

vote of the company's outstanding voting securities. Rule 18f-2 under the Act provides that each series or class of stock in a series company affected by a matter must approve such matter if the Act requires shareholder approval.

2. Section 6(c) of the Act provides that the Commission may exempt any person, security, or transaction or any class or classes of persons, securities, or transactions from any provision of the Act, or from any rule thereunder, if such exemption is necessary or appropriate in the public interest and consistent with the protection of investors and the purposes fairly intended by policy and provisions of the Act. Applicants believe that their requested relief meets this standard for the reasons discussed below.

3. Applicants assert that the shareholders are relying on the Adviser's experience to select one or more Subadvisers best suited to achieve a Portfolio's investment objective. Applicants assert that, from the perspective of the investor, the role of the Subadvisers is comparable to that of individual portfolio managers employed by traditional investment advisory firms. Applicants contend that requiring shareholder approval of each Subadvisory Agreement would impose costs and unnecessary delays on the Portfolios, and may preclude the Adviser from acting promptly and efficiently according to the judgment of the Board and the Adviser. Applicants also note that each Advisory Agreement will remain subject to section 15(a) of the Act and rule 18f-2 under the Act, including the requirements of shareholder approval.

#### Applicants' Conditions

1. Before a Portfolio may rely on the order requested in the application, the operation of the Portfolio in the manner described in the application will be approved by a majority of the Portfolio's outstanding voting securities (or, if the Portfolio serves as a funding medium for any sub-account of a registered separate account, pursuant to voting instructions provided by the unitholders of the sub-account), as defined in the Act, or, in the case of a Portfolio whose public shareholders (or variable contract owners through a separate account) will purchase shares on the basis of a prospectus containing the disclosure contemplated by condition 2 below, by its initial shareholder before shares of the Portfolio are offered to the public (or the variable contract owners through a separate account).

2. The prospectus of each Portfolio relying on the requested relief will disclose the existence, substance and

effect of any order granted pursuant to the application. In addition, each Portfolio will hold itself out to the public as employing the Adviser/Subadviser Structure described in the application. The prospectus will prominently disclose that the Adviser has ultimate responsibility to oversee the Subadvisers and recommend their hiring, termination, and replacement.

3. The Adviser will provide general management and administrative services to each of the Portfolios, including overall supervisory responsibility for the general management and investment of each Portfolio, and, subject to the review and approval by the Board will (i) set each Portfolio's overall investment strategies; (ii) evaluate, select and recommend Subadvisers to manage all or part of a Portfolio's assets; (iii) when appropriate, allocate and reallocate a Portfolio's assets among multiple Subadvisers; (iv) monitor and evaluate the investment performance of Subadvisers; and (v) implement procedures reasonably designed to ensure that the Subadvisers comply with the relevant Portfolio's investment objectives, policies, and restrictions.

4. At all times, a majority of the Board will be Independent Board Members, and the nomination of new or additional Independent Board Members will be placed within the discretion of the then-existing Independent Board Members.

5. The Adviser will not enter into a subadvisory agreement with any Subadviser that is an affiliated person of the Adviser or of the Portfolio within the meaning of section 2(a)(3) of the Act, other than by virtue of serving as a Subadviser to the Portfolio ("Affiliated Subadviser"), without that agreement, including the compensation to be paid thereunder, being approved by the shareholders of the applicable Portfolio (or, if the Portfolio serves as a funding medium for any sub-account of a registered separate account, pursuant to voting instructions provided by the unitholders of the sub-account).

6. When a Subadviser change is proposed for a Portfolio with an Affiliated Subadviser, the Board, including a majority of the Independent Board Members, will make a separate finding, reflected in the Board minutes, that the change is in the best interests of the applicable Portfolio and its shareholders (or, if the Portfolio serves as a funding medium for any sub-account of a registered separate account, in the best interests of the Portfolio and the unitholders of any sub-account) and does not involve a conflict of interest from which the Adviser or the Affiliated

Subadviser derives an inappropriate advantage.

7. No Board member or officer of the Fund or director or officer of the Adviser will own directly or indirectly (other than through a pooled investment vehicle that is not controlled by the Board member, director or officer) any interest in a Subadviser, except for (i) ownership of interests in the Adviser or any entity that controls, is controlled by, or is under common control with the Adviser; or (ii) ownership of less than 1% of the outstanding securities of any class of equity or debt of a publicly traded company that is either a Subadviser or an entity that controls, is controlled by, or is under common control with a Subadviser.

8. Within ninety days of the hiring of a new Subadviser, the Adviser will furnish the shareholders of the applicable Portfolio (or, if the Portfolio serves as a funding medium for any sub-account of a registered separate account, then by providing unitholders of the sub-account) within ninety days of the hiring of a Subadviser with an information statement meeting the requirements of Regulation 14C, Schedule 14C, and Item 22 of Schedule 14A under the Securities Exchange Act of 1934.

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

**Margaret H. McFarland**

*Deputy Secretary.*

[FR Doc. 02-16060 Filed 6-25-02; 8:45 am]

BILLING CODE 8010-01-P

#### SECURITIES AND EXCHANGE COMMISSION

[Rel. No. IC-25617; File No. 812-12614]

**The Travelers Insurance Company, et al.**

June 19, 2002.

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

**ACTION:** Notice of application for an order pursuant to section 26(c) of the Investment Company Act of 1940 (the "Act") approving certain substitutions of securities and for an order of

exemption pursuant to section 17(b) of the Act.

**APPLICANTS:** The Travelers Insurance Company ("Travelers Insurance"), The Travelers Life and Annuity Company ("Travelers L & A"), The Travelers Fund U for Variable Annuities ("Fund U"), The Travelers Separate Account TM for Variable Annuities ("Account TM"), The Travelers Separate Account TM II for Variable Annuities ("Account TM II"), Travelers Separate Account QP for Variable Annuities ("Account QP"), The Travelers Separate Account Five for Variable Annuities ("Account Five"), The Travelers Separate Account Six for Variable Annuities ("Account Six"), and The Travelers Fund UL III for Variable Life Insurance ("Fund UL III").

