

## SECURITIES AND EXCHANGE COMMISSION

[Investment Company Act Release No. 22865; 812-10522]

### Federated Investors, et al.; Notice of Application

October 22, 1997.

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

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

*Summary of Application:* Applicants seek an order to permit certain open-end investment companies to invest a portion of their assets in other open-end investment companies in the same group of investment companies as well as to invest in securities of other issuers.

*Applicants:* Managed Series Trust ("MST"), Fixed Income Securities, Inc. ("FIS"), Investment Series Funds, Inc. ("ISF"), Federated Total Return Series, Inc. ("FTRS"), Federated Stock and Bond Fund, Inc. ("FSBF") (collectively, "Federated Funds"); Federated Core Trust ("Core Trust"); and Federated Investors ("Federated"), as the parent company for Federated Advisers, Federated Management, Federated Research Corp., Federated Administrative Services, Federated Investment Counseling, Federated Research, Passport Research, Ltd., and Federated Global Research Corp. (collectively, "Advisers"). All existing investment companies that currently intend to rely on the requested order are named as applicants. The requested order also would extend to (i) any other registered open-end investment company or series thereof (except Core Trust and the Portfolios, as defined below) advised by the Advisers, or any entity controlling, controlled by, or under common control with the Advisers (together with Federated Funds, the "Funds") that wishes to invest in another registered open-end investment company in the same group of investment companies as the Funds and advised by the Advisers, or any entity controlling, controlled by, or under common control with the Advisers (together with Core Trust, the "Portfolios"), and (ii) any such Portfolio.

*Filing Dates:* The application was filed on February 5, 1997, and amended on August 14, 1997. Applicants have also agreed to file an additional amendment during the notice period. The substance of the additional

amendment is incorporated in this notice.

*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 17, 1997, and should be accompanied by proof of service on applicants, in the form of an affidavit, or, for lawyers, a certificate of service. Hearing requests should state the nature of the writer's interest, the reason for the request, and the issues contested. Persons may request notification of a hearing by writing to the SEC's Secretary.

**ADDRESSES:** Secretary, SEC, 450 Fifth Street, N.W., Washington, D.C. 20549. Applicants, Federated Investors Tower, Pittsburgh, PA 15222-3779.

**FOR FURTHER INFORMATION CONTACT:** Kathleen L. Knisely, Staff Attorney, at (202) 942-0517, or Christine Y. Greenlees, 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, 450 Fifth Street, N.W., Washington D.C. 20549 (tel. 202-942-8090).

#### Applicants' Representations

1. FIS and ISF, organized under Maryland law, are registered under the Act as open-end management investment companies. FIS and ISF are advised by Federated Advisers. FIS currently offers three portfolios, including Federated Strategic Income Fund. ISF currently offers two portfolios, including Federated Bond Fund.

2. FTRS and FSBF, organized under Maryland law, are registered under the Act as open-end management investment companies. FTRS and FSBF are advised by Federated Management. FTRS currently offers four portfolios, including Federated Total Return Bond Fund, and Federated Total Return Limited Duration Fund. FSBF currently is not a series investment company.

3. MST, organized under Massachusetts law, is registered under the Act as an open-end management investment company. MST is advised by Federated Management. MST currently offers four portfolios, including Federated Managed Aggressive Growth

Fund, Federated Managed Growth Fund, Federated Managed Growth & Income Fund, and Federated Managed Income Fund.

4. Core Trust, organized under Massachusetts law, will be registered as an open-end management investment company under the Act. Core Trust is advised by Federated Research Corp. Core Trust currently has one series, High-Yield Bond Portfolio ("Bond Core Portfolio"), which invests in high-yield bonds.<sup>1</sup>

5. Federated Managed Aggressive Growth Fund, Federated Managed Growth Fund, Federated Managed Growth & Income Fund, Federated Managed Income Fund, Federated Strategic Income Fund, Federated Bond Fund, Federated Total Return Bond Fund, Federated Total Return Limited Duration Fund, and FSBF (the "Blended Funds") would like to be able to invest in securities directly as well as to invest a portion of assets that they allocate for investment in the high-yield bond asset class in the Bond Core Portfolio. The Funds also would like to be able to invest in other Portfolios.

6. Bond Core Portfolio currently is intended to be offered only to the Blended Funds. However, Bond Core Portfolio may, in the future, be offered to funds relying on any order granting this application, or to other investors.

7. A Blended Fund's investment in the Bond Core Portfolio will be consistent with the Blended Fund's investment objective as described in its prospectus. If a Blended Fund allocates its assets to an asset class not represented by Bond Core Portfolio, or pursues a different investment strategy or style with respect to the asset class than Bond Core Portfolio, it will invest in those securities directly and/or through another Portfolio.

8. Federated Management and Federated Advisers, as investment advisers to the Blended Funds, will charge an annual investment advisory fee based upon a percentage of each Blended Fund's average daily net assets. Federated Research Corp. currently will not charge Bond Core Portfolio an advisory fee. Applicants currently anticipate that sales charges and service fees will be incurred only at the Blended Fund level and that Bond Core Portfolio will be sold without any such sales charge or service fee.

