By letter dated January 10, 1997, you seek assurance that the staff will not recommend enforcement action to the Commission under Sections 12(d)(1) or 7(d) of the Investment Company Act of 1940 (the "Investment Company Act"), if the South Asia Portfolio (the "Fund") establishes a wholly-owned subsidiary in the Republic of Mauritius ("Mauritius") for the purpose of making investments in equity securities of companies organized and traded in India ("Indian companies"), as described in your letter.¹

Background

The Fund is a New York trust that is registered with the Commission under the Investment Company Act as a diversified, open-end management investment company. The Fund is a "master fund" in a "master-feeder" structure, and thus has not registered its shares under the Securities Act of 1933 (the "Securities Act"). Rather, the Fund has issued beneficial interests to other registered investment companies ("feeder funds") and institutional investors. The feeder funds, in turn, publicly offer shares to retail investors.

The Fund’s investment objective is long-term capital appreciation. The Fund was formed to permit United States and other investors to participate in the South Asian economy primarily through investment in equity securities of Indian companies. Under normal conditions, at least 50% of the Fund’s total assets will be invested in equity securities of Indian companies. The Fund’s investment adviser is Lloyd George Investment Management (Bermuda) Limited (the "Adviser"), a Hong Kong-based investment management company that is registered in the United States as an investment adviser under the Investment Advisers Act of 1940.²

You state that under a double-taxation treaty currently in effect between India and Mauritius, corporate residents of Mauritius are exempt from Indian capital gains tax,³ and pay a reduced dividend withholding tax.⁴ You state that no double taxation treaty is in effect between the United States and India. Therefore, direct investments by the Fund in Indian companies would be subject to these Indian taxes, while investments by a Mauritius company would not.


² The Adviser’s parent is Lloyd George Investment Management (B.V.I.) Limited. Eaton Vance Management ("Eaton Vance"), a Boston-based firm, owns 24% of the Class A shares of the Adviser’s parent. Eaton Vance also serves as the Fund’s administrator.

³ You state that these taxes are 30% for short-term gains and 10% for long-term gains.

⁴ You represent that these taxes are reduced from 20% to 15%.
Proposal

The Fund proposes that, rather than investing directly in securities of Indian companies, it will establish and invest in a wholly-owned subsidiary in Mauritius (the "Company"), which, in turn, will invest in Indian companies. You state that you have been advised by Indian tax advisers that such a structure would enable the Fund’s investments in India to qualify for the favorable tax treatment afforded by the Mauritius-India double taxation treaty. You also represent that (i) neither the Company nor its investments would be subject to any other Indian or Mauritius taxes, and (ii) the Fund would not be subject to any Indian or Mauritius taxes. You state that all of the Fund’s future investments in Indian companies would be made through the Company, with the exception of depository receipts traded elsewhere.

You represent that the Fund will control the Company by virtue of being its sole shareholder and having a majority of the Company’s directors selected from the Fund’s Board of Trustees. You also state that the Adviser would manage the Company’s investments, subject to the supervision of the Fund’s Board of Trustees, without any charge for advisory services other than the investment advisory fee it currently receives from the Fund, and that the Company will not charge a sales load to the Fund. You further state that a Mauritius bank (the "Custodian"), meeting the requirements applicable to foreign custodians pursuant to Rule 17f-5 under the Investment Company Act would hold record title to the securities of Indian companies in the name of the Company. You represent that there will not be material duplicative costs associated with custodial services to the Fund, and no extra dividend disbursement or shareholder communication costs. All of the profits (i.e.,

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5 You represent that the Company would be a Mauritius limited life company, which you describe as the substantial equivalent of a U.S. corporation with a term of fifty years.

6 You state that this favorable tax treatment is contingent on receipt of a certification from Mauritius tax authorities as to the Company’s residency, for taxation purposes, in Mauritius, which you expect to receive.

7 You represent that if a comparable double taxation treaty between India and the United States were to become effective, it is the intention of the Fund to liquidate the Company and to cause all the securities then held by it to be distributed to the Fund (assuming no adverse tax consequences). Future purchases of securities of Indian companies then would be made directly by the Fund.

