

# SECURITIES AND EXCHANGE COMMISSION

## FORM 485BPOS

Post-effective amendments [Rule 485(b)]

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### FILER

#### PROTECTIVE INVESTMENT CO

CIK: **914757** | State of Incorporation: **MD** | Fiscal Year End: **1231**  
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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM N-1A

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 //  
PRE-EFFECTIVE AMENDMENT NO. //  
POST-EFFECTIVE AMENDMENT NO. 5 /X/  
REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940 //  
AMENDMENT NO. 6 /X/

PROTECTIVE INVESTMENT COMPANY  
(Exact Name of Registrant)

2801 Highway 280 South  
Birmingham, Alabama 35223  
(Address of Principal Executive Offices)

Registrant's Telephone Number: 1-800-866-3555

LIZABETH R. NICHOLS, Esquire  
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(Name and Address of Agent for Service of Process)

COPY TO:  
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It is proposed that this filing become effective (check appropriate box):

/X/ immediately upon filing pursuant to paragraph (b) of Rule 485

// on date pursuant to paragraph (b) of Rule 485

// 60 days after filing pursuant to paragraph (a)(i) of Rule 485  
// on date pursuant to paragraph (a)(i) of Rule 485

// 75 days after filing pursuant to paragraph (a)(ii) of Rule 485

// on date pursuant to paragraph (a)(ii) of Rule 485

Pursuant to Rule 24f-2 under the Investment Company Act of 1940, the registrant has previously registered an indefinite amount of securities under the Securities Act of 1933. The registrant filed a Rule 24f-1 Notice for the fiscal year ended December 31, 1994, on February 28, 1995.

PROTECTIVE INVESTMENT COMPANY  
REGISTRATION STATEMENT ON FORM N-1A  
CROSS REFERENCE SHEET  
PURSUANT TO RULE 481(A)

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ITEM NO.

PART A	INFORMATION REQUIRED IN A PROSPECTUS	CAPTION
<C>	<S>	<C>
1.	Cover Page.....	Cover Page
2.	Synopsis.....	Not Applicable
3.	Condensed Financial Information.....	Condensed Financial Information

4.	General Description of Registrant.....	Introduction; Investment Objectives and Policies; Special Investment Methods and Risks
5.	Management of the Fund.....	Management
5A	Management's Discussion of Performance.....	Not Applicable
6.	Capital Stock and Other Securities.....	Other Information
7.	Purchase of Securities Being Offered.....	Offering, Purchase and Redemption of Shares
8.	Redemption or Repurchase.....	Offering, Purchase and Redemption of Shares
9.	Pending Legal Proceedings.....	Not Applicable

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PART B

INFORMATION REQUIRED IN A  
STATEMENT OF ADDITIONAL INFORMATION

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11.	Table of Contents.....	Table of Contents
12.	General Information and History.....	Introduction; Shares of Stock
13.	Investment Objectives and Policies.....	Additional Investment Policy Information; Special Investment Methods and Risks; Investment Restrictions
14.	Management of the Registrant.....	Investment Manager; Investment Advisers; Directors and Officers
15.	Control Persons and Principal Holders of Securities.....	Shares of Stock
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PART C OTHER INFORMATION

Information required to be included in Part C is set forth under the appropriate Item, so numbered, in Part C to this Registration Statement.

PART A  
INFORMATION REQUIRED IN A PROSPECTUS

PROTECTIVE INVESTMENT COMPANY  
PROSPECTUS  
JUNE 13, 1995

Protective Investment Company (the "Company") is an investment company consisting of six separate investment portfolios or funds (the "Funds") each of which has different investment objectives.

PROTECTIVE MONEY MARKET FUND seeks to maximize current income to the extent consistent with the preservation of capital and maintenance of liquidity. This Fund will pursue its objective by investing exclusively in high quality money market instruments. AN INVESTMENT IN THE MONEY MARKET FUND IS NEITHER INSURED NOR GUARANTEED BY THE U.S. GOVERNMENT AND THE COMPANY CANNOT ASSURE THAT IT WILL BE ABLE TO MAINTAIN A STABLE NET ASSET VALUE OF \$1 PER SHARE.

PROTECTIVE SELECT EQUITY FUND seeks total return consisting of capital

appreciation plus dividend income. This Fund will pursue its objective by investing, under normal circumstances, at least 90% of its total assets in equity securities selected using both fundamental research and a variety of quantitative techniques that seek to maximize the Fund's reward to risk ratio.

PROTECTIVE CAPITAL GROWTH FUND seeks long-term capital growth. The Fund will pursue its objective by investing, under normal circumstances, at least 65% of its total assets in equity securities having long-term capital appreciation potential.

PROTECTIVE SMALL CAP EQUITY FUND seeks long-term capital growth. This Fund will pursue its objective by investing, under normal circumstances, at least 65% of its total assets in equity securities of companies with public stock market capitalizations of \$1 billion or less at the time of investment.

PROTECTIVE INTERNATIONAL EQUITY FUND seeks long-term capital appreciation. This Fund will pursue its objective by investing primarily in equity and equity-related securities of companies that are organized outside the United States or whose securities are primarily traded outside the United States.

PROTECTIVE GROWTH AND INCOME FUND seeks long-term growth of capital and growth of income. This Fund will pursue its objectives by investing, under normal circumstances, at least 65% of its total assets in equity securities having favorable prospects for capital appreciation and/or dividend paying ability.

PROTECTIVE GLOBAL INCOME FUND seeks high total return, emphasizing current income and, to a lesser extent, providing opportunities for capital appreciation. This Fund will pursue its objectives by investing primarily in high quality fixed-income securities of U.S. and foreign issuers and through foreign currency transactions.

These Funds are available to the public only through the purchase of certain variable annuity contracts (the "Contracts") issued by Protective Life Insurance Company.

This Prospectus briefly describes the information that investors should know before investing in these Funds including the risks associated with investing in each. Investors should read and retain this prospectus for future reference. A statement of additional information dated June , 1995, has been filed with the Securities and Exchange Commission and contains further information about the Funds. The statement of additional information is incorporated herein by reference. A copy may be obtained without charge by calling 1-800-866-3555 or writing the Company at P.O. Box 2606, Birmingham, Alabama 35202.

SHARES OF THE COMPANY ARE NOT DEPOSITS OR OBLIGATIONS OF, OR GUARANTEED OR ENDORSED BY, ANY BANK OR OTHER INSURED DEPOSITORY INSTITUTION, AND ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENT AGENCY. AN INVESTMENT IN ANY OF THE FUNDS INVOLVES INVESTMENT RISK INCLUDING POSSIBLE LOSS OF PRINCIPAL.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THIS PROSPECTUS SHOULD BE READ IN CONJUNCTION WITH THE PROSPECTUS FOR THE CONTRACTS.

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## INTRODUCTION

Protective Investment Company (the "Company") is an open-end management investment company incorporated in the State of Maryland on September 2, 1993. The Company consists of seven separate investment portfolios or funds (the "Funds" or a "Fund"), each of which is, in effect, a separate mutual fund. The Company issues a separate class of stock for each Fund representing fractional undivided interests in that Fund. An investor, by investing in a Fund, becomes entitled to a pro-rata share of all dividends and distributions arising from the net income and capital gains on the investments of that Fund. Likewise, an investor shares pro-rata in any losses of that Fund.

Pursuant to an investment management agreement and subject to the authority of the Company's board of directors, Investment Distributors Advisory Services, Inc. ("IDASI") serves as the Company's investment manager (the "Investment Manager") and conducts the business and affairs of the Company. IDASI has engaged Goldman Sachs Asset Management International ("GSAMI"), an affiliate of Goldman, Sachs & Co., as the investment adviser to provide day-to-day portfolio management for the Protective International Equity Fund and the Protective Global Income Fund. IDASI has engaged Goldman Sachs Asset Management ("GSAM"), a separate operating division of Goldman, Sachs & Co., as the investment adviser to provide day-to-day portfolio management for each of the other Funds. (GSAM and GSAMI are each referred to herein as the "Adviser" or together as the "Advisers," as appropriate. Goldman, Sachs & Co. is referred to herein as "Goldman Sachs").

The Company currently offers each class of its stock to a separate account of Protective Life Insurance Company ("Protective Life") as funding vehicles for certain variable annuity contracts (the "Contracts") issued by Protective Life through the separate account (the "Account"). The Company does not offer its stock directly to the general public. The Account, like the Company, is registered as an investment company with the Securities and Exchange Commission ("SEC") and a separate prospectus, which accompanies this prospectus, describes the Account and the Contracts. The Company may, in the future, offer its stock to other registered and unregistered separate accounts of Protective Life and its affiliates supporting other variable annuity contracts or variable life insurance contracts and to qualified pension and retirement plans.

PROTECTIVE INVESTMENT COMPANY  
FINANCIAL HIGHLIGHTS

FOR A SHARE OF COMMON STOCK OUTSTANDING FOR THE PERIOD MARCH 14,  
1994 (COMMENCEMENT OF INVESTMENT OPERATIONS) THROUGH DECEMBER 31, 1994

&lt;TABLE&gt;

&lt;CAPTION&gt;

	NET ASSET VALUE AT BEGINNING OF PERIOD	NET INVESTMENT INCOME (2) (6)	REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY TRANSACTIONS (6)	TOTAL FROM INVESTMENT OPERATIONS	DIVIDENDS FROM NET INVESTMENT INCOME	DIVIDENDS FROM NET REALIZED CAPITAL GAINS	DISTRIBUTIONS IN EXCESS OF NET REALIZED GAINS
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Global Income							
Fund(1).....	\$ 10.000	\$ 0.367	\$ (0.442)	\$ (0.075)	\$ (0.367)	\$ 0.000	\$ 0.000
International Equity							
Fund(1).....	10.000	0.048	(0.467)	(0.419)	0.000	0.000	0.000
Growth and Income							
Fund(1).....	10.000	0.114	(0.300)	(0.186)	(0.114)	(0.031)	(0.008)
Select Equity							
Fund(1).....	10.000	0.093	(0.039)	0.054	(0.093)	(0.120)	(0.002)
Small Cap Equity							
Fund(1).....	10.000	0.038	(1.025)	(0.987)	(0.038)	(0.001)	(0.023)
Money Market							
Fund(1).....	1.000	0.031	0.000	0.031	(0.031)	0.000	0.000

&lt;CAPTION&gt;

	TOTAL DISTRIBUTIONS	NET ASSET VALUE AT END OF PERIOD	TOTAL RETURN (3) (5)	NET ASSETS END OF PERIOD	RATIO OF OPERATING EXPENSES TO AVERAGE NET ASSETS (4)	RATIO OF NET INVESTMENT INCOME TO AVERAGE NET ASSETS (4)	PORTFOLIO TURNOVER RATE (5)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Global Income							
Fund(1).....	\$ (0.367)	\$ 9.558	(0.74)%	\$ 17,281	1.10%	5.58%	210%
International Equity							
Fund(1).....	0.000	9.581	(4.18)	27,385	1.10	1.25	33
Growth and Income							
Fund(1).....	(0.153)	9.661	(1.86)	42,305	0.80	2.21	36
Select Equity							
Fund(1).....	(0.215)	9.839	0.53	17,717	0.80	2.44	56
Small Cap Equity							
Fund(1).....	(0.062)	8.951	(9.87)	21,813	0.80	1.07	17
Money Market							
Fund(1).....	(0.031)	1.000	3.14	3,618	0.60	3.80	N/A

&lt;FN&gt;

- (1) Investment operations commenced on March 14, 1994.
- (2) Net Investment Income and Ratio of Operating Expenses to Average Net Assets is after reimbursement of certain fees and expenses by the Investment Manager. (See Note C to the Company's financial statements.) Had the Investment Manager not undertaken to reimburse expenses related to the Funds, net investment income per share and the ratio of operating expenses to average net assets would have been as follows: Global Income Fund, \$0.320 and 2.12%; International Equity Fund, \$0.004 and 2.24%; Growth and Income Fund, \$0.097 and 1.31%; Select Equity Fund, \$0.055 and 1.81%; Small Cap Equity Fund, \$0.009 and 1.62%; and Money Market Fund, \$0.018 and 2.24%, respectively.
- (3) Total return is calculated assuming a purchase of shares at net asset value per share on the first day and a sale at net asset value per share on the last day of each period reported. Distributions are assumed, for the purposes of this calculation, to be reinvested at the net asset value per share on the respective payment dates of each Fund.
- (4) Annualized.
- (5) Non-Annualized.
- (6) The per share computation is a mathematical computation which may appear inconsistent with the statement of operations.

&lt;/TABLE&gt;

## INVESTMENT OBJECTIVES AND POLICIES

Each Fund has one or more investment objectives and related investment policies and uses various investment techniques to pursue these objectives and policies. THERE CAN BE NO ASSURANCE THAT ANY OF THE FUNDS WILL ACHIEVE ITS INVESTMENT OBJECTIVE OR OBJECTIVES. Investors should not consider any one Fund alone to be a complete investment program. All of the Funds are subject to the risk of changing economic conditions, as well as the risk inherent in the ability of the Adviser to make changes in the portfolio composition of the Fund in anticipation of changes in economic, business, and financial conditions. As with any security, a risk of loss is inherent in an investment in the shares of any of the Funds.

The different types of securities, investments, and investment techniques used by each Fund all have attendant risks of varying degrees. For example, with respect to equity securities, there can be no assurance of capital appreciation and there is a substantial risk of decline. With respect to debt securities, there exists the risk that the issuer of a security may not be able to meet its obligations on interest or principal payments at the time required by the instrument. In addition, the value of debt instruments generally rises and falls inversely with prevailing current interest rates. As described below, an investment in certain of the Funds entails special additional risks as a result of their ability to invest a substantial portion of their assets in either foreign investments or small capitalization issuers or both. In addition, three of the Funds are not diversified and this entails certain special risks. See "Special Investment Methods and Risks."

Certain types of investments and investment techniques common to one or more Funds are described in greater detail, including the risks of each, under "Special Investment Methods and Risks" and in the statement of additional information ("SAI"). The Funds are also subject to certain investment restrictions that are described under the caption "Investment Restrictions" in either this prospectus or the SAI.

The investment objective or objectives of each Fund as well as the investment policies are not fundamental and may be changed by the Company's board of directors without shareholder approval. Certain of the investment restrictions of each Fund are fundamental and may not be changed without the approval of a majority of the votes attributable to the outstanding shares of that Fund. See "Investment Restrictions."

## PROTECTIVE MONEY MARKET FUND

The investment objective of the Money Market Fund is to maximize current income to the extent consistent with the preservation of capital and the maintenance of liquidity. The Money Market Fund will pursue this objective by investing in the following high quality money market instruments:

1. securities issued or guaranteed as to principal and interest by the U.S. Government, its agencies, authorities or instrumentalities ("U.S. Government Securities") and related custody receipts;
2. obligations issued or guaranteed by U.S. banks (including certificates of deposit, loan participation interests, commercial paper, unsecured bank promissory notes, time deposits, and bankers' acceptances) that have more than \$1 billion in total assets at the time of purchase as well as debt obligations of U.S. subsidiaries of such banks;
3. commercial paper (unsecured promissory notes including variable amount master demand notes and asset-backed commercial paper) issued or guaranteed by U.S. corporations or other entities that are, at the time of purchase, rated in the two highest rating categories for short-term debt obligations of at least one nationally recognized statistical rating organization ("NRSRO");
4. other short-term obligations issued or guaranteed by U.S. corporations, (including short-term funding agreements) state and municipal governments or other entities;
5. unrated notes, paper, or other instruments that the Adviser determines to be of comparable high quality; and
6. repurchase agreements with banks and government securities dealers, provided that:
  - (a) at the time that the repurchase agreement is entered into, and

throughout the duration of the agreement, the collateral has a market value at least equal to the value of the repurchase agreement; and

- (b) the collateral consists of U.S. Government Securities or instruments that are rated in the highest rating category by the requisite NRSROs (as defined below).

The Money Market Fund may acquire any of the above securities on a forward commitment or when-issued basis. The Fund may also lend portfolio securities and invest in other investment companies. See "Special Investment Methods and Risks."

The Money Market Fund will only invest in instruments denominated in U.S. dollars that the Adviser, under the supervision of the Company's board of directors, determines present minimal credit risk and are, at the time of acquisition, either:

1. rated in one of the two highest rating categories for short-term debt obligations assigned by at least two NRSROs, or by only one NRSRO if only one NRSRO has issued a rating with respect to the instrument ("requisite NRSROs"); or
2. in the case of an unrated instrument, determined by the Adviser, under the supervision of the Investment Manager and the Company's board of directors, to be of comparable quality to the instruments described in 1 above; or
3. issued by an issuer that has received a rating of the type described in 1 above on other securities that are comparable in priority and security to the instrument.

The Money Market Fund will invest 95% of its total assets in securities that are rated in the highest category by the requisite NRSROs or unrated securities of comparable investment quality. Of securities not rated in the highest category (or not of comparable quality), the Fund will not invest more than the greater of 1% of its total assets or \$1 million in the securities of any single issuer. The Fund is diversified. Except as explained in the SAI, the Fund will not invest more than 5% of its assets (taken at amortized cost) in securities of any single issuer (except U.S. Government securities or repurchase agreements collateralized by such securities).

All Money Market Fund portfolio instruments will mature within 13 months or less of the time that they are acquired. The average maturity of the Fund's portfolio securities based on their dollar value will not exceed 90 days at the time of each investment. If the disposition of a portfolio security results in a dollar-weighted average portfolio maturity in excess of 90 days, the Money Market Fund will invest its available cash in such manner as to reduce its dollar-weighted average portfolio maturity to 90 days or less as soon as is reasonably practicable.

NRSROs include Standard & Poor's Ratings Group, Moody's Investors Service, Inc., Fitch Investors Service, Inc., Duff and Phelps, Inc., IBCA Limited and its affiliate IBCA Inc., and Thompson BankWatch. See Appendix A to the SAI for a description of each NRSRO's rating categories.

#### PROTECTIVE SELECT EQUITY FUND

The investment objective of the Select Equity Fund is to provide investors with a total return consisting of capital appreciation plus dividend income.

The Select Equity Fund seeks to achieve its investment objective by investing, under normal circumstances, at least 90% of its total assets in equity securities selected using both fundamental research and a variety of quantitative techniques that seek to maximize the Fund's reward to risk ratio. The Fund's portfolio is designed to have risk, capitalization and industry characteristics similar to that of the S&P 500 Index.

The Select Equity Fund invests primarily in equity securities, consisting of common stocks, preferred stocks, convertible securities and warrants. It is therefore subject to certain market risks, such as the possibility that the price of a security held by the Fund will decline over a short or even an extended period of time. The market for equity securities in the United States tends to be cyclical, with periods when the prices of securities generally rise and periods when they generally decline. To a limited extent, the Fund may purchase the securities of issuers with less than three years' continuous operating history ("unseasoned issuers") and other investment companies. See "Special Investment Methods and Risks." The Select Equity Fund may invest in



equity securities that are issued by foreign issuers and are traded in the United States. All such securities will be issued by foreign companies that comply with U.S. accounting standards. The Fund may also invest in American depository receipts ("ADRs") and global depository receipts ("GDRs"). ADRs are receipts typically issued by a U.S. bank or trust company which evidence ownership of underlying securities of foreign corporations. GDRs are receipts issued by non-U.S. financial institutions evidencing an arrangement similar to ADRs. Generally, ADRs, in registered form, are designed for trading in U.S. securities markets and GDRs, issued in either registered or bearer form, are designed for trading on a global basis. See "Special Investment Methods and Risks."

The Select Equity Fund will normally maintain balances in the range of 2% to 5% of the Fund's net assets. The Fund may purchase futures contracts on the S&P 500 Index in order to keep the Fund's effective equity exposure close to 100%. For example, if cash balances are equal to 5% of the net assets, the Fund may enter into long futures contracts covering an amount equal to 5% of the Fund's net assets. See "Special Investment Methods and Risks." Under unusual circumstances, the Fund may temporarily hold up to 35% of its assets in cash or such short-term instruments of the type that the Money Market Fund may hold for liquidity purposes. In addition to the purchase and sale of futures contracts on the S&P 500 Index, it may purchase securities on a when-issued or forward commitment basis and engage in securities lending. See "Special Investment Methods and Risks."

The Adviser begins with a universe primarily of large capitalization equity securities and assigns each security a rating based on the multifactor model (described below) and if the security is followed by the Goldman Sachs Investment Research Department (the "research department") a second rating is assigned based upon the research department's evaluation. In selecting securities for the Fund, the Adviser utilizes optimization models to evaluate the ratings assigned by the multifactor model and the research department to build a diversified portfolio. This portfolio is primarily comprised of securities rated highest by the multifactor model and research analysts and has risk characteristics and industry weightings similar to the S&P 500 Index. Under normal circumstances, the securities of any one issuer will not exceed 5% of the Fund's total assets.

The multifactor model is a sophisticated computerized rating system for evaluating equity securities according to fundamental investment characteristics. The factors used by the multifactor model incorporate many variables studied by traditional fundamental analysts, and cover measures of value, yield, growth, momentum, risk and liquidity (E.G., price/earnings ratio, book/price ratio, long and short-term growth estimates, earnings estimates, price momentum, volatility and liquidity). All of the factors used by the multifactor model have been shown to significantly impact the performance of equity securities. The weights assigned to the factors are derived using a statistical formulation that considers each factor's historical performance in different market environments. As such, the multifactor model is designed to evaluate each security using only the factors that are statistically related to returns in the anticipated market environment. Because it includes many disparate factors, the Adviser believes that the multifactor model is broader in scope and provides a more thorough evaluation than most conventional, value-oriented quantitative models. As a result, the securities ranked highest by the multifactor model do not have one dominant investment characteristic (such as a low price/earnings ratio); rather, such securities possess a number of attractive investment characteristics.

If the security is followed by the research department, it is also assigned a rating based on the department's evaluation. The research department uses a four category rating system ranging from

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"recommended for purchase" to "likely to underperform." With an annual budget of more than \$120 million, the research department has a staff of approximately 150 senior professionals who follow over 1700 issuers.

By employing both quantitative (I.E., the multifactor model) and a qualitative (I.E., analyst's ratings) method of selecting securities, the Fund seeks to capitalize on the strengths of each discipline.

## PROTECTIVE CAPITAL GROWTH FUND

The Capital Growth Fund's investment objective is long-term capital growth. The Fund seeks to achieve its investment objective by investing primarily in securities that the Adviser considers to have long-term capital appreciation potential. Among such investments, the Fund emphasizes common stocks, but may also purchase convertible debt securities, convertible preferred stock, warrants, mortgage-backed and asset-backed securities and lower-rated or unrated debt securities that the Adviser believes offer potential for long-term capital appreciation. Under normal market conditions, the Fund invests at least 65% of its total assets in equity securities, including common stocks, preferred stocks, convertible debt securities, convertible preferred stock, warrants and other stock purchase rights, and interests in real estate investment trusts ("REITs").

At least 75% of the Fund's assets are invested in securities of U.S. issuers. Up to 25% of the Fund's total assets may be invested in foreign securities including ADRs, European depository receipts ("EDRs") and GDRs and securities of issuers in countries with emerging economies and securities markets. See "Special Investment Methods and Risks." Up to 25% of the Fund's total assets may be invested in fixed-income securities, including notes, bonds, debentures, U.S. Government Securities, zero coupon bonds, mortgage-backed and asset-backed securities, and lower-rated or unrated debt securities. EDRs are receipts issued by non-U.S. financial institutions evidencing an arrangement similar to ADRs. Generally, EDRs, in bearer form, are designed for trading in European securities markets. See "Special Investment Methods and Risks."

The Fund may also invest in certain instruments or utilize investment techniques that involve special risks. These include: convertible securities, when-issued securities and forward commitments, options on securities and securities indices, futures contracts and options thereon, illiquid or restricted securities, repurchase agreements, foreign securities, forward foreign currency exchange contracts, options on foreign currency, short sales against-the-box, stock of other investment companies, lending portfolio securities and small capitalization companies. These investments and techniques and their attendant risks are also described in "Special Investment Methods and Risks."

Notwithstanding the Capital Growth Fund's investment objective of long-term capital growth, the Fund may, when the Adviser deems appropriate, for temporary defensive purposes to preserve capital, hold part or all of its assets in cash, money market instruments of the type in which the Money Market Fund may invest, non-convertible preferred stocks, or, subject to tax restrictions, foreign currencies.

## PROTECTIVE SMALL CAP EQUITY FUND

The Small Cap Equity Fund's investment objective is long-term capital growth. Dividend income, if any, is an incidental consideration. The Fund seeks to achieve its investment objective by investing, under normal circumstances, at least 65% of its total assets in equity securities of companies with public stock market capitalizations of \$1 billion or less at the time of investment. However, the Fund emphasizes investments in companies with public stock market capitalizations of \$500 million or less at the time of investment. Under normal market conditions, the Fund's investment horizon for ownership of stocks is two to three years. Equity securities in which the Small Cap Equity Fund may invest include common stocks, preferred stocks, convertible securities, warrants and interests in REITs. The Adviser believes that the companies in which the Small Cap Equity Fund may invest offer greater potential for growth of capital than larger, more mature, better known companies. The Fund invests in companies that the Adviser believes are well managed niche businesses that have the potential to achieve high or improving returns on capital and/or above average sustainable growth.

Investments may be made in companies that are in the early stages of their life that the Adviser believes have significant growth potential. The Fund may invest in securities of small capitalization companies which may have experienced financial difficulties. However, investments in such small capitalization

companies may involve special risks. See "Special Investment Methods and Risks - -- Risks of Investing in Small Capitalization Companies," below.

The Adviser expects that the Small Cap Equity Fund will typically invest in the securities of approximately 30 to 50 companies. The number of stocks owned is intended to provide the Fund with a moderate level of diversification while at the same time not diluting the impact of any one investment. However, the Fund is "non-diversified" as defined in the Investment Company Act of 1940, as amended, (the "Act"). The only statutory or regulatory diversification requirements to which it is subject arise under the federal tax law. See "Taxes" and "Special Investment Methods and Risks."

The Fund may also invest in certain instruments or utilize investment techniques that involve special risks. These include: convertible securities, lower-rated debt securities, when-issued securities and forward commitments, options on securities and securities indices, foreign securities, ADRs, EDRs, GDRs, forward foreign currency exchange contracts, options on foreign currency, futures contracts and options thereon, illiquid or restricted securities, repurchase agreements, short sales against-the-box, stock of other investment companies and lending portfolio securities. These investments and techniques and their attendant risks are also described in "Special Investment Methods and Risks."

Although the Small Cap Equity Fund will invest primarily in publicly traded U.S. securities, it may invest up to 25% of its total assets in foreign securities, (including securities of issuers in countries with emerging economies or securities markets) ADRs EDRs and GDRs. Up to 35% of its total assets may be invested in the equity securities of companies with public stock market capitalizations in excess of \$1 billion and in fixed-income securities, which may include notes, bonds, debentures, U.S. Government Securities and zero coupon bonds, including lower-rated or unrated debt securities.

Notwithstanding the Small Cap Equity Fund's investment objective of long-term capital growth, the Fund may, when the Adviser deems appropriate, for temporary defensive purposes to preserve capital, hold part or all of its assets in cash, money market instruments of the type in which the Protective Money Market Fund may invest, non-convertible preferred stocks, or, subject to tax restrictions, foreign currencies.

#### PROTECTIVE INTERNATIONAL EQUITY FUND

The International Equity Fund's investment objective is long-term capital appreciation. The Fund will seek to achieve its objective by investment primarily in equity and equity-related securities of companies that are organized outside the United States or of companies whose securities are principally traded outside the United States. Under normal market conditions, the Fund will invest substantially all, and at least 65%, of its total assets in such securities. The Fund is "non-diversified" as defined in the Act. The only statutory or regulatory diversification requirements to which it is subject arise under the federal tax law. See "Taxes" and "Special Investment Methods and Risks." The Adviser may allocate the Fund's investments among many different countries provided that such assets are invested in at least three different countries other than the U.S. The number of stocks in which the Fund is typically invested is intended to provide it with a moderate level of diversification while at the same time not diluting the impact of any one investment.

The International Equity Fund is intended for investors who can accept the risks involved in investments in equity and equity-related securities of non-U.S. issuers, as well as in foreign currencies and in the active management techniques that the Fund generally employs.

The equity and equity-related securities in which the International Equity Fund primarily invests are common stock, preferred stock, convertible debt obligations, convertible preferred stock and warrants or other rights to acquire stock that the Adviser believes offer the potential for long-term

capital appreciation. The Fund also may invest in securities of foreign issuers in the form of sponsored and unsponsored ADRs, EDRs, GDRs or other similar instruments representing securities of foreign issuers. See "Special Investment Methods and Risks."

**SUBSTANTIAL INVESTMENT IN WESTERN EUROPE AND JAPAN.** The International Equity Fund expects to invest a substantial portion of its assets in the securities of companies located in the developed countries of Western Europe and in Japan. Investment of a substantial portion of the Fund's assets in such countries will subject the Fund, to a greater extent than if investment was more limited, to the risks of adverse securities markets, exchange rates and social, political or economic events which may occur in those countries.

**INVESTMENTS IN EMERGING MARKETS.** The International Equity Fund may also invest in the securities of issuers located in countries with emerging economies or securities markets. These countries are: Argentina, Bangladesh, Botswana, Brazil, Chile, China, Columbia, Czech Republic, Cyprus, Egypt, Ghana, Hong Kong, Hungary, India, Indonesia, Israel, Jordan, Kenya, Malaysia, Mexico, Morocco, New Zealand, Pakistan, Peru, Philippines, Poland, Republic of Slovakia, Singapore, South Korea, Sri Lanka, South Africa, Swaziland, Taiwan, Thailand, Turkey, Uruguay, Venezuela, Zambia and Zimbabwe. Because many of these countries have, to a greater or lesser extent, emerging economies or securities markets, investment in such countries involves certain risks that are not present in investments in more developed countries. See "Special Investment Methods and Risks."

**FOREIGN CURRENCY AND CURRENCY TECHNIQUES.** Investment in foreign issuers usually involves currencies of foreign countries. Because the International Equity Fund's exposure to fluctuation of currency values is independent of its securities positions, the value of the assets of the Fund as measured in U.S. dollars is affected by changes in foreign currency exchange rates. An unlimited amount of the International Equity Fund's assets may be denominated or quoted in one or more of the foreign currencies. Substantial investment of the Fund's assets in a particular currency will increase its exposure to adverse developments affecting the value of that currency.

The International Equity Fund may employ certain currency techniques to seek to hedge against currency exchange rate fluctuations or to seek to increase total return. When used to attempt to enhance total return, these management techniques are considered speculative. Such currency management techniques involve risks different from those associated with investing solely in dollar-denominated securities of U.S. issuers. The management techniques which the Fund may employ consist of transactions in options, futures contracts, options on futures, forward foreign currency exchange contracts and currency swaps. To the extent that the Fund is fully invested in foreign securities while also maintaining currency positions, it may be exposed to greater combined risk. The Fund's net currency positions may expose it to risks independent of its securities positions. "Special Investment Methods and Risks."

**OTHER INVESTMENTS.** The International Equity Fund's investments may include U.S. Government Securities, mortgage-backed obligations, debt obligations of corporate and asset-backed issuers, debt obligations of foreign governments and their respective agencies, instrumentalities, political subdivisions and authorities and debt obligations issued or guaranteed by international or supranational entities that, in the opinion of the Adviser, offer the potential to enhance total return. The Fund will not, under normal conditions, invest more than 35% of its total assets in such debt obligations. The debt obligations in which the Fund may invest will be rated BBB or higher by Standard & Poor's Ratings Group ("S&P") or Baa or higher by Moody's Investors Services, Inc. ("Moody's"), or if unrated by such rating organizations, determined by the Adviser to be of comparable credit quality. See Appendix A to the SAI for a description of the corporate bond ratings assigned by S&P and Moody's.

The International Equity Fund may also make investments or utilize investment techniques that involve special risks. These include: convertible securities, when-issued securities and forward commitments, options on securities and securities indices, futures contracts and options thereon, illiquid or restricted securities, repurchase agreements, short sales against-the-box, stock of other investment

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companies, lending portfolio securities, small capitalization companies and unseasoned issuers. These investments and techniques and their attendant risks are described in "Special Investment Methods and Risks."

Notwithstanding the International Equity Fund's investment objective, the Fund may on occasion, for temporary defensive purposes to preserve capital, hold part or all of its assets in cash, other money market instruments of the type in which the Money Market Fund may invest, non-convertible preferred stocks, or, subject to certain tax restrictions, foreign currencies.

The Growth and Income Fund's investment objective is long-term growth of capital and growth of income. The Fund seeks to achieve its investment objectives by investing, under normal market conditions, at least 65% of its total assets in equity securities that the Adviser considers to have favorable prospects for capital appreciation and/or dividend paying ability. Equity securities in which the Fund may invest consist of common stocks, preferred stocks, convertible securities, warrants and other stock purchase rights, and interests in REITs. These securities may or may not pay a current dividend. Securities in which the Fund may invest may include securities acquired on a when-issued or forward commitment basis, restricted or illiquid securities, short sales against-the-box, securities of other investment companies, small capitalization companies and unseasoned issuers. The Fund may also use certain investment techniques that entail special risks. These include: options on securities and securities indices, futures contracts and options thereon, lending portfolio securities, lower-rated or unrated debt securities, repurchase agreements, holding and trading foreign currency, forward foreign currency contracts, futures contracts on foreign currency and option contracts on foreign currencies. These securities and techniques and their attendant risks are described in "Special Investment Methods and Risks."

OTHER INVESTMENT POLICIES AND RISKS. The Growth and Income Fund may invest up to 35% of its total assets in investment grade mortgage-backed, asset-backed and fixed-income securities issued by corporations or other entities or in U.S. Government Securities if such securities, in the opinion of the Adviser, offer the potential to further the Fund's investment objectives. In addition, although the Fund will invest primarily in publicly traded U.S. securities, it may invest up to 25% of its assets in foreign securities, including EDRs and GDRs and ADRs and securities of issuers in countries with emerging economies or securities markets.

When in the judgment of the Adviser market conditions warrant, the Growth and Income Fund may for temporary defensive purposes to preserve capital, hold part or all of its assets in cash, money market instruments of the type in which the Money Market Fund may invest, and foreign currencies.

#### PROTECTIVE GLOBAL INCOME FUND

The Global Income Fund's investment objective is a high total return, emphasizing current income and, to a lesser extent, providing opportunities for capital appreciation, primarily through investment in a portfolio of high quality fixed-income securities of U.S. and foreign issuers and through transactions in foreign currencies. High quality securities are defined as securities which have ratings of at least AA by S&P or Aa by Moody's ("high quality ratings") or, if unrated by such rating organizations, are determined by the Fund's Adviser to be of comparable credit quality. The Fund also may invest in obligations of foreign governments (or agencies or instrumentalities thereof) denominated in the issuer's currency rated A or better by Moody's or S&P, or, if not rated by such rating organizations, determined by the Adviser to be of comparable credit quality. A security will be considered to have met the Fund's credit criteria if it receives the minimum required rating from at least one such rating organization even though it has been rated below the minimum by one or more other rating organizations.

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SELECTION OF PORTFOLIO INVESTMENTS. Under normal circumstances, the Global Income Fund will seek to meet its investment objective by pursuing investment opportunities in foreign and domestic fixed-income securities markets and by engaging in currency transactions to enhance returns and for the purpose of hedging its portfolio. In determining the countries and currencies in which the Fund will invest, the Adviser's portfolio managers will form an opinion based primarily on the views of Goldman Sachs's economists as well as information provided by securities dealers, including information relating to factors such as interest rates, inflation, monetary and fiscal policies, taxation, and political climate. The portfolio managers will apply the Black-Litterman model (the "model") to their views to develop a portfolio that produces, in the view of the Adviser, the optimal expected return for a given level of risk. The model factors in the opinions of the portfolio managers, adjusting for their level of confidence in such opinions, with the views implied by an international capital asset pricing formula. The model is also used to maintain the level of portfolio risk within certain guidelines established by the Adviser.

In selecting securities for the portfolio, the portfolio managers consider such factors as the security's duration, sector and credit quality rating as well as the security's yield and prospects for capital appreciation. The Global Income Fund will, under normal market conditions, have at least 30% of its total assets, adjusted to reflect the Fund's net exposure after giving effect to

currency transactions and positions, denominated in U.S. dollars. It is expected that the Fund will use currency transactions both to enhance overall returns for a given level of risk and to hedge its exposure to foreign currencies. While the Fund will have both long and short currency positions, its net long and short foreign currency exposure will not exceed the value of the Fund's total assets. The Fund may, for temporary defensive purposes, invest up to 100% of its total assets in dollar-denominated securities or securities of U.S. issuers. See "Special Investment Methods and Risks."

**PORTFOLIO DURATION.** The Global Income Fund will maintain a dollar weighted average portfolio duration of not more than seven and one-half years. Duration represents the weighted average maturity of expected cash flows on a debt obligation, discounted to present value. The longer the duration of a debt obligation, the more sensitive its value is to changes in interest rates. Maturity measures only the time final payment is due on a bond or other debt security; it takes no account of the pattern of a security's cash flows over time. In computing the duration of its portfolio, the Fund will have to estimate the duration of debt obligations that are subject to prepayment or redemption by the issuer.

The Global Income Fund may use various techniques to shorten or lengthen the dollar weighted average duration of its portfolio, including the acquisition of debt obligations at a premium or discount, transactions in structured securities, options, futures contracts and options on futures and interest rate swaps. The Fund is not subject to any limitation with respect to the average maturity of its portfolio or the individual securities which it may hold.

**CURRENCY AND INTEREST RATE TECHNIQUES.** It is expected that the Global Income Fund will employ certain currency and interest rate management techniques involving risks different from those associated with investing solely in dollar-denominated fixed-income securities of U.S. issuers. Such management techniques include transactions in options (including yield curve options), futures contracts, options on futures contracts, structured securities, forward foreign currency exchange contracts, currency options and futures and currency and interest rate swaps, and interest rate floors, caps and collars. However, to the extent that the Fund is fully invested in foreign securities while also maintaining currency positions, it may be exposed to greater combined risk. The Fund's net currency positions may expose it to risks independent of its securities positions. See "Special Investment Methods and Risks."

**CONCENTRATION IN CANADA, GERMANY, JAPAN AND THE UNITED KINGDOM.** The Global Income Fund may invest more than 25% of its total assets in the securities of corporate and government issuers located in each of Canada, Germany, Japan and the United Kingdom as well as the securities of U.S. issuers. Concentration of the Fund's investments in such issuers or currencies will subject the Fund, to a

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greater extent than if investment was more limited, to the risks of adverse securities markets, exchange rates and social, political or economic events which may occur in those countries. In addition, for purposes of percentage limitations, the term "securities" does not include foreign currencies, which means that the Fund could have more than 25% of its total assets denominated in any particular foreign currency.

**OTHER INVESTMENT POLICIES.** The Global Income Fund is "non-diversified" under the Act. The only statutory or regulatory diversification requirements to which it is subject arise under federal tax law. See "Taxes" and "Special Investment Methods and Risks." Except as described above, not more than 25% of the Fund's total assets will be invested in the securities of any one foreign government or any other issuer (this limitation does not apply to the U.S. Government). Under normal circumstances, the Fund will invest in securities of issuers in at least three countries. No more than 25% of the Fund's total assets will be invested in securities of issuers located in any country other than Canada, Germany, Japan, the United Kingdom and the United States.

**FIXED-INCOME SECURITIES.** The fixed-income securities in which the Global Income Fund may invest include: (i) U.S. Government Securities and custody receipts therefor; (ii) securities issued or guaranteed by a foreign government or any of its political subdivisions, authorities, agencies or instrumentalities or by international entities (I.E., international organizations designated or supported by government entities to promote economic reconstruction or development, such as the World Bank); (iii) corporate debt securities; (iv) certificates of deposit, bankers' acceptances or time deposits of U.S. or foreign banks (including domestic or foreign branches thereof) having total assets of more than \$1 billion; (v) commercial paper of a type that the Money Market Fund may hold; and (vi) mortgage and asset-backed securities.

Although the Global Income Fund may invest in securities satisfying the minimum credit quality criteria prescribed above, the Fund generally intends to invest at least 50% of its net assets in securities having the highest

applicable credit quality rating at the time of investment and unrated securities determined by the Adviser to be of comparable credit quality to securities with the highest applicable credit quality rating. Currently, most of the foreign securities that meet the Fund's credit quality standards are likely to be securities issued by foreign governments. The debt securities in which the Fund will invest may have fixed, variable or floating interest rates.

**RISKS OF FOREIGN INVESTMENTS AND CURRENCIES.** The Global Income Fund will, under normal market conditions, have at least 30% of its total assets, adjusted to reflect the Fund's net exposure after giving effect to currency transactions and positions, denominated in U.S. dollars. The performance of investments in non-dollar securities will depend on, among other things, the strength of the foreign currency against the dollar and the interest rate environment in the country issuing the foreign currency. Absent other events which could otherwise affect the value of non-dollar securities (such as a change in the political climate or an issuer's credit quality), appreciation in the value of the foreign currency generally can be expected to increase the value of the Fund's non-dollar securities in terms of U.S. dollars. A rise in foreign interest rates or decline in the value of foreign currencies relative to the U.S. dollar generally can be expected to depress the value of the Fund's non-dollar securities in terms of U.S. dollars. The Adviser evaluates investments on the basis of fundamental economic criteria (E.G., relative inflation levels and trends, growth rate forecasts, balance of payments status and economic policies) as well as technical and political data.

Investing the Global Income Fund's assets in securities of issuers located outside the United States will subject the Fund to the risks of adverse social, political or economic events which may occur in such foreign countries. See "Special Investment Methods and Risks."

#### SPECIAL INVESTMENT METHODS AND RISKS

##### CONVERTIBLE SECURITIES

The Select Equity Fund, Capital Growth Fund Small Cap Equity Fund, International Equity Fund, and Growth and Income Fund may invest in convertible securities. Convertible securities may

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include corporate notes or preferred stock but are ordinarily a long-term debt obligation of the issuer convertible at a stated exchange rate into common stock of the issuer. As with all debt and income-bearing securities, the market value of convertible securities tends to decline as interest rates increase and, conversely, to increase as interest rates decline. Convertible securities generally offer lower interest or dividend yields than non-convertible securities of similar quality. However, when the market price of the common stock underlying a convertible security exceeds the conversion price, the price of the convertible security tends to reflect the value of the underlying common stock. As the market price of the underlying common stock declines, the convertible security tends to trade increasingly on a yield basis, and thus may not decline in price to the same extent as the underlying common stock. Convertible securities rank senior to common stocks in an issuer's capital structure and are consequently of higher quality and entail less risk than the issuer's common stock. In evaluating a convertible security, the Adviser gives primary emphasis to the attractiveness of the underlying common stock. The convertible securities in which the Select Equity Fund invests are not subject to any minimum rating criteria. The convertible debt securities in which the other Funds may invest are subject to the same rating criteria as that Fund's investments in non-convertible debt securities. Convertible debt securities are treated as equity securities for purpose of a Fund's investment policies or restrictions.

