

EVERGREEN MULTI-SECTOR INCOME FUND  
Form N-CSRS  
July 05, 2007

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| OMB APPROVAL   |
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM N-CSRS**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811-21331

Evergreen Multi-Sector Income Fund

\_\_\_\_\_  
(Exact name of registrant as specified in charter)

200 Berkeley Street Boston, Massachusetts 02116

\_\_\_\_\_  
(Address of principal executive offices) (Zip code)

Michael H. Koonce, Esq. 200 Berkeley Street Boston, Massachusetts 02116

\_\_\_\_\_  
(Name and address of agent for service)

Registrant's telephone number, including area code: (617) 210-3200

Date of fiscal year end: October 31, 2007

Date of reporting period: April 30, 2007

**Item 1 - Reports to Stockholders.**

**Evergreen Multi-Sector Income Fund**

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The fund will file its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q will be available on the SEC's Web site at <http://www.sec.gov>. In addition, the fund's Form N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling 800.SEC.0330.

A description of the fund's proxy voting policies and procedures, as well as information regarding how the fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30, is available by visiting our Web site at [EvergreenInvestments.com](http://EvergreenInvestments.com) or by visiting the SEC's Web site at <http://www.sec.gov>. The fund's proxy voting policies and procedures are also available without charge, upon request, by calling 800.343.2898.

Mutual Funds:

NOT FDIC INSURED

MAY LOSE VALUE

NOT BANK GUARANTEED

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Evergreen Investment Management Company, LLC is a subsidiary of Wachovia Corporation and is an affiliate of Wachovia Corporation's other Broker Dealer subsidiaries.

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### **LETTER TO SHAREHOLDERS**

June 2007

**Dennis H. Ferro**

President and Chief  
Executive Officer

**Dear Shareholder,**

We are pleased to provide the semiannual report for Evergreen Multi-Sector Income Fund covering the six-month period ended April 30, 2007.

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The global fixed-income markets generated positive results during the six-month period in an environment supported by continued economic expansion and the prospect of stable interest rates. The domestic markets remained relatively calm, as the Federal Reserve Board left the highly influential fed funds rate unchanged at 5.25% while yields on intermediate- and longer-maturity bonds tended to trade in relatively narrow ranges. At the same time, continued gains in business profits helped corporate bonds, especially lower-rated, higher-yielding bonds, outperform higher-quality securities. Global interest rates also tended to remain relatively stable, although there was some volatility in relative currency values.

The positive returns in the fixed income markets came against a backdrop of persistent economic growth throughout the world, although signs of a deceleration of growth trends became clearly evident in the United States. After Gross Domestic Product in the U.S. grew at a 3.3% pace during 2006, it slowed to an annualized rate of 1.3% in the first quarter of 2007. The slump in the housing industry was a major factor contributing to the slowdown, which came in the face of strong employment, rising wages, and gains in both personal consumption and business investment.

In foreign markets, we saw value in the more developed economies with higher yields and in those nations whose central banks were more advanced in raising short-term rates to control inflation. Although the solid growth of the global economy helped sustain the performance edge

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### **LETTER TO SHAREHOLDERS** continued

of bonds from developing nations, the relative yield advantages of emerging market debt securities narrowed considerably.

In this environment, the teams managing Evergreen Multi-Sector Income Fund, pursued strategies designed to provide a high level of current income for the fund. Each of the teams focused on a specific sector. Individual credit analysis and security selection was the primary concern of managers of the fund's domestic, high-yield portfolio. At the same time, the team supervising the domestic mortgage portfolio focused on securities with relatively stable cash flows and prices. The team managing the fund's international portfolio focused on investments in foreign bonds, with very selective exposure to some emerging market debt.

As always, we encourage investors to maintain diversified investment portfolios in pursuit of their long-term investment goals.

Please visit us at **EvergreenInvestments.com** for more information about our funds and other investment products available to you. From the Web site, you may also access details about daily fund prices, yields, dividend rates and fund facts about Evergreen closed-end funds. Thank you for your continued support of Evergreen Investments.

Sincerely,

### **Dennis H. Ferro**

President and Chief Executive Officer  
Evergreen Investment Company, Inc.

### **Special Notice to Shareholders:**

Please visit our Web site at **EvergreenInvestments.com** for statements from President and Chief Executive Officer, Dennis Ferro, addressing NASD actions involving Evergreen Investment Services, Inc. (EIS), Evergreen's mutual fund broker-dealer or statements from Dennis Ferro and Chairman of the Board of the Evergreen funds, Michael S. Scofield, addressing SEC actions involving the Evergreen funds.

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**Notification of Investment Strategy Change:**

Effective August 1, 2007, the Fund may, but will not necessarily, use a variety of derivative instruments, such as futures contracts, options, and swaps, including, for example, index futures, Treasury futures, Eurodollar futures, interest rate swap agreements, credit default swaps, and total return swaps. The Fund may use derivatives both for hedging and non-hedging purposes, including for purposes of enhancing returns. The Fund's use of derivative instruments involves risks different from, or possibly greater than, the risks associated with other types of investments. For example, the use of derivatives involves the risk of loss due to the failure of another party to the contract (typically referred to as a "counterparty") to make required payments or otherwise to comply with the contract's terms. Derivative transactions can create investment leverage and may be highly volatile and may be illiquid or difficult to price. Derivatives are highly specialized instruments, and involve the risk that an investment advisor may not accurately predict the performance of a derivative under all market conditions. When the Fund uses a derivative instrument, it could lose more than the principal amount invested. The various derivative instruments that the Fund may use may change from time to time as new derivative products become available to the Fund.

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**FINANCIAL HIGHLIGHTS**

(For a common share outstanding throughout each period)

|  | Six Months<br>Ended<br>April 30,<br>2007<br>(unaudited) | Year Ended October 31, |                   |               |                       |
|--|---|------------------------|-------------------|---------------|-----------------------|
|  |   | 2006                   | 2005              | 2004          | 2003 <sup>1</sup>     |
| <b>Net asset value, beginning of period</b>                | \$ 18.55  | \$ 18.91               | \$ 20.19          | \$ 19.38      | \$ 19.10 <sup>2</sup> |
| <b>Income from investment operations</b>                   |   |                        |                   |               |                       |
| Net investment income (loss)                               | 0.85  | 1.60 <sup>3</sup>      | 1.49 <sup>3</sup> | 1.62          | 0.38                  |
| Net realized and unrealized gains or losses on investments | 0.47  | (0.06)                 | (1.06)            | 0.94          | 0.46                  |
| Distributions to preferred shareholders from <sup>3</sup>  |   |                        |                   |               |                       |
| Net investment income                                      | (0.25)  | (0.45)                 | (0.28)            | (0.13)        | (0.02)                |
| Net realized gain  | 0   | 0                      | 0 <sup>4</sup>    | 0             | 0                     |
| <b>Total from investment operations</b>                    | <b>1.07</b>   | <b>1.09</b>            | <b>0.15</b>       | <b>2.43</b>   | <b>0.82</b>           |
| <b>Distributions to common shareholders from</b>           |   |                        |                   |               |                       |
| Net investment income                                      | (0.67)  | (1.34)                 | (1.43)            | (1.62)        | (0.39)                |
| Net realized gain  | 0   | (0.01)                 | 0                 | 0             | 0                     |
| Tax basis return of capital                                | 0   | (0.10)                 | 0                 | 0             | 0                     |
| <b>Total distribution to common shareholders</b>           | <b>(0.67)</b>   | <b>(1.45)</b>          | <b>(1.43)</b>     | <b>(1.62)</b> | <b>(0.39)</b>         |
| <b>Offering costs charged to capital for</b>               |   |                        |                   |               |                       |
| Common shares  | 0   | 0                      | 0                 | 0             | (0.04)                |

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|  |                    |            |                |            |                    |
|--|--------------------|------------|----------------|------------|--------------------|
| Preferred shares   | 0                  | 0          | 0 <sup>4</sup> | 0          | (0.11)             |
| Total offering costs   | 0                  | 0          | 0              | 0          | (0.15)             |
| <b>Net asset value, end of period</b>                                      | \$ 18.95           | \$ 18.55   | \$ 18.91       | \$ 20.19   | \$ 19.38           |
| <b>Market value, end of period</b>   | \$ 17.66           | \$ 17.07   | \$ 16.42       | \$ 18.49   | \$ 18.15           |
| <b>Total return<sup>5</sup></b>  |                    |            |                |            |                    |
| Based on market value  | 7.47%              | 13.46%     | (3.77%)        | 11.23%     | (7.35%)            |
| <b>Ratios and supplemental data</b>  |                    |            |                |            |                    |
| Net assets of common shareholders, end of period (thousands)               | \$ 797,061         | \$ 780,321 | \$ 795,244     | \$ 849,127 | \$ 814,948         |
| Liquidation value of preferred shares, end of period (thousands)           | \$ 400,429         | \$ 400,402 | \$ 400,309     | \$ 400,165 | \$ 400,098         |
| Asset coverage ratio, end of period  | 298%               | 299%       | 299%           | 312%       | 304%               |
| <b>Ratios to average net assets applicable to common shareholders</b>      |                    |            |                |            |                    |
| Expenses including waivers/reimbursements but excluding expense reductions | 1.15% <sup>6</sup> | 1.15%      | 1.11%          | 1.12%      | 0.95% <sup>6</sup> |
| Expenses excluding waivers/reimbursements and expense reductions           | 1.15% <sup>6</sup> | 1.15%      | 1.11%          | 1.12%      | 0.95% <sup>6</sup> |
| Net investment income (loss) <sup>7</sup>                                  | 6.56% <sup>6</sup> | 6.18%      | 6.08%          | 6.99%      | 5.13% <sup>6</sup> |
| Portfolio turnover rate  | 46%                | 62%        | 80%            | 78%        | 8%                 |

<sup>1</sup> For the period from June 25, 2003 (commencement of operations), to October 31, 2003.

<sup>2</sup> Initial public offering price of \$20.00 per share less underwriting discount of \$0.90 per share.

<sup>3</sup> Calculated based on average common shares outstanding during the period.

<sup>4</sup> Amount represents less than \$0.005 per share.

<sup>5</sup> Total return is calculated assuming a purchase of common stock on the first day and a sale on the last day of the period reported. Dividends and distributions are assumed for the purposes of these calculations to be reinvested at prices obtained under the Fund's Automatic Dividend Reinvestment Plan. Total return does not reflect brokerage commissions or sales charges.

<sup>6</sup> Annualized

<sup>7</sup> The net investment income (loss) ratio reflects distributions paid to preferred shareholders.

See Notes to Financial Statements

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## SCHEDULE OF INVESTMENTS

April 30, 2007 (unaudited)

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|  | Principal<br>Amount | Value        |
|--|---------------------|--------------|
| <b>AGENCY MORTGAGE-BACKED COLLATERALIZED MORTGAGE<br/>OBLIGATIONS 8.5%<br/>FIXED-RATE 0.4%</b> |                     |              |
| FNMA:  |                     |              |
| Ser. 2001-25, Class Z, 6.00%, 06/25/2031   | \$ 1,700,420        | \$ 1,723,834 |
| Ser. 2001-51, Class P, 6.00%, 08/25/2030   | 1,207,942           | 1,211,923    |
|  |                     | 2,935,757    |
| <b>FLOATING-RATE 8.1%</b>  |                     |              |
| FHLMC:   |                     |              |
| Ser. 0196, Class A, 6.18%, 12/15/2021  | 211,833             | 212,903      |
| Ser. 1500, Class FD, 4.30%, 05/15/2023 ##  | 5,664,326           | 5,556,421    |
| Ser. 2182, Class FE, 5.87%, 05/15/2028   | 882,607             | 891,417      |
| Ser. 2247, Class FC, 5.92%, 08/15/2030   | 1,082,467           | 1,093,984    |
| Ser. 2390, Class FD, 5.77%, 12/15/2031   | 198,011             | 200,132      |
| Ser. 2411, Class F, 5.87%, 02/15/2032  | 233,804             | 236,246      |
| Ser. 2567, Class FH, 5.72%, 02/15/2033   | 492,510             | 494,195      |
| Ser. T67:  |                     |              |
| Class 1A1C, 7.87%, 03/25/2036  | 27,756,003          | 29,740,388   |
| Class 2A1C, 7.80%, 03/25/2036  | 1,964,066           | 2,091,366    |
| FNMA:  |                     |              |
| Ser. 1996-46, Class FA, 5.84%, 08/25/2021  | 128,040             | 129,397      |
| Ser. 2000-45, Class F, 5.77%, 12/25/2030   | 999,683             | 1,005,661    |
| Ser. 2001-24, Class FC, 5.92%, 04/25/2031  | 369,770             | 372,529      |
| Ser. 2001-35, Class F, 5.92%, 07/25/2031   | 82,316              | 83,944       |
| Ser. 2001-37, Class F, 5.82%, 08/25/2031   | 361,982             | 364,252      |
| Ser. 2001-57, Class F, 5.82%, 06/25/2031   | 82,873              | 84,278       |
| Ser. 2001-62, Class FC, 5.97%, 11/25/2031  | 1,089,367           | 1,111,947    |
| Ser. 2002-77:  |                     |              |
| Class FH, 5.72%, 12/18/2032  | 466,410             | 471,775      |
| Class FV, 5.82%, 12/18/2032  | 1,563,657           | 1,586,700    |
| Ser. 2002-95, Class FK, 5.82%, 01/25/2033  | 4,988,559           | 5,201,421    |
| Ser. 2002-97, Class FR, 5.87%, 01/25/2033  | 177,937             | 181,720      |
| Ser. 2003-W8, Class 3F2, 5.67%, 05/25/2042   | 845,635             | 880,500      |
| Ser. 2005-W4, Class 3A, 6.08%, 06/25/2035 ##   | 7,798,197           | 7,942,074    |
| Ser. G91-16, Class F, 5.79%, 06/25/2021  | 140,354             | 141,384      |
| Ser. G92-17, Class F, 6.39%, 03/25/2022  | 228,972             | 234,723      |
| Ser. G92-53, Class FA, 6.09%, 09/25/2022   | 2,189,590           | 2,224,477    |
| Ser. G93-11, Class FB, 6.19%, 12/25/2008   | 61,965              | 62,191       |
| GNMA:  |                     |              |
| Ser. 1997-13, Class F, 5.875%, 09/16/2027  | 2,094,292           | 2,109,123    |
| Ser. 2001-61, Class FA, 5.82%, 09/20/2030  | 193,287             | 194,642      |

