Our Ref. No. 96-287-CC
American Odyssey
Funds, Inc.
File No. 811-7450

RESPONSE OF THE OFFICE OF CHIEF COUNSEL
DIVISION OF INVESTMENT MANAGEMENT

By letters dated June 3, 1996 and August 8, 1996, you request assurance that we would not recommend enforcement action to the Commission under Section 15(a) of the Investment Company Act of 1940 ("1940 Act") if, as more fully described in your letter, the management agreement and the subadvisory agreement with respect to the American Odyssey Long-Term Bond Fund ("Fund"), a series of the American Odyssey Funds, Inc. ("AOF"), are amended without shareholder approval to eliminate (i) one of two subadvisers, and (ii) the higher advisory fees applicable to non-U.S. assets.

AOF is a registered open-end investment company with six series ("funds"). American Odyssey Funds Management, Inc. (the "Manager"), a registered investment adviser, serves as overall investment manager of the funds pursuant to a management agreement between AOF and the Manager (the "Management Agreement"). The Manager does not perform the actual day-to-day management of the funds; rather, day-to-day management is performed by subadvisers. Each fund pays the Manager a fee based on the average daily net assets of the fund. The Manager pays each subadviser, out of the fee it receives from the fund, a fee also based on the average daily net assets of the fund that are managed by that subadviser.

You state that the Fund has two subadvisers, Western Asset Management Company ("Western") and WLO Global Management ("WLO"). A single advisory agreement exists among AOF, the Manager, Western and WLO (the "Subadvisory Agreement"). You state that both the Management Agreement and the Subadvisory Agreement provide for higher fees for the management of non-U.S. assets than for the management of U.S. assets. You state that the Fund originally retained WLO as a subadviser in the event that its expertise in fixed income securities denominated in foreign currencies was required by the Fund. You represent that, since the commencement of the Fund's investment operations, however, day-to-day management of the Fund's assets has been performed solely by Western, and that neither the Manager nor Western has used or expects to use the services of WLO.[1]

Because WLO intends to discontinue its operations, and Western has added staff with experience in the management of non-

[1] You state that the Manager has paid all subadvisory fees with respect to the Fund to Western, and Western has not paid any of that fee to WLO.

U.S. dollar fixed income investments, AOF and the Manager propose to amend both the Management Agreement and the Subadvisory Agreement to (i) remove the higher fee schedule applicable to non-U.S. assets in the Fund and replace it with the same fee schedule currently applicable to all U.S. assets held by the Fund and (ii) remove WLO as a party.[2] You represent that the parties propose to amend the advisory agreements without seeking shareholder approval because holding a meeting would impose a significant expense on shareholders while providing no real benefit. You also represent that a vote will serve no useful purpose because the level of advisory and management services provided to the Fund will neither be reduced nor modified as a result of the amendments.

You state that the proposed amendments will be made effective only if approved by a majority of AOF's Board of Directors, including a majority of the directors who are not interested persons of AOF. You further state that following board approval, the Fund will promptly notify its shareholders of the amendments to the Subadvisory and Management agreements by delivery of either a revised prospectus or a supplement to the existing prospectus.

Analysis

Section 15(a) of the 1940 Act provides generally that no person may serve as an investment adviser to a registered investment company except pursuant to a written contract that, among other things, has been approved by the vote of a majority of the company's outstanding voting securities. Any material change in an advisory agreement creates a new contract that must be approved in accordance with Section 15(a).[3]

You maintain that shareholder approval of the amendment of the advisory agreements is not necessary in this case. You state that the Subadvisory Agreement could easily have been structured as two separate subadvisory agreements, one with Western and one

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[2] You represent that WLO is not identified in the Management Agreement, and thus no changes are required to that agreement to eliminate WLO as a subadviser.

