indirect, wholly-owned subsidiary of BHF. All of the outstanding securities of BHF Capital are indirectly owned by BHF.

5. BHF Finance proposes to issue commercial paper in the United States pursuant to the exemption contained in section 3(a)(3) of the Securities Act of 1933 (the ''1933 Act''). BHF Finance may also offer debt securities other than commercial paper or non-voting preferred stock in the United States, and lend the proceeds to or invest the proceeds in BHF, BHF Capital and other companies that, after giving effect to the exemption requested in the application, will be companies controlled by BHF within the meaning of rule 3a–5(b) under the Act as discussed below (''Controlled Companies''). Rule 3a–5 generally exempts finance subsidiaries of operating companies from the definition of investment company.

6. Any issuance of debt securities or non-voting preferred stock by BHF Finance will be guaranteed unconditionally by BHF with a guarantee that meets the requirements of rule 3a–5(a)(1) or (2), respectively (the ''Guarantee''). In accordance with rule 3a–5(a)(5), at least 85% of any cash or cash equivalents raised by BHF Finance will be invested in or loaned to BHF and Controlled Companies as soon as practicable, but in no event later than six months after BHF Finance's receipt of such cash or cash equivalents. In accordance with rule 3a–5(a)(6), all investments by BHF Finance, including temporary investments, will be made in government securities, securities of BHF and Controlled Companies, or debt securities that are exempted from the provisions of the 1933 Act by section 3(a)(3) of the 1933 Act.

7. In connection with BHF Finance's offering of securities guaranteed by BHF, BHF will submit to the jurisdiction of any state or Federal court in the County of New York, State of New York and will appoint an agent to accept any process which may be served in any action based upon BHF's obligations to BHF Finance as described in the application. Such consent to jurisdiction and such appointment of an authorized agent to accept service of process will be irrevocable until all amounts due and to become due with respect to securities issued by BHF Finance as described in the application have been paid.

Applicant's Legal Analysis

1. BHF Finance requests relief under section 6(c) of the Act for an exemption from all provisions of the Act. Rule 3a–5 under the Act provides an exemption from the definition of investment company for certain companies organized primarily to finance the business operations of their parent companies or companies controlled by their parent companies.

2. Rule 3a–5(b)(3)(i) in relevant part defines a ''company controlled by the parent company'' to be a corporation, partnership, or joint venture that is not considered an investment company under section 3(a) of the Act or that is excepted or exempted by order from the definition of investment company by section 3(b) of the Act or by the rules and regulations under section 3(a). Certain of BHF's subsidiaries do not fit within the definition of ''companies controlled by the parent company'' because they derive their non-investment company status from section 3(c) of the Act. In addition, BHF engages in certain activities (including certain investment activities) through BHF Capital. BHF Capital has no outstanding securities other than those owned directly or indirectly by BHF (excluding short-term paper, directors' qualifying shares, and debt securities owned by the Small Business Administration). BHF Capital would be eligible for exemption under rule 3a–3 under the Act, except that BHF is a foreign bank.[2] Accordingly, BHF Finance requests exemptive relief to permit it to lend the proceeds of its debt offerings to certain subsidiaries of BHF that are excluded from the definition of investment company by virtue of section 3(c) and subsidiaries that would be excluded by virtue of rule 3a–3, but for BHF's status as their parent company. BHF Finance states that neither itself, nor BHF, nor BHF Capital engage primarily in investment company activities.

3. Section 6(c) of the Act, in pertinent part, provides that the SEC, by order upon application, may conditionally or unconditionally exempt any person, security or transaction, or any class or classes of persons, securities or transactions, from any provision or provisions of the Act 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. BHF Finance submits that its exemptive request meets the standards set out in section 6(c).

[2] Rule 3a–3 generally exempts an issuer from the definition of investment company if all of its outstanding securities (other than short-term paper, directors' qualifying shares, and debt securities owned by the Small Business Administration) are owned by an eligible parent company. A parent company generally is eligible if it meets certain asset and income tests and (i) it is not an investment company as defined in section 3(a) of the Act; (ii) it is excluded from the definition of investment company by section 3(b) of the Act; or (iii) it is deemed not to be an investment company under rule 3a–1 of the Act.