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|   |            |
|---|------------|
|   | 64,899,790 |
|   | <hr/>      |
| Total Agency Mortgage-Backed Collateralized Mortgage Obligations<br>(cost \$66,944,980) | 67,835,547 |
|   | <hr/>      |

See Notes to Financial Statements

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**SCHEDULE OF INVESTMENTS** continued

April 30, 2007 (unaudited)

|   | <b>Principal<br/>Amount</b> | <b>Value</b> |
|---|-----------------------------|--------------|
| <hr/>   |                             |              |
| <b>AGENCY MORTGAGE-BACKED PASS THROUGH SECURITIES 27.8%</b> |                             |              |
| <b>FIXED-RATE 4.1%</b>                                      |                             |              |
| FHLMC:  |                             |              |
| 6.00%, 04/01/2036   | \$ 5,595,277                | \$ 5,644,084 |
| 6.50%, 06/01/2017   | 3,699,707                   | 3,788,759    |
| 8.50%, 04/01/2015 □ 07/01/2028                              | 692,244                     | 726,429      |
| FHLMC 30 year, 6.50%, TBA #                                 | 2,230,000                   | 2,278,083    |
| FNMA:   |                             |              |
| 6.00%, 04/01/2033   | 654,720                     | 660,606      |
| 6.50%, 11/01/2032   | 329,050                     | 337,799      |
| 7.00%, 09/01/2031 □ 08/01/2032                              | 2,366,176                   | 2,474,384    |
| 7.50%, 07/01/2017 □ 07/01/2032                              | 1,444,564                   | 1,506,607    |
| 8.00%, 12/01/2024 □ 06/01/2030                              | 328,942                     | 347,716      |
| 12.00%, 01/01/2016  | 67,353                      | 74,722       |
| FNMA 30 year, 6.50%, TBA #                                  | 10,305,000                  | 10,520,766   |
| GNMA:   |                             |              |
| 6.50%, 06/15/2028   | 146,486                     | 151,070      |
| 7.25%, 07/15/2017 □ 05/15/2018                              | 1,137,391                   | 1,183,153    |
| 9.50%, 12/15/2009 □ 04/15/2011                              | 2,853,885                   | 3,171,167    |
|   |                             | <hr/>        |
|   |                             | 32,865,345   |
|   |                             | <hr/>        |
| <b>FLOATING-RATE 23.7%</b>                                  |                             |              |
| FHLB, 5.90%, 02/01/2037                                     | 6,453,927                   | 6,545,328    |
| FHLMC:  |                             |              |
| 5.01%, 12/01/2026   | 155,662                     | 160,104      |
| 5.06%, 10/01/2035   | 5,221,352                   | 5,262,236    |
| 5.08%, 07/01/2035   | 837,055                     | 829,179      |
| 5.09%, 12/01/2033   | 9,272,859                   | 9,533,612    |

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|                                |           |           |
|--------------------------------|-----------|-----------|
| 5.40%, 06/01/2033              | 1,439,897 | 1,449,861 |
| 5.54%, 10/01/2017              | 7,313     | 7,537     |
| 5.64%, 06/01/2030              | 496,531   | 494,689   |
| 5.67%, 10/01/2030              | 31,546    | 31,737    |
| 5.71%, 06/01/2028              | 161,088   | 163,355   |
| 5.78%, 03/01/2018              | 291,277   | 301,067   |
| 5.85%, 06/01/2031 □ 06/01/2035 | 1,026,723 | 1,058,204 |
| 5.87%, 12/01/2036              | 5,899,423 | 5,957,296 |
| 5.94%, 06/01/2018              | 94,622    | 96,547    |
| 5.97%, 08/01/2017              | 32,099    | 33,148    |
| 6.04%, 10/01/2033              | 250,902   | 258,901   |
| 6.16%, 07/01/2019              | 16,522    | 16,642    |
| 6.21%, 01/01/2030              | 285,882   | 295,574   |
| 6.30%, 05/01/2025              | 91,971    | 94,829    |
| 6.32%, 05/01/2019              | 7,974     | 8,319     |
| 6.34%, 10/01/2022              | 164,547   | 169,766   |
| 6.50%, 02/01/2016              | 51,899    | 52,112    |
| 6.59%, 07/01/2030              | 170,672   | 176,637   |
| 6.625%, 02/01/2016             | 37,062    | 37,125    |

See Notes to Financial Statements

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**SCHEDULE OF INVESTMENTS** continued

April 30, 2007 (unaudited)

|   | <b>Principal<br/>Amount</b> | <b>Value</b> |
|---|-----------------------------|--------------|
| <b>AGENCY MORTGAGE-BACKED PASS THROUGH SECURITIES</b> continued |                             |              |
| <b>FLOATING-RATE</b> continued                                  |                             |              |
| FHLMC:  |                             |              |
| 6.66%, 09/01/2032   | \$ 6,321,758                | \$ 6,504,773 |
| 6.81%, 01/01/2027   | 386,681                     | 403,742      |
| 6.85%, 06/01/2031   | 1,035,726                   | 1,062,458    |
| 6.94%, 06/01/2023   | 367,212                     | 377,534      |
| 7.00%, 10/01/2024   | 53,120                      | 55,139       |
| 7.01%, 07/01/2032   | 1,956,007                   | 1,988,232    |
| 7.07%, 01/01/2018   | 116,832                     | 117,945      |
| 7.12%, 11/01/2023   | 248,110                     | 252,051      |
| 7.15%, 12/01/2022 □ 10/01/2024                                  | 596,677                     | 601,826      |
| 7.23%, 08/01/2032   | 1,782,738                   | 1,798,533    |
| 7.24%, 09/01/2032   | 1,124,320                   | 1,167,269    |
| 7.27%, 03/01/2024   | 347,764                     | 359,789      |



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|                                |            |            |
|--------------------------------|------------|------------|
| 7.28%, 03/01/2032              | 5,375,472  | 5,436,046  |
| 7.29%, 10/01/2033              | 445,915    | 463,132    |
| 7.36%, 10/01/2030 □ 03/01/2031 | 826,341    | 858,551    |
| 7.48%, 08/01/2030              | 816,384    | 849,881    |
| 8.50%, 03/01/2030              | 154,594    | 165,878    |
| FNMA:                          |            |            |
| 4.54%, 08/01/2020              | 1,976,171  | 1,955,757  |
| 4.55%, 06/01/2033              | 1,635,818  | 1,681,751  |
| 4.81%, 10/01/2029              | 206,491    | 210,445    |
| 4.98%, 03/01/2033              | 171,800    | 172,131    |
| 4.99%, 12/01/2031              | 587,554    | 609,851    |
| 5.14%, 03/01/2034 ##           | 3,717,729  | 3,839,660  |
| 5.63%, 04/01/2017 □ 01/01/2038 | 14,987,117 | 15,107,948 |
| 5.64%, 03/01/2018              | 874,192    | 879,322    |
| 5.67%, 03/01/2035              | 6,391,461  | 6,490,784  |
| 5.70%, 02/01/2035              | 2,163,239  | 2,199,300  |
| 5.73%, 04/01/2034 □ 02/01/2035 | 3,355,067  | 3,403,311  |
| 5.75%, 12/01/2016 □ 08/01/2027 | 478,689    | 491,106    |
| 5.87%, 01/01/2037              | 12,355,951 | 12,459,222 |
| 5.88%, 12/01/2009              | 4,595,208  | 4,670,569  |
| 5.99%, 04/01/2031              | 1,141,132  | 1,169,821  |
| 6.00%, 01/01/2017              | 103,692    | 105,020    |
| 6.05%, 04/01/2025              | 326,625    | 335,855    |
| 6.11%, 12/01/2013              | 690,765    | 695,319    |
| 6.15%, 07/01/2032              | 1,283,071  | 1,333,316  |
| 6.24%, 06/01/2031 □ 01/01/2034 | 1,415,446  | 1,469,899  |
| 6.26%, 10/01/2032 □ 09/01/2041 | 1,990,043  | 2,021,739  |
| 6.29%, 12/01/2034              | 2,338,384  | 2,406,057  |
| 6.30%, 04/01/2034              | 3,525,025  | 3,634,125  |
| 6.32%, 01/01/2033              | 1,730,432  | 1,753,101  |
| 6.34%, 12/01/2036              | 87,188     | 89,427     |
| 6.37%, 08/01/2028              | 84,872     | 87,150     |

See Notes to Financial Statements

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**SCHEDULE OF INVESTMENTS** continued

April 30, 2007 (unaudited)

| <b>Principal<br/>Amount</b> | <b>Value</b> |
|-----------------------------|--------------|
|-----------------------------|--------------|

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**AGENCY MORTGAGE-BACKED PASS THROUGH SECURITIES** continued  
**FLOATING-RATE** continued

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FNMA:

|                                |              |              |
|--------------------------------|--------------|--------------|
| 6.41%, 06/01/2040 □ 12/01/2040 | \$ 5,331,373 | \$ 5,486,555 |
| 6.55%, 11/01/2035              | 2,237,904    | 2,318,984    |
| 6.60%, 02/01/2035              | 2,816,751    | 2,877,255    |
| 6.625%, 08/01/2021             | 11,883       | 11,749       |
| 6.64%, 04/01/2028              | 522,712      | 531,870      |
| 6.67%, 11/01/2024              | 659,158      | 682,822      |
| 6.75%, 05/01/2021              | 8,695        | 8,610        |
| 6.77%, 01/01/2030              | 88,292       | 90,341       |
| 6.81%, 12/01/2020              | 166,955      | 171,314      |
| 6.85%, 10/01/2034              | 578,576      | 598,757      |
| 6.86%, 12/01/2022              | 25,100       | 25,793       |
| 6.87%, 01/01/2015              | 103,235      | 104,187      |
| 6.875%, 04/01/2019             | 83,284       | 84,963       |
| 6.94%, 09/01/2024              | 331,265      | 341,902      |
| 6.97%, 01/01/2028              | 990,824      | 1,030,595    |
| 7.03%, 10/01/2035 □ 12/01/2035 | 12,408,472   | 12,929,612   |
| 7.05%, 06/01/2024              | 324,513      | 335,556      |
| 7.07%, 12/01/2031              | 241,796      | 244,101      |
| 7.12%, 06/01/2037              | 529,162      | 536,231      |
| 7.125%, 12/01/2026             | 165,628      | 171,602      |
| 7.13%, 05/01/2034              | 2,264,807    | 2,327,949    |
| 7.18%, 09/01/2024              | 12,851       | 13,317       |
| 7.20%, 06/01/2029 □ 02/01/2035 | 1,265,122    | 1,311,644    |
| 7.21%, 03/01/2032 □ 04/01/2034 | 2,450,602    | 2,547,310    |
| 7.25%, 12/01/2023              | 83,508       | 86,697       |
| 7.27%, 12/01/2028 □ 12/01/2029 | 206,697      | 214,612      |
| 7.28%, 04/01/2024              | 175,844      | 182,526      |
| 7.31%, 01/01/2026              | 600,728      | 622,534      |
| 7.32%, 07/01/2026              | 60,987       | 63,373       |
| 7.33%, 02/01/2038              | 646,957      | 675,605      |
| 7.35%, 05/01/2030              | 315,255      | 328,360      |
| 7.39%, 08/01/2036              | 8,922,491    | 9,257,352    |
| 7.43%, 10/01/2032              | 3,952,400    | 4,114,251    |
| 7.47%, 08/01/2030              | 460,447      | 480,264      |
| 7.48%, 09/01/2027 □ 12/01/2032 | 2,469,946    | 2,540,075    |
| 7.53%, 01/01/2028              | 1,098,282    | 1,147,638    |
| 7.70%, 09/01/2032              | 219,661      | 230,901      |
| 7.73%, 07/01/2033              | 456,906      | 484,343      |
| 7.86%, 04/01/2033              | 391,673      | 398,387      |
| 7.94%, 07/01/2030              | 460,402      | 473,248      |

GNMA:

|                                 |           |           |
|---------------------------------|-----------|-----------|
| 5.50%, 09/20/2030               | 523,961   | 530,861   |
| 6.00%, 11/20/2030 □ 10/20/2031  | 1,777,168 | 1,817,639 |
| 6.125%, 10/20/2029 □ 11/20/2030 | 3,068,945 | 3,126,370 |
| 6.25%, 02/20/2029               | 913,889   | 927,424   |

See Notes to Financial Statements

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**SCHEDULE OF INVESTMENTS** continued

April 30, 2007 (unaudited)

|   | <b>Principal<br/>Amount</b> | <b>Value</b>       |
|---|-----------------------------|--------------------|
| <b>AGENCY MORTGAGE-BACKED PASS THROUGH SECURITIES</b> continued                                       |                             |                    |
| <b>FLOATING-RATE</b> continued  |                             |                    |
| GNMA:   |                             |                    |
| 6.375%, 01/20/2027 - 03/20/2028   | \$ 557,353                  | \$ 572,811         |
| 6.50%, 02/20/2031   | 722,292                     | 734,643            |
|   |                             | <u>188,561,503</u> |
| <i>Total Agency Mortgage-Backed Pass Through Securities</i><br><i>(cost \$220,720,057)</i>            |                             | <u>221,426,848</u> |
| <b>AGENCY REPERFORMING MORTGAGE-BACKED PASS THROUGH<br/>SECURITIES 0.3%</b>                           |                             |                    |
| FNMA:   |                             |                    |
| Ser. 2001-T10, Class A2, 7.50%, 12/25/2041  | 458,008                     | 483,331            |
| Ser. 2002-T6, Class A4, FRN, 6.04%, 03/25/2041  | 1,757,386                   | 1,789,001          |
| Ser. 2003-W2, Class 2A8, 5.67%, 07/25/2042  | 553,453                     | 578,802            |
|   |                             | <u>2,851,134</u>   |
| <i>Total Agency Reperforming Mortgage-Backed Pass Through Securities</i><br><i>(cost \$2,867,776)</i> |                             | <u>2,851,134</u>   |
| <b>CORPORATE BONDS 72.3%</b>  |                             |                    |
| <b>CONSUMER DISCRETIONARY 20.5%</b>   |                             |                    |
| <b>Auto Components 3.2%</b>   |                             |                    |
| ArvinMeritor, Inc., 6.80%, 02/15/2009   | 150,000                     | 149,625            |
| Goodyear Tire & Rubber Co.:   |                             |                    |
| 9.00%, 07/01/2015   | 6,000,000                   | 6,645,000          |
| 11.25%, 03/01/2011  | 875,000                     | 960,313            |
| Lear Corp., Ser. B, 8.75%, 12/01/2016   | 5,000,000                   | 4,893,750          |
| Metaldyne Corp., 11.00%, 06/15/2012   | 2,116,000                   | 2,094,840          |
| Tenneco Automotive, Inc., 8.625%, 11/15/2014  | 6,125,000                   | 6,538,437          |
| Visteon Corp., 8.25%, 08/01/2010  | 4,000,000                   | 4,100,000          |
|   |                             | <u>25,381,965</u>  |
| <b>Automobiles 0.9%</b>   |                             |                    |

