000,000	3,330,000	1,413,125	2,125,000		3,538,125
--	2,000,000	2,000,000	--	2,184,375		2,184,375
--	2,000,000	2,000,000	--	2,154,376		2,154,376
551,000	--	551,000	550,828	--		550,828
--	1,500,000	1,500,000	--	1,548,282		1,548,282
--	2,000,000	2,000,000	--	2,038,126		2,038,126
507,000	--	507,000	496,701	--		496,701
--	1,000,000	1,000,000	--	1,097,813		1,097,813
--	1,000,000	1,000,000	--	990,938		990,938
Total U.S. Treasury Obligations			6,246,384	20,030,787		26,277,171
U.S. Treasury Strip						
--	4,000,000	4,000,000	--	1,063,612		1,063,612
U.S. AGENCY OBLIGATIONS						
Federal Home Loan Bank						
--	1,000,000	1,000,000	--	963,842		963,842
Federal Home Loan Mortgage Corp.						
--	875,000	875,000	--	889,798		889,798

--	348,261	348,261	7.500% due 07/01/2009, Pool #E00326	--	354,665	354,665
--	749,107	749,107	7.500% due 04/01/2014, Pool #C90060	--	763,925	763,925
--	529,149	529,149	7.000% due 04/01/2016, Pool #C90133	--	529,170	529,170
--	856,062	856,062	6.100% due 11/15/2016, Series 1501 Class F	--	856,785	856,785
				--	3,394,343	3,394,343

Federal National Mortgage Association

420,000	--	420,000	6.100% due 02/10/2000	421,565	--	421,565
600,000	--	600,000	5.625% due 05/14/2004	586,150	--	586,150
350,000	--	350,000	7.700% due 08/10/2004	350,762	--	350,762
87,000	--	87,000	6.950% due 11/13/2006	87,161	--	87,161
--	1,400,000	1,400,000	6.000% due 08/22/2009, Series 1994-34 Class C	--	1,376,739	1,376,739
--	512,967	512,967		--	510,883	510,883
--	267,864	267,864	7.000% due 05/01/2014, Pool #190783	--	274,891	274,891
--	1,503,568	1,503,568	8.000% due 01/01/2015, Pool #250232	--	1,474,732	1,474,732
--	1,000,000	1,000,000	6.500% due 06/01/2016, Pool #368930	--	976,472	976,472
--	1,000,000	1,000,000	6.500% due 04/25/2023, Series 1993-210	--	972,945	972,945
				--	1,445,638	7,032,300

Total U.S. Agency Obligations

1,445,638	9,944,847	11,390,485
-----------	-----------	------------

MORTGAGE-BACKED/PASS-THROUGH SECURITIES

--	866,862	866,862	Government National Mortgage Association			
11,206	--	11,206	7.000% due 07/20/2013, Pool #2626	--	867,290	867,290
17,815	--	17,815	8.000% due 11/15/2021	11,533	--	11,533
228,772	--	228,772	8.500% due 12/15/2022	18,677	--	18,677

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162,915	--	162,915	8.000% due 07/15/2023	235,442	--	235,442
53,582	--	53,582	8.500% due 08/15/2025	170,799	--	170,799
139,196	--	139,196	8.500% due 06/15/2026	56,175	--	56,175
59,125	--	59,125	8.000% due 09/15/2026	143,254	--	143,254
				60,848	--	60,848

Total Mortgage-Backed/Pass-Through Securities

696,728	867,290	1,564,018
---------	---------	-----------

210,000	--	210,000	ASSET-BACKED RECEIVABLES WFS Financial Owner Trust 6.800% due 12/20/2003	211,342	--	211,342
---------	----	---------	--	---------	----	---------

CORPORATE BONDS

175,000	--	175,000	AUTO RENTALS Ryder System Inc. 7.480% due 05/15/2000	176,477	--	176,477
---------	----	---------	--	---------	----	---------

BEVERAGES

70,000	--	70,000	Anheuser Busch Companies			
236,000	--	236,000	6.750% due 11/01/2006	68,797	--	68,797
				237,026	--	237,026
				305,823	--	305,823

COMMUNICATION SERVICES

175,000	--	175,000	TCI Communications Inc. 6.375% due 05/01/2003	174,162	--	174,162
---------	----	---------	--	---------	----	---------

DEPARTMENT STORES

70,000	--	70,000	Sears Roebuck Company 9.450% due 07/25/2001	73,511	--	73,511
--------	----	--------	--	--------	----	--------



280,000	--	280,000	FINANCE			
			AT & T Capital Corporation			
175,000	--	175,000	7.500% due 11/15/2000	281,759	--	281,759
			Bear Stearns Company			
70,000	--	70,000	6.625% due 10/01/2004	172,912	--	172,912
			Beneficial Corporation			
--	1,000,000	1,000,000	6.600% due 09/26/2001	70,258	--	70,258
			Countrywide Home Loan			
175,000	--	175,000	7.450% due 09/16/2003	--	1,021,767	1,021,767
			Finova Capital Corporation			
255,000	--	255,000	6.450% due 06/01/2000	175,426	--	175,426
			Ford Motor Credit Corporation			
192,000	--	192,000	6.250% due 11/08/2000	255,599	--	255,599
			General Motors Acceptance			
			Corporation			
70,000	--	70,000	7.125% due 05/01/2003	193,681	--	193,681
			Household Finance Company			
			8.000% due 08/15/2004	70,211	--	70,211
175,000	--	175,000	Lehman Brothers Holdings			
--	500,000	500,000	8.875% due 03/01/2002	183,084	--	183,084
--	1,000,000	1,000,000	8.750% due 05/15/2002	--	522,405	522,405
--	500,000	500,000	7.250% due 10/15/2003	--	1,004,997	1,004,997
			Salomon, Inc.			
			9.250% due 05/01/2001	--	525,783	525,783
				1,402,930	3,074,952	4,477,882

70,000	--	70,000	INDUSTRIAL			
			Allied Signal Inc.			
			9.200% due 02/15/2003	75,377	--	75,377
--	1,000,000	1,000,000	Boise Cascade Co.			
--	500,000	500,000	7.700% due 01/30/2003	--	998,766	998,766
--	500,000	500,000	7.900% due 12/15/2003	--	501,530	501,530
			Bowater, Inc.			
175,000	--	175,000	8.250% due 10/15/1999	--	502,620	502,620
			Catepillar Inc.			
--	1,500,000	1,500,000	8.440% due 11/26/2003	185,876	--	185,876
			Coca Cola Bottling Co.,			
			Consolidated			
			6.850% due 11/01/2007	--	1,465,202	1,465,202
--	500,000	500,000	Royal Caribbean Cruises Ltd.			
--	1,000,000	1,000,000	8.250% due 04/01/2005	--	520,034	520,034
			7.000% due 10/15/2007	--	959,215	959,215
				261,253	4,947,367	5,208,620

</TABLE>

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278,000	--	278,000	MOTION PICTURE PRODUCTION & OTHER SERVICES			
			The Walt Disney Company			
			6.375% due 03/30/2001	279,592	--	279,592
175,000	--	175,000	YANKEEURO			
			Cable & Wireless			
			6.375% due 03/06/2003	172,240	--	172,240
			Total Corporate Bonds	2,845,988	8,022,319	10,868,307
--	1,307,000	1,307,000	REPURCHASE AGREEMENT AND OTHER			
			Union Bank of California, 5.250%,			
			dated 6/30/99 due 7/1/99 at			
			maturity value \$1,307,191,			
			collaterized by \$1,358,950,			
--	432	432	Freddie Mac, 6.250%, due 12/15/07	--	1,307,000	1,307,000
			with a fair value of \$1,311,969	--	432	432
			Union Bank of California-Cash Sweep	--	1,307,432	1,307,432
			TOTAL DEBT SECURITIES	11,446,080	41,236,287	52,682,367

TOTAL INVESTMENTS IN SECURITIES

(Cost \$11,597,669, \$40,948,693)

and \$52,546,362, respectively)*	11,446,080	41,236,287		52,682,367
OTHER ASSETS LESS LIABILITIES	254,825	358,708	(6,298)	607,235
				-----
NET ASSETS	\$11,700,905	\$41,594,995	(\$6,298)	\$53,289,602
				=====

\* Cost for Federal income tax purposes is the same.

