

Underlying Funds. Applicants believe these conditions are no longer necessary and act as an impediment to the prudent management of the Spectrum Fund. Specifically, applicants believe that the Redemption Conditions are unnecessary for the following reasons: The Spectrum Fund has attracted shareholders investing for retirement, has had a consistently lower redemption rate than the Underlying Funds, has shareholders who on the whole remain in the fund longer than shareholders remain in the Underlying Funds, and has benefited the Underlying Funds in by increasing assets and reducing redemption pressure. In addition, the Underlying Funds have maintained sufficient cash positions to satisfy all redemptions made by the Spectrum Fund, and applicants believe that the structure of the Spectrum Fund dilutes Spectrum Fund shareholder redemptions by spreading their effect over the Underlying Funds.

2. Applicants also believe the Other Conditions are no longer necessary. Applicants submit that the identity of management between Spectrum Fund and the Underlying Funds provides assurance to investors that they will not be treated unreasonably or unfairly. Applicants further note that any harm to the Underlying Funds would be contrary to price Associates' business interests.

3. Applicants state that the fact that the boards of directors for the Spectrum Fund and the Underlying Funds may have common independent directors does not impede the ability of the independent directors to perform their oversight function because they have fiduciary obligations to all funds on whose board of directors they serve. Further, any conflict among the interests of those funds is no different from that which, in theory, can arise in any situation where an individual serves on the boards of directors of multiple funds in the same fund family.

4. Section 6(c) permits the SEC to exempt any person or transaction from any provision of the Act, if 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 of the Act. For the above reasons, applicants argue that the replacement of the Existing Conditions with the modified conditions meets the section 6(c) standards.

5. Section 17(b) permits the SEC to grant an order permitting a transaction otherwise prohibited by section 17(a) if it finds that the participation of such investment company is consistent with the provisions, policies, and purposes of

the Act and the extent to which such participation is on a basis different from or less advantageous than that of other participants. Applicants believe that the terms of the transactions meet these standards.

6. Rule 17d-1 permits the SEC to approve a proposed joint transaction. In determining whether to approve a transaction, the SEC is to consider whether the proposed transaction is consistent with the provisions, policies, and purposes of the Act, and the extent to which the participation of the investment companies is on a basis different from or less advantageous than that of the other participants. Applicants believe that the requested order meets these standards.

Applicants' Conditions

Applicants agree that any order of the Commission granting the requested relief will be subject to the following conditions:

1. The Spectrum Fund and each Underlying Fund will be part of the same "group of investment companies," as defined in rule 11a-3 under the Act.

2. No Underlying Fund shall acquire securities of any other investment company in excess of the limits contained in section 12(d)(1)(A) of the Act.

3. A majority of the directors of the Spectrum Fund will not be "interested persons," as defined in section 2(a)(19) of the Act.

4. Before approving any advisory contract under section 15, the board of directors of the Spectrum Fund, including a majority of the directors who are not "interested persons," as defined in section 2(a)(19), shall find that advisory fees charged under such contract are based on services provided that are in addition to, rather than duplicative of, services provided pursuant to any Underlying Fund's advisory contract. Such finding, and the basis upon which the finding was made, will be recorded fully in the minute books of the Spectrum Fund.

5. Any sales charges and other service fees charged with respect to securities of spectrum Fund, when aggregated with any sales charges and service fees paid by spectrum Fund with respect to securities of the Underlying Funds, shall not exceed the limits set forth in Article III, section 26, of the Rules of Fair Practice of the National Association of Securities Dealers, Inc.

6. Applicants agree to provide the following information, in electronic format, to the Chief Financial Analyst of the SEC's Division of Investment Management: monthly average total assets for each Spectrum Fund portfolio

and each of its Underlying Funds; monthly purchases and redemptions (other than by exchange) for each Spectrum Fund portfolio and each of its Underlying Funds; monthly exchanges into and out of each Spectrum Fund portfolio and each of its Underlying Funds; month-end allocations of each Spectrum Fund portfolio's assets among its Underlying Funds; annual expense ratios for each Spectrum Fund portfolio and each of its Underlying Funds; and a description of any vote taken by the shareholders of any Underlying Fund, including a statement of the percentage of votes cast for and against the proposal by the Spectrum Fund and by the other shareholders of the Underlying Funds. Such information will be provided as soon as reasonably practicable following each fiscal year-end of the Spectrum Fund (unless the Chief Financial Analyst shall notify applicants in writing that such information need no longer be submitted).

