

# SECURITIES AND EXCHANGE COMMISSION

## FORM N-1A/A

Initial registration statement filed on Form N-1A for open-end management investment companies  
[amend]

Filing Date: **1999-09-10**  
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### FILER

#### TARGET FUNDS

CIK: **1090155** | State of Incorporation: **DE** | Fiscal Year End: **0731**  
Type: **N-1A/A** | Act: **33** | File No.: **333-82621** | Film No.: **99709681**

Business Address  
*100 MULBERRY STREET  
GATEWAY CENTER THREE  
NEWARK NJ 07102  
9733671495*

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON SEPTEMBER 10, 1999

SECURITIES ACT REGISTRATION NOS. 333-82621

INVESTMENT COMPANY ACT REGISTRATION NO. 811-09439

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM N-1A  
REGISTRATION STATEMENT  
UNDER

THE SECURITIES ACT OF 1933 [ ]

PRE-EFFECTIVE AMENDMENT NO. 1 [X]

POST-EFFECTIVE AMENDMENT NO. [ ]

AND/OR REGISTRATION STATEMENT UNDER THE  
INVESTMENT COMPANY ACT OF 1940 [ ]  
(CHECK APPROPRIATE BOX OR BOXES)  
AMENDMENT NO. 1 [X]

TARGET FUNDS  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN CHARTER)

GATEWAY CENTER THREE  
100 MULBERRY STREET  
NEWARK, NEW JERSEY 07102-4077  
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (973) 367-1495

DAVID F. CONNOR, ESQ.  
100 MULBERRY STREET  
GATEWAY CENTER THREE  
NEWARK, NEW JERSEY 07102-4077  
(NAME AND ADDRESS OF AGENT FOR SERVICE)

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PAUL H. DYKSTRA, ESQ.  
GARDNER, CARTON & DOUGLAS  
321 N. CLARK STREET  
CHICAGO, ILLINOIS 60610-4795

APPROXIMATE DATE OF PROPOSED PUBLIC OFFERING: As soon as practicable after the effective date of the Registration Statement.

REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE

<TABLE>  
<S> Title of Securities Being Registered..... <C> Shares of Beneficial Interest, \$.001 par value per share  
</TABLE>

[PRUDENTIAL ROCK GRAPHIC]

TARGET FUNDS

PROSPECTUS: SEPTEMBER 15, 1999

As with all mutual funds, the Securities and Exchange Commission has not approved or disapproved the Trust's shares, nor has the SEC determined that this prospectus is complete or accurate. It is a criminal offense to state otherwise.

[Prudential Investments Logo]

TABLE OF CONTENTS

1 RISK/RETURN SUMMARY

1 Investment Objectives and Principal Strategies

3 Principal Risks

6 Evaluating Performance

6 Fees and Expenses

12 HOW THE FUNDS INVEST

12 Investment Objectives and Policies

16 Other Investments and Strategies

18 Derivative Strategies

20 Additional Strategies

21 Investment Risks

27 HOW THE TRUST IS MANAGED

27 Board of Trustees

27 Manager

28 Advisers and Portfolio Managers

32 Distributor

33 Year 2000 Readiness Disclosure

34 FUND DISTRIBUTIONS AND TAX ISSUES

34 Distributions

35 Tax Issues

37 If You Sell or Exchange Your Shares

38 HOW TO BUY, SELL AND EXCHANGE SHARES OF THE FUNDS

38 Initial Offering of Shares

39 How to Buy Shares

46 How to Sell Your Shares

49 How to Exchange Your Shares

52 APPENDIX I - DESCRIPTION OF SECURITY RATINGS

FOR MORE INFORMATION (Back Cover)

TARGET FUNDS [Telephone Graphic] (800) 225-1852

4

RISK/RETURN SUMMARY

This section highlights key information about the investment portfolios (the Funds) of TARGET FUNDS (the Trust). Additional information follows this summary.

INVESTMENT OBJECTIVES AND PRINCIPAL STRATEGIES

The following summarizes the investment objectives, principal strategies and principal risks for each of the Funds. For more information on the risks associated with the Funds, see "Principal Risks" below. While we make every effort to achieve the investment objective for each Fund, we can't guarantee success.

LARGE CAPITALIZATION GROWTH FUND

The Fund's investment objective is LONG-TERM CAPITAL APPRECIATION. This means that we seek investments that will increase in value. To achieve our investment objective, we purchase STOCKS OF LARGE COMPANIES we believe will experience earnings growth at a rate faster than that of the Standard & Poor's 500(R) Stock Index (S&P 500).

RISKS:

- market risk
- style risk

LARGE CAPITALIZATION VALUE FUND

The Fund's investment objective is TOTAL RETURN consisting of CAPITAL APPRECIATION and DIVIDEND INCOME. This means that we seek investments that will increase in value as well as pay the Fund dividends. To achieve our objective, we invest in LARGE COMPANY STOCKS that we believe are undervalued, given the company's sales, earnings, book value, cash flow and recent performance.

RISKS:

- market risk
- style risk

SMALL CAPITALIZATION GROWTH FUND

The Fund's investment objective is MAXIMUM CAPITAL APPRECIATION. This means that we seek investments that will increase in value. To achieve our objective, we invest in the STOCKS OF SMALL COMPANIES that we believe will experience earnings growth at a rate faster than that of the U.S economy in general.

1

5

RISK/RETURN SUMMARY

RISKS:

- market risk
- style risk
- small company risk

SMALL CAPITALIZATION VALUE FUND

The Fund's investment objective is ABOVE-AVERAGE CAPITAL APPRECIATION. This means that we seek investments that will increase in value. To achieve our objective, we invest in STOCKS OF SMALL COMPANIES that we believe are undervalued, given the company's sales, earnings, book value, cash flow and recent performance.

RISKS:

- market risk
- style risk
- small company risk

INTERNATIONAL EQUITY FUND

The Fund's investment objective is CAPITAL APPRECIATION. This means that we seek investments that will increase in value. To achieve this objective, we purchase STOCKS OF FOREIGN COMPANIES. These companies may be based in developed as well as developing countries. We may also invest in American Depositary Receipts, American Depositary Shares, Global Depositary Receipts and European Depositary Receipts, which are certificates representing an equity investment in a foreign company.

RISKS:

- market risk
- style risk
- foreign market risk
- currency risk
- political developments

TOTAL RETURN BOND FUND

The Fund's investment objective is TOTAL RETURN consisting of CURRENT INCOME AND CAPITAL APPRECIATION. This means that we seek investments that will pay income as well as increase in value. To achieve this objective, we invest in DEBT OBLIGATIONS issued or guaranteed by the U.S. GOVERNMENT and its agencies, as well as debt obligations issued by U.S. COMPANIES, FOREIGN COMPANIES AND FOREIGN GOVERNMENTS and their agencies. The Fund

2 TARGET FUNDS

[Telephone Graphic] (800) 225-1852

6

RISK/RETURN SUMMARY

may invest in MORTGAGE-RELATED SECURITIES issued or guaranteed by U.S. government entities, and up to 25% of its assets in privately issued mortgage-related securities (not issued or guaranteed by the U.S. Government). These investments may include collateralized mortgage obligations and stripped mortgage-backed securities. We may also invest in ASSET-BACKED SECURITIES like automobile loans and credit card receivables. We normally invest at least 90% of the Fund's assets in "investment grade" debt obligations -- rated at least BBB by Standard & Poor's Ratings Group (S&P), Baa by Moody's Investors Service (Moody's), or the equivalent by another major rating service -- and unrated debt obligations that we believe are comparable in quality. However, we may invest up to 10% of the Fund's assets in HIGH YIELD DEBT OBLIGATIONS ("JUNK BONDS"). The Fund may actively and frequently trade its portfolio securities. The dollar-weighted average maturity of the Fund will be between four and fifteen years.

RISKS:

- credit risk
- interest rate risk
- market risk
- prepayment risk
- active trading risk
- foreign market risk
- currency risk
- political developments

## PRINCIPAL RISKS

Although we try to invest wisely, all investments involve risk. Like any mutual fund, an investment in a Fund could lose value, and you could lose money. The following summarizes the principal risks of investing in the Funds.

### LARGE CAPITALIZATION GROWTH, LARGE CAPITALIZATION VALUE, SMALL CAPITALIZATION GROWTH, SMALL CAPITALIZATION VALUE AND INTERNATIONAL EQUITY FUNDS

**MARKET RISK.** Since these Funds invest primarily in common stocks, there is the risk that the price of a particular stock owned by a Fund could go down. Generally, the stock price of large companies is more stable than the stock price of smaller companies, but this is not always the case. In addition to an individual stock losing value, the value of a market sector or of the equity

3

7

### RISK/RETURN SUMMARY

markets as a whole could go down. In addition, different parts of a market can react differently to adverse issuer, market, regulatory, political and economic developments.

**STYLE RISK.** Since some of the Funds focus on either a growth or value style, there is the risk that a particular style may be out of favor for a period of time.

**SMALL COMPANY RISK.** The SMALL CAPITALIZATION GROWTH and SMALL CAPITALIZATION VALUE FUNDS invest primarily in stocks of smaller companies with a market capitalization of under \$1.5 billion. These companies usually offer a smaller range of products and services than larger companies. They may also have limited financial resources and may lack management depth. As a result, stocks issued by smaller companies tend to fluctuate in value more than the stocks of larger, more established companies.

**INVESTMENTS IN FOREIGN SECURITIES.** The INTERNATIONAL EQUITY FUND invests primarily in stocks of foreign companies. Investing in foreign securities presents additional risks. See "Investments in Foreign Securities" below.

### TOTAL RETURN BOND FUND

**CREDIT RISK.** The debt obligations in which the Total Return Bond Fund invests are generally subject to the risk that the issuer may be unable to make principal and interest payments when they are due. There is also the risk that the securities could lose value because of a loss of confidence in the ability of the borrower to pay back debt. The Fund may invest in non-investment grade securities -- also known as "junk bonds" -- which have a higher risk of default and tend to be less liquid than higher-rated securities.

**INTEREST RATE RISK.** There is also the risk that the securities could lose value because of interest rate changes. Debt obligations with longer maturities typically offer higher yields, but are subject to greater price shifts as a result of interest rate changes than debt obligations with shorter maturities. The prices of debt obligations and the Fund's net asset value (or share price) generally move in opposite directions.

**MARKET RISK.** Debt obligations are also subject to market risk, which is the possibility that the market value of an investment may move up or down and that its movement may occur quickly or unpredictably. Market risk may affect an

industry, a sector or the entire market.

PREPAYMENT RISK. The Fund may invest in mortgage-related securities and asset-backed securities, which are subject to prepayment risk. If these securities are prepaid, the Fund may have to replace them with lower-

4 TARGET FUNDS

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8

RISK/RETURN SUMMARY

yielding securities. Stripped mortgage-backed securities are generally more sensitive to changes in prepayment and interest rates than other mortgage-related securities. Unlike mortgage-related securities, asset-backed securities are usually not collateralized. If the issuer of a non-collateralized debt security defaults on the obligation, there is no collateral that the security holder may sell to satisfy the debt.

ACTIVE TRADING RISK. The Fund may actively and frequently trade its portfolio securities. High portfolio turnover results in higher transaction costs and can affect the Fund's performance and have adverse tax consequences.

INVESTMENTS IN FOREIGN SECURITIES. The Fund may also invest in debt obligations of foreign issuers. Investing in foreign securities presents additional risks. See "Investments in Foreign Securities" below.

INVESTMENTS IN FOREIGN SECURITIES

The International Equity and Total Return Bond Funds may invest in foreign securities. Investing in foreign securities involves more risk than investing in securities of U.S. issuers.

FOREIGN MARKET RISK. Foreign markets, especially those in developing countries, tend to be more volatile than U.S. markets and are generally not subject to regulatory requirements comparable to those in the U.S. Because of differences in accounting standards, custody and settlement practices, investing in foreign securities generally involves more risk than investing in securities of U.S. issuers.

CURRENCY RISK. Changes in currency exchange rates may affect the value of foreign securities held by a Fund and the amount of income available for distribution. If a foreign currency grows weaker relative to the U.S. dollar, the value of securities denominated in that foreign currency generally decreases in terms of U.S. dollars. If a Fund does not correctly anticipate changes in exchange rates, certain hedging activities may also cause the Fund to lose money and reduce the amount of income available for distribution. There are also special risks that may arise with the introduction of the euro as the common currency of the European Monetary Union. These risks include the possibility that computing, accounting and trading systems will fail to recognize the euro, as well as the possibility that the euro will cause markets to become more volatile.

POLITICAL DEVELOPMENTS. Political developments may adversely affect the value of a Fund's foreign securities.

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5

9

RISK/RETURN SUMMARY

For more information about the risks associated with the Funds, see "How the Funds Invest -- Investment Risks."

An investment in a Fund is not a bank deposit and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

#### EVALUATING PERFORMANCE

Because the Funds are new, they have no performance history as of the date of this prospectus.

#### FEES AND EXPENSES

These tables show the sales charges, fees and expenses that you may pay if you buy and hold shares of each share class of each Fund--Class A, B and C. Each share class has different sales charges--known as loads--and expenses, but represents an investment in the same fund. For more information about which share class may be right for you, see "How to Buy, Sell and Exchange Shares of the Funds."

#### SHAREHOLDER FEES (1) (paid directly from your investment)

<TABLE>  
<CAPTION>

	Class A	Class B	Class C
<S>	<C>	<C>	<C>
Maximum sales charge (load) imposed on purchases (as a percentage of offering price)	Total Return Bond Fund -- 4% Other Funds -- 5%	None	1%
Maximum deferred sales charge (load) (as a percentage of the lower of original purchase price or sale proceeds)	None	5% (2)	1% (3)
Maximum sales charge (load) imposed on reinvested dividends and other distributions	None	None	None
Redemption fees	None	None	None
Exchange fee	None	None	None

</TABLE>

- (1) Your broker may charge you a separate or additional fee for purchases and sales of shares.
- (2) The Contingent Deferred Sales Charge (CDSC) for Class B shares decreases by 1% annually to 1% in the fifth and sixth years and 0% in the seventh year. Class B shares convert to Class A shares approximately seven years after purchase.
- (3) The CDSC for Class C shares is 1% for shares redeemed within 18 months of purchase.

6 Target Funds

[TELEPHONE GRAPHICS] (800) 225-1852

#### 10 RISK/RETURN SUMMARY

#### ANNUAL FUND OPERATING EXPENSES (deducted from Fund assets)

<TABLE>



<CAPTION>	CLASS A	CLASS B	CLASS C
<S>	<C>	<C>	<C>
LARGE CAPITALIZATION GROWTH FUND			
Management fees	.70%	.70%	.70%
+ Distribution and service (12b-1) fees	.30%	1.00%	1.00%
+ Other expenses	.28%	.28%	.28%
= TOTAL ANNUAL FUND OPERATING EXPENSES	1.28%	1.98%	1.98%
- Fee waiver(1)	.05%	0%	0%
= NET ANNUAL FUND OPERATING EXPENSES(1)	1.23%	1.98%	1.98%
LARGE CAPITALIZATION VALUE FUND			
Management fees	.70%	.70%	.70%
+ Distribution and service (12b-1) fees	.30%	1.00%	1.00%
+ Other expenses	.34%	.34%	.34%
= TOTAL ANNUAL FUND OPERATING EXPENSES	1.34%	2.04%	2.04%
- Fee waiver(1)	.05%	0%	0%
= NET ANNUAL FUND OPERATING EXPENSES(1)	1.29%	2.04%	2.04%
SMALL CAPITALIZATION GROWTH FUND			
Management fees	.70%	.70%	.70%
+ Distribution and service (12b-1) fees	.30%	1.00%	1.00%
+ Other expenses	.63%	.63%	.63%
= TOTAL ANNUAL FUND OPERATING EXPENSES	1.63%	2.33%	2.33%
- Fee waiver(1)	.05%	0%	0%
= NET ANNUAL FUND OPERATING EXPENSES(1)	1.58%	2.33%	2.33%

</TABLE>

- (1) For the fiscal year ending July 31, 2000, the Distributor of the Funds has contractually agreed to reduce its distribution and service (12b-1) fees for Class A shares to .25 of 1% of the average daily net assets of the Class A shares, and to reduce its distribution and service fees for Class B and Class C shares of the Total Return Bond Fund to .75 of 1% of the average daily net assets of the Class B and Class C shares, respectively.

7

11

RISK/RETURN SUMMARY

ANNUAL FUND OPERATING EXPENSES (DEDUCTED FROM FUND ASSETS)

<TABLE>	CLASS A	CLASS B	CLASS C
<CAPTION>	<C>	<C>	<C>
<S>			
SMALL CAPITALIZATION VALUE FUND			
Management fees	.70%	.70%	.70%
+ Distribution and service (12b-1) fees	.30%	1.00%	1.00%
+ Other expenses	.71%	.71%	.71%
= TOTAL ANNUAL FUND OPERATING EXPENSES	1.71%	2.41%	2.41%
- Fee waiver(1)	.05%	0%	0%
= NET ANNUAL FUND OPERATING EXPENSES(1)	1.66%	2.41%	2.41%
INTERNATIONAL EQUITY FUND			
Management fees	.80%	.80%	.80%
+ Distribution and service (12b-1) fees	.30%	1.00%	1.00%
+ Other expenses	.53%	.53%	.53%
= TOTAL ANNUAL FUND OPERATING EXPENSES	1.63%	2.33%	2.33%
- Fee waiver(1)	.05%	0%	0%
= NET ANNUAL FUND OPERATING EXPENSES(1)	1.58%	2.33%	2.33%
TOTAL RETURN BOND FUND			
Management fees	.50%	.50%	.50%
+ Distribution and service (12b-1) fees	.30%	1.00%	1.00%
+ Other expenses	1.13%	1.13%	1.13%
= TOTAL ANNUAL FUND OPERATING EXPENSES	1.93%	2.63%	2.63%
- Fee waiver(1)	.05%	.25%	.25%
= NET ANNUAL FUND OPERATING EXPENSES(1)	1.88%	2.38%	2.38%

</TABLE>

- (1) For the fiscal year ending July 31, 2000, the Distributor of the Funds has contractually agreed to reduce its distribution and service (12b-1) fees for Class A shares to .25 of 1% of the average daily net assets of the Class A shares, and to reduce its distribution and service fees for Class B and Class C shares of the Total Return Bond Fund to .75 of 1% of the average daily net assets of the Class B and Class C shares, respectively.

12

## RISK/RETURN SUMMARY

## FEES AND EXPENSES EXAMPLE

This example will help you compare the fees and expenses of the Funds' different share classes and the cost of investing in other mutual funds.

The example assumes that you invest \$10,000 in a Fund for the time periods indicated and then sell all of your shares at the end of those periods. The example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same, except for the Distributor's reduction of distribution and service (12b-1) fees for Class A shares of the Funds and for Class B and Class C shares of the Total Return Bond Fund during the first year. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

&lt;TABLE&gt;

&lt;CAPTION&gt;

	1 yr	3 yrs
<S>	<C>	<C>
LARGE CAPITALIZATION GROWTH FUND		
Class A shares	\$619	\$ 881
Class B shares	\$701	\$ 921
Class C shares	\$399	\$ 715
LARGE CAPITALIZATION VALUE FUND		
Class A shares	\$625	\$ 899
Class B shares	\$707	\$ 940
Class C shares	\$405	\$ 733
SMALL CAPITALIZATION GROWTH FUND		
Class A shares	\$653	\$ 984
Class B shares	\$736	\$1,027
Class C shares	\$434	\$ 820
SMALL CAPITALIZATION VALUE FUND		
Class A shares	\$660	\$1,007
Class B shares	\$744	\$1,051
Class C shares	\$442	\$ 844

&lt;/TABLE&gt;

9

13

## RISK/RETURN SUMMARY

&lt;TABLE&gt;

&lt;CAPTION&gt;

	1 YR	3 YRS
<S>	<C>	<C>
INTERNATIONAL EQUITY FUND		
Class A shares	\$653	\$984
Class B shares	\$736	\$1,027
Class C shares	\$434	\$820
TOTAL RETURN BOND FUND		
Class A shares	\$583	\$977
Class B shares	\$741	\$1,094
Class C shares	\$439	\$886

&lt;/TABLE&gt;

You would pay the following expenses on the same investment if you did not

sell your shares:

<TABLE> <CAPTION>	1 YR <C>	3 YRS <C>
<S>		
LARGE CAPITALIZATION GROWTH FUND		
Class A shares	\$619	\$881
Class B shares	\$201	\$621
Class C shares	\$299	\$715
LARGE CAPITALIZATION VALUE FUND		
Class A shares	\$625	\$899
Class B shares	\$207	\$640
Class C shares	\$305	\$733
SMALL CAPITALIZATION GROWTH FUND		
Class A shares	\$653	\$984
Class B shares	\$236	\$727
Class C shares	\$334	\$820
SMALL CAPITALIZATION VALUE FUND		
Class A shares	\$660	\$1,007
Class B shares	\$244	\$751
Class C shares	\$342	\$844

</TABLE>

10 Target Funds

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14

RISK/RETURN SUMMARY

<TABLE> <CAPTION>	1 YR <C>	3 YRS <C>
<S>		
INTERNATIONAL EQUITY FUND		
Class A shares	\$653	\$984
Class B shares	\$236	\$727
Class C shares	\$334	\$820
TOTAL RETURN BOND FUND		
Class A shares	\$583	\$977
Class B shares	\$241	\$794
Class C shares	\$339	\$886

</TABLE>

11

15

HOW THE FUNDS INVEST

INVESTMENT OBJECTIVES AND POLICIES

Large Capitalization Growth Fund

The Fund's investment objective is LONG-TERM CAPITAL APPRECIATION. This means that we seek investments that we think will increase in value.

In pursuing our objective, we invest in STOCKS OF LARGE COMPANIES we believe will experience earnings growth at a rate faster than that of the S&P 500. When we consider investing in a company's stock, we look at several factors to evaluate the stock's growth potential, including the company's historical profitability, the economic outlook for the company's industry, the company's position in that industry, and the qualifications of company management. For example, we may select a company's stock based on new products or services the company is introducing. Dividend income is only an incidental consideration. Generally, we will consider selling a security when we think it has achieved its growth potential, or when we think we can find better growth opportunities. We normally invest at least 80% of the Fund's total assets in common stocks, and at least 65% of its total assets in common stocks of companies with a total market capitalization of \$5 billion or more (measured at the time of purchase).

## LARGE CAPITALIZATION VALUE FUND

The Fund's investment objective is TOTAL RETURN consisting of CAPITAL APPRECIATION and DIVIDEND INCOME. This means that we seek investments that we think will increase in value as well as pay the Fund dividends.

In pursuing our objective, we invest in STOCKS OF LARGE COMPANIES using a VALUE INVESTMENT STYLE. That is, we invest in stocks that we believe are undervalued and have an above-average potential to increase in price. We consider a number of factors in choosing stocks, like a company's sales, earnings, book value, cash flow, recent performance and the industry it's in. We consider selling a stock if it has increased in value to the point where we no longer consider it to be undervalued. We normally invest at least 80% of the Fund's total assets in common stocks and securities convertible into common stocks, and at least 65% of its total assets in common stocks of companies with a total market capitalization of \$5 billion or more (measured at the time of purchase) that we think will pay regular dividends.

## SMALL CAPITALIZATION GROWTH FUND

The Fund's investment objective is MAXIMUM CAPITAL APPRECIATION. This means that we seek investments that we think will increase in value.

12 TARGET FUNDS

[TELEPHONE GRAPHIC] (800) 225-1852

16

## HOW THE FUNDS INVEST

In pursuing our objective, we invest in STOCKS OF SMALL COMPANIES we believe will experience earnings growth at a rate faster than that of the U.S. economy in general. When we consider investing in a company's stock, we look at several factors to evaluate the stock's growth potential, including the company's historical profitability, return on capital, the economic outlook for the company's industry, the company's position in that industry, and the qualifications of company management. For example, we may select a company's stock based on new products or services the company is introducing. We do not consider dividend income in selecting stocks for the Fund. Generally, we will consider selling a security when we think it has achieved its growth potential, or when we think we can find better growth opportunities. We normally invest at least 65% of its total assets in common stocks of companies with a total market capitalization of less than \$1.5 billion (measured at the time of purchase).

## SMALL CAPITALIZATION VALUE FUND

The Fund's investment objective is ABOVE-AVERAGE CAPITAL APPRECIATION. This means that we seek investments that we think will increase in value.

In pursuing our objective, we invest in STOCKS OF SMALL COMPANIES using a VALUE INVESTMENT STYLE. That is, we invest in stocks that we believe are undervalued and have an above average potential to increase in price. We consider a number of factors in choosing stocks, like a company's sales, earnings, book value, cash flow and recent performance. We also consider dividend growth prospects in selecting stocks for the Fund. We consider selling a stock if it has increased in value to the point where we no longer consider it to be undervalued. We normally invest at least 80% of the Fund's total assets in common stocks, and at least 65% of its total assets in common stocks of companies with a total market capitalization of less than \$1.5 billion (measured at the time of purchase).

The Fund's investment objective is CAPITAL APPRECIATION. This means that we seek investments that we think will increase in value.

In pursuing our objective, we invest in STOCKS of companies located in FOREIGN COUNTRIES. We look for stocks that we believe are undervalued based on their earnings, cash flow or asset values. We consider selling a stock if it has increased in value to the point where we no longer consider it to be undervalued. We may invest in stocks of companies in both developed and developing countries. We normally invest at least 65% of the Fund's total assets in stocks of companies in at least three foreign countries. For purposes of this policy, the Fund will invest in stocks of companies that are organized under the laws of a foreign country, companies which derive more than 50%

13

17

## HOW THE FUNDS INVEST

of their revenues from activities in foreign countries, and companies which have at least 50% of their assets located abroad. The foreign securities held by the Fund normally will be denominated in foreign currencies, including the euro -- a multinational currency unit.

The Fund may also invest in AMERICAN DEPOSITARY RECEIPTS (ADRs), AMERICAN DEPOSITARY SHARES (ADSs), GLOBAL DEPOSITARY RECEIPTS (GDRs) and EUROPEAN DEPOSITARY RECEIPTS (EDRs). ADRs, ADSs, GDRs and EDRs are certificates -- usually issued by a bank or trust company -- that represent an equity investment in a foreign company. ADRs and ADSs are issued by U.S. banks and trust companies and are valued in U.S. dollars. EDRs and GDRs are issued by foreign banks and trust companies and are usually valued in foreign currencies.

## TOTAL RETURN BOND FUND

The Fund's investment objective is TOTAL RETURN consisting of CURRENT INCOME and CAPITAL APPRECIATION. This means that we seek investments that we think will pay income as well as increase in value.

In pursuing our objective, we invest primarily in DEBT OBLIGATIONS issued or guaranteed by the U.S. GOVERNMENT and its agencies, as well as debt obligations issued by U.S. COMPANIES, FOREIGN COMPANIES AND FOREIGN GOVERNMENTS and their agencies. The Fund can invest up to 20% of its assets in foreign debt obligations.

The Fund invests in MORTGAGE-RELATED SECURITIES issued or guaranteed by U.S. Government entities including securities issued by the Federal National Mortgage Association (FNMA or "Fannie Mae") or the Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac") or guaranteed by the Government National Mortgage Association (GNMA or "Ginnie Mae"). However, we may invest up to 25% of the Fund's assets in privately issued mortgage-related securities (those not issued or guaranteed by the U.S. Government). The mortgage-related securities in which the Fund may invest may include COLLATERALIZED MORTGAGE OBLIGATIONS and STRIPPED MORTGAGE-BACKED SECURITIES.

Mortgage-related securities are usually pass-through instruments that pay investors a share of all interest and principal payments from an underlying pool of fixed or adjustable rate mortgages. Mortgage-related securities issued by the U.S. Government or its agencies include FNMAs, GNMA's and debt securities issued by the FHLMC. The U.S. Government or the issuing agency directly or indirectly guarantees the payment of interest and principal on these securities, but not their value. Private mortgage-related securities that are not guaranteed by U.S. governmental entities

18

## HOW THE FUNDS INVEST

generally have one or more types of credit enhancement to ensure timely receipt of payments and to protect against default.

Mortgage pass-through securities include collateralized mortgage obligations, multi-class pass-through securities and stripped mortgage-backed securities. A COLLATERALIZED MORTGAGE OBLIGATION (CMO) is a security backed by an underlying portfolio of mortgages or mortgage-backed securities that may be issued or guaranteed by a bank or by U.S. governmental entities. A MULTI-CLASS PASS-THROUGH SECURITY is an equity interest in a trust composed of underlying mortgage assets. Payments of principal and interest on the mortgage assets and any reinvestment income thereon provide the funds to pay debt service on the CMO or to make scheduled distributions on the multi-class pass-through security. A STRIPPED MORTGAGE-BACKED SECURITY (MBS STRIP) may be issued by U.S. governmental entities or by private institutions. MBS strips take the pieces of a debt security (principal and interest) and break them apart. The resulting securities may be sold separately and may perform differently.

The values of mortgage-backed securities vary with changes in market interest rates generally and in yields among various kinds of mortgage-related securities. Such values are particularly sensitive to changes in prepayments of the underlying mortgages. For example, during periods of falling interest rates, prepayments tend to increase as homeowners and others refinance their higher-rate mortgages; these prepayments reduce the anticipated duration of the mortgage-related securities. Conversely, during periods of rising interest rates, prepayments can be expected to decline, which has the effect of extending the anticipated duration at the same time that the value of the securities declines. MBS strips tend to be even more highly sensitive to changes in prepayment and interest rates than mortgage-related securities and CMOs generally.

The Fund may also invest in ASSET-BACKED DEBT SECURITIES. An asset-backed security is another type of pass-through instrument that pays interest based upon the cash flow of an underlying pool of assets, such as automobile loans and credit card receivables. Unlike mortgage-related securities, asset-backed securities are usually not collateralized.

We normally invest at least 65% of the Fund's total assets in bonds, and at least 90% of its total assets in "investment grade" debt obligations -- debt obligations rated at least BBB by S&P, Baa by Moody's, or the equivalent by another major rating service, and unrated debt obligations that we believe are comparable in quality. However, we may invest up to 10% of the Fund's assets in HIGH YIELD DEBT OBLIGATIONS -- also known as "JUNK BONDS" -- which are rated at least B by S&P, Moody's or another major rating service, and unrated debt obligations that we believe are comparable

15

19

## HOW THE FUNDS INVEST

in quality. The Fund may continue to hold an obligation even if it is later downgraded or no longer rated.

When purchasing or selling portfolio securities, the factors that the investment adviser to the Fund may consider are economic conditions and interest rate fundamentals and, for foreign debt securities, country and currency selection. The investment adviser also evaluates individual debt securities within each fixed-income sector based upon their relative investment merit and

considers factors such as yield, duration and potential for price or currency appreciation as well as credit quality, maturity and risk.

The Fund's dollar-weighted average portfolio maturity will generally be between four and fifteen years.

\* \* \*

For more information, see "Investment Risks" below and the Statement of Additional Information, "Description of the Funds, Their Investments and Risks." The Statement of Additional Information -- which we refer to as the SAI -- contains additional information about the Funds. To obtain a copy, see the back cover page of this prospectus.

Although we make every effort to achieve each Fund's objective, we can't guarantee success. Each Fund's investment objective is a fundamental policy that cannot be changed without shareholder approval. The Board of the Trust can change investment policies that are not fundamental.

#### OTHER INVESTMENTS AND STRATEGIES

In addition to their principal strategies, we may also use the following investment strategies to increase the Funds' returns or protect their assets if market conditions warrant.

#### TEMPORARY DEFENSIVE INVESTMENTS

In response to adverse market, economic or political conditions, we may temporarily invest up to 100% of a Fund's assets in money market instruments or U.S. Government securities. Investing heavily in these securities limits our ability to achieve capital appreciation, but can help to preserve a Fund's assets when the markets are unstable.

**MONEY MARKET INSTRUMENTS.** Each Fund may invest in high quality MONEY MARKET INSTRUMENTS. Money market instruments include the commercial paper of U.S. and foreign corporations, obligations of U.S. and foreign banks, certificates of deposit and obligations issued or guaranteed by the U.S. Government or its agencies or a foreign government. The Funds will generally purchase money market instruments in one of the two

16 Target Funds [TELEPHONE GRAPHIC] (800) 225-1852

20

#### HOW THE FUNDS INVEST

highest short-term quality ratings of a major rating service. The Funds may also invest in money market instruments that are not rated, but which we believe are of comparable quality to the instruments described above.

**U.S. GOVERNMENT SECURITIES.** The Funds may invest in DEBT OBLIGATIONS ISSUED BY THE U.S. TREASURY. Treasury securities have varying interest rates and maturities, but they are all backed by the full faith and credit of the U.S. Government.

The Funds may also invest in other DEBT OBLIGATIONS ISSUED OR GUARANTEED BY THE U.S. GOVERNMENT and government-related entities. Some of these debt securities are backed by the full faith and credit of the U.S. Government, like GNMA obligations. Debt securities issued by other government entities, like obligations of FNMA and SLMA, are not backed by the full faith and credit of the U.S. Government. However, these issuers have the right to borrow from the U.S. Treasury to meet their obligations. In contrast, the debt securities of other issuers, like the Farm Credit System, depend entirely upon their own resources to repay their debt.

The U.S. Government sometimes "strips" its debt obligations into their component parts: the U.S. Government's obligation to make interest payments and its obligation to repay the amount borrowed. These STRIPPED SECURITIES are sold to investors separately. Stripped securities do not make periodic interest payments. They are usually sold at a discount and then redeemed for their face value on their maturity dates. These securities increase in value when interest rates fall and lose value when interest rates rise. However, the value of stripped securities generally fluctuates more in response to interest rate movements than the value of traditional debt obligations. A Fund may try to earn money by buying stripped securities at a discount and either selling them after they increase in value or holding them until they mature.

## DEBT OBLIGATIONS

In addition to their principal investments, the Large Capitalization Value, Small Capitalization Value and International Equity Funds may invest in debt obligations for their appreciation potential. The Large Capitalization Value, Small Capitalization Value and International Equity Portfolios may invest in debt obligations issued by U.S. and foreign companies that are rated at least A by S&P or by Moody's or the equivalent by another major rating service. The Large Capitalization Value and Small Capitalization Value Portfolios may also invest in asset-backed securities from time to time. An asset-backed security is another type of pass-through instrument that pays interest based upon the cash flow of an underlying pool of assets, such as

17

21

## HOW THE FUNDS INVEST

automobile loans and credit card receivables. Unlike mortgage-related securities, asset-backed securities are not usually collateralized.

## REVERSE REPURCHASE AGREEMENTS AND DOLLAR ROLLS

The TOTAL RETURN BOND FUND, may enter into REVERSE REPURCHASE AGREEMENTS and DOLLAR ROLLS. When the Fund enters into a reverse repurchase agreement, the Fund borrows money on a temporary basis by selling a security with an obligation to repurchase it at an agreed-upon price and time.

When the Fund enters into a dollar roll, the Fund sells securities to be delivered in the current month and repurchases substantially similar (same type and coupon) securities to be delivered on a specified future date by the same party. The Fund is paid the difference between the current sales price and the forward price for the future purchase as well as the interest earned on the cash proceeds of the initial sale.

## LEVERAGE

The Total Return Bond Fund may borrow from banks or through reverse repurchase agreements and dollar rolls to take advantage of investment opportunities. This is known as using "leverage." If the Fund borrows money to purchase securities and those securities decline in value, then the value of the Fund's shares will decline faster than if the Fund were not leveraged.

## REPURCHASE AGREEMENTS

Each Fund may also use REPURCHASE AGREEMENTS, where a party agrees to sell a security to the Fund and then repurchase it at an agreed-upon price at a stated time. A repurchase agreement is like a loan by a Fund to the other party that creates a fixed return for the Fund.

## CONVERTIBLE SECURITIES

Each Fund may also invest in CONVERTIBLE SECURITIES. These are securities -- like bonds, corporate notes and preferred stock -- that we can convert into the company's common stock or some other equity security.

## DERIVATIVE STRATEGIES

The INTERNATIONAL EQUITY and TOTAL RETURN BOND FUNDS may each use various derivative strategies to try to improve the Fund's returns or protect its assets, although we cannot guarantee that these strategies will work, that the instruments necessary to implement these strategies will be available or that the Fund will not lose money. The derivatives in which these Funds may invest include FUTURES, OPTIONS AND OPTIONS ON FUTURES. In addition, these



## HOW THE FUNDS INVEST

Funds may enter into FOREIGN CURRENCY EXCHANGE CONTRACTS and purchase COMMERCIAL PAPER THAT IS INDEXED TO FOREIGN CURRENCY EXCHANGE RATES. Because the International Equity Fund invests a large percentage of its assets in securities denominated in foreign currencies, we may use "CURRENCY HEDGES" to help protect the Fund's NAVs from declining if a particular foreign currency were to decrease in value against the U.S. dollar.

Derivatives involve costs and can be volatile. With derivatives, the investment adviser tries to predict whether the underlying investment -- a security, market index, currency, interest rate or some other benchmark -- will go up or down at some future date. We may use derivatives to try to reduce risk or to increase return consistent with a Fund's overall investment objective. The investment adviser will consider other factors (such as cost) in deciding whether to employ any particular strategy or use any particular instrument. Any derivatives we use may not fully offset a Fund's underlying positions and this could result in losses to the Fund that would not otherwise have occurred. For more information about these strategies, see the SAI, "Description of the Funds, Their Investments and Risks -- Risk Management and Return Enhancement Strategies."

## OPTIONS

The International Equity and Total Return Bond Funds may purchase and sell put and call options on securities and currencies traded on U.S. or foreign securities exchanges or in the over-the-counter market. An option is the right to buy or sell securities in exchange for a premium. The options may be on debt securities, aggregates of debt securities, financial indexes and U.S. Government securities. The Funds will sell only covered options.

FUTURES CONTRACTS AND RELATED OPTIONS;  
FOREIGN CURRENCY FORWARD CONTRACTS

The International Equity and Total Return Bond Funds may purchase and sell financial futures contracts and related options on debt securities, aggregates of debt securities, currencies, financial indexes or U.S. Government securities. A futures contract is an agreement to buy or sell a set quantity of underlying product at a future date or to make or receive a cash payment based on the value of a securities index. The International Equity and Total Return Bond Funds also may enter into foreign currency forward contracts to protect the value of their assets against future changes in the level of foreign currency exchange rates. A foreign currency forward contract is an obligation to buy or sell a given currency on a future date and at a set price.

19

## HOW THE FUNDS INVEST

## ADDITIONAL STRATEGIES

The Funds may also use other non-principal strategies, such as purchasing debt securities on a WHEN-ISSUED or DELAYED-DELIVERY basis. When a Fund makes this type of purchase, the price and interest rate are fixed at the time of purchase, but delivery and payment for the debt obligations take place at a later time. The Fund does not earn interest income until the date the debt obligations are delivered.

The TOTAL RETURN BOND FUND may enter into INTEREST RATE SWAP TRANSACTIONS. In a swap transaction, the Fund and another party "trade" income streams. The swap is done to preserve a return or spread on a particular investment or portion of the Fund or to protect against any increase in the price of securities the Fund anticipates purchasing at a later date.

The Funds also follow certain policies when they BORROW MONEY (the Total Return Bond Fund can borrow up to 331/3% of the value of its total assets, while the other Funds may each borrow up to 20% of the value of its total assets); and

HOLD ILLIQUID SECURITIES (each Fund may hold up to 15% of its net assets in illiquid securities, including securities with legal or contractual restrictions, those without a readily available market and repurchase agreements with maturities longer than seven days).

Each Fund is subject to certain investment restrictions that are fundamental policies, which means they cannot be changed without shareholder approval. For more information about these restrictions, see the SAI.

PORTFOLIO TURNOVER

As a result of the strategies described above, the Total Return Bond Fund may have an annual portfolio turnover rate of over 100%. Portfolio turnover is generally the percentage found by dividing the lesser of portfolio purchases or sales by the monthly average value of the portfolio. High portfolio turnover (100% or more) results in higher brokerage commissions and other transaction costs and can affect a Fund's performance. It can also result in a greater amount of distributions as ordinary income rather than long-term capital gains.

20 Target Funds [TELEPHONE GRAPHIC] (800) 225-1852

24

HOW THE FUNDS INVEST

INVESTMENT RISKS

As noted, all investments involve risk, and investing in the Funds is no exception. Since a Fund's holdings can vary significantly from broad market indexes, performance of the Funds can deviate from performance of the indexes. This chart outlines the key risks and potential rewards of the Funds' principal investments and certain of the Fund's non-principal investments and strategies. See, too, "Description of the Funds, Their Investments and Risks" in the SAI.

<TABLE> <CAPTION> INVESTMENT TYPE % OF FUND'S TOTAL ASSETS -----	RISKS -----	POTENTIAL REWARDS -----
<S> COMMON STOCKS	<C> Individual stocks could lose value	<C> Historically, stocks have outperformed other investments over the long term
Large Cap Growth, Large Cap Value, Small Cap Growth and Small Cap Value Funds	The equity markets could go down, resulting in a decline in value of a Fund's investments	Generally, economic growth means higher corporate profits, which leads to an increase in stock prices, known as capital appreciation
At least 80%  International Equity Fund	Companies that pay dividends may not do so if they don't have profits or adequate cash flow	May be a source of dividend income
At least 65%	Changes in economic or political conditions, both domestic and international, may result in a decline in value of a Fund's investments	
SMALL CAPITALIZATION STOCKS (market capitalization below \$1.5 billion)	Stocks of small companies are more volatile and may decline more than those in the S&P 500 Index	Highly successful smaller companies can outperform larger ones
Small Cap Growth and Small Cap Value Funds	Small companies are more likely to reinvest earnings and not pay dividends	
At least 65%  International Equity Fund	Changes in interest rates may affect the securities of small companies more than the securities of larger companies	
Percentage varies </TABLE>		

## HOW THE FUNDS INVEST

&lt;TABLE&gt;

&lt;CAPTION&gt;

INVESTMENT TYPE (CONT'D) % OF FUND'S TOTAL ASSETS	RISKS	POTENTIAL REWARDS
<S>	<C>	<C>
DEBT OBLIGATIONS	- A Fund's share price, yield and total return will fluctuate in response to bond market movements	- Bonds have generally outperformed money market instruments over the long term with less risk than stock
Large Cap Value and Small Cap Value Funds Up to 20%	- Credit risk -- the default of an issuer would leave a Fund with unpaid interest or principal. The lower a bond's quality, the higher its potential volatility	- Most bonds will rise in value when interest rates fall
International Equity Fund Up to 35%	- Market risk -- the risk that the market value of an investment may move up or down, sometimes rapidly or unpredictably. Market risk may affect an industry, a sector, or the market as a whole	- Regular interest income
Total Return Bond Fund Up to 100%	- Interest rate risk -- the value of most bonds will fall when interest rates rise: the longer a bond's maturity and the lower its credit quality, the more its value typically falls. It can lead to price volatility, particularly for junk bonds and stripped securities	- Generally more secure than stock since companies must pay their debts before paying stockholders
FOREIGN SECURITIES	- Foreign markets, economies and political systems may not be as stable as in the U.S., particularly those in developing countries	- Investment-grade bonds have a lower risk of default than junk bonds
International Equity Fund Up to 100%	- Currency risk -- changing value of foreign currencies	- Bonds with longer maturity dates typically have higher yields
Total Return Bond Fund Up to 20%	- May be less liquid than U.S. stocks and bonds	- Intermediate-term securities may be less susceptible to loss of principal than longer term securities
	- Differences in foreign laws, accounting standards, public information, custody and settlement practices	- Investors can participate in foreign markets and invest in companies operating in those markets
	- Year 2000 conversion may be more of a problem for some foreign issuers	- Changing value of foreign currencies
	- Not all government securities are insured or guaranteed by government, but only by the issuing agency	- Opportunities for diversification
		- Principal and interest on foreign government securities may be guaranteed

&lt;/TABLE&gt;

22 Target Funds [TELEPHONE GRAPHICS] (800) 225-1852

## HOW THE FUNDS INVEST

&lt;TABLE&gt;

&lt;CAPTION&gt;

INVESTMENT TYPE % OF FUND'S TOTAL ASSETS	RISKS	POTENTIAL REWARDS
<S>	<C>	<C>
U.S. GOVERNMENT SECURITIES	Not all are insured or guaranteed by the U.S. Government, but only by the issuing	Regular interest income

All Funds	agency	The U.S. Government guarantees interest and principal payments on certain securities.
Percentage varies, and up to 100% on a temporary basis	Limits potential for capital appreciation	
	Market risk	Generally more secure than lower quality debt securities and equity securities
	Interest rate risk	May preserve a Fund's assets
MONEY MARKET INSTRUMENTS	U.S. Government money market securities offer a lower yield than lower-quality or longer-term securities	May preserve a Fund's assets
All Funds		
Up to 100% on a temporary basis	Limits potential for capital appreciation	
	Credit risk	
	Market risk	
MORTGAGE-RELATED SECURITIES	Prepayment risk -- the risk that the underlying mortgage may be prepaid partially or completely, generally during periods of falling interest rates, which could adversely affect yield to maturity and could require a Fund to reinvest in lower-yielding securities.	Regular interest income
Total Return Bond Fund		The U.S. Government guarantees interest and principal payments on certain securities
Percentage varies	Credit risk -- the risk that the underlying mortgages will not be paid by debtors or by credit insurers or guarantors of such instruments. Some private mortgage securities are unsecured or secured by lower-rated insurers or guarantors and thus may involve greater risk	May benefit from security interest in real estate collateral
	Market risk	Pass-through instruments provide greater diversification than direct ownership of loans
	Interest rate risk	

</TABLE>

HOW THE FUNDS INVEST

<TABLE>		
<CAPTION>		
INVESTMENT TYPE		
% OF FUND'S TOTAL ASSETS	RISKS	POTENTIAL REWARDS
-----	-----	-----
<S>	<C>	<C>
HIGH YIELD DEBT SECURITIES (JUNK BONDS)	Higher credit risk than higher-grade debt securities	May offer higher interest income than higher-grade debt securities and higher potential gains
Total Return Bond Fund	Higher market risk than higher-grade debt securities	
Up to 10%	More volatile than higher-grade debt securities	
	May be more illiquid (harder to value and sell), in which case valuation would depend more on investment adviser's judgment than is generally the case with higher-rated securities	
ASSET-BACKED SECURITIES	Prepayment risks	Regular interest income
Large Cap Value,	The security interest in the underlying collateral may not be as great as with	Prepayment risk is generally lower than with mortgage-related securities

Small Cap Value  
and Total Return Bond  
Funds

Percentage varies

mortgage-related securities

Credit risk -- the risk that the underlying  
receivables will not be paid by debtors or  
by credit insurers or guarantors of such  
instruments. Some asset-backed securities  
are unsecured or secured by lower-rated  
insurers or guarantors and thus may involve  
greater risk

Market risk

Interest rate risk

Pass-through instruments provide greater  
diversification than direct ownership of  
loans

DERIVATIVES

International Equity and  
Total Return Bond Funds

Percentage varies

Derivatives such as futures, options and  
foreign currency exchange contracts may not  
fully offset the underlying positions and  
this could result in losses to the Fund that  
would not have otherwise occurred

Derivatives used for risk management may not  
have the intended effects and may result in  
losses or missed opportunities

The other party to a derivatives contract  
could default

Derivatives that involve leverage (borrowing  
for investment) could magnify losses

Certain types of derivatives involve costs  
to a Fund which can reduce returns

A Fund could make money and protect against  
losses if the investment analysis proves  
correct

One way to manage a Fund's risk/return  
balance by locking in the value of an  
investment ahead of time

Derivatives that involve leverage could  
generate substantial gains at low cost

May be used to hedge against changes in  
currency exchange rates

</TABLE>

24 TARGET FUNDS

[TELEPHONE GRAPHIC] (800) 225-1852

28

HOW THE FUNDS INVEST

<TABLE>

<CAPTION>

INVESTMENT TYPE  
% OF FUND'S TOTAL ASSETS  
-----

<S>

REVERSE REPURCHASE  
AGREEMENTS AND  
DOLLAR ROLLS

Total Return Bond Fund  
Up to 33 1/3%

WHEN-ISSUED AND  
DELAYED-DELIVERY  
SECURITIES

All Funds  
Percentage varies

BORROWING

Total Return Bond Fund  
Up to 33 1/3%

Other Funds  
Up to 20%

ADJUSTABLE/FLOATING RATE  
SECURITIES

Large Cap Value and

RISKS

<C>

May magnify underlying investment losses

Investment costs may exceed potential  
underlying investment gains

Leverage borrowing for investments may  
magnify losses

Interest costs and investment fees may  
exceed potential investment gains

Value lags value of fixed rate securities  
when interest rates change

POTENTIAL REWARDS

<C>

May magnify underlying investment gains

Leverage may magnify investment gains

Can take advantage of rising interest rates

Total Return Bond Funds

Percentage varies

STRIPPED SECURITIES	More volatile than securities that have not separated principal and interest	Value rises faster when interest rates fall
Total Return Bond Fund		
Percentage varies	Mortgage-backed stripped securities have more prepayment and interest rate risk than other mortgage-related securities	

</TABLE>

25

29

HOW THE FUNDS INVEST

<TABLE>

<CAPTION> INVESTMENT TYPE % OF FUND'S TOTAL ASSETS -----	RISKS -----	POTENTIAL REWARDS -----
<S> INTEREST RATE SWAPS	<C> Helps protect the return on an investment	<C> Speculative technique including risk of loss of interest payment swapped
Total Return Bond Fund Up to 5% of net assets		
ILLIQUID SECURITIES	May be difficult to value precisely	May offer a more attractive yield or potential for growth than more widely traded securities
All Funds Up to 15% of net assets	May be difficult to sell at the time or price desired	

</TABLE>

26 TARGET FUNDS

[TELEPHONE GRAPHIC] (800) 225-1852

30

How the Trust is Managed

BOARD OF TRUSTEES

The Board of Trustees oversees the actions of the Manager, the sub-advisers and the Distributor and decides on general policies. The Board also oversees the Trust's officers who conduct and supervise the daily business operations of the Trust.

MANAGER

Prudential Investments Fund Management LLC (PIFM)  
Gateway Center Three, 100 Mulberry Street  
Newark, NJ 07102-4077

Under a management agreement with the Trust, PIFM manages the Trust's investment operations, administers its business affairs and is responsible for supervising the sub-adviser(s) (which we call an Adviser) for each of the Funds. The table below sets forth the annual management fee received by PIFM from each Fund, as well as the annual sub-advisory fee paid by PIFM to each Fund's Adviser(s) (shown as a percentage of average net assets).

<TABLE>

<CAPTION>

ANNUAL	ANNUAL
MANAGEMENT	FEE PAID TO
FEE PAID TO	ADVISER(S)

FUND	PIFM	BY PIFM
<S>	<C>	<C>
Large Capitalization Growth Portfolio	.70%	.30%
Large Capitalization Value Portfolio	.70%	.30%
Small Capitalization Growth Portfolio	.70%	.40%
Small Capitalization Value Portfolio	.70%	.40%
International Equity Portfolio	.80%	.40%
Total Return Bond Portfolio	.50%	.25%

Subject to the supervision of the Board of Trustees of the Trust, PIFM is responsible for conducting the initial review of prospective Advisers for the Trust. In evaluating a prospective Adviser, PIFM considers many factors, including the firm's experience, investment philosophy and historical performance. PIFM is also responsible for monitoring the performance of the Trust's Advisers.

PIFM and the Trust operate under an exemptive order (the Order) from the Securities and Exchange Commission that generally permits PIFM to enter into or amend agreements with Advisers without obtaining shareholder approval each time. This authority is subject to certain conditions, including the requirement that the Board of Trustees approve any new or amended agreements with Advisers. Shareholders of each Fund still have the right to terminate these agreements for the Fund at any time by a vote of

27

31

#### How the Trust is Managed

the majority of outstanding shares of the Fund. The Trust will notify shareholders of any new Advisers or material amendments to advisory agreements made pursuant to the Order. On September \_\_, 1999, the sole shareholder of the Trust voted to allow the Trust and PIFM to operate under the Order.

PIFM and its predecessors have served as manager or administrator to investment companies since 1987. As of August 31, 1999, PIFM served as the Manager to all 46 of the Prudential Mutual Funds, and as Manager or administrator to 22 closed-end investment companies, with aggregate assets of approximately \$71.8 billion.

#### ADVISERS AND PORTFOLIO MANAGERS

##### Introduction

The Advisers are responsible for the day-to-day management of each Fund, or portion thereof, that they manage, subject to the supervision of PIFM and the Board of Trustees. The Advisers are paid by PIFM, not the Trust.

The LARGE CAPITALIZATION GROWTH, LARGE CAPITALIZATION VALUE, SMALL CAPITALIZATION GROWTH and SMALL CAPITALIZATION VALUE FUNDS each have two Advisers, each of whom manages approximately 50% of the Fund's assets. For each of these Funds, PIFM hired two Advisers with different investment philosophies. PIFM believes that at any given time, certain investment philosophies will be more successful than others and that a combination of different investment approaches may benefit these Funds and help reduce their volatility. PIFM periodically rebalances these Funds to maintain the approximately equal allocation of their assets between the two Advisers. Reallocations may result in higher portfolio turnover and correspondingly higher transactional costs. In addition, Funds with two Advisers may experience wash transactions -- where one Adviser buys a security at the same time the other one sells it. When this happens, the Fund's position in that security remains unchanged, but the Fund has paid additional transaction costs.

##### Large Capitalization Growth Fund

COLUMBUS CIRCLE INVESTORS (CCI) and OAK ASSOCIATES, LTD. (Oak) are the Advisers for the Large Capitalization Growth Fund. For their services as Advisers, CCI

and Oak each receive a fee from PIFM at the annual rate of .30% of the average daily net assets of the portion of the Fund it manages.

28 Target Funds

[TELEPHONE GRAPHIC] (800) 225-1852

32

How the Trust is Managed

CCI has specialized in large-cap equity investing since it was established in 1975. As of June 30, 1999, CCI had approximately \$4.5 billion in assets under management for corporate, nonprofit, government, union and mutual fund clients. The address of CCI is Metro Center, One Station Place, 8th Floor, Stamford, CT 06902.

ANTHONY RIZZA, a Managing Director of CCI, is primarily responsible for managing CCI's part of the Fund. Mr. Rizza is a Chartered Financial Analyst and a member of the Hartford Society of Security Analysts. He has been a portfolio manager with CCI since 1991.

OAK has specialized in large-cap equity investing since it was founded in 1985. Oak provides investment management services to both individual and institutional clients. As of June 30, 1999, Oak had more than \$1.5 billion in assets under management. The address of Oak is 3875 Embassy Parkway, Suite 250, Akron, OH 44333.

JAMES D. OELSCHLAGER, President of Oak since 1985, manages the assets of the Fund. DONNA BARTON, MARGARET BALLINGER and DOUGLAS MACKAY assist Mr. Oelschlager in managing the Fund's assets. Ms. Barton and Ms. Ballinger have been with Oak since 1985, and Mr. MacKay has been a research analyst with Oak since 1990.

Large Capitalization Value Fund

INVESCO CAPITAL MANAGEMENT, INC. (INVESCO) and HOTCHKIS AND WILEY are the Advisers for the Large Capitalization Value Fund. For their services as Advisers, INVESCO and Hotchkis and Wiley each receive a fee from PIFM at the annual rate of .30% of the average daily net assets of the portion of the Fund it manages.

INVESCO has specialized in value-oriented equity investing since it was organized in 1971. As of June 30, 1999, INVESCO had approximately \$48 billion in assets under management for clients located throughout the U.S., Europe and Japan. The address of INVESCO is 1315 Peachtree Street, Suite 500, Atlanta, GA 30309.

NIELSON BROWN, a Vice President of INVESCO, manages the Fund. Mr. Brown is a Chartered Financial Analyst and a member of the Atlanta Society of Financial Analysts. He has been a portfolio manager with INVESCO since 1989.

HOTCHKIS AND WILEY has specialized in large-cap equity investing since it was formed in 1980. As of June 30, 1999, Hotchkis and Wiley had approximately \$15 billion in assets under management for corporate, public,

29

33

HOW THE TRUST IS MANAGED

endowment and foundation and mutual fund clients. The address of Hotchkis and Wiley is 725 S. Figueroa St., Suite 4000, Fifth Floor, Los Angeles, CA 90017.



ROGER DEBARD, Managing Director of Hotchkis and Wiley, manages the assets of the Fund. Mr. DeBard is a Chartered Financial Analyst and has been a portfolio manager for Hotchkis and Wiley since 1985.

#### SMALL CAPITALIZATION GROWTH FUND

SAWGRASS ASSET MANAGEMENT, L.L.C. (SAWGRASS) and FLEMING ASSET MANAGEMENT USA (FLEMING USA) are the Advisers for the Small Capitalization Growth Fund. For their services as Advisers, Sawgrass and Fleming USA each receive a fee from PIFM at the annual rate of .40% of the average daily net assets of the portion of the Fund it manages.

SAWGRASS has specialized in small-cap equity investing since it was organized in 1998. Sawgrass was formed by a core group of investment professionals who had worked together for 15 years at Barnett Capital Advisors, Inc. As of June 30, 1999, Sawgrass had approximately \$425 million in assets under management for corporate, municipal, public and state retirement plans and mutual funds. The address of Sawgrass is 4337 Pablo Oaks Court, Building 200, Jacksonville, FL 32224.

DEAN MCQUIDDY, a principal and Director of Equity Investments of Sawgrass, manages the assets of the Fund. Mr. McQuiddy is a Chartered Financial Analyst and has been with Sawgrass since January 1998. Prior to 1998, Mr. McQuiddy was the head small-cap portfolio manager of Barnett Capital Advisors, Inc.

FLEMING USA is a division of Robert Fleming, Inc., the U.S. equity asset management affiliate of Robert Fleming Holdings (Flemings Group). Founded in 1873, the Flemings Group manages over \$115 billion of assets on behalf of private investors, companies, institutions, governments and central banks worldwide. Approximately half of its assets under management are pension funds for institutions. The balance of its assets under management are in open- and closed-end pooled investment vehicles. Fleming USA's address is 320 Park Avenue, New York, NY 10022.

The assets of the Portfolio are managed by a team of portfolio managers. Eytan M. Shapiro, a Director and portfolio manager of Fleming USA, is responsible for the day-to-day management of the Portfolio's assets. Mr. Shapiro has been with Fleming USA since 1992 and with the Flemings Group since 1985. The other members of the team are Timothy R. V.

30 Target Funds [TELEPHONE GRAPHIC] (800) 225-1852

34

How the Trust is Managed

Parton, Christopher M. V. Jones and T. Gary Lieberman. Mr. Parton, a Director and portfolio manager with Fleming USA, has been with Fleming USA since 1990 and with the Flemings Group since 1986. Mr. Jones, a Director and portfolio manager of Fleming USA, as well as Chief Investment Officer of its Small Cap Equity Group, joined Fleming USA in 1986 and began his career with the Flemings Group in 1982. Mr. Lieberman is a Vice President and analyst with Fleming USA and has been with the firm since 1995. Prior to joining Fleming USA, Mr. Lieberman was an analyst with Saloman Brothers Asset Management.

#### Small Capitalization Value Fund

LAZARD ASSET MANAGEMENT (LAZARD) and WOOD, STRUTHERS & WINTHROP MANAGEMENT CORP. (WSW) are the Advisers for the Small Capitalization Value Fund. For their services as Advisers, Lazard and WSW each receive a fee from PIFM at the annual rate of .40% of the average daily net assets of the portion of the Fund it manages.

LAZARD is a division of Lazard Freres & Co. LLC (Lazard Freres), a New York limited liability company. Since it was formed in 1970, Lazard has provided investment management services to both individual and institutional clients. As of June 30, 1999, Lazard and its global affiliates had approximately \$68 billion in assets under management. The address of Lazard is 30 Rockefeller Plaza, New York, NY 10112.

HERBERT W. GULLQUIST and EILEEN D. ALEXANDERSON manage the assets of the Fund. Mr. Gullquist, a Managing Director and Vice Chairman of Lazard Freres and Chief Investment Officer of Lazard, has been with Lazard since 1982. Ms. Alexanderson, a Managing Director of Lazard Freres and a Certified Financial Analyst, has been with Lazard since 1979.

WSW was founded in 1871 and has specialized in small-cap equity investing since 1967. WSW provides investment management services to both individual and institutional clients. As of June 30, 1999, WSW had approximately \$12 billion in assets under management. The address of WSW is 277 Park Avenue, New York, NY 10172.

JAMES A. ENGLE and ROGER W. VOGEL manage the assets of the Fund. Mr. Engle has been the Chief Investment Officer of WSW since 1988. Mr. Vogel, who is Senior Vice President for the Equities Division at WSW, has been the lead small-cap equity portfolio manager of WSW since 1993.

31

35

How the Trust is Managed

International Equity Fund

LAZARD is the Adviser to the International Equity Fund. For its services as Adviser, Lazard receives a fee from PIFM at the annual rate of .40% of the Fund's average daily net assets.

HERBERT W. GULLQUIST and JOHN R. REINSBERG manage the Fund. Mr. Gullquist, a Managing Director and Vice Chairman of Lazard Freres and Chief Investment Officer of Lazard, has been with Lazard since 1982. Mr. Reinsberg is a Managing Director of Lazard Freres and has been with Lazard since 1992.

Total Return Bond Fund

PACIFIC INVESTMENT MANAGEMENT COMPANY (PIMCO) is the Adviser to the Total Return Bond Fund. For its services as Adviser, PIMCO receives a fee from PIFM at the annual rate of .25% of the average daily net assets of the Fund.

PIMCO has specialized in fixed income investing since the firm was established in 1971. As of June 30, 1999, PIMCO had approximately \$171 billion of assets under management. The address of PIMCO is 840 Newport Center Drive, Suite 300, Newport Beach, CA 92660.

JOHN L. HAGUE, a Managing Director of PIMCO, manages the Fund. Mr. Hague has been a portfolio manager with PIMCO and its predecessor since 1989.

DISTRIBUTOR

Prudential Investment Management Services LLC (PIMS) distributes the Trust's

shares under a Distribution Agreement with the Trust. The Trust has Distribution and Service Plans under Rule 12b-1 of the Investment Company Act. Under the Plans and the Distribution Agreement, PIMS pays the expenses of distributing each Fund's Class A, B and C shares and provides certain shareholder support services. Each Fund pays distribution and other fees to PIMS as compensation for its services for each class of shares. These fees -- known as 12b-1 fees -- are shown in the "Fees and Expenses" tables.

32 Target Funds

[TELEPHONE GRAPHIC] (800) 225-1852

36

How the Trust is Managed

Year 2000 Readiness Disclosure

The services provided to the Trust and the shareholders by the Manager, the Advisers, the Distributor, the Transfer Agent and the Custodian depend on the smooth functioning of their computer systems and those of outside service providers. Many computer software systems in use today cannot distinguish the year 2000 from the year 1900 because of the way dates are encoded and calculated. Such an event could have a negative impact on handling securities trades, payments of interest and dividends, pricing and account services. Although at this time there can be no assurance that there will be no adverse impact on the Trust, the Manager, the Advisers, the Distributor, the Transfer Agent and the Custodian have advised the Trust that they have been actively working on necessary changes to their computer systems to prepare for the year 2000. The Trust and its Board have received satisfactory reports from the principal service providers as to their preparations for Year 2000 readiness, although there can be no assurance that the service providers (or other securities market participants) will successfully complete the necessary changes in a timely manner or that there will be no adverse impact on the Trust. Moreover, the Trust at this time has not considered retaining alternative service providers or directly undertaken efforts to achieve year 2000 readiness, the latter of which would involve substantial expenses without an assurance of success.

Additionally, issuers of securities generally as well as those purchased by the Funds may confront Year 2000 compliance issues which, if material and not resolved, could have an adverse impact on securities markets and/or a specific issuer's performance and could result in a decline in the value of the securities held by the Funds.

33

37

FUND DISTRIBUTIONS AND TAX ISSUES

Investors who buy shares of the Trust should be aware of some important tax issues. For example, each Fund distributes DIVIDENDS of ordinary income and any realized net CAPITAL GAINS to shareholders. These distributions are subject to taxes, unless you hold your shares in a 401(k) plan, an Individual Retirement Account (IRA), or some other qualified tax-deferred plan or account.

Also, if you sell shares of a Fund for a profit, you may have to pay capital gains taxes on the amount of your profit, again unless your shares are held in a qualified tax-deferred plan or account.

The following briefly discusses some of the important federal tax issues you should be aware of, but is not meant to be tax advice. For tax advice, please speak with your tax adviser.

## DISTRIBUTIONS

Each Fund distributes DIVIDENDS of any net investment income to shareholders on a regular basis as shown below.

FUND	DIVIDENDS
Total Return Bond Fund	Declared daily, paid monthly
Large Capitalization Growth, Large Capitalization Value, Small Capitalization Growth, Small Capitalization Value and International Equity Funds	Declared and paid annually

For example, if a Fund owns ACME Corp. stock and the stock pays a dividend, the Fund will pay out a portion of this dividend to its shareholders, assuming the Fund's income is more than its costs and expenses. The dividends you receive from each Fund will be taxed as ordinary income, whether or not they are reinvested in the Fund.

For Funds that invest in foreign securities, the amount of income available for distribution to shareholders will be affected by any foreign currency gains or losses generated by the Fund and cannot be predicted. This fact, coupled with the different tax and accounting treatment of certain currency gains and losses, increases the possibility that distributions, in whole or in part, may be a return of capital to shareholders.

Each Fund also distributes realized net CAPITAL GAINS to shareholders -- typically once a year -- which are generated when the Fund sells its assets

34 TARGET FUNDS [TELEPHONE GRAPHIC] (800) 225-1852

38

## FUND DISTRIBUTIONS AND TAX ISSUES

Each Fund also distributes realized net CAPITAL GAINS to shareholders -- typically once a year -- which are generated when the Fund sells its assets for a profit. For example, if a Fund bought 100 shares of ACME Corp. stock for a total of \$1,000 and more than one year later sold the shares for a total of \$1,500, the Fund has net long-term capital gains of \$500, which it will pass on to shareholders (assuming the Fund's total gains are greater than any losses it may have). Capital gains are taxed differently depending on how long the Fund holds the security -- if a security is held more than one year before it is sold, LONG-TERM capital gains are taxed at the rate of 20%, but if the security is held one year or less, SHORT-TERM capital gains are taxed at ordinary income rates of up to 39.6%. Different rates apply to corporate shareholders.

For your convenience, a Fund's distributions of dividends and capital gains are AUTOMATICALLY REINVESTED in the Fund without any sales charge. If you ask us to pay the distributions in cash, we will send you a check if your account is with the Transfer Agent. Otherwise, if your account is with a broker, you will receive a credit to your account. Whether you receive these distributions in additional shares or in cash, the distributions may be subject to taxes, unless your shares are held in a qualified tax-deferred plan or account. For more information about automatic reinvestment and other shareholder services, see "Step 4: Additional Shareholder Services" in the next section.

## TAX ISSUES

FORM 1099

Every year, you will receive a Form 1099, which reports the amount of dividends and capital gains we distributed to you during the prior year. If you own shares of a Fund as part of a qualified tax-deferred plan or account, your taxes are

deferred, so you will not receive a Form 1099. However, you will receive a Form 1099 when you take any distributions from your qualified tax-deferred plan or account.

Fund distributions are generally taxable to you in the calendar year they are received, except when we declare certain dividends in the fourth quarter

35

39

#### FUND DISTRIBUTIONS AND TAX ISSUES

and actually pay them in January of the following year. In such cases, the dividends are treated as if they were paid on December 31 of the prior year. Corporate shareholders are eligible for the 70% dividends-received deduction for certain dividends.

#### WITHHOLDING TAXES

If federal tax law requires you to provide the Trust with your tax identification number and certifications as to your tax status, and you fail to do this, we will withhold and pay to the U.S. Treasury 31% of your distributions and sale proceeds. If you are subject to backup withholding, we will withhold and pay to the U.S. Treasury 31% of your distributions. Dividends of net investment income and short-term capital gains paid to a nonresident foreign shareholder generally will be subject to a U.S. withholding tax of 30%. This rate may be lower, depending on any tax treaty the U.S. may have with the shareholder's country.

#### IF YOU PURCHASE JUST BEFORE RECORD DATE

If you buy shares of a Fund just before the record date (the date that determines who receives the distribution), that distribution will be paid to you. As explained above, the distribution may be subject to income or capital gains taxes. You may think you've done well, since you bought shares one day and soon thereafter received a distribution. That is not so because when dividends are paid out, the value of each share of the Fund decreases by the amount of the dividend and the market changes (if any) to reflect the payout. The distribution you receive makes up for the decrease in share value. However, the timing of your purchase does mean that part of your investment came back to you as taxable income.

#### QUALIFIED RETIREMENT PLANS

Retirement plans and accounts allow you to defer paying taxes on investment income and capital gains. Contributions to these plans may also be tax deductible, although distributions from these plans generally are taxable. In the case of Roth IRA accounts -- available to certain taxpayers beginning in 1998 -- contributions are not tax deductible, but distributions from the plan may be tax-free. Please contact your financial adviser for information on a variety of retirement plans offered by Prudential.

36 Target Funds [TELEPHONE GRAPHIC] (800) 225-1852

40

#### FUND DISTRIBUTIONS AND TAX ISSUES

#### IF YOU SELL OR EXCHANGE YOUR SHARES

If you sell any shares of a Fund for a profit, you have realized a capital gain, which is subject to tax, unless you hold shares in a qualified tax-deferred plan or account. The amount of tax you pay depends on how long you owned your shares. If you sell shares of a Fund for a loss, you may have a capital loss, which you may use to offset certain capital gains you have.

[ARROW CHART]

Exchanging your shares of a Fund for the shares of another Fund of the Trust is considered a sale for tax purposes. In other words, it's a "taxable event." Therefore, if the shares you exchanged have increased in value since you purchased them, you have capital gains, which are subject to the taxes described

above.

Any gain or loss you may have from selling or exchanging Fund shares will not be reported on the Form 1099; however, proceeds from the sale or exchange will be reported on Form 1099-B. Therefore, unless you hold your shares in a qualified tax-deferred plan or account, you or your financial adviser should keep track of the dates on which you buy and sell -- or exchange -- Fund shares, as well as the amount of any gain or loss on each transaction. For tax advice, please see your tax adviser.

#### Automatic Conversion of Class B Shares

We have obtained a legal opinion that the conversion of Class B shares into Class A shares - which happens automatically approximately seven years after purchase - is not a "taxable event" because it does not involve an actual sale of your Class B shares. This opinion, however, is not binding on the Internal Revenue Service. For more information about the automatic conversion of Class B shares, see "Class B Shares Convert to Class A Shares After Approximately Seven Years" in the next section.

41

#### HOW TO BUY, SELL AND EXCHANGE SHARES OF THE FUNDS

##### INITIAL OFFERING OF SHARES

PIMS will solicit subscriptions for Class A, Class B and Class C shares of each Fund during a subscription period beginning September 22, 1999 and expected to end October 29, 1999. Fund shares subscribed for during this time will be issued at a net asset value of \$10.00 per share on a closing date expected to occur on November 3, 1999. An initial sales charge of 5% (5.26% of the net amount invested) is imposed on each transaction in Class A shares. This initial sales charge may be reduced depending on the amount of the purchase as shown in the table under "Reducing or Waiving Class A's Initial Sales Charge." An initial sales charge of 1% (1.01% of the net amount invested) is imposed on each transaction in Class C shares. Your broker will notify you of the end of the subscription period. Payment for Fund shares will be due within three days. If you send an order during the subscription period along with payment, your money will be returned unless you allow the money to be invested in Prudential MoneyMart Assets, Inc. (MoneyMart Fund), a money market fund. If this is your first investment in MoneyMart Fund, all amounts received and invested in MoneyMart Fund, including any dividends received on these funds, will be automatically invested in the Funds you choose on the closing date. If you previously owned shares of MoneyMart Fund, dividends accrued on your shares will not be exchanged for Fund shares. The minimum initial investment is \$1,000 for Class A and Class B shares and \$2,500 for Class C shares. There are no minimum investment requirements for Class Z shares and for certain retirement and employee savings plans or custodial accounts for minors. You will not receive share certificates.

If you subscribe for shares, you will not have any rights as a shareholder of a Fund until your shares are paid for and their issuance has been reflected in the Fund's books. We reserve the right to withdraw, modify or terminate the initial offering without notice and to refuse any order in whole or in part.

The Funds will be closed for purchases and exchanges from on or about November 1, 1999 to November 12, 1999, while the Advisers invest the proceeds of the offering in accordance with each Fund's investment objective and policies (the closing period). Beginning on or about November 15, 1999, each Fund will commence a continuous offering of its shares. During the closing period, shareholders may redeem existing positions or exchange out of a Fund, but the Funds will be closed to new purchases and no exchanges into a Fund will be accepted.

42

## HOW TO BUY, SELL AND EXCHANGE SHARES OF THE FUNDS

## HOW TO BUY SHARES

## STEP 1: OPEN AN ACCOUNT

If you don't have an account with us or a securities firm that is permitted to buy or sell shares of the Funds for you, call Prudential Mutual Fund Services LLC (PMFS) at (800) 225-1852 or contact:

PRUDENTIAL MUTUAL FUND SERVICES LLC  
ATTN: INVESTMENT SERVICES  
P.O. BOX 15020  
NEW BRUNSWICK, NJ 08906-5020

To purchase by wire, call the number above to obtain an application. After PMFS receives your completed application, you will receive an account number. For additional information about purchasing shares of the Funds, see the back cover page of this prospectus. We have the right to reject any purchase order (including an exchange into a Fund) or suspend or modify a Fund's sale of its shares.

## STEP 2: CHOOSE A SHARE CLASS

Individual investors can choose among Class A, Class B and Class C shares of the Funds.

Multiple share classes let you choose a cost structure that better meets your needs. With Class A shares, you pay the sales charge at the time of purchase, but the operating expenses each year are lower than the expenses of Class B and Class C shares. With Class B shares, you only pay a sales charge if you sell your shares within six years (that is why it is called a Contingent Deferred Sales Charge or CDSC), but the operating expenses each year are higher than the Class A share expenses. With Class C shares, you pay a 1% front-end sales charge and a 1% CDSC if you sell within 18 months of purchase, but the operating expenses are also higher than the expenses for Class A shares.

When choosing a share class, you should consider the following:

- The amount of your investment
  
- The length of time you expect to hold the shares and the impact of the varying distribution fees
  
- The different sales charges that apply to each share class -- Class A's front-end sales charge vs. Class B's CDSC vs. Class C's low front-end sales charge and low CDSC

39

43

## HOW TO BUY, SELL AND EXCHANGE SHARES OF THE FUNDS

- Whether you qualify for any reduction or waiver of sales charges
- The fact that Class B shares automatically convert to Class A shares approximately seven years after purchase.

See "How to Sell Your Shares" for a description of the impact of CDSCs.

Share Class Comparison. USE THIS CHART TO HELP YOU COMPARE THE FUNDS' DIFFERENT SHARE CLASSES. THE DISCUSSION FOLLOWING THIS CHART WILL TELL YOU WHETHER YOU ARE ENTITLED TO A REDUCTION OR WAIVER OF ANY SALES CHARGES.

<TABLE> <CAPTION>	CLASS A <C>	CLASS B <C>	CLASS C <C>
<S> Minimum purchase amount(1)	\$1,000	\$1,000	\$2,500
Minimum amount for subsequent purchases(1)	\$100	\$100	\$100
Maximum initial sales charge	Total Return Bond Fund -- 4% of the public offering price Other Funds -- 5% of the public offering price	None	1% of the public offering price
Contingent Deferred Sales Charge (CDSC) (2)	None	If Sold During: Year 1 5% Year 2 4% Year 3 3% Year 4 2% Years 5/6 1% Year 7 0%	1% on sales made within 18 months of purchase(2)
Annual distribution and service (12b-1) fees shown as a percentage of average net assets(3)	.30 of 1%; (.25 of 1% currently)	1% (currently .75 of 1% for the Total Return Bond Fund)	1% (currently .75 of 1% for the Total Return Bond Fund)

</TABLE>

- (1) The minimum investment requirements do not apply to certain retirement and employee savings plans and custodial accounts for minors. The minimum initial and subsequent investment for purchases made through the Automatic Investment Plan is \$50. For more information, see "Additional Shareholder Services -- Automatic Investment Plan."
- (2) For more information about the CDSC and how it is calculated, see "How to Sell Your Shares -- Contingent Deferred Sales Charge (CDSC)."
- (3) These distribution fees are paid from each Fund's assets on a continuous basis. Over time, the fees will increase the cost of your investment and may cost you more than paying other types of sales charges. The service fee for Class A, Class B and Class C shares is .25 of 1%. The distribution fee for Class A shares is limited to .30 of 1% (including the .25 of 1% service fee) and is .75 of 1% for Class B and Class C shares.

40 TARGET FUNDS

[TELEPHONE GRAPHIC] (800) 225-1852

44

HOW TO BUY, SELL AND EXCHANGE SHARES OF THE FUNDS

REDUCING OR WAIVING CLASS A'S INITIAL SALES CHARGE

The following describes the different ways investors can reduce or avoid paying Class A's initial sales charge.



INCREASE THE AMOUNT OF YOUR INVESTMENT. You can reduce Class A's sales charge by increasing the amount of your investment. These tables show you how the sales charge decreases as the amount of your investment increases.

LARGE CAPITALIZATION VALUE, LARGE CAPITALIZATION GROWTH, SMALL CAPITALIZATION VALUE, SMALL CAPITALIZATION GROWTH AND INTERNATIONAL EQUITY FUNDS

<TABLE>

<CAPTION>

AMOUNT OF PURCHASE	SALES CHARGE	SALES CHARGE	DEALER REALLOWANCE
	AS % OF OFFERING PRICE	AS % OF AMOUNT INVESTED	
<S>	<C>	<C>	<C>
Less than \$25,000	5.00%	5.26%	4.75%
\$25,000 to \$49,999	4.50%	4.71%	4.25%
\$50,000 to \$99,999	4.00%	4.17%	3.75%
\$100,000 to \$249,999	3.25%	3.36%	3.00%
\$250,000 to \$499,999	2.50%	2.56%	2.40%
\$500,000 to \$999,999	2.00%	2.04%	1.90%
\$1 million and above*	None	None	None

TOTAL RETURN BOND FUND

AMOUNT OF PURCHASE	SALES CHARGE	SALES CHARGE	DEALER REALLOWANCE
	AS % OF OFFERING PRICE	AS % OF AMOUNT INVESTED	
Less than \$50,000	4.00%	4.17%	3.75%
\$50,000 to \$99,999	3.50%	3.63%	3.25%
\$100,000 to \$249,999	2.75%	2.83%	2.50%
\$250,000 to \$499,999	2.00%	2.04%	1.90%
\$500,000 to \$999,999	1.50%	1.52%	1.40%
\$1 million and above*	None	None	None

</TABLE>

\* If you invest \$1 million or more, you can buy only Class A shares.

To satisfy the purchase amounts above, you can:

- invest with an eligible group of related investors;
- buy the Class A shares of two or more Prudential mutual funds at the same time;

41

45

HOW TO BUY, SELL AND EXCHANGE SHARES OF THE FUNDS

- use your RIGHTS OF ACCUMULATION, which allow you to combine the value of Prudential mutual fund shares you already own with the value of the shares you are purchasing for purposes of determining the applicable sales charge (note: you must notify the Transfer Agent if you qualify for Rights of Accumulation); or
- sign a LETTER OF INTENT, stating in writing that you or an eligible group of related investors will purchase a certain amount of shares in the Fund and other Prudential mutual funds within 13 months.

BENEFIT PLANS. Certain group retirement and savings plans may purchase Class A shares without the initial sales charge if they meet the required minimum for amount of assets, average account balance or number of eligible employees. For more information about these requirements, call Prudential at (800) 353-2847.

MUTUAL FUND PROGRAMS. The initial sales charge will be waived for investors in certain programs sponsored by broker-dealers, investment advisers and financial planners who have agreements with Prudential Investments Advisory Group relating

to:

- Mutual fund "wrap" or asset allocation programs where the sponsor places Fund trades and charges its clients a management, consulting or other fee for its services; or
- Mutual fund "supermarket" programs where the sponsor links its clients' accounts to a master account in the sponsor's name and the sponsor charges a fee for its services.

Broker-dealers, investment advisers or financial planners sponsoring these mutual fund programs may offer their clients more than one class of shares in a Fund in connection with different pricing options for their programs. Investors should consider carefully any separate transaction and other fees charged by these programs in connection with investing in each available share class before selecting a share class.

OTHER TYPES OF INVESTORS. Other investors pay no sales charges, including certain officers, employees or agents of Prudential and its affiliates, the Prudential mutual funds, the subadvisers of the Prudential mutual funds and clients of brokers that have entered into a selected dealer agreement with the Distributor. To qualify for a reduction or waiver of the sales charge, you must notify the Transfer Agent or your broker at the time of purchase. For

42 TARGET FUNDS

[TELEPHONE GRAPHIC] (800) 225-1852

46

HOW TO BUY, SELL AND  
EXCHANGE SHARES OF THE FUNDS

more information, see the SAI, "Purchase, Redemption and Pricing of Fund Shares -- Reduction and Waiver of Initial Sales Charge --Class A Shares."

WAIVING CLASS C'S INITIAL SALES CHARGE

BENEFIT PLANS. Certain group retirement plans may purchase Class C shares without the initial sales charge. For more information, call Prudential at (800) 353-2847.

INVESTMENT OF REDEMPTION PROCEEDS FROM OTHER INVESTMENT COMPANIES. The initial sales charge will be waived for purchases of Class C shares if the purchase is made with money from the redemption of shares of any unaffiliated investment company, as long as the shares were not held in an account at Prudential Securities Incorporated or one of its affiliates. These purchases must be made within 60 days of the redemption. To qualify for this waiver, you must do one of the following:

- purchase your shares through an account at Prudential Securities;
- purchase your shares through an ADVANTAGE Account or an Investor Account with Pruco Securities Corporation; or
- purchase your shares through another broker

This waiver is not available to investors who purchase shares directly from the Transfer Agent. If you are entitled to the waiver, you must notify either the Transfer Agent or your broker. The Transfer Agent may require any supporting documents it considers appropriate.

If you buy Class B shares and hold them for approximately seven years, we will automatically convert them into Class A shares without charge. At that time, we will also convert any Class B shares that you purchased with reinvested dividends and other distributions. Since the 12b-1 fees for Class A shares are lower than for Class B shares, converting to Class A shares lowers your Fund expenses.