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|   |           |           |
|---|-----------|-----------|
| DaimlerChrysler North America Holding Corp., 4.875%, 06/15/2010 | 1,500,000 | 1,487,009 |
| Ford Motor Co., 7.45%, 07/16/2031                               | 2,500,000 | 1,990,625 |
| General Motors Corp., 8.375%, 07/15/2033                        | 4,250,000 | 3,862,187 |
|   |           | 7,339,821 |

**Diversified Consumer Services 0.7%**

|  |           |           |
|--|-----------|-----------|
| Carriage Services, Inc., 7.875%, 01/15/2015        | 1,540,000 | 1,591,975 |
| Education Management, LLC:<br>8.75%, 06/01/2014    | 1,525,000 | 1,620,313 |
| 10.25%, 06/01/2016                                 | 1,775,000 | 1,948,062 |
| Service Corp International, 6.75%, 04/01/2015 144A | 695,000   | 705,425   |
|  |           | 5,865,775 |

**Hotels, Restaurants & Leisure 3.8%**

|  |           |           |
|--|-----------|-----------|
| Inn of the Mountain Gods Resort & Casino, 12.00%, 11/15/2010 | 4,000,000 | 4,375,000 |
| Isle of Capri Casinos, Inc., 7.00%, 03/01/2014               | 1,715,000 | 1,697,850 |
| Mandalay Resort Group, Ser. B, 10.25%, 08/01/2007            | 7,000,000 | 7,105,000 |

See Notes to Financial Statements

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**SCHEDULE OF INVESTMENTS** continued

April 30, 2007 (unaudited)

|  | Principal<br>Amount | Value      |
|--|---------------------|------------|
| <b>CORPORATE BONDS</b> continued                                 |                     |            |
| <b>CONSUMER DISCRETIONARY</b> continued                          |                     |            |
| <b>Hotels, Restaurants &amp; Leisure</b> continued               |                     |            |
| MGM MIRAGE, Inc.:  |                     |            |
| 5.875%, 02/27/2014   | \$ 300,000          | \$ 283,125 |
| 9.75%, 06/01/2007  | 5,750,000           | 5,771,562  |
| OSI Restaurant Partners, Inc., 9.625%, 05/15/2015<br>144A #      | 648,000             | 669,870    |
| Pokagon Gaming Authority, 10.375%, 06/15/2014<br>144A            | 1,335,000           | 1,501,875  |
| Seneca Gaming Corp., 7.25%, 05/01/2012                           | 490,000             | 501,025    |
| Trump Entertainment Resorts, Inc., 8.50%,<br>06/01/2015          | 2,471,000           | 2,498,799  |
| Universal City Development Partners, Ltd.,<br>11.75%, 04/01/2010 | 5,250,000           | 5,604,375  |

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30,008,481

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**Household Durables 1.0%**

|  |           |           |
|--|-----------|-----------|
| Hovnanian Enterprises, Inc., 7.75%, 05/15/2013 | 1,750,000 | 1,636,250 |
| Libbey Glass, Inc., FRN, 12.35%, 06/01/2011    | 3,000,000 | 3,315,000 |
| Standard Pacific Corp., 9.25%, 04/15/2012      | 3,000,000 | 2,940,000 |

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7,891,250

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**Leisure Equipment & Products 0.0%**

|  |         |         |
|--|---------|---------|
| Remington Arms, Inc., 10.50%, 02/01/2011 | 210,000 | 218,400 |
|--|---------|---------|

**Media 6.6%**

|  |           |           |
|--|-----------|-----------|
| AMC Entertainment, Inc., Ser. B, 8.625%,<br>08/15/2012       | 4,570,000 | 4,889,900 |
| Cablevision Systems Corp., Ser. B, 8.00%,<br>04/15/2012      | 2,425,000 | 2,497,750 |
| CCH I, LLC:  |           |           |
| 11.00%, 10/01/2015   | 1,100,000 | 1,171,500 |
| 13.50%, 01/15/2014   | 950,000   | 971,375   |
| Dex Media East, LLC:   |           |           |
| 9.875%, 11/15/2009   | 5,500,000 | 5,754,375 |
| 12.125%, 11/15/2012  | 3,000,000 | 3,277,500 |
| Mediacom Broadband, LLC, 8.50%, 10/15/2015<br>144A           | 2,500,000 | 2,612,500 |
| Mediacom Communications Corp., 9.50%,<br>01/15/2013          | 9,000,000 | 9,315,000 |
| Paxson Communications Corp., FRN, 11.61%,<br>01/15/2013 144A | 4,000,000 | 4,180,000 |
| R.H. Donnelley Corp., 10.875%, 12/15/2012                    | 5,000,000 | 5,437,500 |
| Sinclair Broadcast Group, Inc., 8.00%, 03/15/2012            | 3,000,000 | 3,127,500 |
| Sirius Satellite Radio, Inc., 9.625%, 08/01/2013             | 2,725,000 | 2,738,625 |
| Visant Corp., 7.625%, 10/01/2012                             | 3,035,000 | 3,122,256 |
| XM Satellite Radio, Inc., 9.75%, 05/01/2014                  | 1,285,000 | 1,294,638 |
| Young Broadcasting, Inc., 8.75%, 01/15/2014                  | 2,745,000 | 2,690,100 |

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53,080,519

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**Multi-line Retail 0.4%**

|  |           |           |
|--|-----------|-----------|
| Neiman Marcus Group, Inc., 9.00%, 10/15/2015 | 3,000,000 | 3,322,500 |
|--|-----------|-----------|

**Specialty Retail 1.2%**

|   |           |           |
|---|-----------|-----------|
| American Achievement Corp., 8.25%, 04/01/2012 | 1,845,000 | 1,886,513 |
| Baker & Taylor, Inc., 11.50%, 07/01/2013 144A | 3,500,000 | 3,710,000 |

See Notes to Financial Statements

**SCHEDULE OF INVESTMENTS** continued

April 30, 2007 (unaudited)

|   | <b>Principal<br/>Amount</b> | <b>Value</b>      |
|---|-----------------------------|-------------------|
| <b>CORPORATE BONDS continued</b>                          |                             |                   |
| <b>CONSUMER DISCRETIONARY continued</b>                   |                             |                   |
| <b>Specialty Retail continued</b>                         |                             |                   |
| Michaels Stores, Inc.:                                    |                             |                   |
| 10.00%, 11/01/2014 144A                                   | \$ 2,200,000                | \$ 2,411,750      |
| 11.375%, 11/01/2016 144A                                  | 1,650,000                   | 1,823,250         |
|   |                             | <u>9,831,513</u>  |
| <b>Textiles, Apparel &amp; Luxury Goods 2.7%</b>          |                             |                   |
| Levi Strauss & Co.:                                       |                             |                   |
| 9.75%, 01/15/2015   | 5,975,000                   | 6,587,437         |
| 12.25%, 12/15/2012  | 2,750,000                   | 3,018,125         |
| Norcross Safety Products, LLC, Ser. B, 9.875%, 08/15/2011 | 6,000,000                   | 6,367,500         |
| Unifi, Inc., 11.50%, 05/15/2014                           | 2,045,000                   | 2,065,450         |
| Warnaco Group, Inc., 8.875%, 06/15/2013                   | 3,000,000                   | 3,206,250         |
|   |                             | <u>21,244,762</u> |
| <b>CONSUMER STAPLES 2.3%</b>                              |                             |                   |
| <b>Food &amp; Staples Retailing 0.7%</b>                  |                             |                   |
| Wal-Mart Stores, Inc., 4.55%, 05/01/2013                  | 5,300,000                   | 5,144,339         |
| <b>Food Products 0.9%</b>                                 |                             |                   |
| Del Monte Foods Co., 8.625%, 12/15/2012                   | 5,608,000                   | 5,916,440         |
| Pilgrims Pride Corp., 8.375%, 05/01/2017                  | 1,500,000                   | 1,526,250         |
|   |                             | <u>7,442,690</u>  |
| <b>Personal Products 0.7%</b>                             |                             |                   |
| Playtex Products, Inc., 8.00%, 03/01/2011                 | 5,125,000                   | 5,381,250         |
| <b>ENERGY 6.2%</b>  |                             |                   |
| <b>Energy Equipment &amp; Services 1.3%</b>               |                             |                   |
| GulfMark Offshore, Inc., 7.75%, 07/15/2014                | 1,675,000                   | 1,721,062         |
| Hanover Compressor Co., 8.75%, 09/01/2011                 | 3,000,000                   | 3,120,000         |
| Parker Drilling Co., 9.625%, 10/01/2013                   | 5,141,000                   | 5,603,690         |
|   |                             | <u>10,444,752</u> |

**Oil, Gas & Consumable Fuels 4.9%**

|  |           |           |
|--|-----------|-----------|
| Chesapeake Energy Corp., 7.75%, 01/15/2015           | 3,425,000 | 3,596,250 |
| Cimarex Energy Co., 7.125%, 05/01/2017 #             | 530,000   | 537,950   |
| Delta Pete Corp., 7.00%, 04/01/2015                  | 1,245,000 | 1,139,175 |
| El Paso Production Holdings Co., 7.75%, 06/01/2013   | 4,500,000 | 4,760,176 |
| Energy Partners Ltd.:                                |           |           |
| 9.75%, 04/15/2014 144A                               | 625,000   | 639,063   |
| FRN, 10.48%, 04/15/2013 144A                         | 210,000   | 214,463   |
| Griffin Coal Mining Co., 9.50%, 12/01/2016 144A      | 6,000,000 | 6,450,000 |
| Mariner Energy, Inc., 8.00%, 05/15/2017              | 552,000   | 558,210   |
| Overseas Shipholding Group, Inc., 8.25%, 03/15/2013  | 6,000,000 | 6,330,000 |
| Premcor Refining Group, Inc., 9.50%, 02/01/2013      | 2,650,000 | 2,852,465 |
| Regency Energy Partners, LP, 8.375%, 12/15/2013 144A | 1,300,000 | 1,345,500 |
| Targa Resources, Inc., 8.50%, 11/01/2013 144A        | 2,900,000 | 3,001,500 |

See Notes to Financial Statements

**11****SCHEDULE OF INVESTMENTS** continued

April 30, 2007 (unaudited)

|   | <b>Principal<br/>Amount</b> | <b>Value</b>      |
|---|-----------------------------|-------------------|
| <b>CORPORATE BONDS</b> continued                    |                             |                   |
| <b>ENERGY</b> continued                             |                             |                   |
| <b>Oil, Gas &amp; Consumable Fuels</b> continued    |                             |                   |
| Williams Cos.:                                      |                             |                   |
| 7.50%, 01/15/2031                                   | \$ 2,850,000                | \$ 3,035,250      |
| 8.125%, 03/15/2012                                  | 4,150,000                   | 4,544,250         |
|   |                             | <u>39,004,252</u> |
| <b>FINANCIALS 7.3%</b>                              |                             |                   |
| <b>Capital Markets 0.6%</b>                         |                             |                   |
| Goldman Sachs Group, Inc., 6.875%, 01/15/2011       | 4,830,000                   | 5,115,656         |
| <b>Consumer Finance 4.1%</b>                        |                             |                   |
| CCH II Capital Corp., 10.25%, 09/15/2010            | 4,600,000                   | 4,922,000         |
| Ford Motor Credit Company, LLC, 9.75%, 09/15/2010   | 10,363,000                  | 10,973,681        |
| General Electric Capital Corp., 6.125%, 02/22/2011  | 1,000,000                   | 1,036,532         |
| General Motors Acceptance Corp., 6.875%, 09/15/2011 | 6,485,000                   | 6,512,853         |
| Northern Telecom Capital Corp., 7.875%, 06/15/2026  | 3,000,000                   | 3,000,000         |
| Toyota Motor Credit Corp., 5.125%, 10/25/2011       | 4,000,000                   | 4,024,200         |

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|  |           |            |
|--|-----------|------------|
| Triad Financial Corp., Ser. B, 11.125%, 05/01/2013     | 2,042,000 | 1,955,215  |
|  |           | 32,424,481 |
| <b>Insurance 1.0%</b>                                  |           |            |
| Crum & Forster Holdings Corp.:                         |           |            |
| 7.75%, 05/01/2017 144A #                               | 2,130,000 | 2,151,300  |
| 10.375%, 06/15/2013                                    | 5,000,000 | 5,509,900  |
|  |           | 7,661,200  |
| <b>Real Estate Investment Trusts 1.6%</b>              |           |            |
| Crescent Real Estate Equities Co., 9.25%, 04/15/2009   | 7,500,000 | 7,678,125  |
| Thornburg Mortgage, Inc., 8.00%, 05/15/2013            | 4,730,000 | 4,730,000  |
|  |           | 12,408,125 |
| <b>HEALTH CARE 4.6%</b>                                |           |            |
| <b>Health Care Equipment &amp; Supplies 0.8%</b>       |           |            |
| Universal Hospital Services, Inc., 10.125%, 11/01/2011 | 5,920,000 | 6,371,969  |
| <b>Health Care Providers &amp; Services 3.8%</b>       |           |            |
| Community Health Systems, Inc., 6.50%, 12/15/2012      | 870,000   | 903,713    |
| HCA, Inc.:   |           |            |
| 8.75%, 09/01/2010                                      | 8,250,000 | 8,755,312  |
| 9.25%, 11/15/2016 144A                                 | 7,625,000 | 8,330,312  |
| HealthSouth Corp., 10.75%, 06/15/2016 144A             | 1,500,000 | 1,642,500  |
| IASIS Healthcare Corp., 8.75%, 06/15/2014              | 4,575,000 | 4,763,719  |
| Select Medical Corp., 7.625%, 02/01/2015               | 3,500,000 | 3,167,500  |
| Sun Healthcare Group, Inc., 9.125%, 04/15/2015 144A    | 825,000   | 862,125    |
| Triad Hospitals, Inc., 7.00%, 05/15/2012               | 2,070,000 | 2,163,150  |
|  |           | 30,588,331 |

