UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

INVESTMENT ADVISERS ACT OF 1940
Release No. 3355 / January 17, 2012

INVESTMENT COMPANY ACT OF 1940
Release No. 29919 / January 17, 2012

ADMINISTRATIVE PROCEEDING
File No. 3-14697

In the Matter of **LISA B. PREMO,** **Respondent.**	**ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTIONS 203(f) AND 203(k) OF THE INVESTMENT ADVISERS ACT OF 1940, AND SECTIONS 9(b) AND 9(f) OF THE INVESTMENT COMPANY ACT OF 1940**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 203(f) and 203(k) of the Investment Advisers Act of 1940 ("Advisers Act") and Sections 9(b) and 9(f) of the Investment Company Act of 1940 ("Investment Company Act") against Lisa B. Premo ("Premo" or the "Respondent").

II.

After an investigation, the Division of Enforcement alleges that:

A. RESPONDENT

1. Premo, 55 years of age, is a resident of Charlotte, North Carolina. From October 1996 to December 2008, Premo was employed by Evergreen Investment Management Company, LLC (the "Evergreen Adviser"). Premo served as the lead portfolio manager of the Evergreen Ultra Short Opportunities Fund (the "Ultra Fund" or the "Fund") from its inception in May 2003 through at least June 2008. Beginning in December 2007, Premo became the Evergreen Adviser's chief investment officer for liquidity and structured solutions as well as a member of the Evergreen Valuation Committee (the "EVC"). At all relevant times, Premo was an investment adviser to the Fund. From June 1990 to August 1997, Premo was a registered representative of a broker-dealer.

B. OTHER RELEVANT ENTITIES

2. The Evergreen Adviser was, at all relevant times, registered with the Commission as an investment adviser and its principal place of business is in Boston, Massachusetts. During the relevant period, the Evergreen Adviser was the registered investment adviser for the Evergreen family of mutual funds, including the Ultra Fund, and received payment of advisory fees based on the net asset value ("NAV") of each fund. At all relevant times, the Evergreen Adviser was a wholly-owned subsidiary of Wachovia Corporation and currently is a wholly-owned subsidiary of Wells Fargo & Company, a San Francisco, California-based company whose common stock is registered with the Commission pursuant to Section 12(b) of the Exchange Act. The Evergreen Adviser is no longer registered with the Commission.

3. The Ultra Fund was a series of the Evergreen Fixed Income Trust, an open-end management investment company (*i.e.*, a mutual fund) registered with the Commission. The Ultra Fund invested primarily in commercial and residential fixed and variable rate mortgage-backed securities, including collateralized debt obligations, collateralized mortgage obligations, and other mortgage-related investments. From February 2007 to June 2008, the Ultra Fund was consistently ranked by a national ranking firm as one of the top five to ten funds of the 40-50 funds in its category based upon its reported performance. On June 19, 2008, the Evergreen Adviser publicly announced that the Ultra Fund's Board of Trustees had approved a plan to liquidate the Fund, that shareholders of record as of June 18, 2008 would receive a cash distribution of $7.48 per share, and that shares of the Fund would no longer be available for purchase by new shareholders. The Fund has since been liquidated.

4. The EVC was established by the Ultra Fund's Board of Trustees (the "Board") to assist the Board in determining the valuation of fair-valued securities. The EVC's membership included the Evergreen Adviser's chief investment officers for fixed income, equity, high yield and international products, as well as representatives from the Evergreen Adviser's legal, risk management and fund administration departments.

C. PREMO FAILED TO INFORM THE EVERGREEN VALUATION COMMITTEE OF MATERIAL INFORMATION REGARDING A COLLATERALIZED DEBT OBLIGATION HELD BY THE ULTRA FUND

Overview

5. During the period from at least March 2008 to early June 2008, the NAV of the Ultra Fund was materially overstated as a result of the conduct of Premo, the Fund's lead portfolio manager. In early February 2008, Premo learned that a collateralized debt obligation ("CDO") owned by the Fund had experienced an event of default. In late March 2008, Premo learned that, as a result of the event of default, the CDO would no longer make payments to the Fund. However, Premo did not convey this information to the EVC, which had been charged by the Board with the responsibility of calculating the value of Fund holdings. Premo was an EVC member. When, in early June 2008, the EVC became aware of the event of default and the payment stoppage, it reduced the aggregate value being assigned to the CDO from approximately $6.98 million to $0, resulting in a $0.10 per share drop in the Fund's NAV that set in motion a sequence of events that, within a week, led to the Fund's liquidation. By failing to convey to either the EVC or the Board itself the material information she possessed concerning the value of the CDO, Premo breached the fiduciary duty that, as the Fund's portfolio manager, she owed to the Fund.

