billion and \$842 million, respectively. Each Portfolio invests substantially all of its assets in certain Price Funds (the "Underlying Funds"). Investments also may be made in money market instruments for temporary purposes. The Underlying Funds are no-load, open-end investment companies which have not adopted plans under rule 12b-1 to finance their distribution. Applicants request that the relief sought herein also apply to any future "fund of funds," whether organized as an investment company or as a portfolio thereof, which operates in all material respects in accordance with the conditions to the requested order, and that is a number of the T. Rowe Price group of investment companies.

- 2. Price Associates serves as investment adviser to each of the Underlying Funds, except for T. Rowe Price International Funds, Inc. which is advised by Price-Fleming. Investment Services, a wholly-owned subsidiary of Price Associates, serves as distributor of the Spectrum Fund and the Underlying Funds. Price Services, a wholly-owned subsidiary of Price Associates, performs certain shareholder services for the Spectrum Fund and the Underlying Funds.
- 3. The Spectrum Fund operates as a "fund of funds" under an exemptive order granted by the Commission (the "Existing Order").1 The Existing Order exempts applicants under section 6(c) from the limitations of section 12(d)(1)(A) and (B) to the extent necessary to permit: (i) The Spectrum Fund to purchase, in the aggregate, up to 15% of the outstanding voting shares of each underlying Fund, (ii) the securities of each Underlying Fund to have an aggregate value in excess of 5% of the value of the total assets of the Spectrum Fund, (iii) the Spectrum Fund to invest essentially all of its assets in the securities of the Underlying Funds, and (iv) each of the Underlying Funds to sell more then 3% of its total outstanding voting stock to the Spectrum Fund. The Existing Order also exempts applicants under sections 6(c) and 17(b) from section 17(a)(1) to permit sales by the Underlying Funds of their shares to the Spectrum Fund. Finally, the Existing Order permits, under section 17(d) and rule 17d-1, joint arrangements under a special servicing agreement that includes payments by the Underlying Funds of Spectrum Fund expenses.

- 4. The Existing Order was amended in 1992 (the "Amended Order") ² to modify a condition of the Existing Order that had limited investments in the Spectrum Fund to individuals investing an aggregate of \$30,000 per calendar year. The Amended Order removed this restriction.
- 5. The Existing Order imposed a number of conditions that restrict the manner in which the Spectrum Fund may operate. These conditions require applicants to sell shares of the Spectrum Fund only to certain "long-term investors," require the Spectrum Fund to allocate its assets to specified Underlying Funds only in predetermined and set ranges, prohibit the Spectrum Fund from acquiring more than 15% of the outstanding securities of any Underlying Fund, limit redemptions made by the Spectrum Fund from the Underlying Funds to 1% in any 30-day period (unless the redemptions are made to satisfy redemption requests by the Spectrum Fund's shareholders), limit shareholder exchanges into or out of the Spectrum Fund, the prevent the Spectrum Fund from creating new portfolios without further exemptive relief from the Commission (the "Redemption Conditions"). In addition, the Existing Order prohibits any of the Spectrum Fund's non-interested directors from serving on the board of directors of any Underlying Fund, requires the Spectrum Fund to vote its shares in each Underlying Fund in proportion to the vote of all shareholders of the Underlying Fund, prohibits the Spectrum Fund and/or the Underlying Funds from imposing certain distribution and advisory fees, and requires the Spectrum Fund's board of directors to monitor for "wash transactions" among the Underlying Funds (the "Order Conditions," collectively with the Redemption Conditions, the "Existing Conditions"). The requested order would supersede the Existing and Amended Orders, and would eliminate the Existing Conditions and replace them with the conditions set forth below.

Applicant's Legal Analysis

A. Section 12(d)(1)

1. Absent the Existing Order, section 12(d)(1)(A) of the Act would prohibit the Spectrum Fund from purchasing

more than 3% of the outstanding voting securities of an Underlying Fund, securities issued by all Underlying Funds having an aggregate value in excess of 5% of the value of the total assets of the Spectrum Fund, or securities issued by the Underlying Funds and all other investment companies having an aggregate value in excess of 10% of the value of the total assets of the Spectrum Fund. Section 12(d)(1)(B) would prohibit the Underlying Funds from selling more than 3% of their outstanding voting securities to the Spectrum Fund and more than 10% to the Spectrum Fund and other investment companies.

2. Section 12(d)(1) is intended to prevent the pyramiding of investment companies, the layering of fees, and undue organizational complexities. Applicants state that none of these abuses associated with fund holding companies are present with respect to the current and proposed arrangement, and that the Spectrum Fund will provide the benefits of diversification and cost savings to its investors.

B. Section 17(a)

1. Section 17(a) of the Act generally prohibits sales or purchases of securities between a registered investment company and any affiliated person of that company. Absent the Existing Order, the sale by the Underlying Funds of their shares to the Spectrum Fund could be deemed to be a principal transaction between affiliated persons that are prohibited under section 17(a). Because the Spectrum Fund and the Underlying Funds are each advised by Price Associates, they could be deemed to be affiliates of one another. Therefore, applicants requested the Existing Order to permit the Underlying Funds to sell their shares to the Spectrum Fund.

C. Section 17(d) and Rule 17d-1

1. Section 17(d) of the Act and rule 17d–1 thereunder prohibit an affiliated person of an investment company, acting as principal, from participating in or effecting any transaction in connection with any joint enterprise or joint arrangement in which the investment company participates. Applicants requested the Existing Order under section 17(d) and rule 17d–1 to permit the Spectrum Fund to enter into a joint arrangement pursuant to a special servicing agreement, as more fully described in the application.

D. Standard for Relief

1. Applicants state that the Redemption Conditions to the Existing Order were designed to prevent disruptive redemptions from the

¹ Investment Company Act Release Nos. 17198 (Oct. 31, 1989) (notice) and 17242 (Nov. 29, 1989) (order).

 $^{^2\,\}rm Investment$ Company Act Release Nos. 18816 (June 29, 1992) (notice) and 18865 (July 24, 1992) (order).

³ A "wash transaction" is a purchase of a security by one underlying fund that is offset by a contemporaneous sale of the same security by another underlying fund.