Underlying Funds. Applicants believe these conditions are no longer necessary and act as an impediment to the prudent management of the Spectrum Fund. Specifically, applicants believe that the Redemption Conditions are unnecessary for the following reasons: The Spectrum Fund has attracted shareholders investing for retirement, has had a consistently lower redemption rate than the Underlying Funds, has shareholders who on the whole remain in the fund longer than shareholders remain in the Underlying Funds, and has benefited the Underlying Funds in by increasing assets and reducing redemption pressure. In addition, the Underlying Funds have maintained sufficient cash positions to satisfy all redemptions made by the Spectrum Fund, and applicants believe that the structure of the Spectrum Fund dilutes Spectrum Fund shareholder redemptions by spreading their effect over the Underlying Funds.

2. Applicants also believe the Other Conditions are no longer necessary. Applicants submit that the identity of management between Spectrum Fund and the Underlying Funds provides assurance to investors that they will not be treated unreasonably or unfairly. Applicants further note that any harm to the Underlying Funds would be contrary to price Associates' business interests.

3. Applicants state that the fact that the boards of directors for the Spectrum Fund and the Underlying Funds may have common independent directors does not impede the ability of the independent directors to perform their oversight function because they have fiduciary obligations to all funds on whose board of directors they serve. Further, any conflict among the interests of those funds is no different from that which, in theory, can arise in any situation where an individual serves on the boards of directors of multiple funds in the same fund family.

4. Section 6(c) permits the SEC to exempt any person or transaction from any provision of the Act, if 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 of the Act. For the above reasons, applicants argue that the replacement of the Existing Conditions with the modified conditions meets the section 6(c) standards.

5. Section 17(b) permits the SEC to grant an order permitting a transaction otherwise prohibited by section 17(a) if it finds that the participation of such investment company 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 believe that the terms of the transactions meet these standards.

6. Rule 17d–1 permits the SEC to approve a proposed joint transaction. In determining whether to approve a transaction, the SEC is to consider whether the proposed transaction is consistent with the provisions, policies, and purposes of the Act, and the extent to which the participation of the investment companies is on a basis different from or less advantageous than that of the other participants. Applicants believe that the requested order meets these standards.

Applicants' Conditions

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

1. The Spectrum Fund and each Underlying Fund will be part of the same "group of investment companies," as defined in rule 11a–3 under the Act.

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

3. A majority of the directors of the Spectrum Fund will not be "interested persons," as defined in section 2(a)(19) of the Act.

4. Before approving any advisory contract under section 15, the board of directors of the Spectrum Fund, including a majority of the directors who are not "interested persons," as defined in section 2(a)(19), shall find that advisory fees charged under such contract are based on services provided that are in addition to, rather than duplicative of, services provided pursuant to any Underlying Fund's advisory contract. Such finding, and the basis upon which the finding was made, will be recorded fully in the minute books of the Spectrum Fund.

5. Any sales charges and other service fees charged with respect to securities of spectrum Fund, when aggregated with any sales charges and service fees paid by spectrum Fund with respect to securities of the Underlying Funds, shall not exceed the limits set forth in Article III, section 26, of the Rules of Fair Practice of the National Association of Securities Dealers, Inc.

6. Applicants agree to provide the following information, in electronic format, to the Chief Financial Analyst of the SEC's Division of Investment Management: monthly average total assets for each Spectrum Fund portfolio

and each of its Underlying Funds; monthly purchases and redemptions (other than by exchange) for each Spectrum Fund portfolio and each of its Underlying Funds; monthly exchanges into and out of each Spectrum Fund portfolio and each of its Underlying Funds; month-end allocations of each Spectrum Fund portfolio's assets among its Underlying Funds; annual expense ratios for each Spectrum Fund portfolio and each of its Underlying Funds; and a description of any vote taken by the shareholders of any Underlying Fund, including a statement of the percentage of votes cast for and against the proposal by the Spectrum Fund and by the other shareholders of the Underlying Funds. Such information will be provided as soon as reasonably practicable following each fiscal year-end of the Spectrum Fund (unless the Chief Financial Analyst shall notify applicants in writing that such information need no longer be submitted).

By the Commission. Margaret H. McFarland, *Deputy Secretary.* [FR Doc. 95–24185 Filed 9–28–95; 8:45 am] BILLING CODE 8010–01–M

## [Investment Company Act Release No. 21372; 812–9540]

## Vanguard STAR Fund, el al.; Notice of Application

September 22, 1995. **AGENCY:** Securities and Exchange Commission ("SEC"). **ACTION:** Notice of application for an order under the Investment Company Act of 1940 (the "Act").

**APPLICANTS:** Vanguard STAR Fund ("STAR"); The Vanguard Group, Inc. ("TVGI"); and Vanguard Balanced Index Fund, Inc., Vanguard Index Trust, Vanguard International Equity Index Fund, Inc., Vanguard Bond Index Fund, Inc., Vanguard Institutional Portfolios, Inc., Vanguard California Tax-Free Fund, Vanguard New York Insured Tax-Free Fund, Vanguard Pennsylvania Tax-Free Fund, Vanguard Fixed Income Securities Fund, Inc., Vanguard Preferred Stock Fund, Vanguard Asset Allocation Fund, Inc., Vanguard/ Trustees' Equity Fund, Vanguard/ Windsor Funds, Inc., Vanguard Tax-Managed Fund, Inc., Vanguard Florida Insured Tax-Free Fund, Inc., Vanguard/ Primecap Fund, Inc., Vanguard/Morgan Growth Fund, Inc., Vanguard Variable Insurance Fund, Vanguard Money Market Reserves, Inc., Vanguard Municipal Bond Fund, Inc., Vanguard New Jersey Tax-Free Fund, Vanguard