

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.

Jonathan G. Katz,

Secretary.

[FR Doc. 96-28454 Filed 11-5-96; 8:45 am]

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[Rel. No. IC-22308/812-10146]

**Strong Advantage Fund, Inc., et al.;
Notice of Application**

October 31, 1996.

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

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

APPLICANTS: Strong Advantage Fund, Inc., Strong Asia Pacific Fund, Strong Asset Allocation Fund, Inc., Strong Common Stock Fund, Inc., Strong Conservative Equity Funds, Inc., Strong Corporate Bond Fund, Inc., Strong Discovery Fund, Inc., Strong Equity Funds, Inc., Strong Government Securities Fund, Inc., Strong Heritage Reserve Series, Inc., Strong High-Yield Municipal Bond Fund, Inc., Strong Income Funds, Inc., Strong Institutional Funds, Inc., Strong Insured Municipal Bond Fund, Inc., Strong International Bond Fund, Inc., Strong International Stock fund, Inc., Strong Money Market Fund, Inc., Strong Municipal Funds, Inc., Strong Municipal Bond Fund, Inc., Strong Opportunity Fund, Inc., Strong Short-Term Bond Fund, Inc., Strong Short-Term Global Bond Fund, Inc., Strong Short-Term Municipal Bond Fund, Inc., Strong Special Fund II, Inc., Strong Total Return Fund, Inc., Strong Variable Insurance Funds, Inc. (collectively, the "Funds"), Strong Capital Management, Inc. ("SCM"), and Strong Funds Distributors, Inc. (the "Distributor").

RELEVANT ACT SECTIONS: Order requested under section 6(c) of the Act for an exemption from section 12(d)(1), under sections 6(c) and 17(b) for an exemption from section 17(a), and under section 178(d) and rule 17d-1.

SUMMARY OF APPLICATION: Applicants request an order that would permit certain investment companies to purchase shares of affiliated money market funds in excess of the limits prescribed in section 12(d)(1) for cash management purposes.

FILING DATE: The application was filed on May 14, 1996 and amended on August 14, 1996. Applicants have agreed to file an amendment, the substance of which is incorporated herein, during the notice period.

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 25, 1996, and should be accompanied by proof of service on applicant, 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, One Hundred Heritage Reserve, Menomonee Falls, Wisconsin 53051.

FOR FURTHER INFORMATION CONTACT: Deepak T. Pai, Staff Attorney, at (202) 942-0574, or Alison E. Baur, 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.

Applicants' Representations

1. The Funds are open-end investment companies incorporated under the laws of Wisconsin and registered under the Act, and the shares of the Funds are registered under the Securities Act of 1933. The Funds are organized as series companies. Certain of the Funds are money market funds subject to the requirements of rule 2a-7 under the Act (together with any future money market funds, the "Money Market Funds"). The other Funds are non-money market funds (together with any future non-money market funds, the "Non-Money Market Funds"). The Funds include taxable and tax-exempt money market funds, growth funds, growth and income funds, taxable and tax-exempt bond funds, global funds, and international funds.

2. Strong Capital Management, Inc., an investment adviser registered under the Investment Advisers Act of 1940, acts as the investment manager for the majority of the Funds, provides each Fund with various administrative services, and acts as transfer and dividend paying agent for the Funds. Schafer Capital Management, Inc. ("Schafer") acts as investment adviser for Strong Schafer Value Fund. SCM

and Schafer are collectively referred to herein as the "Adviser." Strong Funds Distributors, Inc., a subsidiary of Strong Capital Management, Inc., is registered as a broker-dealer under the Securities Exchange Act of 1934 and acts as each Fund's principal underwriter. Applicants request relief on behalf of the investment companies and series thereof that are currently or in the future part of the same "group of investment companies," as defined under rule 11a-3 of the Act.

3. Each Non-Money Market Fund has, or may be expected to have, uninvested cash ("Uninvested Cash") held by its custodian bank. Such Uninvested Cash may result from a variety of sources, including dividends or interest received from portfolio securities, unsettled securities transactions, reserves held for investment strategy purposes, scheduled maturity of investments, liquidation of investment securities to meet anticipated redemptions and dividend payments, and new monies received from investors. Applicants request an order to permit the Non-Money Market Funds to use their Uninvested Cash to purchase shares of one or more of the Money Market Funds (these transactions are collectively referred to hereinafter as the "Proposed Transactions").

Applicants' Legal Analysis

A. Section 12(d)(1)

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

3. Applicants' request would permit Non-Money Market Funds to use Uninvested Cash to acquire shares of Money Market Funds in excess of the percentage limitations set out in section 12(d)(1)(A). Applicants propose that each Non-Money Fund be permitted to invest in shares of a Money Market Fund so long as each Non-Money Market Fund's aggregate investment in such Money Market Fund does not exceed 25% of the Non-Money Market Fund's total net assets. Applicants' request also would permit Money Market Funds to sell their securities to Non-Money Market Funds in excess of the percentage limitations set out in section 12(d)(1)(B).

