

## Conclusion

For the reasons summarized above, Applicants believe that the requested exemptions, in accordance with the standards of Section 6(c) of the 1940 Act, are appropriate in the public interest and consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the 1940 Act.

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

**Margaret H. McFarland,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Rel. No. IC-23968; No. 812-11556]

### The Union Central Life Insurance Company, et al.; Notice of Application

August 24, 1999.

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

**ACTION:** Notice of application for an order pursuant to Section 26(b) of the Investment Company Act of 1940 (the "Act").

### Summary of Application

Applicants seek an order approving the substitution of: (a) Shares of the Balanced Index Portfolio of Carillon Fund ("Balanced Index Portfolio") for shares of the Capital Portfolio of Carillon Fund ("Capital Portfolio"); and (b) shares of the AIM V.I. Capital Appreciation Fund of the AIM Fund ("AIM Portfolio") for shares of the American Century VP Capital Appreciation Portfolio of American Century Fund ("American Century Portfolio").

### Applicants

The Union Central Life Insurance Company ("Union Central"), Carillon Account and Carillon Life Account.

### Filing Date

The application was filed on March 31, 1999, and amended and restated on July 23, 1999. Applicants represent that they will file a second amended and restated application during the notice period to conform to the representations set forth herein.

### Hearing or Notification of Hearing

An order granting the application will be issued unless the Commission orders a hearing. Interested persons may request a hearing by writing to the

Secretary of the Commission and serving Applicants with a copy of the request, personally or by mail. Hearing requests should be received by the Commission no later than 5:30 p.m. on September 20, 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 Secretary of the Commission.

**ADDRESSES:** Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. Applicants, c/o Union Central Life Insurance Company, 1876 Waycross Road, P.O. Box 40888, Cincinnati, Ohio 45240.

### FOR FURTHER INFORMATION CONTACT:

Paul G. Cellupica, Senior Counsel, or Kevin M. Kirchoff, Branch Chief, Office of Insurance Products, Division of Investment Management, at (202) 942-0670.

**SUPPLEMENTARY INFORMATION:** The following is a summary of the application. The complete application is available for a fee from the Public Reference Branch of the Commission, 450 Fifth Street, NW, Washington, DC 20549-0102 (tel. (202) 942-8090).

### Applicants' Representations

1. Union Central is a mutual insurance company organized in 1867 under the laws of Ohio. Union Central is primarily engaged in the sale of life and disability insurance and annuities and is currently licensed to operate in all states and the District of Columbia.

2. Carillon Account is a separate account of Union Central that is registered with the Commission as a unit investment trust. Carillon Account is used in connection with Union Central's variable annuity contracts (the "VA Contracts"). Carillon Life Account is a separate account of Union Central that is registered with the Commission as a unit investment trust. Carillon Life Account is used in connection with Union Central's variable life insurance policies (the "VUL Contracts," collectively with the VA Contracts, the "Contracts").

3. The VA Contracts are individual flexible premium, combination fixed and variable annuity contracts. The VA Contracts' variable investment options consist of 12 portfolios. Prior to annuitization, contract owners may transfer accumulation values among the subaccounts or from Carillon Account to

Union Central's general account as frequently as they want. The first six transfers in a contract year may be made without charge. A charge (currently \$10) is imposed for each transaction in excess of six in a contract year.

4. The VUL Contracts are individual, combination fixed and variable universal life insurance contracts. Contractowners may transfer accumulation values among the subaccounts or from Carillon Life Account to Union Central's general account as frequently as they want. The first twelve transfers in a contract year may be made without charge. A charge (currently \$10) is imposed for each transaction in excess of twelve in a contract year.

5. The Contracts permit Union Central (subject to any applicable law) to make additions to, deletions from, or substitutions for, the portfolio shares purchased by any subaccount. Substitutions are specifically permitted if the shares of a portfolio are no longer available for investment, or if in Union Central's judgment, investment in any portfolio would be inappropriate. To the extent required by applicable law, substitutions of shares attributable to a subaccount will not be made unless affected contractowners have been notified of the change and until the Commission has approved the change. In the case of such a substitution, VA Contract owners have the right, within 30 days after notification, to surrender their VA Contract without the imposition of any surrender charge.

