

submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Section, 450 Fifth Street NW., Washington, DC 20549. Copies of such filing will also be available for inspection and copying at the principal office of SCCP. All submissions should refer to File No. SR-SCCP-94-9 and should be submitted by February 22, 1995.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>12</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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[Investment Company Act Rel. No. 20862; 812-9332]

### **Ambassador Funds, et al.; Notice of Application**

January 25, 1995.

**AGENCY:** Securities and Exchange Commission ("SEC").

**ACTION:** Notice of Application for Exemption under the Investment Company Act of 1940 ("Act").

**APPLICANTS:** Ambassador Funds ("Ambassador"); St. Clair Funds, Inc. ("St. Clair"); The Munder Funds, Inc. ("Munder"); Peoples S&P MidCap Index Fund, Inc. ("Peoples"); SEI Index Funds ("SEI," and, collectively with Ambassador, St. Clair, Munder, and Peoples, the "Funds"); Woodbridge Capital Management, Inc. ("Woodbridge"); WAM Holdings, Inc. ("WAM");<sup>1</sup> Old MCM, Inc. ("MCM," and, collectively with Woodbridge and WAM, the "Advisers");<sup>2</sup> and Munder Capital Management (the "New Adviser").

**RELEVANT ACT SECTIONS:** Exemption requested under section 6(c) from the provisions of section 15(a).

**SUMMARY OF APPLICATION:** Applicants seek a conditional order exempting them from the provisions of section

15(a). The Advisers have formed a partnership, the New Adviser, to succeed to and continue the advisory business of each Adviser. The order would permit the implementation, without shareholder approval, of a new investment advisory agreement for each Fund for a period of up to 120 days (the "Interim Period") after the termination of the existing investment advisory agreement of each Fund as a result of the transfer of the investment advisory businesses of the current advisers of the Funds (the "Advisers") to a partnership (the "New Adviser") formed by the Advisers. The order also would permit the New Adviser to receive fees earned under the new investment advisory agreements during the Interim Period following approval of the agreements by the shareholders of the Funds.<sup>3</sup>

**FILING DATES:** The application was filed on November 22, 1994, and amended on January 17 and 24, 1995.

**HEARING OR NOTIFICATION OF HEARING:** An order granting the application will be issued unless the SEC orders a hearing. Interested persons may request a hearing by writing to the SEC's Secretary and serving applicants with a copy of the request, personally or by mail. Hearing requests should be received by the SEC by 5:30 p.m. on February 21, 1995, and should be accompanied by proof of service on applicants, in the form of an affidavit or, for lawyers, a certificate of service. Hearing requests should state the nature of the writer's interest, the reason for the request, and the issues contested. Persons who wish to be notified of a hearing may request such notification by writing to the SEC's Secretary.

**ADDRESSES:** Secretary, SEC, 450 Fifth Street, NW., Washington, DC 20549. Applicants: Ambassador and St. Clair, One Exchange Place, Boston, Massachusetts 02109; Peoples, 144 Glenn Curtiss Boulevard, Uniondale, New York 11556; SEI, 680 East Swedesford Road, Wayne, Pennsylvania 19087; Woodbridge and WAM, 100 Renaissance Center, Detroit, Michigan 48243; Munder, MCM, and the New Adviser, 480 Pierce Street, Birmingham, Michigan 48009.

**FOR FURTHER INFORMATION CONTACT:** Courtney S. Thornton, Senior Attorney, at (202) 942-0583, or C. David Messman, Branch Chief, at (202) 942-0564 (Division of Investment

Management, Office of Investment Company Regulation).

**SUPPLEMENTARY INFORMATION:** The following is a summary of the application. The complete application may be obtained for a fee from the SEC's Public Reference Branch.

#### **APPLICANTS' REPRESENTATIONS:**

1. Each Fund is registered under the Act as an open-end management investment company. Each Fund offers one or more investment portfolios to the public.

2. Each Adviser is registered as an investment adviser under the Investment Advisers Act of 1940 (the "Advisers Act"). Woodbridge and WAM are subsidiaries of Comerica Investment Services, Inc. ("CIS"). CIS is, in turn, a subsidiary of Comerica Bank, which is a wholly-owned subsidiary of Comerica Incorporated ("Comerica"), a publicly-held bank holding company. Woodbridge serves as sole investment adviser to each investment portfolio of Ambassador, St. Clair, and SEI. Until December 31, 1994, WAM served as Peoples' sole investment adviser. MCM, a Delaware corporation in which Mr. Lee P. Munder owns a controlling stock interest, currently serves as sole investment adviser to each investment portfolio of Munder.