See Notes to Financial Statements

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**SCHEDULE OF INVESTMENTS** continued

April 30, 2007 (unaudited)

|  | Principal<br>Amount | Value |
|--|---------------------|-------|
|--|---------------------|-------|



**CORPORATE BONDS continued****INDUSTRIALS 5.4%****Aerospace & Defense 1.2%**

Hawker Beechcraft Acquisition:

|                        |            |            |
|------------------------|------------|------------|
| 8.50%, 04/01/2015 144A | \$ 545,000 | \$ 576,338 |
| 9.75%, 04/01/2017 144A | 410,000    | 440,750    |

L-3 Communications Holdings, Inc.:

|                    |           |           |
|--------------------|-----------|-----------|
| 5.875%, 01/15/2015 | 1,830,000 | 1,791,112 |
| 6.125%, 01/15/2014 | 2,875,000 | 2,846,250 |
| 6.375%, 10/15/2015 | 3,729,000 | 3,729,000 |

---

9,383,450

---

**Airlines 0.3%**

Delta Airlines, Inc.:

|                     |           |           |
|---------------------|-----------|-----------|
| 7.90%, 12/15/2009 ☐ | 2,070,000 | 1,091,925 |
| 8.30%, 12/15/2029 ☐ | 3,125,000 | 1,656,250 |

---

2,748,175

---

**Commercial Services & Supplies****1.2%**

Allied Waste North America, Inc.,

|                   |           |           |
|-------------------|-----------|-----------|
| 9.25%, 09/01/2012 | 7,000,000 | 7,420,000 |
|-------------------|-----------|-----------|

Browning Ferris Industries, Inc., 9.25%,

|            |           |           |
|------------|-----------|-----------|
| 05/01/2021 | 1,095,000 | 1,208,606 |
|------------|-----------|-----------|

Mobile Mini, Inc., 6.875%, 05/01/2015

|        |         |         |
|--------|---------|---------|
| 144A # | 885,000 | 889,425 |
|--------|---------|---------|

---

9,518,031

---

**Machinery 1.9%**

Case New Holland, Inc., 9.25%,

|            |           |           |
|------------|-----------|-----------|
| 08/01/2011 | 8,750,000 | 9,242,187 |
|------------|-----------|-----------|

Commercial Vehicle Group, Inc., 8.00%,

|            |           |           |
|------------|-----------|-----------|
| 07/01/2013 | 1,775,000 | 1,819,375 |
|------------|-----------|-----------|

|                                     |           |           |
|-------------------------------------|-----------|-----------|
| RBS Global, Inc., 9.50%, 08/01/2014 | 3,750,000 | 4,031,250 |
|-------------------------------------|-----------|-----------|

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15,092,812

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**Road & Rail 0.4%**

|                                 |           |           |
|---------------------------------|-----------|-----------|
| Hertz Corp., 10.50%, 01/01/2016 | 3,000,000 | 3,435,000 |
|---------------------------------|-----------|-----------|

**Trading Companies & Distributors****0.4%**

Ashtead Group plc, 9.00%, 08/15/2016

|      |           |           |
|------|-----------|-----------|
| 144A | 1,543,000 | 1,666,440 |
|------|-----------|-----------|

United Rentals, Inc., 6.50%,

|            |           |           |
|------------|-----------|-----------|
| 02/15/2012 | 1,405,000 | 1,426,075 |
|------------|-----------|-----------|

3,092,515

**INFORMATION TECHNOLOGY 3.5%**

**Electronic Equipment & Instruments 0.8%**

|  |           |           |
|--|-----------|-----------|
| Da-Lite Screen Co., Inc., 9.50%,<br>05/15/2011 | 3,650,000 | 3,850,750 |
| NXP Funding, LLC, 9.50%, 10/15/2015<br>144A    | 2,500,000 | 2,637,500 |

6,488,250

**IT Services 1.7%**

|                                   |           |            |
|-----------------------------------|-----------|------------|
| ipayment, Inc., 9.75%, 05/15/2014 | 1,620,000 | 1,694,925  |
| SunGard Data Systems, Inc.:       |           |            |
| 9.125%, 08/15/2013                | 9,450,000 | 10,182,375 |
| 10.25%, 08/15/2015                | 1,750,000 | 1,933,750  |

13,811,050

See Notes to Financial Statements

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**SCHEDULE OF INVESTMENTS** continued

April 30, 2007 (unaudited)

**Principal  
Amount          Value**

**CORPORATE BONDS** continued

**INFORMATION TECHNOLOGY** continued

**Semiconductors & Semiconductor Equipment 0.1%**

|   |            |            |
|---|------------|------------|
| Conexant Systems, Inc., FRN, 9.11%, 11/15/2010 144A | \$ 600,000 | \$ 621,000 |
|---|------------|------------|

**Software 0.9%**

|   |           |           |
|---|-----------|-----------|
| Clarke American Corp., 9.50%, 05/15/2015 144A | 864,000   | 873,720   |
| UGS Corp., 10.00%, 06/01/2012                 | 5,740,000 | 6,285,300 |

7,159,020

**MATERIALS 12.3%**

**Chemicals 4.5%**

|   |           |           |
|---|-----------|-----------|
| Equistar Chemicals, LP, 10.625%, 05/01/2011           | 5,700,000 | 6,042,000 |
| Huntsman Advanced Materials, LLC, 11.625%, 10/15/2010 | 3,000,000 | 3,247,500 |

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|   |           |           |
|---|-----------|-----------|
| Huntsman International, LLC, 11.50%, 07/15/2012 | 6,300,000 | 7,056,000 |
| Lyondell Chemical Co.:                          |           |           |
| 10.50%, 06/01/2013                              | 1,960,000 | 2,158,450 |
| 11.125%, 07/15/2012                             | 1,165,000 | 1,246,550 |
| MacDermid, Inc., 9.50%, 04/15/2017 144A         | 1,783,000 | 1,858,778 |
| Millenium America, Inc., 7.625%, 11/15/2026     | 875,000   | 868,438   |
| Momentive Performance, 9.75%, 12/01/2014 144A   | 1,805,000 | 1,917,812 |
| Mosaic Co., 7.625%, 12/01/2016 144A             | 740,000   | 793,650   |
| Omnova Solutions, Inc., 11.25%, 06/01/2010      | 3,750,000 | 3,989,062 |
| Tronox Worldwide, LLC, 9.50%, 12/01/2012        | 6,125,000 | 6,584,375 |

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35,762,615

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**Construction Materials 0.5%**

|   |           |           |
|---|-----------|-----------|
| CPG International, Inc., 10.50%, 07/01/2013 | 2,230,000 | 2,352,650 |
| Dayton Superior Corp., 13.00%, 06/15/2009   | 1,595,000 | 1,642,850 |

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3,995,500

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**Containers & Packaging 3.1%**

|   |           |           |
|---|-----------|-----------|
| Berry Plastics Holdings Corp., 8.875%, 09/15/2014 | 1,695,000 | 1,754,325 |
| Crown Americas, Inc., 7.75%, 11/15/2015           | 3,300,000 | 3,506,250 |
| Exopack Holding Corp., 11.25%, 02/01/2014         | 1,425,000 | 1,549,688 |
| Graham Packaging Co., 9.875%, 10/15/2014          | 2,300,000 | 2,392,000 |
| Graphic Packaging International, Inc.:            |           |           |
| 8.50%, 08/15/2011                                 | 2,000,000 | 2,085,000 |
| 9.50%, 08/15/2013                                 | 4,000,000 | 4,300,000 |
| Owens-Brockway Glass Containers, Inc.:            |           |           |
| 8.25%, 05/15/2013                                 | 4,300,000 | 4,558,000 |
| 8.75%, 11/15/2012                                 | 4,050,000 | 4,287,937 |

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24,433,200

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**Metals & Mining 1.3%**

|  |           |           |
|--|-----------|-----------|
| Aleris International, Inc., 9.00%, 12/15/2014 144A | 1,000,000 | 1,066,250 |
| Freeport-McMoRan Copper & Gold, Inc.:              |           |           |
| 8.25%, 04/01/2015                                  | 2,885,000 | 3,126,619 |
| 8.375%, 04/01/2017                                 | 890,000   | 975,663   |
| 10.125%, 02/01/2010                                | 1,450,000 | 1,523,413 |

See Notes to Financial Statements

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**SCHEDULE OF INVESTMENTS** continued

April 30, 2007 (unaudited)

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|   | <b>Principal<br/>Amount</b> | <b>Value</b>      |
|---|-----------------------------|-------------------|
| <b>CORPORATE BONDS continued</b>                      |                             |                   |
| <b>MATERIALS continued</b>                            |                             |                   |
| <b>Metals &amp; Mining continued</b>                  |                             |                   |
| Indalex Holding Corp., 11.50%, 02/01/2014             | \$ 3,645,000                | \$ 3,854,587      |
|   |                             | <u>10,546,532</u> |
| <b>Paper &amp; Forest Products 2.9%</b>               |                             |                   |
| Bowater, Inc., 9.375%, 12/15/2021                     | 3,000,000                   | 3,026,250         |
| Buckeye Technologies, Inc., 8.50%, 10/01/2013         | 5,000,000                   | 5,306,250         |
| Georgia Pacific Corp.:                                |                             |                   |
| 8.00%, 01/15/2024                                     | 1,670,000                   | 1,695,050         |
| 8.125%, 05/15/2011                                    | 6,000,000                   | 6,360,000         |
| P.H. Glatfelter, 7.125%, 05/01/2016                   | 2,610,000                   | 2,639,363         |
| Verso Paper Holdings, LLC, 11.375%, 08/01/2016 144A   | 4,082,000                   | 4,388,150         |
|   |                             | <u>23,415,063</u> |
| <b>TELECOMMUNICATION SERVICES 4.9%</b>                |                             |                   |
| <b>Diversified Telecommunication Services 2.3%</b>    |                             |                   |
| Citizens Communications Co., 9.25%, 05/15/2011        | 3,000,000                   | 3,356,250         |
| Consolidated Communications, Inc., 9.75%, 04/01/2012  | 3,900,000                   | 4,153,500         |
| Insight Midwest, LP, 9.75%, 10/01/2009                | 1,948,000                   | 1,984,525         |
| Qwest Communications International, Inc.:             |                             |                   |
| 7.875%, 09/01/2011                                    | 3,000,000                   | 3,210,000         |
| 8.875%, 03/15/2012                                    | 5,250,000                   | 5,827,500         |
|   |                             | <u>18,531,775</u> |
| <b>Wireless Telecommunication Services 2.6%</b>       |                             |                   |
| Alamosa Holdings, Inc., 11.00%, 07/31/2010            | 1,600,000                   | 1,704,258         |
| American Cellular Corp., 10.00%, 08/01/2011           | 412,000                     | 437,235           |
| Centennial Communications Corp.:                      |                             |                   |
| 10.00%, 01/01/2013                                    | 1,500,000                   | 1,631,250         |
| 10.125%, 06/15/2013                                   | 4,000,000                   | 4,340,000         |
| Cricket Communications, Inc., 9.375%, 11/01/2014 144A | 1,300,000                   | 1,394,250         |
| Dobson Communications Corp., 8.375%, 11/01/2011       | 1,500,000                   | 1,606,875         |
| Rural Cellular Corp.:                                 |                             |                   |
| 8.25%, 03/15/2012                                     | 5,750,000                   | 6,095,000         |
| 9.75%, 01/15/2010                                     | 1,655,000                   | 1,717,062         |
| US Unwired, Inc., Ser. B, 10.00%, 06/15/2012          | 1,500,000                   | 1,636,382         |
|   |                             | <u>20,562,312</u> |

**UTILITIES 5.3%**

**Electric Utilities 2.8%**

|  |           |           |
|--|-----------|-----------|
| Allegheny Energy Supply Company, LLC, 8.25%, 04/15/2012 144A | 2,950,000 | 3,215,500 |
| Aquila, Inc., 14.875%, 07/01/2012                            | 642,000   | 839,415   |
| CMS Energy Corp., 8.50%, 04/15/2011                          | 275,000   | 301,469   |
| Mirant Americas Generation, LLC, 8.50%, 10/01/2021           | 3,000,000 | 3,187,500 |
| Mirant North America, LLC, 7.375%, 12/31/2013                | 2,425,000 | 2,576,563 |
| Mission Energy Holding Co., 13.50%, 07/15/2008               | 350,000   | 384,125   |
| Orion Power Holdings, Inc., 12.00%, 05/01/2010               | 1,855,000 | 2,151,800 |

See Notes to Financial Statements

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**SCHEDULE OF INVESTMENTS** continued

April 30, 2007 (unaudited)

|  | <b>Principal<br/>Amount</b> | <b>Value</b>       |
|--|-----------------------------|--------------------|
| <b>CORPORATE BONDS</b> continued                             |                             |                    |
| <b>UTILITIES</b> continued                                   |                             |                    |
| <b>Electric Utilities</b> continued                          |                             |                    |
| Reliant Energy, Inc.:  |                             |                    |
| 9.25%, 07/15/2010  | \$ 3,090,000                | \$ 3,256,087       |
| 9.50%, 07/15/2013  | 5,500,000                   | 5,967,500          |
|  |                             | <u>21,879,959</u>  |
| <b>Gas Utilities 0.5%</b>                                    |                             |                    |
| SEMCO Energy, Inc., 7.75%, 05/15/2013                        | 4,000,000                   | 4,161,468          |
| <b>Independent Power Producers &amp; Energy Traders 2.0%</b> |                             |                    |
| AES Corp., 9.00%, 05/15/2015 144A                            | 6,800,000                   | 7,310,000          |
| Dynegy, Inc., 8.375%, 05/01/2016                             | 8,000,000                   | 8,470,000          |
|  |                             | <u>15,780,000</u>  |
| <i>Total Corporate Bonds (cost \$562,335,377)</i>            |                             | <u>576,589,758</u> |

