FEB 6 1995

Our Ref. No. 94-615-CC
Kemper Total Return Fund, Kemper Growth Fund, Kemper Small Capitalization Equity Fund, Kemper Diversified Income Fund, Kemper High Yield Fund
File Nos. 811-1236, 811-1365, 811-1702, 811-2743, 811-2786

RESPONSE OF THE OFFICE OF CHIEF COUNSEL
DIVISION OF INVESTMENT MANAGEMENT

Your letters of September 21 and November 17, 1994, request our assurance that we would not recommend that the Commission take enforcement action if certain Kemper funds (the "Acquiring Funds") that are acquiring the assets and assuming the liabilities of certain other Kemper funds (the "Acquired Funds") use the Acquired Fund's redemption credits under rule 24f-2 under the Investment Company Act of 1940 ("1940 Act") in calculating the registration fee owed under the Securities Act of 1933 ("1933 Act").1/

You state that on May 27, 1994, each of the five Acquired Funds was reorganized into a corresponding Acquiring Fund with substantially similar investment objectives and policies.2/ Each of the Acquired Funds transferred all of its assets and liabilities to an Acquiring Fund in exchange for Class B shares of the Acquiring Fund, which were then distributed to the Acquired Fund's shareholders. The Acquired Funds were then terminated. You state that the purpose and effect of each reorganization was to consolidate similar funds with different distribution options into a single fund with multiple distribution options.

Rule 24f-2 under the 1940 Act permits a mutual fund to register an indefinite number of securities under the 1933 Act. The rule requires funds that elect to register an indefinite number of securities to file a notice every year setting forth the amount of securities sold in the past fiscal year. If the notice is filed within two months after the close of the fiscal year, the fund pays a registration fee based on net sales -- i.e., the aggregate price of the shares sold by the fund during

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1/ This letter confirms the advice given to you in a telephone conversation between Barry Mendelson of this office and David Sturms of Vedder, Price, Kaufman & Kammholz, counsel to the Acquiring Funds, on November 21, 1994.

2/ The five Acquired Funds were all portfolios of Kemper Investment Portfolios. These five funds -- Growth Portfolio, Total Return Portfolio, High Yield Portfolio, Diversified Income Portfolio, and Small Capitalization Equity Portfolio -- were reorganized, respectively, into Kemper Growth Fund, Kemper Total Return Fund, Kemper High Yield Fund, Kemper Diversified Income Fund, and Kemper Small Capitalization Equity Fund.

the year, reduced by a "redemption credit" equal to the aggregate price of the shares redeemed during the year. If the notice is not filed within the two month period, the fee is based on gross sales -- i.e., the aggregate price of the shares sold by the fund during the year, without deduction of the redemption credit.

In a series of no-action letters,3/ the staff has permitted an acquiring fund to use the rule 24f-2 redemption credits of an acquired fund upon adoption of the acquired fund's registration statement pursuant to rule 414 under the 1933 Act.4/ You state that rule 414 was not available for these reorganizations. In addition, you acknowledge that the staff in 1981 declined to grant relief under facts similar (but not identical) to those presented here.5/ You urge us to re-examine our 1981 position and permit the Acquiring Funds to use the redemption credits of the Acquired Funds.

You represent that each pair of reorganized Kemper funds had substantially similar investment objectives and policies and were marketed and sold as being essentially the same investment product, the primary difference being the different distribution arrangements (front-end sales charge vs. contingent deferred sales charge with a rule 12b-1 fee). You note that all of the funds were managed by Kemper Financial Services, Inc. and that each pair of reorganized funds was managed using the same general procedures. At the time of the reorganizations, except for the acquisition of Kemper Investment Portfolios' Total Return

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3/ See, e.g., Lowry Market Timing Fund, Inc. (pub. avail. Feb. 8, 1985); Massachusetts Financial Development Fund, Inc. (pub. avail. Jan. 10, 1985); Colonial Option Income Fund, Inc. (pub. avail. Mar. 21, 1983); Gradison Cash Reserves, Inc. (pub. avail. Oct. 29, 1981).

