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 5th Street NW., Washington, DC 20549. Applicant, 6300 Lamar Avenue, P.O. Box 29217, Shawnee Mission, Kansas 66201–9217.

FOR FURTHER INFORMATION CONTACT: James J. Dwyer, Staff Attorney, at (202) 942–0581, or Alison E. Baur, Branch Chief, at (202) 942–0564 (Office of Investment Company Regulation, Division of Investment Management.

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

Applicant's Representations

1. Applicant is an open-end, diversified management investment company organized as a corporation under Maryland law. On September 29, 1992, applicant registered under section 8(a) of the Act by filing a notification of registration on Form N–8A, and filed a registration statement on Form N–1A under section 8(b) of the Act and under the Securities Act of 1933 to register an indefinite number of shares. The registration statement was declared effective on February 26, 1993,and the initial public offering of applicant's shares commenced on that date.

2. At a meeting held on February 8, 1995, applicant's board of directors determined that it was desirable to dissolve applicant and approved a plan to liquidate. In determining to liquidate applicant, the board considered the fact that applicant's investment adviser, based upon analysis of market conditions, applicant's performance, and opportunities for growth, determined that it was unlikely that applicant's assets would increase to a level that would enable applicant to achieve a desirable expense level.

3. On or about March 1, 1995, proxy materials were distributed to applicant's shareholders containing the proposed plan of liquidation (the ''Plan''). Applicant's shareholders approved the Plan at a special meeting of shareholders held on April 3, 1995.

4. Pursuant to the Plan, applicant sold substantially all of its portfolio securities and other property by June 27, 1995. As of that date, applicant had outstanding 244,444.751 shares of common stock, with an aggregate value of $2,426,548, and a net asset value per share of $9.93. On June 28, 1995, pursuant to the Plan and in accordance with Maryland law, applicant made a liquidating distribution to its shareholders *pro rata* at net asset value. In addition, Waddell & Reed, Inc., the parent of applicant's investment adviser, made individual payments to applicant's shareholders not affiliated with Waddell & Reed, Inc. that, when added to the amounts received by such shareholders, approximated their investment in applicant.

5. The expenses incurred in connection with the liquidation are expected to total $3,631 and have been or will be paid by Waddell & Reed, Inc. They consist primarily of legal expenses, expenses of printing and mailing communications to shareholders, and miscellaneous accounting and administrative expenses.

6. At the time of the application, applicant had no securityholders, assets, or liabilities, except for certain legal and audit fees that will be paid by Waddell & Reed, Inc. Applicant is not a party to any litigation or administrative proceeding. Applicant is not presently engaged, nor does it propose to engage, in any business activities other than those necessary for the winding up of its affairs.

7. Applicant filed Articles of Dissolution with the Maryland Department of Assessments and Taxation on April 24, 1995. Applicant also took other actions required by Maryland law in connection with the dissolution.

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

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 95–27969 Filed 11–9–95; 8:45 am]

BILLING CODE 8010–01–M

[Investment Company Act Release No. 21470; 812–9532]

The Vanguard Group, Inc., et al.; Notice of Application

November 3, 1995.

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

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

APPLICANTS: The Vanguard Group, Inc. (''TVGI''); and Vanguard Balanced Index Fund, Inc., Vanguard Index Trust, Vanguard International Equity Index Fund, Inc., Vanguard Bond Index Fund, Inc., Vanguard Institutional Index Fund, Vanguard Institutional Portfolios, Inc., Vanguard California Tax-Free Fund, Vanguard New York Insured Tax-Free Fund, Vanguard Pennsylvania Tax-Free Fund, Vanguard Fixed Income Securities Fund, Inc., Vanguard Preferred Stock Fund, Vanguard Asset Allocation Fund, Inc., Vanguard/Trustees' Equity Fund, Vanguard/Windsor Funds, Inc., Vanguard Tax-Managed Fund, Inc., Vanguard Florida Insured Tax-Free Fund, Inc., Vanguard/Primecap Fund, Inc., Vanguard/Morgan Growth Fund, Inc., Vanguard Variable Insurance Fund, Vanguard Money Market Reserves, Inc., Vanguard Municipal Bond Fund, Inc., Vanguard New Jersey Tax-Free Fund, Vanguard Ohio Tax-Free Fund, Vanguard/Wellesley Income Fund, Inc., Vanguard Convertible Securities Fund, Inc., Vanguard/Wellington Fund, Inc., Vanguard Equity Income Fund, Inc., Vanguard Quantitative Portfolios, Inc., Vanguard World Fund, Inc., Vanguard Explorer Fund, Inc., Vanguard Specialized Portfolios, Inc., Vanguard Admiral Funds, Inc., Gemini II, Inc. and any future registered open-end management investment company, or portfolio thereof, in which a Fund of Index Funds (as defined below) invests that (a) is part of a group of investment companies which holds itself out to investors as related companies for purposes of investment and investor services, and (b) obtains corporate management, administrative, and distribution services from TVGI.