8 You represent that the Company’s officers and directors who are not United States citizens or residents will (a) irrevocably designate the Fund as their agent to accept service of process in any suit, action, or proceeding to enforce the provisions of the United States securities laws, and (b) not raise any objections to the assertion of U.S. jurisdiction in any such suit, action, or proceeding. Telephone conversation between Edward J. Rubenstein and Eric G. Woodbury on March 7, 1997.
distributions of interest and dividends net of Indian withholding tax, and of capital gains on sales of securities) of the Company would, after payment of certain expenses, be distributed to the Fund. The Fund would be able at any time to liquidate and wind up the Company and, after payment of any expenses, receive all of its assets in such liquidation.

You also represent that the Company's accounts, books, and other records will be maintained by or on behalf of the Fund at the offices of the Adviser or Eaton Vance as administrator (although copies of certain corporate records may also be maintained in Mauritius), and will be made available to the Commission staff for inspection on request. In addition, you represent that all material legal and tax considerations applicable to the Company will be fully set forth in the prospectuses of the feeder funds investing in the Fund, or in a supplement thereto, as well as in the Fund's registration statement.

Analysis

Section 12(d)(1)

Because the Company will invest up to 100% of its assets in equity securities issued by Indian companies, the Company could be viewed as an investment company as defined in Section 3(a) of the Investment Company Act. If this were the case, Section 12(d)(1) could be construed to prohibit the Fund from holding the proposed interest in the Company.

Section 3(a)(1) defines an "investment company" to include any issuer that

is or holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting, or trading in securities.

Section 3(a)(3) defines an "investment company" to include any issuer that

is engaged or proposes to engage in the business of investing, reinvesting, owning, holding, or trading in securities, and owns or proposes to acquire investment securities having a value exceeding 40 per centum of the value of such issuer's total assets (exclusive of Government securities and cash items) on an unconsolidated basis.

Section 12(d)(1)(A) makes it unlawful for any registered investment company to purchase or otherwise acquire any security issued by any other investment company if, as a result of such transaction, (i) the acquiring company would own more than 3% of the total outstanding voting stock of the acquired company, (ii) the acquiring company would have more than 5% of its assets invested in the acquired company, or (iii) the acquiring company would have more than 10% of its assets invested in the acquired company and all other investment companies.
Congress included Section 12(d)(1) in the Investment Company Act to prevent a registered investment company from controlling other investment companies and creating complicated pyramid structures. Congress believed that a fund holding company’s exercise of control over another investment company could result in a number of abuses, including: (1) the pyramiding of voting control in a manner that puts control in the hands of those having only a nominal stake in the controlled investment company, to the disadvantage of the controlled investment company’s minority owners; (2) the undue influence over the adviser of the controlled company through the threat of large scale redemptions and loss of advisory fees to the adviser, resulting in the disruption of the orderly management of the company through the maintenance of large cash balances to meet potential redemptions; (3) the difficulty on the part of an unsophisticated shareholder in appraising the true value of his investment due to the complex holding company structure; and (4) the layering of sales charges, advisory fees, and administrative costs.\textsuperscript{11}

You argue that Section 12(d)(1) should not be construed to prohibit the Fund’s investments in the Company because Congress did not intend for the prohibitions of Section 12(d)(1) to apply to wholly-owned investment vehicles, such as the Company, and because none of the abuses that Section 12(d)(1) was designed to address are implicated by this structure.

First, you maintain that since the Fund will be the sole legal and beneficial owner of the Company, there is no possibility that the Company could be employed as a device for pyramiding control in the hands of an individual or group of individuals with a nominal interest in all the constituent companies of the group.

Second, you assert that because the Fund and the Company will have the same Adviser, and because the Company exists solely as a conduit to enable the Fund to invest its assets in a more tax-efficient manner, there should be no concern that portfolio management will be unduly influenced by a threat of the loss of advisory fees to the Adviser.

