

and would be the average of (i) the "Repo Rate" and (ii) the "Bank Loan Rate," both as defined below. The Repo Rate on any day would be the highest rate available to a lending Fund from investments in overnight repurchase agreements. The Bank Loan Rate on any day would be calculated by SBC Financial according to a formula established by each Fund's board of trustees ("Board"), intended to approximate the lowest interest rate at which a bank short-term loan would be available to the Funds. The formula would be based upon a publicly available rate (*e.g.*, Federal funds plus 25 basis points) which rate would vary so as to reflect changing bank loan rates. The initial formula and any subsequent modifications to the formula would be subject to the approval of the Fund's Board. The Board of each Fund periodically would review the continuing appropriateness of reliance on the publicly available rate used to determine the Bank Loan Rate, as well as the relationship between the Bank Loan Rate and current bank loan rates that would be available to the Funds.

9. The credit facility would be administered by staff members of SBC Financial who are not portfolio managers (the "Administrative Staff"). Under the credit facility, the portfolio managers for each participating Fund, or the staff of SBC Financial responsible for coordinating the portfolio managers and overseeing their management of each Fund, (who are not the Administrative Staff) could provide standing instructions to participate in the credit facility daily as a borrower or lender. On each business day, the Administrative Staff would collect data on the uninvested cash and borrowing requirements of all participating Funds from the Fund's custodian. Once it had determined the aggregate amount of cash available for loans and borrowing demand, the Administrative Staff would allocate loans among borrowing Funds without any further communication from portfolio managers. After the Administrative Staff has allocated cash for Interfund Loans, the Administrative Staff will invest any remaining cash in accordance with the standing instructions of portfolio managers or return remaining amounts to the Funds.

10. The Administrative Staff would allocate borrowing demand and cash available for lending among the Funds on what the Administrative Staff believes to be an equitable basis, subject to certain administrative procedures applicable to all Funds, such as (i) the time of filing requests to participate, (ii) minimum loan lot sizes, and (iii) the need to minimize the number of

transactions and associated administrative costs. To reduce transaction costs, each Interfund Loan normally would be allocated in a manner intended to minimize the number of participants necessary to complete the loan transaction.

11. SBC Financial would (a) monitor the interest rates charged and the other terms and conditions of the loans, (b) limit the borrowings and loans entered into by each Fund to ensure that they comply with the Fund's investment policies and limitations, (c) ensure equitable treatment of each Fund, and (d) make quarterly reports to the Board of each Fund concerning any transactions by the Fund under the credit facility and the interest rates charged. The method of allocation and related administrative procedures would be approved by the Board, including a majority of the Board members who are not "interested persons" of the Funds as that term is defined in section 2(a)(19) of the Act ("Independent Trustees"), to ensure that both borrowing and lending Funds participate on an equitable basis.

12. SBC Financial would administer the credit facility as part of its duties under its existing advisory contract with each Fund and would receive no additional fee as compensation for its services. SBC Financial may collect standard pricing and record keeping, bookkeeping, and accounting fees associated with repurchase and lending transactions generally, including transactions effected through the credit facility. Fees paid to SBC Financial in connection with an Interfund Loan would be no higher than those associated with comparable bank loan transactions.

13. No Fund may participate in the credit facility unless: (i) The Fund has obtained shareholder approval for its participation, if such approval is required by law; (ii) the Fund has fully disclosed all material information concerning the credit facility in its prospectus and/or SAI; and (iii) the Fund's participation in the credit facility is consistent with its investment objectives, limitations, and organizational documents.

14. In connection with the credit facility, applicants request an order under (i) section 6(c) of the Act granting relief from sections 18(f) and 21(b) of the Act; (ii) section 12(d)(1)(f) of the Act granting relief from sections 12(d)(1)(A) and (B) of the Act; (iii) sections 6(c) and 17(b) of the Act granting relief from sections 17(a)(1) and 17(a)(3) of the Act; and (iv) section 17(d) of the Act and rule 17d-1 under the Act to permit certain joint transactions.

Applicants' Legal Analysis

1. Section 17(a)(3) of the Act generally prohibits an affiliated person, or an affiliated person of an affiliated person, from borrowing money or other property from a registered investment company. Section 21(b) of the Act generally prohibits any registered management company from lending money or other property to any person if that person controls or is under common control with that company. Section 2(a)(3) of the Act defines an "affiliated person" of another person, in part, to be any person directly or indirectly controlling, controlled by, or under common control with, the other person. Applicants state that the Funds may be under common control by virtue of having SBC Financial as their common investment adviser, and/or by reason of having common officers, directors and/or trustees.

2. Section 6(c) of the Act provides that an exemptive order may be granted where an 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. Section 17(b) of the Act authorizes the Commission to exempt a proposed transaction from section 17(a) provided that the terms of the transaction, including the consideration to be paid or received, are fair and reasonable and do not involve overreaching on the part of any person concerned, and the transaction is consistent with the policy of the investment companies involved, as recited in their registration statements, and with the general purposes of the Act. Applicants believe that the proposed arrangements satisfy these standards for the reasons discussed below.

3. Applicants submit that sections 17(a)(3) and 21(b) of the Act were intended to prevent a person with potential adverse interests to, and some influence over the investment decisions of, a registered investment company from causing or inducing the investment company to engage in lending transactions that unfairly inure to the benefit of that person and that are detrimental to the best interests of the investment company and its shareholders. Applicants assert that the proposed credit facility transactions do not raise these concerns because: (i) SBC Financial would administer the program as a disinterested fiduciary in the best interests of the Funds' shareholders; (ii) all Interfund Loans would consist only of uninvested cash reserves that a Fund otherwise would invest in short-term