

EVERGREEN UTILITIES & HIGH INCOME FUND
Form N-CSRS
May 03, 2007

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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 811-21507

Evergreen Utilities and High 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: August 31

Date of reporting period: February 28, 2007

Item 1 - Reports to Stockholders.

Evergreen Utilities and High 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 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.

LETTER TO SHAREHOLDERS

April 2007

Dennis H. Ferro

President and Chief Executive Officer

Dear Shareholder,

We are pleased to provide the semiannual report for Evergreen Utilities and High Income Fund covering the six-month period ended February 28, 2007.

A growing sense of confidence led to positive returns in both the domestic fixed-income and equity markets for the six-month period. Investor sentiment was sustained by the combination of receding commodity prices and the Federal Reserve Board's policy to leave short-term interest rates unchanged. In the fixed-income market, corporate securities performed particularly well, supported by a growing economy and improving business profitability. The steady rise in corporate earnings helped generate solid returns in the equity market, despite some short-term volatility.

While Gross Domestic Product grew by a rate of 3.3% for 2006, the expansion moderated in the second half of the year as economic activity increased at a 2.0% pace in the third quarter and at a 2.5% pace in the final quarter of the calendar year. The deceleration in the economy was most evident in the housing and automotive industries. While overall personal consumption and manufacturing activity increased, growth in business investment fell short of early optimistic forecasts. However, given high employment levels, combined with record household net-worth and solid corporate balance sheets, we maintained our confidence in the sustainability of the economic expansion. We held to that opinion despite the major sell-off that hit the

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LETTER TO SHAREHOLDERS continued

equity market in the closing days of February, viewing this market pullback as a temporary episode.

In this environment, the portfolio managers of Evergreen Utilities and High Income Fund continued to seek a high level of current income and moderate capital growth for investors. In managing this closed-end fund, our investment professionals maintained significant allocations to equity and convertible securities of utility companies as well as high-yield corporate 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. Thank you for your continued support of Evergreen Investments.

Sincerely,

Dennis H. Ferro

President and Chief Executive Officer
Evergreen Investment Company, Inc.

Notice to Shareholders:

Effective October 1, 2006 Tattersall Advisory Group, Inc., an indirect, wholly-owned subsidiary of Wachovia, became an investment sub-advisor to the Fund. In addition, effective December 15, 2006, Crow Point Partners, LLC also became an investment sub-advisor to the Fund.

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Notification of Investment Strategy Change:

Effective June 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

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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.

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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FINANCIAL HIGHLIGHTS

(For a common share outstanding throughout each period)

	Six Months Ended			
	February 28, 2007 (unaudited)	Year Ended August 31,		
		2006	2005	2004¹
Net asset value, beginning of period	\$ 23.16	\$ 25.43	\$ 19.76	\$ 19.10 ²
Income from investment operations				
Net investment income (loss)	0.58 ³	4.07 ³	1.80	0.77
Net realized and unrealized gains or losses on investments	3.06	(0.51)	5.64	0.34
Distributions to preferred shareholders from ³				
Net investment income	(0.25)	(0.39)	(0.15)	(0.02)
Net realized gains	0	(0.02)	(0.04)	0
Total from investment operations	3.39	3.15	7.25	1.09
Distributions to common shareholders from				
Net investment income	(2.56)	(2.76)	(1.58)	(0.30)
Net realized gains	0	(2.67)	0	0
Total distributions to common shareholders	(2.56)	(5.43)	(1.58)	(0.30)
Offering costs charged to capital for				
Common shares	0	0	0	(0.04)

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Preferred shares	0	0.01 ^{3,4}	0	(0.09)
Total offering costs	0	0.01	0	(0.13)
Net asset value, end of period	\$ 23.99	\$ 23.16	\$ 25.43	\$ 19.76
Market value, end of period	\$ 27.08	\$ 23.50	\$ 22.21	\$ 18.29
Total return based on market value⁵	26.99%	35.89%	31.00%	(7.05%)
Ratios and supplemental data				
Net assets of common shareholders, end of period (thousands)	\$206,955	\$195,955	\$250,826	\$227,328
Liquidation value of preferred shares, end of period (thousands)	\$ 80,000	\$ 80,000	\$ 80,000	\$ 80,000
Asset coverage ratio, end of period	363%	341%	406%	284%
Ratios to average net assets applicable to common shareholders				
Expenses including waivers/reimbursements and interest expense but excluding expense reductions	1.44% ⁶	1.70%	1.49%	1.31% ⁶
Expenses including interest expense but excluding waivers/reimbursements and expense reductions	1.44% ⁶	1.70%	1.54%	1.31% ⁶
Interest expense	0.24% ⁶	0.31%	0.30%	0.29% ⁶
Net investment income (loss) ⁷	2.80% ⁶	16.00%	8.50%	12.05% ⁶
Portfolio turnover rate	44%	122%	126%	55%

¹ For the period from April 30, 2004 (commencement of operations), to August 31, 2004.

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

³ Calculated based on average common shares outstanding during the period.

⁴ Amount represents a refund of certain preferred share offering expenses .

⁵ 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.