[3] Limited Term Municipal Fund, Inc. (pub. avail. Nov. 17, 1992). Rule 18f-2(c)(1) provides that, in the context of a series company, approval of an advisory contract will be deemed granted with respect to any series if a majority of the outstanding voting securities of such series vote for approval of the contract.

with WLO.[4] You represent that WLO is a subadviser to the Fund in name only, and that WLO has never managed any assets for the Fund under the Subadvisory Agreement or been paid any fees by the Fund, the Manager or Western. Finally, you represent that the level and quality of advisory and management services that have been provided to the Fund under the existing arrangements will not change as a result of amending the Management Agreement and the Subadvisory Agreement. You state that the only material changes that would be effected by the amendments would be the removal of WLO as a subadviser named in the Subadvisory Agreement and the removal of the higher fee rate that is currently specified in the Management and Subadvisory Agreements as payable on non-U.S. assets of the Fund.[5]

On the basis of the facts and representations set forth in your letter, particularly your representation that the proposed changes would not reduce or modify in any way the level of services provided to the Fund by the Manager or Western, we would not recommend enforcement action to the Commission under Section 15(a) if both the Management Agreement and the Subadvisory Agreement are amended without shareholder approval to eliminate WLO as a party and to remove the higher fees applicable to non-U.S. assets.[6] You should note that different facts and circumstances may require a different result.

Karrie McMillan

Karrie McMillan
Special Counsel

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[4] We recognize that if the Subadvisory Agreement had been structured as two separate subadvisory agreements, either agreement could be terminated by the Manager or AOF's board of directors without a vote of the Fund's shareholders. This argument alone, however, would not support a conclusion that a shareholder vote is not required in this case.

[5] While reduction of a subadvisory fee payable by a fund's investment adviser ordinarily may increase the profitability of the adviser under its contract with the fund, in this case you represent that neither the Manager nor Western has ever paid any fees under the contract to WLO.

[6] See, e.g., Washington Mutual Investors Fund, Inc. (pub. avail. May 14, 1993). Compare AAL Mutual Funds (pub. avail. Feb. 28, 1990) (shareholder approval required where amendment to subadvisory agreement, without a corresponding amendment to the advisory agreement, would permit the primary investment adviser to retain additional compensation).

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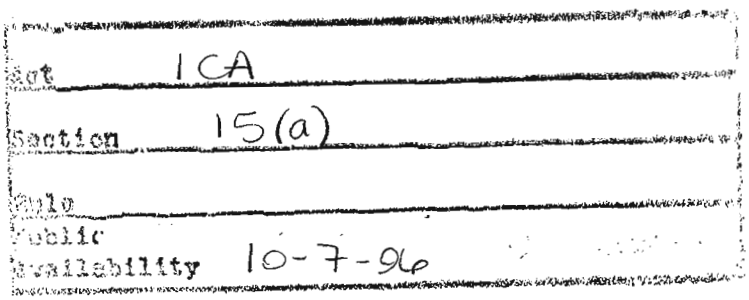
*NOT ADMITTED IN D.C.

June 3, 1996

No-Action Request
1940 Act -- Sec. 15(a)



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Re: American Odyssey Funds, Inc. (Reg. No. 33-57536)
No-Action Request -- Section 15(a) of the 1940 Act

Dear Mr. Murphy:

On behalf of American Odyssey Funds, Inc. ("AOF") and American Odyssey Funds Management, Inc. (the "Manager"), we request that the staff confirm that it will not recommend enforcement action if the subadvisory agreement with respect to one of AOF's funds, the American Odyssey Long-Term Bond Fund, is amended without shareholder approval to eliminate one of the two subadvisers and the higher advisory fee applicable to non-U.S. assets.

BACKGROUND

American Odyssey Funds, Inc. ("AOF") is a registered open end investment company with six series ("Funds"), each of which commenced operations on May 17, 1993. American Odyssey Funds Management, Inc. ("AOFMI"), a registered investment adviser, serves as overall investment manager of the Funds. The Manager does not perform the actual day-to-day management of the Funds; that is performed by other investment advisers (the "Subadvisers"). The

Manager assisted the Board of Directors in the selection of the initial group of Subadvisers, and, subject to the supervision of the Board, the Manager manages the operations of the Funds and is responsible for monitoring the performance of the Subadvisers. Each Fund pays the Manager a fee based on the average daily net assets of the Fund. The Manager pays each Subadviser, out of the fee it receives from the Fund, a fee also based on the average daily net assets of the Fund.

Prior to commencement of operations in 1993, AOF and the Manager entered into one subadvisory agreement for each of the six Funds. Each of the subadvisory agreements was approved by the shareholders and has annually been approved by AOF's Board of Directors. There have been no changes to those agreements, and the same Subadvisers continue to serve the Funds.