Third, you argue that the sole legal and beneficial owner of the Company is the Fund, which will have no difficulty understanding the nature of its investment. The Company will be used only as a vehicle for the Fund’s investment in securities of Indian companies, and investors in feeder funds of the Fund can essentially disregard the Company in considering the value of their investments.\textsuperscript{12} You also represent that the Fund will be deemed to own


\textsuperscript{12} You represent that the Fund’s auditors have advised that under United States generally
holdings of the Company for purposes of compliance with the Fund's diversification requirements and investment policies. Therefore, you argue that there will be no complexity of structure of significance to investors in the Fund or its feeder funds.

Finally, you represent that your proposed structure will not entail the layering of sales charges, advisory fees, and administrative costs. Although there will be some administrative expenses incurred in Mauritius associated with the organization and maintenance of the Company, you represent that the proposed plan is expected to result in a substantial net savings for Fund shareholders because of the reduction in Indian taxes. You represent that if net savings do not arise, the Mauritius entity will be dissolved.

Section 7(d)

You assert that the Fund's investment in the Company should not be viewed as an indirect offering of the Company's shares in the United States, in violation of Section 7(d). You represent that: (1) the Fund will be the sole beneficial owner of the Company, and will liquidate the Company should any other person acquire a beneficial interest in it; (2) the Fund controls the decision-making process of the Company, and the Fund's Adviser will make all of the Company's investment decisions; (3) the purpose of the proposed structure is to create an entity through which the Fund will invest in equity securities of Indian companies, rather than to create a foreign investment vehicle to be marketed to U.S. investors; (4) the U.S. offering of feeder fund shares would continue to have all of the characteristics of an offering by a United States investment company and none that would normally be expected for a direct or indirect offering by a foreign investment company; and (5) the U.S. feeder fund issuer will remain fully subject to the provisions of the Securities Act, and, along with the Fund, the Investment Company Act.

accepted accounting principles and Regulation S-X, the Fund's financial statements will be prepared, and the Fund's net asset value will be calculated, as though the investments owned by the Company were owned directly by the Fund.

Section 7(d) of the Investment Company Act provides in part that

No investment company, unless organized or otherwise created under the laws of the United States or of a State, and no depositor or trustee of or underwriter for such a company not so organized or created, shall make use of the mails or any means or instrumentality of interstate commerce, directly or indirectly, to offer for sale, sell, or deliver after sale, in connection with a public offering, any security of which such company is the issuer.
Based on the facts and representations in your letter, and the telephone conversation referenced herein, and provided that the Mauritius tax authorities grant the necessary certification for the Company to receive favorable tax treatment, we would not recommend that the Commission commence enforcement action under Sections 12(d)(1) or 7(d) of the Investment Company Act if the Fund establishes a wholly-owned subsidiary in Mauritius for the purpose of making investments in equity securities of Indian companies, as described in your letter. Because this response is based on the facts and representations in your letter, and the telephone conversation referenced herein, you should note that different facts or representations may require a different conclusion. Further, this response expresses the Division's position on enforcement action only and does not purport to express any legal conclusions on the issues presented.

Edward J. Rubenstein
Senior Counsel
Gentlemen and Mesdames:

On behalf of the Fund, we respectfully request your advice that the Division of Investment Management would not recommend that the Securities and Exchange Commission (the “Commission”) take any enforcement action by alleging violations of Sections 7(d) or 12(d)(1) of the Investment Company Act of 1940, as amended, (the “1940 Act”) if the Fund were to create in The Republic of Mauritius (“Mauritius”) an entity of which the Fund would be the sole shareholder and through which the Fund would make its investments in securities of Indian companies. Based upon advice of tax advisers in India, the Fund believes that the formation of such an entity would make the Fund’s investments in India eligible for full exemption from Indian capital gains tax and partial exemption from dividend withholding tax under provisions of the tax treaty currently in effect between India and Mauritius.

BACKGROUND

1. The Fund

The Fund is a New York trust registered with the Commission as a diversified, open-end management investment company under the 1940 Act. The Fund has not registered its shares under the Securities Act of 1933. Rather, the Fund has issued beneficial interests to other registered investment companies and institutional investors, thereby serving as a master fund in a master-feeder structure.