⁶ Annualized

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

See Notes to Financial Statements

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SCHEDULE OF INVESTMENTS

February 28, 2007 (unaudited)

	Principal Amount	Value
CORPORATE BONDS 35.3%		
CONSUMER DISCRETIONARY 7.8%		
Auto Components 0.6%		
American Axle & Manufacturing Holdings, Inc., 5.25%, 02/11/2014	\$ 500,000	\$ 445,000
Lear Corp., 8.75%, 12/01/2016	1,000,000	968,750
		<hr/> 1,413,750 <hr/>
Diversified Consumer Services 0.4%		
Service Corporation International, 7.00%, 06/15/2017	1,000,000	1,015,000
		<hr/>
Hotels, Restaurants & Leisure 1.3%		
Caesars Entertainment, Inc., 8.125%, 05/15/2011	1,000,000	1,063,750
Festival Fun Parks, LLC, 10.875%, 04/15/2014	475,000	495,188
Seneca Gaming Corp., 7.25%, 05/01/2012	1,000,000	1,012,500
Town Sports International, Inc., 9.625%, 04/15/2011	642,000	676,507
		<hr/> 3,247,945 <hr/>
Media 2.6%		
CSC Holdings, Inc., 7.625%, 04/01/2011	1,000,000	1,032,500
Lamar Media Corp., 6.625%, 08/15/2015	1,000,000	990,000
LIN TV Corp., 6.50%, 05/15/2013	835,000	818,300
Mediacom Broadband, LLC, 8.50%, 10/15/2015 144A	500,000	511,250
Mediacom Communications Corp., 9.50%, 01/15/2013	1,000,000	1,030,000
MediaNews Group, Inc., 6.375%, 04/01/2014	1,000,000	895,000
R.H. Donnelley Corp., 10.875%, 12/15/2012	1,000,000	1,090,000
		<hr/> 6,367,050 <hr/>
Multi-line Retail 0.5%		
J.C. Penney Co., Inc., 7.375%, 08/15/2008	1,000,000	1,027,853
Neiman Marcus Group, Inc., 9.00%, 10/15/2015	100,000	110,500
		<hr/> 1,138,353 <hr/>
Specialty Retail 1.2%		
Central Garden & Pet Co., 9.125%, 02/01/2013	1,500,000	1,567,500
Payless ShoeSource, Inc., 8.25%, 08/01/2013	300,000	312,000
United Auto Group, Inc., 9.625%, 03/15/2012	1,000,000	1,053,130
		<hr/> 2,932,630 <hr/>
Textiles, Apparel & Luxury Goods 1.2%		

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Levi Strauss & Co., 9.75%, 01/15/2015	800,000	884,000
Oxford Industries, Inc., 8.875%, 06/01/2011	1,000,000	1,045,000
Warnaco Group, Inc., 8.875%, 06/15/2013	1,000,000	1,070,000
		2,999,000

CONSUMER STAPLES 2.0%

Food & Staples Retailing 1.2%

Ingles Markets, Inc., 8.875%, 12/01/2011	1,000,000	1,047,500
Rite Aid Corp., 8.125%, 05/01/2010	1,000,000	1,031,250
SUPERVALU, Inc., 7.50%, 11/15/2014	750,000	783,419
		2,862,169

See Notes to Financial Statements

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SCHEDULE OF INVESTMENTS continued

February 28, 2007 (unaudited)

	Principal Amount	Value
CORPORATE BONDS		
continued		
CONSUMER STAPLES		
continued		
Food Products 0.8%		
Dean Foods Co., 8.15%, 08/01/2007	\$ 500,000	\$ 504,375
Del Monte Foods Co., 6.75%, 02/15/2015	1,500,000	1,485,000
		1,989,375
ENERGY 5.4%		
Energy Equipment & Services 0.8%		
Hornbeck Offshore Services, Inc., Ser. B, 6.125%, 12/01/2014	150,000	142,500
Parker Drilling Co., 9.625%, 10/01/2013	815,000	890,387
PHI, Inc., 7.125%, 04/15/2013	1,000,000	975,000

2,007,887

Oil, Gas & Consumable**Fuels 4.6%**

Chesapeake Energy Corp., 6.875%, 01/15/2016	1,000,000	1,017,500
El Paso Corp., 7.75%, 06/01/2013	1,000,000	1,050,000
Exco Resources, Inc., 7.25%, 01/15/2011	1,500,000	1,526,250
Ferrellgas Partners, LP, 6.75%, 05/01/2014	1,000,000	985,000
Forest Oil Corp., 7.75%, 05/01/2014	1,000,000	1,020,000
Frontier Oil Corp., 6.625%, 10/01/2011	125,000	125,000
Peabody Energy Corp., 6.875%, 03/15/2013	1,000,000	1,017,500
Sabine Pass LNG, LP, 7.25%, 11/30/2013 144A	750,000	751,875
Targa Resources, Inc., 8.50%, 11/01/2013 144A	1,000,000	1,020,000
Tesoro Corp., Ser. B, 6.625%, 11/01/2015	500,000	507,500
Williams Cos., 7.125%, 09/01/2011	1,000,000	1,050,000
Williams Partners, LP, 7.25%, 02/01/2017 144A	1,225,000	1,292,375

11,363,000

FINANCIALS 3.1%**Consumer Finance 1.1%**

Ford Motor Credit Co., 5.70%, 01/15/2010	745,000	718,886
General Motors Acceptance Corp., 5.625%, 05/15/2009	1,000,000	986,722
Qwest Capital Funding, Inc., 6.50%, 11/15/2018	1,000,000	947,500

2,653,108

Insurance 0.7%

Crum & Forster Holdings Corp., 10.375%, 06/15/2013	1,500,000	1,623,750
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Real Estate Investment**Trusts 1.3%**

Omega Healthcare Investors, Inc.:		
7.00%, 04/01/2014	1,000,000	1,017,500
7.00%, 01/15/2016	250,000	254,375
	1,000,000	1,005,000

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Thornburg Mortgage, Inc., 8.00%, 05/15/2013		
Ventas, Inc., 7.125%, 06/01/2015	1,000,000	1,048,750
		3,325,625

