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November 17, 1998

Our Ref. No. 98-453
American Express Financial Corporation
File No. 801-14721

RESPONSE OF THE OFFICE OF CHIEF COUNSEL
DIVISION OF INVESTMENT MANAGEMENT

Your letter dated July 16, 1998 requests assurance that we would not recommend enforcement action to the Commission under Section 15(a) of the Investment Company Act of 1940 ("Investment Company Act") against American Express Financial Corporation ("AEFC"), IDS Life Insurance Company ("IDS Life") and the funds and trusts for which they act as adviser or sub-adviser (the "Funds"), if AEFC arranges for a majority-owned subsidiary, Kenwood Partners, LLC ("Kenwood"), to act as sub-adviser to certain Funds currently advised or sub-advised by AEFC, or if AEFC subsequently reallocates the advisory responsibilities and fees between AEFC and Kenwood, without obtaining shareholder approval.

FACTS

You state that AEFC, an investment adviser registered with the Commission, advises the Funds under contracts approved by the shareholders of each Fund.[1] You also state that although AEFC will remain the investment adviser to the Funds,[2] AEFC proposes to contract separately with Kenwood to manage all or part of the portfolio of certain of the Funds.[3] You represent that AEFC would pay Kenwood a portion of the advisory fee that it receives, and that there would be no change in the advisory fees paid by the Funds.

You represent that the Funds' registration statements would be supplemented or amended to reflect the appointment of Kenwood as sub-adviser. You state that existing shareholders would be notified of Kenwood's appointment as sub-adviser in the next regularly scheduled Fund mailing. You state that the notice also would inform shareholders of the possibility of future

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[1] You state that AEFC serves as the investment adviser to the Funds in the IDS Mutual Fund Group and the Preferred Master Trust Group. You further state that AEFC also is the sub-adviser to the Funds that are available only through variable annuities and variable life insurance policies (the "Life Funds"). You represent that the Life Funds are managed by IDS Life.

[2] You state that AEFC would continue to provide all trading, back office support, compliance, and supervision. You represent that, additionally, AEFC would continue to maintain all recordkeeping and shareholder accounting information.

[3] You state that the individuals at Kenwood, who would provide investment advisory services to the Funds, would not be the same individuals currently providing investment advisory services to the Funds. You also state that two of the portfolio managers at Kenwood, who are otherwise unaffiliated with AEFC, each own a 24.95% voting interest in Kenwood. AEFC owns the remaining 50.10% voting interest in Kenwood. Telephone conversation on November 17, 1998 between Eileen Newhouse and Veena Jain.

reallocations of advisory fees and responsibilities, and that future reallocations could occur without additional notice to shareholders.

You represent that AEFC, IDS Life, and the Funds intend to comply with all provisions of Section 15(a) of the Investment Company Act, other than the requirement to obtain shareholder approval of the sub-advisory agreements with Kenwood and any subsequent changes to the agreements.[4] You assert that requiring shareholder approval merely would result in undue costs and burdens and would not be in the best interest of the Funds' shareholders because there would be no change in the level of services provided to the Funds or in the fees paid by the Funds.

ANALYSIS

Section 15(a) of the Investment Company Act provides generally that no person may serve as an investment adviser to a registered fund except pursuant to a written contract that, among other things, has been approved by the vote of a majority of the fund's outstanding voting securities. Sub-advisory contracts generally are subject to the shareholder approval requirement of Section 15(a) to the same extent as advisory contracts.[5] Section 15(a) is designed to give fund shareholders a voice in a fund's investment advisory contract and to prevent trafficking in fund advisory contracts.[6]

We have agreed not to recommend enforcement action under Section 15(a) in situations in which a new advisory contract would be created from a pre-existing contract,[7] or fees would be

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[4] You represent, however, that AEFC, IDS Life, and the Funds would obtain shareholder approval of an amendment to the relevant contracts if they proposed to change the aggregate advisory fees paid by the Funds or the overall investment management responsibilities of AEFC.