3. In August, 1994, representatives of CIS and MCM began discussions regarding the possible creation of a new general partnership, the New Adviser, to succeed to the investment advisory businesses of the Advisers. On November 2, 1994, Comerica and the Advisers entered into a definitive joint venture agreement, which provided for the contribution of the investment advisory business of each Adviser to the New Adviser, which was created on December 31, 1994. The partners of the New Adviser are the Advisers (which will continue to be controlled by Comerica and Mr. Munder, respectively) and Employee Group, L.L.C., a newly-organized company through which employees of the New Adviser may acquire partnership interests.

4. Consummation of the joint venture agreement (the "Closing") was subject to a number of contingencies, including consent by the Office of the Comptroller of the Currency (the "OCC") to the participation of Woodbridge and WAM in the transaction. The boards of directors or boards of trustees, as applicable, (the "Governing Boards") of the Funds believed that it was in the interests of the Funds and their shareholders not to commence the solicitation of proxies to approve the new investment advisory agreement until it was reasonably certain that the

<sup>12</sup> 17 CFR 200.30-3(a)(12) (1994).

<sup>1</sup> Prior to December 30, 1994, WAM was known as "World Asset Management, Inc."

<sup>2</sup> Prior to January 4, 1995, MCM was known as "Munder Capital Management, Inc."

<sup>3</sup> In the case of Peoples and SEI, the new investment advisory agreement will be with a newly-organized, wholly-owned subsidiary of the partnership. For purposes of this notice, the term "New Adviser" refers to both the partnership referred to above and this wholly-owned subsidiary.

OCC consent would be obtained in order to avoid possible shareholder confusion in the event such consent was not in fact obtained. The OCC consent was received on December 15, 1994.

5. Once the joint venture agreement was announced on November 2, 1994, the Governing Boards of the Funds were promptly notified and meetings scheduled. Between November 9, 1994 and December 23, 1994, meetings of the Governing Boards of the Funds were held to consider and vote on the proposed new investment advisory agreement and, in the case of Ambassador, St. Clair, and Munder, to nominate additional board members to ensure compliance with section 15(f) of the Act and avoid a subsequent meeting of shareholders to elect board members.<sup>4</sup> At these meetings, the Governing Board of each Fund, including a majority of those board members who are not interested persons of the Funds or the Advisers (the "Independent Board Members"), approved a new investment advisory agreement. They also recommended that the shareholders of the Fund approve the new agreement, including the payment of advisory fees earned by the New Adviser during the Interim Period, which would be maintained in an interest-bearing escrow account during the Interim Period. In connection with their evaluation of the new advisory agreements, a primary consideration of the Governing Boards was the Advisers' representation that: (a) There would be no diminution under the new agreements in the scope and quality of advisory and other services currently provided by the Advisers; (b) the new agreements would have the same terms and conditions as the existing agreements for the respective Funds; and (c) the Funds would receive during the Interim Periods the same investment advisory services, provided in the same manner by essentially the same personnel, as they had received prior to the Closing.

6. The first part of the Closing occurred on December 31, 1994. On that date, the non-mutual fund accounts of the Advisers and WAM's investment advisory agreement with Peoples were transferred to the New Adviser. A second part of the Closing, which involved the transfer of the financing

activities conducted by Pierce & Brown, was held on January 13, 1995. The remaining part of the Closing, which will involve the transfer of the investment advisory arrangements of Woodbridge and MCM with the other Funds to the New Adviser, will occur no later than January 31, 1995.

7. Because of issues arising under the Glass-Steagall Act and federal banking regulations, MCM has transferred to an unaffiliated third party the mutual fund sales load financing activities that had been conducted by Pierce & Brown, a limited partnership in which MCM is general partner. This divestiture occurred on January 13, 1995.

#### Applicants' Legal Analysis

1. Section 15(a) of the Act provides, in pertinent part, that it shall be unlawful for any person to serve or act as investment adviser of a registered investment company, except pursuant to a written contract which has been approved by the vote of a majority of the outstanding voting securities of such registered company. Section 15(a) further requires that such written contract provide for automatic termination in the event of its assignment. Section 2(a)(4) defines "assignment" to include any direct or indirect transfer of a contract by the assignor or of a controlling block of the assignor's outstanding voting securities by a security holder of the assignor.