Net unrealized appreciation (depreciation) consists of:				
Gross unrealized appreciation	\$8,385	\$ 812,525		\$ 820,910
Gross unrealized depreciation	(159,974)	(524,931)		(684,905)
				-----
Net unrealized appreciation (depreciation)	\$ (151,589)	\$ 287,594		\$ 136,005
				=====

</TABLE>

See accompanying noates to pro forma combining financial statements.

KAYNE ANDERSON INTERMEDIATE TOTAL RETURN BOND FUND  
SEFTON U.S. GOVERNMENT FUND  
PRO FORMA COMBINING STATEMENT OF ASSETS AND LIABILITIES  
JUNE 30, 1999  
(UNAUDITED)

<TABLE>  
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	KAYNE ANDERSON (HISTORICAL)	SEFTON (HISTORICAL)	PRO FORMA ADJUST	PRO FORMA COMBINED
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
ASSETS				
Investments in securities, at market (cost of \$11,597,669, \$40,948,693 and \$52,546,362, respectively)	\$11,446,080	\$41,236,287		\$ 52,682,367
Cash	86,558	--		86,558
Interest receivable	168,705	596,625		765,330
Prepaid expenses	20,382	3,650		24,032
Due from investment advisor	3,544	--		3,544
Deferred organization costs, net	9,847	6,298	(6,298)	9,847
	-----	-----	-----	-----
Total assets	11,735,116	41,842,860	(6,298)	53,571,678
	-----	-----	-----	-----
LIABILITIES				
Payables:				
Capital shares redeemed	--	30,731		30,731
Distributions to shareholders	33,093	184,317		217,410
Due to investment advisor	--	18,813		18,813
Other accrued expenses	1,118	14,004		15,122
	-----	-----	-----	-----
Total liabilities	34,211	247,865	--	282,076
	-----	-----	-----	-----
NET ASSETS	\$11,700,905	\$41,594,995	\$ (6,298)	\$53,289,602
	=====	=====	=====	=====
Number of shares issued and outstanding (unlimited shares authorized without par value)	1,103,094	3,380,718	539,046	5,022,858
	=====	=====	=====	=====
Net asset value, offering and redemption price per share	\$ 10.61	\$ 12.30		\$ 10.61
	=====	=====	=====	=====

</TABLE>

See accompanying noates to pro forma combining financial statements.

KAYNE ANDERSON INTERMEDIATE TOTAL RETURN BOND FUND  
SEFTON U.S. GOVERNMENT FUND  
PRO FORMA COMBINING STATEMENT OF OPERATIONS  
FOR THE SIX MONTHS ENDED JUNE 30, 1999  
(UNAUDITED)

<TABLE>  
<CAPTION>

	KAYNE ANDERSON (HISTORICAL)	SEFTON (HISTORICAL)	PRO FORMA ADJUST	PRO FORMA COMBINED
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>

INVESTMENT INCOME:				
Income:				
Interest income	\$ 571,490	\$ 1,277,715		\$ 1,849,205
	-----	-----	-----	-----
Total income	571,490	1,277,715	--	1,849,205
	-----	-----	-----	-----
Expenses:				
Investment advisory fees	50,597	120,133	(20,022)	150,708
Custodian fees	4,472	1,858		6,330
Administration fees	7,589	30,033		37,622
Fund accounting fees	17,356	16,847		34,203
Transfer agent fees	7,636	4,425		12,061
Shareholder servicing fees	--	10,542	(10,542)	--
Professional fees	5,116	15,189		20,305
Insurance expense	92	--		92
Miscellaneous expenses	1,240	16,900		18,140
Reports to shareholders	744	--		744
Registration fees	8,348	--		8,348
Trustees' fees	3,933	--		3,933
Amortization of deferred organization expenses	2,107	--		2,107
	-----	-----	-----	-----
Total expenses	109,230	215,927	(30,564)	294,593
Less: Expenses reimbursed	(13,534)	(14,756)	20,506	(7,784)
	-----	-----	-----	-----
Net expenses	95,696	201,171	(10,058)	286,809
	-----	-----	-----	-----
NET INVESTMENT INCOME	475,794	1,076,544	10,058	1,562,396
	-----	-----	-----	-----
REALIZED AND UNREALIZED				
GAIN (LOSS) ON INVESTMENTS:				
Net realized gain on investments	91,140	5,409		96,549
Net change in unrealized appreciation (depreciation) of investments	(711,227)	(1,709,716)		(2,420,943)
	-----	-----	-----	-----
Net gain (loss) on investments	(620,087)	(1,704,307)	--	(2,324,394)
	-----	-----	-----	-----
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	(\$144,293)	\$ (627,763)	\$ 10,058	\$ (761,998)
	=====	=====	=====	=====

</TABLE>

See accompanying notes to pro forma combining financial statements.

KAYNE ANDERSON INTERMEDIATE TOTAL RETURN BOND FUND  
SEFTON U.S. GOVERNMENT FUND  
PRO FORMA COMBINING STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 1998  
(UNAUDITED)

<TABLE>  
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	KAYNE ANDERSON (HISTORICAL)	SEFTON (HISTORICAL)	PRO FORMA ADJUST	PRO FORMA COMBINED
<S>	<C>	<C>	<C>	<C>
INVESTMENT INCOME:				
Income:				
Dividend income	\$ 0	\$ 37		\$ 37
Interest income	1,411,875	2,383,315		3,795,190
	-----	-----	-----	-----
Total income	1,411,875	2,383,352	--	3,795,227
	-----	-----	-----	-----
Expenses:				
Investment advisory fees	120,618	225,370	(37,562)	308,426
Custodian fees	5,429	98		5,527
Administration fees	26,052	56,342		82,394
Fund accounting fees	32,258	34,971		67,229
Transfer agent fees	20,322	9,643		29,965
Shareholder servicing fees	--	4,847	(4,847)	--
Professional fees	8,092	33,299		41,391
Insurance expense	70	--		70
Miscellaneous expenses	2,263	27,842		30,105
Reports to shareholders	1,000	--		1,000
Registration fees	16,487	--		16,487
Trustees' fees	4,438	--		4,438
Amortization of deferred organization expenses	4,249	--		4,249



200,000	--	200,000	Callable 12/1/08 @ 101 Hawaii State 5.250% dated 03/01/1997 due 03/01/2000	--	1,896,421		1,896,421
195,000	--	195,000	Indiana Bond Bank 6.600% dated 02/01/1991 due 01/01/2003	--	202,294	--	202,294
200,000	--	200,000	Los Angeles County California Public Works 5.000% 11/01/1997 due 10/01/2016	--	205,237	--	205,237
250,000	--	250,000	Massachusetts State 5.000% dated 08/01/1997 due 08/01/2000	--	194,000	--	194,000
100,000	--	100,000	Nevada State 5.600% dated 07/01/1996 due 05/15/2009	--	253,397	--	253,397
--	1,000,000	1,000,000	Oakland California, Series B 5.88% due 6/15/19, Callable 6/15/05 @ 102	--	104,750	--	104,750
60,000	--	60,000	Puerto Rico Public Buildings Authority 5.750% dated 06/01/1993 due 07/01/2015	--	1,041,850	--	1,041,850
150,000	--	150,000	Salt Lake City Utah Redevelopment Agency 5.500% dated 08/01/1997 due 10/01/2008	--	61,725	--	61,725
250,000	--	250,000	Washoe County Nevada 6.750% dated 03/15/1991 due 03/15/2000	--	154,312	--	154,312
				--	257,677	--	257,677
					2,864,589	4,406,636	7,271,225

EDUCATION

--	1,690,000	1,690,000	California Educational Facilities Authority, Pomona College, 6.13%, 2/15/08, Callable 02/15/2002 @ 102	--	1,794,611		1,794,611
----	-----------	-----------	--	----	-----------	--	-----------