When we do the conversion, you will get fewer Class A shares than the number of converted Class B shares if the price of the Class A shares is higher than the price of Class B shares. The total dollar value will be the same, so you will not have lost any money by getting fewer Class A shares. We do the conversions quarterly, not on the anniversary date of your purchase. For more information, see the SAI, "Purchase, Redemption and Pricing of Trust Shares -- Conversion Feature -- Class B Shares."

43

47

HOW TO BUY, SELL AND  
EXCHANGE SHARES OF THE FUNDS

MUTUAL FUND SHARES

The NAV of mutual fund shares changes every day because the value of a fund's portfolio changes constantly. For example, if Fund XYZ holds ACME Corp. stock in its portfolio and the price of ACME stock goes up while the value of the fund's other holdings remains the same and expenses don't change, the NAV of Fund XYZ will increase.

STEP 3: UNDERSTANDING THE PRICE YOU'LL PAY

The price you pay for each share of a Fund is based on the share value. The share value of a mutual fund -- known as the NET ASSET VALUE or NAV -- is determined by a simple calculation -- it's the total value of the Fund (assets minus liabilities) divided by the total number of shares outstanding. For example, if the value of the investments held by Fund XYZ (minus its expenses) is \$1,000 and there are 100 shares of Fund XYZ owned by shareholders, the price of one share of the fund -- or the NAV -- is \$10 (\$1,000 divided by 100). Portfolio securities are valued based upon market quotations or, if not readily available, at fair value as determined in good faith under procedures established by the Trust's Board. Most national newspapers report the NAVs of most mutual funds, which allows investors to check the price of mutual funds daily.

We determine the NAV of each Fund's share once each business day at 4:15 p.m. New York Time on days that the New York Stock Exchange is open for trading. Because the International Equity and Total Return Bond Funds invest in foreign securities, their NAV can change on days when you cannot buy or sell shares. We do not determine NAV on days when we have not received any orders to purchase, sell or exchange Fund shares, or when changes in the value of a Fund's portfolio do not materially affect the NAV.

WHAT PRICE WILL YOU PAY FOR SHARES OF THE FUND?

For Class A and Class C shares, you'll pay the public offering price, which is the NAV next determined after we receive your order to purchase, plus an initial sales charge (unless you're entitled to a waiver). For Class B shares, you will pay the NAV next determined after we receive your order to purchase (remember, there are no up-front sales charges for this share class). Your broker may charge you a separate or additional fee for purchases of shares.

48

HOW TO BUY, SELL AND  
EXCHANGE SHARES OF THE FUNDS

## STEP 4: ADDITIONAL SHAREHOLDER SERVICES

As a Fund shareholder, you can take advantage of the following services and privileges:

**AUTOMATIC REINVESTMENT.** As we explained in the "Fund Distributions and Tax Issues" section, each Fund pays out -- or distributes -- its net investment income and capital gains to all shareholders. For your convenience, we will automatically reinvest your distributions in a Fund at NAV without any sales charge. If you want your distributions paid in cash, you can indicate this preference on your application, notify your broker or notify the Transfer Agent in writing (at the address below) at least five business days before the date we determine who receives dividends.

PRUDENTIAL MUTUAL FUND SERVICES LLC  
ATTN: ACCOUNT MAINTENANCE  
P.O. BOX 15015  
NEW BRUNSWICK, NJ 08906-5015

**AUTOMATIC INVESTMENT PLAN.** You can make regular purchases of a Fund for as little as \$50 by having the funds automatically withdrawn from your bank or brokerage account at specified intervals.

**RETIREMENT PLAN SERVICES.** Prudential offers a wide variety of retirement plans for individuals and institutions, including large and small businesses. For information on IRAs, including Roth IRAs or SEP IRAs for a one-person business, please contact your financial adviser. If you are interested in opening a 401(k) or other company-sponsored retirement plan (SIMPLES, SEP plans, Keoghs, 403(b) plans, pension and profit-sharing plans), your financial adviser will help you determine which retirement plan best meets your needs. Complete instructions about how to establish and maintain your plan and how to open accounts for you and your employees will be included in the retirement plan kit you receive in the mail.

**THE PROTECTOR PROGRAM.** Optional group term life insurance -- which protects the value of your Prudential mutual fund investment for your beneficiaries against market declines -- is available to investors who purchase their shares through Prudential. This insurance is subject to various restrictions and charges and is not available in all states.

45

49

HOW TO BUY, SELL AND  
EXCHANGE SHARES OF THE FUNDS

**SYSTEMATIC WITHDRAWAL PLAN.** A systematic withdrawal plan is available that will provide you with monthly or quarterly checks. Remember, the sale of Class B and Class C shares may be subject to a CDSC.

**REPORTS TO SHAREHOLDERS.** Every year we will send you an annual report (along with an updated prospectus) and a semi-annual report, which contain important financial information about each Fund. To reduce Fund expenses, we will send one

annual shareholder report, one semi-annual shareholder report and one annual prospectus per household, unless you instruct us or your broker otherwise.

#### HOW TO SELL YOUR SHARES

You can sell your shares of a Fund for cash (in the form of a check) at any time, subject to certain restrictions.

When you sell shares of a Fund -- also known as redeeming your shares -- the price you will receive will be the NAV next determined after the Transfer Agent, the Distributor or your broker receives your order to sell. If your broker holds your shares, your broker must receive your order to sell by 4:15 p.m. New York Time to process the sale on that day. Otherwise contact:

PRUDENTIAL MUTUAL FUND SERVICES LLC  
ATTN: REDEMPTION SERVICES  
P.O. BOX 15010  
NEW BRUNSWICK, NJ 08906-5010

Generally, we will pay you for the shares that you sell within seven days after the Transfer Agent, the Distributor or your broker receives your sell order. If you hold shares through a broker, payment will be credited to your account. If you are selling shares you recently purchased with a check, we may delay sending you the proceeds until your check clears, which can take up to 10 days from the purchase date. You can avoid delay if you purchase shares by wire, certified check or cashier's check. Your broker may charge you a separate or additional fee for sales of shares.

#### RESTRICTIONS ON SALES

There are certain times when you may not be able to sell shares of a Fund, or when we may delay paying you the proceeds from a sale. This may happen during unusual market conditions or emergencies when a Fund can't determine the value of its assets or sell its holdings. For more information, see the SAI, "Purchase, Redemption and Pricing of Fund Shares -- Sale of Shares."

46 TARGET FUNDS [TELEPHONE GRAPHIC] (800) 225-1852

50

#### HOW TO BUY, SELL AND EXCHANGE SHARES OF THE FUNDS

If you are selling more than \$100,000 of shares, you want the check sent to someone or some place that is not in our records, or you are a business or a trust and you hold your shares directly with the Transfer Agent, you will need to have the signature on your sell order guaranteed by a financial institution. For more information, see the SAI, "Purchase, Redemption and Pricing of Fund Shares -- Sale of Shares -- Signature Guarantee."

#### CONTINGENT DEFERRED SALES CHARGE (CDSC)

If you sell Class B shares within six years of purchase or Class C shares within 18 months of purchase, you will have to pay a CDSC. To keep the CDSC as low as possible, we will sell amounts representing shares in the following order:

- Amounts representing shares you purchased with reinvested dividends and distributions

- Amounts representing the increase in NAV above the total amount of payments for shares made during the past six years for Class B shares and 18 months for Class C shares
- Amounts representing the cost of shares held beyond the CDSC period (six years for Class B shares and 18 months for Class C shares).

Since shares that fall into any of the categories listed above are not subject to the CDSC, selling them first helps you to avoid -- or at least minimize -- the CDSC.

Having sold the exempt shares first, if there are any remaining shares that are subject to the CDSC, we will apply the CDSC to amounts representing the cost of shares held for the longest period of time within the applicable CDSC period.

As we noted before in the "Share Class Comparison" chart the CDSC for Class B shares is 5% in the first year, 4% in the second, 3% in the third, 2% in the fourth and 1% in the fifth and sixth years. The rate decreases on the first day of the month following the anniversary date of your purchase, not on the anniversary date itself. The CDSC is 1% for Class C shares -- which is applied to shares sold within 18 months of purchase. For both Class B and Class C shares, the CDSC is calculated based on the lesser of the original purchase price or the redemption proceeds. For purposes of determining how long you've held your shares, all purchases during the month are grouped together and considered to have been made on the last day of the month.

47

51

#### HOW TO BUY, SELL AND EXCHANGE SHARES OF THE FUNDS

The holding period for purposes of determining the applicable CDSC will be calculated from the first day of the month after initial purchase, excluding any time shares were held in a money market fund.

#### WAIVER OF THE CDSC -- CLASS B SHARES

The CDSC will be waived if the Class B shares are sold:

- After a shareholder is deceased or disabled (or, in the case of a trust account, the death or disability of the grantor). This waiver applies to individual shareholders, as well as shares owned in joint tenancy (with rights of survivorship), provided the shares were purchased before the death or disability
- To provide for certain distributions -- made without IRS penalty -- from a tax-deferred retirement plan, IRA or Section 403(b) custodial account
- On certain sales from a Systematic Withdrawal Plan.

For more information on the above and other waivers, see the SAI, "Purchase, Redemption and Pricing of Fund Shares -- Waiver of Contingent Deferred Sales Charge -- Class B Shares."

#### WAIVER OF THE CDSC -- CLASS C SHARES

BENEFIT PLANS. The CDSC will be waived for redemptions by certain group retirement plans for which Prudential or brokers not affiliated with Prudential provide administrative or recordkeeping services. The CDSC will also be waived for certain redemptions by benefit plans sponsored by Prudential and its affiliates. For more information, call Prudential at (800) 353-2847.

## REDEMPTION IN KIND

If the sales of Portfolio shares you make during any 90-day period reach the lesser of \$250,000 or 1% of the value of a Fund's net assets, we can then give you securities from the Fund's portfolio instead of cash. If you want to sell the securities for cash, you would have to pay the costs charged by a broker.

## SMALL ACCOUNTS

If you make a sale that reduces your account value to less than \$500, we may sell the rest of your shares (without charging any CDSC) and close your account. We would do this to minimize Fund expenses paid by other shareholders. We will give you 60 days' notice, during which time you can

48 TARGET FUNDS

[TELEPHONE GRAPHIC] (800) 225-1852

52

## HOW TO BUY, SELL AND EXCHANGE SHARES OF THE FUNDS

purchase additional shares to avoid this action. This involuntary sale does not apply to shareholders who own their shares as part of a 401(k) plan, an IRA or some other tax-deferred plan or account.

## 90-DAY REPURCHASE PRIVILEGE

After you redeem your shares, you have a 90-day period during which you may reinvest any of the redemption proceeds in shares of the same Fund without paying an initial sales charge. Also, if you paid a CDSC when you redeemed your shares, we will credit your new account with the appropriate number of shares to reflect the amount of the CDSC you paid. In order to take advantage of this one-time privilege, you must notify the Transfer Agent or your broker at the time of the repurchase. See the SAI, "Purchase, Redemption and Pricing of Fund Shares -- Sale of Shares."

## RETIREMENT PLANS

To sell shares and receive a distribution from a retirement account, call your broker or the Transfer Agent for a distribution request form. There are special distribution and income tax withholding requirements for distributions from retirement plans and you must submit a withholding form with your request to avoid delay. If your retirement plan account is held for you by your employer or plan trustee, you must arrange for the distribution request to be signed and sent by the plan administrator or trustee. For additional information, see the SAI.

## HOW TO EXCHANGE YOUR SHARES

You can exchange your shares of a Fund for shares of the same class in certain other Prudential mutual funds -- including certain money market funds -- if you satisfy the minimum investment requirements. For example, you can exchange Class A shares of the Fund for Class A shares of another Prudential mutual fund, but you can't exchange Class A shares for Class B, Class C or Class Z shares. Class B and Class C shares may not be exchanged into money market funds other than Prudential Special Money Market Fund, Inc. After an exchange, at redemption the CDSC will be calculated from the first day of the month after initial purchase, excluding any time shares were held in a money market fund. We may change the terms of the exchange privilege after giving you 60 days' notice.

## HOW TO BUY, SELL AND EXCHANGE SHARES OF THE FUNDS

If you hold shares through a broker, you must exchange shares through your broker. Otherwise contact:

PRUDENTIAL MUTUAL FUND SERVICES LLC  
ATTN: EXCHANGE PROCESSING  
P.O. BOX 15010  
NEW BRUNSWICK, NJ 08906-5010

There is no sales charge for such exchanges. However, if you exchange -- and then sell -- Class B shares within approximately six years of your original purchase or Class C shares within 18 months of your original purchase, you must still pay the applicable CDSC. If you have exchanged Fund shares into Prudential Special Money Market Fund, Inc., the time you hold the shares in that money market account will not be counted in calculating the required holding period for CDSC liability.

Remember, as we explained in the section entitled "Fund Distributions and Tax Issues - - If You Sell or Exchange Your Shares," exchanging shares is considered a sale for tax purposes. Therefore, if the shares you exchange are worth more than you paid for them, you may have to pay capital gains tax. For additional information about exchanging shares, see the SAI, "Shareholder Investment Account -- Exchange Privilege."

If you own Class B or Class C shares and qualify to purchase Class A shares without paying an initial sales charge, we will automatically exchange your Class B or Class C shares which are not subject to a CDSC for Class A shares. We make such exchanges on a quarterly basis if you qualify for this exchange privilege. We have obtained a legal opinion that this exchange is not a "taxable event" for federal income tax purposes. This opinion is not binding on the IRS.

## FREQUENT TRADING

Frequent trading of Fund shares in response to short-term fluctuations in the market - - also known as "market timing" - - may make it very difficult to manage a Fund's investments. When market timing occurs, a Fund may have to sell portfolio securities to have the cash necessary to redeem the market timer's shares. This can happen at a time when it is not advantageous to sell any securities, so the Fund's performance may be hurt. When large dollar amounts are involved, market timing can also make it difficult to use long-term investment strategies because we cannot predict how much

50 TARGET FUNDS

[TELEPHONE GRAPHIC] (800) 225-1852

## HOW TO BUY, SELL AND EXCHANGE SHARES OF THE FUNDS

cash the Fund will have to invest. When, in our opinion, such activity would have a disruptive effect on portfolio management, each Fund reserves the right to refuse purchase orders and exchanges into the Fund by any person, group or commonly controlled account. The Trust may notify a market timer of rejection of an exchange or purchase order after the day the order is placed. If the Trust allows a market timer to trade Fund shares, it may require the market timer to enter into a written agreement to follow certain procedures and limitations.



DESCRIPTION OF SECURITY RATINGS

DESCRIPTION OF S&P CORPORATE BOND RATINGS:

AAA -- Debt rated AAA has the highest rating assigned by S&P to a debt obligation. Capacity to pay interest and repay principal is extremely strong.

AA -- Debt rated AA has a very strong capacity to pay interest and repay principal and differs from the highest rated issues only in small degree.

A -- Debt rated A has a strong capacity to pay interest and repay principal although it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than bonds in higher rated categories.

BBB -- Debt rated BBB is regarded as having an adequate capacity to pay interest and repay principal. Whereas it normally exhibits 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 debt in this category than in higher rated categories.

BB and B -- Debt rated BB and B are regarded as having significant speculative characteristics. BB indicates the least degree of speculation. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposure to adverse business, financial or economic conditions which could lead to the debtor's inadequate capacity to meet its financial commitment on the debt.

DESCRIPTION OF MOODY'S CORPORATE BOND RATINGS:

Aaa -- Bonds rated Aaa are judged to be the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edged." 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 these 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.

52 TARGET FUNDS [TELEPHONE GRAPHIC] (800) 225-1852

56

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 some time in the future.

Baa -- Bonds which are rated Baa are considered as medium grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be 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: their future cannot be considered as well assured. Often the protection of interest and principal payments may be very moderate and thereby not well safeguarded 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 the 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.

Moody's applies the numerical modifiers 1, 2 and 3 to each generic rating classification from Aa through B. The modifier 1 indicates that the security ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates that the issue ranks in the lower end of its generic rating category.

DESCRIPTION OF S&P COMMERCIAL PAPER RATINGS:

An S&P's commercial paper rating is a current assessment of the likelihood of timely payment of debt considered short-term in the relevant market.

Commercial paper rated A-1 by S&P indicates that the degree of safety regarding timely payment is strong. Capacity for timely payment on commercial paper rated A-2 is satisfactory, but the relative degree of safety is not as high as for issues designated A-1.

DESCRIPTION OF MOODY'S COMMERCIAL PAPER RATINGS:

The rating Prime-1 is the highest commercial paper rating assigned by Moody's. Issuers rated Prime-1 (or supporting institutions) are considered to have a superior capacity for repayment of senior short-term debt obligations.

53

57

Prime-1 repayment ability will often be evidenced by any of the following characteristics:

- leading market positions in well-established industries
- high rate of return on funds employed
- conservative capitalization structure with moderate reliance on debt and ample asset protection
- broad margins in earnings coverage of fixed financial charges and high internal cash generation
- well-established access to a range of financial markets and assured sources of alternate liquidity

Issuers rated Prime-2 (or supporting institutions) are considered to have a strong ability for repayment of senior short-term debt obligations. This will normally be evidenced by many of the characteristics of issuers rated Prime-1 but to a lesser degree. Earnings trends and coverage ratios, while sound, be more subject to variation. Capitalization characteristics, while still appropriate, may be more affected by external conditions. Ample alternative liquidity is maintained.

54 TARGET FUNDS

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58

APPENDIX II

INFORMATION ON PERFORMANCE OF ADVISERS

Each Adviser serves as adviser to a portfolio of The Target Portfolio Trust (Target I) with investment objectives, policies and strategies identical to those of the Fund(s) it manages for the Trust. The table below shows the performance of the Large Capitalization Growth, Large Capitalization Value, Small Capitalization Value, International Equity and Total Return Bond Portfolios of Target I for the periods shown. With respect to each Adviser, the same portfolio manager(s) has managed the Target I portfolio since the firm became an adviser to the portfolio, and the same portfolio manager(s) manages the corresponding Fund of the Trust. With respect to each of the Large Capitalization Growth, Large Capitalization Value and Small Capitalization Value Portfolios of Target I, performance is shown only from the date that both Advisers have been managing the Portfolio's assets. The actual inception date of these Portfolios was January 5, 1993. The performance information shown below reflects the actual expense ratio of each Target I portfolio. The expense ratios for the portfolios of Target I are lower than those of the corresponding Funds of the Trust. In addition, the portfolios of Target I are not subject to sales loads or distribution fees. If the expense ratios for the portfolios of Target I had been as high as those for the corresponding Funds of the Trust, their performance would have been lower. See "Risk/Return Summary -- Fees and Expenses" above and "Expense Ratios" below.

55

59

The performance information below should not be viewed as a substitute for the Funds' own performance. The performance of the Funds will differ from the performance of the portfolios shown below. Past performance of the Target I portfolios should not be considered a prediction of future performance of the Funds.

<TABLE>  
<CAPTION>

TARGET I PORTFOLIO <S>	ADVISER(S) <C>	1 YEAR <C>	5 YEARS <C>	SINCE INCEPTION(1) <C>
Large Capitalization Growth	CCI Oak	%	%	%
Large Capitalization Value	INVESCO Hotchkis & Wiley	%	%	%
Small Capitalization Value	Lazard WSW	%	%	%
International Equity	Lazard	%	%	%
Total Return Bond	PIMCO	%	%	%

</TABLE>

- (1) Inception date for the International Equity and Total Return Bond Portfolios is 1/5/93. Since inception performance for the other Portfolios was calculated from the following dates: Large Capitalization Growth Portfolio, 1/\_\_/95; Large Capitalization Value Portfolio, 1/\_\_/95; and Small Capitalization Value Portfolio, 4/\_\_/95.

Sawgrass and Fleming USA have served as Advisers to the Small Capitalization Growth Portfolio of Target I since 5/26/99 and 8/26/99, respectively. Sawgrass and Fleming USA also serve as the investment adviser of other funds. The performance information shown below relates to the only other registered investment company portfolios with investment objectives, policies and strategies that are substantially similar to those of the Small Capitalization Growth Portfolio and that are managed by the same portfolio manager(s) that manages the Small Capitalization Growth Fund for Sawgrass and Fleming USA. As described in this prospectus, Sawgrass and Fleming USA each have responsibility for a portion of the Small Capitalization Growth Fund. By contrast, Sawgrass and Fleming USA have sole responsibility for the funds whose performance is shown below. The performance information below reflects the actual expense ratio of each fund presented. With respect to funds with multiple share classes, performance information is included for the share class with the highest total

56 TARGET FUNDS

[TELEPHONE GRAPHIC] (800) 225-1852

60

expense ratio and for a class with a lower total expense ratio. The expense ratios for certain of these funds are generally lower than the expense ratios for certain classes of the Small Capitalization Growth Fund. If the expense ratios for those funds had been as high as those for certain classes of the Fund, their performance would have been lower. See "Risk/Return Summary -- Fees and Expenses" above and "Expense Ratios" below.

The performance information below should not be viewed as a substitute for the Small Capitalization Growth Fund's own performance. The performance of the Fund will differ from the performance of the funds shown below. Past performance of the funds should not be considered a prediction of future performance of the Fund. The performance data below reflects the imposition of applicable sales loads.

Annualized Total Returns as of 6/30/99

<TABLE>  
<CAPTION>

FUND NAME <S>	1 YEAR <C>	5 YEARS <C>	10 YEARS <C>	SINCE INCEPTION <C>	INCEPTION DATE <C>
------------------	---------------	----------------	-----------------	---------------------------	--------------------------

Adviser: Sawgrass Asset Management, L.L.C.  
ABC Fund  
Adviser: Fleming Asset Management USA  
XYZ Fund  
</TABLE>

EXPENSE RATIOS. According to Lipper Analytical Services, the expense ratio for each of the funds listed above as of September \_\_\_, 1999 was as follows:

FUND	EXPENSE RATIO
Target I Large Capitalization Growth Portfolio	%
Target I Large Capitalization Value Portfolio	%
Target I Small Capitalization Value Portfolio	%
Target I International Equity Portfolio	%
Target I Total Return Bond Portfolio	%
ABC Fund	%
XYZ Fund	%

57

61

#### THE PRUDENTIAL MUTUAL FUND FAMILY

Prudential offers a broad range of mutual funds designed to meet your individual needs. For information about these funds, contact your financial advisor or call us at (800) 225-1852. Read the prospectus carefully before you invest or send money.

#### STOCK FUNDS

##### PRUDENTIAL DISTRESSED SECURITIES FUND, INC.

PRUDENTIAL EMERGING GROWTH FUND, INC.  
PRUDENTIAL EQUITY FUND, INC.  
PRUDENTIAL EQUITY INCOME FUND  
PRUDENTIAL INDEX SERIES FUND  
Prudential Small-Cap Index Fund  
Prudential Stock Index Fund

##### THE PRUDENTIAL INVESTMENT PORTFOLIOS, INC.

Prudential Jennison Growth Fund  
Prudential Jennison Growth &  
Income Fund

##### PRUDENTIAL MID-CAP VALUE FUND

##### PRUDENTIAL REAL ESTATE SECURITIES FUND

##### PRUDENTIAL SECTOR FUNDS, INC.

Prudential Financial Services Fund  
Prudential Health Sciences Fund  
Prudential Technology Fund  
Prudential Utility Fund

##### PRUDENTIAL SMALL-CAP QUANTUM FUND, INC.

##### PRUDENTIAL SMALL COMPANY VALUE FUND, INC.

##### PRUDENTIAL TAX-MANAGED EQUITY FUND

##### PRUDENTIAL 20/20 FOCUS FUND

NICHOLAS-APPLEGATE FUND, INC.  
Nicholas-Applegate Growth  
Equity Fund

#### TARGET FUNDS

Large Capitalization Growth Fund  
Large Capitalization Value Fund  
Small Capitalization Growth Fund  
Small Capitalization Value Fund

#### ASSET ALLOCATION/BALANCED FUNDS

##### PRUDENTIAL BALANCED FUND

##### PRUDENTIAL DIVERSIFIED FUNDS

Conservative Growth Fund  
Moderate Growth Fund  
High Growth Fund

##### THE PRUDENTIAL INVESTMENT PORTFOLIOS, INC.

Prudential Active Balanced Fund

GLOBAL FUNDS

GLOBAL STOCK FUNDS

PRUDENTIAL DEVELOPING MARKETS FUND

Prudential Developing Markets

Equity Fund

Prudential Latin America Equity Fund

PRUDENTIAL EUROPE GROWTH FUND, INC.

PRUDENTIAL GLOBAL GENESIS FUND, INC.

PRUDENTIAL INDEX SERIES FUND

Prudential Europe Index Fund

Prudential Pacific Index Fund

PRUDENTIAL NATURAL RESOURCES

FUND, INC.

PRUDENTIAL PACIFIC GROWTH FUND, INC.

PRUDENTIAL WORLD FUND, INC.

Global Series

International Stock Series

GLOBAL UTILITY FUND, INC.

TARGET FUNDS

International Equity Fund

GLOBAL BOND FUNDS

PRUDENTIAL GLOBAL LIMITED MATURITY

FUND, INC.

Limited Maturity Portfolio

58 TARGET FUNDS

[TELEPHONE GRAPHIC] (800) 225-1852

62

PRUDENTIAL INTERMEDIATE GLOBAL

INCOME FUND, INC.

PRUDENTIAL INTERNATIONAL BOND

FUND, INC.

THE GLOBAL TOTAL RETURN FUND, INC.

BOND FUNDS

TAXABLE BOND FUNDS

PRUDENTIAL DIVERSIFIED BOND FUND, INC.

PRUDENTIAL GOVERNMENT INCOME

FUND, INC.

PRUDENTIAL GOVERNMENT SECURITIES TRUST

Short-Intermediate Term Series

PRUDENTIAL HIGH YIELD FUND, INC.

PRUDENTIAL HIGH YIELD TOTAL RETURN

FUND, INC.

PRUDENTIAL INDEX SERIES FUND

Prudential Bond Market Index Fund

PRUDENTIAL STRUCTURED MATURITY

FUND, INC.

Income Portfolio

TARGET FUNDS

Total Return Bond Fund

TAX-EXEMPT BOND FUNDS

PRUDENTIAL CALIFORNIA MUNICIPAL FUND

California Series

California Income Series

PRUDENTIAL MUNICIPAL BOND FUND

High Income Series

Insured Series

PRUDENTIAL MUNICIPAL SERIES FUND

Florida Series

Massachusetts Series

New Jersey Series

New York Series

North Carolina Series

Ohio Series

Pennsylvania Series

PRUDENTIAL NATIONAL MUNICIPALS

FUND, INC.

MONEY MARKET FUNDS

TAXABLE MONEY MARKET FUNDS

CASH ACCUMULATION TRUST

Liquid Assets Fund

National Money Market Fund

PRUDENTIAL GOVERNMENT SECURITIES TRUST  
Money Market Series  
U.S. Treasury Money Market Series  
PRUDENTIAL SPECIAL MONEY MARKET  
FUND, INC.  
Money Market Series  
Prudential MoneyMart Assets, Inc.

TAX-FREE MONEY MARKET FUNDS  
PRUDENTIAL TAX-FREE MONEY FUND, INC.  
PRUDENTIAL CALIFORNIA MUNICIPAL FUND  
California Money Market Series  
PRUDENTIAL MUNICIPAL SERIES FUND  
Connecticut Money Market Series  
Massachusetts Money Market Series  
New Jersey Money Market Series  
New York Money Market Series

COMMAND FUNDS  
COMMAND MONEY FUND  
COMMAND GOVERNMENT FUND  
COMMAND TAX-FREE FUND

INSTITUTIONAL MONEY MARKET FUNDS  
PRUDENTIAL INSTITUTIONAL LIQUIDITY  
PORTFOLIO, INC.  
Institutional Money Market Series

59

63

FOR MORE INFORMATION

Please read this prospectus before you invest in the Funds and keep it for future reference. For information or shareholder questions contact:

PRUDENTIAL MUTUAL FUND SERVICES LLC  
P.O. BOX 15005  
NEW BRUNSWICK, NJ 08906-5005  
(800) 225-1852  
(732) 417-7555  
(if calling from outside the U.S.)

Outside Brokers Should Contact:

PRUDENTIAL INVESTMENT MANAGEMENT  
SERVICES LLC  
P.O. BOX 15035  
NEW BRUNSWICK, NJ 08906-5035  
(800) 778-8769

Visit Prudential's Web Site At:  
[HTTP://WWW.PRUDENTIAL.COM](http://www.prudential.com)

Additional information about the Trust can be obtained without charge and can be found in the following documents:

STATEMENT OF ADDITIONAL  
INFORMATION (SAI)  
(incorporated by reference into  
this prospectus)

ANNUAL REPORT  
(contains a discussion of the market conditions and investment strategies that significantly affected the Funds' performance)

SEMI-ANNUAL REPORT

MF189A

You can also obtain copies of Trust documents from the Securities and Exchange Commission as follows:

By Mail:

In Person:  
Public Reference Room in Washington, DC  
(For hours of operation, call  
1(800) SEC-0330)  
Via the Internet:  
<http://www.sec.gov>

CUSIP Numbers:

Large Capitalization Growth Fund  
Class A: 87612T-10-3  
Class B: 87612T-20-2  
Class C: 87612T-30-1  
Large Capitalization Value Fund  
Class A: 87612T-40-0  
Class B: 87612T-50-9  
Class C: 87612T-60-8  
Small Capitalization Growth Fund  
Class A: 87612T-70-7  
Class B: 87612T-80-6  
Class C: 87612T-81-4  
Small Capitalization Value Fund  
Class A: 87612T-82-2  
Class B: 87612T-83-0  
Class C: 87612T-84-8  
International Equity Fund  
Class A: 87612T-85-5  
Class B: 87612T-86-3  
Class C: 87612T-87-1  
Total Return Bond Fund  
Class A: 87612T-88-9  
Class B: 87612T-78-0  
Class C: 87612T-79-8

Investment Company Act File No: 811-09439

[Logo] Printed on Recycled Paper

64

TARGET FUNDS

Statement of Additional Information

September 15, 1999

Target Funds (the Trust) is an open-end, management investment company currently composed of six separate investment portfolios (the Funds) professionally managed by Prudential Investments Fund Management LLC (PIFM or the Manager). Each Fund benefits from discretionary advisory services provided by an investment adviser (each, an Adviser, collectively, the Advisers) identified, retained, supervised and compensated by the Manager. The Trust consists of the following six Funds:

- Large Capitalization Growth Fund
- Large Capitalization Value Fund
- Small Capitalization Growth Fund
- Small Capitalization Value Fund
- International Equity Fund
- Total Return Bond Fund

The Trust's address is Gateway Center Three, 100 Mulberry Street, Newark, New Jersey 07102-4077, and its telephone number is (800) 225-1852.

This Statement of Additional Information is not a prospectus and should be read in conjunction with the Trust's Prospectus dated September 15, 1999, a copy of which may be obtained from the Trust upon request.

TABLE OF CONTENTS

<TABLE>  
<CAPTION>

	PAGE
<S>	<C>
History of the Trust.....	B-2
Description of the Funds, Their Investments and Risks.....	B-2
Investment Restrictions.....	B-32
Management of the Trust.....	B-34
Control Persons and Principal Holders of Securities.....	B-36
Investment Advisory and Other Services.....	B-37
Brokerage Allocation and Other Practices.....	B-43
Capital Shares, Other Securities and Organization.....	B-45
Purchase, Redemption and Pricing of Fund Shares.....	B-46
Shareholder Investment Account.....	B-56
Net Asset Value.....	B-61
Taxes, Dividends and Distributions.....	B-61
Performance Information.....	B-64
Report of Independent Accountants.....	B-66
Financial Statements.....	B-67
Appendix I -- Historical Performance Data.....	I-1
Appendix II -- General Investment Information.....	II-1
Appendix III -- Information Relating to Prudential.....	III-1
Appendix IV -- Glossary of Indices.....	IV-1

</TABLE>

[MF189B]

65

#### HISTORY OF THE TRUST

The Trust was organized as an unincorporated business trust on July 8, 1999 under the laws of the State of Delaware.

#### DESCRIPTION OF THE PORTFOLIOS, THEIR INVESTMENTS AND RISKS

(a) CLASSIFICATION. The Trust is an open-end management investment company. Each of the Funds is classified as a diversified fund.

(b) AND (c) INVESTMENT STRATEGIES, POLICIES AND RISKS. The investment objectives of the Funds and the principal investment policies and strategies for seeking to achieve the Funds' objectives are set forth in the Trust's Prospectus. This section provides additional information on the principal investment policies and strategies of the Funds, as well as information on certain non-principal investment policies and strategies. The Funds may not be successful in achieving their respective objectives and you could lose money.

#### U.S. GOVERNMENT SECURITIES

Each Fund may invest in U.S. Government securities.

U.S. TREASURY SECURITIES. U.S. Treasury securities include bills, notes, bonds and other debt securities issued by the U.S. Treasury. These instruments are direct obligations of the U.S. Government and, as such, are backed by the "full faith and credit" of the United States. They differ primarily in their interest rates, the lengths of their maturities and the dates of their issuances.

OBLIGATIONS ISSUED OR GUARANTEED BY U.S. GOVERNMENT AGENCIES AND INSTRUMENTALITIES. Securities issued or guaranteed by agencies or instrumentalities of the U.S. Government include, but are not limited to, GNMA, FNMA and FHLMC securities. Obligations of GNMA, the Federal Housing Administration, Farmers Home Administration and the Export-Import Bank are backed by the full faith and credit of the United States. In the case of securities not backed by the full faith and credit of the United States, the Trust must look principally to the agency issuing or guaranteeing the obligation for ultimate repayment and may not be able to assert a claim against the United States itself in the event the agency or instrumentality does not meet its commitments. Such securities include obligations issued by the Student Loan Marketing Association (SLMA), FNMA and FHLMC, each of which may borrow from the U.S. Treasury to meet its obligations, although the U.S. Treasury is under no obligation to lend to such entities. GNMA, FNMA and FHLMC may also issue collateralized mortgage obligations.

STRIPPED U.S. GOVERNMENT SECURITIES. A Fund may invest in component parts of U.S. Government securities, namely either the corpus (principal) of such



obligations or one of the interest payments scheduled to be paid on such obligations. These obligations may take the form of (1) obligations from which the interest coupons have been stripped; (2) the interest coupons that are stripped; and (3) book-entries at a Federal Reserve member bank representing ownership of obligation components.

MORTGAGE-RELATED SECURITIES ISSUED OR GUARANTEED BY U.S. GOVERNMENT AGENCIES AND INSTRUMENTALITIES. A Fund may invest in mortgage backed securities and other derivative mortgage products, including those representing an undivided ownership interest in a pool of mortgages, e.g., GNMA, FNMA and FHLMC certificates where the U.S. Government or its agencies or instrumentalities guarantees the payment of interest and principal of these securities. However, these guarantees do not extend to the securities' yield or value, which are likely to vary inversely with fluctuations in interest rates, nor do these guarantees extend to the yield or value of a Fund's shares. See "Mortgage-Backed Securities and Asset Backed Securities" below.

Mortgages backing the securities which may be purchased by a Fund include conventional thirty-year fixed-rate mortgages, graduated payment mortgages, fifteen-year mortgages, adjustable

B-2

66

rate mortgages and balloon payment mortgages. A balloon payment mortgage backed security is an amortized mortgage security with installments of principal and interest, the last installment of which is predominantly principal. All of these mortgages can be used to create "pass-through securities." A pass-through security is formed when mortgages are pooled together and undivided interests in the pool or pools are sold. The cash flow from the mortgages is passed through to the holders of the securities in the form of periodic payments of interest, principal and prepayments (net of a service fee). Prepayments occur when the holder of an undivided mortgage prepays the remaining principal before the mortgage's scheduled maturity date. As a result of the pass-through of prepayments of principal on the underlying securities, mortgage backed securities are often subject to more rapid prepayment of principal than their stated maturity would indicate. The remaining expected average life of a pool of mortgage loans underlying a mortgage backed security is a prediction of when the mortgage loans will be repaid and is based upon a variety of factors, such as the demographic and geographic characteristics of the borrowers and the mortgaged properties, the length of time that each of the mortgage loans has been outstanding, the interest rates payable on the mortgage loans and the current interest rate environment.

In addition to GNMA, FNMA or FHLMC certificates through which the holder receives a share of all interest and principal payments from the mortgages underlying the certificate, a Fund may also invest in mortgage pass-through securities issued by the U.S. Government or its agencies and instrumentalities, commonly referred to as mortgage-backed security strips or MBS strips. MBS strips are usually structured with two classes that receive different proportions of the interest and principal distributions on a pool of mortgage assets. A common type of stripped mortgage security will have one class receiving some of the interest and most of the principal from the mortgage assets, while the other class will receive most of the interest and the remainder of the principal. In the most extreme case, one class will receive all of the interest (the interest-only or "IO" class), while the other class will receive all of the principal (the principal-only or "PO" class). The yields to maturity on IOs and POs are sensitive to the rate of principal payments (including prepayments) on the related underlying mortgage assets, and principal payments may have a material effect on yield to maturity. If the underlying mortgage assets experience greater than anticipated prepayments of principal, the Fund may not fully recoup its initial investment in IOs. Conversely, if the underlying mortgage assets experience less than anticipated prepayments of principal, the yield on POs could be materially adversely affected.

During periods of declining interest rates, prepayment of mortgages underlying mortgage backed securities can be expected to accelerate. When mortgage obligations are prepaid, a Fund reinvests the prepaid amounts in securities, the yields which reflect interest rates prevailing at that time. Therefore, a Fund's ability to maintain a portfolio of high-yielding mortgage-backed securities will be adversely affected to the extent that prepayments of mortgages are reinvested in securities which have lower yields than the prepaid mortgages. Moreover, prepayments of mortgages which underlie securities purchased at a premium generally will result in capital losses. During periods of rising interest rates, the rate of prepayment of mortgages underlying mortgage-backed securities can be expected to decline, extending the projected average maturity of the mortgage-backed securities. This maturity extension risk may effectively change a security which was considered short- or intermediate-term at the time of purchase into a long-term security. Long-term securities generally fluctuate more widely in response to changes in interest rates than short- or intermediate-term securities.

ZERO COUPON SECURITIES. Zero coupon U.S. Government securities are debt obligations that are issued or purchased at a significant discount from face value. The discount approximates the total amount of interest the security will

accrue and compound over the period until maturity or the particular interest payment date at a rate of interest reflecting the market rate of the security at the time of issuance. Zero coupon U.S. Government securities do not require the periodic payment of interest. These investments benefit the issuer by mitigating its need for cash to meet debt service, but also require a higher rate of return to attract investors who are willing to defer receipt of cash. These investments may experience greater volatility in market value than U.S. Government securities that make regular payments of interest. A Fund accrues income on these investments for tax

B-3

67

and accounting purposes, 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, in which case the Fund will forego the purchase of additional income producing assets with these funds. Zero coupon U.S. Government securities include STRIPS and CUBES, which are issued by the U.S. Treasury as component parts of U.S. Treasury bonds and represent scheduled interest and principal payments on the bonds.

SPECIAL CONSIDERATIONS. Fixed-income U.S. Government securities are considered among the most creditworthy of fixed income investments. The yields available from U.S. Government securities are generally lower than the yields available from corporate debt securities. The values of U.S. Government securities will change as interest rates fluctuate. To the extent U.S. Government securities are not adjustable rate securities, these changes in value in response to changes in interest rates generally will be more pronounced. During periods of falling interest rates, the values of outstanding long-term fixed-rate U.S. Government securities generally rise. Conversely, during periods of rising interest rates, the values of such securities generally decline. The magnitude of these fluctuations will generally be greater for securities with longer maturities. Although changes in the value of U.S. Government securities will not affect investment income from those securities, they may affect the net asset value of a Fund.

At a time when a Fund has written call options on a portion of its U.S. Government securities, its ability to profit from declining interest rates will be limited. Any appreciation in the value of the securities held in the Fund above the strike price would likely be partially or wholly offset by unrealized losses on call options written by a Fund. The termination of option positions under these conditions would generally result in the realization of capital losses, which would reduce a Fund's capital gains distribution. Accordingly, a Fund would generally seek to realize capital gains to offset realized losses by selling portfolio securities. In such circumstances, however, it is likely that the proceeds of such sales would be reinvested in lower yielding securities.

#### CUSTODIAL RECEIPTS

Each Fund may invest in receipts evidencing the component parts (corpus or coupons) of U.S. Government obligations that have not actually been stripped. Such receipts evidence ownership of component parts of U.S. Government obligations (corpus or coupons) purchased by a third party (typically an investment banking firm) and held on behalf of the third party in physical or book entry form by a major commercial bank or trust company pursuant to a custody agreement with the third party. These custodial receipts include "Treasury Receipts," "Treasury Investment Growth Receipts" (TIGRs) and "Certificates of Accrual on Treasury Securities" (CATS). Each Fund will not invest more than 5% of its net assets in such custodial receipts.

Custodial receipts held by a third party are not issued or guaranteed by the United States Government and are not considered U.S. Government securities. Each Fund may also invest in such custodial receipts.

#### MONEY MARKET INSTRUMENTS

Each Fund may invest in high-quality money market instruments, including commercial paper of a U.S. or non-U.S. company or foreign government securities, certificates of deposit, bankers' acceptances and time deposits of domestic and foreign banks, and obligations issued or guaranteed by the U.S. Government, its agencies and instrumentalities. Money market obligations will be generally U.S. dollar denominated. Commercial paper will be rated, at the time of purchase, at least "A-2" by S&P or "Prime-2" by Moody's, or the equivalent by another NRSRO or, if not rated, issued by an entity having an outstanding unsecured debt issue rated at least "A" or "A-2" by S&P or "A" or "Prime-2" by Moody's or the equivalent by another NRSRO.

B-4

68

#### CORPORATE AND OTHER DEBT OBLIGATIONS

The Large Capitalization Value Fund, Small Capitalization Value Fund, International Equity Fund and Total Return Bond Fund may each invest in corporate and other debt obligations. Except where otherwise indicated, each Fund will invest in securities rated A or better or determined by the Adviser to be of comparable quality. These debt securities may have adjustable or fixed rates of interest and in certain instances may be secured by assets of the issuer. Adjustable rate corporate debt securities may have features similar to those of adjustable rate mortgage backed securities, but corporate debt securities, unlike mortgage backed securities, are not subject to prepayment risk other than through contractual call provisions which generally impose a penalty for prepayment. Fixed-rate debt securities may also be subject to call provisions.

The market value of fixed-income obligations of the Funds will be affected by general changes in interest rates, which will result in increases or decreases in the value of the obligations held by the Funds. The market value of the obligations held by a Fund can be expected to vary inversely with changes in prevailing interest rates. Investors also should recognize that, in periods of declining interest rates, a Fund's yield will tend to be somewhat higher than prevailing market rates and, in periods of rising interest rates, a Fund's yield will tend to be somewhat lower. Also, when interest rates are falling, the inflow of net new money to a Fund from the continuous sale of its shares will tend to be invested in instruments producing lower yields than the balance of its portfolio, thereby reducing the Fund's current yield. In periods of rising interest rates, the opposite can be expected to occur. In addition, securities in which a Fund may invest may not yield as high a level of current income as might be achieved by investing in securities with less liquidity, less creditworthiness or longer maturities.

Ratings made available by S&P, Moody's and other NRSRO's are relative and subjective and are not absolute standards of quality. Although these ratings are initial criteria for selection of portfolio investments, each Adviser will also make its own evaluation of these securities on behalf of the Fund. Among the factors that will be considered are the long-term ability of the issuers to pay principal and interest and general economic trends.

**MEDIUM AND LOWER-RATED SECURITIES.** The Total Return Bond Fund may invest in medium (i.e., rated Baa by Moody's or BBB by S&P or the equivalent by another NRSRO) and lower-rated securities (i.e., rated lower than Baa by Moody's or lower than BBB by S&P or the equivalent by another NRSRO). However, the Fund will not purchase any security rated lower than B by Moody's or S&P or the equivalent by another NRSRO. Securities rated Baa by Moody's or BBB by S&P or the equivalent by another NRSRO, although considered investment grade, possess speculative characteristics, including the risk of default, and changes in economic or other conditions are more likely to impair the ability of issuers of these securities to make interest and principal payments than is the case with respect to issuers of higher-grade bonds.

Generally, medium or lower-rated securities and unrated securities of comparable quality, sometimes referred to as "junk bonds" (i.e., securities rated lower than Baa by Moody's or BBB by S&P or the equivalent by another NRSRO), offer a higher current yield than is offered by higher-rated securities, but also (i) will likely have some quality and protective characteristics that, in the judgment of the rating organizations, are outweighed by large uncertainties or major risk exposures to adverse conditions and (ii) are predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligation. The market values of certain of these securities also tend to be more sensitive to individual corporate developments and changes in economic conditions than higher-quality bonds. In addition, medium and lower-rated securities and comparable unrated securities generally present a higher degree of credit risk. The risk of loss due to default by these issuers is significantly greater because medium and lower-rated securities and unrated securities of comparable quality generally are unsecured and frequently are subordinated to the prior payment of senior indebtedness. The Advisers, under the supervision of the Manager and the Trustees, in evaluating the creditworthiness of an issue whether rated or

B-5

69

unrated, take various factors into consideration, which may include, as applicable, the issuer's financial resources, its sensitivity to economic conditions and trends, the operating history of and the community support for the facility financed by the issue, the ability of the issuer's management and regulatory matters.

In addition, the market value of securities in lower-rated categories is more volatile than that of higher-quality securities, and the markets in which medium and lower-rated or unrated securities are traded are more limited than those in which higher-rated securities are traded. The existence of limited markets may make it more difficult for each Fund to obtain accurate market quotations for purposes of valuing its portfolio and calculating its net asset value. Moreover, the lack of a liquid trading market may restrict the

availability of securities for a Fund to purchase and may also have the effect of limiting the ability of a Fund to sell securities at their fair value either to meet redemption requests or to respond to changes in the economy or the financial markets.

Lower-rated debt obligations also present risks based on payment expectations. If an issuer calls the obligation for redemption, a Fund may have to replace the security with a lower-yielding security, resulting in a decreased return for investors. Also, as the principal value of bonds moves inversely with movements in interest rates, in the event of rising interest rates the value of the securities held by a Fund may decline proportionately more than a portfolio consisting of higher-rated securities. If a Fund experiences unexpected net redemptions, it may be forced to sell its higher-rated bonds, resulting in a decline in the overall credit quality of the securities held by the Fund and increasing the exposure of the Fund to the risks of lower-rated securities. Investments in zero coupon bonds may be more speculative and subject to greater fluctuations in value due to changes in interest rates than bonds that pay interest currently.

Ratings of fixed-income securities represent the rating agency's opinion regarding their credit quality and are not a guarantee of quality. Rating agencies attempt to evaluate the safety of principal and interest payments and do not evaluate the risks of fluctuations in market value. Also, rating agencies may fail to make timely changes in credit ratings in response to subsequent events, so that an issuer's current financial condition may be better or worse than a rating indicates. See "Description of Security Ratings" in the Prospectus.

Subsequent to its purchase by a Fund, an issue of securities may cease to be rated or its rating may be reduced below the minimum required for purchase by the Fund. Neither event will require sale of these securities by the Fund, but the Adviser will consider this event in its determination of whether the Fund should continue to hold the securities.

**COMMERCIAL PAPER.** Each Fund may invest in commercial paper. Commercial paper consists of short-term (usually from 1 to 270 days) unsecured promissory notes issued by corporations in order to finance their current operations. A variable amount master demand note (which is a type of commercial paper) represents a direct borrowing arrangement involving periodically fluctuating rates of interest under a letter agreement between a commercial paper issuer and an institutional lender pursuant to which the lender may determine to invest varying amounts.

**ADJUSTABLE RATE SECURITIES.** The Large Capitalization Value Portfolio and Total Return Bond Fund may each invest in adjustable rate securities. Adjustable rate securities are debt securities having interest rates which are adjusted or reset at periodic intervals ranging from one month to three years. The interest rate of an adjustable rate security typically responds to changes in general market levels of interest. The interest paid on any particular adjustable rate security is a function of the index upon which the interest rate of that security is based.

The adjustable rate feature of the securities in which a Fund may invest will tend to reduce sharp changes in a Fund's net asset value in response to normal interest rate fluctuations. As the coupon rates of a Fund's adjustable rate securities are reset periodically, yields of these portfolio securities will reflect changes in market rates and should cause the net asset value of a Fund's shares to fluctuate less dramatically than that of a fund invested in long-term fixed-rate securities. However, while the adjustable rate feature of such securities will tend to limit sharp swings in a

B-6

70

Fund's net asset value in response to movements in general market interest rates, it is anticipated that during periods of fluctuations in interest rates, the net asset value of a Fund will fluctuate.

**INFLATION-INDEXED BONDS.** The Total Return Bond Fund may invest in inflation-indexed bonds issued by governmental entities and corporations. Inflation-indexed bonds are fixed income securities whose principal value is periodically adjusted according to the rate of inflation. Such bonds generally are issued at an interest rate lower than typical bonds, but are expected to retain their principal value over time. The interest rate on these bonds is fixed at issuance, but over the life of the bond this interest may be paid on an increasing principal value, which has been adjusted for inflation.

Any increase in the principal amount of an inflation-indexed bond will be considered taxable ordinary income, even though investors do not receive their principal until maturity.

#### FOREIGN SECURITIES

The International Equity and Total Return Bond Funds may each invest in foreign equity and debt securities, including securities of foreign

corporations, obligations of foreign branches of U.S. banks and securities issued by foreign governments.

A Fund's investments in foreign government securities may include debt securities issued or guaranteed, as to payment of principal and interest, by governments, semi-governmental entities, governmental agencies, supranational entities and other governmental entities (collectively, the Government Entities) of countries considered stable by an Adviser. A "supranational entity" is an entity constituted by the national governments of several countries to promote economic development. Examples of such supranational entities include, among others, the World Bank, the European Investment Bank and the Asian Development Bank. Debt securities of "semi-governmental entities" are issued by entities owned by a national, state, or equivalent government or are obligations of a political unit that are not backed by the national government's "full faith and credit" and general taxing powers. Examples of semi-governmental issuers include, among others, the Province of Ontario and the City of Stockholm. Foreign government securities also include mortgage-backed securities issued by foreign government entities including semi-governmental entities.

A Fund may invest in mortgage-backed securities issued or guaranteed by foreign government entities including semi-governmental entities, and Brady Bonds, which are long-term bonds issued by government entities in developing countries as part of a restructuring of their commercial loans.

The values of foreign investments are affected by changes in currency rates or exchange control regulations, restrictions or prohibitions on the repatriation of foreign currencies, application of foreign tax laws, including withholding taxes, changes in governmental administration or economic or monetary policy (in the United States or abroad) or changed circumstances in dealings between nations. Costs are also incurred in connection with conversions between various currencies. In addition, foreign brokerage commissions and custody fees are generally higher than those charged in the United States, and foreign securities markets may be less liquid, more volatile and less subject to governmental supervision than in the United States. Investments in foreign countries could be affected by other factors not present in the United States, including expropriation, confiscatory taxation, lack of uniform accounting and auditing standards and potential difficulties in enforcing contractual obligations and could be subject to extended clearance and settlement periods.

**CURRENCY RISKS.** Because the majority of the securities purchased by the International Equity Fund are denominated in currencies other than the U.S. dollar, changes in foreign currency exchange rates will affect the Fund's net asset value; the value of interest earned; gains and losses realized on the sale of securities; and net investment income and capital gain, if any, to be distributed to shareholders by the Fund. If the value of a foreign currency rises against the U.S. dollar, the value of the Fund's assets denominated in that currency will increase; correspondingly, if

B-7

71

the value of a foreign currency declines against the U.S. dollar, the value of the Fund's assets denominated in that currency will decrease. Under the Internal Revenue Code, the Fund is required to separately account for the foreign currency component of gains or losses, which will usually be viewed under the Internal Revenue Code as items of ordinary and distributable income or loss, thus affecting the Fund's distributable income.

The exchange rates between the U.S. dollar and foreign currencies are a function of such factors as supply and demand in the currency exchange markets, international balances of payments, governmental interpretation, speculation and other economic and political conditions. Although the International Equity Fund values its assets daily in U.S. dollars, the Fund will not convert its holdings of foreign currencies to U.S. dollars daily. When the Fund converts its holdings to another currency, it may incur conversion costs. Foreign exchange dealers may realize a profit on the difference between the price at which they buy and sell currencies.

**RISK FACTORS AND SPECIAL CONSIDERATIONS OF INVESTING IN EURO-DENOMINATED SECURITIES.** On January 1, 1999, 11 of the 15 member states of the European Monetary Union introduced the "euro" as a common currency. During a three year transitional period, the euro will coexist with each participating state's currency and on July 1, 2002, the euro is expected to become the sole currency of the participating states. During the transition period, the Funds will treat the euro as a separate currency from that of any participating state.

The conversion may adversely affect the Funds if the euro does not take effect as planned; if a participating state withdraws from the European Monetary Union; or if the computing, accounting and trading systems used by the Funds' service providers, or by entities with which the Trust or its service providers do business, are not capable of recognizing the euro as a distinct currency at the time of, and following, euro conversion. In addition, the conversion could cause markets to become more volatile.

The overall effect of the transition of member states' currencies to the euro is not known at this time. It is likely that more general short- and long-term ramifications can be expected, such as changes in the economic environment and change in the behavior of investors, which would affect a Fund's investments and its net asset value. In addition, although U.S. Treasury regulations generally provide that the euro conversion will not, in itself, cause a U.S. taxpayer to realize gain or loss, other changes that may occur at the time of the conversion, such as accrual periods, holiday conventions, indices, and other features may require the realization of a gain or loss by the Funds as determined under existing tax law.

The Trust's Manager has taken steps: (1) that it believes will reasonably address euro-related changes to enable the Trust and its service providers to process transactions accurately and completely with minimal disruption to business activities and (2) to obtain reasonable assurances that appropriate steps have been taken by the Trust's other service providers to address the conversion. The Trust has not borne any expense relating to these actions.

#### MORTGAGE-BACKED SECURITIES AND ASSET-BACKED SECURITIES

MORTGAGE BACKED SECURITIES -- GENERAL. The Total Return Bond Fund may invest in mortgage-backed securities. Mortgage-backed securities are securities that directly or indirectly represent a participation in, or are secured by and payable from, mortgage loans secured by real property. There are currently three basic types of mortgage backed securities: (1) those issued or guaranteed by the U.S. Government or one of its agencies or instrumentalities, such as GNMA, FNMA and FHLMC, described under "U.S. Government Securities" above; (2) those issued by private issuers that represent an interest in or are collateralized by mortgage backed securities issued or guaranteed by the U.S. Government or one of its agencies or instrumentalities; and (3) those issued by private issuers that represent an interest in or are collateralized by whole mortgage loans or mortgage backed securities without a government guarantee but usually having some form of private credit enhancement.

B-8

72

GNMA CERTIFICATES. Certificates of the Government National Mortgage Association (GNMA Certificates) are mortgage-backed securities which evidence an undivided interest in a pool or pools of mortgages. GNMA Certificates are the "modified pass-through" type, which entitle the holder to receive timely payment of all interest and principal payments due on the mortgage pool, net of fees paid to the "issuer" and GNMA, regardless of whether or not the mortgagor actually makes the payment. The GNMA Certificates will represent a pro rata interest in one or more pools of the following types of mortgage loans: (1) fixed rate level payment mortgage loans; (2) fixed rate graduated payment mortgage loans; (3) fixed rate growing equity mortgage loans; (4) fixed rate mortgage loans secured by manufactured (mobile) homes; (5) mortgage loans on multifamily residential properties under construction; (6) mortgage loans on completed multifamily projects; (7) fixed rate mortgage loans as to which escrowed funds are used to reduce the borrower's monthly payments during the early years of the mortgage loans ("buydown" mortgage loans); (8) mortgage loans that provide for adjustments in payments based on periodic changes in interest rates or in other payment terms of the mortgage loans; and (9) mortgage-backed serial notes. All of these mortgage loans will be FHA Loans or VA Loans and, except as otherwise specified above, will be fully-amortizing loans secured by first liens on one-to-four family housing units.

FNMA CERTIFICATES. The Federal National Mortgage Association (FNMA) is a federally chartered and privately owned corporation organized and existing under the Federal National Mortgage Association Charter Act. FNMA provides funds to the mortgage market primarily by purchasing home mortgage loans from local lenders, thereby replenishing their funds for additional lending. FNMA acquires funds to purchase home mortgage loans from many capital market investors that may not ordinarily invest in mortgage loans directly.

Each FNMA Certificate will entitle the registered holder thereof to receive amounts, representing such holder's pro rata interest in scheduled principal payments and interest payments (at such FNMA Certificate's pass-through rate, which is net of any servicing and guarantee fees on the underlying mortgage loans), and any principal prepayments on the mortgage loans in the pool represented by such FNMA Certificate and such holder's proportionate interest in the full principal amount of any foreclosed or otherwise finally liquidated mortgage loan. The full and timely payment of principal and interest on each FNMA Certificate will be guaranteed by FNMA, which guarantee is not backed by the full faith and credit of the U.S. Government.

FHLMC SECURITIES. The Federal Home Loan Mortgage Corporation (FHLMC) is a corporate instrumentality of the United States created pursuant to the Emergency Home Finance Act of 1970, as amended (the FHLMC Act). Its purpose is to promote development of a nationwide secondary market in conventional residential mortgages. The principal activity of FHLMC consists of the purchase of first lien, conventional, residential mortgage loans and participation interests in such mortgage loans and the resale of the mortgage loans so purchased in the form of mortgage securities, primarily FHLMC Certificates.

FHLMC issues two types of mortgage pass-through securities, mortgage participation certificates (PCs) and guaranteed mortgage certificates (GMCs). PCs resemble GNMA Certificates in that each PC represents a pro rata share of all interest and principal payments made and owned on the underlying pool. FHLMC guarantees timely monthly payment of interest on PCs and the ultimate payment of principal.

**FHLMC CERTIFICATES.** FHLMC guarantees to each registered holder of the FHLMC Certificate the timely payment of interest at the rate provided for by such FHLMC Certificate, whether or not received. FHLMC also guarantees to each registered holder of a FHLMC Certificate ultimate collection of all principal on the related mortgage loans, without any offset or deduction, but does not, generally, guarantee the timely payment of scheduled principal. The obligations of FHLMC under its guarantee are obligations solely of FHLMC and are not backed by the full faith and credit of the U.S. Government.

B-9

73

FHLMC Certificates represent a pro rata interest in a group of mortgage loans (a FHLMC Certificate group) purchased by FHLMC. The mortgage loans underlying the FHLMC Certificates will consist of fixed rate or adjustable rate mortgage loans with original terms to maturity of between ten and thirty years, substantially all of which are secured by first liens on one-to four-family residential properties or multifamily projects. Each mortgage loan must meet the applicable standards set forth in the FHLMC Act. An FHLMC Certificate group may include whole loans, participation interests in whole loans and undivided interests in whole loans and participations comprising another FHLMC Certificate group.

The market value of mortgage securities, like other securities, will generally vary inversely with changes in market interest rates, declining when interest rates rise and rising when interest rates decline. However, mortgage securities, while having comparable risk of decline during periods of rising rates, usually have less potential for capital appreciation than other investments of comparable maturities due to the likelihood of increased prepayments of mortgages as interest rates decline. In addition, to the extent such mortgage securities are purchased at a premium, mortgage foreclosures and unscheduled principal prepayments generally will result in some loss of the holders' principal to the extent of the premium paid. On the other hand, if such mortgage securities are purchased at a discount, an unscheduled prepayment of principal will increase current and total returns and will accelerate the recognition of income which when distributed to shareholders will be taxable as ordinary income.

**ADJUSTABLE RATE MORTGAGE SECURITIES.** Adjustable rate mortgage securities (ARMs) are pass-through mortgage securities collateralized by mortgages with adjustable rather than fixed rates. Generally, ARMs have a specified maturity date and amortize principal over their life. In periods of declining interest rates, there is a reasonable likelihood that ARMs will experience increased rates of prepayment of principal.

The amount of interest on an ARM is calculated by adding a specified amount, the "margin," to the index, subject to limitations on the maximum and minimum interest that can be charged. Because the interest rate on ARMs generally moves in the same direction as market interest rates, the market value of ARMs tends to be more stable than that of long-term fixed rate securities.

**PRIVATE MORTGAGE PASS-THROUGH SECURITIES.** Private mortgage pass-through securities are structured similarly to GNMA, FNMA and FHLMC mortgage pass-through securities and are issued by originators of and investors in mortgage loans, including depository institutions, mortgage banks, investment banks and special purpose subsidiaries of the foregoing. These securities usually are backed by a pool of conventional fixed-rate or adjustable rate mortgage loans. Since private mortgage pass-through securities typically are not guaranteed by an entity having the credit status of GNMA, FNMA and FHLMC, such securities generally are structured with one or more types of credit enhancement. Types of credit enhancements are described under "Types of Credit Enhancement" below.

**COLLATERALIZED MORTGAGE OBLIGATIONS AND MULTICLASS PASS-THROUGH SECURITIES.** CMOs are debt obligations collateralized by mortgage loans or mortgage pass-through securities. Typically, CMOs are collateralized by GNMA, FNMA or FHLMC Certificates, but also may be collateralized by whole loans or private mortgage pass-through securities (such collateral collectively hereinafter referred to as "Mortgage Assets"). Multiclass pass-through securities are equity interests in a trust composed of Mortgage Assets. Payments of principal and interest on the Mortgage Assets, and any reinvestment income thereon, provide the funds to pay debt service on the CMOs or make scheduled distributions on the multiclass pass-through securities. CMOs may be issued by agencies or instrumentalities of the U.S. Government, or by private originators of, or investors in, mortgage loans, including depository institutions, mortgage banks, investment banks and special purpose subsidiaries of the foregoing. The

issuer of a series of CMOs may elect to be treated as a Real Estate Mortgage Investment Conduit (REMIC). All future references to CMOs include REMICs.

B-10

74

In a CMO, a series of bonds or certificates is issued in multiple classes. Each class of CMOs, often referred to as a "tranche," is issued at a specific fixed or floating coupon rate and has a stated maturity or final distribution date. Principal prepayments on the Mortgage Assets may cause the CMOs to be retired substantially earlier than their stated maturities or final distribution dates. Interest is paid or accrues on all classes of CMOs on a monthly, quarterly or semi-annual basis. The principal of and interest on the Mortgage Assets may be allocated among the several classes of a CMO series in a number of different ways. Generally, the purpose of the allocation of the cash flow of a CMO to the various classes is to obtain a more predictable cash flow to the individual tranches than exists with the underlying collateral of the CMO. As a general rule, the more predictable the cash flow on a CMO tranche, the lower the anticipated yield will be on that tranche at the time of issuance relative to prevailing market yields on mortgage-backed securities.

The Total Return Bond Fund also may invest in, among other things, parallel pay CMOs and Planned Amortization Class CMOs (PAC Bonds). Parallel pay CMOs are structured to provide payments of principal on each payment date to more than one class. These simultaneous payments are taken into account in calculating the stated maturity date or final distribution date of each class, which, as with other CMO structures, must be retired by its stated maturity date or final distribution date but may be retired earlier. PAC Bonds generally require payments of a specified amount of principal on each payment date. PAC Bonds always are parallel pay CMOs with the required principal payment on such securities having the highest priority after interest has been paid to all classes.

In reliance on a Securities and Exchange Commission (the SEC) interpretation, the Fund's investments in certain qualifying collateralized mortgage obligations (CMOs), including CMOs that have elected to be treated as REMICs, are not subject to the Investment Company Act's limitation on acquiring interests in other investment companies. In order to be able to rely on the SEC's interpretation, the CMOs and REMICs must be unmanaged, fixed-asset issuers, that (1) invest primarily in mortgage-backed securities, (2) do not issue redeemable securities, (3) operate under general exemptive orders exempting them from all provisions of the Investment Company Act and (4) are not registered or regulated under the Investment Company Act as investment companies. To the extent that the Fund selects CMOs or REMICs that do not meet the above requirements, the Fund may not invest more than 10% of its assets in all such entities, may not invest more than 5% of its total assets in a single entity, and may not acquire more than 3% of the voting securities of any single such entity.

**STRIPPED MORTGAGE BACKED SECURITIES.** Stripped mortgage backed securities or MBS strips are derivative multiclass mortgage securities. In addition to MBS strips issued by agencies or instrumentalities of the U.S. Government, the Fund may purchase MBS strips issued by private originators of, or investors in, mortgage loans, including depository institutions, mortgage banks, investment banks and special purpose subsidiaries of the foregoing. See "U.S. Government Securities--Mortgage Related Securities Issued or Guaranteed by U.S. Government Agencies and Instrumentalities" above.

**ASSET-BACKED SECURITIES.** The Large Capitalization Value Fund, Small Capitalization Value Fund and Total Return Bond Fund may each invest in asset-backed securities. Through the use of trusts and special purpose corporations, various types of assets, primarily automobile and credit card receivables and home equity loans, have been securitized in pass-through structures similar to the mortgage pass-through structures or in a pay-through structure similar to the CMO structure. A Fund may invest in these and other types of asset-backed securities that may be developed in the future. Asset-backed securities present certain risks that are not presented by mortgage backed securities. Primarily, these securities do not have the benefit of a security interest in the related collateral. Credit card receivables are generally unsecured and the debtors are entitled to the protection of a number of state and federal consumer credit laws, some of which may reduce the ability to obtain full payment. In the case of automobile receivables, the security interests in the underlying automobiles are often not transferred when the pool is created, with the resulting

B-11

75

possibility that the collateral could be resold. In general, these types of loans are of shorter average life than mortgage loans and are less likely to have substantial prepayments.

**TYPES OF CREDIT ENHANCEMENT.** Mortgage backed securities and asset-backed securities are often backed by a pool of assets representing the obligations of



a number of different parties. To lessen the effect of failures by obligors on underlying assets to make payments, those securities may contain elements of credit support which fall into two categories: (1) liquidity protection and (2) protection against losses resulting from ultimate default by an obligor on the underlying assets. Liquidity protection refers to the provision of advances, generally by the entity administering the pool of assets, to seek to ensure that the receipt of payments on the underlying pool occurs in a timely fashion. Protection against losses resulting from default seeks to ensure ultimate payment of the obligations on at least a portion of the assets in the pool. This protection may be provided through guarantees, insurance policies or letters of credit obtained by the issuer or sponsor from third parties, through various means of structuring the transaction or through a combination of such approaches. The degree of credit support provided for each issue is generally based on historical information respecting the level of credit risk associated with the underlying assets. Delinquencies or losses in excess of those anticipated could adversely affect the return on an investment in a security. A Fund will not pay any additional fees for credit support, although the existence of credit support may increase the price of a security.

**RISK FACTORS RELATING TO INVESTING IN MORTGAGE BACKED AND ASSET-BACKED SECURITIES.** The yield characteristics of mortgage backed and asset-backed securities differ from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that principal may be prepaid at any time because the underlying mortgage loans or other assets generally may be prepaid at any time. As a result, if a Fund purchases such a security at a premium, a prepayment rate that is faster than expected will reduce yield to maturity, while a prepayment rate that is slower than expected will have the opposite effect of increasing yield to maturity. Alternatively, if a Fund purchases these securities at a discount, faster than expected prepayments will increase, while slower than expected prepayments will reduce, yield to maturity. Moreover, slower than expected prepayments may effectively change a security which was considered short- or intermediate-term at the time of purchase into a long-term security. Long-term securities generally lead to increased volatility of net asset value because they tend to fluctuate more widely in response to changes in interest rates than short- or intermediate-term securities. The Total Return Bond Fund may invest a portion of its assets in derivative mortgage backed securities such as MBS Strips which are highly sensitive to changes in prepayment and interest rates. Each Adviser will seek to manage these risks (and potential benefits) by diversifying its investments in such securities and, in certain circumstances, through hedging techniques.

In addition, mortgage-backed securities which are secured by manufactured (mobile) homes and multi-family residential properties, such as GNMA and FNMA certificates, are subject to a higher risk of default than are other types of mortgage-backed securities.

Although the extent of prepayments on a pool of mortgage loans depends on various economic and other factors, as a general rule prepayments on fixed-rate mortgage loans will increase during a period of falling interest rates and decrease during a period of rising interest rates. Accordingly, amounts available for reinvestment by the Total Return Bond Fund are likely to be greater during a period of declining interest rates and, as a result, likely to be reinvested at lower interest rates than during a period of rising interest rates. Asset-backed securities, although less likely to experience the same prepayment rates as mortgage-backed securities, may respond to certain of the same factors influencing prepayments, while at other times different factors will predominate. Mortgage-backed securities and asset-backed securities may decrease in value as a result of increases in interest rates and may benefit less than other fixed-income securities from declining interest rates because of the risk of prepayment. During periods of rising interest rates, the rate of prepayment of mortgages underlying mortgage-backed securities can be expected to decline, extending the

B-12

76

projected average maturity of the mortgage-backed securities. This maturity extension risk may effectively change a security which was considered short- or intermediate-term at the time of purchase into a long-term security. Long-term securities generally fluctuate more widely in response to changes in interest rates than short- or intermediate-term securities.

#### CONVERTIBLE SECURITIES

Each Fund may invest in convertible securities. A convertible security is typically a bond, debenture, corporate note, preferred stock or other similar security which may be converted at a stated price within a specified period of time into a specified number of shares of common stock or other equity securities of the same or a different issuer. Convertible securities are generally senior to common stocks in a corporation's capital structure, but are usually subordinated to similar nonconvertible securities. While providing a fixed income stream (generally higher in yield than the income derivable from a common stock but lower than that afforded by a similar nonconvertible security), a convertible security also affords an investor the opportunity, through its

conversion feature, to participate in the capital appreciation attendant upon a market price advance in the convertible security's underlying common stock. Convertible securities also include preferred stocks, which technically are equity securities.

In general, the market value of a convertible security is at least the higher of its "investment value" (i.e., its value as a fixed-income security) or its "conversion value" (i.e., its value upon conversion into its underlying common stock). As a fixed-income security, a convertible security tends to increase in market value when interest rates decline and tends to decrease in value when interest rates rise. However, the price of a convertible security is also influenced by the market value of the security's underlying common stock. The price of a convertible security tends to increase as the market value of the underlying common stock rises, whereas it tends to decrease as the market value of the underlying stock declines. While no securities investment is without some risk, investments in convertible securities generally entail less risk than investments in the common stock of the same issuer.

#### LOAN PARTICIPATIONS

The Total Return Bond Fund may invest up to 5% of its net assets in high quality participation interests having remaining maturities not exceeding one year in loans extended by banks to United States and foreign companies. In a typical corporate loan syndication, a number of lenders, usually banks (co-lenders), lend a corporate borrower a specified sum pursuant to the terms and conditions of a loan agreement. One of the co-lenders usually agrees to act as the agent bank with respect to the loan. The loan agreement among the corporate borrower and the co-lenders identifies the agent bank as well as sets forth the rights and duties of the parties. The agreement often (but not always) provides for the collateralization of the corporate borrower's obligations thereunder and includes various types of restrictive covenants which must be met by the borrower.

The participation interests acquired by the Fund may, depending on the transaction, take the form of a direct or co-lending relationship with the corporate borrower, an assignment of an interest in the loan by a co-lender or another participant, or a participation in the seller's share of the loan. Typically, the Fund will look to the agent bank to collect principal of and interest on a participation interest, to monitor compliance with loan covenants, to enforce all credit remedies, such as foreclosures on collateral, and to notify co-lenders of any adverse changes in the borrower's financial condition or declarations of insolvency. The agent bank in such cases will be qualified to serve as a custodian for a registered investment company such as the Trust. The agent bank is compensated for these services by the borrower pursuant to the terms of the loan agreement.

When the Fund acts as co-lender in connection with a participation interest or when the Fund acquires a participation interest the terms of which provide that the Fund will be in privity with the corporate borrower, the Fund will have direct recourse against the borrower in the event the borrower fails to pay scheduled principal and interest. In cases where the Fund lacks such direct

B-13

77

recourse, the Fund will look to the agent bank to enforce appropriate credit remedies against the borrower.

The Manager believes that the principal credit risk associated with acquiring participation interests from a co-lender or another participant is the credit risk associated with the underlying corporate borrower. The Fund may incur additional credit risk, however, when the Fund is in the position of participant rather than a co-lender because the Fund must assume the risk of insolvency of the co-lender from which the participation interest was acquired and that of any person interpositioned between the Fund and the co-lender. However, in acquiring participation interests, the Fund will conduct analysis and evaluation of the financial condition of each such co-lender and participant to ensure that the participation interest meets the Fund's high quality standard and will continue to do so as long as it holds a participation. For purposes of the Fund's requirement to maintain diversification for tax purposes, the issuer of a loan participation will be the underlying borrower. In cases where the Fund does not have recourse directly against the borrower, both the borrower and each agent bank and co-lender interposed between the Fund and the borrower will be deemed issuers of the loan participation for tax diversification purposes.

For purposes of the Fund's fundamental investment restriction against investing 25% or more of its total assets in any one industry, the Fund will consider all relevant factors in determining who is the issuer of a loan participation including the credit quality of the underlying borrower, the amount and quality of the collateral, the terms of the loan participation agreement and other relevant agreements (including any intercreditor agreements), the degree to which the credit of such intermediary was deemed material to the decision to purchase the loan participation, the interest

environment, and general economic conditions applicable to the borrower and such intermediary.

#### REPURCHASE AGREEMENTS

Each Fund may enter into repurchase agreements whereby the seller of the security agrees to repurchase that security from the Fund at a mutually agreed-upon time and price. The period of maturity is usually quite short, possibly overnight or a few days, although it may extend over a number of months. Each Fund does not currently intend to invest in repurchase agreements whose maturities exceed one year. The resale price is in excess of the purchase price, reflecting an agreed-upon rate of return effective for the period of time a Fund's money is invested in the repurchase agreement. A Fund's repurchase agreements will at all times be fully collateralized in an amount at least equal to the resale price. The instruments held as collateral are valued daily, and if the value of instruments declines, a Fund will require additional collateral. In the event of a default, insolvency or bankruptcy by a seller, the Fund will promptly seek to liquidate the collateral. In such circumstances, the Fund could experience a delay or be prevented from disposing of the collateral. To the extent that the proceeds from any sale of such collateral upon a default in the obligation to repurchase are less than the resale price, the Fund will suffer a loss.

The Funds will only enter into repurchase transactions with parties meeting creditworthiness standards approved by the Trustees. Each Adviser will monitor the creditworthiness of such parties.

#### REVERSE REPURCHASE AGREEMENTS AND DOLLAR ROLLS

The Total Return Bond Fund may enter into reverse repurchase agreements and dollar rolls. The proceeds from such transactions will be used for the clearance of transactions or to take advantage of investment opportunities.

Reverse repurchase agreements involve sales by the Fund of securities concurrently with an agreement by the Fund to repurchase the same assets at a later date at a fixed price. During the reverse repurchase agreement period, the Fund continues to receive principal and interest payments on these securities.

B-14

78

Dollar rolls involve sales by the Fund of securities for delivery in the current month and a simultaneous contract to repurchase substantially similar (same type and coupon) securities on a specified future date from the same party. During the roll period, the Fund forgoes principal and interest paid on the securities. The Fund is compensated by the difference between the current sales price and the forward price for the future purchase (often referred to as the "drop") as well as by the interest earned on the cash proceeds of the initial sale. A "covered roll" is a specific type of dollar roll for which there is an offsetting cash position or a cash equivalent security position which matures on or before the forward settlement date of the dollar roll transaction.

The Fund will segregate with its custodian cash or other liquid assets equal in value to its obligations in respect of reverse repurchase agreements and dollar rolls. Reverse repurchase agreements and dollar rolls involve the risk that the market value of the securities retained by the Fund may decline below the price of the securities the Fund has sold but is obligated to repurchase under the agreement. If the buyer of securities under a reverse repurchase agreement or dollar roll files for bankruptcy or becomes insolvent, the Fund's use of the proceeds of the agreement may be restricted pending a determination by the other party, or its trustee or receiver, whether to enforce the Fund's obligation to repurchase the securities.

Reverse repurchase agreements and dollar rolls, including covered dollar rolls, are speculative techniques involving leverage and are considered borrowings by the Fund for purposes of the percentage limitations applicable to borrowings. See "Borrowing" below.

#### INTEREST RATE SWAP TRANSACTIONS

The Total Return Bond Fund may enter into interest rate swap transactions. Interest rate swaps involve the exchange by the Fund with another party of their respective commitments to pay or receive interest, for example, an exchange of floating rate payments for fixed-rate payments. The Fund expects to enter into these transactions primarily to preserve a return or spread on a particular investment or portion of its portfolio or to protect against any increase in the price of securities the Fund anticipates purchasing at a later date. The Fund intends to use these transactions as a hedge and not as a speculative investment.

The Fund may enter into either asset-based interest rate swaps or liability-based interest rate swaps, depending on whether it is hedging its assets or its liabilities. The Fund will usually enter into interest rate swaps on a net basis, i.e., 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. Since these hedging transactions are entered into for good faith hedging purposes and cash or other liquid assets are segregated, the Manager and the Advisers believe such obligations do not constitute senior securities and, accordingly, will not treat them as being subject to the borrowing restrictions applicable to the Fund. The net amount of the excess, if any, of the Fund's obligations over its entitlements with respect to each interest rate swap will be accrued on a daily basis and an amount of cash or other liquid assets having an aggregate net asset value at least equal to the accrued excess will be segregated by a custodian that satisfies the requirements of the Investment Company Act. To the extent that the Fund enters into interest rate swaps on other than a net basis, the amount segregated will be the full amount of the Fund's obligations, if any, with respect to such interest rate swaps, accrued on a daily basis. The Fund will not enter into any interest rate swaps unless the unsecured senior debt or the claims-paying ability of the other party thereto is rated in the highest rating category of at least one nationally recognized rating organization at the time of entering into such transaction. If there is a default by the other party to such a transaction, the Fund will have 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.

B-15

79

The use of interest rate swaps is highly speculative activity which involves investment techniques and risks different from those associated with ordinary portfolio securities transactions. If the Adviser is incorrect in its forecast of market values, interest rates and other applicable factors, the investment performance of the Fund would diminish compared to what it would have been if this investment technique was never used.

The Fund may only enter into interest rate swaps to hedge its portfolio. Interest rate swaps do not involve the delivery of securities or 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. This amount will not exceed 5% of the Fund's net assets. 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. Since interest rate swaps are individually negotiated, the Fund expects to achieve an acceptable degree of correlation between its rights to receive interest on its portfolio securities and its rights and obligations to receive and pay interest pursuant to interest rate swaps.

#### ILLIQUID SECURITIES

Each Fund may hold up to 15% of its net assets in illiquid securities. If a Fund were to exceed this limit, the Adviser(s) would take reasonable measures to reduce the Fund's holdings in illiquid securities to no more than 15% of its net assets within seven days, including the sale of such securities. Illiquid securities include repurchase agreements which have a maturity of longer than seven days, and securities that are not readily marketable in securities markets either within or outside of the United States and securities that have legal or contractual restrictions on resale (restructured securities). Repurchase agreements subject to demand are deemed to have a maturity equal to the notice period.

Historically, illiquid securities have included securities subject to contractual or legal restrictions on resale because they have not been registered under the Securities Act of 1933, as amended (Securities Act), securities which are otherwise not readily marketable and repurchase agreements having a maturity of longer than seven days. Securities which have not been registered under the Securities Act are referred to as private placements or restricted securities and are purchased directly from the issuer or in the secondary market. Mutual funds do not typically hold a significant amount of these restricted or other illiquid securities because of the potential for delays on resale and uncertainty in valuation. Limitations on resale may have an adverse effect on the marketability of portfolio securities and a mutual fund might be unable to dispose of restricted or other illiquid securities promptly or at reasonable prices and might thereby experience difficulty satisfying redemptions within seven days. A mutual fund might also have to register such restricted securities in order to dispose of them resulting in additional expense and delay. Adverse market conditions could impede such a public offering of securities.

In recent years, however, a large institutional market has developed for certain securities that are not registered under the Securities Act including repurchase agreements, commercial paper, foreign securities, municipal securities, convertible securities and corporate bonds and notes. Institutional

investors depend on an efficient institutional market in which the unregistered security can be readily resold or on an issuer's ability to honor a demand for repayment. The fact that there are contractual or legal restrictions on resale to the general public or to certain institutions may not be indicative of the liquidity of such investments.

Rule 144A under the Securities Act allows for a broader institutional trading market for securities otherwise subject to restriction on resale to the general public. Rule 144A establishes a "safe harbor" from the registration requirements of the Securities Act for resales of certain securities to qualified institutional buyers. The Manager anticipates that the market for certain restricted securities such as institutional commercial paper, convertible securities and foreign securities will expand further as a result of this regulation and the development of automated

B-16

80

systems for the trading, clearance and settlement of unregistered securities of domestic and foreign issuers, such as the PORTAL System sponsored by the NASD.

Restricted securities eligible for resale pursuant to Rule 144A under the Securities Act and privately placed commercial paper for which there is a readily available market are treated as liquid only when deemed liquid under procedures established by the Trustees. The Advisers will monitor the liquidity of such restricted securities subject to the supervision of the Trustees. In reaching liquidity decisions, the Advisers will consider, among others, the following factors: (1) the frequency of trades and quotes for the security; (2) the number of dealers wishing to purchase or sell the security and the number of other potential purchasers; (3) dealer undertakings to make a market in the security and (4) the nature of the security and the nature of the marketplace trades (that is, the time needed to dispose of the security, the method of soliciting offers and the mechanics of the transfer). In addition, in order for commercial paper that is issued in reliance on Section 4(2) of the Securities Act to be considered liquid, (a) it must be rated in one of the two highest rating categories by at least two nationally recognized statistical rating organizations (NRSRO), or if only one NRSRO rates the securities, by that NRSRO, or, if unrated, be of comparable quality in the view of the Adviser; and (2) it must not be "traded flat" (i.e., without accrued interest) or in default as to principal or interest. The Funds' investments in Rule 144A securities could have the effect of increasing illiquidity to the extent that qualified institutional buyers become, for a time, uninterested in purchasing Rule 144A securities.

The staff of the Commission has taken the position that purchased over-the-counter options and the assets used as "cover" for written over-the-counter options are illiquid securities unless the Fund and the counterparty have provided for the Fund, at the Fund's election, to unwind the over-the-counter option. The exercise of such an option ordinarily would involve the payment by the Fund of an amount designated to effect the counterparty's economic loss from an early termination, but does allow the Fund to treat the assets used as "cover" as "liquid." However, with respect to U.S. Government securities, a Fund may treat the securities it uses as "cover" for written OTC options on U.S. Government securities as liquid provided it follows a specified procedure. A Fund may sell such OTC options only to qualified dealers who agree that a Fund may repurchase any options it writes for a maximum price to be calculated by a predetermined formula. In such cases, OTC options would be considered liquid only to the extent that the maximum repurchase price under the formula exceeds the intrinsic value of the option.

