

SECURITIES AND EXCHANGE COMMISSION

[Investment Company Act Rel. No. 22541; 812-10200]

PaineWebber America Fund, et al.; Notice of Application

March 4, 1997.

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

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

APPLICANTS: PaineWebber America Fund; PaineWebber Cashfund, Inc., PaineWebber Investment Series; PaineWebber Managed Assets Trust; PaineWebber Managed Investments Trust; PaineWebber Managed Municipal Trust; PaineWebber Master Series, Inc.; PaineWebber Municipal Series; PaineWebber Mutual Fund Trust; PaineWebber Olympus Fund; PaineWebber Financial Services Growth Fund Inc.; PaineWebber RMA Money Fund, Inc.; PaineWebber RMA Tax-Free Fund, Inc.; PaineWebber Securities Trust; PaineWebber Series Trust; Strategic Global Income Fund, Inc.; Triple A and Government Series—1997, Inc.; 2002 Target Term Trust Inc.; All-American Term Trust Inc.; Global High Income Dollar Fund Inc.; Global Small Cap Fund Inc.; Investment Grade Municipal Income Fund Inc.; Insured Municipal Income Fund Inc.; Managed High Yield Fund Inc.; PaineWebber Municipal Money Market Series; PaineWebber Investment Trust; PaineWebber Investment Trust II; PaineWebber Investment Trust III; Liquid Institutional Reserves; Managed Accounts Services Portfolio Trust (collectively, "Affiliated Funds"); PaineWebber Incorporated ("PaineWebber"), and Mitchell Hutchins Asset Management Inc. ("Mitchell Hutchins"), on behalf of themselves and any other registered investment companies, or series thereof, which currently or in the future may be advised by Mitchell Hutchins or PaineWebber, or any entity controlling, controlled by, or under common control (as defined in section 2(a)(9) of the Act) with PaineWebber or Mitchell Hutchins.¹

¹ All existing Affiliated Funds that currently intend to rely on the requested relief have been named as parties to the application. Certain other funds, or series thereof, for which Mitchell Hutchins or PaineWebber, or any entity controlling, controlled by, or under common control with Mitchell Hutchins or PaineWebber, acts as investment adviser do not presently intend to rely on the requested order. Any such Affiliated Fund, or series thereof, however, would be covered by the order if it later proposed to enter into a lending

RELEVANT ACT SECTIONS: Order requested under rule 17d-1 to permit certain transactions in accordance with section 17(d) and rule 17d-1.

SUMMARY OF APPLICATION: Applicants seek an order to permit the Affiliated Funds to pay, and PaineWebber as lending agent to accept, fees based on a share of the revenue generated from securities lending transactions, as described in the application.

FILING DATES: The application was filed on June 14, 1996 and amended on December 4, 1996, and February 26, 1997.

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 March 31, 1997, 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, N.W., Washington, D.C. 20549. Applicants, 1285 Avenue of the Americas, New York, New York 10019.

FOR FURTHER INFORMATION CONTACT: Shirley A. Bodden, Paralegal Specialist, at (202) 942-0575, or Mercer E. Bullard, 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 of the following Affiliated Funds is registered under the Act as a closed-end management investment company: Strategic Global Income Fund, Inc.; Triple A and Government Series—1997, Inc.; 2002 Target Term Trust Inc.; All-American Term Trust Inc.; Global High Income Dollar Fund Inc.; Global Small Cap Fund Inc.; Investment Grade Municipal Income Fund Inc.; Insured Municipal Income Fund Inc.; and Managed High Yield Fund Inc. All of the other Affiliated

arrangement with PaineWebber on the terms described in the application.

Funds are registered under the Act as open-end management investment companies. All of the closed-end companies and PaineWebber Cashfund, Inc., PaineWebber Master Series, Inc., PaineWebber Financial Services Growth Inc., PaineWebber RMA Money Fund, Inc., and PaineWebber RMA Tax-Free Fund, Inc. are organized as Maryland corporations; Managed Accounts Services Portfolio Trust is organized as a Delaware business trust; and the remaining Affiliated Funds are organized as Massachusetts business trusts. The Affiliated Funds invest in a range of equity and fixed-income securities.