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<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
--	1,500,000	1,500,000	California Educational Facilities Authority, Santa Clara University, 6.25%, 2/1/16, Prerefunded 02/01/2002 @ 102	--	1,604,625		1,604,625
200,000	--	200,000	Pinal County Arizona School District 6.000% dated 10/01/1992 due 07/01/2004	--	210,250	--	210,250
200,000	--	200,000	University of California Revenues 5.250% dated 08/15/1993 due 09/01/2011	--	204,000	--	204,000
--	1,500,000	1,500,000	University of California Revenues Series B 6.30%, 9/1/15, Prerefunded 9/1/03 @ 102	--	1,644,750		1,644,750
					414,250	5,043,986	5,458,236

ELECTRIC

200,000	--	200,000	Colorado Springs Utilities 6.750% dated 04/15/1991 due 11/15/2005	--	213,500	--	213,500
100,000	--	100,000	Hillsborough Florida Utilities 7.000% dated 09/01/1991 due 08/01/2114	--	107,000	--	107,000
400,000	--	400,000	Knoxville Tennessee Electric Revenue 5.000% dated 11/01/1998 due 07/01/1998	--	375,500	--	375,500
100,000	--	100,000	Lower Colorado River Texas Authority 5.250% dated 05/01/1993 due 01/01/2015	--	99,125	--	99,125
75,000	--	75,000	Massachusetts State Power 5.875% dated 08/01/1992 due 07/01/2003	--	78,187	--	78,187
85,000	--	85,000	Piedmont Municipal Power Agency 6.550% dated 09/01/1996 due 01/01/2016	--	85,513	--	85,513
200,000	--	200,000	Puerto Rico Electric Power Authority 6.000% dated 08/15/1995 due 07/01/2000	--	205,000	--	205,000
200,000	--	200,000	Sacramento California Municipal Utilities Dist. 5.700% dated 04/01/1993 due 05/15/2012	--	208,750	--	208,750
200,000	--	200,000	Tacoma Washington Electric System Revenue 5.900% dated 09/01/1992				

100,000	--	100,000	due 01/01/2005 Washington Public Power Supply Systems 4.750% dated 05/01/1993 due 07/01/1999	209,750	--	209,750
				100,000	--	100,000
				-----		-----
				1,682,325	--	1,682,325
				-----		-----
HEALTH						
--	1,000,000	1,000,000	California Health Facilities Authorities Revenue 5.000% due 11/15/2013	--	983,340	983,340
--	1,500,000	1,500,000	California Health Facilities Finance Authorities 6.25% due 10/1/13, Callable 10/1/01 @ 102	--	1,586,640	1,586,640
--	1,000,000	1,000,000	Stockton, California Health Facilities, Dameron Hospital Assoc., Series A 5.35% due 12/1/09, Callable 12/1/07 @102	--	1,012,310	1,012,310
--	500,000	500,000	Stockton, California Health Facilities, Dameron Hospital Assoc., Series A 5.45% due 12/1/10, Callable 12/1/07 @ 102	--	503,650	503,650
				-----		-----
				--	4,085,940	4,085,940
				-----		-----
HOSPITAL						
200,000	--	200,000	Dade County Health Facilities Authority 6.600% dated 03/01/1987 due 08/15/2002	202,380	--	202,380
300,000	--	300,000	New Jersey Health Facility Financing Authority 6.800% dated 04/01/192 due 07/01/2011	319,500	--	319,500
200,000	--	200,000	New York Dormitory Authority 5.000% dated 03/01/1997 due 08/15/2000	202,500	--	202,500
200,000	--	200,000	New York State Dormitory Authority 5.500% dated 02/01/1998 due 02/15/2003	205,750	--	205,750
				-----		-----
				930,130	--	930,130
				-----		-----
HOUSING						
260,000	--	260,000	California Housing Finance Agency 4.350% dated 12/01/1998 due 08/01/2008	249,925	--	249,925
--	1,460,000	1,460,000	California Housing Finance Agency, Series F 5.95% due 8/1/14, Callable 8/1/05 @ 102	--	1,534,402	1,534,402
--	800,000	800,000	California Housing Finance Agency, Series L 5.90% due 8/1/17, Callable 2/1/06 @ 102	--	837,784	837,784
200,000	--	200,000	New York Urban Development 6.000% dated 01/01/1995 due 01/01/2001	204,750	--	204,750
250,000	--	250,000	Santa Clara County California Housing 4.250% dated 11/01/1998 due 11/01/2007	245,938	--	245,938
				-----		-----
				700,613	2,372,186	3,072,799
				-----		-----

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IDR/PCR							
200,000	--	200,000	California Pollution Control Financing Authority 7.150% dated 02/01/1991 due 02/01/2011	211,250	--	211,250	
200,000	--	200,000	California Pollution Control Financing Authority 5.850% dated 11/01/1993 due 12/01/2023	204,000	--	204,000	
250,000	--	250,000	Gallup, New Mexico Pollution Control Revenue 6.650% dated 04/15/1992 due 08/15/2017	257,188	--	257,188	
75,000	--	75,000	Mercer County, North Dakota Pollution Control 5.850% 06/01/1993 due 06/01/2023	77,156	--	77,156	
180,000	--	180,000	Jefferson County 5.300% dated 08/17/1994 due 08/01/1999	180,095	--	180,095	
				-----		-----	
				929,689	--	929,689	

			POWER					
--	1,500,000	1,500,000	M-S-R Public Power Agency, California San Juan Project, Series F 6.00% due 7/1/20, Callable 7/1/03 @ 102	--	1,574,985	--	1,574,985	1,574,985
--	1,000,000	1,000,000	Northern California Power Agency Revenue 5.00% due 7/1/15, Callable 7/1/08 @ 101	--	975,800	--	975,800	975,800
				--	2,550,785	--	2,550,785	2,550,785
			PRISONS					
--	1,000,000	1,000,000	California State Public Works Board University 5.250% due 12/01/2008, AMBAC	--	1,044,920	--	1,044,920	1,044,920
			REVENUE					
--	1,000,000	1,000,000	Mountain View California Shoreline Regional Park, Series A, 5.500% due 8/1/21, Callable 8/1/06 @ 102	--	1,010,990	--	1,010,990	1,010,990
--	1,000,000	1,000,000	Port of Oakland 5.60% due 11/1/19, Callable 11/1/07 @ 102	--	1,023,320	--	1,023,320	1,023,320
--	1,500,000	1,500,000	San Francisco Port Commission 5.90% due 7/1/09, Callable 7/1/04 @ 102	--	1,589,925	--	1,589,925	1,589,925
				--	3,624,235	--	3,624,235	3,624,235
			TRANSPORTATION					
105,000	--	105,000	Colorado Springs Colorado Airport 6.900% dated 09/15/1992 due 01/01/2012		113,400	--	113,400	113,400
200,000	--	200,000	Denver Colorado City & County Airport 8.100% dated 05/01/1990 due 11/15/2000		210,000	--	210,000	210,000
250,000	--	250,000	Hawaii State Airports System 7.500% dated 10/01/1990 due 07/01/2005		261,816	--	261,816	261,816
100,000	--	100,000	Hawaii State Airports Revenue 5.750% dated 04/01/1994 due 07/01/2009		105,000	--	105,000	105,000
200,000	--	200,000	New Jersey State Turnpike Authority 5.900% dated 01/01/1992 due 01/01/2003		208,500	--	208,500	208,500
200,000	--	200,000	Orange County Airport 5.500% dated 04/02/1997 due 07/01/2002		207,000	--	207,000	207,000
--	1,500,000	1,500,000	San Diego Regional Transportation Comm., California Sales Tax, Series A 5.000% due 04/01/2007, FGIC	--	1,543,080	--	1,543,080	1,543,080
--	1,800,000	1,800,000	San Francisco Airport, California City/County 5.38% due 5/1/17, Callable 5/1/06 @ 102	--	1,812,438	--	1,812,438	1,812,438
--	1,500,000	1,500,000	San Francisco Bay Area Rapid Transit, Sales Tax Revenue, 5.500% due 07/01/2015, Callable 07/01/2005 @ 101	--	1,526,565	--	1,526,565	1,526,565
250,000	--	250,000	San Francisco California City 5.500% dated 05/01/1999 due 05/01/2005		261,562	--	261,562	261,562
					1,367,278	4,882,083		6,249,361
			PREREFUNDED					
200,000	--	200,000	California Health Facility Financing Authority 6.750% dated 10/01/1989 due 10/01/2019		205,609	--	205,609	205,609
185,000	--	185,000	California State 5.250% dated 11/01/1996 due 06/01/2011		194,018	--	194,018	194,018
150,000	--	150,000	Los Angeles Convention & Exhibit Center 9.000% dated 12/01/1985 due 12/01/2020		187,687	--	187,687	187,687
100,000	--	100,000	Orange County CA Local Transportation Auth. 5.750% dated 09/01/1992 due 02/15/2005		105,750	--	105,750	105,750
</TABLE>								
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<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
200,000	--	200,000	Washington Public Power Supply Systems 7.625% dated 10/15/1990					