4. Applicants state that while the Non-Money Market Funds typically are fully invested, cash positions fluctuate with shareholder and investment activity and cash positions in excess of 20% of total assets may occasionally occur. The Uninvested Cash available for investment at any particular time (including instances of unusual equity and debt market conditions and unusual cash flow activity in any Money Market Fund) may, in fact, total 25% or more of a Non-Money Market Fund's total net assets. Therefore, in order to allow the Non-Money Market Funds maximum flexibility to invest Uninvested Cash and to maximize the returns on such investments, the Non-Money Market Funds seek the ability to invest up to the full amount of their available Uninvested Cash in each investment option. Applicants believe that permitting a Non-Money Market Fund to invest up to 25% of its total net assets in a Money Market Fund would generally accommodate cash investment requirements.

5. Applicants state that section 12(d)(1) is intended to protect an investment company's shareholders against (a) undue influence over portfolio management through the threat of large scale redemptions; (b) the acquisition of voting control of the company; (c) the layering of fees; and (d) a complex structure that makes it difficult for a shareholder to ascertain the true value of the subject security. Applicants believe that none of these perceived abuses are created by the Proposed Transactions.

6. Applicants state that the Adviser will serve as investment adviser to both the Non-Money Market Funds and the Money Market Funds, and will not receive double advisory fees or other compensation relating to transactions in the shares of the Money Market Funds purchased or sold by the Non-Money Market Funds. Thus, the Adviser is not susceptible to undue influence

regarding its management of the Money Market Funds due to threatened redemptions or loss of fees.

7. Applicants represent that the Proposed Transactions would involve no improper layering of fees. The shareholders of the Non-Money Market Funds would not be subject to the imposition of double investment advisory fees. Before approving any advisory contract under section 15, the Board of Directors of the Non-Money Market Fund, including a majority of the Directors who are not "interested persons," as defined in section 2(a)(19) of the Act, shall consider to what extent, if any, the advisory fees charged to the Non-Money Market Fund by the Adviser should be reduced to account for the fee indirectly paid by the Non-Money Market Fund because of the advisory fee paid by the Money Market Fund to the Adviser. Further, no front-end sales charge, contingent deferred sales charge, rule 12b-1 fee, or other underwriting and distribution fee will be charged in connection with the purchase and sale of shares of the Money Market Funds. If a Money Market Fund offers more than one class of shares, each Non-Money Market Fund will invest only in the class with the lowest expense ratio at the time of the investment.

8. Applicants state that the net asset value of each of the Money Market Funds is, and has been since its inception, maintained at a constant \$1.00 per share. Therefore, applicants believe that the value of the investments held by a Non-Money Market Fund will be easily determinable and will not create any difficulty in assessing the true value of the Non-Money Market Fund's holdings.

B. Section 17(a)

1. Section 17(a) (1) and (2) make it unlawful for any affiliated person of a registered investment company, acting as principal, to sell or purchase any security to or from such investment company. Because the Adviser is an affiliated person of each Fund, as defined in Section 2(a)(3) of the Act, and because the Funds share a common investment adviser and a common Board of Directors, each of the Funds may be deemed to be under common control with all the other Funds, and, therefore, an affiliated person of those Funds. Accordingly, the sale of shares of the Money Market Funds to the Non-Money Market Funds, and the redemption of such shares from the Non-Money Market Funds, would be prohibited under section 17(a).

2. Section 17(b) authorizes the SEC to exempt a transaction from section 17(a) if 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, the proposed transaction is consistent with the policy of each investment company concerned, and the proposed transaction is consistent with the general purposes of the Act. Applicants request an exemption under section 6(c) and 17(b) to permit Non-Money Market Funds to purchase shares of Money Market Funds, and the Money Market Funds to redeem such shares.¹

3. Section 17(a) is intended to prohibit affiliated persons in a position of influence or control over an investment company from furthering their own interests by selling property they own to an investment company at an inflated price, or by purchasing property from an investment company at less than its fair value. Applicants state that, under the Proposed Transactions, the Non-Money Market Funds will retain their ability to invest their Uninvested Cash directly in money market instruments and other short-term obligations, as permitted by each Non-Money Market Fund's investment objectives and policies, if they believe they can achieve a higher return or for any other reason. By adding shares of the Money Market Funds as another investment option, the Applicants believe that the Non-Money Market Funds may reduce the risk of counterparty default on repurchase agreements and the risks associated with direct purchases of short-term obligations, while providing high current money market rates of return, ready liquidity, and increased diversity of holdings. In addition, Applicants assert the Proposed Transactions would benefit the Money Market Funds by increasing their asset base and would provide an additional, stable market for their shares. Further, each of the Money Market Funds reserves the right to discontinue selling shares to any of the Non-Money Market Funds if the Board of Directors determines that such sales would adversely effect its portfolio management and operations. Therefore, Applicants believe that the Proposed Transactions satisfy the standards of sections 6(c) and 17(b).