By the Commission.
Margaret H. McFarland,
Deputy Secretary.
[FR Doc. 95-24185 Filed 9-28-95; 8:45 am]
BILLING CODE 8010-01-M

[Investment Company Act Release No. 21372; 812-9540]

Vanguard STAR Fund, et al.; Notice of Application

September 22, 1995.

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

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

APPLICANTS: Vanguard STAR Fund ("STAR"); The Vanguard Group, Inc. ("TVGI"); and Vanguard Balanced Index Fund, Inc., Vanguard Index Trust, Vanguard International Equity Index Fund, Inc., Vanguard Bond Index Fund, Inc., Vanguard Institutional Portfolios, Inc., Vanguard California Tax-Free Fund, Vanguard New York Insured Tax-Free Fund, Vanguard Pennsylvania Tax-Free Fund, Vanguard Fixed Income Securities Fund, Inc., Vanguard Preferred Stock Fund, Vanguard Asset Allocation Fund, Inc., Vanguard/Trustees' Equity Fund, Vanguard/Windsor Funds, Inc., Vanguard Tax-Managed Fund, Inc., Vanguard Florida Insured Tax-Free Fund, Inc., Vanguard/Primecap Fund, Inc., Vanguard/Morgan Growth Fund, Inc., Vanguard Variable Insurance Fund, Vanguard Money Market Reserves, Inc., Vanguard Municipal Bond Fund, Inc., Vanguard New Jersey Tax-Free Fund, Vanguard

Ohio Tax-Free Fund, Vanguard/Wellesley Income Fund, Inc., Vanguard Convertible Securities Fund, Inc., Vanguard/Wellington Fund, Inc., Vanguard Equity Income Fund, Inc., Vanguard Quantitative Portfolios, Inc., Gemini II, Inc., Vanguard World Fund, Inc., Vanguard Explorer Fund, Inc., Vanguard Specialized Portfolios, Inc., Vanguard Admiral Funds, Inc., and any future registered management investment company, or portfolio thereof, in which STAR invests that (a) is part of a group of investment companies which holds itself out to investors as related companies for purposes of investment and investor services, and (b) obtains corporate management, administrative, and distribution services from TVGI (together, the "Funds").

RELEVANT ACT SECTIONS: Order requested under section 6(c) of the Act from section 12(d)(1) of the Act, under sections 6(c) and 17(b) of the act from section 17(a) of the Act, and pursuant to section 17(d) of the Act and rule 17d-1 thereunder.

SUMMARY OF APPLICATION: Applicants request an order that would supersede a prior order. The prior order permits STAR to operate as a "fund of funds," subject to the limitation that STAR may not acquire more than 10% of the outstanding voting shares of any acquired fund. The requested order would permit STAR to acquire up to 100% of the voting shares of any acquired fund. The requested order would also permit the boards of trustees/directors of the funds constituting the Vanguard Group of Investment Companies, as defined below, to modify the Funds' service agreement to provide that STAR may become a member of The Vanguard Group of Investment Companies without bearing duplicative capital contribution or expense allocation costs.

FILING DATES: The application was filed on March 17, 1995, and was amended on August 17, 1995.

HEARING OR NOTIFICATION OF HEARING: An order granting the application will be issued unless the SBC 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 October 17, 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 Fifth Street, N.W., Washington, D.C. 20549. Applicants, c/o The Vanguard Group, Inc., P.O. Box 2600, Valley Forge, Pennsylvania 19482.

FOR FURTHER INFORMATION CONTACT: Sarah A. Wagman, Staff Attorney, at (202) 942-0654, 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. The Funds are thirty-two registered management investment companies that currently offer shares in 86 portfolios (the "Portfolios"). The Funds organized and operate TVGI, pursuant to the terms of a Second Amended and Restated Funds' Service Agreement dated May 15, 1993 (the "Funds' Service Agreement") in order to provide the Funds with services on an "internalized," at-cost, no-load basis.¹ Each Fund is organized as a business trust under Pennsylvania law, or as a Maryland corporation. Each Fund has a board of directors/trustees (the "Board of Directors") that consists of the same ten persons, eight of whom are not "interested persons" under section 2(a)(19) of the Act. Nine of the directors compose the board of directors of TVGI. The Funds that are party to the Funds' Service Agreement constitute The Vanguard Group of Investment Companies ("The Vanguard Group").

