

SECURITIES AND EXCHANGE COMMISSION

**FORM 485APOS**

Post-effective amendments [Rule 485(a)]

Filing Date: **1996-12-30**  
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**FILER**

**FREEDOM GROUP OF TAX EXEMPT FUNDS**

CIK: **704348** | IRS No.: **042768270** | Fiscal Year End: **1231**  
Type: **485APOS** | Act: **33** | File No.: **002-78609** | Film No.: **96688051**

Business Address  
*ONE BEACON ST  
BOSTON MA 02108  
6177252300*

1933 Act File No. 2-78609  
1940 Act File No. 811-3519

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM N-1A

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 / /  
-----  
Pre-Effective Amendment No. / /  
Post-Effective Amendment No. 20 / X /  
-- ----

and/or

REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940 / /  
-----  
Amendment No. 22 / X /  
-- ----

(Check appropriate box or boxes.)

FREEDOM GROUP OF TAX EXEMPT FUNDS  
(Exact Name of Registrant)

One Beacon Street, Boston, MA 02108  
(Address of Principal Executive Offices)

(617) 523-3170  
(Registrant's Telephone Number)

Edward T. O'Dell, P.C.  
Goodwin, Procter & Hoar  
Exchange Place, Boston, MA 02109  
(Name and Address of Agent for Service of Process)

Approximate date of proposed public offering:

It is proposed that this filing will become effective under Rule 485 (check appropriate box):

- / / Immediately upon filing pursuant to paragraph (b)
- / / On \_\_\_\_\_, pursuant to paragraph (b)
- / X / 60 days after filing pursuant to paragraph (a) (1)
- / / On \_\_\_\_\_ pursuant to paragraph (a) (1)
- / / 75 days after filing pursuant to paragraph (a) (2)
- / / On \_\_\_\_\_ pursuant to paragraph (a) (2).

If appropriate check the following box:

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

The Registrant, pursuant to Rule 24f-2 promulgated under the Investment Company Act of 1940, has previously registered an indefinite number of shares of the Freedom Tax Exempt Money Fund series and the Freedom California Tax Exempt Money Fund series. A Rule 24f-2 Notice for the Registrant's most recent fiscal year with respect to the Freedom Tax Exempt Money Fund series and Freedom California Tax Exempt Money Fund series will be filed on or about February 22, 1997.

CROSS REFERENCE SHEET  
PURSUANT TO RULE 481(A)

<TABLE>  
<CAPTION>  
Form N-1A Item No.  
Part A  
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Caption or Location  
in Prospectuses  
-----

<S>

<C>

1.	Cover Page	Same
2.	Synopsis	Summary of Our Expenses
3.	Condensed Financial Information	Our Financial Highlights
4.	General Description of Registrant	Our Investment Objectives; Our Organization and Shares; Special Considerations and Risk Factors
5.	Management of the Fund	Our Management; Additional Information
5A.	Management's Discussion of Fund Performance	[To be included in Annual Reports to Shareholders]
6.	Capital Stock and Other Securities	Our Organization and Shares; Additional Information; Dividends; Taxes
7.	Purchase of Securities Being Offered	How to Purchase Shares
8.	Redemption or Repurchase	How to Redeem Shares
9.	Pending Legal Proceedings	Not Applicable

<TABLE>  
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Form N-1A Item No.  
Part B

<S>

10.	Cover Page	Caption or Location in Statements of Additional Information
11.	Table of Contents	Table of Contents
12.	General Information and History	General Information
13.	Investment Objectives and Policies	Investment Objectives and Policies; Investment Restrictions
14.	Management of the Fund	Management of the Trusts/Fund

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Form N-1A Item No.  
Part B

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15.	Control Persons and Principal Holders of Securities	Management of the Trusts/Fund
16.	Investment Advisory and Other Services	The Investment Adviser; Distribution of Shares of the Trusts/Fund; Custodian; Financial Statements and Independent Accountants
17.	Brokerage Allocation and Other Practices	Portfolio Transactions
18.	Capital Stock and Other Securities	General Information
19.	Purchase, Redemption and Pricing of Securities Being Offered	Additional Information on Redemption; Net Asset Value
20.	Tax Status	Additional Information on Taxes
21.	Underwriters	Distribution of Shares of the Trusts/Fund
22.	Calculations of Performance Data	Current Yield

&lt;/TABLE&gt;

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FREEDOM MUTUAL FUND

[FLAG  
LOGO]

FREEDOM GROUP OF TAX EXEMPT FUNDS

ONE BEACON STREET - BOSTON, MASSACHUSETTS 02108  
(800) 453-8206 NATIONWIDE

We are two investment companies offering three separate portfolios, commonly known as mutual funds (the "Funds"), each of which is a no-load money market fund with its own specific investment objectives.

Freedom Cash Management Fund -- A money market fund investing in a diversified portfolio of high-grade money market instruments.

Freedom Government Securities Fund -- A money market fund investing exclusively in obligations issued or guaranteed as to both principal and interest by the U.S. Government and its agencies or instrumentalities.

Freedom Tax Exempt Money Fund -- A money market fund investing in a diversified portfolio of high quality short-term municipal securities.

INVESTMENTS IN THE FUNDS ARE NEITHER INSURED NOR GUARANTEED BY THE U.S. GOVERNMENT. THERE IS NO ASSURANCE THAT THE FUNDS WILL BE ABLE TO MAINTAIN A STABLE \$1.00 PER SHARE NET ASSET VALUE.

This Prospectus sets forth concisely the information about the Funds that you ought to know before investing. Please read the Prospectus and retain it for future reference. Additional information, contained in a Statement of Additional Information also dated February 28, 1996, has been filed with the Securities and Exchange Commission and is available upon request without charge by writing to the Funds at the address set forth above. The Statement of Additional Information having the same date as this Prospectus is incorporated by reference into this Prospectus.

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

PROSPECTUS AND ANNUAL REPORT -- February 28, 1996

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INTRODUCTION

We are two open-end diversified management investment companies offering three separate portfolios, commonly known as mutual funds (the "Funds"). Each Fund is a no-load money market fund which provides a stable net asset value and high current income by investing in a portfolio of high-quality money market obligations. The Funds described in this Prospectus are Freedom Cash Management Fund ("Cash Management Fund"), Freedom Government Securities Fund ("Government Securities Fund") and Freedom Tax Exempt Money Fund ("Tax Exempt Money Fund").

BENEFITS TO OUR INVESTORS

Our money market funds offer you important benefits and conveniences:

No Sales Charge, No Redemption Fee.

Minimum Initial Investment: \$1,000.

Minimum Subsequent Investment: \$100. See "How to Purchase Shares" and "How to Redeem Shares".

Liquidity and Share Price Stability: Investment liquidity through convenient purchase and redemption procedures. Stability of principal through maintenance of a constant net asset value of \$1.00 per share.

Checkwriting Privilege: You have the convenience of making redemptions without charge merely by writing a check. Such checks may be payable to anyone you wish and there is no limit on the number of checks you may write.

Professional Management: Freedom Capital Management Corporation, founded in 1930, serves as the Funds' investment adviser (the "Adviser"). The Adviser provides a number of mutual funds and other clients with investment research and portfolio management services. Assets under the Adviser's supervision currently exceed \$4 billion. The Adviser is an indirect, wholly-owned subsidiary of JHFSC Acquisition Corp.

Free Exchange Privilege: You may exchange shares of any Fund without charge for shares of any other Fund described in this Prospectus.

Investments in the Funds are neither insured nor guaranteed by the U.S. Government. There is no assurance that the Funds will be able to maintain a stable \$1.00 per share net asset value.

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SUMMARY OF OUR EXPENSES

<TABLE>  
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	Cash Management Fund	Government Securities Fund	Tax Exempt Money Fund
	-----	-----	-----
<S>	<C>	<C>	<C>
SHAREHOLDER TRANSACTION EXPENSES			
Sales Load Imposed on Purchases	None	None	None
Sales Load Imposed on Reinvested Dividends	None	None	None
Redemption Fees	None	None	None
Exchange Fees	None	None	None
ANNUAL FUND OPERATING EXPENSES (AS A PERCENTAGE OF AVERAGE NET ASSETS)*			
Management Fees	.47%	.50%	.50%
12b-1 Fees	None	None	None
Other Expenses	.26%	.15%	.14%
Total Fund Operating Expenses	.73%	.65%	.64%

</TABLE>

\* For the fiscal year ended December 31, 1995

The purpose of this table is to assist you in understanding the various costs and expenses that you will bear directly or indirectly as an investor in each Fund. For further information on management fees, see "Our Management."

EXAMPLE

The following example illustrates the effect of each Fund's expenses on the value of a hypothetical \$1,000 investment at the end of one, three, five and ten year periods in that Fund. As noted in the table above, none of the Funds charge redemption fees of any kind. THE EXAMPLE SHOULD NOT BE CONSIDERED AS A REPRESENTATION OF PAST OR FUTURE EXPENSES OR INVESTMENT RETURNS. ACTUAL EXPENSES AND INVESTMENT RETURNS MAY BE GREATER OR LESS THAN SHOWN.

You would pay the following expenses on a \$1,000 investment, assuming (1) 5% annual return and (2) redemption at the end of each time period:

	1 Year	3 Years	5 Years	10 Years
Cash Management Fund	\$7	\$23	\$41	\$91
Government Securities Fund	\$7	\$21	\$36	\$81
Tax Exempt Money Fund	\$7	\$20	\$36	\$80

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#### OUR FINANCIAL HIGHLIGHTS

The table of Financial Highlights below represents a summary history of our operations. The table uses the Funds' fiscal year (which ends December 31) and expresses the information in terms of a single share outstanding throughout each year. The table has been audited by Price Waterhouse LLP, independent accountants, whose unqualified report covering the fiscal years appears elsewhere in this Prospectus. The financial highlights information should be read in conjunction with the financial statements and related notes also included in this Prospectus.

<TABLE>  
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YEAR ENDED	NET ASSET VALUE BEGINNING OF YEAR	NET INVESTMENT INCOME	DIVIDENDS FROM NET INVESTMENT INCOME	NET ASSET VALUE END OF YEAR	TOTAL RETURN	NET ASSETS END OF YEAR (THOUSANDS)	RATIO OF EXPENSES TO AVERAGE DAILY NET ASSETS	RATIO OF NET INVESTMENT INCOME TO AVERAGE DAILY NET ASSETS
-----	-----	-----	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
<b>CASH MANAGEMENT FUND</b>								
December 31, 1996*	-	-	-	-	-	-	-	-
December 31, 1995	\$1.00	\$0.0526	\$(0.0526)	\$1.00	5.38%	\$1,346,625	0.73%	5.26%
December 31, 1994	1.00	0.0353	(0.0353)	1.00	3.59	1,083,661	0.75	3.54
December 31, 1993	1.00	0.0247	(0.0247)	1.00	2.50	1,138,578	0.75	2.47
December 31, 1992	1.00	0.0309	(0.0309)	1.00	3.13	1,069,472	0.78	3.09
December 31, 1991	1.00	0.0546	(0.0546)	1.00	5.60	1,183,684	0.77	5.46
December 31, 1990	1.00	0.0753	(0.0753)	1.00	7.80	1,103,050	0.78	7.49
December 31, 1989	1.00	0.0844	(0.0844)	1.00	8.78	1,111,954	0.80	8.45
December 31, 1988	1.00	0.0679	(0.0679)	1.00	7.01	800,970	0.85	6.81
December 31, 1987	1.00	0.0588	(0.0588)	1.00	6.04	691,151	0.84	5.88
December 31, 1986	1.00	0.0602	(0.0602)	1.00	6.19	700,841	0.85	5.93
<b>GOVERNMENT SECURITIES FUND</b>								
December 31, 1996*	-	-	-	-	-	-	-	-
December 31, 1995	\$1.00	\$0.0500	\$(0.0500)	\$1.00	5.10%	\$317,400	0.65%	5.00%
December 31, 1994	1.00	0.0331	(0.0331)	1.00	3.36	268,434	0.65	3.31
December 31, 1993	1.00	0.0246	(0.0246)	1.00	2.49	349,808	0.59	2.47
December 31, 1992	1.00	0.0315	(0.0315)	1.00	3.18	336,804	0.60	3.15
December 31, 1991	1.00	0.0521	(0.0521)	1.00	5.34	352,803	0.57	5.30
December 31, 1990	1.00	0.0743	(0.0743)	1.00	7.69	266,179	0.66	7.41
December 31, 1989	1.00	0.0817	(0.0817)	1.00	8.48	179,730	0.69	8.21
December 31, 1988	1.00	0.0647	(0.0647)	1.00	6.67	169,967	0.71	6.47
December 31, 1987	1.00	0.0550	(0.0550)	1.00	5.64	195,394	0.72	5.53
December 31, 1986	1.00	0.0587	(0.0587)	1.00	6.03	208,498	0.70	5.89
<b>TAX EXEMPT MONEY FUND</b>								
December 31, 1996*	-	-	-	-	-	-	-	-
December 31, 1995	\$1.00	\$0.0319	\$(0.0319)	\$1.00	3.23%	\$274,076	0.64%	3.19%
December 31, 1994	1.00	0.0216	(0.0216)	1.00	2.19	248,045	0.65	2.16
December 31, 1993	1.00	0.0171	(0.0171)	1.00	1.73	270,474	0.63	1.71
December 31, 1992	1.00	0.0232	(0.0232)	1.00	2.35	243,333	0.63	2.32
December 31, 1991	1.00	0.0389	(0.0389)	1.00	3.96	252,393	0.61	3.90
December 31, 1990	1.00	0.0522	(0.0522)	1.00	5.35	251,439	0.59	5.20
December 31, 1989	1.00	0.0555	(0.0555)	1.00	5.69	229,859	0.60	5.58
December 31, 1988	1.00	0.0459	(0.0459)	1.00	4.69	205,166	0.57 (a)	4.57 (a)
December 31, 1987	1.00	0.0398	(0.0398)	1.00	4.05	222,820	0.53 (a)	3.98 (a)
December 31, 1986	1.00	0.0434	(0.0434)	1.00	4.43	230,799	0.49 (a)	4.31 (a)

</TABLE>

(a) Net of fees waived by the Adviser which amounted to \$0.0008, \$0.0016, and \$0.0019 per share in the years 1988, 1987, and 1986, respectively.

\* Information to be filed by amendment.

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#### OUR INVESTMENT OBJECTIVES

In order to provide you with liquidity, the Funds follow practices to maintain a \$1.00 share price: limiting their portfolios' average maturity to 90 days or less; buying securities which mature in 397 days or less; and buying

only high quality securities with minimal credit risks. Of course, the Funds cannot guarantee a \$1.00 share price, but these practices help to minimize any price fluctuations that might result from rising or declining interest rates. While each Fund invests in high quality securities, you should be aware that your investment is not without risk even if all the securities in the portfolio are paid in full at maturity. Each of the Funds has a fundamental investment objective with an investment program to aid in achieving its objective. There is no assurance that the Funds will achieve their investment objectives. All money market instruments and debt securities, including U.S. Government securities, can change in value when interest rates change or when an issuer's creditworthiness changes.

Each of the Funds will limit its portfolio investments to high quality money market obligations that, at the time of acquisition, (i) are rated in the two highest categories by at least two nationally recognized statistical rating organizations ("NRSROs") (or by one NRSRO if only one NRSRO has rated the security), (ii) if not rated, are obligations of an issuer whose other outstanding short-term debt obligations are so rated, or (iii) if not rated, are of comparable quality as determined by the Adviser in accordance with procedures established by the Trustees (collectively, "Eligible Securities"). Each Fund will limit its investments to Eligible Securities that present minimal credit risk, as determined by the Adviser in accordance with procedures established by the Trustees.

All Eligible Securities may be classified as "first tier" securities and "second tier" securities. In general, first tier securities consist of Eligible Securities that have received the highest rating by at least two NRSROs (or by one NRSRO if only one NRSRO has rated the security) or which are unrated but determined to be of comparable quality. All other Eligible Securities are classified as second tier securities. Neither the Cash Management Fund nor the Government Securities Fund may invest more than 5% of its total assets in second tier securities or invest more than 1% of its total assets or \$1.0 million (whichever is greater) in the second tier securities of any single issuer. A description of the ratings of the NRSROs is contained in the Statement of Additional Information.

#### FREEDOM CASH MANAGEMENT FUND

**Investment Objective.** The Cash Management Fund seeks to achieve as high a rate of current income as is consistent with maintenance of liquidity and preservation of capital.

**Investment Program.** To achieve its objectives, the Fund invests in a diversified portfolio of short-term, U.S. dollar-denominated instruments of U.S. and foreign issuers. These instruments include securities issued or guaranteed by the U.S. Government or its agencies or instrumentalities, foreign governments, certificates of deposit, time deposits, bankers' acceptances and other short-term obligations issued by domestic banks, foreign branches of domestic banks, foreign subsidiaries of domestic banks, and domestic and foreign branches of foreign banks, asset-backed securities, repurchase agreements, and high-quality domestic and foreign commercial paper and other short-term corporate obligations, including those with floating or variable rates of interest.

Foreign obligations, including obligations of foreign banks, U.S. branches and agencies of foreign banks, and foreign branches of U.S. banks, may involve different risks than domestic obligations, including unfavorable political and economic developments, currency controls or other governmental restrictions which could affect the payment of principal or interest. Additionally, foreign issuers may be subject to less governmental regulation and supervision than U.S. issuers.

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#### FREEDOM GOVERNMENT SECURITIES FUND

**Investment Objective.** The Government Securities Fund seeks to achieve as high a rate of current income as is consistent with maintenance of liquidity and preservation of capital.

**Investment Program.** To achieve its objectives, the Fund invests exclusively in short-term U.S. Treasury securities, U.S. Government agency securities and repurchase agreements with respect to such securities. Some U.S. Government agency securities, such as Government National Mortgage Association pass-through certificates, are supported by the full faith and credit of the United States Treasury; others, such as securities of Federal Home Loan Banks, by the right of the issuer to borrow from the Treasury.

#### FREEDOM TAX EXEMPT MONEY FUND

**Investment Objective.** The Tax Exempt Money Fund seeks to achieve as high a rate of current income exempt from federal income taxes as is consistent with maintenance of liquidity and preservation of capital.

**Investment Program.** To protect its capital, the Fund invests only in highly

rated securities. The Fund may invest in "Municipal Securities", which, as used in this Prospectus, means obligations issued by or on behalf of states, territories, and possessions of the United States, including the District of Columbia, and their political subdivisions, agencies and instrumentalities, the interest from which is exempt from federal income tax. Municipal Securities include tax anticipation notes, revenue anticipation notes, general obligation bonds, industrial revenue bonds, construction loan notes, bond anticipation notes, tax exempt commercial paper and short-term municipal bonds. The tax exempt status of a Municipal Security is determined by the issuer's bond counsel at the time of the issuance of the security. Interest income of the Fund which is exempt from federal income tax is expected to retain its tax-free status when distributed to shareholders. Such income may be subject to state and local taxes.

The Fund may also invest in when-issued securities and certain variable and floating rate demand notes. Variable and floating rate demand notes generally have a maturity in excess of one year, but permit their holder to demand prepayment upon a specified number of days' notice.

Certain of the Municipal Securities may be backed by a letter of credit issued by a domestic or a foreign bank in order to improve their credit rating. In that case, the Fund considers the bank to be the ultimate obligor and credit risk. See "Special Considerations -- Tax Exempt Money Fund."

It is a fundamental policy of the Fund that during normal market conditions the Fund's assets will be invested so that at least 80% of the Fund's income during its fiscal year will be exempt from federal personal income taxes. Up to 20% of the Fund's portfolio may be invested in issues which are not exempt from federal income tax such as commercial paper, corporate notes, certificates of deposit, obligations of the U.S. Government, its agencies or instrumentalities (and repurchase agreements secured by these obligations). Under federal tax legislation, the interest on certain tax exempt securities which the Fund may purchase will be included in income subject to the federal individual alternative minimum tax. The Fund's present policy is to invest no more than 20% of its total assets in taxable securities including those subject to the alternative minimum tax. During periods of uncertain market conditions, the Fund may place more than 20% of its total assets for temporary defensive purposes in taxable investments or cash reserves.

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#### CERTAIN INVESTMENT STRATEGIES

Repurchase Agreements. Each of the Funds may enter into repurchase agreements with a bank, financial institution or broker-dealer as a means of earning income for periods as short as overnight. A repurchase agreement provides for a Fund to purchase securities, subject to the seller's agreement to repurchase such securities at a specified time (normally the next business day) and price. Each repurchase agreement entered into by a Fund will provide that the value of the collateral underlying the repurchase agreement will always be at least equal to the repurchase price, including any accrued interest. A Fund's right to liquidate its collateral, in the event of a default by the seller, could involve certain costs, losses or delays and, to the extent that proceeds from any sale upon a default of the obligation to repurchase are less than the repurchase price, a Fund could suffer a loss. No Fund will invest more than 10% of its net assets in repurchase agreements of more than one week's duration.

Borrowing. Each Fund may borrow up to 10% of the value of its net assets from banks for temporary purposes (not for leveraging or investment) but will not make any new investments so long as such borrowings exceed 5% of the value of its net assets.

Illiquid Securities. Each Fund may invest up to 10% of its net assets in securities for which no readily available market exists (including repurchase agreements maturing in more than one week). Each Fund may purchase restricted securities eligible for resale to "qualified institutional buyers" pursuant to Rule 144A under the Securities Act of 1933. The Cash Management Fund may also purchase commercial paper issued as part of a non-public offering pursuant to section 4(2) of the Securities Act of 1933 ("Section 4(2) Paper"). However, if the Trustees determine that these Rule 144A Securities are liquid, based upon a continuing review of the trading markets for specific Rule 144A securities, then they may be purchased without regard to the 10% limit. In addition, if the Trustees determine that specific Section 4(2) Paper is liquid, based upon a continuing review of the trading markets for such Section 4(2) Paper, then such securities may be purchased by the Cash Management Fund without regard to the 10% limit. The Trustees will carefully monitor each Fund's investments in Rule 144A securities, and the Cash Management Fund's investments in Section 4(2) Paper, focusing on factors, among others, such as valuation, liquidity and availability of information. This investment practice could have the effect of increasing the level of illiquidity in the Funds to the extent that qualified institutional buyers become for a time uninterested in purchasing these restricted securities.



When-Issued Securities. The Tax Exempt Money Fund may invest in "when-issued" securities. When-issued securities involve commitments to buy a new issue with settlement up to 45 days later. During the time between the commitment and settlement, the Fund does not accrue interest but the market value may fluctuate. This can result in the Fund's share value increasing or decreasing. If the Fund invests in securities of this type, it will maintain a segregated account to pay for them and mark it to market daily.

#### SPECIAL CONSIDERATIONS -- TAX EXEMPT MONEY FUND

The ability of the Tax Exempt Money Fund to achieve its investment objective is dependent on the continuing ability of the issuers of Municipal Securities in which the Fund invests to meet their obligations for the payment of principal and interest when due. It should also be pointed out that, unlike other types of investments, Municipal Securities traditionally have not been subject to regulation by, or registration with, the Securities and Exchange Commission, although there have been proposals which would provide for regulation in the future.

With respect to Municipal Securities that are backed by a letter of credit issued by a foreign bank, the ultimate source of payment is the foreign bank. Investment in foreign banks may involve risks not present in domestic investments. These include the fact that the foreign bank may be subject to different, and in some cases less comprehensive, regulatory, accounting, financial reporting and disclosure standards than are domestic banks.

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#### HOW TO PURCHASE SHARES

##### GENERAL

Shares of the Funds are distributed by Tucker Anthony Incorporated ("Tucker Anthony"), Freedom Distributors Corporation ("Freedom", and together with Tucker Anthony, the "Distributors") and Sutro & Co., Incorporated ("Sutro"), an authorized securities dealer which has entered into a sales agreement with the Distributors. State Street Bank and Trust Company ("State Street") acts as the Funds' custodian. John Hancock Investor Services Corp. ("JHIS") acts as the Funds' transfer and shareholder services agent.

You may open an account in any Fund by placing an order for at least \$1,000. You may then make subsequent investments for \$100 or more.

Shares of the Funds are offered on a continuing basis without a sales charge at a public offering price equal to the net asset value next determined after a purchase order is received in proper form as described below. Shares may be purchased either (1) through the Distributors, utilizing an existing or new securities brokerage account with a Tucker Anthony or Sutro account executive, or (2) directly through JHIS. Orders to purchase shares do not become effective until receipt of "Federal Funds" (monies credited to JHIS's account with its registered Federal Reserve Bank) by JHIS.

There is no minimum amount for initial or subsequent investment (i) by a tax-deferred retirement plan (Cash Management Fund and Government Securities Fund only) or (ii) in connection with purchases through the automatic "sweep" program (described below) sponsored by Tucker Anthony and Sutro (all Funds). Where a bank, investment adviser or similar institution has a large number of accounts and is willing to receive a monthly summary of accounts in lieu of the regular statement for each account under its control, the minimum amount for initial investments by individual accounts covered by the summary of accounts is reduced to \$100. All payments will be invested in full and fractional shares.

##### PURCHASES BY CLIENTS OF TUCKER ANTHONY AND SUTRO

If you have a brokerage account with Tucker Anthony or Sutro, and have not elected the automatic "sweep" program described below, you may purchase any Fund's shares through your account executive. In order to purchase through your account, your account must have a free credit balance (i.e. immediately available funds). If a properly completed order to purchase Fund shares is received at any Tucker Anthony or Sutro office after 12:00 noon New York time and paid utilizing a free credit balance available on a brokerage account, Tucker Anthony or Sutro will transfer Federal Funds to the Fund and your order will be executed on the next business day and dividends on such shares will begin on that day. Accordingly, Tucker Anthony or Sutro may benefit from the use of free credit balances in your account prior to their transfer to a Fund.

Certificates for shares owned generally are not issued to you if you have purchased your shares through Tucker Anthony or Sutro. Tucker Anthony and Sutro will receive statements and dividends directly from the Funds and will in turn provide you with account statements reflecting a Fund's purchases, redemptions and dividend payments.

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"Sweep" Program. You may also purchase any Fund's shares by participating in the "sweep" program of Tucker Anthony and Sutro in which any free credit cash balance (in available funds) of any amount in your Tucker Anthony/Sutro brokerage account is invested in one of the Funds automatically no less frequently than weekly. Under the terms of this program, you may have your free credit balance invested in shares of any Fund although at any one time your free credit balance may be invested automatically in only one Fund (the "Designated Fund"). Free credit cash balances (in available funds) of \$2,000 or more will be invested in shares of the Designated Fund automatically on the next business day. Automatic purchases using free credit balances of less than \$2,000 will be made weekly, generally on Monday (or the next business day if any Monday is a holiday) of each week based upon the free credit balance in the account at the close of business on the preceding Friday. Unless you have elected cash dividends, dividends on your shares in the Designated Fund will be automatically reinvested in shares monthly. Redemptions will be effected automatically to satisfy debit balances in your brokerage account created by activity therein. Each brokerage account will be scanned automatically for debits each business day as of the close of business on that day and, after application of any free credit cash balances in the account to such debits, a sufficient number of shares of the Designated Fund owned by you will be redeemed at 12:00 noon the following business day to satisfy any remaining debits in the brokerage account. Tucker Anthony or Sutro may benefit from the use of free credit balances in your account prior to their transfer to a Fund.

If you wish additional information concerning the "sweep" program, please call your account executive.

#### OTHER INVESTORS -- PURCHASE BY CHECK OR WIRE

Purchase by Mail. On an initial purchase, complete the Purchase Application included in this Prospectus, indicating which of the Funds you wish to invest in and each of the services to be used, and mail it, together with a check written against a U.S. bank and payable to Freedom Cash Management Fund, Freedom Government Securities Fund or Freedom Tax Exempt Money Fund, to:

John Hancock Investor Services Corp.  
[Name of Fund(s)]  
Attn: Dealer Services  
P.O. Box 9102  
Boston, Massachusetts 02205-9102

Subsequent purchases of \$100 or more may also be made through JHIS by forwarding payment, together with the detachable stub from your account statement or a letter containing your account number. When you pay by check, your order for additional shares of a Fund will be executed at the price next determined after Federal Funds become immediately available to the applicable Fund. Federal Funds normally do not become available to a Fund when payment is by check until two business days or more after the check is deposited. Checks drawn on banks which are not members of the Federal Reserve System may take longer to be converted into Federal Funds. When you purchase shares by check, the Funds can hold payment on redemptions until they are reasonably satisfied that the investment has been collected (which can take up to ten days).

Purchase by Wire Transfer. You may also purchase shares of any Fund through JHIS by means of a wire order. Please call JHIS toll free at (800) 257-3336 for instructions. You should then give

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instructions to your wiring bank to transmit the specified amount in Federal Funds to: First Signature Bank & Trust, Portsmouth, New Hampshire -- Freedom Group of Money Funds, Attention: [Name of Fund(s)], ABA #211475000, specifying on the wire your account number and your name.

If you transfer Federal Funds by wire in this manner, the transfer may be subject to a service charge by your bank. If notice from your bank of the wire transfer is received by JHIS before 12:00 noon New York time, your order will be executed at 12:00 noon New York time on that day. If notice from your bank of the wire transfer is received by JHIS after 12:00 noon New York time, your order will be executed at 12:00 noon New York time on the next business day.

#### HOW TO REDEEM SHARES

##### GENERAL

Redemption orders are effected at the net asset value next determined after receipt of the order by JHIS. For your convenience, and so that you can continue earning daily dividends for as long as possible, the Funds have established several different redemption procedures described below. SHOULD THE REDEMPTION INCLUDE SHARES PURCHASED BY CHECK, PAYMENT MAY BE DELAYED FOR UP TO TEN DAYS AFTER THE PURCHASE IN ORDER TO ALLOW THE PURCHASE CHECK TO CLEAR. A redemption of shares purchased by wire will not be subject to this period of delay.

The shares of any Fund may be redeemed in several ways: (1) shares purchased through a Tucker Anthony or Sutro brokerage account can be redeemed by

placing a redemption order with your account executive or by check redemption, and (2) shares purchased directly may be redeemed by mail, by expedited redemption (i.e., wire redemption if you have elected this option on your Purchase Application) or by check redemption.

#### REDEMPTION THROUGH YOUR TUCKER ANTHONY OR SUTRO BROKERAGE ACCOUNT

In order to redeem shares purchased through a Tucker Anthony or Sutro brokerage account, you should advise your account executive, by telephone or mail, to execute the redemption. If a properly completed order to redeem Fund shares is received by a Tucker Anthony or Sutro office after 12:00 noon New York time, your order will be forwarded to the appropriate Fund and will be executed on the following business day. Redemption proceeds will be held in your brokerage account unless you give instructions to your account executive to reinvest or remit the proceeds to you. Generally, redemption proceeds will not be invested for your benefit without specific instruction, and Tucker Anthony or Sutro may benefit from the use of temporarily uninvested funds.

#### DIRECT REDEMPTION

Redemptions by mail and expedited redemptions are not available for shares purchased through a Tucker Anthony or Sutro brokerage account. Any such redemption requests received by JHIS will be forwarded to the appropriate Tucker Anthony or Sutro account executive who will process them as described above.

Redemption By Mail. You may redeem shares by mail. Payment of the redemption proceeds will ordinarily be made within seven days after the request for redemption is received in "good order" at

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the net asset value next determined. If you send your redemption order to JHIS by mail, you must assume responsibility for assuring that the request for redemption is received in "good order". "Good order" means that the request must be accompanied by the following:

(a) A letter of instruction specifying the number of shares or amount of investment to be redeemed (or that all shares credited to a Fund account be redeemed), signed by all registered owners of the shares in the exact names in which they are registered;

(b) For a redemption order over \$25,000, or for any amount if the proceeds are to be sent elsewhere than the address of record, a guarantee of the signature of each registered owner by a commercial bank which is a member of the Federal Deposit Insurance Corporation, a trust company or a member of a recognized stock exchange (a signature guarantee by a savings bank or notarization by a notary public are not acceptable); and

(c) Additional legal documents concerning authority and related matters in the case of estates, trusts, guardianships, custodianships, partnerships and corporations.

All proceeds from redemptions are mailed to your address of record. If you are uncertain as to the requirements for redemption, please call JHIS toll free at (800) 257-3336. All redemption requests by mail should be mailed to:

John Hancock Investor Services Corp.  
[Name of Fund(s)]  
Attention: Dealer Services  
P.O. Box 9102  
Boston, Massachusetts 02205-9102

Expedited Redemptions. If you have elected the expedited redemption option on the Purchase Application on file with JHIS and wish to redeem \$5,000 or more from any Fund, you may request that payment be made in Federal Funds. Shareholders may place orders for expedited redemption with JHIS without a signature guarantee and have the proceeds sent by wire to a bank or trust company account previously designated in writing. Please call JHIS toll free at (800) 257-3336 for instructions. If the expedited redemption order is received by JHIS's Boston office prior to 12:00 noon New York time on a day on which the New York Stock Exchange is open, payment will be wired to your bank on the same business day, provided that it is a member of the Federal Reserve System and that the federal wire system is open. However, if your bank is not a member of the Federal Reserve System, Federal Funds may not reach your bank until the next business day. If the redemption order is received after 12:00 noon New York time, the redemption will be executed and payment will be wired in Federal Funds on the next business day.

#### CHECK REDEMPTIONS

You can redeem shares by writing checks drawn on State Street payable in any amount. In order to redeem shares by writing a check, you must complete a Purchase Application electing the checkwriting feature and return it either to your investment executive if you have a brokerage account or directly to JHIS if

you do not have a brokerage account. If you have elected the checkwriting service on the Purchase Application on file with JHIS, you will be provided with an initial order of checks free of charge. You may write checks payable to the order of any person (including any corporation, bank,

trust, etc.) in any amount. When your check is presented for payment, JHIS as transfer agent will cause the Fund to redeem a sufficient number of shares to cover the amount of the check. This procedure entitles you to continue receiving dividends on those shares equal to the amount of the check until such time as the check is presented to JHIS for payment. If you do not own sufficient shares of the Fund to cover a check, the check will be returned to the payee marked "insufficient funds." Should the redemption include shares purchased by check, payment may be delayed for up to ten days after the purchase in order to allow the purchase check to clear. A redemption of shares purchased by wire will not be subject to this period of delay. As the aggregate amount owned by a shareholder may change each day, you should not attempt to redeem all shares held in your account by using the check redemption procedure. Cancelled checks will be returned to shareholders monthly. For information on account statements, see "Shareholder Services."