275,000	--	275,000	due 07/01/2010	213,751	--	213,751
			Webb County Partnership 5.250%			
			dated 10/01/1997 due 10/01/2022	283,251	--	283,251
				-----		
				1,190,066	--	1,190,066
				-----		
WATER & SEWER						
275,000	--	275,000	Contra Costa California Water			
			District 5.250% dated 07/01/1993			
			due 10/01/2016	276,375	--	276,375
--	1,200,000	1,200,000	Los Angeles California Waste			
			Water Revenue 5.00% due 6/1/14,			
			Callable 6/1/08 @ 101	--	1,183,212	1,183,212
200,000	--	200,000	Los Angeles California Wastewater			
			System 5.700% dated 04/01/1993			
			due 06/01/2020	207,251	--	207,251
--	1,700,000	1,700,000	Marin California Municipal			
			Water District 5.55% due 7/1/13,			
			Callable 7/1/03 @ 102	--	1,739,916	1,739,916
--	1,000,000	1,000,000	Rancho California Water District			
			Financing Authority, Series A			
			5.88% due 11/1/10, Callable			
			11/1/05 @ 102	--	1,068,460	1,068,460
--	1,500,000	1,500,000	San Francisco California			
			City/County Public Utility			
			Commission Water, Series A 6.00%			
			due 11/1/15, Callable 11/1/02 @ 100	--	1,562,970	1,562,970
--	1,500,000	1,500,000	San Jose - Santa Clara Water			
			Dist. Fin. 5.38% due 11/15/15,			
			Callable 11/15/05 @ 101	--	1,516,020	1,516,020
--	1,000,000	1,000,000	South County California Regional			
			Wastewater 4.75% due 8/1/17,			
			Callable 8/1/09 @ 102	--	931,520	931,520
--	1,000,000	1,000,000	Tulare California Sewer Revenue,			
			5.70% due 11/15/15, Callable			
			11/15/06 @ 102	--	1,045,040	1,045,040
				-----		
				483,626	9,047,138	9,530,764
				-----		
TOTAL MUNICIPAL DEBT				10,562,566	39,030,439	49,593,005
				-----		
VARIABLE RATE MUNICIPAL DEBT						
400,000	--	400,000	California State Economic Development			
			0.000%** dated 5/15/1998 due 4/1/08	400,000	--	400,000
				-----		
TOTAL INVESTMENTS IN SECURITIES						
(Cost \$11,085,362, \$37,371,769						
and \$48,457,131, respectively)*				10,962,566	39,030,439	49,993,005
OTHER ASSETS LESS LIABILITIES				220,133	491,077	(6,298)
				-----		
NET ASSETS				\$11,182,699	\$39,521,516	\$(6,298)
				=====		\$50,697,917
				=====		
* Cost for Federal income tax purpose is the same.						
Net unrealized appreciation						
(depreciation) consists of:						
Gross unrealized appreciation				\$ 26,917	\$ 1,763,161	\$ 1,790,078
Gross unrealized depreciation				(149,713)	(104,491)	(254,204)
				-----		
Net unrealized appreciation				\$ (122,796)	\$ 1,658,670	\$ 1,535,874
(depreciation)				=====		
				=====		

</TABLE>

See accompanying notes to pro forma combining financial statements.

KAYNE ANDERSON INTERMEDIATE TAX-FREE BOND FUND  
SEFTON CALIFORNIA TAX-FREE FUND  
PRO FORMA COMBINING STATEMENT OF ASSETS AND LIABILITIES  
JUNE 30, 1999  
(UNAUDITED)

<TABLE>  
<CAPTION>

	KAYNE ANDERSON (HISTORICAL)	SEFTON (HISTORICAL)	PRO FORMA ADJUST	PRO FORMA COMBINED
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>



ASSETS				
Investments in securities, at market (cost of \$11,085,362, \$37,371,769 and \$48,457,131, respectively)	\$10,962,566	\$39,030,439		\$49,993,005
Cash	143,113	54,688		197,801
Interest receivable	204,729	596,593		801,322
Prepaid expenses	16,733	3,783		20,516
Due from investment advisor	2,262	--		2,262
Deferred organization costs, net	9,847	6,298	(6,298)	9,847
	-----	-----	-----	-----
Total assets	11,339,250	39,691,801	(6,298)	51,024,753
	-----	-----	-----	-----
LIABILITIES				
Payables:				
Investment securities purchased	108,199	--		108,199
Distributions payable	35,868	143,015		178,883
Due to investment advisor	--	14,717		14,717
Other accrued expenses	12,484	12,553		25,037
	-----	-----	-----	-----
Total liabilities	156,551	170,285	--	326,836
	-----	-----	-----	-----
NET ASSETS	\$11,182,699	\$39,521,516	\$ (6,298)	\$50,697,917
	=====	=====	=====	=====
Number of shares issued and outstanding (unlimited shares authorized without par value)	1,057,802	3,144,113	594,318	4,796,233
	=====	=====	=====	=====
Net asset value, offering and redemption price per share	\$ 10.57	\$ 12.57		\$ 10.57
	=====	=====	=====	=====

</TABLE>

See accompanying notes to pro forma combining financial statements.

KAYNE ANDERSON INTERMEDIATE TAX-FREE BOND FUND  
SEFTON CALIFORNIA TAX-FREE FUND  
PRO FORMA COMBINING STATEMENT OF OPERATIONS  
FOR THE SIX MONTHS ENDED JUNE 30, 1999  
(UNAUDITED)

<TABLE>

<CAPTION>

	KAYNE ANDERSON (HISTORICAL)	SEFTON (HISTORICAL)	PRO FORMA ADJUST	PRO FORMA COMBINED
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
INVESTMENT INCOME:				
Income:				
Interest income	\$ 232,564	\$ 1,063,422		\$ 1,295,986
	-----	-----	-----	-----
Total income	232,564	1,063,422	--	1,295,986
	-----	-----	-----	-----
Expenses:				
Investment advisory fees	26,217	121,285	(20,214)	127,288
Custodian fees	1,439	1,866		3,305
Administration fees	9,919	30,321		40,240
Fund accounting fees	18,236	17,507		35,743
Transfer agent fees	8,636	4,235		12,871
Shareholder servicing fees	--	9,026	(9,026)	--
Professional fees	3,017	15,125		18,142
Insurance expense	92	--		92
Miscellaneous expenses	744	18,142		18,886
Reports to shareholders	248	--		248
Registration fees	7,615	--		7,615
Trustees' fees	1,933	--		1,933
Amortization of deferred organization expenses	2,107	--		2,107
	-----	-----	-----	-----
Total expenses	80,203	217,507	(29,240)	268,470
Less: Expenses reimbursed	(39,581)	(30,321)	(6,989)	(76,891)
Less: Expenses paid indirectly	(1,264)	--		(1,264)
	-----	-----	-----	-----
Net expenses	39,358	187,186	(36,229)	190,315
	-----	-----	-----	-----
NET INVESTMENT INCOME	193,206	876,236	36,229	1,105,671
	-----	-----	-----	-----
REALIZED AND UNREALIZED				
GAIN (LOSS) ON INVESTMENTS:				
Net realized gain (loss) on investments	(212)	39,961		39,749
Net change in unrealized appreciation (depreciation) of investments	(199,160)	(1,378,810)	(1,577,970)	

Net gain (loss) on investments	(199,372)	(1,338,849)	--	(1,538,221)
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	\$ (6,166)	\$ (462,613)	\$ 36,229	\$ (432,550)

</TABLE>

See accompanying notes to pro forma combining financial statements.