4/ Under rule 414, when an issuer is merged into a shell entity (the successor) for the purpose of changing the issuer's state of incorporation or form of organization, the successor may adopt its predecessor's registration statement as its own.

5/ In Scudder Managed Reserves, Inc. (pub. avail. May 15, 1981), the staff denied the no-action request of an acquiring fund that sought to succeed to the redemption credits of an acquired fund in the same fund family. The acquiring fund in Scudder, as here, was not a shell company, but an operational fund with its own registration statement that did not succeed to the registration statement of the acquired fund. However, in Scudder the acquired fund was reorganized into the pre-existing class of the acquired fund's shares, whereas each of the Acquired Funds here was reorganized into a newly created class of the Acquiring Fund that had not been operational prior to the reorganization.

Portfolio by the Kemper Total Return Fund (together, the "Total Return Funds"), the same individual managed both funds involved in each reorganization. Finally, you represent that the portfolios of each Acquiring Fund and its corresponding Acquired Fund were very highly correlated, i.e., they contained substantially the same securities in approximately the same percentages, although the degree of correlation between the Total Return Funds was somewhat lower.6/

In light of these facts, and without necessarily agreeing with your legal analysis, we would not recommend that the Commission take enforcement action if the Acquiring Funds (other than the Total Return Fund) use the redemption credits of the Acquired Funds in calculating the registration fees owed under the 1933 Act. Our position is based on the specific facts set forth above, and in particular on the purpose of the reorganizations and the fact that the each pair of reorganized funds (other than the Total Return Funds) was managed by the same individuals and had substantially the same portfolios. Because the Total Return Funds were managed by different individuals and their portfolios were not as highly correlated as those of the other reorganized funds, we cannot assure you that we would not recommend enforcement action if the Total Return Fund uses the redemption credits of the Total Return Portfolio in calculating its registration fees.

Because our position is based on the facts and representations in your letter, you should note that any different facts or circumstances might require a different conclusion. Further, this response expresses the staff's position on enforcement action only and does not express any legal conclusions on the issues presented.7/

Barry A. Mendelson
Senior Counsel

6/ Telephone conversation between Barry Mendelson and David Sturms on November 16, 1994.

7/ In this regard, the Scudder letter, supra note 5, continues to represent the staff's position on the use of rule 24f-2 redemption credits by the surviving fund in a reorganization, except as narrowly modified herein.

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DAVID A. STURMS
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September 21, 1994

VIA FEDERAL EXPRESS

Mr. Jack W. Murphy
Chief Counsel
Division of Investment Management
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

ACT ICA-40
SECTION
RULE 24f-2
PUBLIC AVAILABILITY Feb. 6, 1995

RE: **Kemper Mutual Funds**

Dear Mr. Murphy:

Certain of the Kemper mutual funds have recently been reorganized into certain other Kemper mutual funds. The primary purpose of each reorganization was to combine separate funds that were substantially similar except that they were created at different times with different distribution arrangements. Each reorganization was, in effect, an "organizational" change; the type of which should not result in duplicative registration fees. Accordingly, in connection with these reorganizations, we respectfully request that the staff of the Division of Investment Management assure that it will not recommend enforcement action to the Commission if the registration fees paid by the Kemper mutual funds are computed as described below.

I. THE REORGANIZATIONS

On May 27, 1994, certain of the Kemper mutual funds were reorganized into certain other Kemper mutual funds pursuant to which : (a) the acquired fund transferred all its assets to the acquiring fund in exchange for shares of the acquiring fund and the acquiring fund assumed all the liabilities of the acquired fund; and (b) the acquiring fund distributed its shares to the shareholders of the acquired fund. The acquired fund will be terminated.