When a Fund enters into interest rate swaps on other than a net basis, the entire amount of the Fund's obligations, if any, with respect to such interest rate swaps will be treated as illiquid. To the extent that a Fund enters into interest rate swaps on a net basis, the net amount of the excess, if any, of the Fund's obligations over its entitlements with respect to each interest rate swap will be treated as illiquid. The Funds will also treat non-U.S. Government POs and IOs as illiquid securities so long as the staff of the SEC maintains its position that such securities are illiquid.

#### INVESTMENT COMPANY SECURITIES

The Funds may invest in securities issued by other investment companies which invest in short-term debt securities and which seek to maintain a \$1.00 net asset value per share (money market funds). The Funds may also invest in securities issued by other investment companies with similar investment objectives. The International Equity Fund may purchase shares of investment companies investing primarily in foreign securities, including so-called "country funds." Country funds have portfolios consisting primarily of securities of issuers located in one foreign country. Securities of other investment companies will be acquired within the limits prescribed by the Investment Company Act. As a shareholder of another investment company, a Fund would bear, along with other shareholders, its pro rata portion of the other investment company's expenses, including advisory fees. These expenses would be in addition to the expenses each Fund bears in connection with its own operations.

## RISK MANAGEMENT AND RETURN ENHANCEMENT STRATEGIES

The International Equity Fund and the Total Return Bond Fund may each engage in various portfolio strategies, including using derivatives, to seek to reduce certain risks of its investments and to enhance return. A Fund, and thus its investors, may lose money through any unsuccessful use of these strategies. These strategies currently include the use of foreign currency forward contracts, options, futures contracts and options thereon. A Fund's ability to use these strategies may be limited by various factors, such as market conditions, regulatory limits and tax considerations, and there can be no assurance that any of these strategies will succeed. See "Taxes, Dividends and Distributions." If new financial products and risk management techniques are developed, each Fund may use them to the extent consistent with its investment objectives and policies.

## RISKS OF RISK MANAGEMENT AND RETURN ENHANCEMENT

STRATEGIES -- GENERAL. Participation in the options and futures markets and in currency exchange transactions involves investment risks and transaction costs to which a Fund would not be subject absent the use of these strategies. A Fund, and thus its investors, may lose money through any unsuccessful use of these strategies. If an Adviser's predictions of movements in the direction of the securities, foreign currency or interest rate markets are inaccurate, the adverse consequences to a Fund may leave the Fund in a worse position than if such strategies were not used. Risks inherent in the use of these strategies include (1) dependence on the Adviser's ability to predict correctly movements in the direction of interest rates, securities prices and currency markets; (2) imperfect correlation between the price of options and futures contracts and options thereon and movements in the prices of the securities being hedged; (3) the fact that skills needed to use these strategies are different from those needed to select portfolio securities; (4) the possible absence of a liquid secondary market for any particular instrument at any time; (5) the risk that the counterparty may be unable to complete the transaction; and (6) the possible inability of a Fund to purchase or sell a portfolio security at a time that otherwise would be favorable for it to do so, or the possible need for a Fund to sell a portfolio security at a disadvantageous time, due to the need for a Fund to maintain "cover" or to segregate assets in connection with hedging transactions.

OPTIONS TRANSACTIONS. A Fund may purchase and write (that is, sell) put and call options on securities, currencies and financial indices that are traded on U.S. and foreign securities exchanges or in the over-the-counter market (OTC) to seek to enhance return or to protect against adverse price fluctuations in securities in its portfolio. These options will be on debt securities, aggregates of debt securities, financial indices (for example, S&P 500) and U.S. Government securities. The International Equity Fund may also purchase and write put and call options on foreign currencies and foreign currency futures. A Fund may write covered put and call options to attempt to generate additional income through the receipt of premiums, purchase put options in an effort to protect the value of a security that it owns against a decline in market value and purchase call options in an effort to protect against an increase in price of securities or currencies it intends to purchase. A Fund may also purchase put and call options to offset previously written put and call options of the same series.

A call option gives the purchaser, in exchange for a premium paid, the right for a specified period of time to purchase the securities or currency subject to the option at a specified price (the exercise price or strike price). The writer of a call option, in return for the premium, has the obligation, upon exercise of the option, to deliver, depending upon the terms of the option contract, the underlying securities or a specified amount of cash to the purchaser upon receipt of the exercise price. When a Fund writes a call option, the Fund gives up the potential for gain on the underlying securities or currency in excess of the exercise price of the option during the period that the option is open. There is no limitation on the amount of call options a Fund may write.

A put option gives the purchaser, in return for a premium, the right, for a specified period of time, to sell the securities or currency subject to the option to the writer of the put at the specified

exercise price. The writer of the put option, in return for the premium, has the obligation, upon exercise of the option, to acquire the securities or currency underlying the option at the exercise price. The Fund, as the writer of a put option, might, therefore, be obligated to purchase the underlying securities or currency for more than their current market price.

A Fund will write only "covered" options. A written option is covered if, so long as the Fund is obligated under the option, it (1) owns an offsetting position in the underlying security or currency or (2) segregates cash or other liquid assets, in an amount equal to or greater than its obligation under the option. Under the first circumstance, the Fund's losses are limited because it owns the underlying security; under the second circumstance, in the case of a written call option, the Fund's losses are potentially unlimited. A Fund may only write covered put options to the extent that cover for such options does not exceed 25% of the Fund's net assets. A Fund will not purchase an option if, as a result of such purchase, more than 20% of its total assets would be invested in premiums for options and options on futures.

**OPTIONS ON SECURITIES.** The purchaser of a call option has the right, for a specified period of time, to purchase the securities subject to the option at a specified price (the exercise price or strike price). By writing a call option, the Fund becomes obligated during the term of the option, upon exercise of the option, to deliver the underlying securities or a specified amount of cash to the purchaser against receipt of the exercise price. When a Fund writes a call option, the Fund loses the potential for gain on the underlying securities in excess of the exercise price of the option during the period that the option is open.

The purchaser of a put option has the right, for a specified period of time, to sell the securities subject to the option to the writer of the put at the specified exercise price. By writing a put option, the Fund becomes obligated during the term of the option, upon exercise of the option, to purchase the securities underlying the option at the exercise price. The Fund might, therefore, be obligated to purchase the underlying securities for more than their current market price.

The writer of an option retains the amount of the premium, although this amount may be offset or exceeded, in the case of a covered call option, by an increase and, in the case of a covered put option, by a decline in the market value of the underlying security during the option period.

A Fund may wish to protect certain portfolio securities against a decline in market value at a time when put options on those particular securities are not available for purchase. The Fund may therefore purchase a put option on other securities, the values of which the Adviser expects will have a high degree of positive correlation to the values of such portfolio securities. If the Adviser's judgment is correct, changes in the value of the put options should generally offset changes in the value of the portfolio securities being hedged. If the Adviser's judgment is not correct, the value of the securities underlying the put option may decrease less than the value of the Fund's investments and therefore the put option may not provide complete protection against a decline in the value of the Fund's investments below the level sought to be protected by the put option.

A Fund may similarly wish to hedge against appreciation in the value of debt securities that it intends to acquire at a time when call options on such securities are not available. The Fund may, therefore, purchase call options on other debt securities the values of which the Adviser expects will have a high degree of positive correlation to the values of the debt securities that the Fund intends to acquire. In such circumstances the Fund will be subject to risks analogous to those summarized above in the event that the correlation between the value of call options so purchased and the value of the securities intended to be acquired by the Fund is not as close as anticipated and the value of the securities underlying the call options increases less than the value of the securities to be acquired by the Fund.

A Fund may write options on securities in connection with buy-and-write transactions; that is, the Fund may purchase a security and concurrently write a call option against that security. If the call option is exercised, the Fund's maximum gain will be the premium it received for writing the option,

B-19

83

adjusted upwards or downwards by the difference between the Fund's purchase price of the security and the exercise price of the option. If the option is not exercised and the price of the underlying security declines, the amount of the decline will be offset in part, or entirely, by the premium received.

The exercise price of a call option may be below (in-the-money), equal to (at-the-money) or above (out-of-the-money) the current value of the underlying security at the time the option is written. A Fund may also buy and write straddles (i.e., a combination of a call and a put written on the same security at the same strike price where the same segregated collateral is considered "cover" for both the put and the call). In such cases, a Fund will segregate with its Custodian cash or other liquid assets equivalent to the amount, if any, by which the put is "in-the-money," i.e., the amount by which the exercise price of the put exceeds the current market value of the underlying security. It is contemplated that a Fund's use of straddles will be limited to 5% of the Fund's net assets (meaning that the securities used for cover or segregated as

described above will not exceed 5% of the Fund's net assets at the time the straddle is written). The writing of a call and a put on the same security at the same stock price where the call and put are covered by different securities is not considered a straddle for the purposes of this limit. Buy-and-write transactions using in-the-money call options may be used when it is expected that the price of the underlying security will remain flat or decline moderately during the option period. Buy-and-write transactions using at-the-money call options may be used when it is expected that the price of the underlying security will remain fixed or advance moderately during the option period. A buy-and-write transaction using an out-of-the-money call option may be used when it is expected that the premium received from writing the call option plus the appreciation in the market price of the underlying security up to the exercise price will be greater than the appreciation in the price of the underlying security alone. If the call option is exercised in such a transaction, the Fund's maximum gain will be the premium received by it for writing the option, adjusted upwards or downwards by the difference between the Fund's purchase price of the security and the exercise price of the option. If the option is not exercised and the price of the underlying security declines, the amount of the decline will be offset in part, or entirely, by the premium received.

Prior to being notified of exercise of the option, the writer of an exchange-traded option that wishes to terminate its obligation may effect a "closing purchase transaction" by buying an option of the same series as the option previously written. (Options of the same series are options with respect to the same underlying security, having the same expiration date and the same strike price.) The effect of the purchase is that the writer's position will be cancelled by the exchange's affiliated clearing organization. Likewise, an investor who is the holder of an exchange-traded option may liquidate a position by effecting a "closing sale transaction" by selling an option of the same series as the option previously purchased. There is no guarantee that either a closing purchase or a closing sale transaction can be effected.

Exchange-traded options are issued by a clearing organization affiliated with the exchange on which the option is listed which, in effect, gives its guarantee to the fulfillment of every exchange-traded option transaction. In contrast, OTC options are contracts between the Fund and its counter-party with no clearing organization guarantee. Thus, when the Fund purchases an OTC option, it relies on the dealer from which it has purchased the OTC option to make or take delivery of the securities underlying the option. Failure by the dealer to do so would result in the loss of the premium paid by the Fund as well as the loss of the expected benefit of the transaction. As such, the value of an OTC option is particularly dependent upon the financial viability of the OTC counterparty.

Exchange traded options generally have a continuous liquid market while OTC options may not. When a Fund writes an OTC option, it generally will be able to close out the OTC options prior to its expiration only by entering into a closing purchase transaction with the dealer to which the Fund originally wrote the OTC option. While the Fund will enter into OTC options only with dealers which agree to, and which are expected to be capable of, entering into closing transactions with the Fund, there can be no assurance that the Fund will be able to liquidate an OTC option at a favorable price

B-20

84

at any time prior to expiration. Until the Fund is able to effect a closing purchase transaction in a covered OTC call option the Fund has written, it will not be able to liquidate securities used as cover until the option expires or is exercised or different cover is substituted. In the event of insolvency of the counter party, the Fund may be unable to liquidate an OTC option. With respect to options written by a Fund, the inability to enter into a closing purchase transaction could result in material losses to the Fund.

OTC options purchased by a Fund will be treated as illiquid securities subject to any applicable limitation on such securities. Similarly, the assets used to "cover" OTC options written by the Fund will be treated as illiquid unless the OTC options are sold to qualified dealers who agree that the Fund may repurchase any OTC options it writes for a maximum price to be calculated by a formula set forth in the option agreement. The "cover" for an OTC option written subject to this procedure would be considered illiquid only to the extent that the maximum repurchase price under the formula exceeds the intrinsic value of the option.

A call option written by the Fund is "covered" if the Fund owns the security underlying the option or has an absolute and immediate right to acquire that security without additional consideration (or for additional consideration segregated by its Custodian) upon conversion or exchange of other securities held in its portfolio. A call option is also covered if the Fund holds on a share-for-share basis a call on the same security as the call written where the exercise price of the call held is equal to or less than the exercise price of the call written; where the exercise price of the call held is greater than the exercise price of the call written, the Fund will segregate cash or other liquid assets with its Custodian. A put option written by the Fund is "covered" if the Fund holds on a share-for-share basis a put on the same security as the put



written where the exercise price of the put held is equal to or greater than the exercise price of the put written; otherwise the Fund will segregate cash or other liquid assets with its Custodian equivalent in value to the exercise price of the option. This means that so long as the Fund is obligated as the writer of a call option, it will own the underlying securities subject to the option or an option to purchase the same underlying securities, having an exercise price equal to or less than the exercise price of the "covered" option, or will segregate with its Custodian for the term of the option cash or other liquid assets having a value equal to or greater than the exercise price of the option. In the case of a straddle written by the Fund, the amount segregated will equal the amount, if any, by which the put is "in-the-money."

**OPTIONS ON GNMA CERTIFICATES.** Options on GNMA Certificates are not currently traded on any exchange. However, the Total Return Bond Fund may purchase and write such options should they commence trading on any exchange and may purchase or write OTC Options on GNMA certificates.

Since the remaining principal balance of GNMA Certificates declines each month as a result of mortgage payments, the Fund, as a writer of a covered GNMA call holding GNMA Certificates as "cover" to satisfy its delivery obligation in the event of assignment of an exercise notice, may find that its GNMA Certificates no longer have a sufficient remaining principal balance for this purpose. Should this occur, the Fund will enter into a closing purchase transaction or will purchase additional GNMA Certificates from the same pool (if obtainable) or replacement GNMA Certificates in the cash market in order to remain covered.

A GNMA Certificate held by the Fund to cover an option position in any but the nearest expiration month may cease to represent cover for the option in the event of a decline in the GNMA coupon rate at which new pools are originated under the FHA/VA loan ceiling in effect at any given time. Should this occur, the Fund will no longer be covered, and the Fund will either enter into a closing purchase transaction or replace the GNMA Certificate with a GNMA Certificate which represents cover. When the Fund closes its position or replaces the GNMA Certificate, it may realize an unanticipated loss and incur transaction costs.

**RISKS OF OPTIONS TRANSACTIONS.** An exchange-traded option position may be closed out only on an exchange which provides a secondary market for an option of the same series. Although the Fund will generally purchase or write only those options for which there appears to be an active

B-21

85

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, and for some exchange-traded 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 the Fund would have to exercise its exchange-traded options in order to realize any profit and may incur transaction costs in connection therewith. If the 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 security until the option expires or it delivers the underlying security upon exercise.

Reasons for the absence of a liquid secondary market on an exchange include the following: (1) there may be insufficient trading interest in certain options; (2) restrictions may be imposed by an exchange on opening transactions or closing transactions or both; (3) trading halts, suspensions or other restrictions may be imposed with respect to particular classes or series of options or underlying securities; (4) unusual or unforeseen circumstances may interrupt normal operations on an exchange; (5) the facilities of an exchange or a clearing corporation may not at all times be adequate to handle current trading volume; or (6) 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 the class or series of options) would cease to exist, although outstanding options on that exchange that had been issued by a clearing corporation as a result of trades on that exchange would continue to be exercisable in accordance with their terms. There is no assurance that higher than anticipated trading activity or other unforeseen events might not, at times, render certain of the facilities of any of the clearing corporations inadequate, and thereby result in the institution by an exchange of special procedures which may interfere with the timely execution of customers' orders.

In the event of the bankruptcy of a broker through which the Fund engages in options transactions, the Fund could experience delays and/or losses in liquidating open positions purchased or sold through the broker and/or incur a loss of all or part of its margin deposits with the broker. Similarly, in the event of the bankruptcy of the writer of an OTC option purchased by the Fund, the Fund could experience a loss of all or part of the value of the option. Transactions are entered into by the Fund only with brokers or financial

institutions deemed creditworthy by the investment adviser.

The hours of trading for options may not conform to the hours during which the underlying securities are traded. To the extent that the option markets close before the markets for the underlying securities, significant price and rate movements can take place in the underlying markets that cannot be reflected in the option markets.

**OPTIONS ON SECURITIES INDICES.** The Total Return Bond Fund may purchase and write call and put options on securities indices in an attempt to hedge against market conditions affecting the value of securities that the Fund owns or intends to purchase, and not for speculation. Through the writing or purchase of index options, the Fund can achieve many of the same objectives as through the use of options on individual securities. Options on securities indices are similar to options on a security except that, rather than the right to take or make delivery of a security at a specified price, an option on a securities index gives the holder the right to receive, upon exercise of the option, an amount of cash if the closing level of the securities index upon which the option is based is greater than, in the case of a call, or less than, in the case of a put, the exercise price of the option. This amount of cash is equal to such difference [between the closing price of the index and the exercise price of the option. The writer of the option is obligated, in return for the premium received, to make delivery of this amount. Unlike security options, all settlements are in cash and gain or loss depends upon price movements in the market generally (or in a particular industry or segment of the market), rather than upon price movements in individual securities. Price movements in securities that the Fund owns or intends to purchase will probably not correlate perfectly with movements in the level of an index and, therefore, the Fund bears the risk that a loss on an index option would not be completely offset by movements in the price of such securities.

B-22

86

When the Fund writes an option on a securities index, it will be required to deposit with its Custodian, and mark-to-market, eligible securities equal in value to 100% of the exercise price in the case of a put, or the contract value in the case of a call. In addition, where the Fund writes a call option on a securities index at a time when the contract value exceeds the exercise price, the Fund will segregate and mark-to-market, until the option expires or is closed out, cash or cash equivalents equal in value to such excess.

Options on a securities index involve risks similar to those risks relating to transactions in financial futures contracts described below. Also, an option purchased by the Fund may expire worthless, in which case the Fund would lose the premium paid therefor.

**RISKS OF OPTIONS ON INDICES.** A Fund's purchase and sale of options on indices will be subject to risks described above under "Risks of Options Transactions." In addition, the distinctive characteristics of options on indices create certain risks that are not present with stock options.

Index prices may be distorted if trading of certain stocks included in the index is interrupted. Trading in index options also may be interrupted in certain circumstances, such as if trading were halted in a substantial number of stocks included in the index. If this occurred, the Fund would not be able to close out options which it had purchased or written and, if restrictions on exercise were imposed, may be unable to exercise an option it holds, which could result in substantial losses to the Fund. It is the policy of each Fund to purchase or write options only on indices which include a number of stocks sufficient to minimize the likelihood of a trading halt in the index.

The ability to establish and close out positions on such options will be subject to the development and maintenance of a liquid secondary market. It is not certain that this market will develop in all index option contracts. A Fund will not purchase or sell any index option contract unless and until, in the Adviser's opinion, the market for such options has developed sufficiently that the risk in connection with such transactions is no greater than the risk in connection with options on securities in the index.

**SPECIAL RISKS OF WRITING CALLS ON INDICES.** Because exercises of index options are settled in cash, a call writer such as a Fund cannot determine the amount of its settlement obligations in advance and, unlike call writing on specific stocks, cannot provide in advance for, or cover, its potential settlement obligations by acquiring and holding the underlying securities. However, a Fund will write call options on indices only under the circumstances described herein.

Price movements in a Fund's security holdings probably will not correlate precisely with movements in the level of the index and, therefore, the Fund bears the risk that the price of the securities held by the Fund may not increase as much as the index. In such event, the Fund would bear a loss on the call which is not completely offset by movements in the price of the Fund's security holdings. It is also possible that the index may rise when the Fund's

stocks do not rise. If this occurred, the Fund would experience a loss on the call which is not offset by an increase in the value of its portfolio and might also experience a loss in its portfolio. However, because the value of a diversified portfolio will, over time, tend to move in the same direction as the market, movements in the value of the Fund in the opposite direction as the market would be likely to occur for only a short period or to a small degree.

Unless a Fund has other liquid assets which are sufficient to satisfy the exercise of a call, the Fund would be required to liquidate portfolio securities in order to satisfy the exercise. Because an exercise must be settled within hours after receiving the notice of exercise, if the Fund fails to anticipate an exercise, it may have to borrow from a bank pending settlement of the sale of securities in its portfolio and would incur interest charges thereon.

When a Fund has written a call, there is also a risk that the market may decline between the time the Fund has a call exercised against it, at a price which is fixed as of the closing level of the index on the date of exercise, and the time the Fund is able to sell stocks in its portfolio. As with stock options, the Fund will not learn that an index option has been exercised until the day following the

B-23

87

exercise date but, unlike a call on stock where the Fund would be able to deliver the underlying securities in settlement, the Fund may have to sell part of its investment portfolio in order to make settlement in cash, and the price of such securities might decline before they can be sold. This timing risk makes certain strategies involving more than one option substantially more risky with index options than with stock options. For example, even if an index call which the Fund has written is "covered" by an index call held by the Fund with the same strike price, the Fund will bear the risk that the level of the index may decline between the close of trading on the date the exercise notice is filed with the clearing corporation and the close of trading on the date the Fund exercises the call it holds or the time the Fund sells the call which, in either case, would occur no earlier than the day following the day the exercise notice was filed.

If the Fund holds an index option and exercises it before final determination of the closing index value for that day, it runs the risk that the level of the underlying index may change before closing. If such a change causes the exercised option to fall out-of-the-money, the Fund will be required to pay the difference between the closing index value and the exercise price of the option (times the applicable multiplier) to the assigned writer. Although the Fund may be able to minimize this risk by withholding exercise instructions until just before the daily cutoff time or by selling rather than exercising an option when the index level is close to the exercise price, it may not be possible to eliminate this risk entirely because the cutoff times for index options may be earlier than those fixed for other types of options and may occur before definitive closing index values are announced.

**FUTURES CONTRACTS.** The International Equity Fund and Total Return Bond Fund may each enter into futures contracts and related options which are traded on a commodities exchange or board of trade to reduce certain risks of its investments and to attempt to enhance returns, in each case in accordance with regulations of the Commodity Futures Trading Commission. The Funds, and thus their investors, may lose money through any unsuccessful use of these strategies.

As a purchaser of a futures contract (futures contract), a Fund incurs an obligation to take delivery of a specified amount of the obligation underlying the futures contract at a specified time in the future for a specified price. As a seller of a futures contract, the Fund incurs an obligation to deliver the specified amount of the underlying obligation at a specified time in return for an agreed upon price. A Fund may purchase futures contracts on debt securities, aggregates of debt securities, financial indices and U.S. Government securities including futures contracts or options linked to LIBOR.

Although most futures contracts call for actual delivery or acceptance of securities, the contracts usually are closed out before the settlement date without the making or taking of delivery. A futures contract sale is closed out by effecting a futures contract purchase for the same aggregate amount of the specific type of security and the same delivery date. If the sale price exceeds the offsetting purchase price, the seller would be paid the difference and would realize a gain. If the offsetting purchase price exceeds the sale price, the seller would pay the difference and would realize a loss. Similarly, a futures contract purchase is closed out by effecting a futures contract sale for the same aggregate amount of the specific type of security and the same delivery date. If the offsetting sale price exceeds the purchase price, the purchaser would realize a gain, whereas if the purchase price exceeds the offsetting sale price, the purchaser would realize a loss. There is no assurance that the Fund will be able to enter into a closing transaction.

When a Fund enters into a futures contract it is initially required to deposit with its Custodian, in a segregated account in the name of the broker

performing the transaction an "initial margin" of cash or other liquid securities equal to approximately 2-3% of the contract amount. Initial margin requirements are established by the exchanges on which futures contracts trade and may, from time to time, change. In addition, brokers may establish margin deposit requirements in excess of those required by the exchanges.

Initial margin in futures transactions is different from margin in securities transactions in that initial margin does not involve the borrowing of funds by a brokers' client but is, rather, a good faith

B-24

88

deposit on a futures contract which will be returned to the Fund upon the proper termination of the futures contract. The margin deposits made are marked-to-market daily and the Fund may segregate with its Custodian, cash or U.S. Government securities, called "variation margin," in the name of the broker, which are reflective of price fluctuations in the futures contract.

**OPTIONS ON FUTURES CONTRACTS.** The International Equity Fund and Total Return Bond Fund may each purchase call and put options on futures contracts which are traded on an exchange and enter into closing transactions with respect to such options to terminate an existing position. An option on a futures contract gives the purchaser the right (in return for the premium paid), and the writer the obligation, to assume a position in a futures contract (a long position if the option is a call and a short position if the option is a put) at a specified exercise price at any time during the term of the option. Upon exercise of the option, the assumption of an offsetting futures position by the writer and holder of the option will be accompanied by delivery of the accumulated cash balance in the writer's futures margin account which represents the amount by which the market price of the futures contract at exercise exceeds, in the case of a call, or is less than, in the case of a put, the exercise price of the option on the futures contract.

A Fund may only write "covered" put and call options on futures contracts. A Fund will be considered "covered" with respect to a call option it writes on a futures contract if the Fund owns the assets which are deliverable under the futures contract or an option to purchase that futures contract having a strike price equal to or less than the strike price of the "covered" option and having an expiration date not earlier than the expiration date of the "covered" option, or if it segregates with its Custodian for the term of the option cash or other liquid assets equal to the fluctuating value of the optioned future. The Fund will be considered "covered" with respect to a put option it writes on a futures contract if it owns an option to sell that futures contract having a strike price equal to or greater than the strike price of the "covered" option, or if it segregates with its Custodian for the term of the option cash or other liquid assets at all times equal in value to the exercise price of the put (less any initial margin deposited by the Fund with its Custodian with respect to such option). There is no limitation on the amount of the Fund's assets which can be segregated.

A Fund will purchase options on futures contracts for identical purposes to those set forth above for the purchase of a futures contract (purchase of a call option or sale of a put option) and the sale of a futures contract (purchase of a put option or sale of a call option), or to close out a long or short position in futures contracts. If, for example, the Adviser wished to protect against an increase in interest rates and the resulting negative impact on the value of a portion of its U.S. Government securities holdings, it might purchase a put option on an interest rate futures contract, the underlying security which correlates with the portion of the securities holdings the Adviser seeks to hedge.

**LIMITATIONS ON FUTURES CONTRACTS AND OPTIONS ON FUTURES.** A Fund may purchase or sell futures contracts or purchase related options thereon for bona fide hedging transactions without limit. In addition, the Funds may use futures contracts and options thereon for any other purpose to the extent that the aggregate initial margin and option premium does not exceed 5% of the market value of the Fund's total assets. There is no overall limitation on the percentage of the Fund's assets which may be subject to a hedge position. Subject to these limitations and, in accordance with the regulations of the Commodity Futures Trading Commission (CFTC) the Fund is exempt from registration as a commodity pool operator.

**RISKS OF TRANSACTIONS IN FUTURES CONTRACTS AND RELATED OPTIONS.** A Fund's successful use of futures contracts and related options depends upon the investment adviser's ability to predict the direction of the market and is subject to various additional risks. The correlation between movements in the price of a futures contract and the price of the securities or currencies being hedged is imperfect and there is a risk that the value of the securities or currencies being hedged may increase or decrease at a greater rate than a specified futures contract resulting in losses to a Fund.

B-25

A Fund may sell a futures contract to protect against the decline in the value of securities or currencies held by the Fund. However, it is possible that the futures market may advance and the value of securities held in the Fund's portfolio may decline. If this were to occur, the Fund would lose money on the futures contracts and also experience a decline in value in its portfolio securities.

If a Fund purchases a futures contract to hedge against the increase in value of securities it intends to buy, and the value of such securities decreases, then the Fund may determine not to invest in the securities as planned and will realize a loss on the futures contract that is not offset by a reduction in the price of the securities.

In order to assure that the Fund is entering into transactions in futures contracts for hedging purposes as such term is defined by the CFTC, either: (1) a substantial majority (i.e., approximately 75%) of all anticipatory hedge transactions (transactions in which the Fund does not own at the time of the transaction, but expects to acquire, the securities underlying the relevant futures contract) involving the purchase of futures contracts will be completed by the purchase of securities which are the subject of the hedge, or (2) the underlying value of all long positions in futures contracts will not exceed the total value of (a) all short-term debt obligations held by the Fund; (b) cash held by the Fund; (c) cash proceeds due to the Fund on investments within thirty days; (d) the margin deposited on the contracts; and (e) any unrealized appreciation in the value of the contracts.

If a Fund maintains a short position in a futures contract, it will cover this position by segregating with its Custodian, cash or other liquid assets equal in value (when added to any initial or variation margin on deposit) to the market value of the securities underlying the futures contract. Such a position may also be covered by owning the securities underlying the futures contract, or by holding a call option permitting the Fund to purchase the same contract at a price no higher than the price at which the short position was established.

In addition, if a Fund holds a long position in a futures contract, it will segregate cash or other liquid assets equal to the purchase price of the contract (less the amount of initial or variation margin on deposit) with its Custodian. Alternatively, the Fund could cover its long position by purchasing a put option on the same futures contract with an exercise price as high or higher than the price of the contract held by the Fund.

Exchanges limit the amount by which the price of a futures contract may move on any day. If the price moves equal the daily limit on successive days, then it may prove impossible to liquidate a futures position until the daily limit moves have ceased. In the event of adverse price movements, the Fund would continue to be required to make daily cash payments of variation margin on open futures positions. In such situations, if the Fund has insufficient cash, it may be disadvantageous to do so. In addition, the Fund may be required to take or make delivery of the instruments underlying futures contracts it holds at a time when it is disadvantageous to do so. The ability to close out options and futures positions could also have an adverse impact on the Fund's ability to hedge its portfolio effectively.

In the event of the bankruptcy of a broker through which the Fund engages in transactions in futures or options thereon, the Fund could experience delays and/or losses in liquidating open positions purchased or sold through the broker and/or incur a loss of all or part of its margin deposits with the broker. Transactions are entered into by the Fund only with brokers or financial institutions deemed creditworthy by the Adviser.

There are risks inherent in the use of futures contracts and options transactions for the purpose of hedging the Fund's securities. One such risk which may arise in employing futures contracts to protect against the price volatility of portfolio securities is that the prices of securities subject to futures contracts (and thereby the futures contract prices) may correlate imperfectly with the behavior of the cash prices of the Fund's portfolio securities. Another such risk is that prices of futures contracts may not move in tandem with the changes in prevailing interest rates against which the Fund seeks a hedge. A correlation may also be distorted by the fact that the futures market is

B-26

dominated by short-term traders seeking to profit from the difference between a contract or security price objective and their cost of borrowed funds. Such distortions are generally minor and would diminish as the contract approached maturity.

Successful use of futures contracts is also subject to the ability of an Adviser to forecast movements in the direction of the market and interest rates and other factors affecting equity securities and currencies generally. In

addition, there may exist an imperfect correlation between the price movements of futures contracts purchased by the Fund and the movements in the prices of the securities which are the subject of the hedge. If participants in the futures market elect to close out their contracts through offsetting transactions rather than meet margin deposit requirements, distortions in the normal relationships between the debt securities and futures market could result. Price distortions could also result if investors in futures contracts elect to make or take delivery of underlying securities rather than engage in closing transactions due to the resultant reduction in the liquidity of the futures market. In addition, due to the fact that, from the point of view of speculators, the deposit requirements in the futures markets are less onerous than margin requirements in the cash market, increased participation by speculators in the futures markets could cause temporary price distortions. Due to the possibility of price distortions in the futures market and because of the imperfect correlation between movements in the prices of securities and movements in the prices of futures contracts, a correct forecast of interest rate trends by the Adviser may still not result in a successful hedging transaction.

Compared to the purchase or sale of futures contracts, the purchase of call or put options on futures contracts involves less potential risk to the Fund because the maximum amount at risk is the premium paid for the options (plus transaction costs). However, there may be circumstances when the purchase of a call or put option on a futures contract would result in a loss to the Fund notwithstanding that the purchase or sale of a futures contract would not result in a loss, as in the instance where there is no movement in the prices of the futures contracts or underlying U.S. Government securities.

**OPTIONS ON CURRENCIES.** Instead of purchasing or selling futures, options on futures or forward currency exchange contracts, the International Equity Fund and Total Return Bond Fund may each attempt to accomplish similar objectives by purchasing put or call options on currencies either on exchanges or in over-the-counter markets or by writing put options or covered call options on currencies. A put option gives the Fund the right to sell a currency at the exercise price until the option expires. A call option gives the Fund the right to purchase a currency at the exercise price until the option expires. Both options serve to insure against adverse currency price movements in the underlying portfolio assets designated in a given currency.

**RISKS OF OPTIONS ON FOREIGN CURRENCIES.** Because there are two currencies involved, developments in either or both countries affect the values of options on foreign currencies. Risks include government actions affecting currency valuation and the movements of currencies from one country to another. The quantity of currency underlying option contracts represent odd lots in a market dominated by transactions between banks; this can mean extra transaction costs upon exercise. Option markets may be closed while round-the-clock interbank currency markets are open, and this can create price and rate discrepancies.

**FOREIGN CURRENCY FORWARD CONTRACTS.** The International Equity Fund and Total Return Bond Fund may each enter into foreign currency forward contracts to protect the value of its Fund against future changes in the level of currency exchange rates. A Fund may enter into such contracts on a spot, i.e., cash, basis at the rate then prevailing in the currency exchange market or on a forward basis, by entering into a forward contract to purchase or sell currency. A forward contract on foreign currency is an obligation to purchase or sell a specific currency at a future date, which may be any fixed number of days agreed upon by the parties from the date of the contract at a price set on the date of the contract.

B-27

91

A Fund's dealings in forward contracts will be limited to hedging involving either specific transactions or portfolio positions. Transaction hedging is the purchase or sale of a forward contract with respect to specific receivables or payables of the Fund generally arising in connection with the purchase or sale of its portfolio securities and accruals of interest or dividends receivable and Fund expenses. Position hedging is (1) the sale of a foreign currency with respect to portfolio security positions denominated or quoted in that currency or in a currency bearing a substantial correlation to the value of that currency (cross-hedge) or (2) the purchase of a foreign currency when the Adviser believes that the U.S. dollar may decline against that foreign currency. Although there are no limits on the number of forward contracts which a Fund may enter into, a Fund may not position hedge with respect to a particular currency for an amount greater than the aggregate market value (determined at the time of making any purchase or sale of foreign currency) of the securities being hedged.

The precise matching of forward contract amounts and the value of the securities involved will not generally be possible since the future value of securities in foreign currencies will change as a consequence of market movements in the value of those securities between the date on which the forward contract is entered into and the date it matures. The projection of short-term currency market movement is extremely difficult, and the successful execution of a short-term hedging strategy is highly uncertain. A Fund does not intend to

enter into such forward contracts to protect the value of its portfolio securities on a regular or continuous basis. A Fund does not intend to enter into such forward contracts or maintain a net exposure to such contracts where the consummation of the contracts would obligate the Fund to deliver an amount of foreign currency in excess of the value of the Fund's securities holdings or other assets denominated in that currency.

The Fund generally will not enter into a forward contract with a term of greater than one year. At the maturity of a forward contract, the Fund may either sell the portfolio security and make delivery of the foreign currency, or it may retain the security and terminate its contractual obligation to deliver the foreign currency by purchasing an "offsetting" contract with the same currency trader obligating it to purchase, on the same maturity date, the same amount of the foreign currency.

It is impossible to forecast with absolute precision the market value of a particular portfolio security at the expiration of the forward contract. Accordingly, if a decision is made to sell the security and make delivery of the foreign currency and if the market value of the security is less than the amount of foreign currency that the Fund is obligated to deliver, then it would be necessary for the Fund to purchase additional foreign currency on the spot market (and bear the expense of such purchase).

If the Fund retains the portfolio security and engages in an offsetting transaction, the Fund would incur a gain or a loss to the extent that there has been movement in forward contract prices. Should forward contract prices decline during the period between the Fund's entering into a forward contract for the sale of a foreign currency and the date it enters into an offsetting contract for the purchase of the foreign currency, the Fund will realize a gain to the extent that the price of the currency it has agreed to sell exceeds the price of the currency it has agreed to purchase. Should forward contract prices increase, the Fund will suffer a loss to the extent that the price of the currency it has agreed to purchase exceeds the price of the currency it has agreed to sell.

A Fund's dealing in foreign currency forward contracts will generally be limited to the transactions described above. Of course, a Fund is not required to enter into such transactions with regard to its foreign currency-denominated securities. Also this method of protecting the value of a Fund's securities holdings against a decline in the value of a currency does not eliminate fluctuations in the underlying prices of the securities which are unrelated to exchange rates. Additionally, although such contracts tend to minimize the risk of loss due to a decline in the value of the hedged currency, they tend to limit any potential gain which might result should the value of such currency increase.

Although the Fund values its assets daily in terms of U.S. dollars, it does not intend physically to convert its holdings of foreign currencies into U.S. dollars on a daily basis. It will do so from time to

B-28

92

time, and investors should be aware of the costs of currency conversion. Although foreign exchange dealers do not charge a fee for conversion, they do realize a profit based on the difference (the spread) between the prices at which they are buying and selling various currencies. Thus, a dealer may offer to sell a foreign currency to a Fund at one rate, while offering a lesser rate of exchange should the Fund desire to resell that currency to the dealer.

The Adviser may use foreign currency hedging techniques, including cross-currency hedges, to attempt to protect against declines in the U.S. dollar value of income available for distribution to shareholders and declines in the net asset value of a Fund's shares resulting from adverse changes in currency exchange rates. For example, the return available from securities denominated in a particular foreign currency would diminish in the event the value of the U.S. dollar increased against such currency. Such a decline could be partially or completely offset by an increase in value of a position hedge involving a foreign currency forward contract to (1) sell the currency in which the position being hedged is denominated, or a currency bearing a substantial correlation to the value of such currency, or (2) purchase either the U.S. dollar or a foreign currency expected to perform better than the currency being sold. Position hedges may, therefore, provide protection of net asset value in the event of a general rise in the U.S. dollar against foreign currencies. However, a cross-currency hedge cannot protect against exchange rates perfectly, and if the Adviser is incorrect in its judgment of future exchange rate relationships, the Fund could be in a less advantageous position than if such a hedge had not been established.

INDEXED COMMERCIAL PAPER. The International Equity Fund and Total Return Bond Fund may each invest in commercial paper which is indexed to certain specific foreign currency exchange rates. The terms of such commercial paper provide that its principal amount is adjusted upwards or downwards (but not below zero) at maturity to reflect changes in the exchange rate between two currencies while the obligation is outstanding. A Fund will purchase such commercial paper with the currency in which it is denominated and, at maturity,

will receive interest and principal payments thereon in that currency, but the amount of principal payable by the issuer at maturity will change in proportion to the change (if any) in the exchange rate between the two specified currencies between the date the instrument is issued and the date the instrument matures. With respect to its investments in this type of commercial paper, a Fund will segregate cash or other liquid assets having a value at least equal to the aggregate principal amount of outstanding commercial paper of this type. While such commercial paper entails the risk of loss of principal, the potential for realizing gains as a result of changes in foreign currency exchange rates enables the Fund to hedge (or cross-hedge) against a decline in the U.S. dollar value of investments denominated in foreign currencies while providing an attractive money market rate of return.

LIMITATIONS ON PURCHASE AND SALE OF STOCK OPTIONS AND OPTIONS ON STOCK INDICES, FOREIGN CURRENCIES AND FUTURES CONTRACTS ON FOREIGN CURRENCIES. A Fund may write put and call options on stocks only if they are covered, and such options must remain covered so long as the Fund is obligated as a writer. A Fund will write put options on foreign currencies and futures contracts on foreign currencies for bona fide hedging purposes only if there is segregated with the Fund's Custodian an amount of cash or other liquid assets equal to or greater than the aggregate exercise price of the puts. In addition, the Fund may use futures contracts or related options for non-hedging or speculative purposes to the extent that aggregate initial margin and option premiums do not exceed 5% of the market value of the Fund's assets. A Fund does not intend to purchase options on equity securities or securities indices if the aggregate premiums paid for such outstanding options would exceed 10% of the Fund's total assets.

Except as described below, a Fund will write call options on indices only if it holds a portfolio of stocks at least equal to the value of the index times the multiplier times the number of contracts. When a Fund writes a call option on a broadly-based stock market index, the Fund will segregate with its Custodian, or pledge to a broker as collateral for the option, cash or other liquid assets or "qualified securities" with a market value at the time the option is written of not less than 100% of the current index value times the multiplier times the number of contracts.

B-29

93

If a Fund has written an option on an industry or market segment index, it will segregate with its Custodian, or pledge to a broker as collateral for the option, at least ten "qualified securities," which are stocks of issuers in such industry or market segment, with a market value at the time the option is written of not less than 100% of the current index value times the multiplier times the number of contracts. Such stocks will include stocks which represent at least 50% of the weighting of the industry or market segment index and will represent at least 50% of the Fund's holdings in that industry or market segment. No individual security will represent more than 15% of the amount so segregated or pledged in the case of broadly-based stock market index options or 25% of such amount in the case of industry or market segment index options.

If at the close of business on any day the market value of such qualified securities so segregated or pledged falls below 100% of the current index value times the multiplier times the number of contracts, the Fund will so segregate or pledge an amount in cash or other liquid assets equal in value to the difference. In addition, when a Fund writes a call on an index which is in-the-money at the time the call is written, the Fund will segregate with its Custodian or pledge to the broker as collateral cash or other liquid assets equal in value to the amount by which the call is in-the-money times the multiplier times the number of contracts. Any amount segregated pursuant to the foregoing sentence may be applied to the Fund's obligation to segregate additional amounts in the event that the market value of the qualified securities falls below 100% of the current index value times the multiplier times the number of contracts. A "qualified security" is an equity security which is listed on a national securities exchange or listed on NASDAQ against which a Fund has not written a stock call option and which has not been hedged by the Fund by the sale of stock index futures. However, if the Fund holds a call on the same index as the call written where the exercise price of the call held is equal to or less than the exercise price of the call written or greater than the exercise price of the call written if the difference is segregated by the Fund in cash or other liquid assets with its Custodian, it will not be subject to the requirements described in this paragraph.

A Fund may engage in futures contracts and options on futures transactions as a hedge against changes, resulting from market or political conditions, in the value of the currencies to which the Fund is subject or to which the Fund expects to be subject in connection with future purchases. A Fund may engage in such transactions when they are economically appropriate for the reduction of risks inherent in the ongoing management of the Fund. A Fund may write options on futures contracts to realize through the receipt of premium income a greater return than would be realized in the Fund's securities holdings alone.

#### OTHER INVESTMENT STRATEGIES

LENDING OF SECURITIES. Consistent with applicable regulatory requirements,



the Total Return Bond Fund may lend portfolio securities to brokers, dealers and other financial institutions, provided that such loans are callable at any time by the Fund, and are at all times secured by cash or other liquid assets or secured by an irrevocable letter of credit in favor of the Fund in an amount equal to at least 100% determined daily, of the market value of the loaned securities. The collateral is segregated pursuant to applicable regulations. During the time portfolio securities are on loan, the borrower will pay the Fund an amount equivalent to any dividend or interest paid on such securities and the Fund may invest the cash collateral and earn additional income, or it may receive an agreed-upon amount of interest income from the borrower. The Fund cannot lend more than 33 1/3% of the value of its total assets (including the amount of the loan collateral).

A loan may be terminated by the borrower or by the Fund at any time. If the borrower fails to maintain the requisite amount of collateral, the loan automatically terminates and the Fund could use the collateral to replace the securities while holding the borrower liable for any excess of replacement cost over collateral. As with any extensions of credit, there are risks of delay in recovery and in some cases even loss of rights in the collateral should the borrower of the securities fail financially. However, these loans of portfolio securities will only be made to firms deemed by the Fund's Adviser to be creditworthy pursuant to procedures approved by the Board of Trustees and

B-30

94

when the income which can be earned from such loans justifies the attendant risks. Upon termination of the loan, the borrower is required to return the securities to the Fund. Any gain or loss in the market price during the loan period would inure to the Fund.

Since voting or consent rights which accompany loaned securities pass to the borrower, the Fund will follow the policy of calling the loaned securities, in whole or in part as may be appropriate, to permit the exercise of such rights if the matters involved would have a material effect on the Fund's investment in such loaned securities. The Fund may pay reasonable finders', administrative and custodial fees in connection with a loan of its securities or may share the interest earned on collateral with the borrower.

**WHEN-ISSUED AND DELAYED DELIVERY SECURITIES.** Each Fund may purchase or sell securities on a when-issued or delayed-delivery basis. When-issued or delayed-delivery transactions arise when securities are purchased or sold 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 a Fund at the time of entering into the transaction. The securities so purchased are subject to market fluctuation and no interest accrues to the purchaser during this period. While a Fund will only purchase securities on a when-issued, delayed delivery or forward commitment basis with the intention of acquiring the securities, a Fund may sell the securities before the settlement date, if it is deemed advisable. At the time a Fund makes the commitment to purchase securities on a when-issued or delayed delivery basis, a Fund will record the transaction and thereafter reflect the value, each day, of such security in determining the net asset value of a Fund. At the time of delivery of the securities, the value may be more or less than the purchase price. A Fund will also segregate with a Fund's custodian bank cash or other liquid assets equal in value to commitments for such when-issued or delayed delivery securities; subject to this requirement, a Fund may purchase securities on such basis without limit. An increase in the percentage of a Fund's assets committed to the purchase of securities on a when-issued or delayed delivery basis may increase the volatility of a Fund's net asset value. Subject to the segregation requirement, a Fund may purchase securities without limit. The Adviser does not believe that a Fund's net asset value or income will be adversely affected by a Fund's purchase of securities on such basis.

**BORROWING.** The Total Return Bond Fund may borrow from banks or through dollar rolls or reverse repurchase agreements an amount equal to no more than 33 1/3% of the value of its total assets (calculated when the loan is made) from banks for temporary, extraordinary or emergency purposes, for the clearance of transactions or to take advantage of investment opportunities. The Fund may pledge up to 33 1/3% of its total assets to secure these borrowings.

The other Funds may each borrow from banks or through dollar rolls or reverse repurchase agreements an amount equal to no more than 20% of the value of its total assets (calculated when the loan is made) for temporary, extraordinary or emergency purposes, or for the clearance of transactions. Each of these Funds may pledge up to 20% of its total assets to secure these borrowings.

If a Fund borrows to invest in securities, or if a Fund purchases securities at a time when borrowings exceed 5% of its total assets, any investment gains made on the securities in excess of interest paid on the borrowing will cause the net asset value of the shares to rise faster than would otherwise be the case. On the other hand, if the investment performance of the additional securities purchased fails to cover their cost (including any

interest paid on the money borrowed) to a Fund, the net asset value of the Fund's shares will decrease faster than would otherwise be the case. This is the speculative characteristic known as "leverage." See "Reverse Repurchase Agreements and Dollar Rolls" above.

If any Fund's asset coverage for borrowings falls below 300%, such Fund will take prompt action (within 3 days) to reduce its borrowings even though it may be disadvantageous from an investment standpoint to sell securities at that time.

B-31

95

#### SEGREGATED ASSETS

When a Fund is required to segregate assets in connection with certain portfolio transactions, it will designate cash or liquid assets as segregated with the Trust's Custodian, State Street Bank and Trust Company (State Street). "Liquid assets" mean cash, U.S. Government securities, equity securities (including foreign securities), debt securities or other liquid, unencumbered assets equal in value to its obligations in respect of potentially leveraged transactions, marked-to-market daily. These include forward contracts, when-issued and delayed delivery securities, futures contracts, written options and options on futures contracts (unless otherwise covered). If collateralized or otherwise covered, in accordance with Commission guidelines, these will not be deemed to be senior securities.

#### (d) DEFENSIVE STRATEGY AND SHORT-TERM INVESTMENTS

When conditions dictate a temporary defensive strategy or pending investment of proceeds from sales of the Funds' shares, the Funds may invest without limit in money market instruments, including commercial paper of domestic and foreign corporations, certificates of deposit, bankers' acceptances and other obligations of domestic and foreign banks, and obligations issued or guaranteed by the U.S. Government, its instrumentalities and its agencies. Commercial paper will be rated, at the time of purchase, at least "A-2" by S&P or "Prime-2" by Moody's, or the equivalent by another NRSRO or, if not rated, issued by an entity having an outstanding unsecured debt issue rated at least "A" or "A-2" by S&P or "A" or "Prime-2" by Moody's or the equivalent by another NRSRO. In addition, the Large Capitalization Value and Small Capitalization Value Portfolios may invest without limit in corporate and other debt obligations and the Large Capitalization Growth Portfolio may invest without limit in repurchase agreements when the Adviser believes that a temporary defensive position is appropriate.

#### (e) PORTFOLIO TURNOVER

Portfolio turnover rate is generally the percentage computed by dividing the lesser of portfolio purchases or sales (excluding all securities, including options, whose maturities or expiration date at acquisition were one year or less) by the monthly average value of the long-term portfolio. High portfolio turnover (100% or more) may involve correspondingly greater brokerage commissions and other transaction costs, which will be borne directly by each Fund. See "Brokerage Allocation and Other Practices." In addition, high portfolio turnover may result in increased short-term capital gains, which when distributed to shareholders, are treated as ordinary income. See "Taxes, Dividends, and Distributions."

#### INVESTMENT RESTRICTIONS

The following restrictions are fundamental policies. Fundamental policies are those which cannot be changed without the approval of the holders of a majority of a Fund's outstanding voting securities. A "majority of the outstanding voting securities" of a Fund, when used in this Statement of Additional Information, means the lesser of (1) 67% of the shares represented at a meeting at which more than 50% of the outstanding shares are present in person or represented by proxy or (2) more than 50% of the outstanding shares.

A Fund may not:

1. Purchase securities on margin (but the Fund may obtain such short-term credits as may be necessary for the clearance of transactions); provided that the deposit or payment by the Fund of initial or variation margin in connection with options or futures contracts is not considered the purchase of a security on margin.

2. Make short sales of securities, or maintain a short position if, when added together, more than 25% of the value of the Fund's net assets would be (i) deposited as collateral for the obligation

B-32

96

to replace securities borrowed to effect short sales and (ii) allocated to

segregated accounts in connection with short sales. Short sales "against-the-box" are not subject to this limitation.

3. Issue senior securities, borrow money or pledge its assets, except that the Fund may borrow from banks or through dollar rolls or reverse repurchase agreements up to 33 1/3% of the value of its total assets (calculated when the loan is made) for temporary, extraordinary or emergency purposes, to take advantage of investment opportunities or for the clearance of transactions and may pledge its assets to secure such borrowings. For purposes of this restriction, the purchase or sale of securities on a when-issued or delayed delivery basis, forward foreign currency exchange contracts and collateral arrangements relating thereto, and collateral arrangements with respect to futures contracts and options thereon and with respect to the writing of options and obligations of the Trust to Trustees pursuant to deferred compensation arrangements are not deemed to be a pledge of assets or the issuance of a senior security subject to this restriction.

4. Purchase any security (other than obligations of the U.S. Government, its agencies and instrumentalities) if as a result 25% or more of the Fund's total assets (determined at the time of investment) would be invested in one or more issuers having their principal business activities in the same industry.

5. Buy or sell real estate or interests in real estate, except that the Fund may purchase and sell mortgaged-backed securities, securities collateralized by mortgages, securities which are secured by real estate, securities of companies which invest or deal in real estate and publicly traded securities of real estate investment trusts.

6. Act as underwriter except to the extent that, in connection with the disposition of portfolio securities, it may be deemed to be an underwriter under certain federal securities laws. Each Fund may purchase restricted securities without limit.

7. Make investments for the purpose of exercising control or management.

8. Make loans, except through (i) repurchase agreements and (ii) loans of portfolio securities limited to 33 1/3% of the value of the Fund's total assets. For purposes of this limitation on securities lending, the value of a Fund's total assets includes the collateral received in the transactions.

9. Purchase more than 10% of all outstanding voting securities of any one issuer.

The foregoing restrictions are fundamental policies that may not be changed without the approval of a majority of the Fund's voting securities.

Whenever any fundamental investment policy or investment restriction states a maximum percentage of the Fund's assets, it is intended that if the percentage limitation is met at the time the investment is made, a later change in percentage resulting from changing total or net asset values will not be considered a violation of such policy. However, in the event that the Fund's asset coverage for borrowings falls below 300%, the Fund will take prompt action to reduce its borrowings, as required by applicable law.

As a matter of non-fundamental operating policy, a portfolio will not purchase rights if as a result the Fund would then have more than 5% of its assets (determined at the time of investment) invested in rights.

B-33

97

#### MANAGEMENT OF THE TRUST

<TABLE>

<CAPTION>

NAME AND AGE(**)	POSITION WITH THE TRUST	PRINCIPAL OCCUPATIONS DURING PAST FIVE YEARS
<S>	<C>	<C>
Eugene C. Dorsey (--)	Trustee	Retired President, Chief Executive Officer and Trustee of the Gannett Foundation (now Freedom Forum); former Publisher of four Gannett newspapers and Vice President of Gannett Co., Inc.; past Chairman, Independent Sector, Washington, D.C. (national coalition of philanthropic organizations); former Chairman of the American Council for the Arts; Director of the advisory board of Chase Manhattan Bank of Rochester; and Trustee or Director of 18 other funds within the Prudential Mutual Funds.
Douglas H. McCorkindale (--)	Trustee	Vice Chairman (since March 1984) and President (since September 1997) of Gannett Co. Inc. (publishing and media); Director of

Continental Airlines, Inc., Gannett Co., Inc. and Frontier Corporation; and Trustee or Director of 24 other funds within the Prudential Mutual Funds.

Thomas T. Mooney (--)	Trustee	President of the Greater Rochester Metro Chamber of Commerce; former Rochester City Manager; Trustee of Center for Governmental Research, Inc.; Director of Blue Cross of Rochester, Executive Service Corps of Rochester, Monroe County Water Authority, Rochester Jobs, Inc., Monroe County Industrial Development Corporation and Northeast Midwest Institute; President, Director and Treasurer, First Financial Fund, Inc. and The High Yield Plus Fund, Inc.; and Trustee or Director of 34 other funds within the Prudential Mutual Funds.
*John R. Strangfeld, Jr. (--)	Trustee and President	Chief Executive Officer, Chairman, President and Director of The Prudential Investment Corporation (since January 1990); Executive Vice President of the Prudential Global Asset Management Group of Prudential (since February 1998); Chairman of Pricoa Capital Group (since August 1989); Chief Executive Officer of Private Asset Management Group of Prudential (November 1994-December 1998)

</TABLE>

B-34

98

<TABLE>  
<CAPTION>

NAME AND AGE (**) -----	POSITION WITH THE TRUST -----	PRINCIPAL OCCUPATIONS DURING PAST FIVE YEARS -----
<S> Robert F. Gunia (--)	<C> Vice President	<C> Vice President (since September 1997) of Prudential Investments; Executive Vice President and Treasurer (since December 1996), Prudential Investments Fund Management LLC (PIFM); Senior Vice President (since March 1987) of Prudential Securities Incorporated (Prudential Securities); formerly Chief Administrative Officer (July 1990-September 1996), Director (January 1989-September 1996), and Executive Vice President, Treasurer and Chief Financial Officer (June 1987-September 1996) of Prudential Mutual Fund Management, Inc.; Vice President and Director (since May 1989) of The Asia Pacific Fund, Inc. and Director or Trustee of 44 funds within the Prudential Mutual Funds.
David F. Connor (35)	Secretary	Assistant General Counsel (since March 1998) of PIFM; Associate Attorney, Drinker Biddle & Reath LLP prior thereto.
Grace C. Torres (--)	Treasurer and Principal Financial and Accounting Officer	First Vice President (since December 1996) of PIFM; First Vice President (since March 1993) of Prudential Securities; formerly First Vice President (March 1994-September 1996) of Prudential Mutual Fund Management, Inc. and Vice President (July 1989-March 1994) of Bankers Trust Corporation.
Stephen M. Ungerman (--)	Assistant Treasurer	Tax Director (since March 1996) of Prudential Investments; formerly First Vice President (February 1993-September 1996) of Prudential Mutual Fund Management, Inc.

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\* "Interested" Trustee, as defined in the Investment Company Act, by reason of his or her affiliation with Prudential, Prudential Securities or PIFM.

\*\* Unless otherwise stated, the address of the directors and officers is Gateway Center Three, 100 Mulberry Street, Newark, New Jersey 07102-4077.

The Trust has Trustees who, in addition to overseeing the actions of the Trust's Manager, Advisors and Distributor, decide upon matters of general policy. The Trustees also review the actions of the Trust's officers, who conduct and supervise the daily business operations of the Trust.

The Trustees have adopted a retirement policy which calls for the

retirement of Trustees on December 31 of the year in which they reach the age of 72, except that retirement is being phased in for Trustees who were age 68 or older as of December 31, 1993. [Mr. Dorsey is scheduled to retire on December 31, 1999.]

Pursuant to the Management Agreement with the Trust, the Manager pays all compensation of officers and employees of the Trust as well as the fees and expenses of all Trustees of the Trust who are affiliated persons of the Manager.

The Trust currently pays each of its Trustees who is not an affiliated person of the Manager or a Portfolio's Adviser annual compensation of \$5,000, in addition to certain out-of-pocket expenses. The amount of annual compensation paid to each Trustee may change as a result of the introduction of additional funds upon the boards of which the Trustee may be asked to serve.

B-35

99

Trustees may receive their Trustee's fees pursuant to a deferred fee agreement with the Trust. Under the terms of the agreement, the Trust accrues daily the amount of Trustee's fees in installments which accrue interest at a rate equivalent to the prevailing rate applicable to 90-day U.S. Treasury Bills at the beginning of each calendar quarter or, pursuant to an exemptive order from the Commission, at the daily rate of return of a Fund. Payment of the interest so accrued is also deferred and accruals become payable at the option of the Trustee. The Trust's obligation to make payments of deferred Trustees' fees, together with interest thereon, is a general obligation of the Trust.

#### CONTROL PERSONS AND PRINCIPAL HOLDERS OF SECURITIES

As of September 7, 1999, the Trustees and officers of the Trust, as a group, owned less than 1% of the outstanding shares of beneficial interest of the Portfolios.

B-36

100

#### INVESTMENT ADVISORY AND OTHER SERVICES

##### (a) MANAGER AND ADVISERS

The Manager of the Trust is Prudential Investments Fund Management LLC (PIFM or the Manager) Gateway Center Three, 100 Mulberry Street, New Jersey 07102-4077. PIFM serves as manager to all of the other investment companies that, together with the Trust, comprise the Prudential Mutual Funds. See "How the Trust is Managed -- Manager" in the Prospectus. As of August 31, 1999, PIFM managed and/or administered open-end and closed-end management investment companies with assets of approximately \$71.8 billion. According to the Investment Company Institute, as of December 31, 1998, the Prudential Mutual Funds was the 18th largest family of mutual funds in the United States.

PIFM is a subsidiary of Prudential Securities and The Prudential Insurance Company of America (Prudential). Prudential Mutual Fund Services LLC (PMFS or the Transfer Agent), a wholly-owned subsidiary of PIFM, serves as the transfer agent for the Prudential mutual funds and, in addition, provides customer service, recordkeeping and management and administration services to qualified plans.

Pursuant to the Management Agreement with the Trust (the Management Agreement), PIFM, subject to the supervision of the Trustees and in conformity with the stated policies of the Trust, manages both the investment operations of the Trust and the composition of the Trust's Funds, including the purchase, retention, disposition and loan of securities. The Manager is authorized to enter into subadvisory agreements for investment advisory services in connection with the management of the Trust and each Fund thereof. The Manager will continue to have responsibility for all investment advisory services furnished pursuant to any such investment advisory agreements.

The Manager will review the performance of all Advisers, and make recommendations to the Trustees with respect to the retention and renewal of contracts. In connection therewith, PIFM is obligated to keep certain books and records of the Trust. PIFM also administers the Trust's business affairs and, in connection therewith, furnishes the Trust with office facilities, together with those ordinary clerical and bookkeeping services which are not being furnished by State Street Bank and Trust Company (the Custodian), the Trust's custodian, and PMFS, the Trust's transfer and dividend disbursing agent. The management services of PIFM for the Trust are not exclusive under the terms of the

Management Agreement and PIFM is free to, and does, render management services to others.

The following table sets forth the annual management fee rates currently paid by each Fund to PIFM pursuant to the Management Agreement, and the amount of such fees retained by PIFM, each expressed as a percentage of the Fund's average daily net assets:

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PORTFOLIO	TOTAL MANAGEMENT FEE	AMOUNT RETAINED BY MANAGER
-----	-----	-----
<S>	<C>	<C>
Large Capitalization Growth Portfolio.....	0.70%	0.40%
Large Capitalization Value Portfolio.....	0.70%	0.40%
Small Capitalization Growth Portfolio.....	0.70%	0.30%
Small Capitalization Value Portfolio.....	0.70%	0.30%
International Equity Portfolio.....	0.80%	0.40%
Total Return Bond Portfolio.....	0.50%	0.25%

</TABLE>

The fee is computed daily and payable monthly. The Management Agreement also provides that, in the event the expenses of the Trust (including the fees of PIFM, but excluding interest, taxes, brokerage commissions, distribution fees and litigation and indemnification expenses and other extraordinary expenses not incurred in the ordinary course of the Trust's business) for any fiscal year exceed the lowest applicable annual expense limitation established and enforced pursuant to the statutes or regulations of any jurisdiction in which the Trust's shares are qualified for

B-37

101

offer and sale, the compensation due to PIFM will be reduced by the amount of such excess. Reductions in excess of the total compensation payable to PIFM will be paid by PIFM to the Trust. No jurisdiction currently limits the Trust's expenses.

In connection with its management of the business affairs of the Trust, PIFM bears the following expenses:

- (a) the salaries and expenses of all of its and the Trust's personnel except the fees and expenses of Trustees who are not affiliated persons of PIFM or the Trust's Advisers;
- (b) all expenses incurred by PIFM or by the Trust in connection with managing the ordinary course of the Trust's business, other than those assumed by the Trust as described below; and
- (c) the fees payable to each Adviser pursuant to the subadvisory agreements between PIFM and each Adviser (the Subadvisory Agreement).

Under the terms of the Management Agreement, the Trust is responsible for the payment of the following expenses: (a) the fees payable to the Manager, (b) the fees and expenses of Trustees who are not affiliated persons of the Manager or the Trust's Advisers, (c) the fees and certain expenses of the Custodian and Transfer and Dividend Disbursing Agent, including the cost of providing records to the Manager in connection with its obligation of maintaining required records of the Trust and of pricing the Trust's shares, (d) the charges and expenses of legal counsel and independent accountants for the Trust, (e) brokerage commissions and any issue or transfer taxes chargeable to the Trust in connection with its securities transactions, (f) all taxes and corporate fees payable by the Trust to governmental agencies, (g) the fees of any trade associations of which the Trust may be a member, (h) the cost of share certificates representing shares of the Trust, (i) the cost of fidelity and liability insurance, (j) certain organization expenses of the Trust and the fees and expenses involved in registering and maintaining registration of the Trust and of its shares with the Commission including the preparation and printing of the Trust's registration statements and prospectuses for such purposes, (k) allocable communications expenses with respect to investor services and all expenses of shareholders' and Trustees' meetings and of preparing, printing and mailing reports, proxy statements and prospectuses to shareholders in the amount necessary for distribution to the shareholders and (l) litigation and indemnification expenses and other extraordinary expenses not incurred in the ordinary course of the Trust's business.

The Management Agreement provides that PIFM will not be liable for any error of judgment or for any loss suffered by the Trust in connection with the matters to which the Management Agreement relates, except a loss resulting from willful misfeasance, bad faith, gross negligence or reckless disregard of duty. The Management Agreement provides that it will terminate automatically if

assigned, and that it may be terminated without penalty by either party upon not more than 60 days' nor less than 30 days' written notice. The Management Agreement will continue in effect for a period of more than two years from the date of execution only so long as such continuance is specifically approved at least annually in conformity with the Investment Company Act.

As noted in the Prospectus, subject to the supervision and direction of the Manager and, ultimately, the Trustees, each Adviser manages the securities held by the portion of the Fund it serves in accordance with the Fund's stated investment objectives and policies, makes investment decisions for the portion of the Fund and places orders to purchase and sell securities on behalf of the portion of the Fund it manages.

Each Advisory Agreement provides that it will terminate in the event of its assignment (as defined in the Investment Company Act) or upon the termination of the Management Agreement. Each Advisory Agreement may be terminated by the Trust, PIFM or the Adviser upon not more than 60 days' written notice. Each Advisory Agreement provides that it will continue in effect for a period of more than two years from its execution only so long as such continuance is specifically approved at least annually in accordance with the requirements of the Investment Company Act.

B-38

102

The Manager and the Trust have received an exemptive order from the Securities and Exchange Commission which permits the Manager, subject to certain conditions, to enter into or amend advisory agreements without obtaining shareholder approval each time. On September 1, 1999, the sole shareholder of the Trust voted affirmatively to give the Trust this ongoing authority. With Board approval, the Manager is permitted to employ new Advisers for the Funds, change the terms of the Funds' advisory agreements or enter into a new advisory agreement with an existing Adviser after events that cause an automatic termination of the old advisory agreement with that Adviser. Shareholders of a Fund continue to have the right to terminate an advisory agreement for the Fund at any time by a vote of the majority of the outstanding voting securities of the Fund. Shareholders will be notified of any Adviser changes or other material amendments to advisory agreements that occur under these arrangements.

The Advisers have agreed to the following fees, which are generally lower than the fees they charge to institutional accounts for which they serve as investment adviser.

<TABLE>  
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FUND ----	TOTAL MANAGEMENT FEE (AS % OF AVERAGE DAILY NET ASSETS) -----	ANNUAL FEE PAID BY THE MANAGER TO THE ADVISER(S) (AS % OF AVERAGE DAILY NET ASSETS) -----
<S>	<C>	<C>
Large Capitalization Growth Fund.....	0.70%	0.30%
Large Capitalization Value Fund.....	0.70%	0.30%
Small Capitalization Growth Fund.....	0.70%	0.40%
Small Capitalization Value Fund.....	0.70%	0.40%
International Equity Fund.....	0.80%	0.40%
Total Return Bond Fund.....	0.50%	0.25%

</TABLE>

The Advisers perform all administrative functions associated with serving as Adviser to a Fund. Subject to the supervision and direction of the Manager and, ultimately, the Trustees, each Adviser's responsibilities are limited to managing the securities held by the portion of the Fund it serves in accordance with the Fund's stated investment objective and policies, making investment decisions for that portion of the Fund and placing orders to purchase and sell securities on behalf of the portion of the Fund it manages.

The following sets forth certain information about each of the Advisers:

LARGE CAPITALIZATION GROWTH FUND

Columbus Circle Investors (CCI), Metro Center, One Station Place, 8th Floor, Stamford, Connecticut 06902, serves as one of two Advisers to the Large Capitalization Growth Portfolio. CCI has been an Adviser to the Portfolio since January 2, 1995. CCI is a Delaware general partnership with two partners. CCIP LLP, CCI's general partner, owns over 99% of CCI. Columbus Circle Investors Management Inc. (CCIM), the other partner, owns the rest of CCI. Both CCIP LLP and CCIM are owned by five of the managing directors of CCI. As of June 30, 1999, CCI had approximately \$4.5 billion in assets under management.

Oak Associates, Ltd. (Oak), 3875 Embassy Parkway, Suite 250, Akron, Ohio 44333, serves as the other Adviser to the Large Capitalization Growth Fund. Oak was founded in April 1985 and has specialized in the large cap market since inception. It provides investment management services to both individual and institutional clients and, as of December 31, 1998, had more than \$11.5 billion in assets under management. Oak is registered as an investment adviser under the Investment Advisers Act of 1940. It is a limited liability company organized under the laws of the State of Ohio. James D. Oelschlager owns a controlling interest (99%) of Oak.

B-39

103

#### LARGE CAPITALIZATION VALUE FUND

INVESCO Capital Management, Inc. (INVESCO), 1315 Peachtree Street, Suite 500, Atlanta, Georgia 30309, serves as one of two Advisers to the Large Capitalization Value Fund of the Trust. INVESCO has served as an Adviser to the Fund since its inception. INVESCO, a Delaware corporation, is an indirect, wholly-owned subsidiary of AMVESCAP PLC, a global money management firm. As of December 31, 1998, INVESCO had approximately \$146 million of assets under management for clients located throughout the U.S., Europe and Japan.

Hotchkis and Wiley, 725 S. Figueroa St., Suite 4000, Los Angeles, California 90017, is a division of The Merrill Lynch Capital Management Group of Merrill Lynch Asset Management, L.P. It was established in 1980 and has specialized in the large-cap market since its inception. As of December 31, 1998, Hotchkis and Wiley had approximately \$14 billion in assets under management for corporate, public, endowment and foundation, and mutual fund clients. Hotchkis and Wiley is the adviser for the Hotchkis and Wiley Funds and other mutual funds.

#### SMALL CAPITALIZATION GROWTH FUND

Sawgrass Asset Management, L.L.C. (Sawgrass), 4337 Pablo Oaks Court, Building 200, Jacksonville, FL 32224, serves as one of two Advisers to the Small Capitalization Growth Fund. Sawgrass was formed in 1998 as a Delaware limited liability company. AmSouth Bank owns 50% of the shares of Sawgrass, and employees of Sawgrass own the remaining 50% of the shares of Sawgrass. AmSouth Bank is a subsidiary of AmSouth Bancorporation. As of May 24, 1999, Sawgrass had approximately \$250 million in assets under management for corporate, municipal, public and state retirement plans and mutual funds.

Fleming Asset Management USA (Fleming USA), 320 Park Avenue, New York, NY 10022 serves as the second Adviser to the Portfolio. Fleming USA has been an Adviser to the Portfolio since August 26, 1999. Fleming USA is a division of Robert Fleming, Inc., which is a wholly-owned subsidiary of Robert Fleming Holdings.

#### SMALL CAPITALIZATION VALUE FUND

Lazard Asset Management (Lazard), 30 Rockefeller Plaza, New York, New York 10112, serves as one of two Advisers to the Small Capitalization Value Fund of the Trust. Lazard is a division of Lazard Freres & Co. LLC (Lazard Freres), a New York limited liability company. Lazard provides investment management services to both individual and institutional clients and, together with its global affiliates, had more than \$64 billion of assets under management as of March 31, 1999. In addition to portfolio management, Lazard Freres provides a wide variety of investment banking, brokerage and related services.

Wood, Struthers & Winthrop Management Corp. (WSW), 277 Park Avenue, New York, New York 10172, serves as the other Adviser to the Small Capitalization Value Fund. WSW was founded in 1871 and has specialized in the small-cap market since 1967. It provides investment management services to both individual and institutional clients and, as of December 31, 1998, had more than \$10 billion in assets under management. WSW is a subsidiary of Donaldson, Lufkin & Jenrette Securities Corporation (DLJSC), 277 Park Avenue, New York, New York 10172. DLJSC is a wholly owned subsidiary of Donaldson Lufkin & Jenrette Inc (DLJ Inc), 35.3% of which is owned by The Equitable Life Assurance Society of the United States (LIFE), 787 Seventh Avenue, New York, New York 10019, a wholly-owned subsidiary of The Equitable Companies Incorporated (Equitable), 787 Seventh Avenue, New York, New York 10019. Equitable owns directly an additional 42.9% of DLJ Inc. Approximately 60.8% of the outstanding voting common stock as well as certain convertible preferred stock of Equitable is beneficially owned by AXA, a French insurance holding company. A group of five French mutual insurance companies, Uni Europe Assurance Mutuelle, Alpha Assurances I.A.R.D. Mutuelle, Alpha Assurances Vie Mutuelle, AXA Assurances Vie Mutuelle, and AXA Assurances I.A.R.D. Mutuelle (the "Mutuelles"), owned directly and indirectly through two

B-40



French holding companies, Finaxa and Midi Participations, shares representing over 50% of the voting shares of AXA. The Mutuelles are owned by approximately 1.5 million policyholders.

#### INTERNATIONAL EQUITY FUND

Lazard serves as the Adviser to the International Equity Fund. Lazard is more fully described immediately above under "Small Capitalization Value Fund."

#### TOTAL RETURN BOND FUND

Pacific Investment Management Company (PIMCO) serves as the Adviser to the Total Return Bond Fund. PIMCO is a subsidiary of PIMCO Advisors L.P. (PIMCO Advisors). The general partners of PIMCO Advisors are PIMCO Partners, G.P. and PIMCO Advisors Holdings L.P. (PAH). PIMCO Partners, G.P. is a general partnership between PIMCO Holding LLC, a Delaware limited liability company and indirect wholly-owned subsidiary of Pacific Life Insurance Company, and PIMCO Partners LLC, a California limited liability company controlled by the current Managing Directors and two former Managing Directors of PIMCO. PIMCO Partners, G.P., is the sole general partner of PAH. PIMCO is registered as an investment advisor with the Commission and as a commodity trading advisor with the CFTC. As of December 31, 1998, PIMCO had approximately \$157.9 billion of asset under management.

#### (b) PRINCIPAL UNDERWRITER, DISTRIBUTOR AND RULE 12b-1 PLANS

Prudential Investment Management Services LLC (PIMS or the Distributor), Gateway Center Three, 100 Mulberry Street, Newark, New Jersey 07102-4077, acts as the distributor of the shares of the Trust. PIMS is a subsidiary of Prudential.

Pursuant to separate Distribution and Service Plans (the Class A Plan, the Class B Plan and the Class C Plan, collectively, the Plans) adopted by the Trust under Rule 12b-1 under the Investment Company Act and a distribution agreement (the Distribution Agreement), the Distributor incurs the expenses of distributing the Funds' Class A, Class B and Class C shares, respectively.

The expenses incurred under the Plans include commissions and account servicing fees paid to, or on account of, brokers or financial institutions which have entered into agreements with the Distributor, advertising expenses, the cost of printing and mailing prospectuses to potential investors and indirect and overhead costs of the Distributor associated with the sale of Fund shares, including lease, utility, communications and sales promotion expenses.

Under the Plans, each Fund is obligated to pay distribution and/or service fees to the Distributor as compensation for its distribution and service activities, not as reimbursement for specific expenses incurred. If the Distributor's expenses exceed its distribution and service fees, a Fund will not be obligated to pay any additional expenses. If the Distributor's expenses are less than such distribution and service fees, it will retain its full fees and realize a profit.

The distribution and/or service fees may also be used by the Distributor to compensate on a continuing basis brokers in consideration for the distribution, marketing, administrative and other services and activities provided by brokers with respect to the promotion of the sale of the Funds' shares and the maintenance of related shareholder accounts.

**CLASS A PLAN.** Under the Class A Plan, each Fund may pay the Distributor for its distribution-related expenses with respect to Class A shares at an annual rate of up to .30 of 1% of the average daily net assets of the Class A shares. The Class A Plan provides that (1) up to .25 of 1% of the average daily net assets of the Class A shares may be used to pay for personal service and/or the maintenance of shareholder accounts (service fee) and (2) total distribution fees (including the service fee of .25 of 1%) may not exceed .30 of 1% of the average daily net assets of the Class A shares. The Distributor has contractually agreed to limit its distribution-related fees payable under

B-41

the Class A Plan to .25 of 1% of the average daily net assets of the Class A shares for the fiscal year ending July 31, 2000.

**CLASS B AND CLASS C PLANS.** Under the Class B and Class C Plans, each Fund may pay the Distributor for its distribution-related expenses with respect to Class B and Class C shares at an annual rate of up to 1% of the average daily net assets of each of the Class B and Class C shares. The Class B and Class C Plans provide for the payment to the Distributor of (1) an asset-based sales charge of .75 of 1% of the average daily net assets of each of the Class B and Class C shares, respectively, and (2) a service fee of .25 of 1% of the average daily net assets of each of the Class B and Class C shares. The service fee is

used to pay for personal service and/or the maintenance of shareholder accounts. The Distributor also receives contingent deferred sales charges from certain redeeming shareholders and, with respect to Class C shares, an initial sales charge. The Distributor has contractually agreed to limit its distribution-related fees payable under the Class B and Class C Plans to .75 of 1% of the average daily net assets of the Class B and Class C shares, respectively, of the Total Return Bond Fund for the fiscal year ending July 31, 2000.

Distribution expenses attributable to the sale of Class A, Class B or Class C shares of each Fund will be allocated to each such class based upon the ratio of sales of each such class to the sales of Class A, Class B and Class C shares of the Fund other than expenses allocable to a particular class. The distribution fee and sales charge of one class will not be used to subsidize the sale of another class.

The Class A, Class B and Class C Plans will continue in effect from year to year, provided that each such continuance is approved at least annually by a vote of the Board of Trustees, including a majority vote of the Trustees who are not interested persons of the Trust and who have no direct or indirect financial interest in the Class A, Class B and Class C Plan or in any agreement related to the Plans (the Rule 12b-1 Trustees), cast in person at a meeting called for the purpose of voting on such continuance. The Plans may each be terminated at any time, without penalty, by the vote of a majority of the Rule 12b-1 Trustees or by the vote of the holders of a majority of the outstanding shares of the applicable class on not more than 60 days', nor less than 30 days', written notice to any other party to the Plans. The Plans may not be amended to increase materially the amounts to be spent for the services described therein without approval by the shareholders of the applicable class, and all material amendments are required to be approved by the Board of Trustees in the manner described above. Each Plan will automatically terminate in the event of its assignment. The Funds will not be obligated to pay expenses incurred under any Plan if it is terminated or not continued.

Pursuant to each Plan, the Board of Trustees will review at least quarterly a written report of the distribution expenses incurred on behalf of each class of shares of the Funds by the Distributor. The report will include an itemization of the distribution expenses and the purposes of such expenditures. In addition, as long as the Plans remain in effect, the selection and nomination of Rule 12b-1 Trustees shall be committed to the Rule 12b-1 Trustees.

Pursuant to the Distribution Agreement, the Fund has agreed to indemnify the Distributor to the extent permitted by applicable law against certain liabilities under the federal securities laws.

In addition to distribution and service fees paid by the Fund under the Class A, Class B and Class C Plans, the Manager (or one of its affiliates) may make payments to dealers (including Prudential Securities) and other persons who distribute shares of the Fund. Such payments may be calculated by reference to the net asset value of shares sold by such persons or otherwise.

#### FEE WAIVERS/SUBSIDIES

PIFM may from time to time waive all or a portion of its management fee and subsidize all or a portion of the operating expenses of the Funds. In addition, the Distributor has contractually agreed to waive a portion of its distribution fees for the Class A shares and, with respect to the Total Return

B-42

106

Bond Fund, for the Class B and Class C shares as described above. Fee waivers and subsidies will increase a Fund's total return.

#### NASD MAXIMUM SALES CHARGE RULE

Pursuant to rules of the NASD, the Distributor is required to limit aggregate initial sales charges, deferred sales charges and asset-based sales charges to 6.25% of total gross sales of each class of shares. Interest charges equal to the prime rate plus one percent per annum may be added to the 6.25% limitation. Sales from the reinvestment of dividends and distributions are not included in the calculation of the 6.25% limitation. The annual asset-based sales charge of the Fund may not exceed .75 of 1%. The 6.25% limitation applies to each class of a Fund rather than on a per shareholder basis. If aggregate sales charges were to exceed 6.25% of total gross sales of any class, all sales charges on shares of that class would be suspended.

#### (c) OTHER SERVICE PROVIDERS

State Street Bank and Trust Company, One Heritage Drive, North Quincy, Massachusetts 02171, serves as Custodian for the Trust's portfolio securities and cash, and in that capacity maintains certain financial and accounting books

and records pursuant to an agreement with the Trust.

Prudential Mutual Fund Services LLC (PMFS), Raritan Plaza One, Edison, New Jersey 08837, serves as the Transfer and Dividend Disbursing Agent of the Trust. It is a wholly-owned subsidiary of PIFM. PMFS provides customary transfer agency services to the Trust, including the handling of shareholder communications, the processing of shareholder transactions, the maintenance of shareholder account records, payment of dividends and distributions and related functions. For these services, PMFS receives an annual fee per shareholder account of \$10.00, a new account set-up fee for each manually established account of \$2.00 and a monthly inactive zero balance account fee per shareholder account of \$.20. PMFS is also reimbursed for its out-of-pocket expenses, including but not limited to postage, stationery, printing, allocable communications and other costs. In addition, the Trust may pay fees for recordkeeping services in respect of certain eligible defined benefit plan investors.

PricewaterhouseCoopers LLP, 1177 Avenue of the Americas, New York, New York 10036 currently serves as the Trust's independent accountants and, in that capacity, audits the Trust's annual financial statements.

#### BROKERAGE ALLOCATION AND OTHER PRACTICES

##### TOTAL RETURN BOND FUND

The Adviser is responsible for decisions to buy and sell securities, futures contracts and options thereon for the Fund, the selection of brokers, dealers and futures commission merchants to effect the transactions and the negotiation of brokerage commissions, if any. Brokers, dealers or futures commission merchants may receive brokerage commissions on portfolio transactions, including options, futures, and options on futures transactions and the purchase and sale of underlying securities upon the exercise of options. Orders may be directed to any broker, dealer or futures commission merchant, including to the extent and in the manner permitted by applicable law. The Fund does not normally incur any brokerage commission expenses on portfolio transactions. The securities purchased by the Funds are generally traded on a "net" basis, with dealers acting as principal for their own accounts without a stated commission, although the price of the 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.

B-43

107

##### OTHER FUNDS

Broker-dealers may receive negotiated brokerage commissions on transactions in portfolio securities, including options and the purchase and sale of underlying securities upon the exercise of options. On foreign securities exchanges, commissions may be fixed. Orders may be directed to any broker, dealer or futures commission merchant including, to the extent and in the manner permitted by applicable law, Prudential Securities, one of the Advisers or an affiliate thereof (an affiliated broker).

Equity securities traded in the over-the-counter market and bonds, including convertible bonds, are generally traded on a "net" basis with dealers acting as principal for their own accounts without a stated commission, although the price of the 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 and U.S. Government agency securities may be purchased directly from the issuer, in which case no commissions or discounts are paid. The Trust will not deal with an affiliated broker in any transaction in which such affiliated broker acts as principal. Thus, for example, a Fund will not deal with an affiliated broker/dealer acting as market maker, and it will not execute a negotiated trade with an affiliated broker/dealer if execution involves an affiliated broker/dealer acting as principal with respect to any part of the Fund's order.