2. TVGI, a registered investment adviser under the Investment Advisers Act of 1940, is a wholly and jointly owned and capitalized subsidiary of the Funds. TVGI provides to the Funds on an at-cost basis almost all of their necessary corporate management,

administrative, and shareholder accounting services, distribution services, and, for certain Portfolios, advisory services. TVGI also provides specified services to STAR and the Vanguard Institutional Index Fund, funds that do not contribute to the capitol of TVGI.

3. STAR is a no-load, open-end, registered management investment company which operates as a "fund of funds," investing in shares of certain specified Vanguard Portfolios rather than investing directly in portfolio securities. STAR operates under the terms of a prior order (the "STAR Order").² STAR commenced operations on March 29, 1985 and began offering shares of one portfolio, now the "STAR Portfolio." Since July 17, 1994, STAR has offered shares of four additional portfolios (the Income Portfolio, the Conservative Growth Portfolio, the Moderate Growth Portfolio, and the Growth Portfolio) designated the "LIFEStrategy Portfolios" (each portfolio of STAR is hereinafter referred to as a "STAR Fund Portfolio"). Applicants request that the relief sought herein apply to any future "fund of funds," whether organized as an investment company or as a portfolio thereof, which operates in all material respects in accordance with the representations contained in the application, complies with the conditions to the requested order, and is a Vanguard Fund or is operated by TVGI (a "Vanguard Fund of Funds").

4. In the STAR Order, the Commission granted STAR an exemption under section 6(c) from section 12(d)(1), and pursuant to section 17(d) and rule 17d-1, to permit STAR to operate as a "fund of funds," subject to the condition, among others, that STAR may not acquire more than 10% of the outstanding voting shares of any acquired Fund.³ Applicants request that this limitation be eliminated, so that STAR may acquire up to 100% of the voting shares of any Fund.

5. Initially, the STAR Portfolio invested its assets in shares of four specified Vanguard Portfolios (two equity funds, one fixed income fund, and one money market fund). Currently, the STAR Portfolio invests 60-70% of its net assets in six Portfolios that invest primarily in equity securities, and 30-

¹ The Funds operate TVGI pursuant to a number of prior exemptive orders. The Vanguard Group, Inc., Investment Company Act Release Nos. 19011 (Oct. 9, 1992) (notice) and 19184 (Dec. 29, 1992) (order); Wellington Fund, Inc., Investment Company Act Release Nos. 15788 (June 9, 1987) (notice) and 15846 (July 2, 1987) (order); Wellington Fund, Inc., Investment Company Act Release Nos. 13566 (Oct. 5, 1983) (notice) and 13613 (Nov. 3, 1983) (order); The Vanguard Group, Inc., Investment Company Act Release Nos. 11718 (Apr. 6, 1981) (notice) and 11761 (May 4, 1981) (order); The Vanguard Group, Inc., Investment Company Act Release Nos. 9850 (July 15, 1977) (notice), and 9927 (Sept. 13, 1977) (temporary order) and 11645 (Feb. 25, 1981) (order); Wellington Fund, Inc., Investment Company Act Release Nos. 8644 (Jan. 17, 1975) and 8676 (Feb. 18, 1975) (order).

² Vanguard Special Tax-Advantaged Retirement Fund, Inc., Investment Company Act Release Nos. 14153 (Sept. 12, 1984) (notice) and 14361 (Feb. 7, 1985) (order).

³ STAR was also subject to conditions requiring that it vote its shares in any acquired Fund in proportion to the vote of all the other shareholders in that Fund, and that it allocate its assets to any acquired fund within a 25% range.

40% of its net assets in three Portfolios (including a money market portfolio) that invest primarily in fixed income securities. Since its inception, the STAR Portfolio has maintained fixed allocation targets for its investments in equity, fixed income, and money market Portfolios.

6. The LIFEStrategy Portfolios' different asset allocations provide investors with four distinct options that meet a wide array of investor needs. Currently, each LIFEStrategy Portfolio invests its assets in a "fixed mix" of shares of Vanguard Portfolios to provide its investors with a targeted asset allocation. Each LIFEStrategy Portfolio currently invests 30% of its net assets in the Vanguard Asset Allocation Fund (the "Asset Allocation Fund") which allocates its assets among an equity portfolio, a bond portfolio, and money market instruments.