The Purchase Of The Collateralized Debt Obligation

6. On February 6, 2007, Premo decided to purchase on behalf of the Ultra Fund $13 million worth of a $375 million CDO. The CDO was primarily backed by subprime residential mortgage-backed securities, meaning that the CDO was ultimately backed by mortgages issued to borrowers who were not considered to be prime credit risks (*e.g.*, borrowers whose credit scores were below approximately 650). The Fund's holding in the CDO gave it the right to receive a payment every three months, reflecting a portion of the interest (but not the principal) payments being made on the mortgages that ultimately underlay the CDO. The CDO was divided into several tranches – the A-1, A-2, B, C, D and subordinated tranches. The holders of the A-1 tranche had priority over the holders of the A-2 tranche, who, in turn, had priority over the holders of the B tranche, and so on. This meant that, should the flow of payments to the holders of the CDO be impaired in any way, the available stream of payments would be directed first to the holders of the A-1 tranche and, only when they were paid in full, would any portion of the payment stream be directed to the holders of the A-2 tranche. For this reason, the rate of interest to be paid to the holders of the A-2 tranche of the CDO was higher than the rate of interest to be paid to the holders of the A-1 tranche. The Fund's position in the CDO was in the A-2 tranche.

Evergreen's Valuation Policies

7. During the relevant period, the prospectus for the Ultra Fund stated that the Fund would, as a general rule, value each security it owned at the price at which the security could be

sold in the market. The prospectus stated that, for each security for which current market prices were readily available, the Fund would value the security in accordance with its market price. The prospectus stated that, for each security for which a market price was not readily available, the Fund would determine a "fair value" for that security under policies established by the Fund's Board of Trustees. Like many of the Fund's holdings (residential mortgage-backed securities and collateralized debt obligations backed by such securities), market quotations were not readily available for the A-2 tranche of the CDO, making this CDO a "fair valued" security. The valuation policies established by the Fund's Board of Trustees entrusted the calculation of the valuation of fair-valued securities to the EVC.

8. During the relevant period, pursuant to procedures established by the Fund's Board of Trustees, the EVC employed a three-tiered system in fair valuing securities held by the Ultra Fund. Under the first and most preferred tier, securities were valued in accordance with prices provided by a third-party pricing vendor such as Standard & Poor's ("S&P"), PricingDirect, Interactive Data Corporation, or Reuters. Under the second tier, such securities were valued in accordance with prices provided by one or more third-party broker-dealers. Under the third and least preferred tier, such securities were valued in accordance with the prices recommended by the Fund's portfolio management team.

The Vendor Override

9. Prior to July 24, 2007, the EVC valued the Ultra Fund's position in the A-2 tranche of the CDO in accordance with a price provided by a third-party pricing vendor, S&P. However, on July 18, 2007, S&P lowered the price it assigned to the A-2 tranche of this CDO from $96.72 (down from an issued value of $100) to $72.89. After S&P reduced its price, Premo and the senior portfolio manager told the EVC that, for a variety of reasons, the S&P price did not reflect the CDO's fair value and recommended that the EVC "override" S&P's price with a value based on quotes, ranging from approximately $82.53 to $96, that they had received from two or three broker-dealers. The EVC adopted this recommendation and overrode the S&P price. One of these quotes (the $96 quote) came from a broker-dealer located in Florida (the "Florida broker-dealer"). The Florida broker-dealer provided a quote on the A-2 tranche at the request of Premo. By August 31, 2007, the Florida broker-dealer was the only broker-dealer that would provide the Evergreen Adviser with a daily quote on the A-2 tranche and, on or about that date, the EVC, at the recommendation of Premo and the senior portfolio manager, decided to value the A-2 tranche in accord with the daily price provided by the Florida broker-dealer from that point onward. The Evergreen Adviser was the only entity for which the Florida broker-dealer valued securities on a daily basis in the 2007 and 2008 period. By June 2008, the Florida broker-dealer was pricing sixteen securities for the Ultra Fund. Between June 10th and June 16th, the EVC reduced the valuation assigned to fifteen of these securities -- eight (including the CDO) by more than 90%.

