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]

BILLING CODE 8010–01–M

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 Mangers' 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.

shareholder approval.[2] The requested relief will not extend to a Subadvisory Agreement with a Manager that is an ''affiliated person'' (as defined in section 2(a)(3) of the Act) of either the Fund or the Adviser other than by reason of serving as a Manager to one or more of the Funds or Portfolios (''Affiliated Manager'').[3]

Applicants' Legal Analysis

1. Section 15(a) of the Act makes it unlawful for any person to act as an investment adviser to a registered investment company except pursuant to a written contract that has been approved by a majority of the investment company's outstanding voting securities. 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 approval.

2. Section 6(c) of the Act authorizes the SEC 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 policy and provisions of the Act. Applicants request relief under section 6(c) from section 15(a) of the Act and rule 18f-2 under the Act. For the reasons discussed below, applicants state that the requested relief meets the standard of section 6(c).

3. Applicants assert that the Funds' investors rely on the Adviser to select and monitor Managers best suited to achieve a Portfolio's investment objective. Part of that investor's investment decision, applicants argue, is a decision to have the selection of Managers made by a professional management organization, such as the Adviser. Applicants submit that, from the perspective of the investor, the role of the Manager is comparable to that of the individual portfolio managers employed by other investment advisory firms. Applicants thus contend that, without the requested relief, each Fund may be precluded from promptly employing Managers best suited to the needs of the Funds. Applicants also note that the Management Agreements will remain fully subject to the requirements of section 15 of the Act and rule 18f–2 under the Act, including the requirements for shareholder approval.

Applicants' Conditions

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

1. The Adviser will not enter into a Subadvisory Agreement with any Affiliated Manager without that agreement, including the compensation to be paid under it, being approved by the shareholders of the applicable Portfolio or, in the case of the insurance-related Funds, by the contract owners with assets allocated to any registered separate account for which that Portfolio serves as a funding medium.

2. At all times, a majority of the Board of each Fund will continue to be Independent Directors, and the nomination of new or additional Independent Directors will be at the discretion of the then-existing Independent Directors.

3. When a Manager change is proposed for a Portfolio with an Affiliated Manager, the Fund's Board, including a majority of the Independent Directors, will make a separate finding, reflected in the Fund's Board minutes, that the change is in the best interests of the Portfolio and its shareholders or, in the case of an insurance-related Fund, by the contract owners with assets allocated to any registered separate account for which that Portfolio serves as a funding medium, and does not involve a conflict of interest from which the Adviser or the Affiliated Manager derives an inappropriate advantage.

4. Before a Fund may rely on the requested order as to any Portfolio, the operation of that Portfolio in the manner described in the application will be approved by a majority of its outstanding voting securities, as defined in the Act (or, in the case of the insurance-related Funds, pursuant to voting instructions provided by contract owners with assets allocated to any registered separate account for which such Portfolio serves as a funding medium). Before a Future Fund that does not presently have an effective registration statement may rely on the order requested in the application, the operation of the Future Fund in the manner described in the application will be approved by its initial shareholder before shares of such Future Fund are made available to the public.

5. The Adviser will provide general management services to the Funds and their Portfolios, including overall supervisory responsibility for the general management and investment of each Portfolio's securities portfolio and, subject to review and approval by the applicable Fund's Board, will (i) set the Portfolio's overall investment strategies; (ii) recommend and select Managers; (iii) when appropriate, allocate and reallocate the Portfolio's assets among multiple Managers; (iv) monitor and evaluate the performance of Managers; and (v) implement procedures reasonably designed to ensure that the Managers comply with the Portfolio's investment objectives, policies, and restrictions.

6. Within 90 days of the hiring of any new Manager, shareholders will be furnished with all information about the new Manager that would be included in a proxy statement. The Adviser will meet this condition by providing to shareholders an information statement meeting the requirements of Regulation 14C, Schedule 14C, and Item 22 of Schedule 14A under the Securities Exchange Act of 1934. The applicable Fund will ensure that the information statement is furnished to contract owners with assets allocated to any registered separate account for which the Fund serves as a funding medium.

7. A Fund will disclose in its prospectus the existence, substance, and effect of any order granted pursuant to the application. In addition, the Fund will hold itself out to the public as employing the ''Manager of Managers Strategy'' described in the application. The prospectus relating to the Fund will prominently disclose that the Adviser has ultimate responsibility for the investment performance of each Portfolio employing subadvisers due to the Adviser's responsibility to oversee the Managers and recommend their hiring, termination, and replacement.

8. No director or officer of a Fund or director or officer of the Adviser will own directly or indirectly (other than through a pooled investment vehicle that is not controlled by that director or officer) any interest in a Manager 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 1% of the outstanding securities of any class of equity or debt of a publicly-traded company that is either a Manager or an entity that controls, is controlled by or

[2] The term ''shareholder'' includes variable life and annuity contract owners having the voting interest in a separate account for which the portfolio serves as a funding medium.

[3] Applicants also request relief for (a) any series of the Funds organized in the future; and (b) all registered open-end management investment companies, including those that serve as funding vehicles for variable insurance products offered by Principal Life and its affiliates, that in the future are (i) advised by the Adviser or any entity controlling, controlled by, or under common control (as defined in section 2(a)(9) of the Act) with the Adviser, (ii) use the manager of managers' strategy as described in the application, and (iii) comply with the terms and conditions contained in the application (''Future Funds''). All existing investment companies that currently intend to rely on the order have been named as applicants.

is under common control with a Manager.

