HALE AND DORR
COUNSELLORS AT LAW
60 STATE STREET, BOSTON, MASSACHUSETTS 02109
617-526-6000 • FAX 617-526-5000

CHRISTOPHER P. HARVEY
christopher.harvey@haledorr.com
617-526-6532

September 13, 1996

BY FACSIMILE
FOLLOWED BY HAND DELIVERY

Jack W. Murphy
Associate Director
and Chief Counsel
Division of Investment Management
Securities and Exchange Commission
Judiciary Plaza
450 Fifth Street, N.W.
Washington, DC 20549

Re: Morgan Grenfell Investment Trust:
European Small Cap Equity Fund and
International Small Cap Equity Fund

Dear Mr. Murphy:

We are writing on behalf of Deutsche Bank AG, Morgan Grenfell Asset Management Ltd. ("MGAM") and Morgan Grenfell Investment Trust (the "Trust"), an investment company registered under the Investment Company Act of 1940, as amended (the "1940 Act") of which the European Small Cap Equity Fund and the International Small Cap Equity Fund are series (the European Small Cap Fund and the International Small Cap Fund, collectively, the "Funds").

We seek your assurance that the staff of the Division of Investment Management (the "Staff") will not recommend enforcement action under Section 17(a) of the 1940 Act against Deutsche Bank AG, MGAM, the Trust or the Funds if MGAM purchases from the Funds the securities described below. Deutsche Bank AG, Morgan Grenfell Investment Services Ltd. ("MGIS"), the Funds' London-based investment adviser, the Trust and the Funds feel strongly that the proposed transactions are in the best interests of the Funds and their shareholders and that the proposed transactions would be consistent with prudent

portfolio management of the Funds, and that under the unusual circumstances presented, a no-action position is appropriate in this matter.

I. Background on the Parties, the Investigation, the Securities and the Proposed Transactions

1. The Parties

MGIS is registered as an investment adviser under the Investment Advisers Act of 1940, as amended (the "Advisers Act") (File No. 801-12880). MGIS is a wholly-owned subsidiary of MGAM, an investment management services holding company which is in turn an indirect wholly-owned subsidiary of Deutsche Bank AG. Deutsche Bank AG, a publicly held German bank is the largest bank in Germany and one of the largest banks in the world.

The Trust was organized as a Delaware business trust by a Declaration of Trust dated September 13, 1993. The Trust is a series investment company with 18 series, including the Funds. The Trust's registration statement was declared effective under the Securities Act of 1933, on January 3, 1994 (File Nos. 33-68704; 811-8006).

The investment objective of each of the Funds is to maximize capital appreciation. The European Small Cap Fund pursues this objective by investing primarily in equity and equity related securities of small capitalization companies located in European countries. The International Small Cap Fund pursues this objective by investing primarily in equity and equity related securities of small capitalization companies located in countries other than the United States.

The European Small Cap Fund, which commenced operations on November 1, 1994, had net assets of approximately $9.8 Million as of August 30, 1996. The European Small Cap Fund has two shareholders (excluding nominal seed capital invested by its administrator and a nominal investment by an employee of Morgan Grenfell Capital Management, Inc. ("MGCM"), a U.S.-based investment adviser registered under the Advisers Act (File No. 801-27291) and a subsidiary of MGAM). These two shareholders are large institutional investors. There has been only one purchase or redemption transaction in shares of the European Small Cap Fund from June 1 to September 5, a redemption that occurred on August 8, 1996.

The International Small Cap Fund, which commenced operations on January 3, 1994, had net assets of approximately $107,825,621 as of August 30, 1996. The International Small Cap Fund has 16 shareholders (excluding nominal seed capital

invested by its administrator). Of these, 12 are institutional shareholders, one is an omnibus account held of record by an unaffiliated investment adviser, and the remaining three are employees or officers of MGCM. There have been 14 purchases or redemptions of the International Small Cap Fund's shares between June 1 and September 5, 1996.

