

by the Fund, and (as discussed above) at least 95% of the voting Interests of the Fund. In addition, WSGR and its Members, directly or through Qualified Investment Vehicles, together will own at least 80% of the economic Interests of each Series.

10. WSGR prepares its financial statements on a modified cash basis, and does not consolidate the Fund's financial statements with its own. If, however, WSGR prepared its financial statements in accordance with GAAP, it would consolidate the Fund's financial statements with its own.

11. WSGR, when offering Interests pursuant to rule 701 under the Securities Act, will issue Interests in each Series in compliance with rule 701(d)(2),⁴ and will comply with all applicable requirements of rule 701(e).⁵

For the Commission, by the Division of Investment Management, pursuant to delegated authority.

Jonathan G. Katz,
Secretary.

[FR Doc. 01-22387 Filed 9-5-01; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Investment Company Act Release No. 25145; 812-12070]

Keeper Holdings, LLC, et al.; Notice of Application

August 29, 2001.

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

ACTION: Notice of an application for an order under sections 6(c) and 17(b) of the Investment Company Act of 1940 (the "Act") for an exemption from sections 17(a)(1), 17(a)(2) and 17(a)(3) of the Act, under section 6(c) of the Act for an exemption from section 17(e) of the Act and rule 17e-1 under the Act, and under section 17(d) of the Act and rule 17d-1 under the Act permitting certain joint transactions.

⁴ If WSGR relies on rule 701(d)(2)(ii), it will not sell pursuant to rule 701, during any consecutive 12-month period, Interests in the Fund if the sales prices of those Interests exceeds 15% of the total assets of the Fund.

⁵ In order to comply with the requirements of rule 701, at the beginning of each Investment Period the Fund will accept capital contributions or irrevocable commitments from Regulation D Investors for the relevant Series, and then prepare a balance sheet as required by rule 701. The Fund may then receive and accept subscription agreements, and thereafter accept capital contributions or commitments, from Rule 701 Investors for that Series, which in the aggregate will not exceed 15% of the total amount of capital contributions and irrevocable commitments received from Regulation D Investors.

SUMMARY OF THE APPLICATION: The order would permit (1) registered investment companies ("funds") for which certain affiliates of State Street Corporation ("State Street") act as investment adviser, promoter or principal underwriter to engage in certain transactions with certain affiliates of Citigroup, Inc. ("Citigroup"), and (2) funds for which certain affiliates of Citigroup act as investment adviser, promoter or principal underwriter to engage in certain transactions with certain affiliates of State Street.

Applicants: Keeper Holdings, LLC (the "Citigroup Member") and State Street Bank and Trust Company (the "State Street Member").

Filing Dates: The application was filed on April 24, 2000 and amended on August 28, 2001.

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 applicant with a copy of the request, personally or by mail. Hearing requests should be received by the SEC by 5:30 p.m. on September 24, 2001, and should be accompanied by proof of service on applicant, 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 notification by writing to the SEC's Secretary.

ADDRESSES: Secretary, SEC, 450 Fifth Street, NW, Washington, DC 20549-0609. Applicants, c/o Keeper Holdings, LLC, Travelers Life and Annuity, One Tower Square, Hartford, Connecticut 06183.

FOR FURTHER INFORMATION CONTACT: Marilyn Mann, Senior Counsel, at (202) 942-0582, or Mary Kay Frech, 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 at the SEC's Public Reference Branch, 450 5th Street, NW., Washington, DC 20549-0102 (tel. 202-942-8090).

Applicants' Representations

1. Citigroup is a large diversified financial services company. It currently has ten investment advisory subsidiaries (including Citibank N.A.) that collectively act as investment adviser to at least 111 funds consisting of at least 289 portfolios. Its subsidiaries Salomon

Smith Barney Inc. and Citibank, N.A. are among the largest underwriters, dealers and/or brokers in securities, commodities, foreign exchange, commercial loans, securities loans, derivative instruments and other financial instruments and conduct hundreds of billions of dollars per year of principal and agency transactions with funds.