[5] Section 15(a) states that it shall be unlawful for any person to serve or act as investment adviser of a registered investment company, except pursuant to a written contract, which contract, whether with the investment company or with an investment adviser of the investment company, among other things, has been approved by the vote of a majority of the outstanding voting securities of the investment company. Section 2(a)(20) of the Investment Company Act generally includes a person acting as a sub-adviser within the definition of an "investment adviser" of a registered investment company.

[6] See Temporary Exemption for Certain Investment Advisers, Investment Company Act Rel. No. 23325 (July 28, 1998) (proposing amendments to Rule 15a-4).

[7] See Franklin Templeton Group of Funds (pub. avail. July 23, 1997) (staff would not recommend enforcement action under Section 15(a) if a fund replaced an existing advisory contract, which covered both advisory and administrative services, with two new contracts that covered the services separately, without obtaining shareholder approval of the new advisory contract);

reallocated between the primary adviser and sub-adviser,[8] without obtaining shareholder approval, provided that the new arrangement or amendment did not materially change the advisory relationship or the terms of the advisory contract previously approved by shareholders. Additionally, in Wells Fargo Bank, N.A. (pub. avail. March 31, 1998) ("Wells Fargo"), we agreed not to recommend enforcement action to the Commission under Section 15(a) against an investment adviser that, in connection with the transfer of its investment advisory operations (including its personnel) to its wholly owned subsidiary, proposed to enter into a sub-advisory agreement with the subsidiary to provide investment advisory services to the funds that the adviser managed without obtaining the approval of each fund's shareholders.

You claim that your proposal is consistent with the proposals in Wells Fargo and the other no-action letters because (a) there would be no change in the level or nature of services provided to the Funds, (b) there would be no change in the fees paid by the Funds, and (c) shareholders would be informed of the appointment of Kenwood as sub-adviser and any subsequent reallocations of advisory services provided by, or fees paid to, Kenwood.[9] Although Kenwood is a majority-owned, rather than a wholly owned, subsidiary of AEFC, you assert that the nature of the affiliation between Kenwood and AEFC should not affect whether the Funds' shareholders must approve the sub-advisory contract if there is no change in fees or level of services.

We disagree. We believe that your proposal is not consistent with Wells Fargo and the other no-action letters. In Wells Fargo, the adviser retained responsibility for, and control over, the provision of advisory services to each fund, not only as the primary adviser to each fund, but also as the parent company that wholly owned the sub-adviser to which it proposed to transfer its advisory operations. In essence, the only change was the name of the corporate entity performing some of the duties under the existing advisory contracts. In contrast, AEFC does not wholly own

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Principal Preservation Portfolios, Inc. and Prospect Hill Trust (pub. avail. Jan. 1, 1996) (where a feeder fund was reorganized as a stand-alone fund, the staff would not recommend enforcement action under Section 15(a) if the stand-alone fund adopted an advisory contract that was substantially identical to the previously approved contract between the adviser and the former master fund without obtaining shareholder approval of the new contract).

[8] INVESCO (pub. avail. Aug. 5, 1997) (staff would not recommend enforcement action under Section 15(a) if fund advisory fees were reallocated between adviser and sub-advisers, without obtaining shareholder approval, when aggregate fees would remain unchanged and neither the adviser nor sub-advisers would reduce the quality or quantity of their services).

[9] You have not asked, and we do not address, whether the appointment of Kenwood as sub-adviser would result in an "assignment." Section 2(a)(4) of the Investment Company Act defines "assignment," in part, as any direct or indirect transfer of a contract. In Wells Fargo, counsel opined that the reorganization would not result in an assignment.

Kenwood, and Kenwood's two other interest holders own nearly 50% of its outstanding voting interests.[10] Because Kenwood is a majority-owned, rather than wholly owned, subsidiary of AEFC, Kenwood's other interest holders may exert a significant influence over the provision of advisory services to the Funds.[11] Thus, the proposed arrangement may materially amend the existing advisory relationship between AEFC and the Funds.[12]

We cannot assure you that we would not recommend enforcement action to the Commission under Section 15(a) of the Investment Company Act against AEFC, IDS Life, and the Funds if AEFC arranges for Kenwood to act as sub-adviser to certain Funds currently advised or sub-advised by AEFC, or if AEFC subsequently reallocates the advisory responsibilities and fees between AEFC and Kenwood, without obtaining shareholder approval.[13] This position is based on the facts and representations contained in your letter. Any different facts or representations may require a different conclusion.