The Funds reserve the right to terminate or alter the check writing service at any time after giving shareholders 30 days written notice. Your shareholder account will be charged \$20.00 each for stop payment orders or checks returned for "insufficient funds."

#### ADDITIONAL INFORMATION ON REDEMPTION

Because the Funds incur certain fixed costs in maintaining shareholder accounts, the Funds reserve the right to involuntarily redeem shareholder accounts in any Fund which have less than \$500 in them as of the end of any month. If a Fund elects to redeem such accounts, it will notify the shareholders of its intention to do so and provide those shareholders with an opportunity to increase their accounts by investing a sufficient amount to bring their accounts up to \$500 or more within 30 days of the notice. The Funds will not redeem accounts which fall below \$500 as a result of reduction in net asset value per share.

#### FREEDOM ASSET ACCOUNT

The Freedom Asset Account provides an alternative method for investing in shares of the Funds in conjunction with a program of four financial services: (1) a Sutor or Tucker Anthony securities margin account ("securities account"); (2) one of the Funds; (3) a check writing facility on an account maintained at Provident National Bank ("Provident"); and (4) a Visa Gold|Pr Card with ATM access from PNC National Bank ("PNC", an affiliate of Provident).

To participate in the Freedom Asset Account, an investor must place in a securities account, cash, marketable securities or a combination of the two having a gross market value of no less than \$20,000 and must meet credit criteria established by PNC. All customary transactional fees incurred in use of a securities account must be paid by the participant, including brokerage fees for securities transactions and interest on margin loans, if any.

THIS SECTION IS ONLY A BRIEF DESCRIPTION OF THE FREEDOM ASSET ACCOUNT AND ITS RELATION TO THE FUNDS AND DOES NOT DESCRIBE ALL OF THE FEATURES OF THE FREEDOM ASSET ACCOUNT. PLEASE CONTACT YOUR ACCOUNT EXECUTIVE FOR FURTHER INFORMATION AND REVIEW CAREFULLY THE FREEDOM SERVICES CORPORATION FREEDOM ASSET ACCOUNT AGREEMENT.

#### PRICING OF OUR SHARES

The net asset value per share of the Funds for the purpose of pricing orders for the purchase and redemption of shares is determined daily as of 12:00 noon New York time, Monday through Friday, exclusive of national business holidays. Purchase or redemption orders accepted by JHIS prior to 12:00 noon New York time will be priced at 12:00 noon New York time that day. Purchase or redemption orders accepted by JHIS subsequent to 12:00 noon New York time will be priced at 12:00 noon New York time the next day that net asset value is computed. Net asset value per share is computed by taking the value of all assets of any Fund, less liabilities, and dividing by the number of shares of the Fund outstanding. To determine the value of the assets of any Fund for the purpose of obtaining the net asset value, portfolio securities are valued at amortized cost, as described below, and interest is accrued daily.

Amortized cost valuation involves valuing a security at its cost and adding or subtracting, ratably to maturity, any discount or premium, regardless of the impact of fluctuating interest rates on the market value of the security. Under the amortized cost method of valuation, neither the amount of daily income nor net asset value is affected by any unrealized appreciation or depreciation of

the portfolio. As a result, in periods of declining interest rates, the indicated daily yield on a portfolio valued by amortized cost will be higher than on a portfolio valued by market prices.

#### DIVIDENDS

Dividends from net investment income are declared daily and paid monthly on or about the fifteenth day of the following month. Dividend payments include all dividends declared during the prior month and not previously paid. You will receive dividends automatically in additional shares at net asset value, or you may elect to receive cash. Redemption payments for the entire account value will include all unpaid dividends.

Purchase orders which are received together with Federal Funds prior to 12:00 noon New York time will receive the dividend declared that day, and redemption orders effected prior to 12:00 noon New York time will not receive that day's dividend.

#### CURRENT YIELD

From time to time, each Fund may quote its yield in advertisements or in reports to shareholders. Performance information ratings as reported in national financial publications such as Donoghue's Money Fund Report, a widely recognized independent publication that monitors the performance of money market funds, may also be used in comparing the performance of the Funds to other money market funds with similar investment objectives. Each Fund calculates its annualized simple and compound yields based on a seven-day period. Since net investment income of the Funds changes in response to fluctuations in interest rates and Fund expenses, any given yield quotation should not be considered representative of a Fund's yield for any future period. CURRENT YIELD INFORMATION FOR THE FUNDS MAY BE OBTAINED BY CALLING TOLL-FREE AT 1-800-453-8206.

#### TAXES

Cash Management Fund and Government Securities Fund. Each Fund will distribute all of its net investment income and capital gains net of capital losses to shareholders. Income dividends and distributions of realized net short-term capital gains paid by each Fund are taxable to you as ordinary income whether received in cash or reinvested in additional shares of the Fund. Properly designated

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distributions of net capital gains (the excess of net long-term capital gain over net short-term capital loss), if any, are taxable to you as long-term capital gains, regardless of the length of time you have held shares of a Fund and whether received in cash or additional shares of a Fund.

Government Securities Fund. For mutual funds organized as business trusts (such as the Fund), most states' laws provide for a pass-through of the state and local income tax exemption afforded to direct owners of U.S. Government securities. Thus, for residents of most states, the portion of distributions derived from the Fund's income from investment in U.S. Government securities should be free from state and local income taxes. You may wish to consult your own tax adviser regarding the tax laws in your state.

Tax Exempt Money Fund. The Fund intends to meet all the IRS requirements necessary to ensure that it is qualified to pay "exempt-interest dividends" which means that the Fund may pass on to you the federal tax exempt status of this investment income. For federal income tax purposes, your proportionate share of taxable distributions from the Fund's other net investment income and net short-term capital gains, if any, will be taxable as ordinary income, whether received in cash or invested in additional shares. Properly designated distributions of net capital gains (the excess of net long-term capital gain over net short-term capital loss), if any, are taxable to you as long-term capital gains, regardless of the length of time you have held shares of the Fund and whether received in cash or additional shares of the Fund.

The tax-exempt status of distributions for federal income tax purposes may not result in similar treatment under the laws of a particular state or local taxing authority. You should consult your tax adviser about the status of distributions from the Fund in your state and locality.

The table below shows the approximate taxable securities yields which are equivalent to yields of Municipal Securities from 2% to 5% under federal income tax laws that apply to 1997.

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Single Return*	Joint Return	Income Tax Bracket	TAX EXEMPT YIELD			
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	(Taxable Income)**		2%	3%	4%	5%

		EQUIVALENT YIELD TABLE				
<C>	<C>	<C>	<C>	<C>	<C>	<C>
\$0-24,000	\$0-40,100	15%	2.35%	3.53%	4.71%	5.88%
\$24,000-58,150	\$40,100-96,900	28%	2.78%	4.17%	5.56%	6.94%
\$58,150-121,300	\$96,900-147,700	31%***	2.90%	4.35%	5.80%	7.25%
\$121,300-263,750	\$147,700-263,750	36%***	3.13%	4.69%	6.25%	7.81%
Over \$263,750	Over \$263,750	39.6%***	3.31%	4.97%	6.62%	8.28%

\* Other than surviving spouses and heads of households.

\*\* Net amount subject to federal income tax after deductions and exemptions.

\*\*\* To implement the phase-out of personal exemption deductions for single taxpayers having 1997 adjusted gross income of more than \$114,700 and married taxpayers (filing jointly) having 1997 adjusted gross income of more than \$172,050, the exemption deduction is reduced by two percent for each \$2,500 by which adjusted gross income exceeds the threshold amounts. For taxpayers having 1997 adjusted gross income of more than \$114,700 (\$57,350 for married filing separately), certain allowable itemized deductions are reduced. These adjustments may result in effective marginal tax rates greater than those indicated above. Please consult your tax adviser regarding your situation.

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General. Each Fund in which you own shares will inform you of the amount and nature of its distributions annually. The Funds are required by federal law to withhold 31% of reportable payments (which may include dividends, capital gains distributions and redemptions) paid to certain accounts whose owners have not complied with IRS regulations. In connection with this withholding requirement, you will be asked to certify on your account application that the social security or taxpayer identification number you provide is correct and that you are not subject to 31% backup withholding for previous underreporting to the IRS. Each of the Funds qualified as a regulated investment company under Subchapter M of the Internal Revenue Code for its most recent fiscal year.

#### OUR ORGANIZATION AND SHARES

Freedom Mutual Fund and Freedom Group of Tax Exempt Funds (the "Trusts") are open-end management investment companies organized as Massachusetts business trusts. Freedom Mutual Fund was organized on December 22, 1980 and Freedom Group of Tax Exempt Funds was organized on June 1, 1982. Freedom Mutual Fund currently has two funds, Freedom Cash Management Fund and Freedom Government Securities Fund. Freedom Group of Tax Exempt Funds currently has two funds, Freedom Tax Exempt Money Fund and Freedom California Tax Exempt Money Fund (which is described in a separate prospectus). The Boards of Trustees supervise our activities and review our contractual arrangements with companies that provide us with services. We reserve the right to create and issue a number of series of shares, or funds, which are separately managed and have different investment objectives. Each Fund has the right to invest all of its assets in the securities of a single open-end management investment company with substantially the same fundamental investment objectives, policies and limitations as such Fund, although the management of each Fund currently has no intention to do so. Each share of each Fund has equal dividend, redemption and liquidation rights and when issued is fully paid and nonassessable. On any matter submitted to the shareholders, the holder of each Fund share is entitled to one vote per share regardless of the net asset value thereof (with proportionate voting for fractional shares). Shareholders of a Fund are not entitled to vote on any matter which does not affect their Fund but which requires a separate vote of another Fund.

Under each Trust's Master Trust Agreement, no annual or regular meeting of shareholders is required. Thus, there will ordinarily be no shareholder meetings unless required by the Investment Company Act of 1940. The shareholders of each Trust elected a Board of Trustees at a meeting held on December 16, 1996. Thereafter, the Trustees are a self-perpetuating body until fewer than 50% of the Trustees serving as such are Trustees who were elected by shareholders. At that time, another meeting of shareholders will be called to elect Trustees. Under each Trust's Master Trust Agreement, any Trustee may be removed by vote of two-thirds of the outstanding Trust shares and holders of ten percent or more of the outstanding shares of each Trust can require Trustees to call a meeting of shareholders for purposes of voting on the removal of one or more Trustees. Under Massachusetts law, shareholders of a business trust may, under certain circumstances, be held personally liable as "partners" for its obligations. However, the risk of a shareholder incurring financial loss on account of shareholder liability is limited to circumstances in which the Trust itself was unable to meet its obligations, a possibility which the Adviser believes is remote. Although each Trust is offering for sale only its own shares and is not

participating in the sale of shares of the other Trust, the Trusts have been informed that it is the position of the staff of the Securities and Exchange Commission that it is possible that a Trust is liable for any misstatements in this Prospectus concerning the other Trust.

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#### OUR MANAGEMENT

The Boards of Trustees and officers provide broad supervision over the affairs of the Funds.

#### ADVISER

The Funds' Adviser, Freedom Capital Management Corporation, One Beacon Street, Boston, Massachusetts, provides each Fund with overall investment advisory and administrative services, as well as general office facilities pursuant to advisory agreements (the "Advisory Agreements"). As compensation for its services, under the Advisory Agreements the Adviser receives from each Fund a fee computed and paid monthly based upon the average daily net asset value of the Fund, at the annual rate of one-half of one percent (0.50%) on the first \$500 million of average net assets and forty-five hundredths of one percent (0.45%) on average daily net assets in excess of that amount.

Expenses not expressly assumed by the Adviser under the Advisory Agreements are paid by each Fund. These include, but are not limited to, taxes, legal, transfer agent, custodian and auditing fees and printing and other expenses relating to each Fund's operations. Total expenses for each such Fund for the year ended December 31, 1996, reflected as an annualized percentage of each Fund's average net assets were as follows: .\_\_% for the Cash Management Fund, .\_\_% for the Government Securities Fund and .\_\_% for the Tax Exempt Money Fund. From time to time in the past, the Adviser has waived some or all of its advisory fees due from the Tax Exempt Money Fund.

The Adviser is an indirect, wholly-owned subsidiary of JHFSC Acquisition Corp., a newly formed Delaware corporation. JHFSC Acquisition Corp. is located at One Beacon Street, Boston, Massachusetts 02108. JHFSC Acquisition Corp. is owned by the following persons: Thomas H. Lee Equity Fund III, L.P., a post-venture stage strategic capital fund located at 75 State Street, Boston, Massachusetts 02109; SCP Private Equity Partners, L.P., a post-venture stage strategic capital fund located at 435 Devon Park Drive, Wayne, Pennsylvania 19087; and certain members of management and employees of Freedom Securities Corporation, which is the direct parent of the Adviser.

Freedom Distributors Corporation, a registered broker-dealer which acts as a Distributor with respect to the Funds' shares, is a wholly-owned subsidiary of the Adviser and an indirect subsidiary of JHFSC Acquisition Corp. Tucker Anthony Incorporated, a brokerage firm which is a member of the New York Stock Exchange, also acts as a Distributor with respect to the Funds' shares and is an indirect subsidiary of JHFSC Acquisition Corp. continuing an investment banking and brokerage business established in 1892. Sutro, a dealer of the Funds' shares, is also an indirect, wholly-owned subsidiary of JHFSC Acquisition Corp.

#### SHAREHOLDER SERVICES

##### ACCOUNT STATEMENTS

You will receive a statement of account each time shares are purchased or redeemed and a report not less frequently than quarterly from JHIS or monthly from Tucker Anthony or Sutro, showing the activity in your account.

Shares are maintained by each Fund on its register maintained by JHIS, and the holders thereof will have the same rights and ownership with respect to such shares as if certificates had been issued.

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##### EXCHANGE PRIVILEGE

Shares of each Fund may be exchanged for shares of the other Funds described in this Prospectus. In addition, if you are a resident of the State of California, shares of the Funds may be exchanged for shares of the Freedom California Tax Exempt Money Fund, a no-load money market fund investing in high quality short-term California municipal securities the income of which is exempt from federal income tax and California personal income tax. You should carefully review the prospectus describing the Freedom California Tax Exempt Money Fund prior to making your exchange.

Exchanges are subject to a minimum investment requirement of \$1,000, with subsequent exchanges permitted in amounts of \$100 or more. Any such exchange is

made on the basis of the net asset value per share of the Funds on the date the exchange request is received.

IF YOU HAVE A BROKERAGE ACCOUNT WITH SUTRO OR TUCKER ANTHONY, YOU MUST PLACE EXCHANGE ORDERS THROUGH YOUR ACCOUNT EXECUTIVE. IF YOU DO NOT HAVE AN ACCOUNT WITH SUTRO OR TUCKER ANTHONY, YOU MAY MAKE AN EXCHANGE IN WRITING OR BY TELEPHONE. Exchanges of shares can be made by writing John Hancock Investor Services Corp., Attention: Freedom Group of Money Funds, Attention: Dealer Services, P.O. Box 9102, Boston, Massachusetts 02205-9102. If you do not have a brokerage account with Sutro or Tucker Anthony, you also have the automatic privilege of exchanging your shares by telephone. To place a telephone exchange request, call JHIS at (800) 257-3336. JHIS employs the following procedures to confirm that instructions received by telephone are genuine. Your name, the account number, taxpayer identification number applicable to the account and other relevant information may be requested. Telephone instructions are recorded. If reasonable procedures, such as those described above, are not followed, the Funds may be liable for any loss due to unauthorized or fraudulent instructions. In all other cases, neither the Funds nor JHIS will be liable for any loss or expense for acting upon telephone instructions made in accordance with the telephone transaction procedures described above. During times of drastic economic or market conditions, the telephone exchange privilege may be difficult to implement because of busy telephone lines. In such times, you may prefer to submit your exchange requests by express mail c/o the Fund(s) to: John Hancock Fund Services, Inc., 101 Huntington Avenue, Attention: Dealer Services, Boston, MA 02205-9102, Attention: Freedom Group of Money Funds. Telephone and written exchange requests must be received by 4:00 p.m. New York time on a Fund business day to be effective that day. An exchange can be made only between accounts that are registered in the same name. The Funds reserve the right to reject any exchange request and to modify or terminate the exchange privilege at any time upon sixty (60) days' notice to shareholders. You should carefully review the part of this Prospectus describing the Fund into which your exchange is being made prior to making your exchange.

#### BANK INVESTING PLAN AND SYSTEMATIC WITHDRAWAL PLAN

Please call (800) 257-3336 for more information concerning these plans.

#### RETIREMENT PLANS (Cash Management Fund and Government Securities Fund only)

Taxes on current income may be deferred if an investor qualifies for certain types of retirement programs. For the convenience of the investor, prototype plans are made available by your investment executive for eligible persons to establish Keogh plans, IRA plans and Simplified Employee Pension plans (SEP/IRA). Other investors interested in any of such plans may obtain additional information from JHIS at (800) 257-3336.

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#### ADDITIONAL INFORMATION

##### QUESTIONS ABOUT THE FUNDS

For further information about the Funds, please contact your Tucker Anthony or Sutro account executive or call JHIS toll free at (800) 257-3336.

##### TRANSFER AGENT, CUSTODIAN AND SHAREHOLDER SERVICES

John Hancock Investor Services Corp. ("JHIS") acts as transfer and shareholder services agent for the Funds. JHIS is an indirect, wholly-owned subsidiary of John Hancock Mutual Life Insurance Company. State Street Bank and Trust Company holds all cash and securities of the Funds.

Freedom Services Corporation ("FSC"), under the terms of a Service Agreement with the Funds, provides many of the shareholder services (such as providing monthly account statements and processing purchase and sale orders) for shareholders who hold shares of the Funds through their brokerage accounts. FSC receives from each of the Funds a fee of \$10.50 per account in payment for the shareholder services it provides. Transfer agent charges from JHIS are reduced for those shareholder accounts that are held through a brokerage account with FSC.

##### INDEPENDENT ACCOUNTANTS AND FINANCIAL STATEMENTS

Price Waterhouse LLP, 160 Federal Street, Boston, Massachusetts 02110 acts as the independent accountants for the Funds.

The financial statements of Freedom Cash Management Fund, Freedom Government Securities Fund and Freedom Tax Exempt Money Fund for the year ended December 31, 1996 appear on pages \_\_ through \_\_.\*



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This Prospectus does not contain all the information included in the Registration Statements filed with the Securities and Exchange Commission under the Securities Act of 1933 with respect to the securities offered hereby, certain portions of which have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The Registration Statements including the exhibits filed therewith may be examined at the office of the Securities and Exchange Commission in Washington, D.C.

Statements contained in this Prospectus as to the contents of any contract or other document referred to are not necessarily complete, and, in each instance, reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statements of which this Prospectus forms a part, each such statement being qualified in all respects by such reference.

\* To be filed by amendment.

NO SALES OR REDEMPTION CHARGES

DISTRIBUTORS

Freedom Distributors Corporation  
One Beacon Street  
Boston, Massachusetts 02108-3105

Telephone Toll Free  
800-453-8206

INVESTMENT ADVISER

Freedom Capital Management Corporation  
One Beacon Street  
Boston, Massachusetts 02108-3105

TRANSFER AND SHAREHOLDER  
SERVICES AGENT

John Hancock Investor  
Services Corporation  
P.O. Box 9102  
Boston, Massachusetts 02205-9102

Telephone Toll Free  
800-257-3336

[Flag Logo] FREEDOM  
GROUP OF MONEY FUNDS

No person has been authorized to give any information or to make any representations not contained in this Prospectus in connection with the offering made by this Prospectus and, if given or made, such information, or representations must not be relied upon as having been authorized by the Funds or their Distributors. This Prospectus does not constitute an offering by the Funds or by the Distributors in any jurisdiction in which such offering may not lawfully be made.

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FREEDOM GROUP  
OF MONEY FUNDS

[Flag Logo]

FREEDOM  
CASH MANAGEMENT  
FUND  
o  
FREEDOM  
GOVERNMENT  
SECURITIES FUND  
o  
FREEDOM  
TAX EXEMPT  
MONEY FUND

STATEMENT OF ADDITIONAL INFORMATION

FREEDOM MUTUAL FUND  
Freedom Cash Management Fund  
Freedom Government Securities Fund

FREEDOM GROUP OF TAX EXEMPT FUNDS  
Freedom Tax Exempt Money Fund  
(The "Funds")

This Statement of Additional Information is not a prospectus but should be read in conjunction with the Funds' Prospectus dated February 28, 1996, which may be obtained at no charge from Freedom Distributors Corporation, One Beacon Street, Boston, Massachusetts 02108. Unless otherwise defined herein, capitalized terms have the meanings given to them in the Prospectus.

The date of this Statement of Additional Information is February 28, 1996.

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GENERAL INFORMATION

Freedom Mutual Fund and Freedom Group of Tax Exempt Funds are open-end

management investment companies organized as Massachusetts business trusts on December 22, 1980 and June 1, 1982, respectively. Freedom Mutual Fund (the "Mutual Fund") has two series, Freedom Cash Management Fund (the "Cash Management Fund") and Freedom Government Securities Fund (the "Government Securities Fund"). Freedom Group of Tax Exempt Funds (individually the "Tax Exempt Trust" and collectively with the Mutual Fund the "Trusts") currently has two series, Freedom Tax Exempt Money Fund (the "Tax Exempt Money Fund") and Freedom California Tax Exempt Money Fund, which is described in a separate prospectus and statement of additional information. Each of the Cash Management Fund and the Government Securities Fund seeks to obtain as high a rate of current income from investments in specified short-term money market instruments as is consistent with maintaining liquidity and preservation of capital. The Tax Exempt Money Fund seeks to obtain as high a rate of current income exempt from federal income taxes as is consistent with the maintenance of liquidity and preservation of capital by investing primarily in specified tax exempt, short-term money market instruments.

The assets received by the Trusts from the issue and sale of shares of each Fund, and all income, earnings, profits and proceeds thereof, subject only to the rights of creditors, are especially allocated to that Fund and constitute the underlying assets of such Fund. The underlying assets of each Fund are required to be segregated on the books of account and are to be charged with the expenses in respect to that Fund and with a share of the general expenses of the Trust. Any general expenses of the Trust not readily identifiable as belonging to a particular Fund shall be allocated by or under the direction of the Trustees in such manner as the Trustees determine to be fair and equitable, taking into consideration, among other things, the nature and type of expense and the relative sizes of the Funds.

Each share of a Fund has equal dividend, redemption and liquidation rights with other shares of that Fund and when issued is fully paid and nonassessable. Under the Trusts' Master Trust Agreements, no annual or regular meeting of shareholders is required. Thus, there will ordinarily be no annual shareholder meetings, unless otherwise required by the Investment Company Act of 1940 (the "1940 Act"). The Trusts called a meeting of shareholders on December 16, 1996 at which time shareholders elected the Board of Trustees. Thereafter, the Trustees are a self-perpetuating body until fewer than 50% of the Trustees serving as such are Trustees who were elected by shareholders. At that time another meeting of shareholders will be called to elect Trustees. On any matter submitted to the shareholders for a vote, the holder of each share of a Fund is entitled to one vote per share (with proportionate voting for fractional shares) regardless of the relative net asset value thereof. Shareholders of a Fund are not entitled to vote on any matter which does not affect that Fund but which requires a separate vote of another Fund. Under the Master Trust Agreements, any Trustee may be removed by vote of two-thirds of the outstanding Trust shares, and holders of ten percent or more of the outstanding shares of a Trust can require Trustees to call a meeting of shareholders for purposes of voting on the removal of one or more Trustees. The Master Trust Agreements also provide that if ten or more shareholders who have been such for at least six months and who hold in the aggregate shares with a net asset value of at least \$25,000 inform the Trustees that they wish to communicate with other shareholders, the Trustees will either give such shareholders access to the shareholder lists or inform them of the cost involved if the Trusts forward materials to the shareholders on their behalf. If the Trustees object to mailing such materials, they must inform the Securities and Exchange Commission and thereafter comply with the requirements of the 1940 Act.

Shares do not have cumulative voting rights, which means that in situations in which shareholders elect Trustees, holders of more than 50% of the shares voting for the election of Trustees can elect 100% of the Trust's Trustees, and the holders of less than 50% of the shares voting for the election of Trustees will not be able to elect any person as a Trustee.

Shares have no preemptive or subscription rights and are fully transferable. There are no conversion rights.

#### INVESTORS FOR WHOM THE TRUSTS ARE DESIGNED

The following information supplements the discussion of the Funds' investment objectives and policies in the Prospectus of the Funds.

The Trusts offer the economic advantages of block purchases of securities and diversification. Securities and instruments of the types in which the Funds invest are not generally available in denominations of less than \$100,000, and in many cases the minimum denominations are substantially higher. Typically, higher yields are not available unless money market instruments are bought directly from issuers in amounts of \$1,000,000 or more. The Trusts also offer investors the opportunity to participate in a more diversified selection of short-term securities than the size of each investor's own portfolio might otherwise permit.

Investment in the Trusts may also relieve the investor of several

administrative burdens usually associated with the direct purchase of money market instruments, such as coordinating maturities and reinvestments, safekeeping of securities, surveying the market for the best price at which to buy and/or sell and maintaining separate principal and income records. Furthermore, purchasers electing and complying with the procedures for expedited redemption have the convenience, if a redemption order is received before 12:00 noon, New York time, on a business day on which the New York Stock Exchange is open, of having the proceeds from the redemption of their shares remitted to their bank account at a member bank of the Federal Reserve System by Federal Funds wire for use on the same business day, provided that the federal wire system is open. In addition, shareholders availing themselves of the Trust's check redemption program have the convenience of making redemptions merely by writing a check. See "How to Redeem Shares" in the Prospectus. All such advantages, however, will be reduced to the extent of the expenses and losses of the Fund in which you invest (including losses from portfolio transactions or from defaults, if any, in payments of interest or principal by issuers).

#### INVESTMENT OBJECTIVES AND POLICIES

The following information supplements the discussion of the Funds' investment objectives and policies discussed in the Prospectus.

#### Additional Information on Investments - Mutual Fund Only

The Cash Management Fund may invest in all categories of investments described below, whereas the Government Securities Fund may invest only in U.S. Treasury securities, U.S. Government agency securities and repurchase agreements with respect to which the underlying securities are in those two categories.

**U.S. Treasury Securities:** Either Fund may invest in the various types of marketable securities issued by the U.S. Treasury, which consist of bills, notes and bonds. Such securities are direct obligations of the United States Government and differ mainly in the length of their maturity. Treasury bills, the most frequently issued marketable government security, have a maturity of up to one year and are issued on a discount basis.

**U.S. Government Agency Securities:** Either Fund may invest in U.S. Government agency securities, which are obligations guaranteed as to principal and interest by an agency or instrumentality of the U.S. Government. Some U.S. Government agency securities, such as Government National Mortgage Association pass-through certificates, are supported by the full faith and credit of the United States Treasury; others, such as securities of Federal Home Loan Banks, by the right of the issuer to borrow from the Treasury; still others, such as bonds issued by Federal National Mortgage Association, a private corporation, are supported only by the credit of the instrumentality. The Government Securities Fund will not invest in the securities issued by the Federal National Mortgage Association or any other

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instrumentality where the bonds are supported only by the credit of that instrumentality. Subject to the foregoing, the Funds may invest in all types of U.S. Government agency securities currently outstanding or issued in the future.

**Domestic and Foreign Issuers.** The Cash Management Fund may invest in U.S. dollar-denominated time deposits, certificates of deposit, bankers' acceptances of U.S. banks and their branches located outside of the U.S., U.S. branches and agencies of foreign banks, and foreign branches of foreign banks. The Cash Management Fund may also invest in U.S. dollar-denominated securities issued or guaranteed by other U.S. or foreign issuers, including U.S. and foreign corporations or other business organizations, foreign governments, foreign government agencies or instrumentalities, and U.S. and foreign financial institutions, including savings and loan institutions, insurance companies, mortgage bankers, and real estate investment trusts, as well as banks. These short-term instruments may include obligations bearing fixed, floating or variable interest rates.

Time deposits are non-negotiable deposits maintained in a banking institution for a specified period of time at a stated interest rate. Time deposits which may be held by the Cash Management Fund will not benefit from insurance from the Bank Insurance Fund or the Savings Association Insurance Fund administered by the Federal Deposit Insurance Corporation. Bankers' acceptances are credit instruments evidencing the obligation of a bank to pay a draft drawn on it by a customer. These instruments reflect the obligation both of the bank and of the drawer to pay the face amount of the instrument upon maturity. Certificates of deposit are interest-bearing negotiable certificates issued by banks or financial institutions against funds deposited in the issuing institution.

The obligations of foreign branches of U.S. banks may be general obligations of the parent bank in addition to the issuing branch, or may be limited by the terms of a specific obligation and by governmental regulation. Payment of interest and principal on these obligations may also be affected by governmental action in the country of domicile of the branch (generally referred

to as sovereign risk). In addition, evidences of ownership of portfolio securities may be held outside of the U.S. and the Cash Management Fund may be subject to the risks associated with the holding of such property overseas. Various provisions of federal law governing the establishment and operation of U.S. branches do not apply to foreign branches of U.S. banks.

Obligations of U.S. branches and agencies of foreign banks may be general obligations of the parent bank in addition to the issuing branch, or may be limited by the terms of a specific obligation and by federal and state regulation as well as by governmental action in the country in which the foreign bank has its head office.

Obligations of foreign issuers involve certain additional risks. These risks may include future unfavorable political and economic developments, withholding taxes, seizures of foreign deposits, currency controls, interest limitations, or other governmental restrictions that might affect payment of principal or interest. Additionally, there may be less public information available about foreign banks and their branches. Foreign issuers may be subject to less governmental regulation and supervision than U.S. issuers. Foreign issuers also generally are not bound by uniform accounting, auditing and financial reporting requirements comparable to those applicable to U.S. issuers.

Variable and Floating Rate Instruments. The Cash Management Fund may invest in variable or floating rate instruments that ultimately mature in more than 397 days, if the Fund acquires a right to sell the securities that meets certain requirements set forth in Rule 2a-7 of the Investment Company Act of 1940. Variable rate instruments (including instruments subject to a demand feature) that mature in 397 days or less may be deemed to have maturities equal to the period remaining until the next adjustment of the interest rate. Other variable rate instruments with demand features may be deemed to have a maturity equal to the longer of the period remaining until the next readjustment of the interest rate or the period remaining until the principal amount can be recovered through demand. A floating rate instrument subject to a demand feature may be deemed to have a maturity equal to the period remaining until the principal amount can be recovered through demand.

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Repurchase Agreements. Both Funds may invest in securities subject to repurchase agreements with any member bank of the Federal Reserve System or primary dealer in U.S. Government securities. A repurchase agreement is characterized as an instrument under which the purchaser (i.e., the Fund) acquires ownership of the obligation (debt security) and the seller agrees, at the time of the sale, to repurchase the obligation at a mutually agreed upon time and price, thereby determining the yield during the purchaser's holding period. This results in a fixed rate of return insulated from market fluctuations during such period. The underlying securities will only consist of U.S. Treasury or Government agency securities in the case of the Government Securities Fund, and those securities plus certificates of deposit, commercial paper or bankers' acceptances in the case of the Cash Management Fund. Repurchase agreements will be entered into with primary dealers for periods not to exceed seven days. Each repurchase agreement will be fully collateralized with respect to both principal and interest for the entire term of the agreement. Upon payment, possession of all of the underlying collateral will be transferred to an agent of a Fund for the term of the agreement. If a particular bank or securities dealer defaults on its obligation to repurchase the underlying security as required by the terms of a repurchase agreement, a Fund will incur a loss to the extent that the proceeds it receives in the sale of collateral are less than the repurchase price of the security. In addition, should the defaulting securities dealer or bank file for bankruptcy, a Fund could incur certain costs in establishing that it is entitled to dispose of the collateral and its realization on the collateral may be delayed or limited.

#### Additional Information on Investments - Tax Exempt Money Fund Only

Following purchase by the Tax Exempt Money Fund, a Municipal Security may cease to be rated or its rating may be reduced below the minimum required for purchase by the Tax Exempt Money Fund. Neither event requires a sale of such security by the Fund, although Freedom Capital Management Corporation (the "Adviser") will consider such event to be relevant in determining whether the Fund should continue to hold such security in its portfolio. If the rating accorded by a Nationally Recognized Statistical Rating Organization ("NRSRO") for Municipal Securities changes due to changes in the rating systems, the Fund will attempt to use comparable ratings as standards for investments in accordance with the investment policies contained herein.

The two principal classifications of Municipal Securities are "municipal notes" and "municipal bonds."

Municipal Notes. Municipal notes generally are used to provide for short-term capital needs and generally have maturities of one year or less. Municipal notes include:

1. Tax Anticipation Notes. Tax anticipation notes are issued to finance

working capital needs of municipalities. Generally, they are issued in anticipation of various seasonal tax revenues, such as income, sales, use and business taxes, and are payable from these specific future taxes.

2. Revenue Anticipation Notes. Revenue anticipation notes are issued in expectation of receipt of other types of revenue, such as revenues available under federal revenue sharing programs.

3. Bond Anticipation Notes. Bond anticipation notes are issued to provide interim financing until long-term financing can be arranged. In most cases, the long-term bonds then provide the money for the repayment of the notes.

4. Construction Loan Notes. Construction loan notes are sold to provide construction financing. After successful completion and acceptance, many projects receive permanent financing through the Federal Housing Administration under "Fannie Mae" (the Federal National Mortgage Association) or "Ginnie Mae" (the Government National Mortgage Association).