See Notes to Financial Statements

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SCHEDULE OF INVESTMENTS continued

February 28, 2007 (unaudited)

	Principal Amount	Value
CORPORATE BONDS continued		
HEALTH CARE 1.0%		
Health Care Providers & Services 0.8%		
HCA, Inc., 9.25%, 11/15/2016 144A	\$ 915,000	\$ 982,481
Triad Hospitals, Inc., 7.00%, 11/15/2013	1,000,000	1,046,250
		2,028,731
Pharmaceuticals 0.2%		
Mylan Laboratories, Inc., 6.375%, 08/15/2015	500,000	501,250
INDUSTRIALS 3.2%		
Commercial Services & Supplies 1.7%		
Adesa, Inc., 7.625%, 06/15/2012	1,000,000	1,030,000
Allied Waste North America, Inc., 6.375%, 04/15/2011	1,000,000	1,007,500
Corrections Corporation of America, 6.25%, 03/15/2013	1,050,000	1,052,625
Geo Group, Inc., 8.25%, 07/15/2013	1,000,000	1,045,000
		4,135,125
Machinery 0.8%		
Manitowoc Co., 7.125%, 11/01/2013	1,000,000	1,025,000
Terex Corp., 7.375%, 01/15/2014	1,000,000	1,032,500
		2,057,500
Road & Rail 0.5%		
Avis Budget Car Rental, LLC, 7.625%, 05/15/2014 144A	1,250,000	1,275,000

Trading Companies & Distributors 0.2%

Ashtead Capital, Inc., 9.00%, 08/15/2016 144A	364,000	394,940
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INFORMATION TECHNOLOGY 1.6%**IT Services 1.2%**

Iron Mountain, Inc., 8.625%, 04/01/2013	1,000,000	1,030,000
SunGard Data Systems, Inc., 4.875%, 01/15/2014	1,000,000	910,000
Unisys Corp., 8.00%, 10/15/2012	1,000,000	1,015,000

2,955,000

Semiconductors & Semiconductor Equipment 0.4%

Freescale Semiconductor, 8.875%, 12/15/2014 144A	1,000,000	1,018,750
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MATERIALS 4.0%**Chemicals 1.4%**

Equistar Chemicals, LP, 10.625%, 05/01/2011	1,000,000	1,062,500
Lyondell Chemical Co., 10.50%, 06/01/2013	1,000,000	1,100,000
Tronox Worldwide, LLC, 9.50%, 12/01/2012	600,000	648,000
Westlake Chemical Corp., 6.625%, 01/15/2016	600,000	591,000

3,401,500

Containers & Packaging 0.9%

Crown Americas, Inc., 7.75%, 11/15/2015	1,000,000	1,050,000
Owens-Brockway Glass Containers, Inc., 6.75%, 12/01/2014	1,010,000	1,004,950

2,054,950

See Notes to Financial Statements

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SCHEDULE OF INVESTMENTS continued

February 28, 2007 (unaudited)

	Principal Amount	Value
CORPORATE BONDS continued		
MATERIALS continued		
Metals & Mining 0.4%		
Freeport-McMoRan Copper & Gold, Inc., 6.875%, 02/01/2014	\$ 1,000,000	\$ 1,027,500

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Paper & Forest Products 1.3%

Boise Cascade, LLC, 7.125%, 10/15/2014	1,250,000	1,231,250
Bowater, Inc., 6.50%, 06/15/2013	500,000	468,750
P. H. Glatfelter, 7.125%, 05/01/2016	800,000	816,000
Verso Paper Holdings, LLC, 9.125%, 08/01/2014 144A	650,000	689,000
		<hr/>
		3,205,000
		<hr/>

TELECOMMUNICATION SERVICES 2.2%

Diversified Telecommunication Services 1.8%

Citizens Communications Co., 7.875%, 01/15/2027 144A	1,210,000	1,267,475
Embarq Corp., 7.08%, 06/01/2016	1,000,000	1,035,810
Level 3 Communications, Inc., 6.375%, 10/15/2015	1,000,000	1,000,000
Qwest Communications International, Inc., 7.875%, 09/01/2011	1,000,000	1,066,250
		<hr/>
		4,369,535
		<hr/>

Wireless Telecommunication Services 0.4%

Rural Cellular Corp., 8.25%, 03/15/2012	1,000,000	1,042,500
		<hr/>

UTILITIES 5.0%

Electric Utilities 2.9%

Aquila, Inc., 14.875%, 07/01/2012	1,000,000	1,310,000
CMS Energy Corp., 7.50%, 01/15/2009	1,000,000	1,027,500
DPL, Inc., 6.875%, 09/01/2011	1,000,000	1,065,095
Edison International, 7.73%, 06/15/2009	1,000,000	1,037,500
El Paso Electric Co., 7.80%, 08/01/2031	875,000	959,219
Mirant North America, LLC, 7.375%, 12/31/2013	975,000	1,006,687
NRG Energy, Inc., 7.25%, 02/01/2014	700,000	715,750
Reliant Energy, Inc., 6.75%, 12/15/2014	1,000,000	1,042,500
		<hr/>
		8,164,251
		<hr/>

Gas Utilities 0.4%

SEMCO Energy, Inc., 7.75%, 05/15/2013	1,000,000	1,026,842
		<hr/>

Independent Power Producers & Energy Traders 1.3%

AES Corp., 7.75%, 03/01/2014	1,000,000	1,052,500
Dynegy, Inc., 8.375%, 05/01/2016	1,000,000	1,075,000
Tenaska, Inc., 7.00%, 06/30/2021 144A	961,186	978,217
		<hr/>
		3,105,717
		<hr/>