##### FIXED-INCOME SECURITIES

All of the Funds may invest in U.S. Government Securities and corporate and certain other fixed-income securities. Select Equity Fund may only invest in debt securities that are considered cash equivalents. Fixed-income securities are subject to the risk that the issuer will not be able to meet principal and interest payments on the obligations (credit risk) and may also be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (market risk). Except to the extent that values are independently affected by currency exchange rate fluctuations, the value of fixed-income securities generally rises when interest rates decline. Conversely, the value of fixed-income securities generally declines when interest rates rise. The interest rates payable on certain securities in which a Fund may invest that are characterized as "fixed-income" securities, are not really fixed and may fluctuate based upon changes in market rates of interest. Fixed-income securities include U.S. Government Securities, and debt obligations of states or

municipalities or state or municipal government agencies or instrumentalities, as well as the following:

**U.S. GOVERNMENT SECURITIES.** All of the Funds may purchase U.S. Government Securities. U.S. Government Securities are obligations issued or guaranteed by the U.S. Government, its agencies, authorities or instrumentalities. Some U.S. Government Securities, such as Treasury bills, notes and bonds, which differ only in their interest rates, maturities and times of issuance, are supported by the full faith and credit of the United States. Others, such as obligations issued or guaranteed by U.S. Government agencies, authorities or instrumentalities are supported either by (a) the full faith and credit of the U.S. Government (such as securities of the Small Business Administration), (b) the right of the issuer to borrow from the Treasury (such as securities of the Federal Home Loan Banks), (c) the discretionary authority of the U.S. Government to purchase the agency's obligations (such as securities of the Federal National Mortgage Association), or (d) only the credit of the issuer. No assurance can be given that the U.S. Government will provide financial support to U.S. Government agencies, authorities or instrumentalities in the future. U.S. Government Securities may also include zero coupon bonds.

Securities guaranteed as to principal and interest by the U.S. Government, its agencies, authorities or instrumentalities are considered to include (a) securities for which the payment of principal and interest is backed by a guarantee of or an irrevocable letter of credit issued by the U.S. Government, its agencies, authorities or instrumentalities and (b) participation in loans made to foreign governments or their agencies that are so guaranteed. The secondary market for certain of these participations is limited. Such participations may therefore be regarded as illiquid.

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Each Fund may also invest in separately traded principal and interest components of securities guaranteed or issued by the U.S. Treasury if such components are traded independently under the Separate Trading of Registered Interest and Principal of Securities program ("STRIPS").

**CUSTODY RECEIPTS.** All of the Funds may also acquire securities issued or guaranteed as to principal and interest by the U.S. Government, its agencies, authorities or instrumentalities in the form of custody receipts. Such receipts evidence ownership of future interest payments, principal payments or both on certain notes or bonds issued by the U.S. Government, its agencies, authorities or instrumentalities. For certain securities law purposes, custody receipts are not considered obligations of the U.S. Government.

**CORPORATE DEBT OBLIGATIONS.** Corporate debt securities are subject to credit risk and market risk. Lower rated or unrated securities are more likely to react to developments affecting market and credit risk than are more highly rated securities, which react primarily to movements in the general level of interest rates.

**LOWER RATED CORPORATE DEBT OBLIGATIONS.** The corporate debt obligations in which the Capital Growth Fund, Small Cap Equity Fund and Growth and Income Fund may invest may be rated in the lowest rating categories by S&P or by Moody's or be unrated. The Capital Growth Fund, Small Cap Equity Fund and Growth and Income Fund may invest up to 25%, 35% and 10%, respectively, of their total assets in such securities. Bonds rated BB or below by S&P or Ba or below by Moody's (or comparable unrated securities), commonly called "junk bonds," are considered speculative and payments of principal and interest thereon may be questionable. In some cases, such bonds may be highly speculative, have poor prospects for reaching investment grade standing and be in default. As a result, investment in such bonds will entail greater speculative risks than those associated with investment in investment-grade bonds (I.E., bonds rated BBB or higher by S&P or Baa or higher by Moody's). No minimum rating standard is required for a purchase of bonds by the Capital Growth Fund, Small Cap Equity Fund or Growth and Income Fund. The Fund may purchase debt obligations of issuers not currently paying interest as well as issuers who are in default. See Appendix A to the SAI for a description of the ratings issued by investment rating services.

**ZERO COUPON AND DEFERRED INTEREST BONDS.** The Capital Growth Fund, Small Cap Equity Fund, International Equity Fund, Growth and Income Fund and Global Income Fund may invest in zero coupon bonds. The Global Income Fund may also invest in deferred interest bonds. Zero coupon and deferred interest bonds are debt obligations which are issued at a significant discount from face value. The original discount approximates the total amount of interest the bonds will accrue and compound over the period until maturity or the first interest accrual date at a rate of interest reflecting the market rate of the security at the time of issuance. A zero coupon security pays no interest to its holder during its life and its value (above its cost to a Fund) consists of the difference between its face value at maturity and its cost. While zero coupon bonds do not require the periodic payment of interest, deferred interest bonds generally



provide for a period of delay before the regular payment of interest begins. Although this period of delay is different for each deferred interest bond, a typical period is approximately one-third of the bond's terms to maturity. Such investments benefit the issuer by mitigating its initial need for cash to meet debt service, but some also provide a higher rate of return to attract investors who are willing to defer receipt of such cash. Such investments experience greater volatility in market value due to changes in interest rates than debt obligations which provide for regular payments of interest. A Fund will accrue income on such investments for tax and accounting purposes, as required, which is distributable to shareholders and which, because no cash is received at the time of accrual, may require the liquidation of other portfolio securities to satisfy the Fund's distribution obligations.

**INVERSE FLOATING RATE SECURITIES.** The Global Income Fund may invest in inverse floating rate securities. The interest rate on such a security resets in the opposite direction from the market rate of interest to which it is indexed. An inverse floating rate security may be considered to be leveraged to

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the extent that its interest rate varies by a magnitude that exceeds the magnitude of the change in the index rate of interest. The higher degree of leverage inherent in such securities generally results in greater volatility in their market prices.

**MORTGAGE-BACKED AND ASSET-BACKED SECURITIES.** All of the Funds except Select Equity Fund may invest in mortgage-backed securities, which represent direct or indirect participation in, or are collateralized by and payable from, mortgage loans secured by real property. These Funds may also invest in asset-backed securities, which represent participation in, or are secured by and payable from, assets such as motor vehicle installment sale contracts, installment loan contracts, leases of various types of real and personal property, receivables from revolving credit (credit card) agreements and other categories of receivables. Such securities are generally issued by trusts and special purpose corporations.

Mortgage-backed and asset-backed securities are often subject to more rapid repayment than their stated maturity dates would indicate as a result of the pass-through of prepayments of principal on the underlying loans. This may increase the volatility of such instruments relative to other similarly rated debt securities. During periods of declining interest rates, prepayment of loans underlying mortgage-backed and asset-backed securities can be expected to accelerate, and thus impair a Fund's ability to reinvest the returns of principal at comparable yields. During periods of rising interest rates, reduced prepayment rates may extend the average life of mortgage-backed and asset-backed securities and increase the risk of depreciation due to future increases in market interest rates. Accordingly, the market values of such securities will vary with changes in market interest rates generally and in yield differentials among various kinds of U.S. Government Securities and other mortgage-backed and asset-backed securities. Asset-backed securities present certain additional risks that are not presented by mortgage-backed securities because asset-backed securities generally do not have the benefit of a security interest in collateral that is comparable to mortgage assets. There is the possibility that, in some cases, recoveries on repossessed collateral may not be available to support payments on these securities.

**STRUCTURED SECURITIES.** The Global Income Fund may invest in structured notes, bonds or debentures. The value of the principal of and/or interest on such securities is determined by reference to changes in the value of specific currencies, interest rates, commodities, indices or other financial indicators (the "Reference") or the relative change in two or more References. The interest rate or the principal amount payable upon maturity or redemption may be increased or decreased depending upon changes in the applicable Reference. The terms of the structured securities may provide that in certain circumstances no principal is due at maturity and, therefore, may result in the loss of the Fund's investment. Structured securities may be positively or negatively indexed, so that appreciation of the Reference may produce an increase or decrease in the interest rate or value of the security at maturity. In addition, changes in interest rates or the value of the security at maturity may be a multiple of changes in the value of the Reference. Consequently, structured securities may entail a greater degree of market risk than other types of fixed-income securities. Structured securities may also be more volatile, less liquid and more difficult to accurately price than less complex fixed-income investments.

#### REPURCHASE AGREEMENTS

All of the Funds may enter into repurchase agreements with dealers in U.S. Government Securities and member banks of the Federal Reserve System which furnish collateral at least equal in value or market price to the amount of their repurchase obligation. The International Equity Fund and Global Income Fund may also enter into repurchase agreements involving certain foreign

government securities. In a repurchase agreement, a Fund purchases a debt security from a seller which undertakes to repurchase the security at a specified resale price on an agreed future date (ordinarily a week or less). The resale price generally exceeds the purchase price by an amount which reflects an agreed-upon market interest rate for the term of the repurchase agreement. The primary risk is that, if the seller defaults, a Fund might suffer a loss to the extent that the proceeds from the sale of the

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underlying securities and other collateral held by that Fund in connection with the related repurchase agreement are less than the repurchase price. In addition, in the event of bankruptcy of the seller or failure of the seller to repurchase the securities as agreed, that Fund could suffer losses, including loss of interest on or principal of the security and costs associated with delay and enforcement of the repurchase agreement. The Company's board of directors have reviewed and approved certain sellers whom they believe to be creditworthy and have authorized the Funds to enter into repurchase agreements with such sellers.

All of the Funds, together with other registered investment companies advised by the Advisers, may transfer uninvested cash balances into a single joint account, the daily aggregate balance of which is invested in one or more repurchase agreements.

#### WHEN-ISSUED SECURITIES AND FORWARD COMMITMENTS

All of the Funds may purchase when-issued-securities. When-issued transactions arise when securities are purchased by a Fund with payment and delivery taking place in the future in order to secure what is considered to be an advantageous price and yield to the Fund at the time of entering into the transaction. Certain of the Funds may also purchase securities on a forward commitment basis; that is, make contracts to purchase securities for a fixed price at a future date beyond customary settlement time. A Fund is required to hold and maintain in a segregated account with its custodian until the settlement date, cash or liquid high grade debt securities in an amount sufficient to meet the purchase price. Alternatively, a Fund may enter into offsetting contracts for the forward sale of other securities that it owns. Purchase of securities on a when-issued or forward commitment basis involves a risk of loss if the value of the security to be purchased declines prior to the settlement date. Although a Fund would generally purchase securities on a when-issued or forward commitment basis with the intention of acquiring securities for its portfolio, the Fund may dispose of a when-issued security or forward commitment prior to settlement if the Adviser deems it advantageous to do so.

#### LENDING OF PORTFOLIO SECURITIES

All of the Funds may seek to increase their income by lending portfolio securities. Under present regulatory policies, such loans may be made to institutions, such as certain broker-dealers, and are required to be secured continuously by collateral in cash, cash equivalents, or U.S. Government Securities maintained on a current basis at an amount at least equal to the market value of the securities loaned. Cash collateral may be invested in cash equivalents. A Fund may experience a loss or delay in the recovery of its securities if the institution with which it has engaged in a portfolio loan transaction breaches its agreement with the Fund. If the Adviser determines to make securities loans, the value of the securities loaned will not exceed one-third of the value of the total assets of a Fund.

#### RESTRICTED AND ILLIQUID SECURITIES

The Select Equity Fund, Capital Growth Fund, Small Cap Equity Fund, Growth and Income Fund, Global Income Fund and International Equity Fund will each not invest more than 15%, of their total assets in securities that are not registered under the Securities Act of 1933 ("1933 Act") or are otherwise subject to restrictions on resale ("restricted securities") including securities offered and sold to "qualified institutional buyers" in reliance on Rule 144A under the 1933 Act. In addition, no Fund will invest more than 15% (10% for the Money Market Fund) of its net assets in illiquid investments, which includes most repurchase agreements maturing in more than seven days, swap transactions, time deposits with a notice or demand period of more than seven days, certain over-the-counter option contracts, participation interests in loans, securities that are not readily marketable and restricted securities, unless it is determined, based upon a continuing review of the trading markets for the specific restricted security, that such restricted security is eligible under Rule 144A and is liquid.

The board of directors of the Company has adopted guidelines and delegated to the Adviser the daily function of determining and monitoring the liquidity of restricted securities. The board, however, will retain sufficient oversight and be ultimately responsible for the determinations. Since it is not possible to predict with assurance exactly how the market for restricted securities sold and offered

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under Rule 144A will develop, the board will carefully monitor each Fund's investments in these securities, focusing on such important factors, among others, as valuation, liquidity and availability of information. To the extent that qualified institutional buyers become for a time uninterested in purchasing these restricted securities, this investment practice could have the effect of decreasing the level of liquidity in a Fund. The purchase price and subsequent valuation of restricted securities normally reflect a discount from the price at which such securities would trade if they were not restricted, since the restriction makes them less liquid.

#### BORROWING

All of the Funds may borrow money but only from banks and only for temporary or short-term purposes. Temporary or short-term purposes may include: (i) short-term (I.E., no longer than five business days) credits for clearance of portfolio transactions; (ii) borrowing in order to meet redemption requests or to finance failed settlements of portfolio trades without immediately liquidating portfolio securities or other assets; and (iii) borrowing in order to fulfill commitments or plans to purchase additional securities pending the anticipated sale of other portfolio securities or assets in the near future. No Fund will borrow for leveraging purposes. Each Fund will maintain continuous asset coverage of at least 300% (as defined in the Act) with respect to all of its borrowings. Should the value of a Fund's assets decline to below 300% of borrowings, the Fund may be required to sell portfolio securities within three days to reduce the Fund's debt and restore 300% asset coverage. Borrowing involves interest costs. A Fund will not purchase additional securities while its borrowings exceed 5% of its total assets.

#### OPTIONS ON SECURITIES AND SECURITIES INDICES

WRITING COVERED OPTIONS. All of the Funds except the Money Market Fund and Select Equity Fund may write (sell) covered call and put options on any securities in which they may invest. All call options written by the Funds are covered, which means that the Fund will own the securities subject to the option so long as the option is outstanding. All put options written by the Funds are covered, which means that the Fund would have deposited with its custodian cash, or liquid high grade debt securities with a value at least equal to the exercise price of the put option. Call and put options written by a Fund will also be considered to be covered to the extent that the Fund's liabilities under such options are wholly or partially offset by its rights under call and put options purchased by the Fund. The Funds other than the Money Market Fund and Select Equity Fund may also write call and put options on any securities index composed of securities in which they may invest.

PURCHASING OPTIONS. All of the Funds except the Money Market Fund and Select Equity Fund may purchase put and call options on any securities in which they may invest or options on any securities index based on securities in which they may invest.

YIELD CURVE OPTIONS. The Global Income Fund may enter into options, referred to as "yield curve options," on the yield differential between two securities.

RISKS ASSOCIATED WITH OPTIONS TRANSACTIONS. There is no assurance that a liquid secondary market on a domestic or foreign options exchange will exist for any particular exchange-traded option or at any particular time. If a Fund is unable to effect a closing purchase transaction with respect to covered options it has written, the Fund will not be able to sell the underlying securities or dispose of assets held in a segregated account until the options expire or are exercised. Similarly, if a Fund is unable to effect a closing sale transaction with respect to options it has purchased, it would have to exercise the options in order to realize any profit and will incur transaction costs upon the purchase or sale of the underlying securities. In a closing purchase or sale transaction, a Fund acquires a position that offsets and cancels an option position then held by the Fund.

The Funds (other than the Money Market Fund and Select Equity Fund) may purchase and sell both options that are traded on United States and foreign exchanges and options traded over-the-counter with broker-dealers who make markets in these options. The ability to terminate over-the-counter options is more limited than with exchange-traded options and may involve the risk that

broker-dealers participating in such transactions will not fulfill their obligations. Until such time as the staff of the SEC changes its position, the Funds will treat purchased over-the-counter options and all assets used to cover written over-the-counter options as illiquid securities. However, for options written with primary dealers in U.S. Government Securities pursuant to an agreement requiring a closing purchase transaction at a formula price, the amount of illiquid securities may be calculated with reference to a formula approved by the SEC staff.

The writing and purchase of options is a highly specialized activity which involves investment techniques and risks different from those associated with ordinary portfolio securities transactions. The use of options to increase total return involves the risk of loss if the Adviser is incorrect in its expectations of fluctuations in securities prices or interest rates. For example, the successful use of puts for hedging purposes depends in part on the ability of the Adviser to predict future price fluctuations and the degree of correlation between the options and securities markets. If the Adviser is incorrect in its determination of the correlation between the securities indices on which options are written or purchased and the securities in a Fund's portfolio or, with respect to yield curve options, of the direction or the extent of the movement of the yield differential, the investment performance of a Fund will be less favorable than it would have been in the absence of such option transactions. The Funds pay brokerage commissions or spreads in connection with their options transactions. The writing of options could significantly increase a Fund's portfolio turnover rate.

#### FUTURES CONTRACTS AND OPTIONS ON FUTURES CONTRACTS

To hedge against changes in interest rates, securities prices or currency exchange rates or to seek to increase total return, the Funds other than the Money Market Fund and the Select Equity Fund may purchase and sell various kinds of futures contracts, and purchase and sell call and put options on any futures contract that it may purchase or sell. The futures contracts may be based on various securities (such as U.S. Government Securities), securities indices, foreign currencies and other financial instruments and indices. These Funds may also enter into closing purchase and sale transactions with respect to any futures contract and options that each may purchase or sell. To hedge against changes in securities prices or to seek to increase total return, the Select Equity Fund may purchase and sell futures contracts on the S&P 500. Except with regard to futures contracts on foreign currencies, a Fund will engage in futures and related options transactions only for bona fide hedging purposes as defined in regulations of the Commodity Futures Trading Commission ("CFTC") or to seek to increase total return to the extent permitted by such regulations.

The Funds may not purchase or sell futures contracts or purchase or sell related options to seek to increase total return, except for closing purchase or sale transactions, if immediately thereafter the sum of the amount of initial margin deposits and premiums paid on a Fund's outstanding positions in futures and related options entered into for the purpose of seeking to increase total return would exceed 5% of the market value of the Fund's net assets. Transactions in futures contracts and options on futures involve brokerage costs, require margin deposits and, in the case of contracts and options obligating a Fund to purchase securities or currencies, require a Fund to segregate, liquid high-grade debt securities with a value equal to the amount of the Fund's obligations.

While transactions in futures contracts and options on futures may reduce certain risks, such transactions themselves entail certain other risks. Thus, while a Fund may benefit from the use of futures and options on futures, unanticipated changes in interest rates, securities prices or currency exchange rates may result in a poorer overall performance for the Fund than if it had not entered into any futures contracts or options transactions. The loss incurred by a Fund in writing options on futures is potentially unlimited and may exceed the amount of the premium received.

Futures markets are highly volatile and the use of futures contracts may increase the volatility of a Fund's net asset value. The profitability of a Fund's trading in futures to increase total return will depend on the ability of the Adviser to correctly analyze the futures markets. In addition, a relatively small price movement in a futures contract may result in substantial losses to a Fund. Further, futures contracts and options on futures may be illiquid, and exchanges may limit fluctuations in

futures contract prices during a single day. In the event of an imperfect correlation between a futures position and a portfolio position which is intended to be protected, the desired protection may not be obtained and a Fund may be exposed to risk of loss. Perfect correlation between a Fund's futures positions and portfolio positions will be impossible to achieve.

A Fund's transactions in futures contracts and options thereon may be limited by the requirements of the Internal Revenue Code of 1986, as amended (the "Code") for qualification as a regulated investment company.

#### FOREIGN TRANSACTIONS

**FOREIGN INVESTMENTS.** Investments in the securities of companies organized outside the United States or of companies whose securities are principally traded outside the United States ("foreign issuers") or investments in securities denominated or quoted in foreign currency ("non-dollar securities") may offer potential benefits that are not available from investments exclusively in securities of domestic issuers or dollar denominated securities. The Funds other than the Money Market Fund and Select Equity Fund may invest in foreign issuers or non-dollar securities. The Select Equity Fund may invest in foreign issuers. Such benefits may include the opportunity to invest in foreign issuers that appear to offer better opportunity for long-term capital appreciation or current earnings than investments in domestic issuers, the opportunity to invest in foreign countries with economic policies or business cycles different from those of the United States and the opportunity to invest in foreign securities markets that do not necessarily move in a manner parallel to U.S. markets.

Investing in non-dollar securities or in the securities of foreign issuers involves significant risks that are not typically associated with investing in U.S. dollar denominated securities or in securities of domestic issuers. Such investments may be affected by changes in currency exchange rates, changes in foreign or U.S. laws or restrictions applicable to such investments and in exchange control regulations (E.G., currency blockage). Some foreign stock markets may have substantially less volume than, for example, the New York Stock Exchange and securities of some foreign issuers may be less liquid than securities of comparable domestic issuers. Commissions and dealer mark-ups on transactions in foreign investments may be higher than for similar transactions in the United States. In addition, clearance and settlement procedures may be different in foreign countries and, in certain markets, on certain occasions, such procedures have been unable to keep pace with the volume of securities transactions, thus making it difficult to conduct such transactions.

Foreign issuers are not generally subject to uniform accounting, auditing and financial reporting standards comparable to those applicable to domestic companies. There may be less publicly available information about a foreign issuer than about a domestic one. In addition, there is generally less government regulation of stock exchanges, brokers, and listed and unlisted issuers in foreign countries than in the United States. Furthermore, with respect to certain foreign countries, there is a possibility of expropriation or confiscatory taxation, imposition of withholding taxes on dividend or interest payments, limitations on the removal of funds or other assets of the Fund, or political or social instability or diplomatic developments which could affect investments in those countries.

**INVESTMENTS IN ADRS, EDRS AND GDRS.** Many securities of foreign issuers are represented by ADRs, EDRs and GDRs. The Funds other than the Money Market Fund may invest in ADRs and GDRs and, except for the Select Equity Fund, may invest in EDRs. ADRs represent the right to receive securities of foreign issuers deposited in a domestic bank or a foreign correspondent bank. Prices of ADRs are quoted in U.S. dollars, and ADRs are traded in the United States on exchanges or over-the-counter and are sponsored and issued by domestic banks. In general, there is a large, liquid market in the United States for ADRs quoted on a national securities exchange or the NASD's national market system. The information available for ADRs is subject to the accounting, auditing and financial reporting standards of the domestic market or exchange on which they are traded, which standards are more uniform and more exacting than those to which many foreign issuers may be subject. EDRs

and GDRs are receipts evidencing an arrangement with a non-U.S. bank similar to that for ADRs and are designed for use in non-U.S. securities markets. EDRs and GDRs are not necessarily quoted in the same currency as the underlying security.

Depository receipts do not eliminate all the risk inherent in investing in the securities of foreign issuers. To the extent that a Fund acquires depository receipts through banks which do not have a contractual relationship with the

foreign issuer of the security underlying the receipt to issue and service such Depository receipts, there may be an increased possibility that the Fund would not become aware of and be able to respond to corporate actions such as stock splits or rights offerings involving the foreign issuer in a timely manner. The market value of depository receipts is dependent upon the market value of the underlying securities and fluctuations in the relative value of the currencies in which the receipts and the underlying securities are quoted. In addition, the lack of information may result in inefficiencies in the valuation of such instruments. However, by investing in Depository receipts rather than directly in the stock of foreign issuers, a Fund will avoid currency risks during the settlement period for either purchases or sales.

**INVESTMENTS IN EMERGING MARKETS.** The Capital Growth Fund, Small Cap Equity Fund, International Equity Fund and Growth and Income Fund may invest in securities of issuers located in countries with emerging economies and or securities markets. These countries are located in the Asia-Pacific region, Eastern Europe, Central and South America and Africa. Political and economic structures in many of these countries may be undergoing significant evolution and rapid development, and such countries may lack the social, political and economic stability characteristic of more developed countries. Certain of these countries may have in the past failed to recognize private property rights and have at times nationalized or expropriated the assets of private companies. As a result, the risks of foreign investment generally including the risks of nationalization or expropriation of assets, may be heightened. See "Special Investment Methods and Risks -- Foreign Securities" above. In addition, unanticipated political or social developments may affect the values of a Fund's investments in those countries and the availability to the Fund of additional investments in those countries.

The small size and inexperience of the securities markets in certain of these countries and the limited volume of trading in securities in those countries may also make the Capital Growth Fund, Small Cap Equity Fund, International Equity Fund, or Growth and Income Fund's investments in such countries illiquid and more volatile than investments in Japan or most Western European countries, and these Funds may be required to establish special custody or other arrangements before making certain investments in those countries. There may be little financial or accounting information available with respect to issuers located in certain of such countries, and it may be difficult as a result to assess the value or prospects of an investment in such issuers.

A Fund's purchase or sale of portfolio securities in certain emerging markets may be constrained by limitations as to daily changes in the prices of listed securities, periodic trading or settlement volume and/or limitations on aggregate holdings of foreign investors. Such limitations may be computed based on aggregate trading volume by or holdings of a Fund, the Adviser and its affiliates and their respective clients and other service providers. A Fund may not be able to sell securities in circumstances where price, trading or settlement volume limitations have been reached.

Foreign investment in certain emerging securities markets is restricted or controlled to varying degrees that may limit investment in such countries or increase the administrative cost of such investments. For example, certain Asian countries require government approval prior to investments by foreign persons or limit investment by foreign persons to a specified percentage of an issuer's outstanding securities or a specific class of securities which may have less advantageous terms (including price) than securities of such company available for purchase by nationals. In addition, certain countries may restrict or prohibit investment opportunities in issuers or industries important to national interests. Such restrictions may affect the market price, liquidity and rights of securities that may be purchased by a Fund.

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Settlement procedures in emerging markets are frequently less developed and reliable than those in the U.S. and may involve a Fund's delivery of securities before receipt of payment for their sale. In addition, significant delays are common in certain markets in registering the transfer of securities. Settlement or registration problems may make it more difficult for a Fund to value its portfolio assets and could cause a Fund to miss attractive investment opportunities, to have its assets uninvested or to incur losses due to the failure of a counterparty to pay for securities that the Fund has delivered or due to the Fund's inability to complete its contractual obligations.

Currently, there is no market or only a limited market for many management techniques and instruments with respect to the currencies and securities markets of emerging market countries. Consequently, there can be no assurance that suitable instruments for hedging currency and market-related risks will be available at the times when a Fund wishes to use them.

**FOREIGN CURRENCY TRANSACTIONS GENERALLY.** Because investment in foreign issuers will usually involve currencies of foreign countries, and because the

Capital Growth Fund, Small Cap Equity Fund, International Equity Fund, Growth and Income Fund and Global Income Fund may have currency exposure independent of their securities positions, the value of the assets of these Funds as measured in U.S. dollars will be affected by changes in foreign currency exchange rates.

An issuer of securities purchased by a Fund may be domiciled in a country other than the country in whose currency the instrument is denominated or quoted. The International Equity and Global Income Funds may also invest in securities quoted or denominated in the European Currency Unit ("ECU"), which is a "basket" consisting of specified amounts of the currencies of certain of the twelve member states of the European Economic Community. The specific amounts of currencies comprising the ECU may be adjusted by the Council of Ministers of the European Economic Community from time to time to reflect changes in relative values of the underlying currencies. In addition, these two Funds may invest in securities quoted or denominated in other currency "baskets."

Currency exchange rates may fluctuate significantly over short periods of time causing, along with other factors, a Fund's net asset value to fluctuate as well. They generally are determined by the forces of supply and demand in the foreign exchange markets and the relative merits of investments in different countries, actual or anticipated changes in interest rates and other complex factors, as seen from an international perspective. Currency exchange rates also can be affected unpredictably by intervention by U.S. or foreign governments or central banks, or the failure to intervene, or by currency controls or political developments in the U.S. or abroad. The market in forward foreign currency exchange contracts, currency swaps and other privately negotiated currency instruments offers less protection against defaults by the other party to such instruments than is available for currency instruments traded on an exchange. To the extent that a substantial portion of a Fund's total assets, adjusted to reflect the Fund's net position after giving effect to currency transactions, is denominated or quoted in the currencies of foreign countries, the Fund will be more susceptible to the risk of adverse economic and political developments within those countries.

In addition to investing in securities denominated or quoted in a foreign currency, certain of the five Funds listed above may engage in a variety of foreign currency management techniques. These Funds may hold foreign currency received in connection with investments in foreign securities when, in the judgment of the Adviser, it would be beneficial to convert such currency into U.S. dollars at a later date, based on anticipated changes in the relevant exchange rate. The Funds will incur costs in connection with conversions between various currencies.

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**FORWARD FOREIGN CURRENCY EXCHANGE CONTRACTS.** These Funds may purchase or sell forward foreign currency exchange contracts for hedging purposes and the International Equity and Global Income Funds to seek to increase total return as well when the Adviser anticipates that the foreign currency will appreciate or depreciate in value, but securities denominated or quoted in that currency do not present attractive investment opportunities and are not held in the Fund's portfolio. When purchased or sold for the purpose of increasing total return, forward foreign currency exchange contracts are considered speculative. In addition, these five Funds may enter into forward foreign currency exchange contracts in order to protect against anticipated changes in future foreign currency exchange rates. The International Equity Fund and Global Income Fund may engage in cross-hedging by using forward contracts in a currency different from that in which the hedged security is denominated or quoted if the Adviser determines that there is a pattern of correlation between the two currencies.

All five of these Funds may enter into contracts to purchase foreign currencies to protect against an anticipated rise in the U.S. dollar price of securities it intends to purchase. They may enter into contracts to sell foreign currencies to protect against the decline in value of its foreign currency denominated or quoted portfolio securities, or a decline in the value of anticipated dividends from such securities, due to a decline in the value of foreign currencies against the U.S. dollar. Contracts to sell foreign currency could limit any potential gain which might be realized by a Fund if the value of the hedged currency increased.

If a Fund enters into a forward foreign currency exchange contract to sell foreign currency to increase total return or to buy foreign currency for any purpose, the Fund will be required to place cash or liquid high grade debt securities in a segregated account with the Fund's custodian in an amount equal to the value of the Fund's total assets committed to the consummation of the

forward contract. If the value of the securities placed in the segregated account declines, additional cash or securities will be placed in the segregated account so that the value of the account will equal the amount of the Fund's commitment with respect to the contract.

Forward contracts are subject to the risk that the counterparty to such contract will default on its obligations. Since a forward foreign currency exchange contract is not guaranteed by an exchange or clearinghouse, a default on the contract would deprive a Fund of unrealized profits, transaction costs or the benefits of a currency hedge or force the Fund to cover its purchase or sale commitments, if any, at the current market price. A Fund will not enter into such transactions unless the credit quality of the unsecured senior debt or the claims-paying ability of the counterparty is considered to be investment grade by the Adviser.

**OPTIONS ON FOREIGN CURRENCIES.** The Capital Growth Fund, Small Cap Equity Fund, International Equity Fund, Growth and Income Fund and Global Income Fund may purchase and sell (write) put and call options on foreign currencies for the purpose of protecting against declines in the U.S. dollar value of foreign portfolio securities and anticipated dividends on such securities and against increases in the U.S. dollar cost of foreign securities to be acquired. The International Equity and Global Income Funds may use options on currency to cross-hedge, which involves writing or purchasing options on one currency to hedge against changes in exchange rates for a different currency, if there is a pattern of correlation between the two currencies. As with other kinds of option transactions, however, the writing of an option on foreign currency will constitute only a partial hedge, up to the amount of the premium received. A Fund could be required to purchase or sell foreign currencies at disadvantageous exchange rates, thereby incurring losses. The purchase of an option on foreign currency may constitute an effective hedge against exchange rate fluctuations; however, in the event of exchange rate movements adverse to a Fund's position, the Fund may forfeit the entire amount of the premium plus related transaction costs. In addition, the International Equity and Global Income Funds may purchase call or put options on currency to seek to increase total return when the Adviser anticipates that the currency will appreciate or depreciate in value, but the securities quoted or denominated in that currency do not present attractive investment opportunities and are not held in the Fund's portfolio. When purchased or sold to increase total return, options on currencies are considered speculative.

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Options on foreign currencies to be written or purchased by these Funds will be traded on U.S. and foreign exchanges or over-the-counter. See "Options on Securities and Securities Indices" above for a discussion of the liquidity risks associated with options transactions.

**INTEREST RATE SWAPS, CURRENCY SWAPS AND INTEREST RATE CAPS, FLOORS AND COLLARS.** The Global Income Fund may enter into interest rate and currency swaps for both hedging purposes and to seek to increase total return. The International Equity Fund may enter into currency swaps for these purposes. The Global Income Fund also may enter into special interest rate swap arrangements such as caps, floors and collars for both hedging purposes and to seek to increase total return. The Global Income Fund will typically use interest rate swaps to shorten the effective duration of its portfolio. Interest rate swaps involve the exchange by the Global Income Fund with another party of their respective commitments to pay or receive interest, such as an exchange of fixed rate payments for floating rate payments. Currency swaps involve the exchange by the Funds with another party of their respective rights to make or receive payments in specified currencies. The purchase of an interest rate cap entitles the purchaser to receive from the seller of the cap payments of interest on a notional amount equal to the amount by which a specified index exceeds a stated interest rate. The purchase of an interest rate floor entitles the purchaser to receive from the seller of the floor payments of interest on a notional amount equal to the amount by which a specified index falls below a stated interest rate. An interest rate collar is the combination of a cap and a floor that preserves a certain return within a stated range of interest rates. Since interest rate swaps, currency swaps and interest rate caps, floors and collars are individually negotiated, these Funds expect to achieve an acceptable degree of correlation between their portfolio investments and their interest rate or currency swap positions entered into for hedging purposes.

The Global Income Fund will only enter into interest rate swaps on a net basis, which means that the two payment streams are netted out, with the Fund receiving or paying, as the case may be, only the net amount of the two payments. Interest rate swaps do not involve the delivery of securities, other underlying assets or principal. Accordingly, the risk of loss with respect to interest rate swaps is limited to the net amount of interest payments that the Fund is contractually obligated to make. If the other party to an interest rate swap defaults, the Fund's risk of loss consists of the net amount of interest payments that the Fund is contractually entitled to receive. In contrast,



currency swaps usually involve the delivery of the entire principal value of one designated currency in exchange for the other designated currency. Therefore, the entire principal value of a currency swap is subject to the risk that the other party to the swap will default on its contractual delivery obligations. The Company will maintain in a segregated account with its custodian cash and liquid high-grade debt securities equal to the net amount, if any, of the excess of each Fund's obligations over its entitlements with respect to swap transactions. To the extent that the net amount of a swap is held in a segregated account consisting of cash and high-grade liquid debt securities, the Company believes that swaps do not constitute senior securities under the Act and, accordingly, will not treat them as being subject to each Fund's borrowing restriction.

Neither Fund will enter into swap transactions unless the unsecured commercial paper, senior debt or claims paying ability of the other party is considered to be investment grade by the Adviser.

The use of interest rate and currency swaps (including caps, floors and collars) is a highly specialized activity which involves investment techniques and risks different from those associated with ordinary portfolio securities transactions. If the Adviser is incorrect in its forecasts of market values, interest rates and currency exchange rates, the investment performance of the International Equity or Global Income Fund would be less favorable than it would have been if this investment technique were not used.

#### SHORT SALES AGAINST-THE-BOX

The Capital Growth Fund, Small Cap Equity Fund, International Equity Fund and Growth and Income Fund may make short sales of securities or maintain short positions in securities, provided that the Fund owns an equal amount of the shorted securities (or of securities convertible into or

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exchangeable for -- without payment of additional consideration -- an equal amount of the securities of the same issuer) (a short sale against-the-box). Not more than 25% of a Fund's net assets (at the time of the short sale) may be subject to short sales. These Funds make short sales primarily to defer realization of gain or loss for federal tax purposes; a gain or loss in a Fund's long position will be offset by a loss or gain in its short position.

#### OTHER INVESTMENT COMPANIES

All of the Funds reserve the right to invest up to 10% of their total assets, calculated at the time of purchase, in the securities of other investment companies including business development companies and small business investment companies. No Fund may invest more than 5% of its total assets in the securities of any one investment company or in more than 3% of the voting securities of any other investment company. Pursuant to an exemptive order obtained from the SEC, other investment companies in which a Fund may invest may include money markets funds for which its Adviser or its Adviser's affiliates serve as the investment adviser. A Fund will indirectly bear its proportionate share of any management fees paid by investment companies in which it invests in addition to the advisory fees paid by the Fund. However, to the extent that a Fund invests in a money market fund for which its Adviser or any of its Adviser's affiliates acts as adviser, the management fees payable by the Fund to the Investment Manager will be reduced by an amount equal to the Fund's proportionate share of the advisory and administration fees paid by such money market fund to the Adviser or any of its affiliates.

#### NON-DIVERSIFIED STATUS

Since the Small Cap Equity Fund, International Equity Fund and Global Income Fund are not "diversified" as defined by the Act, each will be more susceptible to adverse developments affecting any single issuer. Nonetheless, these "non-diversified" Funds are still subject to the diversification requirements that arise under federal tax law and the 25% limit on concentration of investments in a single industry. See "Taxes" and "Investment Restrictions."

#### RISKS OF INVESTING IN SMALL CAPITALIZATION COMPANIES

Investing in securities of smaller, lesser-known companies involves greater risks than investing in larger, more mature, better known issuers, including an increased possibility of portfolio price volatility. Historically, small capitalization stocks and stocks of recently organized companies, in which certain of the Funds may also invest, have been more volatile in price than the larger capitalization stocks included in the S&P 500. Among the reasons for the greater price volatility of these small company stocks are the less certain

growth prospects of smaller firms and the lower degree of liquidity in the markets for such stocks.

#### WARRANTS AND RIGHTS

The Select Equity Fund, Capital Growth Fund, Small Cap Equity Fund, International Equity Fund and Growth and Income Fund each may invest up to 5% of their total assets (calculated at the time of purchase) in certain warrants or rights that entitle the holder to buy equity securities at a specific price for a specific period of time.

#### UNSEASONED ISSUERS

The Select Equity Fund, Capital Growth Fund, Small Cap Equity Fund, International Equity Fund, Growth and Income Fund and Global Income Fund each may invest up to 5% of their total assets, calculated at the time of purchase, in the securities (excluding investment grade debt securities) of companies (including predecessors) which have operated less than three years. The securities of such companies may have limited liquidity which can result in their being priced higher or lower than might otherwise be the case. In addition, investments in unseasoned companies are more speculative and entail greater risk than do investments in companies with an established operating record.

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#### INVESTMENT RESTRICTIONS

Each of the Funds is also subject to certain investment restrictions which have been adopted by the Company for each Fund. Certain of these restrictions are fundamental policies that cannot be changed without the approval of a majority of the outstanding votes attributable to shares of the Fund. Other restrictions are not fundamental policies and may be changed by the Company's board of directors. Among other fundamental restrictions, as diversified funds, the Money Market Fund, Select Equity Fund, Capital Growth Fund, and Growth and Income Fund each may not, with respect to 75% of its total assets, purchase the securities of any one issuer (except U.S. Government Securities) if more than 5% of the value of the Fund's assets would be invested in such issuer. Similarly, none of the Funds may invest more than 25% of its total assets in securities of issuers in any one industry, except that this limitation does not apply to U.S. Government Securities or foreign currency investments. For a more complete description of the investment restrictions to which each Fund is subject, see the SAI.

#### PORTFOLIO TURNOVER

Other than the Global Income Fund, the Funds do not expect to trade in securities for short-term gain. The Global Income Fund may engage in active short-term trading to benefit from yield disparities among different issues of securities or among the markets for fixed-income securities of different countries, to seek short-term profits during periods of fluctuating interest rates, or for other reasons. Such trading will increase the Global Income Fund's portfolio turnover rate. Notwithstanding the foregoing, the Adviser may, from time to time, make short-term investments when it believes that such investments will benefit a Fund. A high rate of portfolio turnover (100% or higher) involves correspondingly greater expenses which must be borne by a Fund and its shareholders and may under certain circumstances make it more difficult for a Fund to qualify as a regulated investment company under the Code.

The portfolio turnover rate is calculated by dividing the lesser of the dollar amount of sales or purchases of portfolio securities by the average monthly value of the Fund's portfolio securities, excluding securities having a maturity at the date of purchase of one year or less. For the fiscal period ended December 31, 1994, the Funds had the following portfolio turnover rates: Select Equity Fund 56%, Small Cap Equity Fund 17%, International Equity Fund 33%, Growth and Income Fund 36%, and Global Income Fund 210%. The Company anticipates that the Capital Growth Fund will have an annual portfolio turnover rate of approximately 100%.

#### MANAGEMENT

#### DIRECTORS AND OFFICERS

The Company's board of directors is responsible for deciding matters of general policy and reviewing the actions of the Investment Manager and the Advisers, the custodian, accounting and administrative services provider and other providers of services to the Company. The officers of the Company supervise its daily business operations. The SAI contains information as to the

identify of, and other information about, the directors and officers of the Company.

#### INVESTMENT MANAGER

Investment Distributors Advisory Services, Inc. ("IDASI"), 2801 Highway 280 South, Birmingham, Alabama 35223, is the investment manager of the Company and its Funds. IDASI is a wholly-owned subsidiary of Protective Life Corporation ("PLC"), an insurance holding company whose common stock is traded on the New York Stock Exchange. PLC's principal operating subsidiary is Protective Life Insurance Company, a stock life insurance company which maintains its administrative offices in Birmingham, Alabama. Protective Life was incorporated in Alabama in 1907 and changed its state of domicile from Alabama to Tennessee in 1992. Protective Life's principal business is the writing of individual and group life and health insurance contracts, annuity contracts, and guaranteed investment contracts.

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The Investment Manager has no direct previous experience in providing management services for investment companies; however, its officers, all of whom are officers of Protective Life, have extensive experience in the development and distribution of investment products, particularly, guaranteed investment contracts. In addition, the Investment Manager has retained the Advisers, entities that have extensive experience managing the assets of investment companies, pension plans and other clients, to manage the investment and reinvestment of the Funds' assets.

The Investment Manager has entered into an investment management agreement, dated March 3, 1994, with the Company under which the Investment Manager assumes overall responsibility, subject to the supervision of the Company's board of directors, for administering all operations of the Company and for monitoring and evaluating the management of the assets of each of the Funds by the Advisers on an ongoing basis. The Investment Manager provides or arranges for the provision of the overall business management and administrative services necessary for the Company's operations and furnishes or procures any other services and information necessary for the proper conduct of the Company's business. The Investment Manager also acts as liaison among, and supervisor of, the various service providers to the Company, including the custodian, transfer agent, and accounting services agent and to its own administration agent that performs services for the Company on its behalf. The Investment Manager is also responsible for overseeing the Company's compliance with the requirements of applicable law and with each Fund's investment objective(s), policies and restrictions, including oversight of the Advisers.

For its services to the Company, the Investment Manager receives a monthly management fee. The fee is deducted daily from the assets of each of the Funds and paid to the Investment Manager monthly. The fee for each Fund is based on the average daily net assets of the Fund at the following annual rates: Money Market Fund .60%, Select Equity Fund .80%, Capital Growth Fund .80%, Small Cap Equity Fund .80%, International Equity Fund 1.10%, Growth and Income Fund .80%, and Global Income Fund 1.10%. See "Investment Manager" in the SAI for more detailed information about the investment management agreement.

The investment management agreement does not place limits on the operating expenses of the Company or of any Fund. However, Protective Life has voluntarily undertaken to pay any such expenses (but not including brokerage or other portfolio transaction expenses or expenses of litigation, indemnification, taxes or other extraordinary expenses) to the extent that such expenses, as accrued for each Fund, exceed the following percentages of that Fund's estimated average daily net assets on an annualized basis: Money Market Fund, .60%; Select Equity Fund, .80%; Capital Growth Fund, .80%; Small Cap Equity Fund, .80%; International Equity Fund, 1.10%; Growth and Income Fund, .80%; and Global Income Fund, 1.10%. This reduction of expenses will increase the yield or total return of the Funds for any period for which it remains in effect. The Protective Life may withdraw this undertaking to pay expenses as to any or all of the Funds upon 120 days notice to the Company.

