

unconditional guarantee requirement. In lieu of the unconditional guarantee requirement, applicant has entered into, and will keep in force (except as contemplated below), the Support Agreement, which is and shall be the functional equivalent of an unconditional guarantee. The Support Agreement provides, and will continue to provide, as follows:

a. IEI owns and shall continue to own all of the outstanding voting stock of applicant.

b. IEI will provide to applicant funds (as capital, or if IEI and applicant agree, as a subordinated loan) as required if applicant is unable to make timely payment of interest, principal or premium, if any, on any debt issued by applicant.

c. IEI will cause applicant to have at all times a positive net worth (net assets less intangible assets, if any), as determined in accordance with generally accepted accounting principles.

d. If applicant fails or refuses to take timely action to enforce its rights under the Support Agreement or if applicant defaults in the timely payment of interest, principal or premium, any lender may proceed directly against IEI to enforce applicant's rights under the Support Agreement or to obtain payment of such defaulted interest, principal or premium.

2. The Support Agreement may be modified or amended in a manner that adversely affects the rights of creditors of applicant only if such modification or amendment occurs after all debt securities theretofore issued by the applicant are paid in full, unless all affected creditors consent in advance and in writing to such modification or amendment. No modification or amendment to the Support Agreement relating to the four provisions set forth in paragraph 1, above, shall be made unless (1) all creditors consent in advance and in writing to such modification or amendment and (2) applicant applies to the Commission for an amended order relating to such modification or amendment, and the Commission grants such amended order. The Support Agreement may be terminated only after (1) all debt securities issued by applicant are paid in full and (2) applicant applies to the Commission for an amended order relating to such termination, and the Commission grants such amended order.

3. Although applicant does not presently intend to initiate a non-public offering of its securities which may result in its securities (other than short-term paper, as that term is defined in

section 2(a)(38) of the Act) being beneficially held by more than 100 persons, or to make a public offering of its securities, if such offerings are made, they will consist of short-term, intermediate-term, and long-term debt securities to be offered and sold either in transactions exempt from the registration requirements of the Securities Act or in public offerings of securities registered under the Securities Act. No future public offerings will involve voting securities of applicant.

4. If applicant offers or sells securities not requiring registration under the Securities Act, applicant will provide each offeree with disclosure materials which will include a description of the business of IEI and its subsidiaries and other data of the character customarily supplied in such offerings, or will otherwise comply with the disclosure requirements of Regulation D under the Securities Act. In the event of a subsequent offering, these materials will be appropriately updated at the time thereof (by supplementing the disclosure materials or by incorporating by reference filings under the Securities Exchange Act of 1934) to reflect material changes in the financial condition of IEI and its subsidiaries, taken as a whole.

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

Margaret H. McFarland

Deputy Secretary.

[FR Doc. 98-34204 Filed 12-24-98; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. IC-23614; 812-11246]

Mitchell Hutchins Institutional Series, et al.; Notice of Application

December 21, 1998

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

ACTION: Notice of application for an order under section 6(c) of the Investment Company Act of 1940 (the "Act") for an exemption from section 15(a) of the Act and rule 18f-2 under the Act.

SUMMARY OF APPLICATION: The order would permit applicants to enter into and materially amend subadvisory agreements without obtaining shareholder approval.

APPLICANTS: Mitchell Hutchins Institutional Series; Mitchell Hutchins Portfolios; Mitchell Hutchins Series Trust; PaineWebber America Fund;

PaineWebber Financial Services Growth Fund Inc.; PaineWebber Index Trust; PaineWebber Investment Series; PaineWebber Investment Trust; PaineWebber Investment Trust II; PaineWebber Managed Assets Trust; PaineWebber Managed Investments Trust; PaineWebber Master Series, Inc.; PaineWebber Municipal Series; PaineWebber Mutual Fund Trust; PaineWebber Olympus Fund; PaineWebber Securities Trust (the "Companies")¹ and Mitchell Hutchins Asset Management Inc. ("Adviser").