**FILING DATE:** The application was filed on August 31, 2001 and amended and restated on June 19, 2002.

**SUMMARY OF APPLICATION:** Applicants request an order to permit the substitutions by Travelers Insurance and Travelers L & A of shares of securities of various portfolios (each a "Fund" or "Portfolio") issued by certain management investment companies (each a "Management Company") and held by one or more of Fund U, Account TM, Account TM II, Account QP, Account Five, Account Six, and Fund UL III, (the "Accounts") to support variable annuity or variable life insurance contracts issued by Travelers or Travelers L & A (collectively, "Contracts"), as follows: (1) Shares of AIM Capital Appreciation Portfolio for shares of OCC Equity, (2) shares of AIM Capital Appreciation Portfolio for shares of Montgomery Growth Fund, (3) shares of TST U.S. Government Securities Portfolio for shares of Templeton Global Income Securities Fund Class I, (4) shares of TST Quality Bond Portfolio for shares of CitiStreet Diversified Bond Fund, (5) shares of Dreyfus Small Cap Portfolio for shares of Delaware Small Cap Value Series, (6) shares of TST U.S. Government Securities Portfolio for shares of Putnam Diversified Income Portfolio, and (6) shares of TST U.S. Government Securities Portfolio for shares of Smith Barney High Income Portfolio. Applicants also request an order exempting them from the provisions of section 17(a) of the Act to the extent necessary to permit Travelers Insurance and Travelers L & A to carry out certain of the substitutions by redeeming shares of: (1) CitiStreet Diversified Bond Fund in kind and using the redemption proceeds to purchase shares of TST Quality Bond Portfolio; (2) Montgomery Growth Fund and OCC Equity in kind and using the

redemption proceeds to purchase shares of AIM Capital Appreciation Portfolio; and (3) Templeton Global Income Securities Fund Class I, Putnam Diversified Income Portfolio, and Smith Barney High Income Portfolio in kind and using the redemption proceeds to purchase shares of TST U.S. Government Securities Portfolio.

**HEARING OR NOTIFICATION OF HEARING:** An order granting the amended and restated application will be issued unless the Commission orders a hearing. Interested person may request a hearing by writing to the Secretary of the Commission 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 July 11, 2002, 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 Secretary of the Commission.

**ADDRESSES:** Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0506. Applicants, c/o Kathleen A. McGah, Esq., Deputy General Counsel, The Travelers Life and Annuity Company, One Tower Square, Hartford, CT 06183. Copy to David S. Goldstein, Esq., Sutherland Asbill & Brennan LLP, 1275 Pennsylvania Avenue, NW, Washington, DC 20004-2415.

**FOR FURTHER INFORMATION CONTACT:** Harry Eisenstein, Senior Counsel, at (202) 942-0670, or Zandra Bailes, Branch Chief, at (202) 942-0677, Office of Insurance Products, Division of Investment Management.

**SUPPLEMENTARY INFORMATION:** The following is a summary of the application; the complete application may be obtained for a fee from the Public Reference Branch of the Commission, 450 5th Street, NW, Washington, DC 20549 (tel. (202) 942-8090).

#### Applicants' Representations

1. Travelers Insurance is a stock insurance company chartered in 1864 in Connecticut and continuously engaged in the insurance business since that time. It is licensed to conduct life insurance business in all fifty states, the District of Columbia, Puerto Rico, Guam, the U.S. and British Virgin Islands, and the Bahamas. Travelers Insurance is an indirect wholly-owned subsidiary of Citigroup, Inc. As of December 31, 2001, Travelers Insurance

had consolidated assets of approximately \$77 billion. For purposes of the Act, Travelers Insurance is the depositor and sponsor of the following variable annuity and variable life insurance separate accounts: Account TM, Fund U, Account QP, Account Five, and Fund UL III.

2. Travelers L & A is a stock life insurance company chartered in 1973 in Connecticut and continuously engaged in the insurance business since that time. It is licensed to conduct life insurance business in a majority of the states of the United States, the District of Columbia, and Puerto Rico. Travelers L & A is an indirect wholly-owned subsidiary of Citigroup, Inc. As of December 31, 2001, Travelers L & A had assets of approximately \$12 billion. For purposes of the Act, Travelers L & A is the depositor and sponsor of the following variable annuity separate accounts: Account TM II and Account Six.

3. Under Connecticut law, the assets of each respective Account attributable to the Contracts are owned either by Travelers Insurance or Travelers L & A, but are held separately from the other assets of Travelers Insurance or Travelers L & A for the benefit of the owners of, and the persons entitled to payment under, those Contracts. To the extent so provided under the applicable Contracts, that portion of the assets of any such Account equal to the reserves and other contract liabilities with respect to that Account are not chargeable with liabilities arising out of any other business Travelers Insurance or Travelers L & A may conduct. Income, gains and losses, realized or unrealized, from the assets of each Account are credited to or charged against that Account without regard to the other income, gains, or losses of Travelers Insurance or Travelers L & A. Each Account is a "separate account" as defined by Rule 0-1(e) under the Act and is registered with the Commission as a unit investment trust. Each Account is comprised of a number of subaccounts, and each subaccount invests exclusively in a Portfolio or Fund.

4. The Contracts are flexible premium variable annuity and variable life insurance contracts. The variable annuity Contracts provide for the accumulation of values on a variable basis, fixed basis, or both, during the accumulation period, and provide settlement or annuity payment options on a variable or fixed basis. The variable life insurance Contracts provide for the accumulation of values on a variable basis, fixed basis, or both throughout the

insured's life and for a death benefit, upon the death of the insured. Under each of the Contracts, other than the Travelers Universal Annuity (Fund U), Travelers Insurance and Travelers L & A reserve the right to substitute shares of one Fund or Portfolio for shares of another, including a Fund or Portfolio of a different Management Company.

