Transfers will result in no gain or loss being recognized by the individual participants of the Plans.

10. The terms of the Proposed Transfers also will not involve overreaching. Although each Bank may have an indirect beneficial interest in the performance of the Funds, the Proposed Transfers will be subject to ERISA, must be approved by a Committee or second fiduciary and, as required by Condition 1 below, will be conducted in accordance with the valuation standards set forth in rule 17a–7. In addition, as required by Condition 2 below, the conversions will be made subject to the requirement of rule 17a–8 under the Act that the Fund Directors and Plan fiduciaries find that the Proposed Transfers are in the best interests of the Fund and the Plans.[3] SEI's administrative role and its significant compliance responsibilities places it in an ideal position to monitor each conversion and implement procedures designed to ensure that the terms and conditions of any application are strictly adhered to. Thus, the Proposed Transfers may be expected to occur in a manner that is in the best interests of both the Plans and the Funds.

11. The investment objectives and policies of the Funds and the CIFs and/or Affiliated Plan Accounts will be substantially similar. Therefore, it will be consistent with the policies of the Funds to acquire securities that the Bank has previously purchased for the CIFs and/or Affiliated Plan Accounts on the basis of substantially similar objectives and policies.

12. The request exemptive relief also would be consistent with the purposes intended by the policy and provisions of the Act, since the Proposed Transfers do not give rise to the abuses that sections 17 (a) and (d) and rule 17d–1 were designed to prevent. A primary purpose underlying sections 17 (a) and (d) and rule 17d–1 is to prevent a person with a pecuniary interest in a transaction from using his or her position with a registered investment company to benefit himself or herself to the detriment of the company's shareholders. After the Proposed Transfers, each Plan will be a shareholder in a Fund with substantially similar investment objectives. In this sense, the Proposed Transfers can be viewed as a change in the form in which assets are held, rather than as a disposition giving rise to section 17 concerns. In addition, the participation in the Proposed Transfers by each Fund will not be on a basis less advantageous than that of other participants for purposes of rule 17d–1.

13. The effectuation of the Proposed Transfers in the manner described also is fully consistent with the policies underlying the adoption of rules 17a–7 and 17a–8 under the Act. Even though Fund shares would be exchanged for securities, rather than ''solely'' for cash as required by subparagraph (a) of rule 17a–7, the terms of rule 17a–7 otherwise will be fully met, as required by Condition 1 below. In addition, as set forth in Conditions 2 and 3, below, the Plan fiduciaries and Directors of the Fund will be required to make the fairness and dilution findings required by rule 17a–8.

Applicants' Conditions

SEI agrees that any order of the SEC granting the requested relief shall be subject to the following conditions:

1. The Proposed Transfers will comply with the terms of rule 17a–7(b)–(f).

2. The Proposed Transfers will not occur unless and until: (a) the Board of Directors of the Fund (including a majority of its directors who are not interested persons of the Fund) and the Committee or the Plans' second fiduciaries, as the case may be, find that the Proposed Transfers are in the best interests of the Fund and the Plans, respectively; and (b) the Board of Directors of the Fund (including a majority of its directors who are not interested persons of the Fund) finds that the interests of the existing shareholders of the Fund will not be diluted as a result of the Proposed Transfers. These determinations and the basis upon which they are made will be recorded fully in the records of the Fund and the Plans, respectively.

3. In order to comply with the policies underlying rule 17a–8, any conversion will be approved by a Fund's Board of Directors, and any non-affiliated Plan's second fiduciaries who would be required to find that the interests of beneficial owners would not be diluted.

[3] Rule 17a–8 conditionally exempts from the prohibitions of section 17(a) the merger or consolidation of affiliated registered investment companies where the affiliation arises solely by reason of having a common investment adviser, common directors and/or common officers. Because the CIFs and Affiliated Plan Accounts are not registered investment companies, and the affiliation of the CIFs and/or Affiliated Plan Accounts and the Funds would not exist ''solely by reason of'' the commonality of their management, SEI cannot rely on rule 17a–8 for the Proposed Transfers.