The primary purpose of each reorganization was to combine, into one mutual fund, funds with substantially similar investment objectives and policies that were originally created as separate funds with different distribution arrangements. In connection with the reorganizations, each acquiring fund applied for and received an order from the Commission permitting it to offer multiple classes of shares. See Kemper Technology Fund, et al., SEC release number IC-20322 (May 27, 1994). Shares of the acquiring fund historically had been sold subject to an initial sales

sales charge and a Rule 12b-1 fee. Under the reorganization, shares of the acquired fund were exchanged for Class B Shares of the acquiring fund. The net effect of each reorganization, therefore, was simply to consolidate like funds with different distribution options into a single fund with multiple distribution options. For a description of the funds that were parties to the reorganizations, please see Appendix A.

II. CALCULATION OF RULE 24F-2 FEES

"Fairness Notion" -- Rules Allow Funds to Net Redemptions

Rule 24e-2(a) under the Investment Company Act of 1940 (the "1940 Act") provides that when the Securities Act of 1933 (the "1933 Act") registration statement of an open-end investment company is amended pursuant to Section 24(e)(1) of the 1940 Act to register a definite number of additional shares, the fee to be paid at the time of filing such amendment may be computed by reducing the maximum aggregate offering price of the securities of the same class redeemed or repurchased by the issuer in its previous fiscal year. Rule 24f-2(c) provides for a similar reduction in the case of issuers that elect to register an indefinite number of shares by means of a Rule 24f-2 declaration. Such reductions in registration fees are often referred to as "redemption credits." A declaration made pursuant to Rule 24f-2 is currently in effect for each of the various Kemper mutual funds involved in the reorganizations.

The ability to net redemptions under Rule 24e-2 and 24f-2 is based upon the notion of fairness. Because mutual funds continuously offer their shares to the public and stand ready to redeem them upon request, it is common for a mutual fund to issue and redeem shares in any given year in an amount greatly in excess of any net new sales. A registration fee calculation method that does not allow netting "may result in inordinately high registration costs for open-end management companies and their shareholders and may unfairly burden the registration process." SEC release number IC-9677 (March 15, 1977) proposing Rule 24e-2. [See also SEC release number IC-9989 (November 3, 1977) adopting Rule 24f-2 based upon the same "fairness" concerns that prompted Rule 24e-2].

"Fairness Notion" -- Extended to Series Companies

The "fairness" notion of netting redemptions on a fund-by-fund basis has also been extended to series investment companies. In the February 25, 1994 Generic Comment Letter, the staff of the Commission stated that they have "not objected to an open-end management investment company aggregating sales and redemptions of all its series (sharing the same registration statement under

the 1933 Act) for the purpose of calculating the filing fee owed the Commission under Rule 24f-2(b) under the 1940 Act."

"Fairness Notion" -- Extended to Rule 414 Reorganizations

The "fairness" notion has also been embodied in a series of no-action letters in which the staff has permitted successor mutual funds to succeed to the redemption credits of various acquired mutual funds upon adoption of an acquired mutual fund's registration statement pursuant to Rule 414 under the 1933 Act. Under Rule 414, a registration statement of an issuer that has been succeeded by an issuer having a different state of incorporation is deemed to be a registration statement of the successor issuer if: (1) immediately prior to the succession the successor issuer had no more than nominal assets or liabilities; (2) the succession was effected by a statutory merger or similar succession under which the successor acquired all the assets and all the liabilities of the predecessor; (3) the succession was approved by the security holders of the predecessor at a meeting for which proxies had been solicited pursuant to Section 14(a) of the Securities Exchange Act of 1934 (the "1934 Act"); and (4) the successor has filed an amendment to the registration statement of the predecessor issuer which (a) expressly adopts such registration statement as its own for all purposes of the 1933 and 1934 Acts and (b) sets forth any additional information necessary to reflect any material changes made in connection with the succession or necessary to keep the registration statement from being misleading in any material respect. Although Rule 414 was contemplated for use only in connection with a reorganization that merely changes the State of incorporation of the registrant, the staff has granted "no-action" requests involving other "organizational" changes; some of which did not involve a change in domicile at all. [See American Business Shares, Inc. (available July 31, 1975) (change from a Delaware to a Maryland corporation accompanied by a change of name and fundamental investment objective and institution of automatic redemption of small accounts); Advance Investors Corporation (available September 29, 1976) (merger of Delaware corporation into a Maryland subsidiary accompanied by a change from closed-end to open-end status and a change in some directors); Scudder Common Stock Fund, Inc. (available October 10, 1984) (reorganization from a Massachusetts corporation to a Massachusetts business trust with change in investment objective and fundamental investment restrictions) and Commonwealth Funds (available June 14, 1989) (two separate open-end investment companies organized as Massachusetts common laws trusts were reorganized into a new series of a Massachusetts business trust. Both funds were managed by the same investment personnel in accordance with the same investment objectives, policies and restrictions. The primary difference between the two funds was that one fund was sold under a periodic payment plan and the other fund was sold "in the manner of a conventional mutual fund rather than in connection with periodic payment plans".) See also Putnam Convertible Funds, Inc. (available April 28, 1982), Colonial Option Fund for Government Income, Inc. (available