RELEVANT ACT SECTIONS: Order of exemption requested pursuant to section 6(c) of the Act from section 12(d)(1) of the Act, pursuant to sections 6(c) and 17(b) of the Act from section 17(a) of the Act, and pursuant to rule 17d–1 under the Act permitting certain joint transactions in accordance with section 17(d) of the Act and rule 17d–1 thereunder.

SUMMARY OF APPLICATION: The requested order would permit applicants to create a ''fund of index funds'' that would invest according to specified ratios or weightings in shares of two or more Vanguard index funds without regard to the percentage limitations of section 12(d)(1) (''Fund of Index Funds''). The requested order also would permit the boards of trustees/directors of the funds constituting the Vanguard Group of Investment Companies to modify the funds' service agreement to provide that a Fund of Index Funds may become a member of The Vanguard Group of Investment Companies without bearing duplicative capital contribution or expense allocation costs.

FILING DATE: The application was filed on March 16, 1995, and amended on 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 applicants, in the form of an affidavit, or, for lawyers, a certificate of service. Hearing requests should state the nature of the writer's interest, the reason for the request, and the issues contested. Persons may request notification of a hearing by writing to the SEC's Secretary.

ADDRESSES: Secretary, SEC, 450 Fifth Street, NW., Washington, DC 20549. Applicants, c/o The Vanguard Group, Inc., P.O. Box 2600, Valley Forge, Pennsylvania 19482.

FOR FURTHER INFORMATION CONTACT: Sarah A. Buescher, Staff Attorney, at (202) 942–0573, or C. David Messman, Branch Chief, at (202) 942–0564 (Division of Investment Management, Office of Investment Company Regulation).

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

Applicants' Representations

1. The Vanguard Funds are 32 registered management investment companies that currently offer shares in 86 portfolios (the ''Portfolios''). The Vanguard Funds organized and operate TVGI, pursuant to the terms of a Second Amended and Restated Funds' Service Agreement dated May 15, 1993 (the ''Funds' Service Agreement'') in order to provide the Funds with services on an ''internalized,'' at-cost, no-load basis.[1] Each Fund is organized as a business trust under Pennsylvania law, or as a Maryland corporation. Each Fund is registered as an open-end management investment company, except for Gemini II, Inc., which is registered as a closed-end company. Each Fund has a board of directors/trustees (the ''Board of Directors'') that consists of the same ten persons, eight of whom are not ''interested persons'' of the Fund under section 2(a)(19) of the Act. Nine of the directors compose the board of directors of TVGI. The Funds that are party to the Funds' Service Agreement constitute The Vanguard Group of Investment Companies (''The Vanguard Group''). Vanguard Institutional Index Fund is a registered management investment company that receives services from the Vanguard Group, Inc., but is not a member of The Vanguard Group.

2. Within the Vanguard Funds are the following index funds: Vanguard Balanced Index Fund, Inc., Vanguard Index Trust, Vanguard International Equity Index Fund, Inc., Vanguard Bond Index Fund, Inc. (collectively, with the Vanguard Institutional Index Fund, the ''Index Funds''). The Index Funds currently offer shares in 15 separate portfolios (''Index Portfolios''). Except for Vanguard Balanced Index Fund, each Index Portfolio seeks to provide investment results that correspond to the results of a particular securities index (or benchmark) by investing its assets in the same proportion as the securities represented in the index (or a representative sampling thereof). Vanguard Balanced Index Fund seeks to provide investment results that correspond to the results of a 60%/40% weighting of two indices, the Wilshire 5000 Index and the Lehman Brothers Aggregate Bond Index.