#### INVESTMENT ADVISERS

Goldman Sachs Asset Management, One New York Plaza, New York, New York 10004, a separate operating division of Goldman Sachs, acts as the investment adviser of the Money Market Fund, Select Equity Fund, Capital Growth Fund, Small Cap Equity Fund and Growth and Income Fund. Goldman Sachs Asset Management International, 140 Fleet Street, London EC4A 2BJ England, an affiliate of Goldman Sachs, acts as the investment adviser to the International Equity Fund and the Global Income Fund. Both Goldman Sachs and GSAMI are registered with the SEC as investment advisers. As of April 27, 1995, the Advisers, together with their affiliates, acted as investment adviser, administrator or distributor for assets in excess of \$50 billion.

The Advisers and their affiliates serve a wide range of clients including private and public pension funds, endowments, foundations, banks, thrifts, insurance companies, corporations, and private investors and family groups.

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Founded in 1869, Goldman Sachs is among the oldest and largest investment banking firms in the U.S. Goldman Sachs is a leader in virtually every field of investing and financing, participating in financial markets world-wide and serving individuals, institutions, corporations and governments. Goldman Sachs is headquartered in New York and has offices throughout the U.S. and in Beijing, Frankfurt, George Town, Hong Kong, London, Madrid, Milan, Montreal, Osaka, Paris, Seoul, Shanghai, Singapore, Sydney, Taipei, Tokyo, Toronto, Vancouver and Zurich.

GSAMI was organized in 1990. As a company with unlimited liability under the laws of England, it is authorized to conduct investment advisory business in the United Kingdom as a member of the Investment Management Regulatory Organisation Limited, a U.K. self-regulatory organization.

In performing its investment advisory services each Adviser, while remaining responsible for advising the Funds, may rely upon the asset management division of Goldman Sachs Asia, Ltd. (its Hong Kong affiliate) and Goldman Sachs Asset Management Japan, Limited. Each is also able to draw upon the research and expertise of its other affiliate offices for portfolio decisions and management with respect to certain securities.

PORTFOLIO MANAGERS. The following individuals are the portfolio managers for the Funds:

SELECT EQUITY FUND, Robert C. Jones, Vice President, Goldman Sachs. Mr. Jones has 15 years of investment experience in developing and implementing GSAM's quantitative equity management services. Prior to joining GSAM in 1989, Mr. Jones was the senior quantitative analyst in the research department and the author of the monthly STOCK SELECTION publication.

CAPITAL GROWTH FUND, James S. McClure, Vice President, Goldman Sachs. Mr. McClure joined GSAM in 1989 and has over 20 years experience in managing equity and fixed-income assets. Prior to that time he served as chief investment officer at National Securities and Research Corporation and Oppenheimer Management.

SMALL CAP EQUITY FUND, Paul D. Farrell, Vice President, Goldman Sachs and Co-Chief Investment Officer of GSAM's Active Equity Team. Prior to joining GSAM, Mr. Farrell served as a managing Director at Plaza Investments, the investment subsidiary of GEICO Corp., a major insurance company. He was previously a Vice President in the research department and was responsible for the formation of the emerging Growth Research Group.

INTERNATIONAL EQUITY FUND, Roderick D. Jack, Executive Director, GSAMI; Marcel Jongen, Executive Director, GSAMI; Warwick Negus, Executive Director, GSAMI; and Shogo Maeda, Vice President, Executive Director Goldman Sachs Asset Management Japan Limited. Before joining GSAMI in 1992, Mr. Jack spent five years with the advisory and financing group for S.G. Warburg in London. Before joining GSAMI in 1992, Mr. Jongen was with Philips pension fund in Eindhoven where he was head of equities. Before joining GSAMI in 1994, Mr. Maeda spent most of the last 13 years at Nomura Securities, Inc. and a period at Manufacturers Hanover Bank in New York. Warwick Negus is based in Asia and joined GSAMI in 1994 after 7 years as Vice President of Bankers Trust Australia, Ltd. where he was head of its Southeast Asian equities group.

GROWTH AND INCOME FUND, Mitchell E. Cantor, Vice President and Co-Chief Investment Officer of GSAM's Active Equity Team; and Ronald E. Gutfleish, Vice President, Equity Portfolio Manager, Goldman Sachs. Mr. Cantor joined Goldman Sachs in 1991. Before joining Goldman Sachs, he was with Sanford C. Bernstein & Co. since 1983 where he was a senior partner and served as research director of the Institutional Division and as the management research director. Mr. Gutfleish joined GSAM in 1993. Prior to 1993, he was a principal of Sanford C. Bernstein & Co., in its Investment Management Research Department and a member of the Research Review Committee.

GLOBAL INCOME FUND, Stephen C. Fitzgerald, Executive Director, Global

Bond Portfolio Manager, GSAMI. Before joining GSAMI in 1992, Mr. Fitzgerald spent two years managing multi-

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currency fixed-income and balanced portfolios at Invesco MIM Limited where he was a senior member of the derivative products group. Prior to his employment at Invesco, Mr. Fitzgerald spent three years with Foreign and Colonial Management Limited in London managing fixed-income and derivative funds and in the treasury department of NRMA Insurance Limited in Sydney.

INVESTMENT ADVISORY AGREEMENTS. Each Adviser has entered into an investment advisory agreement for each Fund it advises, dated March 2, 1994 (May 3, 1995 for Capital Growth Fund), with the Investment Manager under which the Adviser, subject to the general supervision of the Investment Manager and the Company's board of directors, manages the investment portfolio of the Funds of which it is the Adviser. Under the investment advisory agreements, the Advisers are responsible for making investment decisions for the Funds and for placing the purchase and sale orders for the portfolio transactions of each Fund. In this capacity, the Advisers obtain and evaluate appropriate economic, statistical, timing, and financial information and formulate and implement investment programs in furtherance of each Fund's investment objective(s). The Advisers may place orders for portfolio transactions with any broker including, to the extent and in the manner permitted by applicable law, Goldman Sachs or its affiliates.

As compensation for its services, the Advisers receive a monthly fee from the Investment Manager based on the average daily net assets of each Fund at the following annual rates:

Money Market Fund .35% of the first \$50 million, .25% of the next \$100 million, .20% of the next \$100 million, and .15% of assets in excess of \$250 million; Select Equity Fund, Capital Growth Fund, Small Cap Equity Fund, and Growth and Income Fund, .40% of the first \$50 million, .30% of the next \$150 million, and .20% of assets in excess of \$200 million; International Equity Fund and Global Income Fund, .40% of the first \$50 million, .30% of the next \$100 million, .25% of the next \$100 million, and .20% of the assets in excess of \$250 million.

See the SAI for more detailed information about the investment advisory agreement.

ACTIVITIES OF GOLDMAN SACHS AND ITS AFFILIATES AND OTHER ACCOUNTS MANAGED BY GOLDMAN SACHS. The involvement of the Advisers, Goldman Sachs and their affiliates in the management of, or their interests in, other accounts and other activities of Goldman Sachs may present conflicts of interest with respect to the Funds or limit their investment activities. Goldman Sachs and its affiliates engage in proprietary trading and advise accounts and funds that have investment objectives similar to those of the Funds and/or which engage in and compete for transactions in the same types of securities, currencies and instruments as the Funds. Goldman Sachs and its affiliates do not have any obligation to make available any information regarding their proprietary activities or strategies, or the activities or strategies used for other accounts managed by them for the benefit of the management of the Funds and in general it is not anticipated that the Advisers will have access to proprietary information for the purpose of managing the Funds. The results of a Fund's investment activities, therefore, may differ from those of Goldman Sachs and its affiliates and it is possible that a Fund could sustain losses during periods in which Goldman Sachs and its affiliates and other accounts and funds achieve significant profits on their trading for proprietary or other accounts. From time to time, a Fund's activities may be limited because of regulatory restrictions applicable to Goldman Sachs and its affiliates, and/or their internal policies designed to comply with such restrictions. See "Management Activities of Goldman Sachs and its Affiliates and Other Accounts Managed by Goldman Sachs" in the SAI.

#### PERFORMANCE INFORMATION

From time to time the Company may publish average annual total return figures for one or more of the Funds in advertisements and communications to shareholders or sales literature. Average annual total return is determined by computing the annual percentage change in value of \$1,000

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invested for specified periods ending with the most recent calendar quarter, assuming reinvestment of all dividends and distributions at net asset value. The average annual total return calculation assumes a complete redemption of the investment at the end of the relevant period.

The Company also may from time to time publish year-by-year total return,

cumulative total return and yield information for the Funds in advertisements, communications to shareholders or sales literature. These may be provided for various specified periods by means of quotations, charts, graphs or schedules. Year-by-year total return and cumulative total return for a specified period are each derived by calculating the percentage rate required to make a \$1,000 investment in a Fund (assuming all distributions are reinvested) at the beginning of such period equal to the actual total value of such investment at the end of such period.

Yield is computed by dividing net investment income earned during a recent 30 day period by the product of the average daily number shares outstanding and entitled to receive dividends during the period and the price per share on the last day of the relevant period. The results are compounded on a bond equivalent (semi-annual) basis and then annualized. Net investment income per share is equal to the dividends and interest earned during the period, reduced by accrued expenses for the period. The calculation of net investment income for these purposes may differ from the net investment income determined for accounting purposes.

In addition, the Company may from time to time publish performance of its Funds relative to certain performance rankings and indices.

The investment results of the Funds will fluctuate over time and any presentation of investment results for any prior period should not be considered a representation of what an investment may earn or what a Fund's performance may be in any future period. In addition to information provided in shareholder reports, the Company may, in its discretion, from time to time make a list of the Fund's holdings available to investors upon request.

#### DETERMINATION OF NET ASSET VALUE

The net asset value per share of each Fund is normally determined once daily as of the close of regular trading on the New York Stock Exchange, currently 4:00 p.m. New York time, on each day when the New York Stock Exchange is open, except as noted below. The New York Stock Exchange is scheduled to be open Monday through Friday throughout the year, except for certain federal and other holidays. The net asset value of each Fund is determined by dividing the value of the Fund's securities, cash, and other assets (including accrued but uncollected interest and dividends), less all liabilities (including accrued expenses but excluding capital and surplus) by the number of shares of the Fund outstanding.

The value of each Fund's securities and assets, except those of the Money Market Fund and certain short-term debt securities held by any of the other Funds, is determined on the basis of their market values. All of the securities and assets of the Money Market Fund and short-term debt securities having remaining maturities of sixty days or less held by any of the other Funds are valued by the amortized cost method, which approximates market value. Investments for which market quotations are not readily available are valued at their fair value as determined in good faith by, or under authority delegated by, the Company's board of directors. See "Determination of Net Asset Value" in the SAI.

#### OFFERING, PURCHASE AND REDEMPTION OF SHARES

Pursuant to a distribution agreement, Investment Distributors, Inc. ("IDI") acts without remuneration as the Company's distributor in the distribution of the shares of each Fund. IDI is a wholly-owned subsidiary of PLC and has no obligation to sell any stated number of shares. IDI's address is the same as that of Protective Life and PLC.

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Shares of the Funds are sold in a continuous offering and are authorized to be offered to the Account to support the Contracts. Net purchase payments under the Contracts are placed in one or more subaccounts of the Account and the assets of each such subaccount are invested in the shares of the Fund corresponding to that subaccount. The Account purchases and redeems shares of the Funds for its subaccounts at net asset value without sales or redemption charges.

For each day on which a Fund's net asset value is calculated, the Account transmits to the Company any orders to purchase or redeem shares of the Fund(s) based on the purchase payments, redemption (surrender) requests, and transfer requests from Contract owners, annuitants and beneficiaries that have been processed on that day. The Account purchases and redeems shares of each Fund at the Fund's net asset value per share calculated as of that same day although such purchases and redemptions may be executed the next morning. Money received by the Company from the Account for the purchase of shares of International Equity Fund and Global Income Fund may not be invested by those Funds until the day following the execution of such purchases.

Please refer to the separate prospectus for the Contract and the Account for

a more detailed description of the procedures whereby a Contract owner, annuitant, or beneficiary may allocate his or her interest in the Account to a subaccount using the shares of one of the Funds as an underlying investment medium.

In the future, the Company may offer shares of one or more of the Funds (including new funds that might be added to the Company) to other registered or unregistered separate accounts of Protective Life or its life insurance company affiliates to support variable annuity contracts (other than the Contracts) or variable life insurance contracts. Likewise, the Company may also, in the future, offer shares of one or more of the Funds directly to qualified pension and retirement plans.

In the event that shares of any Fund are offered to a separate account supporting variable life insurance or to qualified pension and retirement plans, a potential for certain conflicts may exist between the interests of variable annuity contract owners, variable life insurance contract owners and plan participants. The Company currently does not foresee any disadvantage to owners of the Contracts arising from the fact that shares of any Fund might be held by such entities. In such an event, the Company's board of directors, however, will monitor the Funds in order to identify any material irreconcilable conflicts of interest which may possibly arise, and to determine what action, if any, should be taken in response to such conflicts.

#### INCOME DIVIDENDS AND CAPITAL GAINS DISTRIBUTIONS

The Money Market Fund intends to declare dividends from its net investment income every day. The Fund will distribute such dividends monthly by reinvesting them in additional Fund shares at net asset value.

The Global Income Fund intends to distribute substantially all of its net investment income in monthly dividends. The Select Equity Fund, Capital Growth Fund, International Equity Fund and Small Cap Equity Fund each intend to distribute substantially all of their net investment income annually and the Growth and Income Fund intends to distribute such income quarterly. Each Fund also intends to annually distribute substantially all of its net realized capital gains. All income dividends and capital gain distributions made by a Fund will be reinvested in shares of that Fund at that Fund's net asset value.

#### TAXES

TAX STATUS. The Company believes that each Fund will qualify as a regulated investment company under Subchapter M, Chapter 1, Subtitle A of the Code, and each Fund intends to distribute substantially all of its net investment income and net capital gain to its shareholders. As a result, under the provisions of subchapter M, there should be little or no income or gains taxable to the Funds. In addition, each Fund intends to comply with certain other distribution rules specified in the

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Code so that it will not incur a 4% nondeductible federal excise tax that otherwise would apply. Under current law, the net investment income of the Funds, including net capital gain, is not taxed to Protective Life to the extent that it is applied to increase the reserves held by Protective Life in respect of the Contracts.

SOURCES OF GROSS INCOME. To qualify for treatment as a regulated investment company, a Fund must, among other things, derive its income from certain sources. Specifically, in each taxable year, a Fund must generally derive at least 90% of its gross income from dividends, interest, payments with respect to securities loans, gains from the sale or other disposition of stock, securities or foreign currencies, or other income (including, but not limited to, gains from options, futures or forward contracts) derived with respect to its business of investing in stock, securities, or currencies. A Fund must also generally derive less than 30% of its gross income from the sale or other disposition of any of the following which was held for less than three months: (1) stock or securities, (2) options, futures, or forward contracts (other than options, futures, or forward contracts on foreign currencies), or (3) foreign currencies (or options, futures, or forward contracts on foreign currencies) but only if such currencies (or options, futures, or forward contracts) are not directly related to the Fund's principal business of investing in stock or securities (or options and futures with respect to stock or securities). For purposes of these tests, gross income generally is determined without regard to losses from the sale or other disposition of stock or securities or other Fund assets.

DIVERSIFICATION OF ASSETS. To qualify for treatment as a regulated investment company, a Fund must also satisfy certain requirements with respect to the diversification of its assets. A Fund must have, at the close of each quarter of the taxable year, at least 50% of the value of its total assets represented by cash, cash items, United States Government securities, securities

of other regulated investment companies, and other securities which, in respect of any one issuer, do not represent more than 5% of the value of the assets of the Fund nor more than 10% of the voting securities of that issuer. In addition, at those times not more than 25% of the value of the Fund's assets may be invested in securities (other than United States Government securities or the securities of other regulated investment companies) of any one issuer, or of two or more issuers which the Fund controls and which are engaged in the same or similar trades or businesses or related trades or businesses. The foregoing diversification requirements are in addition to those imposed by the Investment Company Act of 1940.

Because the Company is established as an investment medium for the Account, which is a separate account of Protective Life, regulations under Subchapter L, Chapter 1, Subtitle A of the Code impose additional diversification requirements on each Fund. These requirements generally are that no more than 55% of the value of the assets of a Fund may be represented by any one investment; no more than 70% by any two investments; no more than 80% by any three investments; and no more than 90% by any four investments. For these purposes, all securities of the same issuer are treated as a single investment and each United States government agency or instrumentality is treated as a separate issuer.

**FOREIGN INVESTMENTS.** Funds investing in foreign securities or currencies may be required to pay withholding or other taxes to foreign governments. Foreign tax withholding from dividends and interest, if any, is generally at a rate between 10% and 35%. The investment yield of the Funds that invest in foreign securities or currencies will be reduced by these foreign taxes. Shareholders will bear the cost of any foreign tax withholding, but may not be able to claim a foreign tax credit or deduction for these foreign taxes. Funds investing in securities of passive foreign investment companies may be subject to U.S. Federal income taxes and interest charges, and the investment yield of the Funds making such investments will be reduced by these taxes and interest charges. Shareholders will bear the cost of these taxes and interest charges, but will not be able to claim a deduction for these amounts.

**ADDITIONAL TAX CONSIDERATIONS.** If a Fund failed to qualify as a regulated investment company, (1) owners of Contracts based on the Fund might be taxed currently on the investment earnings under their Contracts and thereby lose the benefit of tax deferral, and (2) the Fund might incur additional

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taxes. In addition, if a Fund failed to comply with the diversification requirements of the regulations under Subchapter L of the Code, owners of Contracts based on the Fund would be taxed on the investment earnings under their Contracts and thereby lose the benefit of tax deferral. Accordingly, compliance with the above rules is carefully monitored by the Advisers and it is intended that the Funds will comply with these rules as they exist or as they may be modified from time to time. Compliance with the tax requirements described above may result in a reduction in the return under a Fund, since, to comply with the above rules, the investments utilized (and the time at which such investments are entered into and closed out) may be different from that the Adviser might otherwise believe to be desirable.

The shareholders of the Funds are currently limited to the Account and Protective Life. For more information regarding the tax implications for the purchaser of a Contract who allocates investments to the Funds, please refer to the prospectus for the Contract.

The foregoing is a general and abbreviated summary of the applicable provisions of the Code and Treasury Regulations currently in effect. It is not intended to be a complete explanation or a substitute for consultation with individual tax advisers. For the complete provisions, reference should be made to the pertinent Code sections and the Treasury Regulations promulgated thereunder. The Code and Regulations are subject to change.

#### OTHER INFORMATION

#### REPORTS

Annual Reports containing audited financial statements of the Company and Semi-Annual Reports containing unaudited financial statements, as well as proxy materials, are sent to Contract owners, annuitants or beneficiaries, as appropriate. Inquiries may be directed to the Company at the telephone number or address set forth on the cover page of this prospectus.

#### VOTING AND OTHER RIGHTS

Each share outstanding is entitled to one vote for each dollar of net asset value on all matters submitted to a vote of shareholders (of a Fund or the Company) and is entitled to a pro-rata share of any distributions made by a Fund and, in the event of liquidation, of its net assets remaining after satisfaction of outstanding liabilities. Each share (of each Fund), when-issued, is nonassessable and has no preemptive or conversion rights. The shares have



noncumulative voting rights. Protective Life will vote shares of a Fund held by the Account which are attributable to Contracts in accordance with instructions received from Contract owners, annuitants and beneficiaries as provided in the prospectus for the Contracts. Fund shares held by the Account as to which no instructions have been received will be voted for or against any proposition, or in abstention, in the same proportion as the shares of the Account as to which instructions have been received. Fund shares held by any registered separate account of Protective Life or its affiliates that are not attributable to Contracts will also be voted for or against any proposition in the same proportion as the shares for which voting instructions are received by that separate account. However, if Protective Life determines that it is permitted to vote any such shares of a Fund in its own right, it may elect to do so, subject to the then current interpretation of the Act and the rules thereunder. Fund shares held by non-registered separate accounts or qualified plans will be voted for or against any proposition in the same proportion as all other Fund shares are voted unless the separate account or the plan makes other arrangements.

As a Maryland corporate entity, the Company is not required to hold regular annual shareholder meetings. The Company is, however, required to hold shareholder meetings for such purposes as, for example: (i) approving certain agreements as required by the Act; (ii) changing fundamental investment objectives, policies and restrictions of any Fund; and (iii) filling vacancies on the board of directors in the event that less than a majority of the directors were elected by shareholders. Directors may also be removed by shareholders by a vote of two-thirds of the outstanding votes attributable to shares at a meeting called at the request of holders of 10% or more of such votes. The Company has the obligation to assist in shareholder communications.

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Protective Life owns more than 25% of the outstanding shares of each Fund which may result in it being deemed a controlling person of each of these Funds, as that term is defined in the Act.

#### CUSTODY OF ASSETS

Pursuant to a custody agreement with the Company, State Street Bank and Trust Company ("State Street") serves as the custodian of the Funds' assets.

#### ACCOUNTING AND ADMINISTRATIVE SERVICES

Pursuant to the custody agreement, State Street also performs certain accounting services for the Company. These services include maintaining and keeping current the Company's books, accounts, records, journals and other records of original entry related to the Company's business, performing certain daily functions related thereto, including calculating each Fund's daily net asset value. IDASI is responsible for providing certain administrative services to the Company such as calculating each Fund's standardized performance information, preparing annual and semi-annual reports to shareholders and the SEC, preparing each Fund's tax returns, monitoring compliance and performing other administrative duties. Pursuant to a subadministration agreement with IDASI, State Street performs many of these administrative services.

#### TRANSFER AGENT

Pursuant to a Transfer Agency and Service Agreement with the Company, State Street also acts as a transfer, redemption and dividend disbursing agent for the Company.

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### PART B INFORMATION REQUIRED TO BE IN THE STATEMENT OF ADDITIONAL INFORMATION

#### STATEMENT OF ADDITIONAL INFORMATION

##### PROTECTIVE INVESTMENT COMPANY

PROTECTIVE MONEY MARKET FUND  
PROTECTIVE SELECT EQUITY FUND  
PROTECTIVE CAPITAL GROWTH FUND  
PROTECTIVE SMALL CAP EQUITY FUND  
PROTECTIVE INTERNATIONAL EQUITY FUND  
PROTECTIVE GROWTH AND INCOME FUND  
PROTECTIVE GLOBAL INCOME FUND

June 13, 1995

This Statement of Additional Information is not a prospectus. Much of the information contained in this Statement expands upon information discussed in

the prospectus for Protective Investment Company (the "Company") and should, therefore, be read in conjunction with the prospectus for the Company. To obtain a copy of the prospectus with the same date as this Statement of Additional Information write to the Company at P.O. Box 2606, Birmingham, Alabama 35202 or call 1-800-866-3555.

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INTRODUCTION

Protective Investment Company (the "Company") is an open-end management investment company incorporated in the State of Maryland on September 2, 1993. The Company consists of seven separate investment portfolios or funds (the "Funds" or a "Fund"), each of which is, in effect, a separate mutual fund. The Company issues a separate class of stock for each Fund representing fractional undivided interests in that Fund. An investor, by investing in a Fund, becomes entitled to a pro-rata share of all dividends and distributions arising from the net income and capital gains on the investments of that Fund. Likewise, an investor shares pro-rata in any losses of that Fund.

Pursuant to an investment management agreement and subject to the authority of the Company's board of directors, Investment Distributors Advisory Services, Inc. ("IDASI") serves as the Company's investment manager (the "Investment Manager") and conducts the business and affairs of the Company. IDASI has engaged Goldman Sachs Asset Management International ("GSAMI"), an affiliate of Goldman, Sachs & Co., as the investment adviser to provide day-to-day portfolio management for the Protective International Equity Fund and the Protective Global Income Fund. IDASI also has engaged Goldman Sachs Asset Management ("GSAM"), a separate operating division of Goldman, Sachs & Co., as the investment adviser to provide day-to-day portfolio management for each of the other Funds. (GSAM and GSAMI are each referred to herein as the "Adviser" or together as the "Advisers," as appropriate. Goldman, Sachs & Co. is referred to

herein as "Goldman Sachs").

The Company currently offers each class of its stock to a separate account of Protective Life Insurance Company ("Protective Life") as funding vehicles for certain variable annuity contracts (the "Contracts") issued by Protective Life through the separate account (the "Account"). The Company does not offer its stock directly to the general public. The Account, like the Company, is registered as an investment company with the Securities and Exchange Commission ("SEC") and a separate prospectus, which accompanies the prospectus for the Company (the "Prospectus"), describes the Account and the Contracts. The prospectus for the Account and the Contracts also has a statement of additional information similar to this statement of additional information (the "SAI").

The Company may, in the future, offer its stock to other registered and unregistered separate accounts of Protective Life and its affiliates supporting other variable annuity contracts or variable life insurance contracts and to qualified pension and retirement plans.

Terms appearing in the SAI that are defined in the Prospectus have the same meaning herein as in the Prospectus.

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#### ADDITIONAL INVESTMENT POLICY INFORMATION

##### PROTECTIVE MONEY MARKET FUND

Pursuant to Rule 2a-7 under the Investment Company Act of 1940 (the "Act"), securities which are rated (or that have been issued by an issuer that has been rated with respect to a class of short-term debt obligations, or any security within that class, comparable in priority and quality with such security) in the highest short-term rating category by at least two NRSROs are designated "First Tier Securities." Securities rated in the top two short-term rating categories by at least two NRSROs, but which are not rated in the highest short-term rating category by at least two NRSROs, are designated "Second Tier Securities." NRSROs are listed in the Prospectus and a description of their ratings are found in Appendix A herein.

Pursuant to Rule 2a-7, the Protective Money Market Fund may not invest more than 5% of its assets taken at amortized cost in the securities of any one issuer (except the U.S. Government, including repurchase agreements collateralized by U.S. Government Securities). The Fund may, however, invest more than 5% of its assets in the First Tier Securities of a single issuer for a period of up to three business days after the purchase thereof, although the Fund may not make more than one such investment at any time. Further, the Fund will not invest more than the greater of (i) 1% of its total assets; or (ii) one million dollars in the securities of a single issuer that were Second Tier Securities when acquired by the Fund. In addition, the Fund may not invest more than 5% of its total assets in securities which were Second Tier Securities when acquired.

The foregoing operating policies are more restrictive than the fundamental investment restriction number 12 set forth below, which would give the Fund the ability to invest, with respect to 25% of its assets, more than 5% of its assets in any one issuer. The Fund will operate in accordance with these operating policies which comply with Rule 2a-7.

##### PROTECTIVE SELECT EQUITY FUND

The Select Equity Fund's investment objective is to provide its shareholders with a total return consisting of capital appreciation plus dividend income. Under normal circumstances, the Fund will invest at least 90% of its total assets in equity securities.

The investment strategy described above will be implemented to the extent it is consistent with maintaining the Select Equity Fund's qualification as a regulated investment company under the Internal Revenue Code of 1986 (the "Code"). See "Taxes" in the Prospectus. The Fund's strategy may be limited, in particular, by the requirement for such qualification that less than 30% of the Fund's annual gross income be derived from the sale or other disposition of stocks or securities (including options and futures contracts) held for less than three months.

Since normal settlement for equity securities is three trading days, the Fund will need to hold cash balances to satisfy shareholder redemption requests. Such cash balances normally range from 2% to 5% of the Fund's net assets. The Fund may purchase futures contracts on the S&P 500 Index in order to keep the Fund's effective equity exposure close to 100%. For example, if cash balances are equal to 5% of the net assets, the Fund may enter into long futures contracts covering an amount equal to 5% of the Fund's net assets. As cash balances fluctuate based on new contributions or withdrawals, the Fund may enter into additional contracts or close out existing positions.

THE MULTIFACTOR MODEL. The multifactor model is a sophisticated computerized rating system for evaluating equity securities according to twelve fundamental investment characteristics (or factors). The factors used by the multifactor model incorporate many variables studied by traditional fundamental analysts, and cover measures of value, yield, growth, momentum, risk and liquidity (E.G., price/ earnings ratio, sustainable growth rate, earnings momentum and market liquidity). All of these factors have been shown to significantly impact the performance of equity securities.

Because it includes many disparate factors, the Adviser believes that the multifactor model is broader in scope and provides a more thorough evaluation than most conventional, value-oriented quantitative models. As a result, the securities ranked highest by the multifactor model do not have

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one dominant investment characteristic (such as a low price/earnings ratio); rather, such securities possess many different investment characteristics. By using a variety of relevant factors to select securities from the recommended list, the Adviser believes that the Select Equity Fund will be better balanced and have more consistent performance than an investment portfolio that uses only one or two factors to select securities.

The Adviser will monitor, and may occasionally suggest and make changes to, the method by which securities are selected for or weighted in the Select Equity Fund. Such changes (which may be the result of changes in the nature of the recommended list, the multifactor model or the method of applying the multifactor model) may include: (i) evolutionary changes to the structure of the multifactor model (E.G., the addition of new factors or a new means of weighting the factors); (ii) changes in trading procedures (E.G., trading frequency or the manner in which the Fund uses futures on the S&P 500 Index); or (iii) changes in the method by which securities are weighted in the Fund. Any such changes will preserve the Fund's basic investment philosophy of combining qualitative and quantitative methods of selecting securities using a disciplined investment process.

BUSINESS VALUE INVESTING -- PROTECTIVE CAPITAL GROWTH FUND, PROTECTIVE SMALL CAP EQUITY FUND AND PROTECTIVE GROWTH AND INCOME FUND

Potential equity investments for Capital Growth Fund, Small Cap Equity Fund and Growth and Income Fund generally are evaluated using fundamental analysis, including criteria such as earnings, cash flow, asset values and/or dividend-paying ability. In choosing a Fund's securities, the Adviser utilizes first-hand fundamental research, including visiting company facilities to assess operations and meet decision-makers. The Adviser may also use a macro analysis of numerous economic and valuation variables to determine and anticipate changes in company earnings and the overall investment climate. The Adviser is able to draw on the research and market expertise of the Goldman Sachs Research Department and other affiliates of the Adviser as well as information provided by other securities dealers.

The Adviser intends to purchase equity securities of companies that are, in its view, underpriced relative to a combination of such companies' long-term earnings prospects, growth rate, free cash flow and/or dividend-paying ability. These Funds may also purchase securities of companies that have experienced difficulties and that, in the opinion of the Adviser, are available at attractive prices. Consideration is given to the business quality of the issuer. Factors positively affecting the Adviser's view of that quality include the competitiveness and degree of regulation in the markets in which the company operates, the existence of a management team with a record of success, the market position of the company in the markets in which it operates, the level of the company's financial leverage and the sustainable return on capital invested in the business.

Equity securities in a Fund's portfolio will generally be sold when the Adviser believes that the market price fully reflects or exceeds the securities' fundamental valuation or when other more attractive investments are identified.

PROTECTIVE INTERNATIONAL EQUITY FUND

INVESTING ABROAD: HIGH HISTORICAL RETURNS AND UNRECOGNIZED VALUES. Because research coverage outside the U.S. is fragmented and relatively unsophisticated, many foreign companies that are well-positioned to grow and prosper have not come to the attention of investors. The Adviser believes that the high historical returns and less efficient pricing of foreign markets create favorable conditions for the Fund's highly focused investment approach.

A RIGOROUS PROCESS OF STOCK SELECTION. Using fundamental industry and company research, the Adviser's equity team in London, Hong Kong and Tokyo seeks to identify companies that have a high probability of achieving superior long-term returns. Stocks are carefully selected for the Fund's portfolio through a three-stage investment process. Because the Fund is a long-term holder of stocks, the portfolio managers adjust the Fund's portfolio only when expected returns fall below acceptable levels or when the portfolio managers identify substantially more attractive investments.

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Using the research of the Adviser and Goldman Sachs as well as information gathered from other sources in Europe and the AsiaPacific region, the portfolio managers first identify attractive industries around the world. Such industries have favorable underlying economics and allow companies to generate sustainable and predictable high returns. As a rule, they are less economically sensitive, relatively free of regulation and favor strong franchises.

Within these industries the portfolio managers identify well-run companies that enjoy a stable competitive advantage and are able to benefit from the favorable dynamics of the industry. This stage includes analyzing the current and expected financial performance of the company; contacting suppliers, customers and competitors; and meeting with management. In particular, the portfolio managers look for companies whose managers have a strong commitment to both maintaining the high returns of the existing business and reinvesting the capital generated at high rates of return. The Fund looks for companies whose management always acts in the interests of the owners and seek to maximize returns to all stockholders.

HEDGING AND ENHANCING RETURNS THROUGH CURRENCY MANAGEMENT TECHNIQUES. The Adviser's currency team may manage the foreign exchange risk embedded in foreign equities by means of a currency overlay program. The program may be utilized to protect the value of foreign investments in sustained periods of dollar appreciation and to add returns by seeking to take advantage of foreign exchange fluctuations.

THE ADVISER'S INTERNATIONAL EQUITY TEAM. The members of the Adviser's international equity team bring together years of experience in analyzing and investing in companies in Europe and the Asia-Pacific region. Their expertise spans a wide range of skills including investment analysis, investment management, investment banking and business consulting. In addition, they have access to over 200 economic, equity and currency research professionals of Goldman Sachs in London, Frankfurt, Hong Kong, Tokyo and New York.

#### PROTECTIVE GLOBAL INCOME FUND

HIGH INCOME. The Fund's portfolio managers will seek out the highest yielding bonds in the global fixed-income market that meet the Fund's credit quality standards and certain other criteria.

CAPITAL APPRECIATION. Investing in the foreign bond markets offers the potential for capital appreciation due to both interest rate and currency exchange rate fluctuations. The portfolio managers also attempt to identify investments with appreciation potential by carefully evaluating trends affecting a country's currency as well as a country's fundamental economic strength. However, there is a risk of capital depreciation as a result of unanticipated interest rate and currency fluctuations.

PORTFOLIO MANAGEMENT FLEXIBILITY. The Fund is designed to be actively managed. The Fund's portfolio managers invest in countries that, in their judgment, meet the investment guidelines and often have strong currencies and stable economies and in securities that they believe offer the best performance prospects. Furthermore, because the Fund can purchase securities with various maturities, the portfolio managers can adjust the Fund's holdings in an effort to maximize returns in a variety of interest rate environments. In addition, the Fund's ability to invest in securities of any maturity allows its portfolio managers to adjust the Fund's portfolio as interest rates change to take

advantage of the most attractive segments of the yield curve.

RELATIVE STABILITY OF PRINCIPAL. The Fund may be able to reduce principal fluctuation by investing in foreign countries with economic policies or business cycles different from those of the United States and in foreign securities markets that do not necessarily move in the same direction or magnitude as the U.S. market. Investing in a broad range of U.S. and foreign fixed-income securities and currencies reduces the dependence of the Fund's performance on developments in any particular market to the extent that adverse events in one market are offset by favorable events in other markets. The Fund's policy of investing only in high credit quality securities may also reduce principal fluctuation. However, there is no assurance that these strategies will always be successful.

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PROFESSIONAL MANAGEMENT. Individual U.S. investors may prefer professional management of their global bond and currency portfolios because a well-diversified portfolio requires a large amount of capital and because the size of the global market requires access to extensive resources and a substantial commitment of time.

#### SPECIAL INVESTMENT METHODS AND RISKS

##### CUSTODY RECEIPTS

The Funds may acquire custody receipts in connection with securities issued or guaranteed as to principal and interest by the U.S. Government, its agencies, political subdivisions, authorities or instrumentalities. Such custody receipts evidence ownership of future interest payments, principal payments or both on certain notes or bonds issued by the U.S. Government, its agencies, political subdivisions, authorities or instrumentalities. These custody receipts are known by various names, including "Treasury Receipts," "Treasury Investors Growth Receipts" ("TIGRs"), and "Certificates of Accrual on Treasury Securities" ("CATS"). For certain securities law purposes, custody receipts are not considered U.S. Government securities.

##### RESTRICTED AND ILLIQUID SECURITIES

The Funds may purchase certain restricted securities (those that are not registered under the Securities Act of 1933 (the "1933 Act") but can be offered and sold to "qualified institutional buyers" under Rule 144A of that Act) and limited amounts of illiquid investments, including illiquid restricted securities. Limitations on illiquid securities and other illiquid investments for each Fund are described in non-fundamental investment restrictions 4(a) - 4(c) below.

Illiquid investments include many restricted securities, repurchase agreements that mature in more than seven days, fixed time deposits that mature in more than seven days, participation interests in loans, swap transactions, certain over-the-counter option contracts, and securities that are not readily marketable.

Certain repurchase agreements which provide for settlement in more than seven days, however, can be liquidated before the nominal fixed term on seven days or less notice. The Company will consider such repurchase agreements as liquid. Likewise, restricted securities (including commercial paper issued pursuant to Section 4(2) of the 1933 Act) that the board of directors of the Company or the Advisers have determined to be liquid will be treated as such.

The SEC staff has taken the position that fixed time deposits maturing in more than seven days that cannot be traded on a secondary market and participation interests in loans are illiquid and not readily marketable. Until such time (if any) as this position changes, the Company will include such investments in the percentage limitation on illiquid investments applicable to each Fund.

##### OPTIONS ON SECURITIES AND SECURITIES INDICES

WRITING OPTIONS. All of the Funds except the Money Market Fund and Select Equity Fund may write (sell) covered call and put options on any securities in which it may invest. A call option written by a Fund obligates such Fund to sell specified securities to the holder of the option at a specified price if the option is exercised at any time before the expiration date. All call options written by a Fund are covered, which means that such Fund will own the securities subject to the option so long as the option is outstanding. A Fund's purpose in writing covered call options is to realize greater income than would be realized on portfolio securities transactions alone. However, a Fund may forgo the opportunity to profit from an increase in the market price of the underlying security.

A put option written by a Fund would obligate such Fund to purchase specified securities from the option holder at a specified price if the option

is exercised at any time before the expiration date. All put options written by a Fund would be covered, which means that such Fund would have deposited with its custodian cash or liquid high grade debt securities with a value at least equal to the exercise price of the put option. The purpose of writing such options is to generate additional income for the Fund. However, in return for the option premium, a Fund accepts the risk that it will be required to purchase the underlying securities at a price in excess of the securities' market value at the time of purchase.

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In addition, a written call option or put option may be covered by maintaining cash or liquid, high grade debt securities (either of which may be denominated in any currency) in a segregated account with its custodian, by entering into an offsetting forward contract and/or or by purchasing an offsetting option which, by virtue of its exercise price or otherwise, reduces a Fund's net exposure on its written option position.

The Funds other than the Money Market Fund and Select Equity Fund may also write (sell) covered call and put options on any securities index composed of securities in which it may invest. Options on securities indices are similar to options on securities, except that the exercise of securities index options requires cash payments and does not involve the actual purchase or sale of securities. In addition, securities index options are designed to reflect price fluctuations in a group of securities or segment of the securities market rather than price fluctuations in a single security.

A Fund may cover call options on a securities index by owning securities whose price changes are expected to be similar to those of the underlying index, or by having an absolute and immediate right to acquire such securities without additional cash consideration (or for additional cash consideration held in a segregated account by its custodian) upon conversion or exchange of other securities in its portfolio. A Fund may cover call and put options on a securities index by maintaining cash or liquid high grade debt securities with a value equal to the exercise price in a segregated account with its custodian.

A Fund may terminate its obligations under an exchange traded call or put option by purchasing an option identical to the one it has written. Obligations under over-the-counter options may be terminated only by entering into an offsetting transaction with the counterparty to such option. Such purchases are referred to as "closing purchase" transactions.

**PURCHASING OPTIONS.** The Funds other than Money Market Fund and Select Equity Fund may purchase put and call options on any securities in which it may invest or options on any securities index based on securities in which it may invest. A Fund would also be able to enter into closing sale transactions in order to realize gains or minimize losses on options it had purchased.

A Fund would normally purchase call options in anticipation of an increase in the market value of securities of the type in which it may invest. The purchase of a call option would entitle a Fund, in return for the premium paid, to purchase specified securities at a specified price during the option period. A Fund would ordinarily realize a gain if, during the option period, the value of such securities exceeded the sum of the exercise price, the premium paid and transaction costs; otherwise such a Fund would realize a loss on the purchase of the call option.

A Fund would normally purchase put options in anticipation of a decline in the market value of securities in its portfolio ("protective puts") or in securities in which it may invest. The purchase of a put option would entitle a Fund, in exchange for the premium paid, to sell specified securities at a specified price during the option period. The purchase of protective puts is designed to offset or hedge against a decline in the market value of a Fund's securities. Put options may also be purchased by a Fund for the purpose of affirmatively benefiting from a decline in the price of securities which it does not own. A Fund would ordinarily realize a gain if, during the option period, the value of the underlying securities decreased below the exercise price sufficiently to cover the premium and transaction costs; otherwise such a Fund would realize a no gain or loss on the purchase of the put option. Gains and losses on the purchase of protective put options would tend to be offset by countervailing changes in the value of the underlying portfolio securities.

The Fund would purchase put and call options on securities indices for the same purposes as it would purchase options on individual securities.

**YIELD CURVE OPTIONS.** The Global Income Fund may enter into options on the yield "spread," or yield differential between two securities. Such transactions are referred to as "yield curve" options. In contrast to other types of options, a yield curve option is based on the difference between the yields of designated securities, rather than the prices of the individual securities, and is settled through cash payments. Accordingly, a yield curve option is profitable to the

holder if this differential widens (in the case of a call) or narrows (in the case of a put), regardless of whether the yields of the underlying securities increase or decrease.

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The Global Income Fund may purchase or write yield curve options for the same purposes as other options on securities. For example, the Global Income Fund may purchase a call option on the yield spread between two securities if it owns one of the securities and anticipates purchasing the other security and wants to hedge against an adverse change in the yield between the two securities. The Global Income Fund may also purchase or write yield curve options in an effort to increase its current income if, in the judgment of the Adviser, the Fund will be able to profit from movements in the spread between the yields of the underlying securities. The trading of yield curve options is subject to all of the risks associated with the trading of other types of options. In addition, however, such options present risk of loss even if the yield of one of the underlying securities remains constant, if the spread moves in a direction or to an extent which was not anticipated.

Yield curve options written by the Global Income Fund will be "covered." A call (or put) option is covered if the Fund holds another call (or put) option on the spread between the same two securities and maintains in a segregated account with its custodian cash or liquid, high grade debt securities sufficient to cover the Fund's net liability under the two options. Therefore, the Fund's liability for such a covered option is generally limited to the difference between the amount of the Global Income Fund's liability under the option written by the Fund less the value of the option held by the Fund. Yield curve options may also be covered in such other manner as may be in accordance with the requirements of the counterparty with which the option is traded and applicable laws and regulations. Yield curve options are traded over-the-counter, and because they have been only recently introduced, established trading markets for these options have not yet developed.

**RISKS ASSOCIATED WITH OPTIONS TRANSACTIONS.** There is no assurance that a liquid secondary market on an options exchange will exist for any particular exchange-traded option or at any particular time. If a Fund is unable to effect a closing purchase transaction with respect to covered options it has written, the Fund will not be able to sell the underlying securities or dispose of assets held in a segregated account until the options expire or are exercised. Similarly, if a Fund is unable to effect a closing sale transaction with respect to options it has purchased, it will have to exercise the options in order to realize any profit and will incur transaction costs upon the purchase or sale of underlying securities.

Reasons for the absence of a liquid secondary market on an exchange include the following: (i) there may be insufficient trading interest in certain options; (ii) restrictions may be imposed by an exchange on opening transactions or closing transactions or both; (iii) trading halts, suspensions or other restrictions may be imposed with respect to particular classes or series of options; (iv) unusual or unforeseen circumstances may interrupt normal operations on an exchange; (v) the facilities of an exchange or the Options Clearing Corporation may not at all times be adequate to handle current trading volume; or (vi) one or more exchanges could, for economic or other reasons, decide or be compelled at some future date to discontinue the trading of options (or a particular class or series of options), in which event the secondary market on that exchange (or in that class or series of options) would cease to exist, although outstanding options on that exchange that had been issued by the Options Clearing Corporation as a result of trades on that exchange would continue to be exercisable in accordance with their terms.