March 26, 1983), and Massachusetts Financial Development Funds, Inc. (available January 10, 1985), none of which required a change in domicile as a condition precedent to relief.]

III. LEGAL CONSIDERATIONS

Kemper Funds registered shares pursuant to Rule 145

With respect to the Kemper fund reorganizations, Rule 414 arguably was not available since the acquiring fund had more than nominal assets (i.e., it was not a "shell corporation"). Pursuant to Rule 145 under the 1933 Act, the shares of the acquiring funds issued to the shareholders of the acquired funds in connection with the reorganizations were registered on Form N-14. Prior to the adoption of Rule 145, Rule 133 provided that mergers, consolidations, reclassifications or transfers of assets did not involve a sale or an offer to sell securities of the acquiring entity. The "no sale" theory embodied in Rule 133 was based upon the rationale that such reorganizations were corporate acts and that the volitional act on the part of the individual shareholder required for a "sale" was absent. In reversing the "no sale" theory and rescinding Rule 133, the Commission stated that Rule 133 overlooked the "substance of the transaction." In adopting Rule 145, the Commission's primary purpose was to require registrants to provide full and fair disclosure by giving a shareholder who was offered a new security in a Rule 145 business combination the material facts about the transaction so that the shareholder would be in a position to make an informed investment judgment. [See SEC release number 33-5316 (October 6, 1972) adopting Rule 145 and SEC release number 33-5463 (February 28, 1974) interpreting Rule 145].

In Scudder Letter SEC Staff did not Extend "Fairness Notion" to Rule 145 Reorganizations

In a similar non-Rule 414 business combination [See Scudder Managed Reserves, Inc. (available May 15, 1981) (the "Scudder" letter)] the staff denied a no-action request of an existing Scudder mutual fund that sought to succeed to the redemption credits of an acquired Scudder mutual fund. In denying the relief, the staff reasoned that the existing Scudder fund could not succeed to the acquired Scudder fund's registration statement since the existing Scudder fund was a functioning entity and, thus, did not satisfy the requirement of Rule 414 that an acquiring fund can succeed to an acquired fund's registration statement only if it is a corporate shell. Since the acquiring fund could not succeed to the acquired fund's registration under the 1933 Act, the staff thought it inappropriate to treat the shares of the acquired fund exchanged for shares of the acquiring fund as "redeemed" under Rule 24f-2 for purposes of computing the registration fee. Scudder's counsel argued unsuccessfully that the Scudder reorganization could have been accomplished within the framework of Rule 414. The result would have been the same. The process would simply have been more complicated and more expensive. Since it would have been more

complicated and more expensive, Scudder's counsel argued that it was not reasonable to require Scudder to fit precisely within a fact pattern that had previously received no action treatment in letters such as those previously cited. It is difficult not to view the decision of the staff in Scudder as a triumph of form over substance.

