

three components (group fee rate, which drops as total assets under management increase, individual fee rate and an income component)<sup>9</sup> by the fund's average net assets.

Portfolio	Maximum group fee rate (percent)	For 12/31/94 group fee rate (percent)	Individual fee rate (percent)
Money Market ...	0.37	0.1563	0.03
Growth <sup>10</sup> .....	0.52	0.3191	0.30
Asset Manager <sup>11</sup> .....	0.52	0.3191	0.40
High Income .....	0.37	0.1563	0.45
Overseas .....	0.52	0.3191	0.45

<sup>10</sup> FMR has directed certain portfolio trades of the Growth Portfolio to brokers who paid a portion of the Portfolio's expenses. For the period ending December 31, 1994, the Portfolio's expenses were reduced by \$204,452.

<sup>11</sup> FMR directed certain portfolio trades to brokers who paid a portion of the Asset Manager Portfolio's expenses. For the period ended December 31, 1994, the expenses of the Asset Manager Portfolio were reduced by \$131,585 under this arrangement.

#### 10. Sub-Advisory Agreements—VIP Trusts Portfolios. FMR, the manager of

the VIP Trusts, has entered into various sub-advisory agreements for research, investment advice and portfolio management services. FMR has entered into sub-advisory agreements with Fidelity Management & Research (UK), Inc. ("FMR UK") and Fidelity Management & Research (Far East), Inc. ("FMR Far East") on behalf of the VIP Trusts High Income and Asset Manager Portfolios. FMR also has entered into sub-advisory agreements with FMR U.K., FMR Far East and Fidelity International Investment Advisers ("FIIA") on behalf of the VIP Trusts Overseas Portfolio; FIIA, in turn, has entered into a sub-advisory agreement with its wholly-owned subsidiary Fidelity International Investment Advisors (U.K.) Limited ("FIIAL UK"). FMR has entered into a sub-advisory agreement with FMR Texas, Inc. ("FMR Texas") on behalf of the VIP Trusts Money Market Portfolio. Under these sub-advisory agreements, FMR pays the fees of FMR UK, FMR Far East, FMR Texas and FIIA. FIIA, in turn, pays the fees of FIIAL UK.

a. For providing investment advice and research services, the sub-advisors are compensated as follows: (1) FMR pays FMR U.K. and FMR Far East fees equal to 110% and 105%, respectively, of their costs; (2) FMR pays FIIA 30% of its monthly management fee with respect to the average market value of investments held by the fund for which FIIA has provided FMR with investment advice; and (3) FIIA pays FIIAL UK a fee equal to 100% of its costs.

b. For providing investment management services, the sub-advisors are compensated as follows: (1) FMR pays FMR UK, FMR Far East and FIIA 50% of FMR's monthly management fee with respect to the fund's average net assets managed by the sub-advisor on a discretionary basis; (2) FIIA pays FIIAL UK 100% of its costs; and (3) FMR pays FMR Texas a fee equal to 50% of the management fee payable to FMR under its management contract with the Money Market Portfolio.

11. The following table indicates the amount of assets that were invested in Hudson River Trust Portfolios at the year ended December 31:

	As of 12/31/94	As of 12/31/93	As of 12/31/92	As of 12/31/91	As of 12/31/90
Total Contracts .....	2,785	1,655	765	357	237
Invested in Hudson Trust .....	308				

  

Portfolio	Assets 12/31/94	Assets 12/31/93	Assets 12/31/92	Assets 12/31/91	Assets 12/31/90
Common Stock .....	\$1,011,187	\$1,114,766	\$1,053,292	\$992,549	\$437,830
Money Market .....	376,959	427,557	69,058	145,332	34,025
Balanced .....	60,865	97,035	108,132	59,470	13,598
Aggressive .....	68,285	108,403	176,348	141,097	13,361
High Yield .....	21,162	293,199	275,997	11,819	10,003
Global .....	154,454	113,683	32,276	25,518	7,377

#### Proposed Transactions

1. Transactions to implement the proposed Substitution of shares of five VIP Trusts Portfolios for shares of six Hudson Trust Portfolios will take place both at the Separate Account level and at the underlying Fund level.

a. *Separate Account Level.* At the Separate Account level, the Substitution will result in a transfer of Contract account values from one Separate Account Division to another. On the day of the Substitution, SAFECO will determine the Contract account values held in the Investment Divisions which invest in the Hudson Trust Portfolios,

redeem those units of interest, purchase units of the Investment Division which invests in the corresponding VIP Trusts Portfolio and credit those units to the Contract. Contract account value will be identical immediately before and after the Substitution. The number of units held in the Contract, however, may vary to reflect the difference in unit values of the various Investment Divisions. All unit values will be valued at the next computed value in a manner consistent with Rule 22c-1 under the 1940 Act.

b. *Fund Level.* On the day of the Substitution, all shares held by the Separate Account in the Hudson Trust

will be redeemed and, contemporaneously, an amount equal to the cash proceeds of the redemption will be used to purchase shares of the corresponding VIP Trusts Portfolios.<sup>12</sup> All shares will be purchased and redeemed at prices based on the current net asset values per share next computed after receipt of the redemption request and in a manner consistent with Rule 22c-1 under the 1940 Act.

2. Applicants represent that Contract owners invested in the Hudson Trust have been sent a Supplement to the Hudson Trust Prospectus which

<sup>9</sup> The income component is 6% of gross income in excess of 5% yield and can not rise above 0.24% of the average net assets.

<sup>12</sup> SAFECO, on behalf of the Separate Account, will make a request for redemption of all Hudson Trust shares. Due to the time needed to process the

redemption request, a delay in payment of the cash redemption proceeds is anticipated. Thus, SAFECO will advance an amount in cash equivalent to the redemption proceeds amount, which will be used to purchase VIP Trusts Portfolio shares. Contract account values which were held in Hudson Trust

Portfolios will remain fully vested. Subsequently, the Hudson Trust will pay the cash redemption proceeds to SAFECO. No cash will be distributed to Contract owners unless, incidentally, a Contract owner requests a surrender.