2. State Street provides transfer agency, custody or administration services for funds and other investment vehicles holding at least \$6 trillion in assets as of December 31, 1999, including 16 Citigroup funds, as defined below. SSgA Funds Management, Inc. a subsidiary of State Street ("Funds Management"), acts as investment adviser to at least 27 funds consisting of at least 91 portfolios.¹ Funds Management is registered under the Investment Advisers Act of 1940 (the "Advisers Act"). State Street also has three investment advisory subsidiaries registered under the Advisers Act, each of which manages one fund. State Street currently engages in a large volume of principal and agency transactions with third party funds, in areas such as securities, foreign exchange, settlement credit, repurchase agreements, securities loans, derivative instruments and other financial instruments.

3. On December 9, 1999, Citigroup and State Street, through the Citigroup Member and the State Street Member, entered into a definitive agreement to form and operate a joint venture, for the primary purpose of providing recordkeeping and other bundled services for defined benefit and defined contribution pension plans (the "Venture"). The Venture consists of CitiStreet LLC ("CitiStreet") and persons controlled by CitiStreet (together with CitiStreet, the "Venture Entities"). The State Street Member and the Citigroup Member each own 50% of CitiStreet. State Street obtained its interest by contributing its recordkeeping business for institutional clients, primarily defined contribution pension plans, and its benefits outsourcing business, which provide services for defined benefit and health and welfare benefit plans. Citigroup obtained its interest by contributing cash and its interest in various subsidiaries engaged in defined contribution plan recordkeeping, plan communication and administration services, investment advisory services and related products and services for

¹ Prior to May 2001 these services were provided through the State Street Global Advisors division of the State Street Member. However, as a result of the Gramm-Leach-Bliley Act of 1999, State Street now provides these services through funds Management.

business, government and tax-exempt organization employers and their participants. The State Street Member and the Citigroup Member each has a 50% interest in the profits of the Venture. The Venture will operate and expand the businesses contributed by State Street and Citigroup for the purpose of marketing and providing bundled recordkeeping and administrative services and, to a lesser extent, investment advisory and broker-dealer services and outsourcing services, for defined benefit and defined contribution retirement plans and for health and welfare benefit plans, both in the United States and globally, for business and not-for-profit entities. One of the Venture Entities acts as investment adviser for, and another as the principal underwriter for, a fund consisting of six portfolios, the shares of which are held exclusively by various variable annuity accounts sold by various of the Venture Entities. No fund advised, promoted or distributed by a Venture Entity would be covered by the requested order.

4. The Venture will conduct its own businesses, operating completely separately from the business units of either State Street or Citigroup. CitiStreet is managed by its board of managers (the "Board"), which has delegated day-to-day management authority to CitiStreet's chief executive officer but retains the ability to revoke all or a portion of such authority at any time. The Board consists of twelve individuals, five chosen by the Citigroup Member, five by the State Street Member and two (from the Venture's officers) by the Citigroup Member and the State Street Member together. Certain material contracts, incentive compensation and pension plans, hiring or firing the chief financial officer and approval of annual budgets and business plans require unanimous approval by the non-management members of the Board. Certain extraordinary actions, such as hiring or firing the chief executive officer, capital calls, acquisitions, change in business purpose, changing the distribution policy, liquidating, commencing bankruptcy proceedings, amending the joint venture agreement and redeeming interests, require the direct approval of each of the Citigroup Member and the State Street Member.

5. CitiStreet has adopted policies on behalf of itself and the other Venture Entities prohibiting any information regarding investment advisory and portfolio execution matters relating to the Citigroup Funds and the State Street Funds, each as defined below, from being communicated between the

Venture Entities, on the one hand, and the Citigroup asset management units and the State Street asset management units, on the other hand.

6. The Citigroup Member is indirectly wholly owned by Citigroup through a chain of intermediate holding companies and The Travelers Insurance Company and is a sister company to, rather than owned or controlled by, any of Citigroup's banking companies, broker-dealer units or investment management units. The Citigroup Member is a holding company the sole purpose of which is to hold Citigroup's interest in CitiStreet. It does not conduct any business other than acting as a 50% owner of CitiStreet. Its managing member is Plaza, LLC. Its only other member is SSB Keeper Holdings, LLC. The Citigroup Member has no officers.