**FOREIGN BONDS - CORPORATE (PRINCIPAL AMOUNT DENOMINATED  
IN CURRENCY INDICATED) 12.9%**

**CONSUMER DISCRETIONARY 0.2%**

**Multi-line Retail 0.2%**

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|   |           |            |
|---|-----------|------------|
| Marks & Spencer Group plc, 6.375%, 11/07/2011 GBP     | 1,000,000 | 2,019,249  |
| <b>CONSUMER STAPLES 1.3%</b>                          |           |            |
| <b>Beverages 0.2%</b>                                 |           |            |
| Canandaigua Brands, Inc., 8.50%, 11/15/2009 GBP       | 750,000   | 1,576,992  |
| <b>Food &amp; Staples Retailing 0.3%</b>              |           |            |
| Koninklijke Ahold NV, 5.875%, 03/14/2012 EUR          | 1,000,000 | 1,427,517  |
| Tesco plc, 3.875%, 03/24/2011 EUR                     | 620,000   | 831,203    |
|   |           | 2,258,720  |
| <b>Tobacco 0.8%</b>                                   |           |            |
| British American Tobacco plc, 5.75%, 12/09/2013 GBP   | 3,140,000 | 6,178,357  |
| <b>ENERGY 0.1%</b>                                    |           |            |
| <b>Oil, Gas &amp; Consumable Fuels 0.1%</b>           |           |            |
| Transco plc, 7.00%, 12/15/2008 AUD                    | 1,000,000 | 834,898    |
| <b>FINANCIALS 9.7%</b>                                |           |            |
| <b>Capital Markets 0.4%</b>                           |           |            |
| Morgan Stanley, 5.375%, 11/14/2013 GBP                | 1,510,000 | 2,933,845  |
| <b>Commercial Banks 2.8%</b>                          |           |            |
| Eurofima:   |           |            |
| 5.50%, 09/15/2009 AUD                                 | 2,400,000 | 1,958,383  |
| 6.50%, 08/22/2011 AUD                                 | 5,000,000 | 4,179,847  |
| European Investment Bank, 5.75%, 09/15/2009 AUD       | 5,470,000 | 4,495,358  |
| Kreditanstalt für Wiederaufbau, 4.95%, 10/14/2014 CAD | 7,810,000 | 7,285,012  |
| Landwirtschaftliche Rentenbank, 6.00%, 09/15/2009 AUD | 5,100,000 | 4,198,918  |
| Rabobank Australia, Ltd., 6.25%, 11/22/2011 NZD       | 725,000   | 510,880    |
|   |           | 22,628,398 |

See Notes to Financial Statements

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**SCHEDULE OF INVESTMENTS** continued

April 30, 2007 (unaudited)

| Principal<br>Amount | Value |
|---------------------|-------|
|---------------------|-------|

**FOREIGN BONDS - CORPORATE (PRINCIPAL AMOUNT DENOMINATED  
IN CURRENCY INDICATED) continued****FINANCIALS continued****Consumer Finance 2.0%**

|  |           |              |
|--|-----------|--------------|
| ABB International Finance, Ltd., 6.50%, 11/30/2011 EUR | 2,360,000 | \$ 3,479,666 |
| General Electric Capital Corp., 5.25%, 12/10/2013 GBP  | 780,000   | 1,516,432    |
| HSBC Finance Corp.:                                    |           |              |
| 5.00%, 06/30/2015 USD                                  | 4,000,000 | 3,876,012    |
| 7.00%, 03/27/2012 GBP                                  | 370,000   | 769,916      |
| KfW International Finance, Inc., 6.25%, 12/17/2007 NZD | 9,160,000 | 6,710,288    |
|  |           | <hr/>        |
|  |           | 16,352,314   |
|  |           | <hr/>        |

**Diversified Financial Services 0.2%**

|   |           |           |
|---|-----------|-----------|
| Lighthouse Group plc, 8.00%, 04/30/2014 EUR | 1,000,000 | 1,484,064 |
|   |           | <hr/>     |

**Insurance 0.6%**

|  |           |           |
|--|-----------|-----------|
| AIG SunAmerica, Inc., 5.625%, 02/01/2012 GBP   | 2,000,000 | 3,964,493 |
| Travelers Insurance Co., 6.00%, 04/07/2009 AUD | 1,000,000 | 821,731   |
|  |           | <hr/>     |
|  |           | 4,786,224 |
|  |           | <hr/>     |

**Thriffs & Mortgage Finance 3.7%**

|  |            |            |
|--|------------|------------|
| Nykredit, 5.00%, 10/01/2035 DKK              | 76,611,056 | 13,915,239 |
| Realkredit Danmark AS, 4.00%, 10/01/2035 DKK | 54,775,066 | 9,187,920  |
| Totalkredit, FRN, 4.39%, 01/01/2015 DKK      | 34,374,339 | 6,421,282  |
|  |            | <hr/>      |
|  |            | 29,524,441 |
|  |            | <hr/>      |

**INDUSTRIALS 0.4%****Aerospace & Defense 0.1%**

|   |         |         |
|---|---------|---------|
| Bombardier, Inc., 7.25%, 11/15/2016 EUR | 520,000 | 751,969 |
|   |         | <hr/>   |

**Machinery 0.3%**

|  |           |           |
|--|-----------|-----------|
| Harsco Corp., 7.25%, 10/27/2010 GBP          | 1,000,000 | 2,072,153 |
| Savcio Holdings, Ltd., 8.00%, 02/15/2013 EUR | 250,000   | 362,377   |
|  |           | <hr/>     |
|  |           | 2,434,530 |
|  |           | <hr/>     |

**INFORMATION TECHNOLOGY 0.3%****Office Electronics 0.3%**

|                                    |           |           |
|------------------------------------|-----------|-----------|
| Xerox Corp., 9.75%, 01/15/2009 EUR | 1,800,000 | 2,685,943 |
|                                    |           | <hr/>     |

**TELECOMMUNICATION SERVICES 0.9%****Diversified Telecommunication Services 0.9%**

|  |           |           |
|--|-----------|-----------|
| Deutsche Telekom AG, 6.25%, 12/09/2010 GBP | 2,700,000 | 5,426,592 |
| Virgin Media, Inc., 8.75%, 04/15/2014 EUR  | 940,000   | 1,393,094 |

6,819,686

Total Foreign Bonds - Corporate (Principal Amount Denominated in  
Currency Indicated) (cost \$97,438,950)

103,269,630

See Notes to Financial Statements

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**SCHEDULE OF INVESTMENTS** continued

April 30, 2007 (unaudited)

|   | Principal<br>Amount | Value              |
|---|---------------------|--------------------|
| <b>FOREIGN BONDS - GOVERNMENT (PRINCIPAL AMOUNT DENOMINATED<br/>IN CURRENCY INDICATED) 17.2%</b>                      |                     |                    |
| Australia, 7.00%, 12/01/2010 AUD  | 15,300,000          | \$ 13,026,159      |
| Canada:   |                     |                    |
| 4.40%, 03/08/2016 CAD   | 5,290,000           | 4,779,827          |
| 4.60%, 09/15/2011 CAD   | 14,995,000          | 13,734,200         |
| 5.00%, 06/01/2014 CAD   | 14,900,000          | 14,151,942         |
| 5.75%, 03/03/2008 CAD   | 5,000,000           | 3,645,196          |
| Germany:  |                     |                    |
| 3.50%, 10/14/2011 EUR   | 11,650,000          | 15,485,703         |
| 3.75%, 01/04/2017 EUR   | 2,000,000           | 2,634,451          |
| Hong Kong, 4.23%, 03/21/2011 HKD  | 72,250,000          | 9,302,836          |
| Korea:  |                     |                    |
| 4.75%, 06/10/2009 KRW   | 5,570,000,000       | 5,945,324          |
| 5.25%, 09/10/2015 KRW   | 2,850,000,000       | 3,087,460          |
| Mexico, 10.00%, 12/05/2024 MXN  | 77,300,000          | 8,603,278          |
| New Zealand, 6.00%, 07/15/2008 NZD  | 5,130,000           | 3,749,275          |
| Norway, 4.25%, 05/19/2017 NOK   | 90,900,000          | 14,657,342         |
| Poland, 4.75%, 04/25/2012 PLN   | 25,320,000          | 9,015,452          |
| United Kingdom, 1.25%, 11/22/2017 GBP   | 7,996,594           | 15,063,499         |
|   |                     | <u>136,881,944</u> |
| <i>Total Foreign Bonds - Government (Principal Amount Denominated in<br/>Currency Indicated) (cost \$135,412,937)</i> |                     |                    |
| <b>U.S. TREASURY OBLIGATIONS 3.0%</b>   |                     |                    |
| U.S. Treasury Notes:  |                     |                    |
| 2.00%, 01/15/2016 (p)   | \$ 9,016,216        | 8,887,672          |
| 4.625%, 11/15/2016 (p)  | 14,740,000          | 14,735,401         |



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|  |           |            |
|--|-----------|------------|
| <i>Total U.S. Treasury Obligations (cost \$23,381,322)</i>   |           | 23,623,073 |
| <b>YANKEE OBLIGATIONS - CORPORATE 5.4%</b>                   |           |            |
| <b>ENERGY 0.2%</b>   |           |            |
| <b>Oil, Gas &amp; Consumable Fuels 0.2%</b>                  |           |            |
| OPTI Canada, Inc., 8.25%, 12/15/2014 144A                    | 1,500,000 | 1,593,750  |
| <b>FINANCIALS 1.8%</b>                                       |           |            |
| <b>Commercial Banks 0.2%</b>                                 |           |            |
| Kuznetski Capital SA, 7.34%, 05/13/2013                      | 1,500,000 | 1,581,300  |
| <b>Consumer Finance 0.3%</b>                                 |           |            |
| NTL Cable plc, 9.125%, 08/15/2016                            | 2,300,000 | 2,466,750  |
| <b>Diversified Financial Services 1.3%</b>                   |           |            |
| HBOS Treasury Services plc, 5.25%, 09/19/2011                | 4,820,000 | 4,872,793  |
| Petroplus Finance, Ltd.:                                     |           |            |
| 6.75%, 05/01/2014 144A                                       | 1,050,000 | 1,060,500  |
| 7.00%, 05/01/2017 144A                                       | 690,000   | 699,488    |
| Preferred Term Securities XII, Ltd., FRN, 10.00%, 12/24/2033 | 635,000   | 524,186    |
| Ship Finance International, Ltd., 8.50%, 12/15/2013          | 3,455,000 | 3,575,925  |
|  |           | 10,732,892 |

See Notes to Financial Statements

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**SCHEDULE OF INVESTMENTS** continued

April 30, 2007 (unaudited)

|  | Principal<br>Amount | Value      |
|--|---------------------|------------|
| <b>YANKEE OBLIGATIONS - CORPORATE continued</b>          |                     |            |
| <b>INFORMATION TECHNOLOGY 0.1%</b>                       |                     |            |
| <b>Semiconductors &amp; Semiconductor Equipment 0.1%</b> |                     |            |
| Avago Technologies, 10.125%, 12/01/2013                  | \$ 700,000          | \$ 768,250 |
| <b>MATERIALS 0.9%</b>                                    |                     |            |
| <b>Metals &amp; Mining 0.7%</b>                          |                     |            |
| Novelis, Inc., 7.25%, 02/15/2015                         | 5,300,000           | 5,611,375  |
| <b>Paper &amp; Forest Products 0.2%</b>                  |                     |            |

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|  |               |                |
|--|---------------|----------------|
| Abitibi-Consolidated, Inc., 8.375%, 04/01/2015   | 1,305,000     | 1,226,700      |
| <b>TELECOMMUNICATION SERVICES 2.4%</b>   |               |                |
| <b>Diversified Telecommunication Services 0.5%</b>   |               |                |
| Northern Telecom, Ltd., 6.875%, 09/01/2023   | 3,000,000     | 2,823,750      |
| Telecom Italia SpA, 6.20%, 07/18/2011  | 1,500,000     | 1,548,984      |
|  |               | 4,372,734      |
| <b>Wireless Telecommunication Services 1.9%</b>  |               |                |
| Intelsat, Ltd.:  |               |                |
| 9.25%, 06/15/2016  | 5,750,000     | 6,353,750      |
| 11.25%, 06/15/2016   | 3,000,000     | 3,438,750      |
| Rogers Wireless, Inc., 9.625%, 05/01/2011  | 3,000,000     | 3,450,000      |
| UBS Luxembourg, 8.25%, 05/23/2016  | 1,400,000     | 1,498,350      |
|  |               | 14,740,850     |
| <i>Total Yankee Obligations - Corporate (cost \$41,851,273)</i>  |               | 43,094,601     |
| <b>DEBT OBLIGATIONS 0.7%</b>   |               |                |
| <b>ENERGY 0.7%</b>   |               |                |
| Blue Grass Energy Corp. Loan, FRN, 10.32%, 12/30/2013<br>(cost \$5,200,000)  | 5,200,000     | 5,290,688      |
| <b>INVESTMENTS OF CASH COLLATERAL FROM SECURITIES LOANED 1.9%</b>  |               |                |
| <b>REPURCHASE AGREEMENTS ^ 1.9%</b>  |               |                |
| Bank of America Corp., 5.33%, dated 04/30/2007,<br>maturing 05/01/2007,<br>maturity value \$15,318,671 (cost \$15,316,403) | 15,316,403    | 15,316,403     |
|  | <b>Shares</b> | <b>Value</b>   |
| <b>SHORT-TERM INVESTMENTS 2.4%</b>   |               |                |
| <b>MUTUAL FUND SHARES 2.4%</b>   |               |                |
| Evergreen Institutional Money Market Fund, Class I, 5.21%<br>q ø<br>(cost \$18,862,458)                                    | 18,862,458    | 18,862,458     |
| <b>Total Investments (cost \$1,190,331,533) 152.4%</b>   |               | 1,215,042,084  |
| <b>Other Assets and Liabilities and Preferred Shares (52.4%)</b>   |               | (417,980,631)  |
| <b>Net Assets Applicable to Common Shareholders 100.0%</b>   |               | \$ 797,061,453 |

See Notes to Financial Statements

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**SCHEDULE OF INVESTMENTS** continued

April 30, 2007 (unaudited)

## All or a portion of this security has been segregated for when-issued or delayed delivery securities.

# When-issued or delayed delivery security

144A Security that may be sold to qualified institutional buyers under Rule 144A of the Securities Act of 1933, as amended. This security has been determined to be liquid under guidelines established by the Board of Trustees, unless otherwise noted.