<i>Total Corporate Bonds (cost \$86,050,055)</i>		<hr/>
		86,702,733
		<hr/>

See Notes to Financial Statements

SCHEDULE OF INVESTMENTS continued

February 28, 2007 (unaudited)

	Shares	Value
CONVERTIBLE PREFERRED STOCKS		
2.1%		
ENERGY 2.1%		
Oil, Gas & Consumable Fuels 2.1%		
El Paso Corp., 4.99%, 12/31/2049 (cost \$4,534,688)	4,000	\$ 5,089,000
COMMON STOCKS 67.3%		
CONSUMER DISCRETIONARY 0.2%		
Media 0.2%		
Idearc, Inc. *	15,000	510,000
ENERGY 13.7%		
Oil, Gas & Consumable Fuels		
13.7%		
Copano Energy, LLC	93,440	6,174,515
Crosstex Energy, Inc. (p)	255,000	8,274,750
Enbridge, Inc. (p)	124,000	3,939,480
Southwestern Energy Co. *	25,000	975,000
Spectra Energy Corp. *	37,500	964,875
Valero GP Holdings, LLC (p)	275,000	7,243,500
Williams Partners, LP (p)	140,000	6,048,000
		33,620,120
TELECOMMUNICATION SERVICES		
22.5%		
Diversified Telecommunication		
Services 13.1%		
AT&T, Inc.	250,000	9,200,000
Elisa Oyj	100,000	2,944,486
Shenandoah Telecommunications		
Co. +	170,000	7,493,600
TELUS Corp.	75,000	3,609,711
Verizon Communications, Inc.	200,000	7,486,000
Windstream Corp.	100,000	1,505,000
		32,238,797
Wireless Telecommunication		
Services 9.4%		

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Alltel Corp.	160,000	9,694,400
American Tower Corp., Class A *	125,000	4,842,500
Bouygues SA	50,000	3,476,132
Rogers Communications, Inc., Class B	150,000	4,897,500
		22,910,532

UTILITIES 30.9%

Electric Utilities 22.9%

Allegheny Energy, Inc. *	50,000	2,362,000
Cleco Corp.	50,000	1,310,000
DPL, Inc. (p)	325,000	9,805,250
Duke Energy Corp.	75,000	1,476,750
E.ON AG, ADR	100,000	4,361,000
Edison International	75,000	3,519,000
Enel SpA	300,000	3,131,372
Entergy Corp.	21,000	2,072,700

See Notes to Financial Statements

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SCHEDULE OF INVESTMENTS continued

February 28, 2007 (unaudited)

	Shares	Value
COMMON STOCKS continued		
UTILITIES continued		
Electric Utilities continued		
Exelon Corp.	57,000	\$ 3,758,010
FirstEnergy Corp.	47,000	2,940,790
Fortum Oyj	350,000	9,631,784
ITC Holdings Corp.	36,000	1,580,760
Maine & Maritimes Corp.	1,135	20,316
MGE Energy, Inc.	15,000	501,150
Mirant Corp.	75,072	2,797,183
Northeast Utilities	200	5,812
Scottish and Southern Energy plc	250,000	7,049,743
		56,323,620
Gas Utilities 0.1%		
Snam Rete Gas SpA	50,000	298,335

Independent Power Producers & Energy Traders**4.4%**

Constellation Energy Group, Inc.	100,000	7,867,000
Ormat Technologies, Inc. (p)	75,000	2,913,750
		10,780,750

Multi-Utilities 1.1%

RWE AG	25,000	2,548,463
Wisconsin Energy Corp.	1,500	71,925
		2,620,388

Water Utilities 2.4%

Aqua America, Inc. (p)	25,000	569,750
Kelda Group plc	100,000	1,746,156
Pennichuck Corp.	150,000	3,642,000
		5,957,906

Total Common Stocks (cost \$129,091,143) 165,260,448

PREFERRED STOCKS 7.7%**UTILITIES 7.7%****Electric Utilities 7.4%**

Carolina Power & Light Co., 5.00%	9,217	847,388
Connecticut Light & Power Co., Ser. 1947, 2.00%	22,000	772,750
Connecticut Light & Power Co., Ser. 1949, 2.04%	9,600	344,100
Consolidated Edison, Inc., 5.00%	22,820	2,105,145
Dayton Power & Light Co., Ser. A, 3.75%	9,416	670,302
Dayton Power & Light Co., Ser. B, 3.75%	5,120	367,200
Entergy Arkansas, Inc., 6.08%	644	62,710
Hawaiian Electric Industries, Inc., Ser. K, 4.65%	27,000	458,158
Louisville Gas & Electric Co., 5.00%	40,592	1,120,339
Pacific Gas & Electric Co., Ser. D, 5.00%	126,000	2,882,250
Pacific Gas & Electric Co., Ser. H, 4.50%	33,800	743,600
Pacific Gas & Electric Co., Ser. I, 4.36%	34,800	717,750
PECO Energy Co., Ser. C, 4.40%	29,590	2,522,547

See Notes to Financial Statements

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SCHEDULE OF INVESTMENTS continued

February 28, 2007 (unaudited)