9. Applicants expect Bond Core Portfolio to provide broad diversity and exposure to all aspects of the high-yield

<sup>1</sup> Core Trust will not register under the Securities Act of 1933; its shares will be offered only in private placement transactions to registered investment companies and other institutional investors.

bond sector of the market while at the same time providing greater liquidity than the Blended Funds would provide separately. Applicants state that the Bond Core Portfolio likely will own more issuers in the high-yield bond sector than any single Blended Fund would own. As a result, events that affect the price of a single issuer in this sector can be expected to have less impact on Bond Core Portfolio than they would have on the high-yield bond sector of a Blended Fund that was less diversified. Applicants represent that this diversification can be expected to benefit both Bond Core Portfolio and its shareholders, the Blended Funds, by providing greater price stability and lower volatility, while at the same time capturing the performance benefits of exposure to the high-yield bond sector.

10. Applicants anticipate that the efficiencies resulting from the use of the Bond Core Portfolio will result in cost savings to the Blended Funds. Applicants expect that the cost savings will occur because Bond Core Portfolio will experience trading costs that will be substantially less than the trading costs that would be incurred if high-yield bonds were purchased separately for each of the Blended Funds.

#### Applicants' Legal Analysis

1. Section 12(d)(1)(A) of the Act provides that no registered investment company may acquire securities of another investment company representing more than 3% of the acquired company's outstanding voting stock, more than 5% of the acquiring company's total assets, or, together with the securities of other investment companies, 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 12(d)(1)(G) of the Act exempts from the above limitations certain "funds of funds," subject to conditions stated in that section. Applicants state that section 12(d)(1)(G) is not available to them because the Blended Funds will continue to invest directly in corporate bonds, other investment grade securities, and other instruments, in addition to investing in the Portfolios.

3. Section 12(d)(1)(J) provides that the SEC may exempt persons or transactions from any provision of section 12(d)(1) if

and to the extent such exemption is consistent with the public interest and the protection of investors. Applicants request relief from the limitations of section 12(d)(1) to permit: (a) A Fund to (i) purchase in excess of 3% of the total outstanding voting shares of a Portfolio; (ii) purchase securities of a Portfolio having an aggregate value in excess of 5% of the value of the total assets of a Fund; and (iii) purchase securities of a Portfolio having an aggregate value in excess of 10% of the assets of a Fund; (b) a Portfolio to sell more than 3% of its total outstanding shares to any Fund; and (c) a Portfolio to sell more than 10% of its total outstanding voting stock to the Funds. Applicants believe that none of the concerns underlying section 12(d)(1) are present in the proposed arrangement.

4. Applicants also request an exemption from section 17(a) of the Act, which prohibits certain purchases and sales of securities between investment companies and their affiliated persons, as defined in section 2(a)(3) of the Act. Because the Federated Funds and Core Trust have common trustees, directors, and officers, and are advised by commonly controlled Advisers, the Blended funds and the Bond Core Portfolio could be deemed affiliated persons of one another. Accordingly, purchases or sales between the Blended Funds and the Bond Core Portfolio could be deemed to be principal transactions between affiliated persons under section 17(a).

5. Applicants submit that the terms of their proposed arrangement satisfy the standards for relief under sections 6(c) and 17(b). Applicants state that the terms of the proposed transactions are reasonable and fair and do not involve overreaching. Applicants state that there are sufficient protections in the proposed arrangement against duplicative or excessive advisory fees and sales loads. Applicants state that a Fund's investment in a Portfolio will be in accordance with the Fund's investment restrictions and will be consistent with its policies as recited in its registration statement.

#### Applicants' Conditions

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

1. Each Fund and each Portfolio will be part of the same "group of investment companies," as defined in section 12(d)(1)(G)(ii) of the Act.

2. A fund will not invest in any Portfolio if the Portfolio may acquire securities of any other investment company in excess of the limits contained in section 12(d)(1)(A) of the

Act, except for securities received as a dividend or as a result of a plan of reorganization of any company.

3. Prior to approving any advisory contract under section 15 of the Act, the directors or trustees of each Fund, including a majority of the individuals who are not "interested persons" of the Fund, as that term is defined in section 2(a)(19) of the Act ("Independent Trustees"), shall find that the advisory fees charged under such contract, if any, are based on services that will be in addition to, rather than duplicative of, the services provided under the contracts of any Portfolio in which the Fund may invest; provided that no such findings will be necessary if the Adviser to a Portfolio waives all advisory fees that may be imposed for serving as investment adviser to the Portfolio or, if only a portion of such advisory fees are waived, the Adviser or another party reimburses the Fund for any advisory fee or portion thereof that is not waived. These findings and their basis will be recorded fully in the minute books of the Fund.

4. Any sales charges and service fees, as such terms are defined under Rule 2830 of the NASD's Conduct Rules, and may be charged with respect to securities of a Fund, when aggregated with any such sales charges and service fees borne by the Fund with respect to the shares of a Portfolio, shall not exceed the limits set forth in Rule 2830 of the NASD's Conduct Rules.

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

**Margaret H. McFarland,**

*Deputy Secretary.*

[FR Doc. 97-28567 Filed 10-28-97; 8:45 am]

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39267; File No. SR-CBOE-97-33]

### Self-Regulatory Organizations; Chicago Board Options Exchange, Inc.; Order Granting Approval to Proposed Rule Change Relating to Suspensions for Failure to Pay Debts Owed to the Exchange

October 22, 1997.

On July 24, 1997, the Chicago Board Options Exchange, Inc. ("CBOE" or "Exchange") submitted to the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4

<sup>1</sup> 15 U.S.C. 78s(b)(1).