7. The legal entity serving as the State Street Member is State Street Bank and Trust Company, which is the primary operating entity of State Street. State Street's interest in the Venture is supervised by the senior executives who serve as members of the Board, none of whom are involved in day-to-day administration or investment management of the State Street Funds (as defined below).

8. The applicants seek relief under sections 6(c), 17(b) and 17(d) of the Act and rule 17d-1 under the Act on behalf of (a) Citigroup Member, Citigroup and any entity controlling, controlled by or under common control with Citigroup other than the Venture Entities and (b) State Street Member, State Street and any entity controlling, controlled by or under common control with State Street other than the Venture Entities. The persons referred to in clause (a) of the preceding sentence are referred to as the "Citigroup Affiliates" and those referred to in clause (b) are referred to as the "State Street Affiliates." The requested order would permit the Citigroup Affiliates to engage in Covered Transactions (as defined below) with any fund or portfolio thereof for which one or more of the State Street Affiliates acts as the investment adviser or as the promoter or principal underwriter (the "State Street Funds"). The requested order would also permit the State Street Affiliates to engage in Covered Transactions with any fund or portfolio thereof for which one or more of the Citigroup Affiliates acts as the investment adviser or as the promoter or principal underwriter (the "Citigroup Funds").

9. The "Covered Transactions" are transactions between (a) State Street Funds and Citigroup Affiliates and (b) Citigroup Funds and State Street Affiliates that would be prohibited or

restricted by sections 17(a)(1), 17(a)(2), 17(a)(3), 17(d) (and rule 17d-1 thereunder), 17(e)(1), 17(e)(2) (and paragraphs (b) and (d) of rule 17e-1 thereunder) solely because (a) Citigroup Affiliates may be deemed to be affiliated persons of an affiliated person (the Venture) of the State Street Funds and (b) State Street Affiliates may be deemed to be affiliated persons of an affiliated person (the Venture) of the Citigroup Funds, in each case solely by reason of Citigroup's and State Street's interest in and control over the Venture through the Citigroup Member or the State Street Member, respectively.

10. Citigroup will operate the fund investment management businesses conducted by Citigroup Affiliates independently of its broker-dealer, foreign exchange, commodities, custody and other businesses that would be likely to seek to conduct business with the State Street Funds. Independent operation would consist of separate line-of-business management, a separate compensation system that does not reward employees based on business done by other business units of Citigroup with the Venture or the State Street Affiliates, and separate investment portfolio and transaction execution management in which the other business units do not have input.

11. All Citigroup Affiliates are subject to confidentiality and "Chinese Wall" policies designed to keep information about customers and suppliers and transactions with them on a need-to-know basis. Pursuant to these policies, the Citigroup asset management units have designated information regarding investment advisory and portfolio execution matters relating to the Citigroup Funds as information that may not be communicated between the Venture Entities, on the one hand, and the Citigroup asset management units, on the other hand.

12. The Citigroup Affiliates have adopted policies that have the effect of prohibiting the Citigroup Affiliates from (a) linking any approval or action relating to the Venture to any action by any State Street Fund or by any State Street Affiliate relating to any State Street Fund or (b) using the existence of the Venture as a basis for seeking to persuade any State Street Fund to engage in business with any Citigroup Affiliate.

13. State Street's investment advisory units (including the State Street Global Advisors division and Funds Management) operate as completely separate business units from State Street and its other business units. The investment advisory units have their own officers and employees, maintain

their own books and records and collectively operate as a separate line of business and profit center. As a matter of policy and regulatory requirements, the other business units and State Street have no input into investment advisory policy or portfolio decisions on behalf of the State Street Funds.

14. State Street will operate the fund investment management businesses conducted by the State Street Affiliates independently of its broker-dealer, foreign exchange, commodities, custody and other businesses that would likely seek to do business with the Citigroup Funds. Independent operation would consist of separate line-of-business management, a separate compensation system that does not reward employees based on business done by other business units of State Street with the Venture or the Citigroup Affiliates, and separate investment portfolio and transaction execution management in which the other business units do not have input.

