

SECURITIES AND EXCHANGE COMMISSION

[Investment Company Act Release No. 27918; 812-13251]

AARP Funds, et al.; Notice of Application

July 31, 2007

Agency: Securities and Exchange Commission (“Commission”).

Action: Notice of application for an order under section 6(c) of the Investment Company Act of 1940 (the “Act”) for an exemption from section 15(a) of the Act and rule 18f-2 under the Act.

Summary of Application: Applicants request an order that would permit them to enter into and materially amend sub-advisory agreements without shareholder approval.

Applicants: AARP Funds and AARP Portfolios (each a “Trust” and together, the “Trusts”), and AARP Financial Incorporated (the “Manager”).

Filing Dates: The application was filed on January 3, 2006, and amended on June 14, 2006, and July 30, 2007.

Hearing or Notification of Hearing: An order granting the application will be issued unless the Commission orders a hearing. Interested persons may request a hearing by writing to the Commission’s Secretary and serving applicants with a copy of the request, personally or by mail. Hearing requests should be received by the Commission by 5:30 p.m. on August 27, 2007, and should be accompanied by proof of service on the applicants, in the form of an affidavit, or, for lawyers, a certificate of service. Hearing requests should state the nature of the writer’s interest, the reason for the request, and the issues contested. Persons who wish to be notified of a hearing may request notification by writing to the Commission’s Secretary.

Addresses: Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090. Applicants, c/o Marc Duffy, Secretary, AARP Funds, 650 F Street, N.W., Washington, DC 20004.

For Further Information Contact: Christine Y. Greenlees, Senior Counsel, at (202) 551-6879, or Mary Kay Frech, Branch Chief, at (202) 551-6821 (Division of Investment Management, Office of Investment Company Regulation).

Supplementary Information: The following is a summary of the application. The complete application may be obtained for a fee at the Commission's Public Reference Desk, 100 F Street, NE, Washington, DC 20549-0102 (telephone (202) 551-5850).

Applicants' Representations:

1. Each Trust is a Delaware statutory trust and is registered under the Act as an open-end management investment company. Each Trust currently offers multiple series (each, a "Fund" and collectively, the "Funds"), each with its own investment objectives, policies and restrictions.¹

2. The Manager, registered under the Investment Advisers Act of 1940 ("Advisers Act"), serves as investment adviser to each Fund pursuant to an investment advisory agreement with the Trusts ("Advisory Agreement") that was approved by the board of trustees of the Trusts (the "Board"), including a majority of the trustees who are not "interested persons," as defined in

¹ Applicants also request that any relief granted pursuant to the application apply to future series of the Trusts and any other existing or future registered open-end management investment company and its series that: (a) is advised by the Manager or a person controlling, controlled by, or under common control with the Manager; (b) uses the management structure described in the application; and (c) complies with the terms and conditions of the application (included in the term "Funds"). The only existing registered open-end management investment companies that currently intend to rely on the requested order are named as applicants. If the name of any Fund contains the name of a Sub-Adviser (as defined below), the name of the Manager or the name of the entity controlling, controlled by or under common control with the Manager that serves as the primary adviser to the Fund will precede the name of the Sub-Adviser.

section 2(a)(19) of the Act (“Independent Trustees”), and the shareholders of each Fund. Under the terms of the Advisory Agreement, the Manager provides the Funds with investment research, advice and supervision, and furnishes an investment program for each Fund consistent with the investment objectives and policies of the Fund. Under the Advisory Agreement, the Manager may delegate its responsibility for providing investment advice and making investment decisions for a particular Fund to one or more sub-advisers (each, a “Sub-Adviser”) who have discretionary authority to invest all or a portion of the Fund’s assets pursuant to a separate sub-advisory agreement (“Sub-Advisory Agreement”). Each Sub-Adviser is, and any future Sub-Adviser will be, registered under the Advisers Act. The Manager monitors and evaluates the Sub-Advisers and recommends to the Board their hiring, termination, and replacement. The Manager will select Sub-Advisers for recommendation to the Board based on the Manager’s selection and review process. For its services to a Fund, the Manager pays a Sub-Adviser a monthly fee at an annual rate based on the average daily net assets of the Fund. The fees of Sub-Advisers are paid by the Manager (and not by the applicable Fund) out of the fee paid to the Manager by a Fund under the Advisory Agreement.

3. Applicants request an order to permit the Manager, subject to Board approval, to enter into and materially amend Sub-Advisory Agreements without obtaining shareholder approval. The requested relief will not extend to any Sub-Adviser that is an affiliated person, as defined in section 2(a)(3) of the Act, of a Fund or the Manager, other than by reason of serving as a Sub-Adviser to one or more of the Funds (“Affiliated Sub-Adviser”). None of the current Sub-Advisers is an Affiliated Sub-Adviser.