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

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 95–27886 Filed 11–9–95; 8:45 am]

BILLING CODE 8010–01–M

[Investment Company Act Release No. 21473; 812–9670]

Smith Barney Adjustable Rate Government Income Fund, et al.; Notice of Application

November 3, 1995.

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

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

APPLICANTS: Smith Barney Adjustable Rate Government Income Fund, Smith Barney Aggressive Growth Fund Inc., Smith Barney Appreciation Fund Inc., Smith Barney Arizona Municipals Fund Inc., Smith Barney California Municipals Fund Inc., Smith Barney Equity Funds, Smith Barney Florida Municipals Fund Inc., Smith Barney Fundamental Value Fund Inc., Smith Barney Funds, Inc., Smith Barney Income Funds, Smith Barney Investment Trust (formerly, Smith Barney Income Trust), Smith Barney Investment Funds Inc., Smith Barney Institutional Cash Management Fund Inc., Smith Barney Managed Governments Fund Inc., Smith Barney Managed Municipals Fund Inc., Smith Barney Massachusetts Municipals Fund, Smith Barney Money Funds, Inc., Smith Barney Municipal Money Market Fund, Inc., Smith Barney Muni Funds Inc., Smith Barney New Jersey Municipals Fund Inc., Smith Barney New York Municipals Fund Inc., Smith Barney Oregon Municipals Fund, Smith Barney Precious Metals and Minerals Fund Inc., Smith Barney Principal Return Fund, Smith Barney Series Fund, Smith Barney Telecommunications Trust, Smith Barney/Travelers Series Fund, Inc., Smith Barney Variable Account Funds, Smith Barney World Funds, Inc. The Consulting Group Capital Markets Funds, Greenwich Street California Municipal Fund Inc., Greenwich Street Municipals Fund Inc., High Income Opportunity Fund Inc., Managed High Income Fund Inc., Managed Municipals Portfolio Inc., Managed Municipals Portfolio II Inc., Municipal High Income Fund Inc., Smith Barney Intermediate Municipal Fund, Inc., Smith Barney Municipal Fund, Inc., The Italy Fund Inc., The Inefficient Market Fund, Inc. and Zenix Income Fund Inc.

(collectively, the ''Investment Companies'') and Smith Barney Holdings Inc. (''Holdings'').

RELEVANT ACT SECTIONS: Exemption requested pursuant to section 6(c) of the Act from sections 13(a)(2), 13(a)(3), 18(a), 18(c), 18(f)(1), 22(f), 22(g) and 23(a) of the Act and rule 2a-7 thereunder; pursuant to sections 6(c) and 17(b) from section 17(a)(1); and pursuant to section 17(d) and rule 17d–1 thereunder.

SUMMARY OF APPLICATION: The Applicants seek an order to allow the Investment Companies, and all subsequently registered investment companies for which any entity controlling, controlled by or under common control with Holdings serves as investment adviser or principal underwriter (such subsequently registered investment companies, together with the Investment Companies, the ''Funds'') to enter into deferred fee arrangements with their trustees or directors who are not ''interested persons,'' as that term is defined in the Act (the ''Directors''), and effect certain transactions incidental thereto with participating Directors.

FILING DATES: The application was filed on July 18, 1995, and amended and restated applications were filed on August 25 and November 1, 1995.

HEARING OR NOTIFICATION OF HEARING: An order granting the application will be issued unless the SEC orders a hearing. Interested persons may request a hearing by writing to the SEC's Secretary and serving Applicants with a copy of the request, personally or by mail. Hearing requests should be received by the SEC by 5:30 p.m. on November 28, 1995, and should be accompanied by proof of service on the 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 SEC's Secretary.