	Shares	Value
PREFERRED STOCKS		
continued		
UTILITIES continued		
Electric Utilities		
continued		
Southern California Edison Co., Ser. B, 4.08%	45,900	\$ 907,443
Southern California Edison Co., Ser. D, 4.32%	54,000	1,102,950
Union Electric Co., 4.50%	14,600	1,255,600
Union Electric Co., 4.56%	11,190	973,530
Union Electric Co., Ser. 1969, 4.00%	4,200	324,450
		18,178,212
Water Utilities 0.3%		
Hackensack Water Co., 4.99% (h)	10,469	837,520
		19,015,732
<i>Total Preferred Stocks (cost \$18,472,850)</i>		<i>19,015,732</i>
ESCROW SHARES 0.0%		
Mirant Corp. Escrow * + (h) (cost \$0)	5,000,000	0
EXCHANGE TRADED FUND 0.4%		
Tortoise Capital Resources Corp. - (cost \$1,125,000)	75,000	1,087,500
UNIT INVESTMENT TRUST 0.2%		
Kayne Anderson MLP Investment Co. - (cost \$375,000)	15,000	493,650
	Principal Amount	Value
SHORT-TERM INVESTMENTS 15.8%		
CORPORATE BONDS 0.8%		
Diversified Financials 0.8%		
Bank of America Corp., FRN, 5.36%, 06/13/2007 (pp)	\$ 2,000,426	2,000,426

	Shares	Value
MUTUAL FUND SHARES		
4.4%		
AIM Short-Term Investment Co. Liquid Assets Portfolio, Class I, 5.25% q (pp)	62,172	62,172
Evergreen Institutional Money Market Fund, Class I, 5.21% q ø μ	10,603,363	10,603,363
		10,665,535

	Principal Amount	Value
REPURCHASE		
AGREEMENTS ^ 10.6%		
Barclays plc, 5.36%, dated 02/28/2007, maturing 03/01/2007, maturity value \$3,000,447 (1) (pp)	\$ 3,000,000	3,000,000
BNP Paribas SA, 5.36%, dated 02/28/2007, maturing 03/01/2007, maturity value \$1,000,149 (2) (pp)	1,000,000	1,000,000
Countrywide Securities Corp., 5.34%, dated 02/28/2007, maturing 03/01/2007, maturity value \$1,000,148 (3) (pp)	1,000,000	1,000,000
Credit Suisse First Boston Corp., 5.35%, dated 02/28/2007, maturing 03/01/2007, maturity value \$6,000,892 (4) (pp)	6,000,000	6,000,000

See Notes to Financial Statements

11**SCHEDULE OF INVESTMENTS** continued

February 28, 2007 (unaudited)

	Principal Amount	Value
SHORT-TERM INVESTMENTS		
continued		

REPURCHASE AGREEMENTS[^]**continued**

Deutsche Bank AG, 5.36%, dated 02/28/2007, maturing 03/01/2007, maturity value \$2,000,298 (5) (pp)	\$ 2,000,000	\$ 2,000,000
Greenwich Capital Markets, Inc., 5.36%, dated 02/28/2007, maturing 03/01/2007, maturity value \$4,000,596 (6) (pp)	4,000,000	4,000,000
JPMorgan Chase & Co., 5.34%, dated 02/28/2007, maturing 03/01/2007, maturity value \$3,000,445 (7) (pp)	3,000,000	3,000,000
Lehman Brothers, Inc., 5.35%, dated 02/28/2007, maturing 03/01/2007, maturity value \$1,000,149 (8) (pp)	1,000,000	1,000,000
Merrill Lynch & Co., Inc., 5.35%, dated 02/28/2007, maturing 03/01/2007, maturity value \$4,000,594 (9) (pp)	4,000,000	4,000,000
Nomura Securities International, Inc., 5.36%, dated 02/28/2007, maturing 03/01/2007, maturity value \$1,000,149 (10) (pp)	1,000,000	1,000,000
		26,000,000
<i>Total Short-Term Investments (cost \$38,665,961)</i>		38,665,961
Total Investments (cost \$278,314,697) 128.8%		316,315,024
Other Assets and Liabilities and Preferred Shares (28.8%)		(109,360,502)
Net Assets Applicable to Common Shareholders 100.0%	\$	206,954,522

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.

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

* Non-income producing security

+ Security is deemed illiquid and is valued using market quotations when readily available.

(h) Security is valued at fair value as determined by the investment advisor in good faith, according to procedures approved by the Board of Trustees.

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- (pp) Represents investment of cash collateral received from securities on loan.
- q Rate shown is the 7-day annualized yield at period end.
- ∅ Evergreen Investment Management Company, LLC is the investment advisor to both the Fund and the money market fund.
- μ All or a portion of this security has been segregated as collateral for reverse repurchase agreements.
- ^ Collateralized by:
- (1) \$1,415,040 FHLMC Discount Note, 0.00%, 07/16/2007, value is \$1,387,305; \$1,707,720 FHLMC Discount Note, 0.00%, 07/23/2007, value is \$1,672,712.
 - (2) \$293,610 Bank of Ireland Capital Funding, FRN, 5.57%, 02/01/2016, value including accrued interest is \$292,911; \$60,574 Codelco, Inc., 6.375%, 11/30/2012 144A, value including accrued interest is \$65,019; \$12,500 Harley-Davidson Motorcycle Trust, Ser. 2006-3, Class B, 5.43%, 11/15/2014, value including accrued interest is \$12,618; \$310,953 JPMorgan Chase & Co., Ser. R, 6.95%, 08/17/2036, value including accrued interest is \$343,759; \$275,400 Textron Financial Corp., 5.875%, 06/01/2007, value including accrued interest is \$279,630; \$25,709 Verizon Communications, Inc., 5.85%, 09/15/2035, value including accrued interest is \$26,063.
 - (3) \$632,921 Countrywide Alternative Loan Trust, Ser. 2007-J1, Class 2A10, 6.00%, 03/25/2037, value including accrued interest is \$636,990; \$382,398 Argent Securities, Inc., Ser. 2006-W3, Class AC2, 04/25/2036, value including accrued interest is \$383,010.