In placing orders for securities for the Funds of the Trust, each Adviser is required to give primary consideration to obtaining the most favorable price and efficient execution. This means that an 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 under the circumstances. While an Adviser generally seeks reasonably competitive spreads or commissions, the Trust will not necessarily be paying the lowest spread or commission available. Within the framework of this policy, an Adviser may consider research and investment services provided by brokers, dealers or futures commission merchants who effect or are parties to portfolio transactions of the Trust, an Adviser or an Adviser's other clients. 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 an Adviser in connection with all of its investment activities, and some of such services obtained in connection with the execution of transactions for an Adviser may be used in managing other investment accounts. Conversely, brokers, dealers or futures commission merchants furnishing such services may be selected for the execution of transactions for such other accounts, whose aggregate assets are far larger than the Trust's, and the services furnished by such brokers, dealers or futures commission merchants may be used by an Adviser in providing investment management for the Trust. Commission rates are established pursuant to negotiations with the broker, dealer or futures commission merchant based on the quality and quantity of execution services provided by the broker or futures commission merchant in the light of generally prevailing rates. Each Adviser's policy is to pay brokers, dealers and futures commission merchants, other than to an affiliated broker, higher commissions for particular transactions than might be charged if a different broker had been selected, on occasions when, in an Adviser's opinion, this policy furthers the objective of obtaining best price and execution. In addition, each Adviser is authorized to pay higher commissions on brokerage transactions for the Trust to brokers, dealers and futures commission merchants, other than to an affiliated broker, in order to secure research and investment services described above, subject to review by the Trustees from time to time as to the extent and continuation of this practice. The allocation of orders among brokers, dealers and futures commission merchants and the commission rates paid are reviewed periodically by the Trustees. While such services are useful and important in supplementing its own research and facilities, the Advisers believe that the value of such services is not determinable and does not significantly reduce expenses.

B-44

108

Subject to the above considerations, an affiliated broker may act as a securities broker, dealer or futures commission merchant for the Trust. In order for an affiliate of an Adviser or Prudential Securities to effect any portfolio transactions for the Trust, the commissions, fees or other remuneration received by an affiliated broker 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 during a comparable period of time. This standard would allow an affiliated broker 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 Trustees, including a majority of the non-interested Trustees, have adopted procedures which are reasonably designed to provide that any commissions, fees or other remuneration paid to an affiliated broker are consistent with the foregoing standard.

In accordance with Section 11(a) under the Securities Exchange Act of 1934, as amended, an affiliated broker may not retain compensation for effecting transactions on a national securities exchange for the Trust unless the Trust has expressly authorized the retention of such compensation. Section 11(a) provides that an affiliated broker must furnish to the Trust at least annually a statement setting forth the total amount of all compensation retained by such affiliated broker from transactions effected for the Trust during the applicable period. Brokerage and futures transactions with an affiliated broker are also subject to such fiduciary standards as may be imposed by applicable law.

#### CAPITAL SHARES, OTHER SECURITIES AND ORGANIZATION

The Trust, organized as an unincorporated business trust in 1999 under the laws of Delaware, is a trust fund of the type commonly known as a "business trust."

The Trust is authorized to issue an unlimited number of shares of beneficial interest, \$.001 par value per share, divided into six series (the Funds). Each Fund is divided into three classes, designated Class A, Class B and Class C shares. Each class of shares represents an interest in the same assets of a Fund and is identical in all respects except that (1) each class is subject to different sales charges and distribution and/or service fees which may affect performance, (2) each class has exclusive voting rights on any matter submitted to shareholders that relates solely to its arrangement and has separate voting rights on any matter submitted to shareholders in which the interests of one class differ from the interests of any other class, (3) each class has a different exchange privilege and (4) only Class B shares have a conversion feature. In accordance with the Trust's Declaration of Trust, the Trustees may authorize the creation of additional series and classes within such series, with such preferences, privileges, limitations and voting and dividend rights as the Trustees may determine. The voting rights of the shareholders of a series or class can be modified only by the vote of shareholders of that series or class.

Shares of the Trust, when issued, are fully paid, nonassessable, fully transferable and redeemable at the option of the holder. Shares are also redeemable at the option of the Trust under certain circumstances. Each share of each class is equal as to earnings, assets and voting privileges, except as

noted above, and each class of shares bears the expenses related to the distribution of its shares. Except for the conversion feature applicable to the Class B shares, there are no conversion, preemptive or other subscription rights. In the event of liquidation, each share of a Fund is entitled to its portion of all of the Fund's assets after all debt and expenses of the Fund have been paid. Since Class B and Class C shares generally bear higher distribution expenses than Class A shares, the liquidation proceeds to shareholders of those classes are likely to be lower than to Class A shareholders.

The Trust does not intend to hold annual meetings of shareholders unless otherwise required by law. The Trust will not be required to hold meetings of shareholders unless, for example, the election of Trustees is required to be acted on by shareholders under the Investment Company Act. Shareholders have certain rights, including the right to call a meeting upon the vote of 10% of the

B-45

109

Trust's outstanding shares for the purpose of voting on the removal of one or more Trustees or to transact any other business.

Under the Declaration of Trust, the Trustees may authorize the creation of additional series of shares (the proceeds of which would be invested in separate, independently managed portfolios with distinct investment objectives and policies and share purchase, redemption and net asset value procedures) with such preferences, privileges, limitations and voting and dividend rights as the Trustees may determine. All consideration received by the Trust for shares of any additional series, and all assets in which such consideration is invested, would belong to that series (subject only to the rights of creditors of that series) and would be subject to the liabilities related thereto. Under the Investment Company Act, shareholders of any additional series of shares would normally have to approve the adoption of any advisory contract relating to such series and of certain changes in the investment policies related thereto.

The Trustees have the power to alter the number and the terms of office of the Trustees, provided that always at least a majority of the Trustees have been elected by the shareholders of the Trust. The voting rights of shareholders are not cumulative, so that holders of more than 50 percent of the shares voting can, if they choose, elect all Trustees being selected, while the holders of the remaining shares would be unable to elect any Trustees.

#### PURCHASE, REDEMPTION AND PRICING OF FUND SHARES

Shares of a Fund may be purchased at a price equal to the next determined net asset value (NAV) per share plus a sales charge which, at the election of the investor, may be imposed either (1) at the time of purchase (Class A or Class C shares) or (2) on a deferred basis (Class B or Class C shares).

#### PURCHASE BY WIRE

For an initial purchase of shares of a Fund by wire, you must complete an application and telephone PMFS to receive an account number at (800) 225-1852 (toll-free). The following information will be requested: your name, address, tax identification number, class election, dividend distribution election, amount being wired and wiring bank. Instructions should then be given by you to your bank to transfer funds by wire to State Street Bank and Trust Company (State Street), Boston, Massachusetts, Custody and Shareholder Services Division, Attention: Target Funds, specifying on the wire the account number assigned by PMFS and your name and identifying the Fund and class in which you are eligible to invest (Class A, Class B or Class C shares).

If you arrange for receipt by State Street of federal funds prior to the calculation of NAV (4:15 P.M., New York time) on a business day, you may purchase shares of a Fund as of that day.

In making a subsequent purchase order by wire, you should wire State Street directly and should be sure that the wire specifies Target Funds, the Fund in which you would like to invest, Class A, Class B or Class C shares and your name and individual account number. It is not necessary to call PMFS to make subsequent purchase orders utilizing Federal Funds. The minimum amount which may be invested by wire is \$1,000.

#### ISSUANCE OF FUND SHARES FOR SECURITIES

Transactions involving the issuance of Fund shares for securities (rather than cash) will be limited to (1) reorganizations, (2) statutory mergers, or (3) other acquisitions of portfolio securities that: (a) meet the investment objective and policies of the Fund, (b) are liquid and not subject to restrictions on resale, (c) have a value that is readily ascertainable via listing on or trading in a recognized United States or international exchange or market, and (d) are approved by the Trust's investment adviser.

B-46

SPECIMEN PRICE MAKE-UP

Under the current distribution arrangements between the Fund and the Distributor, Class A shares of the Total Return Bond Fund are sold with a maximum sales charge of 4%, Class A shares of the Other Funds are sold with a maximum sales charge of 5%, Class C\* shares are sold with a 1% sales charge, and Class B\* shares are sold at NAV. Using the NAV of the Fund at September , 1999, the maximum offering price of the Funds' shares is as follows:

<TABLE>  
<CAPTION>

	LARGE CAP GROWTH	LARGE CAP VALUE	SMALL CAP GROWTH	SMALL CAP VALUE	INT'L EQUITY	TOTAL RETURN BOND
<S>	<C>	<C>	<C>	<C>	<C>	<C>
CLASS A						
Net asset value and redemption price per Class A share.....	\$10.00	\$10.00	\$10.00	\$10.00	\$10.00	\$10.00
Maximum sales charge (Total Return Bond Fund -- 4% of offering price, Other Funds -- 5% of offering price).....	.53	.53	.53	.53	.53	.42
Maximum offering price to public.....	\$10.53	\$10.53	\$10.53	\$10.53	\$10.53	\$10.42
CLASS B						
Net asset value, offering price and redemption price per Class B share*.....	\$10.00	\$10.00	\$10.00	\$10.00	\$10.00	\$10.00
CLASS C						
Net asset value and redemption price per Class C share*.....	\$10.00	\$10.00	\$10.00	\$10.00	\$10.00	\$10.00
Sales charge (1% of offering price).....	.10	.10	.10	.10	.10	.10
Offering price to public.....	\$10.10	\$10.10	\$10.10	\$10.10	\$10.10	\$10.10

</TABLE>

\* Class B and Class C shares are subject to a contingent deferred sales charge on certain redemptions.

SELECTING A PURCHASE ALTERNATIVE

The following is provided to assist you in determining which method of purchase best suits your individual circumstances and is based on current fees and expenses being charged to the Fund:

If you intend to hold your investment in the Fund for less than 4 years and do not qualify for a reduced sales charge on Class A shares, since Class A shares are subject to an initial sales charge of 5% and Class B shares are subject to a CDSC of 5% which declines to zero over a 6 year period, you should consider purchasing Class C shares over either Class A or Class B shares.

If you intend to hold your investment for longer than 4 years, but less than 5 years, and do not qualify for a reduced sales charge on Class A shares, you should consider purchasing Class B or Class C shares over Class A shares. This is because the initial sales charge plus the cumulative annual distribution-related fee on Class A shares would exceed those of the Class B and Class C shares if you redeem your investment during this time period. In addition, more of your money would be invested initially in the case of Class C shares, because of the relatively low initial sales charge, and all of your money would be invested initially in the case of Class B shares, which are sold at NAV.

If you intend to hold your investment for longer than 5 years, you should consider purchasing Class A shares over either Class B or Class C shares. This is because the maximum sales charge plus the cumulative annual distribution-related fee on Class A shares would be less than those of the Class B and Class C shares.

If you qualify for a reduced sales charge on Class A shares, it may be more advantageous for you to purchase Class A shares over either Class B or Class C

shares regardless of how long you intend to hold your investment. However, unlike Class B shares, you would not have all of your money invested initially because the sales charge on Class A shares is deducted at the time of purchase.

If you do not qualify for a reduced sales charge on Class A shares and you purchase Class B or Class C shares, you would have to hold your investment for more than 6 years in the case of Class B shares and for more than 5 years in the case of Class C shares for the higher cumulative annual distribution-related fee on those shares plus, in the case of Class C shares, the 1% initial sales charge to exceed the initial sales charge plus the cumulative annual distribution-related fees on Class A shares. This does not take into account the time value of money, which further reduces the impact of the higher Class B or Class C distribution-related fee on the investment, fluctuations in NAV, the effect of the return on the investment over this period of time or redemptions when the CDSC is applicable.

[ADD FOR TRB FUND]

#### REDUCTION AND WAIVER OF INITIAL SALES CHARGE -- CLASS A SHARES

**Benefit Plans.** Certain group retirement and savings plans may purchase Class A shares without the initial sales charge if they meet the required minimum for amount of assets, average account balance or number of eligible employees. For more information about these requirements, call Prudential at (800) 353-2847.

**Other Waivers.** In addition, Class A shares may be purchased at NAV, through the Distributor or the Transfer Agent, by:

- officers of the Prudential mutual funds (including the Trust),
- employees of the Distributor, Prudential Securities, PIFM and their subsidiaries and members of the families of such persons who maintain an "employee related" account at Prudential Securities or the Transfer Agent,
- employees of subadvisers of the Prudential mutual funds provided that purchases at NAV are permitted by such person's employer,
- Prudential, employees and special agents of Prudential and its subsidiaries and all persons who have retired directly from active service with Prudential or one of its subsidiaries,
- members of the Board of Directors of The Prudential Insurance Company of America,
- registered representatives and employees of brokers who have entered into a selected dealer agreement with the Distributor provided that purchases at NAV are permitted by such person's employer,
- investors who have a business relationship with a financial adviser who joined Prudential Securities from another investment firm, provided that (1) the purchase is made within 180 days of the commencement of the financial adviser's employment at Prudential Securities, or within one year in the case of benefit plans, (2) the purchase is made with proceeds of a redemption of shares of any open-end non-money market fund sponsored by the financial adviser's previous employer (other than a fund which imposes a distribution or service fee of .25 of 1% or less) and (3) the financial adviser served as the client's broker on the previous purchase,
- investors in Individual Retirement Accounts, provided the purchase is made in a directed rollover to such Individual Retirement Account or with the proceeds of a tax-free rollover of assets from a benefit plan for which Prudential provides administrative or recordkeeping

B-48

112

services and further provided that such purchase is made within 60 days of receipt of the benefit plan distribution,

- orders placed by broker-dealers, investment advisers or financial planners who have entered into an agreement with the Distributor, who place trades for their own accounts or the accounts of their clients and who charge a management, consulting or other fee for their services (for example, mutual fund "wrap" or asset allocation programs), and
- orders placed by clients of broker-dealers, investment advisers or financial planners who place trades for customer accounts if the accounts are linked to the master account of such broker-dealer, investment adviser or financial planner and the broker-dealer, investment adviser or financial planner charges the clients a separate fee for its services (for example, mutual fund "supermarket programs").

Broker-dealers, investment advisers or financial planners sponsoring fee-based programs (such as mutual fund "wrap" or asset allocation programs and mutual fund "supermarket" programs) may offer their clients more than one class of shares in the Funds in connection with different pricing options for their programs. Investors should consider carefully any separate transaction and other fees charged by these programs in connection with investing in each available share class before selecting a share class.

For an investor to obtain any reduction or waiver of the initial sales charges, at the time of the sale either the Transfer Agent must be notified directly by the investor or the Distributor must be notified by the broker facilitating the transaction that the sale qualifies for the reduced or waived sales charge. The reduction or waiver will be granted subject to confirmation of your entitlement. No initial sales charges are imposed upon Class A shares acquired upon the reinvestment of dividends and distributions.

#### COMBINED PURCHASE AND CUMULATIVE PURCHASE PRIVILEGE

If an investor or eligible group of related investors purchases Class A shares of a Fund concurrently with Class A shares of other Prudential mutual funds, the purchases may be combined to take advantage of the reduced sales charges applicable to larger purchases. See "How to Buy, Sell and Exchange Shares of the Fund -- Reducing or Waiving Class A's Initial Sales Charge" in the Prospectus of the Funds.

An eligible group of related Fund investors includes any combination of the following:

- an individual,
- the individual's spouse, their children and their parents,
- the individual's and spouse's Individual Retirement Account (IRA),
- any company controlled by the individual (a person, entity or group that holds 25% or more of the outstanding voting securities of a company will be deemed to control the company, and a partnership will be deemed to be controlled by each of its general partners),
- a trust created by the individual, the beneficiaries of which are the individual, his or her spouse, parents or children,
- a Uniform Gifts to Minors Act/Uniform Transfers to Minors Act account created by the individual or the individual's spouse, and
- one or more employee benefit plans of a company controlled by an individual.

Also, an eligible group of related Fund investors may include an employer (or group of related employers) and one or more qualified retirement plans of such employer or employers (an employer controlling, controlled by or under common control with another employer is deemed related to that employer).

B-49

113

The Transfer Agent, the Distributor or your broker must be notified at the time of purchase that the investor is entitled to a reduced sales charge. The reduced sales charge will be granted subject to confirmation of the investor's holdings. The Combined Purchase and Cumulative Purchase Privilege does not apply to individual participants in any retirement or group plans.

#### RIGHTS OF ACCUMULATION

Reduced sales charges are also available through Rights of Accumulation, under which an investor or an eligible group of related investors, as described above under "Combined Purchase and Cumulative Purchase Privilege," may aggregate the value of their existing holdings of shares of the Funds and shares of other Prudential mutual funds (excluding money market funds other than those acquired pursuant to the exchange privilege) to determine the reduced sales charge. However, the value of shares held directly with the Transfer Agent and through your broker will not be aggregated to determine the reduced sales charge. The value of existing holdings for purposes of determining the reduced sales charge is calculated using the maximum offering or price (NAV plus maximum sales charge) as of the previous business day. The Distributor or the Transfer Agent must be notified at the time of purchase that the investor is entitled to a reduced sales charge. The reduced sales charges will be granted subject to confirmation of the investor's holdings. Rights of Accumulation are not available to individual participants in any retirement or group plans.

#### LETTER OF INTENT

Reduced sales charges also are available to investors (or an eligible group of related investors) who enter into a written Letter of Intent providing for the purchase, within a thirteen-month period, of shares of the Fund and shares



of other Prudential mutual funds. Retirement and group plans may not enter into a Letter of Intent.

For purposes of the Letter of Intent, all shares of the Funds and shares of other Prudential mutual funds (excluding money market funds other than those acquired pursuant to the exchange privilege) which were previously purchased and are still owned are also included in determining the applicable reduction. However, the value of shares held directly with the Transfer Agent, Prudential Securities or its affiliates, and through your broker will not be aggregated to determine the reduced sales charge.

A Letter of Intent permits a purchaser to establish a total investment goal to be achieved by any number of investments over a thirteen-month period. Each investment made during the period will receive the reduced sales charge applicable to the amount represented by the goal, as if it were a single investment. Escrowed Class A shares totaling 5% of the dollar amount of the Letter of Intent will be held by the Transfer Agent in the name of the purchaser. The effective date of a Letter of Intent may be back-dated up to 90 days, in order that any investments made during this 90-day period, valued at the purchaser's cost, can be applied to the fulfillment of the Letter of Intent goal.

The Letter of Intent does not obligate the investor to purchase, nor the Trust to sell, the indicated amount. In the event the Letter of Intent goal is not achieved within the thirteen-month period, the purchaser is required to pay the difference between the sales charge otherwise applicable to the purchases made during this period and sales charges actually paid. Such payment may be made directly to the Distributor or, if not paid, the Distributor will liquidate sufficient escrowed shares to obtain such difference. If the goal is exceeded in an amount which qualifies for a lower sales charge, a price adjustment is made by refunding to the purchaser the amount of excess sales charge, if any, paid during the thirteen-month period. Investors electing to purchase Class A shares of the Fund pursuant to a Letter of Intent should carefully read such Letter of Intent.

The Distributor must be notified at the time of purchase that the investor is entitled to a reduced sales charge. The reduced sales charge will be granted subject to confirmation of the investor's holdings.

B-50

114

#### CLASS B SHARES

The offering price of Class B shares for investors choosing one of the deferred sales charge alternatives is the NAV next determined following receipt of an order in proper form by the Transfer Agent, your broker or the Distributor. Although there is no sales charge imposed at the time of purchase, redemptions of Class B shares may be subject to a CDSC. See "Sale of Shares -- Contingent Deferred Sales Charge" below.

The Distributor will pay, from its own resources, sales commissions of up to 4% of the purchase price of Class B shares to brokers, financial advisers and other persons who sell Class B shares at the time of sale. This facilitates the ability of the Trust to sell the Class B shares without an initial sales charge being deducted at the time of purchase. The Distributor anticipates that it will recoup its advancement of sales commissions from the combination of the CDSC and the distribution fee.

#### CLASS C SHARES

The offering price of Class C shares is the next determined NAV plus a 1% sales charge. In connection with the sale of Class C shares, the Distributor will pay, from its own resources, brokers, financial advisers and other persons which distribute Class C shares a sales commission of up to 2% of the purchase price at the time of the sale.

#### WAIVER OF INITIAL SALES CHARGE -- CLASS C SHARES

Benefit Plans. Certain group retirement plans may purchase Class C shares without the initial sales charge. For more information, call Prudential at (800) 353-2847.

Investment of Redemption Proceeds from Other Investment Companies. Investors may purchase Class C shares at NAV, without the initial sales charge, with the proceeds from the redemption of shares of any unaffiliated registered investment company which were not held through an account with any Prudential affiliate. Such purchases must be made within 60 days of the redemption. Investors eligible for this waiver include: (1) investors purchasing shares through an account at Prudential Securities; (2) investors purchasing shares through an ADVANTAGE Account or an Investor Account with Prusec; and (3) investors purchasing shares through other brokers. This waiver is not available to investors who purchase shares directly from the Transfer Agent. You must notify the Transfer Agent directly or through your

broker if you are entitled to this waiver and provide the Transfer Agent with such supporting documents as it may deem appropriate.

#### SALE OF SHARES

You can redeem your shares at any time for cash at the NAV next determined after the redemption request is received in proper form (in accordance with procedures established by the Transfer Agent in connection with investors' accounts) by the Transfer Agent, the Distributor or your broker. In certain cases, however, redemption proceeds will be reduced by the amount of any applicable CDSC, as described below. See "Contingent Deferred Sales Charge" below. If you are redeeming your shares through a broker, your broker must receive your sell order before a Fund computes its NAV for that day (that is, 4:15 P.M., New York time) in order to receive that day's NAV. Your broker will be responsible for furnishing all necessary documentation to the Distributor and may charge you for its services in connection with redeeming shares of a Fund.

If you hold shares of a Fund through Prudential Securities, you must redeem your shares through Prudential Securities. Please contact your Prudential Securities financial adviser.

If you hold shares in non-certificate form, a written request for redemption signed by you exactly as the account is registered is required. If you hold certificates, the certificates, signed in the name(s) shown on the face of the certificates, must be received by the Transfer Agent, the Distributor or your broker in order for the redemption request to be processed. If redemption is requested by a corporation, partnership, trust or fiduciary, written evidence of authority acceptable

B-51

115

to the Transfer Agent must be submitted before such request will be accepted. All correspondence and documents concerning redemptions should be sent to the Trust in care of its Transfer Agent, Prudential Mutual Fund Services LLC, Attention: Redemption Services, P.O. Box 15010, New Brunswick, New Jersey 08906-5010, the Distributor or to your broker.

#### SIGNATURE GUARANTEE

If the proceeds of the redemption (1) exceed \$100,000, (2) are to be paid to a person other than the record owner, (3) are to be sent to an address other than the address on the Transfer Agent's records, or (4) are to be paid to a corporation, partnership, trust or fiduciary, and your shares are held directly with the Transfer Agent, the signature(s) on the redemption request and on the certificates, if any, or stock power must be guaranteed by an "eligible guarantor institution." An "eligible guarantor institution" includes any bank, broker, dealer or credit union. The Transfer Agent reserves the right to request additional information from, and make reasonable inquiries of, any eligible guarantor institution. For clients of Prusec, a signature guarantee may be obtained from the agency or office manager of most Prudential Insurance and Financial Services or Preferred Services offices. In the case of redemptions from a PruArray Plan, if the proceeds of the redemption are invested in another investment option of the plan in the name of the record holder and at the same address as reflected in the Transfer Agent's records, a signature guarantee is not required.

Payment for shares presented for redemption will be made by check within seven days after receipt by the Transfer Agent, the Distributor or your broker of the certificate and/or written request, except as indicated below. If you hold shares through a broker, payment for shares presented for redemption will be credited to your account at your broker, unless you indicate otherwise. Such payment may be postponed or the right of redemption suspended at times (1) when the New York Stock Exchange is closed for other than customary weekends and holidays, (2) when trading on such Exchange is restricted, (3) when an emergency exists as a result of which disposal by the Fund of securities owned by it is not reasonably practicable or it is not reasonably practicable for a Fund fairly to determine the value of its net assets, or (4) during any other period when the Commission, by order, so permits; provided that applicable rules and regulations of the Commission shall govern as to whether the conditions prescribed in (2), (3) or (4) exist.

#### REDEMPTION IN KIND

If the Trustees determine that it would be detrimental to the best interests of the remaining shareholders of a Fund to make payment wholly or partly in cash, the Fund may pay the redemption price in whole or in part by a distribution in kind of securities from the investment portfolio of the Fund, in lieu of cash, in conformity with applicable rules of the Commission. Securities will be readily marketable and will be valued in the same manner as in a regular redemption. If your shares are redeemed in kind, you would incur transaction costs in converting the assets into cash. The Trust, however, has elected to be governed by Rule 18f-1 under the Investment Company Act, under which each Fund is obligated to redeem shares solely in cash up to the lesser of \$250,000 or 1% of the NAV of the Fund during any 90-day period for any one shareholder.

INVOLUNTARY REDEMPTION

In order to reduce expenses of the Funds, the Trustees may redeem all of the shares of any shareholder, other than a shareholder which is an IRA or other tax-deferred retirement plan, whose account has a net asset value of less than \$500 due to a redemption. The Trust will give such shareholders 60 days' prior written notice in which to purchase sufficient additional shares to avoid such redemption. No CDSC will be imposed on any such involuntary redemption.

B-52

116

90-DAY REPURCHASE PRIVILEGE

If you redeem your shares and have not previously exercised the repurchase privilege, you may reinvest any portion or all of the proceeds of such redemption in shares of a Fund at the NAV next determined after the order is received, which must be within 90 days after the date of the redemption. Any CDSC paid in connection with such redemption will be credited (in shares) to your account. (If less than a full repurchase is made, the credit will be on a pro rata basis.) You must notify the Transfer Agent, either directly or through the Distributor or your broker, at the time the repurchase privilege is exercised to adjust your account for the CDSC you previously paid. Thereafter, any redemptions will be subject to the CDSC applicable at the time of the redemption. See "Contingent Deferred Sales Charge" below. Exercise of the repurchase privilege will generally not affect federal tax treatment of any gain realized upon redemption. However, if the redemption was made within a 30 day period of the repurchase and if the redemption resulted in a loss, some or all of the loss, depending on the amount reinvested, may not be allowed for federal income tax purposes.

CONTINGENT DEFERRED SALES CHARGE

Redemptions of Class B shares will be subject to a contingent deferred sales charge or CDSC declining from 5% to zero over a six-year period. Class C shares redeemed within 18 months of purchase will be subject to a 1% CDSC. The CDSC will be deducted from the redemption proceeds and reduce the amount paid to you. The CDSC will be imposed on any redemption by you which reduces the current value of your Class B or Class C shares to an amount which is lower than the amount of all payments by you for shares during the preceding six years, in the case of Class B shares, and 18 months, in the case of Class C shares. A CDSC will be applied on the lesser of the original purchase price or the current value of the shares being redeemed. Increases in the value of your shares or shares acquired through reinvestment of dividends or distributions are not subject to a CDSC. The amount of any CDSC will be paid to and retained by the Distributor.

The amount of the CDSC, if any, will vary depending on the number of years from the time of payment for the purchase of shares until the time of redemption of such shares. Solely for purposes of determining the number of years from the time of any payment for the purchase of shares, all payments during a month will be aggregated and deemed to have been made on the last day of the month. The CDSC will be calculated from the first day of the month after the initial purchase, excluding the time shares were held in The Prudential Special Money Market Fund, Inc.

The following table sets forth the rates of the CDSC applicable to redemption of Class B shares:

YEAR SINCE PURCHASE PAYMENT MADE -----	CONTINGENT DEFERRED SALES CHARGE AS A PERCENTAGE OF DOLLARS INVESTED OR REDEMPTION PROCEEDS -----
<S>	<C>
First.....	5.0%
Second.....	4.0%
Third.....	3.0%
Fourth.....	2.0%
Fifth.....	1.0%
Sixth.....	1.0%
Seventh.....	None

In determining whether a CDSC is applicable to a redemption, the calculation will be made in a manner that results in the lowest possible rate. It will be assumed that the redemption is made first of amounts representing shares acquired pursuant to the reinvestment of dividends and distributions; then of amounts representing the increase in NAV above the total amount of payments for the purchase of Class B shares made during the preceding six years and 18 months for Class C shares; then of amounts representing the cost of

and finally, of amounts representing the cost of shares held for the longest period of time within the applicable CDSC period.

For example, assume you purchased 100 Class B shares at \$10 per share for a cost of \$1,000. Subsequently, you acquired 5 additional Class B shares through dividend reinvestment. During the second year after the purchase you decide to redeem \$500 of your investment. Assuming at the time of the redemption the NAV had appreciated to \$12 per share, the value of your Class B shares would be \$1,260 (105 shares at \$12 per share). The CDSC would not be applied to the value of the reinvested dividend shares and the amount which represents appreciation (\$260). Therefore, \$240 of the \$500 redemption proceeds (\$500 minus \$260) would be charged at a rate of 4% (the applicable rate in the second year after purchase) for a total CDSC of \$9.60.

For federal income tax purposes, the amount of the CDSC will reduce the gain, or increase the loss, as the case may be, on the amount recognized on the redemption of shares.

WAIVER OF CONTINGENT DEFERRED SALES CHARGE -- CLASS B SHARES

The CDSC will be waived in the case of a redemption following the death or disability of a shareholder or, in the case of a trust account, following the death or disability of the grantor. The waiver is available for total or partial redemptions of shares owned by a person, either individually or in joint tenancy (with rights of survivorship), at the time of death or initial determination of disability, provided that the shares were purchased prior to death or disability.

The CDSC will also be waived in the case of a total or partial redemption in connection with certain distributions made without penalty under the Internal Revenue Code from a tax-deferred retirement plan, an IRA or Section 403(b) custodial account. For more information, call Prudential at (800) 353-2847.

Finally, the CDSC will be waived to the extent that the proceeds from shares redeemed are invested in Prudential Mutual Funds, The Guaranteed Investment Account, the Guaranteed Insulated Separate Account or units of The Stable Value Fund.

Systematic Withdrawal Plan. The CDSC will be waived (or reduced) on certain redemptions from a Systematic Withdrawal Plan. On an annual basis, up to 12% of the total dollar amount subject to the CDSC may be redeemed without charge. The Transfer Agent will calculate the total amount available for this waiver annually on the anniversary date of your purchase. The CDSC will be waived (or reduced) on redemptions until this threshold 12% is reached.

In addition, the CDSC will be waived on redemptions of shares held by Trustees of the Trust.

You must notify the Trust's Transfer Agent either directly or through your broker at the time of redemption, that you are entitled to waiver of the CDSC and provide the Transfer Agent with such supporting documentation as it may deem appropriate. The waiver will be granted subject to confirmation of your entitlement. In connection with these waivers, the Transfer Agent will require you to submit the supporting documentation set forth below.

<TABLE> <CAPTION>	CATEGORY OF WAIVER	REQUIRED DOCUMENTATION
<S>	Death	<C> A copy of the shareholder's death certificate or, in the case of a trust, a copy of the grantor's death certificate, plus a copy of the trust agreement identifying the grantor.
Disability -- An individual will be considered disabled if he or she is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or to be of long-continued and indefinite duration.	</TABLE>	A copy of the Social Security Administration award letter or a letter from a physician on the physician's letterhead stating that the shareholder (or, in the case of a trust, the grantor) is permanently disabled. The letter must also indicate the date of disability.

<TABLE>  
<CAPTION>

<code>&lt;S&gt;</code>	<code>&lt;C&gt;</code>
Distribution from an IRA or 403(b) Custodial Account	A copy of the distribution form from the custodial firm indicating (i) the date of birth of the shareholder and (ii) that the shareholder is over age 59 and is taking a normal distribution -- signed by the shareholder.
Distribution from Retirement Plan	A letter signed by the plan administrator/trustee indicating the reason for the distribution.
Excess Contributions	A letter from the shareholder (for an IRA) or the plan administrator/trustee on company letterhead indicating the amount of the excess and whether or not taxes have been paid.

`</TABLE>`

The Transfer Agent reserves the right to request such additional documents as it may deem appropriate.

#### WAIVER OF CONTINGENT DEFERRED SALES CHARGE -- CLASS C SHARES

Benefit Plans. The CDSC will be waived for redemptions by certain group retirement plans for which Prudential or brokers not affiliated with Prudential provide administrative or recordkeeping services. The CDSC will also be waived for certain redemptions by benefit plans sponsored by Prudential and its affiliates. For more information, call Prudential at (800) 353-2847.

#### CONVERSION FEATURE -- CLASS B SHARES

Class B shares will automatically convert to Class A shares on a quarterly basis approximately seven years after purchase. Conversions will be effected at relative net asset value without the imposition of any additional sales charge.

Since the Trust tracks amounts paid rather than the number of shares bought on each purchase of Class B shares, the number of Class B shares eligible to convert to Class A shares (excluding shares acquired through the automatic reinvestment of dividends and other distributions) (the Eligible Shares) will be determined on each conversion date in accordance with the following formula: (1) the ratio of (a) the amounts paid for Class B shares purchased at least seven years prior to the conversion date to (b) the total amount paid for all Class B shares purchased and then held in your account (2) multiplied by the total number of Class B shares purchased and then held in your account. Each time any Eligible Shares in your account convert to Class A shares, all shares or amounts representing Class B shares then in your account that were acquired through the automatic reinvestment of dividends and other distributions will convert to Class A shares.

For purposes of determining the number of Eligible Shares, if the Class B shares in your account on any conversion date are the result of multiple purchases at different NAVs per share, the number of Eligible Shares calculated as described above will generally be either more or less than the number of shares actually purchased approximately seven years before such conversion date. For example, if 100 shares were initially purchased at \$10 per share (for a total of \$1,000) and a second purchase of 100 shares was subsequently made at \$11 per share (for a total of \$1,100), 95.24 shares would convert approximately seven years from the initial purchase (that is, \$1,000 divided by \$2,100 (47.62%), multiplied by 200 shares equals 95.24 shares). The Manager reserves the right to modify the formula for determining the number of Eligible Shares in the future as it deems appropriate on notice to shareholders.

Since annual distribution-related fees are lower for Class A shares than Class B shares, the per share NAV of the Class A shares may be higher than that of the Class B shares at the time of conversion. Thus, although the aggregate dollar value will be the same, you may receive fewer Class A shares than Class B shares converted.

B-55

119

For purposes of calculating the applicable holding period for conversions, all payments for Class B shares during a month will be deemed to have been made on the last day of the month, or for Class B shares acquired through exchange, or a series of exchanges, on the last day of the month in which the original payment for purchases of such Class B shares was made. For Class B shares previously exchanged for shares of The Prudential Special Money Market Fund, Inc., the time period during which such shares were held in that money market fund will be excluded. For example, Class B shares held in The Prudential Special Money Market Fund, Inc. for one year would not convert to Class A shares until approximately eight years from purchase. For purposes of measuring the time period during which shares are held in The Prudential Special Money Market Fund, Inc., exchanges will be deemed to have been made on the last day of the month. Class B shares acquired through exchange will convert to Class A shares after expiration of the conversion period applicable to the original purchase of

such shares.

The conversion feature may be subject to the continuing availability of opinions of counsel or rulings of the Internal Revenue Service (1) that the dividends and other distributions paid on Class A, Class B and Class C shares will not constitute "preferential dividends" under the Internal Revenue Code and (2) that the conversion of shares does not constitute a taxable event. The conversion of Class B shares into Class A shares may be suspended if such opinions or rulings are no longer available. If conversions are suspended, Class B shares of the Fund will continue to be subject, possibly indefinitely, to their higher annual distribution and service fee.

#### SHAREHOLDER INVESTMENT ACCOUNT

Upon the initial purchase of Fund shares, a Shareholder Investment Account is established for each investor under which the shares are held for the investor by the Transfer Agent. If a share certificate is desired, it must be requested in writing for each transaction. Certificates are issued only for full shares and may be redeposited in the Account at any time. There is no charge to the investor for issuance of a certificate. The Trust makes available to its shareholders the following privileges and plans.

#### AUTOMATIC REINVESTMENT OF DIVIDENDS AND DISTRIBUTIONS

For the convenience of investors, all dividends and distributions are automatically reinvested in full and fractional shares of the Fund in which they have invested. An investor may direct the Transfer Agent in writing not less than five full business days prior to the record date to have subsequent dividends or distributions sent in cash rather than reinvested. In the case of recently purchased shares for which registration instructions have not been received on the record date, cash payment will be made directly to the broker. Any shareholder who receives a cash payment representing a dividend or distribution may reinvest such dividend or distribution at NAV by returning the check or the proceeds to the Transfer Agent within 30 days after the payment date. Such investment will be made at the NAV per share next determined after receipt of the check or proceeds by the Transfer Agent. Such shareholder will receive credit for any CDSC paid in connection with the amount of proceeds being reinvested.

#### EXCHANGE PRIVILEGE

The Trust makes available to its shareholders the privilege of exchanging their shares of each Fund for shares of certain other Prudential mutual funds, including one or more specified money market funds, subject in each case to the minimum investment requirements of such funds. Shares of such other Prudential mutual funds may also be exchanged for shares of the Funds. All exchanges are made on the basis of the relative NAV next determined after receipt of an order in proper form. An exchange will be treated as a redemption and purchase for tax purposes. For retirement and group plans having a limited menu of Prudential mutual funds, the exchange privilege is available for those funds eligible for investment in the particular program.

B-56

120

It is contemplated that the exchange privilege may be applicable to new mutual funds whose shares may be distributed by the Distributor.

In order to exchange shares by telephone, you must authorize telephone exchanges on your initial application form or by written notice to the Transfer Agent and hold shares in non-certificate form. Thereafter, you may call the Fund whose shares you wish to exchange at (800) 225-1852 to execute a telephone exchange of shares, on weekdays, except holidays, between the hours of 8:00 A.M. and 6:00 P.M., New York time. For your protection and to prevent fraudulent exchanges, your telephone call will be recorded and you will be asked to provide your personal identification number. A written confirmation of the exchange transaction will be sent to you. Neither the Trust nor its agents will be liable for any loss, liability or cost which results from acting upon instructions reasonably believed to be genuine under the foregoing procedures. All exchanges will be made on the basis of the relative NAV of the two funds next determined after the request is received in good order.

If you hold shares through Prudential Securities, you must exchange your shares by contacting your Prudential Securities financial adviser.

If you hold certificates, the certificates, signed in the name(s) shown on the face of the certificates, must be returned in order for the shares to be exchanged.

You may also exchange shares by mail by writing to Prudential Mutual Fund Services LLC, Attention: Exchange Processing, P.O. Box 15010, New Brunswick, New Jersey 08906-5010.

In periods of severe market or economic conditions the telephone exchange of shares may be difficult to implement and you should make exchanges by mail by writing to Prudential Mutual Fund Services LLC, at the address noted above.

CLASS A. Shareholders of a Fund may exchange their Class A shares for Class A shares of certain other Prudential Mutual Funds, shares of Prudential Government Securities Trust (Short-Intermediate Term Series) and shares of the money market funds specified below. No fee or sales load will be imposed upon the exchange. Shareholders of money market funds who acquired such shares upon exchange of Class A shares may use the exchange privilege only to acquire Class A shares of the Prudential Mutual Funds participating in the exchange privilege.

The following money market funds participate in the Class A exchange privilege:

Prudential California Municipal Fund

(California Money Market Series)

Prudential Government Securities Trust

(Money Market Series)

(U.S. Treasury Money Market Series)

Prudential Municipal Series Fund

(Connecticut Money Market Series)

(Massachusetts Money Market Series)

(New Jersey Money Market Series)

(New York Money Market Series)

Prudential MoneyMart Assets, Inc. (Class A shares)

Prudential Tax-Free Money Fund, Inc.

CLASS B AND CLASS C. Shareholders of a Fund may exchange their Class B and Class C shares of the Fund for Class B and Class C shares, respectively, of certain other Prudential mutual funds and shares of Prudential Special Money Market Fund, Inc., a money market fund. No CDSC will be payable upon such exchange, but a CDSC may be payable upon the redemption of the Class B and Class C shares acquired as a result of an exchange. The applicable sales charge will be that

imposed by the fund in which shares were initially purchased and the purchase date will be deemed to be the first day of the month after the initial purchase, rather than the date of the exchange.

Class B and Class C shares of a Fund may also be exchanged for shares of Prudential Special Money Market Fund, Inc. without imposition of any CDSC at the time of exchange. Upon subsequent redemption from such money market fund or after re-exchange into the Fund, such shares will be subject to the CDSC calculated without regard to the time such shares were held in the money market fund. In order to minimize the period of time in which shares are subject to a CDSC, shares exchanged out of the money market fund will be exchanged on the basis of their remaining holding periods, with the longest remaining holding periods being transferred first. In measuring the time period shares are held in a money market fund and "tolled" for purposes of calculating the CDSC holding period, exchanges are deemed to have been made on the last day of the month. Thus, if shares are exchanged into a Fund from a money market fund during the month (and are held in the Fund at the end of the month), the entire month will be included in the CDSC holding period. Conversely, if shares are exchanged into a money market fund prior to the last day of the month (and are held in the money market fund on the last day of the month), the entire month will be excluded from the CDSC holding period. For purposes of calculating the seven year holding period applicable to the Class B conversion feature, the time period during which Class B shares were held in a money market fund will be excluded.

At any time after acquiring shares of other funds participating in the Class B or Class C exchange privilege, a shareholder may again exchange those shares (and any reinvested dividends and distributions) for Class B or Class C shares of a Fund, respectively, without subjecting such shares to any CDSC. Shares of any fund participating in the Class B or Class C exchange privilege that were acquired through reinvestment of dividends or distributions may be exchanged for Class B or Class C shares of other funds, respectively, without being subject to any CDSC.

#### SPECIAL EXCHANGE PRIVILEGES

A special exchange privilege is available for shareholders who qualify to purchase Class A shares at NAV. Under this exchange privilege, amounts representing any Class B and Class C shares which are not subject to a CDSC held in such a shareholder's account will be automatically exchanged for Class A shares for shareholders who qualify to purchase Class A shares at NAV on a quarterly basis, unless the shareholder elects otherwise.

Eligibility for this exchange privilege will be calculated on the business day prior to the date of the exchange. Amounts representing Class B or Class C shares which are not subject to a CDSC include the following: (1) amounts representing Class B or Class C shares acquired pursuant to the automatic reinvestment of dividends and distributions, (2) amounts representing the increase in the NAV above the total amount of payments for the purchase of Class B or Class C shares and (3) amounts representing Class B or Class C shares held beyond the applicable CDSC period. Class B and Class C shareholders must notify the Transfer Agent either directly or through Prudential Securities, Prusec or another broker that they are eligible for this special exchange privilege.

Additional details about the exchange privilege and prospectuses for each of the Prudential mutual funds are available from the Fund's Transfer Agent, the Distributor or your broker. The exchange privilege may be modified, terminated or suspended on 60 days' notice, and any fund, including the Trust, or the Distributor, has the right to reject any exchange application relating to such fund's shares.

#### DOLLAR COST AVERAGING

Dollar cost averaging is a method of accumulating shares by investing a fixed amount of dollars in shares at set intervals. An investor buys more shares when the price is low and fewer shares when the price is high. The average cost per share is lower than it would be if a constant number of shares were bought at set intervals.



Dollar cost averaging may be used, for example, to plan for retirement, to save for a major expenditure, such as the purchase of a home, or to finance a college education. The cost of a year's education at a four-year college today averages around \$14,000 at a private college and around \$6,000 at a public university. Assuming these costs increase at a rate of 7% a year, as has been projected, for the freshman class of 2011, the cost of four years at a private college could reach \$210,000 and over \$90,000 at a public university. (1)

The following chart shows how much you would need in monthly investments to achieve specified lump sums to finance your investment goals. (2)

<TABLE>

<CAPTION>

PERIOD OF MONTHLY INVESTMENTS:	\$100,000	\$150,000	\$200,000	\$250,000
-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
25 Years.....	\$ 105	\$ 158	\$ 210	\$ 263
20 Years.....	170	255	340	424
15 Years.....	289	433	578	722
10 Years.....	547	820	1,093	1,366
5 Years.....	1,361	2,041	2,721	3,402

See "Automatic Investment Plan"

</TABLE>

(1) Source information concerning the costs of education at public and private universities is available from The College Board Annual Survey of Colleges, 1993. Average costs for private institutions include tuition, fees, room and board for the 1993-1994 academic year.

(2) The chart assumes an effective rate of return of 8% (assuming monthly compounding). This example is for illustrative purposes only and is not intended to reflect the performance of an investment in shares of the Fund. 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 their original cost.

#### AUTOMATIC INVESTMENT PLAN (AIP)

Under AIP, an investor may arrange to have a fixed amount automatically invested in shares of a Fund monthly by authorizing his or her bank account or brokerage account (including a Prudential Securities Command Account) to be debited to invest specified dollar amounts in shares of the Fund. The investor's bank must be a member of the Automatic Clearing House System. Share certificates are not issued to AIP participants.

Further information about this program and an application form can be obtained from the Transfer Agent, the Distributor or your broker.

#### SYSTEMATIC WITHDRAWAL PLAN

A systematic withdrawal plan is available to shareholders through the Transfer Agent, the Distributor or your broker. Such withdrawal plan provides for monthly or quarterly checks in any amount, except as provided below, up to the value of the shares in the shareholder's account. Withdrawals of Class B or Class C shares may be subject to a CDSC.

In the case of shares held through the Transfer Agent (1) a \$10,000 minimum account value applies, (2) withdrawals may not be for less than \$100 and (3) the shareholder must elect to have all dividends and distributions automatically reinvested in additional full and fractional shares at NAV on shares held under this plan.

The Transfer Agent, the Distributor or your broker acts as an agent for the shareholder in redeeming sufficient full and fractional shares to provide the amount of the periodic withdrawal payment. The systematic withdrawal plan may be terminated at any time, and the Distributor reserves the right to initiate a fee of up to \$5 per withdrawal, upon 30 days' written notice to the shareholder.

B-59

Withdrawal payments should not be considered as dividends, yield or income. If periodic withdrawals continuously exceed reinvested dividends and distributions, the shareholder's original investment will be correspondingly reduced and ultimately exhausted.

Furthermore, each withdrawal constitutes a redemption of shares, and any gain or loss realized must be recognized for federal income tax purposes. In

addition, withdrawals made concurrently with purchases of additional shares are inadvisable because of the sales charges applicable to (1) the purchase of Class A and Class C shares and (2) the redemption of Class B and Class C shares. Each shareholder should consult his or her own tax adviser with regard to the tax consequences of the plan, particularly if used in connection with a retirement plan.

TAX-DEFERRED RETIREMENT PLANS

Various qualified retirement plans, including a 401(k) plan, self-directed individual retirement accounts and "tax-deferred accounts" under Section 403(b)(7) of the Internal Revenue Code are available through the Distributor. These plans are for use by both self-employed individuals and corporate employers. These plans permit either self-direction of accounts by participants, or a pooled account arrangement. Information regarding the establishment of these plans, and the administration, custodial fees and other details are available from the Distributor or the Transfer Agent.

Investors who are considering the adoption of such a plan should consult with their own legal counsel or tax adviser with respect to the establishment and maintenance of any such plan.

TAX-DEFERRED RETIREMENT ACCOUNTS

INDIVIDUAL RETIREMENT ACCOUNTS. An individual retirement account (IRA) permits the deferral of federal income tax on income earned in the account until the earnings are withdrawn. The following chart represents a comparison of the earnings in a personal savings account with those in an IRA, assuming a \$2,000 annual contribution, an 8% rate of return and a 39.6% federal income tax bracket and shows how much more retirement income can accumulate within an IRA as opposed to a taxable individual savings account.

TAX-DEFERRED COMPOUNDING(1)

<TABLE>  
<CAPTION>

	CONTRIBUTIONS MADE OVER: -----	PERSONAL SAVINGS -----	IRA -----
<S>		<C>	<C>
10 years.....		\$ 26,165	\$ 31,291
15 years.....		44,675	58,649
20 years.....		68,109	98,846
25 years.....		97,780	157,909
30 years.....		135,346	244,692

</TABLE>

-----  
(1) The chart is for illustrative purposes only and does not represent the performance of the Fund or any specific investment. It shows taxable versus tax-deferred compounding for the periods and on the terms indicated. Earnings in a traditional IRA account will be subject to tax when withdrawn from the account. Distributions from a Roth IRA which meet the conditions required under the Internal Revenue Code will not be subject to tax upon withdrawal from the account.

MUTUAL FUND PROGRAMS

From time to time, the Funds may be included in a mutual fund program with other Prudential mutual funds. Under such a program, a group of portfolios will be selected and thereafter marketed collectively. Typically, these programs are created with an investment theme, such as, to seek greater diversification, protection from interest rate movements or access to different management styles. In the event such a program is instituted, there may be a minimum investment requirement

B-60

124

for the program as a whole. The Trust may waive or reduce the minimum initial investment requirements in connection with such a program.

The mutual funds in the program may be purchased individually or as part of a program. Since the allocation of portfolios included in the program may not be appropriate for all investors, investors should consult their financial adviser concerning the appropriate blend of portfolios for them. If investors elect to purchase the individual mutual funds that constitute the program in an investment ratio different from that offered by the program, the standard minimum investment requirements for the individual mutual funds will apply.

NET ASSET VALUE

Under the Investment Company Act, the Trustees are responsible for

determining in good faith the fair value of securities of each Fund. In accordance with procedures adopted by the Trustees, the value of securities for which the primary market is on an exchange shall be valued at the last sales prices on that exchange on the day of valuation or, if there was no sale on such day, the average of readily available closing bid and asked prices on such day. Should an extraordinary event, which is likely to affect the value of the security, occur after the close of an exchange on which a portfolio security is traded, such security will be valued at fair value considering factors determined in good faith by the Adviser under procedures established by and under the general supervision of the Trustees. The value of a U.S. Government security for which quotations are available shall be valued at a price provided by an independent broker/dealer or pricing service. Pricing services consider such factors as security prices, yields, maturities, call features, ratings and developments relating to specific securities in arriving at securities valuations.

Securities that are actively traded in the over-the-counter market including listed securities for which the primary market is believed by the Manager in consultation with the appropriate Adviser to be over-the-counter are valued at the average of the most recently quoted bid and asked prices provided by a principal market maker. Securities issued in private placements are valued at the mean between the bid and asked prices provided by primary market dealers. Private placement securities for which no bid and asked prices are available and other securities or other assets for which market quotations are not readily available are valued at their fair value as determined in good faith by the investment adviser under procedures described above. Short-term debt securities are valued at cost, with interest accrued or discount amortized to the date of maturity, if their original maturity was 60 days or less, unless this is determined by the Trustees not to represent fair value. Short-term securities with remaining maturities of 60 days or more, for which market quotations are readily available, are valued at their current market quotations as provided by an independent broker/dealer or pricing service. Options on securities that are listed on an exchange and futures contracts and options thereon traded on a commodities exchange or board of trade shall be valued at the last sale price at the close of trading of the applicable exchange or board of trade or, if there was no sale on the applicable exchange or board of trade, at the average of quoted bid and asked prices as of the close of such exchange or board of trade. Over-the-counter options are valued at the mean between bid and asked prices provided by a dealer. Quotations of foreign securities in a foreign currency are converted to U.S. dollar equivalents at the current rate obtained by a recognized bank or dealer. Forward currency exchange contracts are valued at the current cost of covering or offsetting such contracts.

Each Fund will compute its net asset value at 4:15 P.M., New York time, on each day the New York Stock Exchange is open for trading except on days on which no orders to purchase, sell or redeem Fund shares have been received or days on which changes in the value of the Portfolio's securities holdings do not affect net asset value. In the event the New York Stock Exchange closes early on any business day, the net asset value of each Fund's shares shall be determined at a time between such closing and 4:15 P.M., New York time. The New York Stock Exchange is closed on

B-61

125

the following holidays: New Year's Day, Martin Luther King, Jr. Day, Presidents Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day.

#### TAXES, DIVIDENDS AND DISTRIBUTIONS

Each Fund has elected to qualify and intends to remain qualified as a regulated investment company under Subchapter M of the Internal Revenue Code. This relieves each Fund (but not its shareholders) from paying federal income tax on income and capital gains which are distributed to shareholders, and permits net capital gains of each Fund (i.e., the excess of net long-term capital gains over net short-term capital losses) to be treated as long-term capital gains of the shareholders, regardless of how long shareholders have held their shares in each Fund. Net capital gains of each Fund which are available for distribution to shareholders will be computed by taking into account any capital loss carryforward of each Fund.

Qualification of each Fund as a regulated investment company requires, among other things, that (a) each Fund derive at least 90% of its annual gross income (without reduction for losses from the sale or other disposition of securities or foreign currencies) from dividends, interest, payments with respect to securities loans and gains from the sale or other disposition of securities or options thereon 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 such securities or currencies; (b) each Fund diversify its holdings so that, at the end of each quarter of the taxable year, (1) at least 50% of the value of each Fund's assets is represented by cash, U.S. Government securities and other securities limited in respect of any one issuer to an amount not greater than 5% of the value of each Fund's

assets and 10% of the outstanding voting securities of such issuer, and (2) not more than 25% of the value of each Fund's assets is invested in the securities of any one issuer (other than the U.S. Government securities); and (c) each Fund distribute to its shareholders at least 90% of its net investment income and net short-term gains (that is the excess of net short-term capital gains over net long-term capital losses) in each year.

Gains or losses on sales of securities by each Fund will be treated as long-term capital gains or losses if the securities have been held by it for more than one year, except in certain cases where each Fund acquires a put or writes a call thereon or otherwise holds an offsetting position with respect to the securities. Other gains or losses on the sale of securities will be short-term capital gains or losses. Gains and losses on the sale, lapse or other termination of options on securities will be treated as gains and losses from the sale of securities. If an option written by each Fund on securities lapses or is terminated through a closing transaction, such as a repurchase by each Fund of the option from its holder, each Fund will generally realize short-term capital gain or loss. If securities are sold by each Fund pursuant to the exercise of a call option written by it, each Fund will include the premium received in the sale proceeds of the securities delivered in determining the amount of gain or loss on the sale. Certain of each Fund's transactions may be subject to wash sale, short sale, constructive sale, anti-conversion and straddle provisions of the Internal Revenue Code which may, among other things, require each Fund to defer recognition of losses. In addition, debt securities acquired by each Fund may be subject to original issue discount and market discount rules which, respectively, may cause each Fund to accrue income in advance of the receipt of cash with respect to interest or cause gains to be treated as ordinary income.

Special rules apply to most options on stock indices, future contracts and options thereon, and foreign currency forward contracts in which each Fund may invest. These investments will generally constitute Section 1256 contracts and will be required to be "marked to market" for federal income tax purposes at the end of each Fund's taxable year; that is, treated as having been sold at market value. Except with respect to certain foreign currency forward contracts, sixty percent of any gain or loss recognized on such deemed sales and on actual dispositions will be treated as long-term capital gain or loss, and the remainder will be treated as short-term capital gain or loss.

B-62

126

Gain or loss on the sale, lapse or other termination of options on stock and on narrowly-based stock indices will be capital gain or loss and will be long-term or short-term depending on the holding period of the option. In addition, positions which are part of a "straddle" will be subject to certain wash sale, short sale and constructive sale provisions of the Internal Revenue Code. In the case of a straddle, each Fund may be required to defer the recognition of losses on positions it holds to the extent of any unrecognized gain on offsetting positions held by each Fund.

Gains or losses attributable to fluctuations in exchange rates which occur between the time each Fund accrues interest or other receivables or accrues expenses or other liabilities denominated in a foreign currency and the time each Fund actually collects such receivables or pays such liabilities are treated as ordinary income or ordinary loss. Similarly, gains or losses on foreign currency forward contracts or dispositions of debt securities denominated in a foreign currency attributable to fluctuations in the value of the foreign currency between the date of acquisition of the security and the date of disposition also are treated as ordinary gain or loss. These gains or losses, referred to under the Internal Revenue Code as "Section 988" gains or losses, increase or decrease the amount of each Fund's investment company taxable income available to be distributed to its shareholders as ordinary income, rather than increasing or decreasing the amount of each Fund's net capital gain. If Section 988 losses exceed other investment company taxable income during a taxable year, each Fund would not be able to make any ordinary dividend distributions, or distributions made before the losses were realized would be recharacterized as a return of capital to shareholders, rather than as an ordinary dividend, reducing each shareholder's basis in his or her Fund shares.

Shareholders electing to receive dividends and distributions in the form of additional shares will have a cost basis for federal income tax purposes in each share so received equal to the NAV (or net asset value) of a share of each Fund on the reinvestment date.

Any dividends or distributions paid shortly after a purchase by an investor may have the effect of reducing the per share net asset value of the investor's shares by the per share amount of the dividends or distributions. Furthermore, such dividends or distributions, although in effect a return of capital, are subject to federal income taxes. Therefore, prior to purchasing shares of each Fund, the investor should carefully consider the impact of dividends or capital gains distributions which are expected to be or have been announced.

Any loss realized on a sale, redemption or exchange of shares of each Fund by a shareholder will be disallowed to the extent the shares are replaced within a 61-day period (beginning 30 days before the disposition of shares). Shares purchased pursuant to the reinvestment of a dividend will constitute a replacement of shares.

A shareholder who acquires shares of each Fund and sells or otherwise disposes of such shares within 90 days of acquisition may not be allowed to include certain sales charges incurred in acquiring such shares for purposes of calculating gain or loss realized upon a sale or exchange of shares of each Fund.

Dividends of net investment income and distributions of net short-term capital gains paid to a shareholder (including a shareholder acting as a nominee or fiduciary) who is a nonresident alien individual, a foreign corporation or a foreign partnership (foreign shareholder) are subject to a 30% (or lower treaty rate) withholding tax upon the gross amount of the dividends unless the dividends are effectively connected with a U.S. trade or business conducted by the foreign shareholder. Capital gain distributions paid to a foreign shareholder are generally not subject to withholding tax. A foreign shareholder will, however, be required to pay U.S. income tax on any dividends and capital gain distributions which are effectively connected with a U.S. trade or business of the foreign shareholder.

Dividends received by corporate shareholders are eligible for a dividends-received deduction of 70% to the extent each Fund's income is derived from qualified dividends received by each Fund

B-63

127

from domestic corporations. Dividends attributable to foreign corporations, interest income, capital and currency gain, gain or loss from Section 1256 contracts (described above), and income from certain other sources will not constitute qualified dividends. Individual shareholders are eligible for the dividends-received deduction.

Each Fund is required to distribute 98% of its ordinary income in the same calendar year in which it is earned. Each Fund is also required to distribute during the calendar year 98% of the capital gain net income it earned during the twelve months ending on October 31 of such calendar year. In addition, each Fund must distribute during the calendar year all undistributed ordinary income and undistributed capital gain net income from the prior year or the twelve-month period ending on October 31 of such prior calendar year, respectively. To the extent it does not meet these distribution requirements, each Fund will be subject to a non-deductible 4% excise tax on the undistributed amount. For purposes of this excise tax, income on which each Portfolio pays income tax is treated as distributed.

Each Fund may, from time to time, invest in Passive Foreign Investment Companies (PFICs). A PFIC is a foreign corporation that, in general, meets either of the following tests: (a) at least 75% of its gross income is passive or (b) an average of at least 50% of its assets produce, or are held for the production of, passive income. If a Fund acquires and holds stock in a PFIC beyond the end of the year of its acquisition, the Portfolio will be subject to federal income tax on a portion of any "excess distribution" received on the stock or on any gain from disposition of the stock (collectively, PFIC income), plus interest thereon, even if the Fund distributes the PFIC income as a taxable dividend to its shareholders. The balance of the PFIC income will be included in the Fund's investment company taxable income and, accordingly, will not be taxable to it to the extent that income is distributed to its shareholders. Each Fund may make a "mark-to-market" election with respect to any marketable stock it holds of a PFIC. If the election is in effect, at the end of a Fund's taxable year, the Fund will recognize the amount of gains, if any, as ordinary income with respect to PFIC stock. No loss will be recognized on PFIC stock, except to the extent of gains recognized in prior years. Alternatively, a Portfolio, if it meets certain requirements, may elect to treat any PFIC in which it invests as a "qualified electing fund," in which case, in lieu of the foregoing tax and interest obligation, the Fund will be required to include in income each year its pro rata share of the qualified electing Fund's annual ordinary earnings and net capital gain, even if they are not distributed to the Fund; those amounts would be subject to the distribution requirements applicable to the Fund described above.

Income received by a Portfolio from sources within foreign countries may be subject to withholding and other taxes imposed by such countries. Income tax treaties between certain countries and the United States may reduce or eliminate such taxes. It is impossible to determine in advance the effective rate of foreign tax to which a Portfolio will be subject, since the amount of each Portfolio's assets to be invested in various countries will vary. Except in the case of the International Equity Portfolios, the Funds do not expect to meet the requirements of the Internal Revenue Code for "passing-through" to its shareholders any foreign income taxes paid.

Foreign shareholders are advised to consult their own tax advisers with respect to the particular tax consequences to them of an investment in the Funds.

Dividends and distributions may also be subject to state and local taxes.

#### PERFORMANCE INFORMATION

##### YIELD

The Trust may from time to time advertise the yield of the Total Return Bond Fund as calculated over a 30-day period. This yield will be computed by dividing the Fund's net investment income per share earned during this 30-day period by the maximum offering price per share on the last day of

B-64

128

this period. The average number of shares used in determining the net investment income per share will be the average daily number of shares outstanding during the 30-day period that were eligible to receive dividends. In accordance with regulations of the Securities and Exchange Commission, income will be computed by totaling the interest earned on all debt obligations during the 30-day period and subtracting from that amount the total of all expenses incurred during the period, which include management fees. The 30-day yield is then annualized on a bond-equivalent basis assuming semi-annual reinvestment and compounding of net investment income, as described in the Prospectus. Yield is calculated according to the following formula:

$$\text{YIELD} = 2 \left[ \frac{a-b}{cd} + 1 \right]^{(6)} - 1$$

<TABLE>

<S> <C> <C> <C>

Where: a = dividends and interest earned during the period.  
b = expenses accrued for the period (net of reimbursements).  
c = the average daily number of shares outstanding during the period that were entitled to receive dividends.  
d = the maximum offering price per share on the last day of the period.

</TABLE>

The Fund's yield will fluctuate, and an annualized yield quotation is not a representation by the Fund as to what an investment in the Fund will actually yield for any given period. Yields for the Fund will vary based on a number of factors including changes in net asset value, market conditions, the level of interest rates and the level of income and expenses.

##### AVERAGE ANNUAL TOTAL RETURN

The Trust may from time to time advertise the average annual total return of a Fund. Average annual total return is computed by finding the average annual compounded rates of return over the 1, 5 and 10 year periods that would equate the initial amount invested to the ending redeemable value, according to the following formula:

$$P(1+T)^n = \text{ERV}$$

<TABLE>

<S> <C> <C> <C>

Where: P = a hypothetical initial payment of \$1,000.  
T = average annual total return.  
n = number of years.

</TABLE>

ERV = ending redeemable value of a hypothetical \$1,000 payment made at the beginning of the 1, 5 or 10 year periods at the end of the 1, 5 or 10 year periods (or fractional portion thereof).

##### AGGREGATE TOTAL RETURN

The Trust may from time to time advertise the aggregate total return of a Fund. A Fund's aggregate total return figures represent the cumulative change in the value of an investment in the Fund for the specified period and are computed by the following formula:

$$\frac{\text{ERV}-P}{P}$$

<TABLE>

<S> <C> <C> <C>

Where: P = a hypothetical initial payment of \$1,000.

</TABLE>

ERV = ending redeemable value at the end of the 1, 5 or 10 year periods  
(or fractional portion thereof) of a hypothetical \$1,000 payment  
made at the beginning of the 1, 5 or 10 year periods.

Comparative performance information may be used from time to time in  
advertising or marketing the Fund shares, including data from Lipper, Inc.,  
Morningstar Publications, Inc., Donoghue's Money Fund Report, The Bank Rate  
Monitor, other industry publications, business periodicals and market indices.

B-65

129

REPORT OF INDEPENDENT ACCOUNTANTS TARGET FUNDS

-----  
To the Shareholders and Board of Trustees of

Target Funds:

In our opinion, the accompanying statements of assets and liabilities  
present fairly, in all material respects, the financial positions of Large  
Capitalization Growth Fund, Large Capitalization Value Fund, Small  
Capitalization Growth Fund, Small Capitalization Value Fund, International  
Equity Fund and Total Return Bond Fund (the six funds constituting Target Funds,  
collectively referred to hereafter as the "Trust") at September 2, 1999, in  
conformity with generally accepted accounting principles. These financial  
statements are the responsibility of the Trust's management; our responsibility  
is to express an opinion on the these financial statements based on our audits.  
We conducted our audits of these financial statements in accordance with  
generally accepted auditing standards which require that we plan and perform the  
audit to obtain reasonable assurance about whether the financial statements are  
free of material misstatement. An audit includes examining, on a test basis,  
evidence supporting the amounts and disclosures in the financial statements,  
assessing the accounting principles used and significant estimates made by  
management, and evaluating the overall financial statement presentation. We  
believe that our audits provide a reasonable basis for the opinion expressed  
above.

PricewaterhouseCoopers LLP

1177 Avenue of the Americas

New York, New York 10036

September 7, 1999

B-66

130

<TABLE>  
<S> STATEMENT OF ASSETS AND LIABILITIES  
</TABLE> <C> TARGET FUNDS LARGE CAPITALIZATION  
GROWTH FUND

-----

<TABLE>  
<CAPTION> SEPTEMBER 2, 1999  
-----

<S> ASSETS <C>	
Cash.....	\$ 18,000
Deferred offering costs.....	102,000
	-----

Total assets.....	120,000
	-----
LIABILITIES	
Offering costs payable.....	102,000
NET ASSETS (NOTE 1)	
Applicable to 1,800 shares of beneficial interest.....	\$ 18,000
	=====
Calculation of Offering Price	
Class A:	
Net asset value and redemption price per Class A share (\$6,000 / 600 shares of beneficial interest issued and outstanding).....	\$10.00
Maximum sales charge (5% of offering price).....	.53
	-----
Offering price to public.....	\$10.53
	-----
	-----
Class B:	
Net asset value, offering price and redemption price per Class B share (\$6,000 / 600 shares of beneficial interest issued and outstanding).....	\$10.00
	-----
	-----
Class C:	
Net asset value and redemption price per Class C share (\$6,000 / 600 shares of beneficial interest issued and outstanding).....	\$10.00
Sales charge (1% of offering price).....	.10
	-----
Offering price to public.....	\$10.10
	-----
	-----

</TABLE>

See Notes to Financial Statements.

B-67

131

<TABLE>

<S>

STATEMENT OF ASSETS AND LIABILITIES

</TABLE>

<C>

TARGET FUNDS LARGE CAPITALIZATION  
VALUE FUND

<TABLE>

<CAPTION>

SEPTEMBER 2, 1999

<S>

ASSETS

Cash.....	\$ 18,000
Deferred offering costs.....	102,000
	-----
Total assets.....	120,000
	-----

LIABILITIES

Offering costs payable.....	102,000
NET ASSETS (NOTE 1)	
Applicable to 1,800 shares of beneficial interest.....	\$ 18,000
	=====

Calculation of Offering Price

Class A:

Net asset value and redemption price per Class A share (\$6,000 / 600 shares of beneficial interest issued and outstanding).....	\$10.00
Maximum sales charge (5% of offering price).....	.53
	-----
Offering price to public.....	\$10.53
	-----
	-----

Class B:

Net asset value, offering price and redemption price per Class B share (\$6,000 / 600 shares of beneficial interest issued and outstanding).....	\$10.00
---	---------



-----	
-----	
Class C:	
Net asset value and redemption price per Class C share	
(\$6,000 / 600 shares of beneficial interest issued	
and outstanding).....	\$10.00
Sales charge (1% of offering price).....	.10
	-----
Offering price to public.....	\$10.10
	-----
	-----

</TABLE>

See Notes to Financial Statements.

B-68

132

<TABLE>	
<S>	<C>
STATEMENT OF ASSETS AND LIABILITIES	TARGET FUNDS SMALL CAPITALIZATION
</TABLE>	GROWTH FUND

-----	
-----	
<TABLE>	
<CAPTION>	SEPTEMBER 2, 1999
	-----
<S>	<C>
ASSETS	
Cash.....	\$ 18,000
Deferred offering costs.....	102,000
	-----
Total assets.....	120,000
	-----
LIABILITIES	
Offering costs payable.....	102,000
NET ASSETS (NOTE 1)	
Applicable to 1,800 shares of beneficial interest.....	\$ 18,000
	=====

Calculation of Offering Price

Class A:	
Net asset value and redemption price per Class A share	
(\$6,000 / 600 shares of beneficial interest issued	
and outstanding).....	\$10.00
Maximum sales charge (5% of offering price).....	.53
	-----
Offering price to public.....	\$10.53
	-----
	-----

Class B:	
Net asset value, offering price and redemption price	
per Class B share	
(\$6,000 / 600 shares of beneficial interest issued	
and outstanding).....	\$10.00
	-----
	-----

Class C:	
Net asset value and redemption price per Class C share	
(\$6,000 / 600 shares of beneficial interest issued	
and outstanding).....	\$10.00
Sales charge (1% of offering price).....	.10
	-----
Offering price to public.....	\$10.10
	-----
	-----

</TABLE>

See Notes to Financial Statements.

B-69

133

<TABLE>  
 <S>  
 STATEMENT OF ASSETS AND LIABILITIES  
 </TABLE>

<C>  
 TARGET FUNDS SMALL CAPITALIZATION  
 VALUE FUND

<TABLE>  
 <CAPTION>

SEPTEMBER 2, 1999

<S>	<C>
ASSETS	
Cash.....	\$ 18,000
Deferred offering costs.....	102,000
	-----
Total assets.....	120,000
	-----
LIABILITIES	
Offering costs payable.....	102,000
	-----
NET ASSETS (NOTE 1)	
Applicable to 1,800 shares of beneficial interest.....	\$ 18,000
	=====
Calculation of Offering Price	
Class A:	
Net asset value and redemption price per Class A share	
(\$6,000 / 600 shares of beneficial interest issued	
and outstanding).....	\$10.00
Maximum sales charge (5% of offering price).....	.53
	-----
Offering price to public.....	\$10.53
	-----
	-----
Class B:	
Net asset value, offering price and redemption price	
per Class B share	
(\$6,000 / 600 shares of beneficial interest issued	
and outstanding).....	\$10.00
	-----
	-----
Class C:	
Net asset value and redemption price per Class C share	
(\$6,000 / 600 shares of beneficial interest issued	
and outstanding).....	\$10.00
Sales charge (1% of offering price).....	.10
	-----
Offering price to public.....	\$10.10
	-----
	-----

</TABLE>

See Notes to Financial Statements.

B-70

134

<TABLE>  
 <S>  
 STATEMENT OF ASSETS AND LIABILITIES  
 </TABLE>

<C>  
 TARGET FUNDS INTERNATIONAL  
 EQUITY FUND

<TABLE>  
 <CAPTION>

SEPTEMBER 2, 1999

<S>	<C>
ASSETS	
Cash.....	\$ 18,000
Deferred offering costs.....	102,000
	-----
Total assets.....	120,000
	-----

LIABILITIES	
Offering costs payable.....	102,000
	-----
NET ASSETS (NOTE 1)	
Applicable to 1,800 shares of beneficial interest.....	\$ 18,000
	=====
Calculation of Offering Price	
Class A:	
Net asset value and redemption price per Class A share (\$6,000 / 600 shares of beneficial interest issued and outstanding).....	\$10.00
Maximum sales charge (5% of offering price).....	.53
	-----
Offering price to public.....	\$10.53
	-----
Class B:	
Net asset value, offering price and redemption price per Class B share (\$6,000 / 600 shares of beneficial interest issued and outstanding).....	\$10.00
	-----
Class C:	
Net asset value and redemption price per Class C share (\$6,000 / 600 shares of beneficial interest issued and outstanding).....	\$10.00
Sales charge (1% of offering price).....	.10
	-----
Offering price to public.....	\$10.10
	-----

</TABLE>

See Notes to Financial Statements.

B-71

135

<TABLE>

<S>

STATEMENT OF ASSETS AND LIABILITIES

</TABLE>

<C>

TARGET FUNDS TOTAL RETURN  
BOND FUND

<TABLE>

<CAPTION>

SEPTEMBER 2, 1999

<S>

ASSETS

Cash.....	\$ 10,000
Deferred offering costs.....	102,000
	-----
Total assets.....	112,000
	-----

LIABILITIES

Offering costs payable.....	102,000
	-----

NET ASSETS (NOTE 1)

Applicable to 1,000 shares of beneficial interest.....	\$ 10,000
	=====

Calculation of Offering Price

Class A:

Net asset value and redemption price per Class A share (\$3,340 / 334 shares of beneficial interest issued and outstanding).....	\$10.00
Maximum sales charge (4% of offering price).....	.42
	-----
Offering price to public.....	\$10.42
	-----

Class B:

Net asset value, offering price and redemption price per Class B share (\$3,300 / 333 shares of beneficial interest issued and outstanding).....	\$10.00
---	---------

Class C:	
Net asset value and redemption price per Class C share ( $\$3,300 / 333$ shares of beneficial interest issued and outstanding).....	\$10.00
Sales charge (1% of offering price).....	.10
Offering price to public.....	\$10.10

</TABLE>

See Notes to Financial Statements.

B-72

136

NOTES TO FINANCIAL STATEMENTS

TARGET FUNDS

NOTE 1.

Target Funds (the Trust), consisting of six separate funds: Large Capitalization Growth Fund, Large Capitalization Value Fund, Small Capitalization Growth Fund, Small Capitalization Value Fund, International Equity Fund and Total Return Bond Fund, which was organized as a business trust in Delaware on July 8, 1999, is an open-end, diversified management investment company. The Fund had no significant operations other than the issuance of 600 shares each of Class A, Class B and Class C of Large Capitalization Growth Fund, Large Capitalization Value Fund, Small Capitalization Growth Fund, Small Capitalization Value Fund and International Equity Fund and 334 shares of Class A and 333 shares of Class B and Class C of Total Return Bond Fund of beneficial interest for \$100,000 on September 2, 1999 to Prudential Investments Fund Management LLC (PIFM or Manager).

Certain costs incurred and to be incurred in connection with the initial offering of shares of the Trust, estimated at \$612,000, will be deferred and amortized over the period of benefit, not to exceed 12 months from the date the funds commence operations. Estimated organizational expenses of the Trust in the amount of approximately \$26,400 incurred prior to the offering of the Trust's shares will be absorbed by the Manager.

NOTE 2. AGREEMENTS

The Trust has entered into a management agreement with PIFM.

The management fee paid PIFM will be computed daily and payable monthly, at an annual rate of .60 of 1% of the average daily net assets of the Large Capitalization Growth Fund, Large Capitalization Value Fund, Small Capitalization Growth Fund and Small Capitalization Value Fund, .70 of 1% of the average daily net assets of the International Equity Fund and .45 of 1% of the average daily net assets of the Total Return Bond Fund.

The Trust has entered into a distribution agreement with Prudential Investment Management Services LLC (the Distributor or PIMS) for distribution of the Fund's shares.

Pursuant to separate Plans of Distribution (the Class A Plan, the Class B Plan and the Class C Plan, collectively the Plans) adopted by the Trust under Rule 12b-1 of the Investment Company Act of 1940, the Distributor incurs the expenses of distributing the Fund's Class A, Class B and Class C shares. These expenses

include commissions and account servicing fees paid to, or on account of financial advisers of Prudential Securities and Pruco Securities Corporation (Prusec), an affiliated broker-dealer, commissions paid to, or on account of, other broker-dealers or certain financial institutions which have entered into agreements with the Distributor, advertising expenses, the cost of printing and mailing prospectuses to potential investors and indirect and overhead costs of Prudential Securities and Prusec associated with the sale of Fund shares, including lease, utility, communications and sales promotion expenses.

Pursuant to the Class A Plan, each fund will compensate the Distributor for its expenses with respect to Class A shares at an annual rate of up to .30 of 1% of the average daily net asset value of the Class A shares. The Distributor has agreed to limit its distribution-related fees payable under the Class A Plan to .25 of 1% of the average daily net asset value of the Class A shares for the fiscal period ending July 31, 2000.

B-73

137

Pursuant to the Class B and Class C Plans, each fund will compensate the Distributor for its distribution-related expenses with respect to Class B and Class C shares at an annual rate of 1% of the average daily net assets of Class B and Class C shares. With respect to the Total Return Bond Fund, the Distributor has agreed to limit its distribution-related fees payable under the Class B and Class C Plans to .75 of 1% of the average daily net assets of the Total Return Bond Fund's Class B and Class C shares for the fiscal period ending July 31, 2000.

Prudential Mutual Fund Services LLC, a wholly owned subsidiary of PIFM, serves as the Trust's transfer agent.

PIFM, PIMS and Prudential Securities are indirect wholly owned subsidiaries of The Prudential Insurance Company of America.

B-74

138

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B-75

139

#### APPENDIX I -- HISTORICAL PERFORMANCE DATA

The historical performance data contained in this Appendix relies on data obtained from statistical services, reports and other services believed by the Manager to be reliable. The information has not been independently verified by the Manager.

This chart illustrates that large pension plans use the methods listed in the percentages indicated for the period December 1977 through December 1987.

HOW YOU ALLOCATE YOUR ASSETS  
MAINLY DETERMINES YOUR RETURN

(BASED ON A STUDY OF LARGE PENSION PLANS)

91.5% ASSET ALLOCATION  
6.7% SECURITY SELECTION/OTHER  
1.8% MARKET TIMING

Source: Financial Analysts Journal, May/June 1991: "Determinants of Portfolio Performance II: An Update," by Gary Brinson, Brian Singer and Gilbert Beebower. Results are based on the 10-year performance records of 82 pension funds. The study updates and supports a similar study done in 1986. This chart is for illustrative purposes only and is not indicative of the past, present, or future performance of any TARGET Portfolio.

I-1

140

This chart shows the long-term performance of various asset classes and the

rate of inflation.

EACH INVESTMENT PROVIDES A DIFFERENT OPPORTUNITY

(VALUE OF \$1 INVESTED ON 12/31/25 THROUGH 12/31/98)

<TABLE>	
<C>	<S>
\$5,117	Small Stock
\$2,351	Common Stock
\$ 44	Bonds
\$ 15	T-bills
\$ 9	Inflation

Source: Ibbotson Associates. Used with permission. This chart is for illustrative purposes only and is not indicative of the past, present, or future performance of any TARGET Portfolio.

Generally, stock returns are due to capital appreciation and reinvesting any gains. Bond returns are due mainly to reinvesting interest. Also, stock prices usually are more volatile than bond prices over the long-term.

SMALL STOCK returns for 1926-1980 are those of stocks comprising the 5th quintile of the New York Stock Exchange. For 1981 through 1998, returns are those of the Dimensional Fund Advisors (DFA) Small Company Fund, which is a market-value-weighted index of the ninth and tenth deciles of the New York Stock Exchange (NYSE), plus stocks listed on the American Stock Exchange and over-the-counter with the same or less capitalization as the upper bound of the NYSE decile.

COMMON STOCK returns are based on the S&P 500 Composite Index, a market-weighted, unmanaged index of 500 stocks (currently) in a variety of industries. It is often used as a broad measure of stock market performance.

LONG-TERM GOVERNMENT BOND returns are measured using a constant one-bond portfolio with a maturity of roughly 20 years.

TREASURY BILL returns are for a one-month bill. Treasuries are guaranteed by the government as to the timely payment of principal and interest; equities are not.

INFLATION is measured by the consumer price index (CPI).

I-2

141

The following chart shows the performance of a hypothetical investment in the following stock indices for the period indicated.

DIFFERENT TYPES OF STOCKS, DIFFERENT RETURNS

VALUE OF \$1 INVESTED ON 12/31/69

<TABLE>	
<C>	<S>
\$39.17	Common Stocks
\$40.53	Small Stocks
\$32.43	Foreign Stock

COMMON STOCK returns are based on the S&P 500 Composite Index, a market-weighted, unmanaged index of 500 stocks (currently) in a variety of industries. It is often used as a broad measure of stock market performance. Source: Lipper, Inc.

SMALL STOCK performance for the beginning of the period through 1980 is based on the returns of stocks making up the 5th quintile of the New York Stock Exchange (NYSE) and, for 1981-1998, is based on the returns of the DFA Small Company Fund, which is a market-value-weighted index of the ninth and tenth deciles of the NYSE, plus stocks listed on the American Stock Exchange and over-the-counter with the same or less capitalization as the upper bound of the NYSE decile. Source: Ibbotson Associates.

FOREIGN STOCK returns are represented by the Morgan Stanley Capital International Europe Australia Far East (EAFE) index, a common measure of foreign stock performance. It is a market-weighted index of 20 countries. Source: Lipper, Inc.

Geometric Returns are through 1998. Generally, returns of foreign stocks are more volatile than those of common or small stocks.

This chart is for illustrative purposes only and is not indicative of the past, present, or future performance of any TARGET Portfolio.

I-3

142

This chart shows the performance of a hypothetical investment in short-term U.S. Government securities adjusted for inflation for the period from January 1, 1998 through December 31, 1998.

TOO MANY SHORT-TERM SECURITIES  
MAY NOT MAKE SENSE

INFLATION AND TAXES CAN ERODE YOUR INVESTMENT

<TABLE>	
<S>	<C>
Initial investment.....	\$ 10,000
Interest income: 4.86%.....	486
Tax paid on interest (assumes 31% tax rate).....	-151
	-----
Net interest income.....	335
Adjust for 1.8% inflation.....	180
	-----
Net investment.....	\$ 10,155
</TABLE>	

THE INVESTOR'S NET RETURN WAS ONLY 1.55%!

1998 Salomon Smith Barney Brothers 30-day T-bill return used for short-term interest rate. Federal tax rate of 31% and 1998 inflation rate (CPI) were used. Short-term rates can fluctuate.

Past performance is no guarantee of future results. This hypothetical example is provided for informational purposes only. It is not intended to represent any specific investment and is not indicative of past, present, or future performance of any TARGET Portfolio.

I-4

143

Each bar shows the best and worst annualized return for the specified holding periods through 1998. For example, the best one-year return occurred in 1933 and the worst 10-year annualized return occurred from 1929-1938. The first holding period started on 12/31/25 and the first 20-year period ended on 12/31/45.

TIME REDUCES YOUR RISK  
BEST AND WORST ANNUALIZED RETURNS OF THE S&P

Common stock returns are based on the S&P 500 Composite Index, a market-weighted, unmanaged index of 500 stocks (currently) in a variety of industries. It is often used as a broad measure of stock market performance.	1933	1994-98	1949-58	1979-98
	1931	1928-32	1929-38	1929-48

This chart is for illustrative purposes only and is not indicative of the past, present, or future performance of any TARGET Portfolio.

1 year      5 years      10 years      20 years

Source: Ibbotson

Associates

I-5

144

APPENDIX II -- GENERAL INVESTMENT INFORMATION

The following terms are used in mutual fund investing.

