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March 14, 2008

Ms. Nancy M. Morris  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549-9303

Re: Enhanced Disclosure and New Prospectus Delivery Option for Registered Open-End Management Investment Companies: File No. S7-28-07

Dear Ms. Morris:

This letter and attached white paper supplement the Investment Company Institute's<sup>1</sup> comment letter dated February 28, 2008 (the "ICI Comment Letter"),<sup>2</sup> which expressed our strong support for the proposed concept of a new prospectus delivery option for mutual funds.<sup>3</sup> We now write in response to the Commission's request for investor input on its proposal to permit funds to provide investors with a summary of key information (a "Summary Prospectus") and make additional information available upon request. The Commission requested input on the proposal generally, as well as on "what improvements would make the [S]ummary [P]rospectus easier to read and understand, and what key information investors would like to see included."<sup>4</sup>

In response to this request, the Institute conducted a survey of more than 500 mutual fund investors (the "Survey") to answer three broad questions: 1) How do investors react overall to the

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<sup>1</sup> The Investment Company Institute is the national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds (ETFs), and unit investment trusts (UITs). ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. Members of ICI manage total assets of \$12.33 trillion and serve almost 90 million shareholders.

<sup>2</sup> See Letter from Karrie McMillan, General Counsel, Investment Company Institute, to Nancy Morris, U.S. Securities and Exchange Commission, dated February 28, 2008, available at <http://www.sec.gov/comments/s7-28-07/s72807-92.pdf>.

<sup>3</sup> See Enhanced Disclosure and New Prospectus Delivery Option for Registered Open-End Management Investment Companies, SEC Release Nos. 33-8861, IC-28064 (Nov. 21, 2007), 72 Fed. Reg. 67790 (Nov. 30, 2007) ("Proposing Release").

<sup>4</sup> "SEC Releases Sample Format for Proposed Mutual Fund Summary Prospectus: Commission Seeks Investor Input on Proposal to Improve Mutual Fund Disclosure," SEC Press Release No. 2007-249, November 29, 2007, available at <http://www.sec.gov/news/press/2007/2007-249.htm>.

Summary Prospectus proposal? 2) How do investors view specific aspects of the proposed Summary Prospectus? and 3) How do mutual fund investors use the Internet? The design and findings of the Survey are discussed in detail in the attached white paper.

The Survey results provide strong support for the Commission's proposed disclosure approach. In particular, the findings with respect to the Survey's first and third broad questions confirm earlier research – by the Commission, the Institute and others – that investors would be best served by simplified, streamlined disclosure of essential fund information,<sup>5</sup> and that the vast majority of mutual fund investors have access to and frequently use the Internet.<sup>6</sup> When asked a series of questions about the proposed approach, the response was overwhelmingly positive. Ninety-four percent of Survey respondents agreed that they would be more likely to read a document like the proposed Summary Prospectus than the longer and more detailed prospectus, and that a summary document would make it easier for them to compare different funds. Likewise, 96 percent agreed that a 3 to 4 page document was about the right length.

As to Internet usage, 95 percent of respondents reported that they use the Internet, and 73 percent access it daily. Ninety percent of respondents who use the Internet do so to gather financial information. While the numbers are slightly lower for older investors, they are still very strong: 85 percent of respondents age 60 or older use the Internet, and 84 percent of these Internet users gather financial information online. Finally, 90 percent of respondents (and 84 percent of older investors) agreed with the statement that “getting investment information online is the wave of the future.”<sup>7</sup>

The findings from the Survey with respect to the second broad question provide insight into how the Summary Prospectus might be refined to be most useful to investors, by seeking their opinions on the relative importance of the proposed disclosure items and on alternative presentations. The