Premo Learns That The CDO Has Stopped Making Payments to the Ultra Fund

10. On February 6, 2008, the trustee for the CDO sent an email to the senior portfolio

manager, informing him that the CDO had experienced an event of default because it was no longer considered to be overcollateralized. In early February 2008, the CDO accounted for approximately one percent of the overall value of the Ultra Fund. The senior portfolio manager informed Premo of the event of default soon after he learned of it. This event of default was the first default that had ever occurred with respect to a Fund holding. In fact, this default was the first default that had occurred in any fund being managed by Premo. Premo viewed the CDO's event of default as a very unusual event. By mid-February, 2008, the senior portfolio manager learned that the event of default gave the holders of the A-1 tranche of the CDO the right to "accelerate" the CDO by directing that all future payments of principal and interest made on the mortgages underlying the CDO be transmitted to them until they were paid off in full. The senior portfolio manager informed Premo of the possibility of acceleration soon after he learned of it. On March 27, 2008, the senior portfolio manager received an email from the trustee for the CDO notifying him that the holders of the A-1 tranche had, in fact, decided to accelerate the transaction, the senior portfolio manager informed Premo of the acceleration on or about that date. Premo believed that the decision by the holders of the A-1 tranche to accelerate meant that the Ultra Fund would probably not receive any payment (*i.e.*, cash flow) in connection with this CDO for ten or more years. Up until that time, the Fund had received a payment in connection with this CDO every three months. The February 4, 2008 payment amounted to approximately $176,000. Consistent with the March 27th notice, the A-2 tranche of the CDO did not make its scheduled payment to the Fund in early May 2008.

<u>The EVC Learns That The CDO Has Stopped Making Payments And Reduces Its Value To $0</u>

11. On the afternoon of June 9, 2008, several members of the EVC learned that the CDO had experienced an event of default, had gone into acceleration, and had not made the payment that had been due to the Ultra Fund in early May 2008. In the course of two "special" EVC meetings that were called on June 10th to discuss the situation, the senior portfolio manager stated that he did not expect the CDO to resume making payments for about thirteen years. At the end of these meetings, the EVC reduced the value it was assigning to the CDO from $53.72 to $0. This decision decreased the Fund's assets by approximately $6.98 million and resulted in a nearly $0.10 per share drop in the Fund's NAV (to $8.95 per share). Because day-to-day volatility in the Fund's NAV was very low (from at least as far back as February 1, 2007, the Fund's NAV had never changed by more than five cents per share in one day), this NAV decrease was very significant.

12. On June 11, 2008, the day after it re-priced the CDO to $0, the EVC decided to stop using valuations provided by the Florida broker-dealer or the portfolio management team to override vendor prices with respect to approximately 11 Ultra Fund securities. Since the vendor prices on these securities were generally lower than the Florida broker-dealer/portfolio management team valuations, this action decreased the Fund's NAV by $0.12 per share. In the days that followed, the EVC re-priced downward additional Fund securities. The substantial drops in the Fund's NAV that resulted from these re-pricings, combined with the large number of redemption requests that ensued, threatened to force the Fund to sell its illiquid securities and

ultimately led the Fund's Board of Trustees to decide to liquidate the Fund and to make a liquidating distribution of $7.48 per share to shareholders on June 18, 2008.

Premo Failed To Timely Notify The EVC of Material Information Regarding The CDO

13. Premo knew that the primary reason why the Ultra Fund purchased a portion of the A-2 tranche of the CDO was to acquire the right to receive a portion of the payments made on the underlying mortgages. In addition, Premo understood throughout the relevant period that a CDO that was making payments to and thus generating cash flow for its holder would be worth more than one that was not. In fact, Premo would not have approved the Fund's purchase of the CDO if she had thought that it would not generate cash flow for the Fund for ten years. Moreover, Premo knew from February 2008 through June 2008 that the Evergreen Adviser's Pricing Procedures made it clear that the responsibility for valuing the A-2 tranche of the CDO lay not with her but with the EVC. Premo further understood during this time period that the pricing procedures required her as a portfolio manager for the Fund to review on a daily basis the prices being assigned to each holding in the Fund and to notify the EVC of any price that she did not think reflected the holding's fair value.