#### ASSET ALLOCATION

Asset allocation is a technique for reducing risk and providing balance. Asset allocation among different types of securities within an overall investment portfolio helps to reduce risk and to potentially provide stable returns, while enabling investors to work toward their financial goal(s). Asset allocation is also a strategy to gain exposure to better performing asset classes while maintaining investment in other asset classes.

#### DIVERSIFICATION

Diversification is a time-honored technique for reducing risk, providing "balance" to an overall portfolio and potentially achieving more stable returns. Owning a portfolio of securities mitigates the individual risks (and returns) of any one security. Additionally, diversification among types of securities reduces the risks and (general returns) of any one type of security.

#### DURATION

Debt securities have varying levels of sensitivity to interest rates. As interest rates fluctuate, the value of a bond (or a bond portfolio) will increase or decrease. Longer term bonds are generally more sensitive to changes in interest rates. When interest rates fall, bond prices generally rise. Conversely, when interest rates rise, bond prices generally fall.

Duration is an approximation of the price sensitivity of a bond (or a bond portfolio) to interest rate changes. It measures the weighted average maturity of a bond's (or a bond portfolio's) cash flows, i.e., principal and interest rate payments. Duration is expressed as a measure of time in years -- the longer the duration of a bond (or a bond portfolio), the greater the impact of interest rate changes on the bond's (or the bond portfolio's) price. Duration differs from effective maturity in that duration takes into account call provisions, coupon rates and other factors. Duration measures interest rate risk only and not other risks, such as credit risk and, in the case of non-U.S. dollar denominated securities, currency risk. Effective maturity measures the final maturity dates of a bond (or a bond portfolio).

#### MARKET TIMING

Market timing -- buying securities when prices are low and selling them when prices are relatively higher -- may not work for many investors because it is impossible to predict with certainty how the price of a security will fluctuate. However, owning a security for a long period of time may help investors offset short-term price volatility and realize positive returns.

#### POWER OF COMPOUNDING

Over time, the compounding of returns can significantly impact investment returns. Compounding is the effect of continuous investment on long-term investment results, by which the proceeds of capital appreciation (and income distributions, if elected) are reinvested to contribute to the overall growth of assets. The long-term investment results of compounding may be greater than that of an equivalent initial investment in which the proceeds of capital appreciation and income distributions are taken in cash.

#### STANDARD DEVIATION

Standard deviation is an absolute (non-relative) measure of volatility which, for a mutual fund, depicts how widely the returns varied over a certain period of time. When a fund has a high standard deviation, its range of performance has been very wide, implying greater volatility potential. Standard deviation is only one of several measures of a fund's volatility.

II-1

145

#### APPENDIX III--INFORMATION RELATING TO PRUDENTIAL

Set forth below is information relating to The Prudential Insurance Company of America (Prudential) and its subsidiaries as well as information relating to the Prudential Mutual Funds. See "How the Trust is Managed--Manager" in the Prospectus. The data will be used in sales materials relating to the Prudential Mutual Funds. Unless otherwise indicated, the information is as of December 31, 1997 and is subject to change thereafter. All information relies on data provided by The Prudential Investment Corporation (PIC) or from other sources believed by the Manager to be reliable. Such information has not been verified by the Trust.

#### INFORMATION ABOUT PRUDENTIAL

The Manager, PIC(1) and Jennison Associates LLC are subsidiaries of Prudential, which is one of the largest diversified financial services



institutions in the world and, based on total assets, the largest insurance company in North America as of December 31, 1997. Principal products and services include life and health insurance, other healthcare products, property and casualty insurance, securities brokerage, asset management, investment advisory services and real estate brokerage. Prudential (together with its subsidiaries) employs almost 81,000 persons worldwide, and maintains a sales force of approximately 10,100 agents and 6,500 domestic and international financial advisors. Prudential is a major issuer of annuities, including variable annuities. Prudential seeks to develop innovative products and services to meet consumer needs in each of its business areas. Prudential uses the Rock of Gibraltar as its symbol. The Prudential rock is a recognized brand name throughout the world.

**Insurance.** Prudential has been engaged in the insurance business since 1875. It insures or provides financial services to nearly 40 million people worldwide. Long one of the largest issuers of life insurance, the Prudential has 25 million life insurance policies in force today with a face value of almost \$1 trillion. Prudential has the largest capital base (\$12.1 billion) of any life insurance company in the United States. Prudential provides auto insurance for approximately 1.5 million cars and insures approximately 1.2 million homes.

**Money Management.** The Prudential is one of the largest pension fund managers in the country, providing pension services to 1 in 3 Fortune 500 firms. It manages \$36 billion of individual retirement plan assets, such as 401(k) plans. As of December 31, 1997, Prudential had more than \$370 billion in assets under management. Prudential Investments, a business group of Prudential (of which Prudential Mutual Funds is a key part), manages over \$211 billion in assets of institutions and individuals. In Institutional Investor, July 1998, Prudential was ranked eighth in terms of total assets under management, as of December 31, 1997.

**Real Estate.** The Prudential Real Estate Affiliates is one of the leading real estate residential and commercial brokerage networks in North America and has more than 37,000 real estate brokers and agents with over 1,400 offices across the United States.(2)

**Healthcare.** Over two decades ago, Prudential introduced the first federally-funded, for-profit HMO in the country. Today, approximately 4.9 million Americans receive healthcare from a Prudential managed care membership.(3)

**Financial Services.** The Prudential Savings Bank FSB, a wholly-owned subsidiary of the Prudential, has nearly \$1 billion in assets and serves nearly 1.5 million customers across 50 states.

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1 PIC serves as the Subadviser to substantially all of the Prudential Mutual Funds. Wellington Management Company LLP serves as the subadviser to Global Utility Fund, Inc., Nicholas-Applegate Capital Management as the subadviser to Nicholas-Applegate Fund, Inc., Jennison Associates LLC as one of the subadvisers to The Prudential Investment Portfolios, Inc., Prudential 20/20 Focus Fund and Prudential Diversified Funds and Mercator Asset Management LP as the subadviser to The International Stock Series, a portfolio of Prudential World Fund, Inc. There are multiple subadvisers for The Target Portfolio Trust.

2 As of December 31, 1997.

3 On December 10, 1998 Prudential announced its intention to sell Prudential HealthCare to Aetna Inc. for \$1 billion.

III-1

146

#### INFORMATION ABOUT THE PRUDENTIAL MUTUAL FUNDS

As of November 30, 1998, Prudential Investments Fund Management was the eighteenth largest mutual fund company in the country, with over 2.5 million shareholders invested in more than 50 mutual fund portfolios and variable annuities with more than 3.7 million shareholder accounts.

The Prudential Mutual Funds have over 30 portfolio managers who manage over \$55 billion in mutual fund and variable annuity assets. Some of Prudential's portfolio managers have over 20 years of experience managing investment portfolios.

From time to time, there may be media coverage of portfolio managers and other investment professionals associated with the Manager and the subadvisers in national and regional publications, on television and in other media. Additionally, individual mutual fund portfolios are frequently cited in surveys conducted by national and regional publications and media organizations such as The Wall Street Journal, The New York Times, Barron's and USA Today.

**Equity Funds.** Prudential Equity Fund is managed with a "value" investment

style by PIC. In 1995, Prudential Securities introduced Prudential Jennison Growth Fund, a growth-style equity fund managed by Jennison Associates LLC, a premier institutional equity manager and a subsidiary of Prudential.

High Yield Funds. Investing in high yield bonds is a complex and research intensive pursuit. A separate team of high yield bond analysts monitors approximately 200 issues held in the Prudential High Yield Fund (currently the largest fund of its kind in the country) along with 100 or so other high yield bonds, which may be considered for purchase.(4) Non-investment grade bonds, also known as junk bonds or high yield bonds, are subject to a greater risk of loss of principal and interest including default risk than higher-rated bonds. Prudential high yield portfolio managers and analysts meet face-to-face with almost every bond issuer in the High Yield Fund's portfolio annually, and have additional telephone contact throughout the year.

Prudential's portfolio managers are supported by a large and sophisticated research organization. Investment grade bond analysts monitor the financial viability of different bond issuers in the investment grade corporate and municipal bond markets--from IBM to small municipalities, such as Rockaway Township, New Jersey. These analysts consider among other things sinking fund provisions and interest coverage ratios.

Prudential's portfolio managers and analysts receive research services from almost 200 brokers and market service vendors. They also receive nearly 100 trade publications and newspapers--from Pulp and Paper Forecaster to Women's Wear Daily--to keep them informed of the industries they follow.

Prudential Mutual Funds' traders scan over 100 computer monitors to collect detailed information on which to trade. From natural gas prices in the Rocky Mountains to the results of local municipal elections, a Prudential portfolio manager or trader is able to monitor it if it's important to a Prudential Mutual Fund.

Prudential Mutual Funds trade billions in U.S. and foreign government securities a year. PIC seeks information from government policy makers. Prudential's portfolio managers met with several senior U.S. and foreign government officials, on issues ranging from economic conditions in foreign countries to the viability of index-linked securities in the United States.

#### INFORMATION ABOUT PRUDENTIAL SECURITIES

Prudential Securities is the fifth largest retail brokerage firm in the United States with approximately 6,000 financial advisors. It offers to its clients a wide range of products, including Prudential Mutual Funds and Annuities. As of December 31, 1998, assets held by Prudential

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4 As of December 31, 1997. The number of bonds and the size of the Fund are subject to change.

III-2

147

Securities for its clients approximated \$268 billion. During 1998, over 31,000 new customer accounts were opened each month at Prudential Securities.(5)

Prudential Securities has a two-year Financial Advisor training program plus advanced education programs, including Prudential Securities "university," which provides advanced education in a wide array of investment and financial planning areas.

In addition to training, Prudential Securities provides its financial advisors with access to firm economists and market analysts. It has also developed proprietary tools for use by financial advisors, including the Financial Architect (SM), a state-of-the-art asset allocation software program which helps financial advisors to evaluate a client's objectives and overall financial plan, and a comprehensive mutual fund information and analysis system that compares different mutual funds.

For more complete information about any of the Prudential Mutual Funds, including charges and expenses, call your Prudential Securities financial adviser or Pruco/Prudential representative for a free prospectus. Read it carefully before you invest or send money.

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5 As of December 31, 1998.

III-3

148

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## APPENDIX IV

## GLOSSARY OF INDICES

U.S. LARGE CAP STOCKS (S&P 500) -- The S&P 500 is a capital-weighted index representing the aggregate market value of the common equity of 500 stocks primarily traded on the New York Stock Exchange. The S&P 500 is an unmanaged index.

U.S. SMALL CAP STOCKS (RUSSELL 2000) -- The Russell 2000 Index is a stock market index comprised of the 2000 smallest U.S. domiciled publicly traded common stocks that are included in the Russell 3000 Index. These common stocks represent 10% of the total market capitalization of the Russell 3000 Index which, in turn, represents approximately 98% of the publicly traded U.S. equity market.

INTERNATIONAL STOCKS (MORGAN STANLEY CAPITAL INTERNATIONAL EUROPE, AUSTRALIA, FAR EAST (EAFE) INDEX) -- The MSCI EAFE Index is an arithmetical average weighted by market value of the performance of over 1000 non-U.S. companies representing 20 stock markets in Europe, Australia, New Zealand and the Far East. The EAFE Index is an unmanaged index.

U.S. BONDS (LEHMAN BROTHERS AGGREGATE BOND INDEX) -- The index is composed of securities from the Lehman Brothers Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset Backed Securities Index. Total return comprises price appreciation/depreciation and income as a percentage of the original investment.

INTERNATIONAL BONDS (WB INDEX) -- The Salomon Smith Barney Non-U.S. World Government WB Index (WB Index) measures the total return performance of high quality securities in major sectors of the international bond market. The Index covers approximately 600 bonds from 17 currencies. Only high quality, straight issues are included. The WB Index is calculated on both a weighted and an unweighted basis. Generally, index samples for each market are restricted to bonds with at least one year of remaining life. The WB Index is an unmanaged index.

U.S. TREASURY BILLS (SALOMON BROTHERS 90 DAY INDEX) -- This index is constructed by purchasing equal dollar amounts of three-month Treasury bills at the beginning of three consecutive months. As each bill matures, all proceeds are rolled over or reinvested in a new three-month bill. The income used to calculate the monthly return is derived by subtracting the original amount invested from the maturity value.

SALOMON SMITH BARNEY MORTGAGE-BASED SECURITIES INDEX (MBS INDEX) -- The MBS Index is comprised of 30- and 15-year GNMA, FNMA and FHLMC pass-through, and FNMA and FHLMC balloon mortgages. The MBS Index is an unmanaged index.

INFLATION (CPI) -- The Consumer Price Index for all urban consumers, not seasonally adjusted, is used to measure the rate of change of consumer prices. This measures inflation and is constructed by the U.S. Department of Labor, Bureau of Labor Statistics, Washington D.C.

LARGE CAP GROWTH INDEX (RUSSELL 1000 GROWTH) -- Contains those Russell 1000 securities with a "growth" orientation. Securities in this index tend to exhibit higher price-to-book and price-to-earnings ratios, lower dividend yields, and higher forecasted growth rates than those in the Value universe.

LARGE CAP VALUE INDEX (RUSSELL 1000 VALUE) -- Contains those Russell 1000 securities with a "value" orientation. Securities in this index tend to exhibit lower price-to-book and price-to-earnings ratios, higher dividend yields, and lower forecasted growth rates than those in the Growth universe.

SMALL CAP GROWTH INDEX (PSI SMALL CAP GROWTH INDEX) -- This index is created by screening the twentieth through forty-fifth percentiles of market value in the Compustat universe for companies with growth characteristics. Growth stocks have historical sales growth rates that are greater than 10%, rank in the top half of the Institutional Brokers Estimate System (I/B/E/S) universe based on forecasted growth rate, and have low payouts and debt/capital ratios.

IV-1

SMALL CAP VALUE INDEX (PSI SMALL CAP VALUE) -- This index is created by screening the twentieth through forty-fifth percentiles of market value in the Compustat universe for companies with value characteristics. Value stocks rank in the bottom 50% of the universe based on a normalized P/E ratio. Companies must have sustainable dividend rates.

LEHMAN BROTHERS GOVERNMENT/CORPORATE BOND INDEX -- The Lehman Brothers Government/ Corporate Bond Index (LGCI) is a weighted index comprised of publicly traded intermediate and long-term government and corporate debt with an

average maturity of 10 years. The LGCI is an unmanaged index.

LEHMAN BROTHERS INTERMEDIATE GOVERNMENT/CORPORATE BOND INDEX -- The Lehman Brothers Intermediate Government/Corporate Bond Index (Lehman Int. Gov't Corp. Index) is a weighted index comprised of securities issued or backed by the U.S. government and its agencies and securities publicly issued by corporations with one to ten years remaining to maturity, rated investment grade and having \$50 million or more outstanding. The Lehman Int. Gov't Corp. Index is an unmanaged index.

LIPPER INTERNATIONAL EQUITY FUND AVERAGE -- Contains international equity funds that report to Lipper Analytical Services. The funds are given equal weight in constructing performance which prevents any one fund from having a greater impact on the overall calculation. Each fund contained in the average has stated that their objective matches that of the group. Single country funds are not included in this group.

LIPPER CORPORATE BOND FUND AVERAGE -- Contains corporate bond funds that report to Lipper Analytical Services. The funds have an average credit quality rating of least an "A". The average maturity is greater than 10 years. The funds are equally weighted to assure that no one fund has more of an impact on the performance calculation than any other fund.

LIPPER INTERMEDIATE TERM BOND FUND AVERAGE -- Contains intermediate-term bond funds that report to Lipper Analytical Services. The funds invest mainly in investment grade debt instruments and have an average credit rating of "A". The average maturity is between 5 to 10 years. The funds are equally weighted to assure that no one fund has more of an impact on the performance calculation than any other fund.

LIPPER MORTGAGE FUND AVERAGE -- Contains mortgage funds that report to Lipper Analytical Services. The funds contain primarily U.S. mortgage obligations. The average maturity is greater than 10 years. The funds are equally weighted to assure that no one fund has more of an impact on the performance calculation than any other fund.

LIPPER GOVERNMENT MONEY MARKET AVERAGE -- Contains Government money market funds that report to Lipper Analytical Services. The funds invest in short-term U.S. Government obligations. The funds are equally weighted to assure that no one fund has more of an impact on the performance calculation than any other fund.

LIPPER WORLD INCOME FUND AVERAGE -- Contains world income funds that report to Lipper Analytical Services. The funds are able to invest in debt instruments in any country. The funds are equally weighted to assure that no one fund has more of an impact on the performance calculation than any other fund.

MORNINGSTAR LARGE CAP GROWTH AVERAGE -- Funds that have a median market capitalization exceeding \$5 billion qualify for large cap designation. Morningstar then categorizes growth funds as having a price/earnings ratio combined with price/book ratio greater than the S&P 500.

MORNINGSTAR LARGE CAP VALUE AVERAGE -- Funds that have a median market capitalization exceeding \$5 billion qualify for large cap designation. Morningstar then categorizes value funds as having a price/earnings ratio combined with price/book ratio less than the S&P 500.

IV-2

151

MORNINGSTAR SMALL CAP GROWTH AVERAGE -- Funds that have a median market capitalization less than \$1 billion qualify for small cap designation. Morningstar then categorizes growth funds as having a price/earnings ratio combined with price/book ratio greater than the S&P 500.

MORNINGSTAR SMALL CAP VALUE AVERAGE -- Funds that have a median market capitalization less than \$1 billion qualify for small cap designation. Morningstar then categorizes value funds as having a price/earnings ratio combined with price/book ratio less than the S&P 500.

IV-3

152

PART C

OTHER INFORMATION

ITEM 23. EXHIBITS.

<TABLE>

<C> <C> <S>

<C>

(a) (1) Certificate of Trust.\*

(2) Agreement and Declaration of Trust.\*

(b)	By-Laws.*
(c)	Not Applicable.
(d) (1)	Management Agreement between the Registrant and Prudential Investments Fund Management LLC (PIFM).**
(2) (i)	Form of Subadvisory Agreement between PIFM and INVESCO Capital Management Inc.**
(ii)	Form of Subadvisory Agreement between PIFM and Sawgrass Asset Management, L.L.C.**
(iii)	Form of Subadvisory Agreement between PIFM and Lazard Asset Management.**
(iv)	Form of Subadvisory Agreement between PIFM and Columbus Circle Investors.**
(v)	Form of Subadvisory Agreement between PIFM and Pacific Investment Management Company.**
(vi)	Form of Subadvisory Agreement between PIFM and Hotchkis and Wiley.**
(vii)	Form of Subadvisory Agreement between PIFM and Fleming Asset Management USA.**
(viii)	Form of Subadvisory Agreement between PIFM and Wood, Struthers & Winthrop Management Corp.**
(ix)	Form of Subadvisory Agreement between PIFM and Oak Associates, Ltd.**
(x)	Form of Subadvisory Agreement between PIFM and Lazard Asset Management.**
(e) (1)	Form of Distribution Agreement between the Registrant and Prudential Investment Management Services LLC.**
(2)	Form of Selected Dealer Agreement.**
(g) (1)	Form of Custodian Contract between the Registrant and State Street Bank and Trust Company.**
(2)	Form of Amendment to Custodian Contract.**
(h)	Form of Transfer Agency and Service Agreement between the Registrant and Prudential Mutual Fund Services, Inc.**
(i)	Opinion of Morris, Nichols, Arsht & Tunnell.**
(j)	Consent of Independent Accountants.**
(l)	Purchase Agreement.**
(m) (1)	Distribution and Service Plan for Class A Shares.**
(2)	Distribution and Service Plan for Class B Shares.**
(3)	Distribution and Service Plan for Class C Shares.**
(o)	Rule 18f-3 Plan.**

</TABLE>

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\* Incorporated by reference to the Registration Statement on Form N-1A filed via EDGAR on July 9, 1999. (File No. 333-82621).

\*\* Filed herewith.

ITEM 24. PERSONS CONTROLLED BY OR UNDER COMMON CONTROL WITH REGISTRANT.

Not Applicable.

ITEM 25. INDEMNIFICATION.

As permitted by Sections 17(h) and (i) of the Investment Company Act of 1940, as amended, (the Investment Company Act) and pursuant to Article VII of the Agreement and Declaration of

C-1

153

Trust (Exhibit (a) (2) to the Registration Statement) and Article XI of the Trust's By-Laws (Exhibit (b) to the Registration Statement), officers, trustees, employees and agents of the Registrant will not be liable to the Registrant, any stockholder, officer, director, employee, agent or other person for any action or failure to act, except for bad faith, willful misfeasance, gross negligence or reckless disregard of duties, and those individuals may be indemnified against liabilities in connection with the Registrant, subject to the same exceptions. Section 3817 of the Delaware Business Trust Act permits indemnification of trustees who acted in good faith and reasonably believed that the conduct was in the best interest of the Registrant. As permitted by Section 17(i) of the Investment Company Act, pursuant to Section 10 of the Distribution Agreement (Exhibit (e) (1) to the Registration Statement), the Distributor of the Registrant may be indemnified against liabilities which it may incur, except liabilities arising from bad faith, gross negligence, willful misfeasance or reckless disregard of duties.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, (Securities Act) may be permitted to trustees, 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 Investment Company 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 trustee, officer or controlling person of the Registrant in connection with the successful defense of any action, suit or proceeding) is asserted against the Registrant by such trustee, officer or controlling person in connection with the shares 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 Investment Company Act and will be governed by the final adjudication of such issue.

The Registrant has purchased an insurance policy insuring its officers and trustees against liabilities, and certain costs of defending claims against such officers and trustees, to the extent such officers and trustees are not found to have committed conduct constituting willful misfeasance, bad faith, gross negligence or reckless disregard in the performance of their duties. The insurance policy also insures the Registrant against the cost of indemnification payments to officers and trustees under certain circumstances.

Section 8 of the Management Agreement (Exhibit (d)(1) to the Registration Statement) and Section 4 of the Subadvisory Agreements (Exhibits (d)(2) to the Registration Statement) limit the liability of Prudential Investments Fund Management LLC (PIFM) and each Adviser, respectively, to liabilities arising from willful misfeasance, bad faith or gross negligence in the performance of their respective duties or from reckless disregard by them of their respective obligations and duties under the agreements.

The Registrant hereby undertakes that it will apply the indemnification provisions of its By-Laws and the Distribution Agreement in a manner consistent with Release No. 11330 of the Securities and Exchange Commission under the Investment Company Act as long as the interpretation of Section 17(h) and 17(i) of such Act remains in effect and is consistently applied.

ITEM 26. BUSINESS AND OTHER CONNECTIONS OF INVESTMENT ADVISER.

(a) Prudential Investments Fund Management LLC

See "How the Trust is Managed -- Manager" in the Prospectus constituting Part A of this Registration Statement and "Investment Advisory and Other Services" in the Statement of Additional Information constituting Part B of this Registration Statement.

C-2

154

The business and other connections of the officers of PIFM are listed in Schedules A and D of Form ADV of PIFM as currently on file with the Securities and Exchange Commission, as most recently amended (File No. 801-31104).

The business and other connections of PIFM's directors and principal executive officers are set forth below. Except as otherwise indicated, the address of each person is Gateway Center Three, 100 Mulberry Street, Newark, New Jersey 07102-4077.

<TABLE> <CAPTION>		
NAME AND ADDRESS -----	POSITION WITH PIFM -----	PRINCIPAL OCCUPATIONS -----
<S> Robert F. Gunia.....	<C> Executive Vice President and Treasurer	<C> Vice President, Prudential Insurance Company of America; Executive Vice President and Treasurer, PIFM; Senior Vice President, Prudential Securities Incorporated
William V. Healey.....	Executive Vice President, Secretary and Chief Legal Officer	Executive Vice President, Secretary and General Counsel, PIFM

</TABLE>

(b) Columbus Circle Investors (CCI)

See "How the Trust is Managed -- Advisers and Portfolio Managers" in the Prospectus constituting Part A of this Registration Statement and "Manager and Advisers" in the Statement of Additional Information constituting Part B of this Registration Statement.

Information as to CCI's directors and executive officers is included in its Form ADV filed with the Securities and Exchange Commission (File No. 801-31227), as most recently amended, the text of which is incorporated herein by reference.

(c) Invesco Capital Management, Inc. (Invesco)

See "How the Trust is Managed -- Advisers and Portfolio Managers" in the Prospectus constituting Part A of this Registration Statement and "Manager and Advisers" in the Statement of Additional Information constituting Part B of this Registration Statement.

Information as to INVESCO's directors and executive officers is included in its Form ADV filed with the Securities and Exchange Commission (File No. 801-33949), as most recently amended, the text of which is incorporated herein by reference.

(d) Hotchkis and Wiley

See "How the Trust is Managed -- Advisers and Portfolio Managers" in the Prospectus constituting Part A of this Registration Statement and "Manager and Advisers" in the Statement of Additional Information constituting Part B of this Registration Statement.

Information as to Hotchkis and Wiley is included in the Form ADV of Merrill Lynch Asset Management, L.P. filed with the Securities and Exchange Commission (File No. 801-11583), as most recently amended, the text of which is incorporated herein by reference.

(e) Sawgrass Asset Management, L.L.C. (Sawgrass)

See "How the Trust is Managed -- Advisers and Portfolio Managers" in the Prospectus constituting Part A of this Registration Statement and "Manager and Advisers" in the Statement of Additional Information constituting Part B of this Registration Statement.

Information as to Sawgrass is included in its Form ADV filed with the Securities and Exchange Commission (File No. 801-55243), as most recently amended, the text of which is incorporated herein by reference.

C-3

155

(f) Fleming Asset Management USA (Fleming USA)

See "How the Trust is Managed -- Advisers and Portfolio Managers" in the Prospectus constituting Part A of this Registration Statement and "Manager and Advisers" in the Statement of Additional Information constituting Part B of this Registration Statement.

Information as to Fleming USA's directors and executive officers is included in its Form ADV filed with the Securities and Exchange Commission (File No. 801-26297), as most recently amended, the text of which is incorporated herein by reference.

(g) Lazard Asset Management

See "How the Trust is Managed -- Advisers and Portfolio Managers" in the Prospectus constituting Part A of this Registration Statement and "Manager and Advisers" in the Statement of Additional Information constituting Part B of this Registration Statement.

Information as to the general members of Lazard Freres & Co. LLC is included in its Form ADV filed with the Securities and Exchange Commission (File No. 801-6568), as most recently amended, the text of which is incorporated herein by reference.

(h) Pacific Investment Management Company (PIMCO)

See "How the Trust is Managed -- Advisers and Portfolio Managers" in the Prospectus constituting Part A of this Registration Statement and "Manager and Advisers" in the Statement of Additional Information constituting Part B of this Registration Statement.

Information as to PIMCO's partners is included in its Form ADV filed with the Securities and Exchange Commission (File No. 801-7260), as most recently amended, the text of which is incorporated herein by reference.

(i) Wood, Struthers & Winthrop Management, Corp.

See "How the Trust is Managed -- Advisers and Portfolio Managers" in the Prospectus constituting Part A of this Registration Statement and "Manager and Advisers" in the Statement of Additional Information constituting Part B of this Registration Statement.

Information as to Wood, Struthers & Winthrop Management, Corp.'s directors and executive officers is included in its Form ADV filed with the Securities and Exchange Commission (File No. 801-9952), as most recently amended, the text of which is incorporated herein by reference.

(j) Oak Associates, Ltd.

See "How the Trust is Managed -- Advisers and Portfolio Managers" in the Prospectus constituting Part A of this Registration Statement and "Manager and Advisers" in the Statement of Additional Information constituting Part B of this Registration Statement.

Information as to Oak Associates, Ltd.'s directors and executive officers is included in its Form ADV filed with the Securities and Exchange Commission (File No. 801-23632), as most recently amended, the text of which is incorporated herein by reference.

ITEM 27. PRINCIPAL UNDERWRITERS.

(a) Prudential Investment Management Services LLC (PIMS)

PIMS is distributor for the Cash Accumulation Trust, Command Government Fund, Command Money Fund, Command Tax-Free Fund, The Global Total Return Fund, Inc., Global Utility Fund, Inc., Nicholas-Applegate Fund, Inc. (Nicholas-Applegate Growth Equity Fund), Prudential Balanced Fund, Prudential California Municipal Fund, Prudential Distressed Securities Fund, Inc., Prudential Diversified Bond Fund, Inc., Prudential Diversified Funds, Prudential Emerging Growth Fund, Inc., Prudential Equity Fund, Prudential Equity Income Fund, Prudential Europe Growth

C-4

156

Fund, Inc., Prudential Global Genesis Fund, Inc., Prudential Global Limited Maturity Fund, Inc., Prudential Government Income Fund, Inc., Prudential Government Securities Trust, Prudential High Yield Fund, Inc., Prudential High Yield Total Return Fund, Inc., Prudential Index Series Fund, Prudential Institutional Liquidity Portfolio, Inc., Prudential Intermediate Global Income Fund, Inc., Prudential International Bond Fund, Inc., Prudential Mid-Cap Value Fund, Prudential MoneyMart Assets, Inc., Prudential Mortgage Income Fund, Inc., Prudential Municipal Bond Fund, Prudential Municipal Series Fund, Prudential National Municipals Fund, Inc., Prudential Natural Resources Fund, Inc., Prudential Pacific Growth Fund, Inc., Prudential Real Estate Securities Fund, Prudential Small-Cap Quantum Fund, Inc., Prudential Small Company Value Fund, Inc., Prudential Special Money Market Fund, Inc., Prudential Structured Maturity Fund, Inc., Prudential 20/20 Focus Fund, Prudential Tax-Managed Equity Fund, Prudential Utility Fund, Inc., Prudential World Fund, Inc., The Prudential Investment Portfolios, Inc., Prudential Sector Funds, Inc., Target Funds and The Target Portfolio Trust.

(b) Information concerning the directors and officers of PIMS is set forth below.

<TABLE>  
<CAPTION>

NAME(1) -----	POSITIONS AND OFFICES WITH UNDERWRITER -----	POSITIONS AND OFFICES WITH REGISTRANT -----
<S>	<C>	<C>
Margaret M. Deverell.....	Vice President and Chief Financial Officer	None
Robert F. Gunia.....	President	Vice President
Kevin B. Frawley.....	Senior Vice President and Chief Compliance Officer	None
Jean D. Hamilton.....	Executive Vice President	None
William V. Healey.....	Senior Vice President, Secretary and Chief Legal Officer	None
Brian Henderson.....	Senior Vice President and Chief Operating Officer	None
John R. Strangfeld, Jr.....	Advisory Board Member	None

(1) The address of each person named is Prudential Plaza, 751 Broad Street, Newark, New Jersey 07102, unless otherwise indicated.

(c) Registrant has no principal underwriter who is not an affiliated person of the Registrant.

All accounts, books and other documents required to be maintained by Section 31(a) of the Investment Company Act and the Rules thereunder are maintained at the offices of State Street Bank and Trust Company, One Heritage Drive, North Quincy, Massachusetts 02171; the Registrant, Gateway Center Three, 100 Mulberry Street, Newark, New Jersey 07102-4077; and Prudential Mutual Fund Services LLC, Raritan Plaza One, Edison, New Jersey 08837. Documents required by



Rules 31a-1(b)(4), (5), (6), (7), (9), (10) and (11), 31a-1(d), and 31a-1(f) will be kept at 100 Mulberry Street, Gateway Center Three, Newark, New Jersey 07102-4077 and the remaining accounts, books and other documents required by such other pertinent provisions of Section 31(a) and the Rules promulgated thereunder will be kept by State Street Bank and Trust Company and Prudential Mutual Fund Services LLC.

ITEM 29. MANAGEMENT SERVICES.

Other than as set forth under the caption "How the Trust is Managed" in the Prospectus and the caption "Investment Advisory and Other Services" in the Statement of Additional Information, constituting Parts A and B, respectively, of this Registration Statement, Registrant is not a party to any management-related service contract.

ITEM 30. UNDERTAKINGS.

Not applicable.

C-5

157

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933 and the Investment Company Act of 1940, the Registrant has duly caused this Pre-Effective Amendment No. 1 to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Newark and State of New Jersey, on the 10th day of September, 1999.

TARGET FUNDS

/s/ JOHN R. STRANGFELD

-----

(John R. Strangfeld, President)

Pursuant to the requirements of the Securities Act of 1933, this Pre-Effective Amendment No. 1 to the Registration Statement has been signed below by the following persons in the capacities and on the dates indicated.

<TABLE> <CAPTION>	SIGNATURE -----	TITLE -----	DATE ----
<C>	/s/ JOHN R. STRANGFELD ----- John R. Strangfeld	<S> President and Trustee	<C> September 10, 1999
	/s/ EUGENE C. DORSEY ----- Eugene C. Dorsey	Trustee	September 10, 1999
	/s/ DOUGLAS H. MCCORKINDALE ----- Douglas H. McCorkindale	Trustee	September 10, 1999
	/s/ THOMAS T. MOONEY ----- Thomas T. Mooney	Trustee	September 10, 1999
	/s/ GRACE C. TORRES ----- Grace C. Torres	Treasurer and Principal Financial and Accounting Officer	September 10, 1999

</TABLE>

C-6

158

EXHIBIT INDEX

<TABLE>

<C>	<C>	<S>	<C>
(d)	(1)		Form of Management Agreement between the Registrant and Prudential Investments Fund Management LLC (PIFM).
	(2)	(i)	Form of Subadvisory Agreement between PIFM and INVESCO Capital Management Inc.
		(ii)	Form of Subadvisory Agreement between PIFM and Sawgrass Asset Management, L.L.C.
		(iii)	Form of Subadvisory Agreement between PIFM and Lazard Asset Management.
		(iv)	Form of Subadvisory Agreement between PIFM and Columbus Circle Investors.
		(v)	Form of Subadvisory Agreement between PIFM and Pacific Investment Management Company.
		(vi)	Form of Subadvisory Agreement between PIFM and Hotchkis and Wiley.
		(vii)	Form of Subadvisory Agreement between PIFM and Fleming Asset Management USA.
		(viii)	Form of Subadvisory Agreement between PIFM and Wood, Struthers & Winthrop Management Corp.
		(ix)	Form of Subadvisory Agreement between PIFM and Oak Associates, Ltd.
		(x)	Form of Subadvisory Agreement between PIFM and Lazard Asset Management.
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(i)			Opinion of Morris, Nichols, Arsht & Tunnell.
(j)			Consent of Independent Accountants.
(l)			Purchase Agreement.
(m)	(1)		Distribution and Service Plan for Class A Shares.
	(2)		Distribution and Service Plan for Class B Shares.
	(3)		Distribution and Service Plan for Class C Shares.
(o)			Rule 18f-3 Plan.
</TABLE>			

## TARGET FUNDS

## Management Agreement

Agreement made this 25th day of August, 1999, between Target Funds (the Trust), and Prudential Investments Fund Management LLC, a New York limited liability company (the Manager).

## W I T N E S S E T H

WHEREAS, the Trust is a diversified, open-end management investment company registered under the Investment Company Act of 1940, as amended (the 1940 Act);

WHEREAS, the shares of beneficial interest of the Trust are divided into separate series or funds (each a Fund), each of which is established pursuant to a resolution of the Board of Trustees of the Trust (Board of Trustees), and the Trustees may from time to time terminate such Funds or establish and terminate additional Funds; and

WHEREAS, the Trust desires to retain the Manager to render or contract to obtain as hereinafter provided investment advisory services to the Trust and the Trust also desires to avail itself of the facilities available to the Manager with respect to the administration of its day-to-day corporate affairs, and the Manager is willing to render such investment advisory and administrative services;

NOW, THEREFORE, the parties agree as follows:

1. The Trust hereby appoints the Manager to act as manager of the Trust and administrator of its corporate affairs for the period and on the terms set forth in this

2

Agreement. The Manager accepts such appointment and agrees to render the services herein described, for the compensation herein provided. The Manager is authorized to enter into sub-advisory agreements for investment advisory services in connection with the management of the Trust and each Fund thereof. Any such agreement may be entered into by the Manager on such terms and in such manner as may be permitted by the 1940 Act and the rules thereunder. The Manager will continue to have responsibility for all investment advisory services furnished pursuant to any such sub-advisory agreements. The Manager will review the performance of all sub-advisers (each an Adviser), and make recommendations to the Trustees of the Trust with respect to the retention and renewal of contracts.

2. Subject to the supervision of the Board of Trustees of the

Trust, the Manager shall administer the Trust's corporate affairs and, in connection therewith, shall furnish the Trust with office facilities and with clerical, bookkeeping and recordkeeping services at such office facilities and, subject to Section 1 hereof, the Manager shall manage the investment operations of the Trust and each Fund thereof and the composition of each Fund of the Trust, including the purchase, retention and disposition thereof, in accordance with each Fund's investment objective, policies and restrictions as stated in the Prospectus (hereinafter defined) and subject to the following understandings:

(a) The Manager shall provide supervision of each Fund's investments and determine from time to time what investments or securities will be purchased, retained, sold or loaned by the Fund, and what portion of its assets will be

2

3

invested or held uninvested as cash.

(b) The Manager, in the performance of its duties and obligations under this Agreement, shall act in conformity with the Declaration of Trust, By-Laws and Prospectus (hereinafter defined) of the Trust and with the instructions and directions of the Board of Trustees and will conform to and comply with the requirements of the 1940 Act and all other applicable federal and state laws and regulations.

(c) The Manager shall determine the securities and futures contracts to be purchased or sold by each Fund and will place orders pursuant to its determinations with or through such persons, brokers, dealers or futures commission merchants (including but not limited to Prudential Securities Incorporated, and brokers, dealers and futures commissions merchants which are "affiliated persons" of an Adviser) in conformity with the policy with respect to brokerage as set forth in the Trust's Registration Statement and Prospectus (hereinafter defined) or as the Board of Trustees may direct from time to time. In providing the Trust with investment supervision, it is recognized that the Manager will give primary consideration to securing the most favorable price and efficient execution. Consistent with this policy, the Manager may consider the financial responsibility, research and investment information and other services provided by brokers, dealers or futures commission merchants who may effect or be a party to any such transaction or other transactions to which other clients of the Manager or an Adviser may be a party. It is understood that Prudential Securities

3

Incorporated or a broker which is an "affiliated person" of an Adviser may be used as principal broker for securities transactions but that no formula has been adopted for allocation of the Trust's investment transaction business. It is also understood that it is desirable for the Trust that the Manager and each Adviser have access to supplemental investment and market research and security and economic analysis provided by brokers or futures commission merchants and that such brokers may execute brokerage transactions at a higher cost to the Trust than may result when allocating brokerage to other brokers or futures commission merchants on the basis of seeking the most favorable price and efficient execution. Therefore, the Manager and each Adviser is authorized to pay higher brokerage commissions for the purchase and sale of securities and futures contracts for the Trust to brokers or futures commission merchants who provide such research and analysis, subject to review by the Board of Trustees from time to time with respect to the extent and continuation of this practice. It is understood that the services provided by such broker or futures commission merchant may be useful to the Manager or an Adviser in connection with its services to other clients.

On occasions when the Manager or an Adviser deems the purchase or sale of a security or a futures contract to be in the best interest of the Trust as well as other clients of the Manager or the Adviser, the Manager or the Adviser, to the extent permitted by applicable laws and regulations, may, but shall be under no obligation to, aggregate the securities or futures contracts to be so sold or

purchased in order to obtain the most favorable price or lower brokerage commissions and efficient execution. In such event, allocation of the securities or futures contracts so purchased or sold, as well as the expenses incurred in the transaction, will be made by the Manager or the Adviser in the manner it considers to be the most equitable and consistent with its fiduciary obligations to the Fund, the Trust and to such other clients.

(d) The Manager shall maintain all books and records with respect to the Trust's portfolio transactions and shall render to the Board of Trustees such periodic and special reports as the Board may reasonably request.

(e) The Manager shall be responsible for the financial and accounting records to be maintained by the Trust (including those being maintained by the Trust's custodian (the Custodian)).

(f) The Manager shall provide the Trust's Custodian on each business day with information relating to all transactions concerning

the Trust's assets.

(g) The investment management services of the Manager to the Trust under this Agreement are not to be deemed exclusive, and the Manager shall be free to render similar services to others.

3. The Trust has delivered to the Manager copies of each of the following documents and will deliver to it all future amendments and supplements, if any:

(a) Agreement and Declaration of Trust (such Agreement and Declaration of Trust, as in effect on the date hereof and as amended from time to time, is hereinafter called the "Declaration of Trust");

5

6

(b) By-Laws of the Trust (such By-Laws, as in effect on the date hereof and as amended from time to time, are hereinafter called the "By-Laws");

(c) Certified resolutions of the Board of Trustees of the Trust authorizing the appointment of the Manager and approving the form of this Agreement;

(d) Registration Statement under the 1940 Act and the Securities Act of 1933, as amended, on Form N-1A (the Registration Statement), as filed with the Securities and Exchange Commission (the Commission) relating to the Trust and its shares of beneficial interest and all amendments thereto;

(e) Notification of Registration of the Trust under the 1940 Act on Form N-8A as filed with the Commission and all amendments thereto; and

(f) Prospectus and Statement of Additional Information of the Trust (such Prospectus and Statement of Additional Information, as currently in effect and as amended or supplemented from time to time, being hereinafter called the "Prospectus").

4. The Manager shall authorize and permit any of its officers and employees who may be elected as Trustees or officers of the Trust to serve in the capacities in which they are elected. All services to be furnished by the Manager under this Agreement may be furnished through the medium of any such officers or employees of the Manager.

5. The Manager shall keep the Trust's books and records required to be maintained by it pursuant to Paragraph 2 hereof, including all books and records prescribed by Rule 31a-1 under the 1940 Act other than those books and records

maintained by the Trust or its other service providers. The Manager agrees that all records which it maintains for the Trust are the property of the Trust and it will surrender promptly to the Trust any such records upon the Trust's request, provided however that the Manager may retain a copy of such records. The Manager further agrees to preserve for the periods prescribed by Rule 31a-2 under the 1940 Act any such records as are required to be maintained by the Manager pursuant to Paragraph 2 hereof.

6. During the term of this Agreement, the Manager shall pay the following expenses:

(i) the salaries and expenses of all personnel of the Trust and the Manager except the fees and expenses of Trustees who are not affiliated persons of the Manager or of any Adviser;

(ii) all expenses incurred by the Manager or by the Trust in connection with managing the ordinary course of the Trust's business other than those assumed by the Trust herein; and

(iii) the costs and expenses payable to any Adviser pursuant to any sub-advisory agreements.

The Trust assumes and will pay the expenses described below:

(a) the fees and expenses incurred by the Trust in connection with the management of the investment and reinvestment of each Fund's assets;

(b) the fees and expenses of Trustees who are not affiliated persons of the Manager or the Trust's Advisers;

(c) the fees and expenses of the Custodian that relate to (i) the custodial function and the recordkeeping connected therewith; (ii) preparing and maintaining the general accounting records of the Trust and the providing of any such records to the Manager useful to the Manager in connection with the Manager's responsibility for the accounting records of the Trust pursuant to Section 31 of the 1940 Act and the rules promulgated thereunder; (iii) the pricing of the shares of the Trust, including the cost of any pricing service or services which may be retained pursuant to the authorization of the Board of Trustees; and (iv) for both mail and wire orders, the cashiering function in connection with the issuance and redemption of the Trust's securities;

(d) the fees and expenses of the Trust's transfer and dividend disbursing agent, which may be the Custodian, that relate to the maintenance of each shareholder account;

(e) the charges and expenses of legal counsel and independent accountants for the Trust;

(f) brokers' commissions and any issue or transfer taxes chargeable to the Trust in connection with its securities and futures transactions;

(g) all taxes and corporate fees payable by the Trust to federal, state or other governmental agencies;

(h) the fees of any trade associations of which the Trust may be a member;

8

9

(i) the cost of share certificates representing, and/or non-negotiable share deposit receipts evidencing, shares of the Trust;

(j) the cost of fidelity, trustees and officers and errors and omissions insurance;

(k) the fees and expenses involved in registering and maintaining registration of the Trust and of its shares with the Commission, registering the Trust as a broker or dealer and qualifying its shares under state securities laws, including the preparation and printing of the Trust's registration statements, prospectuses and statements of additional information for filing under federal and state securities laws for such purposes;

(l) allocable communications expenses with respect to investor services and all expenses of shareholders' and Trustees' meetings and of preparing, printing and mailing reports to shareholders in the amount necessary for distribution to the shareholders;

(m) litigation and indemnification expenses and other extraordinary expenses not incurred in the ordinary course of the Trust's business; and

(n) any expenses assumed by the Trust pursuant to a plan of distribution adopted in conformity with Rule 12b-1 under the 1940 Act.

7. For the services provided and the expenses assumed pursuant to this Agreement, the Trust will pay to the Manager as full compensation therefor a fee as set forth below. This fee will be computed daily and will be paid to the Manager monthly. Any reduction in the fee payable shall be made



monthly. Any such reductions or

10

payments are subject to readjustment during the year.

<TABLE>  
<CAPTION>

Name of Fund -----	Rate as a percentage of average daily net assets -----
<S>	<C>
Large Capitalization Growth Fund	.70%
Large Capitalization Value Fund	.70%
Small Capitalization Growth Fund	.70%
Small Capitalization Value Fund	.70%
International Equity Fund	.80%
Total Return Bond Fund	.50%

8. The Manager shall not be liable for any error of judgment or for any loss suffered by the Trust in connection with the matters to which this Agreement relates, except a loss resulting from a breach of fiduciary duty with respect to the receipt of compensation for services (in which case any award of damages shall be limited to the period and the amount set forth in Section 36(b) (3) of the 1940 Act) or loss resulting from willful misfeasance, bad faith or gross negligence on its part in the performance of its duties or from reckless disregard by it of its obligations and duties under this Agreement.

9. This Agreement shall continue in effect for a period of more than two years from the date hereof only so long as such continuance is specifically approved at least annually in conformity with the requirements of the 1940 Act; provided, however, that this Agreement may be terminated with respect to any Fund by the Trust at any time, without the payment of any penalty, by the Board of Trustees or by vote of a majority of the outstanding voting securities (as defined in the 1940 Act) of the Fund, or by the Manager at any time, without the payment of any penalty, on not more than 60 days' nor less than 30 days' written notice to the other party. This Agreement shall

11

terminate automatically in the event of its assignment (as defined in the 1940 Act).

10. Nothing in this Agreement shall limit or restrict the right of any officer or employee of the Manager who may also be a Trustee, officer or employee of the Trust to engage in any other business or to devote his or her time and attention in part to the management or other aspects of any business,

whether of a similar or dissimilar nature, nor limit or restrict the right of the Manager to engage in any other business or to render services of any kind to any other corporation, firm, individual or association.

11. Except as otherwise provided herein or authorized by the Board of Trustees from time to time, the Manager shall for all purposes herein be deemed to be an independent contractor and shall have no authority to act for or represent the Trust in any way or otherwise be deemed an agent of the Trust.

12. During the term of this Agreement, the Trust agrees to furnish the Manager at its principal office all prospectuses, proxy statements, reports to shareholders, sales literature, or other material prepared for distribution to shareholders of the Trust or the public, which refer in any way to the Manager, prior to use thereof and not to use such material if the Manager reasonably objects in writing within five business days (or such other time as may be mutually agreed) after receipt thereof. In the event of termination of this Agreement, the Trust will continue to furnish to the Manager copies of any of the above-mentioned materials which refer in any way to the Manager. Sales literature may be furnished to the Manager hereunder by first-class or overnight mail, facsimile transmission equipment or hand delivery. The Trust shall furnish or otherwise make available to the Manager such other information

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12

relating to the business affairs of the Trust as the Manager at any time, or from time to time, reasonably requests in order to discharge its obligations hereunder.

13. This Agreement may be amended by mutual consent, but the consent of the Trust must be obtained in conformity with the requirements of the 1940 Act.

14. Any notice or other communication required to be given pursuant to this Agreement shall be deemed duly given if delivered or mailed by registered mail, postage prepaid, (1) to the Manager at Gateway Center Three, 100 Mulberry Street, Newark, NJ 07102-4077, Attention: Secretary; or (2) to the Trust at Gateway Center Three, 100 Mulberry Street, Newark, NJ 07102-4077, Attention: President.

15. This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

16. The Trust is a business trust organized under the Delaware Business Trust Act pursuant to a Certificate of Trust dated July 8, 1999. The Trust is a series trust and all debts, liabilities, obligations and expenses of a particular Fund shall be enforceable only against the assets of that Fund and not against the assets of any other Fund or of the Trust as a whole. This Agreement is executed by a Trustee or officer of the Trust in such capacity and not individually. Neither the Trustees, officers, agents or shareholders of the

Trust assume any personal liability for obligations entered into on behalf of the Trust (or a Fund thereof).

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be executed by their officers designated below as of the day and year first above written.

12

13

TARGET FUNDS

By: /s/John R. Strangfeld

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John R. Strangfeld  
President

PRUDENTIAL INVESTMENTS FUND  
MANAGEMENT LLC

By: /s/Robert F. Gunia

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Robert F. Gunia  
Executive Vice President

13

## TARGET FUNDS

## SUBADVISORY AGREEMENT

Agreement made as of this \_\_\_\_ day of September, 1999, between Prudential Investments Fund Management LLC (PIFM or the Manager), a New York limited liability company, and INVESCO Capital Management, Inc. (the "Adviser").

WHEREAS, PMF has entered into a management agreement (the Management Agreement) with Target Funds (the Trust), a Delaware business trust and a diversified open-end management investment company registered under the Investment Company Act of 1940 (the 1940 Act), pursuant to which PIFM acts as Manager of the Trust.

WHEREAS, shares of the Trust are divided into separate series or portfolios (each a portfolio), each of which is established pursuant to a resolution of the Trustees of the Trust and the Trustees may from time to time terminate such portfolios or establish and terminate additional portfolios.

WHEREAS, PIFM has the responsibility of evaluating, recommending, supervising and compensating investment advisers to each portfolio of the Trust and shall enter into subadvisory agreements with one or more subadvisers with respect to the management of the Large Capitalization Value Fund of the Trust (the Portfolio) in connection with the management of the Trust.

WHEREAS, the Manager desires to retain the Adviser to provide investment advisory services to the Portfolio and to manage such portion of the Portfolio as the Manager shall from time to time direct and the Adviser is willing to render such investment advisory services.

NOW, THEREFORE, the Parties agree as follows:

1. (a) Subject to the supervision of the Manager and of the Trustees of the Trust, the Adviser shall manage such portion of the investment operations of the Portfolio as the Manager shall direct and shall manage the composition of such portfolio, including the purchase, retention and disposition thereof, in accordance with the Portfolio's investment objectives,

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policies and restrictions as stated in the Prospectus (such Prospectus and Statement of Additional Information as currently in effect and as amended or supplemented from time to time, being herein called the "Prospectus") and subject to the following understandings:

(i) The Adviser shall provide supervision of such portion of the Portfolio's investments as the Manager shall direct and shall determine from time to time what investments and securities will be purchased, retained, sold or loaned by the Portfolio, and what portion of the assets it manages will be invested or held uninvested as cash.

(ii) In the performance of its duties and obligations under this Agreement, the Adviser shall act in conformity with the Declaration of Trust, By-Laws and Prospectus of the Trust and the Portfolio and with the instructions and directions of the Manager and of the Trustees of the Trust and will conform to and comply with the requirements of the 1940 Act, the Internal Revenue Code of 1986 and all other applicable federal and state laws and regulations.

(iii) The Adviser shall determine the securities and futures contracts to be purchased or sold by such portion of the Portfolio and will place orders with or through such persons, brokers, dealers or futures commission merchants (including but not limited to Prudential Securities Incorporated) to carry out the policy with respect to brokerage as set forth in the Trust's Registration Statement and Prospectus or as the Trustees may direct from time to time. In providing the Portfolio with investment supervision, it is recognized that the Adviser will give primary consideration to securing the most favorable price and efficient execution. Within the framework of this policy, the Adviser may consider the financial responsibility, research and investment information and other services provided by brokers, dealers or futures commission merchants who may effect or be a party to any such transaction or other transactions to which the Adviser's other clients may be a party. It is understood that Prudential Securities Incorporated may be used as principal broker for securities transactions but that no formula has been adopted for allocation of the Portfolio's investment transaction business. It

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is also understood that it is desirable for the Trust that the Adviser have access to supplemental investment and market research and security and economic analysis provided by brokers or futures commission merchants who may execute brokerage transactions at a higher cost to the Trust than may result when allocating brokerage to other brokers on the basis of seeking the most favorable price and efficient execution. Therefore, the Adviser is authorized to place orders for the purchase and sale of securities and futures contracts for the Portfolio with such brokers or futures commission merchants, subject to review by the Trustees from time to time with respect to the extent and continuation of this practice. It is understood that the services provided by such brokers or futures commission merchants may be useful to the Adviser in connection with the Adviser's services to other clients.

On occasions when the Adviser deems the purchase or sale of a security or futures contract to be in the best interest of the Portfolio as well as other clients of the Adviser, the Adviser, to the extent permitted by applicable laws

and regulations, may, but shall be under no obligation to, aggregate the securities or futures contracts to be sold or purchased in order to obtain the most favorable price or lower brokerage commissions and efficient execution. In such event, allocation of the securities or futures contracts so purchased or sold, as well as the expenses incurred in the transaction, will be made by the Adviser in the manner the Adviser considers to be the most equitable and consistent with its fiduciary obligations to the Trust and to such other clients.

(iv) The Adviser shall maintain all books and records with respect to the portfolio transactions required by subparagraphs (b) (5), (6), (7), (9), (10) and (11) and paragraph (f) of Rule 31a-1 under the 1940 Act and shall render to the Trustees such periodic and special reports as the Board may reasonably request.

(v) The Adviser shall provide the Trust's Custodian on each business day with information relating to all transactions concerning the

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portion of the Portfolio's assets it manages and shall provide the Manager with such information upon request of the Manager.

(vi) The investment management services provided by the Adviser hereunder are not exclusive, and the Adviser shall be free to render similar services to others.

(b) Services to be furnished by the Adviser under this Agreement may be furnished through the medium of any of its directors, officers or employees.

(c) The Adviser shall keep the Portfolio's books and records required to be maintained by the Adviser pursuant to paragraph 1(a)(iv) hereof and shall timely furnish to the Manager all information relating to the Adviser's services hereunder needed by the Manager to keep the other books and records of the Trust required by Rule 31a-1 under the 1940 Act. The Adviser agrees that all records which it maintains for the Portfolio are the property of the Trust and the Adviser will surrender promptly to the Trust any of such records upon the Trust's request. The Adviser further agrees to preserve for the periods prescribed by Rule 31a-2 under the 1940 Act any such records as are required to be maintained by it pursuant to paragraph 1(a) hereof.

(d) The Adviser agrees to maintain adequate compliance procedures to ensure its compliance with the 1940 Act, the Investment Advisers Act of 1940 (Advisers Act) and other applicable state and federal regulations.

(e) The Adviser shall furnish to the Manager copies of all records prepared in connection with (i) the performance of this Agreement and (ii) the maintenance of compliance procedures pursuant to paragraph 1(d) hereof as the Manager may reasonably request.

2. The Manager shall continue to have responsibility for all services to be provided to the Portfolio pursuant to the Management Agreement and shall oversee and review the Adviser's performance of its duties under this Agreement.

3. The Manager shall compensate the Adviser for the services provided and the expenses assumed pursuant to this Subadvisory Agreement, a fee at an annual rate of .30 of 1% of the average daily net assets of the portion of the

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Portfolio managed by the Adviser. This fee will be computed daily and paid monthly.

4. The Adviser shall not be liable for any error of judgment or for any loss suffered by the Portfolio, the Trust or the Manager in connection with the matters to which this Agreement relates, except a loss resulting from the willful misfeasance, bad faith or gross negligence of the Adviser's in the performance of its duties or from its reckless disregard of its obligations and duties under this Agreement.

5. This Agreement shall continue in effect for a period of more than two years from the date hereof only so long as such continuance is specifically approved at least annually in conformity with the requirements of the 1940 Act; provided, however, that this Agreement may be terminated by the Trust at any time, without the payment of any penalty, by the Trustees or by vote of a majority of the outstanding voting securities (as defined in the 1940 Act) of the Portfolio, or by the Manager or the Adviser at any time, without the payment of any penalty, on not more than 60 days' nor less than 30 days' written notice to the other party. This Agreement shall terminate automatically in the event of its assignment (as defined in the 1940 Act) or upon the termination of the Management Agreement.

6. Nothing in this Agreement shall limit or restrict the right of any of the Adviser's directors, officers, or employees to engage in any other business or to devote his or her time and attention in part to the management or other aspects of any business, whether of a similar or a dissimilar nature, nor limit or restrict the Adviser's right to engage in any other business or to render services of any kind to any other corporation, firm, individual or association, except as described in Paragraph 1(a)(vi) above.

7. During the term of this Agreement, the Manager agrees to furnish the Adviser at its principal office all prospectuses, proxy statements, reports to shareholders, sales literature or other material prepared for distribution to shareholders of the Trust or the public, which refer to the Adviser in any way, prior to use thereof and not to use material if the Adviser reasonably

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objects in writing five business days (or such other time as may be mutually agreed) after receipt thereof. Sales literature may be furnished to the Adviser hereunder by first class or overnight mail, facsimile transmission equipment or hand delivery.

8. This Agreement may be amended by mutual consent, but the consent of the Trust must be obtained in conformity with the requirements of the 1940 Act.

9. This Agreement shall be governed by the laws of the State of New York.

IN WITNESS WHEREOF, the Parties hereto have caused this instrument to be executed by their officers designated below as of the day and year first above written.

PRUDENTIAL INVESTMENTS FUND MANAGEMENT LLC

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

INVESCO CAPITAL MANAGEMENT, INC.

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



## TARGET FUNDS

(Small Capitalization Growth Fund)

## SUBADVISORY AGREEMENT

Agreement made on this \_\_\_\_\_ day of September, 1999, between Prudential Investments Fund Management LLC (PIFM or the Manager), a New York limited liability company, and Sawgrass Asset Management, L.L.C. (the Adviser), a Delaware limited liability company.

WHEREAS, PIFM has entered into a management agreement (the Management Agreement) with Target Funds (the Trust), a Delaware business trust and an open-end management investment company registered under the Investment Company Act of 1940 (the 1940 Act), pursuant to which PIFM will act as manager of the Trust.

WHEREAS, shares of the Trust are divided into separate series or portfolios (each a portfolio), each of which is established pursuant to a resolution of the Trustees of the Trust, and the Trustees may from time to time terminate such portfolios or establish and terminate additional portfolios.

WHEREAS, PIFM has the responsibility of evaluating, recommending, supervising and compensating investment advisers to each portfolio of the Trust and desires to retain the Adviser to provide investment advisory services to the Small Capitalization Growth Fund of the Trust (the Fund) in connection with the management of the Trust and to manage such portion of the Fund as the Manager shall from time to time direct, and the Adviser is willing to render such investment advisory services.

NOW, THEREFORE, the Parties agree as follows:

1. (a) Subject to the supervision of the Manager and of the Trustees of the Trust, the Adviser shall manage such portion of the investment operations of the Fund as the Manager shall direct and shall manage the composition of such portion of the Fund, including the purchase, retention and disposition thereof, in accordance with the Fund's investment objective, policies and restrictions as stated in the Prospectus (such Prospectus and

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Statement of Additional Information as currently in effect and as amended or supplemented from time to time being herein called the "Prospectus") as delivered to the Adviser from time to time by the Manager and subject to the following understandings:

(i) The Adviser shall provide supervision of such portion of the Fund's investments and determine from time to time what investments and securities will be purchased, retained, sold or loaned by the Fund, and what portion of the assets it manages will be invested or held uninvested as cash.

(ii) In the performance of its duties and obligations under this Agreement, the Adviser shall act in conformity with the Agreement and Declaration of Trust, By-Laws and Prospectus of the Trust and the Fund as provided to the Adviser by the Manager and with the written instructions and directions of the Manager and of the Trustees of the Trust and will conform to and comply with the requirements of the 1940 Act, the Internal Revenue Code of 1986, as amended, and all other applicable federal and state laws and regulations.

(iii) The Adviser shall determine the securities and commodities or other assets to be purchased or sold by such portion of the Fund and will place orders pursuant to its determination with or through such persons, brokers, dealers or futures commission merchants (including but not limited to Prudential Securities Incorporated) to carry out the policy with respect to brokerage as set forth in the Trust's Registration Statement and Prospectus or as the Trustees may direct from time to time. In providing the Fund with investment supervision, it is recognized that the Adviser will give primary consideration to securing best execution. Within the framework of this policy, the Adviser may consider the financial responsibility, research and investment information and other services provided by brokers, dealers or futures commission merchants who may effect or be a party to any such transaction or other transactions to which the Adviser's other clients may be a party. It is understood that Prudential Securities Incorporated may be used as a broker for securities transactions but that no formula has been adopted for allocation of

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the Fund's investment transaction business. It is also understood that it is desirable for the Trust that the Adviser have access to supplemental investment and market research and security and economic analysis provided by brokers or futures commission merchants who may execute brokerage transactions at a higher cost to the Trust than may result when allocating brokerage to other brokers solely on the basis of seeking lowest price. Therefore, the Adviser is authorized to place orders for the purchase and sale of securities and commodities or other assets for the Fund with such brokers or futures commission merchants, subject to review by the Trustees from time to time with respect to the extent and continuation of this practice. It is understood that the services provided by such brokers or futures commission merchants may be useful to the Adviser in connection with the Adviser's services to other clients.

On occasions when the Adviser deems the purchase or sale of a security, commodity or other asset to be in the best interest of the Fund as well as other clients of the Adviser, the Adviser, to the extent permitted by applicable laws

and regulations, may, but shall be under no obligation to, aggregate the securities, commodities or other assets to be sold or purchased in order to obtain best execution. In such event, allocation of the securities, commodities or other assets so purchased or sold, as well as the expenses incurred in the transaction, will be made by the Adviser in the manner the Adviser considers to be the most equitable and consistent with its fiduciary obligations to the Trust and to such other clients.

(iv) The Adviser shall maintain all books and records with respect to the portfolio transactions required by subparagraphs (b) (5), (6), (7), (9), (10) and (11) and paragraph (f) of Rule 31a-1 under the 1940 Act and shall render to the Trustees such periodic and special reports as the Board may reasonably request.

(v) The Adviser shall provide the Trust's custodian (the Custodian) on each business day with information relating to all transactions concerning the portion of the Fund's assets it manages and shall provide the

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Manager with such information upon request of the Manager. The Adviser shall reconcile its records of the Fund's securities and cash managed by the Adviser with statements provided by the Custodian at least once each month. The Adviser shall provide the Manager with a written report on each such reconciliation, including information on any discrepancies noted and actions taken by the Adviser in response thereto, by the tenth business day of the following month to the extent reasonably practicable.

(vi) The investment management services provided by the Adviser hereunder are not exclusive, and the Adviser shall be free to render similar services to others.

(b) Services to be furnished by the Adviser under this Agreement may be furnished through the medium of any of its directors, officers or employees.

(c) The Adviser shall keep the Fund's books and records required to be maintained by the Adviser pursuant to paragraph 1(a)(iv) hereof and shall timely furnish to the Manager all information relating to the Adviser's services hereunder needed by the Manager to keep the other books and records of the Trust required by Rule 31a-1 under the 1940 Act. The Adviser agrees that all records which it maintains for the Fund are the property of the Trust and the Adviser will surrender promptly to the Trust any of such records upon the Trust's request. The Adviser further agrees to preserve for the periods prescribed by Rule 31a-2 under the 1940 Act any such records as are required to be maintained by it pursuant to paragraph 1(a) hereof.

(d) The Adviser agrees to maintain adequate compliance procedures to ensure its compliance with the 1940 Act, the Investment Advisers Act of 1940 (Advisers Act) and other applicable state and federal laws and regulations.

(e) The Adviser shall furnish to the Manager copies of all records prepared in connection with (i) the performance of this Agreement and (ii) the reports prepared in accordance with the compliance procedures maintained pursuant to paragraph 1(d) hereof as the Manager may reasonably request.

2. The Manager shall continue to have responsibility for all services to be provided to the Fund pursuant to the Management Agreement and shall

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oversee and review the Adviser's performance of its duties under this Agreement.

3. The Manager shall compensate the Adviser for the services provided and the expenses assumed pursuant to this Subadvisory Agreement at the annual rate of .40 of 1% of the average daily net assets of the portion of the Fund managed by the Adviser. This fee will be computed daily and paid monthly.

4. The Adviser shall not be liable for any error of judgment or for any loss suffered by the Fund, the Trust or the Manager in connection with the matters to which this Agreement relates, except a loss resulting from willful misfeasance, bad faith or gross negligence on the Adviser's part in the performance of its duties or from its reckless disregard of its obligations and duties under this Agreement, provided, however, that nothing in this Agreement shall be deemed to waive any rights the Manager or the Trust may have against the Adviser under federal or state securities laws, including for acts of good faith.

5. This Agreement shall continue in effect for a period of more than two years from the date hereof only so long as such continuance is specifically approved at least annually in conformity with the requirements of the 1940 Act; provided, however, that this Agreement may be terminated by the Trust at any time, without the payment of any penalty, by the Trustees or by vote of a majority of the outstanding voting securities (as defined in the 1940 Act) of the Fund, or by the Manager or the Adviser at any time, without the payment of any penalty, on not more than 60 days' nor less than 30 days' written notice to the other party. This Agreement shall terminate automatically in the event of its assignment (as defined in the 1940 Act) or upon the termination of the Management Agreement.

6. Nothing in this Agreement shall limit or restrict the right of any of the Adviser's directors, officers or employees to engage in any other business or to devote his or her time and attention in part to the management or other aspects of any business, whether of a similar or dissimilar nature,

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nor limit the Adviser's right to engage in any other business or to render

services of any kind to any other corporation, firm, individual or association.

7. During the term of this Agreement, the Manager agrees to furnish the Adviser at its principal office all prospectuses, proxy statements, reports to shareholders, sales literature or other material prepared for distribution to shareholders of the Trust or the public, which refer to the Adviser in any way; provided, however, that any such item which describes or characterizes the Adviser's investment process with respect to the Fund, the names of any of its clients (other than the Trust or advisory clients of PIFM and its affiliates) or any of its performance results shall be furnished to the Adviser by first class or overnight mail, facsimile transmission equipment or hand delivery prior to use thereof, and such item shall not be used if the Adviser reasonably objects to such use in writing within forty-eight (48) hours (or such other time as may be mutually agreed) after receipt thereof (provided, however, that if such item is not received by the Adviser during normal business hours on a business day, such period shall end forty-eight (48) hours after the start of normal business hours on the next succeeding business day).

8. This Agreement may be amended by mutual consent, but the consent of the Trust must be obtained in conformity with the requirements of the 1940 Act.

9. THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF NEW YORK.

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IN WITNESS WHEREOF, the Parties hereto have caused this instrument to be executed by their officers designated below on the day and year first above written.

PRUDENTIAL INVESTMENTS FUND MANAGEMENT LLC

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

SAWGRASS ASSET MANAGEMENT, L.L.C.

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

7

## TARGET FUNDS

## SUBADVISORY AGREEMENT

Agreement made as of this \_\_\_\_\_ day of September, 1999, between Prudential Investments Fund Management LLC (PIFM or the Manager), a New York limited liability company, and Lazard Asset Management, a division of Lazard Freres & Co., (the Adviser), a New York limited partnership.

WHEREAS, PIFM has entered into a management agreement (the Management Agreement) with Target Funds (the Trust), a Delaware business trust and a diversified open-end management investment company registered under the Investment Company Act of 1940 (the 1940 Act), pursuant to which PIFM acts as Manager of the Trust.

WHEREAS, shares of the Trust are divided into separate series or portfolios (each a portfolio), each of which is established pursuant to a resolution of the Trustees of the Trust and the Trustees may from time to time terminate such portfolios or establish and terminate additional portfolios.

WHEREAS, PIFM has the responsibility of evaluating, recommending, supervising and compensating investment advisers to each portfolio of the Trust and shall enter into subadvisory agreements with one or more subadvisers with respect to the management of the Small Capitalization Value Fund of the Trust (the Portfolio) in connection with the management of the Trust.

WHEREAS, the Manager desires to retain the Adviser to provide investment advisory services to the Portfolio and to manage such portion of the Portfolio as the Manager shall from time to time direct and the Adviser is willing to render such investment advisory services.

NOW, THEREFORE, the Parties agree as follows:

1. (a) Subject to the supervision of the Manager and of the Trustees of the Trust, the Adviser shall manage such portion of the investment operations of the Portfolio as the Manager shall direct and shall manage the composition of such portfolio, including the purchase, retention and

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disposition thereof, in accordance with each Portfolio's investment objectives, policies and restrictions as stated in the Prospectus (such Prospectus and Statement of Additional Information as currently in effect and as amended or supplemented from time to time, being herein called the "Prospectus") and subject to the following understandings:

(i) The Adviser shall provide supervision of such portion of the Portfolio's investments as the Manager shall direct and shall determine from time to time what investments and securities will be purchased, retained, sold or loaned by the Portfolio, and what portion of the assets it manages will be invested or held uninvested as cash.

(ii) In the performance of its duties and obligations under this Agreement, the Adviser shall act in conformity with the Declaration of Trust, By-Laws and Prospectus of the Trust and the Portfolio and with the instructions and directions of the Manager and of the Trustees of the Trust and will conform to and comply with the requirements of the 1940 Act, the Internal Revenue Code of 1986 and all other applicable federal and state laws and regulations.

(iii) The Adviser shall determine the securities and futures contracts to be purchased or sold by such portion of the Portfolio and will place orders with or through such persons, brokers, dealers or futures commission merchants (including but not limited to Prudential Securities Incorporated and Lazard Freres & Co.) to carry out the policy with respect to brokerage as set forth in the Trust's Registration Statement and Prospectus or as the Trustees may direct from time to time. In providing the Portfolio with investment supervision, it is recognized that the Adviser will give primary consideration to securing the most favorable price and efficient execution. Within the framework of this policy, the Adviser may consider the financial responsibility, research and investment information and other services provided by brokers, dealers or futures commission merchants who may effect or be a party to any such transaction or other transactions to which the Adviser's other clients may be a party. It is understood that Prudential Securities

Incorporated and Lazard Freres & Co. may each be used as principal broker for securities transactions but that no formula has been adopted for allocation of the Portfolio's investment transaction business. It is also understood that it is desirable for the Trust that the Adviser have access to supplemental investment and market research and security and economic analysis provided by brokers or futures commission merchants who may execute brokerage transactions at a higher cost to the Trust than may result when allocating brokerage to other brokers on the basis of seeking the most favorable price and efficient execution. Therefore, the Adviser is authorized to place orders for the purchase and sale of securities and futures contracts for the Portfolio with such brokers or futures commission merchants, subject to review by the Trustees from time to time with respect to the extent and continuation of this practice. It is understood that the services provided by such brokers or futures commission merchants may be useful to the Adviser in connection with the Adviser's services to other clients.

On occasions when the Adviser deems the purchase or sale of a security or futures contract to be in the best interest of the Portfolio as well as other

clients of the Adviser, the Adviser, to the extent permitted by applicable laws and regulations, may, but shall be under no obligation to, aggregate the securities or futures contracts to be sold or purchased in order to obtain the most favorable price or lower brokerage commissions and efficient execution. In such event, allocation of the securities or futures contracts so purchased or sold, as well as the expenses incurred in the transaction, will be made by the Adviser in the manner the Adviser considers to be the most equitable and consistent with its fiduciary obligations to the Trust and to such other clients.

(iv) The Adviser shall maintain all books and records with respect to the portfolio transactions required by subparagraphs (b) (5), (6), (7), (9), (10) and (11) and paragraph (f) of Rule 31a-1 under the 1940 Act and shall

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render to the Trustees such periodic and special reports as the Board may reasonably request.

(v) The Adviser shall provide the Trust's Custodian on each business day with information relating to all transactions concerning the portion of the Portfolio's assets it manages and shall provide the Manager with such information upon request of the Manager.

(vi) The investment management services provided by the Adviser hereunder are not exclusive, and the Adviser shall be free to render similar services to others.

(b) Services to be furnished by the Adviser under this Agreement may be furnished through the medium of any of its directors, officers or employees.

(c) The Adviser shall keep the Portfolio's books and records required to be maintained by the Adviser pursuant to paragraph 1(a)(iv) hereof and shall timely furnish to the Manager all information relating to the Adviser's services hereunder needed by the Manager to keep the other books and records of the Trust required by Rule 31a-1 under the 1940 Act. The Adviser agrees that all records which it maintains for the Portfolio are the property of the Trust and the Adviser will surrender promptly to the Trust any of such records upon the Trust's request. The Adviser further agrees to preserve for the periods prescribed by Rule 31a-2 under the 1940 Act any such records as are required to be maintained by it pursuant to paragraph 1(a) hereof.

(d) The Adviser agrees to maintain adequate compliance procedures to ensure its compliance with the 1940 Act, the Investment Advisers Act of 1940 (Advisers Act) and other applicable state and federal regulations.

(e) The Adviser shall furnish to the Manager copies of all records prepared in connection with (i) the performance of this Agreement and (ii) the



maintenance of compliance procedures pursuant to paragraph 1(d) hereof as the Manager may reasonably request.

2. The Manager shall continue to have responsibility for all services to be provided to the Portfolio pursuant to the Management Agreement and shall

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oversee and review the Adviser's performance of its duties under this Agreement.

3. The Manager shall compensate the Adviser for the services provided and the expenses assumed pursuant to this Subadvisory Agreement, a fee at an annual rate of .40 of 1% of the average daily net assets of the portion of the Portfolio managed by the Adviser. This fee will be computed daily and paid monthly.

4. The Adviser shall not be liable for any error of judgment or for any loss suffered by the Portfolio, the Trust or the Manager in connection with the matters to which this Agreement relates, except a loss resulting from the willful misfeasance, bad faith or gross negligence of the Adviser in the performance of its duties or from its reckless disregard of its obligations and duties under this Agreement.

5. This Agreement shall continue in effect for a period of more than two years from the date hereof only so long as such continuance is specifically approved at least annually in conformity with the requirements of the 1940 Act; provided, however, that this Agreement may be terminated by the Trust at any time, without the payment of any penalty, by the Trustees or by vote of a majority of the outstanding voting securities (as defined in the 1940 Act) of the Portfolio, or by the Manager or the Adviser at any time, without the payment of any penalty, on not more than 60 days' nor less than 30 days' written notice to the other party. This Agreement shall terminate automatically in the event of its assignment (as defined in the 1940 Act) or upon the termination of the Management Agreement.

6. Nothing in this Agreement shall limit or restrict the right of any of the Adviser's directors, officers or employees to engage in any other business or to devote his or her time and attention in part to the management or other aspects of any business, whether of a similar or a dissimilar nature, nor limit or restrict the Adviser's right to engage in any other business or to

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render services of any kind to any other corporation, firm, individual or association, except as described in Paragraph 1(a)(vi) above.

7. During the term of this Agreement, the Manager agrees to furnish the Adviser at its principal office all prospectuses, proxy statements, reports to

shareholders, sales literature or other material prepared for distribution to shareholders of the Trust or the public, which refer to the Adviser in any way, prior to use thereof and not to use material if the Adviser reasonably objects in writing five business days (or such other time as may be mutually agreed) after receipt thereof. In the event of the termination of this Agreement, the manager will continue to furnish the Adviser copies of such materials which refer to the Adviser. Sales literature may be furnished to the Adviser hereunder by first class or overnight mail, facsimile transmission equipment or hand delivery.

8. The Manager has delivered to the Adviser copies of each of the following documents and will deliver to it all future amendments and supplements, if any:

(a) Declaration of Trust, as filed with the Secretary of State of Delaware (such Declaration of Trust, as in effect on the date hereof and as amended from time to time, are herein called the Declaration of Trust);

(b) By-Laws of the Trust (such By-Laws, as in effect on the date hereof and as amended from time to time, are herein called the By-Laws);

(c) Certified resolutions of the Trustees of the Trust authorizing the appointment of the Manager and the Adviser and approving the form of this Agreement;

(d) Registration Statement under the 1940 Act and the Securities Act of 1933, as amended, on Form N-1A (the Registration Statement), as filed with the Securities and Exchange Commission (the Commission) relating to the Portfolio and shares of beneficial interest of the Portfolio and all amendments thereto;

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(e) Notification of Registration of the Trust under the 1940 Act on Form N-8A as filed with the Commission and all amendments thereto; and

(f) Prospectus of the Portfolio (such Prospectus and Statement of Additional Information, as currently in effect and as amended or supplemented from time to time, being herein called the Prospectus).

9. This Agreement may be amended by mutual consent, but the consent of the Trust must be obtained in conformity with the requirements of the 1940 Act.

10. This Agreement shall be governed by the laws of the State of New York.

11. The Adviser agrees to notify the Manager of any change in the membership of the Adviser within a reasonable time following such change. The Manager agrees that the Adviser may refrain from providing any advice or

services concerning securities of companies of which any officers, directors, partners or employees of the Adviser or any of the Adviser's affiliates are officers or directors, or of companies for which the Adviser or any of the Adviser's affiliates act as financial adviser, investment manager or in any capacity that the adviser deems confidential, unless the Adviser determines in its sole discretion that it may appropriately do so. The Manager appreciates that, for good commercial and legal reasons, material nonpublic information which becomes available to affiliates of the Adviser through these relationships cannot be passed on to the Manager.

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IN WITNESS WHEREOF, the Parties hereto have caused this instrument to be executed by their officers designated below as of the day and year first above written.

PRUDENTIAL INVESTMENTS FUND MANAGEMENT  
LLC

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

LAZARD ASSET MANAGEMENT

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

8

## TARGET FUNDS

## SUBADVISORY AGREEMENT

Agreement made as of this \_\_\_\_\_ day of September, 1999, between Prudential Investments Fund Management LLC (PIFM or the Manager), a New York limited liability company, and Columbus Circle Investors (the Adviser), a Delaware partnership.

WHEREAS, PIFM has entered into a management agreement (the Management Agreement) with Target Funds (the Trust), a Delaware business trust and a diversified open-end management investment company registered under the Investment Company Act of 1940 (the 1940 Act), pursuant to which PIFM acts as Manager of the Trust.

WHEREAS, shares of the Trust are divided into separate series or portfolios (each a portfolio), each of which is established pursuant to a resolution of the Trustees of the Trust and the Trustees may from time to time terminate such portfolios or establish and terminate additional portfolios.

WHEREAS, PIFM has the responsibility of evaluating, recommending, supervising and compensating investment advisers to each portfolio of the Trust and shall enter into subadvisory agreements with one or more subadvisers with respect to the management of the Large Capitalization Growth Fund of the Trust (the Portfolio) in connection with the management of the Trust.

WHEREAS, the Manager desires to retain the Adviser to provide investment advisory services to the Portfolio and to manage such portion of the Portfolio as the Manager shall from time to time direct and the Adviser is willing to render such investment advisory services.

NOW, THEREFORE, the Parties agree as follows:

1. (a) Subject to the supervision of the Manager and of the Trustees of the Trust, the Adviser shall manage the investment operations of the Portfolio as the Manager shall direct and shall manage the composition of its portfolio, including the purchase, retention and disposition thereof, in

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accordance with the Portfolio's investment objectives, policies and restrictions as stated in the Prospectus (such Prospectus and Statement of Additional Information as currently in effect and as amended or supplemented from time to time, being herein called the "Prospectus") and subject to the following understandings:

(i) The Adviser shall provide supervision of such portion of the Portfolio's investments as the Manager shall direct and shall determine from time to time what investments and securities will be purchased, retained, sold or loaned by the Portfolio, and what portion of the assets it manages will be invested or held uninvested as cash.

(ii) In the performance of its duties and obligations under this Agreement, the Adviser shall act in conformity with the Declaration of Trust, By-Laws and Prospectus of the Trust and the Portfolio and with the instructions and directions of the Manager and of the Trustees of the Trust and will conform to and comply with the requirements of the 1940 Act, the Internal Revenue Code of 1986 and all other applicable federal and state laws and regulations.

(iii) The Adviser shall determine the securities and futures contracts to be purchased or sold by such portion of the Portfolio and will place orders with or through such persons, brokers, dealers or futures commission merchants (including but not limited to Prudential Securities Incorporated) to carry out the policy with respect to brokerage as set forth in the Trust's Registration Statement and Prospectus or as the Trustees may direct from time to time. In providing the Portfolio with investment supervision, it is recognized that the Adviser will give primary consideration to securing the most favorable price and efficient execution. Within the framework of this policy, the Adviser may consider the financial responsibility, research and investment information and other services provided by brokers, dealers or futures commission merchants who may effect or be a party to any such transaction or other transactions to which the Adviser's other clients may be a party. It is understood that Prudential Securities Incorporated may be used as

principal broker for securities transactions but that no formula has been adopted for allocation of the Portfolio's investment transaction business. It is also understood that it is desirable for the Trust that the Adviser have access to supplemental investment and market research and security and economic analysis provided by brokers or futures commission merchants who may execute brokerage transactions at a higher cost to the Trust than may result when allocating brokerage to other brokers on the basis of seeking the most favorable price and efficient execution. Therefore, the Adviser is authorized to place orders for the purchase and sale of securities and futures contracts for the Portfolio with such brokers or futures commission merchants, subject to review by the Trustees from time to time with respect to the extent and continuation of this practice. It is understood that the services provided by such brokers or futures commission merchants may be useful to the Adviser in connection with the Adviser's services to other clients.

On occasions when the Adviser deems the purchase or sale of a security or futures contract to be in the best interest of the Portfolio as well as other clients of the Adviser, the Adviser, to the extent permitted by applicable laws

and regulations, may, but shall be under no obligation to, aggregate the securities or futures contracts to be sold or purchased in order to obtain the most favorable price or lower brokerage commissions and efficient execution. In such event, allocation of the securities or futures contracts so purchased or sold, as well as the expenses incurred in the transaction, will be made by the Adviser in the manner the Adviser considers to be the most equitable and consistent with its fiduciary obligations to the Trust and to such other clients.

(iv) The Adviser shall maintain all books and records with respect to the portfolio transactions required by subparagraphs (b) (5), (6), (7), (9), (10) and (11) and paragraph (f) of Rule 31a-1 under the 1940 Act and shall render to the Trustees such periodic and special reports as the Board may reasonably request.

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(v) The Adviser shall provide the Trust's Custodian on each business day with information relating to all transactions concerning the portion of the Portfolio's assets it manages and shall provide the Manager with such information upon request of the Manager.

(vi) The investment management services provided by the Adviser hereunder are not exclusive, and the Adviser shall be free to render similar services to others.

(b) Services to be furnished by the Adviser under this Agreement may be furnished through the medium of any of its directors, officers or employees.