Whether an advisory relationship or advisory contract between a fund and its adviser has been materially amended is typically a factual issue that is difficult to resolve in the context of a no-action request. As a result, the staff, as a matter of policy, will no longer respond to routine no-action or interpretive requests regarding whether a proposed arrangement would materially

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[10] You state that Kenwood's other interest holders are not otherwise affiliated with AEFC. If, however, all of Kenwood's interest holders were wholly owned, either directly or indirectly, by AEFC, we believe that the proposed arrangement would be consistent with the rationale underlying Wells Fargo.

[11] You also assert that the change in personnel should not affect whether shareholder approval of an advisory contract is required. We agree that the Investment Company Act would not require a shareholder vote if AEFC merely hired new personnel to provide the Funds with investment advisory services. In that case, however, AEFC would retain complete control over its personnel, and would not enter into a sub-advisory contract.

[12] You argue that n.4 of INVESCO, in which the staff stated that its position did not depend on whether the adviser and sub-adviser were affiliated, supports your position. INVESCO, however, merely involved the reallocation of fees among existing advisers and sub-advisers that were providing services pursuant to contracts that had been approved by fund shareholders. Furthermore, we specifically noted that our position in INVESCO "is limited to reallocations of advisory fees." Id. In contrast, you propose that AEFC delegate some of its advisory responsibilities to Kenwood, which would act as a new sub-adviser to the Funds pursuant to a contract that would not have been approved by Fund shareholders.

[13] We note, however, that an investment adviser and a sub-adviser may reallocate their fees in a manner consistent with INVESCO without obtaining shareholder approval. See n.8, supra.

amend an advisory relationship between an adviser and a fund for which shareholder approval would be required under Section 15(a) of the Investment Company Act.

Veena K. Jain

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Financial Advisors

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July 16, 1998

Mr. Douglas J. Scheidt
Chief Counsel
Division of Investment Management
United States Securities and Exchange Commission
Stop 9-5
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: American Express Financial Corporation,
Section 15(a) of the Investment Company Act of 1940

Dear Mr. Scheidt:

On behalf of American Express Financial Corporation ("AEFC"), IDS Life Insurance Company ("IDS Life") and the funds and trusts for which they act as adviser or subadviser (the "Funds"), we are requesting that the staff of the Division of Investment Management (the "staff") advise that it will not take enforcement action against AEFC, IDS Life or the Funds under section 15(a) of the Investment Company Act of 1940 (the "1940 Act") if AEFC arranges for a majority-owned subsidiary, Kenwood Partners, LLC ("Kenwood"), to act as subadviser to certain Funds currently advised or subadvised by AEFC without obtaining shareholder approval. AEFC, IDS Life and the Funds seek this relief with respect to the initial agreement with Kenwood, as well as any future reallocation of investment advisory responsibilities and fees between AEFC and Kenwood.

Background

AEFC is an investment adviser registered with the Securities and Exchange Commission (the "Commission") and serves as the investment adviser to the retail funds and trusts in the IDS MUTUAL FUND GROUP (the "IDSMFG") and the Preferred Master Trust Group (the "PMTG"). Currently there are 38 retail funds and trusts in the IDSMFG. Fifteen of those IDS funds are part of a master/feeder structure, along with the 15 Strategist Funds. AEFC is the adviser to the 15 master trusts that make up the PMTG as well as to the 23 IDS funds that are not part of the master/feeder structure. AEFC also is the subadviser to the nine funds in the

IDSMFG that are available only through variable annuities, IDS Life Variable Annuity Fund A, IDS Life Variable Annuity Fund B and the six funds that are available only through variable life insurance policies (the "Life Funds"). The Life Funds are managed by IDS Life. Exhibit A lists each of the Funds, its adviser and subadviser.