14. Throughout the relevant period, the Evergreen Adviser's fund administration department emailed to Premo and every other EVC member weekly pricing summaries setting forth the pricing issues associated with several fair-valued securities, including the issues concerning the A-2 tranche of the CDO. From February 6, 2008 to June 3, 2008, Premo received 16 of these summaries -- nine after the CDO went into acceleration on March 27th. None of these pricing summaries contained any indication that the CDO had experienced an event of default or had stopped generating cash flow for the Ultra Fund. In fact, each of the summaries stated that "[t]here has been no new information regarding this security; therefore, no change to the current valuation process was needed." Nevertheless, at no point during that period, did Premo take any step to ensure that the EVC was aware that the CDO had experienced an event of default, had stopped generating cash flow for the Ultra Fund, and would likely not resume generating cash flow for ten or more years.

15. On June 2, 2008, the Ultra Fund's Board of Trustees decided to value a security that Premo had proposed pricing at $61 at $9.50. Two days later, on June 4th, Premo and the senior portfolio manager informed the EVC that they had performed an analysis on the CDO that doubled the default scenarios and that generated a value of $53.72 -- 20% less than its current price of $67.47. Premo and the senior portfolio manager then recommended valuing the CDO at $53.72, and the EVC concurred. Premo said nothing to the EVC on June 4th about the fact that the CDO had stopped making its scheduled payments to the Fund and was not expected to resume making payments for several years to come. After learning on the afternoon of June 9, 2008 that the CDO had experienced an event of default, had gone into acceleration, and had not made the payment that had been due to the Ultra Fund in early May 2008, the chair of the EVC sent an email to the Evergreen Adviser's pricing administrator, directing him to call a meeting of the EVC to address these facts. In addition, the chair asked "Are these new developments . . . these points definitely were not clearly stated at the [June 4, 2008] meeting?" After receiving the

chair's email, the pricing administrator sent an email to, among others, Premo, the EVC chair, the head of the Evergreen Adviser's risk management department, and the Evergreen Adviser's chief operating officer. In this message, the pricing administrator directed the following statement to Premo: "Lisa & Team – New information has been presented requiring another review and discussion on [the CDO]. On last week's EVC call, there was no discussion regarding the A2 Tranche missing its May payment or cashflows being diverted to the A1 tranche. Was this information built into the analysis you did on 6/4? If not, would the analysis change?" Premo did not challenge the pricing administrator's assertion that the information concerning the CDO missing its May payment and stopping its cash flow was "new" and that this information had not been discussed during the June 4th EVC meeting.

16. For the reasons set forth above, the CDO was overvalued from at least March 27, 2008 to June 9, 2008. Because the CDO was priced higher than it should have been, the NAV of the Ultra Fund was overstated during this period and the Evergreen Adviser received higher advisory fees than it would have had the Fund's NAV been accurately reported. Also for the reasons set forth above, the EVC was unaware from at least March 27, 2008 of material information concerning the CDO – namely that it had experienced an event of default, was in acceleration, and had stopped generating cash flow for the Fund.

D. VIOLATIONS

17. By failing to disclose to the EVC the CDO's event of default, acceleration, and cash flow stoppage, and by failing to include in her June 4, 2008 report to the EVC on the CDO any reference to these developments, thus rendering what she communicated to the EVC that day materially misleading, Premo willfully violated Sections 206(1) and 206(2) of the Advisers Act. Section 206(1) of the Advisers Act makes it unlawful for any investment adviser, directly or indirectly, to employ any device, scheme, or artifice to defraud any client or prospective client. Section 206(2) of the Advisers Act makes it unlawful for any investment adviser, directly or indirectly, to engage in any transaction, practice, or course of business which operates as a fraud or deceit upon any client or prospective client.