See Notes to Financial Statements

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SCHEDULE OF INVESTMENTS continued

February 28, 2007 (unaudited)

- ^ Collateralized by:
- (4) \$443,209 Connecticut Light & Power, Ser. D, 7.875%, 10/01/2024, value including accrued interest is \$552,008; \$1,126,091 Kraft Foods, Inc., 5.625%, 11/01/2011, value including accrued interest is \$1,170,272; \$545,455 Kraft Foods, Inc., 6.50%, 11/01/2031, value including accrued interest is \$599,267; \$150,000 Kraft Foods, Inc., 6.25%, 11/12/2009, value including accrued interest is \$159,684; \$468,491 Kraft Foods, Inc., 4.125%, 11/12/2009, value including accrued interest is \$463,096; \$1,694,182 Motorola, Inc., 4.61%, 11/16/2007, value including accrued interest is \$1,687,456; \$726,545 Motorola, Inc., 8.00%, 11/01/2011 144A, value including accrued interest is \$824,029; \$20,455 Transocean, Inc., 7.45%, 04/15/2027, value including accrued interest is \$23,351; \$272,727 Wisconsin Energy Corp., 6.50%, 04/01/2011, value including accrued interest is \$285,638; \$348,000 Wisconsin Energy Corp., 5.50%, 12/01/2008, value including accrued interest is \$355,272.
 - (5) \$280,000 Atrium CDO Corp., Ser. 4A, Class B, FRN, 6.10%, 06/08/2019, value including accrued interest is \$283,820; \$280,000 Barramundi CDO, Ltd., Ser. 2006-1A, Class C, FRN, 6.47%, 12/11/2051, value is \$280,000; \$287,200 Marshall & Isley Bank, 5.15%, 02/22/2012, value including accrued interest is \$288,699; \$288,000 Residential Asset Securities Corp., Ser. 2004-KS2, Class M21, FRN, 5.83%, 03/25/2034, value including accrued interest is \$257,048; \$272,000 Singapore Power Assets, Ltd., 5.00%, 10/22/2013 144A, value including interest is \$275,302; \$103,072 SouthTrust Bank NA, FRN, 5.43%, 03/19/2007, value including accrued interest is \$103,457; \$276,800 Static Residential CDO, Ltd., Ser. 2006-CA, Class C, FRN, 8.12%, 12/12/2041, value is \$276,800; \$273,568 Toyota Motor Credit Corp., 5.375%, 01/28/2010, value including accrued interest is \$274,875.
 - (6) \$307,319 FHLMC, 4.50%, 01/01/2036, value including accrued interest is \$287,802; \$300,000 FNMA, 7.50%,

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11/01/2034, value including accrued interest is \$155,255; \$142,043 FNMA, 5.00%, 02/01/2037, value including accrued interest is \$138,686; \$297,344 FNMA, 6.00%, 02/01/2037, value including accrued interest is \$301,654; \$321,472 FNMA, 6.50%, 02/01/2037, value including accrued interest is \$329,533; \$296,666 FNMA, 5.50%, 02/01/2022, value including accrued interest is \$297,784; \$379,074 FNMA, 6.50%, 02/01/2037, value including accrued interest is \$388,276; \$337,100 FNMA, 5.00%, 02/01/2022, value including accrued interest is \$333,232; \$368,220 FNMA, 5.00%, 02/01/2037, value including accrued interest is \$359,517; \$340,977 FNMA, 5.50%, 02/01/2037, value including accrued interest is \$340,302; \$289,524 FNMA, 6.00%, 03/01/2037, value including interest is \$293,725; \$338,224 FNMA, 5.50%, 01/01/2022, value including accrued interest is \$340,824; \$167,200 FNMA, 5.00%, 02/01/2037, value including interest accrued is \$163,248; \$363,268 FNMA, 5.00%, 01/01/2037, value including accrued interest is \$350,277.

- (7) \$3,079,200 Ranger Funding Co., LLC, 5.32%, 04/12/2007, value including accrued interest is \$3,060,048.
- (8) \$1,046,900 Egypt, 4.45%, 09/15/2015, value including accrued interest is \$1,020,037.
- (9) \$188,195 Genworth Financial, Inc., FRN, 6.15%, 11/15/2066, value including accrued interest is \$194,119; \$112,846 Petroliam Nasional, 7.63%, 10/15/2026 144A, value including accrued interest is \$141,034; \$210,244 Reed Elsevier Capital, 4.63%, 06/15/2012, value including accrued interest is \$205,517; \$585,366 Reed Elsevier Capital, FRN, 5.68%, 06/15/2010, value including accrued interest is \$586,601; \$325,203 Schering-Plough Corp., 6.50%, 12/01/2033, value including accrued interest is \$369,577; \$626,179 Swiss Capital, LP, FRN, 6.85%, 05/25/2016 144A, value including accrued interest is \$667,500; \$1,105,691 Textron Financial Corp., FRN, 5.46%, 09/29/2009, value including accrued interest is \$1,115,790; \$617,236 United Utilities plc, 5.38%, 02/01/2019, value including accrued interest is \$599,336; \$169,919 Hutchison Whampoa, Ltd., 7.45%, 11/24/2033, value including accrued interest is \$200,580.
- (10) \$125,000 Harborview Mtge. Loan Trust, Ser. 2005-16, Class 2A1B, FRN, 5.65%, 01/19/2036, value including accrued interest is \$60,824; \$198,850 IndyMac INDX Mtge. Loan Trust, Ser. 2006-AR9, Class 3A4, 6.01%, 06/25/2036, value including accrued interest is \$203,096; \$309,628 MASTR Alternative Loans Trust, Ser. 2007-1, Class 3A1, 6.00%, 11/25/2021, value including accrued interest is \$304,263; \$58,990 Merrill Lynch Mtge. Investors Trust, Ser. 2006-A3, Class 4A2, 6.24%, 05/25/2036, value including accrued interest is \$55,861; \$497,691 Nomura Asset Acceptance Corp., Ser. 2005-AR6, Class 1A, 5.72%, 12/25/2035, value including accrued interest is \$352,428; \$9,486 Nomura Asset Acceptance Corp., Ser. 2006-AR2, Class 2A2, 6.58%, 04/25/2036, value including accrued interest is \$8,049; \$45,000 Washington Mutual Mtge. Pass Through, Ser. 2006-AR5, Class 4A1B, FRN, 5.60%, 07/25/2046, value including accrued interest is \$35,480.