2. The Investigation

MGAM has been conducting an internal investigation in conjunction with the U.K. Investment Management Regulatory Organisation ("IMRO") concerning the circumstances leading to the suspension of trading in certain non-U.S. open-end funds managed by MGAM affiliates. Two of these non-U.S. funds are U.K. unit trusts managed by Morgan Grenfell Unit Trust Management Ltd. ("MGUTM") and the third is an Irish fund managed by Morgan Grenfell International Funds Management Limited ("MGIFM"). Each of MGIS, MGUTM and MGIFM are "sister" subsidiaries of MGAM.

Trading in those non-U.S. funds was suspended as a result of the discovery that these funds had significant holdings of unlisted securities the valuations of some of which were questionable as a result of possible irregularities involving Mr. Peter Young, the portfolio manager of two of these funds. It was agreed with these funds' independent trustees that only securities whose price could be validated on an ongoing, fair and verifiable basis and in accordance with applicable regulations should be retained in the funds. A team comprising analysts of MGAM, Deutsche Morgan Grenfell Group Compliance, and Morgan Grenfell Development Capital, supported by Ernst & Young, analyzed all of the unlisted securities in these funds. This team collected all in-house research material on the companies and such additional information as was readily available from any appropriate outside sources. The team sought to establish that an independent third party price was available for each security. This was generally evidenced by a screen quote. Where the price or value of the security could not be independently verified in the time available, or was dependent solely upon direct input from certain brokers, notably Fiba Nordic Securities (further described below), the team generally recommended that the security be purchased from the three funds. Where convertible securities were convertible into listed securities and the conversion formula could be verified those securities were retained within the funds.

The valuations of the unlisted securities, as of August 30, were tested in this way because of their being the final valuations used prior to the suspension of trading of shares of the three funds. In order to eliminate uncertainties in the valuations of these funds' portfolios, Deutsche Bank AG, the ultimate parent of

MGAM, MGIS, MGUTM and MGIFM, acquired from these funds certain unlisted securities that could not satisfy the retention criteria described above. These purchases were made between August 30 and September 5, during the suspension of trading in these funds' shares. The valuation for these purchases was that determined as of the close of business on August 30, 1996. The August 30 valuation of these securities was determined by this team's considering a variety of factors including: historical and projected earnings, sales, products, management and relevant markets, the nature and quality of the issuer's assets, the cost of the securities' initial purchase and developments since that date. Based on the information then available, it was determined by MGAM that the valuation of August 30 was at least fair to these funds. Deutsche Bank AG also undertook to compensate these non-U.S. funds and/or their unitholders if irregularities were discovered subsequently concerning the original investment decision to purchase these securities or which otherwise indicated the August 30 valuation was not fair to these funds. This resolution was prepared in close consultation with IMRO and was accepted by these funds' trustees. Trading in these non-U.S. funds resumed on September 5, 1996.

3. **The Securities**

(a) **Alulux and Sandvest**

In the course of its investigation, MGIS initially discovered that the European Small Cap Fund held in its portfolio two of the same securities held by the non-U.S. funds that are the subject of the current investigation and that were purchased by Deutsche Bank AG from the non-U.S. funds. The European Small Cap Fund purchased these securities, equity shares of Alulux Mining ("Alulux") and Sandvest Petroleum ("Sandvest") on March 22, 1996. Neither security was held by the International Small Cap Fund. The purchase amounts were as follows:

Issuer	Aggregate Price
Alulux	$311,533.69
Sandvest	$308,807.61
Total	$620,341.30

Alulux and Sandvest are Luxembourg registered companies which were represented to be engaged in the business of developing certain processes for the extraction of oil and minerals. The securities are denominated in Deutschemarks and were classified at the time of purchase as "unlisted" securities as they were not listed

on any exchange but they were expected to be listed on a recognized European exchange within twelve (12) months of the purchase date.

The securities were purchased from their respective issuers. FIBA Nordic Securities ("FIBA"), a U.K.-based broker-dealer subject to regulation under the U.K. Financial Services Act (the "FSA"), acted as agent for MGIS, MGUTM and MGIFM in their respective purchases.

Because there was not yet any traditional market for the securities they have been considered illiquid for purposes of the European Small Cap Fund's illiquidity limits.