2. PaineWebber, an investment adviser registered under the Investment Advisers Act of 1940 ("Advisers Act"), serves as investment adviser and Mitchell Hutchins, a registered investment adviser under the Advisers Act and a wholly-owned subsidiary of PaineWebber, serves as sub-adviser to PaineWebber Cashfund, Inc., PaineWebber RMA Money Fund, Inc., PaineWebber RMA Tax-Free Fund, Inc., PaineWebber Managed Municipal Trust, PaineWebber Municipal Money Market Series, and Liquid Institutional Reserves. Mitchell Hutchins serves as investment adviser to the remaining Affiliated Funds, although it has delegated certain of its responsibilities with respect to certain Funds to sub-advisers.

3. PaineWebber is a publicly owned securities brokerage, investment banking, and asset management firm offering a broad range of services to corporations, institutions, and substantial private investors worldwide. PaineWebber and Mitchell Hutchins are registered as investment advisers under the Investment Advisers Act of 1940 and as broker-dealers under the Securities Exchange Act of 1934. PaineWebber is also a member of the National Association of Securities Dealers, Inc., and the New York Stock Exchange.

4. Each of the Affiliated Funds is permitted under its investment objectives, policies, and restrictions to lend its portfolio securities. Mitchell Hutchins and PaineWebber previously proposed that each Affiliated Fund lend its securities to increase the income earned by such Fund, thus increasing total return to shareholders. The boards of directors/trustees ("Board") of certain Affiliated Funds approved that proposal and authorized commencement of securities lending activities with respect to such Funds. Pursuant to such approval, PaineWebber's compensation for acting as lending agent is limited, pending receipt of the exemptive relief

requested in the application and further action by the Boards, to reimbursement for specific expenses that it incurs as lending agent for Affiliated Funds.²

5. In connection with the establishment of a securities lending program, the Board of a Fund, including a majority of the directors who are not "interested persons" as defined in section 2(a)(19) of the Act, has established or, for Affiliated Funds that have not yet commenced securities lending, will establish procedures to govern the program. These procedures do or will comply with the positions set forth by the Commission and its staff in no-action letters and require specific guidelines relating to the creditworthiness of borrowers and of issuers from whom an Affiliated Fund may accept irrevocable letters of credit as collateral.

6. Mitchell Hutchins and PaineWebber proposed that each Affiliated Fund engage a lending agent for the Fund, and the Boards approved the retention of PaineWebber as lending agent. PaineWebber, as lending agent, is responsible for soliciting borrowers, monitoring daily the value of the loaned securities and collateral, requesting that borrowers add to the collateral when required by the loan arrangements and performing other administrative functions in connection with each Affiliated Fund's securities lending program. PaineWebber enters into loans with pre-approved borrowers on terms the parameters of which are pre-approved by the Fund's investment adviser or sub-adviser. Although not currently contemplated, PaineWebber may invest cash collateral for the loans in instruments pre-approved by such investment adviser or sub-adviser.

7. The duties of PaineWebber as lending agent for an Affiliated Fund are included in a lending agency agreement. Procedures governing determination of the borrowers and acceptable investment instruments have been adopted by the Boards and the relevant investment advisers and sub-advisers. The investment adviser or sub-adviser monitors PaineWebber's activities as lending agent to ensure that securities loans are effected in accordance with the adviser's or sub-adviser's instructions and within the procedures adopted by the relevant Board.

8. Although PaineWebber acts as both investment adviser and lending agent to certain Affiliated Funds, the personnel providing day-to-day lending agency

services to the Funds do not provide investment advisory services to the Funds and are completely separate and distinct from those PaineWebber personnel who provide investment advisory services to the Funds. PaineWebber's activities as lending agent are conducted under the supervision of investment management personnel as each Fund's investment adviser or sub-adviser, who are not in any way involved in PaineWebber's lending agency operations. None of the lending representatives in PaineWebber's securities lending department participates in any way in the selection of portfolio securities or any other aspects of the management of the Affiliated Funds.