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5. Tax-Exempt Commercial Paper. Tax-exempt commercial paper is a short-term obligation with a stated maturity of 365 days or less. It is issued by agencies of state and local governments to finance seasonal working capital needs or as short-term financing in anticipation of longer term financing.

Municipal Bonds. Municipal bonds, which meet longer term capital needs and generally have maturities of more than one year when issued, have two principal classifications: general obligation bonds and revenue bonds.

1. General Obligation Bonds. Issuers of general obligation bonds include states, counties, cities, towns and regional districts. The proceeds of these obligations are used to fund a wide range of public projects, including construction or improvement of schools, highways and roads, and waste and sewer systems. The basic security behind a general obligation bond is the issuer's pledge of its full faith and credit and taxing power for the payment of principal and interest. The taxes that can be levied for the payment of debt service may be limited or unlimited as to the rate or amount of special assessments.

2. Revenue Bonds. Revenue bonds fund two sorts of projects, publicly-operated facilities ("revenue bonds") and privately-operated facilities ("industrial development bonds").

(a) Revenue Bonds. The principal security for a revenue bond is generally the net revenues derived from a particular facility, group of facilities, or, in some cases, the proceeds of a special excise or other specific revenue source. Revenue bonds are issued to finance a wide variety of capital projects including: electric, gas, waste and sewer systems; highways, bridges and tunnels; port and airport facilities; colleges and universities; and hospitals. Although the principal security behind these bonds may vary, many provide additional security in the form of a debt service reserve fund whose money may be used to make principal and interest payments on the issuer's obligations. Housing finance authorities have a wide range of security, including partially or fully insured mortgages, rent subsidized and/or collateralized mortgages, and/or the net revenues from housing or other public projects. Some authorities provide further security in the form of a state's ability (without obligation) to make up deficiencies in the debt service reserve fund.

(b) Industrial Development Bonds. Industrial development bonds, which are considered municipal bonds if the interest paid thereon is exempt from federal income tax, are issued by or on behalf of public authorities to raise money to finance various privately-operated facilities for business and manufacturing, housing, sports, and pollution control. These bonds are also used to finance privately-operated public facilities such as airports, mass transit systems, ports, and parking. The payment of the principal and interest on such bonds is dependent solely on the ability of the facility's user to meet its financial obligations and the pledge, if any, of real and personal property so financed as security for such payment.

There are also other types of Municipal Securities that are, or may become, available which are similar to the foregoing municipal notes and municipal bonds. Municipal Securities are sometimes supported by an irrevocable, unconditional external agreement (normally a bank letter of credit) from a bank whose own securities are of high quality in order to improve the credit rating of the Municipal Security. Such external agreement may be issued by a foreign bank.

For the purpose of the Tax Exempt Money Fund's investment restrictions set forth beginning on page 10, the identification of the "issuer" of Municipal Securities which are not general obligation bonds is made by the Adviser on the basis of the characteristics of the obligation as described above, the most significant of which is the source of funds for the payment of principal and

interest on such securities. In the case of industrial development bonds, the "issuer" is the user of the facility, which is usually a non-governmental entity.

Obligations of issuers of Municipal Securities are subject to the provisions of bankruptcy, insolvency, and other laws affecting the rights and remedies of creditors, such as the Federal Bankruptcy Code. In addition, the

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obligations of such issuers may become subject to laws enacted in the future by Congress, state legislatures, or referenda extending the time for payment of principal and/or interest, or imposing other constraints upon enforcement of such obligations or upon municipalities to levy taxes. There is also the possibility that, as a result of litigation or other conditions, the power or ability of any issuer to pay, when due, the principal of and interest on its Municipal Securities may be materially affected. The Tax Exempt Money Fund may invest more than 25% of its total assets in Municipal Securities the interest upon which is paid from revenues of similar types of projects. There could be economic, business or political developments which might affect all Municipal Securities of a similar type. However, the Tax Exempt Money Fund believes that the most important consideration affecting credit risk is the quality of particular issues of Municipal Securities, rather than factors affecting all, or broad classes of, Municipal Securities.

On December 6, 1994, Orange County (California) became the largest municipality in the United States to file for protection under the Federal bankruptcy laws. The filing stemmed from approximately \$1.7 billion in losses suffered by the County's investment pool due to investments in high risk "derivative" securities. In September 1995 the state legislature approved legislation permitting Orange County to use for bankruptcy recovery \$820 million over 20 years in sales taxes previously earmarked for highways, transit and development. Such legislation also permits the Governor to appoint a trustee to take over Orange County's financial affairs if the county does not have a full recovery plan filed with the Bankruptcy Court by May 1996.

#### Special Types of Municipal Securities - Tax Exempt Money Fund Only

In addition to the general types of Municipal Securities discussed above, the Tax Exempt Money Fund may invest in the following Municipal Securities.

**When-Issued Securities.** Municipal Securities are frequently offered on a "when-issued" basis. When so offered, the price, which is generally expressed in yield terms, is fixed at the time the commitment to purchase is made, but delivery and payment for the when-issued securities take place at a later date. Normally, the settlement date occurs within one month of the purchase of municipal notes; during the period between purchase and settlement, no payment is made by the Tax Exempt Money Fund to the issuer and no interest accrues to the Fund. To the extent that assets of the Fund are not invested prior to the settlement of a purchase of securities, the Fund will earn no income. It is the Fund's intention, however, to be fully invested to the extent practicable, subject to the policies stated above. While when-issued securities may be sold prior to the settlement date, the Fund intends to purchase such securities with the purpose of actually acquiring them unless a sale appears desirable for investment reasons. At the time the Fund makes the commitment to purchase a Municipal Security on a when-issued basis, it will record the transaction and reflect the value of the security in determining its net asset value.

In accordance with Securities and Exchange Commission policy, whenever the Tax Exempt Money Fund agrees to purchase securities on a when-issued basis, its custodian will set aside cash or portfolio securities equal to the amount of the commitment in a separate account. If necessary, additional assets will be placed in the account daily so that the value of the account will equal the amount of the Fund's purchase commitment. When the time comes to pay for when-issued securities, the Fund will meet its obligations from the then-available cash flow, sale of securities held in the separate account, cash held in the separate account or otherwise, sale of other securities or, although it would not normally expect to do so, from the sale of the when-issued securities themselves (which may have a value greater or less than the Fund's payment obligations). To the extent that the Fund sets aside portfolio securities to satisfy its purchase commitment for when-issued securities, there will be a greater possibility of fluctuation in market value of the Fund's shares (see "Pricing of Our Shares" in the Prospectus) than if the Fund were to set aside cash. The Fund does not intend to purchase when-issued securities for speculative purposes, but only in furtherance of its investment objectives.

**Variable Rate and Floating Rate Instruments.** The Tax Exempt Money Fund may invest in variable or floating rate instruments that ultimately mature in more than 397 days, if the Fund acquires a right to sell the securities that

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meets certain requirements set forth in Rule 2a-7 of the Investment Company Act of 1940. Variable rate instruments (including instruments subject to a demand feature) that mature in 397 days or less may be deemed to have maturities equal to the period remaining until the next adjustment of the interest rate. Other variable rate instruments with demand features may be deemed to have a maturity equal to the longer of the period remaining until the next readjustment of the interest rate or the period remaining until the principal amount can be recovered through demand. A floating rate instrument subject to a demand feature may be deemed to have a maturity equal to the period remaining until the principal amount can be recovered through demand.

#### Temporary Taxable Investments - Tax Exempt Money Fund Only

Although the Tax Exempt Money Fund will be invested primarily in Municipal Securities, the Fund is authorized to place up to 20% of its net assets in taxable investments or in cash reserves during normal market conditions for liquidity reasons. During periods of uncertain market conditions, the Fund may place more than 20% of its total assets for temporary defensive purposes in taxable investments or cash reserves. The taxable investments in which the Fund may invest are:

(a) obligations of the U.S. Government and its agencies and instrumentalities (not all of such obligations are backed by the full faith and credit of the United States; for example, bonds issued by Federal National Mortgage Association, a private corporation, are backed only by the credit of the issuing instrumentality);

(b) certificates of deposit, bankers' acceptances and short-term obligations of domestic branches of U.S. banks with total assets of \$1 billion or more;

(c) commercial paper rated A-1 by Standard & Poor's, Prime-1 by Moody's (or equivalently rated by another NRSRO), or, if not rated, of equivalent investment quality as determined by the Adviser;

(d) short-term debt securities of issuers having, at the time of purchase, a quality rating within the two highest grades by Moody's (Aaa or Aa), Standard & Poor's (AAA or AA) or Fitch (AAA or AA) (or equivalently rated by another NRSRO); and

(e) repurchase agreements with respect to an underlying security which would otherwise qualify for investment by the Fund.

Temporary taxable investments of up to 20% of total assets may also be made in anticipation of redemptions, pending investment of proceeds from subscription for Fund shares or from the sale of portfolio securities, or because of market conditions or the scarcity of suitable tax exempt securities. Interest income from such investments will be taxable to shareholders as ordinary income under federal tax laws. Consequently, the Fund intends to invest its assets in Municipal Securities to the maximum extent possible and prudent.

Repurchase Agreements. Repurchase agreements maturing in more than seven days, together with any other illiquid instruments held by the Tax Exempt Money Fund (excluding restricted securities eligible for resale pursuant to Rule 144A under the Securities Act of 1933, which the Board of Trustees or the Adviser has determined under Board-approved guidelines are liquid), will not, at the time entered into, exceed 10% of the net assets of such Fund. Because of their short maturity, repurchase agreements provide liquidity to the Fund while allowing the Fund to remain fully or substantially invested. The Fund will only enter into repurchase agreements of one business day's maturity and only with broker/dealers with substantial capital or major U.S. banks. Each repurchase agreement will be fully collateralized with respect to both principal and interest by U.S. Treasury instruments for the entire term of the agreement. Upon payment, possession of all underlying collateral will be transferred to an agent of the Fund for the term of the agreement. If a particular securities dealer or bank defaults on its obligation to repurchase the underlying

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security as required by the terms of a repurchase agreement, the Fund will incur a loss to the extent that the proceeds it realizes on the sale of the collateral are less than the repurchase price of the security. In addition, should the defaulting securities dealer or bank file for bankruptcy, the Fund could incur certain costs in establishing that it is entitled to dispose of the collateral and its realization on the collateral may be delayed or limited.

#### Risk Considerations - Tax Exempt Money Fund Only

There can be no assurance that the Tax Exempt Money Fund will achieve its investment objectives or be able to maintain its net asset value per share at \$1.00. The price stability and liquidity of the Fund may not be equal to that of a money market fund which exclusively invests in short-term taxable money market securities. The taxable money market is a broader and more liquid market



with a greater number of investors, issuers and market makers than the short-term Municipal Securities market.

Yields on Municipal Securities are dependent on a variety of factors, including the general conditions of the money market and of the municipal bond and municipal note market, the size of a particular offering, the maturity of the obligations and the rating of the issue.

The policies described above in this section are not fundamental and may be changed upon notice to shareholders.

Tax exempt securities purchased on a when-issued basis are subject to changes in value as a result of changes in interest rates in the same way that securities held in the Fund's portfolio are. Purchasing tax exempt securities on a when-issued basis can thus involve a risk that yields available in the market when delivery takes place may actually be higher than those obtained in the when-issued transaction.

#### INVESTMENT RESTRICTIONS

##### Cash Management Fund and Government Securities Fund

The following investment restrictions apply to both the Cash Management Fund and Government Securities Fund. They may not be changed without a shareholder vote, shareholders of each Fund voting separately to change restrictions applying to their Fund. A change requires the affirmative vote of a majority of a Fund's outstanding shares, which as used in this Statement means the lesser of (1) 67% of that Fund's outstanding shares present at a meeting at which the holders of more than 50% of the outstanding shares are present in person or by proxy, or (2) more than 50% of that Fund's outstanding shares.

With respect to investment restrictions Number 1 through 10 below, neither Fund may:

1. Purchase securities on margin; sell short; purchase warrants; or write, purchase, or sell puts, calls, straddles, spreads or combinations thereof.

2. Borrow money, except from banks for temporary purposes (not for leveraging or investment) and then in an aggregate amount not in excess of 10% of the value of that Fund's assets at the time of such borrowing, provided, that so long as such borrowings exceed 5% of the value of the net assets, that Fund will not make any investments; or mortgage, pledge or hypothecate any assets except in connection with any such borrowing and in an aggregate amount not in excess of the dollar amount borrowed.

3. Act as an underwriter of securities of other issuers.

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4. Purchase securities (other than under repurchase agreements of not more than one week's duration, considering only the remaining days to maturity of each existing repurchase agreement) for which there exists no readily available market, or for which there are legal or contractual restrictions on resale (excluding restricted securities eligible for resale pursuant to Rule 144A under the Securities Act of 1933, and, with regard to the Cash Management Fund, commercial paper exempt from registration to Section 4(2) of the Securities Act of 1933, which the Board of Trustees or the Adviser has determined under Board-approved guidelines are liquid), if as a result of any such purchase, more than 10% of that Fund's net assets would be invested in such securities.

5. Purchase any securities if, immediately after such purchase, more than 25% of the value of that Fund's total assets would be invested in the securities of one or more issuers conducting their principal business activities in the same industry, provided that there is no limitation with respect to investments in U.S. Treasury securities, Government agency securities and bank obligations. Neither all finance companies as a group nor all utility companies as a group are considered a single industry for purposes of this restriction.

6. Purchase securities of any one issuer, other than U.S. Treasury securities or Government agency securities, if immediately after such purchase, more than 5% of the value of that Fund's total assets would be invested in such issuer.

7. Acquire more than 10% of any class of securities of an issuer. For this purpose, all outstanding bonds and other evidences of indebtedness shall be deemed within a single class regardless of maturities, priorities, coupon rates, series, designations, conversion rights, security or other differences.

8. Purchase or sell real estate.

9. Purchase or sell commodities or commodity futures contracts, or oil,

gas or mineral exploration or development programs.

10. Make loans, except that a Fund may purchase or hold debt instruments and may enter into repurchase agreements in accordance with its investment objective and policies.

11. Each Fund may, notwithstanding any other fundamental investment policy or limitation, invest all of its assets in the securities of a single open-end management investment company with substantially the same fundamental investment objectives, policies and limitations as that Fund.

The following investment restrictions may be changed by the Board of Trustees without the approval of shareholders. Appropriate notice will be given of any changes in these restrictions made by the Board of Trustees. With respect to investment restrictions Number 12 through 15 below, the Funds may not:

12. Purchase securities of other investment companies, except in connection with a merger, consolidation, acquisition or reorganization, and except for purchases of the securities of money market mutual funds.

13. Purchase securities of any issuer for the purpose of exercising control or management, except in connection with a merger, consolidation, acquisition or reorganization.

14. Invest more than 5% of either Fund's total assets in securities of any issuer which, together with its predecessors, has been in continuous operation less than three years.

15. Purchase or retain the securities of an issuer if those officers or trustees of the Trust or officers or directors of the Adviser who are also officers or directors of the issuer and who each own beneficially more than 1/2 of 1% of the securities of that issuer together own more than 5% of the securities of such issuer.

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16. Neither Fund currently intends to invest all of its assets in the securities of a single open-end management investment company with substantially the same fundamental investment objectives, policies and limitations as that Fund.

If a percentage restriction is adhered to at the time of investment, a later increase or decrease in percentage resulting from a change in values of portfolio securities or amount of net assets will not be considered a violation of any of the foregoing restrictions.

#### Tax Exempt Money Fund

The following investment restrictions apply to the Tax Exempt Money Fund. They may not be changed without a shareholder vote. A change requires the affirmative vote of a majority of the Fund's outstanding shares, which as used in this Statement means the lesser of (1) 67% of the Fund's outstanding shares present at a meeting at which the holders of more than 50% of the outstanding shares are present in person or by proxy, or (2) more than 50% of the Fund's outstanding shares. With respect to investment restrictions Number 1 through 12 below, the Fund may not:

1. Purchase securities on margin; sell short; purchase warrants; or write, purchase, or sell straddles, spreads, or combinations thereof.

2. Borrow money, except from banks for temporary purposes (not for leveraging or investment) and then in an aggregate amount not in excess of 10% of the value of the Fund's assets at the time of such borrowing, provided, that so long as such borrowings exceed 5% of the value of the net assets, the Fund will not make any investments; or mortgage, pledge or hypothecate any assets except in connection with any such borrowing and in an aggregate amount not in excess of the dollar amount borrowed.

3. Act as an underwriter of securities of other issuers, except to the extent that the purchase of Municipal Securities in accordance with the Fund's investment objective, policies and limitations may be deemed to be an underwriting.

4. Purchase securities (other than under repurchase agreements of not more than one week's duration, considering only the remaining days to maturity of each existing repurchase agreement) for which there exists no readily available market, or for which there are legal or contractual restrictions on resale (excluding restricted securities eligible for resale pursuant to Rule 144A under the Securities Act of 1933, which the Board of Trustees or the Adviser has determined under Board-approved guidelines are liquid), if as a result of any such purchase, more than 10% of the Fund's net assets would be invested in such securities.

5. Purchase any securities if, immediately after such purchase, more than 25% of the value of the Fund's total assets would be invested in the securities of one or more issuers conducting their principal business activities in the same industry, provided that there is no limitation with respect to investments in general municipal obligations and obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities.

6. Purchase securities of any one issuer, other than the U.S. Government, its agencies and instrumentalities, if immediately after such purchase more than 5% of the value of the Fund's total assets would be invested in such issuer.

7. Acquire more than 10% of any class of securities of an issuer, except securities issued or guaranteed by the U.S. Government or any of its agencies or instrumentalities, or securities which are backed by the full faith and credit of the United States.

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8. Purchase or sell real estate, except this shall not prevent the Fund from investing in Municipal Securities secured by real estate or interests therein.

9. Purchase or sell commodities or commodity futures contracts, or oil, gas or mineral exploration or development programs.

10. Make loans, except that the Fund may hold debt instruments and enter into repurchase agreements in accordance with its investment objectives and policies.

11. Issue any class of securities senior to any other class of securities, except that the Fund may purchase when-issued securities as described under "Investment Objectives and Policies."

12. Invest more than 25% of its total assets within a single state of the United States or the District of Columbia.

13. The Fund may, notwithstanding any other fundamental investment policy or limitation, invest all of its assets in the securities of a single open-end management investment company with substantially the same fundamental investment objectives, policies and limitations as the Fund.

The following investment restrictions may be changed by the Board of Trustees without the approval of shareholders. Appropriate notice will be given of any changes in these restrictions made by the Board of Trustees. With respect to investment restrictions Number 14 through 17 below, the Fund may not:

14. Purchase securities of other investment companies, except in connection with a merger, consolidation, acquisition or reorganization, and except for purchases of the securities of money market mutual funds.

15. Purchase securities of any issuer for the purpose of exercising control or management, except in connection with a merger, consolidation, acquisition or reorganization.

16. Invest more than 5% of the Fund's total assets in securities of any issuer which, together with its predecessors, has been in continuous operation less than three years, except obligations issued or guaranteed by the U.S. Government or its agencies, or Municipal Securities (other than industrial development bonds) (for this purpose the period of operation of the issuer shall include the period of operation of any predecessor or unconditional guarantor of such issuer).

17. Purchase or retain the securities of an issuer if those officers or trustees of the Trust or officers or directors of the Adviser who are also officers or directors of the issuer and who each own beneficially more than 1/2 of 1% of the securities of that issuer together own more than 5% of the securities of such issuer.

18. The Fund does not currently intend to invest all of its assets in the securities of a single open-end management investment company with substantially the same fundamental investment objectives, policies and limitations as the Fund.

For the purposes of the limitations set forth in paragraphs 5, 6, 7, 16 and 17, the Fund will regard the entity which has the ultimate responsibility for the payment of principal and interest as the issuer.

If a percentage restriction is adhered to at the time of investment, a later increase or decrease in percentage resulting from a change in values of portfolio securities or amount of net assets will not be considered a violation of any of the foregoing restrictions.

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## PORTFOLIO TRANSACTIONS

The Advisory Agreements authorize the Adviser (subject to the control of the Boards of Trustees) to select brokers and dealers to execute purchases and sales of portfolio securities. They direct the Adviser to use its best efforts to obtain the best overall terms for the Trusts, taking into account such factors as price (including dealer spread), the size, type and difficulty of the transaction involved, and the financial condition and execution capability of the broker or dealer.

With respect to the Cash Management Fund and the Government Securities Fund, the Adviser generally will purchase portfolio securities for both Funds either directly from the issuer or from dealers who specialize in "money market" instruments. During the last three fiscal years ended December 31, 1994, 1995, and 1996 the Cash Management Fund and the Government Securities Fund paid no brokerage commissions.

With respect to the Tax Exempt Money Fund, purchases and sales of the Fund's portfolio securities are generally placed by the Adviser with the issuer, the issuer's underwriter or with a primary market maker. Usually no brokerage commission is paid, although the price usually includes an undisclosed compensation. (Transactions with primary market makers reflect the spread between bid and asked prices; purchases of underwritten issues include an underwriting fee paid by the issuer to the underwriter.) During the last three fiscal years ended December 31, 1994, 1995 and 1996, the Tax Exempt Money Fund paid no brokerage commissions.

With respect to all of the Funds, to the extent that the execution and price offered by more than one dealer are comparable, the Adviser may, in its discretion, effect transactions in portfolio securities with dealers who provide the Trusts with research services such as credit analysis. Any such research services would be available for use on all investment advisory accounts of the Adviser.

Other investment advisory clients advised by the Adviser may also invest in the same securities as the Trusts. When these clients buy or sell the same securities at substantially the same time, the Adviser may average the transactions as to price and allocate the amount of available investments in a manner which the Adviser believes to be equitable to each client, including any Fund. In some instances, this investment procedure may adversely affect the price paid or received by any Fund or the size of the position obtainable for it. On the other hand, to the extent permitted by law, the Adviser may aggregate the securities to be sold or purchased for any Fund with those to be sold or purchased for other clients managed by it in order to obtain best execution.

In no instance will portfolio securities be purchased from or sold to Tucker Anthony Incorporated ("Tucker Anthony"), Sutro & Co. Incorporated ("Sutro") or any affiliated person (as defined in the 1940 Act) thereof.

The Board of Trustees of the Mutual Fund has determined that any portfolio transaction for the Mutual Fund may be executed through Tucker Anthony or Sutro, if, in the Adviser's judgment, the use of Tucker Anthony or Sutro is likely to result in price and execution at least as favorable as those of other qualified brokers, and if, in the transaction, Tucker Anthony or Sutro charges the Mutual Fund a commission rate consistent with those charged by Tucker Anthony or Sutro to comparable unaffiliated customers in similar transactions. Neither Tucker Anthony nor Sutro will participate in commissions in brokerage given by the Mutual Fund to other brokers or dealers and will not receive any reciprocal brokerage business resulting therefrom.

## CURRENT YIELD

The Securities and Exchange Commission requires by rule that a yield quotation set forth in an advertisement or prospectus for a "money market" fund be computed by a standardized method based on a historical seven calendar

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day period referred to as the "base period." The yield quoted may be a simple annualized yield or a compounded effective yield which gives effect to the reinvestment of the proceeds of the investment portfolio. If the compounded effective yield is used in an advertisement, the simple annualized yield must also be included. Both yields are computed on the basis of the base period return on a hypothetical pre-existing account in each Fund having a balance of one share at the beginning of the seven-day base period. The base period return equals the net change in value of the account over the seven-day period, including dividends declared both on the original share and on any additional shares purchased with previous dividends (such dividends are declared daily and paid from the net investment income of the Fund) and minus all fees, other than

nonrecurring account or sales charges charged to all shareholder accounts, in proportion to the length of the base period and the Fund's average account size. The fees deducted will take into account the expense limitation agreement as described in "Our Management" in the Prospectus. The net change in value does not include realized gains and losses from the sale of securities or unrealized appreciation or depreciation of the securities. The base period return is then multiplied by 365/7 to arrive at the annualized simple yield. The compounded effective yield is calculated by dividing the base period return (calculated as above) by 7, adding 1, raising that sum to the 365th power and subtracting 1 from the result. Both calculations of yields are then expressed to at least two decimal points.

#### Yield Information

Cash Management Fund. For the seven day period ended December 31, 1996, the simple annualized yield of the Cash Management Fund was \_\_%, the compound effective yield was \_\_%, and the Fund had an average weighted maturity of \_\_ days.

Government Securities Fund. For the seven day period ended December 31, 1996, the simple annualized yield of the Government Securities Fund was \_\_%, the compound effective yield was \_\_%, and the Fund had an average weighted maturity of \_\_ days.

Tax Exempt Money Fund. For the seven day period ended December 31, 1996, the simple annualized yield of the Tax Exempt Money Fund was \_\_%, the compound effective yield was \_\_%, and the Fund had an average weighted maturity of \_\_ days.

#### ADDITIONAL INFORMATION ON REDEMPTION

The Trusts may suspend redemption privileges or postpone the date of payment on shares of any Fund for more than seven days during any period (1) when the New York Stock Exchange is closed (other than for week-ends or holidays) or trading on the Exchange is restricted as determined by the Securities and Exchange Commission ("SEC"), (2) when an emergency exists, as defined by the SEC, which makes it not reasonably practicable for either Trust to dispose of securities owned by it or fairly to determine the value of its assets, or (3) as the SEC may otherwise permit.

It is possible that under unusual circumstances the redemption price may be more or less than the shareholder's cost, depending on the market value of a Fund's portfolio at the time.

#### NET ASSET VALUE

As disclosed in the Prospectus, the net asset value per share of each Fund is determined at 12:00 noon New York time Monday through Friday, as described below. The Funds will be closed on the following national business

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holidays: New Year's Day, Washington's Birthday, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day.

The net asset value per share of the Funds is determined daily under the general supervision of the Trusts' Board of Trustees by the Trusts' custodian at 12:00 noon New York time on each day on which the New York Stock Exchange is open or on which there is a sufficient degree of trading in the Trusts' portfolio securities that the current net asset value of the Trusts' redeemable securities might be materially affected by changes in the value of the portfolio securities. Purchase or redemption orders accepted by John Hancock Investor Services Corp. ("JHIS") prior to 12:00 noon New York time will be priced at 12:00 noon New York time that day. Purchase or redemption orders accepted by JHIS subsequent to 12:00 noon New York time will be priced at 12:00 noon New York time the next day that net asset value is computed. Net asset value per share is computed by taking the value of all assets of any Fund, less liabilities, and dividing by the number of shares of the Fund outstanding. To determine the value of the assets of any Fund for the purpose of obtaining the net asset value, portfolio securities are valued at amortized cost, as described below, and interest is accrued daily.

Since the Trusts have adopted a policy of normally holding portfolio securities to maturity, all portfolio securities of the Funds will normally be valued at amortized cost. Thus, it is not expected that realized or unrealized gains or losses on portfolio securities will be a substantial factor in the computation of the net asset value or gross income of any Fund. If in some extraordinary circumstance any Fund experiences gains or losses (realized or unrealized), whether recognized or unrecognized, this could result in a change in net asset value, a change in dividends, or both.

The Trusts comply with the provisions of Rule 2a-7 under the 1940 Act

which permits each Fund to compute the net asset value using the amortized cost method of valuing portfolio securities. To comply with that rule, the Board of Trustees of each Trust has agreed to establish procedures to stabilize the net asset value for each Fund at \$1.00 per share. These procedures include a review by the Board of Trustees of the extent of any deviation of net asset value per share, based on available market quotations or estimates of market value determined by the Boards of Trustees in good faith, from the Fund's \$1.00 amortized cost value per share. If that deviation exceeds 1/2 of 1%, the Trustees will consider any action that should be initiated to reasonably eliminate or reduce material dilution or other unfair results to shareholders. Such action may include selling portfolio securities prior to maturity, withholding dividends, or utilizing a net asset value per share as determined by using available market quotations. In addition, the Trusts must (a) maintain a dollar weighted average portfolio maturity of 90 days or less for each Fund, (b) not purchase any instrument with a remaining maturity greater than 397 days, (c) limit portfolio investments, including repurchase agreements, to securities that, at the time of acquisition, (i) are rated in the two highest categories by at least two nationally recognized statistical rating organizations (or by one organization if only one organization has rated the security), (ii) if not rated, are obligations of an issuer whose other outstanding short-term debt obligations are so rated, or (iii) if not rated, are of comparable quality as determined by the Boards of Trustees in accordance with procedures established by the Boards of Trustees, and (d) comply with certain reporting and recordkeeping procedures. The Trusts' officers will periodically review the method of valuation and recommend changes to the Boards of Trustees which may be necessary to assure that the portfolio securities of the Funds are valued at their fair value as determined by the Trustees in good faith. The Funds will limit their investments to securities that present minimal credit risks, as determined by the Boards of Trustees in accordance with the procedures established by the Boards of Trustees.

Amortized cost valuation involves valuing a security at its cost and adding or subtracting, ratably to maturity, any discount or premium, regardless of the impact of fluctuating interest rates on the market value of the security. Under the amortized cost method of valuation, neither the amount of daily income nor net asset value is affected by any unrealized appreciation or depreciation of the portfolio. As a result, in periods of declining interest rates, the indicated daily yield on a portfolio valued by amortized cost will be higher than on a portfolio valued by market prices.

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Since there is no sales load involved in an investment in either Trust, 100% of the shareholder's purchase price is invested in shares of the Fund purchased.

#### ADDITIONAL INFORMATION ON TAXES

Each Fund intends to qualify and elect to be treated as a "regulated investment company" under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"). If so qualified, a Fund will not be liable for federal income taxes on its taxable net investment income and capital gain net income that is distributed to shareholders, provided that the Fund distributes at least 90% of its net investment income (other than capital gains) and its net short-term capital gain for the year. To qualify for tax treatment as a "regulated investment company" under the Code, a Fund must, among other things, (i) derive in each taxable year at least 90% of its gross income from dividends, interest, payments with respect to securities loans, gains from the sale or other disposition of stock, securities or foreign currencies or other income derived with respect to its business of investing in such stock, securities or currencies and (ii) derive in each taxable year less than 30% of its gross income from the sale or other disposition of stock, securities or certain other financial instruments held for less than three months.

If for any taxable year any Fund does not qualify as a regulated investment company, all of its taxable income will be subject to tax at corporate rates and, in such event, dividend distributions to its shareholders would be eligible for the corporate dividends received deduction.

The Code imposes a nondeductible 4% excise tax on a regulated investment company that fails to distribute during each calendar year an amount at least equal to the sum of (1) 98% of its taxable ordinary income for the calendar year, and (2) 98% of its capital gain net income for the twelve month period ending on October 31 of the calendar year, and (3) certain undistributed amounts from the preceding calendar year. The Funds intend to make sufficient distributions to avoid this 4% excise tax.

Taxable distributions generally are included in a shareholder's gross income for the taxable year in which they are received. However, dividends declared in October, November and December and made payable to shareholders of record in such a month are taxable as of December 31, provided that a Fund pays the dividend during the following January. It is expected that none of the Funds' distributions will qualify for the 70% corporate dividends-received deduction.

Since none of the net investment income of the Cash Management Fund or the Government Securities Fund will arise from dividends on common or preferred stock, it is expected that none of the Trust's distributions to shareholders will be eligible for the corporate dividends received deduction.

Since all net investment income will be distributed as dividends, it will be taxable to shareholders as ordinary income, except for (a) such portion as may exceed a shareholder's ratable share of a Fund's earnings and profits as determined for tax purposes and available therefor, which excess will be applied against and reduce the shareholder's adjusted tax basis for his shares, and (b) amounts representing distributions of realized net capital gain (i.e., the excess of net long-term capital gain over net short-term capital loss) and properly designated as such. If the excess described in (a) above were to exceed the shareholder's tax basis for his shares, the amount thereof would be treated as gain from the sale or exchange of such shares. The amount of any net capital gain realized by a Fund is, to the extent designated by that Fund, taxable to shareholders as long-term capital gain, regardless of the length of time a particular shareholder may have held his shares in the Fund. Not later than sixty days after the end of each taxable year, each Fund will send to its shareholders a written notice designating the amount of any distributions made during such year which is a

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distribution of long-term capital gain or represents a return of capital. In view of their policy of investing only in instruments maturing within one year, it is unlikely that either Fund will realize any long-term capital gains.

#### Tax Exempt Money Fund

Net investment income received by the Fund from investments in debt securities other than tax exempt securities, and any excess of net short-term capital gain over net long-term capital loss recognized by the Fund, will be taxable to shareholders upon distribution as ordinary income, regardless of whether the distribution is paid in cash or in additional shares. The excess of net long-term capital gain over net short-term capital loss ("net capital gain"), to the extent properly designated by the Fund, will be taxable to shareholders upon distribution as long-term capital gain, regardless of the length of time the shares have been held or whether the distribution is paid in cash or in additional shares. Such distributions of net capital gain will not be eligible for the dividends received deduction for corporations. However, it is expected that any such amounts will be insubstantial in relation to the tax exempt interest generated by the Fund.

Interest on certain private activity bonds issued after August 7, 1986 not otherwise subject to federal income tax may be subject to the federal alternative minimum tax ("AMT") although the interest continues to be excludable from gross income for other purposes. The AMT is a supplemental tax designed to ensure that taxpayers pay at least a minimum amount of tax on their income, even if they make substantial use of certain tax deductions and exclusions (including the "items of tax preference"). Interest from certain private activity bonds is one of the items of tax preference that is added into income from other sources for the purposes of determining whether a taxpayer is subject to the AMT and the amount of any tax to be paid. Under regulations to be prescribed, exempt-interest dividends paid by the Fund will be treated as interest on such private activity bonds to the extent of the proportionate share of the interest on such bonds received by the Fund. In addition, corporate investors should note that exempt-interest dividends will be a component of the "current earnings" adjustment for the corporate AMT. Prospective investors should consult their own tax advisors with respect to the possible application of the AMT to their tax situation.