7. As of December 31, 1994, the Asset Allocation Fund had assets of \$1.1 billion and the LIFEStrategy Portfolios had invested \$37.6 million in the Asset Allocation Fund. Because of the 10% limitation imposed by the STAR Order upon investments by STAR in any Vanguard Fund, at December 31, 1994 the maximum amount which STAR could invest in the Asset Allocation Fund was \$110 million. As a result of the 10% limitation, when the LIFEStrategy Portfolios reach assets of approximately \$400 million (at March 1, 1995 assets were \$215 million), applicants state that the only solutions will be for the LIFEStrategy Portfolios to begin investing directly in securities at an additional cost estimated to be \$100,000 per LIFEStrategy Portfolio,⁴ or to cease offering shares because Vanguard has no comparable and suitable alternative Portfolio in which the LIFEStrategy Portfolios may invest.

8. STAR has entered into a special servicing agreement (the "STAR Servicing Agreement") with TVGI, under which TVGI provides all management, administrative, and distribution services to STAR and acts as STAR's dividend disbursing, shareholder servicing, and transfer agent. To avoid imposing a duplicate capital contribution on STAR's shareholders, STAR is not a party to the general Funds' Service Agreement and, therefore, is not a member of The Vanguard Group.

⁴The additional cost would be caused because each LIFEStrategy Portfolio would own shares of a number of issuers rather than shares of a single fund, and would incur additional custody fees; investment portfolio, tax accounting, and administrative expenses; audit fees; and printing and postage costs.

9. Under the STAR Servicing Agreement, the STAR Fund Portfolios are obligated to pay for services rendered by outside parties, including auditors, STAR's custodian, and outside legal counsel. The STAR Servicing Agreement provides, however, that each STAR Fund Portfolio's expenses will be offset, in whole or in part, by a "credit" from TVGI for: (a) That STAR Fund Portfolio's contributions to the cost of operating the underlying Vanguard Portfolios in which it invests, and (b) certain savings in transfer agency, administrative, and marketing costs that TVGI derives from the operation of the STAR Fund Portfolios. These reimbursements by TVGI have been, and should continue to be, sufficient to offset all of the STAR Fund Portfolios' expenses.

10. Under current provisions of the Funds' Service Agreement, STAR cannot become a member of the Vanguard Group without making a capital investment in TVGI, and being allocated a portion of TVGI's corporate management and distribution expenses, even though STAR shareholders already bear a portion of these expenses through the fees they pay with respect to the Portfolios. The Boards of Directors of the Funds propose to amend the Funds' Service Agreement to permit a Vanguard Fund of Funds, such as STAR, whether structured as a separate investment company or as a portfolio of a Vanguard Fund, to become a member of The Vanguard Group. Applicants believe that, although the STAR Service Agreement has worked well in practice, the same result can be achieved by amending the Funds' Service Agreement to permit a Vanguard Fund of Funds to become a member of The Vanguard Group without a requirement that such fund of funds bear the TVGI capital contribution and expense allocation assessments borne by the other Vanguard Funds.

11. The amendment to the Funds' Service Agreement would provide, in substance, that: (a) The obligation of a Vanguard Fund of Funds to make capital contributions to TVGI would be reduced or eliminated to the extent that its assets consist of shares of Vanguard Portfolios that are already contributing to the capital of TVGI; (b) a Vanguard Fund of Funds would not be allocated any portion of the corporate management and administrative expenses, or the distribution expenses, that are allocated under the Funds' Service Agreement; and (c) a Vanguard Fund of Funds would be obligated to pay for services rendered by outside parties and certain other direct Vanguard Fund of Funds expenses

customarily borne by each Fund pursuant to the Funds' Service Agreement, subject to the partial or complete elimination of these charges by the savings which would accrue to the benefit of the Vanguard Portfolios.

Applicants' Legal Analysis

A. Section 12(d)(1)

1. Section 12(d)(1)(A) provides that no registered investment company may acquire securities of another investment company if such securities represent more than 3% of the acquired company's outstanding voting stock, more than 5% of the acquiring company's total assets, or if such securities, together with the securities of any other acquired investment companies, represent more than 10% of the acquiring company's total assets. Section 12(d)(1)(B) provides that no registered open-end investment company may sell its securities to another investment company if the sale will cause the acquiring company to own more than 3% of the acquired company's voting stock, or if the sale will cause more than 10% of the acquired company's voting stock to be owned by investment companies.