FILING DATES: The application was filed August 5, 1998, and amended October 27, 1998. Applicants have agreed to file an amendment during the notice period, the substance of which is reflected 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 January 15, 1999, 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, 1285 Avenue of the Americas, New York, NY 10019.

FOR FURTHER INFORMATION CONTACT: Timothy R. Kane, Staff Attorney, at (202) 942-0615, or Edward P. MacDonald, 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 at the SEC's Public Reference Branch, 450 Fifth

¹ Applicants also request relief with respect to any other open-end management investment company, or series of such company, organized in the future and advised by the Adviser, or a person controlling, controlled by or under common control with the Adviser (a "Future Fund"), provided that such Future Fund operates in substantially the same manner as the Companies with respect to the Adviser's responsibility to select, evaluate, and supervise subadvisers and complies with the terms and conditions of the application. Each existing registered open-end management investment company that currently intends to rely on the order is named as an applicant.

Street, N.W., Washington, D.C. 20549
(telephone 202-942-8090).

Applicants' Representations

1. Each Company is registered under the Act as an open-end management investment company offering shares of one or more series ("Funds"), each with its own distinct investment objectives, policies, and restrictions. The Companies are organized as Delaware business trusts, Massachusetts business trusts, or Maryland corporations.

2. The Adviser, registered under the Investment Advisers Act of 1940 ("Advisers Act"), and wholly-owned by PaineWebber Incorporated, serves as investment adviser to all Companies pursuant to investment advisory agreements ("Advisory Agreements"). Certain Funds currently have one subadviser ("Subadviser"), each of which is registered under the Advisers Act.

3. Under the Advisory Agreements, the Adviser, subject to the supervision of the boards of directors of the Companies (the "Boards"), provides each Fund with investment research, advice, and supervision, furnishes and investment program for each Fund consistent with the investment objectives and policies of the Fund, and oversees the Subadvisers. The adviser also administers each Fund's business affairs and maintains the financial and accounting records of each Fund. The Adviser comprehensively reviews the qualifications of possible Subadvisers and thoroughly analyzes whether to hire a Subadviser. Each Subadviser is ultimately approved by the Boards. The Adviser regularly evaluates existing Subadvisers under the same standards. For these services, each Fund pays the Adviser a fee based on the Fund's average net assets.

4. Under subadvisory agreements between the Adviser and Subadvisers ("Subadvisory Agreements"), each Subadviser provides day-to-day portfolio management to the Fund. The Adviser pays the Subadvisers' fees out of the fees the Adviser receives from the Fund.

5. Applicants request an order to permit the Adviser to enter into and materially amend Subadvisory Agreements without obtaining shareholder approval. The requested relief will not extend to a Subadviser that is an "affiliated person" (as defined in section 2(a)(3) of the Act) of the Company, the Adviser, or the Funds, other than by reason of serving as a Subadviser to one or more of the Funds ("Affiliated Subadviser").

Applicants' Legal Analysis

1. Section 15(a) of the Act provides, in relevant part, that it is unlawful for any person to act as an investment adviser to a registered investment company except under a written contract approved by a majority of the investment company's outstanding voting shares. Rule 18f-2 under the Act provides that each series or class of stock in a series company affected by a matter must approve the matter if the Act requires shareholder capital.

2. Section 6(c) of the Act authorizes the Commission to exempt persons or transactions from the provisions of the Act to the extent that the exemption is necessary or appropriate in the public interest and consistent with the protection of investors and the purposes fairly intended by the policies and provisions of the Act. Applicants believe that their requested relief meets this standard for the reasons discussed below.