To the extent that the net asset value at the time of purchase of shares in the Fund reflects capital gains, a subsequent distribution to the shareholder of such amounts, although constituting a return of his investment, would be taxable as described above. Any loss on the sale or exchange of shares of the Fund held for six months or less will be disallowed to the extent that tax-exempt interest dividends were paid on such shares.

Information concerning the tax status of dividends and distributions is mailed to shareholders annually. The Fund anticipates that substantially all of the dividends to be paid by the Fund will be exempt from federal income taxes. If any portion of the Fund's dividends is not exempt from federal income taxes, the Fund will advise shareholders in the annual tax information notice of the percentage of both tax exempt and taxable income. The Fund will also advise shareholders in the annual tax information notice of the proportion of dividends and distributions derived from Municipal Securities of each state. In accordance with the Code, expenses of the Fund will be allocated pro rata between taxable and nontaxable income.

Shareholders who are recipients of Social Security benefits should be

aware that tax-exempt interest dividends received from the Fund are taken into account for purposes of determining whether their incomes are large enough to result in taxation of up to 85% of the amount of such Social Security benefits.

From time to time, proposals have been introduced before Congress for the purpose of restricting, limiting, or eliminating the federal income tax exemptions for interest on Municipal Securities. It can be expected that similar proposals may be introduced in the future. If any such proposal were enacted, the availability of Municipal Securities for investment by the Fund and the value of the Fund's portfolio would be affected. In such an event, the Fund would reevaluate its investment objective and policies.

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#### MANAGEMENT OF THE TRUSTS

The Trustees and executive officers of the Trusts and their principal occupations during the past five years are set forth below. Unless otherwise indicated, the business address of each is One Beacon Street, Boston, Massachusetts 02108.

\*Dexter A. Dodge-Trustee, Chairman of the Board and Chief Executive Officer, President and Managing Director of the Adviser since July 1992. He is 62. Vice President of Freedom Distributors Corporation since 1989 and Director since 1994.

Richard A. Farrell-Trustee-160 Federal Street, Boston, Massachusetts 02110. He is 63. President since 1980 of Farrell, Healer & Co., a venture capital management firm that manages The Venture Capital Fund of New England.

Ernest T. Kendall-Trustee-230 Beacon Street, Boston, Massachusetts 02116. He is 64. President, Commonwealth Research Group, Inc., Boston, MA, a consulting firm specializing in microeconomics, regulatory economics and labor economics, since 1978.

Richard B. Osterberg-Trustee-84 State Street, Boston, MA 02109. He is 52. Member of the law firm of Weston, Patrick, Willard & Redding, Boston, MA since 1978.

\*Lawrence G. Kirshbaum-Trustee and Chief Financial Officer-1 World Financial Center, New York, New York 10281. He is 54. Chief Financial Officer and Executive Vice President of John Hancock Freedom Securities Corporation since 1992. Director of Tucker Anthony Incorporated, Sutro & Co. Incorporated, John Hancock Clearing Corporation and the Adviser since 1992. Chairman of Prescott, Ball & Turben, Inc., Cleveland, Ohio, from 1987-1990. Chief Financial Officer of Prescott, Ball & Turben, Inc. from 1982-1987.

William H. Darling -Trustee - 294 Washington Street, Suite 310, Boston, Massachusetts 02108. He is 47. President, W.H. Darling & Co., Inc., managing corporate general partner to a coal land lessor, since 1994. Partner of Sagamore Partners, which provides trustee services to family and related trusts, since 1993. Certified Public Accountant, William A. Darling, CPA since 1982.

John R. Haack - Trustee - 311 Commonwealth Avenue #81, Boston, Massachusetts 02115. He is 54. Vice President of Operations, Reliable Transaction Processing, 1995 to present. Major General, Assistant to the Commander in Chief, U.S. Space Command, 1993 to 1995. General Manager, Unilect Industries, which is an electrical component manufacturer, 1993 to 1994. Brigadier General, Commander of 102nd Fighter Interceptor Wing, U.S. Air Force and Air National Guard, 1986 to 1993.

Laurence R. Veator, jr. - Trustee - 8 Cove Way, Rust Island, Gloucester, Massachusetts 01930. Currently retired. Formerly, President, Pacific/Interamerican Divisions of Grace Specialty Chemicals Co. from 1975 to 1987.

John J. Danello-President and Secretary-Chief Operating Officer of the Adviser since February 1994 and Managing Director, Clerk and General Counsel since November 1986. He is 41. President and Director since February 1989 and Clerk since February 1987 of Freedom Distributors Corporation. Prior to November 1986, Mr. Danello was associated with the law firm of Goodwin, Procter & Hoar.

Darlene F. Rego-Treasurer-Vice President of the Adviser since February 1995 and Assistant Vice President since December 1992. She is 33. Assistant Treasurer of the Trusts from July 1987 until December 1992.

Mary Jeanne Currie-Vice President-Vice President of the Adviser since February 1983. She is 48.

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\* Trustee may be deemed to be an "interested person" of the Trust as defined in the Investment Company Act of 1940.



Michael M. Spencer-Vice President-Senior Vice President and Director of Fixed-Income Investments of the Adviser since August 1995. He is 46. From 1985 to 1995, Mr. Spencer was a Portfolio Manager at Shawmut Investment Advisers.

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Paul F. Marandett-Vice President-Vice President of the Adviser since 1990. He is 54. From 1980 to 1990, Mr. Marandett was vice president with the Bank of Boston.

Sarah H. Scranton-Vice President-Vice President and Portfolio Manager of the Adviser since September 1994 and Vice President and Portfolio Manager of the Freedom Group of Money Funds since April 1994. She is 32. From March 1990 to September 1994, Ms. Scranton was an Assistant Vice President and Assistant Portfolio Manager of the Adviser.

Maureen M. Renzi-Assistant Secretary-Assistant Vice President of the Adviser since February 1995 and Assistant Clerk and Compliance Officer since July 1992. She is 32. Vice President of Freedom Distributors Corporation since February 1995. Paralegal of New England Securities from March 1989 to July 1992.

Messrs. Dodge, Danello, Kirshbaum, Marandett, McCarthy and Spencer and Mesdames Currie, Rego, Renzi and Scranton are all officers of the Adviser as well as of the Trusts.

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\* Trustee may be deemed to be an "interested person" of the Trust as defined in the Investment Company Act of 1940.

During the last fiscal year of the Trust, the Trustees were compensated as follows:

<TABLE>  
<CAPTION>

Name of Trustee	Aggregate Compensation from the Tax Exempt Money Fund	Aggregate Compensation from the Government Securities Fund	Aggregate Compensation from the Cash Management Fund	Total Compensation from Fund Complex Paid to Trustees (a)
<S>	<C>	<C>	<C>	<C>
Dexter A. Dodge	\$0	\$0	\$0	\$0
Richard A. Farrell	3,901	4,018	10,124	20,800
Ernest T. Kendall	2,901	3,018	9,124	16,800
Richard B. Osterberg	2,901	3,018	9,124	16,800
Lawrence G. Kirshblum	0	0	0	0
William H. Darling	0	0	0	0
John R. Haack	0	0	0	0
Laurence R. Veator, Jr.	0	0	0	0

</TABLE>

(a) Includes compensation from the Tax Exempt Money Fund, Government Securities Fund, Cash Management Fund and Freedom California Tax Exempt Money Fund. The Trust does not provide any pension or retirement benefits for the Trustees.

As of January 31, 1997, the Estate of Jane S. Miller, 520 SW Yamhill RG #8, Portland, Oregon 97204- 1335 was the beneficial owner of approximately \_\_\_% of the shares of the Tax Exempt Money Fund. To the knowledge of the Mutual Fund and the Tax Exempt Trust, no other person beneficially owns 5% or more of the shares of any of the Funds. As of January 31, 1997, the officers and Trustees of the Mutual Fund as a group owned less than 1% of each of the Cash Management Fund and the Government Securities Fund, and the officers and Trustees of the Tax Exempt Trust as a group owned less than 1% of the Tax Exempt Money Fund.

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THE INVESTMENT ADVISER

The investment adviser for each of the Funds is Freedom Capital Management Corporation (formerly Tucker Anthony Management Corporation), a Massachusetts corporation (the "Adviser"), with offices at One Beacon Street, Boston, Massachusetts. The Adviser is a registered investment advisory firm which maintains a large securities research department, the efforts of which will be made available to the Funds.

The Adviser is an indirect, wholly-owned subsidiary of JHFSC Acquisition Corp., a newly - formed Delaware corporation. JHFSC Acquisition Corp. is located at One Beacon Street, Boston, Massachusetts 02108. The Adviser was formerly an indirect subsidiary of John Hancock Subsidiaries, Inc. ("Hancock Subsidiaries") which transferred approximately 95 % of its interest in John Hancock Freedom Securities Corporation ("Freedom Securities"), the parent company of the Adviser to JHFSC Acquisition Corp. JHFSC Acquisition Corp. is owned by an investor group which includes certain members of management and employees of Freedom Securities and its subsidiaries, including the Adviser (the "Employee Shareholders"). To accomplish the sale, Hancock Subsidiaries, JHFSC Acquisition Corp., Thomas H. Lee Equity Fund III, L.P. ("Lee") and SCP Private Equity Partners, L.P. ("SCP"), entered into a Contribution Agreement on October 4, 1996, pursuant to which Hancock Subsidiaries contributed 100% of the issued and outstanding shares of capital stock of Freedom Securities to JHFSC Acquisition Corp., in exchange for (i) 4.9% of the issued and outstanding capital stock of JHFSC Acquisition Corp. and (ii) aggregate consideration of \$180,000,000 (subject to reduction to the extent of certain distributions made prior to closing).

Upon consummation on November 29, 1996 of the transactions contemplated by the Contribution Agreement, Freedom Securities became a wholly-owned subsidiary of JHFSC Acquisition Corp., and the Adviser remained a wholly-owned subsidiary of Freedom Securities. The outstanding capital stock of JHFSC Acquisition Corp. after the consummation of the Transaction is approximately as follows:

Investor -----	Percentage Ownership -----
Thomas H. Lee Equity Fund III., L.P.	49.9%
SCP Private Equity Partners, L.P.	13.0%
John Hancock Subsidiaries, Inc.	4.9%
Employee Shareholders	32.2%

Thomas H. Lee Equity Fund III, L.P. is a Massachusetts limited partnership. The general partner of Thomas H. Lee Equity Fund III, L.P. is THL Equity Advisors III Limited Partnership, a Massachusetts limited partnership. The general partner of THL Equity Advisors III Limited Partnership is THL Equity Trust III, a Massachusetts business trust. The sole beneficial owner of THL Equity Trust III is Thomas H. Lee. The address of Thomas H. Lee Equity Fund III, L.P., THL Equity Advisors III Limited Partnership and THL Equity Trust III is 75 State Street, Boston, Massachusetts 02109.

SCP Private Equity Partners, L.P. is a Delaware limited partnership. The general partner of SCP Private Equity Partners, L.P. is SCP Private Equity Management, L.P., a Delaware limited partnership. The interests of SCP Private Equity Management, L.P. are divided equally among its three general partners: Safeguard Capital Management, Inc. (which is a wholly owned subsidiary of Safeguard Scientifics, Inc., a publicly held company), Winston J. Churchill and Samuel A. Plum. The address of SCP Private Equity Partners, L.P., SCP Private Equity Management, L.P., Safeguard Capital Management, Inc., Winston J. Churchill and Samuel A. Plum is 435 Devon Park Drive, Wayne, Pennsylvania 19087.

The consummation of the Transaction resulted in a change of control of the Adviser, causing the Advisory Agreement between the Adviser and the Trust, on behalf of each of the Funds, to be "assigned," as such term is defined under the Investment Company Act of 1940 (the "1940 Act"). This assignment necessitated approval of a new Advisory Agreement by the shareholders of the Funds. The shareholders of the Funds approved the new Advisory Agreements at meetings held on December 16, 1996.

Freedom Distributors Corporation ("Freedom") and Tucker Anthony Incorporated ("Tucker Anthony" and together with Freedom, the "Distributors"), affiliates of the Adviser, serve as distributors and principal underwriters for the Funds pursuant to a distribution agreement with each Trust. Freedom, established in 1987, is an indirect subsidiary of JHFSC Acquisition Corp. Tucker Anthony (formerly Tucker, Anthony & R.L. Day, Inc.), a brokerage firm which is a member of the New York Stock Exchange, is also an indirect subsidiary of JHFSC Acquisition Corp and continues an investment banking and brokerage business established in 1892.

Pursuant to investment advisory agreements dated as of November 29, 1996 (the "Advisory Agreements") between the respective Trusts and the Adviser, the Adviser agreed to act as investment adviser and manager to the Funds. As manager and investment adviser, the Adviser will: (a) furnish continuously an investment program for the Funds and determine, subject to the overall supervision and review of the Boards of Trustees, which investments should be purchased, held, sold or exchanged, (b) provide supervision over all aspects of the Funds' operations except those which are delegated to a custodian, transfer agent or other agent, and (c) provide the Trusts with such executive, administrative and clerical personnel, officers and equipment as are deemed necessary for the conduct of the business of the Trusts.

Each Trust bears all costs of its organization and operation, including expenses of preparing, printing and mailing all shareholders' reports, notices, prospectuses (except that the expense of printing and mailing prospectuses used for promotional purposes will not be borne by the Trusts), proxy statements and reports to regulatory agencies; expenses relating to the issuance, registration and qualification of shares of the Trust; government fees; interest charges; expenses of furnishing to shareholders their account statements; taxes; expenses of redeeming shares; brokerage and other expenses connected with the execution of portfolio securities transactions; fees and expenses of the Trust's custodian, including those for keeping books and accounts and calculating the net asset value of shares of each Fund; fees and expenses of its independent accountants, legal counsel, transfer agent and dividend disbursing agent; the compensation and expenses of its Trustees who are not otherwise affiliated with the Trust, the Adviser or any of their affiliates; expenses of trustees' and shareholders' meetings; trade association memberships; insurance premiums; and any extraordinary expenses.

The State of California imposes limitations on the expenses of the Funds. The Advisory Agreements provide that if, in any fiscal year, the total expenses of any Fund (excluding taxes, interest, brokerage commissions and extraordinary items, but including the management fee) exceed the expense limitations applicable to the Fund imposed by the securities regulations of any state in which it is then registered to sell shares, the Adviser will pay or reimburse the Fund for that excess up to the amount of its management fee during that fiscal year. Although there is no certainty that these limitations will be in effect in the future, the most restrictive of these limitations on an annual basis currently is 2.5% of the first \$30 million of net assets; 2% of the next \$70 million; and 1.5% of the average daily net assets over \$100 million. For the purpose of determining whether a Fund is entitled to reimbursement, the expenses of the Fund are calculated on a monthly basis. If the Fund is entitled to reimbursement, that month's advisory fee will be reduced or postponed, with any adjustment made after the end of the year.

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The Advisory Agreement for the Mutual Fund was approved on October 3, 1996 by all of the Trustees, including all of the Trustees who are not parties to that Advisory Agreement or "interested persons" (as defined in the Investment Company Act of 1940) of any such party and was approved at a meeting held on December 16, 1996 by the outstanding shareholders of each of the Cash Management Fund and the Government Securities Fund. The Advisory Agreement for the Tax Exempt Trust was approved on October 3, 1996 by all of the Trustees, including all of the Trustees who are not parties to the Advisory Agreement or "interested persons" of any such party and was approved on at a meeting held on December 16, 1996 by the outstanding shareholders of the Tax Exempt Money Fund. The Advisory Agreements will continue in effect with respect to the Mutual Fund and Tax Exempt Trust from year to year, provided that its continuance is approved annually both (i) by the holders of a majority of the outstanding voting securities of each Fund or by the Board of Trustees, and (ii) by a majority of the Trustees who are not parties to the Advisory Agreements or "interested persons" of any such party. The Advisory Agreements may be terminated on 60 days written notice by either party and will terminate automatically if they are assigned.

Mr. Osterberg, a Trustee of the Trusts, is a member of the law firm of Weston, Patrick, Willard & Redding, which has retained the Adviser from time to time to provide investment advisory consulting services for clients of such firm.

For the fiscal year ended December 31, 1994, the Cash Management Fund, the Government Securities Fund and the Tax Exempt Money Fund paid the Adviser an investment advisory fee of \$5,260,049, \$1,393,542 and \$1,399,383, respectively.

For the fiscal year ended December 31, 1995, the Cash Management Fund, the Government Securities Fund and the Tax Exempt Money Fund paid the Adviser an investment advisory fee of \$5,802,037, \$1,391,071, and \$1,365,700 respectively.

For the fiscal year ended December 31, 1996 the Cash Management Fund, Government Securities Fund and the Tax Exempt Fund paid the Adviser an investment advisory fee of \$\_\_\_\_, \$\_\_\_\_ and \$\_\_\_\_ respectively.

#### DISTRIBUTION OF SHARES OF THE TRUSTS

The Trusts have each entered into a Distribution Agreement with the Distributors whereby the Distributors act as exclusive selling agent of the Funds selling shares of each Fund on a "best efforts" basis. Although the Distributors distribute shares of each Fund on a continuous basis, shares may

also be purchased directly from the Funds. No underwriting commissions or discounts are paid to the Distributors in connection with their distribution of shares of the Funds.

#### CUSTODIAN

All cash and securities of the Trusts are held by State Street Bank and Trust Company, 225 Franklin Street, Boston, Massachusetts 02106, as custodian.

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#### FINANCIAL STATEMENTS AND INDEPENDENT ACCOUNTANTS

Price Waterhouse LLP, 160 Federal Street, Boston, Massachusetts 02110 serves as the Trusts' independent accountants, providing audit services, including review and consultation, in connection with various filings by the Trusts with the Securities and Exchange Commission and tax authorities.

The financial statements and the report of the independent accountants with respect to the Cash Management Fund, the Government Securities Fund and the Tax Exempt Money Fund for the fiscal year ended December 31, 1996 are included in the Trusts' Prospectus.

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#### INFORMATION ABOUT SECURITIES RATINGS OF NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATIONS ("NRSROs")

##### Debt Security Ratings, Including Municipal Bonds

MOODY'S INVESTORS SERVICE, INC. Aaa--the "best quality." Aa--"high quality by all standards", but margins of protection or other elements make long-term risks appear somewhat larger than Aaa rated municipal bonds.

STANDARD & POOR'S CORPORATION. AAA--"obligations of the highest quality." AA--issues with investment characteristics "only slightly less marked than those of the prime quality issues."

##### Ratings of Municipal Notes

MOODY'S INVESTORS SERVICE, INC. MIG 1: the best quality. MIG 2: high quality, with margins of protection ample although not so large as in the preceding group.

##### Ratings of Commercial Paper

MOODY'S INVESTORS SERVICE, INC. The rating Prime-1 is the highest commercial paper rating assigned by Moody's. Among the factors considered by Moody's in assigning ratings are the following: valuation of the management of the issuer; economic evaluation of the issuer's industry or industries and an appraisal of speculative-type risks which may be inherent in certain areas; evaluation of the issuer's products in relation to competition and customer acceptance; liquidity; amount and quality of long-term debt; trend of earnings over a period of 10 years; financial strength of the parent company and the relationships which exist with the issuer; and recognition by the management of obligations which may be present or may arise as a result of public interest questions and preparations to meet such obligations. These factors are all considered in determining whether the commercial paper is rated P1, P2 or P3.

STANDARD & POOR'S CORPORATION. Commercial paper rated A (highest quality) by S&P has the following characteristics: liquidity ratios are adequate to meet cash requirements; and long-term senior debt is rated "A" or better, although in some cases "BBB" credits may be allowed. The issuer has access to at least two additional channels of borrowing. Basic earnings and cash flow have an upward trend with allowance made for unusual circumstances. Typically, the issuer's industry is well established and the issuer has a strong position within the industry. The reliability and quality of management are unquestioned. The relative strength or weakness of the above factors determines whether the issuer's commercial paper is rated A1, A2, or A3.

IBCA LIMITED/IBCA INC. Short-term obligations, including commercial paper, rated A-1+ by IBCA Limited or its affiliate IBCA Inc. are obligations supported by the highest capacity for timely repayment. Obligations rated A-1 have a very strong capacity for timely repayment. Obligations rated A-2 have a strong capacity for timely repayment, although such capacity may be susceptible to adverse changes in business, economic or financial conditions.

FITCH INVESTORS SERVICES, INC. Fitch Investors Services, Inc. employs the rating F-1+ to indicate issues regarded as having the strongest degree of

assurance for timely payment. The rating F-1 reflects an assurance of timely payment only slightly less in degree than issues rated F-1+, while the rating F-2 indicates a satisfactory degree of assurance for timely payment, although the margin of safety is not as great as indicated by the F-1+ and F-1 categories.

DUFF & PHELPS INC. Duff & Phelps Inc. employs the designation of Duff 1 with respect to top grade commercial paper and bank money instruments. Duff 1+ indicates the highest certainty of timely payment: Short-term

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liquidity is clearly outstanding, and safety is just below risk-free U.S. Treasury short-term obligations. Duff 1- indicates high certainty of time payment. Duff 2 indicates good certainty of timely payment: liquidity factors and company fundamentals are sound.

THOMSON BANKWATCH, INC. ("BANKWATCH"). BankWatch will assign both short-term debt ratings and issuer ratings to the issuers it rates. BankWatch will assign a short-term rating ("TBW-1," "TBW-2," "TBW-3," or "TBW-4") to each class of debt (e.g., commercial paper or non-convertible debt), having a maturity of one-year or less, issued by a holding company structure or an entity within the holding company structure that is rated by BankWatch. Additionally, BankWatch will assign an issuer rating ("A," "A/B," "B," "B/C," "C," "C/D," "D," "D/E," and "E") to each issuer that it rates.

Certain NRSROs utilize rankings within rating categories indicated by a + or -. The Funds, in accordance with industry practice, recognize such rankings with categories as graduations, viewing for example S&P's rating of A-1+ and A-1 as being in S&P's highest rating category.

#### Ratings of Short-Term Corporate Debt Securities

MOODY'S INVESTORS SERVICE, INC. Aaa--Best quality. These securities carry the smallest degree of investment risk and are generally referred to as "gilt edge." Interest payments are protected by a large, or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues. Aa--High quality by all standards. They are rated lower than the best bond because margins of protection may not be as large as in Aaa securities, fluctuation of protective elements may be of greater amplitude, or there may be other elements present which made the long-term risks appear somewhat greater.

STANDARD & POOR'S CORPORATION. AAA--Highest grade. They possess the ultimate degree of protection as to principal and interest. Marketwise, they move with interest rates, and hence provide the maximum safety on all counts. AA--High grade. Generally, these bonds differ from AAA issues only in a small degree. Here, too, prices move with the long-term money market.

FITCH INVESTORS SERVICE, INC. AAA-High grade, broadly marketable, suitable for investment by trustees and fiduciary institutions, and liable to but slight market fluctuation other than through changes in the money rate. The prime feature of an "AAA" bond is the showing of earnings several times or many times interest requirements for such stability of applicable interest that safety is beyond reasonable question whenever changes occur in conditions. Other features may be considered, such as a wide margin of protection through collateral, security or direct lien on specific property. Sinking funds or voluntary reduction of debt by call or purchase are often factors, while guarantee or assumption by parties other than the original debtor may influence their rating. AA--Of safety virtually beyond question and readily salable. Their merits are not greatly unlike those of "AAA" class but a bond so rated may be junior though it has a strong lien, or the margin of safety may be less strikingly broad. The issue may be the obligation of a small company, strongly secured, but influenced as to rating by the lesser financial power of the enterprise and more local type of market.

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FREEDOM CALIFORNIA TAX EXEMPT MONEY FUND

[Flag Logo]

ONE BEACON STREET - BOSTON, MASSACHUSETTS 02108  
(800) 453-8206 NATIONWIDE

Freedom California Tax Exempt Money Fund (the "Fund") is a no-load money market fund. Its goal is to provide you with as high a level of current income exempt from federal and California personal income taxes as is consistent with the preservation of capital and the maintenance of liquidity.

The Fund seeks to maintain a stable net asset value of \$1.00 per share. You can invest, reinvest or redeem shares at any time without charge or penalty.

The Fund offers you a convenient way to invest in a portfolio of high

quality, short-term California Municipal Securities.

INVESTMENTS IN THE FUND ARE NEITHER INSURED NOR GUARANTEED BY THE U.S. GOVERNMENT. THERE IS NO ASSURANCE THAT THE FUND WILL BE ABLE TO MAINTAIN A STABLE \$1.00 PER SHARE NET ASSET VALUE.

This Prospectus sets forth concisely the information about the Fund that you ought to know before investing. Please read the Prospectus and retain it for future reference. Additional information, contained in a Statement of Additional Information also dated February 28, 1996, has been filed with the Securities and Exchange Commission and is available upon request without charge by writing to the Fund at the address set forth above. The Statement of Additional Information having the same date as this Prospectus is incorporated by reference into this Prospectus.

FREEDOM CAPITAL MANAGEMENT CORPORATION

INVESTMENT ADVISER

SUTRO & CO. INCORPORATED

DISTRIBUTOR

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

PROSPECTUS AND ANNUAL REPORT -- February 28, 1996

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INTRODUCTION

Freedom California Tax Exempt Money Fund (the "Fund") is an open-end non-diversified investment company, commonly known as a money market mutual fund. The Fund is a no-load money market fund which provides a stable net asset value and high current income by investing in a portfolio of high-quality money market obligations, exempt from federal income tax and California personal income tax.

BENEFITS TO OUR INVESTORS

The Fund offers you important benefits and conveniences:

No Sales Charge, No Redemption Fee.

Minimum Initial Investment: \$1,000.

Minimum Subsequent Investment: \$100. See "How to Purchase Shares" and "How to Redeem Shares".

Liquidity and Share Price Stability: Investment liquidity through convenient purchase and redemption procedures. Stability of principal through maintenance of a constant net asset value of \$1.00 per share.

Checkwriting Privilege: You have the convenience of making redemptions without charge merely by writing a check. Such checks may be payable to anyone you wish and there is no limit on the number of checks you may write.

Professional Management: Freedom Capital Management Corporation, founded in 1930, serves as the Fund's investment adviser (the "Adviser"). The Adviser provides a number of mutual funds and other clients with investment research and portfolio management services. Assets under the Adviser's supervision currently exceed \$4 billion. The Adviser is an indirect, wholly-owned subsidiary of JHFSC Acquisition Corp.

Free Exchange Privilege: You may exchange shares of the Fund without charge for shares of the following money market funds in the Freedom Group of Money Funds:

Freedom Cash Management Fund -- A money market fund investing in a diversified portfolio of high-grade money market instruments.

Freedom Government Securities Fund -- A money market fund investing exclusively in obligations issued or guaranteed as to both principal and interest by the U.S. Government and its agencies or instrumentalities.

Freedom Tax Exempt Money Fund -- A money market fund investing in a diversified portfolio of high quality short-term municipal securities, the income of which is exempt from federal income tax.

Investments in the Fund are neither insured nor guaranteed by the U.S. Government. There is no assurance that the Fund will be able to maintain a stable \$1.00 per share net asset value.

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SUMMARY OF OUR EXPENSES

SHAREHOLDER TRANSACTION EXPENSES

Sales Load Imposed on Purchases.....	None
Sales Load Imposed on Reinvested Dividends.....	None
Redemption Fees.....	None
Exchange Fees.....	None

ANNUAL FUND OPERATING EXPENSES (AS A PERCENTAGE OF AVERAGE NET ASSETS)\*

Management Fees (net of reimbursement or waiver).....	.32%
12b-1 Fees.....	None
Other Expenses.....	.15%
TOTAL FUND OPERATING EXPENSES.....	.47% (a)

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

(a) Annual operating expenses of the Fund in the table reflect the expenses that were paid during the fiscal year ended December 31, 1995, net of the Adviser's reimbursement or waiver of certain expenses amounting to .18%. In the absence of a reimbursement or waiver by the Adviser, the expenses would have been .65% of the Fund's net assets.

The purpose of this table is to assist you in understanding the various costs and expenses that you will bear directly or indirectly as an investor in the Fund. For further information on management fees, see "Our Management."

EXAMPLE

The following example illustrates the effect of the Fund's expenses on the value of a hypothetical \$1,000 investment at the end of one, three, five and ten year periods in the Fund. As noted in the table above, the Fund charges no redemption fees of any kind. THE EXAMPLE SHOULD NOT BE CONSIDERED A REPRESENTATION OF PAST OR FUTURE EXPENSES OR INVESTMENT RETURNS. ACTUAL EXPENSES AND INVESTMENT RETURNS MAY BE GREATER OR LESS THAN THOSE SHOWN.

<TABLE>

<S>	<C>	<C>	<C>	<C>
You would pay the following expenses on a \$1,000 investment, assuming (1) 5% annual return and (2) redemption at the end of each time period:	1 Year	3 Years	5 Years	10 Years
	-----	-----	-----	-----
	\$5	\$15	\$26	\$59

</TABLE>

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OUR FINANCIAL HIGHLIGHTS

The table of FINANCIAL HIGHLIGHTS below represents a summary history of our operations. The table uses the Fund's fiscal year (which ends December 31) and expresses the information in terms of a single share outstanding throughout each period. The table has been audited by Price Waterhouse LLP, independent accountants, whose unqualified report covering the fiscal periods appears elsewhere in this Prospectus. The financial highlights information should be read in conjunction with the financial statements and related notes also included in this Prospectus.

<TABLE>  
<CAPTION>

PERIOD ENDED	NET ASSET VALUE BEGINNING OF PERIOD	NET INVESTMENT INCOME	DIVIDENDS FROM NET INVESTMENT INCOME	NET ASSET VALUE END OF PERIOD	TOTAL RETURN**	NET ASSETS END OF PERIOD (THOUSANDS)	RATIO OF EXPENSES TO AVERAGE DAILY NET ASSETS (A)	RATIO OF NET INVESTMENT INCOME TO AVERAGE DAILY NET ASSETS (A)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
December 31, 1996***	-	-	-	-	-	-	-	-
December 31, 1995	\$1.00	\$0.0325	\$(0.0325)	\$1.00	3.29%	\$85,204	0.47%	3.25%
December 31, 1994	1.00	0.0228	(0.0228)	1.00	2.32	72,659	0.46	2.28
December 31, 1993	1.00	0.0195	(0.0195)	1.00	1.96	90,479	0.33	1.95
December 31, 1992	1.00	0.0241	(0.0241)	1.00	2.45	67,929	0.29	2.41
December 31, 1991	1.00	0.0388	(0.0388)	1.00	3.94	50,005	0.27	3.89
December 31, 1990*	1.00	0.0183	(0.0183)	1.00	1.84	32,381	0.34	5.28+

</TABLE>

+ Annualized.

(a) Net of fees waived by the Adviser which amounted to \$.0018, \$.0020, \$.0028, \$.0033, \$.0042 and \$.0017 per share in the years 1995, 1994, 1993, 1992, 1991 and 1990, respectively.

\* From commencement of operations, August 27, 1990.

\*\* Total return would have been lower had the Adviser not waived fees. Periods less than a year are not annualized.

\*\*\* Information to be filed by amendment.

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#### OUR INVESTMENT OBJECTIVES

In order to provide you with liquidity, the Fund follows practices to maintain a \$1.00 share price: limiting its portfolio's average maturity to 90 days or less; buying securities which mature in 397 days or less; and buying only high quality securities with minimal credit risks. Of course, the Fund cannot guarantee a \$1.00 share price, but these practices help to minimize any price fluctuations that might result from rising or declining interest rates. While the Fund invests in high quality securities, you should be aware that your investment is not without risk even if all the securities in the portfolio are paid in full at maturity. The Fund has a fundamental investment objective with an investment program to aid in achieving its objective. There is no assurance that the Fund will achieve its investment objectives. All money market instruments and debt securities, including short-term municipal securities, can change in value when interest rates change or when an issuer's creditworthiness changes.

The Fund will limit its portfolio investments to securities that, at the time of acquisition, (i) are rated in the two highest categories by at least two nationally recognized statistical rating organizations ("NRSROs") (or by one NRSRO if only one NRSRO has rated the security), (ii) if not rated, are obligations of an issuer whose other outstanding short-term debt obligations are so rated, or (iii) if not rated, are of comparable quality as determined by the Adviser in accordance with procedures established by the Trustees (collectively, "Eligible Securities"). The Fund will limit its investments to Eligible Securities that present minimal credit risk, as determined by the Adviser in accordance with procedures established by the Trustees.

All Eligible Securities may be classified as "first tier" securities and "second tier" securities. In general, first tier securities consist of Eligible Securities that have received the highest rating by at least two NRSROs (or by one NRSRO, if only one NRSRO has rated the security) or which are unrated but determined to be of comparable quality. All other Eligible Securities are classified as second tier securities. A description of the ratings of the NRSROs is contained in the Statement of Additional Information.

Investment Objective. The Fund seeks to achieve as high a rate of current



income exempt from federal and California personal income taxes as is consistent with maintenance of liquidity and preservation of capital.

Investment Program. To protect its capital, the Fund invests only in highly rated securities. The Fund invests primarily in high quality short-term California municipal securities ("California Municipal Securities") which are described below. Normally, the Fund will seek to invest substantially all of its assets in California Municipal Securities. It is a fundamental policy of the Fund that during normal market conditions the Fund's assets will be invested so that at least 80% of the Fund's income during its fiscal year will be exempt from federal and California personal income taxes. However, under certain circumstances, such as a decline in the issuance of California Municipal Securities, the Fund may invest up to 20% of its assets in the following: short-term, high quality municipal securities issued outside of California (the income from which may be subject to California personal income taxes) and certain high quality, taxable fixed income securities (the income from which may be subject to federal and California personal income taxes). For temporary defensive purposes, such as a national financial emergency, the Fund reserves the right to invest more than 20% of its assets in securities other than California Municipal Securities.

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Subject to the same 20% limit, the Fund is also authorized to invest in California Municipal Securities subject to the federal individual alternative minimum tax. The income from such securities is exempt from regular federal and California personal income taxes, but may be a tax preference item for purposes of the federal alternative minimum tax.