□ Security which has defaulted on payment of interest and/or principal. The Fund has stopped accruing interest on this security.

(p) All or a portion of this security is on loan.

^ Collateral is pooled with the collateral of other Evergreen funds and allocated on a pro-rata basis into 35 issues of high grade short-term securities such that sufficient collateral is applied to the respective repurchase agreement.

q Rate shown is the 7-day annualized yield at period end.

ø Evergreen Investment Management Company, LLC is the investment advisor to both the Fund and the money market fund.

**Summary of Abbreviations**

|       |  |
|-------|--|
| AUD   | Australian Dollar                        |
| CAD   | Canadian Dollar                          |
| DKK   | Danish Krone                             |
| EUR   | Euro                                     |
| FHLB  | Federal Home Loan Bank                   |
| FHLMC | Federal Home Loan Mortgage Corp.         |
| FNMA  | Federal National Mortgage Association    |
| FRN   | Floating Rate Note                       |
| GBP   | Great British Pound                      |
| GNMA  | Government National Mortgage Association |
| HKD   | Hong Kong Dollar                         |
| KRW   | Republic of Korea Won                    |
| MXN   | Mexican Peso                             |
| NOK   | Norwegian Krone                          |
| NZD   | New Zealand Dollar                       |
| PLN   | Polish Zloty                             |
| TBA   | To Be Announced                          |

The following table shows the percentage of total long-term investments (excluding collateral from securities on loan) by geographic location as of April 30, 2007:

|               |       |
|---------------|-------|
| United States | 78.0% |
|---------------|-------|

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|                |        |
|----------------|--------|
| Canada         | 4.6%   |
| Germany        | 3.4%   |
| United Kingdom | 2.8%   |
| Denmark        | 2.5%   |
| Australia      | 1.4%   |
| Norway         | 1.2%   |
| Luxembourg     | 1.1%   |
| Hong Kong      | 0.8%   |
| South Korea    | 0.8%   |
| Poland         | 0.8%   |
| Mexico         | 0.7%   |
| Netherlands    | 0.5%   |
| Cayman Islands | 0.4%   |
| Switzerland    | 0.4%   |
| Bermuda        | 0.3%   |
| New Zealand    | 0.3%   |
|                | <hr/>  |
|                | 100.0% |
|                | <hr/>  |

See Notes to Financial Statements

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**SCHEDULE OF INVESTMENTS** continued

April 30, 2007 (unaudited)

The following table shows the percent of total investments (excluding collateral from securities on loan and cash and cash equivalents) by credit quality based on Moody's and Standard & Poor's ratings as of April 30, 2007:

|     |        |
|-----|--------|
| AAA | 40.2%  |
| AA  | 3.5%   |
| A   | 3.7%   |
| BBB | 1.9%   |
| BB  | 12.7%  |
| B   | 31.2%  |
| CCC | 6.5%   |
| NR  | 0.3%   |
|     | <hr/>  |
|     | 100.0% |
|     | <hr/>  |

The following table shows the percent of total investments (excluding collateral from securities on loan and cash and cash equivalents) based on effective maturity as of April 30, 2007:

|                  |      |
|------------------|------|
| Less than 1 year | 3.0% |
|------------------|------|

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|                |        |
|----------------|--------|
| 1 to 3 year(s) | 10.5%  |
| 3 to 5 years   | 35.5%  |
| 5 to 10 years  | 42.7%  |
| 10 to 20 years | 5.0%   |
| 20 to 30 years | 3.3%   |
|                | 100.0% |

See Notes to Financial Statements

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**STATEMENT OF ASSETS AND LIABILITIES**

April 30, 2007 (unaudited)

**Assets**

|  |                  |
|--|------------------|
| Investments in securities, at value (cost \$1,171,469,075) including \$23,407,954 of securities loaned | \$ 1,196,179,626 |
| Investments in affiliated money market fund, at value (cost \$18,862,458)                              | 18,862,458       |
| <hr/>  |                  |
| Total investments  | 1,215,042,084    |
| Foreign currency, at value (cost \$1,742,221)  | 1,750,072        |
| Receivable for securities sold   | 18,168,055       |
| Principal paydown receivable   | 1,053,931        |
| Interest receivable  | 21,452,807       |
| Unrealized gains on open forward foreign currency exchange contracts                                   | 2,406,452        |
| Receivable for closed forward foreign currency exchange contracts                                      | 255,408          |
| Receivable for securities lending income   | 6,820            |
| Unrealized gains on interest rate swap transactions  | 2,603,257        |
| <hr/>  |                  |
| Total assets   | 1,262,738,886    |

**Liabilities**

|   |            |
|---|------------|
| Dividends payable applicable to common shareholders                   | 4,554,707  |
| Payable for securities purchased                                      | 40,172,276 |
| Payable for securities on loan  | 15,316,403 |
| Unrealized losses on open forward foreign currency exchange contracts | 4,606,202  |
| <hr/>   |            |
| Payable for closed forward foreign currency exchange contracts        | 326,300    |
| Advisory fee payable  | 18,015     |
| Due to other related parties  | 1,638      |
| Accrued expenses and other liabilities                                | 252,571    |
| <hr/>   |            |
| Total liabilities   | 65,248,112 |

**Preferred shares at redemption value**

\$25,000 liquidation value per share applicable to 16,000 shares, including dividends payable of \$429,321 400,429,321

**Net assets applicable to common shareholders** \$ 797,061,453

**Net assets applicable to common shareholders represented by**

Paid-in capital \$ 792,908,095  
 Overdistributed net investment income (11,794,101)  
 Accumulated net realized losses on investments (9,209,614)  
 Net unrealized gains on investments 25,157,073

**Net assets applicable to common shareholders** \$ 797,061,453

**Net asset value per share applicable to common shareholders**

Based on \$797,061,453 divided by 42,055,000 common shares issued and outstanding (100,000,000 common shares authorized) \$ 18.95

See Notes to Financial Statements

**22**

**STATEMENT OF OPERATIONS**

Six Months Ended April 30, 2007 (unaudited)

**Investment income**

Interest (net of foreign withholding taxes of \$2,017) \$ 39,917,199  
 Income from affiliate 458,439  
 Securities lending 30,237

Total investment income 40,405,875

**Expenses**

Advisory fee 3,239,692  
 Administrative services fee 294,517  
 Transfer agent fees 17,400  
 Trustees' fees and expenses 9,745  
 Printing and postage expenses 70,615  
 Custodian and accounting fees 192,203  
 Professional fees 44,016  
 Interest expense 60,471  
 Auction agent fees 528,891  
 Other 31,581

Total expenses 4,489,131

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|  |                   |
|--|-------------------|
| Less: Expense reductions   | (13,703)          |
| <hr/>  |                   |
| Net expenses   | 4,475,428         |
| <hr/>  |                   |
| <b>Net investment income</b>   | <b>35,930,447</b> |
| <hr/>  |                   |
| <b>Net realized and unrealized gains or losses on investments</b>                      |                   |
| Net realized gains or losses on:   |                   |
| Securities   | (266,454)         |
| Foreign currency related transactions  | 1,196,013         |
| Interest rate swap transactions  | 1,400,016         |
| <hr/>  |                   |
| Net realized gains on investments  | 2,329,575         |
| Net change in unrealized gains or losses on investments                                | 16,854,841        |
| <hr/>  |                   |
| Net realized and unrealized gains or losses on investments                             | 19,184,416        |
| Dividends to preferred shareholders from net investment income                         | (10,340,252)      |
| <hr/>  |                   |
| Net increase in net assets applicable to common shareholders resulting from operations | \$ 44,774,611     |
| <hr/>  |                   |

See Notes to Financial Statements

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**STATEMENTS OF CHANGES IN NET ASSETS**

|   | <b>Six Months Ended</b> | <b>Year Ended</b>       |
|---|-------------------------|-------------------------|
|   | <b>April 30, 2007</b>   | <b>October 31, 2006</b> |
|   | <b>(unaudited)</b>      |                         |
| <hr/>   |                         |                         |
| <b>Operations</b>   |                         |                         |
| Net investment income   | \$ 35,930,447           | \$ 67,221,324           |
| Net realized gains or losses on investments   | 2,329,575               | (13,155,074)            |
| Net change in unrealized gains or losses on investments                                   | 16,854,841              | 10,910,462              |
| Dividends to preferred shareholders from net investment income                            | (10,340,252)            | (18,878,423)            |
| <hr/>   |                         |                         |
| Net increase in net assets applicable to common shareholders resulting<br>from operations | 44,774,611              | 46,098,289              |
| <hr/>   |                         |                         |
| <b>Distributions to common shareholders from</b>  |                         |                         |
| Net investment income   | (28,033,863)            | (56,026,319)            |
| Net realized gains  | 0                       | (625,253)               |
| Tax basis return of capital   | 0                       | (4,370,234)             |
| <hr/>   |                         |                         |
| Total distributions to common shareholders  | (28,033,863)            | (61,021,806)            |

|   |                 |                |
|---|-----------------|----------------|
| Total increase (decrease) in net assets applicable to common shareholders | 16,740,748      | (14,923,517)   |
| <b>Net assets applicable to common shareholders</b>                       |                 |                |
| Beginning of period   | 780,320,705     | 795,244,222    |
| End of period   | \$ 797,061,453  | \$ 780,320,705 |
| Overdistributed net investment income                                     | \$ (11,794,101) | \$ (3,561,073) |

See Notes to Financial Statements

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## NOTES TO FINANCIAL STATEMENTS (unaudited)

### 1. ORGANIZATION

Evergreen Multi-Sector Income Fund (the "Fund") (formerly, Evergreen Managed Income Fund) was organized as a statutory trust under the laws of the state of Delaware on April 10, 2003 and is registered as a diversified closed-end management investment company under the Investment Company Act of 1940, as amended. The primary investment objective of the Fund is to seek a high level of current income consistent with limiting its overall exposure to domestic interest rate risk.

### 2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The policies are in conformity with generally accepted accounting principles in the United States of America, which require management to make estimates and assumptions that affect amounts reported herein. Actual results could differ from these estimates.

#### a. Valuation of investments

Portfolio debt securities acquired with more than 60 days to maturity are fair valued using matrix pricing methods determined by an independent pricing service which takes into consideration such factors as similar security prices, yields, maturities, liquidity and ratings. Securities for which valuations are not readily available from an independent pricing service may be valued by brokers which use prices provided by market makers or estimates of market value obtained from yield data relating to investments or securities with similar characteristics.

Investments of cash collateral in short-term securities are valued at amortized cost, which approximates market value.

Short-term securities with remaining maturities of 60 days or less at the time of purchase are valued at amortized cost, which approximates market value.

Investments in other mutual funds are valued at net asset value. Securities for which market quotations are not readily available or not reflective of current market value are valued at fair value as determined by the investment advisor in good faith, according to procedures approved by the Board of Trustees.

#### b. Repurchase agreements

Securities pledged as collateral for repurchase agreements are held by the custodian bank or in a segregated account in the Fund's name until the agreements mature. Collateral for certain tri-party repurchase agreements is



held at the counterparty's custodian in a segregated account for the benefit of the Fund and the counterparty. Each agreement requires that the market value of the collateral be sufficient to cover payments of interest and principal. However, in the event of default or bankruptcy by the other party to the agreement, retention of the collateral may be subject to legal proceedings. The Fund will enter into repurchase agreements with banks and other financial institutions, which are deemed by the investment advisor to be creditworthy

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**NOTES TO FINANCIAL STATEMENTS** (unaudited) continued

pursuant to guidelines established by the Board of Trustees. In certain instances, the Fund's securities lending agent may provide collateral in the form of repurchase agreements.

**c. Reverse repurchase agreements**

To obtain short term financing, the Fund may enter into reverse repurchase agreements with banks and other financial institutions, which are deemed by the investment advisor to be credit-worthy. At the time the Fund enters into a reverse repurchase agreement, it will establish a segregated account with the custodian containing qualified assets having a value not less than the repurchase price, including accrued interest. If the counterparty to the transaction is rendered insolvent, the Fund may be delayed or limited in the repurchase of the collateral securities.

**d. Foreign currency translation**

All assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts at the date of valuation. Purchases and sales of portfolio securities and income items denominated in foreign currencies are translated into U.S. dollar amounts on the respective dates of such transactions. The Fund does not separately account for that portion of the results of operations resulting from changes in foreign exchange rates on investments and the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gains or losses on investments.

**e. Forward foreign currency contracts**

A forward foreign currency contract is an agreement between two parties to purchase or sell a specific currency for an agreed-upon price at a future date. The Fund enters into forward foreign currency contracts to facilitate transactions in foreign-denominated securities and to attempt to minimize the risk to the Fund from adverse changes in the relationship between currencies. Forward foreign currency contracts are recorded at the forward rate and marked-to-market daily. When the contracts are closed, realized gains and losses arising from such transactions are recorded as realized gains or losses on foreign currency related transactions. The Fund could be exposed to risks if the counterparties to the contracts are unable to meet the terms of their contracts or if the value of the foreign currency changes unfavorably.

**f. When-issued and delayed delivery transactions**

The Fund records when-issued or delayed delivery securities as of trade date and maintains security positions such that sufficient liquid assets will be available to make payment for the securities purchased. Securities purchased on a when-issued or delayed delivery basis are marked-to-market daily and begin earning interest on the settlement date. Losses may occur on these transactions due to changes in market conditions or the failure of counterparties to perform under the contract.

**g. Securities lending**

The Fund may lend its securities to certain qualified brokers in order to earn additional income. The Fund receives compensation in the form of fees or interest earned on the investment of any cash collateral received. The Fund also continues to receive interest and dividends on the secur-

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**NOTES TO FINANCIAL STATEMENTS** (unaudited) continued

ities loaned. The Fund receives collateral in the form of cash or securities with a market value at least equal to the market value of the securities on loan, including accrued interest. In the event of default or bankruptcy by the borrower, the Fund could experience delays and costs in recovering the loaned securities or in gaining access to the collateral. The Fund has the right under the lending agreement to recover the securities from the borrower on demand.