Applicants' Legal Analysis:

1. Section 15(a) of the Act provides, in relevant part, that it is unlawful for any person to act as an investment adviser to a registered investment company except pursuant to a written contract that has been approved by the vote of a majority of the company's outstanding voting securities. Rule 18f-2 under the Act provides that each series or class of stock in a series company affected by a matter must approve such matter if the Act requires shareholder approval.

2. Section 6(c) of the Act provides that the Commission may exempt any person, security, or transaction or any class or classes of persons, securities, or transactions from any provision of the Act, or from any rule thereunder, if and to the extent that such exemption is necessary or appropriate in the public interest and consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the Act. Applicants believe that the requested relief meets this standard for the reasons discussed below.

3. Applicants state that the Funds' shareholders rely on the Manager to select the Sub-Advisers best suited to achieve a Fund's investment objectives. Applicants assert that, from the perspective of the investor, the role of the Sub-Advisers is comparable to that of individual portfolio managers employed by traditional investment advisory firms. Applicants contend that requiring shareholder approval of each Sub-Advisory Agreement would impose costs and unnecessary delays on the Funds, and may preclude the Manager from acting promptly in a manner considered advisable by the Board. Applicants also note that the Advisory Agreement will remain subject to the shareholder approval requirement in section 15(a) of the Act and rule 18f-2 under the Act.

Applicants' Conditions:

Applicants agree that any order granting the requested relief will be subject to the following conditions:

1. Before a Fund may rely on the requested order, the operation of the Fund in the manner described in the application will be approved by a majority of the Fund's outstanding voting securities, as defined in the Act, or, in the case of a Fund whose public shareholders purchase shares on the basis of a prospectus containing the disclosure contemplated by condition 2 below, by the initial shareholder(s) before offering shares of that Fund to the public.

2. Each Fund will disclose in its prospectus the existence, substance and effect of any order granted pursuant to the application. In addition, each Fund will hold itself out to the public as employing the management structure described in the application. The prospectus will prominently disclose that the Manager has the ultimate responsibility (subject to oversight by the Board) to oversee Sub-Advisers and to recommend their hiring, termination, and replacement.

3. Within 90 days of the hiring of a new Sub-Adviser for any Fund, shareholders of the affected Fund will be furnished all information about the new Sub-Adviser that would be included in a proxy statement. To meet this condition, each Fund will provide shareholders with an information statement meeting the requirements of Regulation 14C, Schedule 14C and Item 22 of Schedule 14A under the Securities Exchange Act of 1934 within 90 days of the hiring of a new Sub-Adviser.

4. The Manager will not enter into a Sub-Advisory Agreement with any Affiliated Sub-Adviser unless such agreement, including the compensation to be paid thereunder, has been approved by the shareholders of the applicable Fund.

5. At all times, at least a majority of the Board will be Independent Trustees, and the nomination of new or additional Independent Trustees will be placed within the discretion of the then existing Independent Trustees.

6. When a change of Sub-Adviser is proposed for a Fund with an Affiliated Sub-Adviser, the Board, including a majority of the Independent Trustees, will make a separate finding, reflected in the Board minutes, that the change is in the best interests of the Fund and its shareholders and does not involve a conflict of interest from which the Manager or the Affiliated Sub-Adviser derives an inappropriate advantage.

7. The Manager will provide general management services to each Fund, including overall supervisory responsibility for the general management and investment of each Fund's assets, and, subject to review and approval by the Board, will (a) set the Fund's overall investment strategies; (b) evaluate, select, and recommend Sub-Advisers to manage all or a part of the Fund's assets; (c) when appropriate, allocate and reallocate a Fund's assets among multiple Sub-Advisers; (d) monitor and evaluate the performance of Sub-Advisers; and (e) implement procedures reasonably designed to ensure compliance by the Sub-Adviser(s) with the Fund's investment objectives, policies and restrictions.

8. No trustee or officer of the Trusts, or director or officer of the Manager, will own, directly or indirectly (other than through a pooled investment vehicle that is not controlled by such person), any interest in a Sub-Adviser, except for (a) ownership of interests in the Manager or any entity that controls, is controlled by, or is under common control with the Manager, or (b) ownership of less than 1% of the outstanding securities of any class of equity or debt of a publicly-traded company that is either a Sub-Adviser or an entity that controls, is controlled by, or is under common control with a Sub-Adviser.

9. The requested order will expire on the effective date of rule 15a-5 under the Act, if adopted.

For the Commission, by the Division of Investment Management, under delegated authority.

Florence E. Harmon
Deputy Secretary