ADDRESSES: Secretary, SEC, 450 Fifth Street, N.W., Washington, D.C. 20549. Applicants, 388 Greenwich Street, 22nd Floor, New York, New York 10013.

FOR FURTHER INFORMATION CONTACT: H.R. Hallock, Jr., Special Counsel, at (202) 942–0564 or C. David Messman, Branch Chief, at (202) 942–0564 (Division of Investment Management, Office of Investment Company Regulation).

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

Applicants' Representations

1. Each Investment Company is organized as either a Maryland corporation or a Massachusetts business trust and is registered under the Act as either an open-end or a closed-end management investment company. Smith Barney Inc. (the ''Distributor''), the principal underwriter of the open-end Investment Companies, is an affiliated person of Holdings. Holdings is a wholly-owned subsidiary of Travelers Group Inc., a diversified financial services holding company.

2. All of the Investment Companies, except for one portfolio of Smith Barney Series Fund, are advised by investment advisers that are affiliated persons of Holdings (such advisers are collectively referred to herein as the ''Managers''). An entity controlling, controlled by or under common control with Holdings will serve as investment adviser or principal underwriter (as such terms are defined in the Act) for each of the Funds.

3. The board of directors of each Investment Company includes a majority of Directors who are not ''interested persons,'' as that term is defined in section 2(a)(19) of the Act, of any of the Managers, the Distributor or any of the Investment Companies. Each Director who is not an interested person receives an annual retainer fee and an additional fee for each Directors' meeting attended. All such fees are collectively referred to herein as the ''Director's Fees.''

4. Certain Directors who are not interested persons have entered into a ''Deferred Compensation Agreement'' (each an ''Agreement''), an unfunded, nonqualified deferred compensation arrangement with certain Investment Companies for all or part of 1995. Under an Agreement, a Director may elect to defer receipt of his Director's Fees earned from the effective date of the Agreement through December 31, 1995 until a later date specified by the Director. Each Investment Company with respect to which one or more Agreements have been entered into by Directors has established an account on behalf of each electing Director (each a ''Deferred Fee Account''). On the dates that each such Investment Company would otherwise pay these deferred fees, the Investment Company credits such amounts into the Deferred Fee Account. Interest on each Deferred Fee Account is credited at 90 day intervals, calculated based on the balance of the Deferred Fee Account as of the first day of each rolling 90 day period and the prevailing 90 day U.S. Treasury Bill rate in effect at such time.

5. Under each Agreement, deferral of the Director's Fees essentially maintains the parties in the same position as if the fees were paid on a current basis. For income tax purposes, however, a Director's inclusion of the Director's Fees in his or her gross income and interest credited with respect to such Fees, and the individual Investment Company's deduction of its share of the Director's Fees, are both deferred until actual receipt by the Director or his or her beneficiary. Deferral of Director's Fees also has a negligible effect on each Investment Company's assets, liabilities and net income per share. Because the Investment Companies believe such Agreements are substantially similar to deferred compensation arrangements that have been the subject of previous no-action letters, they have not obtained any exemptive relief in connection with the Agreements. *See, e.g.*, The North Carolina Cash Management Trust (pub. avail. Jan. 23, 1992).

6. Each Investment Company now proposes to adopt, and if the requested exemptive relief is granted each other Fund will adopt, a formal plan (each a ''Proposed Plan'') to allow eligible Directors to defer receipt of all or a portion of future Director's Fees. Each Proposed Plan will be identical (except for the identity of the adopting Fund). As is the case with the existing Agreements, the Director's Fees deferred by an electing Director under the Proposed Plans will be credited to the Director's Deferred Fee Account as of the date the Fund otherwise would have paid them.