6. Applicants proposed the following substitutions: (a) the substitution of shares of the Balanced Index Portfolio for shares of the Capital Portfolio, and (b) the substitution of shares of the AIM Portfolio for shares of the American Century Portfolio.

7. The Capital Portfolio is currently an investment option under each of the Contracts. The Capital Portfolio is managed by Carillon Advisers, Inc. Its investment objective is to provide the highest total return through a combination of income and capital appreciation consistent with the reasonable risks associated with an investment portfolio of above-average quality to investing in equity securities, debt instruments and money market instruments.

8. The expense ratio of the Capital Portfolio for 1998 was 0.79%. The total return of the Capital Portfolio (exclusive of Contract or subaccount charges) was -13.25% and 4.30% respectively for the one-year and five-year periods ending December 31, 1998, and 7.60% for the period from its inception on May 2, 1990 to December 31, 1998.

9. On or shortly after the date of the proposed substitutions, Union Central will eliminate the subaccounts that invest in the Capital Portfolio. Union Central has decided to eliminate this portfolio as an investment option under the Contracts because of its investment performance.

10. The American Century Portfolio (collectively with the Capital Portfolio, the "Eliminated Portfolios") is another investment option currently available under the Contracts. The investment adviser of the American Century Portfolio is American Century Investment Management, Inc. Its investment objective is to seek capital growth. It seeks to achieve its investment objective by investing primarily in common stocks that are considered by its investment adviser to have better than average prospects for appreciation.

11. The expense ratio of the American Century Portfolio for 1998 was 1.00%. The total return of the American Century Portfolio (exclusive of Contract or subaccount charges) was -2.16%, 3.25% and 8.70% respectively for the one-year, five-year, and ten-year periods ending on December 31, 1998.

12. On or shortly after the date of the proposed substitutions, Union Central will eliminate the subaccounts that invest in the American Century Portfolio. The reason for eliminating this portfolio as an investment option under the Contracts is its investment performance.

13. The Balanced Index Portfolio became an investment option under the VA Contracts on or about May 3, 1999 and will become an investment option under the VUL Contracts shortly before the date of the substitutions. The Balanced Index Portfolio is managed by Carillon Advisers, Inc. Its investment objectives is to seek investment results, with respect to 60% of its assets, that correspond to the total return performance of U.S. common stocks, as represented by the S&P 500 Index and, with respect to 40% of its assets, that correspond to the total return performance of investment grade bonds, as represented by the Lehman Brothers Aggregate Bond Index (the "Lehman Index").

14. The Balanced Index Portfolio is a new portfolio that has had no meaningful historical expense ratio or investment performance data. Its expense ratio is estimated at 0.60%. Because management of the Balanced Index Portfolio involves almost no discretionary investments, it is possible to estimate pro forma performance based on the performance of the benchmark indices and estimated

portfolio expenses. While there can, of course, be no guarantee that the two segments of the Balanced Index Portfolio could have tracked their respective benchmarks exactly, or that expenses would have been precisely as estimated, these estimates should provide a useful "order of magnitude" with which to compare the performance of the Capital Portfolio that is to be eliminated. The estimated pro forma performance of the Balanced Index Portfolio (40% of the portfolio's assets assumed to have the total return of the Lehman Index, minus estimated portfolio expenses, and 60% of the portfolio's assets assumed to have the total return of the S&P 500 Index, minus portfolio expenses) would be 20.38%, 16.73% and 14.71% for the one-year, five-year and ten-year periods ending December 31, 1998.