Only one Fund -- the American Odyssey Long-Term Bond Fund -- has more than one Subadviser. A single advisory agreement was entered into among AOF, the Manager, Western Asset Management Company ("Western") and WLO Global Management ("WLO"). WLO is a partnership, whose only partners are a wholly-owned subsidiary of Western and a wholly-owned subsidiary of Lombard Odier Portfolio Management International Limited. Western was selected because of its expertise in fixed-income investing generally, with WLO added as an additional Subadviser in the event it was determined appropriate to call upon WLO's expertise in fixed income securities denominated in foreign currencies.[1/] Both the advisory agreement between AOF and the Manager and the Long-Term Bond Fund subadvisory agreement provide higher fees for the management of non-U.S. assets than for the management of U.S. assets. The fees are computed daily and paid monthly at the annual rates set forth below based on the value of the Long-Term Bond Fund's average daily net assets.

Fee Paid by Fund to the Manager
0.50% for the first $250 million of U.S. assets, plus 0.40% for U.S. assets over $250 million, plus
0.70% for the first $250 million of non-U.S. assets, plus 0.60% for non-U.S. assets over $250 million.

1/ The Long-Term Bond Fund may invest up to 25% of its assets in fixed income securities denominated in foreign currencies.

Fee Paid by Manager to
the Subadvisers

0.25% for the first $250 million of
U.S. assets, plus
0.15% for U.S. assets over $250 million, plus

0.45% for the first $250 million of
non-U.S. assets, plus
0.35% for non-U.S. assets over $250 million.

Since the commencement of operations, day-to-day management of all the assets in the Long-Term Bond Fund has been performed by Western. Neither the Manager nor Western has yet determined it appropriate to use the services of WLO. As required by the subadvisory agreement, the Manager has paid all subadvisory fees with respect to the Long-Term Bond Fund to Western, and Western has not paid any fee to WLO with respect to the Fund. All fees have been paid at the rates applicable to U.S. assets.

There is no current intention that WLO will in the future provide any services to the Fund. WLO is winding down its operations, and its only remaining advisory agreement is with the Fund. WLO's partners would like to dissolve WLO, thus eliminating the expenses involved in maintaining an adviser and its required registration. In contrast, Western has added professionals to its staff with experience in the management of non-dollar fixed income investments.

In light of these developments, AOF, the Manager, Western and WLO propose to amend the subadvisory agreement to make the following two changes: (1) designating Western as the sole Subadviser, thus eliminating WLO as a party; and (2) removing the higher fee applicable to non-U.S. assets and replacing it with a fee schedule applicable to all assets using the same rates currently applicable to U.S. assets. As proposed, the fee schedule would be revised to the following:

Fee Paid by Fund to
the Manager

0.50% for the first $250 million of
assets, plus
0.40% for assets over $250 million.

Fee Paid by Manager to the Subadvisers
0.25% for the first $250 million of assets, plus
0.15% for U.S. assets over $250 million.

Other than the two changes identified above, there would be no other changes to the subadvisory agreements. The proposed changes would reduce neither the quality nor the quantity of services provided to the Fund by the Manager and Western.

SECTION 15(a)

Section 15(a) of the Investment Company Act of 1940 (the "1940 Act") generally provides that no person may serve as an investment adviser to a registered investment company except pursuant to a written contract that, among other things, has been approved by the vote of a majority of the company's outstanding voting securities. Because of this provision, shareholder approval is generally sought before amending an advisory agreement.

In our view, shareholder approval should not be required for the proposed amendments because they are in essence only the termination of a subadvisory agreement, for which shareholder approval is not required. The current subadvisory arrangement is documented in one combined agreement but could as easily have been documented through two separate subadvisory agreements -- one with Western with the lower fee applicable to U.S. assets and the other with WLO with the higher fee applicable to non-U.S. assets. Had it been documented through two agreements, the Fund could have terminated the WLO subadvisory agreement and retained the Western subadvisory agreement. Neither action would have required shareholder approval. In our view, the proposed amendments should be viewed as essentially the same action, although in somewhat different form, and thus shareholder approval should not be required.

Seeking shareholder approval of the proposed amendment to drop WLO would serve no useful purpose. If shareholders voted "yes," the agreement would be formally amended. If they voted "no," WLO would remain a subadviser in name only, because there is no current intention to allocate any assets to WLO. In short, there is no real decision for shareholders to make, and thus a vote would serve no purpose.