(c) The Adviser shall keep the Portfolio's books and records required to be maintained by the Adviser pursuant to paragraph 1(a)(iv) hereof and shall timely furnish to the Manager all information relating to the Adviser's services hereunder needed by the Manager to keep the other books and records of the Trust required by Rule 31a-1 under the 1940 Act. The Adviser agrees that all records which it maintains for the Portfolio are the property of the Trust and the Adviser will surrender promptly to the Trust any of such records upon the Trust's request. The Adviser further agrees to preserve for the periods prescribed by Rule 31a-2 under the 1940 Act any such records as are required to be maintained by it pursuant to paragraph 1(a) hereof.

(d) The Adviser agrees to maintain adequate compliance procedures to ensure its compliance with the 1940 Act, the Investment Advisers Act of 1940 (Advisers Act) and other applicable state and federal regulations.

(e) The Adviser shall furnish to the Manager copies of all records prepared in connection with (i) the performance of this Agreement and (ii) the maintenance of compliance procedures pursuant to paragraph 1(d) hereof as the Manager may reasonably request.

2. The Manager shall continue to have responsibility for all services to be provided to the Portfolio pursuant to the Management Agreement and shall oversee and review the Adviser's performance of its duties under this Agreement.

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3. The Manager shall compensate the Adviser for the services provided and the expenses assumed pursuant to this Subadvisory Agreement, a fee at an annual rate of .30 of 1% of the average daily net assets of the portion of the Portfolio managed by the Adviser. This fee will be computed daily and paid monthly.

4. The Adviser shall not be liable for any error of judgment or for any loss suffered by the Portfolio, the Trust or the Manager in connection with the matters to which this Agreement relates, except a loss resulting from willful misfeasance, bad faith or gross negligence on the Adviser's part in the performance of its duties or from its reckless disregard of its obligations and duties under this Agreement.

5. This Agreement shall continue in effect for a period of more than two years from the date hereof only so long as such continuance is specifically approved at least annually in conformity with the requirements of the 1940 Act; provided, however, that this Agreement may be terminated by the Trust at any time, without the payment of any penalty, by the Trustees or by vote of a majority of the outstanding voting securities (as defined in the 1940 Act) of the Portfolio, or by the Manager or the Adviser at any time, without the payment of any penalty, on not more than 60 days' nor less than 30 days' written notice to the other party. This Agreement shall terminate automatically in the event of its assignment (as defined in the 1940 Act) or upon the termination of the Management Agreement.

6. Nothing in this Agreement shall limit or restrict the right of any of the Adviser's directors, officers or employees to engage in any other business or to devote his or her time and attention in part to the management or other aspects of any business, whether of a similar or a dissimilar nature, nor limit the Adviser's right to engage in any other business or to render services of any kind to any other corporation, firm, individual or association, except as described in Paragraph 1(a)(vi) above.

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7. During the term of this Agreement, the Manager agrees to furnish the Adviser at its principal office all prospectuses, proxy statements, reports to shareholders, sales literature or other material prepared for distribution to shareholders of the Trust or the public, which refer to the Adviser in any way, prior to use thereof and not to use material if the Adviser reasonably objects in writing five business days (or such other time as may be mutually agreed) after receipt thereof. Sales literature may be furnished to the Adviser

hereunder by first class or overnight mail, facsimile transmission equipment or hand delivery.

8. This Agreement may be amended by mutual consent, but the consent of the Trust must be obtained in conformity with the requirements of the 1940 Act.

9. This Agreement shall be governed by the laws of the State of New York.

IN WITNESS WHEREOF, the Parties hereto have caused this instrument to be executed by their officers designated below as of the day and year first above written.

PRUDENTIAL INVESTMENTS FUND MANAGEMENT LLC

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

COLUMBUS CIRCLE INVESTORS

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



## TARGET FUNDS

## SUBADVISORY AGREEMENT

Agreement made as of this \_\_\_\_\_ day of September, 1999, between Prudential Investments Fund Management LLC (PIFM or the Manager), a New York limited liability company, and Pacific Investment Management Company (the Adviser), a Delaware general partnership.

WHEREAS, PIFM has entered into a management agreement (the Management Agreement) with Target Funds (the Trust), a Delaware business trust and a diversified open-end management investment company registered under the Investment Company Act of 1940 (the 1940 Act), pursuant to which PIFM acts as Manager of the Trust.

WHEREAS, shares of the Trust are divided into separate series or portfolios (each a portfolio), each of which is established pursuant to a resolution of the Trustees of the Trust and the Trustees may from time to time terminate such portfolios or establish and terminate additional portfolios.

WHEREAS, PIFM has the responsibility of evaluating, recommending, supervising and compensating investment advisers to each portfolio of the Trust and shall enter into subadvisory agreements with one or more subadvisers with respect to the management of the Total Return Bond Fund of the Trust (the Portfolio) in connection with the management of the Trust.

WHEREAS, the Manager desires to retain the Adviser to provide investment advisory services to the Portfolio and to manage such portion of the Portfolio as the Manager shall from time to time direct and the Adviser is willing to render such investment advisory services.

NOW, THEREFORE, the Parties agree as follows:

1. (a) Subject to the supervision of the Manager and of the Trustees of the Trust, the Adviser shall manage such portion of the investment operations of the Portfolio as the Manager shall direct and shall manage the composition of such Portfolio, including the purchase, retention and disposition thereof, in accordance with the Portfolio's investment objectives,

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policies and restrictions as stated in the Prospectus (such Prospectus and Statement of Additional Information as currently in effect and as amended or supplemented from time to time, being herein called the "Prospectus") and subject to the following understandings:

(i) The Adviser shall provide supervision of such portion of the Portfolio's investments as the Manager shall direct and determine from time to time what investments and securities will be purchased, retained, sold or loaned by the Portfolio, and what portion of the assets it manages will be invested or held uninvested as cash.

(ii) In the performance of its duties and obligations under this Agreement, the Adviser shall act in conformity with the Declaration of Trust, By-Laws and Prospectus of the Trust and the Portfolio and with the instructions and directions of the Manager and of the Trustees of the Trust and will conform to and comply with the requirements of the 1940 Act, the Internal Revenue Code of 1986 and all other applicable federal and state laws and regulations.

(iii) The Adviser shall determine the securities and futures contracts to be purchased or sold by such portion of the Portfolio and will place orders with or through such persons, brokers, dealers or futures commission merchants (including but not limited to Prudential Securities Incorporated) to carry out the policy with respect to brokerage as set forth in the Trust's Registration Statement and Prospectus or as the Trustees may direct from time to time. In providing the Portfolio with investment supervision, it is recognized that the Adviser will give primary consideration to securing the most favorable price and efficient execution. Within the framework of this policy, the Adviser may consider the financial responsibility, research and investment information and other services provided by brokers, dealers or futures commission merchants who may effect or be a party to any such transaction or other transactions to which the Adviser's other clients may be a party. It is understood that Prudential Securities Incorporated may be used as principal broker for securities transactions but that no formula has been adopted for allocation of the Portfolio's investment transaction business. It

is also understood that it is desirable for the Trust that the Adviser have access to supplemental investment and market research and security and economic analysis provided by brokers or futures commission merchants who may execute brokerage transactions at a higher cost to the Trust than may result when allocating brokerage to other brokers on the basis of seeking the most favorable price and efficient execution. Therefore, the Adviser is authorized to place orders for the purchase and sale of securities and futures contracts for the Portfolio with such brokers or futures commission merchants, subject to review by the Trustees from time to time with respect to the extent and continuation of this practice. It is understood that the services provided by such brokers or futures commission merchants may be useful to the Adviser in connection with the Adviser's services to other clients.

On occasions when the Adviser deems the purchase or sale of a security or futures contract to be in the best interest of the Portfolio as well as other clients of the Adviser, the Adviser, to the extent permitted by applicable laws and regulations, may, but shall be under no obligation to, aggregate the securities or futures contracts to be sold or purchased in order to obtain the most favorable price or lower brokerage commissions and efficient execution. In such event, allocation of the securities or futures contracts so purchased or sold, as well as the expenses incurred in the transaction, will be made by the Adviser in the manner the Adviser considers to be the most equitable and consistent with its fiduciary obligations to the Trust and to such other clients.

(iv) The Adviser shall maintain all books and records with respect to the portfolio transactions required by subparagraphs (b) (5), (6), (7), (9), (10) and (11) and paragraph (f) of Rule 31a-1 under the 1940 Act and shall render to the Trustees such periodic and special reports as the Board may reasonably request.

(v) The Adviser shall provide the Trust's Custodian on each business day with information relating to all transactions concerning the

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portion of the Portfolio's assets it manages and shall provide the Manager with such information upon request of the Manager.

(vi) The investment management services provided by the Adviser hereunder are not exclusive, and the Adviser shall be free to render similar services to others.

(b) Services to be furnished by the Adviser under this Agreement may be furnished through the medium of any of its directors, officers or employees.

(c) The Adviser shall keep the Portfolio's books and records required to be maintained by the Adviser pursuant to paragraph 1(a)(iv) hereof and shall timely furnish to the Manager all information relating to the Adviser's services hereunder needed by the Manager to keep the other books and records of the Trust required by Rule 31a-1 under the 1940 Act. The Adviser agrees that all records which it maintains for the Portfolio are the property of the Trust and the Adviser will surrender promptly to the Trust any of such records upon the Trust's request. The Adviser further agrees to preserve for the periods prescribed by Rule 31a-2 under the 1940 Act any such records as are required to be maintained by it pursuant to paragraph 1(a) hereof.

(d) The Adviser agrees to maintain adequate compliance procedures to ensure its compliance with the 1940 Act, the Investment Advisers Act of 1940 (Advisers Act) and other applicable state and federal regulations.

(e) The Adviser shall furnish to the Manager copies of all records prepared in connection with (i) the performance of this Agreement and (ii) the maintenance of compliance procedures pursuant to paragraph 1(d) hereof as the Manager may reasonably request.

2. The Manager shall continue to have responsibility for all services to be provided to the Portfolio pursuant to the Management Agreement and shall oversee and review the Adviser's performance of its duties under this Agreement.

3. The Manager shall compensate the Adviser for the services provided and the expenses assumed pursuant to this Subadvisory Agreement, a fee at an annual rate of .25 of 1% of the average daily net assets of the portion of the

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Portfolio managed by the Adviser. This fee will be computed daily and paid monthly.

4. The Adviser shall not be liable for any error of judgment or for any loss suffered by the Portfolio, the Trust or the Manager in connection with the matters to which this Agreement relates, except a loss resulting from willful misfeasance, bad faith or gross negligence on the Adviser's part in the performance of its duties or from its reckless disregard of its obligations and duties under this Agreement.

5. To the extent indemnification is provided to the Manager by the Trust under the Management Agreement, the Manager shall indemnify the Adviser and hold it harmless from and against all damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) incurred by the Adviser in or by reason of any pending, threatened or completed action, suit, investigation or other proceeding (including an action or suit by or in the right of the Trust or its security holders) arising out of or otherwise based upon any action actually or allegedly taken or omitted to be taken by the Manager, the Trust or the Adviser in connection with this Agreement; provided, however, that nothing contained herein shall protect or be deemed to protect the Adviser against or entitle or be deemed to entitle the Adviser to indemnification in respect of any liability to the Trust or its security holders to which the Adviser would otherwise be subject by reason of its willful misfeasance, bad faith or gross negligence in the performance of its duties, by reason of its reckless disregard of its duties and obligations under this Agreement.

6. This Agreement shall continue in effect for a period of more than two years from the date hereof only so long as such continuance is specifically approved at least annually in conformity with the requirements of the 1940 Act;

provided, however, that this Agreement may be terminated by the Trust at any time, without the payment of any penalty, by the Trustees or by vote of a majority of the outstanding voting securities (as defined in the 1940 Act) of the Portfolio, or by the Manager or the Adviser at any time, without the

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payment of any penalty, on not more than 60 days' nor less than 30 days' written notice to the other party. This Agreement shall terminate automatically in the event of its assignment (as defined in the 1940 Act) or upon the termination of the Management Agreement.

7. Nothing in this Agreement shall limit or restrict the right of any of the Adviser's directors, officers or employees to engage in any other business or to devote his or her time and attention in part to the management or other aspects of any business, whether of a similar or a dissimilar nature, nor limit or restrict the Adviser's right to engage in any other business or to render services of any kind to any other corporation, firm, individual or association, except as described in Paragraph 1(a)(vi) above.

8. During the term of this Agreement, the Manager agrees to furnish the Adviser at its principal office all prospectuses, proxy statements, reports to shareholders, sales literature or other material prepared for distribution to shareholders of the Trust or the public, which refer to the Adviser in any way, prior to use thereof and not to use material if the Adviser reasonably objects in writing five business days (or such other time as may be mutually agreed) after receipt thereof. Sales literature may be furnished to the Adviser hereunder by first class or overnight mail, facsimile transmission equipment or hand delivery.

9. It is understood that the name "Pacific Investment Management Company" or "PIMCO" or any derivative thereof or logo associated with that name is the valuable property of the Adviser and that the Manager or the Trust has the right to use such name (or derivative or logo) in offering materials of the Trust and/or Portfolio with the approval of the Adviser and for so long as the Adviser is a subadviser to the Trust and/or the Portfolio. Upon termination of this Agreement between the Adviser and the Manager, the Trust and the Manager shall forthwith cease to use such name (or derivative or logo), except as may be required by applicable law or regulation.

10. This Agreement may be amended by mutual consent, but the consent of the Trust must be obtained in conformity with the requirements of the 1940 Act.

11. This Agreement shall be governed by the laws of the State of New York.

IN WITNESS WHEREOF, the Parties hereto have caused this instrument to be executed by their officers designated below as of the day and year first above written.

PRUDENTIAL INVESTMENTS FUND MANAGEMENT LLC

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

PACIFIC INVESTMENT MANAGEMENT COMPANY

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

## TARGET FUNDS

## SUBADVISORY AGREEMENT

Agreement made as of this \_\_\_\_\_ day of September, 1999, between Prudential Investments Fund Management LLC (PIFM or the Manager), a New York limited liability company, and HOTCHKIS AND WILEY, a division of Merrill Lynch Asset Management, L.P. (the "Adviser").

WHEREAS, PIFM has entered into a management agreement (the Management Agreement) with Target Funds (the Trust), a Delaware business trust and a diversified open-end management investment company registered under the Investment Company Act of 1940 (the 1940 Act), pursuant to which PIFM acts as Manager of the Trust.

WHEREAS, shares of the Trust are divided into separate series or portfolios (each a portfolio), each of which is established pursuant to a resolution of the Trustees of the Trust and the Trustees may from time to time terminate such portfolios or establish and terminate additional portfolios.

WHEREAS, PIFM has the responsibility of evaluating, recommending, supervising and compensating investment advisers to each portfolio of the Trust and shall enter into subadvisory agreements with one or more subadvisers with respect to the management of the Large Capitalization Value Fund of the Trust (the Portfolio) in connection with the management of the Trust.

WHEREAS, the Manager desires to retain the Adviser to provide investment advisory services to the Portfolio and to manage such portion of the Portfolio as the Manager shall from time to time direct and the Adviser is willing to render such investment advisory services: NOW, THEREFORE, the Parties agree as follows:

1. (a) Subject to the supervision of the Manager and of the Trustees of the Trust, the Adviser shall manage such portion of the investment operations of the Portfolio as the Manager shall direct and shall manage the composition of such portfolio, including the purchase, retention and disposition thereof, in accordance with the Portfolio's investment objectives,

2 policies and restrictions as stated in the Prospectus (such Prospectus and Statement of Additional Information as currently in effect and as amended or supplemented from time to time, being herein called the "Prospectus") and subject to the following understandings:

(i) The Adviser shall provide supervision of such portion of the Portfolio's investments as the Manager shall direct and shall determine from time to time what investments and securities will be purchased, retained, sold or loaned by the Portfolio, and what portion of the assets it manages will be invested or held uninvested as cash.

(ii) In the performance of its duties and obligations under this Agreement, the Adviser shall act in conformity with the Declaration of Trust, By-Laws and Prospectus of the Trust and the Portfolio and with the instructions and directions of the Manager and of the Trustees of the Trust and will conform to and comply with the requirements of the 1940 Act, the Internal Revenue Code of 1986 and all other applicable federal and state laws and regulations.

(iii) The Adviser shall determine the securities and futures contracts to be purchased or sold by such portion of the Portfolio and will place orders with or through such persons, brokers, dealers or futures commission merchants (including but not limited to Prudential Securities Incorporated) to carry out the policy with respect to brokerage as set forth in the Trust's Registration Statement and Prospectus or as the Trustees may direct from time to time. In providing the Portfolio with investment supervision, it is recognized that the Adviser will give primary consideration to securing the most favorable price and efficient execution. Within the framework of this policy, the Adviser may consider the financial responsibility, research and investment information and other services provided by brokers, dealers or futures commission merchants who may effect or be a party to any such transaction or other transactions to which the Adviser's other clients may be a party. It is understood that Prudential Securities Incorporated may be used as principal broker for securities transactions but that no formula has been adopted for allocation of the Portfolio's investment transaction business. It

is also understood that it is desirable for the Trust that the Adviser have access to supplemental investment and market research and security and economic analysis provided by brokers or futures commission merchants who may execute brokerage transactions at a higher cost to the Trust than may result when allocating brokerage to other brokers on the basis of seeking the most favorable price and efficient execution. Therefore, the Adviser is authorized to place orders for the purchase and sale of securities and futures contracts for the Portfolio with such brokers or futures commission merchants, subject to review by the Trustees from time to time with respect to the extent and continuation of this practice. It is understood that the services provided by such brokers or futures commission merchants may be useful to the Adviser in connection with the Adviser's services to other clients.



On occasions when the Adviser deems the purchase or sale of a security or futures contract to be in the best interest of the Portfolio as well as other clients of the Adviser, the Adviser, to the extent permitted by applicable laws and regulations, may, but shall be under no obligation to, aggregate the securities or futures contracts to be sold or purchased in order to obtain the most favorable price or lower brokerage commissions and efficient execution. In such event, allocation of the securities or futures contracts so purchased or sold, as well as the expenses incurred in the transaction, will be made by the Adviser in the manner the Adviser considers to be the most equitable and consistent with its fiduciary obligations to the Trust and to such other clients.

(iv) The Adviser shall maintain all books and records with respect to the portfolio transactions required by subparagraphs (b) (5), (6), (7), (9), (10) and (11) and paragraph (f) of Rule 31a-1 under the 1940 Act and shall render to the Trustees such periodic and special reports as the Board may reasonably request.

(v) The Adviser shall provide the Trust's Custodian on each business day with information relating to all transactions concerning the

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portion of the Portfolio's assets it manages and shall provide the Manager with such information upon request of the Manager.

(vi) The investment management services provided by the Adviser hereunder are not exclusive, and the Adviser shall be free to render similar services to others.

(b) Services to be furnished by the Adviser under this Agreement may be furnished through the medium of any of its directors, officers or employees.

(c) The Adviser shall keep the Portfolio's books and records required to be maintained by the Adviser pursuant to paragraph 1(a)(iv) hereof and shall timely furnish to the Manager all information relating to the Adviser's services hereunder needed by the Manager to keep the other books and records of the Trust required by Rule 31a-1 under the 1940 Act. The Adviser agrees that all records which it maintains for the Portfolio are the property of the Trust and the Adviser will surrender promptly to the Trust any of such records upon the Trust's request. The Adviser further agrees to preserve for the periods prescribed by Rule 31a-2 under the 1940 Act any such records as are required to be maintained by it pursuant to paragraph 1(a) hereof.

(d) The Adviser agrees to maintain adequate compliance procedures to ensure its compliance with the 1940 Act, the Investment Advisers Act of 1940

(Advisers Act) and other applicable state and federal regulations.

(e) The Adviser shall furnish to the Manager copies of all records prepared in connection with (i) the performance of this Agreement and (ii) the maintenance of compliance procedures pursuant to paragraph 1(d) hereof as the Manager may reasonably request.

2. The Manager shall continue to have responsibility for all services to be provided to the Portfolio pursuant to the Management Agreement and shall oversee and review the Adviser's performance of its duties under this Agreement.

3. The Manager shall compensate the Adviser for the services provided and the expenses assumed pursuant to this Subadvisory Agreement, a fee at an annual rate of .30 of 1% of the average daily net assets of the portion of the

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Portfolio managed by the Adviser. This fee will be computed daily and paid monthly.

4. The Adviser shall not be liable for any error of judgment or for any loss suffered by the Portfolio, the Trust or the Manager in connection with the matters to which this Agreement relates, except a loss resulting from the willful misfeasance, bad faith or gross negligence of the Adviser's in the performance of its duties or from its reckless disregard of its obligations and duties under this Agreement.

5. This Agreement shall continue in effect for a period of more than two years from the date hereof only so long as such continuance is specifically approved at least annually in conformity with the requirements of the 1940 Act; provided, however, that this Agreement may be terminated by the Trust at any time, without the payment of any penalty, by the Trustees or by vote of a majority of the outstanding voting securities (as defined in the 1940 Act) of the Portfolio, or by the Manager or the Adviser at any time, without the payment of any penalty, on not more than 60 days' nor less than 30 days' written notice to the other party. This Agreement shall terminate automatically in the event of its assignment (as defined in the 1940 Act) or upon the termination of the Management Agreement.

6. Nothing in this Agreement shall limit or restrict the right of any of the Adviser's partners, officers or employees to engage in any other business or to devote his or her time and attention in part to the management or other aspects of any business, whether of a similar or dissimilar nature, nor limit or restrict the Adviser's right to engage in any other business or to render services of any kind to any other corporation, firm, individual or association, except as described in Paragraph 1(a)(vi) above.

7. During the term of this Agreement, the Manager agrees to furnish the Adviser at its principal office all prospectuses, proxy statements, reports to shareholders, sales literature or other material prepared for distribution to shareholders of the Trust or the public, which refer to the Adviser in any way, prior to use thereof and not to use material if the Adviser reasonably

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objects in writing five business days (or such other time as may be mutually agreed) after receipt thereof. Sales literature may be furnished to the Adviser hereunder by first class or overnight mail, facsimile transmission equipment or hand delivery.

8. This Agreement may be amended by mutual consent, but the consent of the Trust must be obtained in conformity with the requirements of the 1940 Act.

9. This Agreement shall be governed by the laws of the State of New York.

IN WITNESS WHEREOF, the Parties hereto have caused this instrument to be executed by their officers designated below as of the day and year first above written.

PRUDENTIAL INVESTMENTS FUND MANAGEMENT LLC

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

HOTCHKIS AND WILEY

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

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## TARGET FUNDS

(Small Capitalization Growth Fund)

## SUBADVISORY AGREEMENT

Agreement made on this \_\_\_\_\_ day of August, 1999, between Prudential Investments Fund Management LLC (PIFM or the Manager), a New York limited liability company, and Fleming Asset Management USA (the Adviser), a division of Robert Fleming, Inc., a Delaware corporation.

WHEREAS, PIFM has entered into a management agreement (the Management Agreement) with Target Funds (the Trust), a Delaware business trust and an open-end management investment company registered under the Investment Company Act of 1940 (the 1940 Act), pursuant to which PIFM will act as manager of the Trust.

WHEREAS, shares of the Trust are divided into separate series or portfolios (each a portfolio), each of which is established pursuant to a resolution of the Trustees of the Trust, and the Trustees may from time to time terminate such portfolios or establish and terminate additional portfolios.

WHEREAS, PIFM has the responsibility of evaluating, recommending, supervising and compensating investment advisers to each portfolio of the Trust and desires to retain the Adviser to provide investment advisory services to the Small Capitalization Growth Fund of the Trust (the Fund) in connection with the management of the Trust and to manage such portion of the Fund as the Manager shall from time to time direct, and the Adviser is willing to render such investment advisory services.

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NOW, THEREFORE, the Parties agree as follows:

1. (a) Subject to the supervision of the Manager and of the Trustees of the Trust, the Adviser shall manage such portion of the investment operations of the Fund as the Manager shall direct and shall manage the composition of such portion of the Fund, including the purchase, retention and disposition thereof, in accordance with the Fund's investment objective, policies and restrictions as stated in the Prospectus (such Prospectus and Statement of Additional Information as currently in effect and as amended or supplemented from time to time being herein called the "Prospectus") as delivered to the Adviser from time to time by the Manager and subject to the following understandings:

(i) The Adviser shall provide supervision of such portion of the Fund's investments and determine from time to time what investments and securities will be purchased, retained, sold or loaned by the Fund, and what portion of the assets it manages will be invested or held uninvested as cash.

(ii) In the performance of its duties and obligations under this Agreement, the Adviser shall act in conformity with the Agreement and Declaration of Trust, By-Laws and Prospectus of the Trust and the Fund as provided to the Adviser by the Manager and with the written instructions and directions of the Manager and of the Trustees of the Trust and will conform to and comply with the requirements of the 1940 Act, the Internal Revenue Code of 1986, as amended, and all other applicable federal and state laws and regulations.

(iii) The Adviser shall determine the securities and commodities or other assets to be purchased or sold by such portion of the Fund and will place orders pursuant to its determination

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with or through such persons, brokers, dealers or futures commission merchants (including but not limited to Prudential Securities Incorporated) to carry out the policy with respect to brokerage as set forth in the Trust's Registration Statement and Prospectus or as the Trustees may direct from time to time. In providing the Fund with investment supervision, it is recognized that the Adviser will give primary consideration to securing best execution. Within the framework of this policy, the Adviser may consider the financial responsibility, research and investment information and other services provided by brokers, dealers or futures commission merchants who may effect or be a party to any such transaction or other transactions to which the Adviser's other clients may be a party. It is understood that Prudential Securities Incorporated may be used as a broker for securities transactions but that no formula has been adopted for allocation of the Fund's investment transaction business. It is also understood that it is desirable for the Trust that the Adviser have access to supplemental investment and market research and security and economic analysis provided by brokers or futures commission merchants who may execute brokerage transactions at a higher cost to the Trust than may result when allocating brokerage to other brokers solely on the basis of seeking lowest price. Therefore, the Adviser is authorized to place orders for the purchase and sale of securities and commodities or other assets for the Fund with such brokers or futures commission merchants, subject to review by the Trustees from time to time with respect to the extent and continuation of this practice. It is understood that the services provided by such brokers or futures commission merchants may be useful to the Adviser in connection with the Adviser's services to other clients.

On occasions when the Adviser deems the purchase or sale of a security, commodity or other asset to be in the best interest of the Fund as well as other

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to the extent permitted by applicable laws and regulations, may, but shall be under no obligation to, aggregate the securities, commodities or other assets to be sold or purchased in order to obtain best execution. In such event, allocation of the securities, commodities or other assets so purchased or sold, as well as the expenses incurred in the transaction, will be made by the Adviser in the manner the Adviser considers to be the most equitable and consistent with its fiduciary obligations to the Trust and to such other clients.

(iv) The Adviser shall maintain all books and records with respect to the portfolio transactions required by subparagraphs (b) (5), (6), (7), (9), (10) and (11) and paragraph (f) of Rule 31a-1 under the 1940 Act and shall render to the Trustees such periodic and special reports as the Board may reasonably request.

(v) The Adviser shall provide the Trust's custodian (the Custodian) on each business day with information relating to all transactions concerning the portion of the Fund's assets it manages and shall provide the Manager with such information upon request of the Manager. The Adviser shall reconcile its records of the Fund's securities and cash managed by the Adviser with statements provided by the Custodian at least once each month. The Adviser shall provide the Manager with a written report on each such reconciliation, including information on any discrepancies noted and actions taken by the Adviser in response thereto, within five business days after the Adviser receives the above-referenced statement from the Custodian, to the extent reasonably practicable.

(vi) The investment management services provided by the Adviser hereunder are not exclusive, and the Adviser shall be free to render similar services to others.

(vii) The Manager shall forward to the Adviser or its proxy voting agent any proxy materials relating to portfolio securities held by the portion of the Fund managed by the Adviser.

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(b) Services to be furnished by the Adviser under this Agreement may be furnished through the medium of any of its directors, officers or employees.

(c) The Adviser shall keep the Fund's books and records required to be

maintained by the Adviser pursuant to paragraph 1(a)(iv) hereof and shall timely furnish to the Manager all information relating to the Adviser's services hereunder needed by the Manager to keep the other books and records of the Trust required by Rule 31a-1 under the 1940 Act. The Adviser agrees that all records which it maintains for the Fund are the property of the Trust and the Adviser will surrender promptly to the Trust any of such records upon the Trust's request. The Adviser further agrees to preserve for the periods prescribed by Rule 31a-2 under the 1940 Act any such records as are required to be maintained by it pursuant to paragraph 1(a) hereof.

(d) The Adviser agrees to maintain adequate compliance procedures to ensure its compliance with the 1940 Act, the Investment Advisers Act of 1940 (Advisers Act) and other applicable state and federal laws and regulations.

(e) The Adviser shall furnish to the Manager copies of all records prepared in connection with (i) the performance of this Agreement and (ii) the reports prepared in accordance with the compliance procedures maintained pursuant to paragraph 1(d) hereof as the Manager may reasonably request.

2. The Manager shall continue to have responsibility for all services to be provided to the Fund pursuant to the Management Agreement and shall oversee and review the Adviser's performance of its duties under this Agreement.

3. The Manager shall compensate the Adviser for the services provided and the expenses assumed pursuant to this Subadvisory Agreement at the annual rate of .40 of 1% of the

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average daily net assets of the portion of the Fund managed by the Adviser. This fee will be computed daily and paid monthly.

4. The Adviser shall not be liable for any error of judgment or for any loss suffered by the Fund, the Trust or the Manager in connection with the matters to which this Agreement relates, except a loss resulting from willful misfeasance, bad faith or gross negligence on the Adviser's part in the performance of its duties or from its reckless disregard of its obligations and duties under this Agreement, provided, however, that nothing in this Agreement shall be deemed to waive any rights the Manager or the Trust may have against the Adviser under federal or state securities laws, including for acts of good faith.

5. This Agreement shall continue in effect for a period of more than two years from the date hereof only so long as such continuance is specifically approved at least annually in conformity with the requirements of the 1940 Act; provided, however, that this Agreement may be terminated by the Trust at any time, without the payment of any penalty, by the Trustees or by vote of a

majority of the outstanding voting securities (as defined in the 1940 Act) of the Fund, or by the Manager or the Adviser at any time, without the payment of any penalty, on not more than 60 days' nor less than 30 days' written notice to the other party. This Agreement shall terminate automatically in the event of its assignment (as defined in the 1940 Act) or upon the termination of the Management Agreement.

6. Nothing in this Agreement shall limit or restrict the right of any of the Adviser's directors, officers or employees to engage in any other business or to devote his or her time and attention in part to the management or other aspects of any business, whether of a similar or dissimilar nature, nor limit the Adviser's right to engage in any other business or to render services

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of any kind to any other corporation, firm, individual or association.

7. During the term of this Agreement, the Manager agrees to furnish the Adviser at its principal office all prospectuses, proxy statements, reports to shareholders, sales literature or other material prepared for distribution to shareholders of the Trust or the public, which refer to the Adviser in any way; provided, however, that any such item which describes or characterizes the Adviser's investment process with respect to the Fund, the names of any of its clients (other than the Trust or advisory clients of PIFM and its affiliates) or any of its performance results shall be furnished to the Adviser by first class or overnight mail, facsimile transmission equipment or hand delivery prior to use thereof, and such item shall not be used if the Adviser reasonably objects to such use in writing within forty-eight (48) hours (or such other time as may be mutually agreed) after receipt thereof (provided, however, that if such item is not received by the Adviser during normal business hours on a business day, such period shall end forty-eight (48) hours after the start of normal business hours on the next succeeding business day).

8. This Agreement may be amended by mutual consent, but the consent of the Trust must be obtained in conformity with the requirements of the 1940 Act.

9. THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF NEW YORK.

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be executed by their officers designated below on the day and year first above written.

PRUDENTIAL INVESTMENTS FUND MANAGEMENT LLC

By \_\_\_\_\_

FLEMING ASSET MANAGEMENT USA



By \_\_\_\_\_

## TARGET FUNDS

## SUBADVISORY AGREEMENT

Agreement made as of this \_\_\_\_\_ day of September, 1999, between Prudential Investments Fund Management LLC (PIFM or the Manager), a New York limited liability company, and Wood, Struthers & Winthrop Management Corp. (the Adviser), a subsidiary of Donaldson, Lufkin & Jenrette Securities Corporation.

WHEREAS, PIFM has entered into a management agreement (the Management Agreement) with Target Funds (the Trust), a Delaware business trust and a diversified open-end management investment company registered under the Investment Company Act of 1940 (the 1940 Act), pursuant to which PIFM acts as Manager of the Trust.

WHEREAS, shares of the Trust are divided into separate series or portfolios (each a portfolio), each of which is established pursuant to a resolution of the Trustees of the Trust and the Trustees may from time to time terminate such portfolios or establish and terminate additional portfolios.

WHEREAS, PIFM has the responsibility of evaluating, recommending, supervising and compensating investment advisers to each portfolio of the Trust and shall enter into subadvisory agreements with one or more subadvisers with respect to the management of the Small Capitalization Value Fund of the Trust (the Portfolio) in connection with the management of the Trust.

WHEREAS, the Manager desires to retain the Adviser to provide investment advisory services to the Portfolio and to manage such portion of the Portfolio as the Manager shall from time to time direct and the Adviser is willing to render such investment advisory services. NOW, THEREFORE, the Parties agree as follows:

1. (a) Subject to the supervision of the Manager and of the Trustees of the Trust, the Adviser shall manage such portion of the investment operations of the Portfolio as the Manager shall direct and shall manage the composition of such portfolio, including the purchase, retention and disposition thereof, in accordance with the Portfolio's investment objectives,

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policies and restrictions as stated in the Prospectus (such Prospectus and Statement of Additional Information as currently in effect and as amended or supplemented from time to time, being herein called the "Prospectus") and subject to the following understandings:

(i) The Adviser shall provide supervision of such portion of the Portfolio's investments as the Manager shall direct and determine from time to time what investments and securities will be purchased, retained, sold or

loaned by the Portfolio, and what portion of the assets it manages will be invested or held uninvested as cash.

(ii) In the performance of its duties and obligations under this Agreement, the Adviser shall act in conformity with the Declaration of Trust, By-Laws and Prospectus of the Trust and the Portfolio and with the instructions and directions of the Manager and of the Trustees of the Trust and will conform to and comply with the requirements of the 1940 Act, the Internal Revenue Code of 1986 and all other applicable federal and state laws and regulations.

(iii) The Adviser shall determine the securities and futures contracts to be purchased or sold by such portion of the Portfolio and will place orders with or through such persons, brokers, dealers or futures commission merchants (including but not limited to Prudential Securities Incorporated) to carry out the policy with respect to brokerage as set forth in the Trust's Registration Statement and Prospectus or as the Trustees may direct from time to time. In providing the Portfolio with investment supervision, it is recognized that the Adviser will give primary consideration to securing the most favorable price and efficient execution. Within the framework of this policy, the Adviser may consider the financial responsibility, research and investment information and other services provided by brokers, dealers or futures commission merchants who may effect or be a party to any such transaction or other transactions to which the Adviser's other clients may be a party. It is understood that Prudential Securities Incorporated may be used as principal broker for securities transactions but that no formula has been adopted for allocation of the Portfolio's investment transaction business. It

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is also understood that it is desirable for the Trust that the Adviser have access to supplemental investment and market research and security and economic analysis provided by brokers or futures commission merchants who may execute brokerage transactions at a higher cost to the Trust than may result when allocating brokerage to other brokers on the basis of seeking the most favorable price and efficient execution. Therefore, the Adviser is authorized to place orders for the purchase and sale of securities and futures contracts for the Portfolio with such brokers or futures commission merchants, subject to review by the Trustees from time to time with respect to the extent and continuation of this practice. It is understood that the services provided by such brokers or futures commission merchants may be useful to the Adviser in connection with the Adviser's services to other clients.

On occasions when the Adviser deems the purchase or sale of a security or futures contract to be in the best interest of the Portfolio as well as other clients of the Adviser, the Adviser, to the extent permitted by applicable laws and regulations, may, but shall be under no obligation to, aggregate the securities or futures contracts to be sold or purchased in order to obtain the most favorable price or lower brokerage commissions and efficient execution. In

such event, allocation of the securities or futures contracts so purchased or sold, as well as the expenses incurred in the transaction, will be made by the Adviser in the manner the Adviser considers to be the most equitable and consistent with its fiduciary obligations to the Trust and to such other clients.

(iv) The Adviser shall maintain all books and records with respect to the portfolio transactions required by subparagraphs (b) (5), (6), (7), (9), (10) and (11) and paragraph (f) of Rule 31a-1 under the 1940 Act and shall render to the Trustees such periodic and special reports as the Board may reasonably request.

(v) The Adviser shall provide the Trust's Custodian on each business day with information relating to all transactions concerning the

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portion of the Portfolio's assets it manages and shall provide the Manager with such information upon request of the Manager.

(vi) The investment management services provided by the Adviser hereunder are not exclusive, and the Adviser shall be free to render similar services to others.

(b) Services to be furnished by the Adviser under this Agreement may be furnished through the medium of any of its directors, officers or employees.

(c) The Adviser shall keep the Portfolio's books and records required to be maintained by the Adviser pursuant to paragraph 1(a)(iv) hereof and shall timely furnish to the Manager all information relating to the Adviser's services hereunder needed by the Manager to keep the other books and records of the Trust required by Rule 31a-1 under the 1940 Act. The Adviser agrees that all records which it maintains for the Portfolio are the property of the Trust and the Adviser will surrender promptly to the Trust any of such records upon the Trust's request. The Adviser further agrees to preserve for the periods prescribed by Rule 31a-2 under the 1940 Act any such records as are required to be maintained by it pursuant to paragraph 1(a) hereof.

(d) The Adviser agrees to maintain adequate compliance procedures to ensure its compliance with the 1940 Act, the Investment Advisers Act of 1940 (Advisers Act) and other applicable state and federal regulations.

(e) The Adviser shall furnish to the Manager copies of all records prepared in connection with (i) the performance of this Agreement and (ii) the maintenance of compliance procedures pursuant to paragraph 1(d) hereof as the Manager may reasonably request.

2. The Manager shall continue to have responsibility for all services to be provided to the Portfolio pursuant to the Management Agreement and shall

oversee and review the Adviser's performance of its duties under this Agreement.

3. The Manager shall compensate the Adviser for the services provided and the expenses assumed pursuant to this Subadvisory Agreement, a fee at an annual rate of .40 of 1% of the average daily net assets of the portion of the

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Portfolio managed by the Adviser. This fee will be computed daily and paid monthly.

4. The Adviser shall not be liable for any error of judgment or for any loss suffered by the Portfolio, the Trust or the Manager in connection with the matters to which this Agreement relates, except a loss resulting from willful misfeasance, bad faith or gross negligence on the Adviser's part in the performance of its duties or from its reckless disregard of its obligations and duties under this Agreement.

5. This Agreement shall continue in effect for a period of more than two years from the date hereof only so long as such continuance is specifically approved at least annually in conformity with the requirements of the 1940 Act; provided, however, that this Agreement may be terminated by the Trust at any time, without the payment of any penalty, by the Trustees or by vote of a majority of the outstanding voting securities (as defined in the 1940 Act) of the Portfolio, or by the Manager or the Adviser at any time, without the payment of any penalty, on not more than 60 days' nor less than 30 days' written notice to the other party. This Agreement shall terminate automatically in the event of its assignment (as defined in the 1940 Act) or upon the termination of the Management Agreement.

6. Nothing in this Agreement shall limit or restrict the right of any of the Adviser's directors, officers or employees to engage in any other business or to devote his or her time and attention in part to the management or other aspects of any business, whether of a similar or a dissimilar nature, nor limit or restrict the Adviser's right to engage in any other business or to render services of any kind to any other corporation, firm, individual or association, except as described in Paragraph 1(a)(vi) above.

7. During the term of this Agreement, the Manager agrees to furnish the Adviser at its principal office all prospectuses, proxy statements, reports to shareholders, sales literature or other material prepared for distribution to shareholders of the Trust or the public, which refer to the Adviser in any way, prior to use thereof and not to use material if the Adviser reasonably

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objects in writing five business days (or such other time as may be mutually agreed) after receipt thereof. Sales literature may be furnished to the Adviser hereunder by first class or overnight mail, facsimile transmission equipment or

hand delivery.

8. This Agreement may be amended by mutual consent, but the consent of the Trust must be obtained in conformity with the requirements of the 1940 Act.

9. This Agreement shall be governed by the laws of the State of New York.

IN WITNESS WHEREOF, the Parties hereto have caused this instrument to be executed by their officers designated below as of the day and year first above written.

PRUDENTIAL INVESTMENTS FUND MANAGEMENT LLC

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

WOOD, STRUTHERS & WINTHROP MANAGEMENT CORP.

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

## TARGET FUNDS

## SUBADVISORY AGREEMENT

Agreement made as of this \_\_\_\_\_ day of September, 1999, between Prudential Investments Fund Management LLC (PIFM or the Manager), a New York limited liability company, and Oak Associates, Ltd. (the Adviser), a limited liability company organized under the laws of the State of Ohio.

WHEREAS, PIFM has entered into a management agreement (the Management Agreement) with Target Funds (the Trust), a Delaware business trust and a diversified open-end management investment company registered under the Investment Company Act of 1940 (the 1940 Act), pursuant to which PIFM acts as Manager of the Trust;

WHEREAS, shares of the Trust are divided into separate series or portfolios (each a portfolio), each of which is established pursuant to a resolution of the Trustees of the Trust and the Trustees may from time to time terminate such portfolios or establish and terminate additional portfolios;

WHEREAS, PIFM has the responsibility of evaluating, recommending, supervising and compensating investment advisers to each portfolio of the Trust and shall enter into subadvisory agreements with one or more subadvisers with respect to the management of the Large Capitalization Growth Fund of the Trust (the Portfolio) in connection with the management of the Trust; and

WHEREAS, the Manager desires to retain the Adviser to provide investment advisory services to the Portfolio and to manage such portion of the Portfolio as the Manager shall from time to time direct and the Adviser is willing to render such investment advisory services: NOW, THEREFORE, the Parties agree as follows:

1. (a) Subject to the supervision of the Manager and of the Trustees of the Trust, the Adviser shall manage such portion of the investment operations of the Portfolio as the Manager shall direct and shall manage the composition of such portfolio, including the purchase, retention and disposition thereof, in accordance with the Portfolio's investment objectives,

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policies and restrictions as stated in the Prospectus (such Prospectus and Statement of Additional Information as currently in effect and as amended or supplemented from time to time, being herein called the "Prospectus") and subject to the following understandings:

(i) The Adviser shall provide supervision of such portion of the Portfolio's investments as the Manager shall direct and shall determine from time to time what investments and securities will be purchased, retained, sold

or loaned by the Portfolio, and what portion of the assets it manages will be invested or held uninvested as cash.

(ii) In the performance of its duties and obligations under this Agreement, the Adviser shall act in conformity with the Declaration of Trust, By-Laws and Prospectus of the Trust and the Portfolio and with the instructions and directions of the Manager and of the Trustees of the Trust and will conform to and comply with the requirements of the 1940 Act, the Internal Revenue Code of 1986 and all other applicable federal and state laws and regulations.

(iii) The Adviser shall determine the securities and futures contracts to be purchased or sold by such portion of the Portfolio and will place orders with or through such persons, brokers, dealers or futures commission merchants (including but not limited to Prudential Securities Incorporated) to carry out the policy with respect to brokerage as set forth in the Trust's Registration Statement and Prospectus or as the Trustees may direct from time to time. In providing the Portfolio with investment supervision, it is recognized that the Adviser will give primary consideration to securing the most favorable price and efficient execution. Within the framework of this policy, the Adviser may consider the financial responsibility, research and investment information and other services provided by brokers, dealers or futures commission merchants who may effect or be a party to any such transaction or other transactions to which the Adviser's other clients may be a party. It is understood that Prudential Securities Incorporated may be used as principal broker for securities transactions but that no formula has been adopted for allocation of the Portfolio's investment transaction business. It

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is also understood that it is desirable for the Trust that the Adviser have access to supplemental investment and market research and security and economic analysis provided by brokers or futures commission merchants who may execute brokerage transactions at a higher cost to the Trust than may result when allocating brokerage to other brokers on the basis of seeking the most favorable price and efficient execution. Therefore, the Adviser is authorized to place orders for the purchase and sale of securities and futures contracts for the Portfolio with such brokers or futures commission merchants, subject to review by the Trustees from time to time with respect to the extent and continuation of this practice. It is understood that the services provided by such brokers or futures commission merchants may be useful to the Adviser in connection with the Adviser's services to other clients.

On occasions when the Adviser deems the purchase or sale of a security or futures contract to be in the best interest of the Portfolio as well as other clients of the Adviser, the Adviser, to the extent permitted by applicable laws and regulations, may, but shall be under no obligation to, aggregate the securities or futures contracts to be sold or purchased in order to obtain the most favorable price or lower brokerage commissions and efficient execution. In



such event, allocation of the securities or futures contracts so purchased or sold, as well as the expenses incurred in the transaction, will be made by the Adviser in the manner the Adviser considers to be the most equitable and consistent with its fiduciary obligations to the Trust and to such other clients.

(iv) The Adviser shall maintain all books and records with respect to the portfolio transactions required by subparagraphs (b) (5), (6), (7), (9), (10) and (11) and paragraph (f) of Rule 31a-1 under the 1940 Act and shall render to the Trustees such periodic and special reports as the Board may reasonably request.

(v) The Adviser shall provide the Trust's Custodian on each business day with information relating to all transactions concerning the

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portion of the Portfolio's assets it manages and shall provide the Manager with such information upon request of the Manager.

(vi) The investment management services provided by the Adviser hereunder are not exclusive, and the Adviser shall be free to render similar services to others.

(b) Services to be furnished by the Adviser under this Agreement may be furnished through the medium of any of its directors, officers or employees.

(c) The Adviser shall keep the Portfolio's books and records required to be maintained by the Adviser pursuant to paragraph 1(a)(iv) hereof and shall timely furnish to the Manager all information relating to the Adviser's services hereunder needed by the Manager to keep the other books and records of the Trust required by Rule 31a-1 under the 1940 Act. The Adviser agrees that all records which it maintains for the Portfolio are the property of the Trust and the Adviser will surrender promptly to the Trust any of such records upon the Trust's request. The Adviser further agrees to preserve for the periods prescribed by Rule 31a-2 under the 1940 Act any such records as are required to be maintained by it pursuant to paragraph 1(a) hereof.

(d) The Adviser agrees to maintain adequate compliance procedures to ensure its compliance with the 1940 Act, the Investment Advisers Act of 1940 (Advisers Act) and other applicable state and federal regulations.

(e) The Adviser shall furnish to the Manager copies of all records prepared in connection with (i) the performance of this Agreement and (ii) the maintenance of compliance procedures pursuant to paragraph 1(d) hereof as the Manager may reasonably request.

2. The Manager shall continue to have responsibility for all services to be provided to the Portfolio pursuant to the Management Agreement and shall oversee and review the Adviser's performance of its duties under this Agreement.

3. The Manager shall compensate the Adviser for the services provided and the expenses assumed pursuant to this Subadvisory Agreement, a fee at an annual rate of .30 of 1% of the average daily net assets of the portion of the

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Portfolio managed by the Adviser. This fee will be computed daily and paid monthly.

4. The Adviser shall not be liable for any error of judgment or for any loss suffered by the Portfolio, the Trust or the Manager in connection with the matters to which this Agreement relates, except a loss resulting from the willful misfeasance, bad faith or gross negligence of the Adviser in the performance of its duties or from its reckless disregard of its obligations and duties under this Agreement.

5. This Agreement shall continue in effect for a period of more than two years from the date hereof only so long as such continuance is specifically approved at least annually in conformity with the requirements of the 1940 Act; provided, however, that this Agreement may be terminated by the Trust at any time, without the payment of any penalty, by the Trustees or by vote of a majority of the outstanding voting securities (as defined in the 1940 Act) of the Portfolio, or by the Manager or the Adviser at any time, without the payment of any penalty, on not more than 60 days' nor less than 30 days' written notice to the other party. This Agreement shall terminate automatically in the event of its assignment (as defined in the 1940 Act) or upon the termination of the Management Agreement.

6. Nothing in this Agreement shall limit or restrict the right of any of the Adviser's directors, officers or employees to engage in any other business or to devote his or her time and attention in part to the management or other aspects of any business, whether of a similar or a dissimilar nature, nor limit or restrict the Adviser's right to engage in any other business or to render services of any kind to any other corporation, firm, individual or association, except as described in Paragraph 1(a)(vi) above.

7. During the term of this Agreement, the Manager agrees to furnish the Adviser at its principal office all prospectuses, proxy statements, reports to shareholders, sales literature or other material prepared for distribution to shareholders of the Trust or the public, which refer to the Adviser in any way, prior to use thereof and not to use material if the Adviser reasonably

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objects in writing five business days (or such other time as may be mutually agreed) after receipt thereof. Sales literature may be furnished to the Adviser hereunder by first class or overnight mail, facsimile transmission equipment or

hand delivery.

8. This Agreement may be amended by mutual consent, but the consent of the Trust must be obtained in conformity with the requirements of the 1940 Act.

9. This Agreement shall be governed by the laws of the State of New York.

IN WITNESS WHEREOF, the Parties hereto have caused this instrument to be executed by their officers designated below as of the day and year first above written.

PRUDENTIAL INVESTMENTS FUND MANAGEMENT LLC

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

OAK ASSOCIATES, LTD.

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

## TARGET FUNDS

(International Equity Fund)

## SUBADVISORY AGREEMENT

Agreement made as of this \_\_\_\_ day of September, 1999, between Prudential Investments Fund Management LLC (PIFM or the Manager), a New York limited liability company, and Lazard Asset Management, a division of Lazard Freres & Co. (the Adviser), a New York limited partnership.

WHEREAS, PIFM will enter into a management agreement (the Management Agreement) with Target Funds (the Trust), a Delaware business trust and a diversified open-end management investment company registered under the Investment Company Act of 1940 (the 1940 Act), pursuant to which PIFM will act as manager of the Trust.

WHEREAS, shares of the Trust are divided into separate series or portfolios (each a portfolio), each of which is established pursuant to a resolution of the Trustees of the Trust and the Trustees may from time to time terminate such portfolios or establish and terminate additional portfolios.

WHEREAS, PIFM has the responsibility of evaluating, recommending, supervising and compensating investment advisers to each portfolio of the Trust and desires to retain the Adviser to provide investment advisory services to the International Equity Fund of the Trust (the Portfolio) in connection with the management of the Trust and the Adviser is willing to render such investment advisory services.

NOW, THEREFORE, the Parties agree as follows:

1. (a) Subject to the supervision of the Manager and of the Trustees of the Trust, the Adviser shall manage the investment operations of the Portfolio and the composition of its portfolio, including the purchase, retention and disposition thereof, in accordance with the Portfolio's investment objectives, policies and restrictions as stated in the Prospectus

2

(such Prospectus and Statement of Additional Information as currently in effect and as amended or supplemented from time to time, being herein called the "Prospectus") and subject to the following understandings:

(i) The Adviser shall provide supervision of the Portfolio's investments and determine from time to time what investments and securities will be purchased, retained, sold or loaned by the Portfolio, and what portion of the assets will be invested or held uninvested as cash.

(ii) In the performance of its duties and obligations under this Agreement, the Adviser shall act in conformity with the Declaration of Trust, By-Laws and Prospectus of the Trust and the Portfolio and with the instructions and directions of the Manager and of the Trustees of the Trust and will conform to and comply with the requirements of the 1940 Act, the Internal Revenue Code of 1986 and all other applicable federal and state laws and regulations.

(iii) The Adviser shall determine the securities and futures contracts to be purchased or sold by the Portfolio and will place orders pursuant to its determination with or through such persons, brokers, dealers or futures commission merchants (including but not limited to Prudential Securities Incorporated and Lazard Freres & Co.) in conformity with the policy with respect to brokerage as set forth in the Trust's Registration Statement and Prospectus or as the Trustees may direct from time to time. In providing the Portfolio with investment supervision, it is recognized that the Adviser will give primary consideration to securing the most favorable price and efficient execution. Within the framework of this policy, the Adviser may consider the financial responsibility, research and investment information and other services provided by brokers, dealers or futures commission merchants who may effect or be a party to any such transaction or other transactions to which the Adviser's other clients may be a party. It is understood that Prudential Securities Incorporated and Lazard Freres & Co. may each be used as broker for securities transactions but that no formula has been adopted for allocation of the Portfolio's investment transaction business. It is also understood that it

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is desirable for the Trust that the Adviser have access to supplemental investment and market research and security and economic analysis provided by brokers or futures commission merchants who may execute brokerage transactions at a higher cost to the Trust than may result when allocating brokerage to other brokers on the basis of seeking the most favorable price and efficient execution. Therefore, the Adviser is authorized to place orders for the purchase and sale of securities and futures contracts for the Portfolio with such brokers or futures commission merchants, subject to review by the Trustees from time to time with respect to the extent and continuation of this practice. It is understood that the services provided by such brokers or futures commission merchants may be useful to the Adviser in connection with the Adviser's services to other clients.

On occasions when the Adviser deems the purchase or sale of a security or futures contract to be in the best interest of the Portfolio as well as other clients of the Adviser, the Adviser, to the extent permitted by applicable laws and regulations, may, but shall be under no obligation to, aggregate the securities or futures contracts to be sold or purchased in order to obtain the most favorable price or lower brokerage commissions and efficient execution. In such event, allocation of the securities or futures contracts so purchased or sold, as well as the expenses incurred in the transaction, will be made by the

Adviser in the manner the Adviser considers to be the most equitable and consistent with its fiduciary obligations to the Trust and to such other clients.

(iv) The Adviser shall maintain all books and records with respect to the portfolio transactions required by subparagraphs (b) (5), (6), (7), (9), (10) and (11) and paragraph (f) of Rule 31a-1 under the 1940 Act and shall render to the Trustees such periodic and special reports as the Board may reasonably request.

(v) The Adviser shall provide the Trust's Custodian on each business day with information relating to all transactions concerning the

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Portfolio's assets and shall provide the Manager with such information upon request of the Manager.

(vi) The investment management services provided by the Adviser hereunder are not exclusive, and the Adviser shall be free to render similar services to others.

(b) Services to be furnished by the Adviser under this Agreement may be furnished through the medium of any of its partners, officers or employees.

(c) The Adviser shall keep the Portfolio's books and records required to be maintained by the Adviser pursuant to paragraph 1(a)(iv) hereof and shall timely furnish to the Manager all information relating to the Adviser's services hereunder needed by the Manager to keep the other books and records of the Trust required by Rule 31a-1 under the 1940 Act. The Adviser agrees that all records which it maintains for the Portfolio are the property of the Trust and the Adviser will surrender promptly to the Trust any of such records upon the Trust's request. The Adviser further agrees to preserve for the periods prescribed by Rule 31a-2 under the 1940 Act any such records as are required to be maintained by it pursuant to paragraph 1(a) hereof.

(d) The Adviser agrees to maintain adequate compliance procedures to ensure its compliance with the 1940 Act, the Investment Advisers Act of 1940 (Advisers Act) and other applicable state and federal laws and regulations.

(e) The Adviser shall furnish to the Manager copies of all records prepared in connection with (i) the performance of this Agreement and (ii) the maintenance of compliance procedures pursuant to paragraph 1(d) hereof as the Manager may reasonably request.

2. The Manager shall continue to have responsibility for all services to be provided to the Portfolio pursuant to the Management Agreement and shall oversee and review the Adviser's performance of its duties under this Agreement.

3. The Manager shall compensate the Adviser for the services provided and the expenses assumed pursuant to this Subadvisory Agreement, a fee at an

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annual rate of .40 of 1% of the average daily net assets of the Portfolio. This fee will be computed daily and paid monthly in arrears.

4. The Adviser shall not be liable for any error of judgment or for any loss suffered by the Portfolio, the Trust or the Manager in connection with the matters to which this Agreement relates, except a loss resulting from willful misfeasance, bad faith or gross negligence on the Adviser's part in the performance of its duties or from its reckless disregard of its obligations and duties under this Agreement.

5. This Agreement shall continue in effect for a period of more than two years from the date hereof only so long as such continuance is specifically approved at least annually in conformity with the requirements of the 1940 Act; provided, however, that this Agreement may be terminated by the Trust at any time, without the payment of any penalty, by the Trustees or by vote of a majority of the outstanding voting securities (as defined in the 1940 Act) of the Portfolio, or by the Manager or the Adviser at any time, without the payment of any penalty, on not more than 60 days' nor less than 30 days' written notice to the other party. This Agreement shall terminate automatically in the event of its assignment (as defined in the 1940 Act) or upon the termination of the Management Agreement.

6. Nothing in this Agreement shall limit or restrict the right of any of the Adviser's partners, officers or employees to engage in any other business or to devote his or her time and attention in part to the management or other aspects of any business, whether of a similar or dissimilar nature, nor limit the Adviser's right to engage in any other business or to render services of any kind to any other corporation, firm, individual or association, except as described in Paragraph 1(a)(vi) above.

7. During the term of this Agreement, the Manager agrees to furnish the Adviser at its principal office all prospectuses, proxy statements, reports to shareholders, sales literature or other material prepared for distribution to shareholders of the Trust or the public, which refer to the Adviser in any

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way, prior to use thereof and not to use material if the Adviser reasonably objects in writing five business days (or such other time as may be mutually agreed) after receipt thereof. In the event of the termination of this Agreement, the Manager will continue to furnish the Adviser copies of such materials which refer to the Adviser. Sales literature may be furnished to the Adviser hereunder by first class or overnight mail, facsimile transmission

equipment or hand delivery.

8. The Manager has delivered to the Adviser copies of each of the following documents and will deliver to it all future amendments and supplements, if any:

(a) Declaration of Trust, as filed with the Secretary of State of Delaware (such Declaration of Trust, as in effect on the date hereof and as amended from time to time, are herein called the Declaration of Trust);

(b) By-Laws of the Trust (such By-Laws, as in effect on the date hereof and as amended from time to time, are herein called the By-Laws);

(c) Certified resolutions of the Trustees of the Trust authorizing the appointment of the Manager and the Adviser and approving the form of this Agreement;

(d) Registration Statement under the 1940 Act and the Securities Act of 1933, as amended, on Form N-1A (the Registration Statement), as filed with the Securities and Exchange Commission (the Commission) relating to the Portfolio and shares of beneficial interest of the Portfolio and all amendments thereto;

(e) Notification of Registration of the Trust under the 1940 Act on Form N-8A as filed with the Commission and all amendments thereto; and

(f) Prospectus of the Portfolio (such Prospectus and Statement of Additional Information, as currently in effect and as amended or supplemented from time to time, being herein called the Prospectus).

9. This Agreement may be amended by mutual consent, but the consent of the Trust must be obtained in conformity with the requirements of the 1940 Act.

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10. This Agreement shall be governed by the laws of the State of New York.

IN WITNESS WHEREOF, the Parties hereto have caused this instrument to be executed by their officers designated below as of the day and year first above written.

PRUDENTIAL INVESTMENTS FUND MANAGEMENT LLC

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

LAZARD ASSET MANAGEMENT

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





## TARGET FUNDS

## Distribution Agreement

Agreement made as of August 25, 1999, between Target Funds, a Delaware business trust (the Trust), and Prudential Investment Management Services LLC, a Delaware limited liability company (the Distributor).

## WITNESSETH

WHEREAS, the Trust is registered under the Investment Company Act of 1940, as amended (the Investment Company Act), as a diversified, open-end, management investment company and it is in the interest of the Trust to offer its shares for sale continuously;

WHEREAS, the shares of the Trust may be divided into classes and/or series (all such shares being referred to herein as Shares) and the Trust currently is authorized to offer Class A, Class B and Class C Shares.

WHEREAS, the Distributor is a broker-dealer registered under the Securities Exchange Act of 1934, as amended, and is engaged in the business of selling shares of registered investment companies either directly or through other broker-dealers;

WHEREAS, the Trust and the Distributor wish to enter into an agreement with each other, with respect to the continuous offering of the Trust's Shares from and after the date hereof in order to promote the growth of the Trust and facilitate the distribution of its Shares; and

WHEREAS, the Trust has adopted a plan (or plans) of distribution pursuant to Rule 12b-1 under the Investment Company Act with respect to certain of its classes and/or series of Shares (the Plans) authorizing payments by the Trust to the Distributor with respect to the distribution of such classes and/or series of Shares and the maintenance of related shareholder accounts.

NOW, THEREFORE, the parties agree as follows:

Section 1. Appointment of the Distributor

The Trust hereby appoints the Distributor as the principal underwriter and distributor of the Shares of the Trust to sell Shares to the public on behalf of the Trust and the Distributor hereby accepts such appointment and agrees to act hereunder.

The Trust hereby agrees during the term of this Agreement to sell Shares of the Trust through the Distributor on the terms and conditions set forth below.

## Section 2. Exclusive Nature of Duties

The Distributor shall be the exclusive representative of the Trust to act as principal underwriter and distributor of the Trust's Shares, except that:

2.1 The exclusive rights granted to the Distributor to sell Shares of the Trust shall not apply to Shares of the Trust issued in connection with the merger or consolidation of any other investment company or personal holding company with the Trust or the acquisition by purchase or otherwise of all (or substantially all) the assets or the outstanding shares of any such company by the Trust.

2.2 Such exclusive rights shall not apply to Shares issued by the Trust pursuant to reinvestment of dividends or capital gains distributions or through the exercise of any conversion feature or exchange privilege.

2.3 Such exclusive rights shall not apply to Shares issued by the Trust pursuant to the reinstatement privilege afforded redeeming shareholders.

2.4 Such exclusive rights shall not apply to purchases made through the Trust's transfer and dividend disbursing agent in the manner set forth in the currently effective Prospectus of the Trust. The term "Prospectus" shall mean the Prospectus and Statement of Additional Information included as part of the Trust's Registration Statement, as such Prospectus and Statement of Additional Information may be amended or supplemented from time to time, and the term "Registration Statement" shall mean the Registration Statement filed by the Trust with the Securities and Exchange Commission and effective under the Securities Act of 1933, as amended (Securities Act), and the Investment Company Act, as such Registration Statement is amended from time to time.

## Section 3. Purchase of Shares from the Trust

3.1 The Distributor shall have the right to buy from the Trust on behalf of investors the Shares needed, but not more than the Shares needed (except for clerical errors in transmission) to fill unconditional orders for Shares placed with the Distributor by investors or registered and qualified securities dealers and other financial institutions (selected dealers).

3.2 The Shares shall be sold by the Distributor on behalf of the Trust and delivered by the Distributor or selected dealers, as described in Section 6.4 hereof, to investors at the offering price as set forth in the

3.3 The Trust shall have the right to suspend the sale of any or all classes and/or series of its Shares at times when redemption is suspended pursuant to the conditions in Section 4.3 hereof or at such other times as may be determined by the Board. The Trust shall also have the right to suspend the sale of any or all classes and/or series of its Shares if a banking moratorium shall have been declared by federal or New Jersey authorities.

3.4 The Trust, or any agent of the Trust designated in writing by the Trust, shall be promptly advised of all purchase orders for Shares received by the Distributor. Any order may be rejected by the Trust; provided, however, that the Trust will not arbitrarily or without reasonable cause refuse to accept or confirm orders for the purchase of Shares. The Trust (or its agent) will confirm orders upon their receipt, will make appropriate book entries and upon receipt by the Trust (or its agent) of payment therefor, will deliver deposit receipts for such Shares pursuant to the instructions of the Distributor. Payment shall be made to the Trust in New York Clearing House funds or federal funds. The Distributor agrees to cause such payment and such instructions to be delivered promptly to the Trust (or its agent).

#### Section 4. Repurchase or Redemption of Shares by the Trust

4.1 Any of the outstanding Shares may be tendered for redemption at any time, and the Trust agrees to repurchase or redeem the Shares so tendered in accordance with its Declaration of Trust as amended from time to time, and in accordance with the applicable provisions of the Prospectus. The price to be paid to redeem or repurchase the Shares shall be equal to the net asset value determined as set forth in the Prospectus. All payments by the Trust hereunder shall be made in the manner set forth in Section 4.2 below.

4.2 The Trust shall pay the total amount of the redemption price as defined in the above paragraph pursuant to the instructions of the Distributor on or before the seventh day subsequent to its having received the notice of redemption in proper form. The proceeds of any redemption of Shares shall be paid by the Trust as follows: (i) in the case of Shares subject to a contingent deferred sales charge, any applicable contingent deferred sales charge shall be paid to the Distributor, and the balance shall be paid to or for the account of the redeeming shareholder, in each case in accordance with applicable provisions of the Prospectus; and (ii) in the case of all other Shares, proceeds shall be paid to or for the account of the redeeming shareholder, in each case in accordance with applicable provisions of the Prospectus.

4.3 Redemption of any class and/or series of Shares or payment may be suspended at times when the New York Stock Exchange is closed for other than customary weekends and holidays, when trading on said Exchange is

restricted, when

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an emergency exists as a result of which disposal by the Trust of securities owned by it is not reasonably practicable or it is not reasonably practicable for the Trust fairly to determine the value of its net assets, or during any other period when the Securities and Exchange Commission, by order, so permits.

#### Section 5. Duties of the Trust

5.1 Subject to the possible suspension of the sale of Shares as provided herein, the Trust agrees to sell its Shares so long as it has Shares of the respective class and/or series available.

5.2 The Trust shall furnish the Distributor copies of all information, financial statements and other papers which the Distributor may reasonably request for use in connection with the distribution of Shares, and this shall include one certified copy, upon request by the Distributor, of all financial statements prepared for the Trust by independent public accountants. The Trust shall make available to the Distributor such number of copies of its Prospectus and annual and interim reports as the Distributor shall reasonably request.

5.3 The Trust shall take, from time to time, but subject to the necessary approval of the Board and the shareholders, all necessary action to register the same under the Securities Act, to the end that there will be available for sale such number of Shares as the Distributor reasonably may expect to sell. The Trust agrees to file from time to time such amendments, reports and other documents as may be necessary in order that there will be no untrue statement of a material fact in the Registration Statement, or necessary in order that there will be no omission to state a material fact in the Registration Statement which omission would make the statements therein misleading.

5.4 The Trust shall use its best efforts to notify such states as the Distributor and the Trust may approve of its intention to sell any appropriate number of its Shares; provided that the Trust shall not be required to amend its Declaration of Trust or By-Laws to comply with the laws of any state, to maintain an office in any state, to change the terms of the offering of its Shares in any state from the terms set forth in its Registration Statement, to qualify as a foreign corporation in any state or to consent to service of process in any state other than with respect to claims arising out of the offering of its Shares. Any such notification may be withheld, terminated or withdrawn by the Trust at any time in its discretion. As provided in Section 9 hereof, the expense of notification and maintenance of notification shall be borne by the Trust. The Distributor shall furnish such information and other material relating to its affairs and activities as may be required by the Trust in connection with such notifications.

## Section 6. Duties of the Distributor

6.1 The Distributor shall devote reasonable time and effort to effect sales of Shares, but shall not be obligated to sell any specific number of Shares. Sales of the Shares shall be on the terms described in the Prospectus. The Distributor may enter into like arrangements with other investment companies. The Distributor shall compensate the selected dealers as set forth in the Prospectus.

6.2 In selling the Shares, the Distributor shall use its best efforts in all respects duly to conform with the requirements of all federal and state laws relating to the sale of such securities. Neither the Distributor nor any selected dealer nor any other person is authorized by the Trust to give any information or to make any representations, other than those contained in the Registration Statement or Prospectus and any sales literature approved by appropriate officers of the Trust.

6.3 The Distributor shall adopt and follow procedures for the confirmation of sales to investors and selected dealers, the collection of amounts payable by investors and selected dealers on such sales and the cancellation of unsettled transactions, as may be necessary to comply with the requirements of Securities Exchange Act Rule 10b-10 and the rules of the National Association of Securities Dealers, Inc. (NASD).

6.4 The Distributor shall have the right to enter into selected dealer agreements with registered and qualified securities dealers and other financial institutions of its choice for the sale of Shares, provided that the Trust shall approve the forms of such agreements. Within the United States, the Distributor shall offer and sell Shares only to such selected dealers as are members in good standing of the NASD or are institutions exempt from registration under applicable federal securities laws. Shares sold to selected dealers shall be for resale by such dealers only at the offering price determined as set forth in the Prospectus.

## Section 7. Payments to the Distributor

7.1 With respect to classes and/or series of Shares which impose a front-end sales charge, the Distributor shall receive and may retain any portion of any front-end sales charge which is imposed on such sales and not reallocated to selected dealers as set forth in the Prospectus, subject to the limitations of Rule 2830 of the Conduct Rules of the NASD. Payment of these amounts to the Distributor is not contingent upon the adoption or continuation of any applicable Plans.

7.2 With respect to classes and/or series of Shares which

impose a contingent deferred sales charge, the Distributor shall receive and may retain any contingent deferred sales charge which is imposed on such sales as set forth in the

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Prospectus, subject to the limitations of Rule 2830 of the Conduct Rules of the NASD. Payment of these amounts to the Distributor is not contingent upon the adoption or continuation of any Plan.

#### Section 8. Payment of the Distributor under the Plan

8.1 The Trust shall pay to the Distributor as compensation for services under any Plans adopted by the Trust and this Agreement a distribution and service fee with respect to the Trust's classes and/or series of Shares as described in each of the Trust's respective Plans and this Agreement.

8.2 So long as a Plan or any amendment thereto is in effect, the Distributor shall inform the Board of the commissions and account servicing fees with respect to the relevant class and/or series of Shares to be paid by the Distributor to account executives of the Distributor and to broker-dealers, financial institutions and investment advisers which have dealer agreements with the Distributor. So long as a Plan (or any amendment thereto) is in effect, at the request of the Board or any agent or representative of the Trust, the Distributor shall provide such additional information as may reasonably be requested concerning the activities of the Distributor hereunder and the costs incurred in performing such activities with respect to the relevant class and/or series of Shares.

#### Section 9. Allocation of Expenses

The Trust shall bear all costs and expenses of the continuous offering of its Shares (except for those costs and expenses borne by the Distributor pursuant to a Plan and subject to the requirements of Rule 12b-1 under the Investment Company Act), including fees and disbursements of its counsel and auditors, in connection with the preparation and filing of any required Registration Statements and/or Prospectuses under the Investment Company Act or the Securities Act, and all amendments and supplements thereto, and preparing and mailing annual and periodic reports and proxy materials to shareholders (including but not limited to the expense of setting in type any such Registration Statements, Prospectuses, annual or periodic reports or proxy materials). The Trust shall also bear the cost of expenses of making notice filings for the Shares for sale, and, if necessary or advisable in connection therewith, of qualifying the Trust as a broker or dealer, in such states of the United States or other jurisdictions as shall be selected by the Trust and the Distributor pursuant to Section 5.4 hereof and the cost and expense payable to each such state for continuing notification therein until the Trust decides to discontinue such notification pursuant to Section 5.4 hereof. As set forth in Section 8 above, the Trust shall also bear the expenses it assumes pursuant to

any Plan, so long as such Plan is in effect.

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## Section 10. Indemnification

10.1 The Trust agrees to indemnify, defend and hold the Distributor, its officers and directors and any person who controls the Distributor within the meaning of Section 15 of the Securities Act, free and harmless from and against any and all claims, demands, liabilities and expenses (including the cost of investigating or defending such claims, demands or liabilities and any reasonable counsel fees incurred in connection therewith) which the Distributor, its officers, members or any such controlling person may incur under the Securities Act, or under common law or otherwise, arising out of or based upon any untrue statement of a material fact contained in the Registration Statement or Prospectus or arising out of or based upon any alleged omission to state a material fact required to be stated in either thereof or necessary to make the statements in either thereof not misleading, except insofar as such claims, demands, liabilities or expenses arise out of or are based upon any such untrue statement or omission or alleged untrue statement or omission made in reliance upon and in conformity with information furnished by the Distributor to the Trust for use in the Registration Statement or Prospectus; provided, however, that this indemnity agreement shall not inure to the benefit of any such officer, member or controlling person unless a court of competent jurisdiction shall determine in a final decision on the merits, that the person to be indemnified was not liable by reason of willful misfeasance, bad faith or gross negligence in the performance of its duties, or by reason of its reckless disregard of its obligations under this Agreement (disabling conduct), or, in the absence of such a decision, a reasonable determination, based upon a review of the facts, that the indemnified person was not liable by reason of disabling conduct, by (a) a vote of a majority of a quorum of trustees or trustees who are neither "interested persons" of the Trust as defined in Section 2(a)(19) of the Investment Company Act nor parties to the proceeding, or (b) an independent legal counsel in a written opinion. The Trust's agreement to indemnify the Distributor, its officers and members and any such controlling person as aforesaid is expressly conditioned upon the Trust's being promptly notified of any action brought against the Distributor, its officers or members, or any such controlling person, such notification to be given by letter or telegram addressed to the Trust at its principal business office. The Trust agrees promptly to notify the Distributor of the commencement of any litigation or proceedings against it or any of its officers or directors in connection with the issue and sale of any Shares.

10.2 The Distributor agrees to indemnify, defend and hold the Trust, its officers and trustees and any person who controls the Trust, if any, within the meaning of Section 15 of the Securities Act, free and harmless from and against any and all claims, demands, liabilities and expenses (including the cost of investigating or defending against such claims, demands or liabilities



and any reasonable counsel fees incurred in connection therewith) which the Trust, its officers and trustees or any such controlling person may incur under the Securities Act or under common law or

7

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otherwise, but only to the extent that such liability or expense incurred by the Trust, its trustees or officers or such controlling person resulting from such claims or demands shall arise out of or be based upon any alleged untrue statement of a material fact contained in information furnished by the Distributor to the Trust for use in the Registration Statement or Prospectus or shall arise out of or be based upon any alleged omission to state a material fact in connection with such information required to be stated in the Registration Statement or Prospectus or necessary to make such information not misleading. The Distributor's agreement to indemnify the Trust, its officers and trustees and any such controlling person as aforesaid, is expressly conditioned upon the Distributor's being promptly notified of any action brought against the Trust, its officers and trustees or any such controlling person, such notification being given to the Distributor at its principal business office.

#### Section 11. Duration and Termination of this Agreement

11.1 This Agreement shall become effective as of the date first above written and shall remain in force for two years from the date hereof and thereafter, but only so long as such continuance is specifically approved at least annually by (a) the Board of the Trust, or by the vote of a majority of the outstanding voting securities of the applicable class and/or series of the Trust, and (b) by the vote of a majority of those trustees who are not parties to this Agreement or interested persons of any such parties and who have no direct or indirect financial interest in this Agreement or in the operation of any of the Trust's Plans or in any agreement related thereto (independent trustees), cast in person at a meeting called for the purpose of voting upon such approval.

11.2 This Agreement may be terminated at any time, without the payment of any penalty, by a majority of the independent trustees or by vote of a majority of the outstanding voting securities of the applicable class and/or series of the Trust, or by the Distributor, on sixty (60) days' written notice to the other party. This Agreement shall automatically terminate in the event of its assignment.

11.3 The terms "affiliated person," "assignment," "interested person" and "vote of a majority of the outstanding voting securities", when used in this Agreement, shall have the respective meanings specified in the Investment Company Act.

#### Section 12. Amendments to this Agreement

This Agreement may be amended by the parties only if such

amendment is specifically approved by (a) the Board of the Trust, or by the vote of a majority of the outstanding voting securities of the applicable class and/or series of the Trust, and (b) by the vote of a majority of the independent trustees cast in person at a meeting called

8

9

for the purpose of voting on such amendment.

Section 13. Separate Agreement as to Classes and/or Series

The amendment or termination of this Agreement with respect to any class and/or series shall not result in the amendment or termination of this Agreement with respect to any other class and/or series unless explicitly so provided.

Section 14. Governing Law

The provisions of this Agreement shall be construed and interpreted in accordance with the laws of the State of New Jersey as at the time in effect and the applicable provisions of the Investment Company Act. To the extent that the applicable law of the State of New Jersey, or any of the provisions herein, conflict with the applicable provisions of the Investment Company Act, the latter shall control.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year above written.

PRUDENTIAL INVESTMENT MANAGEMENT  
SERVICES LLC

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

TARGET FUNDS

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



## DEALER AGREEMENT

## PRUDENTIAL INVESTMENT MANAGEMENT SERVICES LLC

Prudential Investment Management Services LLC ("Distributor") and \_\_\_\_\_ ("Dealer") have agreed that Dealer will participate in the distribution of shares ("Shares") of all the funds and series thereof (as they may exist from time to time) comprising the Prudential Mutual Fund Family (each a "Fund" and collectively the "Funds") and any classes thereof for which Distributor now or in the future serves as principal underwriter and distributor, subject to the terms of this Dealer Agreement ("Agreement"). Any such additional Funds will be included in this Agreement upon Distributor's written notification to Dealer.

## 1. LICENSING

a. Dealer represents and warrants that it is: (i) a broker-dealer registered with the Securities and Exchange Commission ("SEC"); (ii) a member in good standing of the National Association of Securities Dealers, Inc. ("NASD"); and (iii) licensed by the appropriate regulatory agency of each state or other jurisdiction in which Dealer will offer and sell Shares of the Funds, to the extent necessary to perform the duties and activities contemplated by this Agreement.

b. Dealer represents and warrants that each of its partners, directors, officers, employees, and agents who will be utilized by Dealer with respect to its duties and activities under this Agreement is either appropriately licensed or exempt from such licensing requirements by the appropriate regulatory agency of each state or other jurisdiction in which Dealer will offer and sell Shares of the Funds.

c. Dealer agrees that: (i) termination or suspension of its registration with the SEC; (ii) termination or suspension of its membership with the NASD; or (iii) termination or suspension of its license to do business by any state or other jurisdiction or federal regulatory agency shall immediately cause the termination of this Agreement. Dealer further agrees to immediately notify Distributor in writing of any such action or event.

d. Dealer agrees that this Agreement is in all respects subject to the Conduct Rules of the NASD and such Conduct Rules shall control any provision to the contrary in this Agreement.

e. Dealer agrees to be bound by and to comply with all applicable state and federal laws and all rules and regulations promulgated

thereunder generally affecting the sale or distribution of mutual fund shares.

## 2. ORDERS

a. Dealer agrees to offer and sell Shares of the Funds (including those of each of its classes) only at the regular public offering price applicable to such Shares and in effect at the time of each transaction. The procedures relating to all orders and the handling of each order (including the manner of computing the net asset value of Shares and the effective time of orders received from Dealer) are subject to: (i) the terms of the then current prospectus and statement of

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2

additional information (including any supplements, stickers or amendments thereto) relating to each Fund, as filed with the SEC ("Prospectus"); (ii) the new account application for each Fund, as supplemented or amended from time to time; and (iii) Distributor's written instructions and multiple class pricing procedures and guidelines, as provided to Dealer from time to time. To the extent that the Prospectus contains provisions that are inconsistent with this Agreement or any other document, the terms of the Prospectus shall be controlling.

b. Distributor reserves the right at any time, and without notice to Dealer, to suspend the sale of Shares or to withdraw or limit the offering of Shares. Distributor reserves the unqualified right not to accept any specific order for the purchase or sale of Shares.

c. In all offers and sales of the Shares to the public, Dealer is not authorized to act as broker or agent for, or employee of, Distributor, any Fund or any other dealer, and Dealer shall not in any manner represent to any third party that Dealer has such authority or is acting in such capacity. Rather, Dealer agrees that it is acting as principal for Dealer's own account or as agent on behalf of Dealer's customers in all transactions in Shares, except as provided in Section 3.i. hereof. Dealer acknowledges that it is solely responsible for all suitability determinations with respect to sales of Shares of the Funds to Dealer's customers and that Distributor has no responsibility for the manner of Dealer's performance of, or for Dealer's acts or omissions in connection with, the duties and activities Dealer provides under this Agreement.

d. All orders are subject to acceptance by Distributor in its sole discretion and become effective only upon confirmation by Distributor.

e. Distributor agrees that it will accept from Dealer orders placed through a remote terminal or otherwise electronically transmitted via the National Securities Clearing Corporation ("NSCC") Fund/Serv Networking program, provided, however, that appropriate documentation thereof and agreements relating thereto are executed by both parties to this Agreement, including in particular the standard NSCC Networking Agreement and any other related

agreements between Distributor and Dealer deemed appropriate by Distributor, and that all accounts opened or maintained pursuant to that program will be governed by applicable NSCC rules and procedures. Both parties further agree that, if the NSCC Fund/Serv Networking program is used to place orders, the standard NSCC Networking Agreement will control insofar as there is any conflict between any provision of the Dealer Agreement and the standard NSCC Networking Agreement.

3. DUTIES OF DEALER

a. Dealer agrees to purchase Shares only from Distributor or from Dealer's customers.

b. Dealer agrees to enter orders for the purchase of Shares only from Distributor and only for the purpose of covering purchase orders Dealer has already received from its customers or for Dealer's own bona fide investment.

c. Dealer agrees to date and time stamp all orders received by Dealer and promptly, upon receipt of any and all orders, to transmit to Distributor all orders received prior to

A-2

3

the time described in the Prospectus for the calculation of each Fund's net asset value so as to permit Distributor to process all orders at the price next determined after receipt by Dealer, in accordance with the Prospectus. Dealer agrees not to withhold placing orders for Shares with Distributor so as to profit itself as a result of such inaction.

d. Dealer agrees to maintain records of all purchases and sales of Shares made through Dealer and to furnish Distributor or regulatory authorities with copies of such records upon request. In that regard, Dealer agrees that, unless Dealer holds Shares as nominee for its customers or participates in the NSCC Fund/Serv Networking program, at certain matrix levels, it will provide Distributor with all necessary information to comply properly with all federal, state and local reporting requirements and backup and nonresident alien withholding requirements for its customer accounts including, without limitation, those requirements that apply by treating Shares issued by the Funds as readily tradable instruments. Dealer represents and agrees that all Taxpayer Identification Numbers ("TINs") provided are certified, and that no account that requires a certified TIN will be established without such certified TIN. With respect to all other accounts, including Shares held by Dealer in omnibus accounts and Shares purchased or sold through the NSCC Fund/Serv Networking program, at certain matrix levels, Dealer agrees to perform all federal, state and local tax reporting with respect to such accounts, including without limitation redemptions and exchanges.

e. Dealer agrees to distribute or cause to be delivered to its

customers Prospectuses, proxy solicitation materials and related information and proxy cards, semi-annual and annual shareholder reports and any other materials in compliance with applicable legal requirements, except to the extent that Distributor expressly undertakes to do so in writing.

f. Dealer agrees that if any Share is repurchased by any Fund or is tendered for redemption within seven (7) business days after confirmation by Distributor of the original purchase order from Dealer, Dealer shall forfeit its right to any concession or commission received by Dealer with respect to such Share and shall forthwith refund to Distributor the full concession allowed to Dealer or commission paid to Dealer on the original sale. Distributor agrees to notify Dealer of such repurchase or redemption within a reasonable time after settlement. Termination or cancellation of this Agreement shall not relieve Dealer from its obligation under this provision.

g. Dealer agrees that payment for Shares ordered from Distributor shall be in Fed Funds, New York clearinghouse or other immediately available funds and that such funds shall be received by Distributor by the earlier of: (i) the end of the third (3rd) business day following Dealer's receipt of the customer's order to purchase such Shares; or (ii) the settlement date established in accordance with Rule 15c6-1 under the Securities Exchange Act of 1934, as amended. If such payment is not received by Distributor by such date, Dealer shall forfeit its right to any concession or commission with respect to such order, and Distributor reserves the right, without notice, forthwith to cancel the sale, or, at its option, to sell the Shares ordered back to the Fund, in which case Distributor may hold Dealer responsible for any loss, including loss of profit, suffered by Distributor resulting from Dealer's failure to make payment as aforesaid. If a purchase is made by check, the purchase is deemed made upon conversion of the purchase instrument into Fed Funds, New York clearinghouse or other immediately available funds.