15. Funds Management and State Street's other advisory units have adopted confidentiality policies designed to keep information about clients and suppliers on a need-to-know basis. Pursuant to these policies, Funds Management and State Street's other advisory units have designated information regarding investment advisory and portfolio execution matters relating to the State Street Funds as information that may not be communicated between the Venture Entities, on the one hand, and Funds Management and State Street's other advisory units, on the other hand.

16. The State Street Affiliates have adopted policies that have the effect of prohibiting the State Street Affiliates from (a) linking approval or action relating to the Venture to any action by any Citigroup Fund or any Citigroup Affiliate relating to any Citigroup Fund or (b) using the existence of the Venture as a basis for seeking to persuade any Citigroup Fund to engage in business with any State Street Affiliate.

17. There is not, and each of Citigroup and State Street have adopted policies effectively prohibiting, any express or implied understanding between State Street and Citigroup that (a) any State Affiliate will cause any State Street Fund to enter into transactions with any Citigroup Affiliate or to give to preference to any Citigroup Affiliate in selecting with whom to effectuate transactions, or (b) any Citigroup Affiliate will cause any Citigroup Fund to enter into any transactions with any State Street Affiliate or to give a preference to any State Street Affiliate in selecting with whom to effectuate

transactions. The boards of directors of the Citigroup Funds and the boards of directors of the State Street Funds will be informed of the existence of the Venture in connection with any consideration by them of any contract, arrangement or product involving a Citigroup Fund and a State Street Affiliate or a State Street Fund and a Citigroup Affiliate.

Applicants' Legal Analysis

1. Applicants request an order under sections 6(c) and 17(b) of the Act for an exemption from section 17(a) of the Act, under section 6(c) of the Act for an exemption from section 17(e) of the Act and rule 17e-1 under the Act, and under section 17(d) of the Act and rule 17d-1 under the Act permitting certain joint transactions.

Section 17(a) of the Act

2. Sections 17(a)(1) and 17(a)(2) of the Act prohibit an affiliated person of a fund, or any affiliated person of the affiliated person ("second-tier affiliate"), acting as principal, from selling any security or other property to, or purchasing any security or other property from, the fund. Section 17(a)(3) of the Act prohibits any affiliated person of a fund, or any second-tier affiliate, from borrowing money or other property from the fund. Section 2(a)(3) of the Act defines an "affiliated person" of another person to include: any person directly or indirectly controlling, controlled by, or under common control with, the other person. Section 2(a)(9) of the Act defines control to mean "the power to exercise a controlling influence over the management or policies of a company, unless such power is solely the result of an official position with such company." Section 2(a)(9) also provides that any person who owns beneficially, either directly or through one or more controlled companies, more than 25% of the voting securities of a company is presumed to control the company. Since Citigroup and State Street each own, indirectly, more than 25% of the voting securities of CitiStreet, they each are presumed to control CitiStreet. In addition, the Citigroup Affiliates and the Citigroup Funds are under the control of Citigroup and the State Street Affiliates and State Street Funds are under the control of State Street. Therefore, the Citigroup Affiliates and Citigroup Funds are under common control with CitiStreet, making them affiliated persons of each other. The State Street Affiliates and State Street Funds are also under common control with CitiStreet, making them affiliated persons of each other. The Citigroup Affiliates and Citigroup Funds are

therefore second-tier affiliates of the State Street Funds and the State Street Affiliates and State Street Funds are second-tier affiliates of the Citigroup Funds. The Citigroup Affiliates are thus prohibited under sections 17(a)(1) and 17(a)(2) from conducting principal transactions in securities or other property with the State Street Funds and the State Street Affiliates are prohibited from conducting principal transactions in securities and other property with the Citigroup Funds. In addition, the Citigroup Affiliates are prohibited under section 17(a)(3) from borrowing money or other property from the State Street Funds and the State Street Affiliates are prohibited from borrowing money or other property from the Citigroup Affiliates. Applicants seek relief under sections 6(c) and 17(b) to exempt transactions prohibited by sections 17(a)(1), 17(a)(2) and 17(a)(3).