KAYNE ANDERSON INTERMEDIATE TAX-FREE BOND FUND  
SEFTON CALIFORNIA TAX-FREE FUND  
PRO FORMA COMBINING STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 1998  
(UNAUDITED)

<TABLE>  
<CAPTION>

	KAYNE ANDERSON (HISTORICAL)	SEFTON (HISTORICAL)	PRO FORMA ADJUST	PRO FORMA COMBINED
<S>	<C>	<C>	<C>	<C>
INVESTMENT INCOME:				
Income:				
Interest income	\$ 318,389	\$ 2,186,750		\$ 2,505,139
Total income	318,389	2,186,750	--	2,505,139
Expenses:				
Investment advisory fees	34,150	253,518	(42,253)	245,415
Custodian fees	2,518	1,380		3,898
Administration fees	20,873	63,379		84,252
Fund accounting fees	37,318	36,740		74,058
Transfer agent fees	22,877	9,450		32,327
Shareholder servicing fees	--	4,226	(4,226)	--
Professional fees	6,650	35,635		42,285
Insurance expense	70	--		70
Miscellaneous expenses	2,000	35,736		37,736
Reports to shareholders	1,000	--		1,000
Registration fees	16,487	--		16,487
Trustees' fees	4,438	--		4,438
Amortization of deferred organization expenses	4,249	--	--	4,249
Total expenses	152,630	440,064	(46,479)	546,215
Less: Expenses reimbursed/waived	(99,797)	(63,379)	(26,428)	(189,604)
Net expenses	52,833	376,685	(72,907)	356,611
NET INVESTMENT INCOME	265,556	1,810,065	72,907	2,148,528
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:				
Net realized gain (loss) on investments	5,204	195,883		201,087
Net change in unrealized appreciation (depreciation) of investments	23,836	521,090		544,926
Net gain (loss) on investments	29,040	716,973	--	746,013
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	\$ 294,596	\$ 2,527,038	\$ 72,907	\$ 2,894,541

</TABLE>

See accompanying notes to pro forma combining financial statements.

KAYNE ANDERSON MUTUAL FUNDS  
SEFTON FUNDS TRUST  
NOTES TO PRO FORMA COMBINING FINANCIAL STATEMENT

NOTE 1 - BASIS OF PRO FORMA PRESENTATION

The pro forma combining financial statements and the accompanying pro forma schedules of investments give effect to the proposed Agreements and Plans of Reorganization pursuant to which the Sefton Equity Value Fund, Sefton Small Company Value Fund, Sefton U.S. Government Fund and Sefton California Tax-Free Fund (each a series of Sefton Funds Trust, collectively the "Acquired Funds") will transfer all of their assets and liabilities to the Kayne Anderson Rising Dividends Fund, Kayne Anderson Small Cap Rising Dividends Fund, Kayne Anderson Intermediate Total Return Bond Fund and Kayne Anderson Intermediate Tax-Free

Bond Fund (each a series of shares of Kayne Anderson Mutual Funds, collectively the "Acquiring Funds"), respectively, in exchange for shares of the corresponding Acquiring Fund. It is contemplated that each of the reorganizations will be accounted for as a tax-free reorganization of investment companies.

NOTE 2 - PRO FORMA ADJUSTMENTS

Pro forma adjustments have been made to give effect to each of the following as if the reorganizations had occurred as of the beginning of each period presented:

- A - Adjust investment advisory fees to conform with the contractual rates of the Acquiring Funds
- B - Eliminate shareholder servicing fees of the Acquired Funds
- C - Adjust expense waiver/reimbursements to conform with the Acquiring Funds contractual arrangements

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PART C

KAYNE ANDERSON MUTUAL FUNDS

OTHER INFORMATION

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KAYNE ANDERSON MUTUAL FUNDS

-----

FORM N-14

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PART C

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ITEM 15. INDEMNIFICATION

Article VII of the Agreement and Declaration of Trust empowers the Trustees of the Trust, to the full extent permitted by law, to purchase, with Trust assets, insurance for indemnification from liability and to pay for all expenses reasonably incurred or paid or expected to be paid by a Trustee or officer in connection with any claim, action, suit or proceeding in which he or she becomes involved by virtue of his or her capacity or former capacity with the Trust.

Article VI of the By-Laws of the Trust provides that the Trust shall indemnify any person who was or is a party or is threatened to be made a party to any proceeding by reason of the fact that such person is and other amounts or was an agent of the Trust, against expenses, judgments, fines, settlement and other amounts actually and reasonable incurred in connection with such proceeding if that person acted in good faith and reasonably believed his or her conduct to be in the best interests of the Trust. Indemnification will not be provided in certain circumstances, however, including instances of willful misfeasance, bad faith, gross negligence, and reckless disregard of the duties involved in the conduct of the particular office involved.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended (the "33 Act") may be permitted to the Trustees, officers and controlling persons of the Registrant pursuant to the foregoing provisions or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the 33 Act and is, therefore, unenforceable in the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a Trustee, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such Trustee, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the 33 Act

and will be governed by the final adjudication of such issue.

ITEM 16 EXHIBITS

- (1) Agreement and Declaration of Trust. (a)
- (2) By-Laws. (a)
- (3) Voting Trust Agreement - Not Applicable.
- (4) Form of Agreement and Plan of Reorganization is included in Part A.
- (5) Specimen Share Certificate - Not Applicable.
- (6) Investment Advisory Contracts for:
  - (1) Kayne Anderson Rising Dividends Fund (a)
  - (2) Kayne Anderson Small Cap Rising Dividends Fund (a)
  - (3) Kayne Anderson Intermediate Total Return Bond Fund (a)
  - (4) Kayne Anderson Intermediate Tax-Free Bond Fund (a)

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- (7) Underwriting Contracts. (c)
- (8) Bonus or Profit Sharing Contracts--Not Applicable.
- (9) Custodian Agreement. (b)
- (10) Rule 12b-1 plan and Rule 18f-3 plan - Not applicable.
- (11) Consent and Opinion of Counsel as to legality of shares. (b)
- (12) Opinion and Consent as to Tax Matters - filed herewith.
- (13) Other Material Contracts - Administration Agreement. (c)
- (14) Independent Auditors' Consent - filed herewith.
- (15) Not Applicable.
- (16) Power of Attorney (a)
- (17) Not Applicable.

- 
- (a) Incorporated by reference to the Form N-1A Registration Statement filed on July 12, 1996.
  - (b) Incorporated by reference to Pre-Effective Amendment No. 1 to the Form N-1A Registration Statement filed on September 18, 1996.
  - (c) Incorporated by reference to Pre-Effective Amendment No. 2 to the Form N1-A Registration Statement filed on September 26, 1996.

ITEM 17. UNDERTAKINGS.

- (1) Registrant agrees that, prior to any public reoffering of the securities registered through the use of a prospectus which is part of this registration statement by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c) of the Securities Act of 1933, the reoffering prospectus will contain the information called for by the applicable registration form for the reofferings by persons who may be deemed underwriters, in addition to the information called for by the other items of the applicable.
- (2) The undersigned Registrant agrees that every prospectus that is filed under paragraph (a) above will be filed as part of an amendment to the Registration Statement and will not be used until the amendment is effective, and that, in determining any liability under the Securities Act of 1933, each post-effective amendment shall be deemed to be a new registration statement for the securities offered therein, and the offering of the securities at that time shall be deemed to be the initial bona fide offering of them.

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SIGNATURES

As required by the Securities Act of 1933, this registration statement has been signed on behalf of the Registrant, in the City of Los Angeles and State of California, on the 10th day of September, 1999.