The Fund was formed to permit United States and other investors to participate in the South Asian economy primarily through investment in equity securities of Indian companies. The investment objective of the Fund is to seek long-term capital
appreciation. Under normal conditions, at least 50% of the Fund’s total assets will be invested in equity securities of Indian companies.

The Fund’s investment adviser is Lloyd George Investment Management (Bermuda) Limited (the “Adviser”), a Hong Kong based investment management company with offices in Bombay and London. Eaton Vance Management (“Eaton Vance”), a Boston based firm, owns 24% of the Class A shares of the Adviser’s parent company, Lloyd George Investment Management (B.V.I.) Limited. The Adviser is registered as an investment adviser under the Investment Advisers Act of 1940 and as a Foreign Institutional Investor in India.

Given the Fund’s investment mandate, it proposes to establish a Mauritius limited life company, as discussed below, in order to protect the Fund’s shareholders from the imposition of Indian capital gains tax of 30% for short-term gains and 10% for long-term gains (securities held more than 1 year), and to obtain a reduction in dividend withholding from 20% to 15%. Under a double taxation treaty currently in effect between India and Mauritius, corporate residents of Mauritius are exempt from such Indian taxes. A double taxation treaty is not currently in effect between India and the United States. If a comparable double taxation treaty between India and the United States were to become effective, it is the intention of the Fund to liquidate the subsidiary and to cause all the securities then held by it to be distributed to the Fund (assuming no adverse tax consequences) and then to have future purchases of Indian securities again be made directly by the Fund.

II. The Mauritius Company

Under the proposed plan, the Fund would establish a Mauritius limited life company substantially equivalent to a U.S. corporation with a term of 50 years (the “Company”) of which the Fund would be the sole shareholder. Two Mauritius citizens will serve as directors (which is required by law), but a majority of directors of the Company would be selected from the Fund’s Board of Trustees. As sole shareholder the Fund would control the Company. All of the Fund’s future investments in Indian securities (except depository receipts traded elsewhere) would be made through the Company. The Adviser would manage the investments of the Company, subject to the supervision of the Fund’s Board of Trustees, without any charge for advisory services other than the investment advisory fee it currently receives from the Fund. A Mauritius bank (the “Custodian”) meeting the requirements applicable to foreign custodians
pursuant to Rule 17f-5 under the 1940 Act would hold record title to the Indian securities in the name of the Company. All of the profits (i.e., distributions of interest and dividends net of Indian withholding tax, and of capital gains on sales of securities) of the Company would, after payment of certain expenses (mentioned below), be distributed to the Fund. The Fund would be able at any time to liquidate and wind up the Company and, after payment of any expenses, receive all of its assets in such liquidation.

The Fund has been advised by Indian tax advisers that the Company’s investments in India would be subject to Indian tax at a reduced rate (15% instead of 20%) on all of its taxable income and such investments would be exempt from capital gains tax. Neither the Company nor its investment would be subject to any other Indian (or Mauritius) taxes. In addition, the Fund would not be subject to any Indian or Mauritius taxes. Indian tax treatment is predicated on receipt of certification from Mauritius tax authorities as to the Company’s residency (for taxation purposes) in Mauritius which we expect to obtain.

Those officers and directors of the Company who are not United States citizens or residents will irrevocably designate the Fund as their agent to accept service of process in any suit, action or proceeding to enforce the provisions of the United States securities laws.

The accounts, books and other records of the Company will be maintained by or on behalf of the Fund at the offices of the Adviser or Eaton Vance as administrator (although copies of certain corporate records may also be maintained in Mauritius), and will be subject to inspection by the Commission. If requested, Eaton Vance will furnish copies of such records to the staff.

All of the material legal and tax considerations applicable to use of the Company will be fully set forth in the prospectuses of the feeder funds investing in the Fund, or a supplement thereto, as well as the Fund’s registration statement.