3. Applicants assert that a Fund's investors rely on the Adviser to select and monitor Subadvisers best suited to achieve the Fund's investment objective. Applicants represent that the Adviser has substantial experience in performing these functions for the Companies. Applicants submit that, from the perspective of an investor, the role of the Subadvisers is comparable to that of individual portfolio managers employed by other investment company advisory firms. Applicants thus contend that, without the requested relief, the Company may be precluded from promptly and effectively employing Subadvisers best suited to the needs of the Funds. Applicants also note that the Advisory Agreements will remain fully subject to the shareholder approval requirements of the Act and rules under the Act.

Applicants' Conditions

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

1. Before a Fund may rely on the requested order, the operation of the Fund as described in the application will be approved by the vote of a majority of the Fund's outstanding voting securities, as defined in the Act, or, in the case of a Future Fund whose public shareholders purchased shares on the basis of a prospectus containing the disclosure contemplated by condition 2 below, by the initial shareholders before offering shares of that Fund to the public.

2. Each fund will disclose in its prospectus the existence, substance, and effect of any order granted pursuant to

the application. In addition, each Fund will hold itself out to the public as employing the management structure described in the application. The Fund's prospectus will prominently disclose that the Adviser has the ultimate responsibility to oversee Subadvisers and recommend their hiring, termination, and replacement.

3. At all times, a majority of each Company's Board will be persons each of whom is not an "interested person" of the Company or the Adviser as defined in section 2(a)(19) of the Act ("Independent Directors"), and the nomination of new or additional Independent Directors will be at the discretion of the then-existing Independent Directors.

4. The Adviser will not enter into a Subadvisory Agreement with any Affiliated Subadviser without the Subadvisory Agreement, including the compensation to be paid under that Agreement, being approved by the shareholders of the applicable Fund.

5. When a Subadviser change is proposed for a Fund with an Affiliated Subadviser, the Board, including a majority of the Independent Directors, will make a separate finding, reflected in the Board's minutes, that the change is in the best interests of the Fund and its shareholders and does not involve a conflict of interest from which the Adviser or the Affiliated Subadviser derives an inappropriate advantage.

6. Within 90 days of the hiring of any new Subadviser, shareholders will be furnished relevant information about the new Subadviser that would be contained in a proxy statement, including any change in such disclosure caused by the addition of the new Subadviser. Each Fund will meet this condition by providing shareholders with an Information Statement meeting the requirements of Regulation 14C, Schedule 14C, and Item 22 of Schedule 14A of the Securities Exchange Act of 1934 within 90 days of the hiring of the Subadviser.

7. The Adviser will provide general management services to each Fund, including overall supervisory responsibility for the general management and investment of each Fund's portfolio, and, subject to review and approval by the Board, will: (i) set the Fund's overall investment strategies; (ii) select Subadvisers; (iii) monitor and evaluate the performances of Subadvisers; (iv) ensure that the Subadvisers comply with the Fund's investment objectives, policies, and restrictions by, among other things, implementing procedures reasonably designed to ensure compliance; and (v) allocate and, when appropriate,

reallocate a Fund's assets among Subadvisers when a Fund has more than one Subadviser.

8. No trustee, director, or officer of a Company 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 trustee, director, 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 one percent 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.

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

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 98-34257 Filed 12-24-98; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Rel. No. IC-23613; 812-10962]

Principal Management Corporation, et al.; Notice of Application

December 21, 1998.

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

ACTION: Notice of application under section 6(c) of the Investment Company Act of 1940 (the "Act") for an exemption from section 15(a) of the Act and rule 18f-2 under the Act.

SUMMARY OF APPLICATION: The order would permit applicants to enter into and materially amend investment subadvisory agreements without obtaining shareholder approval.