9. Ultimate responsibility for determining which specific securities are available to be loaned and to whom the securities may be loaned resides with the investment adviser or sub-adviser for each Affiliated Fund, subject to the parameters set forth in the procedures approved by each Affiliated Fund's Board. Each Affiliated Fund's investment adviser or sub-adviser notifies the lending agent as to which securities are or are not available to be loaned and approves a list of approved borrowers to whom each Affiliated Fund may lend its securities. PaineWebber provides the investment adviser or sub-adviser with a list of lending transactions for each Fund on a periodic basis. In addition, under the lending agency agreement, each Fund retains full discretion and power to prevent any loan from being made or to terminate any loan once made. The investment adviser or sub-adviser are required to terminate loans as necessary in order to vote proxies with respect to material matters affecting the issuer of the securities on loan. The duties to be performed by PaineWebber as lending agent for each Affiliated Fund are consistent with and do not exceed the parameters set forth in *Norwest Bank, Minnesota, N.A.* (May 25, 1995), except to the extent that the SEC staff should later modify such parameters.

10. Each borrower of an Affiliated Fund's securities is required to tender collateral to be held by the Fund's custodian or sub-custodian in the form of cash, securities issued or guaranteed by the United States Government, its agencies, or instrumentalities ("U.S. Government securities"), or irrevocable letters of credit issued by certain approved banks or such other collateral that may be acceptable collateral for the Fund in accordance with present and future applicable positions of the SEC staff. The borrower delivers collateral to the Fund's custodian or sub-custodian

equal to at least 100% of the securities loan which collateral is supplemented to cover differences between the value of the collateral and the market value of the loaned securities as necessary.

11. When the collateral consists of U.S. Government securities or letters of credit, PaineWebber typically negotiates on behalf of the Affiliated Fund a lending fee to be paid by the borrower to the Fund. The beneficial ownership of the collateral remains with the borrower, as does the right to the income earned where the collateral consists of U.S. Government securities. At the termination of a loan, the borrower pays the lending fee to the Fund, and PaineWebber will receive a pre-negotiated percentage of the fee.

12. When the collateral consists of cash, the Affiliated Fund, instead of receiving a separate lending fee, typically receives a portion of the return earned on the investment of the cash collateral by or under the direction of the Fund's investment adviser or sub-adviser. Depending on the arrangements negotiated with the borrower by PaineWebber, a percentage of the return on the investment of the cash collateral may be remitted by the Fund to the borrower. Out of amounts earned on the investment of the cash collateral, the borrower is first paid the amount agreed upon, if any, and then, out of any remaining earnings, PaineWebber receives a pre-negotiated percentage. In the cash collateral scenario, the Affiliated Fund bears the risk of loss of the collateral.

13. Applicants propose that each Fund adopt the following procedures to ensure that the fee arrangement and other terms governing the relationship with PaineWebber, as lending agent, will be fair:

a. In connection with the approval of PaineWebber as lending agent for an Affiliated Fund and implementation of the proposed fee arrangement, a majority of the Board (including a majority of the directors/trustees who are not "interested persons" within the meaning of the Act) will determine that: (i) the contract with PaineWebber is in the best interests of the Affiliated Fund and its shareholders; (ii) the services to be performed by PaineWebber are required by the Affiliated Fund; (iii) the nature and quality of the services provided by PaineWebber are at least equal to those provided by others offering the same or similar services; and (iv) the fees for PaineWebber's services are fair and reasonable in light of the usual and customary charges imposed by others for services of the same nature and quality.

² Applicants have not sought and are not seeking exemptive relief with respect to the specific lending activities to be undertaken by PaineWebber or with respect to the expense reimbursement arrangement recently approved by the Boards.

b. Each Affiliated Fund's contract with PaineWebber for lending agency services will be reviewed annually and will be approved for continuation only if a majority of the Board of each Fund (including a majority of the directors who are not interested persons) makes the findings referred to in paragraph a. above.

c. In connection with the approval of PaineWebber as lending agent for an Affiliated Fund and initial implementation of the proposed fee arrangement, the Board will obtain competing quotes regarding lending agency fees from at least three independent lending agents to assist the Board in making the findings referred to in paragraph a. above.

d. The Board, including a majority of the directors who are not interested persons, will (i) determine at each quarterly meeting that the loan transactions during the prior quarter were effected in compliance with the conditions and procedures set forth herein, and (ii) review no less frequently than annually the conditions and procedures set forth herein for continuing appropriateness.

e. Each Affiliated Fund Portfolio will (i) maintain and preserve permanently in an easily accessible place a written copy of the conditions and procedures (and modifications thereto) described in the application or otherwise followed in connection with lending securities, and (ii) maintain and preserve for a period not less than six years from the end of the fiscal year in which any loan transaction occurred, the first two years in an easily accessible place, a written record of each such loan transaction setting forth a description of the security loaned, the identity of the person on the other side of the loan transaction, the terms of the loan transaction, and the information or materials upon which the determination was made that each loan was in accordance with the procedures set forth above and the conditions to the application.