DISCUSSION

I. Section 12(d)(1)

Subparagraph (A) of Section 12(d)(1) of the 1940 Act makes it unlawful for any registered investment company to purchase or otherwise acquire any security issued by any other investment company, and for any investment company to purchase or otherwise acquire any security issued by a registered investment company, if, as a result of such transaction, the limitations set forth in that subparagraph would be exceeded.
As indicated above, all securities of Indian issuers will be held on behalf of the Fund by the Company. Such securities are expected at most times to constitute most of the investments of the Fund. While the exclusion from the prohibitions of Section 12(d)(1) provided by subparagraph (E) of that Section would not technically be available because the Fund’s investment in the Company would not constitute the only investment security held, the exclusion indicates a Congressional intention not to apply the prohibitions of the Section to wholly-owned investment vehicles, such as the Company.

Section 12(d)(1) was amended by Congress in the 1970 Amendments to strengthen the regulation of “funds of funds” situations and prescribe specific restrictions that must be met by such funds. The legislative history of the 1970 amendments suggest they were intended to address four potential abuses: A. the pyramiding of voting control of the investment company; B. undue influence over portfolio management through the “threat... of large scale redemptions” and “loss of advisory fees” to the adviser, and the disruption of the orderly management of the investment company through the maintenance of large cash balances to meet potential redemptions; C. the complexity of the structure with the resultant difficulty on the part of the uninitiated stockholder in appraising the true value of his security; and D. the layering of sales charges, advisory fees and administrative costs. See Public Policy Implications of Investment Company Growth (Commission Report pub. 1966). None of the potential dangers of fund holding companies, which Congress sought to eliminate when enacting the 1970 amendments to Section 12(d)(1) of the 1940 Act, would be present if the proposed plan were effectuated.

A. Pyramiding of Voting Control

Under the Fund’s proposed structure, the Fund will be the only legal and beneficial owner of the Company. Accordingly, there is no possibility that a fund holding company could be employed as a device for pyramiding control in the hands of an individual or group of individuals whose financial stake in all the constituent companies of the group is comparatively nominal. The threat of pyramiding is therefore not present.

B. Undue Influence on Adviser

The concern that the investment company’s management will be unduly influenced focuses principally upon the potential liquidity dangers to the Company and some of its shareholders from the threat of large scale redemptions by one shareholder (i.e., the fund holding company) and the impact that this would have on the Adviser to the Company due to possible constraints in managing the portfolio and the threatened loss of advisory fees to the Adviser.
In this case, the Adviser for the assets held through the Company is the same as the Adviser for the Fund and the Company exists solely as a conduit to enable the Fund to invest its assets in a more tax-efficient manner. Given this identity of management and the Company's purpose, there should be no concern that portfolio management will be unduly influenced by the loss of advisory fees to the Adviser.

C. Complexity of Structure

The sole legal and beneficial owner of the Company (i.e., the Fund) will have no difficulty in understanding the nature of its investment. The Company will be used only as a vehicle for the Fund's investment in Indian securities. Investors in feeder funds of the Fund can essentially disregard the Company in considering the value of their investments. The Fund's auditors have advised that under United States generally accepted accounting principles and Regulation S-X of the Commission, the Fund's statements of income, net assets and changes in net assets will be prepared, and the Fund's net value will be calculated, as though the investments owned by the Company were owned directly by the Fund. (Similarly, the Fund will include holdings of the Company for purposes of compliance with its diversification and other investment policies.) Thus, there will be no complexity of structure of significance to investors in the Fund or its feeder funds.

D. Layering of Administrative Expenses, Sales Load and Advisory Fees

The final concern relates to the duplication of costs. Costs may be duplicated where there are (i) two layers of administrative expenses, including duplication of stock transfer, dividend disbursements, custodial fees and the cost of shareholder communications, (ii) a double sales load, or (iii) duplicative advisory fees.