California Municipal Securities. "California Municipal Securities" are generally understood to include debt obligations issued by the State of California and its political subdivisions to obtain funds for various public purposes. Such securities may have fixed or adjustable rates of interest. California Municipal Securities are classified into two principal categories: municipal bonds and municipal notes. Municipal bonds can be further classified into three basic categories: general obligation bonds, revenue bonds and industrial development bonds. General obligation bonds are secured by the issuer's pledge of its faith, credit and taxing power for the payment of principal and interest. Revenue bonds are payable from the revenue derived from a particular facility or class of facilities or, in some cases, from the proceeds of a special excise tax or other specific revenue source, but not from the general taxing power. In addition, certain types of "industrial development bonds" issued by or on behalf of public authorities to obtain funds for privately-operated facilities are included in the term California Municipal Securities, provided that the interest paid thereon qualifies as exempt from federal and California state income taxes. Tax exempt industrial development bonds, in most cases, are revenue bonds and do not generally carry the pledge of the credit of the issuing municipality. Municipal notes, which are short-term instruments, are obligations of the issuing municipalities or agencies and are sold in anticipation of a bond sale, collection of taxes or receipt of other revenues.

The Fund will not generally invest more than 25% of its total assets in any industry. Tax exempt California Municipal Securities issued by the State of California and its political subdivisions are not considered part of any industry. However, "industrial development bonds" described above will be subject to this limitation. It is possible that the Fund may from time to time invest more than 25% of its assets in a particular segment of the California Municipal Securities market, such as hospital revenue obligations, housing agency obligations, or airport revenue obligations. This would be the case only if the Adviser determined that the yields available from obligations in a particular segment of the market justified the additional risks associated with such concentration. Economic, business, political and other developments generally affecting the revenues of issuers in a market segment (e.g. proposed legislation or pending court decisions affecting the financing of projects and market factors affecting the demand for their services or products) may have a general adverse effect on all municipal securities in the segment. The Fund reserves the right to invest more than 25% of its assets in industrial development bonds. However, the interest on certain tax exempt securities which the Fund may purchase will be included in income subject to the federal alternative minimum tax. The Fund's present policy is to invest no more than 20% of its total assets in taxable securities including those subject to the alternative minimum tax.

The Fund may invest in certain variable and floating rate demand notes. Such securities have interest rates that are adjusted periodically. Variable and floating rate demand notes generally have a maturity in excess of one year but permit their holder to demand prepayment upon a specified number of days' notice and so may be treated as short-term investments under certain circumstances.

Certain of the California Municipal Securities may be backed by a letter of credit issued by a domestic or foreign bank in order to improve their credit rating. In that case, the Fund considers the bank to be the ultimate obligor and credit risk. See "Special Considerations and Risk Factors."

## CERTAIN INVESTMENT STRATEGIES

Repurchase Agreements. The Fund may enter into repurchase agreements with a bank, financial institution or broker-dealer as a means of earning income for periods as short as overnight. These transactions must be fully collateralized at all times, but involve some credit risk to the Fund if the other party should default on its obligation and the Fund is delayed or prevented from recovering the collateral.

When-Issued Securities. The Fund may invest in "when-issued" securities. When-issued securities involve commitments to buy a new issue with settlement up to 45 days later. During the time between the commitment and settlement, the Fund does not accrue interest but the market value may fluctuate. If the Fund invests in securities of this type, it will maintain a segregated account with its custodian to pay for them and mark it to market daily.

Borrowing. The Fund may borrow up to 10% of the value of its net assets from banks for temporary purposes (not for leveraging or investment) but will not make any new investments so long as such borrowings exceed 5% of the value of its net assets.

Illiquid Securities. The Fund may invest up to 10% of its net assets in securities for which no readily available market exists or which are otherwise illiquid (including repurchase agreements maturing in more than one week). The Fund may purchase restricted securities eligible for resale to "qualified institutional buyers" pursuant to Rule 144A under the Securities Act of 1933. However, if the Trustees determine that they are liquid, based upon a continuing review of the trading markets for specific Rule 144A securities, then they may be purchased without regard to the 10% limit. The Trustees will carefully monitor the Fund's investments in these securities, focusing on factors, among others, such as valuation, liquidity and availability of information. This investment practice could have the effect of increasing the level of illiquidity in the Fund to the extent that qualified institutional buyers become for a time uninterested in purchasing these restricted securities.

## SPECIAL CONSIDERATIONS AND RISK FACTORS

The ability of the Fund to achieve its investment objectives is dependent on the continuing ability of the issuers of California Municipal Securities in which the Fund invests to meet their obligations for the payment of principal and interest when due. It should also be pointed out that, unlike other types of investments, California Municipal Securities traditionally have not been subject to regulation by, or registration with, the Securities and Exchange Commission, although there have been proposals which would provide for regulation in the future.

With respect to California Municipal Securities that are backed by a letter of credit issued by a foreign bank, the Fund considers the bank to be the ultimate obligor and credit risk. Investment in foreign banks may involve risks not present in domestic investments. These include the fact that the foreign bank may be subject to different, and in some cases less comprehensive, regulatory, accounting, financial reporting and disclosure standards than are domestic banks.

There are risks in any investment program, and there is no assurance that the Fund will achieve its investment objective. California Municipal Securities are subject to relative degrees of credit risk and market volatility. Credit risk relates to the issuer's (and any guarantor's) ability to make timely

payments of principal and interest. Market volatility relates to the changes in market price that occur as a result of variations in the level of prevailing interest rates and yield relationships between sectors in the tax exempt securities market and other market factors.

You should be aware that certain California constitutional amendments, legislative measures, executive orders, administrative regulations, voter initiatives and judicial decisions could result in certain adverse consequences affecting California Municipal Securities. For instance, certain provisions of the California Constitution and statutes that limit the taxing and spending authority of California governmental entities may impair the ability of the issuers of some California Municipal Securities to maintain debt service on their obligations. Other measures affecting the taxing or spending authority of California or its political subdivisions may be approved or enacted in the future. Finally, the Fund will be affected by general changes in interest rates nationally which will result in increases or decreases in the value of the securities held by the Fund. For a more detailed discussion of the risks to which California Municipal Securities are subject, see the Statement of Additional Information.

The Fund is a "non-diversified" fund as defined in the Investment Company Act of 1940. As a non-diversified fund, the Fund may invest a larger percentage of its assets in individual issuers than a diversified fund. To the extent the Fund makes investments in excess of five percent of its assets in a particular issuer, its exposure to credit and market risks associated with that issuer is increased. However, the Fund will be subject to diversification requirements imposed under the Internal Revenue Code.

Except for the Fund's investment objective and certain investment restrictions designated as fundamental in the Statement of Additional Information, the investment policies described in this Prospectus and in the Statement of Additional Information are not fundamental policies. The Trustees may change any non-fundamental investment policies without shareholder approval.

#### HOW TO PURCHASE SHARES

##### GENERAL

Shares of the Fund are distributed by Freedom Distributors Corporation ("Freedom") and Sutro & Co. Incorporated ("Sutro"). State Street Bank and Trust Company ("State Street") acts as the Fund's custodian. John Hancock Investor Services Corp. ("JHIS") acts as the Fund's shareholder services and transfer agent. You may open an account in the Fund by placing an order for at least \$1,000. You may then make subsequent investments of \$100 or more.

Shares of the Fund are offered on a continuing basis without a sales charge at a public offering price equal to the net asset value next determined after a purchase order is received in proper form as described below. Shares may be purchased either (1) through Sutro, utilizing an existing or new securities brokerage account with a Sutro account executive, or (2) directly through JHIS. Orders to purchase shares do not become effective until receipt of "Federal Funds" (monies credited to JHIS's account with its registered Federal Reserve Bank) by JHIS. Whether you purchase shares through Sutro or directly through JHIS, certificates for shares will not be issued.

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There is no minimum amount for initial or subsequent investment in connection with purchases through the automatic "sweep" program (described below) sponsored by Sutro. Where a bank, investment adviser or similar institution has a large number of accounts and is willing to receive a monthly summary of accounts in lieu of the regular statement for each account under its control, the minimum amount for initial investments by individual accounts covered by the summary of accounts is reduced to \$100. All payments will be invested in full and fractional shares.

##### PURCHASES BY CLIENTS OF SUTRO

**Purchase Through Sutro.** If you have a brokerage account with Sutro, and have not elected the automatic "sweep" program described below, you may purchase the Fund's shares through your account executive. In order to purchase through your account, your account must have a free credit balance (i.e. immediately available funds). See "Sweep Program" below. If a properly completed order to purchase Fund shares is received at any Sutro office after 12:00 noon New York time and paid utilizing a free credit balance available on a brokerage account, Sutro will transfer Federal Funds to the Fund and your order will be executed on the next business day and dividends on such shares will begin on that day. Accordingly, Sutro may benefit from the use of free credit balances in your account prior to their transfer to the Fund.

Sutro will receive statements and dividends directly from the Fund and will in turn provide you with account statements reflecting the Fund's purchases, redemptions and dividend payments.

**"Sweep" Program.** You may also purchase the Fund's shares by participating in the "sweep" program sponsored by Sutro in which any free credit balance (in available funds) of any amount in your brokerage account is invested in the Fund automatically no less frequently than weekly. Under the terms of this program, you may have your free credit balance invested in shares of the Fund. Free credit balances (in available funds) of \$2,000 or more will be invested in shares of the Fund automatically on the next business day and dividends on such shares will begin on that day. Automatic purchases using free credit balances of less than \$2,000 will be made weekly, generally on Monday (or the next business day if any Monday is a holiday) of each week based upon the free credit balance in the account at the close of business on the preceding Friday. Unless you have elected cash dividends, dividends on your shares in the Fund will be automatically reinvested in shares monthly. Redemptions will be effected automatically to satisfy debit balances in your brokerage account created by activity therein. Each brokerage account will be scanned automatically for debits each business day as of the close of business on that day and, after application of any free credit cash balances in the account to such debits, a sufficient number of shares of the Fund owned by you will be redeemed at 12:00

noon the following business day to satisfy any remaining debits in the brokerage account. Sutro may benefit from the use of free credit balances in your account prior to their transfer to the Fund.

If you wish additional information concerning the "sweep" program, please call your account executive.

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#### OTHER INVESTORS -- PURCHASE BY CHECK OR WIRE

Purchase by Mail. On an initial purchase, complete the Purchase Application included in this Prospectus, indicating each of the services to be used, and mail it, together with a check written against a U.S. bank and payable to Freedom California Tax Exempt Money Fund, to:

John Hancock Investor Services Corp.  
Freedom California Tax Exempt Money Fund  
Attention: Dealer Services  
P.O. Box 9102  
Boston, Massachusetts 02205-9102

Subsequent purchases of \$100 or more may also be made through JHIS by forwarding payment, together with the detachable stub from your account statement or a letter containing your account number. When you pay by check, your order for additional shares of the Fund will be executed at the price next determined after Federal Funds become immediately available to the Fund. Federal Funds normally do not become available to the Fund when payment is by check until two business days or more after the check is deposited. Checks drawn on banks which are not members of the Federal Reserve System may take longer to be converted into Federal Funds. When you purchase shares by check, the Fund can hold payment on redemptions until it is reasonably satisfied that the investment has been collected (which can take up to ten days).

Purchase by Wire Transfer. You may also purchase shares of the Fund through JHIS by means of a wire order. Please call JHIS toll free at (800) 257-3336 for instructions. You should then give instructions to your wiring bank to transmit the specified amount in Federal Funds to: FirstSignature Bank & Trust, Portsmouth, New Hampshire -- Freedom Group of Money Funds, Attention: Freedom California Tax Exempt Money Fund, ABA#211475000, specifying on the wire your account number and your name.

If you transfer Federal Funds by wire in this manner, the transfer may be subject to a service charge by your bank. If notice from your bank of the wire transfer is received by JHIS before 12:00 noon New York time, your order will be executed at 12:00 noon New York time on that day. If notice from your bank of the wire transfer is received by JHIS after 12:00 noon New York time, your order will be executed at 12:00 noon New York time on the next business day.

#### HOW TO REDEEM SHARES

##### GENERAL

Redemption orders are effected at the net asset value next determined after receipt of the order by JHIS. For your convenience, and so that you can continue earning daily dividends for as long as possible, the Fund has established several different redemption procedures described below. SHOULD THE REDEMPTION INCLUDE SHARES PURCHASED BY CHECK, PAYMENT MAY BE DELAYED FOR UP TO TEN DAYS AFTER THE PURCHASE IN ORDER TO ALLOW THE PURCHASE CHECK TO CLEAR. A redemption of shares purchased by wire will not be subject to this period of delay.

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Shares of the Fund may be redeemed in several ways: (1) shares purchased through a Sutro brokerage account can be redeemed by placing a redemption order with your account executive or by check redemption, and (2) shares purchased directly may be redeemed by mail, by expedited redemption (i.e., wire redemption if you have elected this option on your Purchase Application) or by check redemption.

##### REDEMPTION THROUGH YOUR SUTRO BROKERAGE ACCOUNT

In order to redeem shares purchased through a Sutro brokerage account, you should advise your account executive, by telephone or mail, to execute the redemption. If a properly completed order to redeem Fund shares is received by a Sutro office after 12:00 noon New York time, your order will be forwarded to the Fund and will be executed on the following business day. Redemption proceeds will be held in your brokerage account unless you give instructions to your account executive to reinvest or remit the proceeds to you. Generally, redemption proceeds will not be invested for your benefit without specific instruction, and Sutro may benefit from the use of temporarily uninvested funds.

##### DIRECT REDEMPTION

Redemptions by mail and expedited redemptions are not available for shares purchased through a Sutro brokerage account. Any such redemption requests received by JHIS will be forwarded to the appropriate Sutro account executive who will process them as described above.

Redemption by Mail. You may redeem shares by mail. Payment of the redemption proceeds will ordinarily be made within seven days after the request for redemption is received in "good order" at the net asset value next determined. If you send your redemption order to JHIS by mail, you must assume responsibility for assuring that the request for redemption is received in "good order". "Good order" means that the request must be accompanied by the following:

(a) A letter of instruction specifying the number of shares or amount of investment to be redeemed (or that all shares credited to a Fund account be redeemed), signed by all registered owners of the shares in the exact names in which they were registered;

(b) For a redemption order over \$25,000, or for any amount if the proceeds are to be sent elsewhere than the address of record, a guarantee of the signature of each registered owner by a commercial bank which is a member of the Federal Deposit Insurance Corporation, a trust company or a member of a recognized stock exchange (a signature guarantee by a savings bank or notarization by a notary public are not acceptable); and

(c) Additional legal documents concerning authority and related matters in the case of estates, trusts, guardianships, custodianships, partnerships and corporations.

All proceeds from redemption are mailed to your address of record. If you are uncertain as to the requirements for redemption, please call JHIS toll free at (800) 257-3336. All redemption requests by mail should be mailed to:

John Hancock Investor Services Corp.  
Freedom California Tax Exempt Money Fund  
Attention: Dealer Services  
P.O. Box 9102  
Boston, Massachusetts 02205-9102

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Expedited Redemptions. If you have elected the expedited redemption option on the Purchase Application on file with JHIS and wish to redeem \$5,000 or more from the Fund, you may request that payment be made in Federal Funds. Shareholders may place orders for expedited redemption with JHIS without a signature guarantee and have the proceeds sent by wire to a bank or trust company account previously designated in writing. Please call JHIS toll free at (800) 257-3336 for instructions. If the expedited redemption order is received by JHIS's Boston office prior to 12:00 noon New York time on a day on which the New York Stock Exchange is open, payment will be wired to your bank on the same business day, provided that it is a member of the Federal Reserve System and that the federal wire system is open. However, if your bank is not a member of the Federal Reserve System, Federal Funds may not reach your bank until the next business day. If the redemption order is received after 12:00 noon New York time, the redemption will be executed and payment will be wired in Federal Funds on the next business day.

#### CHECK REDEMPTIONS

You can redeem shares by writing checks drawn on State Street payable in any amount. In order to redeem shares by writing a check, you must complete a Purchase Application electing the checkwriting feature and return it either to your investment executive if you have a brokerage account or directly to JHIS if you do not have a brokerage account. If you have elected the checkwriting service on the Purchase Application on file with JHIS, you will be provided with an initial order of checks free of charge. You may write checks payable to the order of any person (including any corporation, bank, trust, etc.) in any amount. When your check is presented for payment, JHIS as transfer agent will cause the Fund to redeem a sufficient number of shares to cover the amount of the check. This procedure entitles you to continue receiving dividends on those shares equal to the amount of the check until such time as the check is presented to JHIS for payment. If you do not own sufficient shares of the Fund to cover a check, the check will be returned to the payee marked "insufficient funds." Should the redemption include shares purchased by check, payment may be delayed for up to ten days after the purchase in order to allow the purchase check to clear. A redemption of shares purchased by wire will not be subject to this period of delay. As the aggregate amount owned by a shareholder may change each day, you should not attempt to redeem all shares held in your account by using the check redemption procedure. Cancelled checks will be returned to shareholders monthly. For information on account statements, see "Shareholder Services."

The Fund reserves the right to terminate or alter the check writing service

at any time after giving shareholders 30 days' written notice. Your shareholder account will be charged \$20.00 for each stop payment order or check returned for "insufficient funds."

#### ADDITIONAL INFORMATION ON REDEMPTION

Because the Fund incurs fixed costs in maintaining shareholder accounts, the Fund reserves the right to involuntarily redeem shareholder accounts which have less than \$500 in them as of the end of any month. If the Fund elects to redeem such accounts, it will notify the shareholders of its

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intention to do so and provide those shareholders with an opportunity to increase their accounts by investing a sufficient amount to bring their accounts up to \$500 or more within 30 days of the notice. The Fund will not redeem accounts which fall below \$500 as a result of reduction in net asset value per share.

#### FREEDOM ASSET ACCOUNT

The Freedom Asset Account provides an alternative method for investing in shares of the Fund in conjunction with a program of four financial services: (1) a Sutro securities margin account ("securities account"); (2) one of the Freedom Family of Money Market Funds; (3) a check writing facility on an account maintained at Provident National Bank ("Provident"); and (4) a Visa Gold|Pr Card with ATM access from PNC National Bank ("PNC", an affiliate of Provident).

To participate in the Freedom Asset Account, an investor must place in a securities account, cash, marketable securities or a combination of the two having a gross market value of no less than \$20,000 and must meet credit criteria established by PNC. All customary transactional fees incurred in use of a securities account must be paid by the participant, including brokerage fees for securities transactions and interest on margin loans, if any.

THIS SECTION IS ONLY A BRIEF DESCRIPTION OF THE FREEDOM ASSET ACCOUNT AND ITS RELATION TO THE FUND AND DOES NOT DESCRIBE ALL OF THE FEATURES OF THE FREEDOM ASSET ACCOUNT. PLEASE CONTACT YOUR ACCOUNT EXECUTIVE FOR FURTHER INFORMATION AND REVIEW CAREFULLY THE FREEDOM SERVICES CORPORATION FREEDOM ASSET ACCOUNT AGREEMENT.

#### PRICING OF OUR SHARES

The net asset value per share of the Fund for the purpose of pricing orders for the purchase and redemption of shares is determined daily as of 12:00 noon New York time, Monday through Friday, exclusive of national business holidays. Purchase or redemption orders accepted by JHIS prior to 12:00 noon New York time will be priced at 12:00 noon New York time that day. Purchase or redemption orders accepted by JHIS subsequent to 12:00 noon New York time will be priced at 12:00 noon New York time the next day that net asset value is computed. Net asset value per share is computed by taking the value of all assets of the Fund, less liabilities, and dividing by the number of shares of the Fund outstanding. To determine the value of the assets of the Fund for the purpose of obtaining the net asset value, portfolio securities are valued at amortized cost, as described below, and interest is accrued daily.

Amortized cost valuation involves valuing a security at its cost and adding or subtracting, ratably to maturity, any discount or premium, regardless of the impact of fluctuating interest rates on the market value of the security. Under the amortized cost method of valuation, neither the amount of daily income nor net asset value is affected by any unrealized appreciation or depreciation of the portfolio. As a result, in periods of declining interest rates, the indicated daily yield on a portfolio valued by amortized cost will be higher than on a portfolio valued by market prices.

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#### DIVIDENDS

Dividends from net investment income are declared daily and paid monthly on or about the fifteenth day of the following month. Dividend payments include all dividends declared during the prior month and not previously paid. You will receive dividends automatically in additional shares at net asset value, or you may elect to receive cash. Redemption payments for the entire account value will include all unpaid dividends.

Purchase orders which are received together with Federal Funds prior to 12:00 noon New York time will receive the dividend declared that day, and redemption orders effected prior to 12:00 noon New York time will not receive that day's dividend.

#### CURRENT YIELD

From time to time, the Fund may quote its yield in advertisements or in reports to shareholders. Performance information ratings as reported in national financial publications such as Donoghue's Money Fund Report, a widely recognized independent publication that monitors the performance of money market funds, may also be used in comparing the performance of the Fund to other money market funds with similar investment objectives. The Fund calculates its annualized simple and compound yields based on a seven-day period. Since net investment income of the Fund changes in response to fluctuations in interest rates and Fund expenses, any given yield quotation should not be considered representative of the Fund's yield for any future period. CURRENT YIELD INFORMATION FOR THE FUND MAY BE OBTAINED BY CALLING TOLL-FREE AT 1-800-453-8206.

TAXES

The Fund intends to qualify for tax treatment as a "regulated investment company" under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code") and applicable California law so as to be able to pay dividends which will be exempt from federal and California personal income taxes. Distributions of net short-term capital gains, if any, or any dividends from taxable net investment income are taxable as ordinary dividends, whether received in cash or reinvested in additional shares. Distributions of long-term capital gains, if any, are taxable as such regardless of how long shares of the Fund are held and whether paid in cash or reinvested in additional shares of the Fund. In general, such taxable income distributions from the Fund are expected to be negligible in comparison with tax exempt dividends. However, under unusual circumstances, the Fund may invest in securities other than California Municipal Securities. In such cases, a portion of the Fund's income may be subject to California personal income taxes, federal income taxes, or both. For corporate investors, dividends are not excludable in computing California franchise or corporate income tax.

The Fund will inform you of the amount and nature of its distributions annually. The Fund is required by federal law to withhold 31% of reportable payments (which may include dividends, capital gains distributions and redemptions) paid to certain accounts whose owners have not complied with IRS regulations. In connection with this withholding requirement, you will be asked to certify on your account application that the social security or taxpayer identification number you provide is correct and that you are not subject to 31% backup withholding for previous underreporting to the IRS.

The table below shows California taxpayers what an investor would have to earn from a comparable taxable investment to equal the Fund's double tax-free yield.

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1996 TAXABLE INCOME*		COMBINED CALIFORNIA AND FEDERAL MARGINAL INCOME BRACKET**	HYPOTHETICAL FREEDOM CALIFORNIA TAX EXEMPT MONEY FUND YIELD OF			
SINGLE RETURN***	JOINT RETURN		2%	3%	4%	5%
			EQUIVALENT TAXABLE YIELD			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
\$1-4,831	\$1-9,662	15.85%	2.38%	3.57%	4.75%	5.94%
\$4,832-11,449	\$9,663-22,898	16.70%	2.40%	3.60%	4.80%	6.00%
\$11,450-18,068	\$22,899-36,136	18.40%	2.45%	3.68%	4.90%	6.13%
\$18,069-24,000	\$36,137-40,100	20.10%	2.50%	3.75%	5.01%	6.26%
\$24,001-25,083	\$40,101-50,166	32.32%	2.96%	4.43%	5.91%	7.39%
\$25,084-31,700	\$50,167-63,400	33.76%	3.02%	4.53%	6.04%	7.55%
\$31,701-58,150	\$63,401-96,900	34.70%	3.06%	4.59%	6.13%	7.66%
\$58,151-109,936	\$96,901-147,700	37.42%	3.20%	4.79%	6.39%	7.99%
\$109,937-121,300		37.90%	3.22%	4.83%	6.44%	8.05%
	\$147,701-219,872	41.95%	3.45%	5.17%	6.89%	8.61%
\$121,300-219,872	\$219,873-263,750	42.40%	3.47%	5.21%	6.94%	8.68%
\$219,873-263,750		43.04%	3.51%	5.27%	7.02%	8.78%
	\$263,751-439,744	45.64%	3.68%	5.52%	7.36%	9.20%
Over \$263,750	Over \$439,744	46.24%	3.72%	5.58%	7.44%	9.30%

</TABLE>

\* Net amount subject to federal income tax after deductions and exemptions.

\*\* This table is a combination of the 1997 federal and the 1995 California taxable income brackets which are adjusted annually for inflation. California will announce its inflation adjusted tax rates after May of 1997 and is scheduled to reduce its top marginal rate to 9.3%. Thus the above tax brackets are based on the most recent information available, are subject to change, and should not be relied upon. The above table does not

apply to corporate investors. To implement the phase-out of personal exemption deductions for single taxpayers having 1997 adjusted gross taxable income of more than \$117,950 (estimated) and married taxpayers (filing jointly) having 1997 adjusted gross taxable income of more than \$176,950 (estimated), the exemption deduction is reduced by two percent for each \$2,550 (estimated) by which adjusted gross income exceeds the threshold amount. For taxpayers filing a joint return having adjusted gross income of more than \$117,950 (estimated) or married taxpayers filing separate returns having adjusted gross income of \$58,975 (estimated), certain allowable itemized deductions are reduced. These adjustments may result in combined marginal tax rates greater than those indicated. In addition, for investors who pay alternative minimum tax, tax-free yields may be equivalent to lower yields than those shown above.

\*\*\* Other than surviving spouses, heads of households and married filing separately.

Of course, there is no assurance that the Fund will achieve any specific tax exempt yield. While it is expected that the Fund will invest principally in California Municipal Securities, other income received by the Fund may be taxable. The table does not take into account any state or local taxes payable on Fund distributions except for California personal income tax.

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#### OUR ORGANIZATION AND SHARES

Freedom California Tax Exempt Money Fund is a separate series of Freedom Group of Tax Exempt Funds, an open-end management investment company organized as a Massachusetts business trust on June 1, 1982. The Board of Trustees supervises our activities and reviews our contractual arrangements with companies that provide us with services. We reserve the right to create and issue a number of series of shares, or funds, which are separately managed and have different investment objectives. The Fund has the right to invest all of its assets in the securities of a single open-end management investment company with substantially the same fundamental investment objectives, policies and limitations as the Fund, although the management of the Fund currently has no intention to do so. Each share of the Fund has equal dividend, redemption and liquidation rights and when issued is fully paid and non-assessable. On any matter submitted to the shareholders, the holder of each Fund share is entitled to one vote per share regardless of the net asset value thereof (with proportionate voting for fractional shares).

Under the Trust's Master Trust Agreement, no annual or regular meeting of shareholders is required. Thus, there will ordinarily be no shareholder meetings unless required by the Investment Company Act of 1940. The shareholders of the Trust elected a Board of Trustees at a meeting held on December 16, 1996. Thereafter, the Trustees are a self-perpetuating body until fewer than 50% of the Trustees serving as such are trustees who were elected by shareholders. At that time, another meeting of shareholders will be called to elect Trustees. Under the Trust's Master Trust Agreement, any Trustee may be removed by vote of two-thirds of the outstanding trust shares and holders of ten percent or more of the outstanding shares of each Trust can require Trustees to call a meeting of shareholders for purposes of voting on the removal of one or more Trustees. Under Massachusetts law, shareholders of a business trust may, under certain circumstances, be held personally liable as "partners" for its obligations. However, the risk of a shareholder incurring financial loss on account of shareholder liability is limited to circumstances in which the Trust itself was unable to meet its obligations, a possibility which the Adviser believes is remote.

#### OUR MANAGEMENT

The Board of Trustees and officers provide broad supervision over the affairs of the Fund.

#### Adviser

The Fund's Adviser, Freedom Capital Management Corporation, One Beacon Street, Boston, Massachusetts provides the Fund with overall investment advisory and administrative services, as well as general office facilities pursuant to an advisory agreement (the "Advisory Agreement"). As compensation for its services, under the Advisory Agreement the Adviser receives a fee computed and paid monthly based upon the average daily net asset value of the Fund, at the annual rate of one-half of one percent (0.50%) on the first \$500 million of average net assets and forty-five hundredths of one percent (0.45%) on average daily net assets in excess of that amount.

Expenses not expressly assumed by the Adviser under the Advisory Agreement are paid by the Fund. These include, but are not limited to, taxes, legal,



transfer agent, custodian and auditing fees and printing and other expenses related to the Fund's operations. Total expenses for the Fund for the year ended December 31, 1996, reflected as an annualized percentage of the Fund's average net assets, were \_\_%.

The Adviser is an indirect, wholly-owned subsidiary of JHFSC Acquisition Corp., a newly formed Delaware corporation. JHFSC Acquisition Corp. is located at One Beacon Street, Boston, Massachusetts 02108. JHFSC Acquisition Corp. is owned by the following persons: Thomas H. Lee Equity Fund III, L.P., a post-venture stage strategic capital fund located at 75 State Street, Boston, Massachusetts 02109; SCP Private Equity Partners, L.P., a post-venture stage strategic capital fund located at 435 Devon Park Drive, Wayne, Pennsylvania 19087; and certain members of management and employees of Freedom Securities Corporation, which is the direct parent of the Adviser. Freedom Distributors Corporation, a registered broker-dealer which acts as a Distributor with respect to the Fund's shares, is a wholly-owned subsidiary of the Adviser and an indirect subsidiary of JHFSC Acquisition Corp. Sutro, a brokerage firm which is a member of the New York Stock Exchange and a Distributor of the Fund's shares, is also an indirect, wholly-owned subsidiary of JHFSC Acquisition Corp.

#### SHAREHOLDER SERVICES

##### ACCOUNT STATEMENTS

You will receive a statement of account each time shares are purchased or redeemed and a report not less frequently than quarterly from JHIS or monthly from Sutro, showing the activity in your account.

Shares are maintained by the Fund on its register maintained by JHIS, and the holders thereof will have the same rights and ownership with respect to such shares as if certificates had been issued.

##### EXCHANGE PRIVILEGE

Shares of the Fund may be exchanged without charge for shares of the following money market funds in the Freedom Group of Money Funds:

- o Freedom Cash Management Fund -- A money market fund investing in a diversified portfolio of high-grade money market instruments.
- o Freedom Government Securities Fund -- A money market fund investing exclusively in obligations issued or guaranteed as to both principal and interest by the U.S. Government and its agencies or instrumentalities.
- o Freedom Tax Exempt Money Fund -- A money market fund investing in a diversified portfolio of high quality short-term municipal securities, the income of which is exempt from federal income tax.

Exchanges are subject to a minimum investment requirement of \$1,000, with subsequent exchanges permitted in amounts of \$100 or more. Any such exchange is made on the basis of the net asset value per share of the Fund on the date the exchange request is received.

IF YOU HAVE A BROKERAGE ACCOUNT WITH SUTRO, YOU MUST PLACE EXCHANGE ORDERS THROUGH YOUR ACCOUNT EXECUTIVE. IF YOU DO NOT HAVE AN ACCOUNT WITH SUTRO, YOU MAY MAKE AN EXCHANGE IN WRITING OR BY TELEPHONE. Exchanges of shares can be made by writing John Hancock Investor Services Corp., Freedom Group of Money Funds, Attention: Freedom Funds, Attention: Dealer Services, P.O. Box 9102, Boston, Massachusetts 02205-9102. If you do not have a brokerage account with

Sutro, you also have the automatic privilege of exchanging your shares by telephone. To place a telephone exchange request, call JHIS at ( 800 ) 257-3336. JHIS employs the following procedures to confirm that instructions received by telephone are genuine. Your name, the account number, taxpayer identification number applicable to the account and other relevant information may be requested. Telephone instructions are recorded. If reasonable procedures, such as those described above, are not followed, the Fund may be liable for any loss due to unauthorized or fraudulent instructions. In all other cases, neither the Fund nor JHIS will be liable for any loss or expense for acting upon telephone instructions made in accordance with the telephone transaction procedures described above. During times of drastic economic or market conditions, the telephone exchange privilege may be difficult to implement because of busy telephone lines. In such times, you may prefer to submit your exchange requests by express mail c/o the Fund to : John Hancock Investor Services Corp., 101 Huntington Avenue, Attention: Dealer Services, Boston MA 02205-9102, Attention: Freedom Group of Money Funds. Telephone and written exchange requests must be received by 4:00 p.m. New York time on a Fund business day to be effective that

day. An exchange can be made only between accounts that are registered in the same name. The Fund reserves the right to reject any exchange request and to modify or terminate the exchange privilege at any time upon sixty (60) days' notice to shareholders. You should carefully review the Prospectus describing the Fund or Funds into which your exchange is being made prior to making your exchange.

#### BANK INVESTING PLAN AND SYSTEMATIC WITHDRAWAL PLAN

Please call (800) 257-3336 for more information concerning these plans.

#### ADDITIONAL INFORMATION

##### QUESTIONS ABOUT THE FUND

For further information about the Fund, please contact your Sutro account executive or call JHIS toll-free at (800) 257-3336.

##### TRANSFER AGENT, CUSTODIAN AND SHAREHOLDER SERVICES

John Hancock Investor Services Corp. ("JHIS") acts as transfer and shareholder services agent for the Fund. JHIS is an indirect, wholly-owned subsidiary of John Hancock Mutual Life Insurance Company. State Street Bank and Trust Company holds all cash and securities of the Fund.

Freedom Services Corporation ("FSC"), under the terms of a Service Agreement with the Fund, provides many of the shareholder services (such as providing monthly account statements and processing purchase and sale orders) for shareholders who hold shares of the Fund through their brokerage accounts at Sutro. FSC receives from the Fund an annual fee of \$10.50 per account in payment for the shareholder services it provides. Transfer agent charges from JHIS are reduced for those Sutro shareholder accounts that are held through a brokerage account with FSC.