See Notes to Financial Statements

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SCHEDULE OF INVESTMENTS continued

February 28, 2007 (unaudited)

Summary of Abbreviations

ADR	American Depositary Receipt
CDO	Collateralized Debt Obligation
FHLMC	Federal Home Loan Mortgage Corp.
FNMA	Federal National Mortgage Association
FRN	Floating Rate Note
MASTR	Mortgage Asset Securitization Transactions, Inc.

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The following table shows the percent of total long-term investments by geographic location as of February 28, 2007:

2007:	
United States	84.9%
Finland	4.0%
Canada	3.9%
United Kingdom	2.8%
Germany	2.2%
France	1.1%
Italy	1.1%
	<hr style="width: 100%; border: 0.5px solid black;"/>
	100.0%
	<hr style="width: 100%; border: 0.5px solid black;"/>

The following table shows the percent of total investments (excluding equity positions and collateral from securities on loan) by credit quality based on Moody's and Standard & Poor's ratings as of February 28, 2007:

AAA	14.1%
BBB	3.6%
BB	30.0%
B	52.3%
	<hr style="width: 100%; border: 0.5px solid black;"/>
	100.0%
	<hr style="width: 100%; border: 0.5px solid black;"/>

The following table shows the percent of total investments (excluding equity positions and collateral from securities on loan)

based on effective maturity as of February 28, 2007:

Less than	
1 year	14.6%
1 to 3 year(s)	4.8%
3 to 5 years	12.2%
5 to 10 years	63.3%
10 to 20 years	4.2%
20 to 30 years	0.9%
	<hr style="width: 100%; border: 0.5px solid black;"/>
	100.0%
	<hr style="width: 100%; border: 0.5px solid black;"/>

See Notes to Financial Statements

STATEMENT OF ASSETS AND LIABILITIES

February 28, 2007 (unaudited)

Assets

Investments in securities, at value (cost \$241,711,334) including \$26,628,387 of securities loaned	\$ 279,711,661
Investments in affiliated money market fund, at value (cost \$10,603,363)	10,603,363
Investment in repurchase agreements, at value (cost \$26,000,000)	26,000,000
<hr/>	
Total investments	316,315,024
Foreign currency, at value (cost \$104,553)	106,137
Receivable for securities sold	7,058,092
Dividends and interest receivable	2,372,187
Receivable for securities lending income	6,826
Unrealized gains on interest rate swap transactions	174,583
<hr/>	
Total assets	326,032,849

Liabilities

Dividends payable applicable to common shareholders	1,725,198
Payable for securities purchased	1,463,257
Payable for reverse repurchase agreements	7,741,266
Payable for securities on loan	28,062,598
Advisory fee payable	4,851
Due to other related parties	404
Accrued expenses and other liabilities	57,601
<hr/>	
Total liabilities	39,055,175

Preferred shares at redemption value

\$25,000 liquidation value per share applicable to 3,200 shares, including dividends payable of \$23,152	80,023,152
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Net assets applicable to common shareholders	\$ 206,954,522
---	-----------------------

Net assets applicable to common shareholders represented by

Paid-in capital	\$ 152,726,277
Overdistributed net investment income	(3,010,094)
Accumulated net realized gains on investments	19,049,618
Net unrealized gains on investments	38,188,721

Net assets applicable to common shareholders	\$ 206,954,522
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Net asset value per share applicable to common shareholders

Based on \$206,954,522 divided by 8,625,989 common shares issued and outstanding

(unlimited number of common shares authorized)

\$ 23.99

See Notes to Financial Statements

15**STATEMENT OF OPERATIONS**

Six Months Ended February 28, 2007 (unaudited)

Investment income

Dividends (net of foreign withholding taxes of \$20,571)	\$	2,566,273
Interest		3,567,459
Income from affiliate		237,917
Securities lending		10,635

Total investment income		6,382,284
-------------------------	--	-----------

Expenses

Advisory fee		870,407
Administrative services fee		72,534
Transfer agent fees		16,423
Trustees' fees and expenses		25,037
Printing and postage expenses		35,104
Custodian and accounting fees		43,959
Professional fees		33,440
Interest expense		246,839
Auction agent fees		102,337
Other		9,435

Total expenses		1,455,515
Less: Expense reductions		(2,597)

Net expenses		1,452,918
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Net investment income		4,929,366
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Net realized and unrealized gains or losses on investments

Net realized gains or losses on:

Securities		30,963,269
Foreign currency related transactions		(1,975)
Interest rate swap transactions		413,111

