

INTERNAL REVENUE SERVICE
UIL Nos: 0851.00-00; 0852.00-00
305.00-00

Number: **199941016**
Release Date: 10/15/1999

CC:DOM:FI&P/PLR-105794-99
July 12, 1999

Legend:

Fund 1 =

Fund 2 =

Fund 3 =

Fund 4 =

Fund 5 =

Fund 6 =

Fund 7 =

Fund 8 =

Fund 9 =

Fund 10 =

Fund 11 =

Fund 12 =

Fund 13 =

Fund 14 =

Fund 15 =

Fund 16 =

Fund 17 =

Fund 18 =

Fund 19 =

Institutional Class =

Manager =

State =

x =

Dear :

This responds to your request dated March 10, 1999, and subsequent correspondence dated April 30, 1999, submitted on behalf of Funds 1 through 19, that the Internal Revenue Service rule as follows:

- (1) No fund or shareholder will recognize gain or loss on the conversion of institutional class shares to Class A shares of the same fund upon the termination of the institutional class;
- (2) Each shareholder's basis in the Class A shares received on the conversion will equal the shareholder's basis in the converted institutional class shares immediately before the conversion;
- (3) Each shareholder's holding period for the Class A shares received on the conversion will include the shareholder's holding period for the converted institutional class shares, provided that the shareholder held those converted shares as capital assets immediately before the conversion; and
- (4) Neither the establishment nor the implementation of the conversion rights will be deemed a distribution of stock or stock rights taxable to any Fund shareholders under section 305(b) or (c) of the Internal Revenue Code.

FACTS

Manager is the investment manager and administrator of Funds 1 through 19. The funds are organized as series funds of State business trusts registered under the Investment Company Act of 1940, 15 U.S.C. 80a-1 *et seq.*, as amended (the 1940 Act), as open-end management investment companies. Each fund qualifies for treatment as a regulated investment company (RIC) under part I of subchapter M of the Code.

Each fund currently offers qualified investors the option of purchasing shares in three classes: an institutional class, Class A, and Class B. A fourth class of shares, Class C, is also offered or planned to be offered. Each class represents a proportionate interest in the net assets of the same portfolio of securities and has identical voting, dividend, and liquidation rights.

The classes are distinguished on the basis of distribution charges, sales charges, fee structures, or purchase restrictions. Class A shares are sold subject to front-end sales charges and fees imposed pursuant to plans of distribution that meet the requirements of Rule 12b-1, 17 C.F.R. 270.12b-1, under the 1940 Act ("Rule 12b-1 plans"). Class B shares are sold subject to a contingent deferred sales charge ("CDSC") and Rule 12b-1 fees. Class B shares convert automatically to Class A shares after a holding period of eight years. Both Class A and Class B shares are offered to all investors. Institutional class shares are subject neither to a front-end sales charge, nor to a CDSC, nor

to Rule 12b-1 fees. There are fewer than x shareholders in the institutional class of each fund.

In order to harmonize the class structure of the funds with that of other investment companies managed by Manager, the institutional class is proposed to be eliminated. Institutional class shares of each fund will be converted to Class A shares of the same fund. No shareholder will be permitted to exchange its institutional class shares of one fund for Class A shares of another fund. Pursuant to rights granted under the 1940 Act, institutional class shareholders may redeem shares prior to the proposed conversion.

The funds make the following representations in accordance with Rev. Proc. 96-47, 1996-2 C.B. 338:

(1) Each fund will be described in sections 851(a) and (b)(1);

(2) Groups of shares ("Qualified Groups") will have different arrangements for shareholder services or the distribution of shares, and expenses related to these arrangements will be allocated to the Qualified Groups of shares on behalf of which the expenses were incurred;

(3) Advisory fees and other expenses related to the management of each fund's assets will be allocated to all shares of that fund based on relative net asset value, regardless of Qualified Group;

(4) Expenses of a fund other than those described in (2) and (3) that are incurred on behalf of one or more Qualified Groups of that fund in a different amount or at a different rate from the amount or rate at which the expense is incurred on behalf of one or more Qualified Groups of that fund will be allocated either to all shares of that fund based on relative net asset value, regardless of Qualified Group, or on the basis of the amount incurred on behalf of each Qualified Group;