Applicant's Condition

BHF Finance agrees that the order granting the requested relief will be subject to the following condition:

BHF Finance will comply with all of the provisions of rule 3a–5 under the Act, except paragraph 9b)(3)(i) to the extent that BHF Finance will be permitted to invest in or make loans to entities that do not meet the portion of the definition of ''company controlled by the parent company'' solely because they are:

(1) subsidiaries of BHF that would be excluded from the definition of investment company by virtue of rule 3a–3 under the Act, but for BHF's status as their parent company; or

(2) corporations, partnerships, and joint ventures that are excluded from the definition of investment company by section 3(c)(1), (2), (4), (6) or (7) of the Act, provided that any such entity:

(a) if excluded from the definition of investment company pursuant to section 3(c)(1) or section 3(c)(7) of the Act, will be engaged solely in lending, leasing or related activities (such as entering into credit derivatives to manage the credit risk exposures of its lending and leasing activities) and will not be structured as a means of avoiding regulation under the Act; and

(b) if excluded from the definition of investment company pursuant to section 3(c)(6) of the Act, will not be engaged primarily, directly or indirectly, in one or more of the businesses described in section 3(c)(5) of the Act.

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

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 99–21192 Filed 8–13–99; 8:45 am]

BILLING CODE 8010–01–M

SECURITIES AND EXCHANGE COMMISSION

[Release No. IC–23940; 812–11382]

The Chapman Funds, Inc., et al.; Notice of Application

August 10, 1999.

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

ACTION: Notice of an 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 and certain disclosure requirements.

SUMMARY OF APPLICATION: The requested order would permit applicants, The Chapman Funds, Inc. (''Company'') and Chapman Capital Management (''CCM''), to hire subadvisers and materially amend subadvisory agreements without shareholder approval, and grant relief from certain disclosure requirements.

FILING DATES: The application was filed on October 29, 1998, and was amended on April 14, 1999. 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 Commission orders a hearing. Interested persons may request by writing to the Commission's Secretary and serving applicants with a copy of the request, personally or by mail. Hearing requests should be received by the Commission by 5:30 p.m. on September 7, 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 who wish to be notified of a hearing may request notification by writing to the Commission's Secretary.

ADDRESSES: Secretary, Commission, 450 Fifth Street, N.W., Washington, D.C. 20549–0609; Applicants, World Trade Center-Baltimore, 28th Floor, 401 East Pratt Street, Baltimore, Maryland 21202.

FOR FURTHER INFORMATION CONTACT: Deepak T. Pai, Senior Counsel, at (202) 942–0574 or Michael W. Mundt, 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 Commission's Public Reference Branch, 450 Fifth Street, N.W., Washington, D.C. 20549–0102 (telephone (202) 942–8090).

Applicants' Representations

1. The Company is organized as a Maryland corporation and registered under the Act as an open-end management investment company which offers shares in seven series (collectively, the ''Funds''), each of which has its own investment objectives, policies, and restrictions.[1] CCM is registered under the Investment Advisers Act of 1940 (''Advisers Act'') and is a subsidiary of Chapman Capital Management Holdings, Inc. CCM serves as the investment adviser to each Fund pursuant to advisory agreements between CCM and the Company (''Advisory Agreements'').

2. For certain Funds (''Multi-Manager Funds''), CCM will seek to enhance performance and reduce market risk by allocating Fund assets among one or more subadvisers (''Subadvisers'').[2] Each Subadviser is registered as an investment adviser under the Advisers Act. For the Multi-Manager Funds, CCM will monitor the performance of both the total Fund portfolio and the portion of the total Fund portfolio allocated to each Subadviser and will reallocate Fund assets among Subadvisers, or recommend to the Company's board of directors (''Board'') that the Fund employ or terminate particular Subadvisers. Under agreements between CCM and the Subadvisers (''Sub-Advisory Agreements''), the specific investment decisions for each Multi-Manager Fund will be made by Subadvisers subject to the general supervision of CCM and the Board. The Funds pay investment advisory fees to CCM, and CCM will pay Subadvisers out of its fees.