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<sup>5</sup> See, e.g., Investment Company Institute, *The Profile Prospectus: An Assessment by Mutual Fund Shareholders* (Summary of Research Findings) (May 1996), available at [http://www.ici.org/stats/res/arc-rpt/rpt\\_profprspctus3.pdf](http://www.ici.org/stats/res/arc-rpt/rpt_profprspctus3.pdf); Investment Company Institute, *The Profile Prospectus: An Assessment by Mutual Fund Shareholders* (Volume 1) (May 1996), available at [http://www.ici.org/stats/res/arc-dis/rpt\\_profprspctus.pdf](http://www.ici.org/stats/res/arc-dis/rpt_profprspctus.pdf); Investment Company Institute, *The Profile Prospectus: An Assessment by Mutual Fund Shareholders* (Volume 2) (May 1996), available at [http://www.ici.org/stats/res/arc-dis/rpt\\_profprspctus2.pdf](http://www.ici.org/stats/res/arc-dis/rpt_profprspctus2.pdf); Investment Company Institute, *Understanding Shareholders' Use of Information and Advisers* (April 1997), available at [http://www.ici.org/stats/res/arc-dis/rpt\\_undstnd\\_share.pdf](http://www.ici.org/stats/res/arc-dis/rpt_undstnd_share.pdf); Investment Company Institute, *Understanding Investor Preferences for Mutual Fund Information* (2006), available at [http://www.ici.org/stats/res/rpt\\_06\\_inv\\_prefs\\_full.pdf](http://www.ici.org/stats/res/rpt_06_inv_prefs_full.pdf); Investment Company Institute, *Ownership of Mutual Funds and Use of the Internet, 2006*, Research Fundamentals, Vol. 15, No. 6, October 2006, available at <http://www.ici.org/pdf/fm-v15n6.pdf>; see also Barbara Roper and Stephen Brobeck, Consumer Federation of America, *Mutual Fund Purchase Practices* (June 2006), available at [http://www.consumerfed.org/pdfs/mutual\\_fund\\_survey\\_report.pdf](http://www.consumerfed.org/pdfs/mutual_fund_survey_report.pdf).

<sup>6</sup> See *Understanding Investor Preferences for Mutual Fund Information*, Investment Company Institute (2006); see also Proposing Release at notes 22-23 and accompanying text.

<sup>7</sup> This result supports our expectation that, over time, investors will become more accustomed to seeking investment information on the Internet. We recommend that in the future the Commission revisit whether provision of such information solely on the Internet may be sufficient.

responses regarding the importance of each item were particularly noteworthy. We urge the Commission to consider these results in light of the clear preference by survey respondents and other commenters, including fund directors and financial advisers,<sup>8</sup> for a shorter document, as well as the concerns expressed by fund companies that, if adopted as proposed, actual Summary Prospectuses will be significantly longer than 3 to 4 pages.<sup>9</sup>

Not surprisingly, and consistent with the general consensus,<sup>10</sup> the information investors viewed as most important was investment objectives, fees and expenses, and the annual total return bar chart. As described in more detail in the attached report, nearly three-quarters of respondents thought each of these was “very important, need to keep in summary document.”<sup>11</sup> When those who stated that this information was “somewhat important, keep if space available” are added, more than 90 percent of respondents agreed that these elements were important. The second tier of important information, according to survey respondents, included investment strategies, principal risks, and the disclosure regarding dividends, capital gains and taxes. Fifty percent or more of respondents viewed this information as “very important,” and around 80 percent thought it was at least “somewhat important.”

Less than half of respondents described the remaining elements – portfolio turnover, top ten portfolio holdings, name of investment adviser, name of portfolio manager, information about purchasing and selling funds, and the statement on payments to broker-dealers as “very important.” When those who responded that the information was “somewhat important, keep if space available” are

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<sup>8</sup> See, e.g., Comment from Jeffrey C. Keil, Principal, Keil Fiduciary Strategies LLC, Jan. 9, 2008, available at <http://www.sec.gov/comments/s7-28-07/s72807-14.htm> (“I would guess that 4 pages is a bit too long, while 2-3 might garner more eyeballs.”); Comment from Jon S. Fossel, CFA, Independent Fund Director, Former ICI Chairman, Dec. 10, 2007, available at <http://www.sec.gov/comments/s7-28-07/s72807-8.htm> (“Try to keep it to two pages, not ‘three or four.’”). Many other commenters expressed support for “the three page summary.” See, e.g., Comment from Jonathan Lee, Feb. 14, 2008, available at <http://www.sec.gov/comments/s7-28-07/s72807-49.htm>; Comment from Rebecca Turcotte Kish, Feb. 15, 2008, available at <http://www.sec.gov/comments/s7-28-07/s72807-53.htm>; Comment from B.W. Atkins, Feb. 18, 2008, available at <http://www.sec.gov/comments/s7-28-07/s72807-57.htm>.