5. A Contract owner may transfer all or any part of the Contract value from one subaccount to any other subaccount or a fixed account as long as the

Contract remains in effect for variable life insurance contracts, and at any time up to 30 days before the due date of the first annuity payment for variable annuity contracts. For many of the variable annuity contracts, Travelers Insurance and Travelers L & A reserve the right to limit the number of transfers to one per six-month period.

6. Currently, there is no charge for transfers. However, Travelers Insurance and Travelers L & A both reserve the right under certain of their respective

Contracts to assess a transfer charge of up to \$10.00 on transfers in excess of twelve per year for variable annuity contracts and six per year for variable life insurance contracts.

7. Travelers Insurance and Travelers L & A, on behalf of themselves and their Accounts propose a series of substitutions of shares held in those Accounts. The table below summarizes the proposed substitutions.

Contract(s)	Replaced fund(s)	Replacing fund(s)
Fund U: Travelers Universal Annuity ("UA") .....	Putnam Diversified Income Portfolio ..... Templeton Global Income Securities Portfolio Smith Barney High Income Portfolio	TST U.S. Government Securities Portfolio.
Fund UL III: Corporate Owned Life Insurance ("COLI")	CitiStreet Diversified Bond Fund ..... Delaware Small Cap Value Series ..... Putnam Diversified Income Portfolio ..... CitiStreet Diversified Bond Fund .....	TST Quality Bond Portfolio. Dreyfus Small Cap Portfolio. TST U.S. Government Securities Portfolio. TST Quality Bond Portfolio.
Corporate Owned Life Insurance 2000 ("COLI 2000").	Delaware Small Cap Value Series .....	Dreyfus Small Cap Portfolio.
Accounts TM and TM II: Travelers Marquis Portfolios ("Marquis") ....	OCC Equity Portfolio ..... Montgomery Growth Fund	AIM Capital Appreciation Portfolio.
Account QP: Gold Track ..... Gold Track Select .....	Templeton Global Income Securities Portfolio OCC Equity Portfolio ..... Montgomery Growth Fund Templeton Global Income Securities Portfolio	TST U.S. Government Securities Portfolio. AIM Capital Appreciation Portfolio.
Accounts Five and Six: Travelers Retirement Annuity ("TRA") .....	OCC Equity Portfolio ..... Montgomery Growth Fund	TST U.S. Government Securities Portfolio. AIM Capital Appreciation Portfolio.

8. Applicants believe that for each proposed substitution, the investment objectives and policies of the replacing Fund(s) or Portfolio(s) are sufficiently similar to those of the replaced Fund(s) or Portfolio(s) that Contract owners will have reasonable continuity in investment expectations. Applicants also believe that the proposed substitutions will better serve the interests of Contract owners because, in each case, the replacing Fund or

Portfolio has lower fees or expenses, superior or comparable performance, and either a larger asset base than the replaced Fund or Portfolio or one that is growing rather than shrinking.

9. Each Management Company is registered as an open-end management investment company under the Act. Further, each is a series investment company as defined by Rule 18f-2 under the Act and issues separate series of shares of stock (for corporations) or of beneficial interest (for business trusts)

in connection with each Fund or Portfolio. The shares of each Fund or Portfolio are registered under the 1933 Act on Form N-1A. The table below lists each Management Company, its type of business entity and the date established, 1940 Act file number, total number of Funds or Portfolios comprising the management company, the specific Funds or Portfolios involved in the proposed substitutions, and their 1933 Act file numbers.

Trust or corporation	Entity (date)	1940 Act file No.	Total of number fund(s)	Involved funds or portfolios	1933 Act file No.
Travelers Series Fund ("TSF")	MD Corp. (2/22/94) .....	811-08372	15	Putnam Diversified Income Portfolio; AIM Capital Appreciation Portfolio; Smith Barney High Income Portfolio.	33-756444
Travelers Series Trust ("TST")	MA business trust (10/11/91) ...	811-6465	19	U.S. Government Securities Portfolio; Quality Bond Portfolio.	33-43618
The Montgomery Funds III ("Montgomery").	DE business trust (8/24/94) .....	811-08782	9	Growth Fund .....	33-84450
Dreyfus Variable Investment Fund ("Dreyfus").	MA business trust (8/31/90) .....	811-5125	13	Small Cap Portfolio .....	33-13690
Franklin Templeton Variable Insurance Products Trust ("Templeton").	MA business trust (4/26/88) .....	811-05583	27	Templeton Global Income Securities Fund.	33-23493

Trust or corporation	Entity (date)	1940 Act file No.	Total of number fund(s)	Involved funds or portfolios	1933 Act file No.
OCC Accumulation Trust ("OCC").	MA business trust (5/12/94) .....	811-08512	12	Equity Portfolio .....	33-78944
Delaware Group Premium Fund ("Delaware").	DE business trust (12/15/99) ....	811-5162	19	Small Cap Value Series .....	33-14363
CitiStreet Funds, Inc. ("CitiStreet").	MD Corp. (12/92) .....	811-7450	4	Diversified Bond Fund .....	33-57536

10. The investment objective, investment strategy or key investments, investment advisers, and management fees for each Portfolio or Fund are described below. The Funds and Portfolios are grouped together by the proposed replacing Fund or Portfolio.

11. In each group, the first set of accompanying charts shows the approximate year-end size (in net assets), expense ratio (ratio of operating expenses as a percentage of average net assets), and annual total returns for each of the past three years for each of the Funds and Portfolios involved in the proposed substitutions. Funds and Portfolios marked with an asterisk in these charts have fiscal years ending on October 31st.

12. In each group, the second set of charts shows the approximate annual management fees, other expenses, and total expenses of each of the Funds or Portfolios involved in the proposed substitutions both before and after any expense reimbursement or fee waivers. The management fees and expenses shown are those for the 2001 fiscal year. Funds and Portfolios marked with an

asterisk in these charts have fiscal years ending on October 31st.