7. Under the Proposed Plans, however, the value of the Deferred Fee Account as of any date will be periodically adjusted by treating the Deferred Fee Account as though an equivalent dollar amount had been invested and reinvested in certain designated securities (the ''Underlying Securities''). In addition, if the requested exemptive relief is granted, Directors who have entered into Agreements may designate amounts credited to their Deferred Fee Account under their Agreements as being deemed invested in Underlying Securities. The Underlying Securities for a Deferred Fee Account will be shares of any of the Funds as designated by the participating Director. Unless a Fund actually purchases the Underlying Securities to cover its obligation under a Proposed Plan, each Deferred Fee Account shall be credited or charged monthly with book adjustments to reflect any increase or decrease in the value of the Underlying Securities.

8. The Proposed Plans provide that a participating Fund's obligation to make payments from a Deferred Fee Account will be a general obligation of the Fund and payments made pursuant to the Proposed Plan will be made from such Fund's general assets and property. The relationship of a Director to the Fund will be only that of a general unsecured creditor. Each Proposed Plan also provides that the adopting Fund will be under no obligation to the Director to purchase, hold or dispose of any investments. Nonetheless, if the Fund chooses to purchase investments, including Underlying Securities, to cover its obligations under such Proposed Plan, such investments will continue to be a part of the general assets and property of the Fund. Decisions on whether to purchase and maintain Underlying Securities to cover a Fund's obligation will be made by the Fund's senior management personnel. With respect to any money market Fund that values its assets by the amortized cost method or the penny-rounding method, such money market Fund has undertaken to purchase and maintain Underlying Securities in an amount equal to the deemed investments of the Deferred Fee Accounts of its Directors.

9. Deferral of Director's Fees in accordance with each Proposed Plan will have no material effect on the net assets and net income per share of any Fund. This is because the amount of the Fund's liability for deferred fees may be exactly offset by the value of shares of the Underlying Securities owned by the Fund (or in cases where the Director has designated the Fund itself as the Underlying Security, by the general investment assets of the Fund). In the case where the Fund purchases the Underlying Securities to cover its obligations, changes in the amount of the liability will be exactly matched by changes in the value of the Underlying Securities. At times determined by a Fund's management, the Fund (other than a money market Fund) may elect to cover its obligations under a Proposed Plan with the Fund's general investment assets, rather than with the purchase of Underlying Securities. Under those circumstances, there will not be an exact match between the Fund's liability for deferred fees and the value of the Deferred Fee Accounts. Any such mismatch will be *de minimis* in relation to the net assets of the Fund. In such event, the Fund's Board of Directors would monitor the amount of uncovered liability and consider whether to continue to permit shares of such other Fund to be designated as Underlying Securities.

10. Under each Proposed Plan, a Director may specify that the deferred Director's Fees be distributed in whole or in part commencing on or as soon as practicable after a date specified by the Director, which date may not be sooner than the earlier of (a) a date at least one year following the election of deferral, or (b) the date of the Director's anticipated retirement as a Director of the Fund. Notwithstanding any elections by a Director, his or her Deferred Fee Account shall be distributed (a) in the event of the Director's death or disability, (b) upon his or her ceasing to be a Director of the Fund or (c) upon the dissolution, liquidation or winding up of the Fund (unless the obligations of the Fund shall have been assumed by another Fund) or the merger of the Fund into another trust or corporation or its consolidation with one or more other trusts or corporations (unless the obligations of the Fund are assumed by such surviving entity and such surviving entity is another Fund). In addition, upon application and appropriate determination that the Director has suffered a ''Financial Hardship,'' as defined in each Proposed Plan, the Plan Administrator (the Fund's Board of Directors or such person(s) as the Board may designate) shall distribute to the Director an amount equal to the lesser of the amount needed by the Director to meet the hardship, or the balance of the Director's Deferred Fee Account. The Director's right to receive payments will be nontransferable, except in the event of his or her death, in which case amounts payable under the Proposed Plan will be payable to his or her designated beneficiary.