C. Section 17(d)

1. Section 17(d) and rule 17d-1 prohibit an affiliated person of an investment company, acting as principal, from participating in or

¹ See *Keystone Custodian Funds*, 21 S.E.C. 295, 298-99 (1945). Section 6(c), along with section 17(b), frequently are used to grant relief from section 17(a) to permit an ongoing series of future transactions.

effecting any transaction in connection with any joint enterprise or joint arrangement in which the investment company participates. Applicants assert that the Funds, by participating in the Proposed Transactions, and the Adviser, by managing the assets of both the Non-Money Market Funds and the Money Market Funds, could be deemed to be "joint participants * * * in a transaction" within the meaning of section 17(d) of the Act, and the Proposed Transactions could be deemed to be "joint enterprise[s]" within the meaning of rule 17d-1 under the Act.

2. In passing upon applications submitted pursuant to section 17(d) and rule 17d-1, the SEC will consider whether the participation of such registered or controlled company in such joint enterprise, joint arrangement or profit-sharing plan on the basis proposed 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. Applicants assert that the Non-Money Market Funds and the Money Market Funds will not participate in this arrangement on a basis that is different from or less advantageous than the participants that are not investment companies. Thus, Applicants believe that the Proposed Transactions satisfy the standards of rule 17d-1.

Applicants' Conditions

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

1. The shares of the Money Market Funds sold to and redeemed from the Non-Money Market Funds will not be subject to a sales load, redemption fee, distribution fee under a plan adopted in accordance with rule 12b-1, or service fee (as defined in rule 2830(b)(9) of the NASD Rules of Conduct).²

2. If the Adviser collects a fee from a Money Market Fund for acting as its investment adviser with respect to assets invested by a Non-Money Market Fund, before the next meeting of the Board of Directors of a Non-Money Market Fund that invests in the Money Market Funds is held for the purpose of voting on an advisory contract under section 15 of the Act, the Adviser to the Non-Money Market Fund will provide the Board of Directors with specific information regarding the approximate cost to the Adviser for, or portion of the

advisory fee under the existing advisory fee attributable to, managing the assets of the Non-Money Market Fund that can be expected to be invested in such Money Market Funds. Before approving any advisory contract under section 15, the Board of Directors of such Non-Money Market Fund, including a majority of the Directors who are not "interested persons," as defined in section 2(a)(19) of the Act, shall consider to what extent, if any, the advisory fees charged to the Non-Money Market Fund by the Adviser should be reduced to account for the fee indirectly paid by the Non-Money Market Fund because of the advisory fee paid by the Money Market Fund to the Adviser. The minute books of the Non-Money Market Fund will record fully the Directors' consideration in approving the advisory contract, including the considerations relating to fees referred to above.

3. Each of the Non-Money Market Funds will invest Uninvested Cash in, and hold shares of, the Money Market Funds only to the extent that the Non-Money Market Fund's aggregate investment in the Money Market Funds does not exceed 25% of the Non-Money Market Fund's total net assets. For purposes of this limitation, each Non-Money Market Fund or series thereof will be treated as a separate investment company.

4. Investment in shares of the Money Market Funds will be in accordance with each Non-Money Market Fund's respective investment restrictions, if any, and will be consistent with each Non-Money Market Fund's policies as set forth in its prospectuses and statements of additional information.

5. Each Non-Money Market Fund, the Money Market Funds, and any future fund that may rely on the order shall be part of the same "group of investment companies," as defined in rule 11a-3(a)(5) under the Act.

6. No Money Market Fund shall acquire securities of any other investment company in excess of the limits contained in section 12(d)(1)(A) of the Act.

7. A majority of the Directors of each Non-Money Market Fund will not be "interested persons," as defined in section 2(a)(19) of the Act.

For the SEC, by the Division of Investment Management, under delegated authority.
Margaret H. McFarland,
Deputy Secretary.

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[Investment Company Act Release No. 22305; 811-7942]

Voyageur Arizona Municipal Income Fund II, Inc.; Notice of Application

October 30, 1996.

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

ACTION: Notice of application for deregistration under the Investment Company Act of 1940 (the "Act").

APPLICANT: Voyageur Arizona Municipal Income Fund II, Inc.

RELEVANT ACT SECTION: Section 8(f).

SUMMARY OF APPLICATION: Applicant requests an order declaring that it has ceased to be an investment company.

FILING DATE: The application was filed on October 21, 1996.

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 applicant 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 25, 1996, and should be accompanied by proof of service on the applicant, 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, 90 South Seventh Street, Suite 4400 Minneapolis, Minnesota 55402-4115.

FOR FURTHER INFORMATION CONTACT: Diane L. Titus, Paralegal Specialist, at (202) 942-0584, or Mary Kay Frech, 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.

Applicant's Representations

1. Applicant is a closed-end, diversified management investment company incorporated under the laws of Minnesota. On August 5, 1993, applicant registered under the Act and filed a registration statement on Form N-2 under the Act and the Securities Act of 1933. Applicant's registration statement was not declared effective,

² The staff notes that, until recently, rule 2830(b)(9) of the NASD Rules of Conduct was section 26(b)(9) of Article III of the NASD Rules of Fair Practice.