The Funds other than the Money Market Fund and Select Equity Fund may purchase and sell both options that are traded on United States and foreign exchanges and options traded over-the-counter with broker-dealers who make markets in these options. The ability to terminate over-the-counter options is more limited than with exchange-traded options and may involve the risk that broker-dealers participating in such transactions will not fulfill their obligations. Until such time as the staff of the SEC changes its position, the Funds will treat purchased over-the-counter options and all assets used to cover written over-the-counter options as illiquid securities, except that with respect to options written with primary dealers in U.S. Government securities pursuant to an agreement requiring a closing purchase transaction at a formula price, the amount of illiquid securities may be calculated with reference to the formula.

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Transactions by a Fund in options on securities and stock indices will be subject to limitations established by each of the exchanges, boards of trade or other trading facilities governing the maximum number of options in each class which may be written or purchased by a single investor or group of investors acting in concert. Thus, the number of options which a Fund may write or purchase may be affected by options written or purchased by other investment



advisory clients of the Advisers. An exchange, board of trade or other trading facility may order the liquidations of positions found to be in excess of these limits, and it may impose certain other sanctions.

The writing and purchase of options is a highly specialized activity which involves investment techniques and risks different from those associated with ordinary portfolio securities transactions. The successful use of protective puts for hedging purposes depends in part on the Adviser's ability to predict future price fluctuations and the degree of correlation between the options and securities markets.

#### FUTURES CONTRACTS AND OPTIONS ON FUTURES CONTRACTS

The Funds other than the Money Market Fund may purchase and sell futures contracts. Of these Funds, the Funds other than Select Equity Fund may also purchase and write options on futures contracts. These Funds may purchase and sell futures contracts based on various securities (such as U.S. Government Securities), securities indices, foreign currencies and other financial instruments and indices. Select Equity Fund may only purchase and sell futures contracts on the S&P 500 Index. A Fund will engage in futures or, in the case of Funds other than Select Equity, related options transactions, only for bona fide hedging purposes as defined below or for purposes of seeking to increase total returns to the extent permitted by regulations of the Commodity Futures Trading Commission ("CFTC"). All futures contracts entered into by a Fund are traded on U.S. exchanges or boards of trade that are licensed and regulated by the CFTC or on foreign exchanges.

FUTURES CONTRACTS. A futures contract may generally be described as an agreement between two parties to buy and sell particular financial instruments for an agreed price during a designated month (or to deliver the final cash settlement price, in the case of a contract relating to an index or otherwise not calling for physical delivery at the end of trading in the contract).

When interest rates are rising or securities prices are falling, a Fund can seek through the sale of futures contracts to offset a decline in the value of its current portfolio securities. When rates are falling or prices are rising, a Fund, through the purchase of futures contracts, can attempt to secure better rates or prices than might later be available in the market when it effects anticipated purchases. Similarly, a Fund (other than the Money Market Fund or Select Equity Fund) can sell futures contracts on a specified currency to protect against a decline in the value of such currency and its portfolio securities which are denominated in such currency. These Funds can purchase futures contracts on foreign currency to fix the price in U.S. dollars of a security denominated in such currency that such Fund has acquired or expects to acquire.

Positions taken in the futures markets are not normally held to maturity, but are instead liquidated through offsetting transactions which may result in a profit or a loss. While a Fund's futures contracts on securities or currency will usually be liquidated in this manner, it may instead make or take delivery of the underlying securities or currency whenever it appears economically advantageous for the Fund to do so. A clearing corporation associated with the exchange on which futures on securities or currency are traded guarantees that, if still open, the sale or purchase will be performed on the settlement date.

HEDGING STRATEGIES. Hedging by use of futures contracts seeks to establish more certainly than would otherwise be possible the effective price, rate of return or currency exchange rate on portfolio securities or securities that a Fund owns or proposes to acquire. A Fund may, for example, take a "short" position in the futures market by selling futures contracts in order to hedge against an anticipated rise in interest rates or a decline in market prices or (other than Select Equity Fund) foreign currency rates that would adversely affect the U. S. dollar value of the Fund's portfolio securities. Such futures contracts may (except in the case of Select Equity Fund) include contracts for the future delivery of securities held by the Fund or securities with characteristics similar to those of a Fund's portfolio securities. Similarly, a Fund (other than Select Equity Fund) may sell futures

contracts on a currency in which its portfolio securities are denominated or in one currency to hedge against fluctuations in the value of securities denominated in a different currency if there is an established historical pattern of correlation between the two currencies.

If, in the opinion of its Adviser, there is a sufficient degree of correlation between price trends for a Fund's portfolio securities and futures contracts based on other financial instruments, securities indices or other indices, the Fund may also enter into such futures contracts as part of its hedging strategy. Although under some circumstances prices of securities in a Fund's portfolio may be more or less volatile than prices of such futures contracts, the Adviser will attempt to estimate the extent of this difference in

volatility based on historical patterns and to compensate for it by having the Fund enter into a greater or lesser number of futures contracts or by attempting to achieve only a partial hedge against price changes affecting the Fund's securities portfolio. When hedging of this character is successful, any depreciation in the value of portfolio securities will substantially be offset by appreciation in the value of the futures position. On the other hand, any unanticipated appreciation in the value of the Fund's portfolio securities would be substantially offset by a decline in the value of the futures position.

On other occasions, a Fund may take a "long" position by purchasing such futures contracts. This would be done, for example, when a Fund anticipates the subsequent purchase of particular securities when it has the necessary cash, but expects the prices or currency exchange rates then available in the applicable market to be less favorable than prices or rates that are currently available.

**OPTIONS ON FUTURES CONTRACTS.** The acquisition of put and call options on futures contracts will give a Fund the right (but not the obligation), for a specified price, to sell or to purchase, respectively, the underlying futures contract at any time during the option period. As the purchaser of an option on a futures contract, a Fund obtains the benefit of the futures position if prices move in a favorable direction but limits its risk of loss in the event of an unfavorable price movement to the loss of the premium and transaction costs.

The writing of a call option on a futures contract generates a premium which may partially offset a decline in the value of a Fund's assets. By writing a call option, a Fund becomes obligated, in exchange for the premium, to sell a futures contract, which may have a value higher than the exercise price. Conversely, the writing of a put option on a futures contract generates a premium, which may partially offset an increase in the price of securities that the Fund intends to purchase. However, a Fund becomes obligated to purchase a futures contract, which may have a value lower than the exercise price. Thus, the loss incurred by the Fund in writing options on futures is potentially unlimited and may exceed the amount of the premium received. A Fund will incur transaction costs in connection with the writing of options on futures.

The holder or writer of an option on a futures contract may terminate its position by selling or purchasing an offsetting option on the same series. There is no guarantee that such closing transactions can be effected. A Fund's ability to establish and close out positions on such options will be subject to the development and maintenance of a liquid market.

**OTHER CONSIDERATIONS.** Where permitted, a Fund will engage in futures transactions and (except for Select Equity Fund) in related options transactions only for bona fide hedging or to seek to increase total return to the extent permitted by CFTC regulations. A Fund will determine that the price fluctuations in the futures contracts and options on futures used for hedging purposes are substantially related to price fluctuations in securities held by the Fund or which it expects to purchase. Except as stated below, each Fund's futures transactions will be entered into for traditional hedging purposes -- I.E., futures contracts will be sold to protect against a decline in the price of securities (or the currency in which they are denominated) that the Fund owns, or futures contracts will be purchased to protect the Fund against an increase in the price of securities (or the currency in which they are denominated) it intends to purchase. As evidence of this hedging intent, the Funds expect that on 75% or more of the occasions on which they take a long futures or option positions (involving the purchase of futures contracts), the Fund will have purchased, or will be in the process of purchasing, equivalent amounts of related securities (or assets denominated in the related currency) in the cash market at the time when the futures or option position is

closed out. However, in particular cases, when it is economically advantageous for a Fund to do so, a long futures position may be terminated or an option may expire without the corresponding purchase of securities or other assets.

As an alternative to literal compliance with the bona fide hedging definition, a CFTC regulation permits a Fund to elect to comply with a different test, under which the aggregate initial margin and premiums required to establish positions in futures contracts and options on futures for the purpose seeking to increase total return, will not exceed 5 percent of the net asset value of the Fund's portfolio, after taking into account unrealized profits and losses on any such positions and excluding the amount by which such options were in-the-money at the time of purchase. As permitted, each Fund will engage in transactions in futures contracts and (except for Select Equity Fund) in related options transactions only to the extent such transactions are consistent with the requirements of the Internal Revenue Code of 1986, as amended (the "Code") for maintaining its qualification as a regulated investment company for federal income tax purposes (see "Taxes" in the Prospectus).

Transactions in futures contracts and options on futures involve brokerage costs, require margin deposits and, in the case of contracts and options obligating a Fund to purchase securities or currencies, require the Fund to segregate with its custodian liquid high grade debt securities in an amount equal to the underlying value of such contracts and options.

While transactions in futures contracts and options on futures may reduce certain risks, such transactions themselves entail certain other risks. Thus, unanticipated changes in interest rates, securities prices or currency exchange rates may result in a poorer overall performance for a Fund than if it had not entered into any futures contracts or options transactions. In the event of an imperfect correlation between a futures position and portfolio position which is intended to be protected, the desired protection may not be obtained and a Fund may be exposed to risk of loss.

Perfect correlation between a Fund's futures positions and portfolio positions may be difficult to achieve because no futures contracts based on individual equity securities are currently available. The only futures contracts available to hedge a Fund's portfolio are various futures on U.S. Government securities, securities indices and foreign currencies. In addition, it is not possible for a Fund to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in foreign currencies because the value of such securities is likely to fluctuate as a result of independent factors not related to currency fluctuations.

#### FOREIGN INVESTMENTS

Investing in the securities of companies organized outside the United States or of companies whose securities are principally traded outside the United States ("foreign issuers") or investments in securities denominated or quoted in foreign currency ("non-dollar securities") involves certain special considerations, including those set forth below, which are not typically associated with investing in securities of domestic issuers or U.S. dollar denominated securities. Since investments in foreign issuers may involve currencies of foreign countries and since a Fund may temporarily hold funds in bank deposits in foreign currencies during completion of investment programs and since a Fund may be subject to currency exposure independent of its securities positions, the Fund may be affected favorably or unfavorably by changes in currency rates and in exchange control regulations and may incur costs in connection with conversions between various currencies.

Currency exchange rates may fluctuate significantly over short periods of time. The generally are determined by the forces of supply and demand in the foreign exchange markets and the relative merits of investments in different countries, actual or anticipated changes in interest rates and other complex factors, as seen from an international perspective. Currency exchange rates also can be affected by intervention by U.S. or foreign governments or central banks or the failure to intervene or by currency controls or political developments in the U.S. or abroad.

Since foreign issuers generally are not subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those applicable to U.S. issuers, there may be less

publicly available information about a foreign issuer than about a domestic issuer. Volume and liquidity in most foreign securities markets are less than in the United States and securities of many foreign issuers are less liquid and more volatile than securities of comparable domestic issuers. Fixed commissions on foreign securities exchanges are generally higher than negotiated commissions on U.S. exchanges, although the Funds endeavor to achieve the most favorable net results on its portfolio transactions. There is generally less government supervision and regulation of foreign securities exchanges, brokers, dealers and listed and unlisted issuers than in the United States.

Foreign investment markets also have different clearance and settlement procedures, and in certain markets there have been times when settlements have been unable to keep pace with the volume of transactions, making it difficult to conduct such transactions. Such delays in settlement could result in temporary periods when a portion of the assets of a Fund are uninvested and no return is earned on such assets. The inability of a Fund to make intended security purchases due to settlement problems could cause the Fund to miss attractive investment opportunities. Inability to dispose of portfolio investments due to settlement problems could result either in losses to a Fund due to subsequent declines in value of the portfolio securities or, if the Fund has entered into a contract to sell the securities, could result in possible liability to the purchaser. In addition, with respect to certain foreign countries, there is the

possibility of expropriation or confiscatory taxation, political or social instability, or diplomatic developments which could affect a Fund's investments in those countries. Moreover, individual foreign economies may differ favorably or unfavorably from the U.S. economy in such respects as growth of gross national product, rate of inflation, capital reinvestment, resource self-sufficiency and balance of payments position.

International Equity Fund, Capital Growth Fund, Small Cap Equity Fund and Growth and Income Fund may also invest in countries with emerging economics or securities markets. Political and economic structures in many of such countries may be undergoing significant evolution and rapid development, and such countries may lack the social, political and economic stability characteristic of more developed countries. Certain of such countries may have in the past failed to recognize private property rights and have at times nationalized or expropriated the assets of private companies. As a result, the risks described above, including the risks of nationalization or expropriation of assets, may be heightened. In addition, unanticipated political or social developments may affect the values of a Fund's investments in those countries and the availability to a Fund of additional investments in those countries. The small size and inexperience of the securities markets in certain of such countries and the limited volume of trading in securities in those countries may make a Fund's investments in such countries illiquid and more volatile than investments in more developed countries, and a Fund may be required to establish special custodial or other arrangements before making certain investments in those countries. There may be little financial or accounting information available with respect to issuers located in certain of such countries, and it may be difficult as a result to assess the value or prospects of an investment in such issuers.

The International Equity Fund, Capital Growth Fund, Small Cap Equity Fund and Growth and Income Fund may invest in securities of issuers domiciled in a country other than the country in whose currency the instrument is denominated or quoted. The International Equity Fund and Global Income Fund may also invest in securities quoted or denominated in the European Currency Unit ("ECU"), which is a "basket" consisting of specified amounts of the currencies of certain of the member states of the European Community. The specific amounts of currencies comprising the ECU may be adjusted by the Council of Ministers of the European Community from time to time to reflect changes in relative values of the underlying currencies. In addition, the Funds may invest in securities quoted or denominated in other currency "baskets."

FORWARD FOREIGN CURRENCY EXCHANGE CONTRACTS. The Capital Growth Fund, Small Cap Equity Fund, International Equity Fund, Growth and Income Fund and Global Income Fund may enter into forward foreign currency exchange contracts for the purposes described in the Prospectus. A forward foreign currency exchange contract involves an obligation to purchase or sell a specific currency at a future date, which may be any fixed number of days from the date of the contract agreed upon by the parties, at a price

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set at the time of the contract. These contracts are traded in the interbank market conducted directly between currency traders (usually large commercial banks) and their customers. A forward contract generally has no deposit requirement, and no commissions are generally charged at any stage for trades.

At the maturity of a forward contract a Fund may either accept or make delivery of the currency specified in the contract or, at or prior to maturity, enter into a closing transaction involving the purchase or sale of an offsetting contract. Closing transactions with respect to forward contracts are usually effected with the currency trader who is a party to the original forward contract.

These Funds may enter into forward foreign currency exchange contracts in several circumstances. First, when a Fund enters into a contract for the purchase or sale of a security denominated or quoted in a foreign currency, or when the Fund anticipates the receipt in a foreign currency of dividend or interest payments on such a security which it holds, the Fund may desire to "lock in" the U.S. dollar price of the security or the U.S. dollar equivalent of such dividend or interest payment, as the case may be. By entering into a forward contract for the purchase or sale, for a fixed amount of dollars, of the amount of foreign currency involved in the underlying transactions, the Fund will attempt to protect itself against an adverse change in the relationship between the U.S. dollar and the subject foreign currency during the period between the date on which the security is purchased or sold, or on which the dividend or interest payment is declared, and the date on which such payments are made or received.

Additionally, when the Adviser of a Fund believes that the currency of a particular foreign country may suffer a substantial decline against the U.S. dollar, it may enter into a forward contract to sell, for a fixed amount of

dollars, the amount of foreign currency approximating the value of some or all of the Fund's portfolio securities denominated in such foreign currency. The precise matching of the forward contract amounts and the value of the securities involved will not generally be possible because the future value of such securities in foreign currencies will change as a consequence of market movements in the value of those securities between the date on which the contract is entered into and the date it matures. Using forward contracts to protect the value of a Fund's portfolio securities against a decline in the value of a currency does not eliminate fluctuations in the underlying prices of the securities. It simply establishes a rate of exchange which a Fund can achieve at some future point in time. The precise projection of short-term currency market movements is not possible, and short-term hedging provides a means of fixing the dollar value of only a portion of a Fund's foreign assets.

The International Equity Fund and Global Income Fund may engage in cross-hedging by using forward contracts in one currency to hedge against fluctuations in the value of securities quoted or denominated in a different currency if the Adviser determines that there is a pattern of correlation between the two currencies. These Funds may also purchase and sell forward contracts to seek to increase total return when the Adviser anticipates that the foreign currency will appreciate or depreciate in value, but securities denominated or quoted in that currency do not present attractive investment opportunities and are not held in the Fund's portfolio.

A Fund's custodian will place cash or liquid, high grade debt securities (I.E., securities rated in one of the top three ratings categories by S&P or by Moody's or, if unrated, deemed by the Adviser to be of comparable credit quality) into a segregated account of the Fund in an amount equal to the value of the Fund's total assets committed to the consummation of forward foreign currency exchange contracts requiring the Fund to purchase foreign currencies or forward contracts entered into to seek to increase total return. If the value of the securities placed in the segregated account declines, additional cash or securities will be placed in the account on a daily basis so that the value of the account will equal the amount of the Fund's commitments with respect to such contracts. The segregated account will be marked-to-market on a daily basis. Although the contracts are not presently regulated by the CFTC, the CFTC may in the future assert authority to regulate these contracts. In such event, the Fund's ability to utilize forward foreign currency exchange contracts may be restricted.

While a Fund will enter into forward contracts to reduce currency exchange rate risks, transactions in such contracts involve certain other risks. Thus, while a Fund may benefit from such transactions, unanticipated changes in currency prices may result in a poorer overall performance for the Fund than if

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it had not engaged in any such transactions. Moreover, there may be imperfect correlation between a Fund's portfolio holdings of securities quoted or denominated in a particular currency and forward contracts entered into by the Fund. Such imperfect correlation may cause the Fund to sustain losses which will prevent the Fund from achieving a complete hedge or expose the Fund to risk of foreign exchange loss.

Markets for trading foreign forward currency contracts offer less protection against defaults than is available when trading in currency instruments on an exchange. Since a forward foreign currency exchange contract is not guaranteed by an exchange or clearinghouse, a default on the contract would deprive a Fund of unrealized profits or force the Fund to cover its commitments for purchase or resale, if any, at the current market price.

**WRITING AND PURCHASING CURRENCY CALL AND PUT OPTIONS.** The Capital Growth Fund, Small Cap Equity Fund, International Equity Fund, Growth and Income Fund and Global Income Fund may write covered put and call options and purchase put and call options on foreign currencies for the purpose of protecting against declines in the U.S. dollar value of portfolio securities and against increases in the dollar cost of securities to be acquired. The International Equity Fund and Global Income Fund may use options on currency to cross-hedge, which involves writing or purchasing options on one currency to hedge against changes in exchange rates for a different currency if a pattern of correlation exists between the values of the currencies. In addition, the International Equity and Global Income Funds may purchase call options on currency to seek to increase total return when the Adviser anticipates that the currency will appreciate in value, but the securities quoted or denominated in that currency do not present attractive investment opportunities and are not included in the Fund's portfolio.

A call option written by a Fund obligates the Fund to sell specified currency to the holder of the option at a specified price at any time before the

expiration date. A put option written by a Fund would obligate the Fund to purchase specified currency from the option holder at a specified price at any time before the expiration date. The writing of currency options involves a risk that a Fund will, upon exercise of the option, be required to sell currency subject to a call at a price that is less than the currency's market value or be required to purchase currency subject to a put at a price that exceeds the currency's market value.

A Fund may terminate its obligations under a call or put option by purchasing an option identical to the one it has written. Such purchases are referred to as "closing purchase transactions." A Fund would also be able to enter into closing sale transactions in order to realize gains or minimize losses on options purchased by it.

A Fund would normally purchase call options in anticipation of an increase in the U.S. dollar value of currency in which securities to be acquired by the Fund are quoted or denominated. The purchase of a call option would entitle a Fund, in return for the premium paid, to purchase specified currency at a specified price during the option period. The Fund would ordinarily realize a gain if, during the option period, the value of such currency exceeded the sum of the exercise price, the premium paid and transaction costs; otherwise the Fund would realize either no gain or a loss on the purchase of the call option.

A Fund would normally purchase put options in anticipation of a decline in the dollar value of currency in which securities in its portfolio are quoted or denominated ("protective puts"). The purchase of a put option would entitle the Fund, in exchange for the premium paid, to sell specified currency at a specified price during the option period. The purchase of protective puts is designed merely to offset or hedge against a decline in the dollar value of the Fund's portfolio securities due to currency exchange rate fluctuations. A Fund would ordinarily realize a gain if, during the option period, the value of the underlying currency decreased below the exercise price sufficiently to more than cover the premium and transaction costs; otherwise the Fund would realize either no gain or a loss on the purchase of the put option. Gains and losses on the purchase of protective put options would tend to be offset by countervailing changes in the value of underlying currency or portfolio securities.

In addition to using options for the hedging purposes described above, the International Equity Fund and Global Income Fund may use options on currency to seek to increase total return. These Funds may

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write (sell) covered put and call options on any currency in order to realize greater income than would be realized on portfolio securities transactions alone. However, in writing covered call options for additional income, the Fund may forgo the opportunity to profit from an increase in the market value of the underlying currency. Also, when writing put options, a Fund accepts, in return for the option premium, the risk that it may be required to purchase the underlying currency at a price in excess of the currency's market value at the time of purchase.

These two Funds would normally purchase call options to seek to increase in anticipation of an increase in the market value of a currency. They would ordinarily realize a gain if, during the option period, the value of such currency exceeded the sum of the exercise price, the premium paid and transaction costs. Otherwise the Fund would realize either no gain or a loss on the purchase of the call option. Put options may be purchased by these two Funds for the purpose of benefiting from a decline in the value of currencies which it does not own. They would ordinarily realize a gain if, during the option period, the value of the underlying currency decreased below the exercise price sufficiently to more than cover the premium and transaction costs. Otherwise they would realize either no gain or a loss on the purchase of the put option.

**SPECIAL RISKS ASSOCIATED WITH OPTIONS ON CURRENCY.** An exchange traded options position may be closed out only on an options exchange which provides a secondary market for an option of the same series. Although a Fund will generally purchase or write only those options for which there appears to be an active secondary market, there is no assurance that a liquid secondary market on an exchange will exist for any particular option, or at any particular time. For some options no secondary market on an exchange may exist. In such event, it might not be possible to effect closing transactions in particular options, with the result that a Fund would have to exercise its options in order to realize any profit and would incur transaction costs upon the sale of underlying securities pursuant to the exercise of put options. If a Fund as a covered call option writer is unable to effect a closing purchase transaction in a secondary market, it will not be able to sell the underlying currency (or security quoted or denominated in that currency) until the option expires or it delivers the underlying currency upon exercise.

There is no assurance that higher than anticipated trading activity or other

unforeseen events might not, at times, render certain of the facilities of the Options Clearing Corporation inadequate, and thereby result in the institution by an exchange of special procedures which may interfere with the timely execution of customers' orders.

The Funds may purchase and write over-the-counter options to the extent consistent with its limitation on investments in restricted securities. See "Investment Restrictions" in the Prospectus. Trading in over-the-counter options is subject to the risk that the other party will be unable or unwilling to close-out options purchased or written by the Fund.

The amount of the premiums which a Fund may pay or receive may be adversely affected as new or existing institutions, including other investment companies, engage in or increase their option purchasing and writing activities.

INTEREST RATE SWAPS, CURRENCY SWAPS AND INTEREST RATE CAPS, FLOORS AND COLLARS. The Global Income Fund may enter into interest rate and currency swaps for hedging purposes and to seek to increase total return. The International Equity Fund may enter into currency swaps for these purposes. The Global Income Fund may also enter into special interest rate swap arrangements such as caps, floors and collars for both hedging purposes and to seek to increase total return. Inasmuch as swaps are entered into for good faith hedging purposes or are offset by a segregated account as described below, the Advisers believe that swaps do not constitute senior securities as defined in the Act and, accordingly, will not treat them as being subject to the Fund's borrowing restrictions. An amount of cash or liquid, high grade debt securities having an aggregate net asset value at least equal to the entire amount of the payment stream payable by the Fund will be maintained in a segregated account by the Fund's custodian. A Fund will not enter into any interest rate swap (including caps, floors and collars) or currency swap unless the credit quality of the unsecured senior debt or the claims-paying ability of the other party thereto is considered to be investment grade by the Adviser. If there is a default by the other party to such a transaction, the Fund will have

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contractual remedies pursuant to the agreement, related to the transaction. The swap market has grown substantially in recent years with a large number of banks and investment banking firms acting both as principals and as agents utilizing standardized swap documentation. As a result, the swap market has become relatively liquid in comparison with the markets for other similar instruments which are traded in the interbank market. Nevertheless, the SEC staff takes the position that currency swaps are illiquid investments subject to these Funds' 15% limitation on such investments.

#### FIXED-INCOME SECURITIES

SHORT-TERM BANK AND CORPORATE OBLIGATIONS. Commercial paper represents short-term unsecured promissory notes issued in bearer form by banks or bank holding companies, corporations, and finance companies. The commercial paper purchased by the Funds consists of direct U.S. dollar-denominated obligations of domestic issuers. Bank obligations in which the Funds may invest include certificates of deposit, bankers' acceptances, fixed time deposits and bank notes. Certificates of deposit are negotiable certificates issued against funds deposited in a commercial bank for a definite period of time and earning a specified return.

Bankers' acceptances are negotiable drafts or bills of exchange, normally drawn by an importer or exporter to pay for specific merchandise, which are "accepted" by a bank, meaning, in effect, that the bank unconditionally agrees to pay the face value of the instrument on maturity. Fixed time deposits are bank obligations payable at a stated maturity date and bearing interest at a fixed rate. Fixed time deposits may be withdrawn on demand by the investor, but may be subject to early withdrawal penalties which vary depending upon market conditions and the remaining maturity of the obligation. There are no contractual restrictions on the right to transfer a beneficial interest in a fixed time deposit to a third party, although there is no market for such deposits. Certain fixed time deposits maturing in more than seven days may be deemed to be illiquid securities. Bank notes rank junior to deposit liabilities of the bank and PARI PASSU with other senior, unsecured obligations of the bank. Bank notes are classified as "other borrowings" on a bank's balance sheet, while deposit notes and certificates of deposit are classified as deposits. Bank notes are not insured by the Federal Deposit Insurance Corporation or any other insurer. Deposit notes are insured by the Federal Deposit Insurance Corporation only to the extent of \$100,000 per depositor per bank.

VARIABLE AMOUNT MASTER DEMAND NOTES. The Funds may purchase variable amount master demand notes. These obligations permit the investment of fluctuating amounts at varying rates of interest pursuant to direct arrangements between the lender and borrower and are not generally transferable nor are they ordinarily rated. A Fund may invest in them only if the Adviser believes that the notes are

of comparable quality to the other obligations in which the Fund may invest.

**VARIABLE RATE AND FLOATING RATE DEMAND INSTRUMENTS.** The Funds may purchase variable and floating rate demand instruments that are debt securities that possess a floating or variable interest rate adjustment formula. These instruments also permit a Fund to demand payment of the principal balance plus unpaid accrued interest upon a specified number of days' notice to the issuer or its agent. The demand feature may be backed by a bank letter of credit or guarantee issued with respect to such instrument.

The terms of the variable or floating rate demand instruments that a Fund may purchase provide that interest rates are adjustable at intervals ranging from daily up to six months, and the adjustments are based upon current market levels, the prime rate of a bank or other appropriate interest rate adjustment index as provided in the respective instruments. Some of these instruments are payable on demand on a daily basis or on not more than seven days' notice. Others, such as instruments with quarterly or semiannual interest rate adjustments, may be put back to the issuer on designated days on not more than thirty days' notice. Still others are automatically called by the issuer unless the Fund instructs otherwise. The Funds intend to exercise the demand only (1) upon a default under the terms of the debt security, (2) as needed to provide liquidity to the Fund, (3) to maintain the respective quality standards of a Fund's investment portfolio, or (4) to attain a more optimal portfolio structure.

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The Money Market Fund will determine the variable or floating rate demand instruments that it will purchase in accordance with procedures approved by the board of directors to minimize credit risks. Accordingly, any variable or floating rate demand instrument must satisfy that Fund's credit criteria with respect to both its long-term and short-term ratings except that where credit support is provided, the Fund may rely solely upon the short-term rating of the variable or floating rate demand instrument (I.E., the right to sell). A variable or floating rate demand instrument that is unrated must have high quality characteristics similar to those of other obligations rated high quality. The Adviser may determine that an unrated variable or floating rate demand instrument meets the Money Market Fund's quality criteria by reason of being backed by a letter of credit or guarantee issued by a bank that meets the quality criteria for that Fund. Thus, either the credit of the issuer of the obligation or the guarantor bank or both will meet the quality standards of the Fund.

The maturity of the variable or floating rate demand instruments held by any of the Funds will ordinarily be deemed to be the longer of (1) the notice period required before the Fund is entitled to receive payment of the principal amount of the instrument or (2) the period remaining until the instrument's next interest rate adjustment.

**LOAN PARTICIPATION INTERESTS.** The Money Market Fund may purchase participation interests with remaining maturities of thirteen months or less in loans of any maturity. Such loans must be to issuers in whose obligations the Fund may otherwise invest. Any participation purchased by the Fund must be issued by a bank in the United States with assets exceeding \$1 billion. Because the issuing bank does not guarantee the participation in any way, the participations are subject to the credit risks generally associated with the underlying corporate borrower. In addition, because it may be necessary under the terms of the loan participation for the Fund to assert through the issuing bank such rights as may exist against the underlying corporate borrower, in the event the underlying corporate borrower fails to pay principal and interest when due, the Fund may be subject to delays, expenses and risks that are greater than those that would have been involved if the Fund had purchased a direct obligation (such as commercial paper) of such borrower. Moreover, under the terms of the loan participation the Money Market Fund may be regarded as a creditor of the issuing bank (rather than of the underlying corporate borrower), so that the Fund may also be subject to the risk that the issuing bank may become insolvent. Further, in the event of the bankruptcy or insolvency of the corporate borrower, the loan participation may be subject to certain defenses that can be asserted by such borrower as a result of improper conduct by the issuing bank. The secondary market, if any, for these loan participation is limited and any such participation purchased by the Fund may be regarded as illiquid.

The Money Market Fund does not believe that price quotations currently obtainable from banks, dealers or pricing services consistently represent the market values of participation interests. Therefore, the Company's accounting servicing agent will, following guidelines established by the board of directors, value the participation interests held by the Fund at fair value, which approximates market value. In valuing a participation interest, the agent will consider the following factors: (i) the characteristics of the participation interest, including the cost, size, interest rate, period until next interest rate reset, maturity and base lending rate of the participation interest, the terms and conditions of the loan and any related agreements and



the position of the loan in the borrower's debt structure; (ii) the nature, adequacy and value of the collateral, including the Fund's rights, remedies and interests with respect to the collateral; (iii) the creditworthiness of the borrower, based on an evaluation of its financial condition, financial statements and information about the borrower's business, cash flows, capital structure and future prospects; (iv) the market for the participation interest, including price quotations for and trading in the participation interest and similar participation interest or instruments and the market environment and investor attitudes towards the participation interest or participation interests generally; (v) the quality and creditworthiness of any intermediate participants; and (vi) general economic or market conditions.

LOWER-RATED CORPORATE DEBT OBLIGATIONS. As described in the Prospectus, the Capital Growth Fund Small Cap Equity Fund and Growth and Income Fund may make certain investments including corporate debt obligations that are unrated or rated in the lower rating categories by Standard & Poor's Rating Group ("Standard & Poor's") or by Moody's Investors Service, Inc. ("Moody's") (I.E., ratings of BB or

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lower by Standard & Poor's or Ba or lower by Moody's). Bonds rated BB or Ba or below (or comparable unrated securities) are commonly referred to as "lower-rated" securities or as "junk bonds" and are considered speculative and may be questionable as to principal and interest payments. In some cases, such bonds may be highly speculative, have poor prospects for reaching investment standing and be in default. As a result, investment in such bonds will entail greater speculative risks than those associated with investment in investment-grade bonds (I.E., bonds rated AAA, AA, A or BBB by Standard & Poor's or Aaa, Aa, A or Baa by Moody's). See Appendix A for a description of the ratings issued by investment rating services.

An economic downturn could severely affect the ability of highly leveraged issuers of junk bonds to service their debt obligations or to repay their obligations upon maturity. Factors having an adverse impact on the market value of lower rated securities will have an adverse effect on a Fund's net asset value to the extent it invests in such securities. In addition, a Fund may incur additional expenses to the extent it is required to seek recovery upon a default in payment of principal or interest on its portfolio holdings.

The secondary market for junk bond securities, which is concentrated in relatively few market makers, may not be as liquid as the secondary market for more highly rated securities, a factor which may have an adverse effect on a Fund's ability to dispose of a particular security when necessary to meet its liquidity needs. Under adverse market or economic conditions, the secondary market for junk bond securities could contract further, independent of any specific adverse changes in the condition of a particular issuer. As a result, a Fund's Adviser could find it more difficult to sell these securities or may be able to sell the securities only at prices lower than if such securities were widely traded. Prices realized upon the sale of such lower rated or unrated securities, under these circumstances, may be less than the prices used in calculating a Fund's net asset value.

Since investors generally perceive that there are greater risks associated with lower-rated debt securities, the yields and prices of such securities may tend to fluctuate more than those for higher rated securities. In the lower quality segments of the fixed-income securities market, changes in perceptions of issuers' creditworthiness tend to occur more frequently and in a more pronounced manner than do changes in higher quality segments of the fixed-income securities market resulting in greater yield and price volatility.

Another factor which causes fluctuations in the prices of fixed-income securities is the supply and demand for similarly rated securities. In addition, the prices of fixed-income securities fluctuate in response to the general level of interest rates. Fluctuations in the prices of portfolio securities subsequent to their acquisition will not affect cash income from such securities but will be reflected in a Fund's net asset value.

Lower-rated (and comparable non-rated) securities tend to offer higher yields than higher-rated securities with the same maturities because the historical financial condition of the issuers of such securities may not have been as strong as that of other issuers. Since lower rated securities generally involve greater risks of loss of income and principal than higher-rated securities, investors should consider carefully the relative risks associated with investment in securities which carry lower ratings and in comparable non-rated securities. In addition to the risk of default, there are the related costs of recovery on defaulted issues. The Advisers will attempt to reduce these

risks through diversification of these Funds' portfolios and by analysis of each issuer and its ability to make timely payments of income and principal, as well as broad economic trends in corporate developments.

**ZERO COUPON BONDS.** The Capital Growth Fund, Small Cap Equity Fund, International Equity Fund, Growth and Income Fund and Global Income Fund may invest in zero coupon bonds which are debt obligations that do not entitle the holder to any periodic payments of interest prior to maturity or provide for a specified cash payment date when the bonds begin paying current interest. As a result, zero coupon bonds are generally issued and traded at a significant discount from their face value. The discount approximates the present value amount of interest the bonds would have accrued and compounded over the period until maturity.

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Zero coupon bonds benefit the issuer by mitigating its initial need for cash to meet debt service, but generally provide a higher rate of return to compensate investors for the deferment of cash interest or principal payments. Such securities are often issued by companies that may not have the capacity to pay current interest and so may be considered to have more risk than current interest-bearing securities. In addition, the market price of zero coupon bonds generally is more volatile than the market prices of securities that provide for the periodic payment of interest. The market prices of zero coupon bonds are likely to fluctuate more in response to changes in interest rates than those of interest-bearing securities having similar maturities and credit quality.

Zero coupon bonds carry the additional risk that, unlike securities that provide for the periodic payment of interest to maturity, the Funds will realize no cash until a specified future payment date unless a portion of such securities is sold. If the issuer of such securities defaults, the Funds may obtain no return at all on their investment. In addition, a Fund's investment in zero coupon bonds may require it to sell certain of its portfolio securities to generate sufficient cash to satisfy certain income distribution requirements. See "Taxation" below.

**MORTGAGE-BACKED AND ASSET-BACKED SECURITIES.** All of the Funds except Select Equity Fund may invest in mortgage-backed securities, which represent direct or indirect participation in, or are collateralized by and payable from, mortgage loans secured by real property. These Funds may also invest in asset-backed securities, which represent participation in, or are secured by and payable from, assets such as motor vehicle installment sales, installment loan contracts, leases of various types of real and personal property, receivables from revolving credit (I.E., credit card) agreements and other categories of receivables. Such assets are securitized through the use of trusts and special purpose corporations. Payments or distributions of principal and interest may be guaranteed up to certain amounts and for a certain time period by a letter of credit or a pool insurance policy issued by a financial institution unaffiliated with the trust or corporation, or other credit enhancements may be present.

Mortgage-backed and asset-backed securities are often subject to more rapid repayment than their stated maturity date would indicate as a result of the pass-through of prepayments of principal on the underlying loans. A Fund's ability to maintain positions in such securities will be affected by reductions in the principal amount of such securities resulting from prepayments, and its ability to reinvest the returns of principal at comparable yields is subject to generally prevailing interest rates at that time. To the extent that a Fund invests in mortgage-backed and asset-backed securities, the values of its portfolio securities will vary with changes in market interest rates generally and the differentials in yields among various kinds of U.S. Government Securities and other mortgage-backed and asset-backed securities.

Asset-backed securities present certain additional risks that are not presented by mortgage-backed securities because asset-backed securities generally do not have the benefit of a security interest in collateral that is comparable to mortgage assets. Credit card receivables are generally unsecured and the debtors on such receivables are entitled to the protection of a number of state and federal consumer credit laws, many of which give such debtors the right to set-off certain amounts owed on the credit cards, thereby reducing the balance due. Automobile receivables generally are secured, but by automobiles rather than residential real property. Most issuers of automobile receivables permit the loan servicers to retain possession of the underlying obligations. If the servicer were to sell these obligations to another party, there is a risk that the purchaser would acquire an interest superior to that of the holders of the asset-backed securities. In addition, because of the large number of vehicles involved in a typical issuance and technical requirements under state laws, the trustee for the holders of the automobile receivables may not have a proper security interest in the underlying automobiles. Therefore, there is the possibility that, in some cases, recoveries on repossessed collateral may not be

available to support payments on these securities.

#### WARRANTS AND RIGHTS

The Select Equity Fund, Capital Growth Fund, Small Cap Equity Fund, International Equity Fund and Growth and Income Fund each may invest up to 5% of its total assets, calculated at the time of purchase, in warrants or rights (other than those acquired in units or attached to other securities) which entitle the holder to buy equity securities at a specific price for a specific period of time but will do so only if such equity securities are deemed appropriate by the Adviser for investment by the Fund. The Funds will each not invest more than 2% of their total assets, calculated at the time of purchase, in warrants or rights which are not listed on the New York or American Stock Exchanges. Warrants and rights have no voting rights, receive no dividends and have no rights with respect to the assets of the issuer.

#### REAL ESTATE INVESTMENT TRUSTS

The Capital Growth Fund, Small Cap Equity Fund and the Growth and Income Fund may invest in shares of real estate investment trusts ("REITs"). REITs are pooled investment vehicles that invest primarily in income producing real estate or real estate related loans or interest. REITs are generally classified as equity REITs, mortgage REITs or a combination of equity and mortgage REITs. Equity REITs invest the majority of their assets directly in real property and derive income primarily from the collection of rents. Equity REITs can also realize capital gains by selling properties that have appreciated in value. Mortgage REITs invest the majority of their assets in real estate mortgages and derive income from the collection of interest payments. REITs are not taxed on income distributed to shareholders provided they comply with several requirements of the Code. A Fund will indirectly bear its proportionate share of any expenses paid by REITs in which it invests in addition to the expenses paid by a Fund.

Investing in REITs involves certain unique risks. Equity REITs may be affected by changes in the value of the underlying property owned by such REITs, while mortgage REITs may be affected by the quality of any credit extended. REITs are dependent upon management skills, are not diversified (except to the extent the Code requires), and are subject to the risks of financing projects. REITs are subject to heavy cash flow dependency, default by borrowers, self-liquidation, and the possibilities of failing to qualify for the exemption from tax for distributed income under the Code and failing to maintain their exemptions from the Investment Company Act of 1940. REITs (especially mortgage REITs) are also subject to interest rate risks.

#### WHEN-ISSUED SECURITIES AND FORWARD COMMITMENTS

All of the Funds may purchase securities on a when-issued basis or purchase or sell securities on a forward commitment basis. These transactions involve a commitment by the Fund to purchase or sell securities at a future date. The price of the underlying securities (usually expressed in terms of yield) and the date when the securities will be delivered and paid for (the settlement date) are fixed at the time the transaction is negotiated. When-issued purchases and forward commitment transactions are negotiated directly with the other party, and such commitments are not traded on exchanges, but may be traded over-the-counter.

A Fund will purchase securities on a when-issued basis or purchase or sell securities on a forward commitment basis only with the intention of completing the transaction and actually purchasing or selling the securities. If deemed advisable as a matter of investment strategy, however, a Fund may dispose of or negotiate a commitment after entering into it. A Fund also may sell securities it has committed to purchase before those securities are delivered to it on the settlement date. The Fund may realize a capital gain or loss in connection with these transactions. For purposes of determining a Fund's average dollar weighted maturity, the maturity of when-issued or forward commitment securities will be calculated from the commitment date.

A Fund is required to hold and maintain in a segregated account with the Company's custodian until the settlement date, cash and liquid, high-grade debt securities in an amount sufficient to meet the purchase price. Alternatively, a Fund may enter into offsetting contracts for the forward sale of

other securities that it owns. Securities purchased or sold on a when-issued or forward commitment basis involve a risk of loss of the value of the security to be purchased declines prior to the increases prior to the settlement date.

## INVESTMENT RESTRICTIONS

### FUNDAMENTAL RESTRICTIONS

The following investment restrictions have been adopted by the Company as fundamental policies for the Fund to which each applies, as shown below. A fundamental policy is one that cannot be changed without the affirmative vote of the holders of a majority (as defined in the Act) of the outstanding votes attributable to the shares of a Fund. The investment objective or objectives of each Fund and all other investment policies or practices of the Fund are considered by the Company not to be fundamental and accordingly may be changed by the Company's board of directors without shareholder approval. See "Investment Objective and Policies" in the Fund's Prospectus. For purposes of the Act, "majority" means the lesser of (a) 67% or more of the votes attributable to shares of the Fund present at a meeting, if the holders of more than 50% of such votes are present or represented by proxy, or (b) more than 50% of the votes attributable to shares of the Fund.

None of the Funds may:

1. Pledge, mortgage or hypothecate its assets, except to the extent necessary to secure permitted borrowings and to the extent related to the deposit of assets in escrow in connection with the writing of covered put and call options and the purchase of securities on a forward commitment or delayed-delivery basis and collateral and initial or variation margin arrangements with respect to currency transactions, options, futures contracts (including those relating to indices), and options on futures contracts or indices.

2. Purchase securities on margin, except for such short-term credits as are necessary for the clearance of transactions, but a Fund may make margin deposits in connection with transactions in currencies, options, futures contracts and options on futures contracts.

3. Sell securities short or maintain a short position except for short sales against-the-box.

4. Underwrite securities issued by others, except to the extent that the sale of portfolio securities by a Fund may be deemed to be underwriting.

5. Purchase, hold or deal in real estate (including real estate limited partnerships) or oil, gas or mineral leases, although a Fund may purchase and sell securities that are secured by real estate or interests therein and may purchase mortgage-related securities and securities issued by real estate investment trusts and may hold and sell real estate acquired for the Fund as a result of the ownership of securities.

6. Invest in commodities except that a Fund may purchase and sell futures contracts, including those relating to securities, currencies and indices, and options on futures contracts, securities, currencies or indices, and purchase and sell currencies or securities on a forward commitment or delayed-delivery basis as described in the Prospectus.