11. Each Proposed Plan provides that it will not obligate the adopting Fund to retain the services of a Director, nor will it obligate such Fund to pay any (or any particular level of) Director's Fees to any Director. Rather, it will merely permit a Director to elect to defer receipt of all or part of the Director's Fees which he or she would otherwise receive for future services from the Fund. Moreover, the proposed arrangement will not affect the voting rights of the shareholders of any of the Funds. If a Fund purchases Underlying Securities issued by another Fund, the purchasing Fund will vote such shares in proportion to the votes of all other shareholders of such other Fund.

Applicants' Legal Analysis

1. The Applicants request an order under section 6(c) of the Act exempting the Funds from sections 13(a)(2), 13(a)(3), 18(a), 18(c), 18(f)(1), 22(f), 22(g) and 23(a) of the Act, and rule 2a–7 thereunder, to the extent necessary to permit the Funds to enter into deferred fee arrangements with their Directors pursuant to the Proposed Plans. In addition, the Applicants request an exemption under sections 6(c) and 17(b) of the Act from section 17(a)(1) to the extent necessary to permit the Funds to sell securities issued by them to participating Funds, and under section 17(d) of the Act and rule 17d–1 thereunder to permit the Funds and participating Directors to effect certain joint transactions incident to the proposed deferred fee arrangements.

2. Section 6(c) provides, in part, that the SEC may, by order upon application, conditionally or unconditionally exempt any person, security or transaction from any provisions of the Act, if and to the extent that such exemption is necessary or appropriate in the public interest and consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the Act. Section 17(b) provides that any person may file an application for an order exempting a proposed transaction from section 17(a) if evidence establishes that 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, and that the proposed transaction is consistent with the policy of each registered investment company concerned and the general policies and purposes of the Act. Rule 17d–1(a) provides that the SEC may, by order upon application, grant exemptions from the prohibitions of section 17(d) regarding certain joint arrangements involving a registered investment company. Rule 17d–1(b) further provides that, in passing upon such an application, the SEC will consider whether the participation of the registered investment company in such arrangement is consistent with the provisions, policies and purposes of the Act and the extent to which such participation is on a basis different from or less advantageous than that of other participants.

3. Sections 18(a) and 18(c) restrict the ability of a registered closed-end investment company to issue senior securities. Section 18(f)(1) generally prohibits a registered open-end investment company from issuing senior securities. Section 13(a)(2) requires that a registered investment company obtain shareholder authorization before issuing any senior security not contemplated by the recitals of policy in its registration statement. Applicants believe that the Proposed Plans would possess none of

the characteristics of the instruments that led to the adoption of restrictions pertaining to ''Senior securities.'' In this regard, the Funds would not be ''borrowing'' from their Directors in the manner that concerned Congress. Liabilities for deferred fees will be *de minimis* in relation to Fund net assets. In addition, given the common existence of deferred compensation agreements, the Proposed Plans would not confuse investors.

4. Section 22(f) prohibits undisclosed restrictions on transferability or negotiability of redeemable securities issued by open-end investment companies. Sections 22(g) and 23(a) prohibit registered open-end and closed-end investment companies, respectively, from issuing securities for services. The Applicants submit that the restriction on transferability of a Director's benefits under the Proposed Plans will have no adverse effects on the Director, the adopting Fund or Fund shareholders. With respect to Sections 22(g) and 23(a), Applicants submit that each Fund's obligation to make payments under its Proposed Plan would not be issued for services, but in return for the Fund not being required to pay fees on a current basis.

5. Section 17(a)(1) generally prohibits an affiliated person of a registered investment company, or any affiliated person of such person, from selling any security to such registered investment company. Applicants submit that the sale of securities issued by the Funds pursuant to the Proposed Plans to other Funds do not implicate the concerns that led to the enactment of section 17(a), but would merely facilitate that matching of a Fund's liability for deferred Director's Fees with the Underlying Securities that would determine the amount of such Fund's liability. Accordingly, Applicants believe that, in addition to satisfying section 6(c), they also meet the standards of section 17(b) for exempting a series of transactions from section 17(a).