3. As a matter of fundamental policy, the Index Portfolios invest all of their investable assets in securities selected to replicate the composition of a specified securities index or benchmark. In addition, the Index Portfolios invest solely in liquid, readily marketable securities. Several Index Portfolios impose purchase charges that are designed to allocate transaction costs associated with new purchases to investors making the purchases. The Emerging Markets Portfolio is the only Index Portfolio that charges a redemption fee.

4. Vanguard seeks to create a Fund of Index Funds. The initial portfolio of the Fund of Index Funds would be an ''International Index Portfolio,'' which would replicate the Morgan Stanley Capital International Europe, Australia and Far East Index (''EAFE''). Vanguard intends to create this International Index Portfolio by combining two existing Index Portfolios, the European Portfolio and the Pacific Portfolio, rather than creating a separate investment company or portfolio to invest in securities directly. By combining existing Index Portfolios, Vanguard seeks to avoid higher start-up and ongoing costs, and tracking errors.

5. Applicants request that the relief sought herein apply to any future Fund of Index Funds, whether organized as an open-end investment company or as a portfolio thereof, which operates in all material respects in accordance with the representations contained in the application, complies with the conditions to the requested order, and is a Vanguard Fund or is operated by TVGI.

6. TVGI, a registered investment adviser under the Investment Advisers Act of 1940, is a wholly and jointly owned and capitalized subsidiary of the Vanguard Funds. TVGI provides to the Vanguard Funds on an at-cost basis almost all of their necessary corporate management, administrative, and shareholder accounting services, distribution services, and, for certain Portfolios, advisory services. TVGI also provides specified services to two funds, Vanguard STAR Fund and Vanguard Institutional Index Fund, that do not contribute to the capital of TVGI.

7. Under current provisions of the Funds' Service Agreement, a Fund of Index Funds, if structured as a separate investment company, could not become a member of The Vanguard Group without making a capital investment in TVGI, and being allocated a portion of TVGI's corporate management and distribution expenses, even though Fund of Index Funds shareholders would bear a portion of these expenses through the fees they pay with respect to the Index Portfolios. The Boards of Directors of the Funds propose to amend the Funds' Service Agreement to permit a Fund of Index Funds, whether structured as a separate investment company or as a portfolio of a Vanguard Fund, to become a member of The Vanguard Group.

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

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

Agreement, subject to the partial or complete elimination of these charges by the savings which would accrue to the benefit of the Index Portfolios.

Applicants' Legal Analysis

A. Section 12(d)(1)

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

2. Section 6(c) provides that the SEC may exempt persons or transactions if, and to the extent that, such exemption is necessary or appropriate in the public interest and consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the Act. Applicants request an order under section 6(c) exempting them from section 12(d)(1) to permit any Fund of Index Funds to invest in the Index Portfolios in excess of the percentage limitations of section 12(d)(1).

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

4. Applicants believe that none of these potential abuses would be present in the structure of a Fund of Index Funds. A Fund of Index Funds would not exercise any influence over the management of the acquired Index Portfolios by the threat of redemptions. A Fund of Index Funds would invest its assets solely to establish and maintain specified ratios or weightings of Index Portfolios. Unless a Fund of Index Funds would cease using one Index Portfolio and begin using another, the Fund of Index Funds would have no investment management authority to select which Index Portfolios to purchase or redeem, and would not hold itself out as doing so. Redemptions from the acquired Index Portfolios would result solely in the ordinary course of business as a result of a Fund of Index Fund's receipt of net redemption requests from its shareholders. The acquired Index Portfolios, as a matter of policy and practice, are at all times fully invested in liquid, publicly traded securities. Thus, they would have no reason to hold a cash position to protect their other shareholders against potential redemptions by a Fund of Index Funds.

5. The structure of a Fund of Index Funds would contain no improper layering of sales charges or advisory fees. Neither a Fund of Index Funds nor the Index Portfolios currently intend to impose any sales charges or fees pursuant to rule 12b–1. Applicants currently do not intend to charge an advisory fee at the Fund of Index Funds level with respect to assets invested in the Index Portfolios. Similarly, virtually all administrative fees would be imposed at the Index Portfolio level, and shareholders of a Fund of Index Funds would bear a portion of these fees only in proportion to their holdings of the Index Portfolios.