7. Lend any money or other assets except through the purchase of all or a portion of an issue of securities or obligations of the type in which the Fund may invest. However, a Fund may lend its portfolio securities in an amount not to exceed one-third of the value of its total assets.

8. Issue any senior security (as such term is defined in Section 18(f) of the Act) except as otherwise permitted under these fundamental investment restrictions.

9. Alone or together with any other of the Funds, make investments for the purpose of exercising control over, or management of, any issuer.

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10. Borrow money except from banks for temporary or short-term purposes and then only if each maintains asset coverage of at least 300% for such borrowings. For purposes of this investment restriction, transactions in currency, swaps, options, futures contracts, including those relating to indices, forward contracts, options on futures contracts or indices and forward commitment transactions shall not constitute borrowing. None of the Funds will purchase securities when such borrowings exceed 5% of its total assets.

Fund-specific restrictions:

11(a). Each of the Funds other than the Money Market Fund may not invest more than 25% of the value of its total assets in the securities of issuers conducting their principal business activities in the same industry. This limitation does not apply to U.S. Government Securities.

11(b). The Money Market Fund will not purchase securities if such purchase would cause more than 25% of its total assets to be invested in the securities of one or more issuers having their principal business activities in the same industry. This limitation, however, will not apply to U.S. Government Securities, obligations (other than commercial paper) issued or guaranteed by U.S. banks and U.S. branches of foreign banks, and repurchase agreements and securities loans collateralized by U.S. Government Securities or such bank obligations. (For the purposes of this restriction, telephone companies are considered to be a separate industry from water, gas, or electric utilities, personal credit finance companies and business credit finance companies are considered separate industries and wholly-owned finance companies are considered to be in the industries of their parents if their activities are primarily related to financing the activities of their parents.)

12. The Money Market Fund, Select Equity Fund, Capital Growth Fund and the Growth and Income Fund each may not, as to 75% of the total assets of each at the time of purchase, purchase the securities of any issuer if more than 5% of the value of the Fund's total assets would be invested in such securities.

NON-FUNDAMENTAL RESTRICTIONS

In addition to the investment restrictions mentioned above, the directors of the Company have adopted certain non-fundamental restrictions for each Fund as shown below. Non-fundamental restrictions represent the current intentions of the Company's board of directors and they differ from fundamental investment restrictions in that they may be changed or amended by the board of directors without prior notice to or approval of shareholders.

None of the Funds (except the Global Income Fund) may:

1. Purchase the securities of any issuer if by such purchase the Fund would own more than 10% of the outstanding voting securities of such issuer.

Fund specific restrictions:

2. The Select Equity Fund, Capital Growth Fund, Small Cap Equity Fund, International Equity Fund and Growth and Income Fund will each not write covered calls or put options with respect to more than 25% of the value of its net assets, invest more than 25% of its net assets in puts, calls, spreads or straddles, or any combination thereof other than protective put options. The aggregate value of premiums paid on all options held by one of these Funds at any time will not exceed 20% of the Fund's total net assets.

3(a). The Funds other than the Money Market Fund each will not invest (a) more than 15% of its net assets in illiquid investments, including repurchase agreements maturing in more than seven days, securities that are not readily marketable and restricted securities not eligible for resale pursuant to Rule 144A under the Securities Act of 1933 (the "1933 Act"); (b) more than 15% of its net assets in restricted securities (including those eligible for resale under Rule 144A).

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3(b). The Money Market Fund will not invest in illiquid securities, including certain repurchase agreements or time deposits maturing in more than seven days, if, as a result thereof, more than 10% of the value of its total assets would be invested in assets that are either illiquid or are not readily marketable.

4. The Small Cap Equity Fund, International Equity Fund and the Global Income Fund each may not, as to 75% of the total assets of each at the time of purchase, purchase the securities of any issuer if more than 10% of the value of the Fund's total assets would be invested in such securities.

5. The International Equity Fund and the Global Income Fund will each not invest in foreign issuers unless after such investment issuers in at least the following number of different countries are represented in the Fund's portfolio: if up to 40% of the Fund's total assets are invested in foreign issuers, two foreign countries; if between 40% and 60% of the Fund's total assets are invested in foreign issuers, three foreign countries; if between 60% and 80% of the Fund's total assets are invested in foreign

issuers, four foreign countries; and if over 80% of the Fund's total assets are invested in foreign issuers, five foreign countries.

#### INTERPRETIVE RULES

For purposes of the foregoing limitations, any limitation which involves a maximum percentage will not be violated unless an excess over the percentage occurs immediately after, and is caused by, an acquisition or encumbrance of securities or assets of, or borrowings by, a Fund. In addition, with regard to exceptions recited in a restriction, a Fund may only rely on an exception if its investment objective(s) or policies (as disclosed in the Prospectus) otherwise permit it to rely on the exception.

#### INVESTMENT MANAGER

Investment Distributors Advisory Services, Inc. ("IDASI"), 2801 Highway 280 South, Birmingham, Alabama 35223, is the investment manager of the Company and its Funds. IDASI is a wholly-owned subsidiary of Protective Life Corporation ("PLC"), an insurance holding company whose common stock is traded on the New York Stock Exchange. PLC's principal operating subsidiary is Protective Life Insurance Company, a stock life insurance company which maintains its administrative offices in Birmingham, Alabama. Protective Life was incorporated in Alabama in 1907 and changed its state of domicile from Alabama to Tennessee in 1992. Protective Life's principal business is the writing of individual and group life and health insurance contracts, annuity contracts, and guaranteed investment contracts.

The Investment Manager has no direct previous experience in providing management services for investment companies; however, its officers, most of whom are officers of Protective Life, have extensive experience in the development and distribution of investment products, particularly guaranteed investment contracts. In addition, the Investment Manager has retained the Advisers, entities that have extensive experience managing the assets of investment companies, pension plans and other clients, to manage the investment and reinvestment of the Funds' assets.

#### INVESTMENT MANAGEMENT AGREEMENT

The Investment Manager has entered into an investment management agreement, dated March 3, 1994, with the Company under which the Investment Manager assumes overall responsibility, subject to the supervision of the Company's board of directors, for administering all operations of the Company and for monitoring and evaluating the management of the assets of each of the Funds by the Advisers on an ongoing basis. The Investment Manager provides or arranges for the provision of the overall business management and administrative services necessary for the Company's operations and furnishes or procures any other services and information necessary for the proper conduct of the Company's business. The Investment Manager also acts as liaison among, and supervisor of, the various service providers to the Company, including the custodian, transfer agent, and accounting services agent and to its own administration agent that performs services for the Company on its

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behalf. The Investment Manager is also responsible for overseeing the Company's compliance with the requirements of applicable law and in conformity with each Fund's investment objective(s), policies and restrictions, including oversight of the Advisers.

For its services to the Company, the Investment Manager receives a monthly management fee. The fee is deducted daily from the assets of each of the Funds and paid to the Investment Manager monthly. The fee for each Fund is based on the average daily net assets of the Fund at the following annual rates: Money Market Fund .60%, Select Equity Fund .80%, Capital Growth Fund .80%, Small Cap Equity Fund .80%, International Equity Fund 1.10%, Growth and Income Fund .80%, and Global Income Fund 1.10%. For the fiscal period March 14, 1994 to December 31, 1994, the Funds incurred the following management fees to the Investment Manager: Money Market Fund \$17,340, Select Equity Fund \$53,590, Small Cap Equity Fund \$69,118, International Equity Fund \$121,044, Growth and Income Fund \$120,322, and Global Income Fund \$88,827.

The investment management agreement does not place limits on the operating expenses of the Company or of any Fund. However, the Investment Manager has voluntarily undertaken to pay any such expenses (but not including brokerage or other portfolio transaction expenses or expenses of litigation, indemnification, taxes or other extraordinary expenses) to the extent that such expenses, as accrued for each Fund, exceed the following percentages of that Fund's average daily net assets on an annualized basis: Money Market Fund, .60%; Capital Growth Fund, .80%; Select Equity Fund, .80%; Small Cap Equity Fund, .80%; International Equity Fund, 1.10%; Growth and Income Fund, .80%; and Global Income Fund, 1.10%. This reduction of expenses will increase the yield or total return of the Funds for any period for which it remains in effect. The Investment Manager may withdraw this undertaking to pay expenses as to any or all of the Funds upon 120

days notice to the Company.

The investment management agreement provides that the Investment Manager may render similar services to others so long as the services that it provides thereunder are not impaired thereby. The investment management agreement also provides that the Investment Manager shall not be liable for any error of judgment or mistake of law or for any loss arising out of any investment or for any act or omission in the management of the Company, except for (i) willful misfeasance, bad faith or gross negligence in the performance of its duties or by reason of reckless disregard of its duties or obligations under the investment management agreement, and (ii) to the extent specified in Section 36(b) of the Act concerning loss resulting from a breach of fiduciary duty with respect to the receipt of compensation.

The investment management agreement was approved for each Fund (other than Capital Growth Fund) by the directors of the Company, including a majority of the directors of the Company who are not parties to the agreement or "interested persons" (as such term is defined in the Act) of any party thereto (the "non-interested directors"), on February 8, 1994, and by the sole initial shareholder of the Fund on March 2, 1994. The investment management agreement was approved for Capital Growth Fund by the directors of the Company, including a majority of the non-interested directors on May 3, 1995 and by the sole initial shareholder of the Fund on June 20, 1995. The investment management agreement will remain in effect from year to year provided such continuance is specifically approved as to each Fund at least annually by (a) the vote of a majority of the votes attributable to shares of the Fund or a majority of the directors of the Company, and (b) the vote of a majority of the non-interested directors of the Company, cast in person at a meeting called for the purpose of voting on such approval. The investment management agreement will terminate automatically if assigned (as defined in the Act) and is terminable as to any Fund at any time without penalty by the directors of the Company or by vote of a majority of the votes attributable to outstanding voting securities of the applicable Fund on 60 days' written notice to the Investment Manager and by the Investment Manager on 60 days' written notice to the Company.

#### EXPENSES OF THE COMPANY

The company incurs certain operating and general administrative expenses in addition to the Investment Manager's fee. These expenses, which are accrued daily, include but are not limited to:

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taxes; expenses for legal and auditing services; costs of printing; charges for custody services; transfer agent fees, if any; expenses of redemption of shares; expense of registering shares under federal and state securities laws; accounting costs; insurance; interest; brokerage costs, and other expenses properly payable by the Company.

In general, each Fund is charged for the expenses incurred in its operations as well as for a portion of the Company's general administrative expenses, allocated on the basis of the asset size of the respective Funds, or by the board of directors as appropriate. Expenses other than the Investment Manager's fee that are borne directly and paid individually by a Fund include, but are not limited to, brokerage commissions, dealer markups, taxes, custody fees, and other costs properly payable by the Fund. Expenses which are allocated among the Funds include, but are not limited to, directors' fees and expenses, independent accountant fees, transfer agent fees, expenses of redemption, insurance costs, legal fees, and all other costs of operation properly payable by the Company.

#### INVESTMENT ADVISERS

##### INVESTMENT ADVISERS

Goldman Sachs Asset Management, One New York Plaza, New York, New York 10004, a separate operating division of Goldman Sachs, acts as the investment adviser of the Money Market Fund, Select Equity Fund, Capital Growth Fund, Small Cap Equity Fund and Growth and Income Fund. Goldman Sachs Asset Management International, 140 Fleet Street, London EC4A 2BJ England, an affiliate of Goldman Sachs, acts as the investment adviser to the International Equity Fund and the Global Income Fund. Both Goldman Sachs and GSAMI are registered with the SEC as investment advisers. In performing its investment advisory services to the International Equity Fund and the Global Income Fund, GSAMI, while remaining responsible for advising these Funds, may draw upon the research and market expertise of its affiliates, including Goldman Sachs Asia, Ltd. (its Hong Kong affiliate) and Goldman Sachs Asset Management Japan Limited. As of April 27, 1995, the Advisers, together with their affiliates, acted as investment adviser, administrator or distributor for assets in excess of \$50 billion.

Founded in 1869, Goldman Sachs is among the oldest and largest investment banking firms in the United States. Goldman Sachs is a leader in developing portfolio strategies and in many fields of investing and financing, participating in financial markets worldwide and serving individuals, institutions, corporations and governments. Goldman Sachs is among the principal market sources for current and thorough information on companies, industrial sectors, markets, economies and currencies, and trades and makes markets in a wide range of equity and debt securities 24-hours a day. The firm is headquartered in New York and has offices throughout the United States and in Beijing, Frankfurt, George Town, Hong Kong, London, Madrid, Milan, Montreal, Osaka, Paris, Seoul, Shanghai, Singapore, Sydney, Taipei, Tokyo, Toronto, Vancouver and Zurich. It has trading professionals throughout the United States, as well as in London, Tokyo, Hong Kong and Singapore. The active participation of Goldman Sachs in the world's financial markets enhances its ability to identify attractive investments.

The Advisers are able to draw on the substantial research and market expertise of Goldman Sachs, whose investment research effort is one of the largest in the industry. With an annual equity research budget approaching \$120 million, Goldman Sachs's Investment Research Department covers approximately 1,700 companies, including approximately 1,000 U.S. corporations in 60 industries. The in-depth information and analyses generated by Goldman Sachs's research analysts are available to the Advisers. For more than a decade, Goldman Sachs has been among the top-ranked firms in INSTITUTIONAL INVESTOR'S annual "All-America Research Team" survey. In addition, many of Goldman Sachs's economists, securities analysts, portfolio strategists and credit analysts have consistently been highly ranked in respected industry surveys conducted in the U.S. and abroad. Goldman Sachs is also among the leading investment firms using quantitative analysis (now used by a growing number of investors) to structure and evaluate portfolios.

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In connection with the Funds' investments in foreign securities and related transactions in foreign currencies, the Adviser has access to Goldman Sachs's economics team, based in London, which is internationally recognized for its skill in currency forecasting and international economics.

The fixed-income research capabilities of Goldman Sachs available to each of the Advisers include the Goldman Sachs Fixed-Income Research Department and the Credit Department. The Fixed-Income Research Department monitors developments in U.S. and foreign fixed-income markets, assesses the outlooks for various sectors of the markets and provides relative value comparisons, as well as analyzes trading opportunities within and across market sectors. The Fixed-Income Research Department is at the forefront in developing and using computer-based tools for analyzing fixed-income securities and markets, developing new fixed-income products and structuring portfolio strategies for investment policy and tactical asset allocation decisions. The Credit Department tracks specific governments, regions and industries and from time to time may review the credit quality of a Fund's investments.

In addition to fixed-income research and credit research, both Advisers are supported by Goldman Sachs's economics research. The Economics Research Department conducts economic, financial and currency markets research which analyzes economic trends and interest and exchange rate movements worldwide. The Economics Research Department tracks factors such as inflation and money supply figures, balance of trade figures, economic growth, commodity prices, monetary and fiscal policies, and political events that can influence interest rates and currency trends. The success of Goldman Sachs's international research team has brought wide recognition to its members. The team has earned top rankings in the INSTITUTIONAL INVESTOR annual "All British Research Team Survey" in the following categories: Economics (U.K.) 1986-1993; Economics/International 1989-1993; and Currency Forecasting 1986-1993. In addition, the team has also earned top rankings in the annual "Extel Financial Survey" of U.K. investment managers in the following categories: U.K. Economy 1989-1994; International Economies 1986, 1988-1994; and Currency Movements 1986-1993.

In allocating assets in a Fund's portfolio among currencies, the Advisers will have access to the Global Asset Allocation Model. The model is based on the observation that the prices of all financial assets, including foreign currencies, will adjust until investors globally are comfortable holding the pool of outstanding assets. Using the model, the Advisers will estimate the total returns from each currency sector which are consistent with the average investor holding a portfolio equal to the market capitalization of the financial assets among those currency sectors. These estimated equilibrium returns are then combined with Goldman Sachs's research professionals' expectations to produce an optimal currency and asset allocation for the level of risk suitable for a Fund's investment objective and criteria. In allocating a Fund's assets among currencies, the Advisers will also have access to Goldman Sachs's economics team, which is internationally recognized for its skill in currency forecasting and international economics.



Each Adviser has entered into an investment advisory agreement, dated March 2, 1994 (May 3, 1995 for Capital Growth Fund), with the Investment Manager in connection with each Fund it advises. Under the agreements, the Adviser, subject to the general supervision of the Company's board of directors, manages the investment portfolio of each Fund. Under the investment advisory agreements, the Advisers are responsible for making investment decisions for the Funds and for placing the purchase and sale orders for the portfolio transactions of each Fund. In this capacity, the Advisers obtain and evaluate appropriate economic, statistical, timing, and financial information and formulates and implements investment programs in furtherance of each Fund's investment objective(s).

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As compensation for its services to the Funds on behalf of the Investment Manager, the Advisers receive a monthly fee from the Investment Manager based on the average daily net assets of each Fund at the following annual rates:

Money Market Fund .35% of the first \$50 million, .25% of the next \$100 million, .20% of the next \$100 million, and .15% of assets in excess of \$250 million; Select Equity Fund, Capital Growth Fund, Small Cap Equity Fund, and Growth and Income Fund, .40% of the first \$50 million, .30% of the next \$150 million, and .20% of assets in excess of \$200 million; International Equity Fund and Global Income Fund, .40% of the first \$50 million, .30% of the next \$100 million, .25% of the next \$100 million, and .20% of the assets in excess of \$250 million.

For the fiscal period March 14, 1994 to December 31, 1994, the Investment Manager incurred the following fees to the Advisers in connection with each of the Funds: Money Market Fund \$10,105, Select Equity Fund \$26,395, Small Cap Equity Fund \$34,560, International Equity Fund \$44,016, Growth and Income Fund \$60,162, and Global Income Fund \$32,301.

The Funds' investment advisory agreements each provide that the Advisers may render similar services to others so long as the services that they provide thereunder are not impaired thereby.

The investment advisory agreement for each Fund (other than Capital Growth Fund) was approved by the directors of the Company, including a majority of the directors of the Company who are not parties to the investment advisory agreement or "interested persons" (as such term is defined in the Act) of any party thereto (the "non-interested directors"), on February 8, 1994, and by the sole initial shareholder of the Fund on March 2, 1994. The investment advisory agreement for Capital Growth Fund was approved by the directors, including a majority of non-interested directors, on May 3, 1995 and by the sole initial shareholder of the Fund on June 20, 1995. The foregoing agreements (except for the Capital Growth Fund agreement) will remain in effect until March 2, 1996 and from year to year thereafter provided such continuance is specifically approved at least annually by (a) the vote of a majority of the votes attributable to shares of the Fund or a majority of the directors of the Company, and (b) the vote of a majority of the non-interested directors of the Company, cast in person at a meeting called for the purpose of voting on such approval. The investment advisory agreements will each terminate automatically if assigned (as defined in the Act) and each is terminable at any time without penalty by the directors of the Company or by vote of a majority of the votes attributable to outstanding voting securities of the applicable Fund on 60 days' written notice to the Adviser and by the Adviser on 60 days' written notice to the Company.

ACTIVITIES OF GOLDMAN SACHS AND ITS AFFILIATES AND OTHER ACCOUNTS MANAGED BY GOLDMAN SACHS AND ITS AFFILIATES. The involvement of the Adviser and Goldman Sachs and their affiliates in the management of, or their interests in, other accounts and other activities of Goldman Sachs may present conflicts of interest with respect to the Funds or limit their investment activities.

Goldman Sachs and its affiliates, including, without limitation, the Advisers and their advisory affiliates, have proprietary interests in, and may manage or advise with respect to funds or accounts (including insurance company separate accounts and other collective investment vehicles), which have investment objectives similar to those of the Funds and/or which engage in transactions in the same types of securities, currencies and instruments as the Funds. Goldman Sachs and its affiliates are major participants in the global currency, equities, swap and fixed-income markets, in each case both on a proprietary basis and for the accounts of customers. As such, Goldman Sachs and its affiliates are actively engaged in transactions in the same types of securities, currencies and instruments in which the Funds invest. Such activities could affect the prices and availability of the securities,

currencies and instruments in which the Funds will invest, which could have an adverse impact on a Fund's performance. Such transactions, particularly in respect of proprietary accounts or customer accounts other than those advised or managed by the Advisers and their advisory affiliates, will be executed independently of a Fund's transactions and thus at prices or rates that may be more or less favorable. When the Advisers and their advisory affiliates seek to purchase or sell the same

assets for their managed accounts, including a Fund, the assets actually purchased or sold may be allocated among the accounts on a basis determined in their good faith discretion to be equitable. In some cases, this system may adversely affect the size or the price of the assets purchased or sold for a Fund.

From time to time, a Fund's activities may be restricted because of regulatory restrictions applicable to Goldman Sachs and its affiliates, and/or their internal policies, designed to comply with such restrictions. As a result, there may be periods, for example, when the Advisers will not initiate or recommend certain types of transactions in certain securities or instruments with respect to which the Advisers and/or their affiliates are performing services or when position limits have been reached.

In connection with their advice to the Funds, the Advisers may have access to certain fundamental analysis and proprietary technical models developed by Goldman Sachs and other affiliates. The Advisers will not be under any obligation, however, to effect transactions on behalf of a Fund in accordance with such analysis and models. In addition, neither Goldman Sachs nor any of its affiliates will have any obligation to make available any information regarding their proprietary activities or strategies, or the activities or strategies used for other accounts managed by them, for the benefit of a Fund and it is not anticipated that the Advisers will have access to such information for the purpose of managing the Funds. The proprietary activities or portfolio strategies of Goldman Sachs and its affiliates or the activities or strategies used for accounts managed by them or other customer accounts, could conflict with the transactions and strategies employed by the Advisers in advising the Funds.

The results of a Fund's investment activities may differ significantly from the results achieved by the Advisers and their affiliates for the proprietary accounts or accounts (including mutual funds, insurance company separate accounts or other collective investment vehicles) managed or advised by them. It is possible that Goldman Sachs and its affiliates and such other accounts will achieve investment results which are substantially more or less favorable than the results achieved by a Fund. Moreover, it is possible that a Fund will sustain losses during periods in which Goldman Sachs and its affiliates achieve significant profits on their trading for proprietary or other accounts. The opposite result is also possible.

The investment activities of Goldman Sachs and its affiliates for their proprietary accounts and accounts under their management may also limit the investment opportunities for a Fund in certain emerging markets in which limitations are imposed upon the aggregate amount of investment, in the aggregate or in individual issuers, by affiliated foreign investors.

An investment policy committee, which may include partners of Goldman Sachs and its affiliates, may develop general policies regarding a Fund's activities, but will not be involved in the day-to-day management of the Funds. In such instances, those individuals may, as a result, obtain information regarding the Fund's proposed investment activities which is not generally available to the public. In addition, by virtue of their affiliation with Goldman Sachs, any such member of an investment policy committee will have direct or indirect interests in the activities of Goldman Sachs and its affiliates in securities, currencies and investments similar to those in which the Funds invest.

In addition, certain principals and certain employees of the Advisers are also principals or employees of Goldman Sachs or its affiliated entities. As a result, the performance by these principals and employees of their obligations to such other entities may be a consideration of which investors in a Fund should be aware.

The Advisers may enter into transactions and invest in currencies or other instruments on behalf of a Fund in which customers of Goldman Sachs serve as the counterparty, principal or issuers. In such cases, such party's interests in the transaction will be adverse to the interests of a Fund, and such party may have no incentive to assure that the Funds obtain the best possible prices or terms in connection with the transactions. Goldman Sachs and its affiliates may also create, write or issue derivative instruments for customers of Goldman Sachs or

instruments of which may be those in which a Fund invests. The Funds may, subject to applicable law, purchase investments which are the subject of an underwriting or other distribution by Goldman Sachs or its affiliates and may also enter into transactions with other clients of Goldman Sachs or its affiliates where such other clients have interests adverse to those of the Funds. The Funds will deal with Goldman Sachs and its affiliates on an arm's-length basis.

Each Fund will be required to establish business relationships with its counterparties based on the Fund's own credit standing. Neither Goldman Sachs nor its affiliates will have any obligation to allow their credit to be used in connection with a Fund's establishment of its business relationships, nor is it expected that a Fund's counterparties will rely on the credit of Goldman Sachs or any of its affiliates in evaluating the Fund's creditworthiness.

It is possible that a Fund's holdings will include securities of entities for which Goldman Sachs performs investment banking services as well as securities of entities in which Goldman Sachs makes a market. From time to time, Goldman Sachs' activities may limit the Funds' flexibility in purchases and sales of securities. When Goldman Sachs is engaged in an underwriting or other distribution of securities of an entity, the Advisers may be prohibited from purchasing or recommending the purchase of certain securities of that entity for the Funds.

#### PORTFOLIO TRANSACTIONS AND BROKERAGE

The Advisers are responsible for decisions to buy and sell securities for the Funds, the selection of brokers and dealers to effect the transactions and the negotiation of brokerage commissions, if any. Purchases and sales of securities on a securities exchange are effected through brokers who charge a negotiated commission for their services. Orders may be directed to any broker including, to the extent and in the manner permitted by applicable law, Goldman Sachs.

In the over-the-counter market, securities are generally traded on a "net" basis with dealers acting as principal for their own accounts without a stated commission, although the price of a security usually includes a profit to the dealer. In underwritten offerings, securities are purchased at a fixed price which includes an amount of compensation to the underwriter, generally referred to as the underwriter's concession or discount. On occasion, certain money market instruments may be purchased directly from an issuer, in which case no commissions or discounts are paid. Except to the extent that the Money Market Fund purchases securities from Goldman Sachs consistent with the terms of an SEC order permitting such sales, the Company will not deal with Goldman Sachs in any transaction in which Goldman Sachs acts as principal.

In placing orders for portfolio securities of a Fund, its Adviser is required to give primary consideration to obtaining the most favorable price and efficient execution. This means that the Adviser will seek to execute each transaction at a price and commission, if any, which provide the most favorable total cost or proceeds reasonably attainable in the circumstances. While the Adviser generally seeks reasonably competitive spreads or commissions, the Funds will not necessarily be paying the lowest spread or commission available. Within the framework of this policy, the Advisers will consider research and investment services provided by brokers or dealers who effect or are parties to portfolio transactions of the Funds, the Advisers and their affiliates, or other clients of the Advisers or their affiliates. Such research and investment services are those which brokerage houses customarily provide to institutional investors and include statistical and economic data and research reports on particular companies and industries. Such services are used by the Advisers in connection with all of their investment activities, and some of such services obtained in connection with the execution of transactions for the Funds may be used in managing other investment accounts. Conversely, brokers furnishing such services may be selected for the execution of transactions of such other accounts, whose aggregate assets are far larger than those of the Funds, and the services furnished by such brokers may be used by the Advisers in providing investment advisory services for the Funds.

On occasions when the Adviser deems the purchase or sale of a security to be in the best interest of a Fund as well as its other advisory clients (including any other fund or other investment company

or advisory account for which the Adviser or an affiliate acts as investment adviser), the Adviser, to the extent permitted by applicable laws and regulations, may aggregate the securities to be sold or purchased for the Fund with those to be sold or purchased for such other customers in order to obtain the best net price and most favorable execution. In such event, allocation of the securities so purchased or sold, as well as the expenses incurred in the transaction, will be made by the Adviser in the manner it considers to be most equitable and consistent with its fiduciary obligations to the Fund and such other customers. In some instances, this procedure may adversely affect the price and size of the position obtainable for a Fund.

Commission rates are established pursuant to negotiations with the broker based on the quality and quantity of execution services provided by the broker in the light of generally prevailing rates. The allocation of orders among brokers and the commission rates paid are reviewed periodically by the board of directors of the Company.

Subject to the above considerations, the Advisers may use Goldman Sachs as a broker for the Funds. In order for Goldman Sachs to effect any portfolio transactions for a Fund, the commissions, fees or other remuneration received by Goldman Sachs must be reasonable and fair compared to the commissions, fees or other remuneration paid to other brokers in connection with comparable transactions involving similar securities being purchased or sold on a securities exchange during a comparable period of time. This standard would allow Goldman Sachs to receive no more than the remuneration which would be expected to be received by an unaffiliated broker in a commensurate arm's-length transaction. Furthermore, the board of directors of the Company, including a majority of the non-interested directors, have adopted procedures which are reasonably designed to provide that any commissions, fees or other remuneration paid to Goldman Sachs are consistent with the foregoing standard. Brokerage transactions with Goldman Sachs are also subject to such fiduciary standards as may be imposed upon Goldman Sachs by applicable law.

In addition, although Section 11(a) of the Securities Exchange Act of 1934 provides that member firms of a national securities exchange may not effect transactions on such exchange for the account of an investment company of which the member firm or its affiliate is the investment adviser, except pursuant to the requirements of that Section. The Company's board of directors has adopted procedures designed to insure compliance with the requirements of Section 11(a). In this regard, Goldman Sachs will provide the Company at least annually with a statement setting forth the total amount of all compensation retained by Goldman Sachs in connection with effecting transactions for the accounts of each Fund. The board of directors of the Company will review and approve all of each Fund's portfolio transactions with Goldman Sachs and the compensation received by Goldman Sachs in connection therewith.

For the fiscal period March 14, 1994 to December 31, 1994, the Funds paid the following amounts in brokerage commissions: Money Market Fund \$0, Select Equity Fund \$26,188, Small Cap Equity Fund \$41,556, International Equity Fund \$92,310, Growth and Income Fund \$109,049, and Global Income Fund \$0.

For the fiscal period March 14, 1994 to December 31, 1994, the Funds paid the following amounts in brokerage commissions to Goldman Sachs: Money Market Fund \$0, Select Equity Fund \$94, Small Cap Equity Fund \$475, International Equity Fund \$0, Growth and Income Fund \$11,105, and Global Income Fund \$0.

For the fiscal period March 14, 1994 to December 31, 1994, the Funds acquired and sold securities of their regular broker-dealers. As of December 31, 1994, the Funds held the following amounts of securities of their regular broker-dealers: Growth and Income Fund \$1,597,519.

#### DETERMINATION OF NET ASSET VALUE

Under the Act, the board of directors of the Company is responsible for determining in good faith the fair value of securities of each Fund. In accordance with procedures adopted by the board of directors of the Company, the net asset value per share is calculated by determining the net worth of

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each Fund (assets, including securities at market value, minus liabilities) divided by the number of that Fund's outstanding shares. All securities are valued as of the close of regular trading on the New York Stock Exchange. Each Fund will compute its net asset value once daily at the close of such trading (normally 4:00 p.m. New York time), on each day (as described in the Prospectus) that the Company is open for business.

In the event that the New York Stock Exchange or the national securities exchange on which stock options are traded adopt different trading hours on

either a permanent or temporary basis, the board of directors of the Company will reconsider the time at which net asset value is computed. In addition, the Funds may compute their net asset value as of any time permitted pursuant to any exemption, order or statement of the SEC or its staff.

Portfolio assets of the Funds (other than the Money Market Fund) are valued as follows:

- (a) securities and other investments listed on any U.S. or foreign stock exchange or the National Association of Securities Dealers Automated Quotation System ("NASDAQ") are valued at the last sale price on that exchange or NASDAQ on the valuation day; if no sale occurs, securities traded on a U.S. exchange or NASDAQ are valued at the mean between the closing bid and closing asked prices and securities traded on a foreign exchange will be valued at the official bid price (the last sale price and official bid price for securities traded principally on a foreign exchange will be determined as of the close of the London Foreign Exchange or, for securities traded on an exchange located the Asia-Pacific region, noon London time);
- (b) over-the-counter securities not quoted on NASDAQ are valued at the last sale price on the valuation day or, if no sale occurs, at the mean between the last bid and asked prices;
- (c) debt securities with a remaining maturity of 61 days or more are valued on the basis of dealer-supplied quotations or by a pricing service selected by the Adviser and approved by the board of directors of the Company if those prices are deemed by the Adviser to be representative of market values at the close of business of the New York Stock Exchange;
- (d) options and futures contracts are valued at the last sale price on the market where any such option or futures contracts is principally traded;
- (e) over-the-counter options are valued based upon prices provided market makers in such securities or dealers in such currencies.
- (f) forward foreign currency exchange contracts are valued using a pricing service and then calculating the mean between the last bid and asked quotations supplied by dealers in such contracts;
- (g) all other securities and other assets, including those for which a pricing service supplies no quotations or quotations are not deemed by the Adviser to be representative of market values, but excluding debt securities with remaining maturities of 60 days or less, are valued at fair value as determined in good faith pursuant to procedures established by the board of directors of the Company; and
- (h) debt securities with a remaining maturity of 60 days or less will be valued at their amortized cost which approximates market value.

Portfolio securities traded on more than one U.S. national securities exchange or foreign securities exchange are valued at the last sale price on each business day at the close of the exchange representing the principal market for such securities. The value of all assets and liabilities expressed in foreign currencies will be converted into U.S. dollar values at the mean between the buying and

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selling rates of such currencies against U.S. dollars last quoted by any major bank. If such quotations are not available, the rate of exchange will be determined in good faith by or under procedures established by the board of directors of the Company.

Trading in securities on European and Far Eastern securities exchanges and on over-the-counter markets is normally completed well before the close of business on each business day. In addition, European or Far Eastern securities trading generally or in a particular country or countries may not take place on all business days. Furthermore, trading takes place in Japanese markets on certain Saturdays and in various foreign markets on days which are not business days for the Company and days on which the Funds' net asset value is not calculated. Such calculation does not take place contemporaneously with the determination of the prices of the majority of the portfolio securities used in such calculation. Events affecting the values of portfolio securities that occur between the time their prices are determined and the close of regular trading on the New York Stock Exchange will not be reflected in a Fund's calculation of net asset values unless the Adviser deems that the particular event would materially affect net asset value, in which case an adjustment will be made.

All of the assets of the Money Market Fund are valued on the basis of amortized cost in an effort to maintain a constant net asset value of per share \$1.00. The Company's board of directors has determined that to be in the best interests of the Money Market Fund and its shareholders. Under the amortized

cost method of valuation, securities are valued at cost on the date of their acquisition, and thereafter a constant accretion of any discount or amortization of any premium to maturity is assumed, regardless of the impact of fluctuating interest rates on the market value of the security. While this method provides certainty in valuation, it may result in periods in which value as determined by amortized cost is higher or lower than the price the Fund would receive if it sold the security. During such periods, the quoted yield to investors may differ somewhat from that obtained by a similar fund or portfolio which uses available market quotations to value all of its portfolio securities.

The Company's board of directors has established procedures reasonably designed, taking into account current market conditions and the Money Market Fund's investment objective, to stabilize the net asset value per share for purposes of sales and redemptions at \$1.00. These procedures include review by the board, at such intervals as it deems appropriate, to determine the extent, if any, to which the net asset value per share calculated by using available market quotations deviates from \$1.00 per share. In the event such deviation should exceed one half of one percent, the board will promptly consider initiating corrective action. If the board believes that the extent of any deviation from a \$1.00 amortized cost price per share may result in material dilution or other unfair results to new or existing shareholders, it will take such steps as it considers appropriate to eliminate or reduce these consequences to the extent reasonably practicable. Such steps may include: selling portfolio securities prior to maturity; shortening the average maturity of the portfolio; withholding or reducing dividends; or utilizing a net asset value per share determined from available market quotations. Even if these steps were taken, the Money Market Fund's net asset value might still decline.

#### PERFORMANCE INFORMATION

The Company may from time to time quote or otherwise use average annual total return information for the Funds in advertisements, shareholder reports or sales literature. Average annual total return values are computed pursuant to equations specified by the SEC.

Average annual total return for a specified period is derived by calculating the actual dollar amount of the investment return on a \$1,000 investment in a Fund made at the beginning of the period, and then calculating the annual compounded rate of return which would produce that amount, assuming a redemption at the end of the period. This calculation assumes a complete redemption of the investment. It also assumes that all dividends and distributions are reinvested at net asset value on the reinvestment dates during the period.

The Company also may from time to time quote or otherwise use year-by-year total return, cumulative total return and yield information for the Funds in advertisements, shareholder reports or sales literature. Year-by-year total return and cumulative total return for a specified period are each

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derived by calculating the percentage rate required to make a \$1,000 investment in a Fund (assuming that all distributions are reinvested) at the beginning of such period equal to the actual total value of such investment at the end of such period.

Yield is computed by dividing net investment income earned during a recent 30 day period by the product of the average daily number of shares outstanding and entitled to receive dividends during the period and the price per share on the last day of the relevant period. The results are compounded on a bond equivalent (semi-annual) basis and then annualized. Net investment income per share is equal to the dividends and interest earned during the period, reduced by accrued expenses for the period. The calculation of net investment income for these purposes may differ from the net investment income determined for accounting purposes.

Any performance data quoted for a Fund will represent historical performance and the investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than original cost.

From time to time the Company may publish an indication of the Funds' past performance as measured by independent sources such as (but not limited to) Lipper Analytical Services, Incorporated, Weisenberger Investment Companies Service, Donoghue's Money Fund Report, Barron's, Business Week, Changing Times, Financial World, Forbes, Fortune, Money, Personal Investor, Sylvia Porter's Personal Finance and The Wall Street Journal. The Company may also advertise information which has been provided to the NASD for publication in regional and local newspapers. In addition, the Company may from time to time advertise its performance relative to certain indices and benchmark investments, including: (a) the Lipper Analytical Services, Inc. Mutual Fund Performance Analysis, Fixed-Income Analysis and Mutual Fund Indices (which measure total return and average current yield for the mutual fund industry and rank mutual fund performance); (b) the CDA Mutual Fund Report published by CDA Investment

Technologies, Inc. (which analyzes price, risk and various measures of return for the mutual fund industry); (c) the Consumer Price Index published by the U.S. Bureau of Labor Statistics (which measures changes in the price of goods and services); (d) Stocks, Bonds, Bills and Inflation published by Ibbotson Associates (which provides historical performance figures for stocks, government securities and inflation); (e) the Hambrecht & Quist Growth Stock Index; (f) the NASDAQ OTC Composite Prime Return; (g) the Russell Midcap Index; (h) the Russell 2000 Index -- Total Return; (i) the ValueLine Composite-Price Return; (j) the Wilshire 4500 Index; (k) the Salomon Brothers' World Bond Index (which measures the total return in U.S. dollar terms of government bonds, Eurobonds and foreign bonds of ten countries, with all such bonds having a minimum maturity of five years); (l) the Shearson Lehman Brothers Aggregate Bond Index or its component indices (the Aggregate Bond Index measures the performance of Treasury, U.S. Government agencies, mortgage and Yankee bonds); (m) the S&P Bond indices (which measure yield and price of corporate, municipal and U.S. Government bonds); (n) the J.P. Morgan Global Government Bond Index; (o) Donoghue's Money Market Fund Report (which provides industry averages of 7-day annualized and compounded yields of taxable, tax-free and U.S. Government money market funds); (p) other taxable investments including certificates of deposit, money market deposit accounts, checking accounts, savings accounts, money market mutual funds and repurchase agreements; (q) historical investment data supplied by the research departments of Goldman Sachs, Lehman Brothers, First Boston Corporation, Morgan Stanley (including EAFE), Salomon Brothers, Merrill Lynch, Donaldson Lufkin and Jenrette or other providers of such data; (r) the FT-Actuaries Europe and Pacific Index; (s) mutual fund performance indices published by Variable Annuity Research & Data Service; and (t) mutual fund performance indices published by Morningstar, Inc. The composition of the investments in such indices and the characteristics of such benchmark investments are not identical to, and in some cases are very different from, those of a Fund's portfolio. These indices and averages are generally unmanaged and the items included in the calculations of such indices and averages may be different from those of the equations used by the Company to calculate a Fund's performance figures.

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The Company may from time to time summarize the substance of discussions contained in shareholder reports in advertisements and publish the Advisers' views as to markets, the rationale for a Fund's investments and discussions of the Fund's current asset allocation.

From time to time, advertisements or information may include a discussion of certain attributes or benefits to be derived by an investment in a particular Fund. Such advertisements or information may include symbols, headlines or other material which highlight or summarize the information discussed in more detail in the communication.

Such performance data will be based on historical results and will not be intended to indicate future performance. The total return or yield of a Fund will vary based on market conditions, portfolio expenses, portfolio investments and other factors. The value of a Fund's shares will fluctuate and an investor's shares may be worth more or less than their original cost upon redemption. The Company may also, at its discretion, from time to time make a list of a Fund's holdings available to investors upon request.

#### SHARES OF STOCK

The Company was incorporated in Maryland on September 2, 1993. The authorized capital stock of the Company consists of 1 billion (1,000,000,000) shares, par value one-tenth of one per cent (\$.001) per share. Seven hundred million (700,000,000) of the authorized shares have been divided into and may be issued in seven designated classes as follows: Money Market Series, 100,000,000 shares; Select Equity Series, 100,000,000 shares; Capital Growth Series, 100,000,000 shares; Small Cap Equity Series, 100,000,000 shares; International Equity Series, 100,000,000 shares; Growth and Income Series 100,000,000 shares; and, Global Income Series, 100,000,000 shares. The shares of each class represent fractional undivided interests in an investment portfolio of the Company corresponding to that class. The board of directors of the Company have authority, subject to certain limitations, under the Company's Charter to create and classify shares of capital stock in additional separate series and to reclassify existing series of stock into one or more different new classes without further action by shareholders.

Each issued and outstanding share is entitled to participate equally in dividends and distributions declared for the respective class and, upon liquidation or dissolution, in net assets allocated to such class remaining after satisfaction of outstanding liabilities. The shares of each class, when issued, will be fully paid and non-assessable and have no preemptive or conversion rights.

Rule 18f-2 under the Act provides that any matter required to be submitted by the provisions of the Act, applicable state law or otherwise to the holders

of the outstanding voting securities of an investment company such as the Company shall not be deemed to have been effectively acted upon unless approved by the holders of a majority of the outstanding shares of each class or series affected by such matter. Rule 18f-2 further provides that a class or series shall be deemed to be affected by a matter unless the interests of each class or series in the matter are substantially identical or the matter does not affect any interest of such class or series. However, Rule 18f-2 exempts the selection of independent public accountants, the approval of principal underwriting contracts and the election of directors from the separate voting requirements of Rule 18f-2.

Protective Life provided the initial capital for each of the Company's Funds by purchasing stock of each class in the following amounts, (\$10,000 per class on March 2, 1994 and the balance on March 14, 1994): Money Market Fund, \$500,000; Select Equity Fund, \$1,000,000; Small Cap Equity Fund, \$1,000,000; International Equity Fund, \$3,000,000; Growth and Income Fund, \$1,000,000; and Global Income Fund, \$3,000,000. Protective Life also provided the initial capital for Capital Growth Fund by purchasing Capital Growth Series stock in the amount of \$1,000,000 on June 14, 1995. Such shares were acquired for investment and can only be disposed of by redemption.

Under normal circumstances, subject to the reservation of rights explained above, the Company will redeem shares of the Funds in cash within seven days. However, the right of a shareholder to

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redeem shares and the date of payment by the Company may be suspended for more than seven days for any period during which the New York Stock Exchange is closed, other than the customary weekends or holidays, or when trading on such Exchange is restricted as determined by the SEC; or during any emergency, as determined by the SEC, as a result of which it is not reasonably practicable for a Fund to dispose of securities owned by it or fairly to determine the value of its net assets; or for such other period as the SEC may by order permit for the protection of shareholders.

#### CUSTODY OF ASSETS

Pursuant to a custody agreement with the Company, State Street Bank and Trust Company ("State Street"), 225 Franklin Street, Boston, Massachusetts 02110, holds the cash and portfolio securities of the Company as custodian.