KAYNE ANDERSON MUTUAL FUNDS

/s/ Allan M. Rudnick\*  
 -----  
 Allan M. Rudnick  
 Principal Executive Officer

As required by the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated:

Signature -----	Title -----	Date -----
Richard Alan Kayne* ----- Richard Alan Kayne	Chairman of the Board of Trustees	September 10, 1999
Allan M. Rudnick* ----- Allan M. Rudnick	President, Principal Executive Officer and Trustee	September 10, 1999
William T. Miller* ----- William T. Miller	Principal Financial and Accounting Officer, and Trustee	September 10, 1999
Carl D. Covitz* ----- Carl D. Covitz	Trustee	September 10, 1999
Arnold Brustin* ----- Arnold Brustin	Trustee	September 10, 1999
Gerald I. Isenberg* ----- Gerald I. Isenberg	Trustee	September 10, 1999
William H. Waldorf* ----- William H. Waldorf	Trustee	September 10, 1999

\* By: /s/ William T. Miller  
 -----  
 William T. Miller, pursuant to a  
 Power of Attorney previously filed

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SEC File No. 333-\_\_\_\_\_

KAYNE ANDERSON MUTUAL FUNDS

FORM N-14

EXHIBIT INDEX

Number -----	Exhibit -----
12	Forms of opinions of Ropes & Gray as to tax matters
14	Independent Auditors' Consent - Briggs, Bunting & Dougherty, LLP

\_\_\_\_\_, 1999

Sefton U.S. Government Fund  
Sefton Funds Trust  
2550 Fifth Avenue, Suite 808  
San Diego, CA 92103

Kayne Anderson Intermediate Total Return Bond Fund  
Kayne Anderson Mutual Funds  
1800 Avenue of the Stars, 2nd Floor  
Los Angeles, California 90067

Ladies and Gentlemen:

We have acted as counsel in connection with the Agreement and Plan of Reorganization (the "Agreement") dated as of \_\_\_\_\_, 1999, between Sefton Funds Trust, a Delaware business trust, on behalf of its U.S. Government Fund ("Target Fund"), and the Kayne Anderson Mutual Funds, a Delaware business trust on behalf of its Intermediate Total Return Bond Fund ("Acquiring Fund"). The Agreement describes a proposed transaction (the "Transaction") to occur on \_\_\_\_\_, 1999 (the "Exchange Date"), pursuant to which Acquiring Fund will acquire substantially all of the assets of Target Fund in exchange for shares of beneficial interest in Acquiring Fund (the "Acquiring Fund Shares") and the assumption by Acquiring Fund of all of the liabilities of Target Fund following which the Acquiring Fund Shares received by Target Fund will be distributed by Target Fund to its shareholders in liquidation and termination of Target Fund. This opinion as to certain federal income tax consequences of the Transaction is furnished to you pursuant to Sections \_\_\_ and \_\_\_ of the Agreement. Capitalized terms not defined herein are used herein as defined in the Agreement.

Target Fund is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company. Shares of Target Fund are redeemable at net asset value at each shareholder's option. Target Fund has elected to be a regulated investment company for federal income tax purposes under Section 851 of the Internal Revenue Code of 1986, as amended (the "Code").

Acquiring Fund is registered under the 1940 Act as an open-end management investment company. Shares of Acquiring Fund are redeemable at net asset value at each shareholder's option. Acquiring Fund has elected to be a regulated investment company for federal income tax purposes under Section 851 of the Code.

Sefton U.S. Government Fund  
Kayne Anderson Intermediate  
Total Return Bond Fund

For purposes of this opinion, we have considered the Agreement, the Acquired Fund Proxy Statement, the Registration Statement (including the items incorporated by reference therein), and such other items as we have deemed necessary to render this opinion. In addition, you have provided us with letters dated as of the date hereof, representing as to certain facts, occurrences and information upon which you have indicated that we may rely in rendering this opinion (whether or not contained or reflected in the documents and items referred to above) (the "Acquiring Fund Rep Letter" and "Target Fund Rep Letter").

We have also assumed, for purposes of this opinion, that any redemptions that are made when either Target Fund's or Acquiring Fund's shares are presented to each of them respectively for redemption pursuant to section 22(e) of the Investment Company Act which appear to be made in connection with the Transaction will not, when aggregated with the redemptions and distributions described in paragraph 6 of the Acquiring Fund Rep Letter and paragraph 5 of the Target Fund Rep Letter, exceed 50% of the value (without giving effect to such redemptions or distributions) of all of the outstanding stock of the Target Fund on the date of the Transaction.

Based on the foregoing representations and assumption and our review of the documents and items referred to above, we are of the opinion that, for federal income tax purposes:

- (i) No gain or loss will be recognized by Acquiring Fund upon the receipt of the assets of Target Fund in exchange for Acquiring Fund Shares and the assumption by Acquiring Fund of the liabilities of Target Fund;
- (ii) The basis in the hands of Acquiring Fund of the assets of Target Fund transferred to Acquiring Fund in the Transaction will be the same as the basis of such assets in the hands of Target Fund immediately prior to the transfer;
- (iii) The holding periods of the assets of Target Fund in the hands of Acquiring Fund will include the periods during which such assets were held by Target Fund;
- (iv) No gain or loss will be recognized by Target Fund upon the transfer of Target Fund's assets to Acquiring Fund in exchange for Acquiring Fund Shares and the assumption by Acquiring Fund of the liabilities of Target Fund, or upon the distribution of Acquiring Fund Shares by Target Fund to its shareholders in liquidation;
- (v) No gain or loss will be recognized by Target Fund shareholders upon the exchange of their Target Fund Shares for Acquiring Fund Shares;
- (vi) The aggregate basis of Acquiring Fund Shares a Target Fund shareholder receives in connection with the Transaction will be

the same as the aggregate basis of his or her Target Fund Shares exchanged therefor; and

- (vii) A Target Fund shareholder's holding period for his or her Acquiring Fund Shares will be determined by including the period for which he or she held the Target Fund Shares exchanged therefor, provided that he or she held such Target Fund Shares as capital assets.

Very truly yours,

Ropes & Gray

[Ropes & Gray Letterhead]

\_\_\_\_\_, 1999

Sefton Small Company Value Fund  
Sefton Funds Trust  
2550 Fifth Avenue, Suite 808  
San Diego, CA 92103

Kayne Anderson Small Cap Rising Dividends Fund  
Kayne Anderson Mutual Funds  
1800 Avenue of the Stars, 2nd Floor  
Los Angeles, California 90067

Ladies and Gentlemen:

We have acted as counsel in connection with the Agreement and Plan of Reorganization (the "Agreement") dated as of \_\_\_\_\_, 1999, between Sefton Funds Trust, a Delaware business trust, on behalf of its Small Company Value Fund ("Target Fund"), and the Kayne Anderson Mutual Funds, a Delaware business trust on behalf of its Small Cap Rising Dividends Fund ("Acquiring Fund"). The Agreement describes a proposed transaction (the "Transaction") to occur on \_\_\_\_\_, 1999 (the "Exchange Date"), pursuant to which Acquiring Fund will acquire substantially all of the assets of Target Fund in exchange for shares of beneficial interest in Acquiring Fund (the "Acquiring Fund Shares") and the assumption by Acquiring Fund of all of the liabilities of Target Fund following which the Acquiring Fund Shares received by Target Fund will be distributed by Target Fund to its shareholders in liquidation and termination of Target Fund. This opinion as to certain federal income tax consequences of the Transaction is furnished to you pursuant to Sections \_\_\_ and \_\_\_ of the Agreement. Capitalized terms not defined herein are used herein as defined in the Agreement.

Target Fund is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company. Shares



of Target Fund are redeemable at net asset value at each shareholder's option. Target Fund has elected to be a regulated investment company for federal income tax purposes under Section 851 of the Internal Revenue Code of 1986, as amended (the "Code").

Acquiring Fund is registered under the 1940 Act as an open-end management investment company. Shares of Acquiring Fund are redeemable at net asset value at each shareholder's option. Acquiring Fund has elected to be a regulated investment company for federal income tax purposes under Section 851 of the Code.

Sefton Small Company Value Fund

Kayne Anderson Small Cap

Rising Dividends Fund

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\_\_\_\_\_, 1999

For purposes of this opinion, we have considered the Agreement, the Acquired Fund Proxy Statement, the Registration Statement (including the items incorporated by reference therein), and such other items as we have deemed necessary to render this opinion. In addition, you have provided us with letters dated as of the date hereof, representing as to certain facts, occurrences and information upon which you have indicated that we may rely in rendering this opinion (whether or not contained or reflected in the documents and items referred to above) (the "Acquiring Fund Rep Letter" and "Target Fund Rep Letter").

