Evergreen High-Yield Bond A

Fund Facts		
Symbol	EKHAX	
Website	www.evergreeninvestments.com	
Address	Evergreen Funds, 200 Berkeley Street Boston, MA 02116	
Tel. No.	800-343-2898	
Inception	01/20/98	
Portfolio		
Total Net Assets *		$431
Avg Mkt Cap ($ Weighted) *		---
Average Price/Earnings Ratio		---
Average Price/Book Ratio		---
Turnover Ratio		138%
Investment Information		
New Investment		Open
Min Initial Investment		$1,000
Min Subsequent Investment		$0
Min Initial IRA Investment		$500
Risk (Against Std Index - 3-yr Average)		
	EKHAX	**Category Avg.**
Alpha	-2.11	-4.67
Beta	0.16	-0.01
Returns vs. Lipper High Yield Bd Fd Index		
	EKHAX	**Index**
1 Year (Cum.)	7.01%	3.18%
3 Year (Ann.)	3.63%	-2.04%
5 Year (Ann.)	1.94%	-1.47%
Returns vs. Lehman Brothers Aggregate Bd		
	EKHAX	**Index**
1 Year (Cum.)	7.01%	11.69%
3 Year (Ann.)	3.63%	9.81%
5 Year (Ann.)	1.94%	7.51%
Fees and Expenses		
Max Sales Charge - Front		4.75%
Max Sales Charge - Deferred		0.00%
Redemption Fee		0.00%
Total Expense Ratio		1.19%
Portfolio Manager		
Prescott Crocker		01/20/98

** millions* *Data through: 03/31/03*

Source: Company Documents; Lipper

Q&A TICKER's Choice

Forward Indicators of Change

By using a team approach, lead portfolio manager Prescott Crocker of the Evergreen High Yield Bond Fund has provided consistent annual returns through both good and bad economic conditions. As a result, more than 50% of the clients reinvest the dividends through tax-deferred accounts.

Q: What is the overall strategy of the fund?

A: The strategy is to produce high income with moderate volatility and to perform on a total return basis. The measure is a return based between the 20th and 30th percentile in the Lipper high-yield category. From time to time, we've performed through the 20th percentile. Basically, the assumption is we want to have enough risk control elements on the investment process to prevent us from performing in the top deciles just by taking extreme risks. Actually, our bonuses stop at the 25th percentile.

Q: What do you mean by a bonus?

A: In other words, we don't get paid anymore for being in the 25th percentile than the first percentile.

Q: How do you assess the risk that is inherent to lower-quality credit instruments?

A: I see the process very much as a bank loan portfolio. I started out as a lending officer with a money center bank. Every morning we had a meeting with the chairman. He asked all his loan officers as to the quality of their lending portfolios and how they thought that lending portfolio might come under additional risk from changes in the capital markets or the economy. That's the way we try to run it here. We're all investors in a private bank that loan money to 100 companies and try to measure those loans on a daily basis through an interactive team methodology.

Q: Can you explain more about this daily monitoring?

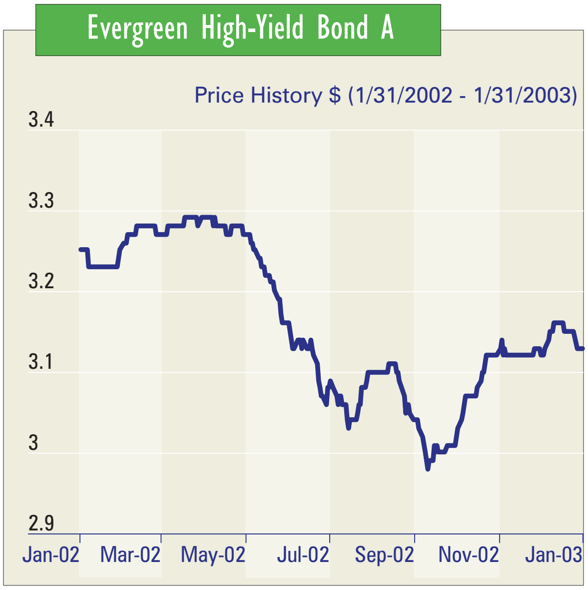
A: Yes. Every day we print out a Salomon Brothers yield book that describes our portfolio according to essential bond characteristics. It is defining the portfolio according to industries and specific companies within an industry. We can look at that on a daily basis and see if there is a day-to-day change in valuation. We can actually define performance attribution from the night before from this document, and instantly get some data points that are impacting our group. For example, we can immediately focus into our key holdings in the automobile manufacturing parts sector and start discussing how they might be affected. In a sense, every item is up for sale relative to our expectations for its total return as well as any other issues or industries out there for consideration that might have a better total return.

