

RESPONSE OF THE OFFICE OF CHIEF COUNSEL
DIVISION OF INVESTMENT MANAGEMENT

Our Ref. No. 95-633-CC
Blanchard Global
Growth Fund
File No. 811-4579

Your letter of October 17, 1995, requests our assurance that we would not recommend that the Commission take any enforcement action if Blanchard Global Growth Fund ("Global Growth"), in calculating its standardized average annual total return presented in prospectuses, advertisements, or sales literature, excludes investment results prior to the date on which a new subadviser began providing portfolio management services. For the reasons discussed below, we are unable to provide this assurance.

Global Growth is a series of the Blanchard Funds, a registered open-end investment company. Sheffield Management, Inc. ("Sheffield") served as Global Growth's investment adviser from the fund's inception in 1986 through July 1995. As adviser, Sheffield was responsible for providing portfolio management services to Global Growth. Sheffield entered into agreements with various subadvisers, and delegated to them the task of managing Global Growth's portfolio on a day-to-day basis. On July 12, 1995, Virtus Capital Management ("VCM") acquired the business and assets of Sheffield and became Global Growth's adviser. At that time, VCM continued to retain each of Global Growth's five existing subadvisers.^{1/}

Approximately three months after becoming Global Growth's investment adviser, VCM decided to replace the five subadvisers with a single new subadviser, Mellon Capital Management Corp. ("Mellon"). Global Growth now proposes, in calculating its standardized average annual total return to be presented in prospectuses, advertisements, and sales literature, to exclude performance data for the period prior to the date on which Mellon began serving as subadviser to Global Growth.

In our view, past performance data cannot be excluded from calculations of a fund's standardized total return simply because the fund's adviser replaces one subadviser with another.^{2/} Thus,

^{1/} Global Growth's shareholders approved a new advisory agreement with VCM and new agreements between VCM and each subadviser, thereby approving the reappointment of each subadviser to serve in the same capacity as before.

^{2/} See Colonial International Fund for Growth (pub. avail. May 7, 1996) (an investment adviser remains ultimately responsible for the fund's performance whether the adviser manages the fund's portfolio directly or delegates this task to a subadviser). Our position that past performance cannot be

(continued...)

Global Growth may not exclude performance data for the period prior to Mellon's appointment as subadviser. Nor may Global Growth exclude performance data prior to the date VCM became the fund's adviser because, for a significant period of time thereafter, VCM continued to retain as subadvisers the same entities that had served in that capacity prior to that date.^{3/}

Accordingly, we cannot assure you that we would not recommend that the Commission take enforcement action if Global Growth proceeds in the manner described in your letter.^{4/}



Barry A. Mendelson
Senior Counsel

^{2/}(...continued)

excluded from calculations of standardized total return when the fund's adviser replaces the subadviser applies equally to quotations of standardized total return in fund advertisements (rule 482(e)(3) of the Securities Act of 1933), fund sales literature (rule 34b-1(b)(1) under the Investment Company Act of 1940), and fund prospectuses (Form N-1A, Instruction 6 to Item 5A).

^{3/} Cf. Zweig Series Trust (Jan. 10, 1990) (staff declined to provide no-action assurance to a trust that changed investment advisers based upon the past affiliation of one of the owners of the new adviser to the previous adviser and to the trust). On the other hand, when a fund's adviser and subadviser(s) are replaced at the same time, the fund may omit past performance if the standards established in our previous letters are met. See, e.g., Unified Funds (pub. avail. Apr. 23, 1991); Philadelphia Fund (pub. avail. Oct. 17, 1989); Investment Trust of Boston Funds (pub. avail. Apr. 13, 1989). Those letters permit a fund to omit past performance that includes investment results attributable to a former adviser unrelated to the current adviser if, among other things, none of the former adviser's employees or principals are involved in managing or supervising the funds for the current adviser.

^{4/} Our position addresses only the calculation of standardized total return and does not preclude the Fund from including in its advertisements or sales literature total return calculated from the Replacement Date. Rule 482(e)(4) expressly permits, and rule 34b-1 does not preclude, quotation of non-standardized total return in fund advertisements and sales literature, as long as it is accompanied by quotations of standardized total return calculated in accordance with rule 482(e)(3) for the full periods required by that rule. See also Zweig Series Trust, supra note 3 (footnote 6).

FEDERATED  **ADMINISTRATIVE SERVICES**

FEDERATED INVESTORS TOWER
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ACT SA of 1933
SECTION _____
RULE 482 (e)
PUBLIC
AVAILABILITY May 7, 1996

Investment Company Act of 1940/
Rule 34b-1
Securities Act of 1933/Rule 482

October 17, 1995

Office of Chief Counsel
Division of Investment Management
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, DC 20549

Re: Blanchard Funds, File Nos. 33-3165 and 811-4579

Dear Sir or Madam:

Virtus Capital Management, Inc. ("VCM") is an investment adviser registered with the Securities and Exchange Commission (the "Commission") and is Manager of the Blanchard Funds (the "Trust"), which consists of ten portfolios (collectively, the "Funds"), including the Blanchard Global Growth Fund ("Global Growth"). As Manager, VCM selects, monitors and evaluates the Funds' sub-advisers, each of which has actual responsibility for the purchase and sale of securities for the respective Fund for which it acts as sub-adviser.