We have also assumed, for purposes of this opinion, that any redemptions that are made when either Target Fund's or Acquiring Fund's shares are presented to each of them respectively for redemption pursuant to section 22(e) of the Investment Company Act which appear to be made in connection with the Transaction will not, when aggregated with the redemptions and distributions described in paragraph 6 of the Acquiring Fund Rep Letter and paragraph 5 of the Target Fund Rep Letter, exceed 50% of the value (without giving effect to such redemptions or distributions) of all of the outstanding stock of the Target Fund on the date of the Transaction.

Based on the foregoing representations and assumption and our review of the documents and items referred to above, we are of the opinion that, subject to the final two paragraphs hereof, for federal income tax purposes:

- (i) No gain or loss will be recognized by Acquiring Fund upon the receipt of the assets of Target Fund in exchange for Acquiring Fund Shares and the assumption by Acquiring Fund of the liabilities of Target Fund;
- (ii) The basis in the hands of Acquiring Fund of the assets of Target Fund transferred to Acquiring Fund in the Transaction will be the same as the basis of such assets in the hands of Target Fund immediately prior to the transfer;
- (iii) The holding periods of the assets of Target Fund in the hands of

Acquiring Fund will include the periods during which such assets were held by Target Fund;

- (iv) No gain or loss will be recognized by Target Fund upon the transfer of Target Fund's assets to Acquiring Fund in exchange for Acquiring Fund Shares and the assumption by Acquiring Fund of the liabilities of Target Fund, or upon the distribution of Acquiring Fund Shares by Target Fund to its shareholders in liquidation;
- (v) No gain or loss will be recognized by Target Fund shareholders upon the exchange of their Target Fund Shares for Acquiring Fund Shares;
- (vi) The aggregate basis of Acquiring Fund Shares a Target Fund shareholder receives in connection with the Transaction will be the same as the aggregate basis of his or her Target Fund Shares exchanged therefor; and
- (vii) A Target Fund shareholder's holding period for his or her Acquiring Fund Shares will be determined by including the period for which he or she held the Target Fund Shares exchanged therefor, provided that he or she held such Target Fund Shares as capital assets.

Sefton Small Company Value Fund  
Kayne Anderson Small Cap  
Rising Dividends Fund

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\_\_\_\_\_, 1999

In connection with this opinion we call your attention to Revenue Ruling 87-76, 1987-2 C.B. 84, published by the Internal Revenue Service ("IRS"). In that ruling, the IRS held that the so-called "continuity of business enterprise" requirement necessary to tax-free reorganization treatment was not met in the case of an acquisition of an investment company which invested in corporate stocks and bonds by an investment company which invested in municipal bonds. Specifically, the IRS based its ruling on its conclusion that the business of investing in corporate stocks and bonds is not the same line of business as investing in municipal bonds. We believe that the IRS's conclusion in this ruling is questionable, and that, even if the IRS's conclusion is correct, the facts of this Transaction are distinguishable from those in the published ruling.

We believe that Acquiring Fund and Target Fund are both engaged in the same line of business, investing for the benefit of their respective stockholders in equity securities with a view toward the long term capital appreciation. After the Transaction, Acquiring Fund will continue that business for the benefit of the stockholders of both Target and Acquiring Funds. While Acquiring Fund will dispose of securities formerly held by Target Fund in order to conform with its criteria for the selection of equity securities, it will apply the same criteria to its own historic investments. All proceeds generated by all such dispositions will be reinvested in a manner fully consistent with

the historic investment policies of both Funds. In these circumstances, we are of the opinion that Acquiring Fund will have continued the historic business of Target Fund -- investing in equity securities with a view toward the long term capital appreciation for the benefit of, among others, the historic stockholders of Target Fund -- and that the continuity of business enterprise doctrine should, as a result, be satisfied. Because Revenue Ruling 87-76 is the only published ruling dealing specifically with the application of the "continuity of business enterprise" requirement to a reorganization involving investment companies, however, our opinion cannot be free from doubt. No ruling has been or will be obtained from the IRS as to the subject matter of this opinion and there can be no assurance that the IRS or a court of law will concur with the opinion set forth above.

Very truly yours,

Ropes & Gray

[Ropes & Gray Letterhead]

\_\_\_\_\_, 1999

Sefton Equity Value Fund  
Sefton Funds Trust  
2550 Fifth Avenue, Suite 808  
San Diego, CA 92103

Kayne Anderson Rising Dividends Fund  
Kayne Anderson Mutual Funds  
1800 Avenue of the Stars, 2nd Floor  
Los Angeles, California 90067

Ladies and Gentlemen:

We have acted as counsel in connection with the Agreement and Plan of Reorganization (the "Agreement") dated as of \_\_\_\_\_, 1999, between Sefton Funds Trust, a Delaware business trust, on behalf of its Equity Value Fund ("Target Fund"), and the Kayne Anderson Mutual Funds, a Delaware business trust on behalf of its Rising Dividends Fund ("Acquiring Fund"). The Agreement describes a proposed transaction (the "Transaction") to occur on \_\_\_\_\_, 1999 (the "Exchange Date"), pursuant to which Acquiring Fund will acquire substantially all of the assets of Target Fund in exchange for shares of beneficial interest in Acquiring Fund (the "Acquiring Fund Shares") and the assumption by Acquiring Fund of all of the liabilities of Target Fund following which the Acquiring Fund Shares received by Target Fund will be distributed by Target Fund to its shareholders in liquidation and termination of Target Fund. This opinion as to certain federal income tax consequences of the Transaction is furnished to you pursuant to Sections \_\_\_ and \_\_\_ of the Agreement. Capitalized terms not defined herein are used herein as defined in the Agreement.

Target Fund is registered under the Investment Company Act of 1940, as

amended (the "1940 Act"), as an open-end management investment company. Shares of Target Fund are redeemable at net asset value at each shareholder's option. Target Fund has elected to be a regulated investment company for federal income tax purposes under Section 851 of the Internal Revenue Code of 1986, as amended (the "Code").

Acquiring Fund is registered under the 1940 Act as an open-end management investment company. Shares of Acquiring Fund are redeemable at net asset value at each shareholder's option.

Sefton Equity Value Fund  
Kayne Anderson Rising  
Dividends Fund

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\_\_\_\_\_, 1999

Acquiring Fund has elected to be a regulated investment company for federal income tax purposes under Section 851 of the Code.

For purposes of this opinion, we have considered the Agreement, the Acquired Fund Proxy Statement, the Registration Statement (including the items incorporated by reference therein), and such other items as we have deemed necessary to render this opinion. In addition, you have provided us with letters dated as of the date hereof, representing as to certain facts, occurrences and information upon which you have indicated that we may rely in rendering this opinion (whether or not contained or reflected in the documents and items referred to above) (the "Acquiring Fund Rep Letter" and "Target Fund Rep Letter").

We have also assumed, for purposes of this opinion, that any redemptions that are made when either Target Fund's or Acquiring Fund's shares are presented to each of them respectively for redemption pursuant to section 22(e) of the Investment Company Act which appear to be made in connection with the Transaction will not, when aggregated with the redemptions and distributions described in paragraph 6 of the Acquiring Fund Rep Letter and paragraph 5 of the Target Fund Rep Letter, exceed 50% of the value (without giving effect to such redemptions or distributions) of all of the outstanding stock of the Target Fund on the date of the Transaction.

Based on the foregoing representations and assumption and our review of the documents and items referred to above, we are of the opinion that, subject to the final two paragraphs hereof, for federal income tax purposes:

- (i) No gain or loss will be recognized by Acquiring Fund upon the receipt of the assets of Target Fund in exchange for Acquiring Fund Shares and the assumption by Acquiring Fund of the liabilities of Target Fund;
- (ii) The basis in the hands of Acquiring Fund of the assets of Target Fund transferred to Acquiring Fund in the Transaction will be the same as the basis of such assets in the hands of Target Fund immediately prior to the transfer;

- (iii) The holding periods of the assets of Target Fund in the hands of Acquiring Fund will include the periods during which such assets were held by Target Fund;
- (iv) No gain or loss will be recognized by Target Fund upon the transfer of Target Fund's assets to Acquiring Fund in exchange for Acquiring Fund Shares and the assumption by Acquiring Fund of the liabilities of Target Fund, or upon the distribution of Acquiring Fund Shares by Target Fund to its shareholders in liquidation;
- (v) No gain or loss will be recognized by Target Fund shareholders upon the exchange of their Target Fund Shares for Acquiring Fund Shares;

Sefton Equity Value Fund  
Kayne Anderson Rising  
Dividends Fund

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\_\_\_\_\_, 1999

- (vi) The aggregate basis of Acquiring Fund Shares a Target Fund shareholder receives in connection with the Transaction will be the same as the aggregate basis of his or her Target Fund Shares exchanged therefor; and
- (vii) A Target Fund shareholder's holding period for his or her Acquiring Fund Shares will be determined by including the period for which he or she held the Target Fund Shares exchanged therefor, provided that he or she held such Target Fund Shares as capital assets.