2. Section 6(c) provides that the SEC may exempt persons or transactions 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 request an order under section 6(c) exempting them from section 12(d)(1) to permit STAR, and any future Vanguard Fund of Funds, to invest in the Vanguard Portfolios in excess of the percentage limitations of section 12(d)(1). The STAR Order permitted STAR to acquire up to 10% of any acquired Vanguard Fund's outstanding voting stock. The requested order would eliminate this 10% limitation.

3. STAR was created to provide investors with an investment service through which they could diversify and maintain investment holdings balanced among asset types or classes of assets selected to meet long-term retirement and savings objectives. Currently, more than 287,000 investors have entrusted more than \$3.7 billion to STAR. Absent an investment service such as STAR, an "asset allocation" approach to investing requires that an investor establish accounts in two or more portfolios, and, at least periodically, take the steps to "rebalance" his or her account so that the ratio selected is maintained. If Vanguard were not able to offer STAR as an investment alternative, it would

have to create and operate a variety of asset allocation funds at substantial additional expense, notwithstanding the fact that suitable Portfolios otherwise exist.

4. Section 12(d)(1) was intended to mitigate or eliminate actual or potential abuses which might arise when one investment company acquires shares of another investment company. These abuses include the acquiring fund imposing undue influence over the management of the acquired funds through the threat of large-scale redemptions, the acquisition by the acquiring company of voting control of the acquired company, the layering of sales charges, advisory fees, and administrative costs, and the creation of a complex pyramidal structure which may be confusing to investors.

5. Applicants believe that none of these potential or actual abuses are present in the structure of STAR. STAR does not exercise any influence over the management of the acquired Portfolios by the threat of redemptions. STAR does not hold out to investors that STAR is seeking to exercise investment judgment to time the market or to pick the "better" or "best" performing funds. Instead, STAR enables Vanguard to offer an asset allocation service to investors on a cost-effective basis. STAR currently, as a matter of fundamental policy, invests its assets solely in specified Portfolios within defined ranges.⁵ Redemptions from the acquired Portfolios will result solely in the ordinary course of business as a result of STAR's receipt of net redemption requests from its shareholders. The acquired Portfolios, as a matter of policy and practice, are at all times at least 85% invested in liquid, publicly traded securities. Thus, they would have no reason to hold a higher than normal cash position to protect their other shareholders against potential redemptions by STAR. As well, the actual results of ten years of the STAR Portfolio's investments in the acquired Portfolios demonstrates that STAR's investments tend to reduce the redemption rates of the acquired Portfolios.⁶

⁵ If the requested order is granted, STAR may seek shareholder approval to eliminate this limitation as a matter of fundamental policy. STAR would continue to disclose in its prospectus and other documents the Vanguard Funds in which it intends to invest.

⁶ For each of the 10 years in which the STAR Portfolio has operated, the STAR Portfolio's redemption rates, with one exception, have been somewhat or substantially below the redemption rates of the Portfolios. In 1994, for example, the STAR Portfolio experienced a redemption rate of 7%, while the average redemption rate for the acquired Vanguard Portfolios was 19.7%.

6. The structure of STAR contains no layering of sales charges, advisory fees, or administrative costs. Neither STAR nor the Portfolios imposes any sales charges or fees pursuant to rule 12b-1. Although STAR may pay advisory fees at the level of the Vanguard Portfolios, it does not intend to pay an advisory fee at the STAR level for advisory services related to investments in any Vanguard Portfolios. Similarly, virtually all administrative fees are imposed at the Portfolio level, and shareholders of STAR will bear a portion of the fees only in proportion to their holdings of the Portfolios.

7. STAR does not have a complex structure that would make it difficult for a shareholder to determine the true value of his or her interest in the Portfolios. Indeed, the 10% limitation contained in the STAR Order operates to increase the complexity of the STAR Portfolio by requiring it to acquire shares of additional Portfolios which would not otherwise acquire, and of the LIFEStrategy Portfolios if they must invest directly in securities once they have reached the 10% limit with respect to the Vanguard Asset Allocation Fund.