Q: When you say total return, do you mean the bulk comes from the interest paid on the bonds?

A: Traditionally, over 85% of the return in a high-yield bond fund does come from the interest. But what we're also measuring is the spread over treasuries; we want that spread to narrow. Every time we buy a security, we write it up as an analytical review. We have a lot of financial data in that write up and then we have a pro forma cash flow assumption going forward for four years. Then we have an analyst write in the team's expectation. For example, he'll say, we expect this bond to outperform the market and narrow some 200 basis points based on the expectation that these forward indicators of change will become apparent. So, we're always measuring our progress against our expectations.

Q: Can you provide examples of these forward indicators?

A: Forward indicators of change might be if we look at cyclical investments, it might be the progress in the development of the Journal of Commerce price scheduling. It might well be news that there's been a severe increase in exporters' currencies, which would indicate the markets expect commodity prices to go up. It might be announcements on the part of an industry that inventory levels are changing. What you're really trying to do is get out there and have a position and have an opinion before an announcement. A case in point is Buckeye Cellulose. We had heard earlier that some manufacturers were going to increase the pulp prices. We were looking at pulp inventories and those were comfortably low. We were also looking at various commodity charts, and we said, "Gee, we've done the basic research on Buckeye Cellulose." We also saw some short-term hiring practices were exploding to the upside. All of which leads to the likelihood that we're going to increase newspaper runs for want-ad advertising. Buckeye announced its quarter and said they were looking for price increases and that inventories were low. They reaffirmed what we thought they were going to say. The bonds were up four points. It's that type of preliminary forward orientation that we try to focus on.



Q: How deep is the research process?

A: We're very fortunate to have a group of five designated senior research analysts all of whom have an M.B.A. and 85% of them have a CFA. Every morning at 11:30 we meet in my office for 45 minutes. I always start it out with some comments about the capital market. I try to summarize what I think is going on in a given day or what trend is developing and distribute a bunch of charts that support my thesis. What I'm really doing is trying to keep everybody on their toes and stimulate what I want to call forward indicators of change. The major question that we ask each other as we buy a security or even as we're holding a security is: What are the forward indicators of change that you expect to develop that will affect the price of that security? In other words, we can't run on a reactive basis to news. What we have to do is get out in front of our marketplace and expect news to develop.

Q: How does the fund handle the trading functions?

A: All bonds are traded over the counter. We have a full-time trader who specializes in communicating our interests on a buy and sell basis with Wall Street firms. There are probably 15 firms that make up the lion's share. He has a full-time trading assistant. He's a source of a lot of information to other people because he maintains his own database of prices. He leads off after I do in the morning meeting. The process by which we arrive at the decision to buy or sell is a separate meeting. It involves the two portfolio managers, the head of research and the specific analyst that's involved in the discussion in the industry that the company is in. That process is designed to bring out independent thought by the participants and to prevent railroading by a portfolio manager. While the decisions to buy or sell aren't required to be consensus decisions, the individual portfolio managers are required to state the reasons for their difference of opinion and to state their own expectations for return. It's a very team interactive process.

Q: Over time, this fund has a level NAV for the past few years. Do you anticipate a change in the NAV with the possibility of an improving U.S. economy?