Currently, VCM has contracted with five separate sub-advisers to manage the six sectors of Global Growth. It is anticipated that, on January 20, 1996, Mellon Capital Management Corp. ("MCMC"), will succeed Global Growth's current sub-advisers as sole sub-adviser of Global Growth.

On behalf of the Trust, VCM, and the Trust's Distributor, Federated Securities Corp. (the "Distributor"), I respectfully request that the staff of the Commission advise that it will not recommend any enforcement action if the Trust, VCM, or the Distributor does not include any period prior to the date MCMC becomes sub-adviser of Global Growth in calculations of average annual total return presented in prospectuses, advertisements or sales literature relating to Global Growth.

I. Background

The Trust is a registered open-end management investment company organized in 1986 as a Massachusetts business trust. Until July 12, 1995, the Manager of the Trust was Sheffield Management, Inc. ("Sheffield"). Sheffield provided overall management services necessary for the operations of the Funds, and Sheffield, with respect to each Fund, entered into subadvisory agreements with various sub-advisers, who were in fact responsible for the selection of each Fund's investments.

On July 12, 1995, the business and assets of Sheffield were acquired by VCM and, as required by the Investment Company Act of 1940 (the "Act"), the Board of Trustees and the shareholders of each Fund approved a new Management Agreement between VCM and the Trust, appointing VCM as Manager of the Funds, and new sub-advisory agreements between VCM and each sub-adviser, reappointing each sub-adviser to serve in the same capacity with respect to each respective Fund that it served at the date of the acquisition of Sheffield. Sheffield will liquidate and dissolve.

VCM, which is a wholly-owned subsidiary of Signet Banking Corporation ("SBC"), has not employed any former officer or employee of Sheffield, except for Yolanda Reynolds, whose responsibilities both at Sheffield and VCM, encompass(ed) administrative and compliance, rather than investment advisory, matters. While certain other former employees of Sheffield are now employed by Signet Financial Services, Inc. ("SFSI") (a wholly-owned broker-dealer subsidiary of SBC), to provide marketing services in connection with the sale of the Blanchard Funds, none of these persons provide, on behalf of any SBC-affiliated company, any investment advisory services or portfolio management services to the Blanchard Funds. Michael Freedman, formerly Sheffield's principal stockholder and Chief Executive Officer, was primarily responsible, on behalf of Sheffield, for selecting, monitoring and evaluating sub-advisers for the Funds, but was not actually involved in providing investment advisory or portfolio management services. Mr. Freedman is currently employed by SFSI as Executive Vice President, but is not an officer or director of VCM or the Trust and is not responsible for any investment advisory activities.

On November 15, 1995, VCM will make a proposal (the "Proposal") to the Board of Trustees of the Trust to replace the existing sub-advisers of Global Growth with MCMC and approve a new sub-advisory contract between VCM and MCMC. VCM will also recommend that, subject to Board approval of the Proposal, a special meeting of the shareholders of Global Growth be held on or about January 20, 1996, to vote on this matter. If approved by the Board and the shareholders, the sub-advisory contract with MCMC is expected to become effective on or about January 20, 1996.

Under the Proposal, MCMC would replace the following existing sub-advisers of Global Growth: Shufro Rose & Ehrman (sub-adviser of the U.S. Equities Sector); Fiduciary International, Inc. (sub-adviser of Foreign Equities and Foreign Fixed Income Sectors and Global Allocation Strategist), Investment Advisers, Inc. (sub-adviser of the American Fixed Income Sector), Cavelti Capital Management, Ltd. (sub-adviser of the Precious Metals Securities and Bullion Sector) and Martin Currie, Inc. (sub-adviser of the Emerging Markets Sector) (collectively, the "Current Sub-Advisers"). MCMC has no affiliation with, and owns no interest in, any of the Current Sub-Advisers and has employed no officer or employee of any Current Sub-Adviser responsible for Global Growth, and no such acquisition or employment is contemplated.

Thus, approval of the Proposal and the assumption of sub-advisory responsibilities by MCMC will bring about a total change in the investment advisory responsibilities for Global Growth, at the levels of both the Manager and the sub-adviser. The new Manager, VCM, is now responsible for, among other things, selection and monitoring of Global Growth's sub-adviser(s), and a new sub-adviser, MCMC (subject to Board and shareholder approval), will be directly responsible for Global Growth's investment program. Under these circumstances, the Applicants believe that inclusion of Global Growth's performance history prior to the assumption of responsibilities by MCMC would be inappropriate and would convey an inaccurate impression of the abilities of both VCM and MCMC.