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

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 98–34256 Filed 12–24–98; 8:45 am]

BILLING CODE 8010–01–M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 35–26955]

Filings Under the Public Utility Holding Company Act of 1935, as amended (''Act'')

December 18, 1998.

Notice is hereby given that the following filing(s) has/have been made with the Commission pursuant to provisions of the Act and rules promulgated under the Act. All interested persons are referred to the applications(s) and/or declaration(s) for complete statements of the proposed transaction(s) summarized below. The application(s) and/or declaration(s) and any amendments is/are available for public inspection through the Commission's Office of Public Reference.

Interested persons wishing to comment or request a hearing on the application(s) and/or declaration(s) should submit their views in writing by *January 13, 1999,* to the Secretary, Securities and Exchange Commission, Washington, DC 20549, and serve a copy on the relevant applicant(s) and/or declarants(s) at the address(es) specified below. Proof of service (by affidavit or, in case of an attorney at law, by certificate) should be filed with the request. Any request for hearing should identify specifically the issues of fact or law that are disputed. A person who so requests will be notified of any hearing, if ordered, and will receive a copy of any notice or order issued in the matter. After *January 13, 1999,* the application(s) and/or declaration(s), as filed or as amended, may be granted and/or permitted to become effective.

Interstate Energy Corporation

[70–9401]

Interstate Energy Corporation (''Interstate''), 222 West Washington Avenue, Madison, Wisconsin 53703–0192, a registered holding company, has filed an application-declaration under sections 6(a), 7, 9(a), 10 and 12(c) of the Act, and rules 42, 46 and 54 under the Act.

Interstate proposes to adopt a stockholder rights plan (''Plan'') and to enter into a rights agreement (''Agreement''). Under the Plan, Interstate's board of directors (''Board'') proposes to declare a dividend of one right (''Right'') for each outstanding share of Interstate common stock, $.01 par value (''Common Stock''). The dividend will be payable to stockholders of record on a record date yet to be determined. Each Right would entitle the holder to purchase one-half of a share of Common Stock at a price of $47.50 per one-half share of Common Stock, subject to adjustment (''Purchase Price'').

The Rights may not be exercised until the ''Distribution Date,'' which is defined in the Agreement as the earlier of two dates. The first is ten days after the first public announcement that any person, group or other entity (''Person'') has acquired, or obtained the right to acquire or to vote, beneficial ownership of 15% or more of Common Stock (such Person, an ''Acquiring Person'' and such event, an ''Acquisition Event''). The second is ten business days (unless extended by the Board) after any Person has commenced, or announced an intention to commence a tender or exchange offer which would, upon its consummation, result in the Person becoming an Acquiring Person.

After the Distribution Date, each Right holder may exercise a Right, upon payment of the Purchase Price, to receive Common Stock (or, in certain circumstances, cash, property, other Interstate securities or a reduction in the Purchase Price) having a value equal to two times the Purchase Price. Under certain circumstances where Interstate is acquired in a business combination transaction with, or fifty percent or more of its assets or earning power is sold or transferred to, another company (''Acquiring Company''), exercise of a Right at the Purchase Price will entitle its holder to receive common stock of the Acquiring Company also having a value equal to twice the Purchase Price. Rights beneficially owned by any Acquiring Person will be null and void.

The Purchase Price, the number of shares of Common Stock covered by each Right and the number of Rights outstanding are subject to adjustment from time to time to prevent dilution. With certain exceptions, no adjustment in the Purchase Price will be required until cumulative adjustments require an adjustment of at least one percent in the Purchase Price.

The Agreement may be amended prior to the Distribution Date by Interstate without the consent of the holders of Common Stock. After the Distribution Date, Interstate generally may amend the Agreement to correct ambiguities or defective provisions consistent with the interests of holders, to shorten or lengthen any time period in the Agreement or to otherwise change or add to the provisions of the Agreement, so long as the change or addition does not adversely affect the Rights holders (other than an Acquiring Person).

At any time after any Person becomes an Acquiring Person and before any Person (not including, among others, Interstate or any of its subsidiaries) acquired, or obtained the right to acquire or to vote, beneficial ownership of fifty percent or more of the outstanding shares of Common Stock, the Board may exchange the Rights (other than Rights owned by an Acquiring Person), in whole or in part, at an exchange ratio of one Common Share per Right, subject to adjustment.

Interstate may redeem all of the Rights at a redemption price of $.001 per Right, subject to adjustment (''Redemption Price''), at any time prior to the date that any Person has become an Acquiring Person. Immediately following Interstate's public notice of an action by the Board Interstate ordering the redemption of the Rights or the exchange of any of the Rights, the right to exercise the Rights will terminate and a Rights holder will be entitled only to receive the Redemption Price or exchanged shares of Common Stock, as the case may be.

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

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 98–34205 Filed 12–24–98; 8:45 am]

BILLING CODE 8010–01–M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–40809; File No. SR–Amex–98–34]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the American Stock Exchange LLC Relating to Listing and Trading of Shares of the Nasdaq-100 Trust

December 18, 1998.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'')[1] and Rule 19b–4 thereunder,[2] notice is hereby given that on September 21, 1998, the American Stock Exchange LLC (''Amex'' or ''Exchange'') filed with the Securities and Exchange Commission the proposed rule change as described in Items I, II, and III below,

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b–4.