

accounts, Other Investors and General Accounts have rights only with respect to their respective shares of the Fund. They only can redeem such shares at net asset value. No shareholder of a Fund has any preference over any other shareholder with respect to distribution of assets or payment of dividends.

38. Applicants considered whether there are any conflicts between the contract owners of separate accounts and the participants under Qualified Plans, the Other Investors or the General Accounts with respect to the state insurance commissioners' veto powers (direct with respect to variable life and indirect with respect to variable annuities) over investment objectives. The basic premise of shareholder voting is that not all shareholders agree with a particular proposal. This does not mean that there are any inherent conflicts of interest between shareholders. The state insurance commissioners have been given the veto power in recognition of the fact that insurance companies cannot simply redeem their separate accounts out of one fund and invest in another. Time-consuming, complex transactions must be undertaken to accomplish such redemptions and transfers. On the other hand, the trustees of Qualified Plans can quickly make the decision to redeem and then implement the redemption of their plans' shares from the Funds and reinvest in another funding vehicle without the same regulatory impediments, or, as is the case with most Qualified Plans, even hold cash pending suitable investment. Based on the foregoing, Applicants have concluded that, even if there should arise issues where the interests of contract owners and Qualified Plans are in conflict, these issues can be resolved almost immediately in that the trustees of the Qualified Plans can, on their own, redeem shares out of the Funds. Other Investors and General Accounts can similarly redeem their shares out of the Funds and make alternative investments at any time.

39. Finally, Applicants considered whether there is a potential for future conflicts of interest between Participating Separate Accounts and Qualified Plans created by future changes in the tax laws. Applicants do not see any greater potential for material irreconcilable conflicts arising between the interests of participants under Qualified Plans and contract owners of Participating Separate Accounts from possible future changes in the federal tax laws than that which already exists between variable annuity contract owners and variable life insurance contract owners.

40. Applicants submit that permitting the sales of a Fund's shares to Other Investors and General Accounts in compliance with the Treasury Regulations will enhance Fund management without raising significant concerns regarding material irreconcilable conflicts. Section 14(a) of the Act generally requires that an investment company have a net worth of \$100,000 upon making a public offering of its shares. Initial capital may also be necessary in connection with the creation of new series of shares and the voting of initial shares of such series on matters requiring shareholder approval. Potential sources of initial capital for a Fund are Other Investors or General Accounts. Any of these entities may have an interest in making the capital expenditure and in participating with the Fund in its organization. However, the provision of seed capital or the purchase of Fund shares by Other Investors or General Accounts may be deemed to violate the exclusivity requirements of Rule 6e-2(b)(15) or Rule 6e-3(T)(b)(1) under the Act.

41. Applicants anticipate that such investment in a Fund by Other Investors or General Accounts will be made in compliance with the Treasury Regulations. Given the conditions of Treas. Reg. 1.817-5(f)(3) and the harmony of interest between a Fund, on the one hand, and Other Investors and General Accounts, on the other, Applicants submit that little incentive for overreaching exists. Furthermore, such investment should not implicate the concerns discussed above regarding the creation of material irreconcilable conflicts. Rather, permitting investment by Other Investors or General Accounts will permit the orderly and efficient creation and operation of Funds.

42. Applicants state that various factors have limited the number of insurance companies that offer variable annuity and variable life insurance contracts. These factors include the costs of organizing and operating a funding medium, the lack of expertise with respect to investment management (principally with respect to stock and money market investments), and the lack of name recognition by the public of certain insurers as investment experts with whom members of the public feel comfortable entrusting their investment dollars. For example, some smaller life insurance companies may not find it economically feasible, or within their investment or administrative expertise, to enter the variable contract business on their own.

43. Applicants believe that the use of the Funds as common investment media for variable contracts, as well as for

Qualified Plans, would reduce or eliminate these concerns. Mixed and shared funding, including extended mixed and shared funding, also should provide several benefits to variable contract owners by eliminating a significant portion of the costs of establishing and administering separate funds. Participating Insurance Companies and Qualified Plans will benefit not only from the investment and administrative expertise of the Funds' investment advisers and subadvisers, but also from the cost efficiencies and investment flexibility afforded by a large pool of funds. Therefore, making the Funds available for mixed and shared funding will encourage more insurance companies to offer variable contracts, and this should result in increased competition with respect to both variable contract design and pricing, which can be expected to result in more product variation and lower charges. Mixed and shared funding, and extended mixed and shared funding, also will result in a greater amount of assets available for investment by the Funds, thereby benefiting contract owners through greater diversification and by making the addition of Future Funds more feasible.

44. Applicants submit that, regardless of the type of shareholder in any of the Funds, the investment advisers and subadvisers are or will be contractually obligated to manage each Fund solely and exclusively in accordance with that Fund's investment objectives and restrictions as well as with any guidelines established by the Board of Trustees of MIT, or by the board of directors or trustees of any Future Fund that is not a series of MIT, as the case may be (each such board, together with the Board of Trustees of MIT, a "Board"). With respect to each Fund, the investment advisers and subadvisers work with a pool of money and do not take into account the identity of the shareholders. Thus, the Existing Funds are, and any Future Fund will be, managed in the same manner as any other mutual fund.

45. Applicants see no significant legal impediment to permitting mixed and shared funding and extended mixed and shared funding. Separate accounts organized as unit investment trusts historically have been employed to accumulate shares of mutual funds which have not been affiliated with the depositor or sponsor of the separate account, and Applicants believe, as indicated above, that mixed and shared funding and extended mixed and shared funding will have no adverse federal income tax consequences.