As discussed below, the staff has on several occasions taken a no-action position with respect to the omission of past performance following a change in investment advisers, in what the Applicants believe to be very similar circumstances. Consistent with those precedents, if no-action relief is granted to permit the Trust to include only periods after the date MCMC becomes sub-adviser of Global Growth, in calculations of average annual total return presented in prospectuses, advertisements, and sales literature relating to Global Growth, Global Growth would clearly disclose in such material (i) the date of inception of Global Growth and the fact that prior to January 20, 1996, Global Growth operated under different management, (ii) that per share income and capital changes for the last 10 years are disclosed in Global Growth's statutory prospectus, and (iii) that average annual total return figures for one, five and ten year periods are available on request.

II. Discussion

In a series of no-action letters, i.e., Philadelphia Fund, Inc. (pub. avail. October 17, 1989) ("Philadelphia Fund"), Investment Trust of Boston Funds /Back Bay Advisors (pub. avail. April 13, 1989) ("Back Bay") and Unified Funds, Inc. (pub. avail. April 23, 1991) ("Unified"), the staff took no-action

positions concerning mutual fund advertising of performance figures in situations where there was a change in investment advisors. In each case, the staff advised that it would not recommend enforcement action if the performance data presented in advertisements, sales literature or omitting prospectuses covered only the period commencing with the engagement of the new adviser where (i) the new adviser had no interest in the predecessor adviser and did not employ any officer or employee of the predecessor firm who was responsible for managing the fund's portfolio; (ii) since the date of the engagement of the new adviser, all investment advisory and portfolio management services required by the funds were provided and supervised exclusively by officers and employees of the new adviser, who had no prior affiliation with the predecessor adviser; and (iii) all relevant materials include the disclosures noted above.

We believe that the facts set forth above with respect to Global Growth-- specifically, the total change in both Global Growth's Manager and its sub-adviser -- are similar to those in the Philadelphia Fund and Back Bay letters. We submit that here, as was argued in those letters, it is in the best interest of prospective shareholders that advertisements and sales literature reflect performance data commencing on the date that MCMC becomes sub-adviser for Global Growth, because of the inaccurate impression as to the abilities of both VCM and MCMC which would otherwise be conveyed.

The fact that, as noted above, VCM is the successor to the business of Sheffield should not change the analysis where, as here, there is no continuity in personnel between the former manager and the current Manager (and, moreover, a new sub-adviser would be in charge of Global Growth's investment program). This is similar to the situation in Unified, where the staff granted a no-action letter permitting the Unified Funds to include performance only from the date on which ownership of the adviser (Unified Advisers, Inc.) passed from Mutual Life Insurance Company of New York to Unified Holdings, Inc. on the basis that, although the actual legal entity advising the Unified Funds did not change, there was a complete change in control of that entity, as well as in the personnel responsible for providing investment advisory and portfolio management services to the Unified Funds.

We also submit that the present circumstances should be distinguished from those addressed in Zweig Series Trust (pub. avail. January 10, 1990) ("Zweig"). In Zweig, the staff declined to provide no-action assurance where the Zweig Series Trust proposed to eliminate performance antedating the date of the installation of a new adviser, because an owner of the new adviser had also been President and a director of the previous adviser, Chief Executive Officer and Trustee of the Trust, and Senior Vice President of the former distributor.

Zweig does not apply here because in Zweig, the individual in question may have had a controlling position with both the predecessor and the successor advisers, whereas after MCMC becomes the sole sub-adviser to Global Growth (assuming approval by both the trustees and the shareholders), no former shareholder or officer of Sheffield or Global Growth will have any position with VCM or MCMC, other than Yolanda Reynolds, who, as stated above, is and had been employed solely in an administrative and compliance capacity. While it is true that several persons formerly in responsible positions with Sheffield (including Mr. Freedman, its former principal shareholder and chief executive officer) are now employed in responsible positions with SFSI, none of these persons has any position with the Manager (VCM) or the proposed new sub-adviser (MCMC), nor does any such person have any responsibility for providing any investment or portfolio management services for the Blanchard Funds.

Moreover, unlike in the Zweig situation, where both the predecessor and successor advisers actively managed the portfolios of the Funds, here Sheffield had, and VCM has, contracted the actual portfolio management function to the Current Sub-Advisers and the proposed new sub-adviser. The fact that there is no ownership or personnel continuity between the sub-advisers (coupled with the lack of continuity in management personnel between Sheffield and VCM) would, in our opinion, compel the conclusion that no-action relief is appropriate in this case.

III. Conclusion

We believe that based upon the facts presented herein, the staff's position taken in Back Bay, Philadelphia Fund and Unified would not be compromised or otherwise contradicted if a similar position was taken in respect hereto. We respectfully request, therefore, based upon the foregoing analysis and subject to the proposals set forth above, that the staff advise that it will not recommend any action to the Commission if Global Growth, VCM or the Distributor do not include any period prior to the date on which MCMC becomes sub-adviser for Global Growth, in calculations of average annual total return in omitting prospectuses, advertisements and sales literature relating to the Trust.

If you have any questions concerning this matter, please do not hesitate to telephone the undersigned at 412-288-8160.

Sincerely,



C. Grant Anderson
Corporate Counsel