3. Applicants request an exemption from section 15(a) of the Act and rule 18f–2 under the Act to permit Subadvisers approved by the Board to serve as Subadvisers for the Multi-Manager Funds, without the necessity of obtaining shareholder approval. Shareholder approval would continue to be required for any Subadviser that is an ''affiliated person,'' as defined in section 2(a)(3) of the Act, of the Company or CCM, other than by reason of serving as a Subadviser to one or more of the Multi-Manager Funds (an ''Affiliated Subadviser'').

4. Applicants also request an exemption from the various disclosure provisions described below that may require the Multi-Manager Funds to disclose the fees paid by CCM to the Subadvisers. For each Fund, the Company will disclose the following (both as a dollar amount and as a percentage of the Fund's net assets): (1) Aggregate fees paid to CCM and any Affiliated Subadvisers; and (2) aggregate fees paid to Subadvisers other than Affiliated Subadvisers (''Limited Fee Disclosure''). For any fund that employs an Affiliated Subadviser, the Fund will provide separate disclosure of any fees paid to such 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 of class of stock in a series company affected by a matter must approve the matter if the Act requires shareholder approval.

2. Form N1–A is the registration statement used by open-end investment companies. Items 3, 6(a)(1)(ii), and 15(a)(3) of Form N–1A (and items 2, 5(b)(iii), and 16(a)(iii) of Form N–1A prior to the amendments effective June 1, 1998) require disclosure of the method and amount of the investment adviser's compensation.

3. Form N–14 is the registration statement form for business combinations involving open-end management investment companies. Item 3 of Form N–14 requires a fee table that shows current fees for the registrant and the company being acquired, and pro forma fees, if different, for the registrant after giving effect to the transaction.

4. Rule 20a–1 under the Act requires proxies solicited with respect to an investment company to comply with Schedule 14A under the Securities Exchange Act of 1934 (''Exchange Act''). Item 22(a)(3)(iv) of Schedule 14A requires a proxy statement for a shareholder meeting at which a new fee will be established or an existing fee will be increased to include a table of the current and pro forma fees. Items 22(c)(1)(ii), 22(c)(1)(iii), 22(c)(8), and 22(c)(9), taken together, require a proxy statement for a shareholder meeting at which the advisory contract will be voted upon to include the ''rate of compensation of the investment adviser,'' the ''aggregate amount of the investment adviser's fees,'' a description of ''the terms of the contract to be acted upon,'' and, if a change in the advisory fee is proposed, the existing and

[1] Applicants request that the relief also apply to all subsequently registered open-end management investment companies that in the future are advised by CCM or any entity controlling, controlled by, or under common control with CCM and that use the multi-manager structure described in this application (''Future Companies''), and to any series of the Company or Future Companies that may be created in the future. Applicants state that all registered open-end management investment companies that currently intend to rely on the requested order are named as applicants, and any Future Company that relies on the order will comply with the terms and conditions contained in the application.

[2] On behalf of DEM Multi-Manager Equity Fund and DEM Multi-Manager Bond Fund, CCM currently intends to enter into Sub-Advisory Agreements with twelve Subadvisers and four Subadvisers, respectively.

proposed fees and the difference between the two fees.

5. Form N–SAR is the semi-annual report filed with the Commission by registered investment companies. Item 48 of Form N–SAR requires investment companies to disclose the rate schedule for fees paid to their investment advisers, including subadvisers.

6. Regulation S–X sets forth the requirements for financial statements required to be included as part of investment company registration statements and shareholder reports filed with the Commission. Sections 6–07(2)(a), (b), and (c) of Regulation S–X require that investment companies include in their financial statements information about investment advisory fees.

7. 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.