2. Upon completion of the Closing, the New Adviser will acquire the investment advisory businesses of the respective Advisers. This acquisition will result in an "assignment" of the existing advisory agreements within the meaning of section 2(a)(4) of the Act. Consistent with section 15(a), therefore, the existing advisory agreements between the Advisers and the Funds will terminate pursuant to their terms upon completion of the Closing.

3. Rule 15a-4 provides, among other things, that if an investment adviser's investment advisory contract with an investment company is terminated by assignment, the adviser may continue to act as such for 120 days at the previous compensation rate if a new contract is approved by the board of directors of the investment company and if the investment adviser or a controlling person thereof does not directly or indirectly receive money or other benefit in connection with the assignment. Because of possible benefits to the Advisers and their controlling shareholders as a result of the joint venture agreement, rule 15a-4 is not available to applicants.

4. Applicants believe that the 120-day period they request will facilitate the

orderly and reasonable consideration of the advisory agreements by the shareholders of each Fund in a manner that is consistent with the provisions of section 15 of the Act as well as the corporate governance objectives of the Act.

5. Section 6(c) of the Act provides that the SEC may exempt any person, security, or transaction from any provision of the Act, if and to the extent that such exemption is necessary or appropriate in the public interest and consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the Act. Applicants believe that the requested relief meets this standard.

6. Applicants submit that a Closing on December 31, 1994 was important for tax, accounting, and regulatory reporting purposes, in that certain of the Advisers (Woodbridge and WAM) currently have, and the New Adviser will have, tax and accounting years that close on December 31. Applicants represent that it would have been impossible to obtain the required shareholder approvals of the new investment advisory agreements within the fifty-nine day period between the execution of the joint venture agreement on November 2, 1994 and the first part of the Closing on December 31, 1994. First, it was necessary to submit the transaction to the Governing Boards of four separate and independent Fund groups and to obtain the required board approvals to proceed. Second, in the case of three of the Funds, consideration of new board nominees was necessary. Third, the preparation, regulatory clearance, printing and mailing of proxy materials requires, at a minimum, three to four weeks. Further, any shareholder solicitation would have occurred during the December holiday season, which would have involved delays in mailing time and shareholder response.

7. Applicants assert that only a small fraction (less than 17 percent) of the total assets managed by the Advisers are mutual fund assets. Because the process for obtaining consents with respect to the non-mutual fund assets is much simpler than the process of obtaining required board and shareholder approvals with respect to the mutual fund assets, the Advisers' non-mutual fund accounts were ready for transfer to the New Adviser on December 31, 1994, and the holders of those accounts expected that the transfer would in fact occur on that date. Accordingly, applicants state that, if the non-mutual fund accounts had not been transferred on or promptly after that date, the legitimate expectations of these accountholders regarding the orderly

<sup>4</sup> Section 15(f) permits an investment adviser to receive "any amount or benefit" in connection with the assignment of its investment advisory contract with a registered investment company if the requirements of that section are satisfied. Section 15(f)(1)(A) requires that, for three years after the transaction, at least 75% of the directors of the investment company are not interested persons of the investment adviser of such company, or of the predecessor investment adviser.

transfer of their accounts to the New Adviser and the prompt delivery of the benefits that the joint venture agreement is expected to produce would not have been met.

8. Applicants believed that a speedy Closing would serve to minimize employee anxiety, assist in the retention of portfolio personnel, and assist in the delivery of improved portfolio service through the integration of credit research, back office, and other operations.

9. Applicants also state that an arrangement whereby all non-mutual fund accounts were transferred on December 31, 1994, but all mutual fund accounts were not transferred until the shareholder votes occurred, would have required the Advisers to implement a form of "dual employee" arrangement. Such an arrangement would have created needless organizational complexity and would have raised the possibility of shareholder confusion as to the provision of investment advisory services during the Interim Periods.

#### Applicants' Conditions

Applicants agree that any order granting the requested relief shall be subject to the following conditions:

1. The new advisory agreements to be implemented during the Interim Periods will have the same terms and conditions as each respective current agreement, except in each case for the names or identities of the parties, the commencement and termination dates, the inclusion of escrow arrangements, the incorporation of certain previously adopted amendments (if any) into the body of the agreements, and certain additional language to satisfy regulatory requirements of the Advisers Act.

2. Fees earned by the New Adviser during the Interim Period in accordance with the terms of such new advisory agreements will be maintained in an interest-bearing escrow account, and amounts in the account will be paid to: (a) the New Adviser only upon approval by the shareholders of such Fund, or (b) in the absence of such approval, to such Fund.