#### Group 1 Replacing Fund

13. The investment objective of the AIM Capital Appreciation Portfolio is capital appreciation. The Portfolio invests primarily in common stocks of companies the subadviser believes are likely to benefit from new or innovative products, services, or processes, as well as those that have experienced above-average, long-term growth in earnings and have excellent prospects for future growth. Travelers Investment Adviser, Inc. ("TIA") serves as investment adviser to the Portfolio and AIM Capital Management serves as subadviser. AIM Capital Appreciation Portfolio pays a monthly investment management fee based on an annual rate of 0.80% of the average daily net assets of the Portfolio. Applicants propose to substitute shares of AIM Capital Appreciation Portfolio for shares of OCC Equity Portfolio and Montgomery Growth Portfolio.

#### Group 1 Replaced Funds

14. The investment objective of the OCC Equity Portfolio is long-term

capital appreciation. The Portfolio invests primarily in equity securities that the investment adviser believes are undervalued in the marketplace. OpCap Advisors serves as the investment adviser to the Portfolio and PIMCO serves as the Portfolio's subadviser. Equity Portfolio pays an investment management fee at the annual rate of 0.80% of the first \$400 million of average daily net assets, 0.75% on the next \$400 million of average daily net assets and 0.70% of assets in excess of \$800 million of average daily net assets.

15. The investment objective of Montgomery Growth is long-term capital appreciation by investing in growth-oriented U.S. companies. The Fund may invest in U.S. companies of any size, but invests at least 65% of its total assets in those companies whose shares have a total stock market value of at least \$1 billion. Montgomery Asset Management, LLC serves as investment adviser to the Fund. The Growth Fund pays a monthly investment management fee based on an annual rate of 1.00% of the average daily net assets of the Fund.

	Net assets at year-end (in millions)	Expense ratio (in percent)	Total return
AIM Capital Appreciation Portfolio: *			
1999 .....	\$300	0.84	32.41
2000 .....	435	0.83	36.53
2001 .....	224	0.83	-43.46
OCC Equity Portfolio:			
1999 .....	70.51	0.91	2.5
2000 .....	88.61	0.95	9.9
2001 .....	78.78	0.93	-7.0
Montgomery Growth Fund:			
1999 .....	19.65	1.25	20.79
2000 .....	21.07	1.25	-9.06
2001 .....	14.39	1.25	-20.75

[Amounts in percent]

Fund	Before reimbursement or fee waiver	After reimbursement or fee waiver
AIM Capital Appreciation Portfolio *	0.80 0.03	0.80 0.03
	0.83	0.83
OCC Trust Equity Portfolio .....	0.80	0.80

[Amounts in percent]

Fund	Before reimbursement or fee waiver	After reimbursement or fee waiver
	0.13	0.13
	0.93	0.93
Montgomery Growth Fund .....	1.00	1.00
	2.23	0.25
	3.23	1.25

*Group 2 Replacing Funds*

16. The investment objective of the TST U.S. Government Securities Portfolio is current income and total return by investing in debt securities of the highest quality. The Portfolio invests in U.S. Treasury notes and bonds and obligations of U.S. government instrumentalities and federal agencies. Travelers Asset Management Company LLC serves as investment adviser to the Portfolio. U.S. Government Securities Portfolio pays a monthly investment management fee based on an annual rate of 0.32% of the average daily net assets of the Portfolio. Applicants propose to substitute shares of TST U.S. Government Securities Portfolio for shares of the Templeton Global Income Securities Fund, shares of the Smith Barney High Income Portfolio, and those shares of Putnam Diversified Income Portfolio that fund contracts issued through the Fund U Account.

*Group 2 Replaced Funds*

17. The investment objective of the Putnam Diversified Income Portfolio is high current income consistent with preservation of capital. The Portfolio invests primarily in debt securities of U.S. and foreign governments and

corporations. The Portfolio may invest in securities with a wide range of credit qualities. The Portfolio's duration will generally vary from 3 to 7 years depending on market conditions and the subadviser's outlook for interest rates. Individual securities may be of any duration. TIA serves as investment adviser to the Portfolio, and Putnam Investment Management, Inc. serves as subadviser. Putnam Diversified Income Portfolio pays a monthly investment management fee based on an annual rate of 0.75% of the average daily net assets of the Portfolio.

18. The investment objective of the Templeton Global Income Securities Fund is high current income, consistent with preservation of capital with a secondary objective of capital appreciation. Under normal circumstances, the Fund invests at least 65% of its total assets in the debt securities of governments and their political subdivisions and agencies, supranational organizations, and companies located anywhere in the world, including emerging markets. This Fund may invest up to 35% of net assets in below investment grade debt (not rated lower than B). Average weighted maturity is generally 5 to 15

years. Franklin Advisers, Inc. serves as the investment adviser to the Fund and Templeton Investment Counsel, LLC serves as subadviser. Templeton Global Income Securities Fund pays a monthly investment management fee based on an annual rate of 0.60% of the average daily net assets of the Fund.

19. The investment objective of the Smith Barney High Income Portfolio is high current income and secondarily, capital appreciation. The Portfolio invests primarily in high-yielding, corporate debt obligations, and preferred stock of U.S. and foreign issuers. The Portfolio invests primarily in below investment grade securities, but may not invest more than 10% of its assets in securities rated lower than B, or in unrated securities of comparable quality. Although the Portfolio may invest in securities of any maturity, under current market conditions, it has an average remaining maturity of between 5 and 10 years. Smith Barney Fund Management LLC serves as investment adviser to the Portfolio. Smith Barney High Income Portfolio pays a monthly investment management fee based on an annual rate of 0.60% of the average daily net assets of the Portfolio.