SEC Staff Should Reconsider Scudder -- Look at Substance over Form

We respectfully request that, in analyzing the Kemper funds reorganizations, the staff re-examine the analysis in Scudder, respect substance over form and extend the fairness notion of 24f-2 to the reorganizations. In connection with business combinations within a series investment company, it appears that the staff has already done so. In the February 25, 1994 Generic Comment Letter, the staff expressed its view that business combinations of registered investment companies should be treated as two simultaneous transactions: (1) the acquiring fund sells its shares to the acquired fund for securities and other assets of the acquired fund (in-kind); and (2) contemporaneously, the acquired fund redeems its shares in-kind, from its shareholders. The Generic Comment Letter concluded, "[T]hus, the shares sold by the acquiring fund should be included in its calculation of Rule 24f-2 fees for the fiscal year during which the combination occurs. The share redemptions by the [acquired] fund are available to offset the share sales during the [acquired] fund's fiscal year ending with or after the business combination. For series companies using the aggregation method of calculating Rule 24f-2 fees, any excess net redemptions from the [acquired fund's] combination with and into another fund may be included in the aggregation for that fiscal year. Of course, the net effect of a combination of two series in the same fund may not be material; however, the appropriate calculations should be made for verification."

Scudder letter produces anomalous result

Similarly, notwithstanding the result in Scudder, with respect to the various Kemper fund reorganizations, we believe it would be appropriate for the Kemper funds to net the redemptions that occurred as a result of the reorganizations against the sales that occurred as a result of the reorganizations. For example, for the KP-Growth Portfolio (the acquired fund), which was reorganized into the Kemper Growth Fund (the acquiring fund), we believe that the registration fees paid by the Kemper Growth Fund should be calculated by including the sales of the Kemper Growth Fund shares issued in connection with the reorganization, offset by the redemptions of the KP-Growth Portfolio shares that were redeemed in connection with the reorganization. (See Appendix A for identification of the various funds involved in the reorganizations.)

As described in the Scudder letter, the Kemper fund reorganizations theoretically could have been structured in a more complicated and expensive way so as to come within the fact pattern of prior favorable no-action letters. Specifically, for example, rather than having the Kemper Growth Fund acquire the assets of the KP-Growth Portfolio, a new "shell" could have been created to acquire both the KP-Growth Portfolio and the Kemper Growth Fund. In fact, in the Commonwealth Funds letter cited above, the staff gave no-action relief to such a transaction, and permitted the acquiring fund to succeed to both acquired funds' redemption credits. It was not practical, however, for the Kemper funds to have followed the approach in the Commonwealth Funds letter. Such an approach would have entailed two shareholder votes rather than one, with the attendant costs, complexity and increased risk of not securing the requisite shareholder vote.

Under current staff positions, the "key" factor in allowing redemption credits to carry over to a successor-entity is whether or not that successor entity is a "shell." We suggest that the "shell" analysis is a red-herring. Rather, the analysis should be focused upon the purpose of the reorganization. In the Kemper fund reorganizations, the purpose was "organizational." Like Commonwealth Funds, the Kemper funds were simply consolidating separate, but like, funds into a multi-class structure. Again, like Commonwealth Funds, the separate distribution structures of the Kemper funds were a product of their place in time, rather than design; in that the Kemper funds concept and distribution structure was initiated before the prevalence of the multi-class structure.

To take a position contrary to that requested herein would run counter to the fairness notion embodied in Rule 24f-2 and would simply reflect form over substance. The Kemper fund reorganizations were, in essence, no more than an organizational change, for the benefit of shareholders. By not allowing the netting of redemptions, shareholders of the Kemper funds will be charged duplicative and inordinately high registration fees. This is precisely the type of result that Rules 24e-2 and 24f-2 are intended to ameliorate. Furthermore, to take a position contrary to that requested herein would encourage investment companies, in the future, to reorganize in the more complicated and expensive manner of creating a "shell" company. Anomalously, shareholders voting on such "shell" types of reorganizations may receive less information about the securities being offered since the securities would not be registered on Form N-14 (ie; the shareholders would receive only a proxy statement, not a proxy statement/prospectus).