A-3

4

h. Dealer agrees that it: (i) shall assume responsibility for any loss to the Fund caused by a correction to any order placed by Dealer that is made subsequent to the trade date for the order, provided such order correction was not based on any negligence on Distributor's part; and (ii) will immediately pay such loss to the Fund upon notification.

i. Dealer agrees that in connection with orders for the purchase of Shares on behalf of any IRAs, 401(k) plans or other retirement plan accounts, by mail, telephone, or wire, Dealer shall act as agent for the custodian or trustee of such plans (solely with respect to the time of receipt of the application and payments), and Dealer shall not place such an order with Distributor until it has received from its customer payment for such purchase and, if such purchase represents the first contribution to such a retirement plan account, the completed documents necessary to establish the retirement plan. Dealer agrees to indemnify Distributor and its affiliates for any claim, loss, or liability resulting from incorrect investment instructions received by

Distributor from Dealer.

j. Dealer agrees that it will not make any conditional orders for the purchase or redemption of Shares and acknowledges that Distributor will not accept conditional orders for Shares.

k. Dealer agrees that all out-of-pocket expenses incurred by it in connection with its activities under this Agreement will be borne by Dealer.

l. Dealer agrees that it will keep in force appropriate broker's blanket bond insurance policies covering any and all acts of Dealer's partners, directors, officers, employees, and agents adequate to reasonably protect and indemnify the Distributor and the Funds against any loss which any party may suffer or incur, directly or indirectly, as a result of any action by Dealer or Dealer's partners, directors, officers, employees, and agents.

m. Dealer agrees that it will maintain the required net capital as specified by the rules and regulations of the SEC, NASD and other regulatory authorities.

#### 4. DEALER COMPENSATION

a. On each purchase of Shares by Dealer from Distributor, the total sales charges and dealer concessions or commissions, if any, payable to Dealer shall be as stated on Schedule A to this Agreement, which may be amended by Distributor from time to time. Distributor reserves the right, without prior notice, to suspend or eliminate such dealer concession or commissions by amendment, sticker or supplement to the then current Prospectus for each Fund. Such sales charges and dealer concessions or commissions, are subject to reduction under a variety of circumstances as described in each Fund's then current Prospectus. For an investor to obtain any reduction, Distributor must be notified at the time of the sale that the sale qualifies for the reduced sales charge. If Dealer fails to notify Distributor of the applicability of a reduction in the sales charge at the time the trade is placed, neither Distributor nor any Fund will be liable for amounts necessary to reimburse any investor for the reduction that should have been effected. Dealer acknowledges that no sales charge or concession or commission will be paid to Dealer on the reinvestment of dividends or capital gains reinvestment or on Shares acquired in exchange for Shares of another Fund, or class thereof, having the same sales charge structure as the Fund, or class thereof, from which the exchange was made, in accordance with the Prospectus.

A-4

5

b. In accordance with the Funds' Prospectuses, Distributor or any affiliate may, but is not obligated to, make payments to dealers from Distributor's own resources as compensation for certain sales that are made at net asset value ("Qualifying Sales"). If Dealer notifies Distributor of a



Qualifying Sale, Distributor may make a contingent advance payment up to the maximum amount available for payment on the sale. If any of the Shares purchased in a Qualifying Sale are redeemed within twelve (12) months of the end of the month of purchase, Distributor shall be entitled to recover any advance payment attributable to the redeemed Shares by reducing any account payable or other monetary obligation Distributor may owe to Dealer or by making demand upon Dealer for repayment in cash. Distributor reserves the right to withhold advances to Dealer, if for any reason Distributor believes that it may not be able to recover unearned advances from Dealer.

c. With respect to any Fund that offers Shares for which distribution plans have been adopted under Rule 12b-1 under the Investment Company Act of 1940, as amended ("Rule 12b-1 Plans"), Distributor also is authorized to pay the Dealer continuing distribution and/or service fees, as specified in Schedule A and the relevant Fund Prospectus, with respect to Shares of any such Fund, to the extent that Dealer provides distribution, marketing, administrative and other services and activities regarding the promotion of such Shares and the maintenance of related shareholder accounts.

d. In connection with the receipt of distribution fees and/or service fees under Rule 12b-1 Plans applicable to Shares purchased by Dealer's customers, Distributor directs Dealer to provide enhanced shareholder services such as: processing purchase and redemption transactions; establishing shareholder accounts; and providing certain information and assistance with respect to the Funds. (Redemption levels of shareholder accounts assigned to Dealer will be considered in evaluating Dealer's continued ability to receive payments of distribution and/or service fees.) In addition, Dealer agrees to support Distributor's marketing efforts by, among other things, granting reasonable requests for visits to Dealer's office by Distributor's wholesalers and marketing representatives, including all Funds covered by a Rule 12b-1 Plan on Dealer's "approved," "preferred" or other similar product lists, if applicable, and otherwise providing satisfactory product, marketing and sales support. Further, Dealer agrees to provide Distributor with supporting documentation concerning the shareholder services provided, as Distributor may reasonably request from time to time.

e. All Rule 12b-1 Plan distribution and/or servicing fees shall be based on the value of Shares attributable to Dealer's customers and eligible for such payment, and shall be calculated on the basis of and at the rates set forth in the compensation schedule then in effect. Without prior approval by a majority of the outstanding shares of a Fund, the aggregate annual fees paid to Dealer pursuant to any Rule 12b-1 Plan shall not exceed the amounts stated as the "annual maximums" in each Fund's Prospectus, which amount shall be a specified percent of the value of the Fund's net assets held in Dealer's customers' accounts that are eligible for payment pursuant to the Rule 12b-1 Plans (determined in the same manner as each Fund uses to compute its net assets as set forth in its then current Prospectus).

f. The provisions of any Rule 12b-1 Plan between the Funds and the Distributor shall control over this Agreement in the event of any inconsistency. Each Rule 12b-1 Plan in effect on the date of this Agreement is

6

hereby acknowledges that all payments under Rule 12b-1 Plans are subject to limitations contained in such Rule 12b-1 Plans and may be varied or discontinued at any time.

5. REDEMPTIONS, REPURCHASES AND EXCHANGES

a. The Prospectus for each Fund describes the provisions whereby the Fund, under all ordinary circumstances, will redeem Shares held by shareholders on demand. Dealer agrees that it will not make any representations to shareholders relating to the redemption of their Shares other than the statements contained in the Prospectus and the underlying organizational documents of the Fund, to which it refers, and that Dealer will pay as redemption proceeds to shareholders the net asset value, minus any applicable deferred sales charge or redemption fee, determined after receipt of the order as discussed in the Prospectus.

b. Dealer agrees not to repurchase any Shares from its customers at a price below that next quoted by the Fund for redemption or repurchase, i.e., at the net asset value of such Shares, less any applicable deferred sales charge, or redemption fee, in accordance with the Fund's Prospectus. Dealer shall, however, be permitted to sell Shares for the account of the customer or record owner to the Funds at the repurchase price then currently in effect for such Shares and may charge the customer or record owner a fair service fee or commission for handling the transaction, provided Dealer discloses the fee or commission to the customer or record owner. Nevertheless, Dealer agrees that it shall not under any circumstances maintain a secondary market in such repurchased Shares.

c. Dealer agrees that, with respect to a redemption order it has made, if instructions in proper form, including any outstanding certificates, are not received by Distributor within the time customary or the time required by law, the redemption may be canceled forthwith without any responsibility or liability on Distributor's part or on the part of any Fund, or Distributor, at its option, may buy the shares redeemed on behalf of the Fund, in which latter case Distributor may hold Dealer responsible for any loss, including loss of profit, suffered by Distributor resulting from Distributor's failure to settle the redemption.

d. Dealer agrees that it will comply with any restrictions and limitations on exchanges described in each Fund's Prospectus, including any restrictions or prohibitions relating to frequent purchases and redemptions (i.e., market timing).

6. MULTIPLE CLASSES OF SHARES

Distributor may, from time to time, provide Dealer with written guidelines or standards relating to the sale or distribution of Funds offering multiple classes of Shares with different sales charges and distribution-related operating expenses.

7. FUND INFORMATION

a. Dealer agrees that neither it nor any of its partners, directors, officers, employees, and agents is authorized to give any information or make any representations concerning Shares of any Fund except those contained in the Fund's then current Prospectus or in materials provided by Distributor.

A-6

7

b. Distributor will supply to Dealer Prospectuses, reasonable quantities of sales literature, sales bulletins, and additional sales information as provided by Distributor. Dealer agrees to use only advertising or sales material relating to the Funds that: (i) is supplied by Distributor, or (ii) conforms to the requirements of all applicable laws or regulations of any government or authorized agency having jurisdiction over the offering or sale of Shares of the Funds and is approved in writing by Distributor in advance of its use. Such approval may be withdrawn by Distributor in whole or in part upon written notice to Dealer, and Dealer shall, upon receipt of such notice, immediately discontinue the use of such sales literature, sales bulletins and advertising. Dealer is not authorized to modify or translate any such materials without Distributor's prior written consent.

8. SHARES

a. Distributor acts solely as agent for the Fund and Distributor shall have no obligation or responsibility with respect to Dealer's right to purchase or sell Shares in any state or jurisdiction.

b. Distributor shall periodically furnish Dealer with information identifying the states or jurisdictions in which it is believed that all necessary notice, registration or exemptive filings for Shares have been made under applicable securities laws such that offers and sales of Shares may be made in such states or jurisdictions. Distributor shall have no obligation to make such notice, registration or exemptive filings with respect to Shares in any state or jurisdiction.

c. Dealer agrees not to transact orders for Shares in states or jurisdictions in which it has been informed that Shares may not be sold or in which it and its personnel are not authorized to sell Shares.

d. Distributor shall have no responsibility, under the laws regulating the sale of securities in the United States or any foreign jurisdiction, with respect to the qualification or status of Dealer or Dealer's personnel selling Fund Shares. Distributor shall not, in any event, be liable or

responsible for the issue, form, validity, enforceability and value of such Shares or for any matter in connection therewith.

e. Dealer agrees that it will make no offers or sales of Shares in any foreign jurisdiction, except with the express written consent of Distributor.

## 9. INDEMNIFICATION

a. Dealer agrees to indemnify, defend and hold harmless Distributor and the Funds and their predecessors, successors, and affiliates, each current or former partner, officer, director, employee, shareholder or agent and each person who controls or is controlled by Distributor from any and all losses, claims, liabilities, costs, and expenses, including attorney fees, that may be assessed against or suffered or incurred by any of them howsoever they arise, and as they are incurred, which relate in any way to: (i) any alleged violation of any statute or regulation (including without limitation the securities laws and regulations of the United States or any state or foreign country) or any alleged tort or breach of contract, related to the offer or sale by Dealer of Shares of the Funds pursuant to this Agreement (except to the extent that Distributor's negligence or failure to follow correct instructions received from Dealer is the cause of such loss,

A-7

8

claim, liability, cost or expense); (ii) any redemption or exchange pursuant to instructions received from Dealer or its partners, affiliates, officers, directors, employees or agents; or (iii) the breach by Dealer of any of its representations and warranties specified herein or the Dealer's failure to comply with the terms and conditions of this Agreement, whether or not such action, failure, error, omission, misconduct or breach is committed by Dealer or its predecessor, successor, or affiliate, each current or former partner, officer, director, employee or agent and each person who controls or is controlled by Dealer.

b. Distributor agrees to indemnify, defend and hold harmless Dealer and its predecessors, successors and affiliates, each current or former partner, officer, director, employee or agent, and each person who controls or is controlled by Dealer from any and all losses, claims, liabilities, costs and expenses, including attorney fees, that may be assessed against or suffered or incurred by any of them which arise, and which relate to any untrue statement of or omission to state a material fact contained in the Prospectus or any written sales literature or other marketing materials provided by the Distributor to the Dealer, required to be stated therein or necessary to make the statements therein not misleading.

c. Dealer agrees to notify Distributor, within a reasonable time, of any claim or complaint or any enforcement action or other proceeding with respect to Shares offered hereunder against Dealer or its partners,

affiliates, officers, directors, employees or agents, or any person who controls Dealer, within the meaning of Section 15 of the Securities Act of 1933, as amended.

d. Dealer further agrees promptly to send Distributor copies of (i) any report filed pursuant to NASD Conduct Rule 3070, including, without limitation quarterly reports filed pursuant to Rule 3070(c), (ii) reports filed with any other self-regulatory organization in lieu of Rule 3070 reports pursuant to Rule 3070(e) and (iii) amendments to Dealer's Form BD.

e. Each party's obligations under these indemnification provisions shall survive any termination of this Agreement.

#### 10. TERMINATION; AMENDMENT

a. In addition to the automatic termination of this Agreement specified in Section 1.c. of this Agreement, each party to this Agreement may unilaterally cancel its participation in this Agreement by giving thirty (30) days prior written notice to the other party. In addition, each party to this Agreement may terminate this Agreement immediately by giving written notice to the other party of that other party's material breach of this Agreement. Such notice shall be deemed to have been given and to be effective on the date on which it was either delivered personally to the other party or any officer or member thereof, or was mailed postpaid or delivered to a telegraph office for transmission to the other party's designated person at the addresses shown herein or in the most recent NASD Manual.

b. This Agreement shall terminate immediately upon the appointment of a Trustee under the Securities Investor Protection Act or any other act of insolvency by Dealer.

c. The termination of this Agreement by any of the foregoing means shall have no effect upon transactions entered into prior to the effective date of termination and shall

A-8

9

not relieve Dealer of its obligations, duties and indemnities specified in this Agreement. A trade placed by Dealer subsequent to its voluntary termination of this Agreement will not serve to reinstate the Agreement. Reinstatement, except in the case of a temporary suspension of Dealer, will only be effective upon written notification by Distributor.

d. This Agreement is not assignable or transferable and will terminate automatically in the event of its "assignment," as defined in the Investment Company Act of 1940, as amended and the rules, regulations and interpretations thereunder. The Distributor may, however, transfer any of its duties under this Agreement to any entity that controls or is under common control with Distributor.

e. This Agreement may be amended by Distributor at any time by written notice to Dealer. Dealer's placing of an order or accepting payment of any kind after the effective date and receipt of notice of such amendment shall constitute Dealer's acceptance of such amendment.

11. DISTRIBUTOR'S REPRESENTATIONS AND WARRANTIES

Distributor represents and warrants that:

a. It is a limited liability company duly organized and existing and in good standing under the laws of the state of Delaware and is duly registered or exempt from registration as a broker-dealer in all states and jurisdictions in which it provides services as principal underwriter and distributor for the Funds.

b. It is a member in good standing of the NASD.

c. It is empowered under applicable laws and by Distributor's charter and by-laws to enter into this Agreement and perform all activities and services of the Distributor provided for herein and that there are no impediments, prior or existing, regulatory, self-regulatory, administrative, civil or criminal matters affecting Distributor's ability to perform under this Agreement.

d. All requisite actions have been taken to authorize Distributor to enter into and perform this Agreement.

12. ADDITIONAL DEALER REPRESENTATIONS AND WARRANTIES

In addition to the representations and warranties found elsewhere in this Agreement, Dealer represents and warrants that:

a. It is duly organized and existing and in good standing under the laws of the state, commonwealth or other jurisdiction in which Dealer is organized and that Dealer will not offer Shares of any Fund for sale in any state or jurisdiction where such Shares may not be legally sold or where Dealer is not qualified to act as a broker-dealer.

A-9

10

b. It is empowered under applicable laws and by Dealer's organizational documents to enter into this Agreement and perform all activities and services of the Dealer provided for herein and that there are no impediments, prior or existing, regulatory, self-regulatory, administrative, civil or criminal matters affecting Dealer's ability to perform under this Agreement.

c. All requisite actions have been taken to authorize Dealer

to enter into and perform this Agreement.

d. It is not, at the time of the execution of this Agreement, subject to any enforcement or other proceeding with respect to its activities under state or federal securities laws, rules or regulations.

13. SETOFF; DISPUTE RESOLUTION; GOVERNING LAW

a. Should any of Dealer's concession accounts with Distributor have a debit balance, Distributor shall be permitted to offset and recover the amount owed from any other account Dealer has with Distributor, without notice or demand to Dealer.

b. In the event of a dispute concerning any provision of this Agreement, either party may require the dispute to be submitted to binding arbitration under the commercial arbitration rules and procedures of the NASD. The parties agree that, to the extent permitted under such arbitration rules and procedures, the arbitrators selected shall be from the securities industry. Judgment upon any arbitration award may be entered by any state or federal court having jurisdiction.

c. This Agreement shall be governed and construed in accordance with the laws of the state of New Jersey, not including any provision which would require the general application of the law of another jurisdiction.

14. INVESTIGATIONS AND PROCEEDINGS

The parties to this Agreement agree to cooperate fully in any securities regulatory investigation or proceeding or judicial proceeding with respect to each's activities under this Agreement and promptly to notify the other party of any such investigation or proceeding.

15. CAPTIONS

All captions used in this Agreement are for convenience only, are not a party hereof, and are not to be used in construing or interpreting any aspect hereof.

16. ENTIRE UNDERSTANDING

This Agreement contains the entire understanding of the parties hereto with respect to the subject matter contained herein and supersedes all previous agreements. This Agreement shall be binding upon the parties hereto when signed by Dealer and accepted by Distributor.

A-10

11

17. SEVERABILITY

Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law. If, however, any provision of this Agreement is held under applicable law to be invalid, illegal, or unenforceable in any respect, such provision shall be ineffective only to the extent of such invalidity, and the validity, legality and enforceability of the remaining provisions of this Agreement shall not be affected or impaired in any way.

18. ENTIRE AGREEMENT

This Agreement contains the entire understanding of the parties hereto with respect to the subject matter contained herein and supersedes all previous agreements and/or understandings of the parties. This Agreement shall be binding upon the parties hereto when signed by Dealer and accepted by Distributor.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year set forth below.

PRUDENTIAL INVESTMENT MANAGEMENT  
SERVICES LLC

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

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

DEALER: \_\_\_\_\_

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

(Signature)

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Telephone: \_\_\_\_\_

NASD CRD # \_\_\_\_\_

Prudential Dealer # \_\_\_\_\_

(Internal Use Only)

Date: \_\_\_\_\_



CUSTODIAN CONTRACT

Between

EACH OF THE PARTIES INDICATED ON APPENDIX A

and

STATE STREET BANK AND TRUST COMPANY

TABLE OF CONTENTS

<TABLE>  
<CAPTION>

	Page
	----
<S>	<C>
1. Employment of Custodian and Property to be Held by It.....	-1-
2. Duties to the Custodian with Respect to Property of The Fund Held By the Custodian in the United States.....	-2-
2.1 Holding Securities.....	-2-
2.2 Delivery of Securities.....	-2-
2.3 Registration of Securities.....	-6-
2.4 Bank Accounts.....	-7-
2.5 Availability of Federal Funds.....	-7-
2.6 Collection of Income.....	-8-
2.7 Payment of Fund Monies.....	-8-
2.8 Liability for Payment in Advance of Receipt of Securities Purchased.....	-11-
2.9 Appointment of Agents.....	-11-
2.10 Deposit of Securities in Securities Systems.....	-11-
2.10A Fund Assets Held in the Custodian's Direct Paper System.....	-13-
2.11 Segregated Account.....	-14-
2.12 Ownership Certificates for Tax Purposes.....	-15-
2.13 Proxies.....	-16-
2.14 Communications Relating to Fund Portfolio Securities.....	-16-
2.15 Reports to Fund by Independent Public Accountants.....	-16-
3. Duties of the Custodian with Respect to Property of the Fund Held Outside of the United States.....	-17-
3.1 Appointment of Foreign Sub-Custodians.....	-17-
3.2 Assets to be Held.....	-17-
3.3 Foreign Securities Depositories.....	-18-
3.4 Segregation of Securities.....	-18-
3.5 Agreements with Foreign Banking Institutions.....	-18-
3.6 Access of Independent Accountants of the Fund.....	-19-
3.7 Reports by Custodian.....	-19-
3.9 Liability of Foreign Sub-Custodians.....	-20-
3.10 Liability of Custodian.....	-21-
3.11 Reimbursements for Advances.....	-21-
3.12 Monitoring Responsibilities.....	-22-
3.13 Branches of U.S. Banks.....	-22-
4. Payments for Repurchases or Redemptions and Sales of Shares of the Fund.....	-23-

</TABLE>

<TABLE>	
<S>	<C>
5. Proper Instructions.....	-24-

6.	Actions Permitted without Express Authority.....	-24-
7.	Evidence of Authority.....	-25-
8.	Duties of Custodian with Respect to the Books of Account and Calculation of Net Asset Value and Net Income.....	-26-
9.	Records.....	-26-
10.	Opinion of Fund's Independent Accountant.....	-27-
11.	Compensation of Custodian.....	-27-
12.	Responsibility of Custodian.....	-27-
13.	Effective Period, Termination and Amendment.....	-29-
14.	Successor Custodian.....	-30-
15.	Interpretive and Additional Provisions.....	-32-
16.	Massachusetts Law to Apply.....	-32-
17.	Prior Contracts.....	-32-
18.	The Parties.....	-32-
19.	Limitation of Liability.....	-33-

</TABLE>

CUSTODIAN CONTRACT

This Contract between State Street Bank and Trust Company, a Massachusetts trust company, having its principal place of business at 225 Franklin Street, Boston, Massachusetts, 02110, hereinafter called the "Custodian", and each Fund listed on Appendix A which evidences its agreement to be bound hereby executing a copy of this Contract (each such Fund individually hereinafter referred to as the "Fund").

-2-

4

WITNESSETH: That in consideration of the mutual covenants and agreements hereinafter contained, the parties hereto agree as follows:

1. Employment of Custodian and Property to be Held by It

The Fund hereby employs the Custodian as the custodian of its assets, including securities it desires to be held in places within the United States ("domestic securities") and securities it desires to be held outside the United States ("foreign securities") pursuant to the provisions of the Articles of Incorporation/Declaration of Trust. The Fund agrees to deliver to the Custodian all securities and cash owned by it, and all payments of income, payments of principal or capital distributions received by it with respect to all securities owned by the Fund from time to time, and the cash consideration received by it for such new or treasury shares of capital stock, ("Shares") of the Fund as may be issued or sold from time to time. The Custodian shall not be responsible for any property of the Fund held or received by the Fund and not delivered to the Custodian.

Upon receipt of "Proper Instructions" (within the meaning of Article 5), the Custodian shall from time to time employ one or more sub-custodians located in the United States, but only in accordance with an applicable vote by the Board of Directors/Trustees of the Fund, and provided that the Custodian shall have the same responsibility or liability to the Fund on account of any actions or omissions of any sub-custodian so employed as any such sub-custodian has to the Custodian, provided that the Custodian agreement with any such domestic sub-custodian shall impose on such sub-custodian responsibilities and liabilities similar in nature and scope to those imposed by this Agreement with respect to the functions to be performed by such sub-custodian. The Custodian may employ as sub-custodians for the Fund's securities and other assets the foreign banking institutions and foreign securities depositories designated in

5

in accordance with the provisions of Article 3.

2. Duties of the Custodian with Respect to Property of The Fund Held By the Custodian in the United States.

2.1 Holding Securities. The Custodian shall hold and physically segregate for the account of the Fund all non-cash property, to be held by it in the United States, including all domestic securities owned by the Fund, other than (a) securities which are maintained pursuant to Section 2.10 in a clearing agency which acts as a securities depository or in a book-entry system authorized by the U.S. Department of Treasury, collectively referred to herein as "Securities System" and (b) commercial paper of an issuer for which State Street Bank and Trust Company acts as issuing and paying agent ("Direct Paper") which is deposited and/or maintained in the Direct Paper System of the Custodian pursuant to Section 2.10A.

2.2 Delivery of Securities. The Custodian shall release and deliver domestic securities owned by the Fund held by the Custodian or in a Securities System account of the Custodian or in the Custodian's Direct Paper book-entry system account ("Direct Paper System") only upon receipt of Proper Instructions, which may be continuing instructions when deemed appropriate by the parties, and only in the following cases:

- (1) Upon sale of such securities for the account of the Fund and receipt of payment therefor;
- (2) Upon the receipt of payment in connection with any repurchase agreement related to such securities entered into by the Fund;
- (3) In the case of a sale effected through a Securities System, in accordance with the provisions of Section 2.10 hereof;

6

- (4) To the depository agent in connection with tender or other similar offers for portfolio securities of the Fund;
- (5) To the issuer thereof or its agent when such securities are called, redeemed, retired or otherwise become payable; provided that, in any such case, the cash or other consideration is to be delivered to the Custodian;
- (6) To the issuer thereof, or its agent, for transfer into the name of the Fund or into the name of any nominee or nominees of the Custodian or into the name or nominee name of any agent appointed pursuant to Section 2.9 or into the name or nominee name of any sub-custodian appointed pursuant to Article 1; or for exchange for a different number of bonds, certificates or other evidence representing the same aggregate face amount or number of units; provided that, in any such case, the new securities are to be delivered to the Custodian;
- (7) Upon the sale of such securities for the account of the Fund, to the broker or its clearing agent, against a receipt, for examination in accordance with "street delivery" custom; provided that in any such case, the Custodian shall have no responsibility or liability for any loss arising from the delivery of such securities prior to receiving payment for such securities except as may arise from the Custodian's

own negligence or willful misconduct;

- (8) For exchange or conversation pursuant to any plan of merger, consolidation, recapitalization, reorganization or readjustment of the securities of the issuer of such securities, or pursuant to provisions for

-5-

7

conversion contained in such securities, or pursuant to any deposit agreement; provided that, in any such case, the new securities and cash, if any, are to be delivered to the Custodian;

- (9) In the case of warrants, rights or similar securities, the surrender thereof in the exercise of such warrants, rights or similar securities or the surrender of interim receipts or temporary securities for definitive securities; provided that, in any such case, the new securities and cash, if any, are to be delivered to the Custodian;
- (10) For delivery in connection with any loans of securities made by the Fund, but only against receipt of adequate collateral as agreed upon from time to time by the Custodian and the Fund, which may be in the form of cash or obligations issued by the United States government, its agencies or instrumentalities, except that in connection with any loans for which collateral is to be credited to the Custodian's account in the book-entry system authorized by the U.S. Department of the Treasury, the Custodian will not be held liable or responsible for the delivery of securities owned by the Fund prior to the receipt of such collateral;
- (11) For delivery as security in connection with any borrowings by the Fund requiring a pledge of assets by the Fund, but only against receipt of amounts borrowed;
- (12) For delivery in accordance with the provisions of any agreement among the Fund, the Custodian and a broker-dealer registered under the Securities

-6-

8

Exchange Act of 1934 (the "Exchange Act") and a member of The National Association of Securities Dealers, Inc. ("NASD"), relating to compliance with the rules of The Options Clearing Corporation and of any registered national securities exchange, or of any similar organization or organizations, regarding escrow or other arrangements in connection with transactions by the Fund;

- (13) For delivery in accordance with the provisions of any agreement among the Fund, the Custodian, and a Futures Commission Merchant registered under the Commodity Exchange Act, relating to compliance with the rules of the Commodity Futures Trading Commission and/or any Contract Market, or any similar organization or organizations, regarding account deposits in connection with transactions by the Fund;
- (14) Upon receipt of instructions from the transfer agent ("Transfer Agent") for the Fund, for delivery to such Transfer Agent or to the holders of shares in connection with distributions in kind, as may be

described from time to time in the Fund's currently effective prospectus and statement of additional information ("prospectus"), in satisfaction of requests by holders of Shares for repurchase or redemption; and

- (15) For any other proper business purpose, but only upon receipt of, in addition to Proper Instructions, a certified copy of a resolution of the Board of Directors/Trustees or of the Executive Committee signed by an officer of the Fund and certified by the Secretary or an Assistant Secretary,

-7-

9

specifying the securities to be delivered, setting forth the purpose for which such delivery is to be made, declaring such purpose to be a proper business purpose, and naming the person or persons to whom delivery of such securities shall be made.

2.3 Registration of Securities. Domestic securities held by the Custodian (other than bearer securities) shall be registered in the name of the Fund or in the name of any nominees of the Fund or of any nominee of the Custodian which nominee shall be assigned exclusively to the Fund, unless the Fund has authorized in writing the appointment of a nominee to be used in common with other registered investment companies having the same investment adviser as the Fund, or in the name or nominee name of any agent appointed pursuant to Section 2.9 or in the name or nominee name of any sub-custodian appointed pursuant to Article 1. All securities accepted by the Custodian on behalf of the Fund under the terms of this Contract shall be in "street name" or other good delivery form. If, however, the Fund directs the Custodian to maintain securities in "street name", the Custodian shall utilize its best efforts to timely collect income due the Fund on such securities and to notify the Fund on a best efforts basis of relevant corporate actions including, without limitation, pendency of calls, maturities, tender or exchange offers.

2.4 Bank Accounts. The Custodian shall open and maintain a separate bank account or accounts in the United States in the name of the Fund, subject only to draft or order by the Custodian acting pursuant to the terms of this Contract, and shall hold in such account or accounts, subject to the provisions hereof, all cash received by it from or for the account of the Fund, other than cash maintained by the Fund, in a bank account established and used in

-8-

10

accordance with Rule 17f-3 under the Investment Company Act of 1940. Funds held by the Custodian for the Fund may be deposited by it to its credit as Custodian in the Banking Department of the Custodian or in such other banks or trust companies as it may in its discretion deem necessary or desirable; provided, however, that every such bank or trust company shall be qualified to act as a custodian under the Investment Company Act of 1940 and that each such bank or trust company and the funds to be deposited with each such bank or trust company shall be approved by vote of a majority of the Board of Directors/Trustees of the Fund. Such funds shall be deposited by the Custodian in its capacity as Custodian and shall be withdrawable by the Custodian only in that capacity.

2.5 Availability of Federal Funds. Upon mutual agreement between the Fund and the Custodian, the Custodian shall, upon the receipt of Proper Instructions, make federal funds available to the Fund as of specified times agreed upon from time to time by the Fund and the Custodian in the amount of checks received in payment for Shares of the Fund which are deposited into the Fund's account.

2.6 Collection of Income. Subject to the provisions of Section 2.3, the Custodian shall collect on a timely basis all income and other payments with respect to registered securities held hereunder to which the Fund shall be entitled either by law or pursuant to custom in the securities business, and shall collect on a timely basis all income and other payments with respect to bearer securities if, on the date of payment by the issuer, such securities are

held by the Custodian or its agent thereof and shall credit such income, as collected, to the Fund's custodian account. Without limiting the generality of the foregoing, the Custodian shall detach and present for payment all coupons and other income items requiring presentation as and when they become due and shall

-9-

11

collect interest when due on securities held hereunder. Income due the Fund on securities loaned pursuant to the provisions of Section 2.2 (10) shall be the responsibility of the Fund. The Custodian will have no duty or responsibility in connection therewith, other than to provide the Fund with such information or data as may be necessary to assist the Fund in arranging for the timely delivery to the Custodian of the income to which the Fund is properly entitled.

2.7 Payment of Fund Monies. Upon receipt of Proper Instructions, which may be continuing instructions when deemed appropriate by the parties, the Custodian shall pay out monies of the Fund in the following cases only:

- (1) Upon the purchase of securities held domestically, options, futures contracts or options on futures contracts for the account of the Fund but only (a) against the delivery of such securities, or evidence of title to such options, futures contracts or options on futures contracts, to the Custodian (or any bank, banking firm or trust company doing business in the United States or abroad which is qualified under the Investment Company Act of 1940, as amended, to act as a custodian and has been designated by the Custodian as its agent for this purpose) registered in the name of the Fund or in the name of a nominee of the Custodian referred to in Section 2.3 hereof or in proper form for transfer; (b) in the case of a purchase effected through a Securities System, in accordance with the conditions set forth in Section 2.10 hereof; (c) in the case of a purchase involving the Direct Paper System, in accordance with the conditions set forth in Section 2.10A; (d) in the case of repurchase agreements entered into between the

-10-

12

Fund and the Custodian, or another bank, or a broker-dealer which is a member of NASD, (i) against delivery of the securities either in certificate form or through an entry crediting the Custodian's account at the Federal Reserve Bank with such securities or (ii) against delivery of the receipt evidencing purchase by the Fund of securities owned by the Custodian along with written evidence of the agreement by the Custodian to repurchase such securities from the Fund or (e) for transfer to a time deposit account of the Fund in any bank, whether domestic or foreign; such transfer may be effected prior to receipt of a confirmation from a broker and/or the applicable bank pursuant to Proper Instructions from the Fund as defined in Article 5;

- (2) In connection with conversion, exchange or surrender of securities owned by the Fund as set forth in Section 2.2 hereof;
- (3) For the redemption or repurchase of Shares issued by the Fund as set forth in Article 4 hereof;
- (4) For the payment of any expense or liability incurred by the Fund, including but not limited to the following payments for the account of the Fund: interest, taxes, management, accounting, transfer agent and legal fees, and operating expenses of the

Fund whether or not such expenses are to be in whole or part capitalized or treated as deferred expenses;

- (5) For the payment of any dividends declared pursuant to the governing documents of the Fund;

-11-

13

- (6) For payment of the amount of dividends received in respect of securities sold short;
- (7) For any other proper purpose, but only upon receipt of, in addition to Proper Instructions, a certified copy of a resolution of Board of Directors/Trustees or of the Executive Committee of the Fund signed by an officer of the Fund and certified by its Secretary or an Assistant Secretary, specifying the amount of such payment, setting forth the purpose for which such payment is to be made, declaring such purpose to be a proper purpose, and naming the person or persons to whom such payment is to be made.

#### 2.8 Liability for Payment in Advance of Receipt of Securities

Purchased. Except as specifically stated otherwise in this Contract, in any and every case where payment for purchase of securities for the account of the Fund is made by the Custodian in advance of receipt of the securities purchased in the absence of specific written instructions from the Fund to so pay in advance, the Custodian shall be absolutely liable to the Fund for such securities to the same extent as if the securities had been received by the Custodian.

#### 2.9 Appointment of Agents. The Custodian may at any time or times in

its discretion appoint (and may at any time remove) any other bank or trust company which is itself qualified under the Investment Company Act of 1940, as amended, to act as a custodian, as its agent to carry out such of the provisions of this Article 2 as the Custodian may from time to time direct; provided, however, that the appointment of any agent shall not relieve the Custodian of its responsibilities or liabilities hereunder.

-12-

14

2.10 Deposit of Securities in Securities Systems. The Custodian may deposit and/or maintain domestic securities owned by the Fund in a clearing agency registered with the Securities and Exchange Commission under Section 17A of the Securities Exchange Act of 1934, which acts as a securities depository, or in the book-entry system authorized by the U.S. Department of the Treasury and certain federal agencies, collectively referred to herein as "Securities System" in accordance with applicable Federal Reserve Board and Securities and Exchange Commission rules and regulations, if any, and subject to the following provisions:

- (1) The Custodian may keep domestic securities of the Fund in a Securities System provided that such securities are represented in an account ("Account") of the Custodian in the Securities System which shall not include any assets of the Custodian other than assets held as a fiduciary, custodian or otherwise for customers;
- (2) The records of the Custodian with respect to domestic securities of the Fund which are maintained in a Securities System shall identify by book-entry those securities belonging to the Fund;
- (3) The Custodian shall pay for domestic securities purchased for the account of the Fund upon (i) receipt of advice from the Securities System that such securities have been transferred to the Account, and (ii.) the making of an entry on the records of

the Custodian to reflect such payment and transfer for the account of the Fund. The Custodian shall transfer domestic securities sold for the account of the Fund upon (i) receipt of advice from the Securities System that payment for such securities has been transferred

-13-

15

to the Account, and (ii) the making of an entry on the records of the Custodian to reflect such transfer and payment for the account of the Fund. Copies of all advices from the Securities System of transfers of domestic securities for the account of the Fund shall identify the Fund, be maintained for the Fund by the Custodian and be provided to the Fund at its request. Upon request, the Custodian shall furnish the Fund confirmation of each transfer to or from the account of the Fund in the form of a written advice or notice and shall furnish promptly to the Fund copies of daily transaction sheets reflecting each day's transactions in the Securities System for the account of the Fund.

- (4) The Custodian shall provide the Fund with any report obtained by the Custodian on the Securities System's accounting system, internal accounting control and procedures for safeguarding securities deposited in the Securities System;
- (5) The Custodian shall have received the initial or annual certificate, as the case may be, required by Article 13 hereof;
- (6) Anything to the contrary in this Contract notwithstanding, the Custodian shall be liable to the Fund for any loss or damage to the Fund resulting from use of the Securities System by reason of any negligence, misfeasance or misconduct of the Custodian or any of its agents or of any of its or their employees or from failure of the Custodian or any such agent to enforce effectively such rights as it may have against the Securities System; at the

-14-

16

election of the Fund, it shall be entitled to be subrogated to the rights of the Custodian with respect to any claim against the Securities System or any other person which the Custodian may have as a consequence of any such loss or damage if and to the extent that the Fund has not been made whole for any such loss or damage.

2.10A Fund Assets Held in the Custodian's Direct Paper System. The Custodian may deposit and/or maintain securities owned by the Fund in the Direct Paper System of the Custodian subject to the following provisions:

- (1) No transaction relating to securities in the Direct Paper System will be effected in the absence of Proper Instructions;
- (2) The Custodian may keep securities of the Fund in the Direct Paper System only if such securities are represented in an account ("Account") of the Custodian in the Direct Paper System which shall not include any assets of the Custodian other than assets held as a fiduciary, custodian or otherwise for customers;



- (3) The records of the Custodian with respect to securities of the Fund which are maintained in the Direct Paper System shall identify by book-entry those securities belonging to the Fund;
- (4) The Custodian shall pay for securities purchased for the account of the Fund upon the making of an entry on the records of the Custodian to reflect such payment and transfer of securities to the account of the Fund. The Custodian shall transfer securities sold for the account of the Fund

-15-

17

upon the making of an entry on the records of the Custodian to reflect such transfer and receipt of payment for the account of the Fund;

- (5) The Custodian shall furnish the Fund confirmation of each transfer to or from the account of the Fund, in the form of a written advice or notice, of Direct Paper on the next business day following such transfer and shall furnish to the Fund copies of daily transaction sheets reflecting each day's transaction in the Direct Paper System for the account of the Fund;
- (6) The Custodian shall provide the Fund with any report on its system of internal accounting control as the Fund may reasonably request from time to time;

2.11 Segregated Account. The Custodian shall upon receipt of Proper Instructions establish and maintain a segregated account or accounts for and on behalf of the Fund, into which account or accounts may be transferred cash and/or securities, including securities maintained in an account by the Custodian pursuant to Section 2.10 hereof, (i) in accordance with the provisions of any agreement among the Fund, the Custodian and a broker-dealer registered under the Exchange Act and a member of the NASD (or any futures commission merchant registered under the Commodity Exchange Act), relating to compliance with the rules of The Options Clearing Corporation and of any registered national securities exchange (or the Commodity Futures Trading Commission or any registered contract market), or of any similar organization or organizations, regarding escrow or other arrangements in connection with transactions by the Fund, (ii) for purposes of segregating cash, government securities or liquid, high-grade debt obligations in connection with options purchased, sold or written by the Fund or commodity futures contracts or options thereon purchased or sold by the Fund, (iii) for the purposes of

-16-

18

compliance by the Fund with the procedures required by Investment Company Act Release No. 10666, or any subsequent release or releases of the Securities and Exchange Commission relating to the maintenance of segregated accounts by registered investment companies and (iv) for other proper corporate purposes, but only, in the case of clause (iv), upon receipt of, in addition to Proper Instructions, a certified copy of a resolution of the Board of Directors/Trustees or of the Executive Committee signed by an officer of the Fund and certified by the Secretary or an Assistant Secretary, setting forth the purpose or purposes of such segregated account and declaring such purposes to be proper corporate purposes.

2.12 Ownership Certificates for Tax Purposes. The Custodian shall execute ownership and other certificates and affidavits for all federal and state tax purposes in connection with receipt of income or other payments with respect to domestic securities of the Fund held by it and in connection with transfers of such securities.

2.13 Proxies. The Custodian shall, with respect to the domestic securities held hereunder, cause to be promptly executed by the registered

holder of such securities, if the securities are registered otherwise than in the name of the Fund or a nominee of the Fund, all proxies, without indication of the manner in which such proxies are to be voted, and shall promptly deliver to the Fund such proxies, all proxy soliciting materials and all notices relating to such securities.

2.14 Communications Relating to Fund Portfolio Securities. Subject to the provisions of Section 2.3, the Custodian shall transmit promptly to the Fund all written information (including, without limitation, pendency of calls and maturities of securities held domestically and expirations of rights in connection therewith and notices of exercise of call and put options

-17-

19

written by the Fund and the maturity of futures contracts purchased or sold by the Fund) received by the Custodian from issuers of the securities being held for the Fund. With respect to tender or exchange offers, the Custodian shall transmit promptly to the Fund all written information received by the Custodian from issuers of the securities whose tender or exchange is sought and from the party (or his agents) making the tender or exchange offer. If the Fund desires to take action with respect to any tender offer, exchange offer or any other similar transaction, the Fund shall notify the Custodian at least three business days prior to the date of which the Custodian is to take such action.

2.15 Reports to Fund by Independent Public Accountants. The Custodian shall provide the Fund, at such times as the Fund may reasonably require, with reports by independent public accountants on the accounting system, internal accounting control and procedures for safeguarding securities, futures contracts and options on futures contracts, including securities deposited and/or maintained in a Securities System, relating to the services provided by the Custodian under this Contract; such reports shall be of sufficient scope and in sufficient detail, as may reasonably be required by the Fund to provide reasonable assurance that any material inadequacies would be disclosed by such examination, and, if there are no such inadequacies, the reports shall so state.

### 3. Duties of the Custodian with Respect to Property of the Fund Held Outside of the United States

3.1 Appointment of Foreign Sub-Custodians. The Fund hereby authorizes and instructs the Custodian to employ as sub-custodians for the Fund's securities and other assets maintained outside the United States the foreign banking institutions and foreign securities

-18-

20

depositories designated on Schedule A hereto ("foreign sub-custodians"). Upon receipt of "Proper Instructions", as defined in Section 5 of this Contract, together with a certified resolution of the Fund's Board of Directors/Trustees, the Custodian and the Fund may agree to amend Schedule A hereto from time to time to designate additional foreign banking institutions and foreign securities depositories to act as sub-custodian. Upon receipt of Proper Instructions, the Fund may instruct the Custodian to cease the employment of any one or more such sub-custodians for maintaining custody of the Fund's assets.

3.2 Assets to be Held. The Custodian shall limit the securities and other assets maintained in the custody of the foreign sub-custodians to: (a) "foreign securities", as defined in paragraph (c)(1) of Rule 17f-5 under the Investment Company Act of 1940, and (b) cash and cash equivalents in such amounts as the Custodian or the Fund may determine to be reasonably necessary to effect the Fund's foreign securities transactions.

3.3 Foreign Securities Depositories. Except as may otherwise be agreed upon in writing by the Custodian and the Fund, assets of the Fund shall be maintained in foreign securities depositories only through arrangements implemented by the foreign banking institutions serving as sub-custodians pursuant to the terms hereof. Where possible, such arrangements shall include entry into agreements containing the provisions set forth in Section 3.5 hereof.

3.4 Segregation of Securities. The Custodian shall identify on its books as belonging to the Fund, the foreign securities of the Fund held by each

foreign sub-custodian. Each agreement pursuant to which the Custodian employs a foreign banking institution shall require that such institution establish a custody account for the Custodian on behalf of the Fund and physically segregate in that account, securities and other assets of the Fund, and, in the event that

-19-

21

such institution deposits the Fund's securities in a foreign securities depository, that it shall identify on its books as belonging to the Custodian, as agent for the Fund, the securities so deposited.

3.5 Agreements with Foreign Banking Institutions. Each agreement with a foreign banking institution shall be substantially in the form set forth in Exhibit I hereto and shall provide that (a) the Fund's assets will not be subject to any right, charge, security interest, lien or claim of any kind in favor of the foreign banking institution or its creditors or agent, except a claim of payment for their safe custody or administration; (b) beneficial ownership of the Fund's assets will be freely transferable without the payment of money or value other than for custody or administration; (c) adequate records will be maintained identifying the assets as belonging to the Fund; (d) officers of or auditors employed by, or other representatives of the Custodian, including to the extent permitted under applicable law the independent public accountants for the Fund, will be given access to the books and records of the foreign banking institution relating to its actions under its agreement with the Custodian; and (e) assets of the Fund held by the foreign sub-custodian will be subject only to the instructions of the Custodian or its agents.

3.6 Access of Independent Accountants of the Fund. Upon request of the Fund, the Custodian will use its best efforts to arrange for the independent accountants of the Fund to be afforded access to the books and records of any foreign banking institution employed as a foreign sub-custodian insofar as such books and records relate to the performance of such foreign banking institution under its agreement with the Custodian.

3.7 Reports by Custodian. The Custodian will supply to the Fund from time to time, as mutually agreed upon, statements in respect of the securities and other assets of the Fund held

-20-

22

by foreign sub-custodians, including but not limited to an identification of entities having possession of the Fund's securities and other assets and advices or notifications of any transfers of securities to or from each custodial account maintained by a foreign banking institution for the Custodian on behalf of the Fund indicating, as to securities acquired for the Fund, the identity of the entity having physical possession of such securities.

### 3.8 Transactions in Foreign Custody Account

(a) Except as otherwise provided in paragraph (b) of this Section 3.8, the provision of Sections 2.2 and 2.7 of this Contract shall apply, in their entirety to the foreign securities of the Fund held outside the United States by foreign sub-custodians.

(b) Notwithstanding any provision of this Contract to the contrary, settlement and payment for securities received for the account of the Fund and delivery of securities maintained for the account of the Fund may be effected in accordance with the customary established securities trading or securities processing practices and procedures in the jurisdiction or market in which the transaction occurs, including, without limitation, delivering securities to the purchaser thereof or to a dealer therefore (or an agent for such purchaser or dealer) against a receipt with the expectation of receiving later payment for such securities from such purchaser or dealer.

(c) Securities maintained in the custody of a foreign sub-custodian may be maintained in the name of such entity's nominee to the same extent as set forth in Section 2.3 of this Contract, and the Fund agrees to hold any such nominee harmless from any liability as a holder of record of such securities.

3.9 Liability of Foreign Sub-Custodians. Each agreement pursuant to which the Custodian employs a foreign banking institution as a foreign sub-custodian shall require the institution to exercise reasonable care in the performance of its duties and to indemnify, and hold harmless, the Custodian and each Fund from and against any loss, damage, cost, expense, liability or claim arising out of or in connection with the institution's performance of such obligations. At the election of the Fund, it shall be entitled to be subrogated to the rights of the Custodian with respect to any claims against a foreign banking institution as a consequence of any such loss, damage, cost, expense, liability or claim if and to the extent that the Fund has not been made whole for any such loss, damage, cost, expense, liability or claim.

3.10 Liability of Custodian. The Custodian shall be liable for the acts or omissions of a foreign banking institution to the same extent as set forth with respect to sub-custodians generally in this Contract and, regardless of whether assets are maintained in the custody of a foreign banking institution, a foreign securities depository or a branch of a U.S. bank as contemplated by paragraph 3.13 hereof, the Custodian shall not be liable for any loss, damage, cost, expense, liability or claim resulting from nationalization, expropriation, currency restrictions, or acts of war or terrorism or any loss where the sub-custodian has otherwise exercised reasonable care. Notwithstanding the foregoing provisions of this paragraph 3.10, in delegating custody duties to State Street London Ltd., the Custodian shall not be relieved of any responsibility to the Fund for any loss due to such delegation, except such loss as may result from (a) political risk (including, but not limited to, exchange control restrictions, confiscation, expropriation, nationalization, insurrection, civil strife or armed hostilities) or (b) other losses (excluding a bankruptcy or insolvency of State Street London Ltd. not caused by political risk) due to Acts of God, nuclear

incident or other losses under circumstances where the Custodian and State Street London Ltd. have exercised reasonable care.

3.11 Reimbursement for Advances. If the Fund requires the Custodian to advance cash or securities for any purpose including the purchase or sale of foreign exchange or of contracts for foreign exchange, or in the event that the Custodian or its nominees shall incur or be assessed any taxes, charges, expenses, assessments, claims or liabilities in connection with the performance of this Contract, except such as any arise from its or its nominee's own negligent action, negligent failure to act or willful misconduct, any property at any time held for the account of the Fund shall be security therefor and should the Fund fail to repay the Custodian promptly, the Custodian shall be entitled to utilize available cash and to dispose of the Fund assets to the extent necessary to obtain reimbursement.

3.12 Monitoring Responsibilities. The Custodian shall furnish annually to the Fund, during the month of June, information concerning the foreign sub-custodians employed by the Custodian. Such information shall be similar in kind and scope to that furnished to the Fund in connection with the initial approval of this Contract. In addition, the Custodian will promptly inform the Fund in the event that the Custodian learns of a material adverse change in the financial condition of a foreign sub-custodian or any material loss of the assets of the Fund or in the case of any foreign sub-custodian not the subject of an exemptive order from the Securities and Exchange Commission is notified by such foreign sub-custodian that there appears to be a substantial likelihood that its shareholders' equity will decline below \$200 million (U.S. dollars or the equivalent thereof) or that its shareholders' equity has declined below \$200 million (in each case

computed in accordance with generally accepted U.S. accounting principles).

(a) Except as otherwise set forth in this Contract, the provisions of Article 3 shall not apply where the custody of the Fund assets are maintained in a foreign branch of a banking institution which is a "bank" as defined by Section 2(a)(5) of the Investment Company Act of 1940 meeting the qualification set forth in Section 26(a) of said Act. The appointment of any such branch as a sub-custodian shall be governed by paragraph 1 of this Contract.

(b) Cash held for the Fund in the United Kingdom shall be maintained in an interest bearing account established for the Fund with the Custodian's London branch, which account shall be subject to the direction of the Custodian, State Street London Ltd. or both.

4. Payments for Repurchases or Redemptions and Sales of Shares of the Fund.

From such funds as may be available for the purpose but subject to the limitations of the Articles of Incorporation/Declaration of Trust and any applicable votes of the Board of Directors/Trustees of the Fund pursuant thereto, the Custodian shall, upon receipt of instructions from the Transfer Agent, make funds available for payment to holders of Shares who have delivered to the Transfer Agent a request for redemption or repurchase of their Shares. In connection with the redemption or repurchase of Shares of the Fund, the Custodian is authorized upon receipt of instructions from the Transfer Agent to wire funds to or through a commercial bank designated by the redeeming shareholders. In connection with the redemption or repurchase of Shares of the Fund, the Custodian shall honor checks drawn on the Custodian by a holder of Shares, which checks have been furnished by the Fund to the holder of Shares, when presented to

-24-

26

the Custodian in accordance with such procedures and controls as are mutually agreed upon from time to time between the Fund and the Custodian.

The Custodian shall receive from the distributor for the Fund's Shares or from the Transfer Agent of the Fund and deposit into the Fund's account such payments as are received for Shares of the Fund issued or sold from time to time by the Fund. The Custodian will provide timely notification to the Fund and the Transfer Agent of any receipt by it of payments for Shares of the Fund.

5. Proper Instructions.

Proper Instructions as used herein means a writing signed or initialed by one or more person or persons as the officers of the Fund shall have from time to time authorized. Each such writing shall set forth the specific transaction or type of transaction involved, including a specific statement of the purpose for which such action is requested. Oral instructions will be considered Proper Instructions if the Custodian reasonably believes them to have been given by a person authorized to give such instructions with respect to the transaction involved. The Fund shall cause all oral instructions to be confirmed in writing. It is understood and agreed that the Board of Directors/Directors/Trustees has authorized (i) Prudential Mutual Fund Management Inc., as Manager of the Fund, and (ii) The Prudential Investment Corporation (or Prudential-Bache Securities Inc.), as Subadviser to the Fund, to deliver proper instructions with respect to all matters for which proper instructions are required by this Article 5. The Custodian may rely upon the certificate of an officer of the Manager or Subadviser, as the case may be, with respect to the person or persons authorized on behalf of the Manager and Subadviser, respectively, to sign, initial or give proper instructions for the purpose of this Article 5. Proper Instructions may

-25-

27

include communications effected directly between electro-mechanical or electronic devices provided that the Fund and the Custodian are satisfied that such procedures afford adequate safeguards for the Fund's assets. For purposes

of this Section, Proper Instructions shall include instructions received by the Custodian pursuant to any three-party agreement which requires a segregated asset account in accordance with Section 2.11.

6. Actions Permitted without Express Authority.

The Custodian may in its discretion, without express authority from the Fund:

(1) make payments to itself or others for minor expenses of handling securities or other similar items relating to its duties under this Contract, provided that all such payments shall be accounted for to the Fund;

(2) surrender securities in temporary form for securities in definitive form;

(3) endorse for collection, in the name of the Fund, checks, drafts and other negotiable instruments; and

(4) in general, attend to all non-discretionary details in connection with the sale, exchange, substitution, purchase, transfer and other dealings with the securities and property of the Fund except as otherwise directed by the Board of Directors/Trustees of the Fund.

7. Evidence of Authority

The Custodian shall be protected in acting upon any instructions, notice, request, consent, certificate or other instrument or paper believed by it to be genuine and to have been properly executed by or on behalf of the Fund. The Custodian may receive and accept a certified copy of a vote of the Board of Directors/Trustees of the Fund as conclusive evidence (a) of the authority of any person to act in accordance with such vote or (b) of any determination or of any action by the

-26-

28

Board of Directors/Trustees pursuant to the Articles of Incorporation/ Declaration of Trust as described in such vote, and such vote may be considered as in full force and effect until receipt by the Custodian of written notice to the contrary.

8. Duties of Custodian with Respect to the Books of Account and Calculation of Net Asset Value and Net Income.

The Custodian shall cooperate with and supply necessary information to the entity or entities appointed by the Board of Directors/Trustees of the Fund to keep the books of account of the Fund and/or compute the net asset value per share of the outstanding shares of the Fund or, if directed in writing to do so by the Fund, shall itself keep such books of account and/or compute such net asset value per share. If so directed, the Custodian shall also calculate daily the net income of the Fund as described in the Fund's currently effective prospectus and shall advise the Fund and the Transfer Agent daily of the total amounts of such net income and, if instructed in writing by an officer of the Fund to do so, shall advise the Transfer Agent periodically of the division of such net income among its various components. The calculations of the net asset value per share and the daily income of the Fund shall be made at the time or times described from time to time in the Fund's currently effective prospectus.

9. Records

The Custodian shall create and maintain all records relating to its activities and obligations under this Contract in such manner as will meet the obligations of the Fund under the Investment Company Act of 1940, with particular attention to Section 31 thereof and Rules 31a-1 and 31a-2 thereunder. All such records shall be the property of the Fund and shall at all times during the regular business hours of the Custodian be open for inspection by duly authorized officers,

-27-

employees or agents of the Fund and employees and agents of the Securities and Exchange Commission. The Custodian shall, at the Fund's request, supply the Fund with a tabulation of securities owned by the Fund and held by the Custodian and shall, when requested to do so by the Fund and for such compensation as shall be agreed upon between the Fund and the Custodian, include certificate numbers in such tabulations.

10. Opinion of Fund's Independent Accountant

The Custodian shall take all reasonable action, as the Fund may from time to time request, to obtain from year to year favorable opinions from the Fund's independent accountants with respect to its activities hereunder in connection with the preparation of the Fund's Form N-1A, Form N-2 (in the case of a closed end fund) and Form N-SAR or other periodic reports to the Securities and Exchange Commission and with respect to any other requirements of such Commission.

11. Compensation of Custodian

The Custodian shall be entitled to reasonable compensation for its services and expenses as Custodian, as agreed upon from time to time between the Fund and the Custodian.

12. Responsibility of Custodian

So long as and to the extent that it is in the exercise of reasonable care, the Custodian shall not be responsible for the title, validity or genuineness of any property or evidence of title thereto received by it or delivered by it pursuant to this Contract and shall be held harmless in acting upon any notice, request, consent, certificate or other instrument reasonably believed by it to be genuine and to be signed by the proper party or parties, including any futures commission merchant acting pursuant to the terms of a three-party futures or options agreement. The Custodian shall be held

-28-

to the exercise of reasonable care in carrying out the provisions of this Contract but shall be kept indemnified by and shall be without liability to the Fund for any action taken or omitted by it in good faith without negligence. It shall be entitled to rely on and may act upon advice of counsel (who may be counsel for the Fund) on all matters, and shall be without liability for any action reasonably taken or omitted pursuant to such advice. Notwithstanding the foregoing, the responsibility of the Custodian with respect to redemptions effected by check shall be in accordance with a separate Agreement entered into between the Custodian and the Fund.

The Custodian shall be liable for the acts or omissions of a foreign banking institution appointed pursuant to the provisions of Article 3 to the same extent as set forth in Article 1 hereof with respect to sub-custodians located in the United States and, regardless of whether assets are maintained in the custody of a foreign banking institution, a foreign securities depository or a branch of a U.S. bank as contemplated by paragraph 3.11 hereof, the Custodian shall not be liable for any loss, damage, cost, expense, liability or claim resulting from, or caused by, the direction of or authorization by the Fund to maintain custody or any securities or cash of the Fund in a foreign country including, but not limited to, losses resulting from nationalization, expropriation, currency restrictions, or acts of war or terrorism.

If the Fund requires the Custodian to take any action with respect to securities, which action involves the payment of money or which action may, in the opinion of the Custodian, result in the Custodian or its nominee assigned to the Fund being liable for the payment of money or incurring liability of some other form, the Fund, as a prerequisite to requiring the Custodian to take such action, shall provide indemnity to the Custodian in an amount and form satisfactory to it.

-29-

If the Fund requires the Custodian to advance cash or securities for any purpose or in the event that the Custodian or its nominee shall incur or be assessed any taxes, charges, expenses, assessments, claims or liabilities in connection with the performance of this Contract, except such as may arise from its or its nominee's own negligent action, negligent failure to act or willful misconduct, any property at any time held for the account of the Fund shall be security therefor and should the Fund fail to repay the Custodian promptly, the Custodian shall be entitled to utilize available cash and to dispose of the Fund assets to the extent necessary to obtain reimbursement provided, however that, prior to disposing of Fund assets hereunder, the Custodian shall give the Fund notice of its intention to dispose of assets identifying such assets and the Fund shall have one business day from receipt of such notice to notify the Custodian if the Fund wishes the Custodian to dispose of Fund assets of equal value other than those identified in such notice.

13. Effective Period, Termination and Amendment

This Contract shall become effective as of its execution, shall continue in full force and effect until terminated as hereinafter provided, may be amended at any time by mutual agreement of the parties hereto and may be terminated by either party by an instrument in writing delivered or mailed, postage prepaid to the other party, such termination to take effect not sooner than sixty (60) days after the date of such delivery or mailing; provided, however that the Custodian shall not act under Section 2.10 hereof in the absence of receipt of an initial certificate of the Secretary or an Assistant Secretary that the Board of Directors/Trustees of the Fund has approved the initial use of a particular Securities System and the receipt of an annual certificate of the Secretary or an Assistant Secretary that the Board of Directors/Trustees has reviewed the use by the Fund of such Securities System, as required in each case by Rule 17f-4 under the Investment Company Act of

-30-

1940, as amended and that the Custodian shall not act under Section 2.10A hereof in the absence of receipt of an initial certificate of the Secretary or an Assistant Secretary that the Board of Directors/Trustees has approved the initial use of the Direct Paper System and the receipt of an annual certificate of the Secretary or an Assistant Secretary that the Board of Directors/Trustees has reviewed the use by the Fund of the Direct Paper System; provided further, however, that the Fund shall not amend or terminate this Contract in contravention of any applicable federal or state regulations, or any provision of the Articles of Incorporation/Declaration of Trust, and further, provided, that the Fund may at any time by action of its Board of Directors/Trustees (i) substitute another bank or trust company for the Custodian by giving notice as described above to the Custodian, or (ii) immediately terminate this Contract in the event of the appointment of a conservator or receiver for the Custodian by the Comptroller of the Currency or upon the happening of a like event at the direction of an appropriate regulatory agency or court of competent jurisdiction.

Upon termination of the Contract, the Fund shall pay to the Custodian such compensation as may be due as of the date of such termination and shall likewise reimburse the Custodian for its costs, expenses and disbursements.

14. Successor Custodian

If a successor custodian shall be appointed by the Board of Directors/Trustees of the Fund, the Custodian shall, upon termination, deliver to such successor custodian at the office of the Custodian, duly endorsed and in the form for transfer, all securities then held by it hereunder and shall transfer to an account of the successor custodian all of the Fund's securities held in a Securities System.

-31-

If no such successor custodian shall be appointed, the Custodian shall, in like manner, upon receipt of a certified copy of a vote of the Board of Directors/Trustees of the Fund, deliver at the office of the Custodian and transfer such securities, funds and other properties in accordance with such vote.



In the event that no written order designating a successor custodian or certified copy of a vote of the Board of Directors/Trustees shall have been delivered to the Custodian on or before the date when such termination shall become effective, then the Custodian shall have the right to deliver to a bank or trust company, which is a "bank" as defined in the Investment Company Act of 1940, doing business in Boston, Massachusetts, of its own selection, having an aggregate capital, surplus, and undivided profits, as shown by its last published report, of not less than \$25,000,000, all securities, funds and other properties held by the Custodian and all instruments held by the Custodian relative thereto and all other property held by it under this Contract and to transfer to an account of such successor custodian all of the Fund's securities held in any Securities System. Thereafter, such bank or trust company shall be the successor of the Custodian under this Contract.

In the event that securities, funds and other properties remain in the possession of the Custodian after the date of termination hereof owing to failure of the Fund to procure the certified copy of the vote referred to or of the Board of Directors/Trustees to appoint a successor custodian, the Custodian shall be entitled to fair compensation for its services during such period as the Custodian retains possession of such securities, funds and other properties and the provisions of this Contract relating to the duties and obligations of the Custodian shall remain in full force and effect.

-32-

34

15. Interpretive and Additional Provisions

In connection with the operation of this Contract, the Custodian and the Fund may from time to time agree on such provisions interpretive of or in addition to the provisions of this Contract as may in their joint opinion be consistent with the general tenor of this Contract. Any such interpretive or additional provisions shall be in a writing signed by both parties and shall be annexed hereto, provided that no such interpretive or additional provisions shall contravene any applicable federal or state regulations or any provision of the Articles of Incorporation/Declaration of Trust of the Fund. No interpretive or additional provisions made as provided in the preceding sentence shall be deemed to be an amendment of this Contract.

16. Massachusetts Law to Apply

This Contract shall be construed and the provisions thereof interpreted under and in accordance with laws of the Commonwealth of Massachusetts.

17. Prior Contracts

This Contract supersedes and terminates, as of the date hereof, all prior contracts between the Fund and the Custodian relating to the custody of the Fund's assets.

18. The Parties

All references herein to the "Fund" are to each of the Funds listed on Appendix A individually, as if this Contract were between such individual Fund and the Custodian. With respect to any Fund listed on Appendix A which is organized as a Massachusetts Business Trust, references to Board of Directors and Articles of Incorporation shall be deemed a reference to Board of Directors/Trustees and Articles of Incorporation/Declaration of Trust respectively and reference to shares of capital stock shall be deemed a reference to shares of beneficial interest.

-33-

35

19. Limitation of Liability

Each Fund listed on Appendix A that is referenced as a Massachusetts Business Trust is the designation of the Directors/Trustees under a Articles of Incorporation/Declaration of Trust, dated (see Appendix A) and all persons dealing with the Fund must look solely to the property of the Fund for the enforcement of any claims against the Fund as neither the Directors/Trustees, officers, agents or shareholders assume any personal liability for obligations entered into on behalf of the Fund.

IN WITNESS WHEREOF, each of the parties has caused this instrument to be executed in its name and behalf by its duly authorized representative and its seal to be hereunder affixed as of the dates set forth on Appendix A.

ATTEST

STATE STREET BANK AND TRUST COMPANY

\_\_\_\_\_  
Assistant Secretary

By \_\_\_\_\_  
Vice President

ATTEST

EACH OF THE FUNDS LISTED ON APPENDIX A

\_\_\_\_\_  
Deborah A. Docs  
Secretary

By \_\_\_\_\_  
Robert F. Gunia  
Vice President

## AMENDMENT TO CUSTODIAN CONTRACT/AGREEMENT

This Amendment to the respective Custodian Contract/Agreement is made as of February 22, 1999 by and between each of the funds listed on Schedule D (including any series thereof, each, a "Fund") and State Street Bank and Trust Company (the "Custodian"). Capitalized terms used in this Amendment without definition shall have the respective meanings given to such terms in the Custodian Contract/Agreement referred to below.

WHEREAS, each Fund and the Custodian have entered into a Custodian Contract/Agreement dated as of the dates set forth on Schedule D (each contract, as amended, a "Contract"); and

WHEREAS, each Fund and the Custodian desire to amend certain provisions of the Contract to reflect revisions to Rule 17f-5 ("Rule 17f-5") promulgated under the Investment Company Act of 1940, as amended (the "1940 Act"); and

WHEREAS, each Fund and the Custodian desire to amend and restate certain other provisions of the Contract relating to the custody of assets of each of the Funds held outside of the United States.

NOW THEREFORE, in consideration of the foregoing and the mutual covenants and agreements hereinafter contained, the parties hereby agree to amend the Contract, to add the following new provisions which supersede the provisions in the existing contracts relating to the custody of assets of the Funds outside the United States.

3. THE CUSTODIAN AS FOREIGN CUSTODY MANAGER.

3.1. DEFINITIONS.

Capitalized terms in this Article 3 shall have the following meanings:

"Country Risk" means all factors reasonably related to the systemic risk of holding Foreign Assets in a particular country including, but not limited to, such country's political environment; economic and financial infrastructure; systemic custody and securities settlement practices; and laws and regulations applicable to the safekeeping and recovery of Foreign Assets held in custody in that country.

"Eligible Foreign Custodian" has the meaning set forth in section (a)(1) of Rule 17f-5, including a majority-owned or indirect subsidiary of a U.S. Bank (as defined in Rule 17f-5), a bank holding company meeting the requirements of an Eligible Foreign Custodian (as set forth in Rule 17f-5 or by other appropriate action of the U.S. Securities and Exchange Commission (the "SEC")), or a foreign branch of a Bank (as defined in Section 2(a)(5) of the 1940 Act) meeting the requirements of a custodian under Section 17(f) of the 1940 Act, except that the term does not include Mandatory Securities Depositories.

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2

"Foreign Assets" means any of the Funds' investments (including foreign currencies) for which the primary market is outside the United States and such cash and cash equivalents as are reasonably necessary to effect the Funds' transactions in such investments.

"Foreign Custody Manager" has the meaning set forth in section (a)(2) of Rule 17f-5.

"Mandatory Securities Depository" means a foreign securities depository or clearing agency that, either as a legal or practical matter, must be used if the Fund determines to place Foreign Assets in a country outside the United States (i) because required by law or regulation; (ii) because securities cannot be withdrawn from such foreign securities depository or clearing agency; or (iii) because maintaining or effecting trades in securities outside the foreign securities depository or clearing agency is not consistent with systemic

custodial or market practices.

### 3.2. DELEGATION TO THE CUSTODIAN AS FOREIGN CUSTODY MANAGER.

Each Fund, by resolution adopted by its Board of Trustees/Directors (the "Board"), hereby delegates to the Custodian subject to Section (b) of Rule 17f-5, the responsibilities set forth in this Article 3 with respect to Foreign Assets of the Fund held outside the United States, and the Custodian hereby accepts such delegation, as Foreign Custody Manager with respect to the Funds.

### 3.3. COUNTRIES COVERED.

The Foreign Custody Manager shall be responsible for performing the delegated responsibilities defined below only with respect to the countries and custody arrangements for each such country listed on Schedule A to this Contract, which list of countries may be amended from time to time by the Fund with the agreement of the Foreign Custody Manager. The Foreign Custody Manager shall list on Schedule A the Eligible Foreign Custodians selected by the Foreign Custody Manager to maintain the assets of the Funds which list of Eligible Foreign Custodians may be amended from time to time in the sole discretion of the Foreign Custody Manager. Mandatory Securities Depositories are listed on Schedule B to this Contract, which Schedule B may be amended from time to time by the Foreign Custody Manager upon reasonable notice to the Fund. The Foreign Custody Manager will provide amended versions of Schedules A and B in accordance with Section 3.7 of this Article 3.

Upon the receipt by the Foreign Custody Manager of Proper Instructions to open an account or to place or maintain Foreign Assets in a country listed on Schedule A, and the fulfillment by a Fund of the applicable account opening requirements for such country, the Foreign Custody Manager shall be deemed to have been delegated by that Fund's Board responsibility as Foreign Custody Manager with respect to that country and to have accepted such delegation. Execution of this Amendment by the Fund shall be deemed to be a Proper Instruction to open an account, or to place or maintain Foreign Assets, in each country listed on Schedule A in which the Custodian has previously placed or currently maintains Foreign Assets pursuant to the terms of the Contract.

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3

Following the receipt of Proper Instructions directing the Foreign Custody Manager to close the account of a Fund with the Eligible Foreign Custodian selected by the Foreign Custody Manager in a designated country, the delegation by that Fund's Board to the Custodian as Foreign Custody Manager for that country shall be deemed to have been withdrawn and the Custodian shall immediately cease to be the Foreign Custody Manager of the Fund with respect to that country.

The Foreign Custody Manager may withdraw its acceptance of delegated responsibilities with respect to a designated country upon written notice to the Fund. Thirty days (or such longer period as to which the parties agree in writing) after receipt of any such notice by the Fund, the Custodian shall have no further responsibility as Foreign Custody Manager to the Fund with respect to the country as to which the Custodian's acceptance of delegation is withdrawn.

### 3.4. SCOPE OF DELEGATED RESPONSIBILITIES.

#### 3.4.1. SELECTION OF ELIGIBLE FOREIGN CUSTODIANS.

Subject to the provisions of this Article 3, the Fund's Foreign Custody Manager may place and maintain the Foreign Assets in the care of the Eligible Foreign Custodian selected by the Foreign Custody Manager in each country listed on Schedule A, as amended from time to time.

In performing its delegated responsibilities as Foreign Custody Manager to place or maintain Foreign Assets with an Eligible Foreign Custodian, the Foreign Custody Manager shall determine that the Foreign Assets will be subject to reasonable care, based on the standards applicable to custodians in the country in which the Foreign Assets will be held by that Eligible Foreign Custodian, after considering all factors relevant to the safekeeping of such assets,

including, without limitation the factors specified in Rule 17f-5(c)(1).

#### 3.4.2. CONTRACTS WITH ELIGIBLE FOREIGN CUSTODIANS.

The Foreign Custody Manager shall determine that the contract (or the rules or established practices or procedures in the case of an Eligible Foreign Custodian that is a foreign securities depository or clearing agency) governing the foreign custody arrangements with each Eligible Foreign Custodian selected by the Foreign Custody Manager will satisfy the requirements of Rule 17f-5(c)(2).

#### 3.4.3. MONITORING.

In each case in which the Foreign Custody Manager maintains Foreign Assets with an Eligible Foreign Custodian selected by the Foreign Custody Manager, the Foreign Custody Manager shall establish a system to monitor (i) the appropriateness of maintaining the Foreign Assets with such Eligible Foreign Custodian and (ii) the contract governing the custody arrangements established by the Foreign Custody Manager with the Eligible Foreign Custodian (or the rules or established practices and procedures in the case of an Eligible Foreign Custodian selected by the Foreign Custody Manager which is a foreign securities depository or clearing agency that is not a

3

4

Mandatory Securities Depository). The Foreign Custody Manager shall provide the Board at least annually with information as to the factors used in such monitoring system. If the Foreign Custody Manager determines that the custody arrangements with an Eligible Foreign Custodian it has selected are no longer appropriate, the Foreign Custody Manager shall notify the Board in accordance with Section 3.7 hereunder and withdraw the Foreign Assets from such Eligible Foreign Custodian as soon as reasonably practicable.

#### 3.5. GUIDELINES FOR THE EXERCISE OF DELEGATED AUTHORITY.

For purposes of this Article 3, the Foreign Custody Manager shall have no responsibility for Country Risk as is incurred by placing and maintaining the Foreign Assets in each country for which the Custodian is serving as Foreign Custody Manager of the Portfolios. The Fund and the Custodian each expressly acknowledge that the Foreign Custody Manager shall not be delegated any responsibilities under this Article 3 with respect to Mandatory Securities Depositories.

#### 3.6. STANDARD OF CARE AS FOREIGN CUSTODY MANAGER OF A PORTFOLIO.

In performing the responsibilities delegated to it, the Foreign Custody Manager agrees to exercise reasonable care, prudence and diligence such as a person having responsibility for the safekeeping of assets of management investment companies registered under the 1940 Act would exercise.

#### 3.7. REPORTING REQUIREMENTS.

The Foreign Custody Manager shall report the placement of Foreign Assets with an Eligible Foreign Custodian, the withdrawal of the Foreign Assets from an Eligible Foreign Custodian and the placement of such Foreign Assets with another Eligible Foreign Custodian by providing to the Board amended Schedules A or B at the end of the calendar quarter in which an amendment to either Schedule has occurred. The Foreign Custody Manager shall make written reports notifying the Board of any other material change in the foreign custody arrangements of the Funds described in this Article 3 promptly after the occurrence of the material change.

#### 3.8. REPRESENTATIONS WITH RESPECT TO RULE 17f-5.

The Foreign Custody Manager represents to the Fund that it is a U.S. Bank as defined in section (a)(7) of Rule 17f-5.

#### 3.9. EFFECTIVE DATE AND TERMINATION OF THE CUSTODIAN AS FOREIGN CUSTODY MANAGER.

The Board's delegation to the Custodian as Foreign Custody Manager of the Funds

shall be effective as of the date hereof and shall remain in effect until terminated at any time, without penalty, by written notice from the terminating party to the non-terminating party. Termination will become effective sixty (60) days after receipt by the non-terminating party of such notice. The provisions of Section 3.3 hereof shall govern the delegation to and termination of the Custodian as Foreign Custody Manager of the Funds with respect to designated countries.

4

5

3.10. MOST FAVORED CLIENT.

If at any time prior to termination of this Amendment, the Custodian, as a matter of standard business practice, accepts delegation as Foreign Custody Manager for its U.S. mutual fund clients on terms of materially greater benefit to the Funds than set forth in this Amendment, the Custodian hereby agrees to negotiate with the Funds in good faith with respect thereto.

4. DUTIES OF THE CUSTODIAN WITH RESPECT TO PROPERTY OF THE FUNDS HELD OUTSIDE THE UNITED STATES.

4.1 DEFINITIONS.

Capitalized terms in this Article 4 shall have the following meanings:

"Foreign Securities System" means either a clearing agency or a securities depository listed on Schedule A hereto or a Mandatory Securities Depository listed on Schedule B hereto.

"Foreign Sub-Custodian" means a foreign banking institution (including a foreign branch of the Custodian or another Bank (as defined in Section 2(a)(5) of the 1940 Act)) serving as an Eligible Foreign Custodian.

4.2. HOLDING SECURITIES.

The Custodian shall identify on its books as belonging to the Funds the foreign securities held by each Foreign Sub-Custodian or Foreign Securities System. The Custodian may hold foreign securities for all of its customers, including the Funds, with any Foreign Sub-Custodian in an account that is identified as belonging to the Custodian for the benefit of its customers, provided however, that (i) the records of the Custodian with respect to foreign securities of the Funds which are maintained in such account shall identify those securities as belonging to the Funds and (ii), to the extent permitted and customary in the market in which the account is maintained, the Custodian shall require that securities so held by the Foreign Sub-Custodian be held separately from any assets of such Foreign Sub-Custodian or of other customers of such Foreign Sub-Custodian.

4.3. FOREIGN SECURITIES SYSTEMS.

Foreign securities shall be maintained in a Foreign Securities System in a designated country only through arrangements implemented by the Foreign Sub-Custodian in such country pursuant to the terms of this Contract.

4.4. TRANSACTIONS IN FOREIGN CUSTODY ACCOUNT.

4.4.1. DELIVERY OF FOREIGN ASSETS.

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6

The Custodian or a Foreign Sub-Custodian shall release and deliver foreign securities of the Funds held by such Foreign Sub-Custodian, or in a Foreign Securities System account, only upon receipt of Proper Instructions, which may be continuing instructions when deemed appropriate by the parties, and only in the following cases:

- (i) upon the sale of such foreign securities for the Fund in accordance with customary market practice in the country where such foreign securities are held or traded, including, without limitation: (A) delivery against expectation of receiving

later payment; or (B) in the case of a sale effected through a Foreign Securities System, in accordance with the rules governing the operation of the Foreign Securities System;

- (ii) in connection with any repurchase agreement related to foreign securities;
- (iii) to the depository agent in connection with tender or other similar offers for foreign securities of the Portfolios;
- (iv) to the issuer thereof or its agent when such foreign securities are called, redeemed, retired or otherwise become payable;
- (v) to the issuer thereof, or its agent, for transfer into the name of the Custodian (or the name of the respective Foreign Sub-Custodian or of any nominee of the Custodian or such Foreign Sub-Custodian) or for exchange for a different number of bonds, certificates or other evidence representing the same aggregate face amount or number of units;
- (vi) to brokers, clearing banks or other clearing agents for examination or trade execution in accordance with reasonable market custom; provided that in any such case the Foreign Sub-Custodian shall have no responsibility or liability for any loss arising from the delivery of such securities prior to receiving payment for such securities except as may arise from the Foreign Sub-Custodian's own negligence or willful misconduct;
- (vii) for exchange or conversion pursuant to any plan of merger, consolidation, recapitalization, reorganization or readjustment of the securities of the issuer of such securities, or pursuant to provisions for conversion contained in such securities, or pursuant to any deposit agreement;
- (viii) in the case of warrants, rights or similar foreign securities, the surrender thereof in the exercise of such warrants, rights or similar securities or the surrender of interim receipts or temporary securities for definitive securities;
- (ix) for delivery as security in connection with any borrowing by the Funds requiring a

6

7

pledge of assets by the Funds;

- (x) in connection with trading in options and futures contracts, including delivery as original margin and variation margin;
- (xi) in connection with the lending of foreign securities; and
- (xii) for any other proper purpose, but only upon receipt of Proper Instructions specifying the foreign securities to be delivered, setting forth the purpose for which such delivery is to be made, declaring such purpose to be a proper trust\corporate purpose, and naming the person or persons to whom delivery of such securities shall be made.

#### 4.4.2. PAYMENT OF FUND MONIES.

Upon receipt of Proper Instructions, which may be continuing instructions when deemed appropriate by the parties, the Custodian shall pay out, or direct the respective Foreign Sub-Custodian or the respective Foreign Securities System to pay out, monies of a Fund in the following cases only:

- (i) upon the purchase of foreign securities for the Fund, unless otherwise directed by Proper Instructions, in accordance with reasonable market settlement practice in the country where

such foreign securities are held or traded, including, without limitation, (A) delivering money to the seller thereof or to a dealer therefor (or an agent for such seller or dealer) against expectation of receiving later delivery of such foreign securities; or (B) in the case of a purchase effected through a Foreign Securities System, in accordance with the rules governing the operation of such Foreign Securities System;

- (ii) in connection with the conversion, exchange or surrender of foreign securities of the Fund;
- (iii) for the payment of any expense or liability of the Fund, including but not limited to the following payments: interest, taxes, investment advisory fees, transfer agency fees, fees under this Contract, legal fees, accounting fees, and other operating expenses;
- (iv) for the purchase or sale of foreign exchange or foreign exchange contracts for the Fund, including transactions executed with or through the Custodian or its Foreign Sub-Custodians;
- (v) in connection with trading in options and futures contracts, including delivery as original margin and variation margin;

7

8

- (vi) for payment of part or all of the dividends received in respect of securities sold short;
- (vii) in connection with the borrowing or lending of foreign securities; and
- (viii) for any other proper purpose, but only upon receipt of Proper Instructions specifying the amount of such payment, setting forth the purpose for which such payment is to be made, declaring such purpose to be a proper trust\corporate purpose, and naming the person or persons to whom such payment is to be made.

#### 4.4.3. MARKET CONDITIONS; MARKET INFORMATION.

Notwithstanding any provision of this Contract to the contrary, settlement and payment for Foreign Assets received for the account of the Funds and delivery of Foreign Assets maintained for the account of the Funds may be effected in accordance with the customary established securities trading or processing practices and procedures in the country or market in which the transaction occurs generally accepted by Institutional Clients, including, without limitation, delivering Foreign Assets to the purchaser thereof or to a dealer therefor (or an agent for such purchaser or dealer) with the expectation of receiving later payment for such Foreign Assets from such purchaser or dealer.

For purposes of this Agreement, the term "Institutional Clients" means U.S. registered investment companies or major U.S. commercial banks, insurance companies, pension funds or substantially similar institutions which, as a part of their ordinary business operations, purchase or sell securities and make use of global custody services.

The Custodian shall provide to the Board information with respect to material changes in the custody and settlement practices in countries in which the Custodian employs a Foreign Sub-Custodian. The Custodian shall provide, without limitation, information relating to Foreign Securities Systems and other information described in Schedule C. The Custodian may revise Schedule C from time to time, provided that no such revision shall result in the Board being provided with substantively less information than had previously been provided hereunder and provided further that the Custodian shall in any event provide to the Board at least annually the following information and opinions with respect to the Board approved countries listed on Schedule A:

- (i) legal opinions relating to whether local law restricts with



respect to U.S. registered mutual funds (a) access of a fund's independent public accountants to books and records of a Foreign Sub-Custodian or Foreign Securities System, (b) a fund's ability to recover in the event of bankruptcy or insolvency of a Foreign Sub-Custodian or Foreign Securities System, (c) a fund's ability to recover in the event of a loss by a Foreign Sub-Custodian or Foreign Securities System, and (d) the ability of a foreign investor to convert cash and cash equivalents to U.S. dollars;

8

9

- (ii) summary of information regarding Foreign Securities Systems; and
- (iii) country profile information containing market practice for (a) delivery versus payment, (b) settlement method, (c) currency restrictions, (d) buy-in practices, (e) foreign ownership limits, and (f) unique market arrangements.