State Street is responsible for holding all securities and cash of each Fund, receiving and paying for securities purchased, delivering against payment securities sold, and receiving and collecting income from investments, making all payments covering expenses of the Company, all as directed by persons authorized by the Company. State Street does not exercise any supervisory function in such matters as the purchase and sale of portfolio securities, payment of dividends, or payment of expenses of the Funds or the Company. Portfolio securities of the Funds purchased domestically are maintained in the custody of State Street and may be entered into the Federal Reserve, Depository Trust Company, or Participant's Trust Company book entry systems. Pursuant to the Custody Agreement, portfolio securities purchased outside the United States will be maintained in the custody of various foreign branches of State Street and such other custodians or subcustodians, including foreign banks and foreign securities depositories, as are approved by the board of directors of the Company, in accordance with regulations under the Act.

State Street holds securities of the Funds on which call options have been written and certain assets of the Funds constituting margin deposits with respect to financial futures contracts at the disposal of the futures commission merchants ("FCMs") through which such transactions are effected. The Funds may also be required to post margin deposits with respect to covered call and put options written on stock indices and for this purpose certain assets of those Funds may be held by the custodian pursuant to similar arrangements with the brokers involved.

This arrangement regarding margin deposits essentially consists of State Street creating a separate segregated account into which it transfers (upon the Company's instructions) assets from a Fund's general (regular) custodial account. The custody agreement for such arrangement provides that FCMs or brokers will have access to the funds in the segregated accounts when and if the FCMs or brokers represent that the Company has defaulted on its obligation to the FCMs or brokers and that the FCMs or brokers have met all the conditions precedent to their right to receive such funds under the agreement between the Company and the FCMs or brokers. The Company has an agreement with each FCM or broker which provides (1) that the assets of any Fund held by the FCM or broker will be in the possession of State Street until released or sold or otherwise disposed of in accordance with or under the terms of such agreement, (2) that such assets would not otherwise be pledged or encumbered by the FCM or broker, (3) that when requested by the Company the FCM or broker will cause State Street



to release to its general custody account any assets to which a Fund is entitled under the terms of such agreement, and (4) that the assets in the segregated account shall otherwise be used only to satisfy the Company's obligations to the FCM or broker under the terms of such agreement.

If on any day a Fund experiences net realized or unrealized gains with respect to financial futures contracts or covered options on stock indices held through a given FCM or broker, it is entitled immediately to receive from the FCM or broker, and usually will receive by the next business day, the net amount of such gains. There upon, such assets will be deposited in its general or segregated account with State Street, as appropriate.

DIRECTORS AND OFFICERS

The directors and officers of the Company are listed below together with their respective positions with the Company and a brief statement of their principal occupations during the past five years.

<TABLE>  
<CAPTION>

NAME AND ADDRESS	POSITION WITH THE COMPANY, PRINCIPAL OCCUPATIONS AND OTHER AFFILIATIONS
<S>	<C>
R. Stephen Briggs*	Director. Executive Vice President, Protective Life Corporation (since October, 1993).**
D. Warren Bailey	Director.
Carolyn King*	Director and President. Senior Vice President, Protective Life Corporation (since May, 1995). Senior Vice President, Provident Life and Accident Insurance Company (August 1994 - March 1995). Various other positions with Provident Life and Accident Insurance Company (1980 - August 1994).
G. Ruffner Page, Jr.	Director.
Cleophus Thomas, Jr.	Director.
Richard J. Bielen*	Vice President and Compliance Officer. Vice President, Protective Life Corporation (since July 1991).**
Doretta Milligan*	Vice President. Director, President and Chief Executive Officer, ProEquities, Inc. (since March 1994).
Lizabeth R. Nichols*	Vice President, Secretary and Chief Compliance Officer. Vice President and Senior Associate Counsel, Protective Life Corporation.**
<FN>	
* "Interested Person" of the Company for purposes of the Act. The address of Interested Persons of the Company is the same as that of Protective Life Corporation.	
** These are the most current titles and positions for these persons at Protective Life Corporation. Each has held various positions with Protective Life Corporation over the past five years. The address of Protective Life Corporation is 2801 Highway 280 South, Birmingham, Alabama 35223.	

</TABLE>

As of the date of this Statement, no director or officer beneficially owns more than 1% of the outstanding stock of any class of the Company.

TABLE OF DIRECTORS COMPENSATION

<TABLE>  
<CAPTION>

NAME OF DIRECTOR	AGGREGATE COMPENSATION FROM THE FUND
<S>	<C>
R. Stephen Briggs.....	\$ 0
D. Warren Bailey.....	8,000
Carolyn King.....	0
G. Ruffner Page, Jr. ....	8,000
Cleophus Thomas, Jr. ....	8,000

</TABLE>

Directors and officers of the Fund do not receive any benefits from the Fund upon retirement nor does the Fund accrue any expense for pension or retirement benefits. The directors and officers of the Fund do not currently serve as directors or officers of any investment company that is an affiliated person of the Fund or that is managed by the Investment Manager.

## INDEPENDENT ACCOUNTANTS

Coopers & Lybrand L.L.P. an international public accounting firm, has served since inception of Protective Investment Company as its independent accountants. Responsibility for the audit is assigned to the firm's office located at One Post Office Square, Boston, Massachusetts 02109.

## LEGAL COUNSEL

Sutherland, Asbill & Brennan, 1275 Pennsylvania Avenue, N.W., Washington, D.C. 20004-2404, is counsel to the Company.

## OTHER INFORMATION

The Prospectus and this Statement do not contain all the information included in the registration statement filed with the SEC under the 1933 Act with respect to the securities offered by the Prospectus. Certain portions of the registration statement have been omitted from the Prospectus and this Statement pursuant to the rules and regulations of the SEC. The registration statement including the exhibits filed therewith may be examined at the office of the SEC in Washington, D.C.

Statements contained in the Prospectus or in this Statement as to the contents of any contract or other document referred to are not necessarily complete, and, in each instance, reference is made to the copy of such contract or other document filed as an exhibit to the registration statement of which the Prospectus and this Statement form parts, each such statement being qualified in all respects by such reference.

## APPENDIX A

DESCRIPTION OF CORPORATE BOND AND PREFERRED STOCK RATINGS  
AND COMMERCIAL PAPER (1)

## DESCRIPTION OF MOODY'S INVESTORS SERVICE, INC.'S CORPORATE BOND RATINGS

AAA: Bonds which are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edge". Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

AA: Bonds which are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risks appear somewhat larger than in Aaa securities.

A: Bonds which are rated A possess many favorable investment attributes and are to be considered as upper medium grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present which suggest a susceptibility to impairment sometime in the future.

BAA: Bonds which are rated Baa are considered a medium grade obligation, I.E., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the

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(1) The rating systems described herein are believed to be the most recent ratings systems available from Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Corporation ("S&P") at the date of this Statement for the securities listed. Ratings are generally given to securities at the time of issuance. While the rating agencies may from time to time revise such ratings, they undertake no obligations to do so, and the ratings indicated do not necessarily represent ratings which will be given to these securities on the date of the Fund's fiscal year end.

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present but certain protective elements may be lacking or maybe characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

BA: Bonds which are rated Ba are judged to have speculative elements and their future cannot be considered as well assured. Often the protection of interest and principal payments may be very moderate and thereby not well safe-guarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

B: Bonds which are rated B generally lack characteristics of a desirable

investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

CAA: Bonds which are rated Caa are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest principal or interest.

CA: Bonds which are rated Ca represent obligations which are speculative in a high degree. Such issues are often in default or have other marked shortcomings.

UNRATED: Where no rating has been assigned or where a rating has been suspended or withdrawn, it may be for reasons unrelated to the quality of the issue.

Should no rating be assigned, the reason may be one of the following:

1. An application for rating was not received or accepted.
2. The issue or issuer belongs to a group of securities or companies that are not rated as a matter of policy.
3. There is a lack of essential data pertaining to the issue or issuer.
4. The issue was privately placed, in which case the rating is not published in Moody's publications.

Suspension or withdrawal may occur if new and material circumstances arise, the effects of which preclude satisfactory analysis; if there is no longer available reasonable up-to-date data to permit a judgment to be formed; if a bond is called for redemption; or for other reasons.

NOTE: Those bonds in the Aa, A and Baa groups which Moody's believe possess the strongest investment attributes are designated by the symbols Aa1, A1 and Baal.

#### DESCRIPTION OF STANDARD & POOR'S CORPORATION'S CORPORATE BOND RATINGS

AAA: Bonds rated AAA have the highest rating assigned by S&P. Capacity to pay interest and repay principal is extremely strong.

AA: Bonds rated AA have a very strong capacity to pay interest and repay principal and differ from the higher rated issues only in small degree.

A: Bonds rated A have a very strong capacity to pay interest and repay principal although they are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than bonds in higher rated categories.

BBB: Bonds rated BBB are regarded as having an adequate capacity to pay interest and repay principal. Whereas they normally exhibit adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for bonds in this category than in higher rated categories.

BB-B-CCC-CC: Bonds rated BB, B, CCC and CC are regarded, on balance, as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with

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the terms of the obligation. BB indicates the lowest degree of speculation. While such bonds will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.

PLUS (+) OR MINUS (-): The ratings from "AA" to "BBB" may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

UNRATED: Indicates that no public rating has been requested, that there is insufficient information on which to base a rating, or that S&P does not rate a particular type of obligation as a matter of policy.

NOTES: Bonds which are unrated expose the investor to risks with respect to capacity to pay interest or repay principal which are similar to the risks of lower-rated speculative obligations. The Fund is dependent on the Adviser's judgment, analysis and experience in the evaluation of such bonds.

#### DESCRIPTION OF CERTAIN COMMERCIAL PAPER RATINGS

STANDARD & POOR'S

Commercial paper rated A by S&P has the following characteristics: Liquidity ratios are adequate to meet cash requirements. Long-term senior debt is rated "A" or better, although in some cases "BBB" credits may be allowed. The issuer has access to at least two additional channels of borrowing. Basic earnings and cash flow have an upward trend with allowance made for unusual circumstances. Typically, the issuer's industry is well established and the issuer has a strong position within the industry. The reliability and quality of management are unquestioned. The rating is described by S&P as the investment grade category, the highest rating classification. Relative strength or weakness of the above factors determine whether the issuer's commercial paper is rated A-1, A-2 or A-3.

#### MOODY'S

Among the factors considered by Moody's in assigning commercial paper ratings are the following: (1) evaluation of the management of the issuer; (2) economic evaluation of the issuer's industry or industries and an appraisal of speculative-type risks which may be inherent in certain areas; (3) evaluation of the issuer's products in relation to competition and customer acceptance; (4) liquidity; (5) amount and quality of long-term debt; (6) trend of earnings over a period of ten years; (7) financial strength of a parent company and the relationships which exist with the issuer; (8) recognitions by the management of obligations which may be present or may arise as a result of public interest questions and preparations to meet such obligations. Relative differences in strengths and weaknesses in respect of these criteria establish a rating in one of three classifications. The rating Prime-1 is the highest commercial paper rating assigned by Moody's. Its other two ratings, Prime-2 and Prime-3 are designated Higher Quality and High Quality, respectively.

#### FITCH INVESTORS SERVICE, INC.

Fitch's short-term ratings apply to debt obligations that are payable on demand or have original maturities of up to three years, including commercial paper, certificates of deposit, medium-term notes, and municipal and investment notes.

- F-1+: Exceptionally Strong Credit Quality. Issues assigned this rating are regarded as having the strongest degree of assurance for timely payment.
- F-1: Very Strong Credit Quality. Issues assigned this rating reflect an assurance of timely payment only slightly less in degree than issues rated "F-1+".

#### DUFF & PHELPS

##### Commercial Paper/Certificates of Deposits

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##### Category 1: Top Grade

- Duff 1 plus: Highest certainty of timely payment. Short-term liquidity including internal operating factors and/or ready access to alternative sources of funds, is clearly outstanding, and safety is just below risk-free U.S. Treasury short-term obligations.
- Duff 1: Very high certainty of timely payment. Liquidity factors are excellent and supported by strong fundamental protection factors. Risk factors are minor.
- Notes: Bonds which are unrated may expose the investor to risks with respect to capacity to pay interest or repay principal which are similar to the risks of lower-rated bonds. The Fund is dependent on the Investment Adviser's judgment, analysis and experience in the evaluation of such bonds. Investors should note that the assignment of a rating to a bond by a rating service may not reflect the effect of recent developments on the issuer's ability to make interest and principal payments.

#### IBCA LIMITED AND ICBA INC.

A-1: Short-term obligations rated A-1 are supported by very strong capacity for timely repayment. A plus ("+") sign is added to those issues determined to possess the highest capacity for timely repayment.

A-2: Short-term obligations rated A-2 are supported by a strong capacity for timely repayment, although such capacity may be susceptible to adverse changes in business, economic or financial conditions.

#### THOMPSON BANKWATCH, INC.

The TBW short-term ratings apply only to unsecured instruments that have a maturity of one year or less and specifically assess the likelihood of an untimely payment of principal and interest.

TBW-1: The highest category; indicates a very high degree of likelihood that principal and interest will be paid on a timely basis.

TBW-2: The second highest category; while the degree of safety regarding timely repayment of principal and interest is strong, the relative degree of safety is not as high as for issues rated TBW-1.

#### CREDIT RATINGS FOR GOVERNMENT BONDS

The following table shows the credit rating assigned by Moody's Investors Service, Inc. and Standard & Poor's Corporation to the government bonds of various countries.

<TABLE>  
<CAPTION>

COUNTRY	MOODY'S	S&P
USA	Aaa	AAA
Japan	Aaa	AAA
Germany	Aaa	AAA
Italy	A1	AA
France	Aaa	AAA
UK	Aaa	AAA
Canada	Aaa	AA+
Belgium	Aa1	AA+
Denmark	Aa1	AA+
Sweden	Aa2	A+
Switzerland	Aaa	AAA
Netherlands	Aaa	AAA
Spain	Aa2	AA
Australia	Aa2	AA

</TABLE>

Certain governments listed above carry an implied rating by Moody's and/or S&P. Information is as of January 13, 1994 for Moody's and as of January, 1994 for S&P.

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#### APPENDIX B GOLDMAN, SACHS & CO.'S INVESTMENT BANKING AND SECURITIES ACTIVITIES

Goldman, Sachs & Co. is a leading global investment banking and securities firm with a number of distinguishing characteristics.

Privately owned and ranked among Wall Street's best capitalized firms, with assets exceeding \$54 billion and partner capital and subordinated liabilities of over \$4.5 billion as of November 25, 1994.

Thirty offices worldwide, where professionals focus on identifying financial opportunities (includes a staff of 1,100 in London, 650 in Tokyo, 150 Hong Kong and 4,000 in 11 offices throughout the U.S.).

An equity research budget of \$120 million for 1995.

The number one lead manager of U.S. common stock offerings for the past six years (1989-1994), with 18% of the total dollar volume.\*

Premier lead manager of negotiated municipal bond offerings over the past five years (1990-1994), aggregating \$114 billion.

#### GOLDMAN, SACHS & CO.'S HISTORY OF EXCELLENCE

<TABLE>

1865	End of Civil War
1869	Marcus Goldman opens Goldman Sachs
1890	Dow Jones Industrial Average first published
1896	Goldman Sachs joins New York Stock Exchange

1906	Goldman Sachs takes Sears Roebuck public (oldest ongoing client)
	Dow Jones Industrial Average tops 100
1925	Goldman Sachs finances Warner Brothers, producer of the first talking film
1956	Goldman Sachs co-manages Ford's public offering, the largest to date
1972	Dow Jones Industrial Average breaks 1000
1986	Goldman Sachs takes Microsoft public
1990	Goldman Sachs provides advisory services for the largest privatization in the region of Telefonos de Mexico
1992	Dow Jones Industrial Average breaks 3,000
1993	Goldman Sachs is lead manager in taking Allstate public, largest equity offering to date (\$2.4 billion)
1995	Dow Jones Industrial Average breaks 4,000

</TABLE>

\* Source: Securities Data Corporation. Ranking excludes REITS, Trusts, Rights and closed-end fund offerings.

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#### BUSINESS PRINCIPLES OF GOLDMAN, SACHS & CO.

Goldman Sachs is noted for its Business Principles, which guide all of the firm's activities and serve as the basis for its distinguished reputation among investors worldwide.

OUR CLIENT'S INTERESTS ALWAYS COME FIRST. Our experience shows that if we serve our clients well, our own success will follow.

OUR ASSETS ARE OUR PEOPLE, CAPITAL AND REPUTATION. If any of these assets diminish, reputation is the most difficult to restore. We are dedicated to complying fully with the letter and spirit of the laws, rules and ethical principles that govern us. Our continued success depends upon unswerving adherence to this standard.

WE TAKE GREAT PRIDE IN THE PROFESSIONAL QUALITY OF OUR WORK. We have an uncompromising determination to achieve excellence in everything we undertake. Though we may be involved in a wide variety and heavy volume of activity, we would, if it came to a choice, rather be best than biggest.

WE STRESS CREATIVITY AND IMAGINATION IN EVERYTHING WE DO. While recognizing that the old way may still be the best way, we constantly strive to find a better solution to a client's problems. We pride ourselves on having pioneered many of the practices and techniques that have become standard in the industry.

WE STRESS TEAMWORK IN EVERYTHING WE DO. While individual creativity is always encouraged, we have found that team effort often produces the best results. We have no room for those who put their personal interests ahead of the interests of the firm and its clients.

INTEGRITY AND HONESTY ARE THE HEART OF OUR BUSINESS. We expect our people to maintain high ethical standards in everything they do, both in their work for the firm and in their personal lives.

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#### PROTECTIVE INVESTMENT COMPANY REPORT OF INDEPENDENT ACCOUNTANTS

TO THE INVESTORS AND BOARD OF DIRECTORS  
OF PROTECTIVE INVESTMENT COMPANY

We have audited the accompanying statement of assets and liabilities of Protective Investment Company (the "Funds") including the schedule of investments, as of December 31, 1994, and the related statements of operations, changes in net assets and financial highlights for period March 14, 1994 (commencement of operations) through December 31, 1994. These financial statements and financial highlights are the responsibility of the Funds management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 1994, by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement

presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Protective Investment Company as of December 31, 1994, the results of its operations, the changes in its net assets and the financial highlights for the period March 14, 1994 (commencement of operations) through December 31, 1994, in conformity with generally accepted accounting principles.

COOPERS & LYBRAND L.L.P.

Boston, Massachusetts  
February 15, 1995

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PROTECTIVE INVESTMENT COMPANY  
STATEMENTS OF ASSETS AND LIABILITIES  
DECEMBER 31, 1994

ASSETS

	GLOBAL INCOME FUND	INTERNATIONAL EQUITY FUND	GROWTH AND INCOME FUND	SELECT EQUITY FUND	SMALL CAP EQUITY FUND	MONEY MARKET FUND
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Investments in securities, at value (Note B).....	\$16,911,149	\$28,032,704	\$36,584,913	\$17,111,050	\$19,905,456	\$3,594,979
Investments in repurchase agreements (Note B).....	0	0	6,199,000	558,000	2,599,000	0
Cash, including foreign currency at value.....	118	201,463	215	687	315	58,758
Receivable for forward currency contracts (Note F).....	26,833,959	12,569,070	0	0	0	0
Interest receivable.....	290,704	1,743	1,937	174	812	0
Receivable due from Investment Manager (Note C).....	65,864	108,676	60,090	50,771	53,949	29,704
Foreign income tax reclaim receivable.....	21,651	3,634	0	72	0	0
Receivable for fund shares sold....	9,234	35,487	177,728	33,348	28,761	0
Dividends receivable.....	0	12,918	78,282	41,461	5,766	0
Receivable for currency sold.....	0	139,101	0	0	0	0
Receivable for securities sold.....	0	21,122	193,817	0	170,897	0
<b>TOTAL ASSETS.....</b>	<b>44,132,679</b>	<b>41,125,918</b>	<b>43,295,982</b>	<b>17,795,563</b>	<b>22,764,956</b>	<b>3,683,441</b>
	LIABILITIES					
Payable for forward currency contracts (Note F).....	26,773,798	12,682,334	0	0	0	0
Payable for fund shares redeemed...	29,742	53,606	86,201	42,159	48,281	43,729
Investment management fee payable (Note C).....	15,504	23,866	26,418	11,260	13,971	1,860
Payable for securities purchased...	0	740,355	847,083	0	862,893	0
Payable for currency purchased....	0	139,578	0	0	0	0
Payable for options purchased.....	0	66,424	0	0	0	0
Accounts payable and accrued expenses.....	32,163	34,694	31,162	24,695	27,065	19,361
<b>TOTAL LIABILITIES.....</b>	<b>26,851,207</b>	<b>13,740,857</b>	<b>990,864</b>	<b>78,114</b>	<b>952,210</b>	<b>64,950</b>
<b>NET ASSETS.....</b>	<b>\$17,281,472</b>	<b>\$27,385,061</b>	<b>\$42,305,118</b>	<b>\$17,717,449</b>	<b>\$21,812,746</b>	<b>\$3,618,491</b>
	NET ASSETS					
Paid-in capital (Note E).....	\$17,660,172	\$27,764,376	\$43,154,895	\$18,056,117	\$23,471,185	\$3,618,488
Distribution in excess of net investment income (Note B).....	(19,500 )	(229,909)	0	0	0	0
Accumulated net realized gain (loss) on investments and foreign currency transactions.....	(171,358 )	(277,050)	(35,180)	(3,076)	(56,286)	3
Net unrealized appreciation (depreciation) of:						
Investments.....	(247,009 )	242,254	(814,597)	(335,592)	(1,602,153)	0
Foreign currency translation.....	59,167	(114,610)	0	0	0	0
<b>NET ASSETS.....</b>	<b>\$17,281,472</b>	<b>\$27,385,061</b>	<b>\$42,305,118</b>	<b>\$17,717,449</b>	<b>\$21,812,746</b>	<b>\$3,618,491</b>
<b>NET ASSET VALUE PER SHARE</b> Offering and redemption price per share (based on shares of						

capital stock outstanding, par value \$.001 per share).....	\$ 9.558	\$ 9.581	\$ 9.661	\$ 9.839	\$ 8.951	\$ 1.000
Total shares outstanding at end of period.....	1,808,152	2,858,191	4,378,864	1,800,828	2,436,839	3,618,488
Cost of investments.....	\$17,158,158	\$27,790,450	\$43,598,510	\$18,004,642	\$24,106,609	\$3,594,979

The accompanying notes are an integral part of the financial statements.

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PROTECTIVE INVESTMENT COMPANY  
STATEMENTS OF OPERATIONS  
FOR THE PERIOD MARCH 14, 1994\* THROUGH DECEMBER 31, 1994

	GLOBAL INCOME FUND	INTERNATIONAL EQUITY FUND	GROWTH AND INCOME FUND	SELECT EQUITY FUND	SMALL CAP EQUITY FUND	MONEY MARKET FUND
<S>	<C>	<C>	<C>	<C>	<C>	<C>
INVESTMENT INCOME						
Interest income.....	\$ 556,517	\$ 127,027	\$ 143,144	\$ 49,808	\$ 150,441	\$ 133,144
Dividend income.....	0	145,093	308,985	168,561	11,131	0
Foreign taxes withheld.....	(16,268)	(13,808)	(671)	(1,631)	(454)	0
TOTAL INVESTMENT INCOME.....	540,249	258,312	451,458	216,738	161,118	133,144
EXPENSES						
Investment management fee (Note C)..	88,896	121,187	120,254	53,567	69,074	17,470
Custodian fee and expenses.....	35,000	74,501	21,501	19,700	21,500	3,923
Legal fee.....	19,400	19,400	19,400	19,400	19,400	19,400
Audit fee.....	13,333	13,333	13,333	13,333	13,333	13,333
Registration and filing expense.....	5,930	9,241	13,655	6,137	7,515	1,823
Directors fees (Note C).....	3,458	3,458	3,458	3,458	3,458	3,458
Printing expense.....	2,333	2,333	2,333	2,333	2,333	2,333
Transfer agent fee.....	1,710	1,710	1,710	1,710	1,710	1,710
Miscellaneous expense.....	1,392	1,392	1,392	1,392	1,392	1,377
Total operating expenses before reimbursement.....	171,452	246,555	197,036	121,030	139,715	64,827
Expenses borne by the investment manager (Note C).....	(82,556)	(125,368)	(76,782)	(67,463)	(70,641)	(47,357)
NET EXPENSES.....	88,896	121,187	120,254	53,567	69,074	17,470
NET INVESTMENT INCOME.....	451,353	137,125	331,204	163,171	92,044	115,674
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY TRANSACTIONS						
Net realized gain (loss) on:						
Investments.....	(259,299)	(442,903)	134,697	211,953	1,583	248
Foreign currency transactions.....	63,610	(206,507)	0	0	0	0
Options.....	4,831	5,326	0	0	0	0
Change in unrealized appreciation (depreciation) of:						
Investments.....	(247,009)	492,590	(814,597)	(335,592)	(1,602,153)	0
Foreign currency translations.....	59,167	(114,610)	0	0	0	0
Options.....	0	(250,336)	0	0	0	0
NET REALIZED AND UNREALIZED GAIN (LOSS).....	(378,700)	(516,440)	(679,900)	(123,639)	(1,600,570)	248
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS.....	\$ 72,653	\$ (379,315)	\$ (348,696)	\$ 39,532	(\$1,508,526)	\$ 115,922

<FN>

\*Commencement of investment operations.

</TABLE>

The accompanying notes are an integral part of the financial statements.

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PROTECTIVE INVESTMENT COMPANY  
STATEMENTS OF CHANGES IN NET ASSETS  
FOR THE PERIOD MARCH 14, 1994\* THROUGH DECEMBER 31, 1994

	GLOBAL INCOME FUND	INTERNATIONAL EQUITY FUND	GROWTH AND INCOME FUND	SELECT EQUITY FUND	SMALL CAP EQUITY FUND	MONEY MARKET FUND
--	-----------------------	------------------------------	---------------------------	-----------------------	--------------------------	----------------------

<TABLE>

<CAPTION>



<S>	<C>	<C>	<C>	<C>	<C>	<C>
INCREASE (DECREASE) IN NET ASSETS						
From operations:						
Net investment income.....	\$ 451,353	\$ 137,125	\$ 331,204	\$ 163,171	\$ 92,044	\$ 115,674
Net realized gain (loss) on:						
Investments.....	(259,299)	(442,903)	134,697	211,953	1,583	248
Foreign currency transactions.....	63,610	(206,507)	0	0	0	0
Options.....	4,831	5,326	0	0	0	0
Change in unrealized appreciation (depreciation) of:						
Investments.....	(247,009)	492,590	(814,597)	(335,592)	(1,602,153)	0
Foreign currency translations.....	59,167	(114,610)	0	0	0	0
Options.....	0	(250,336)	0	0	0	0
Net increase (decrease) in net assets resulting from operations.....	72,653	(379,315)	(348,696)	39,532	(1,508,526)	115,922
Dividends and distributions to shareholders from:						
Net investment income.....	(451,353)	0	(331,204)	(163,171)	(92,044)	(115,674)
Net realized gain on investments.....	0	0	(134,697)	(211,953)	(1,583)	(245)
In excess of net realized gains.....	0	0	(35,180)	(3,076)	(56,286)	0
Total dividends and distributions to shareholders.....	(451,353)	0	(501,081)	(378,200)	(149,913)	(115,919)
Fund share transactions (Note E).....	17,650,172	27,754,376	43,144,895	18,046,117	23,461,185	3,608,488
Total increase (decrease) in net assets.....	17,271,472	27,375,061	42,295,118	17,707,449	21,802,746	3,608,491
Net assets						
Beginning of period.....	10,000	10,000	10,000	10,000	10,000	10,000
End of period (1).....	\$17,281,472	\$27,385,061	\$42,305,118	\$17,717,449	\$21,812,746	\$3,618,491
(1) Including distribution in excess of net investment income...	\$ (19,500)	\$ (229,909)	\$ 0	\$ 0	\$ 0	\$ 0

<FN>

\*Commencement of investment operations.  
</TABLE>

The accompanying notes are an integral part of the financial statements.

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PROTECTIVE GLOBAL INCOME FUND  
SCHEDULE OF INVESTMENTS  
DECEMBER 31, 1994

<TABLE>

<CAPTION>

SECURITY DESCRIPTION

<S>	<C>	PRINCIPAL AMOUNT	U.S. \$ VALUE
GOVERNMENT AND AGENCY SECURITIES -- 78.4%			
AUSTRALIA -- 4.2%			
Commonwealth of Australia, 9.000%, 09/15/2004.....	AUD	1,000,000	\$ 726,002
FRANCE -- 3.3%			
Government of France, 8.500%, 03/28/2000.....	FRF	3,000,000	573,881
GERMANY -- 7.0%			
Federal Republic of Germany, 9.000%, 10/20/2000.....	DEM	1,750,000	1,202,807
ITALY -- 7.5%			
Republic of Italy, 8.500%, 01/01/1997.....	ITL	325,000,000	190,677
Republic of Italy, 8.500%, 04/01/1999.....		2,000,000,000	1,098,644
			1,289,321
NETHERLANDS -- 3.0%			

Dutch Government, 6.500%, 04/15/2003.....	NLG	1,000,000	535,745
-----			
UNITED KINGDOM -- 13.8%			
U.K. Treasury, 9.000%, 03/03/2000.....	GBP	350,000	554,925
U.K. Treasury, 8.000%, 12/07/2000.....		750,000	1,139,945
U.K. Treasury, 6.750%, 11/26/2004.....		500,000	682,646
-----			
			2,377,516
-----			
UNITED STATES -- 39.6%			
United States Treasury Notes, 6.875%, 07/31/1999.....	US\$	1,500,000	1,443,750
United States Treasury Notes, 8.500%, 11/15/2000.....		600,000	618,468
United States Treasury Notes, 6.250%, 02/15/2003.....		1,400,000	1,266,118
United States Treasury Notes, 7.875%, 11/15/200.....		3,500,000	3,509,835
-----			
			6,838,171
-----			
TOTAL GOVERNMENT AND AGENCY SECURITIES -- (Cost \$13,785,540).....			13,543,443
-----			
CORPORATE BONDS -- 3.2%			
JAPAN -- 3.2%			
Japan Development Bank, 6.500%, 09/20/2001.....	JPY	50,000,000	559,706
-----			
TOTAL CORPORATE BONDS -- (Cost \$564,618).....			559,706
-----			
TIME DEPOSIT -- 16.3%			
UNITED STATES -- 16.3%			
State Street Bank and Trust Co.			
Eurodollar Time Deposit, 6.375%, 01/03/1995.....	US\$	2,808,000	2,808,000
-----			
TOTAL TIME DEPOSIT -- (Cost \$2,808,000).....			2,808,000
-----			
TOTAL INVESTMENTS -- (Cost \$17,158,158) -- 97.9%			16,911,149
OTHER ASSETS LESS LIABILITIES -- 2.1%			370,323
-----			
NET ASSETS -- 100.0%			\$ 17,281,472
-----			

</TABLE>

See Glossary of Terms in Note F.

The accompanying notes are an integral part of the financial statements.

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PROTECTIVE INTERNATIONAL EQUITY FUND  
SCHEDULE OF INVESTMENTS  
DECEMBER 31, 1994

SECURITY DESCRIPTION	SHARES	U.S. \$ VALUE
-----	-----	-----
<S>	<C>	<C>
COMMON STOCK -- 79.8%		
AUSTRIA -- 2.8%		
Oester Elektrizita.....	13,375	\$ 772,519
-----		
BELGIUM -- 2.2%		
Colruyt SA.....	2,600	602,389
-----		
DENMARK -- 2.8%		
Tele Danmark AS-B share.....	15,000	761,534
-----		
FINLAND -- 1.2%		
Kone Corp. B share.....	3,000	341,945
-----		
HONG KONG -- 9.3%		
Consolidated Electric Power of Asia.....	343,200	754,092
Hong Kong Electric (Holdings) Ltd.....	284,500	777,714
National Mutual Asia.....	842,000	555,021
South China Morning Post (Holdings) Ltd.....	789,380	461,670
-----		
		2,548,497
-----		
INDONESIA -- 2.3%		
Astra International.....	238,500	455,732
Indostat *.....	18,000	64,490
Mulia Industrindo.....	39,000	106,461
-----		

		626,683
-----		
JAPAN -- 21.9%		
Aiwa Co.....	28,000	689,101
Hoya Corp.....	30,000	801,607
Inaba Denkisangyo.....	13,000	352,587
Max Co.....	21,000	485,183
Mirai Industry Co.....	16,000	368,056
Mitsubishi Electric Corp.....	129,000	916,153
Mitsubishi Heavy Industries.....	121,000	923,757
Santen Pharmaceutical Co.....	23,000	639,980
Shimachu Co.....	23,000	829,432
		6,005,856
-----		
MALAYSIA -- 0.6%		
Tanjong.....	53,000	157,744
-----		
NETHERLANDS -- 6.6%		
N.V. GTI Holdings.....	2,000	175,125
Randstad Holdings N.V.....	14,900	805,985
Wolters Kluwer N.V.....	11,035	816,231
		1,797,341
-----		

</TABLE>

The accompanying notes are an integral part of the financial statements.

48

PROTECTIVE INTERNATIONAL EQUITY FUND  
SCHEDULE OF INVESTMENTS (CONTINUED)  
DECEMBER 31, 1994

<TABLE>

<CAPTION>

SECURITY DESCRIPTION	SHARES	U.S. \$ VALUE
-----	-----	-----
<S>	<C>	<C>
COMMON STOCK (CONTINUED)		
NORWAY -- 2.5%		
Helikopter Service AS.....	15,000	\$ 177,449
Unitor Ships Service AS.....	30,430	512,979
		690,428
-----		
SPAIN -- 4.8%		
Banco Popular Espana.....	8,360	993,991
Zardoya-Otis.....	3,025	314,623
		1,308,614
-----		
SWEDEN -- 12.4%		
Arjo AB *.....	23,600	431,944
Getinge Industrier AB, class B.....	15,260	396,358
Hoganas AB, class B.....	49,600	767,637
Securitas AB, class B.....	32,000	861,303
Skane Gripen AB.....	19,900	136,584
Volvo AB.....	42,500	800,743
		3,394,569
-----		
SWITZERLAND -- 3.3%		
Cie Financier Richemont AG.....	880	914,006
-----		
UNITED KINGDOM -- 7.1%		
Boots Co. PLC.....	49,562	391,157
British Airport Authority PLC.....	103,595	767,310
Rentokil Group PLC.....	217,000	781,553
		1,940,020
-----		
TOTAL COMMON STOCK -- (Cost \$21,585,435).....		21,862,145
-----		
PREFERRED STOCK -- 3.0%		
GERMANY -- 3.0%		
Fresenius AG.....	1,706	823,548
		823,548
-----		
TOTAL PREFERRED STOCK -- (Cost \$622,981).....		823,548
-----		
AMERICAN DEPOSITORY RECEIPTS -- 1.2%		
INDONESIA -- 1.2%		
Perusahaan Industries *.....	8,900	318,175

TOTAL DEPOSITORY RECEIPTS -- (Cost \$302,862)..... 318,175

</TABLE>

The accompanying notes are an integral part of the financial statements.

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PROTECTIVE INTERNATIONAL EQUITY FUND  
SCHEDULE OF INVESTMENTS (CONTINUED)  
DECEMBER 31, 1994

<TABLE>

<CAPTION>

SECURITY DESCRIPTION	CONTRACTS	U.S. \$ VALUE
<hr/>		
<S>	<C>	<C>
OPTIONS PURCHASED -- 0.4%		
JAPAN -- 0.4%		
Nikkei 300 Call @ 284.70, expiring 03/09/95.....	290,000,000	\$ 71,217
Nikkei 300 Call @ 328.55, expiring 12/22/95.....	1,656,946	35,619
		<hr/>
		106,836
		<hr/>
TOTAL OPTIONS PURCHASED -- (Cost \$357,172).....		106,836

</TABLE>

<TABLE>

<CAPTION>

		PRINCIPAL AMOUNT	
<hr/>			
<S>	<C>	<C>	<C>
TIME DEPOSIT -- 18.0%			
UNITED STATES -- 18.0%			
State Street Bank and Trust Co. Eurodollar Time Deposit, 6.375%, 01/03/1995.....	US\$	4,922,000	4,922,000
			<hr/>
TOTAL TIME DEPOSIT -- (Cost \$4,922,000).....			4,922,000
			<hr/>
TOTAL INVESTMENTS -- (Cost \$27,790,450) -- 102.4%			28,032,704
OTHER ASSETS LESS LIABILITIES -- (2.4)%			(647,643)
			<hr/>
NET ASSETS -- 100.0%			\$ 27,385,061
			<hr/>

<FN>

\* Denotes non-income producing security.

</TABLE>

See Glossary of Terms in Note F.

The accompanying notes are an integral part of the financial statements.

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PROTECTIVE GROWTH AND INCOME FUND  
SCHEDULE OF INVESTMENTS  
DECEMBER 31, 1994

<TABLE>

<CAPTION>

SECURITY DESCRIPTION	SHARES	VALUE
<hr/>		
<S>	<C>	<C>
COMMON STOCK -- 85.1%		
AEROSPACE/DEFENSE -- 4.4%		
Lockheed Corp.....	4,000	\$ 290,500
McDonnell Douglas Corp.....	7,800	1,107,600
Northrop Grumman Corp.....	10,800	453,600
		<hr/>
		1,851,700
		<hr/>
AIRLINES -- 0.5%		
AMR Corp Delaware *.....	3,600	191,700
		<hr/>
AUTOMOBILE -- 3.3%		
General Motors Corp. *.....	33,400	1,411,150
		<hr/>

AUTOPARTS -- ORIGINAL EQUIPMENT -- 1.1%		
Lear Seating Corp.....	22,700	451,163
BROKERAGE FIRMS -- 3.8%		
Bear Stearns Cos. Inc.....	78,385	1,205,169
Lehman Brothers Holdings Inc.....	26,600	392,350
		1,597,519
CHEMICALS -- 1.1%		
Geon Co.....	17,600	481,800
CONTAINERS -- PAPER -- 4.3%		
Owens Illinois Inc. *.....	30,300	333,300
Stone Container Corp. *.....	85,300	1,471,425
		1,804,725
DOMESTIC OIL -- 1.4%		
Atlantic Richfield Co.....	3,600	366,300
Tenneco Inc.....	4,900	208,250
		574,550
DRUGS & HEALTH CARE -- 1.0%		
FHP International Corp. *.....	16,450	423,588
ELECTRIC COMPANIES -- 4.5%		
DQE.....	21,400	633,975
Dominion Resources Inc.....	8,800	314,600
Texas Utilities Co.....	29,700	950,400
		1,898,975
ELECTRONICS -- INSTRUMENTATION -- 1.8%		
Texas Instruments Inc.....	10,400	778,700
ELECTRONICS -- SEMICONDUCTORS -- 2.9%		
Advanced Micro Devices Inc. *.....	48,800	1,213,900
FINANCIAL -- 0.1%		
Liberty Corp.....	1,500	38,063

</TABLE>

The accompanying notes are an integral part of the financial statements.

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PROTECTIVE GROWTH AND INCOME FUND  
SCHEDULE OF INVESTMENTS (CONTINUED)  
DECEMBER 31, 1994

SECURITY DESCRIPTION	SHARES	VALUE
<S>	<C>	<C>
COMMON STOCK (CONTINUED)		
FINANCIAL SERVICES -- 4.3%		
North American Mortgage Co.....	45,000	\$ 663,750
Student Loan Marketing Assn.....	12,200	396,500
Travelers Inc.....	22,900	744,250
		1,804,500
FOODS -- 2.4%		
Chiquita Brands International Inc.....	75,700	1,031,412
GAMING COMPANIES -- 0.3%		
Penn National Gaming Inc. *.....	21,800	141,700
HOMEBUILDING -- 0.5%		
Centex Corp.....	9,200	209,300
HOSPITAL MANAGEMENT -- 4.8%		
Community Psychiatric Centers.....	48,400	532,400
National Medical Enterprises Inc. *.....	104,900	1,481,712
		2,014,112
HOUSEHOLD PRODUCTS -- 1.4%		
Playtex Products Inc. *.....	84,300	600,638

HOUSEWARES -- 1.7%		
National Presto Industries Inc.....	17,400	722,100
INSURANCE BROKERS -- 1.2%		
Aetna Life & Casualty Co.....	10,800	508,950
LEISURE TIME -- 3.3%		
Brunswick Corp.....	42,200	796,525
Outboard Marine Corp.....	30,900	606,412
		1,402,937
LIQUOR -- 0.9%		
Anheuser Busch Cos. Inc.....	7,300	371,388
MAJOR REGIONAL BANKS -- 3.7%		
BankAmerica Corp.....	25,500	1,007,250
Chemical Banking Corp.....	4,300	154,263
PNC Bank Corp.....	19,500	411,937
		1,573,450
MANUFACTURING -- DIVERSIFIED IN -- 0.9%		
Figgie International Holdings Inc. *.....	59,100	361,988
MEDICAL PRODUCTS & SUPPLIES -- 0.1%		
Pharmchem Labs Inc. *.....	13,200	26,400
MULTI-LINE INSURANCE -- 0.5%		
Cigna Corp.....	3,300	208,725

</TABLE>

The accompanying notes are an integral part of the financial statements.

52

PROTECTIVE GROWTH AND INCOME FUND  
SCHEDULE OF INVESTMENTS (CONTINUED)  
DECEMBER 31, 1994

SECURITY DESCRIPTION	SHARES	VALUE
<S>	<C>	<C>
COMMON STOCK (CONTINUED)		
OIL -- INTERNATIONAL INTEGRATED -- 2.1%		
Amoco Corp.....	6,100	\$ 360,662
Exxon Corp.....	7,300	443,475
Royal Dutch Petroleum Co.....	900	96,750
		900,887
OIL WELL EQUIPMENT & SERVICES -- 0.7%		
Sonat Offshore Drilling Inc.....	17,600	312,400
OTHER MAJOR BANKS -- 0.1%		
Union Bank of San Francisco.....	2,200	58,850
PAPER AND FOREST PRODUCTS -- 3.9%		
Champion International Corp.....	13,900	507,350
Georgia Pacific Corp.....	15,900	1,136,850
		1,644,200
PETROLEUM SERVICES -- 1.0%		
Tosco Corp.....	14,100	410,663
PROPERTY-CASUALTY -- 2.7%		
American Premier Underwriters.....	20,300	525,262
Home State Holdings Inc. *.....	23,700	355,500
Partner Re Holdings.....	12,600	261,450
		1,142,212
PUBLISHING -- 1.8%		
Valassis Communications Inc. *.....	49,900	748,500
PUBLISHING -- NEWSPAPERS -- 0.5%		
American Publishing Co.....	20,900	229,900

</TABLE>

The accompanying notes are an integral part of the financial statements.

PROTECTIVE GROWTH AND INCOME FUND  
SCHEDULE OF INVESTMENTS (CONTINUED)  
DECEMBER 31, 1994

SECURITY DESCRIPTION	SHARES	VALUE
<b>&lt;S&gt;</b>		
<b>COMMON STOCK (CONTINUED)</b>		
REAL ESTATE INVESTMENT TRUSTS -- 3.2%		
Centerpoint Properties Corp.....	23,100	\$ 450,450
Haagen Alexander Properties Inc.....	40,000	635,000
LTC Properties.....	15,400	204,050
United Mobile Homes Inc.....	11,319	83,481
		-----
		1,372,981
		-----
RETAIL -- SPECIALTY APPAREL STORE -- 2.1%		
TJX Cos Inc.....	57,600	900,000
		-----
SAVINGS AND LOAN HOLDING COMPANIES -- 2.2%		
GP Financial Corp.....	45,900	946,687
		-----
STEEL -- 1.0%		
Quanex Corp.....	19,100	436,913
		-----
TEXTILE -- APPAREL MANUFACTURERS -- 0.9%		
Chic By HIS Inc. *.....	39,700	377,150
		-----
TOBACCO -- 2.6%		
Philip Morris Cos. Inc.....	6,500	373,750
RJR Nabisco Holdings Corp. *.....	8,700	47,850
UST Inc.....	25,000	693,750
		-----
		1,115,350
		-----
TRUCKERS -- 4.1%		
Consolidated Freightways Inc.....	76,500	1,711,687
		-----
TOTAL COMMON STOCK -- (Cost \$36,770,574).....		36,003,513
		-----
PREFERRED STOCK -- 1.4%		
ELECTRONICS -- SEMICONDUCTORS -- 0.1%		
Advanced Micro Devices Inc.....	700	36,750
		-----
FOODS -- 0.6%		
Chiquita Brands International Inc.....	5,800	239,250
		-----
TOBACCO -- 0.7%		
RJR Nabisco Holdings Corp.....	50,900	305,400
		-----
TOTAL PREFERRED STOCK -- (Cost \$628,936).....		581,400
		-----

</TABLE>

The accompanying notes are an integral part of the financial statements.