Similarly, as the staff has previously stated, a majority of shareholders would always vote for a fee decrease, and thus no purpose is served by holding a vote with respect to the elimination of the higher fee applicable to non-U.S. assets. The staff has

taken a no-action position when a fund amends its agreement to reduce the advisory fee, provided the adviser does not reduce or modify in any respect the services it provides to the fund. See, e.g., Washington Mutual Investors Fund, Inc., 1993 SEC Noact Lexis 733 (May 14, 1993); Limited Term Municipal Fund, Inc., 1992 SEC Noact Lexis 1069 (Nov. 17, 1992). With the proposed amendments the services provided to the Fund will not change and thus a vote would serve no purpose. The services provided to the Fund by the Manager and Western will not be reduced or be modified. While WLO will no longer be a subadviser, that will have no real effect on shareholders because WLO has not managed any assets and there is no current intention for it to do so in the future. Instead, the amendment has the positive effect of eliminating a higher fee that could be applied to the management of non-U.S. assets.[2/]

Holding a meeting would impose on shareholders a significant expense. AOF is a Maryland corporation, and as such is not required to hold annual shareholder meetings. In fact, AOF has not held a meeting of public shareholders, and has no current plans for such a meeting. Thus, a special meeting would be required, resulting in additional expenses for the Fund.

The purposes behind Rule 2a-6 under the 1940 Act also support a conclusion that no shareholder meeting is appropriate in these circumstances. Rule 2a-6 provides that a reorganization of the adviser will not be deemed an assignment (and thus a shareholder vote will not be required), if there is no change in actual control or management of the investment adviser. The Commission has recognized that under those circumstances a shareholder vote would serve no useful purpose.[3/] The proposed amendments will not change the actual control or management of the adviser that has to date managed all of the Fund's assets. Thus, the proposed amendments -- like an assignment caused by a reorganization that changes neither control or management -- are the kind of changes where a shareholder vote would serve no purpose and thus should not be required.

The proposed amendments will be considered by AOF's Board of Directors. The amendments will be made only if approved by a

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[2/] This higher fee would be formally eliminated from the agreement and would not be reinstituted without shareholder approval.

[3/] See Release No. IC-10809 (Aug. 6, 1979) (proposing Rule 2a-6) (transaction does not conflict with Congressional concerns); Release No. IA-1034 (Sept. 11, 1986) (adopting parallel provision under Investment Advisers Act of 1940, Rule 202(a)(1)-1) (requiring investment company consent would serve no useful purpose).

majority of AOF's directors, including a majority of the directors who are not interested persons of AOF. The amendments will be effective as of the date that AOF next supplements or revises its prospectus after the date that the Board approves the amendments. It is currently anticipated that the effective date will be May 1, 1997 (the date of AOF's 1997 annual prospectus update), unless AOF supplements its prospectus before that date for another reason. Because the revised disclosure will be included in a supplement or revised prospectus that would be prepared for reasons other than the changes regarding WLO, it is proposed that AOF will pay for the printing and mailing of the revised prospectus or supplement. See Washington Mutual Investors Fund, Inc., 1993 SEC Noact Lexis 733 (May 14, 1993) (fund, rather than adviser, to pay costs of printing and mailing of revised prospectus disclosing lower fee schedule because fund was required to print and mail the prospectus for other reasons).

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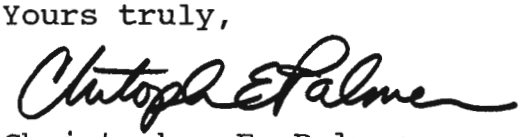
For the reasons set forth above, we request that the staff confirm that it will not recommend enforcement action if the subadvisory agreement with respect to the American Odyssey Long-Term Bond Fund is amended without shareholder approval to eliminate WLO as a party and the higher fee applicable to non-U.S. assets.

Please call if you would like any additional information or would like to discuss any of these points. If the staff is unable to confirm that it will not seek enforcement action based on this letter, I would appreciate it if you would contact me to discuss possible revisions or additional submissions. Thank you for your consideration of this matter.

Yours truly,



Christopher E. Palmer

CEP/dd