Each Fund's advisory agreement has been approved by the shareholders of the Fund. Under the advisory agreement, AEFC has agreed to furnish the Fund continuously with suggested investment planning; to determine which securities to purchase, hold or sell and to execute or cause the execution of purchase or sell orders; to prepare all necessary research and statistical data; and to furnish all services of whatever nature required in connection with the management of the Fund. An example of a Fund's advisory agreement is included as Exhibit B.

AEFC recently entered into an arrangement with Kenwood under which Kenwood will provide advice with respect to small-capitalization issues. Kenwood is in the process of registering with the Commission as an investment adviser. AEFC would like to engage Kenwood to manage all or part of the portfolios of certain of the Funds. Under the proposed arrangement, AEFC will remain the primary provider of investment advisory services to the Funds. AEFC will continue to provide all trading, back office support, compliance and supervision. In addition, AEFC will continue to maintain all recordkeeping and shareholder accounting information. AEFC will contract separately with Kenwood to provide investment advice to the Funds. For its services, AEFC will pay Kenwood a part of the advisory fee paid to AEFC under its contract with the Funds or, in the case of the Life Funds, its contract with IDS Life. There will be no change in the fees paid by the Funds. AEFC also would like to be able to reallocate advisory responsibilities and fees in the future without seeking shareholder approval of those changes.

Following completion of Kenwood's registration as an investment adviser with the Commission and prior to Kenwood providing advisory services to the Funds, the Funds' registration statements will be supplemented or amended to reflect the appointment of Kenwood as subadviser. Existing shareholders will be provided with notice of Kenwood's appointment as subadviser in the next regularly scheduled Fund mailing. The notice also will inform shareholders of the possibility of future reallocations of advisory fees and responsibilities. The notice will inform shareholders that future changes could occur without prior notice to shareholders. Of course, aggregate fees and overall investment management responsibilities will not change without shareholder approval of an amendment to the relevant contracts between AEFC, IDS Life and the Funds. To ensure independent oversight of the arrangements with Kenwood, AEFC, IDS Life and the Funds intend to comply with all provisions of section 15(a) other than the shareholder approval requirement.

Since there will be no change in the level of services provided to the Funds or in the fees paid by the Funds, we believe that requiring approval of subadvisory agreements with Kenwood, or of subsequent changes to those agreements, would merely result in undue costs and burdens and would not be in the best interests of the Funds' shareholders.

Relevant Law and Analysis

Appointing Kenwood to act as subadviser to the Funds raises potential issues under section 15(a) of the Investment Company Act of 1940 (the "1940 Act"). Section 15(a) provides that:

> It shall be unlawful for any person to serve or act as investment adviser of a registered investment company, except pursuant to a written contract, which contract, whether with such registered company or with an investment adviser of such registered company, has been approved by the vote of a majority of the outstanding voting securities of such registered company, and
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> (1) precisely describes all compensation to be paid thereunder;

Because a subadviser may be deemed to be an investment adviser for purposes of section 15(a), ordinarily the proposed arrangement with Kenwood would require shareholder approval. Section 15(a)(1) also could be interpreted to require shareholder approval of subsequent changes to the allocation of investment advisory responsibilities and fees between AEFC and Kenwood. In light of the fact that appointing Kenwood as a subadviser to the Funds and subsequently reallocating responsibilities and fees will not involve any material change in the investment advisory services received by the Funds, or in the fees paid by the Funds, we are requesting no-action relief with respect to both issues.

Although subadvisory agreements generally are subject to the shareholder approval requirement of Section 15(a), in certain instances the staff has agreed not to recommend enforcement action under that provision where shareholder approval was not obtained. In Wells Fargo Bank, N.A. (available Mar. 31, 1998), the staff granted a no-action request to allow the appointment of a wholly-owned subsidiary as subadviser without shareholder approval. The staff's decision was based, in particular, on representations that there would be no reduction in the nature or level of services provided to the Funds, no increase in the fees paid by the Funds for those services, and that existing and prospective shareholders would be informed of the arrangement.