In connection with this opinion we call your attention to Revenue Ruling 87-76, 1987-2 C.B. 84, published by the Internal Revenue Service ("IRS"). In that ruling, the IRS held that the so-called "continuity of business enterprise" requirement necessary to tax-free reorganization treatment was not met in the case of an acquisition of an investment company which invested in corporate stocks and bonds by an investment company which invested in municipal bonds. Specifically, the IRS based its ruling on its conclusion that the business of investing in corporate stocks and bonds is not the same line of business as investing in municipal bonds. We believe that the IRS's conclusion in this ruling is questionable, and that, even if the IRS's conclusion is correct, the facts of this Transaction are distinguishable from those in the published ruling.

We believe that Acquiring Fund and Target Fund are both engaged in the same line of business, investing for the benefit of their respective stockholders in equity securities with a view toward the long term capital appreciation. After the Transaction, Acquiring Fund will continue that business for the benefit of the stockholders of both Target and Acquiring Funds. While Acquiring Fund will dispose of securities formerly held by Target Fund in order to conform with its

criteria for the selection of equity securities, it will apply the same criteria to its own historic investments. All proceeds generated by all such dispositions will be reinvested in a manner fully consistent with the historic investment policies of both Funds. In these circumstances, we are of the opinion that Acquiring Fund will have continued the historic business of Target Fund -- investing in equity securities with a view toward the long term capital appreciation for the benefit of, among others, the historic stockholders of Target Fund -- and that the continuity of business enterprise doctrine should, as a result, be satisfied. Because Revenue Ruling 87-76 is the only published ruling dealing specifically with the application of the "continuity of business enterprise" requirement to a reorganization involving investment companies, however, our opinion cannot be free from doubt. No ruling has been or will be obtained from the IRS as to the subject matter of this opinion and there can be no assurance that the IRS or a court of law will concur with the opinion set forth above.

Very truly yours,

Ropes & Gray

[Ropes & Gray Letterhead]

\_\_\_\_\_, 1999

Sefton California Tax-Free Fund  
Sefton Funds Trust  
2550 Fifth Avenue, Suite 808  
San Diego, CA 92103

Kayne Anderson Intermediate Tax-Free Bond Fund  
Kayne Anderson Mutual Funds  
1800 Avenue of the Stars, 2nd Floor  
Los Angeles, California 90067

Ladies and Gentlemen:

We have acted as counsel in connection with the Agreement and Plan of Reorganization (the "Agreement") dated as of \_\_\_\_\_, 1999, between Sefton Funds Trust, a Delaware business trust, on behalf of its California Tax-Free Fund ("Target Fund"), and the Kayne Anderson Mutual Funds, a Delaware business trust on behalf of its Intermediate Tax-Free Bond Fund ("Acquiring Fund"). The Agreement describes a proposed transaction (the "Transaction") to occur on \_\_\_\_\_, 1999 (the "Exchange Date"), pursuant to which Acquiring Fund will acquire substantially all of the assets of Target Fund in exchange for shares of beneficial interest in Acquiring Fund (the "Acquiring Fund Shares") and the assumption by Acquiring Fund of all of the liabilities of Target Fund following which the Acquiring Fund Shares received by Target Fund will be distributed by Target Fund to its shareholders in liquidation and termination of Target Fund.

This opinion as to certain federal income tax consequences of the Transaction is furnished to you pursuant to Sections \_\_ and \_\_\_\_ of the Agreement. Capitalized terms not defined herein are used herein as defined in the Agreement.

Target Fund is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company. Shares of Target Fund are redeemable at net asset value at each shareholder's option. Target Fund has elected to be a regulated investment company for federal income tax purposes under Section 851 of the Internal Revenue Code of 1986, as amended (the "Code").

Acquiring Fund is registered under the 1940 Act as an open-end management investment company. Shares of Acquiring Fund are redeemable at net asset value at each shareholder's option.

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Kayne Anderson Intermediate  
Tax-Free Bond Fund

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Acquiring Fund has elected to be a regulated investment company for federal income tax purposes under Section 851 of the Code.

For purposes of this opinion, we have considered the Agreement, the Acquired Fund Proxy Statement, the Registration Statement (including the items incorporated by reference therein), and such other items as we have deemed necessary to render this opinion. In addition, you have provided us with letters dated as of the date hereof, representing as to certain facts, occurrences and information upon which you have indicated that we may rely in rendering this opinion (whether or not contained or reflected in the documents and items referred to above) (the "Acquiring Fund Rep Letter" and "Target Fund Rep Letter").

We have also assumed, for purposes of this opinion, that any redemptions that are made when either Target Fund's or Acquiring Fund's shares are presented to each of them respectively for redemption pursuant to section 22(e) of the Investment Company Act which appear to be made in connection with the Transaction will not, when aggregated with the redemptions and distributions described in paragraph 6 of the Acquiring Fund Rep Letter and paragraph 5 of the Target Fund Rep Letter, exceed 50% of the value (without giving effect to such redemptions or distributions) of all of the outstanding stock of the Target Fund on the date of the Transaction.

Based on the foregoing representations and assumption and our review of the documents and items referred to above, we are of the opinion that, for federal income tax purposes:

- (i) No gain or loss will be recognized by Acquiring Fund upon the receipt of the assets of Target Fund in exchange for Acquiring Fund Shares and the assumption by Acquiring Fund of the liabilities of Target Fund;

- (ii) The basis in the hands of Acquiring Fund of the assets of Target Fund transferred to Acquiring Fund in the Transaction will be the same as the basis of such assets in the hands of Target Fund immediately prior to the transfer;
- (iii) The holding periods of the assets of Target Fund in the hands of Acquiring Fund will include the periods during which such assets were held by Target Fund;
- (iv) No gain or loss will be recognized by Target Fund upon the transfer of Target Fund's assets to Acquiring Fund in exchange for Acquiring Fund Shares and the assumption by Acquiring Fund of the liabilities of Target Fund, or upon the distribution of Acquiring Fund Shares by Target Fund to its shareholders in liquidation;

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- (v) No gain or loss will be recognized by Target Fund shareholders upon the exchange of their Target Fund Shares for Acquiring Fund Shares;
- (vi) The aggregate basis of Acquiring Fund Shares a Target Fund shareholder receives in connection with the Transaction will be the same as the aggregate basis of his or her Target Fund Shares exchanged therefor; and
- (vii) A Target Fund shareholder's holding period for his or her Acquiring Fund Shares will be determined by including the period for which he or she held the Target Fund Shares exchanged therefor, provided that he or she held such Target Fund Shares as capital assets.

Very truly yours,

Ropes & Gray



CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We have issued our report dated January 22, 1999, accompanying the December 31, 1998 financial statements of Kayne Anderson Mutual Funds (comprising, respectively, the Rising Dividends Fund, the Small Cap Rising Dividends Fund, the International Rising Dividends Fund, the Intermediate Total Return Bond Fund, and the Intermediate Tax-Free Bond Fund) which are incorporated by reference in Part B of the Post-Effective Amendment to the Fund's Registration Statement and Prospectus on Form N-1A which is incorporated by reference in this Combined Proxy Statement and Prospectus on Form N-14. We consent to the use of the aforementioned report in the Combined Proxy Statement and Prospectus. We also consent to the reference to our firm under the caption "Experts" in the Combined Proxy Statement and Prospectus.

Briggs, Bunting & Dougherty, LLP

Philadelphia, Pennsylvania  
September 9, 1999