3. Each Fund will hold a meeting of shareholders to vote on approval of its new investment advisory agreement on or before the 120th day following the termination of its existing investment advisory agreement as a result of the transfer of the investment advisory businesses of the Advisers to the New Adviser (which transfer will be completed on or before January 31, 1995).

4. The Advisers and the New Adviser will pay the costs of preparing and filing the application and the costs of holding

all meetings of each Fund's shareholders necessitated by the consummation of the joint venture agreement, including the cost of proxy solicitations.

5. The New Adviser will take all appropriate steps so that the scope and quality of advisory and other services provided to each Fund during the respective Interim Periods will be at least equivalent, in the judgment of the Governing Board of each Fund, including a majority of the independent board members, to the scope and quality of services previously provided. In the event of any material change in personnel providing services pursuant to the advisory agreement, the New Adviser will apprise and consult with the Governing Board of the affected Fund in order to assure that they, including a majority of the independent board members, are satisfied that the services provided will not be diminished in scope or quality.

For the SEC, by the Division of Investment Management, under delegated authority.

**Margaret H. McFarland,**

*Deputy Secretary.*

[FR Doc. 95-2383 Filed 1-31-95; 8:45 am]

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[Rel. No. IC-20863; File No. 812-9326]

#### Financial Horizons Variable Separate Account—2, et seq.

January 26, 1995.

**AGENCY:** Securities and Exchange Commission (the "Commission" or the "SEC").

**ACTION:** Notice of application for exemption under the Investment Company Act of 1940 (the "1940 Act").

**APPLICANTS:** Financial Horizons Variable Separate Account-2 ("Separate Account"), Financial Horizons Life Insurance Company (the "Company"), and Nationwide Financial Services ("NFS").

**RELEVANT 1940 ACT SECTIONS:** Order requested under Section 6(c) for exemptions from Sections 26(a)(2)(C) and 27(c)(2).

**SUMMARY OF APPLICATION:** Applicants seek an order to permit the deduction from the assets of the Separate Account of a mortality and expense risk charge under certain variable annuity contracts.

**FILING DATE:** The application was filed on November 14, 1994.

**HEARING OR NOTIFICATION OF HEARING:** An order granting the application will be issued unless the Commission orders a hearing. Interested persons may request a hearing by writing to the SEC's

Secretary and serving Applicants with a copy of the request, personally or by mail. Hearing requests should be received by the SEC by 5:30 p.m. on February 21, 1995, and should be accompanied by proof of service on Applicants in the form of an affidavit or, for lawyers, a certificate of service. Hearing requests should state the nature of the writer's interest, the reason for the request, and the issues contested. Persons may request notification of a hearing by writing to the SEC's Secretary.

**ADDRESSES:** Secretary, SEC, 450 5th Street, N.W., Washington, DC 20549; Applicants c/o Steven Savini, Esq., Druen Rath & Dietrich, One Nationwide Plaza, Columbus, Ohio 43216.

**FOR FURTHER INFORMATION CONTACT:** Joseph G. Mari, Senior Special Counsel, at (202) 942-0567, or Wendy F. Friedlander, Deputy Chief, at (202) 942-0670, Office of Insurance Products, Division of Investment Management.

**SUPPLEMENTARY INFORMATION:** Following is a summary of the application. The complete application is available for a fee from the SEC's Public Reference Branch.

#### Applicants' Representations

1. The Company is a stock life insurance company incorporated under the laws of Ohio.

2. The Separate Account, registered as a unit investment trust under the 1940 Act, is a separate account of the Company that was established to fund certain variable annuity contracts issued by the Company (the "Contracts"). Purchase payments under the Contracts will be allocated to the Separate Account and invested at net asset value in shares of one or more mutual funds that are registered under the 1940 Act, as designated by the Contract owner at the time of the purchase. The Separate Account maintains a separate sub-account corresponding to each available mutual fund.

3. The Contracts are sold to individuals either as Non-Qualified Contracts or as Individual Retirement Annuities that may qualify for special federal tax treatment. They also may be sold as Qualified Contracts to Qualified Plans on behalf of Qualified Plan Participants, which may qualify for special federal tax treatment.

4. NFS, registered as a broker-dealer under the Securities Exchange Act of 1934, is the general distributor for the Contracts.

5. An Administration Charge equal on an annual basis to .20% of the daily net asset value of the Variable Account is deducted during both the "pay-in"