Mr. Stewart Armer, along with Mr. Jonathan Wild, had served as a portfolio manager for the European Small Cap Fund throughout the relevant period.[1] Mr. Armer is a director of MGIFM and has been "seconded" to MGIS through an intercompany arrangement. Mr. Armer focuses on European securities other than U.K. securities and Mr. Wild focuses on U.K. securities. As such, the decisions to purchase Alulux and Sandvest were Mr. Armer's responsibility. Mr. Peter Young, who is a focus of the current investigation and who has been suspended by MGIFM, has had no responsibility for investment decisions of the European Small Cap Fund and has no direct affiliation with MGIS or the Fund. Mr. Armer did discuss these securities, however, with Mr. Young who had expressed a very favorable view of them.

The securities had been valued by the European Small Cap Fund based on valuations supplied by: (a) FIBA from their purchase in March, 1996 through July 12, 1996; and (b) ICE Securities ("ICE"), a U.K. broker regulated under the FSA, thereafter. The decision was made in July of 1996 to utilize ICE because of ICE's knowledge of Alulux and Sandvest following ICE's appointment by each company to act as its agent in seeking listings on a recognized European stock exchange. Each of FIBA and ICE valued the securities on the basis of asset valuations in the local currency. Each is independent of MGIS and its affiliates.

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[1] In the course of MGIS' continuing investigation, it was believed that Mr. Armer may have violated MGIS' staff dealing rules with respect to a security in his personal account. This security bears no relationship to Alulux, Sandvest or any of the other unlisted securities in the European Small Cap Fund's portfolio. The decision was made to suspend Mr. Armer and replace him with Mr. Julian Johnston, an experienced MGIS portfolio manager, as co-portfolio manager with Mr. Wild. There continues to be no evidence that Mr. Armer was involved in the possible irregularities that are the focus of the investigation.

The aggregate value of the securities (as determined by the same procedures used with respect to the non-U.S. funds' holdings) as of the close of business on August 30 and the percentage of the European Small Cap Fund's total assets on that date are as follows:

Issuer	Aggregate Value	% of Total Assets
Alulux	$171,071.77	1.7%
Sandvest	94,985.81	1.0%
Total	$266,057.58	2.7%

A telephonic meeting of the Trust's Board of Trustees was convened at 9:30 A.M. New York Time on September 4 to discuss the investigation generally and Alulux and Sandvest specifically. At that meeting MGIS informed the Board that Deutsche Bank AG, directly or through an affiliate, is prepared to purchase the two securities from the European Small Cap Fund at the same value determined for them in connection with the non-U.S. funds purchase, as of the close of business on August 30, 1996, subject to the granting of appropriate no-action or exemptive relief by the Commission. The Board, which consists of five "disinterested" trustees and two trustees who are "interested persons," was given a report by MGIS on the circumstances surrounding the investigation of Mr. Young's activities. Specifically, the Board was informed of the suspension of trading in the non-U.S. funds managed by sister companies of MGIS, the concerns causing MGAM to begin an internal investigation of Mr. Young's purchases in Alulux and Sandvest and the terms and conditions of the purchase of these securities by Deutsche Bank AG from the non-U.S. funds.

MGIS informed the Board of the valuation process (described above) to arrive at the August 30 valuation. MGIS informed the Board it believes that the August 30, 1996 valuation proposed for use in determining the price to be paid by Deutsche Bank AG or one of its affiliates continued to be, to the best of its knowledge, at least a fair and reasonable one from the perspective of the European Small Cap Fund, but that given the uncertainties inherent in valuation of these unquoted securities, MGIS further proposed that if irregularities are subsequently discovered which indicate that this valuation was not fair and reasonable from the perspective of the European Small Cap Fund, Deutsche Bank AG or one of its affiliates would make appropriate adjustments to compensate the European Small Cap Fund and/or its shareholders accordingly. MGIS undertook to organize the purchase, on terms identical to the Alulux and Sandvest purchases referred to above, and agreed to make identical assurances of subsequent compensation concerning, any other securities subsequently

discovered to involve irregularities in the investigation and a breach of the obligations of MGIS to the Funds.