##### INDEPENDENT ACCOUNTANTS AND FINANCIAL STATEMENTS

Price Waterhouse LLP, 160 Federal Street, Boston, Massachusetts 02110 acts as the independent accountants for the Fund.

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The financial statements of the Fund for the year ended December 31, 1995 appear on pages \_\_ through \_\_.\*

This Prospectus does not contain all the information included in the Registration Statement filed with the Securities and Exchange Commission under the Securities Act of 1933 with respect to the securities offered hereby, certain portions of which have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The Registration Statement including the exhibits filed herewith may be examined at the office of the Securities and Exchange Commission in Washington, D.C.

Statements contained in this Prospectus as to the contents of any contract or other document referred to are not necessarily complete, and, in each instance, reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement of which this Prospectus forms a part, each such statement being qualified in all respects by such reference.

\* To be filed by amendment.

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#### NO SALES OR REDEMPTION CHARGES

##### DISTRIBUTORS

Sutro & Co. Incorporated  
201 California Street  
San Francisco, California 94111

Freedom Distributors Corporation  
One Beacon Street  
Boston, Massachusetts 02108-3105

Telephone Toll Free  
800-453-8206

INVESTMENT ADVISER

Freedom Capital Management Corporation  
One Beacon Street  
Boston, Massachusetts 02108-3105

TRANSFER AND SHAREHOLDER  
SERVICES AGENT

John Hancock Investor  
Services Corporation  
P.O. Box 9102  
Boston, Massachusetts 02205-9102

Telephone Toll Free  
800-257-3336

[Flag Logo] FREEDOM  
GROUP OF MONEY FUNDS

No person has been authorized to give any information or to make any representations not contained in this Prospectus in connection with the offering made by this Prospectus and, if given or made, such information, or representations must not be relied upon as having been authorized by the Funds or their Distributors. This Prospectus does not constitute an offering by the Fund or by the Distributors in any jurisdiction in which such offering may not lawfully be made.

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FREEDOM  
CALIFORNIA

[Logo of Bear & Flag]

TAX EXEMPT  
MONEY FUND

PROSPECTUS AND  
ANNUAL REPORT  
DECEMBER 31, 1996

STATEMENT OF ADDITIONAL INFORMATION

FREEDOM GROUP OF TAX EXEMPT FUNDS  
Freedom California Tax Exempt Money Fund  
(The "Fund")

This Statement of Additional Information is not a prospectus but should be read in conjunction with the Fund's Prospectus dated February 28, 1996, which may be obtained at no charge from Freedom Distributors Corporation, One Beacon Street, Boston, Massachusetts 02108. Unless otherwise defined herein, capitalized terms have the meanings given to them in the Prospectus.

The date of this Statement of Additional Information is February 28, 1996.

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#### GENERAL INFORMATION

Freedom Group of Tax Exempt Funds (the "Trust") is an open-end management investment company organized as a Massachusetts business trust on June 1, 1982. The Trust currently has two series, Freedom Tax Exempt Money Fund, a tax exempt money market fund which is described in a separate prospectus and statement of additional information, and Freedom California Tax Exempt Money Fund (the "Fund"). The Fund seeks to obtain as high a rate of current income exempt from federal and State of California personal income taxes as is consistent with the preservation of capital and maintenance of liquidity by investing primarily in high-quality, short-term California Municipal Securities.

The assets received by the Fund from the issue and sale of its shares, and all income, earnings, profits and proceeds thereof, subject only to the rights of creditors, constitute the underlying assets of the Fund. The underlying assets of the Fund are required to be segregated on the books of account and are to be charged with the expenses in respect to the Fund and with a share of the general expenses of the Trust. Any general expenses of the Trust not readily identifiable as belonging to a particular Fund shall be allocated by or under the direction of the Trustees in such manner as the Trustees determine to be fair and equitable, taking into consideration, among other things, the nature and type of expense and the relative sizes of the Funds.

Each share of the Fund has equal dividend, redemption and liquidation rights with other shares of the Fund and when issued is fully paid and nonassessable. Under the Trust's Master Trust Agreement, no annual or regular meeting of shareholders is required. Thus, there will ordinarily be no annual shareholder meetings, unless otherwise required by the Investment Company Act of 1940 (the "1940 Act"). The Trust called a meeting of shareholders on December 16, 1996 at which time shareholders elected the Board of Trustees. Thereafter, the Trustees are a self-perpetuating body until fewer than 50% of the Trustees serving as such are Trustees who were elected by shareholders. At that time another meeting of shareholders will be called to elect Trustees. On any matter submitted to the shareholders for a vote, the holder of each share of the Fund is entitled to one vote per share (with proportionate voting for fractional shares) regardless of the relative net asset value thereof. Under the Master Trust Agreement, any Trustee may be removed by vote of two-thirds of the outstanding Trust shares, and holders of ten percent or more of the outstanding shares of the Trust can require Trustees to call a meeting of shareholders for purposes of voting on the removal of one or more Trustees. The Master Trust Agreement also provides that if ten or more shareholders who have been such for at least six months and who hold in the aggregate shares with a net asset value of at least \$25,000 inform the Trustees that they wish to communicate with other shareholders, the Trustees will either give such shareholders access to the shareholder lists or inform them of the cost involved if the Trust forwards materials to the shareholders on their behalf. If the Trustees object to mailing such materials, they must inform the Securities and Exchange Commission and thereafter comply with the requirements of the 1940 Act.

Shares do not have cumulative voting rights, which means that in situations in which shareholders elect Trustees, holders of more than 50% of the shares voting for the election of Trustees can elect 100% of the Trust's

Trustees, and the holders of less than 50% of the shares voting for the election of Trustees will not be able to elect any person as a Trustee.

Shares have no preemptive or subscription rights and are fully transferable. There are no conversion rights.

#### INVESTORS FOR WHOM THE FUND IS DESIGNED

The Fund is designed for investors who, because of their tax bracket, would benefit from receiving income exempt from federal and California personal income taxes. The Fund is not appropriate for retirement plans where income is already tax-deferred.

The Fund offers the economic advantages of block purchases of securities and diversification. Securities and instruments of the types in which the Fund invests are not generally available in denominations of less than \$100,000, and in many cases the minimum denominations are substantially higher. Typically, higher yields are not available

unless money market instruments are bought directly from issuers in amounts of \$1,000,000 or more. The Fund also offers investors the opportunity to participate in a more diversified selection of short-term securities than the size of each investor's own portfolio might otherwise permit.

Investment in the Fund may also relieve the investor of several administrative burdens usually associated with the direct purchase of money market instruments, such as coordinating maturities and reinvestments, safekeeping of securities, surveying the market for the best price at which to buy and/or sell and maintaining separate principal and income records. Furthermore, purchasers electing and complying with the procedures for expedited redemption have the convenience, if a redemption order is received before 12:00 noon, New York time, on a business day on which the New York Stock Exchange is open, of having the proceeds from the redemption of their shares remitted to their bank account at a member bank of the Federal Reserve System by Federal Funds wire for use on the same business day, provided that the federal wire system is open. In addition, shareholders availing themselves of the Fund's check redemption program have the convenience of making redemptions merely by writing a check. See "How to Redeem Shares" in the Prospectus. All such advantages, however, will be reduced to the extent of the expenses and losses of the Fund in which you invest (including losses from portfolio transactions or from defaults, if any, in payments of interest or principal by issuers).

#### INVESTMENT OBJECTIVES AND POLICIES

The following information supplements the discussion of the Fund's investment objectives and policies in the Prospectus.

#### Additional Information on California Municipal Securities

Following purchase by the Fund, a California Municipal Security may cease to be rated or its rating may be reduced below the minimum required for purchase by the Fund. Neither event requires a sale of such security by the Fund, although Freedom Capital Management Corporation (the "Adviser") will consider such event to be relevant in determining whether the Fund should continue to hold such security in its portfolio. If the rating accorded by Moody's or S&P for California Municipal Securities changes due to changes in the rating systems, the Fund will attempt to use comparable ratings as standards for investments in accordance with the investment policies contained herein.

The two principal classifications of California Municipal Securities are "municipal notes" and "municipal bonds."

**Municipal Notes.** Municipal notes generally are used to provide for short-term capital needs and generally have maturities of one year or less. Municipal notes include:

1. **Tax Anticipation Notes.** Tax anticipation notes are issued to finance working capital needs of municipalities. Generally, they are issued in anticipation of various seasonal tax revenues, such as income, sales, use and business taxes, and are payable from these specific future taxes.

2. **Revenue Anticipation Notes.** Revenue anticipation notes are issued in expectation of receipt of other types of revenue, such as revenues available under federal revenue sharing programs.

3. **Bond Anticipation Notes.** Bond anticipation notes are issued to provide interim financing until long-term financing can be arranged. In most cases, the long-term bonds then provide the money for the repayment of the notes.

4. Construction Loan Notes. Construction loan notes are sold to provide construction financing. After successful completion and acceptance, many projects receive permanent financing through the Federal Housing Administration under "Fannie Mae" (the Federal National Mortgage Association) or "Ginnie Mae" (the Government National Mortgage Association).

5. Tax-Exempt Commercial Paper. Tax-exempt commercial paper is a short-term obligation with a stated maturity of 365 days or less. It is issued by agencies of state and local governments to finance seasonal working capital needs or as short-term financing in anticipation of longer term financing.

Municipal Bonds. Municipal bonds, which meet longer term capital needs and generally have maturities of more than one year when issued, have two principal classifications: general obligation bonds and revenue bonds.

1. General Obligation Bonds. Issuers of general obligation bonds include states, counties, cities, towns and regional districts. The proceeds of these obligations are used to fund a wide range of public projects, including construction or improvement of schools, highways and roads, and waste and sewer systems. The basic security behind a general obligation bond is the issuer's pledge of its full faith and credit and taxing power for the payment of principal and interest. The taxes that can be levied for the payment of debt service may be limited or unlimited as to the rate or amount of special assessments.

2. Revenue Bonds. Revenue bonds fund two sorts of projects, publicly-operated facilities ("revenue bonds") and privately-operated facilities ("industrial development bonds").

(a) Revenue Bonds. The principal security for a revenue bond is generally the net revenues derived from a particular facility, group of facilities, or, in some cases, the proceeds of a special excise or other specific revenue source. Revenue bonds are issued to finance a wide variety of capital projects including: electric, gas, waste and sewer systems; highways, bridges and tunnels; port and airport facilities; colleges and universities; and hospitals. Although the principal security behind these bonds may vary, many provide additional security in the form of a debt service reserve fund which may be used to make principal and interest payments on the issuer's obligations. Housing finance authorities have a wide range of security, including partially or fully insured mortgages, rent subsidized and/or collateralized mortgages, and/or the net revenues from housing or other public projects. Some authorities provide further security in the form of a governmental entity's ability (without obligation) to make up deficiencies in the debt service reserve fund.

(b) Industrial Development Bonds. Industrial development bonds, which are considered municipal bonds if the interest paid thereon is exempt from federal income tax, are issued by or on behalf of public authorities to raise money to finance various privately-operated facilities for business and manufacturing, housing, sports, and pollution control. These bonds are also used to finance privately-operated public facilities such as airports, mass transit systems, ports, and parking. The payment of the principal and interest on such bonds is dependent solely on the ability of the facility's user to meet its financial obligations and the pledge, if any, of real and personal property so financed as security for such payment.

There are also other types of California Municipal Securities that are, or may become, available which are similar to the foregoing municipal notes and municipal bonds. California Municipal Securities are sometimes supported by an irrevocable, unconditional external agreement (normally a bank letter of credit) from a bank whose own securities are of high quality in order to improve the credit rating of the California Municipal Security. Such external agreement may be issued by a foreign bank.

For the purpose of the Fund's investment restrictions set forth beginning on page 9, the identification of the "issuer" of California Municipal Securities which are not general obligation bonds is made by the Adviser on the basis of the characteristics of the obligation as described above, the most significant of which is the source of funds for the

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payment of principal and interest on such securities. In the case of industrial development bonds, the "issuer" is the user of the facility, which is usually a non-governmental entity.

Obligations of issuers of California Municipal Securities are subject to the provisions of bankruptcy, insolvency, and other laws affecting the rights and remedies of creditors, such as the Federal Bankruptcy Code. In addition, the obligations of such issuers may become subject to laws enacted in the future by Congress, state legislatures, or referenda extending the time for payment of principal and/or interest, or imposing other constraints upon enforcement of such obligations or upon municipalities to levy taxes. There is also the possibility that, as a result of litigation or other conditions, the power or

ability of any issuer to pay, when due, the principal of and interest on its California Municipal Securities may be materially affected. The Fund may invest more than 25% of its total assets in California Municipal Securities the interest upon which is paid from revenues of similar types of projects. There could be economic, business or political developments which might affect all California Municipal Securities of a similar type. However, the Fund believes that the most important consideration affecting the credit risk is the quality of particular issues of California Municipal Securities, rather than factors affecting all, or broad classes of, California Municipal Securities.

#### Risk Factors - California Municipal Securities

Since the Fund's portfolio concentrates its investments in California Municipal Securities, the Fund is affected by any political, economic, regulatory or other developments which constrain the taxing and spending authority of California issuers or otherwise affect the ability of California issuers to pay interest or repay principal. The following information constitutes only a brief summary of some of such developments and does not purport to be a complete description.

Certain of the California Municipal Securities in which the Fund invests may be obligations of issuers that rely, as a source of revenue, in whole or in part, directly or indirectly, on ad valorem real property taxes. In 1978, state voters approved an amendment to the State Constitution known as Proposition 13, which added Article XIII A to the State Constitution. The effect of Article XIII A is to limit ad valorem taxes on real property and to restrict the ability of taxing entities to increase real property tax revenues. In addition, Article XIII A provides that additional taxes may be levied by cities, counties and special districts only upon approval of not less than a two-thirds vote of the "qualified electors" of such city, county or district, and requires not less than a two-thirds vote of each of the two houses of the State Legislature to enact any changes in state taxes for the purpose of increasing revenues, whether by increased rates or changes in methods of computation.

Certain California Municipal Securities may be obligations of issuers which rely in whole or in part on state revenues for payment of such obligations. After the adoption of Article XIII A, legislation was adopted which provided for the reallocation of property taxes and other revenues to local public agencies, increased state aid to such agencies, and the assumption by the state of certain obligations previously paid out of local funds. More recent legislation has, however, reduced state assistance payments to local governments. There can be no assurance that any particular level of state aid to local governments will be maintained in future years.

In 1979, an amendment was passed adding Article XIII B to the State Constitution. As amended in 1990, Article XIII B imposes an "appropriations limit" on the spending authority of the state and local government entities. In general, the appropriations limit is based on certain 1978-1979 expenditures, adjusted annually to reflect changes in the cost of living, population and certain services provided by state and local government entities. If a governmental entity raises revenues beyond its "appropriations limit" in any year, a portion of the excess which cannot be appropriated within the following year's limit must be returned to the entity's taxpayers within the two subsequent fiscal years, generally by a tax credit, refund, or temporary suspension of tax rates or fee schedules. One of the exclusions from these limitations is "debt service" (defined as "appropriations required to pay the cost of interest and redemption charges, including the funding of any reserve or sinking fund required in connection therewith, on

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indebtedness existing or legally authorized as of January 1, 1979 or on bonded indebtedness thereafter approved" by the voters). During the 1986-87 fiscal year, when excess revenues could not be carried over to the following year, the State General Fund collected approximately \$1 billion more than could be spent under the Article XIII B limitation. These excess revenues were returned to taxpayers, and no assurance exists that similar excess tax collections will not recur in the future.

In 1988 and 1990, Article XIII B was amended to require the State Legislature to establish a prudent state reserve, and to require the transfer of 50% of excess revenues to the State School Fund; any amounts allocated to the State School Fund will increase the appropriations limit. It was further amended in 1990 to exclude from the appropriations limit appropriations for qualified capital outlay projects, certain increases in transportation-related taxes, and certain emergency appropriations. In 1988, California voters approved an initiative known as Proposition 98, which, in addition to amending Article XIII B, amended Article XVI to require a minimum level of funding for public schools and community colleges. In 1992-93 and 1993-94, the State budget met part of its commitment to education through \$1.8 billion in off-book loans. The legality of these loans was challenged in a lawsuit by the California Teachers Association. A lower court in California has ruled against the State, and under this decision the schools would not be required to repay these loans. If upheld on appeal, the ruling would increase the State's officially recognized 1993-94

year-end deficit by \$1.8 billion.

In addition to the adoption of Articles XIII A and XIII B, in June 1982 state voters approved initiative measures which: (1) repealed the state gift and inheritance taxes and enacted a California death tax, and (2) reduced state personal income tax revenues by increasing the amount by which personal income tax brackets will be adjusted for inflation. The State Legislature has also adopted other changes in revenue laws which reduce state tax revenues by exempting business inventories from state personal property taxation, excluding acquisitions of real estate to replace property transferred to a public entity from the definition of "change of ownership" for property tax purposes, and adopting a variety of tax credits.

In 1986, state voters approved an initiative measure known as Proposition 62, which among other things requires that any tax for general governmental purposes imposed by local governments be approved by a two-thirds vote of the governmental entity's legislative body and by a majority of its electorate, requires that any special tax (levied for other than general governmental purposes) imposed by a local government be approved by a two-thirds vote of its electorate, and restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed. In September 1995 the California Supreme Court upheld the constitutionality of Proposition 62, creating uncertainty as to the legality of certain local taxes enacted by non-charter cities in California without voter approval. It is not possible to predict the impact of the decision. In 1988, State voters approved Proposition 87, which amended Article XVI of the State Constitution to authorize the California Legislature to prohibit redevelopment agencies from receiving any property tax revenues raised by increased property taxes to repay bonded indebtedness of local governments which is not approved by voters on or after January 1, 1989. It is not possible to predict whether the California Legislature will enact such a prohibition, nor is it possible to predict the impact of Proposition 87 on redevelopment agencies and their ability to make payments on outstanding debt obligations.

In July 1991, California increased taxes by adding two new marginal tax rates, at 10% and 11%, effective for tax years 1991 through 1995. After 1995, the maximum personal income tax rate is scheduled to return to 9.3%, and the alternative minimum tax rate is scheduled to drop from 8.5% to 7%. In addition, legislation in July 1991 raised the sales tax by 1.25%, 0.5% of which was a permanent addition to counties that was specifically earmarked to trust funds to pay for health and welfare programs whose administration had been transferred to such counties. This tax increase will be cancelled if a court rules that such transfer and tax increase violate any constitutional requirements. An additional 0.5% of the sales tax rate was scheduled for termination on June 30, 1993, but was extended by legislation through December 31, 1993. The approval of Proposition 172 on the November 1993 ballot by the voters extended this increase permanently.

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The application and interpretation of a number of the foregoing provisions of the State Constitution and laws are currently and will probably continue to be the subject of numerous lawsuits in the California courts. It is not possible to predict the outcome of litigation or the ultimate scope and impact of such provisions, their implementing legislation and regulations issued by the State Board of Equalization. However, the outcome of such litigation, legislation and regulations could substantially impact local property tax collections and the ability of state agencies, local governments and districts to make future payments on outstanding debt obligations.

Certain debt obligations in which the Fund invests may be payable solely from the revenues of specific institutions, or may be secured by specific properties, which are subject to provisions of California law that could adversely affect the holders of such obligations. For example, the revenues of California health care institutions may be subject to state laws, and California laws limit the remedies of a creditor secured by a mortgage or deed of trust.

The effects of these various constitutional and statutory provisions upon the ability of the issuers of California Municipal Securities to pay interest and principal on their obligations remains unclear. In addition, other measures affecting the taxing or spending authority of the state or its political subdivisions may be enacted in the future.

California is the most populous state in the nation with a total population at the 1990 census of 29,976,000. Growth has been incessant since World War II, with population gains in each decade since 1950 of between 18% and 49%. During the last decade, population rose 26%. The State now comprises 12.3% of the nation's population and 12.9% of its total personal income. Its economy is broad and diversified with major concentrations in high technology research and manufacturing, aerospace and defense-related manufacturing, trade, real estate, and financial services. After experiencing strong growth throughout much of the 1980's, the State was adversely affected by both the national recession and the cutbacks in aerospace and defense spending which have had a severe impact on the economy in Southern California. In 1990, unemployment moved above



the national average for the first time in many years and has remained significantly above the U.S. average in 1994. Although California is still experiencing some effects of the recession, recent economic data indicate that the State's economy grew at a modest rate in 1995 and continued growth is expected in 1996.

These economic difficulties have exacerbated the structural budget imbalance which has been evident since fiscal year 1985-1986. Since that time, budget shortfalls have become increasingly more difficult to solve and the State has recorded General Fund operating deficits in six of the past seven fiscal years. Many of these problems have been attributable to the fact that the great population influx has produced increased demand for education and social services at a far greater pace than the growth in the State's tax revenues. Despite substantial tax increases, expenditure reductions and the shift of some expenditure responsibilities to local government, the budget condition has remained problematic in recent years.

On August 3, 1995, the Governor signed into law a new \$57.5 billion budget which, among other things, reduces welfare payments and increases education spending from the previous fiscal year. The fiscal 1995-96 budget calls for \$44.1 billion in revenues and \$43.4 billion in spending, an increase of over 3.5% and 4.0%, respectively, from the fiscal 1994-95 budget. Although the State's budget projects an operating surplus of approximately \$600 million, it continues to rely on federal actions, both to fund programs relating to MediCal and incarceration costs associated with illegal immigrants and to relieve the State from federally mandated spending, which are not certain of occurring. Accordingly, the surplus may not be realized unless the economy outperforms expectations or spending falls below planned levels.

Although an improving economy and healthier tax revenues are anticipated, the political environment and voter initiatives may constrain the State's financial flexibility. For example, according to the Legislative Analyst's Office the passage of Proposition 187 in the November 1994 election, which in part denies certain social services to illegal immigrants, could jeopardize \$15 billion in federal funding. In addition, the passage of Proposition 184 in the November 1994 election, which imposes mandatory, lengthy prison sentences on individuals convicted of three

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felonies, is expected to increase prison operating costs by \$3 billion annually and increase prison construction costs by \$20 billion.

Because of the State of California's continuing budget problems, the rating of the State's general obligation bonds was downgraded in July 1994 from Aa to A1 by Moody's Investors Service, Inc., from A+ to A by Standard & Poor's Corporation, and from AA to A by Fitch Investors Services, Inc. All three rating agencies expressed uncertainty in the State's ability to balance the budget by 1996.

On December 6, 1994, Orange County (California) became the largest municipality in the United States to file for protection under the Federal bankruptcy laws. The filing stemmed from approximately \$1.7 billion in losses suffered by the County's investment pool due to investments in high risk "derivative" securities. In September 1995 the state legislature approved legislation permitting Orange County to use for bankruptcy recovery \$820 million over 20 years in sales taxes previously earmarked for highways, transit and development. Such legislation also permits the Governor to appoint a trustee to take over Orange County's financial affairs if the county does not have a full recovery plan filed with the Bankruptcy Court by May 1996.

Los Angeles County, the nation's largest county, is also experiencing financial difficulty. In August 1995 the credit rating of the county's long-term bonds was downgraded for the third time since 1992 as a result of, among other things, severe operating deficits for the county's health care system. In September 1995, federal and state aid to Los Angeles County totaling \$514 million was pledged, providing a short-term solution to the County's budget problems. Despite such efforts, the County is facing a potential budget gap of \$1.0 billion in the 1996-97 fiscal year.

#### Special Types of California Municipal Securities

In addition to the general types of California Municipal Securities discussed above, the Fund may invest in the following special types of California Municipal Securities.

**When-Issued Securities.** California Municipal Securities are frequently offered on a "when-issued" basis. When so offered, the price, which is generally expressed in yield terms, is fixed at the time the commitment to purchase is made, but delivery and payment for the when-issued securities take place at a later date. Normally, the settlement date occurs within one month of the purchase of municipal notes; during the period between purchase and settlement, no payment is made by the Fund to the issuer and no interest accrues to the Fund. To the extent that assets of the Fund are not invested prior to the

settlement of a purchase of securities, the Fund will earn no income. It is the Fund's intention, however, to be fully invested to the extent practicable, subject to the policies stated above. While when-issued securities may be sold prior to the settlement date, the Fund intends to purchase such securities with the purpose of actually acquiring them unless a sale appears desirable for investment reasons. At the time the Fund makes the commitment to purchase a California Municipal Security on a when-issued basis, it will record the transaction and reflect the value of the security in determining its net asset value.

In accordance with Securities and Exchange Commission policy, whenever the Fund agrees to purchase securities on a when-issued basis, its custodian will set aside cash or portfolio securities equal to the amount of the commitment in a separate account. If necessary, additional assets will be placed in the account daily so that the value of the account will equal the amount of the Fund's purchase commitment. When the time comes to pay for when-issued securities, the Fund will meet its obligations from the then-available cash flow, sale of securities held in the separate account, cash held in the separate account or otherwise, sale of other securities or, although it would not normally expect to do so, from the sale of the when-issued securities themselves (which may have a value greater or less than the Fund's payment obligations). To the extent that the Fund sets aside portfolio securities to satisfy its purchase commitment for when-issued securities, there will be a greater possibility of fluctuation in market value of the Fund's shares (see "Pricing of Our Shares" in the Prospectus) than if the Fund were to set aside cash. The Fund does not intend to purchase when-issued securities for speculative purposes, but only in furtherance of its investment objectives.

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Variable Rate and Floating Rate Instruments. The Fund may invest in variable or floating rate instruments that ultimately mature in more than 397 days, if the Fund acquires a right to sell the securities that meets certain requirements set forth in Rule 2a-7 of the Investment Company Act of 1940. Variable rate instruments (including instruments subject to a demand feature) that mature in 397 days or less may be deemed to have maturities equal to the period remaining until the next adjustment of the interest rate. Other variable rate instruments with demand features may be deemed to have a maturity equal to the longer of the period remaining until the next readjustment of the interest rate or the period remaining until the principal amount can be recovered through demand. A floating rate instrument subject to a demand feature may be deemed to have a maturity equal to the period remaining until the principal amount can be recovered through demand.

#### Temporary Taxable and Tax-Exempt Investments

Although the Fund will be invested primarily in California Municipal Securities, the Fund is authorized to place up to 20% of its net assets in taxable investments, cash reserves or short-term municipal securities issued outside of California during normal market conditions for liquidity reasons. During periods of uncertain market conditions, the Fund may place more than 20% of its total assets for temporary defensive purposes in taxable investments, cash reserves or short-term municipal securities issued outside of California. The taxable investments in which the Fund may invest are:

(a) obligations of the U.S. Government and its agencies and instrumentalities (not all of such obligations are backed by the full faith and credit of the United States; for example, bonds issued by Federal National Mortgage Association, a private corporation, are backed only by the credit of the issuing instrumentality);

(b) certificates of deposit, bankers' acceptances and short-term obligations of domestic branches of U.S. banks with total assets of \$1 billion or more;

(c) commercial paper rated A-1 by Standard & Poor's, Prime-1 by Moody's (or equivalently rated by another NRSRO), or, if not rated, of equivalent investment quality as determined by the Adviser;

(d) short-term debt securities of issuers having, at the time of purchase, a quality rating within the two highest grades by Moody's (Aaa or Aa) or Standard & Poor's (AAA or AA) (or equivalently rated by another NRSRO);

(e) repurchase agreements with respect to an underlying security which would otherwise qualify for investment by the Fund.

Temporary taxable investments of up to 20% of total assets may also be made in anticipation of redemptions, pending investment of proceeds from subscription for Fund shares or from the sale of portfolio securities, or because of market conditions or the scarcity of suitable California Municipal Securities. Interest income from taxable investments will be taxable to shareholders as ordinary income under federal tax laws and California personal income tax. Consequently, the Fund intends to invest its assets in California

Municipal Securities to the maximum extent possible and prudent.

The short-term tax exempt municipal securities of non-California issuers in which the Fund may invest include tax anticipation notes, revenue anticipation notes, general obligation bonds, industrial revenue bonds, construction loan notes and tax anticipation commercial paper. Such securities will be limited to those obligations which, at the time of purchase, are (a) rated in the top two categories of Moody's (Aaa or Aa) or Standard & Poor's (AAA or AA) or, in the case of municipal notes, rated MIG-1 by Moody's, or A-1 by S&P; or (b) unrated municipal obligations which,

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in the opinion of the Adviser, have credit characteristics equivalent to such ratings. The income from such securities is exempt from federal income taxes but may not be exempt from California personal income taxes.

Repurchase Agreements. Repurchase agreements maturing in more than seven days, together with any other illiquid instruments held by the Fund (excluding restricted securities eligible for resale pursuant to Rule 144A under the Securities Act of 1933 which the Board of Trustees or the Adviser has determined under Board-approved guidelines are liquid), will not, at the time entered into, exceed 10% of the net assets of the Fund. Because of their short maturity, repurchase agreements provide liquidity to the Fund while allowing the Fund to remain fully or substantially invested. The Fund will only enter into repurchase agreements of one business day's maturity and only with broker/dealers with substantial capital or major U.S. banks. Each repurchase agreement will be fully collateralized with respect to both principal and interest by U.S. Treasury instruments for the entire term of the agreement. Upon payment, possession of all underlying collateral will be transferred to an agent of the Fund for the term of the agreement. If a particular securities dealer or bank defaults on its obligation to repurchase the underlying security as required by the terms of a repurchase agreement, the Fund will incur a loss to the extent that the proceeds it realizes on the sale of the collateral are less than the repurchase price of the security. In addition, should the defaulting securities dealer or bank file for bankruptcy, the Fund could incur certain costs in establishing that it is entitled to dispose of the collateral and its realization on the collateral may be delayed or limited.

#### Risk Considerations

There can be no assurance that the Fund will achieve its investment objectives or be able to maintain its net asset value per share at \$1.00. The price stability and liquidity of the Fund may not be equal to that of a money market fund which exclusively invests in short-term taxable money market securities. The taxable money market is a broader and more liquid market with a greater number of investors, issuers, and market makers than the short-term California Municipal Securities market.

Yields on California Municipal Securities are dependent on a variety of factors, including the general conditions of the money market and of the municipal bond and municipal note market, the size of a particular offering, the maturity of the obligations and the rating of the issue.

The policies described above in this section are not fundamental and may be changed upon notice to shareholders.

Tax exempt securities purchased on a when-issued basis are subject to changes in value as a result of changes in interest rates in the same way that securities held in the Fund's portfolio are. Purchasing tax exempt securities on a when-issued basis can thus involve a risk that yields available in the market when delivery takes place may actually be higher than those obtained in the when-issued transaction.

#### INVESTMENT RESTRICTIONS

The following investment restrictions may not be changed without a shareholder vote. A change requires the affirmative vote of a majority of the Fund's outstanding shares, which as used in this Statement means the lesser of (1) 67% of the Fund's outstanding shares present at a meeting at which the holders of more than 50% of the outstanding shares are present in person or by proxy, or (2) more than 50% of the Fund's outstanding shares. With respect to investment restrictions Number 1 through 9 below, the Fund may not:

1. Purchase securities on margin; sell short; purchase warrants; or write, purchase, or sell straddles, spreads, or combinations thereof.

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2. Borrow money, except from banks for temporary purposes (not for leveraging or investment) and then in an aggregate amount not in excess of 10% of the value of the Fund's assets at the time of such borrowing, provided, that

so long as such borrowings exceed 5% of the value of the net assets, the Fund will not make any investments; or mortgage, pledge or hypothecate any assets except in connection with any such borrowing and in an aggregate amount not in excess of the dollar amount borrowed.

3. Act as an underwriter of securities of other issuers, except to the extent that the purchase of securities in accordance with the Fund's investment objective, policies and limitations may be deemed to be an underwriting.

4. Purchase securities (other than under repurchase agreements of not more than one week's duration, considering only the remaining days to maturity of each existing repurchase agreement) for which there exists no readily available market, or for which there are legal or contractual restrictions on resale (excluding restricted securities eligible for resale pursuant to Rule 144A under the Securities Act of 1933, which the Board of Trustees or the Adviser has determined under Board-approved guidelines are liquid), if as a result of any such purchase, more than 10% of the Fund's net assets would be invested in such securities.

5. Purchase any securities if, immediately after such purchase, more than 25% of the value of the Fund's total assets would be invested in the securities of one or more issuers conducting their principal business activities in the same industry, provided that there is no limitation with respect to investments issued or guaranteed by the California state government or a political subdivision thereof and obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities.

6. Purchase or sell real estate, except this shall not prevent the Fund from investing in securities secured by real estate or interests therein.

7. Purchase or sell commodities or commodity futures contracts, or oil, gas or mineral exploration or development programs.

8. Make loans, except that the Fund may hold debt instruments and enter into repurchase agreements in accordance with its investment objectives and policies.

9. Issue any class of securities senior to any other class of securities, except that the Fund may purchase when-issued securities as described in the Prospectus and herein.

10. The Fund may, notwithstanding any other fundamental investment policy or limitation, invest all of its assets in the securities of a single open-end management investment company with substantially the same fundamental investment objectives, policies and limitations as the Fund.

The following investment restrictions may be changed by the Board of Trustees without the approval of shareholders. Appropriate notice will be given of any changes in these restrictions made by the Board of Trustees. With respect to investment restrictions Number 11 through 14 below, the Fund may not:

11. Purchase securities of other investment companies, except in connection with a merger, consolidation, acquisition or reorganization, and except for purchases of securities of money market mutual funds.

12. Purchase securities of any issuer for the purpose of exercising control or management, except in connection with a merger, consolidation, acquisition or reorganization.

13. Invest more than 5% of the Fund's total assets in securities of any issuer which, together with its predecessors, has been in continuous operation less than three years, except obligations issued or guaranteed by the

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U.S. Government or its agencies, or California Municipal Securities (other than industrial development bonds) (for this purpose the period of operation of the issuer shall include the period of operation of any predecessor or unconditional guarantor of such issuer).

14. Purchase or retain the securities of an issuer if those officers or trustees of the Trust or officers or directors of the Adviser who are also officers or directors of the issuer and who each own beneficially more than 1/2 of 1% of the securities of that issuer together own more than 5% of the securities of such issuer.