3. Section 17(b) of the Act authorizes the Commission to grant an order permitting a transaction otherwise prohibited by section 17(a) if it finds that the terms of the proposed transaction are fair and reasonable and do not involve overreaching on the part of any person concerned, and the proposed transaction is consistent with the policy of each fund and the general purposes of the Act. Section 6(c) of the Act permits the Commission to exempt any person or transaction from any provision of the Act if the exemption is necessary or appropriate in the public interest and consistent with the protection of investors and the purposes fairly intended by the policies and provisions of the Act.

4. Applicants state that section 17(a) was intended to protect funds from self-dealing and overreaching by insiders. Applicants assert that because of the remoteness of the affiliations involved, the Citigroup Affiliates are unable to influence portfolio decisions by the State Street Funds and the State Street Affiliates are unable to influence portfolio decisions by the Citigroup Funds. In addition, since any pecuniary benefits realized by the Citigroup Affiliates from the State Street Funds would not be shared with the State Street Affiliates and any benefits realized by the State Street Affiliates from the Citigroup Funds would not be shared with the Citigroup Affiliates, there would be no incentive for the State Street Affiliates or the Citigroup Affiliates to recommend or cause their funds to enter into such transactions if they were not consistent with the best interests of the funds. In addition, the Citigroup Affiliates have put in place a number of protections, as stated in the conditions and representations, that will

ensure that any decisions made by the Citigroup Affiliates on behalf of the Citigroup Funds or the State Street Affiliates on behalf of the State Street Funds will be based on the best interests of the funds. For example, condition 3 provides that the compensation schemes of the Citigroup Affiliates will not be based on the amount of business done by the Citigroup Funds with State Street Affiliates and that the compensation schemes of the State Street Affiliates will not be based on the amount of business done by the State Street Funds and the Citigroup Affiliates.

Accordingly, applicants believe that the terms of any Covered Transactions otherwise prohibited by section 17(a) would be fair, that there would be no overreaching, and that the transactions would be consistent with the policy of each fund and with the general purposes of the Act. Applicants also assert that permitting the transaction will be in the public interest and consistent with the protection of investors because permitting the proposed transactions would likely benefit the State Street Funds and the Citigroup Funds by increasing their investment opportunities and ability to obtain best execution with respect to the proposed transactions.

Section 17(d)

5. Section 17(d) of the Act and rule 17d-1 under the Act prohibit any affiliated person or principal underwriter for a fund, or any affiliated person of such a person or principal underwriter, acting as principal, from effecting any transaction in connection with any joint enterprise or other joint arrangement or profit sharing plan in which the fund participates, without an order of the Commission. Certain potential transactions between the Citigroup Affiliates and the State Street Funds and the State Street Affiliates and the Citigroup Funds could be deemed a joint enterprise or other joint arrangement within the meaning of section 17(d) and rule 17d-1. These could include securities lending, investments in private placement securities, participation in credit programs and participation in back office providers. Applicants request an order in accordance with section 17(d) and rule 17d-1 to permit any joint transactions between the Citigroup Affiliates and the State Street Funds and the State Street Affiliates and the Citigroup Funds that would otherwise be prohibited by section 17(d) and rule 17d-1.

6. In passing on applications for orders under rule 17d-1, the Commission considers whether the

fund's participation in the joint enterprise is consistent with the provisions, policies, and purposes of the Act, and the extent to which the participation is on a basis different from or less advantageous than that of other participants.

7. As discussed above, the Citigroup Affiliates do not have the power to influence the decisions of the State Street Funds and the State Street Affiliates do not have the power to influence the decisions of the Citigroup Funds. Because of this lack of influence, applicants assert that any joint transactions will be consistent with the provisions, policies and purposes of the Act. For the same reason, applicants believe that the participation by the State Street Funds in joint transactions with the Citigroup Affiliates will not be on a basis different from or less advantageous than the Citigroup Affiliates, and that the participation by the Citigroup Funds in joint transactions with the State Street Affiliates will not be on basis different from or less advantageous than that of the State Street Affiliates.