15. The AIM Portfolio (collectively with the Balanced Index Portfolio, the "Substitute Portfolios") became an investment option under the VA Contracts on or about May 3, 1999 and will become an investment option under the VA Contracts shortly before the date of the substitutions. The AIM Portfolio is managed by AIM Advisors, Inc. Its investment objective is to seek capital appreciation through investments in common stocks, with emphasis on medium-sized and smaller emerging growth companies.

16. The expense ratio of the AIM Portfolio for 1998 was 0.67%. The total return of the AIM Portfolio (exclusive of Contract or subaccount charges) was 19.30% and 17.23% respectively for the one-year and five-year periods ending on December 31, 1998 and 18.77% for the period from its inception on May 5, 1993 to December 31, 1998.

17. Applicants represent that each substitution will take place at the relative share values determined on the date of the substitution in accordance with Section 22 of the Act and Rule 22c-1 thereunder. Accordingly, there will be no financial impact to any contractowner. The substitutions will be effective by: (a) redeeming the shares of the Capital Portfolio held in the subaccounts that invest in that portfolio and substituting for them shares of the Balanced Index Portfolio; and (b) redeeming the shares of the American Century Portfolio held in the subaccounts that invest in that portfolio and substituting for them shares of the AIM Portfolio.

18. Immediately following the substitutions, Union Central will: (a) combine the Capital and Balanced Index Subaccounts that each hold shares of the Balanced Index Portfolio after the substitution; and (b) combine the

American Century and AIM Subaccounts that each hold shares of the AIM Portfolio after the substitution. Union Central will reflect this treatment in disclosure documents for the Carillon Account and Carillon Life Account and in the financial statements and Form N-SAR annual reports filed by the Carillon Account and Carillon Life Account.

19. Applicants represent that the proposed substitutions have been described in supplements to the prospectuses for the Contracts ("Stickers") that were filed with the Commission and mailed to contractowners. Since that filing, a Sticker has been affixed to each prospectus for the Contracts. The Stickers gave contractowners notice of the substitutions and described the reasons for engaging in the substitutions. The Stickers also informed existing contractowners that no additional amounts may be allocated to the subaccounts that invest in the Eliminated Portfolios on or after the date of substitution. In addition, the Stickers informed affected contractowners that they will have an opportunity to reallocate accumulation value:

(a) Prior to the substitutions, from the subaccounts investing in the Eliminated Portfolios; or

(b) For 30 days after the substitutions, from the subaccounts investing in the Substitute Portfolios, to subaccounts investing in other portfolios available under the Contracts,

without the imposition of any transfer charge. Any such transfer will not count against the number of free transfers permitted under that Contract.

20. Applicants represent that within five days after the substitutions, Union Central will send to affected contractowners written confirmation that the substitutions have occurred. At least 30 days prior to the substitutions, a notice of the substitutions will be sent to all affected contractowners and any affected contractowner who has not already received a fund prospectus that includes a description of the Substitute Portfolios will be mailed such a prospectus with that notice.

21. Applicants represent that Union Central will pay all fees and expenses of the substitutions, including legal, accounting brokerage commissions and other fees and expenses; none will be borne by contractowners. Affected contractowners will not incur any fees or charges as a result of the substitutions, nor will their rights or the obligations of Union Central under the Contracts be altered in any way. The substitutions will not cause the fees and

charges under the Contracts currently being paid by contractowners to be greater after the substitutions than before the substitutions. The substitutions will have no adverse tax consequences to contractowners and will in no way alter the tax benefits to contractowners.

22. Applicants believe that their request satisfies the standards for relief of Section 26(b) because:

(a) Each substitution involves portfolios with similar investment objectives;

(b) after each substitution, affected contractowners will be invested in a Substitute Portfolio whose actual performance, or pro-forma performance, has been better on a historical basis than that of the Eliminated Portfolio; and

(c) after each substitution affected contractowners will be invested in a Substitute Portfolio whose expenses have been less, or are expected to be less on an estimated basis, than those of the Eliminated Portfolio.