	Net assets at year-end (in millions)	Expense ratio (in percent)	Total return (in percent)
TST U.S. Government Securities Portfolio:			
1999 .....	\$61.62	0.48	-4.23
2000 .....	90.97	0.48	14.53
2001 .....	126.49	0.45	5.82
Putnam Diversified Income Portfolio*:			
1999 .....	156	0.83	1.80
2000 .....	141	0.87	0.21
2001 .....	128	0.90	4.60
Templeton Global Income Securities Fund:			
1999 .....	90.54	0.65	-5.79
2000 .....	81.17	0.72	4.32
2001 .....	63.78	0.71	2.55
Smith Barney High Income Portfolio*:			
1999 .....	199	0.66	5.28
2000 .....	191	0.66	-3.54
2001 .....	176	0.67	-8.08

[Amounts in percent]

Fund	Before reimbursement or fee waiver	After reimbursement or fee waiver
TST U.S. Government Securities .....	0.32 0.13	0.32 0.13
	0.45	0.45
TSF Putnam Diversified Income Portfolio* .....	0.75 0.15	0.75 0.15
	0.90	0.90
Templeton Global Income Securities Fund Class I .....	0.60 0.11	0.60 0.11
	0.71	0.71
TSF Smith Barney High Income Portfolio* .....	0.60 0.07 0.67	0.60 0.07 0.67

*Group 3 Replacing Fund*

20. The investment objective of the TST Quality Bond Portfolio is current income, moderate capital volatility, and total return. The Portfolio invests in investment-grade debt securities and generally maintains an average duration of 5 years or less. Travelers Asset Management International Company LLC serves as investment adviser to the Portfolio. Quality Bond Portfolio pays a monthly investment management fee based on an annual rate of 0.32% of the average daily net assets of the Portfolio.

Applicants propose to substitute shares of TST Quality Bond Portfolio for shares of the CitiStreet Diversified Bond Fund.

*Group 3 Replaced Fund*

21. The investment objective of the CitiStreet Diversified Bond Fund is maximum long-term total return (capital appreciation and income). The Fund invests in the following types of bonds, which are listed in order of importance, investment grade corporate debt, U.S. government bonds, foreign government bonds, mortgage-related securities, asset-backed securities and high-yield

bonds. CitiStreet Funds Management LLC serves as investment adviser to the Fund. Western Asset Management Company, Salomon Brothers Asset Management and SsgA Funds Management each serve as a subadviser to the Fund. CitiStreet Diversified Bond Fund pays a monthly investment management fee based on an annual rate of 0.25% of the average daily net assets of the Fund and an additional subadvisory fee at a maximum rate of 0.35% (currently 0.20%) of the average daily net assets.

	Net assets at year-end (in millions)	Expense ratio	Total return (in percent)
TST Quality Bond Portfolio:			
1999 .....	\$59.34	0.54	1.09
2000 .....	73.37	0.49	6.97
2001 .....	151.91	0.45	7.13
CitiStreet Diversified Bond Fund			
1999 .....	254	0.60	-2.74
2000 .....	284	0.62	12.35
2001 .....	531	0.65	6.86

[Amounts in percent]

Fund	Before reimbursement or fee waiver	After reimbursement or fee waiver
TST Quality Bond Portfolio .....	0.32 0.13	0.32 0.13
	0.45	0.45
CitiStreet Diversified Bond Fund .....	0.45 1.00	0.45 1.00
	1.45	1.45

*Group 4 Replacing Fund*

22. The investment objective of the Dreyfus Small Cap Portfolio is maximum capital appreciation. The Portfolio primarily invests in small cap companies with total market capitalizations of less than \$2 billion at the time of purchase. The Portfolio invests in both growth stocks and value stocks and may include preferred stocks and convertible securities. Dreyfus serves as investment adviser to the Portfolio. Small Cap Portfolio pays a monthly management fee based on an

annual rate of 0.75% of the average daily net assets of the Portfolio. Applicants propose to substitute shares of the Dreyfus Small Cap Portfolio for shares of the Delaware Small Cap Value Series.

*Group 4 Replaced Fund*

23. The investment objective of the Delaware Small Cap Value Series is capital appreciation. The Portfolio invests in the common stocks of companies generally having a market capitalization of less than \$1.5 billion

and whose market value appears low relative to their underlying value or future earnings potential. Delaware Management Company serves as investment adviser to the Portfolio. Small Cap Value Series pays a monthly investment management fee based on an annual rate of 0.75% of the first \$500 million of average daily net assets, 0.70% on the next \$500 million of average daily net assets, 0.65% on the next \$1.5 billion of average daily net assets and 0.60% on average daily net assets in excess of \$2.5 billion.

	Net assets at year-end (in millions)	Expense ratio (in percent)	Total return (in percent)
Dreyfus Small Cap Portfolios:			
1999 .....	\$1,296	0.78	23.15
2000 .....	688	0.78	13.31
2001 .....	687	0.79	-6.12
Delaware Small Cap Value Series:			
1999 .....	95	0.85	-4.86
2000 .....	104	0.83	18.18
2001 .....	153	0.84	11.84

[Amounts in percent]

Fund	Before reimbursement or fee waiver	After reimbursement or fee waiver
Dreyfus Small Cap Portfolio .....	0.75 0.04	0.75 0.04
	0.79	0.79
Delaware Small Cap Value Series .....	0.75 0.11	0.73 0.11
	0.86	0.84

24. Applicants propose to rationalize and consolidate their underlying Portfolio and Fund offerings among the Contracts. The rationalization and consolidation effort and resulting proposed substitutions arise from two factors. First, after the merger between Travelers Group Inc. and Citicorp, there were several asset management divisions/groups within the new company, Citigroup. Applicants state that a review process resulted in a plan to realign some of the underlying fund/portfolio offerings and/or to rationalize the offerings. Second, contemporaneously, Travelers Insurance and Travelers L & A conducted a reevaluation of the array of investment options offered within each Contract. The goal of the reevaluation was to identify and establish an updated, current array of investment options for the Contracts and respond to distributor feedback regarding offerings in various variable annuity and life insurance contracts. Travelers Insurance and

Travelers L & A added several new options to the Contracts this past May 1 and, where possible, closed off the proposed replaced Portfolios and Funds to new investments as of that date. Applicants state that, in addition, as a result of the fund/portfolio rationalization, a number of mergers and liquidations of funds or portfolios managed by several Travelers Insurance affiliates have or will soon occur. Carrying out the proposed substitutions would complete the rationalization process.