Section 17(e)

8. Section 17(e)(1) of the Act prohibits an affiliated person or a second-tier affiliate of a fund from receiving any compensation in connection with acting as an agent in connection with the purchase or sale of any property to or for the fund except as a securities underwriter or broker. Section 17(e)(2) of the Act prohibits an affiliated person or a second-tier affiliate of a fund from receiving compensation for acting as broker in connection with the sale of securities to or by the fund if the compensation exceeds the limits prescribed by the section unless otherwise permitted by rule 17e-1 under the Act. Rule 17e-1 sets forth the conditions under which an affiliated person or a second-tier affiliate of a fund may receive a commission which would not exceed the "usual and customary broker's commission" for purposes of section 17(e)(2). Rule 17e-1(b) requires the fund's board of directors, including a majority of the directors who are not interested persons under section 2(a)(19) of the Act, to adopt certain procedures and to determine at least quarterly that all transactions effected in reliance on the rule complied with the procedures. Rule 17e-1(d) specifies the records that must be maintained by each investment company with respect to any transaction effected pursuant to rule 17e-1.

9. Section 17(e)(1) would prevent the Citigroup Affiliates from acting as an agent in non-securities transactions by

the State Street Funds, such as obtaining insurance, leasing office space, and entering into credit arrangements. A parallel prohibition would apply to the State Street Affiliates with respect to the Citigroup Funds. Applicants request an exemption under section 6(c) from section 17(e)(1) to permit any such transactions. Applicants believe such an exemption is consistent with the standard of section 6(c) because of the remote affiliation between the Citigroup Affiliates and the State Street Funds and the State Street Affiliates and the Citigroup Funds and the potential benefits to the Citigroup Funds and State Street Funds from being able to engage in the Covered Transactions.

10. Applicants request an exemption under section 6(c) from section 17(e)(2) and rule 17e-1 to the extent necessary to permit a State Street Fund to pay brokerage compensation to a Citigroup Affiliate acting as broker in the ordinary course of business in connection with the sale of securities to or by the State Street Fund, without complying with the requirements of rule 17e-1 (b) and (d). Applicants request the same relief with respect to brokerage compensation paid by a Citigroup Fund to a State Street Affiliate. Applicants believe that the proposed brokerage transactions involve no conflicts of interest or possibility of self-dealing and will meet the standards of section 6(c). The interests of the State Street Affiliates that manage the State Street Funds, and those of the Citigroup Affiliates that manage the Citigroup Funds, are directly aligned with the funds they manage rather than with the other venturer's affiliates and the manager will only enter into brokerage transactions with the other venturer's affiliates if the fees charged are reasonable and fair as required by rule 17e-1(a). Applicants will also comply with rule 17e(a). Applicants will also comply with rule 17e-1(c).

Applicants' Conditions

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

1. No State Street Affiliate will control any Citigroup Fund relying on the order or any investment adviser, promoter or principal underwriter of any Citigroup Fund relying on the order. No Citigroup Affiliate will control any State Street Fund relying on the order or any investment adviser, or principal underwriter of any State Street Fund relying on the order.

2. No officer, director or employee of any Venture Entity will seek to influence in any way the terms of any Covered Transactions.

3. None of the Citigroup Affiliates will adopt any compensation scheme any component of which is based on the amount of business done by the Citigroup Funds with State Street Affiliates. None of the State Street Affiliates will adopt any compensation scheme any component of which is based on the amount of business done by the State Street Funds with Citigroup Affiliates.

4. None of Citigroup Member, State Street Member or the Venture Entities will directly or indirectly control any Citigroup Fund, State Street Fund, or any investment adviser, promoter, or principal underwriter of any Citigroup Fund or State Street Fund.

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

Jonathan G. Katz,
Secretary.

[FR Doc. 01-22385 Filed 9-5-01; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Investment Company Act Release No. 25144; 812-12134]

The Charles Schwab Family of Funds, et al.; Notice of Application

August 29, 2001.

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

ACTION: Notice of an application for an order under section 12(d)(1)(j) of the Investment Company Act of 1940 (the "Act") for an exemption from section 12(d)(1) of the Act, under section 6(c) and 17(b) of the Act for an exemption from section 17(a) of the Act, and under section 17(d) of the Act and rule 17d-1 under the Act to permit certain joint transactions.

