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#### ***As Muni Demands Increases Focus is on After-Tax Value Evergreen Tax-Free High Income Fund***

By Marla Brill | 08-03-2000

For several months, yields on municipal bonds have been running neck-in-neck with those of taxable bonds. But that may soon change as demand from investors perks up, according to B. Clark Stamper, manager, Evergreen Tax-Free High Income Fund.

"Until recently, the municipal market was very cheap relative to other bond markets, so yields were almost even with taxable bonds," says Stamper. "But the spread has widened over the last month, in part because investors have been moving back into municipals as stock market volatility increases." With an up tick in demand, prices on municipal bonds have risen, causing their yields to fall relative to other securities.

Even so, municipal bonds still offer an attractive after-tax value. "Usually, high quality municipal bonds yield between 85 percent and 97 percent as much as Treasury bonds," he says. "Now, they're yielding about 94 percent as much, which is still toward the upper end of the range."

For someone in the highest Federal income tax bracket of 39.6 percent, a 6 percent municipal bond yield produces as much after-tax income as a 10 percent yield on a taxable bond. For someone in a 28 percent federal tax bracket, a taxable bond would need to yield 8.3 percent to produce the same after-tax income as a municipal bond with a 6 percent coupon.

Stamper has a fairly free hand when it comes to managing the Evergreen Tax-Free High Income Fund. For one thing, he can invest as much as 100 percent of the fund in below-investment grade bonds to obtain higher yields. Although he has had much of the fund in "municipal junk" in the past, the portfolio currently contains mostly investment-grade securities.

"There are times when lower-rated municipals produce much higher yields, but this isn't one of them," says Stamper. "For several years, there has been very little difference in yield between the yields on lower quality and higher quality munis." With a strong economy, he explains, investors haven't been that worried about issuers being able to pay off their debt. So lower-quality bonds haven't had to offer high yields to attract investors.

But that may be changing as the economy shows signs of losing steam, and investors pay more attention to credit quality. Recently, Stamper picked up below-investment grade

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bonds of a hospital coming out of bankruptcy that was purchased by another, more stable hospital. Stamper thinks that the hospital's restructuring program and new management make this a reasonably safe bet. And the bonds offer a 9.7 percent yield, which translates into a taxable equivalent yield of over 16 percent for someone in the highest Federal bracket.

Stamper calls the municipal market the "most inefficient" of any bond market, and he tries to take advantage of those inefficiencies. One technique he uses frequently is buying high coupon bonds that have passed their call date, but have not been called. (A call occurs when an issuer retires a high coupon bond and replaces the securities with lower-cost debt.) Because these bonds are past their call date, they tend to trade similarly to short-term securities.

Stamper says an issuer may not call a bond because of political reasons, or because 'they just haven't bothered. If a bond hasn't been called by the time the call date has rolled around, it's not likely to be retired until maturity,' he says.

Fund pros: Attractive yields in the municipal market relative to Treasury securities; a manager with a free hand and lots of bond market experience who isn't afraid to adapt the fund to changing market conditions.

Fund cons: High cost. Class "B" shares have a contingent deferred sales charge of 5 percent and an annual expense ratio of 1.82 percent. Class "A" shares have a 4.75 percent up-front load.

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Stamper Capital & Investments, Inc. has been the sub-adviser to this Fund since October 1995 and B. Clark Stamper, our President, has been its Portfolio Manager since June 1990.

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Returns - Figures quoted are total returns calculated for the share class and time periods shown. Performance includes the reinvestment of income dividends and capital gains distributions. Performance does not reflect the deduction of taxes that a shareholder would pay on a fund distribution or the redemption of fund shares. Please go to Morningstar's and/or Lipper's websites for more information.

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