15. The Fund does not currently intend to invest all of its assets in the securities of a single open-end management investment company with substantially the same fundamental investment objectives, policies and limitations as the Fund.

For the purposes of the limitations set forth in paragraphs 5, 13 and 14, the Fund will regard the entity which has the ultimate responsibility for the payment of principal and interest as the issuer.

If a percentage restriction is adhered to at the time of investment, a later increase or decrease in percentage resulting from a change in values of portfolio securities or amount of net assets will not be considered a violation of any of the foregoing restrictions.

#### PORTFOLIO TRANSACTIONS

The Advisory Agreement authorizes the Adviser (subject to the control of the Board of Trustees) to select brokers and dealers to execute purchases and sales of portfolio securities. The Advisory Agreement directs the Adviser to use its best efforts to obtain the best overall terms for the Fund, taking into account such factors as price (including dealer spread), the size, type and difficulty of the transaction involved, and the financial condition and execution capability of the broker or dealer.

Purchases and sales of the Fund's portfolio securities are generally placed by the Adviser with the issuer, the issuer's underwriter or with a primary market maker. Usually no brokerage commission is paid, although the price usually includes an undisclosed compensation. (Transactions with primary market makers reflect the spread between bid and asked prices; purchases of underwritten issues include an underwriting fee paid by the issuer to the underwriter.) During the last three fiscal years ended December 31, 1994, 1995 and 1996 the Fund paid no brokerage commissions.

To the extent that the execution and price offered by more than one dealer are comparable, the Adviser may, in its discretion, effect transactions in portfolio securities with dealers who provide the Fund with research services such as credit analysis. Any such research services would be available for use on all investment advisory accounts of the Adviser.

Other investment advisory clients advised by the Adviser may also invest in the same securities as the Fund. When these clients buy or sell the same securities at substantially the same time, the Adviser may average the transactions as to price and allocate the amount of available investments in a manner which the Adviser believes to be equitable to each client, including the Fund. In some instances, this investment procedure may adversely affect the price paid or received by the Fund or the size of the position obtainable for it. On the other hand, to the extent permitted by law, the Adviser may aggregate the securities to be sold or purchased for the Fund with those to be sold or purchased for other clients managed by it in order to obtain best execution.

In no instance will portfolio securities be purchased from or sold to Sutro, Tucker Anthony Incorporated or any affiliated person (as defined in the 1940 Act) thereof.

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#### CURRENT YIELD

The Securities and Exchange Commission requires by rule that a yield quotation set forth in an advertisement or prospectus for a "money market" fund be computed by a standardized method based on a historical seven calendar day period referred to as the "base period." The yield quoted may be a simple annualized yield or a compounded effective yield which gives effect to the reinvestment of the proceeds of the investment portfolio. If the compounded effective yield is used in an advertisement, the simple annualized yield must also be included. Both yields are computed on the basis of the base period return on a hypothetical pre-existing account in the Fund having a balance of one share at the beginning of the seven-day base period. The base period return equals the net change in value of the account over the seven-day period, including dividends declared both on the original share and on any additional shares purchased with previous dividends (such dividends are declared daily and paid from the net investment income of the Fund) and minus all fees, other than nonrecurring account or sales charges charged to all shareholder accounts, in proportion to the length of the base period and the Fund's average account size. The fees deducted will take into account the expense limitation agreement as described in "Our Management" in the Prospectus. The net change in value does not include realized gains and losses from the sale of securities or unrealized appreciation or depreciation of the securities. The base period return is then multiplied by 365/7 to arrive at the annualized simple yield. The compounded effective yield is calculated by dividing the base period return (calculated as above) by 7, adding 1, raising that sum to the 365th power and subtracting 1 from the result. Both calculations of yields are then expressed to at least two decimal points.

For the seven day period ended December 31, 1996, the simple annualized yield of the Fund was 3.89%, the compound effective yield was \_\_%, and the Fund had an average weighted maturity of investments of \_\_ days.

#### ADDITIONAL INFORMATION ON REDEMPTION

The Fund may suspend redemption privileges or postpone the date of payment on shares for more than seven days during any period (1) when the New York Stock Exchange is closed (other than for weekends or holidays) or trading on the Exchange is restricted as determined by the Securities and Exchange Commission ("SEC"), (2) when an emergency exists, as defined by the SEC, which makes it not reasonably practicable for the Fund to dispose of securities owned by it or fairly to determine the value of its assets, or (3) as the SEC may otherwise permit.

It is possible that under unusual circumstances the redemption price may be more or less than the shareholder's cost, depending on the market value of the Fund's portfolio at the time.

#### NET ASSET VALUE

As disclosed in the Prospectus, the net asset value per share of the Fund is determined at 12:00 noon New York time Monday through Friday, as described below. The Fund will be closed on the following national business holidays: New Year's Day, Washington's Birthday, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day.

The net asset value per share of the Fund is determined daily under the general supervision of the Trust's Board of Trustees by the Fund's custodian at 12:00 noon New York time on each day on which the New York Stock Exchange is open or on which there is a sufficient degree of trading in the Fund's portfolio securities that the current net asset value of the Fund's redeemable securities might be materially affected by changes in the value of the portfolio securities. Purchase or redemption orders accepted by John Hancock Investor Services Corp. ("JHIS") prior to 12:00 noon New York time will be priced at 12:00 noon New York time that day. Purchase or redemption orders accepted

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by JHIS subsequent to 12:00 noon New York time will be priced at 12:00 noon New York time the next day that net asset value is computed. Net asset value per share is computed by taking the value of all assets of the Fund, less liabilities, and dividing by the number of shares outstanding. To determine the value of the assets of the Fund for the purpose of obtaining the net asset value, portfolio securities are valued at amortized cost, as described below, and interest is accrued daily.

Since the Fund has adopted a policy of normally holding portfolio securities to maturity, all portfolio securities of the Fund will normally be valued at amortized cost. Thus, it is not expected that realized or unrealized gains or losses on portfolio securities will be a substantial factor in the computation of the net asset value or gross income of the Fund. If in some extraordinary circumstance the Fund experiences gains or losses (realized or unrealized), whether recognized or unrecognized, this could result in a change in net asset value, a change in dividends, or both.

The Trust complies with the provisions of Rule 2a-7 under the 1940 Act which permits the Fund to compute the net asset value using the amortized cost method of valuing portfolio securities. To comply with that rule, the Board of Trustees has agreed to establish procedures to stabilize the net asset value for the Fund at \$1.00 per share. These procedures include a review by the Board of Trustees of the extent of any deviation of net asset value per share, based on available market quotations or estimates of market value determined by the Board of Trustees in good faith, from the Fund's \$1.00 amortized cost value per share. If that deviation exceeds 1/2 of 1%, the Board of Trustees will consider any action that should be initiated to reasonably eliminate or reduce material dilution or other unfair results to shareholders. Such action may include selling portfolio securities prior to maturity, withholding dividends, or utilizing a net asset value per share as determined by using available market quotations. In addition, the Fund must (a) maintain a dollar weighted average portfolio maturity of 90 days or less, (b) not purchase any instrument with a remaining maturity greater than 397 days, (c) limit portfolio investments, including repurchase agreements, to securities that, at the time of acquisition, (i) are rated in the two highest categories by at least two nationally recognized statistical rating organizations (or by one organization if only one organization has rated the security), (ii) if not rated, are obligations of an issuer whose other outstanding short-term debt obligations are so rated, or (iii) if not rated, are of comparable quality as determined by the Board of Trustees in accordance with procedures established by the Board of Trustees, and (d) comply with certain reporting and recordkeeping procedures. The Trust's officers will periodically review the method of valuation and recommend changes to the Board of Trustees which may be necessary to assure that the portfolio securities of the Fund are valued at their fair value as determined by the Trustees in good faith. The Fund will limit its investments to securities that present minimal credit risks, as determined by the Board of Trustees in

accordance with the procedures established by the Board of Trustees.

Amortized cost valuation involves valuing a security at its cost and adding or subtracting, ratably to maturity, any discount or premium, regardless of the impact of fluctuating interest rates on the market value of the security. Under the amortized cost method of valuation, neither the amount of daily income nor net asset value is affected by any unrealized appreciation or depreciation of the portfolio. As a result, in periods of declining interest rates, the indicated daily yield on a portfolio valued by amortized cost will be higher than on a portfolio valued by market prices.

Since there is no sales load involved in an investment in the Fund, 100% of the shareholder's purchase price is invested in shares of the Fund.

#### ADDITIONAL INFORMATION ON TAXES

##### Taxation of the Fund

The Fund intends to qualify and elects to be treated as a "regulated investment company" under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"). If so qualified, the Fund will not be liable for federal income taxes on its taxable net investment income and capital gain net income that are distributed to shareholders,

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provided that the Fund distributes at least 90% of its net investment income (other than capital gains) and net short-term capital gain for the taxable year. To qualify for tax treatment as a "regulated investment company" under the Code, the Fund must, among other things, (i) derive in each taxable year at least 90% of its gross income from dividends, interest, payments with respect to securities loans and gains from the sale or other disposition of stock, securities or foreign currencies, or other income derived with respect to its business of investing in such stock, securities or currencies (the "90% test"); (ii) derive in each taxable year less than 30% of its gross income from the sale or other disposition of stock, securities or certain other financial investments held for less than three months (the "30% test"); and (iii) satisfy certain other diversification requirements at the close of each quarter of the Fund's taxable year. Furthermore, in order to be entitled to pay tax-exempt interest income dividends to its shareholders, the Fund must satisfy the requirement that, at the close of each quarter of its taxable year, at least 50% of the value of its total assets consists of obligations the interest of which is exempt from federal income tax. The Fund intends to satisfy this requirement.

The Code imposes a nondeductible 4% excise tax on a regulated investment company that fails to distribute during each calendar year an amount at least equal to the sum of (1) 98% of its taxable ordinary income for the calendar year, and (2) 98% of its capital gain net income for the twelve month period ending on October 31 of the calendar year, and (3) certain undistributed amounts from the preceding calendar year. The Fund intends to make sufficient distributions to avoid this 4% excise tax.

##### Taxation of Shareholders

Information concerning the tax status of dividends and distributions is mailed to shareholders annually. The Fund anticipates that substantially all of the dividends to be paid by the Fund will be exempt from federal income taxes and California personal income taxes. If any portion of the Fund's dividends is not exempt from federal or California personal income taxes, the Fund will advise shareholders in the annual tax information notice of the percentage of both tax exempt and taxable income. In accordance with the Code, expenses of the Fund will be allocated pro rata between taxable and nontaxable income.

Net investment income received by the Fund from investments in debt securities other than tax exempt securities, and any excess of net short-term capital gain over net long-term capital loss recognized by the Fund, will be taxable to shareholders upon distribution as ordinary income, regardless of whether they are paid in cash or in additional shares. The excess of net long-term capital gain over net short-term capital loss, to the extent properly designated by the Fund, will be taxable to shareholders upon distribution as long-term capital gain, regardless of the length of time the shares have been held or whether they are paid in cash or in additional shares. However, it is expected that any such amounts will be insubstantial in relation to the tax exempt interest generated by the Fund.

Taxable distributions generally are included in a shareholder's gross income for the taxable year in which they are received. However, dividends declared in October, November and December and made payable to shareholders of record in such a month are taxable as of December 31, provided that the Fund pays the dividend during the following January. It is expected that none of the Fund's distributions will qualify for the 70% corporate dividends-received deduction.

The Fund designates and pays exempt-interest dividends from interest

earned on all tax exempt obligations. Such exempt-interest dividends may be excluded by shareholders of the Fund from their gross income for federal income tax purposes.

To the extent that the net asset value at the time of purchase of shares in the Fund reflects capital gains, a subsequent distribution to the shareholder of such amounts, although constituting a return of his or her investment, would be taxable as described above. Any loss on the sale or exchange of shares of the Fund held for six months or less will be disallowed to the extent that tax-exempt interest dividends were paid on such shares.

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To the extent that the Fund's dividends distributed to shareholders are derived from interest income exempt from federal income tax and are properly designated as "exempt-interest dividends" by the Fund, they will be excludable from a shareholder's gross income for federal income tax purposes. Shareholders who are recipients of Social Security benefits should be aware that exempt interest dividends received from the Fund must be taken into account for purposes of determining whether their incomes are large enough to result in taxation of up to 85% of the amount of such Social Security benefits.

All distributions of investment income during the year will have the same percentage designated as tax exempt. Since the Fund invests primarily in tax exempt securities, the percentage will be substantially the same as the amount actually earned during any particular distribution period.

Interest on certain private activity bonds issued after August 7, 1986 not otherwise subject to federal income tax may be subject to the federal alternative minimum tax ("AMT") although the interest continues to be excludable from gross income for other purposes. The AMT is a supplemental tax designed to ensure that taxpayers pay at least a minimum amount of tax on their income, even if they make substantial use of certain tax deductions and exclusions (including the "items of tax preference"). Interest from certain private activity bonds is one of the items of tax preference that is added into income from other sources for the purposes of determining whether a taxpayer is subject to the AMT and the amount of any tax to be paid. Under regulations to be prescribed, exempt-interest dividends paid by the Fund will be treated as interest on such private activity bonds to the extent of the proportionate share of the interest on such bonds received by the Fund. In addition, corporate investors should note that exempt-interest dividends will be a component of the "current earnings" adjustment for the corporate AMT. Prospective investors should consult their own tax advisors with respect to the possible application of the AMT to their tax situation.

Opinions relating to the validity of tax exempt securities and the exemption of interest thereon from federal and California income taxes are rendered by recognized bond counsel to the issuers. Neither the Adviser's nor the Fund's counsel makes any review of proceedings relating to the issuance of tax-exempt securities or the bases of such opinions.

From time to time, proposals have been introduced before Congress for the purpose of restricting, limiting, or eliminating the federal income tax exemptions for interest on municipal securities. It can be expected that similar proposals may be introduced in the future. If any such proposal were enacted, the availability of California Municipal Securities for investment by the Fund and the value of the Fund's portfolio would be affected. In such an event, the Fund would reevaluate its investment objective and policies.

#### California Taxation

The State of California has adopted legislation incorporating the federal provisions relating to regulated investment companies. Thus, to the extent the Fund distributes its income annually, the Fund will be exempt from the California franchise and corporate income tax as a regulated investment company under Section 24871 of the California Revenue and Taxation Code.

As a regulated investment company, the Fund may distribute dividends ("California exempt-interest dividends") that are exempt from the California personal income tax to its individual shareholders, provided 50% or more of the value of the total assets of the Fund at the close of each quarter of its taxable year consists of obligations the interest on which (when held by an individual) is exempt from personal income taxation under California law. The Fund intends to satisfy this requirement so that it can distribute California exempt-interest dividends. If the Fund fails to so qualify, no part of its dividends will be exempt from the California personal income tax.

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The portion of dividends constituting California exempt-interest dividends is that portion derived from interest on obligations of California and



its municipalities and localities which pay interest excludable from income under California law. Distributions from the Fund that are attributable to sources other than those described in the preceding sentence generally will be taxable to such shareholders as ordinary income. In addition, distributions other than exempt-interest dividends to such shareholders are includable in income that may be subject to the California alternative minimum tax. Any dividends paid to corporate shareholders subject to the California franchise or corporate income tax will be taxed as ordinary dividends to such shareholders. The total amount of California exempt-interest dividends paid by the Fund to all of its individual shareholders with respect to any taxable year cannot exceed the amount of interest received by the Fund during such year on California Municipal Obligations less any expenses and expenditures (including any dividends paid to corporate shareholders) deemed to have been paid from such interest.

Because, unlike federal law, California law does not impose personal income tax on an individual's Social Security benefits, the receipt of California exempt-interest dividends will have no effect on an individual's California personal income tax.

Interest on indebtedness incurred by shareholders to purchase or carry shares of the Fund will not generally be deductible for California income tax purposes. If the shareholders of the Fund receive any California exempt-interest dividends and sell their shares within six months of their acquisition, then any loss, to the extent of the amount of exempt-interest dividends received on the sale, will be disallowed. Any loss realized upon the redemption of shares within thirty days before or after the acquisition of other shares of the same series may be disallowed under the "wash sale" rules.

With respect to individual shareholders, California does not treat tax-exempt interest as a tax preference item for purposes of its alternative minimum tax. Distributions other than exempt-interest dividends are includable in income subject to the California alternative minimum tax.

The foregoing is only a summary of some of the important California personal income tax considerations generally affecting the Fund and its shareholders. No attempt is made to present a detailed explanation of the California personal income tax treatment of the Fund or its shareholders, and this discussion is not intended as a substitute for careful planning. Accordingly, potential investors in the Fund should consult their tax advisers with respect to the application of California taxes to the receipt of the Fund's dividends and to their own California tax situation.

#### MANAGEMENT OF THE FUND

The Trustees and executive officers of the Trust and their principal occupations during the past five years are set forth below. Unless otherwise indicated, the business address of each is One Beacon Street, Boston, Massachusetts 02108.

\*Dexter A. Dodge-Trustee, Chairman of the Board and Chief Executive Officer, President and Managing Director of the Adviser since July 1992. He is 62. Vice President of Freedom Distributors Corporation since 1989 and Director since 1994.

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\* Trustee may be deemed to be an "interested person" of the Trust as defined in the Investment Company Act of 1940.

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Richard A. Farrell-Trustee-160 Federal Street, Boston, Massachusetts 02110. He is 63. President since 1980 of Farrell, Healer & Co., a venture capital management firm that manages The Venture Capital Fund of New England.

Ernest T. Kendall-Trustee-230 Beacon Street, Boston, Massachusetts 02116. He is 64. President, Commonwealth Research Group, Inc., Boston, MA, a consulting firm specializing in microeconomics, regulatory economics and labor economics, since 1978.

Richard B. Osterberg-Trustee-84 State Street, Boston, Massachusetts 02109. He is 52. Member of the law firm of Weston, Patrick, Willard & Redding, Boston, MA since 1978.

\*Lawrence G. Kirshbaum-Trustee and Chief Financial Officer-1 World Financial Center, New York, New York 10281. He is 54. Chief Financial Officer and Executive Vice President of John Hancock Freedom Securities Corporation since 1992. Director of Tucker Anthony Incorporated, Sutro & Co. Incorporated, John Hancock Clearing Corporation and the Adviser since 1992. Chairman of Prescott, Ball & Turben, Inc., Cleveland, Ohio, from 1987-1990. Chief Financial Officer of Prescott, Ball & Turben, Inc. from 1982-1987.

William H. Darling -Trustee - 294 Washington Street, Suite 310, Boston, Massachusetts 02108. He is 47. President, W.H. Darling & Co., Inc., managing corporate general partner to a coal land lessor, since 1994. Partner of Sagamore Partners, which provides trustee services to family and related trusts, since 1993. Certified Public Accountant, William A. Darling, CPA since 1982.

John R. Haack - Trustee - 311 Commonwealth Avenue #81, Boston, Massachusetts 02115. He is 54. Vice President of Operations, Reliable Transaction Processing, 1995 to present. Major General, Assistant to the Commander in Chief, U.S. Space Command, 1993 to 1995. General Manager, Unilect Industries, which is an electrical component manufacturer, 1993 to 1994. Brigadier General, Commander of 102nd Fighter Interceptor Wing, U.S. Air Force and Air National Guard, 1986 to 1993.

Laurence R. Veator, Jr. - Trustee - 8 Cove Way, Rust Island, Gloucester, Massachusetts 01930. Currently retired. Formerly, President, Pacific/Interamerican Divisions of Grace Specialty Chemicals Co. from 1975 to 1987.

John J. Danello-President and Secretary-Chief Operating Officer of the Adviser since February 1994 and Managing Director, Clerk and General Counsel since November 1986. He is 41. President and Director since February 1989 and Clerk since February 1987 of Freedom Distributors Corporation. Prior to November 1986, Mr. Danello was associated with the law firm of Goodwin, Procter & Hoar.

Darlene F. Rego-Treasurer-Vice President of the Adviser since February 1995 and Assistant Vice President since December 1992. She is 33. Assistant Treasurer of the Trusts from July 1987 until December 1992.

Mary Jeanne Currie-Vice President-Vice President of the Adviser since February 1983. She is 48.

Michael M. Spencer-Vice President-Senior Vice President and Director of Fixed-Income Investments of the Adviser since August 1995. He is 46. From 1985 to 1995, Mr. Spencer was a Portfolio Manger at Shawmut Investment Advisers.

Paul F. Marandett-Vice President-Vice President of the Adviser since 1990. He is 54. From 1980 to 1990, Mr. Marandett was vice president with the Bank of Boston.

Sarah H. Scranton-Vice President-Vice President and Portfolio Manager of the Adviser since September 1994 and Vice President and Portfolio Manager of the Freedom Group of Money Funds since April 1994 . She is 32. From March 1990 to September 1994, Ms. Scranton was an Assistant Vice President and Assistant Portfolio Manager of the Adviser.

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\* Trustee may be deemed to be an "interested person" of the Trust as defined in the Investment Company Act of 1940.

Maureen M. Renzi-Assistant Secretary-Assistant Vice President of the Adviser since February 1995 and Assistant Clerk and Compliance Officer since July 1992. She is 32. Vice President of Freedom Distributors Corporation since February 1995. Paralegal at New England Securities from March 1989 to July 1992.

Messrs. Dodge, Danello, Kirshbaum, Marandett, McCarthy and Spencer and Mesdames Currie, Rego, Renzi and Scranton are all officers of the Adviser as well as of the Trust.

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\* Trustee may be deemed to be an "interested person" of the Trust as defined in the Investment Company Act of 1940.

During the last fiscal year of the Trust, the Trustees were compensated as follows:

<TABLE>  
<CAPTION>

Name of Trustee	Aggregate Compensation From the California Tax Exempt Money Fund	Total Compensation from Fund Complex Paid to Trustees (a)
<S> Dexter A. Dodge	<C> \$0	<C> \$0

Richard A. Farrell	2,757	20,800
Ernest T. Kendall	1,757	16,800
Richard B. Osterberg	1,757	16,800
Lawrence G. Kirshbaum	0	0
William H. Darling	0	0
John R. Haack	0	0
Laurence R. Veator, Jr.	0	0

</TABLE>

- (a) Includes compensation from the Freedom Tax Exempt Money Fund, Freedom Government Securities Fund, Freedom Cash Management Fund and California Tax Exempt Money Fund. The Trust does not provide any pension or retirement benefits for the Trustees.

Although the nominees of the Fund may at times be the record holders of in excess of 5% of shares of the Fund by virtue of holding shares in "street name," to the knowledge of the Trust, no person owns beneficially 5% or more of the shares of the Fund. As of January 31, 1997, the officers and Trustees of the Trust as a group own less than 1% of the outstanding shares of the Fund.

#### THE INVESTMENT ADVISER

The investment adviser for the Fund is Freedom Capital Management Corporation, a Massachusetts corporation (the "Adviser"), with offices at One Beacon Street, Boston, Massachusetts. The Adviser is a registered investment advisory firm which maintains a large securities research department, the efforts of which will be made available to the Fund.

The Adviser is an indirect, wholly-owned subsidiary of JHFSC Acquisition Corp., a newly-formed Delaware corporation. JHFSC Acquisition Corp. is located at One Beacon Street, Boston, Massachusetts 02108. The Adviser was formerly an indirect subsidiary of John Hancock Subsidiaries, Inc. ("Hancock Subsidiaries") which transferred approximately 95 % of its interest in John Hancock Freedom Securities Corporation ("Freedom Securities"), the parent company of the Adviser to JHFSC Acquisition Corp. JHFSC Acquisition Corp. is owned by an investor group which includes certain members of management and employees of Freedom Securities and its subsidiaries, including the Adviser (the "Employee Shareholders"). To accomplish the sale, Hancock Subsidiaries, JHFSC Acquisition Corp., Thomas H. Lee Equity Fund III, L.P. ("Lee") and SCP Private Equity Partners, L.P. ("SCP"), entered into a Contribution Agreement on October 4, 1996, pursuant to which Hancock Subsidiaries contributed 100% of the issued and outstanding shares of capital stock of Freedom Securities to JHFSC Acquisition Corp., in exchange for (i) 4.9% of the issued and outstanding capital stock of JHFSC Acquisition Corp. and (ii) aggregate consideration of \$180,000,000 (subject to reduction to the extent of certain distributions made prior to closing).

Upon consummation on November 29, 1996 of the transactions contemplated by the Contribution Agreement, Freedom Securities became a wholly-owned subsidiary of JHFSC Acquisition Corp., and the Adviser remained a wholly-owned subsidiary of Freedom Securities. The outstanding capital stock of JHFSC Acquisition Corp. after the consummation of the Transaction is approximately as follows:

Investor	Percentage Ownership
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Thomas H. Lee Equity Fund III., L.P.	49.9%
SCP Private Equity Partners, L.P.	13.0%
John Hancock Subsidiaries, Inc.	4.9%
Employee Shareholders	32.2%

Thomas H. Lee Equity Fund III, L.P. is a Massachusetts limited partnership. The general partner of Thomas H. Lee Equity Fund III, L.P. is THL Equity Advisors III Limited Partnership, a Massachusetts limited partnership. The general partner of THL Equity Advisors III Limited Partnership is THL Equity Trust III, a Massachusetts business trust. The sole beneficial owner of THL Equity Trust III is Thomas H. Lee. The address of Thomas H. Lee Equity Fund III, L.P., THL Equity Advisors III Limited Partnership and THL Equity Trust III is 75 State Street, Boston, Massachusetts 02109.

SCP Private Equity Partners, L.P. is a Delaware limited partnership. The general partner of SCP Private Equity Partners, L.P. is SCP Private Equity Management, L.P., a Delaware limited partnership. The interests of SCP Private Equity Management, L.P. are divided equally among its three general partners: Safeguard Capital Management, Inc. (which is a wholly owned subsidiary of Safeguard Scientifics, Inc., a publicly held company), Winston J. Churchill and Samuel A. Plum. The address of SCP Private Equity Partners, L.P., SCP Private Equity Management, L.P., Safeguard Capital Management, Inc., Winston J. Churchill and Samuel A. Plum is 435 Devon Park Drive, Wayne, Pennsylvania 19087.

The consummation of the Transaction resulted in a change of control of the Adviser, causing the Advisory Agreement between the Adviser and the Trust, on behalf of each of the Funds, to be "assigned," as such term is defined under the Investment Company Act of 1940 (the "1940 Act"). This assignment necessitated approval of a new Advisory Agreement by the shareholders of the Funds. The shareholders of the Funds approved the new Advisory Agreements at meetings held on December 16, 1996.

Freedom Distributors Corporation ("Freedom" or the "Distributor") serves as distributor and principal underwriter for the Fund pursuant to a distribution agreement with the Trust. Freedom, established in 1987, is a wholly-owned subsidiary of the Adviser. Sutro & Co. Incorporated and Tucker

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Anthony Incorporated, brokerage firms which are members of the New York Stock Exchange, are also indirect subsidiaries of JHFSC Acquisition Corp.

Pursuant to an investment advisory agreement dated as of November 29, 1996 (the "Advisory Agreement") between the Trust and the Adviser, the Adviser agreed to act as investment adviser and manager to the Fund. As manager and investment adviser, the Adviser will: (a) furnish continuously an investment program for the Fund and determine, subject to the overall supervision and review of the Board of Trustees, which investments should be purchased, held, sold or exchanged, (b) provide supervision over all aspects of the Fund's operations except those which are delegated to a custodian, transfer agent or other agent, and (c) provide the Trust with such executive, administrative and clerical personnel, officers and equipment as are deemed necessary for the conduct of the business of the Trust.

The Fund bears all costs of its organization and operation, including expenses of preparing, printing and mailing all shareholders' reports, notices, prospectuses (except that the expense of printing and mailing prospectuses used for promotional purposes will not be borne by the Fund), proxy statements and reports to regulatory agencies; expenses relating to the issuance, registration and qualification of shares of the Fund; government fees; interest charges; expenses of furnishing to shareholders their account statements; taxes; expenses of redeeming shares; brokerage and other expenses connected with the execution of portfolio securities transactions; fees and expenses of the Trust's custodian, including those for keeping books and accounts and calculating the net asset value of shares of the Fund; fees and expenses of its independent accountants, legal counsel, transfer agent and dividend disbursing agent; the compensation and expenses of its Trustees who are not otherwise affiliated with the Trust, the Adviser or John Hancock or any of their affiliates; expenses of trustees' and shareholders' meetings; trade association memberships; insurance premiums; and any extraordinary expenses.

The State of California imposes a limitation on the expenses of the Fund. The Advisory Agreement provides that if, in any fiscal year, the total expenses of the Fund (excluding taxes, interest, brokerage commissions and extraordinary items, but including the management fee) exceed the expense limitations applicable to the Fund imposed by the securities regulations of any state in which it is then registered to sell shares, the Adviser will pay or reimburse the Fund for that excess up to the amount of its management fee during that fiscal year. Although there is no certainty that this limitation will be in effect in the future, the California limitation on an annual basis currently is 2.5% of the first \$30 million of net assets; 2% of the next \$70 million; and 1.5% of the average daily net assets over \$100 million. For the purpose of determining whether the Fund is entitled to reimbursement, the expenses of the Fund are calculated on a monthly basis. If the Fund is entitled to reimbursement, that month's advisory fee will be reduced or postponed, with any adjustment made after the end of the year.

The Advisory Agreement was approved by the outstanding shareholders of the Fund at a meeting held on December 16, 1996. The Advisory Agreement for the Trust was approved on October 3, 1996 by all of the Trustees, including all of the Trustees who are not parties to the Advisory Agreement or "interested persons" (as defined in the 1940 Act) of any such party. The Advisory Agreement will continue in effect from year to year, provided that its continuance is approved annually both (i) by the holders of a majority of the outstanding voting securities of each Fund or by the Board of Trustees, and (ii) by a majority of the Trustees who are not parties to the Advisory Agreement or "interested persons" of any such party. The Advisory Agreement may be terminated on 60 days written notice by either party and will terminate automatically if it is assigned.

Mr. Osterberg, a Trustee of the Trust, is a member of the law firm of Weston, Patrick, Willard & Redding, which has retained the Adviser from time to

time to provide investment advisory consulting services for clients of such firm.

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For the fiscal year ended December 31, 1994, the Fund incurred investment advisory fees in the amount of \$410,414. During the fiscal year ended December 31, 1994, the Adviser waived \$164,965 of that amount.

For the fiscal year ended December 31, 1995, the Fund incurred investment advisory fees in the amount of \$434,998. During the fiscal year ended December 31, 1995, the Adviser waived \$152,510 of that amount.

For the fiscal year ended December 31, 1996, the Fund incurred investment advisory fees in the amount of \$\_\_\_\_\_. During the fiscal year ended December 31, 1996, the Adviser waived \$\_\_\_\_\_ of that amount.

#### DISTRIBUTION OF SHARES OF THE FUND

The Trust has entered into a Distribution Agreement with Freedom Distributors Corporation and Sutro & Co. Incorporated (the "Distributors") whereby the Distributors act as exclusive selling agents of the Fund selling shares of the Fund on a "best efforts" basis. Although the Distributors distribute shares of the Fund on a continuous basis, shares may also be purchased directly from the Fund. No underwriting commissions or discounts are paid to the Distributors in connection with their distribution of shares of the Fund.

#### CUSTODIAN

All cash and securities of the Fund are held by State Street Bank and Trust Company, 225 Franklin Street, Boston, Massachusetts 02106, as custodian.

#### FINANCIAL STATEMENTS AND INDEPENDENT ACCOUNTANTS

Price Waterhouse LLP, 160 Federal Street, Boston, Massachusetts 02110 serves as the Trust's independent accountants, providing audit services, including review and consultation, in connection with various filings by the Trust with the Securities and Exchange Commission and tax authorities.

The financial statements and the report of the independent accountants with respect to the Fund for the fiscal year ended December 31, 1996 are included in the Fund's Prospectus.

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#### INFORMATION ABOUT SECURITIES RATINGS OF NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATIONS ("NRSROs")

##### Debt Security Ratings, Including Municipal Bonds

MOODY'S INVESTORS SERVICE, INC. Aaa--the "best quality." Aa--"high quality by all standards", but margins of protection or other elements make long-term risks appear somewhat larger than Aaa rated municipal bonds.

STANDARD & POOR'S CORPORATION. AAA--"obligations of the highest quality." AA--issues with investment characteristics "only slightly less marked than those of the prime quality issues."

##### Municipal Bonds

MOODY'S INVESTORS SERVICE, INC. ("Moody's")

Aaa: Municipal bonds which are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edge." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

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

A: Municipal bonds which are rated A possess many favorable investment

attributes and are to be considered as upper medium grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present which suggest a susceptibility to impairment sometime in the future.

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

Note: Moody's applies numerical modifiers 1, 2 and 3 in each generic rating classification from Aa through B in its corporate bond ratings. The modifier 1 indicates that the security ranks in the higher end of its generic rating category. The modifier 2 indicates a mid-range ranking; and modifier 3 indicates that the issue ranks in the lower end of its generic rating category.

#### STANDARD & POOR'S CORPORATION ("S&P")

AAA: Municipal bonds rated AAA are highest grade obligations. They possess the ultimate degree of protection as to principal and interest. In the market they move with interest rates and hence provide the maximum safety on all counts.

AA: Municipal bonds rated AA also qualify as high-grade obligations, and in the majority of instances differ from AAA issues only in small degree. Here, too, prices move with the long-term money market.

A: Municipal bonds rated A are regarded as upper medium grade. They have considerable investment strength but are not entirely free from adverse effects of changes in economic and trade conditions. Interest and

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principal are regarded as safe. They predominantly reflect money rates in their market behavior, but also to some extent, economic conditions.

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

#### Municipal Notes

##### MOODY'S

Moody's ratings for state and municipal and other short-term obligations will be designated Moody's Investment Grade ("MIG"). This distinction is in recognition of the differences between short-term credit risk and long-term risk. Factors affecting the liquidity of the borrower are uppermost in importance in short-term borrowing, while various factors of the first importance in long-term borrowing risk are of lesser importance in the short run. Symbols used will be as follows:

MIG-1 - Notes are of the best quality enjoying strong protection from established cash flows of funds for their servicing or from established and broad-based access to the market for refinancing, or both.