SUMMARY OF APPLICATION: Applicants request an order to permit certain registered management investment companies to use cash collateral from securities lending transactions to purchase shares of affiliated registered management investment companies or affiliated private investment funds, and to pay fees based on a share of the revenue generated from securities lending transactions to an affiliated agent.

Applicants: The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust, Schwab Annuity Portfolios (each a "Trust" and, together, the "Trusts"), on behalf of each of their existing or future series (each a "Fund" and, together, the "Funds"), Charles

Schwab Investment Managements, Inc. ("CSIM"), and Charles Schwab & Co., Inc. (CS&Co.).

Filing Dates: The application was filed on June 20, 2000, and amended on August 17, 2001.

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 Commission's Secretary and serving applicants with a copy of the request, personally or by mail. Hearing requests should be received by the Commission by 5:30 p.m. on September 24, 2001, 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 notification by writing to the Commission's Secretary.

ADDRESSES: Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549-0609; Applicants, 101 Montgomery Street, San Francisco, CA 94104.

FOR FURTHER INFORMATION CONTACT: Deepak T. Pai, Senior Counsel, at (202) 942-0574 or Mary Kay Frech, 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 at the Commission's Public Reference Branch, 450 Fifth Street, NW., Washington, DC 20549-0102 (telephone (202) 942-8090).

Applicants' Representations

1. Each Trust is a Massachusetts business trust registered under the Act as an open-end management investment company. Each Trust offers multiple Funds. The Money Market Fund, Value Advantage Fund, Government Securities Fund, and Treasury Fund (the "Registered Investment Funds") are money market Funds that comply with the requirements of rule 2a-7 under the Act. CSIM, a wholly-owned subsidiary of The Charles Schwab Corporation ("Charles Schwab"), is registered as an investment adviser under the Investment Advisers Act of 1940. CSIM serves an investment adviser and provide administrative services to each Fund. CS&Co., a wholly-owned subsidiary of Charles Schwab, acts as principal underwriter of the shares of each Registered Investment Fund and

provides shareholder and transfer agency services to each Fund.

2. Applicants request that any relief granted pursuant to the application also apply to (a) any other registered open-end investment company that is advised or sub-advised by CSIM or any entity controlling, controlled by, or under common control with CSIM and is part of the same group of investment companies, as defined in section 12(d)(1)(G)(ii) of the Act as the Trust ("Future Fund") and (b) any investment entity excluded from the definition of investment company under section 3(c)(1) or section 3(c)(7) of the Act, advised by CSIM, and established for the purpose of investment of cash collateral in connection with the securities lending program described below ("Private Investment Fund" and together with the Registered Investment Funds, the "Investment Funds").¹

3. CS&Co. proposes to establish and administer a securities lending program ("Program") for the Funds. In connection with the Program, CS&Co. will enter into a securities lending agreement ("Securities Lending Agreement") with the Funds that participate as lenders in the Program ("Lending Funds"). The Securities Lending Agreement will authorize CS&Co., as agent for a Lending Funds, to enter into a borrowing agreement ("Borrowing Agreement") with one or more entities designated by CS&Co and approved by the Lending Funds as eligible to borrow portfolio securities ("borrowers"). The Securities Lending Agreement and the Borrowing Agreement will establish, with respect to each transaction, the initial and on-going collateralization requirements, the types of collateral that may be accepted, and the manner in which the Borrower's rebate will be established. With respect to cash collateral, a Borrower will be paid a fixed return on the cash collateral for the term of the loan. The difference between the fixed return and the actual return on the investment of the cash collateral is divided between the Lending Fund and CS&Co. In the case of collateral other than cash, the Borrower pays the Lending Fund a lending fee, which is split between the Lending Fund and CS&Co.

4. The Securities Lending Agreement will authorize and instruct CS&Co. as agent for the Lending Fund to invest the cash collateral in accordance with specific guidelines or instructions

¹ All existing entities that currently intend to rely on the requested relief have been named as applicants. Any future Fund or Private Investment Fund will rely on the requested relief only in accordance with the terms and conditions of the application.