PROTECTIVE GROWTH AND INCOME FUND  
SCHEDULE OF INVESTMENTS (CONTINUED)  
DECEMBER 31, 1994

SECURITY DESCRIPTION	PRINCIPAL AMOUNT	VALUE
<b>&lt;S&gt;</b>		
<b>SHORT TERM INVESTMENT -- 14.6%</b>		
REPURCHASE AGREEMENT -- 14.6%		
State Street Bank and Trust Co., 5.625%, 01/03/1995.....		
(Dated 12/30/1994, collateralized by \$6,285,000		
United States Treasury Note, 4.625%, 2/15/1996,		
with a value of \$6,202,874).....	\$ 6,199,000	\$ 6,199,000
		-----
TOTAL SHORT TERM INVESTMENT -- (Cost \$6,199,000).....		6,199,000
		-----
TOTAL INVESTMENTS -- (Cost \$43,598,510) -- 101.1%		42,783,913
OTHER ASSETS LESS LIABILITIES -- (1.1)%		(478,795)

NET ASSETS -- 100.0%

\$ 42,305,118

<FN>

\* Denotes non-income producing security.

</TABLE>

The accompanying notes are an integral part of the financial statements.

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PROTECTIVE SELECT EQUITY FUND  
SCHEDULE OF INVESTMENTS  
DECEMBER 31, 1994

<TABLE>

<CAPTION>

SECURITY DESCRIPTION

SHARES

VALUE

<S>

COMMON STOCK -- 93.1%

AEROSPACE/DEFENSE -- 3.8%

Allied Signal Inc.....	7,400	\$ 251,600
Rockwell International Corp.....	4,500	160,875
United Technologies Corp.....	4,300	270,362

682,837

ALUMINUM -- 0.9%

Aluminum Co. of America.....	1,900	164,588
------------------------------	-------	---------

AUTOMOBILE -- 2.7%

Chrysler Corp.....	2,900	142,100
Ford Motor Co.....	6,200	173,600
General Motors Corp.....	4,000	169,000

484,700

AUTO PARTS -- 0.7%

Masland Corp.....	7,700	120,313
-------------------	-------	---------

BEVERAGES -- ALCOHOLIC -- 0.7%

Anheuser Busch Cos. Inc.....	2,600	132,275
------------------------------	-------	---------

BEVERAGES -- SOFT DRINKS -- 3.2%

PepsiCo Inc.....	15,500	561,875
------------------	--------	---------

BROADCAST MEDIA -- 2.2%

Capital Cities ABC Inc.....	4,500	383,625
-----------------------------	-------	---------

BUSINESS SERVICES -- 0.7%

Ogden Corp. *.....	6,552	122,850
--------------------	-------	---------

CHEMICALS -- 6.8%

Dow Chemical Co.....	5,500	369,875
Du Pont E I De Nemours & Co.....	8,900	500,625
Monsanto Co.....	4,700	331,350

1,201,850

COMMERCIAL SERVICES -- 2.4%

Omnicom Group.....	8,100	419,175
--------------------	-------	---------

COMPUTER SOFTWARE & SERVICES -- 2.3%

International Business Machines, Inc.....	5,500	404,250
---	-------	---------

CONGLOMERATES -- 2.7%

ITT Corp.....	2,400	212,700
Tenneco Inc.....	6,100	259,250

471,950

CONSTRUCTION MATERIALS -- 0.7%

Armstrong World Industries Inc.....	3,400	130,900
-------------------------------------	-------	---------

</TABLE>

The accompanying notes are an integral part of the financial statements.

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PROTECTIVE SELECT EQUITY FUND  
SCHEDULE OF INVESTMENTS (CONTINUED)  
DECEMBER 31, 1994

SECURITY DESCRIPTION	SHARES	VALUE
<hr/>		
<S>	<C>	<C>
COMMON STOCK (CONTINUED)		
DRUGS & HEALTH CARE -- 1.7%		
American Home Products Corp.....	4,700	\$ 294,925
<hr/>		
ELECTRIC COMPANIES -- 3.4%		
General Public Utilities Corp.....	6,500	170,625
Peco Energy Co.....	8,600	210,700
Public Service Co. *.....	16,800	218,400
<hr/>		
599,725		
<hr/>		
ELECTRICAL EQUIPMENT -- 0.6%		
Philips Electronics N.V.....	3,700	108,688
<hr/>		
ELECTRONICS -- INSTRUMENTATION -- 2.7%		
Hewlett Packard Co.....	3,300	329,587
Texas Instruments Inc.....	1,900	142,263
<hr/>		
471,850		
<hr/>		
ELECTRONICS -- SEMICONDUCTORS -- 1.3%		
Intel Corp.....	3,600	229,950
<hr/>		
ENTERTAINMENT -- 1.6%		
Disney (Walt) Co. (The).....	6,200	285,975
<hr/>		
FINANCIAL -- 1.3%		
Federal National Mortgage Assn.....	3,200	233,200
<hr/>		
FINANCIAL SERVICES -- 2.0%		
Allstate Corp.....	4,800	113,400
Dean Witter Discover & Co.....	3,600	121,950
Federal Home Loan Mortgage Corp.....	2,300	116,150
<hr/>		
351,500		
<hr/>		
GAS & PIPELINE UTILITIES -- 2.0%		
Enron Corp.....	5,800	176,900
Panhandle Eastern Corp.....	9,200	181,700
<hr/>		
358,600		
<hr/>		
HEALTH CARE DRUGS -- 3.0%		
Schering Plough Corp.....	7,100	525,400
<hr/>		
HOSPITAL MANAGEMENT -- 1.0%		
Columbia HCA Healthcare Corp.....	4,900	178,850
<hr/>		
HOUSEHOLD PRODUCTS -- 4.2%		
Corning Inc.....	6,700	200,162
Procter & Gamble Co.....	7,600	471,200
Unilever N.V.....	700	81,550
<hr/>		
752,912		
<hr/>		

</TABLE>

The accompanying notes are an integral part of the financial statements.

PROTECTIVE SELECT EQUITY FUND  
SCHEDULE OF INVESTMENTS (CONTINUED)  
DECEMBER 31, 1994

SECURITY DESCRIPTION	SHARES	VALUE
<hr/>		
<S>	<C>	<C>
COMMON STOCK (CONTINUED)		
INSURANCE BROKERS -- 0.9%		
MGIC Investment Corp.....	4,800	\$ 159,000
<hr/>		
INSURANCE -- PROPERTY & CASUALTY -- 0.8%		
CMAC Investment Corp.....	5,100	147,263

MACHINERY -- DIVERSIFIED -- 1.2%		
Caterpillar Inc.....	3,800	209,475
MAJOR REGIONAL BANKS -- 5.2%		
BankAmerica Corp.....	5,300	209,350
Citicorp.....	5,600	231,700
First Fidelity Bancorp.....	3,800	170,525
Nationsbank Corp.....	6,700	302,337
		913,912
MANUFACTURING -- DIVERSIFIED IN -- 1.6%		
Dover Corp.....	5,500	283,937
MULTI-LINE INSURANCE -- 2.6%		
American International Group Inc.....	4,700	460,600
OIL -- INTERNATIONAL INTEGRATED -- 5.4%		
Amoco Corp.....	3,000	177,375
Exxon Corp.....	7,000	425,250
Royal Dutch Petroleum Co.....	3,300	354,750
		957,375
PERSONAL LOANS -- 0.6%		
Beneficial Corp.....	2,900	113,100
PHOTOGRAPHY -- 1.2%		
Eastman Kodak Co.....	4,600	219,650
PUBLISHING -- NEWSPAPERS -- 0.6%		
Gannett Inc.....	2,100	111,825
RAILROADS & EQUIPMENT -- 1.1%		
Union Pacific Corp.....	4,100	187,062
RETAIL -- FOOD CHAINS -- 1.0%		
Penn Traffic Co. *.....	4,600	174,800
RETAIL -- GENERAL MERCHANDISE -- 1.7%		
Wal Mart Stores Inc.....	14,000	297,500
RETAIL -- SPECIALTY APPAREL STORE -- 2.9%		
Federated Department Stores Inc. *.....	5,400	103,950
LTD. Inc.....	10,400	188,500
Sears Roebuck & Co.....	4,900	225,400
		517,850

</TABLE>

The accompanying notes are an integral part of the financial statements.

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PROTECTIVE SELECT EQUITY FUND  
SCHEDULE OF INVESTMENTS (CONTINUED)  
DECEMBER 31, 1994

SECURITY DESCRIPTION	SHARES	VALUE
<S>		
COMMON STOCK (CONTINUED)		
TELECOMMUNICATIONS -- LONG DISTANCE -- 4.1%		
American Telephone & Telegraph Corp.....	10,100	\$ 507,525
Sprint Corp.....	8,100	223,762
		731,287
TELEPHONE -- 1.9%		
Ameritech Corp.....	8,200	331,075
TEXTILE -- APPAREL MANUFACTURERS -- 1.0%		
V F Corp.....	3,600	175,050
TOBACCO -- 4.0%		
Philip Morris Cos. Inc.....	12,300	707,250
TOYS -- 0.7%		
Mattel Inc.....	5,100	128,138

TOTAL COMMON STOCK -- (Cost \$16,846,269).....		16,498,912
AMERICAN DEPOSITORY RECEIPTS -- 3.5%		
OIL -- INTERNATIONAL INTEGRATED -- 1.8%		
British Petroleum PLC.....	3,900	311,513
TELEPHONE -- 1.7%		
British Telecommunications *.....	5,000	300,625
TOTAL DEPOSITORY RECEIPTS -- (Cost \$600,373).....		612,138

<CAPTION>

	PRINCIPAL AMOUNT	
<S>	<C>	<C>
SHORT TERM INVESTMENT -- 3.1%		
REPURCHASE AGREEMENT -- 3.1%		
State Street Bank and Trust Co., 5.625%, 01/03/1995 (Dated 12/30/1994, collateralized by \$570,000 United States Treasury Note, 4.625%, 2/15/1996, with a value of \$558,349).....	\$ 558,000	\$ 558,000
TOTAL SHORT TERM INVESTMENT -- (Cost \$558,000).....		558,000
TOTAL INVESTMENTS -- (Cost \$18,004,642) -- 99.7%		17,669,050
OTHER ASSETS LESS LIABILITIES -- 0.3%		48,399
NET ASSETS -- 100.0%		\$ 17,717,449

<FN>

\* Denotes non-income producing security.

</TABLE>

The accompanying notes are an integral part of the financial statements.

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PROTECTIVE SMALL CAP EQUITY FUND  
SCHEDULE OF INVESTMENTS  
DECEMBER 31, 1994

SECURITY DESCRIPTION	SHARES	VALUE
<S>	<C>	<C>
COMMON STOCK -- 65.7%		
ADVERTISING -- 1.6%		
Dimac Corp. *.....	26,700	\$ 337,088
BUILDING MATERIALS -- 3.5%		
ABT Building Products Corp. *.....	54,100	757,400
COMMERCIAL SERVICES -- 1.0%		
Childrens Discovery Centers America *.....	5,100	58,013
International Post Ltd. *.....	31,200	148,200
		206,213
COMMUNICATION -- EQUIPMENT/MANUFACTURERS -- 2.7%		
IPC Information Systems Inc. *.....	23,000	258,750
Micom Communications *.....	16,699	146,116
Plantronics Inc. *.....	6,100	183,000
		587,866
COMMUNICATION SERVICES -- 2.8%		
Black Box Corp. *.....	40,600	609,000
COMPUTER SOFTWARE & SERVICES -- 0.2%		
Opinion Research Corp.*.....	8,600	43,269
DRUGS & HEALTH CARE -- 0.5%		
Playtex Products *.....	16,000	114,000
ELECTRICAL EQUIPMENT -- 0.3%		
Holophone Corp. *.....	3,600	67,500
FOODS -- 3.1%		
Alpine Lace Brands Inc. *.....	5,300	18,550

Brothers Gourmet Coffees Inc. *	14,100	155,100
Morningstar Group Inc.	70,000	490,000
		-----
		663,650
		-----
HEALTH CARE MISCELLANEOUS -- 4.6%		
American Healthcorp Inc. *	18,900	95,681
Grancare Inc. *	36,900	645,750
National Health Labs Inc.	9,600	127,200
Physicians Clinical Labs Inc. *	16,400	143,500
		-----
		1,012,131
		-----
HOUSEHOLD PRODUCTS -- 1.9%		
American Safety Razor Co. *	30,400	418,000
		-----

</TABLE>

The accompanying notes are an integral part of the financial statements.

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PROTECTIVE SMALL CAP EQUITY FUND  
SCHEDULE OF INVESTMENTS (CONTINUED)  
DECEMBER 31, 1994

SECURITY DESCRIPTION	SHARES	VALUE
-----	-----	-----
<S>	<C>	<C>
COMMON STOCK (CONTINUED)		
HOUSEWARES -- 3.1%		
Levitz Furniture Inc. *	81,800	\$ 674,850
		-----
MACHINERY -- DIVERSIFIED -- 1.7%		
DT Industries Inc.	35,100	377,325
		-----
MANUFACTURING -- DIVERSIFIED IN -- 4.8%		
Figgie International Holdings Inc. *	53,000	324,625
Foamex International Inc. *	71,200	712,000
		-----
		1,036,625
		-----
MEDICAL PRODUCTS & SUPPLIES -- 0.1%		
American White Cross Inc. *	11,700	30,713
		-----
OFFICE EQUIPMENT & SUPPLIES -- 0.6%		
Nu Kote Holding Inc. *	5,400	139,725
		-----
OIL -- INTERNATIONAL INTEGRATED -- 1.9%		
Total Petroleum North America Ltd.	33,400	417,500
		-----
PUBLISHING -- NEWSPAPERS -- 3.0%		
American Publishing Co.	59,700	656,700
		-----
RESTAURANTS -- 3.1%		
Quantum Restaurant Group Inc. *	28,200	338,400
Sonic Corp. *	16,900	342,225
		-----
		680,625
		-----
RETAIL -- SPECIALTY -- 14.1%		
Brookstone Inc. *	31,800	202,725
Ernst Home Center Inc. *	37,300	317,050
J. Baker Inc.	51,900	778,500
Musicland Stores Corp. *	68,100	612,900
North American Watch Corp.	28,400	404,700
Oroamerica Inc. *	9,900	79,200
Service Merchandise Co. Inc. *	43,400	200,725
Shoe Carnival Inc. *	32,600	154,850
Supercuts Inc. *	38,000	313,500
		-----
		3,064,150
		-----
RETAIL -- SPECIALTY APPAREL STORE -- 4.3%		
A Pea In The Pod Inc. *	9,100	20,475
Charming Shoppes Inc.	40,600	268,975
TJX Cos Inc.	41,900	654,687
		-----
		944,137
		-----
STEEL -- 0.8%		
Webco Industries Inc. *	20,900	182,875

</TABLE>

The accompanying notes are an integral part of the financial statements.

PROTECTIVE SMALL CAP EQUITY FUND  
SCHEDULE OF INVESTMENTS (CONTINUED)  
DECEMBER 31, 1994

SECURITY DESCRIPTION	SHARES	VALUE
<b>COMMON STOCK (CONTINUED)</b>		
<b>TELECOMMUNICATIONS -- LONG DISTANCE -- 1.1%</b>		
USA Mobile Communications *	23,200	\$ 229,100
<b>TEXTILE -- APPAREL MANUFACTURERS -- 1.7%</b>		
Authentic Fitness Corp. *	2,500	34,687
Norton McNaughton Inc. *	22,200	338,550
		373,237
<b>TOYS -- 1.2%</b>		
American Recreation Co. Holdings Inc. *	37,900	255,825
<b>TRUCKERS -- 2.0%</b>		
Consolidated Freightways Inc.	19,800	443,025
<b>TOTAL COMMON STOCK -- (Cost \$15,815,797)</b>		<b>14,322,529</b>
<b>AMERICAN DEPOSITORY RECEIPTS -- 2.7%</b>		
<b>COMMERCIAL SERVICES -- 2.2%</b>		
Automated Security Holdings PLC *	210,606	473,863
<b>PAPER AND FOREST PRODUCTS -- 0.5%</b>		
Concordia Paper Holdings Ltd. *	10,700	109,675
<b>TOTAL DEPOSITORY RECEIPTS -- (Cost \$692,423)</b>		<b>583,538</b>

<CAPTION>

	PRINCIPAL AMOUNT	
<b>SHORT TERM INVESTMENT -- 11.9%</b>		
<b>REPURCHASE AGREEMENT -- 11.9%</b>		
State Street Bank and Trust Co., 5.625%, 01/03/1995 (Dated 12/30/1994, collateralized by \$2,635,000 United States Treasury Note, 4.625%, 2/15/1996, with a value of \$2,600,624)	\$ 2,599,000	2,599,000
<b>TOTAL SHORT TERM INVESTMENT -- (Cost \$2,599,000)</b>		<b>2,599,000</b>
<b>U.S. GOVERNMENT OBLIGATION -- 22.9%</b>		
United States Treasury Bill, 1.10%, 01/05/1995 **	5,000,000	4,999,389
<b>TOTAL U.S. GOVERNMENT OBLIGATIONS -- (Cost \$4,999,389)</b>		<b>4,999,389</b>
<b>TOTAL INVESTMENTS -- (Cost \$24,106,609) -- 103.2%</b>		<b>22,504,456</b>
<b>OTHER ASSETS LESS LIABILITIES -- (3.2)%</b>		<b>(691,710)</b>
<b>NET ASSETS -- 100.0%</b>		<b>\$ 21,812,746</b>

<FN>

\* Denotes non-income producing security.  
\*\* Annualized yield at time of purchase. (unaudited)

The accompanying notes are an integral part of the financial statements.

PROTECTIVE MONEY MARKET FUND  
SCHEDULE OF INVESTMENTS  
DECEMBER 31, 1994

<TABLE>  
<CAPTION>

PRINCIPAL

SECURITY DESCRIPTION	AMOUNT	VALUE
<S>	<C>	<C>
U.S. GOVERNMENT AND AGENCY SECURITIES -- 99.4%		
FEDERAL AGENCIES -- 99.4%		
Federal Farm Credit Bank, 5.780%, 01/23/1995.....	\$ 800,000	\$ 797,174
Federal Farm Credit Bank, 5.900%, 02/03/1995.....	270,000	268,540
Federal Home Loan Bank, 5.330%, 01/10/1995.....	300,000	299,600
Federal Home Loan Bank, 5.950%, 01/17/1995.....	210,000	209,445
Federal Home Loan Mortgage Corp., 5.900%, 01/05/1995.....	200,000	199,869
Federal Home Loan Mortgage Corp., 5.830%, 01/18/1995.....	725,000	723,004
Federal National Mortgage Assn., 5.880%, 01/06/1995.....	400,000	399,673
Federal National Mortgage Assn., 5.300%, 01/09/1995.....	100,000	99,882
Tennessee Valley Authority, 5.760%, 01/24/1995.....	600,000	597,792
TOTAL GOVERNMENT AND AGENCY SECURITIES -- (Cost \$3,594,979)		3,594,979
TOTAL INVESTMENTS -- (Cost \$3,594,979) -- 99.4		3,594,979
OTHER ASSETS LESS LIABILITIES -- 0.6		23,512
NET ASSETS -- 100.0%		\$ 3,618,491

</TABLE>

The accompanying notes are an integral part of the financial statements.

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PROTECTIVE INVESTMENT COMPANY  
FINANCIAL HIGHLIGHTS

FOR A SHARE OF COMMON STOCK OUTSTANDING FOR THE PERIOD MARCH 14,  
1994 (COMMENCEMENT OF INVESTMENT OPERATIONS) THROUGH DECEMBER 31, 1994

<TABLE>

<CAPTION>

	NET ASSET VALUE AT BEGINNING OF PERIOD	NET INVESTMENT INCOME (2) (6)	REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY TRANSACTIONS (6)	TOTAL FROM INVESTMENT OPERATIONS	DIVIDENDS FROM NET INVESTMENT INCOME	DIVIDENDS FROM NET REALIZED CAPITAL GAINS	DISTRIBUTIONS IN EXCESS OF NET REALIZED GAINS
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Global Income							
Fund (1).....	\$ 10.000	\$ 0.367	\$ (0.442)	\$ (0.075)	\$ (0.367)	\$ 0.000	\$ 0.000
International Equity							
Fund (1).....	10.000	0.048	(0.467)	(0.419)	0.000	0.000	0.000
Growth and Income							
Fund (1).....	10.000	0.114	(0.300)	(0.186)	(0.114)	(0.031)	(0.008)
Select Equity							
Fund (1).....	10.000	0.093	(0.039)	0.054	(0.093)	(0.120)	(0.002)
Small Cap Equity							
Fund (1).....	10.000	0.038	(1.025)	(0.987)	(0.038)	(0.001)	(0.023)
Money Market							
Fund (1).....	1.000	0.031	0.000	0.031	(0.031)	0.000	0.000

<CAPTION>

	TOTAL DISTRIBUTIONS	NET ASSET VALUE AT END OF PERIOD	TOTAL RETURN (3) (5)	NET ASSETS END OF PERIOD	RATIO OF OPERATING EXPENSES TO AVERAGE NET ASSETS (4)	RATIO OF NET INVESTMENT INCOME TO AVERAGE NET ASSETS (4)	PORTFOLIO TURNOVER RATE (5)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Global Income							
Fund (1).....	\$ (0.367)	\$ 9.558	(0.74)%	\$ 17,281	1.10%	5.58%	210%
International Equity							
Fund (1).....	0.000	9.581	(4.18)	27,385	1.10	1.25	33
Growth and Income							
Fund (1).....	(0.153)	9.661	(1.86)	42,305	0.80	2.21	36
Select Equity							
Fund (1).....	(0.215)	9.839	0.53	17,717	0.80	2.44	56
Small Cap Equity							
Fund (1).....	(0.062)	8.951	(9.87)	21,813	0.80	1.07	17
Money Market							
Fund (1).....	(0.031)	1.000	3.14	3,618	0.60	3.80	N/A

<FN>

(1) Investment operations commenced on March 14, 1994.

- (2) Net Investment Income and Ratio of Operating Expenses to Average Net Assets is after reimbursement of certain fees and expenses by the Investment Manager. (See Note C to the Company's financial statements.) Had the Investment Manager not undertaken to reimburse expenses related to the Funds, net investment income per share and the ratio of operating expenses to average net assets would have been as follows: Global Income Fund, \$0.320 and 2.12%; International Equity Fund, \$0.004 and 2.24%; Growth and Income Fund, \$0.097 and 1.31%; Select Equity Fund, \$.055 and 1.81%; Small Cap Equity Fund, \$.009 and 1.62%; and Money Market Fund, \$0.018 and 2.24%, respectively.
- (3) Total return is calculated assuming a purchase of shares at net asset value per share on the first day and a sale at net asset value per share on the last day of each period reported. Distributions are assumed, for the purposes of this calculation, to be reinvested at the net asset value per share on the respective payment dates of each Fund.
- (4) Annualized.
- (5) Non-Annualized.
- (6) The per share computation is a mathematical computation which may appear inconsistent with the statement of operations.

</TABLE>

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PROTECTIVE INVESTMENT COMPANY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 1994

NOTE A -- ORGANIZATION

Protective Investment Company (the "Company") was incorporated in the State of Maryland on September 2, 1993 as an open-end management investment company. The Company offers six separately managed pools of assets which have differing investment objectives and policies. The Company currently issues six classes of its shares: Global Income Fund, International Equity Fund, Growth and Income Fund, Select Equity Fund, Small Cap Equity Fund and Money Market Fund (collectively a "Fund" and the "Funds"). The Company had no operations prior to March 2, 1994, other than those relating to organizational matters. The initial capital contribution of \$60,000, \$10,000 per class, resulting in 1,000 shares being issued by the Global Income Fund, International Equity Fund, Growth and Income Fund, Select Equity Fund and Small Cap Equity Fund and 10,000 shares being issued by the Money Market Fund, was provided on March 2, 1994 by Protective Life Insurance Company. The Company commenced investment operations on March 14, 1994.

The Company offers each class of its stock to a separate account of Protective Life Insurance Company ("Protective Life") as funding vehicles for certain variable annuity contracts issued by Protective Life through the separate account.

NOTE B -- SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed by the Company in the preparation of its financial statements.

VALUATION OF INVESTMENTS -- The Company's portfolio securities traded on a national securities exchange are valued at the last sale price, or, if no sale occurs, at the mean between the closing bid and closing asked prices. Portfolio securities traded over-the-counter are valued at the last sale price, or, if no sale occurs, at the mean between the last bid and asked prices. Debt securities with a remaining maturity of 61 days or more are valued on the basis of dealer-supplied quotations or by a pricing service selected by Goldman Sachs Asset Management, investment adviser to the Company, and approved by the board of directors of the Company. Short-term securities and debt securities with a remaining maturity of 60 days or less are valued at their amortized cost which approximates market value. Options and futures contracts are valued at the last sale price on the market where any such options or futures contract is principally traded. Options traded over-the-counter are valued based upon prices provided by market makers in such securities or dealers in such currencies. Securities for which current market quotations are unavailable or for which quotations are not deemed by the investment adviser to be representative of market values are valued at fair value as determined in good faith pursuant to procedures established by the board of directors.

FOREIGN SECURITIES -- Foreign securities traded on a recognized securities exchange are valued at the last sale price in the principal market where they are traded, or, if closing prices are unavailable, at the last bid price available prior to the time a Fund's net asset value is determined. Foreign portfolio securities prices are furnished by quotation services expressed in the

local currency's value and are translated into U.S. dollars at the current rate of exchange.

REPURCHASE AGREEMENTS -- In connection with transactions in repurchase agreements, the Company's custodian takes possession of the underlying collateral securities, the value or market price of which is at least equal to the principal amount, including interest, of the repurchase transaction. To the extent that any repurchase transaction exceeds one business day, the value of the collateral is marked-to-market on a daily basis to ensure the adequacy of the collateral. In the event of default of the obligation to repurchase, the Fund has the right to liquidate the collateral and apply the proceeds in

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PROTECTIVE INVESTMENT COMPANY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 1994

NOTE B -- SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

satisfaction of the obligation. Under certain circumstances, in the event of default or bankruptcy by the other party to the agreement, realization and/or retention of the collateral or proceeds may be subject to legal proceedings.

INVESTMENT TRANSACTIONS -- Investment security transactions are recorded on the date of purchase or sale. Realized gains and losses from security transactions are determined on the basis of identified cost.

INVESTMENT INCOME -- Dividend income is recorded on the ex-dividend date, or, in the case of dividend income on foreign securities, on the ex-dividend date or when the Fund becomes aware of its declaration. Interest income is recorded on the accrual basis.

FOREIGN CURRENCY TRANSLATIONS -- The records of the Company are maintained in U.S. dollars. Foreign currency amounts are translated into U.S. dollars at a current rate of exchange of such currency to determine the value of investments, other assets and liabilities on the date of any determination of net asset value of the Funds. Purchases and sales of securities and income and expenses are converted at the prevailing rate of exchange on the respective dates of such transactions. Net realized gain or loss on foreign currency includes net realized currency gains and losses recognized between accrual and payment dates.

Upon the purchase or sale of a security denominated in a foreign currency, the Company may enter into a foreign currency exchange contract for the purchase or sale, for a fixed amount of U.S. dollars, of an amount of the foreign currency required to settle the security transaction. Accordingly, the Company would not realize currency gains or losses between the trade and settlement dates on such security transactions.

The net U.S. dollar value of foreign currency underlying all contractual commitments held by the Company on each day and the resulting net unrealized appreciation, depreciation and related net receivable or payable amounts are determined by using forward currency exchange rates supplied by a quotation service.

FORWARD CURRENCY CONTRACTS -- A forward foreign currency contract ("Forward") is an agreement between two parties to buy and sell a currency at a set price on a future date. The market value of the Forward fluctuates with changes in currency exchange rates. The Forward is marked-to-market daily and the change in the market value is recorded by the Fund as an unrealized gain or loss. When the Forward is closed, the Fund records a realized gain or loss equal to the difference between the value at the time it was opened and the value at the time it was closed. The Fund could be exposed to risk if a counterparty is unable to meet the terms of the contract or if the value of the currency changes unfavorably. The Fund may enter into Forwards in connection with planned purchases and sales of securities, to hedge specific receivables or payables against changes in future exchange rates or to hedge the U.S. dollar value of portfolio securities denominated in a foreign currency. The Funds purchase and sell forward currency contracts in order to hedge against the fluctuation of foreign currencies and, in certain circumstances, to increase the Funds total returns.

CALL AND PUT OPTIONS -- A call option written by a Fund obligates the Fund to sell specified currency or security to the option holder at a specified price at any time before the expiration date. A put option written by a Fund obligates the Fund to purchase specified currency or security from the option holder at a specified price at any time before the expiration date. These transactions involve a risk that a Fund may, upon exercise of the option, be required to sell currency or securities at a price that is less than its market value or be required to purchase currency or securities at a price that exceeds its market value. A Fund may also realize gains or losses by entering into closing purchase transactions

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NOTE B -- SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

identical to call or put options that have been written by the Fund in order to terminate its obligation under a call or put option. In determining the amount of gain or loss realized, the option premium paid and related transactions costs are added to the exercise price. The Funds enter into option transactions to hedge against the fluctuation in a security's value, index's value or foreign currency's value or to seek to increase the Funds total returns.

EXPENSES -- Expenses directly attributable to a Fund are charged to that Fund. Expenses not directly attributable to a Fund are split evenly among the affected Funds, allocated on the basis of relative average net assets, or otherwise allocated among the Funds as the board of directors may direct or approve.

DISTRIBUTIONS -- Distributions from net investment income are declared and distributed at least annually for International Equity Fund, Select Equity Fund and Small Cap Equity Fund; declared and distributed quarterly for Growth and Income Fund; declared and distributed monthly for Global Income Fund; and declared daily and distributed monthly for Money Market Fund. Distributions from net realized capital gains, if any, are declared and distributed at least annually. Distributions are recorded on the ex-dividend date.

FEDERAL INCOME TAXES -- Each Fund of the Company is treated as a separate entity for federal tax purposes. Each Fund intends to qualify each year as a regulated investment company under Subchapter M of the Internal Revenue Code, as amended. By so qualifying, the Funds will not be subject to federal income taxes to the extent that they distribute all of their taxable income, including realized capital gains, for the fiscal year. In addition, by distributing during each calendar year substantially all of their net investment income, capital gains and certain other amounts, if any, the Funds will not be subject to a federal excise tax. Income distributions and capital gains distributions of a Fund are determined in accordance with income tax regulations which may differ from generally accepted accounting principles. These differences are primarily due to differing treatments of income and gains on various securities held by a Fund, timing differences and/or differing characterization of distribution made by the Funds. Any permanent book and tax basis differences at fiscal year-end have been reclassified to reflect the tax characterization.

NOTE C -- AGREEMENTS AND FEES

The Company has entered into an investment management agreement with Investment Distributors Advisory Services, Inc. (the "Investment Manager"), a wholly-owned subsidiary of Protective Life Corporation, under which the Company agrees to pay for business management and administrative services furnished by the Investment Manager. For its services to the Company, the Investment Manager receives a monthly management fee based on the average daily net assets of each Fund at the following annual rates: Global Income Fund, 1.10%; International Equity Fund, 1.10%; Growth and Income Fund, .80%; Select Equity Fund, .80%; Small Cap Equity Fund, .80%; and Money Market Fund, .60%.

In order to limit expenses, Protective Life has voluntarily undertaken to pay certain operating expenses of the Company or of any Fund to the extent that such expenses (excluding brokerage or other portfolio transaction expenses or expenses of litigation, indemnification, taxes or other extraordinary expenses, as accrued for each Fund) exceed the following percentages of that Fund's estimated average daily net assets on an annualized basis: Global Income Fund, 1.10%; International Equity Fund, 1.10%; Growth and Income Fund, .80%; Select Equity Fund, .80%; Small Cap Equity Fund, .80%; and Money Market Fund, .60%. The Investment Manager may end its obligation to pay such expense upon 120 days notice to the Company.

NOTE C -- AGREEMENTS AND FEES (CONTINUED)

Goldman Sachs Asset Management acts as the investment adviser (the "Adviser") of Growth and Income Fund, Money Market Fund, Select Equity Fund and Small Cap Equity Fund. Goldman Sachs Asset Management-International acts as the Adviser to Global Income Fund and International Equity Fund. Each Adviser has entered into an investment advisory agreement for each Fund with the Investment Manager under which the Adviser manages the investment portfolios of the Funds of which it is Adviser. As compensation for its services, the Advisers receive a monthly fee from the Investment Manager based on the average daily net assets of each Fund at the following annual rates: Global Income Fund and International Equity Fund, .40% of the first \$50 million, .30% of the next \$100 million, .25% of the next \$100 million, and .20% of the assets in excess of \$250 million; Growth and Income Fund, Select Equity Fund and Small Cap Equity Fund, .40% of the first \$50 million, .30% of the next \$150 million, and .20% of assets in

excess of \$200 million; Money Market Fund, .35% of the first \$50 million, .25% of the next \$100 million, .20% of the next \$100 million, and .15% of assets in excess of \$250 million.

Directors of the Company who are not interested persons receive an annual fee of \$2,000 and \$1,500 for each meeting attended.

NOTE D -- INVESTMENT TRANSACTIONS

Purchases and proceeds from sales and maturities of investments, excluding short-term securities for each Fund other than the Money Market Fund, for the period from March 14, 1994 (commencement of investment operations) to December 31, 1994 were as follows:

<TABLE>  
<CAPTION>

	NON-U.S. GOVERNMENT PURCHASES	U.S. GOVERNMENT PURCHASES	NON-U.S. GOVERNMENT SALES	U.S. GOVERNMENT SALES
<S>	<C>	<C>	<C>	<C>
Global Income Fund.....	\$ 25,087,819	\$ 9,243,656	\$ 16,171,452	\$ 3,689,992
International Equity Fund.....	26,489,544	0	3,804,708	0
Growth and Income Fund.....	43,453,645	0	6,188,832	0
Select Equity Fund.....	21,749,443	0	4,514,754	0
Small Cap Equity Fund.....	17,870,509	0	1,363,872	0

</TABLE>

Purchases and sales, including maturities, of short-term securities by the Money Market Fund for the period from March 14, 1994 (commencement of investment operations) to December 31, 1994 were \$34,241,424 and \$30,779,588, respectively.

The identified cost of investments in securities owned by each Fund for federal income tax purposes and their respective gross unrealized appreciation and depreciation at December 31, 1994 were as follows:

<TABLE>  
<CAPTION>

	IDENTIFIED COST	GROSS UNREALIZED		NET UNREALIZED
		APPRECIATION	(DEPRECIATION)	APPRECIATION (DEPRECIATION)
<S>	<C>	<C>	<C>	<C>
Global Income Fund.....	\$ 17,203,321	\$ 35,726	\$ (327,898)	\$ (292,172)
International Equity Fund.....	27,822,218	1,095,799	(885,313)	210,486
Growth and Income Fund.....	43,747,613	854,457	(1,818,157)	(963,700)
Select Equity Fund.....	18,007,718	337,117	(675,785)	(338,668)
Small Cap Equity Fund.....	24,106,609	769,467	(2,371,620)	(1,602,153)
Money Market Fund.....	3,594,979	0	0	0

</TABLE>

In addition, the following Funds had capital loss carryforwards: Global Income Fund \$123,300 and International Equity Fund \$247,765. The capital loss carryforwards may be utilized to offset capital gains through December 31, 2002.

PROTECTIVE INVESTMENT COMPANY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 1994

NOTE E -- SHAREHOLDER TRANSACTIONS

The authorized capital stock of the Company consists of 1 billion shares, par value \$.001 per share. Six hundred million of the authorized shares have been divided into and may be issued in six designated classes as follows: Global Income Fund, 100 million shares; International Equity Fund, 100 million shares; Growth and Income Fund, 100 million shares; Select Equity Fund, 100 million shares; Small Cap Equity Fund, 100 million shares; and Money Market Fund, 100 million shares.

Transactions in shares were as follows:

<TABLE>  
<CAPTION>

	GLOBAL INCOME FUND MARCH 14, 1994*		INTERNATIONAL EQUITY FUND MARCH 14, 1994*	
	SHARES	DOLLARS	SHARES	DOLLARS
<S>	<C>	<C>	<C>	<C>
Shares sold.....	1,975,710	\$ 19,281,417	2,926,579	\$ 28,423,406
Shares issued to shareholders in reinvestment of dividends.....	46,868	451,352	0	0
Shares redeemed.....	(215,426)	(2,082,597)	(69,388)	(669,030)

Net increase.....	1,807,152	\$ 17,650,172	2,857,191	\$ 27,754,376
-------------------	-----------	---------------	-----------	---------------

<CAPTION>

	GROWTH AND INCOME FUND MARCH 14, 1994* TO DECEMBER 31, 1994		SELECT EQUITY FUND MARCH 14, 1994* TO DECEMBER 31, 1994	
	SHARES	DOLLARS	SHARES	DOLLARS
<S>	<C>	<C>	<C>	<C>
Shares sold.....	4,404,799	\$ 43,422,513	1,816,889	\$ 18,229,784
Shares issued to shareholders in reinvestment of dividends.....	51,337	501,081	38,441	378,199
Shares redeemed.....	(78,272)	(778,699)	(55,502)	(561,866)
Net increase.....	4,377,864	\$ 43,144,895	1,799,828	\$ 18,046,117

<CAPTION>

	SMALL CAP EQUITY FUND MARCH 14, 1994* TO DECEMBER 31, 1994		MONEY MARKET FUND MARCH 14, 1994* TO DECEMBER 31, 1994	
	SHARES	DOLLARS	SHARES	DOLLARS
<S>	<C>	<C>	<C>	<C>
Shares sold.....	2,469,183	\$ 23,792,481	19,446,623	\$ 19,446,623
Shares issued to shareholders in reinvestment of dividends.....	16,747	149,912	115,976	115,976
Shares redeemed.....	(50,091)	(481,208)	(15,954,111)	(15,954,111)
Net increase.....	2,435,839	\$ 23,461,185	3,608,488	\$ 3,608,488

<FN>

\* Commencement of investment operations.

</TABLE>

PROTECTIVE INVESTMENT COMPANY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 1994

NOTE F -- FORWARD FOREIGN CURRENCY CONTRACTS

At December 31, 1994, the outstanding forward exchange currency contracts, which contractually obligate the Fund to deliver currencies at a specified date, were as follows:

GLOBAL INCOME FUND

	U.S. \$ COST ON ORIGINATION DATE	U.S. \$ CURRENT VALUE	UNREALIZED APPRECIATION (DEPRECIATION)
<S>	<C>	<C>	<C>
FOREIGN CURRENCY PURCHASE CONTRACTS			
CAD, expiring 03/02/1995.....	\$ 2,432,059	\$ 2,432,059	\$ 0
CHF, expiring 02/15/1995.....	805,025	805,025	0
DEM, expiring 02/14/1995-03/07/1995.....	1,417,007	1,417,007	0
ESP, expiring 02/09/1995.....	790,287	787,358	(2,929)
FRF, expiring 02/28/1995.....	1,265,193	1,265,193	0
GBP, expiring 02/09/1995-02/14/1995.....	2,339,798	2,340,713	915
NLG, expiring 01/23/1995.....	589,094	589,094	0
	9,638,463	9,636,449	(2,014)
FOREIGN CURRENCY SALE CONTRACTS			
AUD, expiring 01/23/1995.....	696,511	718,262	(21,751)
CAD, expiring 03/02/1995.....	2,458,029	2,432,059	25,970
CHF, expiring 02/15/1995.....	803,934	805,025	(1,091)
DEM, expiring 02/09/1995-03/07/1995.....	4,319,288	4,369,250	(49,962)
ESP, expiring 02/09/1995.....	787,358	787,358	0
FRF, expiring 02/28/1995.....	1,902,777	1,878,038	24,739
GBP, expiring 02/07/1995-02/14/1995.....	3,181,541	3,097,561	83,980

ITL, expiring 02/27/1995.....	1,329,121	1,315,566	13,555
JPY, expiring 03/13/1995.....	570,071	574,927	(4,856)
NLG, expiring 01/23/1995.....	1,148,880	1,157,289	(8,409)
	-----	-----	-----
	17,197,510	17,135,335	62,175
			-----
			\$ 60,161
			-----

INTERNATIONAL EQUITY FUND

<CAPTION>

	U.S. \$ COST ON ORIGINATION DATE	U.S. \$ CURRENT VALUE	UNREALIZED APPRECIATION (DEPRECIATION)
	-----	-----	-----
<S>	<C>	<C>	<C>
FOREIGN CURRENCY PURCHASE CONTRACTS			
DEM, expiring 03/03/1995.....	\$ 1,278,162	\$ 1,280,741	\$ 2,579
JPY, expiring 01/23/1995.....	1,914,851	1,926,333	11,482
SEK, expiring 03/06/1995.....	41,359	41,359	0
	-----	-----	-----
	3,234,372	3,248,433	14,061
			-----
FOREIGN CURRENCY SALE CONTRACTS			
DEM, expiring 07/03/1995.....	4,406,797	4,478,812	(72,015)
ESP, expiring 03/03/1995.....	1,278,162	1,282,549	(4,387)
JPY, expiring 01/23/1995.....	326,438	326,438	0
SEK, expiring 03/06/1995.....	3,309,240	3,360,163	(50,923)
	-----	-----	-----
	9,320,637	9,447,962	(127,325)
			-----
			\$ (113,264)
			-----

</TABLE>

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PROTECTIVE INVESTMENT COMPANY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 1994

NOTE F -- FORWARD FOREIGN CURRENCY CONTRACTS (CONTINUED)  
GLOSSARY OF TERMS

AUD -- Australian Dollar  
CAD -- Canadian Dollar  
CHF -- Swiss Franc  
DEM -- Deutsche Mark  
ESP -- Spanish Peseta  
FRF -- French Franc  
GBP -- Great British Pound  
ITL -- Italian Lira  
JPY -- Japanese Yen  
NLG -- Dutch Guilder  
SEK -- Swedish Krona  
US\$ -- United States Dollar

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PART C  
OTHER INFORMATION

Item 24. FINANCIAL STATEMENTS AND EXHIBITS.

(a) Financial Statements:

The audited statements of assets and liabilities of the Registrant are found in Part B.

The audited financial statements of the Registrant for the fiscal period March 14, 1994 through December 31, 1994 are found in Part B.