**h. Dollar roll transactions**

The Fund may enter into dollar roll transactions with respect to mortgage-backed securities. In a dollar roll transaction, the Fund sells mortgage-backed securities to financial institutions and simultaneously agrees to accept substantially similar (same type, coupon and maturity) securities at a later date at an agreed upon price. The Fund will use the proceeds generated from the transactions to invest in short-term investments, which may enhance the Fund's current yield and total return. The Fund accounts for dollar roll transactions as purchases and sales. The Fund could be exposed to risks if the counterparty defaults on its obligation to perform under the terms of the agreement, if the Fund receives inferior securities in comparison to what was sold to the counterparty at redelivery or if there are variances in paydown speed between the mortgage-related pools.

**i. Interest rate swaps**

The Fund may enter into interest rate swap agreements to manage the Fund's exposure to interest rates. A swap agreement is an exchange of cash payments between the Fund and another party based on a notional principal amount. Cash payments or receipts are recorded as realized gains or losses. The value of the swap agreements is marked-to-market daily based upon quotations from market makers and any change in value is recorded as an unrealized gain or loss. The Fund could be exposed to risks if the counterparty defaults on its obligation to perform or if there are unfavorable changes in the fluctuation of interest rates.

**j. Security transactions and investment income**

Security transactions are recorded on trade date. Realized gains and losses are computed using the specific cost of the security sold. Interest income is recorded on the accrual basis and includes accretion of discounts and amortization of premiums. Foreign income and capital gains realized on some securities may be subject to foreign taxes, which are accrued as applicable.

**k. Federal taxes**

The Fund intends to continue to qualify as a regulated investment company and distribute all of its taxable income, including any net capital gains (which have already been offset by available capital loss carryovers). Accordingly, no provision for federal taxes is required.

**l. Distributions**

Distributions to shareholders from net investment income and net realized gains, if any, are recorded on the ex-dividend date. Such distributions are determined in conformity with income tax regulations, which may differ from generally accepted accounting principles.

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**NOTES TO FINANCIAL STATEMENTS** (unaudited) continued

**m. Reclassifications**

Certain amounts in previous years financial statements have been reclassified or recalculated to conform to the current year's presentation.

**3. ADVISORY FEE AND OTHER TRANSACTIONS WITH AFFILIATES**

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Evergreen Investment Management Company, LLC (EIMC), an indirect, wholly-owned subsidiary of Wachovia Corporation (Wachovia), is the investment advisor to the Fund and is paid an annual fee of 0.55% of the Fund's average daily total assets. Total assets consist of the net assets of the Fund plus borrowings, reverse repurchase agreements, dollar rolls or the issuance of debt securities to the extent excluded in calculating net assets. For the six months ended April 30, 2007, the advisory fee was equivalent to 0.83% of the Fund's average daily net assets applicable to common shareholders.

First International Advisors, Inc. d/b/a Evergreen International Advisors, an indirect, wholly-owned subsidiary of Wachovia, is an investment sub-advisor to the Fund and is paid by EIMC for its services to the Fund.

Effective October 1, 2006, Tattersall Advisory Group, Inc., an indirect, wholly-owned subsidiary of Wachovia, also became an investment sub-advisor to the Fund and is paid by EIMC for its services to the Fund.

The Fund may invest in Evergreen-managed money market funds which are also advised by EIMC. Income earned on these investments is included in income from affiliate on the Statement of Operations.

Evergreen Investment Services, Inc. (EIS), an indirect, wholly-owned subsidiary of Wachovia, is the administrator to the Fund. As administrator, EIS provides the Fund with facilities, equipment and personnel and is paid an annual administrative fee of 0.05% of the Fund's average daily total assets. For the six months ended April 30, 2007, the administrative fee was equivalent to 0.08% of the Fund's average daily net assets applicable to common shareholders.

#### 4. CAPITAL SHARE TRANSACTIONS

The Fund has authorized capital of \$100,000,000 common shares with no par value. For the six months ended April 30, 2007 and the year ended October 31, 2006, the Fund did not issue any common shares.

The Fund has issued 16,000 shares of Auction Market Preferred Shares (Preferred Shares) consisting of five series, each with a liquidation value of \$25,000 plus accumulated but unpaid dividends (whether or not earned or declared). Dividends on each series of Preferred Shares are cumulative at a rate, which is reset based on the result of an auction. The annualized dividend rate was 5.21% during the six months ended April 30, 2007. The Fund will not declare, pay or set apart for payment any dividend to its common shareholders unless the Fund has declared and paid or contemporaneously declares and pays full cumulative dividends on each series of Preferred Shares through its most recent dividend payment date.

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#### NOTES TO FINANCIAL STATEMENTS (unaudited) continued

Each series of Preferred Shares is redeemable, in whole or in part, at the option of the Fund on any dividend payment date at \$25,000 per share plus any accumulated or unpaid dividends (whether or not earned or declared). Each series of Preferred Shares is also subject to mandatory redemption at \$25,000 per share plus any accumulated or unpaid dividends (whether or not earned or declared) if the asset coverage with respect to the outstanding Preferred Shares fell below 200%.

The holders of preferred shares have voting rights equal to the holders of the Fund's common shares and will vote together with holders of common shares as a single class. Holders of preferred shares, voting separately as a single class, have the right to elect at least two Trustees at all times. The remaining Trustees will be elected by holders of common shares and preferred shares, voting together as a single class.

#### 5. SECURITIES TRANSACTIONS

Cost of purchases and proceeds from sales of investment securities (excluding short-term securities) were as follows for the six months ended April 30, 2007:

**Cost of Purchases**

**Proceeds from Sales**

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| <b>U.S. Government</b> | <b>Non-U.S. Government</b> | <b>U.S. Government</b> | <b>Non-U.S. Government</b> |
|------------------------|----------------------------|------------------------|----------------------------|
| \$ 165,659,316         | \$ 457,096,227             | \$ 133,368,323         | \$ 407,144,142             |

At April 30, 2007, the Fund had forward foreign currency exchange contracts outstanding as follows:

Forward Foreign Currency Exchange Contracts to Buy:

| <b>Exchange Date</b> | <b>Contracts to Receive</b> | <b>U.S. Value at April 30, 2007</b> | <b>In Exchange for U.S. \$</b> | <b>Unrealized Gain</b> |
|----------------------|-----------------------------|-------------------------------------|--------------------------------|------------------------|
| 5/7/2007             | 6,285,254 EUR               | \$ 8,587,217                        | \$ 8,190,000                   | \$ 397,217             |
| 5/31/2007            | 25,099,888 EUR              | 34,327,024                          | 33,169,000                     | 1,158,024              |
| 6/1/2007             | 6,081,000 EUR               | 8,316,761                           | 8,032,758                      | 284,003                |
| 6/1/2007             | 8,105,878 EUR               | 11,086,112                          | 11,000,000                     | 86,112                 |

| <b>Exchange Date</b> | <b>Contracts to Receive</b> | <b>U.S. Value at April 30, 2007</b> | <b>In Exchange for</b> | <b>U.S. Value at April 30, 2007</b> | <b>Unrealized Gain (Loss)</b> |
|----------------------|-----------------------------|-------------------------------------|------------------------|-------------------------------------|-------------------------------|
| 6/5/2007             | 1,727,124,435 JPY           | \$ 14,531,968                       | 21,590,000 NZD         | \$ 15,977,998                       | \$ (1,446,030)                |
| 6/5/2007             | 1,650,000 NZD               | 1,221,107                           | 144,845,250 JPY        | 1,218,723                           | 2,384                         |
| 6/14/2007            | 3,460,691,971 JPY           | 29,149,714                          | 38,071,000 AUD         | 31,620,217                          | (2,470,503)                   |
| 6/14/2007            | 19,000,000 AUD              | 15,780,624                          | 1,817,122,000 JPY      | 15,305,779                          | 474,845                       |
| 6/14/2007            | 1,800,000 AUD               | 1,495,006                           | 177,030,000 JPY        | 1,491,139                           | 3,867                         |
| 6/14/2007            | 31,187,271 EUR              | 42,672,625                          | 21,394,000 GBP         | 42,780,068                          | (107,443)                     |
| 7/20/2007            | 1,858,109,500 JPY           | 15,721,302                          | 17,900,000 CAD         | 16,186,947                          | (465,645)                     |
| 7/20/2007            | 1,849,564,500 JPY           | 15,649,003                          | 19,000,000 AUD         | 15,765,584                          | (116,581)                     |

During the six months ended April 30, 2007, the Fund entered into reverse repurchase agreements that had an average daily balance outstanding of \$1,538,702 with an average interest rate of 3.93% and paid interest of \$60,471. The maximum amount outstanding under reverse repur-

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**NOTES TO FINANCIAL STATEMENTS** (unaudited) continued

chase agreements during the six months ended April 30, 2007 was \$8,177,995 (including accrued interest).

During the six months ended April 30, 2007, the Fund loaned securities to certain brokers. At April 30, 2007, the value of securities on loan and the total value of collateral received for securities loaned amounted to \$23,407,954 and \$24,435,073, respectively. Of the total value of the collateral received for securities on loan, \$9,118,670 represents the market value of U.S. government agency securities received as non-cash collateral.

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At April 30, 2007, the Fund had the following open interest rate swap agreements:

| Expiration | Notional Amount | Counterparty         | Cash Flows Paid by the Fund | Cash Flows Received by the Fund | Unrealized Gain |
|------------|-----------------|----------------------|-----------------------------|---------------------------------|-----------------|
| 11/26/2008 | \$112,000,000   | JPMorgan Chase & Co. | Fixed ☐ 3.582%              | Floating ☐ 5.32% <sup>1</sup>   | \$2,603,257     |

<sup>1</sup> This rate represents the 1 month USD London InterBank Offered Rate (LIBOR) effective for the period from April 26, 2007 through May 26, 2007.

On April 30, 2007, the aggregate cost of securities for federal income tax purposes was \$1,190,405,235. The gross unrealized appreciation and depreciation on securities based on tax cost was \$34,196,949 and \$9,560,100, respectively, with a net unrealized appreciation of \$24,636,849.

As of October 31, 2006, the Fund had \$10,962,010 in capital loss carryovers for federal income tax purposes expiring in 2014.

### 6. EXPENSE REDUCTIONS

Through expense offset arrangements with the Fund's custodian, a portion of fund expenses has been reduced.

### 7. DEFERRED TRUSTEES' FEES

Each Trustee of the Fund may defer any or all compensation related to performance of their duties as Trustees. The Trustees' deferred balances are allocated to deferral accounts, which are included in the accrued expenses for the Fund. The investment performance of the deferral accounts is based on the investment performance of certain Evergreen funds. Any gains earned or losses incurred in the deferral accounts are reported in the Fund's Trustees' fees and expenses. At the election of the Trustees, the deferral account will be paid either in one lump sum or in quarterly installments for up to ten years.

### 8. REGULATORY MATTERS AND LEGAL PROCEEDINGS

Since September 2003, governmental and self-regulatory authorities have instituted numerous ongoing investigations of various practices in the mutual fund industry, including investigations relating to revenue sharing, market-timing, late trading and record retention, among other things. The investigations cover investment advisors, distributors and transfer agents to mutual funds, as

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### NOTES TO FINANCIAL STATEMENTS (unaudited) continued

well as other firms. EIMC, EIS and Evergreen Service Company, LLC (collectively, "Evergreen") have received subpoenas and other requests for documents and testimony relating to these investigations, are endeavoring to comply with those requests, and are cooperating with the investigations. Evergreen is continuing its own internal review of policies, practices, procedures and personnel, and is taking remedial action where appropriate.

In connection with one of these investigations, on July 28, 2004, the staff of the Securities and Exchange Commission ("SEC") informed Evergreen that the staff intends to recommend to the SEC that it institute an enforcement action against Evergreen. The SEC staff's proposed allegations relate to (i) an arrangement pursuant to which a broker at one of EIMC's affiliated broker-dealers had been authorized, apparently by an EIMC officer (who is no longer with EIMC), to engage in short-term trading, on behalf of a client, in Evergreen Mid Cap Growth Fund (formerly Evergreen Emerging Growth Fund and prior to that, known as Evergreen Small Company

Growth Fund) during the period from December 2000 through April 2003, in excess of the limitations set forth in the fund's prospectus, (ii) short-term trading from September 2001 through January 2003, by a former Evergreen portfolio manager of Evergreen Precious Metals Fund, a fund he managed at the time, (iii) the sufficiency of systems for monitoring exchanges and enforcing exchange limitations as stated in the funds' prospectuses, and (iv) the adequacy of e-mail retention practices. In connection with the activity in Evergreen Mid Cap Growth Fund, EIMC reimbursed the fund \$378,905, plus an additional \$25,242, representing what EIMC calculated at that time to be the client's net gain and the fees earned by EIMC and the expenses incurred by this fund on the client's account. In connection with the activity in Evergreen Precious Metals Fund, EIMC reimbursed the fund \$70,878, plus an additional \$3,075, representing what EIMC calculated at that time to be the portfolio manager's net gain and the fees earned by EIMC and expenses incurred by the fund on the portfolio manager's account. Evergreen is currently engaged in discussions with the staff of the SEC concerning its recommendation.

Any resolution of these matters with regulatory authorities may include, but not be limited to, sanctions, penalties or injunctions regarding Evergreen, restitution to mutual fund shareholders and/or other financial penalties and structural changes in the governance or management of Evergreen's mutual fund business. Any penalties or restitution will be paid by Evergreen and not by the Evergreen funds.

EIS has entered into an agreement with the NASD settling allegations that EIS (i) arranged for Evergreen fund portfolio trades to be directed to Wachovia Securities, LLC, an affiliate of EIS that sold Evergreen fund shares, during the period of January 2001 to December 2003 and (ii) provided non-cash compensation by sponsoring offsite meetings attended by Wachovia Securities, LLC brokers during that period, where the eligibility of a broker to attend the meetings depended upon the broker meeting certain sales targets of Evergreen fund shares. Pursuant to the settlement agreement, EIS has agreed to a censure and a fine of \$4,200,000. EIS neither admitted nor denied the allegations and findings set forth in its agreement with the NASD.