6. A Fund of Index Funds would not have a complex structure that would make it difficult for a shareholder to determine the true value of his or her interest in the Fund of Index Funds. The Fund of Index Funds would seek to replicate specified indices by investing in shares of Index Portfolios that hold securities replicating the indices, rather than by direct investments in these securities.

7. In addition to not containing the actual and potential abuses which led to the enactment of section 12(d)(1), applicants believe that the structure of a Fund of Index Funds would provide a number of benefits to a Fund of Index Funds and its shareholders, including: (a) The opportunity to obtain through a single investment account a diversified investment program suitable for retirement or long-term savings; (b) a simpler method for an investor to allocate his or her assets on a continuous basis without, at a minimum, the inconvenience of initiating the steps periodically to ''rebalance'' his or her portfolio; (c) a modest reduction in the investor's account maintenance costs, because an investor would not need to maintain two or more accounts to attain a desired allocation; and (d) the lower expense ratios and increased diversification which result from a new Fund of Index Fund's ability to take advantage of the existing asset base created by the acquired Index Portfolios.

8. The acquired Index Portfolios benefit from the existence of a Fund of Index Funds in three major respects: (a) The likely addition of assets from a Fund of Index Funds would reduce the expense ratios of the Index Portfolios; (b) to the extent many shareholders of a Fund of Index Funds would otherwise open accounts with each of the Index Portfolios, the number of accounts maintained by the Index Portfolios in the aggregate, and the resulting transfer agency fees, would be reduced; and (c) the costs of printing and mailing prospectuses, sales material, and periodic reports would be reduced because The Vanguard Group can combine information concerning two or more funds in a single document. All of the Vanguard Funds are also likely to benefit from the existence of a Fund of Index Funds since increased distribution and the resulting addition of assets to The Vanguard Group produces cost savings and other benefits for all Funds even if they are not the acquired Funds.

B. Section 17(a)

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

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

[2] Section 17(b) applies to specific proposed transactions and not to an ongoing series of future transactions. *See* Keystone Custodian Funds, 21 S.E.C. 295, 298–299 (1945). Section 6(c) can be used

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

C. Section 17(d) and Rule 17d–1

1. Section 17(d) prohibits an affiliated person of a registered investment company, or an affiliated person of such person, acting as principal, from effecting any transaction in which such investment company is a joint, or joint and several, participant with such person in contravention of SEC rules and regulations. Rule 17d–1 provides that an affiliated person of a registered investment company or an affiliated person of such person, acting as principal, shall not participate in, or effect any transaction in connection with, any joint enterprise or other joint arrangement in which the registered investment company is a participant unless the SEC has issued an order approving the arrangement. The Vanguard Funds and TVGI are engaged in a joint enterprise within the meaning of section 17(d).

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

Applicants' Conditions

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

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

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

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

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

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

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

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

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 95–27885 Filed 11–9–95; 8:45 am]

BILLING CODE 8010–01–M

to grant relief from section 17(a) for an ongoing series of future transactions.

DEPARTMENT OF STATE

Bureau of Political-Military Affairs

[Public Notice 2286]

Policy on Munitions Export Licenses to Ecuador and Peru

AGENCY: Department of State.

ACTION: Public notice.

SUMMARY: Pursuant to Sections 38 and 42 of the Arms Export Control Act, notice is hereby given that it is no longer the policy of the United States to deny all requests for licenses and other approvals to export or otherwise transfer lethal items to Ecuador or Peru. All requests will henceforth be reviewed on a case-by-case basis.

EFFECTIVE DATE: November 13, 1995.

FOR FURTHER INFORMATION CONTACT: Brian D. Bachman, Office of Arms Transfer and Export Control, Bureau of Political-Military Arms Transfer and Export Control, Bureau of Political-Military Affairs, Department of State (202–647–4231).

SUPPLEMENTARY INFORMATION: Effective immediately, it is no longer the policy of the U.S. Government to deny all requests for licenses and approvals to authorize the export or other transfer of lethal items to Ecuador and Peru. All requests will henceforth be reviewed on a case-by-case basis.

Exports will be evaluated in light of the recent conflict between these countries and the desirability of promoting multilateral restraint in arms transfers to Peru and Ecuador.

The licenses and approvals subject to this policy include those which permit commercial defense and service exports of any kind (e.g. exemptions and licenses and other approvals for licenses for manufacturing, license agreements, technical assistance agreements, and