The proposed plan contemplates that a Mauritius bank would hold title to the Indian securities. There would be, therefore, no material duplicative costs associated with custodial services to the Fund as a result of formation of the Company. There would be no extra dividend disbursements or shareholder communication costs associated with the proposed plan, and the Company would not charge a sales load to the Fund. Although there will be some administrative expenses incurred in Mauritius (for organization and maintenance of the Company), the proposed plan is expected to result in a substantial net savings for Fund shareholders because of the reduction in Indian taxes. If net savings do not arise, the Mauritius entity will be dissolved. Finally, there will not be any extra advisory fees collected as a result of investing the Fund's assets through the Company.
In light of the foregoing, we are of the opinion that Section 12(d)(1) should not apply because the potential abuses associated with “funds of funds” situations, which Section 12(d)(1) is designed to eliminate, are not relevant as applied to the proposed plan. A no-action position by the Commission staff would therefore be consistent with the protection of investors and the purposes of current Section 12(d)(1). We also note that the enactment of the National Securities Markets Improvement Act of 1996 permits greater use of “fund of funds” and the proposed plan is not inconsistent with such legislation.

II. Section 7(d)

Section 7(d) of the 1940 Act prohibits certain transactions by foreign investment companies. Specifically, “No investment company, unless organized or otherwise created under the laws of the United States or of a State... shall make use of the mails or any means of instrumentality of interstate commerce, directly or indirectly, to offer for sale, sell, or deliver after sale, in connection with a public offering, any security of which such company is the issuer.”

We are of the opinion that Section 7(d) does not apply to the proposed plan and that a no-action position with respect to the issues raised by Section 7(d) in connection with the proposed plan is appropriate and consistent with the purposes and policies of the 1940 Act and the protection of investors for the reasons discussed below.

1. The Fund will be the sole beneficial owner of the Company. In the event any person other than the Fund should acquire a beneficial interest in the Company, the Fund will cause the Company to be liquidated. In addition, the Fund can withdraw its investment in-kind or terminate the Company at any time.

2. The Fund controls the decision-making process of the Company. The Adviser making the investment decisions on behalf of the Fund will also make investment decisions regarding the assets held through the Company.

3. The creation of the Company will not result in any of the potential abuses that Section 7(d) was designed to address. The purposes of the proposed plan is merely to establish the Company as an entity through which the Fund will invest in and hold Indian securities rather than to create a foreign investment vehicle to be marketed to U.S. investors (which was the purpose intended to be regulated under Section 7(d)).

The U.S. offering of feeder fund shares after the plan is implemented would continue to have all the characteristics of an offering by a United States investment company and none that would normally be expected for a direct or indirect offering by
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a foreign investment company. The United States feeder fund issuer will remain fully subject to the provisions of the Securities Act of 1933 and, most importantly along with the Fund, the 1940 Act. For example, matters relating to the custody of the Fund’s investments, investment advisory activities and other aspects of the Fund’s investments in securities of Indian companies will continue to be governed by the 1940 Act.

CONCLUSION

We believe the creation of the Company and the implementation of the proposed plan will not result in any of the abuses addressed by Sections 7(d) and 12(d)(1) of the 1940 Act. The Company will be a legal entity designed to enable the Fund to make investments in Indian securities without the imposition of double taxation by authorities in the absence of an effective United States tax treaty.

The Commission staff has taken no-action positions with respect to arrangements similar to the proposed plan for the Fund in prior no-action letter requests. See Templeton Vietnam Opportunities Fund, Inc. (pub. avail. Sept. 10, 1996); The Spain Fund, Inc. (pub. avail. May 28, 1988).

We believe, therefore, that a no-action position regarding the creation by the Fund of a vehicle through which it may make investments in Indian securities, in light of the unique facts and circumstances described herein, is appropriate and consistent with the purposes and policies of the 1940 Act and the protection of investors.

REQUEST FOR NO-ACTION POSITION

Under the circumstances described herein, we hereby request confirmation from the Division of Investment Management that it would not recommend any enforcement action to the Commission for alleged violations of Section 7(d) or 12(d)(1) of the 1940 Act thereunder if the Company were organized under the laws of Mauritius in the manner described above and used as a vehicle through which the Fund would invest in and hold Indian securities.
In accordance with Release No. IC-6330 (January 25, 1971), three additional copies of this letter are enclosed herewith. If you should have any questions or require any additional information concerning this request, please call the undersigned at (617)482-8260x540 or Philip J. Fina, Esq. of Kirkpatrick & Lockhart at (617)261-3156.

Very truly yours,

[Signature]
Eric G. Woodbury, Esq.