Net realized gains on investments		31,374,405
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Net change in unrealized gains or losses on investments		(5,559,460)
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Net realized and unrealized gains or losses on investments	25,814,945
Distributions to preferred shareholders from net investment income	(2,099,042)
<hr/>	
Net increase in net assets resulting from operations	\$ 28,645,269
<hr/>	

See Notes to Financial Statements

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STATEMENTS OF CHANGES IN NET ASSETS

	Six Months Ended February 28, 2007 (unaudited)	Year Ended August 31, 2006
<hr/>		
Operations		
Net investment income	\$ 4,929,366	\$ 36,736,843
Net realized gains or losses on investments	31,374,405	(9,308,966)
Net change in unrealized gains or losses on investments	(5,559,460)	3,906,424
Distributions to preferred shareholders from		
Net investment income	(2,099,042)	(3,476,918)
Net realized gains	0	(135,685)
<hr/>		
Net increase in net assets applicable to common shareholders resulting from operations	28,645,269	27,721,698
<hr/>		
Distributions to common shareholders from		
Net investment income	(21,868,911)	(25,301,690)
Net realized gains	0	(25,391,606)
<hr/>		
Total distributions to common shareholders	(21,868,911)	(50,693,296)
<hr/>		
Capital share transactions		
Net asset value of common shares issued under the Automatic Dividend Reinvestment Plan	4,223,009	116,986
Cost of shares tendered	0	(32,097,815)
Net proceeds from refund of preferred share offering expenses	0	81,984
<hr/>		
Net increase (decrease) in net assets resulting from capital share transactions	4,223,009	(31,898,845)
<hr/>		
Total increase (decrease) in net assets applicable to common shareholders	10,999,367	(54,870,443)
<hr/>		
Net assets applicable to common shareholders		
Beginning of period	195,955,155	250,825,598

End of period	\$ 206,954,522	\$ 195,955,155
Undistributed (overdistributed) net investment income	\$ (3,010,094)	\$ 16,701,227

See Notes to Financial Statements

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STATEMENT OF CASH FLOWS

Six Months Ended February 28, 2007 (unaudited)

Increase in Cash

Cash Flows from Operating Activities:

Net increase in net assets applicable to common shareholders from operations	\$ 28,645,269
<i>Adjustments to reconcile net increase in net assets from operations to net cash provided by operating activities:</i>	
Purchase of investment securities including amortization of premium and accretion of discount on long-term securities	(128,741,592)
Proceeds from disposition of investment securities	142,363,918
Purchase of short-term investment securities, net	(25,844,292)
Decrease in dividends and interest receivable	130,476
Decrease in receivable for securities sold	5,898,901
Increase in receivable for securities lending income	(6,529)
Increase in payable for securities purchased	1,239,310
Increase in payable for securities on loan	20,886,903
Decrease in accrued expenses	(28,497)
Unrealized depreciation on investments and foreign currency	5,561,044
Net realized gains from securities	(30,963,269)

Net cash provided by operating activities	19,141,642
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Cash Flows from Financing Activities:

Cash distributions paid on common shares	(17,331,376)
Decrease in reverse repurchase agreements	(1,530,275)
Decrease in dividends payable on preferred shares	(173,854)

Net cash used in financing activities	(19,035,505)
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Net increase in cash	106,137
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Cash (including foreign currency):

Beginning of period	\$ 0
End of period	\$ 106,137

See Notes to Financial Statements

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NOTES TO FINANCIAL STATEMENTS (unaudited)

1. ORGANIZATION

Evergreen Utilities and High Income Fund (the "Fund") was organized as a statutory trust under the laws of the state of Delaware on February 4, 2004 and is registered as a non-diversified closed-end management investment company under the Investment Company Act of 1940, as amended (the "1940 Act"). The primary investment objective of the Fund is to seek a high level of current income and moderate capital growth, with an emphasis on providing tax-advantaged dividend income.

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

Listed equity securities are usually valued at the last sales price or official closing price on the national securities exchange where the securities are principally traded.

Foreign securities traded on an established exchange are valued at the last sales price on the exchange where the security is primarily traded. If there has been no sale, the securities are valued at the mean between bid and asked prices. Foreign securities may be valued at fair value according to procedures approved by the Board of Trustees if the closing price is not reflective of current market values due to trading or events occurring in the foreign markets between the close of the established exchange and the valuation time of the Fund. In addition, substantial changes in values in the U.S. markets subsequent to the close of a foreign market may also affect the values of securities traded in the foreign market. The value of foreign securities may be adjusted if such movements in the U.S. market exceed a specified threshold.

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.

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.

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NOTES TO FINANCIAL STATEMENTS (unaudited) continued

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 only enter into repurchase agreements with banks and other financial institutions, which are deemed by the investment advisor to be creditworthy pursuant to guidelines established by the Board of Trustees.

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. 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 securities 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.

f. 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

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NOTES TO FINANCIAL STATEMENTS (unaudited) continued

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.

g. 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. Dividend income is recorded on the ex-dividend date or in the case of some foreign securities, on the date when the Fund is made aware of the dividend. Foreign income and capital gains realized on some securities may be subject to foreign taxes, which are accrued as applicable.

h. 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.

i. 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.

3. ADVISORY FEE AND OTHER TRANSACTIONS WITH AFFILIATES

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 0.60% of the Fund's average daily total assets. Total assets consist of the net assets of the Fund plus borrowings or other leverage for investment purposes to the extent excluded in calculating net assets. For the six months ended February 28, 2007, the advisory fee was equivalent to 0.86% of the Fund's