25. Applicants believe that the rationalization will make the Contracts more competitive in both wholesale and retail markets and more efficient to administer and manage. Applicants believe that the proposed substitutions will improve Contract owner understanding of the investment options under the Contracts by reducing the potential for confusion arising from multiple underlying Portfolios or Funds of similar type and reduce the

administrative burden of operating subaccounts by limiting the number that Applicants must maintain for each Contract.

26. Applicants believe that they have selected the proposed replaced Portfolios and Funds fairly. Applicants state that the Portfolios and Funds proposed for replacement, as well as the proposed replacing Portfolios and Funds, are a mix of affiliated and unaffiliated Portfolios and Funds. For each of the proposed substitutions the replacing Portfolio or Fund has a lower total expense ratios than the replaced Portfolio or Fund.

27. Also, Applicants note that the replacing Portfolio or Fund has average annual total returns that are better or comparable to the replacement Portfolio or Fund.

28. With respect to the Group 1 substitutions, Applicants also state that, although the AIM Capital Appreciation Portfolio ("AIM Capital") and the OCC Equity Portfolio ("OCC Equity") have

identical investment objectives, they pursue their objectives with somewhat different strategies. AIM Capital invests in common stocks of companies with new or innovative products, services, or processes and those with above-average long-term growth in earnings, whereas OCC Equity invests in undervalued equity securities. Still, Contract owners purchasing shares of the substituted Portfolio will be able to invest in stocks with the potential to increase significantly in value.

29. With respect to the Group 1 substitutions, Applicants further state that AIM Capital and the Montgomery Growth Fund ("Montgomery Growth") have substantially identical investment objectives as well as very similar strategies for reaching their goals: Montgomery Growth invests in growth-oriented stocks and may invest in cash whereas AIM Capital invests primarily in common stocks and tries to select companies with new or innovative products, services, and processes. Applicants believe that, after the proposed substitution, Contract owners would continue to invest in a growth-oriented Portfolio that seeks domestic equity stocks of a wide variety of the companies with growth potential.

30. With respect to the Group 2 substitutions, Applicants state that one of the investment objectives of the TST U.S. Government Securities Portfolio ("TST Government") is to have the highest credit quality in its portfolio, which is not an objective of the Templeton Global Income Securities Fund Class I ("Global Income"). Likewise, Global Income Securities has an objective of preservation of capital, not shared with TST Government. Both Portfolios, however, share the objective of seeking income as well as capital appreciation and both pursue these objectives by investing in debt securities.

31. As to the other Group 2 substitutions, Applicants contend that TST Government, Putnam Diversified Income Portfolio ("Putnam Diversified"), and Smith Barney High Income Portfolio ("Smith Barney Income") have somewhat similar investment objectives in that they all seek current income; except that TST Government also seeks highest credit quality and total return, Putnam Diversified seeks preservation of capital, and Smith Barney Income has a secondary objective of capital appreciation. The Portfolios also have a similar strategy of achieving these objectives. Applicants state that, even though these three Portfolios focus their investments in different grades of debt securities, the proposed substitutions

would not necessarily frustrate Contract owners' investment goals. Applicants believe that, after the proposed substitution, Contract owners will still have the ability to invest primarily in debt securities. Moreover, TST Government has a lower risk profile than Putnam Diversified or Smith Barney Income.

32. As to the Group 3 substitutions, Applicants contend that the investment objectives of the TST Quality Bond Portfolio ("Quality Bond") are substantially similar to CitiStreet Diversified Bond Fund ("Diversified Bond"). Quality Bond and Diversified Bond both seek total return, which entails an element of capital appreciation along with income. Whereas Quality Bond invests only in investment-grade debt securities, Diversified Bond invests in a broad range of debt securities. Applicants believe that, after the proposed substitution, Contract owners would continue to invest in a Portfolio in which the primary component of its strategy is to seek current income by investing in debt securities.

33. As to the Group 4 substitutions, Applicants contend that the Dreyfus Small Cap Portfolio ("Dreyfus Small Cap") and the Delaware Small Cap Value Series ("Delaware Small Cap") have identical investment objectives. Applicants state that their investment strategies are similar except that Dreyfus Small Cap invests in growth stocks and stocks that cannot easily be categorized as either growth or value as well as value stocks. Applicants believe that, after the proposed substitution, Contract owners would still be invested in a Portfolio that invests in small cap companies that have prospects for future earnings.

34. Applicants state that, by supplements to the various May 1, 2001 prospectuses for the Contracts and the Accounts, all owners of the Contracts have been notified of Travelers Insurance's and Travelers L & A's intention to take the necessary actions, including seeking the order requested by the application, to substitute shares of the Portfolios and Funds as described therein. The supplements about the proposed substitutions advised Contract owners that from the date of the supplement, Travelers Insurance and Travelers L & A will not exercise any rights reserved under any Contract to impose restrictions on or charges for transfers until at least 30 days after the proposed substitutions. The supplements also advised Contract owners that if the proposed substitutions are carried out, then each Contract owner affected by a

substitution will be sent a written notice (described below) informing them of the fact and details of the substitutions.

35. The proposed substitutions will take place at relative net asset value with no change in the amount of any Contract owner's account value or death benefit or in the dollar value of his or her investment in any of the Accounts. Contract owners will not incur any fees or charges as a result of the proposed substitutions, nor will their rights or Travelers Insurance's and Travelers L & A's obligations under the Contracts be altered in any way. All expenses incurred in connection with the proposed substitutions, including brokerage commissions and legal, accounting, and other fees and expenses, will be paid by Travelers Insurance or Travelers L & A. In addition, the proposed substitutions will not impose any tax liability on Contract owners. The proposed substitutions will not cause the Contract fees and charges currently being paid by existing Contract owners to be greater after the proposed substitutions than before the proposed substitutions. The proposed substitutions will not be treated as a transfer for the purpose of assessing transfer charges or for determining the number of remaining permissible transfers in a Contract year. Travelers Insurance and Travelers L & A will not exercise any right it may have under the Contracts to impose any restrictions on or charges for transfers (and will suspend any restrictions on transfers) under any of the Contracts for a period of at least 30 days following the substitutions.