MIG-2 - Notes are of high quality, with margins of protection ample, although not so large as in the preceding group.

MIG-3 - Notes are of favorable quality, with all security elements accounted for, but lacking the undeniable strength of the preceding grades. Market access for refinancing, in particular, is likely to be less well established.

MIG-4 - Notes are of adequate quality, carrying specific risk but having protection commonly regarded as required of an investment security and not distinctly or predominantly speculative.

##### S&P's

SP-1 - Issues carrying this designation have a very strong or strong capacity to pay principal and interest. Issues determined to possess overwhelming safety characteristics will be given a "plus" (+) designation.

SP-2 - Issues carrying this designation have a satisfactory capacity to pay principal and interest.

#### Commercial Paper

##### MOODY'S

Moody's Commercial Paper ratings, which are also applicable to municipal paper investments permitted to be made by the Fund, are opinions of the ability of issuers to repay punctually their promissory obligations not having an original maturity in excess of nine months. Moody's employs the following designations, all judged to be investment grade, to indicate the relative repayment capacity of rated issuers:

P-1 (Prime-1): Superior capacity for repayment.

P-2 (Prime-2): Strong capacity for repayment.

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#### S&P's

S&P's ratings are a current assessment of the likelihood of timely payment of debt having an original maturity of no more than 365 days. Ratings are graded into four categories, ranging from "A" for the highest quality obligations to "D" for the lowest. Issues within the "A" category are delineated with the numbers 1, 2, and 3 to indicate the relative degree of safety, as follows:

A-1: This designation indicates the degree of safety regarding timely payment is very strong. A "plus" (+) designation indicates an even stronger likelihood of timely payment.

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

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

#### IBCA LIMITED/IBCA INC.

Short-term obligations, including commercial paper, rated A-1+ by IBCA Limited or its affiliate IBCA Inc. are obligations supported by the highest capacity for timely repayment. Obligations rated A-1 have a very strong capacity for timely repayment. Obligations rated A-2 have a strong capacity for timely repayment, although such capacity may be susceptible to adverse changes in business, economic or financial conditions.

#### FITCH INVESTORS SERVICES, INC.

Fitch Investors Services, Inc. employs the rating F-1+ to indicate issues regarded as having the strongest degree of assurance for timely payment. The rating F-1 reflects an assurance of timely payment only slightly less in degree than issues rated F-1+, while the rating F-2 indicates a satisfactory degree of assurance for timely payment, although the margin of safety is not as great as indicated by the F-1+ and F-1 categories.

#### DUFF & PHELPS INC.

Duff & Phelps Inc. employs the designation of Duff 1 with respect to top grade commercial paper and bank money instruments. Duff 1+ indicates the highest certainty of timely payment: Short-term liquidity is clearly outstanding, and safety is just below risk-free U.S. Treasury short-term obligations. Duff 1- indicates high certainty of time payment. Duff 2 indicates good certainty of timely payment: liquidity factors and company fundamentals are sound.

#### THOMSON BANKWATCH, INC. ("BANKWATCH")

BankWatch will assign both short-term debt ratings and issuer ratings to the issuers it rates. BankWatch will assign a short-term rating ("TBW-1," "TBW-2," "TBW-3," or "TBW-4") to each class of debt (e.g., commercial paper or non-convertible debt), having a maturity of one year or less, issued by a holding company structure or an entity within the holding company structure that is rated by BankWatch. Additionally, BankWatch will assign an issuer rating ("A," "A/B," "B," "B/C," "C," "C/D," "D," "D/E," and "E") to each issuer that it rates.

Note: Certain NRSROs utilize rankings within rating categories indicated by a + or -. The Fund, in accordance with industry practice, recognizes such rankings with categories as graduations, viewing for example S&P's rating of A-1+ and A-1 as being in S&P's highest rating category.

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PART C

To the Registration Statement of Freedom Group of Tax Exempt Funds including Freedom Tax Exempt Money Fund (the "Tax Exempt Fund") and Freedom California Tax Exempt Money Fund (the "California Fund")

Item 24

Financial Statements and Exhibits.

(a) Financial Statements:

- (1) Financial Statements included in PART A (Prospectuses) of this Registration Statement:

Financial Highlights for the fiscal periods ended 1986 through 1995 with respect to the Tax Exempt Fund and for the period August 27, 1990 (commencement of operations) through December 31, 1990 and the fiscal periods ended 1991 through 1996 with respect to the California Fund.\*

Financial Statements for the Tax Exempt Fund and the California Fund for the fiscal period ended December 31, 1996.\*

Report of Independent Accountants\*  
Investments\*  
Statement of Assets and Liabilities\*  
Statement of Operations\*  
Statement of Changes in Net Assets\*

- (2) Financial Statements included in PART B of this Registration Statement:

None

(b) Exhibits:

Exhibit No.	Description
1	Amended and Restated Agreement and Declaration of Trust (Master Trust Agreement) dated September 27, 1982 incorporated by reference to Pre-Effective Amendment No. 2 to Registration Statement No. 2-78609. Amendment Nos. 1 and 2 to Master Trust Agreement incorporated by reference to Post-Effective Amendment No. 13. Amendment No. 3 to Master Trust Agreement incorporated by reference to Post-Effective Amendment No. 12.

-----  
\* To be filed by amendment.

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Exhibit No.	Description
2	Amendment No. 4 to Master Trust Agreement incorporated by reference to Post-Effective Amendment No. 13.
2	By-Laws adopted June 1, 1982 incorporated by reference from Pre-Effective Amendment No. 2. By-Laws as amended and restated incorporated by reference to Post-Effective Amendment No. 16.
3	None.
4	Specimen share certificate for the Tax Exempt Fund incorporated by reference to Post-Effective Amendment No. 13.



- 5 Advisory Agreement dated November 29, 1996 between Registrant and Freedom Capital Management Corporation.
- 6 Distribution Agreement dated November 29, 1996 between the Registrant and Tucker Anthony Incorporated.\*
- 7 None.
- 8 Custodian Agreement between Registrant and State Street Bank and Trust Company incorporated by reference to Pre-Effective Amendment No. 2. Letter Agreement to add the California Fund incorporated by reference to Post-Effective Amendment No. 13.
- 9 Transfer Agency and Service Agreement dated January 9, 1989 between Registrant and State Street Bank and Trust Company incorporated by reference to Post-Effective Amendment No. 9. Letter Agreement to add the California Fund incorporated by reference to Post-Effective Amendment No. 13. Transfer Agency and Service Agreement between Freedom Group of Tax Exempt Funds and John Hancock Fund Services, Inc., dated as of June 19, 1993, incorporated by reference to Post-Effective Amendment No. 16.

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- 10 Opinion and Consent of Goodwin, Procter & Hoar incorporated by reference to Pre-Effective Amendment No.2. Opinion and Consent of Goodwin, Procter & Hoar with respect to the California Fund incorporated by reference to Post-Effective Amendment No. 12.
- 11 Consent of Price Waterhouse LLP included herein.
- 12 Not Applicable.
- 13 Investment Letter incorporated by reference to Pre-Effective Amendment No. 2.
- 14 None.
- 15 None.
- 16 None.
- 17 Financial Data Schedules for the Tax Exempt Fund and the California Fund.\*
- 18 None.
- 19 Powers of Attorney dated February 1, 1995 and February 6, 1995, filed as Exhibit No. 17 to Post-Effective Amendment No. 18 and incorporated by reference to such post-effective amendment.

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\* To be filed by amendment.

Item 25. Persons Controlled by or Under Common Control with Registrant.

Registrant is not directly or indirectly controlled by or under common control with any person other than the Trustees. Registrant does not have any subsidiaries.

Item 26. Number of Holders of Securities.

As of January 31, 1997, the record holders of each class of Registrant's securities were as follows:

Freedom Tax Exempt Money Fund

\_\_\_\_\_

Freedom California Tax Exempt  
Money Fund

\_\_\_\_\_

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## Item 27 Indemnification.

Under Article VII of the Registrant's Amended and Restated Agreement and Declaration of Trust, any present or former Trustee, Officer, agent or employee or person serving in such capacity with another entity at the request of the Registrant ("Covered Person") shall be indemnified against all liabilities, including but not limited to amounts paid in satisfaction of judgments, in compromises or as fines or penalties and expenses, including reasonable legal and accounting fees, in connection with the defense or disposition of any proceeding by or in the name of the Registrant or any shareholder in his capacity as such if: (i) a favorable final decision on the merits is made by a court or administrative body; or (ii) a reasonable determination is made by a vote of the majority of a quorum of disinterested Trustees or by independent legal counsel that the Covered Person was not liable by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in his office ("Disabling Conduct"); or (iii) a determination is made to indemnify the Covered Person under procedures approved by the Board of Trustees which in the opinion of independent legal counsel are not inconsistent with the Investment Company Act of 1940. Said Article VII further provides that the Registrant shall indemnify any Covered Person against any such liabilities and expenses incurred in connection with the defense or disposition of any other type of proceeding except with respect to any matter as to which the Covered Person shall have engaged in Disabling Conduct or shall have been finally adjudicated not to have acted in good faith and in the reasonable belief that such Covered Person's action was in or not opposed to the best interests of the Registrant.

## Item 28. Business and Other Connections of Investment Adviser.

Freedom Capital Management Corporation (the "Adviser") is a registered investment adviser. The Adviser's offices are located at One Beacon Street, Boston, Massachusetts. It is a wholly-owned subsidiary of John Hancock Freedom Securities, Inc. Freedom Distributors Corporation, a registered broker-dealer, is a wholly-owned subsidiary of the Adviser and acts as a distributor of shares of the Registrant. The principal office of Freedom Distributors Corporation is at One Beacon Street, Boston, Massachusetts 02108. The principal office of John Hancock Freedom Securities, Inc. is at John Hancock Place, Boston, Massachusetts. The Adviser offers a wide range of investment advisory services to both individuals and institutions.

On June 25, 1982, the Adviser and Tucker Anthony Incorporated, a brokerage firm which is a member of the New York Stock Exchange and continues an investment banking and brokerage business established in 1892, were acquired by John Hancock Mutual Life Insurance Company ("John Hancock") as indirect subsidiaries.

On November 29, 1996, John Hancock, through its subsidiary, John Hancock Subsidiaries, Inc., transferred 95.1% of the capital stock of John Hancock Freedom Securities Corporation to JHFSC Acquisition Corp. JHFSC Acquisition Corp. is a newly formed Delaware corporation owned by certain employees and members of management of John Hancock Freedom Securities, Thomas H. Lee Equity Fund III, L.P. and SCP Private Equity Partners, L.P.

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The Adviser also acts as investment adviser for one other registered investment company, Freedom Mutual Fund.

The following information is provided with respect to each director and executive officer of the Adviser:

<TABLE>  
<CAPTION>

Name	Position With Adviser	Business and Other Positions Within Last Two Years
------	--------------------------	--

<S>	<C>	<C>
Dexter A. Dodge	Chairman, Managing Director	Managing Director of the Adviser. Director of Freedom Distributors Corporation.
John J. Danello	President, Managing Director, Clerk and General Counsel	President and Director of Freedom Distributors Corporation.
Richard V. Howe	Managing Director	Managing Director of the Adviser.
Name	Position With Adviser	Business and Other Positions Within Last Two Years
Michael M. Spencer	Senior Vice President and Director of Fixed- Income Investments	Portfolio Manager at Shawmut Investment Advisers.
Arthur E. McCarthy	Director	Managing Director of Tucker Anthony Incorporated.

</TABLE>

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<TABLE>  
<CAPTION>

<S>	<C>	<C>
Lawrence G. Kirshbaum	Director	Chief Financial Officer of John Hancock Freedom Securities, Inc. Director of Tucker Anthony Holding Corp., John Hancock Clearing Corporation and Sutro Group. Registered Principal of Tucker Anthony Incorporated. Former Chief Executive Officer of Kirshbaum & Co. and of Prescott, Ball & Turben.
John H. Goldsmith	Managing Director	President and Chief Executive Officer of John Hancock Freedom Securities, Inc. Chairman and Chief Executive Officer of Tucker Anthony Incorporated.

</TABLE>

Item 29. Principal Underwriters.

(a) Freedom Distributors Corporation ("Freedom") acts as co-distributor with Sutro & Co. Incorporated ("Sutro") with respect to the California Fund, and Freedom acts as co-distributor with Tucker Anthony Incorporated ("Tucker Anthony") with respect to the Tax Exempt Fund. Freedom and Tucker Anthony also act as co-distributors for Freedom Mutual Fund, and Freedom acts as a distributor for Freedom Investment Trust, Freedom Investment Trust II and Freedom Investment Trust III, all registered investment companies.

(b) (1) The name of each director and officer of Freedom, together with the offices held by such person with Freedom and the Registrant, are set forth below. The principal business address of each person named below is One Beacon Street, Boston, MA 02108.

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<TABLE>

<CAPTION>

Name <S>	Offices With Freedom and the Registrant <C>
John J. Danello.....	President and Director of Freedom and Secretary of the Registrant
Michael G. Ferry.....	Treasurer of Freedom
Dexter A. Dodge.....	Director of Freedom and Chief Executive Officer of the Registrant.
Maureen M. Renzi.....	Vice President and Clerk of Freedom. Assistant Secretary of the Registrant.

</TABLE>

(b) (2) The persons whose names and addresses are set forth below hold the offices with Tucker Anthony indicated below. None of these persons holds any position or office with Freedom.

<TABLE>  
<CAPTION>

Name and Principal Business Address <S>	Offices With Tucker Anthony <C>
John H. Goldsmith (1).....	Chairman, Chief Executive Officer and Director
Robert H. Yevich (2).....	President and Director
Thomas A. Pasquale (2).....	Executive Vice President and Director
Marc Menchel (2).....	Executive Vice President, Secretary and Clerk
Thomas E. Gilligan (2).....	Treasurer and Chief Financial Officer

</TABLE>

(1) Business address is One Beacon Street, Boston, Massachusetts 02108.

(2) Business address is One World Financial Center, 200 Liberty Street, New York, New York 10281.

(b) (3) The name and principal business address of each director and officer of Sutro, together with the offices held by such persons with Sutro, are set forth below. No officer or director of Sutro holds any office with the Registrant.

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<TABLE>  
<CAPTION>

Name and Principal Business Address <S>	Offices With Sutro <C>
John F. Luikart (1).....	President and CEO
Mary Jane Delaney (1).....	Executive Vice President and General Counsel
John H. Goldsmith (2).....	Director
Fergus J. Henehan (1).....	Executive Vice President
John W. Eisle (1).....	Executive Vice President
Thomas R. Weinberger (1).....	Executive Vice President

</TABLE>

(1) Business address is 201 California Street, San Francisco, California 94111.

(2) Business address is One Beacon Street, Boston, Massachusetts 02108.

(c) Not applicable.

Item 30. Location of Accounts and Records.

The accounts and records of the Registrant are maintained at the offices of Registrant at One Beacon Street, Boston, Massachusetts and at the offices of the Custodian, State Street Bank and Trust Company, 225 Franklin Street, Boston, Massachusetts 02106 and 1776 Heritage Drive, North Quincy, Massachusetts 01171.

Item 31. Management Services.

There are no management-related service contracts other than the Advisory Agreement relating to management services described in Parts A and B.

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Item 32. Undertakings.

- (a) Not applicable.
- (b) Not applicable.

(c) Registrant hereby undertakes to furnish each person, upon request and without charge, to whom a Prospectus with respect to a series of the Registrant is delivered with a copy of the latest annual report to shareholders with respect to that series.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933 and the Investment Company Act of 1940, the Registrant hereby certifies that it meets all of the requirements for effectiveness of this Registration Statement pursuant to Rule 485(a) under the Securities Act of 1933 and has duly caused this Amendment to its Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in this City of Boston and Commonwealth of Massachusetts on the 30th day of December, 1996.

FREEDOM GROUP OF TAX EXEMPT FUNDS

By: /s/ Dexter A. Dodge

Dexter A. Dodge, Chief Executive Officer

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

<TABLE>  
<CAPTION>

Signature	Title	Date
<S>	<C>	<C>
Principal Executive Officer		
 /s/ Dexter A. Dodge ----- Dexter A. Dodge	Chairman and Trustee	December 30, 1996
Principal Financial and Accounting Officer		
 /s/ Lawrence G. Kirshbaum ----- Lawrence G. Kirshbaum	Trustee	December 30, 1996
 * ----- Richard A. Farrell	Trustee	December 30, 1996

* ----- Ernest T. Kendall	Trustee	December 30, 1996
* ----- Richard B. Osterberg	Trustee	December 30, 1996
/s/ William H. Darling ----- William H. Darling	Trustee	December 30, 1996
/s/ John R. Haack ----- John R. Haack	Trustee	December 30, 1996
/s/ Laurence R. Veator, Jr. ----- Laurence R. Veator, Jr.	Trustee	December 30, 1996

\*By:/s/ Lawrence G. Kirshbaum  
-----

Lawrence G. Kirshbaum,  
Attorney-in-Fact under  
Powers of Attorney dated  
February 1, 1995 and  
February 6, 1995, and  
included as Exhibit 17 to  
Post-Effective Amendment No. 18  
and incorporated by reference to  
such post-effective amendment

</TABLE>

## ADVISORY AGREEMENT

AGREEMENT made as of the 29th day of November, 1996 between FREEDOM CAPITAL MANAGEMENT CORPORATION, a corporation organized under the laws of the Commonwealth of Massachusetts and having its principal place of business in Boston, Massachusetts (the "Manager"), and FREEDOM GROUP OF TAX EXEMPT FUNDS, a Massachusetts business trust having its principal place of business in Boston, Massachusetts (the "Trust").

WHEREAS, the Trust proposes to engage in business as an open-end management investment company and is so registered under the Investment Company Act of 1940 (the "1940 Act"); and

WHEREAS, the Manager is engaged principally in the business of rendering investment management services and is so registered under the Investment Advisers Act of 1940; and

WHEREAS, the Trust is authorized to issue shares of beneficial interest in separate series, with each such series representing interests in a separate portfolio of securities and other assets; and

WHEREAS, the Trust presently offers shares in two series, the Freedom Tax Exempt Money Fund and the Freedom California Tax Exempt Money Fund (such series (the "Initial Funds"), together with all other series subsequently established by the Trust with respect to which the Trust desires to retain the Manager to render investment advisory services hereunder and with respect to which the Manager is willing so to do, being herein collectively referred to as the "Funds");

NOW THEREFORE, WITNESSETH: That it is hereby agreed between the parties hereto as follows:

### 1. APPOINTMENT OF MANAGER.

(a) Initial Funds. The Trust hereby appoints the Manager to act as manager and investment adviser to the Initial Funds for the period and on the terms herein set forth. The Manager accepts such appointment and agrees to render the services herein set forth, for the compensation herein provided.

(b) Additional Funds. In the event that the Trust establishes one or more series of shares other than the Initial Funds with respect to which it desires to retain the Manager to render management and investment advisory services hereunder, it shall so notify the Manager in writing. If the Manager is willing to render such services on the terms provided for herein, it shall notify the Trust in writing, whereupon such series of shares shall become a Fund hereunder.

### 2. DUTIES OF MANAGER.

The Manager, at its own expense, shall furnish the following services and facilities to the Trust:

(a) Investment Program. The Manager will (i) furnish continuously an investment program for each Fund, (ii) determine (subject to the overall supervision and review of the Board of Trustees of the Trust) what investments shall be purchased, held, sold or exchanged by each Fund and what portion if any, of the assets of each Fund shall be held uninvested, and (iii) make changes on behalf of the Trust in the investments of each Fund. The Manager will also manage, supervise and conduct the other affairs and business of the Trust and each Fund thereof and all matters incidental thereto, subject always to the control of the Board of Trustees of the Trust and to the provisions of the Trust's Agreement and Declaration of Trust and By-laws and the 1940 Act.

(b) Regulatory Reports. The Manager shall furnish to the Trust necessary assistance in (i) the preparation of all reports now or hereafter required by Federal or other laws, and (ii) the preparation of prospectuses, registration statements and amendments thereto that may be required by Federal or other laws or by the rules or regulations of any duly authorized commission or administrative body.

(c) Office Space and Facilities. The Manager shall furnish to the Trust office space in the offices of the Manager or in such other place or places as may be agreed upon from time to time, and all necessary office facilities, simple business equipment, supplies, utilities and telephone service.

(d) Services of Personnel. The Manager shall furnish to the Trust all necessary executive and administrative personnel for managing the affairs and investments of the Trust, including personnel to perform clerical, bookkeeping, accounting and other office functions. These services are exclusive of the necessary records or services of any dividend disbursing agent, transfer agent, registrar or custodian. The Manager shall compensate all personnel, officers, and directors of the Trust if such persons are also employees of the Manager or its affiliates.

(e) Fidelity Bond. The Manager shall arrange for providing and maintaining a bond issued by a reputable insurance company authorized to do business in the place where the bond is issued against larceny and embezzlement covering each officer and employee of the Trust who may singly or jointly with others have access to funds or securities of the Trust, with direct or indirect authority to draw upon such funds or to direct generally the disposition of such funds. The bond shall be in such reasonable amount as a majority of the Trustees who are not "interested persons" of the Trust, as defined in the 1940 Act, shall determine, with due consideration to the aggregate assets of the Trust to which any such officer or employee may have access. The premium for the bond shall be payable by the Trust in accordance with paragraph 3(17).



### 3. ALLOCATION OF EXPENSES.

Except for the services and facilities to be provided by the Manager set forth in Paragraph 2 above, the Trust assumes and shall pay all expenses for all other Trust operations and activities and shall reimburse the Manager for any such expense incurred by the Manager. The expenses to be borne by the Trust shall include, without limitation:

(1) all expenses of organizing the Trust or forming any series thereof;

(2) all expenses (including information, materials and services other than services of the Manager) of preparing, printing and mailing all annual, semiannual and periodic reports, proxy materials and other communications (including registration statements, prospectuses and amendments and revisions thereto) furnished to existing shareholders of the Trust and/or regulatory authorities;

(3) fees involved in registering and maintaining registration of the Trust and its shares with the Securities and Exchange Commission and state regulatory authorities;

(4) any other registration, filing or other fees in connection with requirements of regulatory authorities;

(5) expenses, including printing of certificates, relating to issuance of shares of the Trust;

(6) the expenses of maintaining a shareholder account and furnishing, or causing to be furnished, to each shareholder a statement of his account (which in the case of a shareholder whose statement of account is included on a brokerage account statement of an affiliated distributor, may be a reasonable portion of such expense), including the expense of mailing;

(7) taxes and fees payable by the Trust to Federal, state or other governmental agencies;

(8) expenses related to the redemption of its shares, including expenses attributable to any program of periodic redemption;

(9) all issue and transfer taxes, brokers' commissions and other costs chargeable to the Trust in connection with securities transactions to which the Trust is a party, including any portion of such commissions attributable to research and brokerage services as defined by Section 28(e) of the Securities Exchange Act of 1934, as amended from time to time;

(10) the charges and expenses of the custodian appointed by

the Trust, or any depository utilized by such custodian, for the safekeeping of its property;

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(11) charges and expenses of any shareholder servicing agents, transfer agents and [registrars] appointed by the Trust, including costs of servicing shareholder investment accounts;

(12) charges and expenses of independent accountants retained by the Trust;

(13) legal fees and expenses in connection with the affairs of the Trust, including legal fees and expenses in connection with registering and qualifying its shares with Federal and state regulatory authorities;

(14) compensation and expenses of Trustees of the Trust who are not "interested persons" of the Trust (as defined in the 1940 Act);

(15) expenses of shareholders' and Trustees' meetings;

(16) membership dues in, and assessments of, the Investment Company Institute or similar organizations;

(17) insurance premiums on fidelity, errors and omissions and other coverages; and

(18) such other non-recurring expenses of the Trust as may arise, including expenses of actions, suits, or proceedings to which the Trust is a party and the legal obligation which the Trust may have to indemnify its Trustees or shareholders with respect thereto.

#### 4. ADVISORY FEE.

For the services and facilities to be provided by the Manager as set forth in Paragraph 2 hereof, the Trust shall pay to the Manager a monthly fee with respect to each Fund as soon as practical after the last day of each calendar month, which fee shall be paid at a rate equal to (i) one-half of one percent (.50%) on an annual basis of the Monthly Average Net Assets of each such Fund for such calendar month up to \$500 million, and (ii) forty-five hundredths of one percent (.45%) on an annual basis of the Monthly Average Net Assets of each Fund for such calendar month in excess of \$500 million.

The "Monthly Average Net Assets" of any Fund of the Trust for any calendar month shall be equal to the quotient produced by dividing (i) the sum of the net assets of such Fund, determined in accordance with procedures established from time to time by or under the direction of the Board of Trustees

of the Trust in accordance with the Agreement and Declaration of Trust, as of the time of day on which net asset value per share is determined on each day during such month on which such net asset value is determined, by (ii) the number of such days.

In the case of commencement or termination of this Agreement with respect to any Fund during any calendar month, the fee with respect to such Fund for that month shall be reduced

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proportionately based upon the number of calendar days during which it is in effect and the fee shall be computed upon the average net assets of such Fund for the days during which it is in effect.

5. EXPENSE LIMITATION.

The Manager agrees that if the total expenses of any Fund (exclusive of interest, taxes, brokerage expenses and extraordinary items) for any fiscal year of the Trust exceed the lowest expense limitation imposed in any jurisdiction in which that Fund is then making sales of its shares or in which its shares are then qualified for sale, the Manager will pay or reimburse such Fund for that excess up to the amount of its advisory fee payable with respect to that Fund during that fiscal year. The amount of the monthly advisory fee payable under Paragraph 4 hereof shall be reduced to the extent that the annualized expenses of any Fund for that month exceed the foregoing limitation. At the end of each fiscal year of the Trust, if the aggregate annual expenses chargeable to any Fund for that year exceed the foregoing limitation based upon the average of the Monthly Average Net Assets of that Fund for the year, the Manager will promptly reimburse that Fund for the amount of such excess, but if such expenses are within the foregoing limitation, any excess amount previously withheld from the advisory fee during that fiscal year will be promptly paid over to the Manager.

In the event that this Agreement is terminated with respect to any one or more Funds as of a date other than the last day of the fiscal year of the Trust, then the expenses shall be annualized and the Manager shall pay to, or receive from, the Trust a pro rata portion of the amount that the Manager would have been required to pay or would have received, if any, had this Agreement remained in effect for the full fiscal year.

6. PORTFOLIO TRANSACTIONS.

In connection with the management of the investment and reinvestment of the assets of the Trust, the Manager, acting by its own officers, directors or employees or by a duly authorized subcontractor, is authorized to select the brokers or dealers that will execute purchase and sale transactions for the Trust. In executing portfolio transactions and selecting brokers or dealers, if any, the Manager will use its best efforts to seek on behalf of a Fund the best overall terms available. In assessing the best overall terms available for any

transaction, the Manager shall consider all factors it deems relevant, including the breadth of the market in and the price of the security, the financial condition and execution capability of the broker or dealer, and the reasonableness of the commission, if any (for the specific transaction and on a continuing basis). In evaluating the best overall terms available, and in selecting the broker or dealer, if any, to execute a particular transaction, the Manager may also consider the brokerage and research services (as those terms are defined in Section 28(e) of the Securities Exchange Act of 1934) provided to any Fund of the Trust and/or other accounts over which the Manager or an affiliate of the Manager exercises investment discretion. With the prior approval of the Trustees, the Manager may pay to a broker or dealer who provides such brokerage and research services a commission for executing a portfolio transaction which is in excess of the amount of commission

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another broker or dealer would have charged for effecting that transaction if, but only if, the Manager determines in good faith that such commission was reasonable in relation to the value of the brokerage and research services provided.

#### 7. RELATIONS WITH TRUST.

Subject to and in accordance with the Agreement and Declaration of Trust and By-laws of the Trust and the Articles of Incorporation and By-laws of the Manager, it is understood that Trustees, officers, agents and shareholders of the Trust are or may be interested in the Manager (or any successor thereof) as directors, officers, or otherwise, that directors, officers, agents and shareholders of the Manager (or any successor) are or may be interested in the Trust as Trustees, officers, shareholders or otherwise, that the Manager (or any such successor) is or may be interested in the Trust as a shareholder or otherwise and that the effect of any such adverse interests shall be governed by said Agreement and Declaration of Trust, Articles of Incorporation and By-laws.

The Manager agrees that neither it nor any of its officers or directors will take any long or short term position in the shares of the Trust; provided, however, that such prohibition: (i) shall not prevent any affiliate of the Manager which acts as a distributor of the Trust shares pursuant to a written contract from purchasing shares of the Trust in such capacity; and (ii) shall not prevent the purchase of shares of the Trust by any of the persons above described for their own account and for investment at the price at which such shares are available to the public at the time of purchase or as part of the initial capitalization of the Trust.

#### 8. LIABILITY OF MANAGER.

The Manager shall not be liable to the Trust for any error of judgment or mistake of law or for any loss suffered by the Trust in connection with the

matters to which this Advisory Agreement relates; provided that no provision of this Agreement shall be deemed to protect the Manager against any liability to the Trust or its shareholders to which it might otherwise be subject by reason of any willful misfeasance, bad faith or gross negligence in the performance of its duties or the reckless disregard of its obligations and duties under this Agreement. Nor shall any provision hereof be deemed to protect any Trustee or Officer of the Trust against any such liability to which he might otherwise be subject by reason of any willful misfeasance, bad faith or gross negligence in the performance of his duties or the reckless disregard of his obligations and duties. If any provision of this Agreement shall be held or made invalid by a court decision, statute, rule or otherwise, the remainder of this Agreement shall not be affected thereby.

9. DURATION AND TERMINATION OF THIS AGREEMENT.

(a) Duration. This Agreement shall become effective with respect to the Initial Funds on the date on the date first above written and, with respect to any additional Fund, on the date of receipt by the Trust of notice from the Manager in accordance with Paragraph 1(b) hereof that the Manager is willing to serve as Manager with respect to such Fund. Unless terminated as

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herein provided, this Agreement shall remain in full force and effect (a) with respect to the Initial Funds, until the second anniversary of its effectiveness, and (b) with respect to each additional Fund, until the December 31 following the date on which such Fund becomes a Fund hereunder. Unless terminated as herein provided, this Agreement shall continue in full force and effect for periods of one year thereafter with respect to each Fund so long as such continuance with respect to any such Fund is approved at least annually (a) by either the Trustees of the Trust or by vote of a majority of the outstanding voting securities (as defined in the 1940 Act) of such Fund, and (b) in either event by the vote of a majority of the Trustees of the Trust who are not parties to this Agreement of "interested persons" (as defined in the 1940 Act) of any such party, cast in person at a meeting called for the purpose of voting on such approval; provided, however, that the continuance of this Agreement with respect to any additional Fund is subject to the approval of this Agreement by a majority of the outstanding voting securities of that Fund at the first annual or special meeting of shareholders after this Agreement becomes effective with respect to that Fund.

(b) Amendment. Any amendment to this Agreement shall become effective with respect to any Fund upon approval of a majority of the outstanding voting securities (as defined in the 1940 Act) of that Fund.

(c) Termination. This Agreement may be terminated with respect to any Fund at any time, without payment of any penalty, by vote of the Trustees

or by vote of a majority of the outstanding voting securities (as defined in the 1940 Act) of that Fund, or by the Manager, on sixty (60) days' written notice to the other party.

(d) Automatic Termination. This Agreement shall automatically and immediately terminate in the event of its assignment.

(e) Approval, Amendment or Termination by Individual Fund. Any approval, amendment or termination of this Agreement by the holders of a majority of the outstanding voting securities (as defined in the 1940 Act) of any Fund shall be effective to continue, amend or terminate this Agreement with respect to any such Fund notwithstanding (i) that such action has not been approved by the holders of a majority of the outstanding voting securities of any other Fund affected thereby, and (ii) that such action has not been approved by the vote of a majority of the outstanding voting securities of the Trust, unless such action shall be required by any applicable law or otherwise.

10. NAME OF TRUST.

It is understood that the name "Freedom", and any logo associated with that name, is the valuable property of Freedom Capital Management Corporation, and that the Trust has the right to include "Freedom" as a part of its name only so long as an affiliate of Freedom Capital Management Corporation or its successor or assign is the investment adviser to the Trust. Upon termination of this Agreement, the Trust shall forthwith cease to use the Freedom name and logos.

11. SERVICES NOT EXCLUSIVE.

The services of the Manager to the Trust hereunder are not to be deemed exclusive, and the Manager shall be free to render similar services to others so long as its services hereunder are not impaired thereby.

12. LIMITATION OF LIABILITY.

The term "Freedom Group of Tax Exempt Funds" means and refers to the Trustees from time to time serving under the Agreement and Declaration of Trust of the Fund dated June 1, 1982 as the same may subsequently thereto have been, or subsequently hereto may be, amended. It is expressly agreed that the obligations of the Trust hereunder shall not be binding upon any of the Trustees, shareholders, nominees, officers, agents or employees of the Trust personally, but shall bind only the trust property of the Trust, as provided in the Agreement and Declaration of Trust of the Trust. The execution and delivery of this Agreement have been authorized by the Trustees and the initial shareholder of the Trust and signed by the President of the Trust, acting as

such, and neither such authorization by such Trustees and shareholder nor such execution and delivery by such officer shall 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 trust property of the Trust as provided in its Agreement and Declaration of Trust.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first set forth above.

FREEDOM GROUP OF TAX EXEMPT  
FUNDS

FREEDOM CAPITAL MANAGEMENT  
CORPORATION

By: /s/ John Danello  
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President

By: /s/ John Danello  
-----  
President

ATTEST:

ATTEST:

/s/ Maureen M. Renzi  
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Assistant Secretary

/s/ Maureen M. Renzi  
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Assistant Clerk

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