The net effect of a denial of this no-action request would be to subject the Kemper Fund shareholders to duplicative registration costs based simply upon a form over substance analysis. Moreover, it would encourage investment companies, in the future, to effectuate reorganizations by creating a shell, which may increase the costs and complexity of such

reorganizations and provide less disclosure to the shareholder voting on such reorganizations.

IV. CONCLUSION

In light of the foregoing, we respectfully request the staff to confirm to us that in connection with the reorganizations described above, each acquiring Kemper fund would be able to use the redemption credits of each respective acquired fund for purposes of calculating the registration fees owed under Rule 24f-2.

Certain of the acquiring Kemper funds that participated in the reorganizations have fiscal years ending September 30, 1994; so that their Rule 24f-2 calculations will be due no later than November 29, 1994. Accordingly, it is requested that you respond to this letter at your earliest convenience.

Pursuant to the Commission's procedures applicable to requests for no-action letters, enclosed are seven additional copies of this no-action request [SEC release number 33-6269 (December 5, 1980)].

If you have any questions with respect to this letter or need any additional information, please call the undersigned (David A. Sturms) at 312/609-7589 or Cathy G. O'Kelly at 312/609-7657.

Sincerely,

David A. Sturms

DAS:ak
Enclosures

APPENDIX A

On May 27, 1994, various Kemper mutual funds were reorganized into certain other Kemper mutual funds. Specifically, the reorganizations were as follows:

Kemper Investment Portfolios Growth Portfolio	into	Kemper Growth Fund
Kemper Investment Portfolios Total Return Portfolio	into	Kemper Total Return Fund
Kemper Investment Portfolios High Yield Portfolio	into	Kemper High Yield Fund
Kemper Investment Portfolios Diversified Income Portfolio	into	Kemper Diversified Income Fund
Kemper Investment Portfolios Small Capitalization Equity Portfolio	into	Kemper Small Capitalization Equity Fund

Kemper Investment Portfolios (which changed its name to Kemper Portfolios on May 31, 1994) ("KP"), Kemper Growth Fund, Kemper Total Return Fund, Kemper High Yield Fund, Kemper Diversified Income Fund and Kemper Small Capitalization Equity Fund (each a "Fund") are all open-end management investment companies, organized as separate business trusts under the laws of the commonwealth of Massachusetts. Each Fund may issue an unlimited number of shares of beneficial interest in one or more series. Except for KP, each Fund has only authorized one series of shares. KP, prior to the reorganizations, authorized and had outstanding, nine series of shares: Small Capitalization Equity Portfolio; Growth Portfolio; Total Return Portfolio; High Yield Portfolio; Diversified Income Portfolio; Government Income Portfolio; Government Portfolio; Short-Term Global Income Portfolio; Short-Intermediate Government Portfolio; and Money Market Portfolio.

A copy of the proxy statement/prospectus for each of the above reorganizations is enclosed for the staff's convenience.

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November 17, 1994

Mr. Jack W. Murphy
Chief Counsel
Division of Investment Management
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: Kemper Mutual Funds

Dear Mr. Murphy:

This letter responds to certain questions asked by telephone by Mr. Barry A. Mendelson of your office concerning the Kemper Mutual Funds' letter dated September 21, 1994 (a copy of which is enclosed for your reference). That letter requests the assurance of the staff of the Division of Investment Management that it will not recommend enforcement action to the Commission if the registration fees paid by the Kemper funds are computed as described in the letter (ie; that in connection with reorganizations of the Kemper funds, each acquiring Kemper fund be able to use the redemption credits of each respective acquired Kemper fund for purposes of calculating the registration fees owed under Rule 24f-2).

Mr. Mendelson asked us to confirm that the comparable separate Kemper funds were created and sold as one investment product with the primary difference being the different distribution arrangements. As we noted for Mr. Mendelson in our various telephone conversations, that was the intention of the parties. For example, in the case of the KP-High Yield Portfolio (an acquired fund) and the Kemper High Yield Fund (an acquiring fund), the two funds were marketed and sold as being essentially the same investment product; the primary difference being the different distribution arrangements: the Kemper High Yield Fund was offered with a front end sales charge while the KP-High Yield Portfolio was offered with no front end sales charge, but instead with a 12b-1 fee and a contingent deferred sales charge.