APPLICANTS: Principal Management Corporation (the "Adviser"), Principal Variable Contracts Fund, Inc., Principal Balanced Fund, Inc., Principal Blue Chip Fund, Inc., Principal Capital Value Fund, Inc., Principal Midcap Fund, Inc., Principal Growth Fund, Inc., Principal Utilities Fund, Inc., Principal International Fund, Inc., Principal Bond Fund, Inc., Principal Government Securities Income Fund, Inc., Principal High Yield Fund, Inc., Principal Limited Term Bond Fund, Inc., Principal Tax-Exempt Bond Fund, Inc., Principal Cash Management Fund, Inc., Principal Tax-Exempt Cash Management Fund, Inc., Principal International Emerging Markets Fund, Inc., Principal

International SmallCap Fund, Inc., Principal Real Estate Fund, Inc., Principal SmallCap Fund, Inc., and Principal Special Markets Fund, Inc. (each a "Fund" and collectively, the "Funds").

FILING DATES: The application was filed on January 9, 1998. Applicants have agreed to file an amendment during the notice period, the substance of which is included 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 January 15, 1999, 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, The Principal Financial Group, Des Moines, Iowa 50392-0200. **FOR FURTHER INFORMATION CONTACT:** J. Amanda Machen, Senior Counsel, at (202) 942-7120, 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 at the SEC's Public Reference Branch, 450 Fifth Street, N.W., Washington, D.C. 20549 (tel. 202-942-8090).

Applicants' Representations

1. The Funds, each a Maryland corporation, are registered under the Act as open-end management investment companies. Shares of certain Funds are sold exclusively to Principal Life Insurance Company ("Principal Life"), its affiliated insurance companies and their separate accounts established in connection with variable insurance products. Currently, all but two of the Funds have one portfolio ("Portfolio"); the remaining two Funds, Principal Variable Contracts Fund, Inc. ("Principal Variable") and Principal Special Markets Fund, Inc., are series funds, with nineteen and four Portfolios, respectively. On May 1, 1998, Principal Variable began offering shares

of eight of its Portfolios ("New Portfolios") to the public.¹

2. The Adviser, registered under the Investment Advisers Act of 1940 ("Advisers Act") and an indirect wholly-owned subsidiary of Principal Life, serves as the investment adviser for each of the Funds. The Adviser provides investment advisory services and corporate and administrative services to the Funds under a management agreement with each Fund (collectively, the "Management Agreements"). Under the Management Agreements, the Adviser recommends the hiring or firing of sub-advisers ("Managers") to the respective Fund's board of directors ("Board"). In addition, the Adviser monitors the performance of each Manager and may reallocate a Portfolio's assets among Managers. Each Manager recommended by the Adviser is approved by the applicable Fund's Board, including a majority of the directors who are not "interested persons," as defined in section 2(a)(19) of the Act, of the Fund ("Independent Directors"). Each Fund pays the Adviser a fee for its services based on the Fund's average daily net assets.

3. The Adviser has entered into subadvisory agreements ("Subadvisory Agreements") with six Managers, each of which is registered as an investment adviser under the Advisers Act. One of the Managers, Invista, is an affiliate of the Adviser. Currently, six Funds and four Portfolios of Principal Variable are advised by the Adviser and fourteen Funds and fifteen Portfolios of Principal Variable each are advised by one Manager. Subject to general supervision by the Adviser and the Board of each Fund, each Manager makes the investment decisions for the Portfolio it advises. The Managers are concerned only with selection of portfolio investments in accordance with the Portfolio's investment objectives and policies. The Managers have no broader supervisory, management, or administrative responsibilities with respect to the Portfolio. The Adviser pays the Managers' fees out of the fees the Adviser receives from each Fund.

4. Applicants request an order to permit the Adviser to enter into and materially amend Subadvisory Agreements without obtaining

¹ The New Portfolios are the MicroCap Account, MidCap Growth Account, SmallCap Growth Account, SmallCap Value Account, International SmallCap Account, Real Estate Account, SmallCap Account, and Utilities Account. Applicants state that since the effective date of Principal Variable's post-effective amendment to its registration statement adding the New Portfolios, the New Portfolios have described in their prospectuses the substance and effect of the requested order.