8. In addition to not containing the actual and potential abuses which led to the enactment of section 12(d)(1), applicants believe that the structure of STAR provides a number of benefits to STAR and its shareholders, including: (a) An increase in the variety of investment options available to shareholders; (b) a simpler method for an investor to allocate his or her assets on a continuous basis without, at a minimum, the inconvenience of initiating the steps periodically to "rebalance" his or her portfolio; (c) a modest reduction in the investor's account maintenance costs, because an investor will not need to maintain two or more accounts to attain a desired allocation; and (d) the lower expense ratios and increased diversification which result from a new STAR Fund Portfolio's ability to take advantage of the existing asset base created by the acquired Funds.

9. The acquired Vanguard Portfolios benefit from the existence of STAR in four major respects: (a) The likely addition of assets from STAR will further reduce the expense ratios of the Portfolios; (b) to the extent many shareholders of STAR would otherwise open accounts with each of the Portfolios, the number of accounts maintained by the Portfolios in the aggregate, and the resulting transfer agency fees, will be reduced; (c) the costs of printing and mailing prospectuses, sales material, and periodic reports will be reduced because

The Vanguard Group can combine information concerning two or more funds in a single document; and (d) the Portfolios' redemption rates are likely to be lower due to the long-term nature of STAR's assets. As well, all of the Vanguard Funds are likely to benefit from the existence of STAR since increased distribution and the resulting addition of assets to The Vanguard Group produces cost savings and other benefits for all Funds even if they are not the acquired Funds.

B. Section 17(a)

1. Section 17(a) makes it unlawful for an affiliated person of a registered investment company to sell securities to, or purchase securities from, the company. STAR and the acquired Vanguard Funds may be considered affiliated persons because they share common officers and/or directors/trustees. An acquired Fund's issuance of its shares to STAR may be considered a sale prohibited by section 17(a).

2. Section 17(b) provides that the SEC shall exempt a proposed transaction from section 17(a) if evidence establishes that: (a) The terms of the proposed transaction are reasonable and fair and do not involve overreaching; (b) the proposed transaction is consistent with the policies of the registered investment company involved; and (c) the proposed transaction is consistent with the general provisions of the Act. Applicants request an exemption under sections 6(c) and 17(b) to permit the Portfolios to sell their shares to STAR.

3. Applicants believe that the proposed transactions meet the standards of sections 6(c) and 17(b). All purchases and redemptions of shares of a Vanguard Portfolio will be effected at current net asset value. STAR's purchase and sale of shares of the Vanguard Portfolios is consistent with STAR's policy, as set forth in its registration statement. Applicants also believe that the proposed transactions are consistent with the general purposes of the Act.

C. Section 17(d) and Rule 17d-1

1. Section 17(d) prohibits an affiliated person of the registered investment company, or an affiliated person of such person, acting as principal, from effecting any transaction in which such investment company is a joint, or joint and several, participant with such person in contravention of SEC rules and regulations. Rule 17d-1 provides that an affiliated person of a registered investment company or an affiliated person of such person, acting as principal, shall not participate in, or effect any transaction in connection

with, any joint enterprise or other joint arrangement in which the registered investment company is a participant unless the SEC has issued an order approving the arrangement. The Vanguard Funds and TVGI are engaged in a joint enterprise within the meaning of section 17(d).

2. Applicants request an exemption under section 17(d) and rule 17d-1 to permit the Boards of Directors of the Vanguard Funds to modify the Funds' Service Agreement. Applicants believe that, for the reasons discussed above, the proposed amendments to the Funds' Service Agreement are consistent with the standards of rule 17d-1. Requiring STAR to make an asset-related capital contribution to TVGI, when the assets of STAR will already be bearing a capital assessment indirectly at the Portfolio level, would unfairly impose duplicative expenses upon the shareholders of STAR, and confer an unjustified benefit on the acquired Portfolios, as well as the other Vanguard Funds, which will be deriving other benefits from STAR's participation in TVGI.

Applicants' Conditions

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

1. STAR and each acquired Vanguard Fund will be part of a group of investment companies which holds itself out to investors as related companies for purposes of investment and investor services, and which obtains corporate management, administrative, and distribution services from TVGI.

2. No acquired Vanguard fund shall acquire securities of any other investment company in excess of the limits contained in section 12(d)(1)(A) of the Act.