#### 4.5. REGISTRATION OF FOREIGN SECURITIES.

The foreign securities maintained in the custody of a Foreign Sub-Custodian (other than bearer securities) shall be registered in the name of the applicable series or in the name of the Custodian or in the name of any Foreign Sub-Custodian or in the name of any nominee of the foregoing, and the Fund agrees to hold any such nominee harmless from any liability as a holder of record of such foreign securities, except to the extent that the Fund incurs loss or damage due to failure of such nominee to meet its standard of care set forth in the Contract. The Custodian or a Foreign Sub-Custodian shall not be obligated to accept securities on behalf of a Fund under the terms of this Contract unless the form of such securities and the manner in which they are delivered are in accordance with reasonable market practice.

#### 4.6. BANK ACCOUNTS.

The Custodian shall identify on its books as belonging to the Fund cash (including cash denominated in foreign currencies) deposited with the Custodian. Where the Custodian is unable to maintain, or market practice does not facilitate the maintenance of, cash on the books of the Custodian, a bank account or bank accounts opened and maintained outside the United States on behalf of a Fund with a Foreign Sub-Custodian shall be subject only to draft or order by the Custodian or such Foreign Sub-Custodian, acting pursuant to the terms of this Contract to hold cash received by or from or for the account of the Portfolio.

#### 4.7. COLLECTION OF INCOME.

The Custodian shall use reasonable commercial efforts to collect all income and other payments with respect to the Foreign Assets held hereunder to which the Funds shall be entitled and shall credit such income, as collected, to the applicable Fund. In the event that extraordinary measures are required to collect such income, the Fund and the Custodian shall consult as to such measures and as to the compensation and expenses of the Custodian relating to such measures.

#### 4.8. SHAREHOLDER RIGHTS.

With respect to the foreign securities held pursuant to this Article 4, the Custodian will use reasonable commercial efforts to facilitate the exercise of voting and other shareholder rights, subject always to the laws, regulations and practical constraints that may exist in the country where such securities are issued. The Fund acknowledges that local conditions, including lack of

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regulation, onerous procedural obligations, lack of notice and other factors may

have the effect of severely limiting the ability of the Fund to exercise shareholder rights.

#### 4.9. COMMUNICATIONS RELATING TO FOREIGN SECURITIES.

The Custodian shall transmit promptly to the Fund written information (including, without limitation, pendency of calls and maturities of foreign securities and expirations of rights in connection therewith) received by the Custodian via the Foreign Sub-Custodians from issuers of the foreign securities being held for the account of the Funds. With respect to tender or exchange offers, the Custodian shall transmit promptly to the Fund written information so received by the Custodian from issuers of the foreign securities whose tender or exchange is sought or from the party (or its agents) making the tender or exchange offer. Subject to the standard of care to which the Custodian is held under this Agreement, the Custodian shall not be liable for any untimely exercise of any tender, exchange or other right or power in connection with foreign securities or other property of the Funds at any time held by it unless (i) the Custodian or the respective Foreign Sub-Custodian is in actual possession of such foreign securities or property and (ii) the Custodian receives Proper Instructions with regard to the exercise of any such right or power, and both (i) and (ii) occur at least three business days prior to the date on which the Custodian is to take action to exercise such right or power.

#### 4.10. LIABILITY OF FOREIGN SUB-CUSTODIANS AND FOREIGN SECURITIES SYSTEMS.

Each agreement pursuant to which the Custodian employs a Foreign Sub-Custodian shall, to the extent possible, require the Foreign Sub-Custodian to exercise reasonable care in the performance of its duties and, to the extent possible, to indemnify, and hold harmless, the Custodian from and against any loss, damage, cost, expense, liability or claim arising out of or in connection with the Foreign Sub-Custodian's performance of such obligations. At each Fund's election, a Fund shall be entitled to be subrogated to the rights of the Custodian with respect to any claims against a Foreign Sub-Custodian as a consequence of any such loss, damage, cost, expense, liability or claim if and to the extent that a Fund and any applicable series have not been made whole for any such loss, damage, cost, expense, liability or claim.

#### 4.11. TAX LAW.

Except to the extent that imposition of any tax liability arises from the Custodian's failure to perform in accordance with the terms of this Section 4.11 or from the failure of any Foreign Sub-Custodian to perform in accordance with the terms of the applicable subcustody agreement, the Custodian shall have no responsibility or liability for any obligations now or hereafter imposed on a Fund, a series thereof or the Custodian as custodian of the Fund by the tax law of the United States or of any state or political subdivision thereof. It shall be the responsibility of each Fund to notify the Custodian of the obligations imposed on the Fund or the Custodian as custodian of the Fund by the tax law of countries other than those mentioned in the above sentence, including responsibility for withholding and other taxes, assessments or other governmental charges, certifications and governmental reporting. The sole responsibility of the Custodian with regard to

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11

such tax law shall be to use reasonable efforts to assist the Fund with respect to any claim for exemption or refund under the tax law of countries for which the Fund has provided such information.

#### 4.12. LIABILITY OF CUSTODIAN.

Except as may arise from the Custodian's own negligence or willful misconduct or the negligence or willful misconduct of a Sub-Custodian, the Custodian shall be without liability to a Fund for any loss, liability, claim or expense resulting from or caused by anything which is (A) part of Country Risk or (B) part of the "prevailing country risk" of the Fund, as such term is used in SEC Release Nos. IC-22658; IS-1080 (May 12, 1997) or as such term or other similar terms are now or in the future interpreted by the SEC or by the staff of the Division of Investment Management of the SEC.

The Custodian shall be liable for the acts or omissions of a Foreign Sub-Custodian to the same extent as set forth with respect to sub-custodians generally in the Contract and, regardless of whether assets are maintained in the custody of a Foreign Sub-Custodian or a Foreign Securities System, the Custodian shall not be liable for any loss, damage, cost, expense, liability or claim resulting from nationalization, expropriation, currency restrictions, or acts of war or terrorism, or any other loss where the Sub-Custodian has otherwise acted with reasonable care.

III. Except as specifically superseded or modified herein, the terms and provisions of the Contract shall continue to apply with full force and effect. In the event of any conflict between the terms of the Contract prior to this Amendment and this Amendment, the terms of this Amendment shall prevail. If the Custodian is delegated the responsibilities of Foreign Custody Manager pursuant to the terms of Article 3 hereof, in the event of any conflict between the provisions of Articles 3 and 4 hereof, the provisions of Article 3 shall prevail.

11

12

IN WITNESS WHEREOF, each of the parties has caused this Amendment to be executed in its name and behalf by its duly authorized representative as of the date first above written.

<TABLE>  
<CAPTION>

WITNESSED BY:

STATE STREET BANK AND TRUST  
COMPANY

<S>  
/s/ Marc L. Parsons  
-----  
Marc L. Parsons  
Associate Counsel

<C>  
By: /s/ Ronald E. Logue  
-----  
Ronald E. Logue  
Executive Vice President

Cash Accumulation Trust  
Command Government Fund  
Command Money Fund  
Command Tax-Free Fund  
Global Utility Fund, Inc.  
Nicholas-Applegate Fund, Inc.  
Prudential 20/20 Focus Fund  
Prudential Balanced Fund  
Prudential California Municipal Fund  
Prudential Developing Markets Fund  
Prudential Distressed Securities Fund, Inc.  
Prudential Diversified Bond Fund, Inc.  
Prudential Diversified Funds  
Prudential Index Series Fund  
Prudential Emerging Growth Fund, Inc.  
Prudential Equity Fund, Inc.  
Prudential Equity Income Fund  
Prudential Europe Growth Fund  
Prudential Global Genesis Fund, Inc.  
Prudential Global Limited Maturity Fund, Inc.  
Prudential Government Income Fund, Inc.  
Prudential Government Securities Trust  
Prudential High Yield Fund, Inc.  
Prudential High Yield Total Return Fund, Inc.  
Prudential Institutional Liquidity Portfolio, Inc.  
Prudential Intermediate Global Income Fund, Inc.  
Prudential International Bond Fund, Inc.  
The Prudential Investment Portfolios Fund, Inc.  
Prudential Mid-Cap Value Fund  
Prudential MoneyMart Assets, Inc.

</TABLE>

&lt;TABLE&gt;

&lt;S&gt;

&lt;C&gt;

Prudential Mortgage Income Fund, Inc.  
 Prudential Multi-Sector Fund, Inc.  
 Prudential Municipal Bond Fund  
 Prudential Municipal Series Fund  
 Prudential National Municipals Fund, Inc.  
 Prudential Natural Resources Fund, Inc.  
 Prudential Pacific Growth Fund, Inc.  
 Prudential Real Estate Securities Fund  
 Prudential Small Cap Quantum Fund, Inc.  
 Prudential Small Company Value Fund, Inc.  
 Prudential Special Money Market Fund, Inc.  
 Prudential Structured Maturity Fund, Inc.  
 Prudential Tax-Free Money Fund, Inc.  
 Prudential Tax-Managed Equity Fund  
 Prudential Utility Fund, Inc.  
 Prudential World Fund, Inc.  
 The Global Total Return Fund, Inc.  
 The Target Portfolio Trust  
 The Asia Pacific Fund, Inc.  
 The High Yield Income Fund, Inc.

&lt;/TABLE&gt;

WITNESSED BY:

By: /s/ S. Jane Rose

-----

By: /s/ Grace Torres

-----

Grace Torres  
 Treasurer

First Financial Fund, Inc.  
 The High Yield Plus Fund, Inc.

WITNESSED BY:

By: /s/ Stephanie L. Bourque

-----

By: /s/ Arthur J. Brown

-----

Arthur J. Brown  
 Secretary

STATE STREET  
 GLOBAL CUSTODY NETWORK

## SCHEDULE A

## SUBCUSTODIANS AND NON-MANDATORY DEPOSITORIES

<TABLE> <CAPTION> COUNTRY <S>	SUBCUSTODIAN <C>	NON-MANDATORY DEPOSITORIES <C>
Argentina	Citibank, N.A.	--
Australia	Westpac Banking Corporation	--
Austria	Erste Bank der Oesterreichischen Sparkassen AG	--
Bahrain	British Bank of the Middle East (as delegate of The Hongkong and Shanghai Banking Corporation Limited)	--
Bangladesh	Standard Chartered Bank	--
Belgium	Generale de Banque	--
Bermuda	The Bank of Bermuda Limited	--
Bolivia	Banco Boliviano Americano S.A.	--
Botswana	Barclays Bank of Botswana Limited	--

Brazil	Citibank, N.A.	--
Bulgaria	ING Bank N.V.	--
Canada	Canada Trustco Mortgage Company	--
Chile	Citibank, N.A.	Deposito Central de Valores S.A.
People's Republic of China	The Hongkong and Shanghai Banking Corporation Limited, Shanghai and Shenzhen branches	--
Colombia	Cititrust Colombia S.A. Sociedad Fiduciaria	--

</TABLE>

15

STATE STREET  
GLOBAL CUSTODY NETWORK

SCHEDULE A

SUBCUSTODIANS AND NON-MANDATORY DEPOSITORIES

<TABLE> <CAPTION> COUNTRY <S>	SUBCUSTODIAN <C>	NON-MANDATORY DEPOSITORIES <C>
Costa Rica	Banco BCT S.A.	--
Croatia	Privredna Banka Zagreb d.d	--
Cyprus	Barclays Bank Plc. Cyprus Offshore Banking Unit	--
Czech Republic	Ceskoslovenska Obchodni Banka, A.S.	--
Denmark	Den Danske Bank	--
Ecuador	Citibank, N.A.	--
Egypt	National Bank of Egypt	--
Estonia	Hansabank	--
Finland	Merita Bank Limited	--
France	Banque Paribas	--
Germany	Dresdner Bank AG	--
Ghana	Barclays Bank of Ghana Limited	--
Greece	National Bank of Greece S.A.	The Bank of Greece, System for Monitoring Transactions in Securities in Book-Entry Form
Hong Kong	Standard Chartered Bank	--
Hungary	Citibank Budapest Rt.	--
Iceland	Icebank Ltd.	

</TABLE>

16

STATE STREET  
GLOBAL CUSTODY NETWORK

SCHEDULE A

SUBCUSTODIANS AND NON-MANDATORY DEPOSITORIES

<TABLE>

<CAPTION>		
COUNTRY	SUBCUSTODIAN	NON-MANDATORY DEPOSITORIES
<S>	<C>	<C>
India	Deutsche Bank AG	--
	The Hongkong and Shanghai Banking Corporation Limited	
Indonesia	Standard Chartered Bank	--
Ireland	Bank of Ireland	--
Israel	Bank Hapoalim B.M.	--
Italy	Banque Paribas	--
Ivory Coast	Societe Generale de Banques en Cote d'Ivoire	--
Jamaica	Scotiabank Jamaica Trust and Merchant Bank Ltd.	--
Japan	The Daiwa Bank, Limited	Japan Securities Depository Center
	The Fuji Bank, Limited	
Jordan	British Bank of the Middle East (as delegate of The Hongkong and Shanghai Banking Corporation Limited)	--
Kenya	Barclays Bank of Kenya Limited	--
Republic of Korea	The Hongkong and Shanghai Banking Corporation Limited	
Latvia	JSC Hansabank-Latvija	--
Lebanon	British Bank of the Middle East (as delegate of The Hongkong and Shanghai Banking Corporation Limited)	

</TABLE>

17

STATE STREET  
GLOBAL CUSTODY NETWORK

SCHEDULE A

SUBCUSTODIANS AND NON-MANDATORY DEPOSITORIES

<TABLE>		
<CAPTION>		
COUNTRY	SUBCUSTODIAN	NON-MANDATORY DEPOSITORIES
<S>	<C>	<C>
Lithuania	Vilniaus Bankas AB	--
Malaysia	Standard Chartered Bank Malaysia Berhad	--
Mauritius	The Hongkong and Shanghai Banking Corporation Limited	--
Mexico	Citibank Mexico, S.A.	--
Morocco	Banque Commerciale du Maroc	--
Namibia	(via) Standard Bank of South Africa	--
The Netherlands	MeesPierson N.V.	--
New Zealand	ANZ Banking Group	--

(New Zealand) Limited

Norway	Christiania Bank og Kreditkasse	--
Oman	British Bank of the Middle East (as delegate of The Hongkong and Shanghai Banking Corporation Limited)	--
Pakistan	Deutsche Bank AG	--
Peru	Citibank, N.A.	--
Philippines	Standard Chartered Bank	--
Poland	Citibank (Poland) S.A. Bank Polska Kasa Opieki S.A.	--
Portugal </TABLE>	Banco Comercial Portugues	--

18

STATE STREET  
GLOBAL CUSTODY NETWORK

SCHEDULE A

SUBCUSTODIANS AND NON-MANDATORY DEPOSITORIES

<TABLE> <CAPTION> COUNTRY <S>	SUBCUSTODIAN <C>	NON-MANDATORY DEPOSITORIES <C>
Romania	ING Bank N.V.	--
Russia	Credit Suisse First Boston AO, Moscow (as delegate of Credit Suisse First Boston, Zurich)	--
Singapore	The Development Bank of Singapore Limited	--
Slovak Republic	Ceskoslovenska Obchodni Banka, A.S.	--
Slovenia	Bank Austria d.d. Ljubljana	--
South Africa	Standard Bank of South Africa Limited	--
Spain	Banco Santander, S.A.	--
Sri Lanka	The Hongkong and Shanghai Banking Corporation Limited	--
Swaziland	Standard Bank Swaziland Limited	--
Sweden	Skandinaviska Enskilda Banken	--
Switzerland	UBS AG	--
Taiwan - R.O.C.	Central Trust of China	--
Thailand	Standard Chartered Bank	--
Trinidad & Tobago	Republic Bank Limited	--
Tunisia	Banque Internationale Arabe de Tunisie	--
Turkey </TABLE>	Citibank, N.A. Ottoman Bank	--

STATE STREET  
GLOBAL CUSTODY NETWORK

## SCHEDULE A

## SUBCUSTODIANS AND NON-MANDATORY DEPOSITORIES

<TABLE> <CAPTION> COUNTRY <S>	SUBCUSTODIAN <C>	NON-MANDATORY DEPOSITORIES <C>
Ukraine	ING Bank, Ukraine	--
United Kingdom	State Street Bank and Trust Company, London Branch	--
Uruguay	Citibank, N.A.	--
Venezuela	Citibank, N.A.	--
Zambia	Barclays Bank of Zambia Limited	--
Zimbabwe	Barclays Bank of Zimbabwe Limited	--

Euroclear (The Euroclear System)/State Street London Limited

Cedel, S.A. (Cedel Bank, societate anonime)/State Street London Limited

INTERSETTLE (for EASDAQ Securities)

\* The global custody network approved by each fund is set forth below on Schedules A-1 and A-2.

## SCHEDULE A-1

PRUDENTIAL MUTUAL FUNDS  
STATE STREET GLOBAL CUSTODY NETWORK

<TABLE> <CAPTION> COUNTRY -----		FUNDS -----
<S>	<C>	<C>
Argentina	Mexico	Global Utility Fund, Inc.
Australia	Morocco	Prudential 20/20 Focus Fund
Austria	Netherlands	Prudential Balanced Fund
Bangladesh+	New Zealand	Prudential Equity Fund, Inc.
Belgium	Norway	Prudential Equity Income Fund
Brazil	Pakistan	Prudential Developing Markets Fund
Canada	Peru	Prudential Diversified Bond Fund, Inc.
Chile	Philippines	Prudential Distressed Securities Fund, Inc.
China	Poland	Prudential Diversified Funds
Columbia	Portugal	Prudential Emerging Growth Fund, Inc.
Cyprus	Russia	Prudential Global Genesis Fund, Inc.
Czech Republic	Singapore	Prudential Global Limited Maturity Fund, Inc.
Denmark	Slovak Republic	Prudential Index Series Fund
Ecuador	South Africa	Prudential Intermediate Global Income Fund, Inc.
Egypt	Spain	Prudential International Bond Fund, Inc.,
Finland	Sri Lanka	Prudential Mid-Cap Value Fund
France	Sweden	Prudential Natural Resources Fund, Inc.
Germany	Switzerland	Prudential Pacific Growth Fund, Inc.
Ghana	Taiwan	Prudential Real Estate Securities Fund
Greece	Thailand	Prudential Small-Cap Quantum Fund, Inc.
Hong Kong	Turkey	Prudential Small Company Value Fund, Inc.
Hungary	Transnational	Prudential Tax-Managed Equity Fund
India	United Kingdom	Prudential Utility Fund, Inc.
Indonesia	Uruguay	Prudential World Fund, Inc.
Ireland	Venezuela	The Prudential Investment Portfolios Fund, Inc.
Israel		The Target Portfolio Trust
Italy		The Global Total Return Fund, Inc.
Ivory Coast		
Japan		



Jordan  
Kenya  
Korea  
Lebanon  
Malaysia  
</TABLE>

-----  
+ Countries marked by a dagger have been approved only for The Target Portfolio Trust.

21

SCHEDULE A-2

PRUDENTIAL MUTUAL FUNDS  
STATE STREET GLOBAL CUSTODY NETWORK

COUNTRY FUNDS

-----  
United Kingdom Cash Accumulation Trust  
Command Government Fund  
Command Money Fund  
Prudential Government Income Fund, Inc.  
Prudential High Yield Fund, Inc.  
Prudential High Yield Income Fund, Inc.  
Prudential Institutional Liquidity Portfolio, Inc.  
Prudential MoneyMart Assets, Inc.  
Prudential Special Money Market Fund, Inc.  
Prudential Structured Maturity Fund, Inc.

22

STATE STREET

SCHEDULE B

GLOBAL CUSTODY NETWORK  
MANDATORY\* DEPOSITORIES

COUNTRY MANDATORY DEPOSITORIES

Argentina Caja de Valores S.A.

Australia Austraclear Limited  
Reserve Bank Information and Transfer System

Austria Oesterreichische Kontrollbank AG  
(Wertpapiersammelbank Division)

Belgium Caisse Interprofessionnelle de Depot et de Virement de Titres S.A.  
Banque Nationale de Belgique

Brazil Companhia Brasileira de Liquidacao e Custodia (CBLC)  
Bolsa de Valores de Rio de Janeiro  
All SSB clients presently use CBLC  
Central de Custodia e de Liquidacao Financeira de Titulos

Canada The Canadian Depository for Securities Limited

People's Republic of China Shanghai Securities Central Clearing and Registration Corporation  
Shenzhen Securities Central Clearing Co., Ltd.

Croatia

Czech Republic

Stredisko cennych papiru

Czech National Bank

Denmark

Vaerdipapircentralen  
(the Danish Securities Center)

\* Mandatory depositories include entities for which use is mandatory as a matter of law or effectively mandatory as a matter of market practice.

23

STATE STREET

SCHEDULE B

GLOBAL CUSTODY NETWORK  
MANDATORY\* DEPOSITORIES

COUNTRY	MANDATORY DEPOSITORIES
Egypt	Misr Company for Clearing, Settlement, and Central Depository
Finland	The Finnish Central Securities Depository
France	Societe Interprofessionnelle pour la Compensation des Valeurs Mobilieres (SICOVAM)
Germany	Deutsche Borse Clearing AG
Greece b	The Central Securities Depository (Apothetirion Titlon AE)
Hong Kong	The Central Clearing and Settlement System  Central Money Markets Unit
Hungary	The Central Depository and Clearing House (Budapest) Ltd. (KELER) [Mandatory for Gov't Bonds only; SSB does not use for other securities]
India	The National Securities Depository Limited
Indonesia	Bank Indonesia
Ireland	Central Bank of Ireland Securities Settlement Office
Israel	The Tel Aviv Stock Exchange Clearing House Ltd.  Bank of Israel
Italy	Monte Titoli S.p.A.  Banca d'Italia

\* Mandatory depositories include entities for which use is mandatory as a matter of law or effectively mandatory as a matter of market practice.

24

STATE STREET

SCHEDULE B

GLOBAL CUSTODY NETWORK  
MANDATORY\* DEPOSITORIES

COUNTRY	MANDATORY DEPOSITORIES
---------	------------------------

Japan	Bank of Japan Net System
Kenya	Central Bank of Kenya
Republic of Korea	Korea Securities Depository Corporation
Lebanon	The Custodian and Clearing Center of Financial Instruments for Lebanon and the Middle East (MIDCLEAR) S.A.L.  The Central Bank of Lebanon
Malaysia	The Malaysian Central Depository Sdn. Bhd.  Bank Negara Malaysia, Scripless Securities Trading and Safekeeping System
Mexico	S.D. INDEVAL, S.A. de C.V.  (Instituto para el Deposito de Valores)
Morocco	Maroclear
The Netherlands	Nederlands Centraal Instituut voor Giraal Effectenverkeer B.V. (NECIGEF)  De Nederlandsche Bank N.V.
New Zealand	New Zealand Central Securities Depository Limited
Norway	Verdipapirsentralen (the Norwegian Registry of Securities)
Pakistan	Central Depository Company of Pakistan Limited

\* Mandatory depositories include entities for which use is mandatory as a matter of law or effectively mandatory as a matter of market practice.

25

STATE STREET

SCHEDULE B

GLOBAL CUSTODY NETWORK  
MANDATORY\* DEPOSITORIES

COUNTRY	MANDATORY DEPOSITORIES
Peru	Caja de Valores y Liquidaciones S.A. (CAVALI)
Philippines	The Philippines Central Depository, Inc.  The Registry of Scripless Securities (ROSS) of the Bureau of the Treasury
Poland	The National Depository of Securities (Krajowy Depozyt Papierow Wartosciowych)  Central Treasury Bills Registrar
Portugal	Central de Valores Mobiliarios (Central)
Romania	National Securities Clearing, Settlement and Depository Co.  Bucharest Stock Exchange Registry Division
Singapore	The Central Depository (Pte) Limited

	Monetary Authority of Singapore
Slovak Republic	Stredisko Cennych Papierov National Bank of Slovakia
South Africa	The Central Depository Limited
Spain	Servicio de Compensacion y Liquidacion de Valores, S.A.  Banco de Espana, Central de Anotaciones en Cuenta
Sri Lanka	Central Depository System (Pvt) Limited

\* Mandatory depositories include entities for which use is mandatory as a matter of law or effectively mandatory as a matter of market practice.

26

STATE STREET

SCHEDULE B

GLOBAL CUSTODY NETWORK  
MANDATORY\* DEPOSITORIES

COUNTRY	MANDATORY DEPOSITORIES
Sweden	Vardepapperscentralen AB (the Swedish Central Securities Depository)
Switzerland	Schweizerische Effekten - Giro AG
Taiwan - R.O.C.	The Taiwan Securities Central Depository Co., Ltd.
Thailand	Thailand Securities Depository Company Limited
Turkey	Takas ve Saklama Bankasi A.S. (TAKASBANK)  Central Bank of Turkey
United Kingdom	The Bank of England, The Central Gilts Office and The Central Moneymarkets Office
Uruguay	Central Bank of Uruguay
Venezuela	Central Bank of Venezuela

\* Mandatory depositories include entities for which use is mandatory as a matter of law or effectively mandatory as a matter of market practice.

27

SCHEDULE C

MARKET INFORMATION

PUBLICATION/TYPE OF INFORMATION (FREQUENCY)	BRIEF DESCRIPTION
The Guide to Custody in World Markets  (annually)	An overview of safekeeping and settlement practices and procedures in each market in which State Street Bank and Trust Company offers custodial services.
Global Custody Network Review	Information relating to the operating history and structure

(annually)

of depositories and subcustodians located in the markets in which State Street Bank and Trust Company offers custodial services, including transnational depositories.

Global Legal Survey  
(annually)

With respect to each market in which State Street Bank and Trust Company offers custodial services, opinions relating to whether local law restricts (i) access of a fund's independent public accountants to books and records of a Foreign Sub-Custodian or Foreign Securities System, (ii) the Fund's ability to recover in the event of bankruptcy or insolvency of a Foreign Sub-Custodian or Foreign Securities System, (iii) the Fund's ability to recover in the event of a loss by a Foreign Sub-Custodian or Foreign Securities System, and (iv) the ability of a foreign investor to convert cash and cash equivalents to U.S. dollars.

Subcustodian Agreements  
(annually)

Copies of the subcustodian contracts State Street Bank and Trust Company has entered into with each subcustodian in the markets in which State Street Bank and Trust Company offers subcustody services to its US mutual fund clients.

Network Bulletins (weekly):

Developments of interest to investors in the markets in which State Street Bank and Trust Company offers custodial services.

Foreign Custody Advisories  
(as necessary):

With respect to markets in which State Street Bank and Trust Company offers custodial services which exhibit special custody risks, developments which may impact State Street's ability to deliver expected levels of service.

SCHEDULE D

LIST OF FUNDS, CONTRACTS AND AGREEMENTS

<TABLE>	EXECUTION DATE
<CAPTION>	-----
FUND NAME	<C>
-----	-----
Cash Accumulation Trust	December 12, 1997
Command Government Fund	July 1, 1990
Command Money Fund	July 1, 1990
Command Tax-Free Fund	July 1, 1990
The Global Total Return Fund, Inc. (formerly The Global Yield Fund, Inc.)	September 5, 1990
Prudential 20/20 Focus Fund	April 14, 1998

Prudential California Municipal Fund	August 1, 1990
Prudential Developing Markets Fund	June 1, 1998
Prudential Distressed Securities Fund, Inc.	February 8, 1996
Prudential Diversified Bond Fund, Inc.	January 3, 1995
Prudential Diversified Funds	September 2, 1998
Prudential Emerging Growth Fund, Inc.	October 21, 1996
Prudential Equity Fund, Inc.	August 1, 1990
Prudential Global Limited Maturity Fund, Inc. (formerly Prudential Short-Term Global Income Fund, Inc.)	October 25, 1990
Prudential Government Income Fund, Inc. (formerly Prudential Government Plus Fund)	July 31, 1990
Prudential Government Securities Trust	July 26, 1990
Prudential High Yield Fund, Inc.	July 26, 1990
Prudential High Yield Total Return Fund, Inc.	May 30, 1997
Prudential International Bond Fund, Inc. (formerly The Global Government Plus Fund, Inc.)	January 16, 1996
The Prudential Investment Portfolios Fund, Inc. (formerly Prudential Jennison Series Fund, Inc.)	October 27, 1995
Prudential Mid-Cap Value Fund	April 14, 1998
Prudential MoneyMart Assets, Inc.	July 25, 1990
</TABLE>	
29	
<TABLE>	
<S>	
Prudential Mortgage Income Fund, Inc. (formerly Prudential GNMA Fund, Inc.)	<C> August 1, 1990
Prudential Multi-Sector Fund, Inc.	June 1, 1990
Prudential Municipal Series Fund	August 1, 1990
Prudential National Municipals Fund, Inc.	July 26, 1990
Prudential Pacific Growth Fund, Inc.	July 16, 1992
Prudential Real Estate Securities Fund	February 18, 1998
Prudential Small Cap Quantum Fund, Inc.	August 1, 1997
Prudential Small Company Value Fund, Inc. (formerly Prudential Growth Opportunity Fund, Inc.)	July 26, 1990
Prudential Special Money Market Fund, Inc.	January 12, 1990
Prudential Structured Maturity Fund, Inc.	July 25, 1989
Prudential Tax-Free Money Fund, Inc.	July 26, 1990
Prudential Utility Fund, Inc.	June 6, 1990
Prudential World Fund, Inc. (formerly Prudential Global Fund, Inc.)	June 7, 1990
The Target Portfolio Trust	November 9, 1992

Global Utility Fund, Inc.	December 21, 1989
Nicholas-Applegate Fund, Inc.	April 10, 1987
Prudential Balanced Fund	September 4, 1987
Prudential Equity Income Fund	January 6, 1987
Prudential Global Genesis Fund, Inc.	October 21, 1987
Prudential Institutional Liquidity Portfolio, Inc.	November 20, . 1987
Prudential Intermediate Global Income Fund, Inc.	May 19, 1988
Prudential Municipal Bond Fund	August 25, 1987
Prudential Natural Resources Fund, Inc.	September 18, 1987
Prudential Tax-Managed Equity Fund	December 8, 1998
The Asia Pacific Fund	April 24, 1987
Duff & Phelps Utilities Tax-Free Income Fund, Inc.	November 21, 1991

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First Financial Fund, Inc.

<C>

May 1, 1986

The High Yield Income Fund, Inc.

November 6, 1987

The High Yield Plus Fund, Inc.

March 15, 1988

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TRANSFER AGENCY AND SERVICE AGREEMENT  
 between  
 TARGET FUNDS  
 and  
 PRUDENTIAL MUTUAL FUND SERVICES LLC

TABLE OF CONTENTS

<TABLE>		
<S>		
Article 1	Terms of Appointment; Duties of the Agent .....	1
Article 2	Fees and Expenses.....	5
Article 3	Representations and Warranties of PMFS.....	5
Article 4	Representations of Warranties of the Fund.....	7
Article 5	Duty of Care and Indemnification.....	7
Article 6	Documents and Covenants of the Fund and PMFS.....	10
Article 7	Termination of Agreement.....	11
Article 8	Assignment.....	12
Article 9	Affiliations.....	12
Article 10	Amendment.....	13
Article 11	Applicable Law.....	13
Article 12	Miscellaneous.....	13
Article 13	Merger of Agreement.....	15
</TABLE>		

TRANSFER AGENCY AND SERVICE AGREEMENT

AGREEMENT made as of the \_\_\_\_ day of August, 1999 by and between TARGET FUNDS (the Trust), a Delaware business trust having its principal office and place of business at Gateway Center Three, 100 Mulberry Street, Newark, New Jersey 07102, and PRUDENTIAL MUTUAL FUND SERVICES LLC (the Agent or PMFS), a New Jersey limited liability corporation, having its principal office and place of business at Raritan Plaza One, Edison, New Jersey 08837.

WHEREAS, the Trust desires to appoint PMFS as its transfer agent, dividend disbursing agent and shareholder servicing agent in connection with certain other activities, and PMFS desires to accept such appointment;

NOW THEREFORE, in consideration of the mutual covenants herein contained, the parties hereto agree as follows:

Article 1 Terms of Appointment; Duties of PMFS



1.01 Subject to the terms and conditions set forth in this Agreement, the Trust hereby employs and appoints PMFS to act as, and PMFS agrees to act as, the transfer agent for the authorized and issued shares of beneficial interest of each series or Fund of the Trust, \$.01 par value (Shares), dividend disbursing agent and shareholder servicing agent in connection with any accumulation, open-account or similar plans provided to the shareholders of the Trust or any series or Fund thereof (Shareholders) and set out in the currently effective prospectuses and statement of additional information (prospectus) of the Trust, including without limitation any periodic investment plan or periodic withdrawal program.

1.02 PMFS agrees that it will perform the following services:

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(a) In accordance with procedures established from time to time by agreement between the Trust and PMFS, PMFS shall:

(i) Receive for acceptance, orders for the purchase of Shares, and promptly deliver payment and appropriate documentation therefor to the custodian (the Custodian) of the Trust authorized pursuant to the Agreement and Declaration of Trust (Declaration of Trust) of the Trust;

(ii) Pursuant to purchase orders, issue the appropriate number of Shares and hold such Shares in the appropriate Shareholder account;

(iii) Receive for acceptance redemption requests and redemption directions and deliver the appropriate documentation therefor to the Custodian;

(iv) At the appropriate time as and when it receives monies paid to it by the Custodian with respect to any redemption, pay over or cause to be paid over in the appropriate manner such monies as instructed by the redeeming Shareholders;

(v) Effect transfers of Shares by the registered owners thereof upon receipt of appropriate instructions;

(vi) Prepare and transmit payments for dividends and distributions declared by the Trust;

(vii) Calculate any sales charges payable by a Shareholder on purchases and/or redemptions of Shares of the Trust as such charges may be reflected in the prospectus;

(viii) Maintain records of account for and advise the Trust and its Shareholders as to the foregoing; and

(ix) Record the issuance of Shares of the Trust and maintain pursuant to

5

Rule 17Ad-10(e) under the Securities Exchange Act of 1934 (1934 Act) a record of the total number of Shares of the Trust which are authorized, based upon data provided to it by the Trust, and issued and outstanding. PMFS shall also provide to the Trust on a regular basis the total number of Shares which are authorized, issued and outstanding. When recording the issuance of Shares, PMFS shall have no obligation to take cognizance of any Blue Sky laws relating to the issue or sale of such Shares, which functions shall be the sole responsibility of the Trust.

(b) In addition to and not in lieu of the services set forth in the above paragraph (a), PMFS shall: (i) perform all of the customary services of a transfer agent, dividend disbursing agent and, as relevant, shareholder servicing agent in connection with accumulation, open-account or similar plans (including without limitation any periodic investment plan or periodic withdrawal program), including but not limited to, maintaining all Shareholder accounts, preparing Shareholder meeting lists, mailing proxies, receiving and tabulating proxies, mailing Shareholder reports and prospectuses to current Shareholders, withholding taxes on non-resident alien accounts, preparing and filing appropriate forms required with respect to dividends and distributions by federal tax authorities for all Shareholders, preparing and mailing confirmation forms and statements of account to Shareholders for all purchases and redemptions of Shares and other confirmable transactions in Shareholder accounts, preparing and mailing activity statements for Shareholders and providing Shareholder account information and (ii) provide a system which will enable the Trust to monitor the total number of Shares sold in each State or other jurisdiction.

(c) In addition, the Trust shall (i) identify to PMFS in writing those

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transactions and assets to be treated as exempt from Blue Sky notice for each State and (ii) verify the establishment of transactions for each State on the system prior to activation and thereafter monitor the daily activity for each State. The responsibility of PMFS for the Trust's registration status under the Blue Sky or securities laws of any State or other jurisdiction is solely limited to the initial establishment of transactions subject to Blue Sky compliance by the Trust and the reporting of such transactions to the Trust as provided above and as agreed from time to time by the Trust and PMFS.

PMFS may also provide such additional services and functions not specifically described herein as may be mutually agreed between PMFS and the Trust and set forth in Schedule B hereto.

Procedures applicable to certain of these services may be

established from time to time by agreement between the Trust and PMFS.

## Article 2 Fees and Expenses

2.01 For performance by PMFS pursuant to this Agreement, the Trust agrees to pay PMFS an annual maintenance fee for each Shareholder account and certain transactional fees as set out in the fee schedule attached hereto as Schedule A. Such fees and out-of-pocket expenses and advances identified under Section 2.02 below may be changed from time to time subject to mutual written agreement between the Trust and PMFS.

2.02 In addition to the fees paid under Section 2.01 above, the Trust agrees to reimburse PMFS for out-of-pocket expenses or advances incurred by PMFS for the items set out in Schedule A attached hereto. In addition, any other expenses incurred by PMFS at the request or with the consent of the Trust will be reimbursed by

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7  
the Trust.

2.03 The Trust agrees to pay all fees and reimbursable expenses within a reasonable period of time following the mailing of the respective billing notice. Postage for mailing of dividends, proxies, Trust reports and other mailings to all Shareholder accounts shall be advanced to PMFS by the Trust upon request prior to the mailing date of such materials.

## Article 3 Representations and Warranties of PMFS

PMFS represents and warrants to the Trust that:

3.01 It is a corporation duly organized and existing and in good standing under the laws of the State of New Jersey and it is duly qualified to carry on its business in New Jersey.

3.02 It is and will remain registered with the U.S. Securities and Exchange Commission (SEC) as a Transfer Agent pursuant to the requirements of Section 17A of the 1934 Act.

3.03 It is empowered under applicable laws and by its charter and By-Laws to enter into and perform this Agreement.

3.04 All requisite corporate proceedings have been taken to authorize it to enter into and perform this Agreement.

3.05 It has and will continue to have access to the necessary facilities, equipment and personnel to perform its duties and obligations under this Agreement.

## Article 4 Representations and Warranties of the Trust

The Trust represents and warrants to PMFS that:

4.01 It is a business trust duly organized and existing and in good

7

8 standing under the laws of Delaware.

4.02 It is empowered under applicable laws and by its Declaration of Trust and By-Laws to enter into and perform this Agreement.

4.03 All proceedings required by said Declaration of Trust and By-Laws have been taken to authorize it to enter into and perform this Agreement.

4.04 It is an investment company registered or to be registered with the SEC under the Investment Company Act of 1940, as amended (the 1940 Act).

4.05 A registration statement under the Securities Act of 1933 (the 1933 Act) is currently effective or is anticipated to become effective, and will remain effective, and appropriate state securities law notice filings have been made and will continue to be made, with respect to all Shares of the Trust being offered for sale.

#### Article 5 Duty of Care and Indemnification

5.01 PMFS shall not be responsible for, and the Trust shall indemnify and hold PMFS harmless from and against, any and all losses, damages, costs, charges, counsel fees, payments, expenses and liability arising out of or attributable to:

(a) All actions of PMFS or its agents or subcontractors required to be taken pursuant to this Agreement, provided that such actions are taken in good faith and without negligence or willful misconduct.

(b) The Trust's refusal or failure to comply with the terms of this Agreement, or which arise out of the Trust's lack of good faith, negligence or willful misconduct or which arise out of the breach of any representation or warranty of the Trust hereunder.

(c) The reliance on or use by PMFS or its agents or subcontractors of information, records and documents which (i) are received by PMFS or its agents or

8

subcontractors and furnished to it by or on behalf of the Trust, and (ii) have been prepared and/or maintained by the Trust or any other person or firm on behalf of the Trust.

(d) The reliance on, or the carrying out by PMFS or its agents or subcontractors of, any instructions or requests of the Trust.

(e) The offer or sale of Shares in violation of any requirement under the federal securities laws or regulations or the securities or Blue Sky laws of any State or other jurisdiction that notice of such Shares be filed in such State or other jurisdiction or in violation of any stop order or other determination or ruling by any federal agency or any State or other jurisdiction with respect to the offer or sale of such Shares in such State or other jurisdiction.

5.02 PMFS shall indemnify and hold the Trust harmless from and against any and all losses, damages, costs, charges, counsel fees, payments, expenses and liability arising out of or attributable to any action or failure or omission to act by PMFS as a result of PMFS' lack of good faith, negligence or willful misconduct.

5.03 At any time PMFS may apply to any officer of the Trust for instructions, and may consult with legal counsel, with respect to any matter arising in connection with the services to be performed by PMFS under this Agreement, and PMFS and its agents or subcontractors shall not be liable and shall be indemnified by the Trust for any action taken or omitted by it in reliance upon such instructions or upon the opinion of such counsel. PMFS, its agents and subcontractors shall be protected and indemnified in acting upon any paper or document furnished by or on behalf of the Trust, reasonably believed to be genuine and to have been signed by the proper

person or persons, or upon any instruction, information, data, records or documents provided to PMFS or its agents or subcontractors by machine readable input, telex, CRT data entry or other similar means authorized by the Trust, and shall not be held to have notice of any change of authority of any person, until receipt of written notice thereof from the Trust. PMFS, its agents and subcontractors shall also be protected and indemnified in recognizing stock certificates which are reasonably believed to bear the proper manual or facsimile signature of the officers of the Trust, and the proper countersignature of any former transfer agent or registrar, or of a co-transfer agent or co-registrar.

5.04 In the event either party is unable to perform its obligations under the terms of this Agreement because of acts of God, strikes, equipment or transmission failure or damage reasonably beyond its control, or other causes reasonably beyond its control, such party shall not be liable for damages to the other for any damages resulting from such failure to perform or otherwise from

such causes.

5.05 Neither party to this Agreement shall be liable to the other party for consequential damages under any provision of this Agreement or for any act or failure to act hereunder.

5.06 In order that the indemnification provisions contained in this Article 5 shall apply, upon the assertion of a claim for which either party may be required to indemnify the other, the party seeking indemnification shall promptly notify the other party of such assertion, and shall keep the other party advised with respect to all developments concerning such claim. The party who may be required to indemnify shall have the option to participate with the party seeking indemnification in the

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11

defense of such claim. The party seeking indemnification shall in no case confess any claim or make any compromise in any case in which the other party may be required to indemnify it except with the other party's prior written consent.

#### Article 6 Documents and Covenants of the Trust and PMFS

6.01 The Trust shall promptly furnish to PMFS the following:

(a) A certified copy of the resolution of the Board of Trustees of the Trust authorizing the appointment of PMFS and the execution and delivery of this Agreement;

(b) A certified copy of the Declaration of Trust and By-Laws of the Trust and all amendments thereto;

(c) The current registration statements and any amendments and supplements thereto filed with the SEC pursuant to the requirements of the 1933 Act and the 1940 Act;

(d) A specimen of the certificates for Shares of the Trust in the forms approved by the Board of Trustees, with a certificate of the Secretary of the Trust as to such approval;

(e) All account application forms or other documents relating to Shareholder accounts and/or relating to any plan program or service offered or to be offered by the Trust; and

(f) Such other certificates, documents or opinions as the Agent deems to be appropriate or necessary for the proper performance of its duties.

6.02 PMFS hereby agrees to establish and maintain facilities and procedures reasonably acceptable to the Trust for safekeeping of stock certificates, check forms and facsimile signature imprinting devices, if any;

and for the preparation or use, and

11

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for keeping account of, such certificates, forms and devices.

6.03 PMFS shall prepare and keep records relating to the services to be performed hereunder, in the form and manner as it may deem advisable. To the extent required by Section 31 of the 1940 Act, and the Rules and Regulations thereunder, PMFS agrees that all such records prepared or maintained by PMFS relating to the services to be performed by PMFS hereunder are the property of the Trust and will be preserved, maintained and made available in accordance with such Section 31 of the 1940 Act, and the Rules and Regulations thereunder, and will be surrendered promptly to the Trust on and in accordance with its request.

6.04 PMFS and the Trust agree that all books, records, information and data pertaining to the business of the other party which are exchanged or received pursuant to the negotiation or the carrying out of this Agreement shall remain confidential and shall not be voluntarily disclosed to any other person except as may be required by law or with the prior consent of PMFS and the Trust.

6.05 In case of any requests or demands for the inspection of the Shareholder records of the Trust, PMFS will endeavor to notify the Trust and to secure instructions from an authorized officer of the Trust as to such inspection. PMFS reserves the right, however, to exhibit the Shareholder records to any person whenever it is advised by its counsel that it may be held liable for the failure to exhibit the Shareholder records to such person.

#### Article 7 Termination of Agreement

7.01 This Agreement may be terminated by either party upon one hundred twenty (120) days written notice to the other.

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7.02 Should the Trust exercise its right to terminate, all out-of-pocket expenses associated with the movement of records and other materials will be borne by the Trust. Additionally, PMFS reserves the right to charge for any other reasonable fees and expenses associated with such termination.

#### Article 8 Assignment

8.01 Except as provided in Section 8.03 below, neither this Agreement nor any rights or obligations hereunder may be assigned by either party without the written consent of the other party.

8.02 This Agreement shall inure to the benefit of and be binding upon the parties and their respective permitted successors and assigns.

8.03 PMFS may, in its sole discretion and without further consent by the Trust, subcontract, in whole or in part, for the performance of its obligations and duties hereunder with any person or entity including but not limited to: (i) Prudential Securities Incorporated (Prudential Securities), a registered broker-dealer, (ii) The Prudential Insurance Company of America (Prudential), (iii) Pruco Securities Corporation, a registered broker-dealer, (iv) any Prudential Securities or Prudential subsidiary or affiliate duly registered as a broker-dealer and/or a transfer agent pursuant to the 1934 Act or (v) any other Prudential Securities or Prudential affiliate or subsidiary; provided, however, that PMFS shall be as fully responsible to the Trust for the acts and omissions of any agent or subcontractor as it is for its own acts and omissions.

## Article 9 Affiliations

9.01 PMFS may now or hereafter, without the consent of or notice to

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the Trust, function as Transfer Agent and/or Shareholder Servicing Agent for any other investment company registered with the SEC under the 1940 Act, including without limitation any investment company whose adviser, administrator, sponsor or principal underwriter is or may become affiliated with Prudential Securities and/or Prudential or any of its or their direct or indirect subsidiaries or affiliates.

9.02 It is understood and agreed that the trustees, officers, employees, agents and Shareholders of the Trust, and the trustees, officers, employees, agents and shareholders of the Trust's investment adviser and/or distributor, are or may be interested in the Agent as trustees, officers, employees, agents, shareholders or otherwise, and that the trustees, officers, employees, agents or shareholders of the Agent may be interested in the Trust as trustees, officers, employees, agents, Shareholders or otherwise, or in the investment adviser and/or distributor as officers, trustees, employees, agents, shareholders or otherwise.

## Article 10 Amendment

10.01 This Agreement may be amended or modified by a written agreement executed by both parties and authorized or approved by a resolution of the Board of Trustees of the Trust.

## Article 11 Applicable Law



11.01 This Agreement shall be construed and the provisions thereof interpreted under and in accordance with the laws of the State of New Jersey.

## Article 12 Miscellaneous

12.01 In the event of an alleged loss or destruction of any Share

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certificate, no new certificate shall be issued in lieu thereof, unless there shall first be furnished to PMFS an affidavit of loss or non-receipt by the holder of Shares with respect to which a certificate has been lost or destroyed, supported by an appropriate bond satisfactory to PMFS and the Trust issued by a surety company satisfactory to PMFS, except that PMFS may accept an affidavit of loss and indemnity agreement executed by the registered holder (or legal representative) without surety in such form as PMFS deems appropriate indemnifying PMFS and the Trust for the issuance of a replacement certificate, in cases where the alleged loss is in the amount of \$1,000 or less.

12.02 In the event that any check or other order for payment of money on the account of any Shareholder or new investor is returned unpaid for any reason, PMFS will (a) give prompt notification to the Trust's distributor (Distributor) of such non-payment; and (b) take such other action, including imposition of a reasonable processing or handling fee, as PMFS may, in its sole discretion, deem appropriate or as the Trust and the Distributor may instruct PMFS.

12.03 Any notice or other instrument authorized or required by this Agreement to be given in writing to the Trust or to PMFS shall be sufficiently given if addressed to that party and received by it at its office set forth below or at such other place as it may from time to time designate in writing.

To the Trust:

Target Funds  
Gateway Center Three  
100 Mulberry Street  
Newark, New Jersey 07102  
Attention: President

15

16

To PMFS:

Prudential Mutual Fund Services LLC

Raritan Plaza One  
Edison, NJ 08837  
Attention: President

Article 13 Merger of Agreement

13.01 This Agreement constitutes the entire agreement between the parties hereto and supersedes any prior agreement with respect to the subject matter hereof whether oral or written.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in their names and on their behalf under their seals by and through their duly authorized officers, as of the day and year first above written.

TARGET FUNDS

By: \_\_\_\_\_  
John R. Strangfeld  
President

PRUDENTIAL MUTUAL FUND SERVICES LLC

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

16

17

Schedule A

Prudential Mutual Fund Services LLC

Fee Schedule

Fee Information for Services as  
Transfer Agent, Dividend Disbursing Agent  
and Shareholder Servicing Agent

General - Fees are based on an annual per shareholder account charge for account maintenance plus out-of-pocket expenses. In addition, there is a one time set-up charge per account for manually established accounts and a monthly charge for inactive zero balance accounts. The effective period of this fee schedule is

September 22, 1999 through September 21, 2000 and shall continue thereafter from year to year, unless otherwise amended.

Annual Maintenance Charges - The annual maintenance charge includes the processing of all transactions and correspondence. The fee is billable on a monthly basis at the rate of 1/12 of the annual fee. A charge is made for an account in the month that an account opens or closes.

Annual Maintenance Per Account Fee	\$9.00 (annual dividend portfolios)
	\$9.50 (semi-annual dividend portfolios)
	\$10.00 (quarterly dividend portfolios)

Other Charges

New Account Set-up Fee for Manually Established Accounts	\$2.00
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Monthly Inactive Zero Balance Account Fee	\$ .20
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Out-of-Pocket Expenses - out-of-pocket expenses include but are not limited to: postage, stationery and printing, allocable communication costs, microfilm, microfiche, and expenses incurred at the specific direction of the Trust.

Payment - An invoice will be presented to the Trust on a monthly basis assessing the Trust the appropriate fee and out-of-pocket expenses.

TARGET FUNDS

PRUDENTIAL MUTUAL FUND SERVICES LLC

BY: \_\_\_\_\_

BY: \_\_\_\_\_

TITLE: \_\_\_\_\_

TITLE: \_\_\_\_\_

17

18

DATE: August , 1998

DATE: August , 1998

18

July 9, 1999

Morris, Nichols, Arsht & Tunnell  
1201 North Market Street  
P.O. Box 1347  
Wilmington, Delaware 19899-1347

Target Funds  
Gateway Center Three  
100 Mulberry Street  
Newark, New Jersey 07102-4077

Re: Target Funds

Ladies and Gentlemen:

We have acted as special Delaware counsel to Target Funds, a Delaware business trust (the "Trust"), in connection with the creation of the Trust and certain matters relating to the proposed issuance of Shares of the Trust. Capitalized terms used herein and not otherwise herein defined are used as defined in the Agreement and Declaration of Trust of the Trust dated July 8, 1999 (the "Governing Instrument").

In rendering this opinion, we have examined copies of the following documents, each in the form provided to us: the Certificate of Trust of the Trust as filed in the Office of the Secretary of State of the State of Delaware (the "State Office") on July 8, 1999 (the "Certificate"); the Governing Instrument; the By-laws of the Trust (the "By-laws"); a Unanimous Written Consent of the Board of Trustees of the Trust dated July 8, 1999 (the "Consent" and, together with the Governing Instrument and the By-laws, the "Governing Documents"); the Notification of Registration Filed Pursuant to Section 8(a) of the Investment Company Act of 1940 on Form N-8A of the Trust to be filed with the Securities and Exchange Commission on or about the date hereof; the Registration Statement on Form N-1A of the Trust to be filed with the Securities and Exchange Commission on or about the date hereof (the "Registration Statement"); and a certification of good standing of the Trust obtained as of a recent date from the State Office. In such examinations, we have assumed the genuineness of all signatures, the conformity to original documents of all documents submitted to us as copies or drafts of documents to be executed, and the legal capacity of natural persons to complete the execution of documents. We have further assumed for the purpose of this opinion: (i) the due adoption, authorization, execution and delivery by, or on behalf of, each of the parties thereto of the above-referenced resolutions, instruments, certificates and other documents, and of all documents contemplated by the Governing Instrument, the By-laws and

applicable resolutions of the Trustees of the Trust to be executed by investors acquiring Shares; (ii) the payment of consideration for Shares, and the application of such consideration, as provided in the Governing Instrument and all applicable resolutions of the Trustees of the Trust, and compliance with the other terms, conditions and restrictions set forth in the Governing Documents in connection with the issuance of Shares (including, without limitation, the taking of all appropriate action by the Trustees to designate Series of Shares and the rights and preferences attributable thereto as contemplated by the Governing Instrument); (iii) that appropriate notation of the names and addresses of, the number of Shares held by, and the consideration paid by, Shareholders will be maintained in the appropriate registers and other books and records of the Trust in connection with the issuance, redemption or transfer of Shares; (iv) that no event has occurred subsequent to the filing of the Certificate that would cause a termination or reorganization of the Trust under Section 2 or Section 3 of Article VIII of the Governing Instrument; (v) that the activities of the Trust have been and will be conducted in accordance with the terms of the Governing Instrument and the Delaware Business Trust Act, 12 Del. C. Sections 3801 et seq. (the "Delaware Act"); and (vi) that each of the documents examined by us is in full force and effect and has not been amended, supplemented or otherwise modified. No opinion is expressed herein with respect to the requirements of, or compliance with, federal or state securities or blue sky laws. Further, we

2

have not participated in the preparation of the Registration Statement or any other offering documentation relating to the Trust or the Shares and we assume no responsibility for their contents. As to any facts material to our opinion, other than those assumed, we have relied without independent investigation on the above-referenced documents and on the accuracy, as of the date hereof, of the matters therein contained.

Based on and subject to the foregoing, and limited in all respects to matters of Delaware law, it is our opinion that:

The Trust is a duly created and validly existing business trust in good standing under the laws of the State of Delaware.

The issuance of the Shares has been duly authorized on behalf of the Trust and, when issued to Shareholders in accordance with the terms, conditions, requirements and procedures and for the consideration set forth in the Governing Documents, will constitute legally issued, fully paid and non-assessable Shares of beneficial interest in the Trust

Under the Delaware Act and the terms of the Governing Instrument, each Shareholder of the Trust, in such capacity, will be entitled to the same limitation of personal liability as that extended to stockholders of private corporations for profit organized under the general corporation law of the State of Delaware; provided, however, that we express no opinion with respect to the liability of any Shareholder who is, was or may become a named Trustee of the Trust. Neither the existence nor exercise of the voting rights granted to Shareholders under the Governing Instrument will, of itself, cause a Shareholder

to be deemed a trustee of the Trust under the Delaware Act. Notwithstanding the foregoing or the opinion expressed in paragraph 2 above, we note that, pursuant to Section 5 of Article IV of the Governing Instrument, the Trustees have the power to cause Shareholders, or Shareholders of a particular Series, to pay certain custodian, transfer, servicing or similar agent charges by setting off the same against declared but unpaid dividends or by reducing Share ownership (or by both means).

We hereby consent to the filing of a copy of this opinion with the Securities and Exchange Commission with the Registration Statement. In giving this consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, as amended, or the rules and regulations of the Securities and Exchange Commission thereunder. Except as provided in this paragraph, the opinion set forth above is expressed solely for the benefit of the addressee hereof in connection with the matters contemplated hereby and may not be relied upon for any other purpose or by any other person or entity without our prior written consent.

Sincerely,

MORRIS, NICHOLS, ARSHT & TUNNELL

/s/ Morris, Nichols, Arsht & Tunnell

## CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in the Statement of Additional Information constituting part of this Pre-Effective Amendment No. 1 to the registration statement on Form N-1A (the "Registration Statement") of our report dated September 7, 1999, relating to the statements of assets and liabilities of Target Funds (consisting of Large Capitalization Growth Fund, Large Capitalization Value Fund, Small Capitalization Growth Fund, Small Capitalization Value Fund, International Equity Fund and Total Return Bond Fund), which appear in such Statement of Additional Information, and to the incorporation by reference of our report into the Prospectus which constitutes part of this Registration Statement. We also consent to the reference to us under the heading "Investment Advisory and Other Services" in such Statement of Additional Information.

PricewaterhouseCoopers LLP  
1177 Avenue of the Americas  
New York, New York 10036  
September 7, 1999

## PURCHASE AGREEMENT

Target Funds (the Trust), a Delaware business trust registered as an open-end, diversified management investment company, and Prudential Investments Fund Management LLC, a New York limited liability company (PIFM), intending to be legally bound, hereby agree as follows:

1. In order to provide the Trust with its initial capital, the Trust hereby sells to PIFM, and PIFM hereby purchases: (i) 600 shares of beneficial interest of each of Class A, Class B and Class C of the Large Capitalization Growth Fund; (ii) 600 shares of beneficial interest of each of Class A, Class B and Class C of the Large Capitalization Value Fund; (iii) 600 shares of beneficial interest of each of Class A, Class B and Class C of the Small Capitalization Growth Fund; (iv) 600 shares of beneficial interest of each of Class A, Class B and Class C of the Small Capitalization Value Fund; (v) 600 shares of beneficial interest of each of Class A, Class B and Class C of the International Equity Fund; and (vi) 334 shares of beneficial interest of Class A and 333 shares of beneficial interest of each of Class B and Class C of the Total Return Bond Fund (collectively with the shares referenced in (i) through (v) above, the "Shares"), in each case at the net asset value per share of \$10.00. The Trust hereby acknowledges receipt from PIFM of funds in the amount of \$100,000 in full payment for the Shares.

2. PIFM represents and warrants to the Trust that the Shares are being acquired for investment purposes and not with a view to distribution thereof and that PIFM has no present intention to redeem and dispose of any of the Shares.

3. PIFM hereby agrees that it will not redeem any of the Shares except in direct proportion to the amortization of organizational expenses by the Trust. In the event that the Trust liquidates before deferred organizational expenses are fully amortized, then the Shares shall bear their proportionate share of such unamortized organizational expenses.

IN WITNESS THEREOF, the parties have executed this agreement as of the 2nd day of September, 1999.

## TARGET FUNDS

By: /s/ John R. Strangfeld

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John R. Strangfeld  
President



PRUDENTIAL INVESTMENTS FUND  
MANAGEMENT LLC

By: /s/ Robert F. Gunia

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Robert F. Gunia  
Executive Vice President

## TARGET FUNDS

Distribution and Service Plan  
(Class A Shares)

## Introduction

The Distribution and Service Plan (the Plan) set forth below which is designed to conform to the requirements of Rule 12b-1 under the Investment Company Act of 1940 (the Investment Company Act) and Rule 2830 of the Conduct Rules of the National Association of Securities Dealers, Inc. (NASD) has been adopted by Target Funds (the Trust) and by Prudential Investment Management Services LLC, the Trust's distributor (the Distributor).

The Trust has entered into a distribution agreement pursuant to which the Trust will employ the Distributor to distribute Class A shares issued by the Trust (Class A shares). Under the Plan, the Trust intends to pay to the Distributor, as compensation for its services, a distribution and service fee with respect to Class A shares.

A majority of the Board of Trustees of the Trust, including a majority of those Trustees who are not "interested persons" of the Trust (as defined in the Investment Company Act) and who have no direct or indirect financial interest in the operation of this Plan or any agreements related to it (the Rule 12b-1 Trustees), have determined by votes cast in person at a meeting called for the purpose of voting on this Plan that there is a reasonable likelihood that adoption and continuation of this Plan will benefit the Trust and its shareholders. Expenditures under this Plan by the Trust for Distribution Activities (defined below) are primarily intended to result in the sale of Class A shares

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of the Trust within the meaning of paragraph (a)(2) of Rule 12b-1 promulgated under the Investment Company Act.

The purpose of the Plan is to create incentives to the Distributor and/or other qualified broker-dealers and their account executives to provide distribution assistance to their customers who are investors in the Trust, to defray the costs and expenses associated with the preparation, printing and distribution of prospectuses and sales literature and other promotional and distribution activities and to provide for the servicing and maintenance of shareholder accounts.

## The Plan

The material aspects of the Plan are as follows:

### 1. Distribution Activities

The Trust shall engage the Distributor to distribute Class A shares of the Trust and to service shareholder accounts using all of the facilities of the Distributor's distribution network, including sales personnel and branch office and central support systems, and also using such other qualified broker-dealers and financial institutions as the Distributor may select, including Prudential Securities Incorporated (Prudential Securities) and Pruco Securities Corporation (Prusec). Services provided and activities undertaken to distribute Class A shares of the Trust are referred to herein as "Distribution Activities."

### 2. Payment of Service Fee

The Trust shall pay to the Distributor as compensation for providing personal service and/or maintaining shareholder accounts a service fee of .25 of 1% per annum of the average daily net assets of the Class A shares (service fee). The Trust shall

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calculate and accrue daily amounts payable by the Class A shares of the Trust hereunder and shall pay such amounts monthly or at such other intervals as the Board of Trustees may determine.

### 3. Payment for Distribution Activities

The Trust shall pay to the Distributor as compensation for its services a distribution fee, together with the service fee (described in Section 2 hereof), of .30 of 1% per annum of the average daily net assets of the Class A shares of the Trust for the performance of Distribution Activities. The Trust shall calculate and accrue daily amounts payable by the Class A shares of the Trust hereunder and shall pay such amounts monthly or at such other intervals as the Board of Trustees may determine. Amounts payable under the Plan shall be subject to the limitations of Rule 2830 of the NASD Conduct Rules.

Amounts paid to the Distributor by the Class A shares of the Trust will not be used to pay the distribution expenses incurred with respect to any other class of shares of the Trust except that distribution expenses attributable to the Trust as a whole will be allocated to the Class A shares according to the ratio of the sales of Class A shares to the total sales of Trust's shares over the Trust's fiscal year or such other allocation method approved by the Board of Trustees. The allocation of distribution expenses among classes will be subject to the review of the Board of Trustees.

The Distributor shall spend such amounts as it deems appropriate on Distribution Activities which include, among others:

- (a) sales commissions and trailer commissions paid to, or on account of, account executives of the Distributor;

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- (b) indirect and overhead costs of the Distributor associated with Distribution Activities, including central office and branch expenses;
- (c) amounts paid to Prudential Securities or Prusec for performing services under a selected dealer agreement between Prudential Securities or Prusec and the Distributor for sale of Class A shares of the Trust, including sales commissions, trailer commissions paid to, or on account of, agents and indirect and overhead costs associated with Distribution Activities;
- (d) advertising for the Trust in various forms through any available medium, including the cost of printing and mailing Trust prospectuses, statements of additional information and periodic financial reports and sales literature to persons other than current shareholders of the Trust; and
- (e) sales commissions (including trailer commissions) paid to, or on account of, broker-dealers and financial institutions (other than Prudential Securities or Prusec) which have entered into selected dealer agreements with the Distributor with respect to Class A shares of the Trust.

#### 4. Quarterly Reports; Additional Information

An appropriate officer of the Trust will provide to the Board of Trustees of the Trust for review, at least quarterly, a written report specifying in reasonable detail the amounts expended for Distribution Activities (including payment of the service fee) and the purposes for which such expenditures were made in compliance with the requirements of Rule 12b-1. The Distributor will provide to the Board of Trustees of the Trust such additional information as the Board shall from time to time reasonably request, including information about Distribution Activities undertaken or to be undertaken by the Distributor.

The Distributor will inform the Board of Trustees of the Trust of the commissions and account servicing fees to be paid by the Distributor to account executives of the

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Distributor and to broker-dealers and financial institutions which have selected dealer agreements with the Distributor.

5. Effectiveness; Continuation

The Plan shall not take effect until it has been approved by a vote of a majority of the outstanding voting securities (as defined in the Investment Company Act) of the Class A shares of the Trust.

If approved by a vote of a majority of the outstanding voting securities of the Class A shares of the Trust, the Plan shall, unless earlier terminated in accordance with its terms, continue in full force and effect thereafter for so long as such continuance is specifically approved at least annually by a majority of the Board of Trustees of the Trust and a majority of the Rule 12b-1 Trustees by votes cast in person at a meeting called for the purpose of voting on the continuation of the Plan.

6. Termination

This Plan may be terminated at any time by vote of a majority of the Rule 12b-1 Trustees, or by vote of a majority of the outstanding voting securities (as defined in the Investment Company Act) of the Class A shares of the Trust.

7. Amendments

The Plan may not be amended to change the combined service and distribution fees to be paid as provided for in Sections 2 and 3 hereof so as to increase materially the amounts payable under this Plan unless such amendment shall be approved by the vote of a majority of the outstanding voting securities (as defined in the Investment Company Act) of the Class A shares of the Trust. All material amendments of the Plan shall be approved by a majority of the Board of Trustees of the Trust and a majority of

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the Rule 12b-1 Trustees by votes cast in person at a meeting called for the purpose of voting on the Plan.

8. Rule 12b-1 Trustees

While the Plan is in effect, the selection and nomination of the Trustees shall be committed to the discretion of the Rule 12b-1 Trustees.

9. Records

The Trust shall preserve copies of the Plan and any related agreements and all reports made pursuant to Section 4 hereof, for a period of not less than six years from the date of effectiveness of the Plan, such agreements or reports, and for at least the first two years in an easily accessible place.

Dated: August 25, 1999

## TARGET FUNDS

Distribution and Service Plan  
(Class B Shares)

## Introduction

The Distribution and Service Plan (the Plan) set forth below which is designed to conform to the requirements of Rule 12b-1 under the Investment Company Act of 1940 (the Investment Company Act) and Rule 2830 of the Conduct Rules of the National Association of Securities Dealers, Inc. (NASD) has been adopted by Target Funds (the Trust) and by Prudential Investment Management Services LLC, the Trust's distributor (the Distributor).

The Trust has entered into a distribution agreement pursuant to which the Trust will employ the Distributor to distribute Class B shares issued by the Trust (Class B shares). Under the Plan, the Trust wishes to pay to the Distributor, as compensation for its services, a distribution and service fee with respect to Class B shares.

A majority of the Board of Trustees of the Trust, including a majority who are not "interested persons" of the Trust (as defined in the Investment Company Act) and who have no direct or indirect financial interest in the operation of this Plan or any agreements related to it (the Rule 12b-1 Trustees), have determined by votes cast in person at a meeting called for the purpose of voting on this Plan that there is a reasonable likelihood that adoption and continuation of this Plan will benefit the Trust and its shareholders. Expenditures under this Plan by the Trust for Distribution Activities (defined below) are primarily intended to result in the sale of Class B shares

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of the Trust within the meaning of paragraph (a)(2) of Rule 12b-1 promulgated under the Investment Company Act.

The purpose of the Plan is to create incentives to the Distributor and/or other qualified broker-dealers and their account executives to provide distribution assistance to their customers who are investors in the Trust, to defray the costs and expenses associated with the preparation, printing and distribution of prospectuses and sales literature and other promotional and distribution activities and to provide for the servicing and maintenance of

shareholder accounts.

## The Plan

The material aspects of the Plan are as follows:

### 1. Distribution Activities

The Trust shall engage the Distributor to distribute Class B shares of the Trust and to service shareholder accounts using all of the facilities of the Distributor's distribution network including sales personnel and branch office and central support systems, and also using such other qualified broker-dealers and financial institutions as the Distributor may select, including Prudential Securities Incorporated (Prudential Securities) and Pruco Securities Corporation (Prusec). Services provided and activities undertaken to distribute Class B shares of the Trust are referred to herein as "Distribution Activities."

### 2. Payment of Service Fee

The Trust shall pay to the Distributor as compensation for providing personal service and/or maintaining shareholder accounts a service fee of .25 of 1% per annum of the average daily net assets of the Class B shares (service fee). The Trust shall

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calculate and accrue daily amounts payable by the Class B shares of the Trust hereunder and shall pay such amounts monthly or at such other intervals as the Board of Trustees may determine.

### 3. Payment for Distribution Activities

The Trust shall pay to the Distributor as compensation for its services a distribution fee of .75 of 1% per annum of the average daily net assets of the Class B shares of the Trust for the performance of Distribution Activities. The Trust shall calculate and accrue daily amounts payable by the Class B shares of the Trust hereunder and shall pay such amounts monthly or at such other intervals as the Board of Trustees may determine. Amounts payable under the Plan shall be subject to the limitations of Rule 2830 of the NASD Conduct Rules.

Amounts paid to the Distributor by the Class B shares of the Trust will not be used to pay the distribution expenses incurred with respect to any other class of shares of the Trust except that distribution expenses attributable to the Trust as a whole will be allocated to the Class B shares according to the ratio of the sale of Class B shares to the total sales of the Trust's shares over the Trust's fiscal year or such other allocation method approved by the Board of Trustees. The allocation of distribution expenses among classes will be subject to the review of the Board of Trustees. Payments hereunder will be applied to distribution expenses in the order in which they are incurred, unless



otherwise determined by the Board of Trustees.

The Distributor shall spend such amounts as it deems appropriate on Distribution Activities which include, among others:

(a) sales commissions (including trailer commissions) paid to, or on

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account of, account executives of the Distributor;

(b) indirect and overhead costs of the Distributor associated with performance of Distribution Activities including central office and branch expenses;

(c) amounts paid to Prudential Securities or Prusec for performing services under a selected dealer agreement between Prudential Securities or Prusec and the Distributor for sale of Class B shares of the Trust, including sales commissions and trailer commissions paid to, or on account of, agents and indirect and overhead costs associated with Distribution Activities;

(d) advertising for the Trust in various forms through any available medium, including the cost of printing and mailing Trust prospectuses, statements of additional information and periodic financial reports and sales literature to persons other than current shareholders of the Trust; and

(e) sales commissions (including trailer commissions) paid to, or on account of, broker-dealers and other financial institutions (other than Prudential Securities or Prusec) which have entered into selected dealer agreements with the Distributor with respect to Class B shares of the Trust.

#### 4. Quarterly Reports; Additional Information

An appropriate officer of the Trust will provide to the Board of Trustees of the Trust for review, at least quarterly, a written report specifying in reasonable detail the amounts expended for Distribution Activities (including payment of the service fee) and the purposes for which such expenditures were made in compliance with the requirements of Rule 12b-1. The Distributor will provide to the Board of Trustees of the Trust such additional

information as they shall from time to time reasonably request, including information about Distribution Activities undertaken or to be undertaken by the Distributor.

The Distributor will inform the Board of Trustees of the Trust of the commissions

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and account servicing fees to be paid by the Distributor to account executives of the Distributor and to broker-dealers and other financial institutions which have selected dealer agreements with the Distributor.

#### 5. Effectiveness; Continuation

The Plan shall not take effect until it has been approved by a vote of a majority of the outstanding voting securities (as defined in the Investment Company Act) of the Class B shares of the Trust.

If approved by a vote of a majority of the outstanding voting securities of the Class B shares of the Trust, the Plan shall, unless earlier terminated in accordance with its terms, continue in full force and effect thereafter for so long as such continuance is specifically approved at least annually by a majority of the Board of Trustees of the Trust and a majority of the Rule 12b-1 Trustees by votes cast in person at a meeting called for the purpose of voting on the continuation of the Plan.

#### 6. Termination

This Plan may be terminated at any time by vote of a majority of the Rule 12b-1 Trustees, or by vote of a majority of the outstanding voting securities (as defined in the Investment Company Act) of the Class B shares of the Trust.

#### 7. Amendments

The Plan may not be amended to change the combined service and distribution expenses to be paid as provided for in Sections 2 and 3 hereof so as to increase materially the amounts payable under this Plan unless such amendment shall be approved by the vote of a majority of the outstanding voting securities (as defined in the Investment Company Act) of the Class B shares of the Trust. All material amendments

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of the Plan shall be approved by a majority of the Board of Trustees of the Trust and a majority of the Rule 12b-1 Trustees by votes cast in person at a meeting called for the purpose of voting on the Plan.

8. Rule 12b-1 Trustees

While the Plan is in effect, the selection and nomination of the Rule 12b-1 Trustees shall be committed to the discretion of the Rule 12b-1 Trustees.

9. Records

The Trust shall preserve copies of the Plan and any related agreements and all reports made pursuant to Section 4 hereof, for a period of not less than six years from the date of effectiveness of the Plan, such agreements or reports, and for at least the first two years in an easily accessible place.

Dated: August 25, 1999

## TARGET FUNDS

## Distribution and Service Plan

## (Class C Shares)

## Introduction

The Distribution and Service Plan (the Plan) set forth below which is designed to conform to the requirements of Rule 12b-1 under the Investment Company Act of 1940 (the Investment Company Act) and Rule 2830 of the Conduct Rules of the National Association of Securities Dealers, Inc. (NASD) has been adopted by Target Funds (the Trust) and by Prudential Investment Management Services LLC, the Trust's distributor (the Distributor).

The Trust has entered into a distribution agreement pursuant to which the Trust will employ the Distributor to distribute Class C shares issued by the Trust (Class C shares). Under the Plan, the Trust wishes to pay to the Distributor, as compensation for its services, a distribution and service fee with respect to Class C shares.

A majority of the Board of Trustees of the Trust, including a majority who are not "interested persons" of the Trust (as defined in the Investment Company Act) and who have no direct or indirect financial interest in the operation of this Plan or any agreements related to it (the Rule 12b-1 Trustees), have determined by votes cast in person at a meeting called for the purpose of voting on this Plan that there is a reasonable likelihood that adoption and continuation of this Plan will benefit the Trust and its shareholders. Expenditures under this Plan by the Trust for Distribution Activities (defined below) are primarily intended to result in the sale of Class C shares of the Trust within the meaning of paragraph (a)(2) of Rule 12b-1 promulgated under

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the Investment Company Act.

The purpose of the Plan is to create incentives to the Distributor and/or other qualified broker-dealers and their account executives to provide distribution assistance to their customers who are investors in the Trust, to defray the costs and expenses associated with the preparation, printing and distribution of prospectuses and sales literature and other promotional and distribution activities and to provide for the servicing and maintenance of

shareholder accounts.

## The Plan

The material aspects of the Plan are as follows:

### 1. Distribution Activities

The Trust shall engage the Distributor to distribute Class C shares of the Trust and to service shareholder accounts using all of the facilities of the Distributor's distribution network including sales personnel and branch office and central support systems, and also using such other qualified broker-dealers and financial institutions as the Distributor may select, including Prudential Securities Incorporated (Prudential Securities) and Pruco Securities Corporation (Prusec). Services provided and activities undertaken to distribute Class C shares of the Trust are referred to herein as "Distribution Activities."

### 2. Payment of Service Fee

The Trust shall pay to the Distributor as compensation for providing personal service and/or maintaining shareholder accounts a service fee of .25 of 1% per annum of the average daily net assets of the Class C shares (service fee). The Trust shall calculate and accrue daily amounts payable by the Class C shares of the Trust

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hereunder and shall pay such amounts monthly or at such other intervals as the Board of Trustees may determine.

### 3. Payment for Distribution Activities

The Trust shall pay to the Distributor as compensation for its services a distribution fee of .75 of 1% per annum of the average daily net assets of the Class C shares of the Trust for the performance of Distribution Activities. The Trust shall calculate and accrue daily amounts payable by the Class C shares of the Trust hereunder and shall pay such amounts monthly or at such other intervals as the Board of Trustees may determine. Amounts payable under the Plan shall be subject to the limitations of Rule 2830 of the NASD Conduct Rules.

Amounts paid to the Distributor by the Class C shares of the Trust will not be used to pay the distribution expenses incurred with respect to any other class of shares of the Trust except that distribution expenses attributable to the Trust as a whole will be allocated to the Class C shares according to the ratio of the sale of Class C shares to the total sales of the Trust's shares over the Trust's fiscal year or such other allocation method approved by the Board of Trustees. The allocation of distribution expenses among classes will be subject to the review of the Board of Trustees. Payments hereunder will be applied to distribution expenses in the order in which they are incurred, unless

otherwise determined by the Board of Trustees.

The Distributor shall spend such amounts as it deems appropriate on Distribution Activities which include, among others:

(a) sales commissions (including trailer commissions) paid to, or on account of, account executives of the Distributor;

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(b) indirect and overhead costs of the Distributor associated with performance of Distribution Activities including central office and branch expenses;

(c) amounts paid to Prudential Securities or Prusec for performing services under a selected dealer agreement between Prudential Securities or Prusec and the Distributor for sale of Class C shares of the Trust, including sales commissions and trailer commissions paid to, or on account of, agents and indirect and overhead costs associated with Distribution Activities;

(d) advertising for the Trust in various forms through any available medium, including the cost of printing and mailing Trust prospectuses, statements of additional information and periodic financial reports and sales literature to persons other than current shareholders of the Trust; and

(e) sales commissions (including trailer commissions) paid to, or on account of, broker-dealers and other financial institutions (other than Prudential Securities or Prusec) which have entered into selected dealer agreements with the Distributor with respect to Class C shares of the Trust.

#### 4. Quarterly Reports; Additional Information

An appropriate officer of the Trust will provide to the Board of Trustees of the Trust for review, at least quarterly, a written report specifying in reasonable detail the amounts expended for Distribution Activities (including payment of the service fee) and the purposes for which such expenditures were made in compliance with the requirements of Rule 12b-1. The Distributor will provide to the Board of Trustees of the Trust such additional information as they shall from time to time reasonably request, including information about Distribution Activities undertaken or to be undertaken by the Distributor.

The Distributor will inform the Board of Trustees of the Trust of the commissions and account servicing fees to be paid by the Distributor to account executives of the

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Distributor and to broker-dealers and other financial institutions which have selected dealer agreements with the Distributor.

5. Effectiveness; Continuation

The Plan shall not take effect until it has been approved by a vote of a majority of the outstanding voting securities (as defined in the Investment Company Act) of the Class C shares of the Trust.

If approved by a vote of a majority of the outstanding voting securities of the Class C shares of the Trust, the Plan shall, unless earlier terminated in accordance with its terms, continue in full force and effect thereafter for so long as such continuance is specifically approved at least annually by a majority of the Board of Trustees of the Trust and a majority of the Rule 12b-1 Trustees by votes cast in person at a meeting called for the purpose of voting on the continuation of the Plan.

6. Termination

This Plan may be terminated at any time by vote of a majority of the Rule 12b-1 Trustees, or by vote of a majority of the outstanding voting securities (as defined in the Investment Company Act) of the Class C shares of the Trust.

7. Amendments

The Plan may not be amended to change the combined service and distribution expenses to be paid as provided for in Sections 2 and 3 hereof so as to increase materially the amounts payable under this Plan unless such amendment shall be approved by the vote of a majority of the outstanding voting securities (as defined in the Investment Company Act) of the Class C shares of the Trust. All material amendments of the Plan shall be approved by a majority of the Board of Trustees of the Trust and a

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majority of the Rule 12b-1 Trustees by votes cast in person at a meeting called for the purpose of voting on the Plan.

8. Rule 12b-1 Trustees

While the Plan is in effect, the selection and nomination of the Rule 12b-1 Trustees shall be committed to the discretion of the Rule 12b-1 Trustees.

9. Records

The Trust shall preserve copies of the Plan and any related agreements and all reports made pursuant to Section 4 hereof, for a period of not less than six years from the date of effectiveness of the Plan, such agreements or reports, and for at least the first two years in an easily accessible place.

Dated: August 25, 1999



TARGET FUNDS  
(the Trust)

PLAN PURSUANT TO RULE 18F-3

The Trust hereby adopts this plan pursuant to Rule 18f-3 under the Investment Company Act of 1940 (the 1940 Act), setting forth the separate arrangement and expense allocation of each class of shares in each investment portfolio (each a Fund). Any material amendment to this plan is subject to prior approval of the Board of Trustees, including a majority of the independent Trustees.

CLASS CHARACTERISTICS

**CLASS A SHARES:** Class A shares are subject to a high initial sales charge and a distribution and/or service fee pursuant to Rule 12b-1 under the 1940 Act (Rule 12b-1 fee) not to exceed .30 of 1% per annum of the average daily net assets of the class. The initial sales charge is waived or reduced for certain eligible investors.

**CLASS B SHARES:** Class B shares are not subject to an initial sales charge but are subject to a high contingent deferred sales charge (declining from 5% to zero over a six-year period) which will be imposed on certain redemptions and a Rule 12b-1 fee not to exceed 1% per annum of the average daily net assets of the class. The contingent deferred sales charge is waived for certain eligible investors. Class B shares automatically convert to Class A shares approximately seven years after purchase.

**CLASS C SHARES:** Class C shares are subject to a low initial sales charge and a 1% contingent deferred sales charge which will be imposed on certain redemptions within the first 18 months after purchase and a Rule 12b-1 fee not to exceed 1% per annum of the average daily net assets of the class.

INCOME AND EXPENSE ALLOCATIONS

Income, any realized and unrealized capital gains and losses, and expenses not allocated to a particular class of a Fund will be

allocated to each class of such Fund on the basis of the net asset value of that class in relation to the net asset value of the Fund.

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## DIVIDENDS AND DISTRIBUTIONS

Dividends and other distributions paid by each Fund to each class of shares, to the extent paid, will be paid on the same day and at the same time, and will be determined in the same manner and will be in the same amount, except that the amount of the dividends and other distributions declared and paid by a particular class of the Fund may be different from that paid by another class of the Fund because of Rule 12b-1 fees and other expenses borne exclusively by that class.

## EXCHANGE PRIVILEGE

Holders of Class A Shares, Class B Shares and Class C Shares shall have such exchange privileges as set forth in the Trust's current prospectus. Exchange privileges may vary among classes and among holders of a Class.

## CONVERSION FEATURES

Class B shares will automatically convert to Class A shares on a quarterly basis approximately seven years after purchase. Conversions will be effected at relative net asset value without the imposition of any additional sales charge.

## GENERAL

- A. Each class of shares shall have exclusive voting rights on any matter submitted to shareholders that relates solely to its arrangement and shall have separate voting rights on any matter submitted to shareholders in which the interests of one class differ from the interests of any other class.
  
- B. On an ongoing basis, the Trustees, pursuant to their fiduciary responsibilities under the 1940 Act and otherwise, will monitor the Trust for the existence of any material conflicts among the interests of its several classes. The Trustees, including a majority of the independent Trustees, shall take such action as is reasonably necessary to eliminate any such conflicts that may develop. Prudential Investments Fund Management LLC, the Trust's Manager, will be

responsible for reporting any potential or existing conflicts to the Trustees.

Dated: August 25, 1999