6. Section 139(a)(3) prohibits registered investment companies from, among other things, deviating without a shareholder vote from any investment policy that is changeable only if authorized by shareholder vote or deviating from any policy recited in its registration statement pursuant to section 8(b)(3). Certain of the Investment Companies have a fundamental investment restriction prohibiting them from investing in securities of other investment companies, except in connection with a merger, consolidation or acquisition of assets (collectively, the ''Restricted Investment Companies''). Applicants submit that it is appropriate to exempt the Restricted Investment Companies from the provisions of Section 13(a)(3), so as to enable the Restricted investment Companies to invest in Underlying Securities without a shareholder vote. The value of the Underlying Securities will be *de minimis* in relation to the total net assets of each Restricted Investment Company. Furthermore, the relief requested from section 13(a)(3) would extend only to future Funds for which an affiliated person of Holdings becomes investment adviser or principal underwriter subsequent to the future Fund's initial public offering and that have fundamental investment policies prohibiting the purchase of investment company shares without shareholder approval.

7. Rule 2a–7 imposes certain restrictions on the investments of ''money market funds,'' as defined under the rule, that would prohibit a Fund that is a money market fund from investing in the shares of any other Fund. The Applicants submit that exempting each Fund that is a money market Fund from rule 2a–7 to the limited extent required to permit it to invest in Underlying Securities (and to exclude Underlying Securities in calculating such Fund's dollar-weighted average maturity) is appropriate. Such an exemption would permit the Funds in question to achieve an exact matching of Underlying Securities with the deemed investments of the Deferred Fee Accounts, thereby ensuring that the deferred fee arrangements will not affect net asset value.

8. Section 17(d) and rule 17d–1 generally prohibit a registered investment company's joint or joint and several participation with an affiliated person in a transaction in connection with any joint enterprise or other joint arrangement without prior SEC approval. To the extent that the Proposed Plans may be deemed to involve joint transactions between the Funds and their Directors, Applicants submit that the participation in the Proposed Plans by any Fund will not be on a basis that is less advantageous than that of any other participant. Deferral of a Director's Fees in accordance with the Proposed Plans would essentially maintain the parties, viewed both separately and in their relationship to one another, in the same position (apart from tax effects) as if the Fees were paid on a current basis.

9. Applicants believe that, for the reasons set forth above, the Proposed Plans are in the best interests of each Fund and its shareholders and are consistent with the purposes fairly intended by the policy and provisions of the Act. In addition, the Applicants submit that exemption of the proposed deferred fee arrangement and transactions related thereto from the foregoing provisions of the Act is necessary and appropriate in the public interest and consistent with the protection of investors.

Conditions

Each Applicant agrees that the order of the SEC granting the requested relief shall be subject to the following conditions:

1. With respect to the requested relief from rule 2a–7, any money market Fund that values its assets by the amortized cost method or the penny-rounding method will buy and hold Underlying Securities that determine the performance of Deferred Fee Accounts to achieve an exact match between such Fund's liability to pay deferred fees and the assets that offset that liability.

2. If a Fund purchases Underlying Securities issued by another Fund, the purchasing Fund will vote such shares in proportion to the votes of all other shareholders of such other Fund.

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

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 95–27883 Filed 11–9–95; 8:45 am]

BILLING CODE 8010–01–M

[Rel. No. IC–21474; 812–9812]

Standish, Ayer & Wood Investment Trust; Notice of Application

November 6, 1995.

AGENCY: Securities and Exchange Commission (the ''SEC'').

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

APPLICANT: Standish, Ayer & Wood Investment Trust (the ''Trust'').

RELEVANT ACT SECTIONS: Order requested under section 17(b) of the Act to exempt applicant from the provisions of section 17(a).

SUMMARY OF APPLICATION: Applicant seeks an order to permit the in-kind redemption of Trust shares held by an ''affiliated person'' of the Trust.

FILING DATE: The application was filed on October 11, 1995.

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