The Board voted unanimously to approve the specified transactions as well as any additional purchases, on identical terms, of any other securities subsequently identified as having been subject to any irregularities, and authorized the Trust's officers and counsel to apply to the Commission for the appropriate no-action or exemptive relief. The Board's determinations and approvals were expressly conditioned on the undertakings described above.

(b) Opcon and Sendit

Subsequent to the September 4 Board meeting, MGIS identified two other unlisted securities, the price of which could not be verified as fair and sustainable; specifically equity securities of Opcon AB ("Opcon") and Sendit B ("Sendit"). Unlike Alulux and Sandvest, which are held only by the European Small Cap Fund, these securities are held in the portfolios of both Funds. Opcon was purchased by both Funds on November 23, 1995, and Sendit was purchased by both Funds on June 13, 1996. The purchase amounts for each of the Funds were as follows:

Fund	Issuer	Aggregate Price
European Small Cap Fund	Opcon	$ 61,879.29
	Sendit	$ 67,924.67
Total		$129,803.96
International Small Cap Fund	Opcon	$263,428.95
	Sendit	$362,091.00
Total		$625,519.95

Opcon is a holding company for four automotive component businesses. Sendit is a software provider specializing in electronic mail.

Like Alulux and Sandvest, these securities were purchased from their respective issuers. FIBA acted as broker in the transaction. Also, they were classified as unlisted securities but were scheduled to be listed on a recognized European exchange within twelve (12) months. Like Alulux and Sandvest, these have been considered illiquid securities for both U.S. Funds' illiquidity limits.

The purchase decision for these securities was the responsibility of Mr. Armer in the case of the European Small Cap Fund. In the case of the International Small Cap Fund, the purchase decision was also made by Mr. Armer, as a continental European equity specialist, but under the supervision of the overall portfolio coordinator, Mr. Graham Bamping. Mr. Young, the subject of MGAM's investigation, had no responsibilities with respect to the International Small Cap Fund, just as he had no responsibilities with respect to the European Small Cap Fund.

From their respective purchase dates, these securities had been valued at cost in the local currency based on valuations supplied by FIBA.

The aggregate value of these securities in each Fund's portfolio based on the August 30 valuation and their percentage of each Fund's assets are as follows:

Fund	Issuer	Aggregate Value	% of Total Assets
European Small Cap Fund	Opcon	$ 60,782.24	0.62%
	Sendit	72,304.44	0.74%
Total		$133,086.68	1.36%
International Small Cap Fund	Opcon	$258,758.68	0.24%
	Sendit	385,578.38	0.36%
Total		$644,337.06	0.60%

Given these additional developments it was considered appropriate to convene another meeting of the Trust's Board on September 5 at 11:30 a.m. At that meeting the Board was informed of Mr. Armer's unrelated suspension. Further, MGIS reported that the Opcon and Sendit securities had also been purchased by Deutsche Bank AG from the non-U.S. funds, and that both the European Small Cap Fund and the International Small Cap Fund held these securities. An offer by Deutsche Bank AG to purchase these securities, either directly or through an affiliate, at their respective August 30 valuations (determined in accordance with the process described above) was communicated to the Board. The valuation process used in reaching these purchase valuations was again reviewed with the Board and was discussed in greater detail, including the involvement of Ernst & Young receiving legal advice from Slaughter & May, a U.K. law firm. The circumstances of all of the

securities, including Alulux and Sandvest, were reviewed. Given the circumstance that the very reason for the proposed purchases was the lack of certainty concerning the value of these securities, the apparent lack of any market for the securities, and the credentials of the valuation team used by MGAM, the Board determined the August 30 "fair value" arrived at by the valuation process described by MGIS formed a reasonable basis for the transactions to be effected, but only in reliance upon the further undertakings in the same terms as those given in respect of Alulux and Sandvest. The proposed purchases were unanimously approved by the Board on these terms and expressly subject to these conditions. The Board also authorized officers of the Trust and counsel to take all necessary actions to pursue appropriate exemptive or no-action relief from the Commission.

MGAM proposes to purchase the securities from the Funds on these terms upon receipt of a favorable response of the Staff to this letter making payment in the currencies in which these securities are denominated, which are the same currencies in which they were valued as of August 30.