8. Applicants assert that investors in a Multi-Manager Fund rely on CCM to select appropriate Subadvisers. Applicants contend that the role of the Subadvisers, from the perspective of the investor, will be comparable to that of the individual portfolio managers employed by other investment advisory firms. Applicants note that the Advisory Agreements will continue to be subject to section 15 of the Act and rule 18f–2 under the Act.

9. Applicants assert that the information provided in the Limited Fee Disclosure will permit each investor to determine whether the fees for investment advisory services are competitive. In addition, applicants contend that some Subadvisers use a ''posted'' rate schedule to set their fees and may be unwilling to serve as Subadvisers at any rate other than their ''posted'' fee rates, unless the rates negotiated for the Funds are not publicly disclosed. Applicants state that requiring disclosure of Subadvisory fees would deprive CCM of its bargaining power to negotiate lower rates.

Applicants' Conditions

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

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

2. Any Fund relying on the requested order will disclose in its prospectus the existence, substance, and effect of any order granted pursuant to the application. In addition, such Fund will hold itself out to the public as employing the management structure described in the application. The prospectus will prominently disclose that CCM has ultimate responsibility to oversee Subadvisers and to recommend their hiring, termination and replacement.

3. CCM will provide general management and administration services to any Fund relying on the requested order, including overall supervisory responsibility for the general management and investment of such Fund, and subject to the review and approval of the Board will (1) set the overall investment strategies of the Fund; (2) evaluate, select and recommend Subadvisers; (3) allocate, and when appropriate, reallocate, the assets of the Fund among Subadvisers; (4) monitor and evaluate the investment performance of the Subadvisers; and (5) implement procedures reasonably designed to ensure that the Subadvisers comply with the investment objectives, policies, and restrictions of the Fund.

4. At all times, a majority of the Board will be persons who are not ''interested persons'' of the Company as defined in section 2(a)(19) of the Act (''Independent Directors''), and the nomination of new or additional Independent Directors will be placed within the discretion of the then existing Independent Directors.

5. CCM will not enter into a Sub-Advisory Agreement with an Affiliated Subadviser without such agreement, including the compensation to be paid thereunder, being approved by the shareholders of the applicable Fund.

6. When a change of a Subadviser 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 minutes, that any such change of Subadviser is in the best interest of the Fund and its shareholders, and does not involve a conflict of interest from which CCM or the Affiliated Subadviser derives an inappropriate advantage.

7. No director or officer of the Company or director or officer of CCM will own directly or indirectly (other than through a pooled investment vehicle that is not controlled by any such director or officer) any interest in a Subadviser except for ownership of interests in CCM or any entity that controls, is controlled by, or is under common control with CCM, or ownership of less than 1% of the outstanding securities of any class of equity or debt securities of any publicly traded company that is either a Subadviser or controls, is controlled by, or is under common control with a Subadviser.

8. Within ninety days of the hiring of any Subadviser, the affected Fund will furnish its shareholders with all information about the new Subadviser that would be included in a proxy statement, except as modified by the order to permit Limited Fee Disclosure. Such information will include Limited Fee Disclosure and any change in such disclosure caused by the addition of a new Subadviser. The Fund will meet this condition by providing shareholders, within ninety days of the hiring of a Subadviser, with an information statement meeting the requirements of Regulation 14C and Schedule 14C under the Exchange Act. The information statement also will meet the requirements of Item 22 of Schedule 14A under the Exchange Act, except as modified by the order to permit Limited Fee Disclosure.

9. The Company will disclose in its registration statement the Limited Fee Disclosure.

10. CCM will provide the Board, no less frequently than quarterly, information about CCM's profitability for each Fund that relies on the requested relief. Such information will reflect the impact on profitability of the hiring or termination of any Subadviser during the applicable quarter.

11. Whenever a Subadviser is hired or terminated, CCM will provide the Board information showing the expected impact on CCM's profitability.

12. At all times, independent counsel knowledgeable about the Act and the duties of Independent Directors will be engaged to represent the Independent Directors. The selection of such counsel will remain within the discretion of the Independent Directors.

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

Margaret H. McFarland,

Deputy Secretary.

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