A: We think that the high-yield market is in the process of experiencing a multi-year recovery as risk appetites increase and as risk premiums in lending decline. We've noticed a cyclical pattern that every time the Fed goes to an aggressive stimulation mode, it precedes a multi-year, usually a four-year period of out performance in high-yield above the norm. We noticed that eight of twelve industries in the high-yield universe performed at 6% total return or better. So, we think last year was the first year of performance.

Q: That could send a message that there will be a change in how capital will move to places where it thinks it will be treated well.

A: Capital flows into the high-yield universe have been extraordinarily high. Year to date, there have been $9 billion over the last three months, and there's only been one week where they haven't been positive. Generally, I think that high-yield buyers are often momentum buyers. In a sense, it's not something where money flows; on a contrary basis it's where money flows when the signals are all flashing positive. What have been flashing positive are the following items: a double bottom in the stock market, and a nice lift off in the stock market. Flows have turned strongly positive into high-yield and spreads have been narrowing. But before that, you've had about three months of trailing a 12-month average of defaults falling about 200 basis points. In addition to that, you've had the upgrade/downgrade ratio going from strongly downgrade to parity. There were items that people could point to and say it looks like the turn is here. Of course, once it starts, you get flows coming in and people read about that and that prompts others to say if it's good enough for them, then maybe I should consider it. It's true of any market behavior.

Q: How will you invest these additional funds?

A: We're in the process of setting up a revised strategy. For most of last year we were defensive, which means we were in consumer non-durable issues, things like healthcare. We were out of low beta sectors. Now, what we're focusing on is overweighing our cyclicals. We're also taking on more risk, which is to say we're taking on more zero coupon bonds and we're going into more sectors that are trading at wider ends of the range because the stock market recovery is suggesting that the capital markets are going to open to more riskier sectors of the high-yield market. It means that we're moving more out of the Double Bs and into the Single Bs. All of that process takes a great deal of time and market liquidity to effect. You can't turn it on a dime. You could, of course, if you were a $20 million fund and had no diversification. We expect this year to be a positive year for stock market return. We expect it actually to be at least a 3% real growth year. We think inventories are low and that capital expenditures are delayed. We like to say the sun, the moon, and the stars are lined up to support high-yield. The sun means monetary policy is at an extreme ease and extreme accommodation. The moon means that the fiscal policies of the country are extremely positive. They're running a highly stimulative deficit spending, and tax policy is aggressively trying to be eased up. The stars means the U.S. dollar has resumed a substantial decline versus a decline that started in February and went through October. We're looking for the dollar index, which is trading at about 101, down from 120, to go to 90 this year.

Q: Does this suggest a double-digit return in net asset value?

A: That's correct. What is happening is these are returns with far less volatility than say equity returns and yet those return expectations are certainly on the upper end of expectations for the stock market.

Q: What is the average yield for the fund?

A: The I-shares are about 8.60%. It would have a small fraction of the volatility of a 30-year bond. Over 50% of the investors in these high-yield funds are investors who invest their dividends. They're really focused on total return. What they do very often is invest in 401(k) s where the interest is not taxed.

Q: This implies that there is still a degree of safety in high-yield bonds.

A: There is certainly a degree of safety in the aggregate, but not in one single high-yield bond. There is an element of safety that sometimes goes unnoticed. Start dates are important here, but from the start of 1992 through the third quarter of 2002 the total return of the Salomon Brothers investment grade bond index was 7.4% as well. Given the impact of the sell off in stocks from 1999 to 2002, that's a pretty impressive return.

David Jennings

About:

A Chartered Financial Analyst, **Prescott Crocker** joined Evergreen Investment Management in 1997, where he serves as managing director and head of High Yield Bonds in Boston. He manages the Evergreen High Yield Bond Funds team and is directly responsible for the firm's high yield bond fund and the strategic income fund. A financial professional with 26 years experience, Prescott was formerly director of fixed-income investments with Boston Security Counselors. A member of the Boston Security Analysts Society, Prescott has a B.A. from Harvard University and an M.B.A from the Harvard Business School.

*"**We're all investors in a private bank** that loan money to 100 companies and try to measure those loans on a daily basis through an interactive team methodology."*