4. **Follow-Up Study by Slaughter & May with Ernst & Young**

MGAM has commissioned Ernst & Young, as experts in such matters, through Slaughter & May to undertake a follow-up study and further investigation with respect to any irregularities in the purchases of the securities described as well as any circumstances which might indicate after the fact that the August 30 valuation was not adequate. This investigation will be conducted in respect of the Funds as well as the non-U.S. funds discussed above. Slaughter & May and Ernst & Young will present to the independent trustees of the Funds their findings as to whether additional compensation is due to the Funds. The independent trustees will have an opportunity, with the assistance of such additional expert advice as they may require, to question and evaluate these findings and ultimately to determine whether any such compensation is due pursuant to the undertakings. The Board will demand for the relevant Fund the difference between: (a) the Fund's original cost and the August 30 valuation for the relevant securities, with reasonable interest from the original purchase date, in the event it determines the purchase decision for such security was made improperly or in breach of MGIS' obligations to that Fund; or (b) the August 30 valuation for the relevant securities and a corrected valuation, with reasonable interest from the date of MGAM's purchase, in the event it determines the August 30 valuation with respect to such a security was inadequate. In either event, the Board's determinations will be binding on the matter.

II. Analysis

Section 17(a) of the 1940 Act prohibits, among other things, an affiliated person of a registered investment company or an affiliated person of such person, acting as principal, from knowingly purchasing any security or other property from such registered investment company. Section 17(a) would proscribe the proposed transactions, as they would involve purchases of securities from the Funds by an affiliated person of an affiliated person of the Funds, acting as principal. We recognize that as a general matter, the ordinary mechanism for relief under Section 17(a) of the 1940 Act is the exemptive order process and that the Staff will not normally entertain no-action requests in this context.[2] The Staff has recognized, however, that no-action positions under Section 17(a) may be appropriate in "very unusual or novel circumstances."[3] Indeed, on a number of recent occasions, the Staff has taken no-action positions under Section 17(a) in circumstances not unlike that faced by the Funds.[4]

MGIS, the Funds' management and the Trust's Board believe strongly the proposed purchases are necessary to eliminate uncertainties concerning the accuracy of the valuation of the Funds' portfolios. Elimination of these securities from the

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[2] Section 17(b) of the 1940 Act provides a statutory mechanism for exemptive relief from the proscriptions of Section 17(a). Under Section 17(b), the Commission shall issue an order to exempt a proposed transaction from Section 17(a) upon application when it finds that: (1) the terms of the proposed transaction, including the consideration to be paid or received, are reasonable and fair and do not involve overreaching on the part of any person concerned, (2) the proposed transaction is consistent with the policy of each registered investment company concerned as recited in its registration statement and reports, and (3) the proposed transaction is consistent with the general purposes of the 1940 Act.

[3] See Massachusetts Investors Trust, SEC No Action Letter (Dec. 8, 1992).

[4] See, e.g., PaineWebber Managed Investments Trust, Sec No-Action letter (August 4, 1994) (Staff granted no-action request under Section 17(a) to permit purchase from a fund by an affiliate of the fund's adviser of certain illiquid fair valued securities); Norwest Funds - Municipal Money Market Fund, SEC No-Action Letter (August 8, 1995) (Staff granted no-action request under Sections 17(a) and 17(d) to permit letter of credit arrangement involving a money market fund and an affiliate of the fund's adviser involving a transfer of defaulted securities from the fund to the affiliate); Bingham, Dana & Gould - 1784 Tax Free Money Fund, SEC No-Action Letter (July 17, 1995) (Staff granted no request under Section 17(a) to permit standby purchase agreement between money market fund and its adviser or an affiliate of the adviser and successive purchases of defaulted securities); Liquid Green Trust, SEC No-Action Letter (Dec. 19, 1991) (Staff granted no-action request under Sections 17(a) and 17(d) to permit a purchase by an adviser of defaulted commercial paper held by money market fund).