With respect to the Kemper funds involved in each reorganization, in addition to each fund having substantially similar investment objectives and policies, each fund was managed by substantially similar investment personnel and had substantially similar investment portfolios with a high degree of asset composition correlation. As noted in the registration statements filed with the Commission for each of the acquired funds, in the case of (i) KP-Growth Portfolio and Kemper Growth Fund, (ii) KP-Total Return Portfolio and Kemper Total Return Fund, and (iii) KP-Small Capitalization Equity Portfolio and Kemper Small Capitalization Equity Fund, Kemper Financial Services, Inc. ("KFS") (the investment manager for each fund) has an Equity Investment Committee that determines overall investment strategy for the funds. The Equity Investment Committee is comprised of a team of investment personnel including the individual portfolio managers for each fund. The portfolio managers work together as a team with the Equity Investment Committee and various equity analysts and equity traders to manage each fund's investments. Equity analysts -- through research, analysis and evaluation -- work to develop investment ideas appropriate for each fund. These ideas are studied and debated by the Equity Investment Committee and, if approved, are added to a list of eligible investments. The portfolio managers use the list of eligible investments to help them structure each fund's portfolio in a manner consistent with the fund's objective. In the case of (i) KP-High Yield Portfolio and Kemper High Yield Fund and (ii) KP-Diversified Income Portfolio and Kemper Diversified Income Fund, KFS has a Fixed Income Investment Committee that determines overall investment strategy for the funds. The Fixed Income Investment Committee is comprised of a team of investment personnel including the individual portfolio managers for each fund. The portfolio managers work together as a team with the Fixed Income Investment Committee and various fixed income analysts and traders to manage each fund. Analysts provide market, economic and financial research and analysis that is used by the Fixed Income Investment Committee to establish broad parameters for the funds, including duration and cash levels. In addition, credit research by analysts is used by portfolio managers in selecting securities appropriate for the fund's policies.

In response to Mr. Mendelson's request to identify the individual portfolio managers, they were, at the time of the reorganizations, as follows: C. Beth Cotner for KP-Growth Portfolio and Kemper Growth Fund; C. Beth Cotner for KP-Total Return Portfolio and Gordon P. Wilson for Kemper Total Return Fund; C. Beth Cotner for KP-Small Capitalization Equity Portfolio and Kemper Small Capitalization Equity Fund; Michael A. McNamara and Harry E. Reiss, Jr. as co-managers for both KP-High Yield Portfolio and Kemper High Yield Fund; and Michael A. McNamara and Harry E. Reiss, Jr. as co-managers for both KP-Diversified Income Portfolio and Kemper Diversified Income Fund. As we discussed with Mr. Mendelson, notwithstanding the fact that the "named" portfolio managers were different for KP-Total Return Portfolio and Kemper Total Return Fund (together, the "Total Return Funds"), the overall

investment strategy for each of the Total Return Funds was determined, as noted above, by the Equity Investment Committee, and the portfolio managers used the same list of eligible investments.

Mr. Mendelson also asked whether the plan of reorganization provided that the acquiring fund would succeed to all the liabilities of the acquired fund, including liabilities under and relating to the acquired fund's registration statement under the Securities Act of 1933. The plan of reorganization does not refer specifically to particular liabilities, including any under and relating to the acquired fund's registration statement, but simply states that the acquiring fund will assume all of the liabilities of the acquired fund. This broadly inclusive language aside, we believe that any obligations of the acquired fund under and relating to the acquired fund's registration statement under the 1933 Act were assumed by and are obligations of the acquiring fund.

If you have any additional questions relating to the Kemper funds request for no-action position, please call me at (312) 609-7589.

Sincerely,

David A. Sturms

DAS:djo
Enclosure