Similarly, in INVESCO (available Aug. 5, 1997), the staff granted no-action relief to the INVESCO family of investment companies to reallocate the advisory fees paid to

affiliated subadvisers without obtaining shareholder approval of those reallocations. Once again the staff's decision was based primarily on the representation that there would be no reduction in the level of services provided. In a like manner, in Franklin Templeton Group of Funds (available July 23, 1997), the staff granted no-action relief to allow the Franklin Templeton group of funds to amend their advisory agreements without obtaining shareholder approval, based primarily on the argument that the transfer of certain administrative responsibilities from the funds' investment adviser to an affiliated entity would not result in any increase in the amount of fees or a change in the nature of the services provided to the funds.

In the same way, in the present circumstance, there will be no change in the level or nature of services provided to the Funds. Under the proposed arrangement, while Kenwood will provide investment advice with respect to certain Fund assets, AEFC will remain the primary provider of investment advisory services. AEFC will continue to provide all trading, back office support, compliance and supervision. In addition, AEFC will continue to maintain all recordkeeping and shareholder accounting information. There will be no change in the fees paid by the Funds. The relief sought in this circumstance is substantially similar to the relief sought by Wells Fargo. The distinction is that Kenwood is a majority-owned subsidiary, not a wholly-owned subsidiary. In addition, unlike Wells Fargo, different individuals will be providing investment advice to the Funds. For the following reasons, for purposes of section 15(a) analysis, we believe the differences noted between the current circumstance and the Wells Fargo situation are not material and should not change the result. First, so long as there is no change in the fees paid by the Funds or in the level of services provided to the Funds, the nature of the affiliation between AEFC and Kenwood should not lead to a requirement of shareholder approval. In a similar situation, the staff noted in INVESCO (n.4) that the relief sought there was not conditioned on the affiliate relationship between the adviser and the subadviser. AEFC will remain the primary provider of investment advisory services for the Funds and the nature of the affiliation between AEFC and Kenwood does not alter that fact. As noted above, AEFC's contract with Kenwood will comply with all provisions of section 15(a) other than shareholder approval. As a consequence, Kenwood's contract could be terminated at any time by the Funds or by AEFC. Second, the subadvisory contract will be with the corporate entity and not with the individual portfolio managers. It is not uncommon for funds to change portfolio managers and there is no shareholder approval required of such a change. Thus, we do not believe that the change in individuals providing investment advice to the Funds should lead to a requirement of shareholder approval. As described above, shareholders will be informed of the change and appropriate prospectus disclosure will be made.

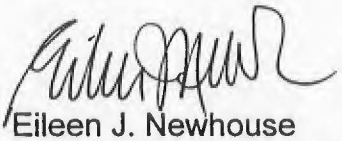
In summary, the nature of services provided to the Funds will not change. Neither will there be any change in the fees paid by the Funds. Shareholders will be notified of the new arrangements. We believe the current situation is consistent with previous circumstances in which the staff did not recommend enforcement action

when shareholder approval of a subadvisory relationship was not obtained. However, because of the minor factual distinctions between the current situation and the cited precedents, AEFC, IDS Life and the Funds are seeking assurance that the staff will not recommend enforcement action if they do not obtain shareholder approval of the arrangements between AEFC and Kenwood.

In addition, as in Wells Fargo, we seek assurances that the staff will not recommend enforcement action if subsequent reallocations of advisory responsibilities and fees are not subject to shareholder approval. In no event will control over the services provided to the Funds, the nature of the services provided, or the fees charged to the Funds for those services change through subsequent reallocation of responsibilities and fees.

For the foregoing reasons, we respectfully request that the Commission advise us that it will not recommend enforcement action if the Funds do not obtain shareholder approval of the arrangements between AEFC and Kenwood. Thank you for your consideration of this request. If you have any questions or would like any additional information, please call Eileen Newhouse at (612) 671-2772 or Colin Lancaster at (612) 671-7981.

Sincerely,



Eileen J. Newhouse
Vice President and Group Counsel