Funds' portfolios appears to be the only expedient means to achieve this result. No information has come to light in the course of the investigation through the present which would justify an upward adjustment in the August 30 valuation. Accordingly, MGIS strongly believes the price is at least a fair, and perhaps also an advantageous, from the perspective of the Funds. Further, the undertakings of Deutsche Bank AG or its affiliates to pay additional compensation in the event that it is determined that the applicable purchase decisions involved irregularities discovered in the investigation and a breach of the obligations of MGIS to the Funds or in the unlikely event the August 30 valuation is determined to be inadequate, together with the further safeguard of subsequent review by the Funds' Board described above, should serve to protect the interests of the Funds and their shareholders.

For the reasons indicated above, a no-action position enabling the purchase to proceed on the terms proposed is urgently needed as a business matter. During the time that would be required for Deutsche Bank A.G., one or more of its affiliates and the Trust to file, and for the Commission to act upon, an exemptive application under Section 17(b): (a) these illiquid securities would effectively have to remain in the Funds' portfolios for lack of any other market; (b) the Funds would continue to run the significant risk they presently face that one of their large institutional shareholders will redeem a significant percentage of its shares, requiring the liquidation of saleable portfolio securities and causing these unsaleable securities to constitute a larger percentage of the Funds' holdings, reducing the portfolios' overall liquidity and exacerbating valuation uncertainties; (c) the Funds would not have the benefit, for an extended period, of the additional cash the proposed transactions would immediately produce which cash could be redeployed in a manner which MGIS believes would be advantageous to the Funds and their shareholders; and (d) the Funds and their shareholders would be denied the relief that has already been afforded on substantially identical terms to the non-U.S. funds holding the same securities and their unitholders. We believe the proposed transaction is clearly in the best interests of the Funds and their shareholders, and the terms of the proposed transaction, including the consideration to be paid to the Funds when combined with the foregoing undertakings and follow-up safeguards, are reasonable and fair and do not involve overreaching on the part of any of the parties. The benefits to the Funds and their shareholders of an expeditious purchase are clear, as are the risks and disadvantages of a protracted exemptive process.

In conclusion, because the proposed transaction is fair and reasonable and in the best interests of the Funds and their shareholders, and because business exigencies and the potentially adverse effects of delay militate against undertaking a lengthy exemptive process, it is appropriate for the Staff to take the no-action position requested. We understand that the Staff will not take any position on any

other underlying aspects of this matter, including the valuation at which the transactions will be effected.

If you require further information with respect to this letter, please contact the undersigned at 617-526-6532 or Ernest V. Klein of this office at 617-526-6376.

Very truly yours,

Christopher P. Harvey

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SEP 16 1996

Our Ref. No. 96-465-CC
Morgan Grenfell
Investment Trust
File No. 811-8006

RESPONSE OF THE OFFICE OF CHIEF COUNSEL
DIVISION OF INVESTMENT MANAGEMENT

By letter dated September 13, 1996, you request assurance that the staff will not recommend that the Commission take enforcement action under Section 17(a) of the Investment Company Act of 1940 (the "1940 Act") against Deutsche Bank AG, Morgan Grenfell Asset Management Ltd. ("MGAM"), and Morgan Grenfell Investment Trust, an investment company registered under the 1940 Act, of which the European Small Cap Equity Fund and the International Small Cap Equity Fund (collectively, the "Funds") are series, if MGAM enters into the purchase transactions with the Funds (the "Purchase Transactions"),[1] as described in your letter.

On the basis of the unusual facts and circumstances described in your letter, and the specific representations made therein, we will not recommend enforcement action to the Commission under Section 17(a). This position applies solely to the Purchase Transactions specifically identified in your letter. We take no position with respect to any other aspect of the underlying matter, including, but not limited to, the valuation of the securities that are the subject of the Purchase Transactions. You should note that any different facts or representations might require a different conclusion. Moreover, this response expresses the Division's position on enforcement action only and does not express any legal conclusions on the issues presented.

Jack W. Murphy
Associate Director (Chief Counsel)

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[1] The letter describes the proposed purchase of four specific securities: Alulux Mining, Sandvest Petroleum, Opcon AB, and Sendit B. This response is limited to the purchase of these securities.