18. As a result of the conduct described above, Premo willfully aided and abetted and caused the Evergreen Adviser's violation of Sections 206(1) and 206(2) of the Advisers Act. Through its failure to factor readily-available negative information concerning the CDO into its valuation of that security, the Evergreen Adviser provided an overstated NAV to the Ultra Fund, which, in turn, generated higher advisory fees paid by the Fund to the Adviser. Through these actions, the Evergreen Adviser breached its fiduciary duty to and defrauded the Ultra Fund in violation of Sections 206(1) and 206(2) of the Advisers Act. By failing to disclose to the EVC the CDO's event of default, acceleration, and cash flow stoppage, and by failing to include in her June 4, 2008 report to the EVC on the CDO any reference to these developments, thus rendering what she communicated to the EVC that day materially misleading, Premo provided knowing and substantial assistance to and thereby aided and abetted and caused the Evergreen Adviser's violation of this statute.

19. As a result of the conduct described above, Premo willfully aided and abetted and caused the Ultra Fund's violation of Rule 22c-1(a) promulgated pursuant to Section 22(c) of the Investment Company Act, which requires registered investment companies like the Fund to sell and redeem shares only at a price based on the current NAV of those shares. Through its improper pricing of the CDO, the Evergreen Adviser caused the Ultra Fund to materially overstate its NAV and to sell and redeem its shares at a price other than the Fund's current NAV. By failing to disclose to the EVC the CDO's event of default, acceleration, and cash flow stoppage, and by failing to include in her June 4, 2008 report to the EVC on the CDO any reference to these developments, thus rendering what she communicated to the EVC that day materially misleading, Premo provided knowing and substantial assistance to and thereby aided and abetted and caused the Ultra Fund's violation of Rule 22c-1(a).

III.

In view of the allegations made by the Division of Enforcement, the Commission deems it necessary and appropriate in the public interest that public administrative and cease-and-desist proceedings be instituted to determine:

A. Whether the allegations set forth in Section II are true and, in connection therewith, to afford the Respondent an opportunity to establish any defenses to such allegations;

B. What, if any, remedial action is appropriate in the public interest against the Respondent pursuant to Section 203(f) of the Advisers Act including, but not limited to, civil penalties pursuant to Section 203 of the Advisers Act;

C. What, if any, remedial action is appropriate in the public interest against the Respondent pursuant to Section 9(b) of the Investment Company Act including, but not limited to, civil penalties pursuant to Section 9 of the Investment Company Act; and

D. Whether, pursuant to Section 203(k) of the Advisers Act and Section 9(f) of the Investment Company Act, the Respondent should be ordered to cease and desist from committing or causing violations of and any future violations of Sections 206(1) or 206(2) of the Advisers Act or Rule 22c-1(a) promulgated pursuant to Section 22(c) of the Investment Company Act, and whether Respondent should be ordered to pay a civil penalty pursuant to Section 203(i) of the Advisers Act and Section 9(d) of the Investment Company Act.

IV.

IT IS ORDERED that a public hearing for the purpose of taking evidence on the questions set forth in Section III hereof shall be convened not earlier than 30 days and not later than 60 days from service of this Order at a time and place to be fixed, and before an Administrative Law Judge to be designated by further order as provided by Rule 110 of the Commission's Rules of Practice, 17 C.F.R. § 201.110.

IT IS FURTHER ORDERED that the Respondent shall file an Answer to the allegations contained in this Order within twenty (20) days after service of this Order, as provided by Rule 220 of the Commission's Rules of Practice, 17 C.F.R. § 201.220.

If the Respondent fails to file the directed answer, or fails to appear at a hearing after being duly notified, the Respondent may be deemed in default and the proceedings may be determined against her upon consideration of this Order, the allegations of which may be deemed to be true as provided by Rules 155(a), 220(f), 221(f) and 310 of the Commission's Rules of Practice, 17 C.F.R. §§ 201.155(a), 201.220(f), 201.221(f) and 201.310.

This Order shall be served forthwith upon the Respondent personally or by certified mail.

IT IS FURTHER ORDERED that the Administrative Law Judge shall issue an initial decision no later than 300 days from the date of service of this Order, pursuant to Rule 360(a)(2) of the Commission's Rules of Practice.

In the absence of an appropriate waiver, no officer or employee of the Commission engaged in the performance of investigative or prosecuting functions in this or any factually related proceeding will be permitted to participate or advise in the decision of this matter, except as witness or counsel in proceedings held pursuant to notice. Since this proceeding is not "rule making" within the meaning of Section 551 of the Administrative Procedure Act, it is not deemed subject to the provisions of Section 553 delaying the effective date of any final Commission action.

By the Commission.

Elizabeth M. Murphy
Secretary