3. A majority of the directors of STAR will not be "interested persons," as defined in a section 2(a)(19) of the Act.

4. Before approving any advisory contract under section 15 of the Act, the Board of Directors of STAR, including a majority of the directors who are not "interested persons," as defined in section 2(a)(19), shall find that advisory fees charged under such contract are based on services provided that are in addition to, rather than duplicative of, services provided pursuant to any acquired vanguard fund's advisory contract. Such finding, and the basis upon which the finding was made, will be recorded fully in the minute books of STAR.

5. Any sales charges or service fees charged with respect to securities of STAR, when aggregated with any sales

charges or service fees paid by STAR with respect to shares of the acquired Vanguard Funds, shall not exceed the limits set forth in Article III section 26, of the Rules of Fair Practice of the National Association of Securities Dealers, Inc.

6. The applicants agree to provide the following information, in electronic format, to the Chief Financial Analyst of the SEC's Division of Investment Management: Monthly average total assets of each STAR Fund Portfolio and each of its acquired Vanguard funds; monthly purchases and redemptions (other than by exchange) for each STAR Fund Portfolio and each of its acquired Vanguard Funds; monthly exchanges into and out of each STAR Fund Portfolio and each of its acquired Vanguard Funds; month-end allocations of each STAR Fund Portfolio's assets among its acquired Funds; annual expense ratios for each STAR Fund Portfolio and each of its acquired Vanguard Funds; and a description of any vote taken by the shareholders of any acquired Vanguard Fund, including a statement of the percentage of votes cast for and against the proposal by STAR and by the other shareholders of the acquired Vanguard Funds. Such information will be provided as soon as reasonably practicable following each fiscal year-end of STAR (unless the Chief Financial Analyst shall notify applicants in writing that such information need no longer be submitted).

By the Commission,
Margaret H. McFarland,
Deputy Secretary.
[FR Doc. 95-24183 Filed 9-28-95; 8:45 am]
BILLING CODE 8010-01-M

SMALL BUSINESS ADMINISTRATION

[Declaration of Disaster Loan Area #2806; Amendment #2]

Ohio; Declaration of Disaster Loan Area

The above-numbered Declaration is hereby amended, effective September 13, 1995, to include Washington County in the State of Ohio as a disaster area due to damages caused by severe storms and flooding which occurred August 7-18, 1995.

In addition, applications for economic injury loans from small businesses located in the contiguous counties of Athens, Monroe, Morgan, and Noble in the State of Ohio, and Pleasants, Tyler, and Wood Counties in the State of West Virginia may be filed until the specified

date at the previously designated location.

All other information remains the same, i.e., the termination date for filing applications for physical damage is October 24, 1995, and for loans for economic injury the deadline is May 28, 1996.

The economic injury number for the State of West Virginia is 863800.

(Catalog of Federal Domestic Assistance Program Nos. 59002 and 59008)

Dated: September 21, 1995.
Bernard Kulik,
Associate Administrator for Disaster Assistance.
[FR Doc. 95-24234 Filed 9-28-95; 8:45 am]
BILLING CODE 8025-01-P

[Declaration of Disaster Loan Area #2812]

Commonwealth of Puerto Rico; Declaration of Disaster Loan Area

As a result of the President's major disaster declaration on September 16, 1995, and an amendment thereto on September 18, I find that the Municipalities of Culebra and Vieques in the Commonwealth of Puerto Rico constitute a disaster area due to damages caused by Hurricane Marilyn beginning on September 15, 1995 and continuing. Applications for loans for physical damages may be filed until the close of business on November 14, 1995, and for loans for economic injury until the close of business on June 17, 1996, at the address listed below: U.S. Small Business Administration, Disaster Area 1 Office, 360 Rainbow Blvd. South, 3rd Floor, Niagara Falls, NY 14303, or other locally announced locations.

The interest rates are:

	Percent
For Physical Damage:	
Homeowners With Credit Available Elsewhere	8.000
Homeowners Without Credit Available Elsewhere	4.000
Businesses With Credit Available Elsewhere	8.000
Businesses and Non-Profit Organizations Without Credit Available Elsewhere	4.000
Others (Including Non-Profit Organizations) With Credit Available Elsewhere	7.125
For Economic Injury:	
Businesses and Small Agricultural Cooperatives Without Credit Available Elsewhere	4.000

The number assigned to this disaster for physical damage is 281208 and for economic injury the number is 863700.