(b) Exhibits:

<TABLE>

- |     |     |     |
|-----|-----|-----|
| <S> | <C> | <C> |
|-----|-----|-----|
- Articles of Incorporation of Registrant. (1)
  - By-Laws of Registrant. (2)

3. None.
4. None.
5. (a) Investment Management Agreement Between Investment Distributors Advisory Services, Inc. and the Registrant. (3)
- (b) Investment Advisory Agreements (sub-advisory agreement) Between Investment Distributors Advisory Services, Inc. and Goldman Sachs Asset Management. (3)
- (c) Investment Advisory Agreements (sub-advisory agreement) Between Investment Distributors Advisory Services, Inc. and Goldman Sachs Asset Management International. (3)
- (d) Investment Advisory Agreement (sub-advisory agreement) between Investment Distributors Advisory Services, Inc. and Goldman Sachs Asset Management.
6. Participation/Distribution Agreement between Registrant, Investment Distributors, Inc. and Protective Life Insurance Company. (3)
7. None.
8. Custody Agreement between Registrant and State Street Bank and Trust Company. (3)
9. (a) Transfer Agency and Service Agreement between Registrant and State Street Bank and Trust Company. (3)
- (b) Subadministration Agreement Between Registrant, State Street Bank and Trust Company and Investment Distributors Advisory Services, Inc. (3)
10. Opinion and Consent of Sutherland, Asbill & Brennan. (2)
11. (a) Consent of Sutherland, Asbill & Brennan.
- (b) Consent of Coopers & Lybrand L.L.P.
12. None.
13. (a) Subscription Agreement. (2)
- (b) Subscription Agreement.
14. None.
15. None.
16. None.
17. None.
18. Copies of Powers of Attorney. (2)
- 27.1 Protective Money Market Fund Financial Data Schedule
- 27.2 Protective Select Equity Fund Financial Data Schedule
- 27.3 Protective Small Cap Fund Financial Data Schedule
- 27.4 Protective International Equity Fund Financial Data Schedule
- 27.5 Protective Growth and Income Fund Financial Data Schedule
- 27.6 Protective Global Income Fund Financial Data Schedule

<FN>  
-----  
(1) Incorporated herein by reference to the initial Form N-1A registration statement filed on November 12, 1993 (file No. 33-71592).  
(2) Incorporated herein by reference to the pre-effective amendment No. 1 to the Form N-1A registration statement filed on March 4, 1994 (file No. 33-71592).  
(3) Incorporated herein by reference to the post-effective amendment No. 1 to the Form N-1A registration statement filed on September 14, 1994 (file No. 33-71592).  
</TABLE>

C-1

Item 25. PERSONS CONTROLLED BY OR UNDER COMMON CONTROL WITH REGISTRANT.

No person is controlled by the Registrant. All of the outstanding common stock of the Registrant is, or will be, owned by Protective Life Insurance Company ("Protective"), a Tennessee life insurance corporation, Protective Life Corporation 401(k) and Stock Ownership Plan and Protective Variable Annuity Separate Account, a separate account of Protective that is registered as a unit investment trust under the Investment Company Act of 1940 (File Nos. 811-8108/33-70984). Protective is a wholly-owned subsidiary of Protective Life Corporation ("PLC"), an insurance holding corporation whose common stock is traded on the New York Stock Exchange. Since 1983, Protective has owned 100% of American Foundation Life Insurance Company, an Alabama domiciled life insurance company. In addition, various other companies controlled by Protective and PLC or otherwise affiliated with Protective and therefore may be deemed to be under common control with the Registrant. These companies, together with the identity of the owners of their common stock, are set forth on the diagram following.

C-2

PROTECTIVE LIFE CORPORATION  
ORGANIZATIONAL CHART\*  
PROTECTIVE LIFE CORPORATION  
(Ultimate Controlling Person)  
Delaware Corporation  
TIN 95-2492236  
INVESTMENT DISTRIBUTORS, INC.  
(TENNESSEE) Parent Company Owns 100% of Stock  
TIN 63-1100710

INVESTMENT DISTRIBUTORS ADVISORY  
 SERVICES, INC. (TENNESSEE) Parent Company Owns 100% of Stock  
 TIN 63-1100711  
 PES OF MARYLAND, INC. (MARYLAND) Parent Company Owns 100% of Stock  
 TIN 52-1841605  
 PES OF OHIO, INC. (OHIO) Parent Company Owns 100% of Stock  
 TIN 34-1749375  
 FIRST PROTECTIVE INSURANCE GROUP, INC. (ALABAMA)  
 Parent Company Owns 100% of Stock  
 TIN 63-0846761  
 HOTEL DEVELOPMENT COMPANY, INC. (ALABAMA) Parent Company  
 Owns 100% of Stock  
 TIN 63-0938078  
 PROTECTIVE EQUITY SERVICES, INC. (ALABAMA)  
 Parent Company Owns 100% of Stock  
 TIN 63-0879387  
 PROTECTIVE BENEFITS  
 COMMUNICATIONS INC. (MISSOURI)  
 Parent Company Owns 100% of Stock  
 TIN 43-1199343  
 PROTECTIVE LIFE INSURANCE COMPANY  
 (TENNESSEE)  
 Parent Company Owns 100% of Stock  
 TIN 63-0169720  
 NAIC CO 68136  
     WISCONSIN NATIONAL LIFE INSURANCE COMPANY (WISCONSIN)  
     PLIC owns 100% of Stock  
     TIN 39-0714280  
     NAIC CO 70580  
     PROTECTIVE LIFE INSURANCE CORPORATION OF ALABAMA (ALABAMA)  
     PLIC owns 100% of Stock  
     TIN 63-1088714  
     NAIC CO 62868  
     EMPIRE GENERAL LIFE ASSURANCE CORPORATION (formerly, National Old  
     Line Insurance  
     Company (TENNESSEE)  
     PLIC owns 100% of Stock  
     TIN 63-1073929  
     NAIC CO 94285  
     AMERICAN FOUNDATION LIFE INSURANCE COMPANY (ALABAMA)  
     PLIC owns 100% Voting Stock  
     PLC Owns 100% of Non-Voting Preferred Stock  
     TIN 63-0761690  
     NAIC CO 88536  
     PROTECTIVE ASSIGNED BENEFITS COMPANY (formerly) PFC AGENCY OF TEXAS, INC.  
     (TEXAS)  
     PLIC owns 100% of Stock  
     TIN 75-2366969  
     CAPITAL INVESTORS LIFE INSURANCE COMPANY (ARIZONA)  
     PLIC owns 100% of Stock  
     TIN 56-1407737  
     NAIC CO 62456  
     PROTECTIVE INVESTMENT COMPANY (MARYLAND)  
     PLIC Separate Account will own 100% of Stock  
     TIN 52-1854793  
 FINANCIAL PROTECTION MARKETING, INC formerly, R. L. HERNDON & ASSOCIATES, INC.  
 (INDIANA)  
 Parent Company Owns 100% of Stock  
 TIN 34-1349213  
 VOLUNTARY BENEFITS INTERNATIONAL, INC. (ALABAMA)  
 Parent Company Owns 100% of Stock  
 TIN 63-0984208  
 CENTRAL FINANCIAL CENTER, INC. (LOUISIANA)  
 Parent Company Owns 100% of Stock  
 TIN 72-1183399  
 IPD MARKETING SERVICES, INC. (ALABAMA)  
 Parent Company Owns 100% of Stock  
 TIN 63-1062369  
 PRODUCT RESOURCE GROUP, INC. (ALABAMA)  
 Parent Company Owns 100% of Stock  
 TIN 63-1087298  
 SPECIALTY ASSET MANAGEMENT CORPORATION (DELAWARE)  
 Parent Company Owns 100% of Stock  
 TIN 52-1836315  
     PROTECTIVE ASSET MANAGEMENT COMPANY (Delaware General Partnership)  
     SAMCO has 60% interest  
 PROTECTIVE LLC HOLDING, INC.  
 Parent Company Owns 100% of Stock  
 TIN 63-1114345  
     PLC CAPITAL L.L.C (Delaware Limited Liability Company) Class A Interest  
     Owned by PLC  
     Class B Interest Owned by Protective LLC Holding, Inc.  
     TIN 63-1114346

Item 26. NUMBER OF HOLDERS OF SECURITIES.

<TABLE>  
<CAPTION>

TITLE OF CLASS	NUMBER OF RECORD HOLDERS AS OF JUNE 13, 1995
<S>	<C>
Money Market Series	2
Select Equity Series	2
Capital Growth Series	1
Small Cap Equity Series	2
International Equity Series	2
Global Income Series	2
Growth and Income Series	2

</TABLE>

Item 27. INDEMNIFICATION.

See Article X of the Registrant's Articles of Incorporation, filed as Exhibit 1 to the initial filing of this Registration Statement, which provision is incorporated herein by reference.

The Investment Advisory Agreements between the Investment Manager and Goldman Sachs Asset Management and Goldman Sachs Asset Management International all provide that the Manager will indemnify the Adviser (and its affiliates) for all claims, actions, losses, damages, liabilities, costs, charges, counsel fees and expenses arising out of any breach by the Manager of any representation or agreement contained in the Advisory Agreements. The Advisory Agreements also all provide that the Adviser will indemnify the Manager for any losses arising out of the Adviser's disabling conduct.

The Registrant has purchased a directors and officers liability insurance policy to insure such persons (subject to the policy's coverage limits, exclusions and deductibles) against loss resulting from claims by reason of any act, error, omission, misstatement, misleading statement, neglect or breach of duty.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 ("Act") may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act, and Registrant will be governed by the final adjudication of such issue.

Item 28. BUSINESS AND OTHER CONNECTIONS OF THE INVESTMENT MANAGER AND INVESTMENT ADVISER.

INVESTMENT MANAGER

The Registrant's investment manager is Investment Distributors Advisory Services, Inc. ("IDASI"). The business of Protective is summarized in item 25 of this registration statement and in the prospectus constituting Part A under the caption "Investment Manager" and in the statement of additional information constituting Part B under the caption "Investment Manager," which summarizations are incorporated by reference herein. Set forth below is a list of: (a) each director of IDASI, (b) each principal executive officer of IDASI, and (c) certain other officers of IDASI who may be considered to be involved in IDASI's investment management activities.

As to each director, the list indicates business, profession, vocation or employment of a substantial nature that such director has been, at any time during the past two fiscal years, engaged for his or her own account or in the capacity of director, officer, partner or trustee. Unless otherwise indicated, officers of IDASI have no other business, profession, vocation or employment of a substantial nature than their position at IDASI. The principal business address of each officer of IDASI is the same as that of the Registrant.

&lt;TABLE&gt;

&lt;CAPTION&gt;

NAME	POSITION	ORGANIZATION AND BUSINESS ADDRESS OF ORGANIZATION
<S>	<C>	<C>
J. Kelly Ardrey	Treasurer	Treasurer and Financial Operations Principal ProEquities, Inc. 2801 Highway 280 South Birmingham, Alabama 35223
John K. Wright	Secretary, Director	Secretary, Director ProEquities, Inc. 2801 Highway 280 South Birmingham, Alabama 35223 Vice President & Senior Associate Counsel Protective Life Corporation 2801 Highway 280 South Birmingham, Alabama 35223
Lizabeth R. Nichols	Assistant Secretary, Chief Compliance Officer, Director	Assistant Secretary, Chief Compliance Officer, Director ProEquities, Inc. 2801 Highway 280 South Birmingham, Alabama 35223 Vice President & Senior Associate Counsel Protective Life Corporation 2801 Highway 280 South Birmingham, Alabama 35223
R. Stephen Briggs	Director	Director ProEquities, Inc. 2801 Highway 280 South Birmingham, Alabama 35223 Executive Vice President Protective Life Corporation 2801 Highway 280 South Birmingham, Alabama 35223
Doretta Milligan	President, Director	President, Chief Executive Officer, Director ProEquities, Inc. 2801 Highway 280 South Birmingham, Alabama 35223
Richard Bielen	Director	Vice President, Investments Protective Life Corporation 2801 Highway 280 South Birmingham, Alabama 35223

&lt;/TABLE&gt;

## INVESTMENT ADVISER

The Registrant has two investment advisers: Goldman Sachs Asset Management ("GSAM"), a separate operating division of Goldman Sachs & Company, and Goldman Sachs Asset Management International ("GSAMI"), an affiliate of Goldman, Sachs & Co. The business of GSAM and GSAMI is summarized in the prospectus constituting Part A under the caption "Advisers" and in the statement of additional information constituting Part B under the caption "Investment Advisers," which summarizations are incorporated by reference herein.

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More information about GSAM and GSAMI, including the business and other connections of the officers and partners of Goldman, Sachs & Co. and Goldman Sachs Funds Management, L.P., is included in the Form ADVs for Goldman, Sachs & Co., GSAMI, and Goldman Sachs Funds Management, L.P., respectively as currently filed with the Securities and Exchange Commission (File Nos. 801-16048, 801-38157, and 801-37591, respectively) the text of which is incorporated herein by reference.

## Item 29. PRINCIPAL UNDERWRITER.

(a) Investment Distributors, Inc. ("IDI") serves as principal underwriter for Registrant and also acts as the principal underwriter for variable annuity contracts issued by Protective and Protective Variable Annuity Separate Account. IDI is a wholly-owned subsidiary of PLC.

(b) The principal business address of each director and officer of IDI is the same as that of the Registrant. Set forth below is a list of each director and officer of IDI.

&lt;TABLE&gt;

&lt;CAPTION&gt;



NAME	POSITION WITH IDI	POSITION WITH REGISTRANT
<S>	<C>	<C>
Briggs, R. Stephen	Director	Chairman and President, Director
Wright, John K.	Director, Secretary	None
Nichols, Lizabeth R.	Director, Chief Compliance Officer, Assistant Secretary	Vice President, Secretary and Chief Compliance Officer
Milligan, Doretta	President/CEO, Director	Director
Bielen, J. Richard	Vice President	Vice President and Compliance Officer
Ballard, Michael B.	Director	None
Merrill, Lawrence G.	Director	None
Ardrey, J. Kelly	Treasurer	None

(c) Inapplicable.

Item 30. LOCATION OF ACCOUNTS AND RECORDS.

All accounts, books and other documents required to be maintained by Section 31(a) of the Investment Company Act of 1940 and the rules thereunder will be maintained at the following offices of the Registrant, Goldman Sachs Asset Management, Goldman Sachs Asset Management International, or State Street Bank and Trust Company.

Protective Investment Company  
2801 Highway 280 South  
Birmingham, Alabama 35223  
Goldman Sachs Asset Management  
32 Old Slip  
New York, N.Y. 10005  
Goldman Sachs Asset Management International  
140 Fleet Street  
London EC4A 2BJ  
England  
State Street Bank and Trust Company  
225 Franklin Street  
Boston, Massachusetts 02110

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Item 31. MANAGEMENT SERVICES.

Inapplicable.

Item 32. UNDERTAKINGS.

(a) Inapplicable.

(b) Inapplicable.

(c) The Registrant undertakes to furnish, upon request and without charge, to each person to whom a prospectus is delivered a copy of the Registrant's latest annual report to shareholders.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933 and the Investment Company Act of 1940, the Registrant certifies that it meets all of the requirements for effectiveness of this registration statement pursuant to Rule 485(b) under the Securities Act of 1933 and has duly caused this post-effective amendment number 5 to the registration statement to be signed on its behalf by the undersigned, thereto duly authorized, in the City of Birmingham and State of Alabama, on the 6th, day of June, 1995.

PROTECTIVE INVESTMENT COMPANY

By /s/ R. STEPHEN BRIGGS

-----  
R. Stephen Briggs, President

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed below by the following persons in the capacities and on the dates indicated.

/s/R. STEPHEN BRIGGS		
-----	President and Director	6/6/95
R. Stephen Briggs	(Principal Executive Officer)	(dated)
-----	Director	6/6/95
D. Warren Bailey		(dated)
/S/CAROLYN KING		
-----	Director	6/6/95
Carolyn King		(dated)
-----	Director	6/6/95
Cleophus Thomas, Jr.		(dated)
-----	Director	6/6/95
G. Ruffner Page, Jr.		(dated)
/s/JERRY W. DEFOOR	Vice President, Principal	
-----	Financial and Accounting	6/7/95
Jerry W. DeFoor	Officer	(dated)

By /s/LIZABETH R. NICHOLS

-----  
\*ATTORNEY-IN-FACT

\*Pursuant to a power of attorney.

EXHIBIT INDEX

<TABLE>	
<C>	<S>
5.(d)	Investment Advisory Agreement (sub-advisory agreement) between Investment Distributors Advisory Services, Inc. and Goldman Sachs Asset Management.
11.(a)	Consent of Sutherland, Asbill & Brennan.
11.(b)	Consent of Coopers & Lybrand L.L.P.
13.(b)	Subscription Agreement.
27.1	Protective Money Market Fund Financial Data Schedule
27.2	Protective Select Equity Fund Financial Data Schedule
27.3	Protective Small Cap Fund Financial Data Schedule
27.4	Protective International Equity Fund Financial Data Schedule
27.5	Protective Growth and Income Fund Financial Data Schedule
27.6	Protective Global Income Fund Financial Data Schedule
</TABLE>	

## ADVISORY AGREEMENT

BETWEEN INVESTMENT DISTRIBUTORS ADVISORY SERVICES, INC.

and

GOLDMAN SACHS ASSET MANAGEMENT,  
a separate operating division of  
GOLDMAN, SACHS & CO.

It is hereby agreed by and between INVESTMENT DISTRIBUTIONS ADVISORY SERVICES, INC. (the "Manager") and GOLDMAN SACHS ASSET MANAGEMENT, a separate operating division of GOLDMAN, SACHS, & CO. ("Adviser") as follows:

1.

DUTIES OF ADVISER. Manager hereby engages the services of Adviser in furtherance of its Investment Management Agreement with Protective Agreement with Protective Investment Company (the "Company") dated as of May 3, 1995, on behalf of Protective Capital Growth Fund (the "Fund"). Pursuant to this Advisory Agreement and subject to the oversight and review of Manager, Adviser will manage the investment and reinvestment of the assets of the Fund. In this regard, Adviser will determine in its discretion the securities to be purchased or sold, will provide Manager with records concerning its activities which Manager or the Company is required to maintain, and will render regular reports to Manager and to Officers and Directors of the Company concerning its discharge of the foregoing responsibilities. Adviser shall discharge the foregoing responsibilities subject to the control of the Officers and the Directors of the Company and in compliance with such policies as the Directors of the Company may from time to time establish, and in compliance with the objectives, policies, and limitations for the Fund set forth in the Fund's current prospectus and statement of additional information, and applicable laws and regulations. Manager agrees to inform Adviser of any and all applicable state insurance law restrictions on investments that operate to limit or restrict the investments the Fund may otherwise make, and to inform adviser promptly of any changes in such requirements. Adviser accepts such employment and agrees, at its own expense, to render the services set forth herein and to provide the office space, furnishings, equipment and personnel required by it to perform such services on the terms and for the compensation provided in this Agreement.

2.

FUND TRANSACTIONS. Adviser is authorized to select the brokers or dealers that will execute the purchases and sales of portfolio securities and is directed to use its best efforts to obtain the best price and execution. Subject to policies established from time to time by the Directors of the Company, Adviser may also be authorized to effect individual securities transactions at commission rates in excess of the minimum commission rates available, if Adviser determines in good faith that such amount of commission is reasonable in relation to the value of the brokerage and research services provided by such broker or dealer, viewed in terms of either that particular transaction or Adviser's overall responsibilities with respect to the Fund, other portfolios of the Fund and other clients of Adviser. The policies of the Company with respect to brokerage allocation, determined from time to time by the Company's Board of Directors, are those disclosed in the Company's currently effective registration statement at any time. The execution of such transactions shall not be deemed to represent an unlawful act or breach of any duty created by this Agreement or otherwise. Adviser will promptly communicate to Manager and to the Officers and the Directors of the Company such information relating to portfolio transactions as they may reasonably request.

It is agreed that Adviser may use any supplemental investment research obtained for the benefit of the Fund in providing investment advice to its other investment advisory accounts. The Adviser or its subsidiaries may use such information in managing their own accounts. Conversely, such supplemental information obtained by the placement of business for the Adviser or other entities advised by the Adviser will be considered by and may be useful to the Adviser in carrying out its obligations to the Fund.

COMPENSATION OF ADVISER. As its compensation hereunder, the Manager shall pay to Adviser promptly after the end of each month, a fee calculated as a percentage of the average daily net assets of the Fund during that month at the following annual rates: .40% of the first \$50 million, .30% of the next \$150 million, and .20% of the net assets in excess of the next \$100 million.

Adviser's fee shall be accrued daily at 1/365th of the applicable annual rate set forth above. For the purpose of accruing compensation, the net assets of the Fund shall be that determined in the manner and on the dates set forth in the current prospectus of the Fund and, on days on which the net assets are not so determined, the net asset computation to be used shall be as determined on the next day on which the net assets shall have been determined.

In the event of termination of this Agreement, all compensation due through the date of termination will be calculated on a pro-rated basis through the date of termination and paid within fifteen business days of the date of termination.

4.

REPORTS. Manager and Adviser agree to furnish to each other, if applicable, current prospectuses, statements of additional information, proxy statements, reports of shareholders, certified copies of their financial statements, and such other information with regard to their affairs and that of the Fund as each may reasonably request.

5.

STATUS OF ADVISER. The services of Adviser to Manager and the Fund are not to be deemed exclusive, and Adviser shall be free to render similar services to others so long as its services to the Fund are not impaired thereby. Adviser shall be deemed to be an independent contractor and shall, unless otherwise expressly provided or authorized, have no authority to act for or represent the Fund in any way or otherwise be deemed an agent of the Fund.

6.

CERTAIN RECORDS. Adviser hereby undertakes and agrees to maintain, in the form and for the period required by Rule 31a-2 under the Investment Company Act of 1940, all records relating to the Fund's investments that are required to be maintained by the Fund pursuant to the requirements to Rule 31a-1 and Rule 21a-2 promulgated under the Investment Company Act of 1940 which are prepared or maintained by Adviser on behalf of the Fund are the property of the Fund and will be surrendered promptly to the Fund or Manager on request.

Adviser agrees that all accounts, books and other records maintained and preserved by it as required hereby shall be subject at any time, and from time to time, to such reasonable periodic, special and other examinations by the Securities and Exchange Commission, the Fund's auditors, the Fund or any representative of the Fund, the Manager, or any governmental agency or other instrumentality having regulatory authority over the Fund.

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7.

REFERENCE TO ADVISER. Neither the Fund nor Manager or any affiliate or agent thereof shall make reference to or use the name of Adviser or any of its affiliates in any advertising or promotional materials without the prior approval of Adviser, which approval shall not be unreasonably withheld.

8.

LIABILITY OF MANAGER AND ADVISER. In the absence of willful misfeasance, bad faith, gross negligence or reckless disregard of obligations or duties

("disabling conduct") hereunder on the part of Adviser (and its officers, directors, agents, partners, employees, controlling persons, shareholders and any other person or entity affiliated with Adviser ("associated persons")), Adviser and its associated persons shall not be subject to liability to the Manager or to any other person for any act or omission in the course of, or connected with, rendering services hereunder (including, without limitation, as a result of failure by Manager, by any other affiliate of Protective Life Insurance Company ("PLIC"), or by PLIC, to comply with this Agreement and/or any applicable insurance laws and regulations or, as a result of any error of judgment or mistake of law or for any loss suffered by Manager or any other person in connection with the matters to which this Agreement relates), except to the extent specified in Section 36(b) of the Investment Company Act of 1940 concerning loss resulting from a breach of fiduciary duty with respect to the receipt of compensation for services.

Manager hereby indemnifies, defends and protects Adviser and holds Adviser and its associated persons harmless from and against any and all claims, demands, actions, losses, damages, liabilities, costs, charges, counsel fees and expenses of any nature ("Losses") arising out of any breach by Manager of any representation or agreement contained in this Advisory Agreement, (including any failure by Manager to apprise Adviser of any changes in any applicable state insurance laws and regulations). Adviser hereby indemnifies, defends and protects Manager and holds the Manager and its associated persons harmless, from and against any Losses arising out of the Adviser's disabling conduct.

9.

DURATION AND TERMINATION. This Agreement shall continue in full force and effect with respect to the Fund until the earlier of (a) two years from the execution date of Agreement, or (b) the first meeting of the shareholders of the Fund after the date hereof. If approved at such meeting by the affirmative vote of a majority of the outstanding voting securities (as defined in the Investment Company Act of 1940), of the Fund with respect to such Fund, voting separately from any other series of the Company, this Agreement

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shall continue in full force and effect with respect to the Fund from year to year thereafter so long as such continuance is specifically approved at least annually (i) by the vote of a majority of those Directors of the Company who are not parties to this Agreement or interested persons of any such party, cast in person at a meeting called for the purpose of voting on such approval, and (ii) by the Directors of the Company or by vote of a majority of the outstanding voting securities of the Fund voting separately from any other Fund, provided, however, that if the shareholders fail to approve the Agreement as provided herein, Adviser may continue to serve hereunder in the manner and to the extent permitted by the Investment Company Act of 1940 and

rules thereunder. The foregoing requirement that continuance of this Agreement be "specifically approved at least annually" shall be construed in a manner consistent with the Investment Company Act of 1940 and the rules and regulations thereunder.

This Agreement may be terminated at any time, without the payment of any penalty by vote of a majority of the Directors of the Company or by a vote of a majority of the outstanding voting securities of the Fund on not less than 30 days nor more than 60 days written notice to Adviser of by Adviser at any time without the payment of any penalty, on 90 days written notice to Manager and the Company. This Agreement shall automatically terminate in the event of its assignment (as defined in the Investment Company Act of 1940). Any notice under this Agreement shall be given in writing, addressed and delivered, or mailed postage prepaid, to the other party at any office of such party.

As used in this Section 9, the terms "assignment," "interested persons," and a "vote of a majority of the outstanding voting securities" shall have the respective meanings set forth in the Investment Company Act of 1940 and the rules and regulations thereunder, subject to such exemptions as may be granted by the Securities and Exchange Commission under said Act.

This Agreement will also terminate in the event that the Investment Management Agreement by and between the Company on behalf of the Fund and Manager referred to in Section 1 is terminated.

10.

SEVERABILITY. If any provision of this Agreement shall be held or made invalid by a court decision, statute, rule or otherwise, the remainder of this Agreement shall not be affected thereby.

AMENDMENTS. This Agreement may not be amended, altered, modified in any way except by an addendum in writing duly executed by the proper officials of the parties hereto.

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GOVERNING LAW. This Agreement shall be construed in accordance with the laws of the State of Tennessee, and the applicable provisions of the Investment Company Act of 1940. To the extent that the applicable laws of the State of Tennessee, or any provisions herein, conflict with the applicable provisions of the Investment Company Act of 1940, the latter shall control.

IN WITNESS WHEREOF, the parties have caused their respective duly authorized officers to execute this Agreement as of \_\_\_\_\_, 1995.

INVESTMENT DISTRIBUTORS ADVISORY SERVICES, INC.

By: \_\_\_\_\_

Authorized Officer

GOLDMAN SACHS ASSET MANAGEMENT,  
a separate operating division of  
GOLDMAN, SACHS & CO.

By: GOLDMAN, SACHS & CO.

By: \_\_\_\_\_  
Authorized Officer

18822



Tel: (202) 383-0100  
Fax: (202) 637-3593

SUTHERLAND, ASBILL & BRENNAN  
1275 PENNSYLVANIA AVENUE, N.W.  
WASHINGTON, D.C. 20004-2404

ATLANTA  
AUSTIN  
NEW YORK  
WASHINGTON

JUNE 6, 1995

Board of Directors  
Protective Investment Company  
2801 Highway 280 South  
Birmingham, Alabama 35229

Directors:

We hereby consent to the reference to our name under the caption "Legal Counsel" in the statement of additional information filed as part of post-effective amendment No. 5 to the Form N-1A registration statement for Protective Investment Company (File No. 33-71592). In giving this consent, we do not admit that we are in the category of persons whose consent is required under Section 7 of the Securities Act of 1933.

Sincerely,

SUTHERLAND, ASBILL & BRENNAN

By: /s/ Stephen E. Roth

-----  
Stephen E. Roth

CONSENT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of  
Protective Investment Company:

We consent to the inclusion in Post-Effective Amendment No. 5 to the Registration Statement of Protective Investment Company on Form N-1A (File No. 33-71592) of our report dated February 15, 1995 on our audit of the financial statements and financial highlights of the Fund for the period ended December 31, 1994, which report is included in the Registration Statement. We also consent to the reference to our Firm under the caption "Other Information".

COOPERS & LYBRAND L.L.P.

Boston, Massachusetts  
June 9, 1995

## PROTECTIVE INVESTMENT COMPANY

## Subscription Agreement

1. SHARE SUBSCRIPTION. Protective Life Insurance Company ("Protective Life"), hereby agrees to purchase from Protective Investment Company (the "Company"), a series-type investment company having seven classes of stock, the following shares of the below-named class of stock at a per-share purchase price indicated below, on the terms and conditions set forth herein and in the registration statement described below:

<TABLE>

<CAPTION>

Series	Amount Purchased	Price Price Share	Shares Purchased
- - - - -	-----	-----	-----
<S>	<C>	<C>	<C>
Capital Growth Series.....	\$1 million	\$10.00	100,000

<FN>

Protective Life hereby tenders \$1,000,000 as shown above.

</TABLE>

Protective Life understands that the Company has filed with the Securities and Exchange Commission a post-effective amendment no. 4 to a registration statement (File No. 33-71592) on Form N-1A, which contains the prospectus describing the Company and the shares of stock to be issued thereunder. By its signature hereto, the undersigned hereby acknowledges receipt of a copy of the post-effective amendment no. 4 to the registration statement.

2. REPRESENTATIONS AND WARRANTIES. Protective Life hereby represents and warrants as follows:

(a) It is aware that no federal or state agency has made any findings or determinations as to the fairness for investment, nor any recommendations or endorsement, of the Company's shares;

(b) It has such knowledge and experience of financial and business matters as will enable it to utilize the information made available to it in connection with the offering described in the Company's registration statement, to evaluate the merits and risks of the prospective investment

and to make an informed investment decision;

(c) It recognizes that investment in the Company involves certain risks, and it has taken full cognizance of and understands all of the risks related to the purchase of the Company's shares, and it acknowledges that it has suitable financial resources and anticipated income to bear the economic risk of such an investment;

(d) It is purchasing the Company's Shares for its own account, for investment, in order to provide seed money for the Fund and not with any intent

to distribute or resell the shares, either in whole or in part, and with no present intent to sell or otherwise dispose of the shares, either in whole or in part;

(e) It will not sell the Shares purchased by it without registration of such shares under the Securities Act of 1933 except in reliance upon an exemption therefrom;

(f) It has been furnished with, and has carefully read, this subscription agreement and the registration statement and such material documents relating to the Company as it has requested and as have been provided to it by the Company; and

(g) It has also had the opportunity to ask questions of, and receive answers from, the Company concerning the Company and the terms of the offering.

IN WITNESS WHEREOF, the undersigned have executed this instrument on  
May \_\_, 1995.

PROTECTIVE LIFE INSURANCE COMPANY

By: \_\_\_\_\_



<TABLE> <S> <C>

<ARTICLE> 6

<CIK> 0000914757

<NAME> PROTECTIVE INVESTMENT COMPANY

<SERIES>

<NUMBER> 1

<NAME> PROTECTIVE GLOBAL INCOME FUND

<S>	<C>
<PERIOD-TYPE>	YEAR
<FISCAL-YEAR-END>	DEC-31-1994
<PERIOD-START>	MAR-14-1994
<PERIOD-END>	DEC-31-1994
<INVESTMENTS-AT-COST>	17,158,158
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<PAID-IN-CAPITAL-COMMON>	17,660,172
<SHARES-COMMON-STOCK>	1,808,152
<SHARES-COMMON-PRIOR>	0
<ACCUMULATED-NII-CURRENT>	(19,500)
<OVERDISTRIBUTION-NII>	0
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<DIVIDEND-INCOME>	0
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<OTHER-INCOME>	(16,268)
<EXPENSES-NET>	88,896
<NET-INVESTMENT-INCOME>	451,353
<REALIZED-GAINS-CURRENT>	(190,858)
<APPREC-INCREASE-CURRENT>	(187,842)
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<NUMBER-OF-SHARES-SOLD>	1,975,710
<NUMBER-OF-SHARES-REDEEMED>	215,426

<SHARES-REINVESTED>	46,868
<NET-CHANGE-IN-ASSETS>	17,271,472
<ACCUMULATED-NII-PRIOR>	0
<ACCUMULATED-GAINS-PRIOR>	0
<OVERDISTRIB-NII-PRIOR>	0
<OVERDIST-NET-GAINS-PRIOR>	0
<GROSS-ADVISORY-FEES>	88,896
<INTEREST-EXPENSE>	0
<GROSS-EXPENSE>	171,452
<AVERAGE-NET-ASSETS>	10,111,827
<PER-SHARE-NAV-BEGIN>	10
<PER-SHARE-NII>	.37
<PER-SHARE-GAIN-APPREC>	(.44)
<PER-SHARE-DIVIDEND>	0
<PER-SHARE-DISTRIBUTIONS>	(.37)
<RETURNS-OF-CAPITAL>	0
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<EXPENSE-RATIO>	1.10
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<ARTICLE> 6

<CIK> 0000914757

<NAME> PROTECTIVE INVESTMENT COMPANY

<SERIES>

<NUMBER> 2

<NAME> PROTECTIVE INTERNATIONAL EQUITY FUND

<MULTIPLIER> 1

<S>	<C>
<PERIOD-TYPE>	YEAR
<FISCAL-YEAR-END>	DEC-31-1994
<PERIOD-START>	MAR-14-1994
<PERIOD-END>	DEC-31-1994
<INVESTMENTS-AT-COST>	27,790,450
<INVESTMENTS-AT-VALUE>	28,032,704
<RECEIVABLES>	201,463
<ASSETS-OTHER>	12,891,751
<OTHER-ITEMS-ASSETS>	0
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<PAYABLE-FOR-SECURITIES>	740,355
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<OTHER-ITEMS-LIABILITIES>	13,000,502
<TOTAL-LIABILITIES>	13,740,857
<SENIOR-EQUITY>	0
<PAID-IN-CAPITAL-COMMON>	27,764,376
<SHARES-COMMON-STOCK>	2,858,191
<SHARES-COMMON-PRIOR>	0
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<OVERDISTRIBUTION-NII>	0
<ACCUMULATED-NET-GAINS>	(277,050)
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<NET-ASSETS>	27,385,061
<DIVIDEND-INCOME>	145,093
<INTEREST-INCOME>	127,027
<OTHER-INCOME>	(13,808)
<EXPENSES-NET>	121,187
<NET-INVESTMENT-INCOME>	137,125
<REALIZED-GAINS-CURRENT>	(644,084)
<APPREC-INCREASE-CURRENT>	127,644
<NET-CHANGE-FROM-OPS>	(379,315)
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<DISTRIBUTIONS-OTHER>	0
<NUMBER-OF-SHARES-SOLD>	2,926,579



<NUMBER-OF-SHARES-REDEEMED>	69,388
<SHARES-REINVESTED>	0
<NET-CHANGE-IN-ASSETS>	27,375,061
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<ACCUMULATED-GAINS-PRIOR>	0
<OVERDISTRIB-NII-PRIOR>	0
<OVERDIST-NET-GAINS-PRIOR>	0
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<GROSS-EXPENSE>	246,555
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<PER-SHARE-DIVIDEND>	0
<PER-SHARE-DISTRIBUTIONS>	0
<RETURNS-OF-CAPITAL>	0
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<CIK> 0000914757

<NAME> PROTECTIVE INVESTMENT COMPANY

<SERIES>

<NUMBER> 3

<NAME> PROTECTIVE GROWTH AND INCOME FUND

<S>	<C>
<PERIOD-TYPE>	YEAR
<FISCAL-YEAR-END>	DEC-31-1994
<PERIOD-START>	MAR-14-1994
<PERIOD-END>	DEC-31-1994
<INVESTMENTS-AT-COST>	43,598,510
<INVESTMENTS-AT-VALUE>	42,783,913
<RECEIVABLES>	511,854
<ASSETS-OTHER>	215
<OTHER-ITEMS-ASSETS>	0
<TOTAL-ASSETS>	43,295,982
<PAYABLE-FOR-SECURITIES>	847,083
<SENIOR-LONG-TERM-DEBT>	0
<OTHER-ITEMS-LIABILITIES>	143,781
<TOTAL-LIABILITIES>	990,864
<SENIOR-EQUITY>	0
<PAID-IN-CAPITAL-COMMON>	43,154,895
<SHARES-COMMON-STOCK>	4,378,864
<SHARES-COMMON-PRIOR>	0
<ACCUMULATED-NII-CURRENT>	0
<OVERDISTRIBUTION-NII>	0
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<OVERDISTRIBUTION-GAINS>	0
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<NET-ASSETS>	42,305,118
<DIVIDEND-INCOME>	308,985
<INTEREST-INCOME>	143,144
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<EXPENSES-NET>	120,254
<NET-INVESTMENT-INCOME>	331,204
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<DISTRIBUTIONS-OTHER>	(35,180)
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<NUMBER-OF-SHARES-REDEEMED>	78,272

<SHARES-REINVESTED>	51,337
<NET-CHANGE-IN-ASSETS>	42,295,118
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<ACCUMULATED-GAINS-PRIOR>	0
<OVERDISTRIB-NII-PRIOR>	0
<OVERDIST-NET-GAINS-PRIOR>	0
<GROSS-ADVISORY-FEES>	120,254
<INTEREST-EXPENSE>	0
<GROSS-EXPENSE>	197,036
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<PER-SHARE-GAIN-APPREC>	(.30)
<PER-SHARE-DIVIDEND>	(.11)
<PER-SHARE-DISTRIBUTIONS>	(.04)
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<CIK> 0000914757

<NAME> PROTECTIVE INVESTMENT COMPANY

<SERIES>

<NUMBER> 4

<NAME> PROTECTIVE SELECT EQUITY FUND

<S>	<C>
<PERIOD-TYPE>	YEAR
<FISCAL-YEAR-END>	DEC-31-1994
<PERIOD-START>	MAR-14-1994
<PERIOD-END>	DEC-31-1994
<INVESTMENTS-AT-COST>	18,004,642
<INVESTMENTS-AT-VALUE>	17,669,050
<RECEIVABLES>	125,826
<ASSETS-OTHER>	687
<OTHER-ITEMS-ASSETS>	0
<TOTAL-ASSETS>	17,795,563
<PAYABLE-FOR-SECURITIES>	0
<SENIOR-LONG-TERM-DEBT>	0
<OTHER-ITEMS-LIABILITIES>	78,114
<TOTAL-LIABILITIES>	78,114
<SENIOR-EQUITY>	0
<PAID-IN-CAPITAL-COMMON>	18,056,117
<SHARES-COMMON-STOCK>	1,800,828
<SHARES-COMMON-PRIOR>	0
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<OVERDISTRIBUTION-NII>	0
<ACCUMULATED-NET-GAINS>	(3,076)
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<NET-ASSETS>	17,717,449
<DIVIDEND-INCOME>	168,561
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<NET-INVESTMENT-INCOME>	163,171
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<DISTRIBUTIONS-OF-GAINS>	(211,953)
<DISTRIBUTIONS-OTHER>	(3,076)
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<NUMBER-OF-SHARES-REDEEMED>	38,441

<SHARES-REINVESTED>	55,502
<NET-CHANGE-IN-ASSETS>	17,707,449
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<ACCUMULATED-GAINS-PRIOR>	0
<OVERDISTRIB-NII-PRIOR>	0
<OVERDIST-NET-GAINS-PRIOR>	0
<GROSS-ADVISORY-FEES>	53,567
<INTEREST-EXPENSE>	0
<GROSS-EXPENSE>	121,030
<AVERAGE-NET-ASSETS>	8,373,185
<PER-SHARE-NAV-BEGIN>	10.00
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<PER-SHARE-GAIN-APPREC>	(.04)
<PER-SHARE-DIVIDEND>	(.09)
<PER-SHARE-DISTRIBUTIONS>	(.12)
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<ARTICLE> 6

<CIK> 0000914757

<NAME> PROTECTIVE INVESTMENT COMPANY

<SERIES>

<NUMBER> 5

<NAME> PROTECTIVE SMALL CAP EQUITY FUND

<S>	<C>
<PERIOD-TYPE>	YEAR
<FISCAL-YEAR-END>	DEC-31-1994
<PERIOD-START>	MAR-14-1994
<PERIOD-END>	DEC-31-1994
<INVESTMENTS-AT-COST>	24,106,609
<INVESTMENTS-AT-VALUE>	22,504,456
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<ASSETS-OTHER>	315
<OTHER-ITEMS-ASSETS>	0
<TOTAL-ASSETS>	22,764,956
<PAYABLE-FOR-SECURITIES>	862,893
<SENIOR-LONG-TERM-DEBT>	0
<OTHER-ITEMS-LIABILITIES>	89,317
<TOTAL-LIABILITIES>	952,210
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<PAID-IN-CAPITAL-COMMON>	23,471,185
<SHARES-COMMON-STOCK>	2,436,839
<SHARES-COMMON-PRIOR>	0
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<OVERDISTRIBUTION-NII>	0
<ACCUMULATED-NET-GAINS>	(56,286)
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<NET-ASSETS>	21,812,746
<DIVIDEND-INCOME>	11,131
<INTEREST-INCOME>	150,441
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<DISTRIBUTIONS-OTHER>	(56,286)
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<NUMBER-OF-SHARES-REDEEMED>	50,091

<SHARES-REINVESTED>	16,747
<NET-CHANGE-IN-ASSETS>	21,802,746
<ACCUMULATED-NII-PRIOR>	0
<ACCUMULATED-GAINS-PRIOR>	0
<OVERDISTRIB-NII-PRIOR>	0
<OVERDIST-NET-GAINS-PRIOR>	0
<GROSS-ADVISORY-FEES>	69,074
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<GROSS-EXPENSE>	64,827
<AVERAGE-NET-ASSETS>	10,798,853
<PER-SHARE-NAV-BEGIN>	10.00
<PER-SHARE-NII>	.04
<PER-SHARE-GAIN-APPREC>	(1.03)
<PER-SHARE-DIVIDEND>	(.04)
<PER-SHARE-DISTRIBUTIONS>	(.02)
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<ARTICLE> 6

<CIK> 0000914757

<NAME> PROTECTIVE INVESTMENT COMPANY

<SERIES>

<NUMBER> 6

<NAME> PROTECTIVE MONEY MARKET FUND

<S>	<C>
<PERIOD-TYPE>	YEAR
<FISCAL-YEAR-END>	DEC-31-1994
<PERIOD-START>	MAR-14-1994
<PERIOD-END>	DEC-31-1994
<INVESTMENTS-AT-COST>	3,594,979
<INVESTMENTS-AT-VALUE>	3,594,979
<RECEIVABLES>	29,704
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<OTHER-ITEMS-ASSETS>	0
<TOTAL-ASSETS>	3,683,441
<PAYABLE-FOR-SECURITIES>	0
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<OTHER-ITEMS-LIABILITIES>	64,950
<TOTAL-LIABILITIES>	64,950
<SENIOR-EQUITY>	0
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<SHARES-COMMON-STOCK>	3,618,488
<SHARES-COMMON-PRIOR>	0
<ACCUMULATED-NII-CURRENT>	0
<OVERDISTRIBUTION-NII>	0
<ACCUMULATED-NET-GAINS>	3
<OVERDISTRIBUTION-GAINS>	0
<ACCUM-APPREC-OR-DEPREC>	0
<NET-ASSETS>	3,618,491
<DIVIDEND-INCOME>	0
<INTEREST-INCOME>	133,144
<OTHER-INCOME>	0
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<NET-INVESTMENT-INCOME>	115,674
<REALIZED-GAINS-CURRENT>	248
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<DISTRIBUTIONS-OF-GAINS>	(245)
<DISTRIBUTIONS-OTHER>	0
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<NUMBER-OF-SHARES-REDEEMED>	15,954,111



<SHARES-REINVESTED>	115,976
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<ACCUMULATED-GAINS-PRIOR>	0
<OVERDISTRIB-NII-PRIOR>	0
<OVERDIST-NET-GAINS-PRIOR>	0
<GROSS-ADVISORY-FEES>	17,454
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<AVERAGE-NET-ASSETS>	3,604,984
<PER-SHARE-NAV-BEGIN>	1.00
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