14. Applicants request an order, pursuant to section 17(d) of the Act and rule 17d-1 thereunder, to the extent necessary to permit an Affiliated Fund to pay, and PaineWebber to accept, fees in connection with PaineWebber's acting as lending agent in the manner and subject to the conditions and procedures described in the application.

Applicants' Legal Analysis

1. Section 2(a)(3) of the Act defines an affiliated person of an investment

company to include any investment adviser of the investment company and any person directly or indirectly controlling, or under common control with, such investment adviser. Under section 2(a)(3), PaineWebber, as an investment adviser to certain Affiliated Funds, is an affiliated person of such Funds. In addition, PaineWebber, which owns all of the outstanding stock of Mitchell Hutchins, is an affiliated person of Mitchell Hutchins. Since Mitchell Hutchins is an affiliated person of certain Affiliated Funds by virtue of its position as an investment adviser of such Portfolios, PaineWebber may thereby be deemed an affiliated person of an affiliated person of such Funds.

2. Section 17(d) of the Act and rule 17d-1 thereunder make it unlawful for an affiliated person of a registered investment company, or any affiliated person of such person, acting as principal, to participate in or effect any transaction in connection with any joint enterprise or other joint arrangement or profit-sharing plan in which such investment company is a joint participant, unless an application regarding such joint enterprise or other joint arrangement or profit-sharing plan has been filed with the SEC and has been granted by an order of the SEC. Rule 17d-1 provides that, in passing upon any such application, the SEC will consider whether the participant of such registered investment company in such joint enterprise or joint arrangement or profit-sharing plan 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 the other participants. To the extent that PaineWebber's proposed activities as lending agent for the Funds in return for a share of the revenue generated thereby may be deemed a joint enterprise or profit sharing plan, applicants believe that such activities would be prohibited by section 17(d) and rule 17d-1.

3. Applicants believe that the basic policy underlying section 17(d) is to prevent affiliates of investment companies from taking advantage of their relationship and to otherwise regulate potential conflicts of interest between an investment company and its affiliates. Applicants submit that the potential for conflict arises in connection with negotiating the percentage split of the lending fee between the lending agent and an Affiliated Fund. Applicants believe that

the procedures to be adopted by each Fund with respect to the Fund's employment of PaineWebber as lending agent will ensure the fairness of the fee arrangement and other terms governing this relationship. Applicants note that the proposed conditions and procedure place reliance on the directors who are not interested persons of each Affiliated Fund to determine that the lending arrangements are fair and reasonable and in the best interests of each Fund and its shareholders. Applicants believe that such conditions and procedures will fully protect each Affiliated Fund's shareholders from the conflicts contemplated by section 17(d) and rule 17d-1.

Applicants' Conditions

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

1. No Affiliated Fund may lend its portfolio securities to a borrower that is an affiliated person of the Fund or an affiliated person of an affiliated person of such Fund.

2. Except as set forth in the application, the securities lending program of each Affiliated Fund will comply with all present and future applicable SEC staff positions regarding securities lending arrangements, *e.g.*, with respect to the type and amount of collateral, voting of loaned securities, limitations on the percentage of portfolio securities on loan, prospectus disclosure, termination of loans, receipt of dividends or other distributions, and compliance with fundamental policies.³

3. The approval of each Affiliated Fund's Board, including a majority of directors who are not "interested persons" under the Act, shall be required for the initial and subsequent approvals of PaineWebber's service as lending agent for each Affiliated Fund, for the institution of all procedures relating to the securities lending program of the Affiliated Fund, and for any periodic review of loan transactions for which PaineWebber acted as lending agent.

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

Margaret H. McFarland,

Deputy Secretary.

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³ See, *e.g.*, SIFE Trust Fund (pub. avail. Feb. 17, 1982).