<sup>9</sup> See, e.g., Letter from Mark N. Polebaum, Executive Vice President and General Counsel, and Judith R. Hogan, Senior Vice President and Associate General Counsel, MFS Investment Management, to Nancy Morris, U.S. Securities and Exchange Commission, dated February 28, 2008, available at <http://www.sec.gov/comments/s7-28-07/s72807-91.pdf> (providing a sample Summary Prospectus reflecting the proposed requirements that is six pages on full size paper (Sample #3) and explaining that “this disclosure is significantly longer than the SEC’s sample because of the more detailed explanation of each of the items in the MFS disclosure”); Letter from Michael H. Koonce, Senior Vice President and General Counsel, Evergreen Investments, to Nancy Morris, U.S. Securities and Exchange Commission, dated February 28, 2008, available at <http://www.sec.gov/comments/s7-28-07/s72807-84.pdf> (stating that the SEC’s sample is not “necessarily [ ] a realistic example of actual fund disclosure....After reviewing the staff’s example, we prepared our own sample Summary Prospectus using one of our existing funds and it was significantly longer than four pages.”); see also ICI Comment Letter.

<sup>10</sup> See Proposing Release at 8-9 (describing the consensus among investor groups, the industry, analysts and others participating in the Commission’s June 2006 roundtable that the key information investors need “includes information about a mutual fund’s investment objectives and strategies, risks, costs, and performance”); see also *id.* at note 20.

<sup>11</sup> Slightly fewer – about two thirds – viewed the performance table as “very important.”

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March 14, 2008

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included, the numbers rise for each element – in some cases substantially. Taken together with the widespread agreement that 3 to 4 pages is about the right length, and the data supporting that respondents by and large are accustomed to using the Internet to gather financial information, we believe these responses both urge the Commission to limit the contents of the Summary Prospectus to keep it reasonably short, and provide assurance that investors are fully capable of finding information they desire if it is not included in the Summary Prospectus.

With this in mind, we reiterate our recommendation that the Commission not require disclosure in the Summary Prospectus of a fund's top ten portfolio holdings. We also continue to believe that it is not necessary to require portfolio manager disclosure in the Summary Prospectus. We urge the Commission to carefully consider which other information proposed to be required in the Summary Prospectus could be made available to investors through other means, in order to keep the summary document at a reasonable length.

\* \* \*

We hope you find the Institute's white paper useful. We believe the Summary Prospectus could have a positive impact on multiple fronts, and we applaud the Commission for its desire to obtain investor input on this important initiative. If you have any questions about this letter, our white paper, or the Survey, please contact us at 202/326-5815 (Ms. McMillan) or 202/326-5917 (Mr. Reid).

Sincerely,

/s/

Karrie McMillan  
General Counsel

/s/

Brian Reid  
Chief Economist

Ms. Nancy M. Morris

March 14, 2008

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Attachment

cc: The Honorable Christopher Cox, Chairman  
The Honorable Paul S. Atkins  
The Honorable Kathleen L. Casey

Andrew J. Donohue, Director  
Susan Nash, Associate Director  
Division of Investment Management

James Overdahl  
Chief Economist  
Office of Economic Analysis

# INVESTOR VIEWS ON THE U.S. SECURITIES AND EXCHANGE COMMISSION'S PROPOSED SUMMARY PROSPECTUS

MARCH 14, 2008

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John Sabelhaus, PhD, ICI Senior Economist, prepared this report.

The Investment Company Institute (ICI) is the national association of U.S. investment companies. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers.