(5) The rights and obligations of the shareholders of each Qualified Group will be fixed in the organizing documents of each fund, and, except as provided in (1) through (4), each Qualified Group of a fund will be entitled to distributions calculated under those documents in the same manner and at the same time as all other Qualified Groups of that fund, and for purposes of this calculation, expenses will be allocated under those documents to each Qualified Group at the same time as to all other Qualified Groups;

(6) Each Qualified Group will separately meet the requirements of section 67(c)(2)(B);

(7) Both the institutional class of shares and Class A are Qualified Groups consistent with Rule 18f-3(a)(1)(i) under the 1940 Act.

The funds make the following additional representations:

(1) The fair market value of the Class A shares to be received by a shareholder on conversion of the shareholder's institutional class shares will be approximately equal to the fair market value of the institutional class shares that are converted;

(2) At the time of the conversion, there will be no outstanding warrants, options, or convertible securities (other than the automatic conversion of Class B shares to Class A shares after being held for eight years) under which any person could acquire any shares of any fund;

(3) The conversion will be an isolated transaction and there is no plan or intention to increase periodically the proportionate interest of any shareholder of any fund in the assets or earnings and profits of that fund at the expense of any other shareholder of that fund;

(4) To the best of management's knowledge, there is no plan or intention on the part of institutional class shareholders, apart from investment decisions made in the ordinary course of investing in the funds, to sell, exchange, or otherwise dispose of the Class A shares they will receive as a result of the conversion;

(5) No fund has any intention to redeem or otherwise reacquire any of its Class A shares, except in the ordinary course of its business; and

(6) Each fund and its shareholders will pay their respective expenses, if any, in connection with the proposed conversion.

LAW & ANALYSIS

Section 851(a) defines a RIC, in part, as a domestic corporation registered under the 1940 Act as a management company.

Section 851(b) limits the definition of a RIC to a corporation meeting certain election, gross income, and diversification requirements.

Section 851(g)(1) provides that each fund of a RIC shall be treated as a separate corporation for federal income tax purposes. Section 851(g)(2) defines the term "fund", for this

purpose, as a segregated portfolio of assets, the beneficial interests in which are owned by the holders of a class or series of stock of the RIC that is preferred over all other classes or series in respect of such portfolio of assets.

Section 1036(a) provides that no gain or loss shall be recognized upon the exchange of common stock for common stock of the same corporation.

Section 305(a) provides that, except as otherwise provided in that section, gross income does not include the amount of any distribution of the stock of a corporation made by such corporation to its shareholders with respect to its stock. Section 305(b) provides an exception to this rule in the case of a distribution in lieu of money. Section 305(c) provides for the treatment of certain transactions that increase a shareholder's proportionate interest in a corporation as a taxable distribution.

HOLDINGS

Based on the facts as represented, we rule as follows:

- (1) No fund or shareholder will recognize gain or loss on the conversion of institutional class shares to Class A shares of the same fund upon the termination of the institutional class;
- (2) Each shareholder's basis in the Class A shares received on the conversion will equal the shareholder's basis in the converted institutional class shares immediately before the conversion;
- (3) Each shareholder's holding period for the Class A shares received on the conversion will include the shareholder's holding period for the converted institutional class shares, provided that the shareholder held those converted shares as capital assets immediately before the conversion; and
- (4) Neither the establishment nor the implementation of the conversion rights will be deemed a distribution of stock or stock rights taxable to any fund shareholders under section 305(b) or (c).

No opinion is expressed, however, as to whether any fund qualifies as a RIC that is taxable under subchapter M, part I of the Code. Further, assuming a fund does so qualify, no opinion is expressed as to whether dividends paid by it are considered as dividends for purposes of computing the dividends paid deduction under sections 561 and 562(c).

This ruling is directed only to the taxpayers who requested it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

A copy of this letter should be attached to the federal income tax return of each fund for the taxable year in which the proposed conversion is effected.

Sincerely yours,

Assistant Chief Counsel
(Financial Institutions and
Products)

By _____
William E. Coppersmith
Chief, Branch 2

Enclosure: 6110 copy