36. In addition to the supplements distributed to owners of Contracts, within five days after the proposed substitutions, any Contract owners who are affected by a substitution will be sent a written notice informing them that the substitutions were carried out. The notice will also reiterate the fact that Travelers Insurance and Travelers L & A will not exercise any rights reserved by it under any of the Contracts to impose any restrictions on or charges for transfers (and will suspend any restrictions on transfers) until at least 30 days after the proposed substitutions. Current prospectuses for the new Funds or Portfolios will precede or accompany the notices.

37. As to all proposed substitutions, to the extent that the annualized expenses of a replacing Portfolio or Fund exceeds, for each fiscal period (such period being less than 90 days) during the twenty-four months following the substitutions, the 2001 net expense level of the Portfolio or Fund it replaces, Travelers Insurance and



Travelers L & A will, for each Contract outstanding on the date of the substitutions, make a corresponding reduction in separate account (or subaccount) expenses on the last day of each such fiscal period, such that the amount of the Portfolio's or Fund's expenses, together with those of the corresponding separate account (or subaccount) will, on an annualized basis, be no greater than the sum of the net expenses of the replaced Portfolio or Fund and the net expenses of the separate account (or subaccount) for the 2001 fiscal year. In addition, for twenty-four months following the substitutions, Travelers Insurance and Travelers L & A will not increase asset-based fees or charges under the Contracts.

38. Travelers Insurance and Travelers L & A are also seeking approval of the proposed substitutions from any state insurance regulators whose approval may be necessary or appropriate.

#### Applicants' Legal Analysis

1. Section 26(c) of the Act requires the depositor of a registered unit investment trust holding the securities of a single issuer to receive Commission approval before substituting the securities held by the trust. Prior to the enactment of this provision in 1970, a depositor of a unit investment trust could substitute new securities for those held by the trust by notifying the trust's security holders of the substitution within five days of the substitution. In 1966, the Commission, concerned with the high sales charges then common to most unit investment trusts and the disadvantageous position in which such charges placed investors who did not want to remain invested in the substituted fund, recommended that the Act be amended to require that a proposed substitution of the underlying investments of a trust receive prior Commission approval.

2. Applicants state that all the Contracts, except one, expressly reserve for Travelers Insurance and Travelers L & A the right, subject to compliance with applicable law, to substitute shares of one Portfolio or Fund held by subaccount of an Account for another. Applicants state that the prospectuses for the Contracts and the Accounts contain appropriate disclosure of this right.

3. Applicants state that Travelers Insurance and Travelers L & A reserved this right of substitution both to protect themselves and their Contract owners in situations where either might be harmed or disadvantaged by circumstances surrounding the issuer of the shares held by one or more of their separate accounts and to afford the opportunity

to replace such shares where to do so could benefit itself and Contract owners.

4. Applicants maintain that Contract owners will be better served by the proposed substitutions. Applicants anticipate that the replacement of certain unpopular Portfolios or Funds will result in a Contract that is administered and managed more efficiently, and one that is more competitive with other variable products in both wholesale and retail markets. For all of the proposed substitutions, the new Portfolio or Fund historically has had comparable or superior investment performance than the Portfolios or Funds that it would replace. More significantly, each new Portfolio or Fund has had lower expenses in recent years than the Portfolios or Funds that it would replace. Applicants state that for all of the proposed substitutions, the new Portfolios or Funds are either substantially the same or more conservative in their investment objective(s) or strategies or both, than the Portfolios or Funds that they would replace. Likewise, Applicants believe that a majority of the new Portfolios or Funds have a substantially similar or lower investment risk profile than the Portfolios or Funds each would replace.

5. In addition to the foregoing, Applicants generally submit that the proposed substitutions meet the standards that the Commission and its staff have applied to similar substitutions that have been approved in the past.

6. Applicants anticipate that Contract owners will be at least as well off with the proposed array of subaccounts to be offered after the proposed substitutions as they have been with the array of subaccounts offered before the substitutions. The proposed substitutions retain for Contract owners the investment flexibility which is a central feature of the Contracts. If the proposed substitutions are carried out, all Contract owners will be permitted to allocate purchase payments and transfer accumulated values and contract values between and among the remaining subaccounts as they could before the proposed substitutions.

7. Applicants assert that each of the proposed substitutions is not the type of substitution which Section 26(c) was designed to prevent. Unlike traditional unit investment trusts where a depositor could only substitute an investment security in a manner which permanently affected all the investors in the trust, the Contracts provide each Contract owner with the right to exercise his or her own judgment and transfer accumulation and contract

values into other subaccounts. Moreover, the Contracts will offer Contract owners the opportunity to transfer amounts out of the affected subaccounts into any of the remaining subaccounts without cost or other disadvantage. The proposed substitutions, therefore, will not result in the type of costly forced redemption which Section 26(c) was designed to prevent.

8. Applicants maintain that the proposed substitutions also are unlike the type of substitution which Section 26(c) was designed to prevent in that by purchasing a Contract, Contract owners select much more than a particular investment company in which to invest their account values. They also select the specific type of insurance coverage offered by Travelers Insurance and Travelers L & A under their Contracts as well as numerous other rights and privileges set forth in the Contract. Contract owners may also have considered Travelers Insurance's and Travelers L & A's size, financial condition, type, and its reputation for service in selecting their Contract. These factors will not change because of the proposed substitutions.

9. Applicants submit that, for all the reasons stated above, the proposed substitutions are consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the Act.

10. Section 17(a)(1) of the Act, in relevant part, prohibits any affiliated person of a registered investment company, or any affiliated person of such person, acting as principal, from knowingly selling any security or other property to that company. Section 17(a)(2) of the Act generally prohibits the persons described above, acting as principals, from knowingly purchasing any security or other property from the registered investment company. Section 17(b) of the Act provides that the Commission may, upon application, grant an order exempting any transaction from the prohibitions of Section 17(a) if the evidence establishes that: (1) The terms of the proposed transaction, including the consideration to be paid or received, are reasonable and fair and do not involve overreaching on the part of any person concerned; (2) the proposed transaction is consistent with the policy of each registered investment company concerned, as recited in its registration statement and records filed under the Act; and (3) the proposed transaction is consistent with the general purposes of the Act.