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# EXECUTIVE SUMMARY

## BACKGROUND

In November 2007, the U.S. Securities and Exchange Commission (SEC) issued a rule proposal that would permit mutual funds to provide investors with a summary of key information (a “Summary Prospectus”), and to make additional information, including the long-form prospectus, available on the Internet and on paper or by email upon request.<sup>1</sup> The SEC invited comments on the Summary Prospectus proposal and made a special effort to solicit feedback from investors.<sup>2</sup> In response to this request, the Investment Company Institute (ICI)<sup>3</sup> conducted a survey in which mutual fund investors were asked about several aspects of the SEC’s proposed rule changes. This report presents and describes the results of that survey.

The SEC’s primary goal for the Summary Prospectus is to make the information provided by mutual funds more useful to investors. The Summary Prospectus is intended to streamline the information that all fund investors receive. The information that investors want most will be offered in a simpler form that investors will be more likely actually to use, while more detailed disclosures will be readily available online and on paper or by email upon request.

This most recent SEC proposal is the culmination of disclosure reform efforts that began more than a decade ago. In October 1994, Arthur Levitt, Jr., then Chairman of the SEC, launched a project to improve disclosure about mutual funds. ICI and several mutual fund groups participated in the development and testing of a streamlined mutual fund disclosure document that was then called the “Profile Prospectus.” In 1998, the SEC adopted a rule permitting funds to sell shares using a “fund profile”; that approach, however, was not widely adopted by funds.<sup>4</sup> At the same time, the SEC adopted revisions to the mutual fund’s long-form prospectus, placing a standardized “risk-return summary” highlighting key information about the fund at the beginning of the document.<sup>5</sup> The recent SEC proposed rule is an extension of these efforts.

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1 See Enhanced Disclosure and New Prospectus Delivery Option for Registered Open-End Management Investment Companies, SEC Release Nos. 33-8861 and IC-28064 (Nov. 21, 2007), 72 Fed. Reg. 67790 (Nov. 30, 2007) (“Proposing Release”), available at [www.sec.gov/rules/proposed/2007/33-8861.pdf](http://www.sec.gov/rules/proposed/2007/33-8861.pdf).

2 See, for example, SEC Releases Sample Format for Proposed Mutual Fund Summary Prospectus: Commission Seeks Investor Input on Proposal to Improve Mutual Fund Disclosure, SEC Press Release No. 2007-249, Nov. 29, 2007, available at [www.sec.gov/news/press/2007/2007-249.htm](http://www.sec.gov/news/press/2007/2007-249.htm).

3 The Investment Company Institute is the national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds (ETFs), and unit investment trusts (UITs). ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. Members of ICI manage total assets of \$12.33 trillion and serve almost 90 million shareholders.

4 See New Disclosure Option for Open-End Management Investment Companies, SEC Release Nos. 33-7513 and IC-23065 (March 13, 1998), 63 Fed. Reg. 13968 (March 23, 1998).

5 See Registration Form Used by Open-End Management Investment Companies, SEC Release Nos. 33-7398, 34-39748, and IC-22528 (Feb. 27, 1997), 62 Fed. Reg. 10898 (March 10, 1997); Registration Form Used by Open-End Management Investment Companies, SEC Release Nos. 33-7512, 34-39748, and IC-23064 (March 13, 1998), 63 Fed. Reg. 13916 (March 23, 1998).

## INFORMING INVESTORS: ICI'S RESEARCH RECORD

The Summary Prospectus proposal put forth by the U.S. Securities and Exchange Commission is based on more than a decade of work by regulators and experts in the fund industry. Two crucial studies of investors' needs and preferences for information, conducted by the Investment Company Institute in 1996 and 2006, helped form the principles that the SEC has followed—and that are confirmed once again in the survey reported here.

*The Profile Prospectus: An Assessment by Mutual Fund Shareholders* outlined the results of a survey of nearly 1,000 investors conducted in 1996. This research focused on what was then called the “Profile Prospectus,” and the questions on the survey were oriented around the type, amount, and format of information presented in disclosure documents. Several findings that are particularly relevant for the current disclosure reform effort come out of that research, including:

- » About six in 10 investors preferred the shorter disclosure document to the longer one (the 10(a) Prospectus), and about two in 10 were indifferent.
- » About seven in 10 investors believed the shorter prospectus they were shown had the right amount of information; fewer than three in 10 believed there was too little information.
- » When asked about specific information about the mutual fund—such as the types of securities invested in, risks, fees and expenses, historical performance, and investment goals—investors overwhelmingly found it easier both to find and to understand the data in the shorter prospectus.