#### Applicants' Legal Analysis

1. Applicants request an order pursuant to Section 26(b) of the Act approving the substitutions. Section 26(b) of the Act makes it unlawful for any depositor or trustee of a registered unit investment trust holding the security of a single issuer to substitute another security for such security unless the Commission approves the substitution. The Commission will approve such a substitution if the evidence establishes that it is consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the Act.

2. Applicants assert that the purposes, terms and conditions of the substitutions are consistent with the principles and purposes of Section 26(b) and do not entail any of the abuses that Section 26(b) is designed to prevent. Substitution is an appropriate solution to the unfavorable relative performance and higher relative expenses of the portfolio to be eliminated. Applicants believe that each Substitute Portfolio will better serve contractowner interests because its performance has been significantly better than the performance of, and its expenses have been lower than the expenses of, the corresponding Eliminated Portfolio. Moreover, Union Central has reserved this right in each of the Contracts and disclosed this reserved right in the prospectus for each Contract.

3. Applicants represent that the substitutions will not result in the type of costly forced redemption that Section 26(b) was intended to guard against and, for the following reasons, are consistent

with the protection of investors and the purposes fairly intended by the Act:

(a) Each Substitute portfolio has investment objectives that are similar to those of the corresponding Eliminated Portfolio, and permits contractowners continuity of their investment objectives and expectations.

(b) The costs of the substitutions will be borne by Union Central and will not be borne by contractowners. No charges will be assessed to effect the substitutions.

(c) The substitutions will, in all cases, be at net asset values of the respective portfolio shares, without the imposition of any transfer or similar charge and with no change in the amount of any contractowner's accumulation value.

(d) The substitutions will not cause the fees and charges under the Contracts currently being paid by contractowners to be greater after the substitutions than before the substitutions.

(e) The contractowners will be given notice prior to the substitutions and will have an opportunity to reallocate accumulation value among other available subaccounts without the imposition of any transfer charge or limitation. No transfer:

(i) from a subaccount investing in an Eliminated Portfolio from the date of the notice through the date of the substitutions, or

(ii) for 30 days after the substitutions, of accumulation value that had been transferred to a subaccount that invests in a Substitute Portfolio as a result of the substitutions, will count as one of the limited number of transfers permitted in a contract year free of charge.

(f) Within five days after the substitutions, Union Central will send to affected contractowners written confirmation that the substitutions have occurred.

(g) The substitutions will in no way alter the insurance benefits to contractowners or the contractual obligations of Union Central.

(h) The substitutions will have no adverse tax consequences to contractowners and will in no way alter the tax benefits to contractowners.

#### Conclusion

Applicants assert that, for the reasons summarized above, the requested order approving the substitutions should be granted.

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

**Margaret H. McFarland,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Rel. No. IC-23967; File No. 812-11552]

### Target/United Funds, Inc., et al.

August 24, 1999.

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

**ACTION:** Notice of Application for an order pursuant to Section 6(c) of the Investment Company Act of 1940 ("1940 Act") granting exemptive relief from Sections 9(a), 13(a), 15(a) and 15(b) of the 1940 Act and Rules 6e-2(b)(15) and 6e-3(T)(b)(15) thereunder.

### Summary of Application

Applicants seek an order to permit shares of Target/United Funds, Inc. ("Fund") and any other similar investment company or investment company series that Waddell & Reed Investment Management Company ("WRIMCO") or any of its affiliates serve, now or in the future, as investment adviser, administrator, manager, principal underwriter or sponsor (the Fund and such other investment companies and series thereof, the "Insurance Products Funds"), to be offered and sold to and held by: (1) Separate accounts funding variable annuity and variable life insurance contracts issued by both affiliated and unaffiliated life insurance companies; and (2) qualified pension and retirement plans outside of the separate account context.

### Applicants

Target/United Funds, Inc. and Waddell & Reed Investment Management Company.

### Filing Date

The application was filed on March 30, 1999, and amended and restated on July 16, 1999.

### 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 Commission by 5:30 p.m. on September 17, 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