11. Applicants submit that the terms of the proposed substitutions by

Travelers Insurance and Travelers L & A including the consideration to be paid and received, as described in the application, are reasonable and fair and do not involve overreaching on the part of any person concerned. In addition, Applicants submit that the proposed substitutions are consistent with the general purposes of the Act.

12. Applicants maintain that the terms of the proposed transactions, including the consideration to be paid and received by each Portfolio or Fund involved, are reasonable, fair and do not involve overreaching principally because the transactions do not cause owners' interests under a Contract to be diluted and because the transactions will conform with all but one of the conditions enumerated in Rule 17a-7. The proposed transactions will take place at relative net asset value with no change in the amount of any Contract owner's Contract or cash value or death benefit or in the dollar value of his or her investment in any of the Accounts. Even though Travelers Insurance, Travelers L & A, TSF, TST and CitiStreet may not rely on Rule 17a-7, Applicants believe that the Rule's conditions outline the type of safeguards that result in transactions that are fair and reasonable to registered investment company participants and preclude overreaching in connection with an investment company by its affiliated persons.

13. Applicants state that the board of directors of TSF and CitiStreet and the board of trustees of TST have adopted or will adopt procedures, as required by paragraph (e)(1) of Rule 17a-7, pursuant to which the Portfolios or Funds of each may purchase and sell securities to and from their affiliates. Travelers Insurance, Travelers L & A, TSF, TST and CitiStreet will carry out the proposed substitutions in conformity with all of the conditions of Rule 17a-7 and TSF's, TST's and CitiStreet's procedures thereunder, except that the consideration paid for the securities being purchased or sold may not be entirely cash. Nevertheless, the circumstances surrounding the proposed substitutions will be such as to offer the same degree of protection to each Portfolio of TSF and the affected Funds of TST and CitiStreet from overreaching that Rule 17a-7 provides to them generally in connection with their purchase and sale of securities under that Rule in the ordinary course of their business. In particular, because of the circumstances surrounding the proposed Travelers Insurance and Travelers L & A substitutions, TSF, TST, CitiStreet and the other affected Portfolios could not "dump"

undesirable securities on TST or TSF, or retain its desirable securities for themselves. Nor can Travelers Insurance and Travelers L & A effect the proposed transactions at a price that is disadvantageous to any TSF Portfolio, TST Fund or CitiStreet Fund. Although the transactions may not be entirely for cash, each will be effected based upon (1) the independent market price of the portfolio securities valued as specified in paragraph (b) of Rule 17a-7, and (2) the net asset value per share of each Portfolio or Fund involved valued in accordance with the procedures disclosed in the respective Management Company's registration statement and as required by Rule 22c-1 under the Act. No brokerage commission, fee, or other remuneration will be paid to any party in connection with the proposed transactions. In addition, the board of directors of TSF and the board of trustees of TST will subsequently review these proposed substitutions and make the determinations required by paragraph (e)(3) of Rule 17a-7.

14. Applicants state that the proposed redemption of shares of Putnam Diversified, Smith Barney Income, Montgomery Growth, OCC Equity, Diversified Bond and Global Income is consistent with the investment policy of each, as these are recited in its registration statement, provided that the shares are redeemed at their net asset value in conformity with Rule 22c-1 under the Act.

15. Applicants state that the sale of shares of Quality Bond, AIM Capital, and TST Government as contemplated by the proposed substitution, is consistent with the investment policy of each, as recited in its registration statement, provided that (1) the shares are sold at their net asset value, and (2) the portfolio securities are of the type and quality that the affected portfolios has acquired with the proceeds from share sales had the shares been sold for cash. To assure that the second of these conditions is met, Travelers Insurance and Travelers L & A will examine the portfolio securities being offered to Quality Bond, AIM Capital, and TST Government and accept only those securities as consideration for shares that it would have acquired for in a cash transaction.

16. Applicants assert that the proposed substitutions, as described herein, are each consistent with the general purposes of the Act as stated in the Findings and Declaration of Policy in section 1 of the Act. The proposed transactions do not present any of the conditions or abuses that the Act was designed to prevent. In particular, section 1(b)(2) and (3) of the Act state,

among other things, that the national public interest and the interest of investors are adversely affected "when investment companies are organized, operated, managed, or their portfolio securities are selected in the interest of directors, officers, investment advisers, depositors, or other affiliated persons thereof, \* \* \* or in the interests of other investment companies or persons engaged in other lines of business, rather than in the interest of all classes of such companies' security holders; \* \* \* when investment companies issue securities containing inequitable or discriminatory provisions, or fail to protect the preferences and privileges of the holders of their outstanding securities." Applicants assert that the conditions found in Rule 17a-7 prevent the abuses described in section 1(b)(2) and (3) of the Act. Applicants further assert that, for all the reasons stated in section IV of the application, the abuses described in section 1(b)(2) and (3) of the Act will not occur in connection with the proposed substitutions.

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

**Margaret H. McFarland,**  
*Deputy Secretary.*

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## **SECURITIES AND EXCHANGE COMMISSION**

**[Release No. IC-25618; 812-12662]**

### **AXP Partners Series, Inc., et al.; Notice of Application**

June 19, 2002.

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

**ACTION:** Notice of application under sections 6(c) and 17(b) of the Investment Company Act of 1940 ("Act") for an exemption from section 17(a) of the Act, under section 6(c) for an exemption from sections 12(d)(3) and 17(e) of the Act and rule 17e-1 under the Act, and under section 10(f) of the Act for an exemption from section 10(f).

**SUMMARY OF APPLICATION:** Applicants request an order to permit certain registered open-end management investment companies advised by several investment advisers to engage in principal and brokerage transactions with a broker-dealer affiliated with one of the investment advisers and to purchase securities in certain underwritings. The transactions would be between the broker-dealer and a portion of the investment company's