The 2006 research, *Understanding Investor Preferences for Mutual Fund Information*, also focused on investor preferences about content and form for disclosure documents. Given the push towards alternative document delivery, however, this survey also included several questions about Internet use. Some of the highlights from that study, conducted through in-home surveys with nearly 700 investors, include:

- » Just over five in 10 respondents said they would prefer to receive the shorter disclosure document, and another three in 10 said they preferred to receive both the short and long documents.
- » Almost seven in 10 investors said they preferred graphics and charts for describing an investment, as opposed to a narrative.
- » More than eight in 10 investors used the Internet, and half used it daily. Of those who use the Internet, 85 percent mentioned that activities associated with gathering financial information (including visiting fund websites) is one of the reasons they go online.

The current survey continues ICI's tradition of using research to inform policy-making and regulation in ways that will benefit investors.

Since the mid-1990s, ICI has conducted extensive research on investors' views on the content and format of mutual fund disclosure and investor use of the Internet (page 2). That research has found that investors greatly prefer a shorter prospectus that presents more information graphically, and that the vast majority of mutual fund investors have access to and frequently use the Internet.<sup>6</sup> In the survey reported here, conducted by ICI in early 2008 after the SEC issued its proposal, the Institute sought to answer three broad questions:

- » ***How do investors react overall to the Summary Prospectus proposal?*** The survey asked investors whether the summary document provides enough information to learn about funds, given that additional information is available online or upon request; if the length is about right; and how likely they would be to use the summary.
- » ***How do investors view specific aspects of the proposed Summary Prospectus?*** By asking investors about the relevance of each section of the Summary Prospectus and showing them alternative ways to present certain types of information, the survey solicited views on the relative importance of the information contained in the Summary Prospectus and how best to communicate that information.
- » ***How do mutual fund investors use the Internet?*** The survey asked respondents about their Internet access, frequency of Internet use, and whether they use the Internet to gather financial information.

## KEY FINDINGS

The survey yielded both a very broad assessment of the SEC's proposed Summary Prospectus and information regarding specific ways to present various pieces of information. Several highlights emerge from each of the major survey sections.

First, it is clear that the overall investor reaction to the SEC's proposed Summary Prospectus is very positive:

- » Respondents overwhelmingly agree that the Summary Prospectus is about the right length, makes it easier to compare funds, contains enough information (as long as more detailed information is available online or upon request), and is a document that they would be more likely to use than the current long-form prospectus. Between 94 percent and 96 percent of respondents agree with these statements; between 65 percent and 83 percent "strongly" agree.
- » When read statements that suggest retaining the status quo rather than adopting the SEC proposal, few respondents agree that the SEC should require that mutual funds continue to provide only the longer and more detailed document instead of the shorter version. Only 13 percent agree with that statement, and only 6 percent "strongly" agree.

Second, respondents generally agree that every section of the proposed SEC document is either "very important, need to keep in summary document" or "somewhat important, keep if space available." There are, however, noticeable differences in the strength of those beliefs across the different elements of the disclosure document:

- » The strongest sentiments expressed involve investment objectives, fees and expenses, and annual total returns. At least two-thirds of respondents agree that each of these components is "very important, need to keep in summary document."
- » Half or more of respondents agree that investment strategy, principal risks, and the proposed statement on dividends, capital gains, and taxes are also "very important," and need to remain in the Summary Prospectus.

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<sup>6</sup> See *The Profile Prospectus: An Assessment by Mutual Fund Shareholders*, Report to the U.S. Securities and Exchange Commission by the Investment Company Institute (May 1996), available at [www.ici.org/pdf/rpt\\_profprspctus3.pdf](http://www.ici.org/pdf/rpt_profprspctus3.pdf), and *Understanding Investor Preferences for Mutual Fund Information*, Investment Company Institute (2006), available at [www.ici.org/pdf/rpt\\_o6\\_inv\\_prefs\\_full.pdf](http://www.ici.org/pdf/rpt_o6_inv_prefs_full.pdf).