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## NOTES TO FINANCIAL STATEMENTS (unaudited) continued

In addition, the Evergreen funds and EIMC and certain of its affiliates are involved in various legal actions, including private litigation and class action lawsuits. EIMC does not expect that any of such legal actions currently pending or threatened will have a material adverse impact on the financial position or operations of any of the Evergreen funds or on EIMC's ability to provide services to the Evergreen funds.

Although Evergreen believes that neither the foregoing investigations described above nor any pending or threatened legal actions will have a material adverse impact on the Evergreen funds, there can be no assurance that these matters and any publicity surrounding or resulting from them will not result in reduced sales or increased redemptions of Evergreen fund shares, which could increase Evergreen fund transaction costs or operating expenses, or that they will not have other adverse consequences on the Evergreen funds.

### 9. NEW ACCOUNTING PRONOUNCEMENTS

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB statement 109* ("FIN 48"). FIN 48 supplements FASB 109 by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The adoption of FIN 48 will require financial statements to be adjusted to reflect only those tax positions that are more likely than not to be sustained as of the adoption date. Management of the Fund is currently evaluating the impact that the adoption of FIN 48 will have on the financial statements. FIN 48 will become effective for fiscal years beginning after December 15, 2006.

In September 2006, FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("FAS 157"). FAS 157 establishes a single authoritative definition of fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 applies to fair value measurements already required or permitted by existing standards. The change to current generally accepted accounting principles from the application of FAS 157 relates to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. Management of the Fund does not believe the adoption of FAS 157 will materially impact the financial statement amounts, however,

additional disclosures may be required about the inputs used to develop the measurements and the effect of certain of the measurements on changes in net assets for the period. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years.

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**NOTES TO FINANCIAL STATEMENTS** (unaudited) continued**10. SUBSEQUENT DISTRIBUTIONS**

The Fund declared the following distributions to common shareholders:

| <b>Declaration Date</b> | <b>Record Date</b> | <b>Payable Date</b> | <b>Net Investment Income</b> |
|-------------------------|--------------------|---------------------|------------------------------|
| April 20, 2007          | May 11, 2007       | May 15, 2007        | \$ 0.1083                    |
| May 18, 2007            | June 11, 2007      | June 13, 2007       | \$ 0.1083                    |
| June 15, 2007           | July 12, 2007      | July 16, 2007       | \$ 0.1083                    |

These distributions are not reflected in the accompanying financial statements.

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**AUTOMATIC DIVIDEND REINVESTMENT PLAN** (unaudited)

All common shareholders are eligible to participate in the Automatic Dividend Reinvestment Plan ("the Plan"). Pursuant to the Plan, unless a common shareholder is ineligible or elects otherwise, all cash dividends and capital gains distributions are automatically reinvested by Computershare Trust Company, N.A., as agent for shareholders in administering the Plan ("Plan Agent"), in additional common shares of the Fund. Whenever the Fund declares an ordinary income dividend or a capital gain dividend (collectively referred to as "dividends") payable either in shares or in cash, nonparticipants in the Plan will receive cash, and participants in the Plan will receive the equivalent in shares of common shares. The shares are acquired by the Plan Agent for the participant's account, depending upon the circumstances described below, either (i) through receipt of additional unissued but authorized common shares from the Fund ("newly issued common shares") or (ii) by purchase of outstanding common shares on the open market (open-market purchases) on the American Stock Exchange or elsewhere. If, on the payment date for any dividend or distribution, the net asset value per share of the common shares is equal to or less than the market price per common share plus estimated brokerage commissions ("market premium"), the Plan Agent will invest the amount of such dividend or distribution in newly issued shares on behalf of the participant. The number of newly issued common shares to be credited to the participant's account will be determined by dividing the dollar amount of the dividend by the net asset value per share on the date the shares are issued, provided that the maximum discount from the then current market price per share on the date of issuance may not exceed 5%. If on the dividend payment date the net asset value per share is greater than the market value or market premium ("market discount"), the Plan Agent will invest the dividend amount in shares acquired on behalf of the participant in open-market purchases. There will be no brokerage charges with respect to shares issued directly by the Fund as a result of dividends or capital gains distributions payable either in shares or in cash. However, each participant will pay a pro rata share of brokerage commissions incurred with respect to the Plan Agent's open-market purchases in connection with the reinvestment of dividends. The automatic reinvestment of dividends and distributions will not relieve participants of any federal, state or local income tax that may be payable (or required to be withheld) on such dividends. All correspondence concerning the Plan should be directed to the Plan Agent at P.O. Box 43010, Providence, Rhode Island 02940-3010.

**ADDITIONAL INFORMATION** (unaudited)**MEETING OF SHAREHOLDERS**

The Annual Meeting of shareholders of the Fund was held on February 16, 2007. On December 15, 2006, the record date for the meeting, the Fund had \$786,007,950 of net assets of which \$602,755,364 (76.69%) of net assets were represented at the meeting.

**Proposal 1** Election of Trustees:

|                      | Net Assets Voted<br>For | Net Assets voted<br>Abstain |
|----------------------|-------------------------|-----------------------------|
| K. Dun Gifford       | \$ 557,986,763          | \$44,768,601                |
| Dr. Leroy Keith, Jr. | 596,073,002             | 6,682,362                   |
| Patricia B. Norris   | 596,208,766             | 6,546,598                   |
| Michael S. Scofield  | 596,273,751             | 6,481,613                   |

**TRUSTEES AND OFFICERS****TRUSTEES<sup>1</sup>****Charles A. Austin III**

Trustee

DOB: 10/23/1934

Term of office since: 1991

Other directorships: None

Investment Counselor, Anchor Capital Advisors, LLC. (investment advice); Director, The Andover Companies (insurance); Trustee, Arthritis Foundation of New England; Former Director, The Francis Ouimet Society (scholarship program); Former Director, Executive Vice President and Treasurer, State Street Research & Management Company (investment advice)

**K. Dun Gifford**

Trustee

DOB: 10/23/1938

Term of office since: 1974

Other directorships: None

Chairman and President, Oldways Preservation and Exchange Trust (education); Trustee, Treasurer and Chairman of the Finance Committee, Cambridge College

**Dr. Leroy Keith, Jr.**

Trustee

DOB: 2/14/1939

Term of office since: 1983

Other directorships: Trustee,

Phoenix Fund Complex (consisting of 60 portfolios)

Partner, Stonington Partners, Inc. (private equity fund); Trustee, Phoenix Fund Complex; Director, Diversapack Co. (packaging company); Director, Obagi Medical Products Co.; Former Director, Lincoln Educational Services



**Gerald M. McDonnell**

Manager of Commercial Operations, CMC Steel (steel producer)

Trustee

DOB: 7/14/1939

Term of office since: 1988

Other directorships: None

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**Patricia B. Norris**

President and Director of Phillips Pond Homes Association (home community); President and Director of Buckleys of Kezar Lake, Inc., (real estate company); Former Partner, PricewaterhouseCoopers, LLP

Trustee

DOB: 4/9/1948

Term of office since: 2006

Other directorships: None

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**William Walt Pettit**

Partner and Vice President, Kellam & Pettit, P.A. (law firm); Director, Superior Packaging Corp. (packaging company); Member, Superior Land, LLC (real estate holding company), Member, K&P Development, LLC (real estate development); Former Director, National Kidney Foundation of North Carolina, Inc. (non-profit organization)

Trustee

DOB: 8/26/1955

Term of office since: 1984

Other directorships: None

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**David M. Richardson**

President, Richardson, Runden LLC (executive recruitment business development/consulting company); Consultant, Kennedy Information, Inc. (executive recruitment information and research company); Consultant, AESC (The Association of Executive Search Consultants); Director, J&M Cumming Paper Co. (paper merchandising); Former Trustee, NDI Technologies, LLP (communications)

Trustee

DOB: 9/19/1941

Term of office since: 1982

Other directorships: None

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**Dr. Russell A. Salton III**

President/CEO, AccessOne MedCard, Inc.; Former Medical Director, Healthcare Resource Associates, Inc.

Trustee

DOB: 6/2/1947

Term of office since: 1984

Other directorships: None

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**Michael S. Scofield**

Retired Attorney, Law Offices of Michael S. Scofield; Former Director and Chairman, Branded Media Corporation (multi-media branding company)

Trustee

DOB: 2/20/1943

Term of office since: 1984

Other directorships: None

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**TRUSTEES AND OFFICERS** continued

**Richard J. Shima** Independent Consultant; Director, Hartford Hospital; Trustee, Greater Hartford YMCA; Former Trustee, Trust Company of CT; Former Director, Old State House Association; Former Trustee, Saint Joseph College (CT)  
Trustee  
DOB: 8/11/1939  
Term of office since: 1993  
Other directorships: None

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**Richard K. Wagoner, CFA<sup>2</sup>** Member and Former President, North Carolina Securities Traders Association; Member, Financial Analysts Society  
Trustee  
DOB: 12/12/1937  
Term of office since: 1999  
Other directorships: None

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**OFFICERS**

**Dennis H. Ferro<sup>3</sup>** Principal occupations: President and Chief Executive Officer, Evergreen Investment Company, Inc. and Executive Vice President, Wachovia Bank, N.A.; former Chief Investment Officer, Evergreen Investment Company, Inc.  
President  
DOB: 6/20/1945  
Term of office since: 2003

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**Kasey Phillips<sup>4</sup>** Principal occupations: Senior Vice President, Evergreen Investment Services, Inc.; Former Vice President, Evergreen Investment Services, Inc.; Former Assistant Vice President, Evergreen Investment Services, Inc.  
Treasurer  
DOB: 12/12/1970  
Term of office since: 2005

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**Michael H. Koonce<sup>4</sup>** Principal occupations: Senior Vice President and General Counsel, Evergreen Investment Services, Inc.; Secretary, Senior Vice President and General Counsel, Evergreen Investment Management Company, LLC and Evergreen Service Company, LLC; Senior Vice President and Assistant General Counsel, Wachovia Corporation  
Secretary  
DOB: 4/20/1960  
Term of office since: 2000

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**Robert Guerin<sup>4,5</sup>** Principal occupations: Chief Compliance Officer, Evergreen Funds and Senior Vice President of Evergreen Investments Co, Inc; Former Managing Director and Senior Compliance Officer, Babson Capital Management LLC; Former Principal and Director, Compliance and Risk Management, State Street Global Advisors; Former Vice President and Manager, Sales Practice Compliance, Deutsche Asset Management.  
Chief Compliance Officer  
DOB: 9/20/1965  
Term of office since: 2007

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1 The Board of Trustees is classified into three classes of which one class is elected annually. Each Trustee serves a three-year term concurrent with the class from which the Trustee is elected. Each Trustee oversees 94 Evergreen funds. Correspondence for each Trustee may be sent to Evergreen Board of Trustees, P.O. Box 20083, Charlotte, NC 28202.

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2 Mr. Wagoner is an interested person of the Fund because of his ownership of shares in Wachovia Corporation, the parent to the Fund's investment advisor.

3 The address of the Officer is 401 S. Tryon Street, 20th Floor, Charlotte, NC 28288.

4 The address of the Officer is 200 Berkeley Street, Boston, MA 02116.

5 Mr. Guerin's information is as of June 14, 2007, the effective date of his approval by the Board of Trustees as Chief Compliance Officer of the Evergreen funds.

Additional information about the Fund's Board of Trustees and Officers can be found in the Statement of Additional Information (SAI) and is available upon request without charge by calling 800.343.2898.

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### **Item 2 - Code of Ethics**

Not required for this semi-annual filing.

### **Item 3 - Audit Committee Financial Expert**

Not required for this semi-annual filing.

### **Items 4 - Principal Accountant Fees and Services**

Not required for this semi-annual filing.

### **Items 5 - Audit Committee of Listed Registrants**

Not applicable.

### **Item 6 - Schedule of Investments**

Please see schedule of investments contained in the Report to Stockholders included under Item 1 of this Form N-CSR.

### **Item 7 - Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.**

Not applicable.

### **Item 8 - Portfolio Managers of Closed-End Management Investment Companies.**

Not applicable.

**Item 9 ☐ Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers.**

Not applicable.

**Item 10 ☐ Submission of Matters to a Vote of Security Holders**

There have been no material changes to the procedures by which shareholders may recommend nominees to the Registrant's board of trustees that have been implemented since the Registrant last provided disclosure in response to the requirements of this Item.

**Item 11 - Controls and Procedures**

(a) The Registrant's principal executive officer and principal financial officer have evaluated the Registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940) within 90 days of this filing and have concluded that the Registrant's disclosure controls and procedures were effective, as of that date, in ensuring that information required to be disclosed by the Registrant in this Form N-CSR was recorded, processed, summarized, and reported timely.

(b) There has been no changes in the Registrant's internal controls over financial reporting (as defined in Rule 30a-3(d) under the Investment Company Act of 1940) that occurred during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonable likely to affect, the Registrant's internal control over financial reporting .

**Item 12 - Exhibits**

File the exhibits listed below as part of this Form. Letter or number the exhibits in the sequence indicated.

(a) Any code of ethics, or amendment thereto, that is the subject of the disclosure required by Item 2, to the extent that the Registrant intends to satisfy the Item 2 requirements through filing of an exhibit.

(b)(1) Separate certifications for the Registrant's principal executive officer and principal financial officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002 and Rule 30a-2(a) under the Investment Company Act of 1940, are attached as EX99.CERT.

(b)(2) Separate certifications for the Registrant's principal executive officer and principal financial officer, as required by Section 1350 of Title 18 of United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and Rule 30a-2(b) under the Investment Company Act of 1940, are attached as EX99.906CERT. The certifications furnished pursuant to this paragraph are not deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section. Such certifications are not deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Registrant specifically incorporates them by reference.

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Evergreen Multi-Sector Income Fund

By: \_\_\_\_\_  
Dennis H. Ferro,  
Principal Executive Officer

Date: June 29, 2007

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Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: \_\_\_\_\_  
Dennis H. Ferro,  
Principal Executive Officer

Date: June 29, 2007

By: \_\_\_\_\_  
Kasey Phillips  
Principal Financial Officer

Date: June 29, 2007

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