- » Fewer than half of respondents place the remaining components of the proposed document in this “very important, need to keep” category. Those items include portfolio turnover, top 10 portfolio holdings, name of investment adviser, name of portfolio manager, information about purchasing and selling fund shares, and the statement on payments to broker-dealers.
- » However, more than half of respondents agree that every section of the proposed Summary Prospectus is at least “somewhat” important, and thus should be represented in the final version, if space is available.

Third, respondents express distinct preferences when provided with alternative approaches to the presentation of particular elements of the proposed Summary Prospectus:

- » More than half of respondents prefer a version of the front page where the information about investment strategies and risks is presented immediately following investment objectives and before the fee table.
- » More than three-fifths prefer a graphical display (in this case, a pie chart) that shows how fund assets are distributed across industries (e.g., energy, telecommunication services, health care) when offered as an alternative to the table listing the individual securities that make up the fund’s 10 largest portfolio holdings.
- » Only about three in 10 respondents prefer alternative, simplified versions of the fund fee table and the annual total return table.

Lastly, the survey includes several questions about Internet use that confirm other ICI research showing that investors are comfortable with alternative document delivery strategies:

- » Almost all (95 percent) respondents report that they access the Internet, and about three-fourths report doing so at least once a day.
- » Rates of Internet access and use are lower for people age 60 and older, but are still quite significant: 85 percent access the Internet, and more than half report using the Internet daily.
- » Virtually all respondents agree with the statement that “getting investment information online is the wave of the future.”
- » A large majority of respondents who access the Internet, both younger and older than age 60, use it to gather financial information.

# OVERALL IMPRESSION OF SEC'S PROPOSED DISCLOSURE APPROACH

The goal of the first section of the ICI survey was to ascertain investors' overall reaction to the SEC's Summary Prospectus proposal. Previous ICI research on mutual fund disclosure suggests that investors can be expected to generally react positively to a summary document like the one proposed.<sup>7</sup> Indeed, that expectation is realized very clearly in the first set of survey results.

In the survey, qualified respondents were sent exhibit materials and then asked to react to those materials in the course of a telephone interview (see Appendix I, page 20). The first exhibit is a three-page mocked-up version of the SEC's proposed Summary Prospectus (see Appendix II, page 21). The great majority of respondents agree, throughout a series of questions, that moving from the current "longer and more detailed" prospectus to a shorter version like the one the SEC proposed, with additional information available upon request or on the Internet, is a very positive step.

The mocked-up Summary Prospectus is based on the version that the SEC designed and published with its proposed rule in November 2007. The exact SEC document could not be used in the survey because several sections did not include examples of the information required for the hypothetical fund. For the survey exhibit, those sections of the SEC version are completed with text and numbers. The exhibit is intended to be completely consistent with the SEC's proposed guidelines, with added information to make it more realistic in seeking respondents' reactions.

Survey respondents' reactions to this mocked-up Summary Prospectus are consistent with expectations based on earlier ICI research. During the telephone survey, respondents were read several statements about their overall impression of the proposed Summary Prospectus. They were asked to react to each statement on a four-point scale: "strongly disagree," "somewhat disagree," "somewhat agree," and "strongly agree." The statements read about the Summary Prospectus are very broad, designed to determine investors' general reactions to the proposed document.

In every case, more than 90 percent of respondents said they "strongly agree" or "somewhat agree" with the statements that the Summary Prospectus "will make it easier for me to compare different funds"; that they would be more likely to read the Summary Prospectus than a "longer and more detailed prospectus"; that "the proposed length of about 3-4 pages for the summary document is about right"; and that "a summary document like this is enough for investors who want to learn about mutual funds, as long as the longer and more detailed document is available upon request" (Figure 1).

Respondents were also read negative statements that suggested retaining the status quo rather than adopting the SEC proposal. Negative statements are particularly useful when researchers are concerned that respondents might be biased toward agreement with statements that are read to them. In these types of negative questions, respondents are called upon to think more about the question to overcome a tendency to agree with statements—often complicated statements—that the interviewer is presenting.

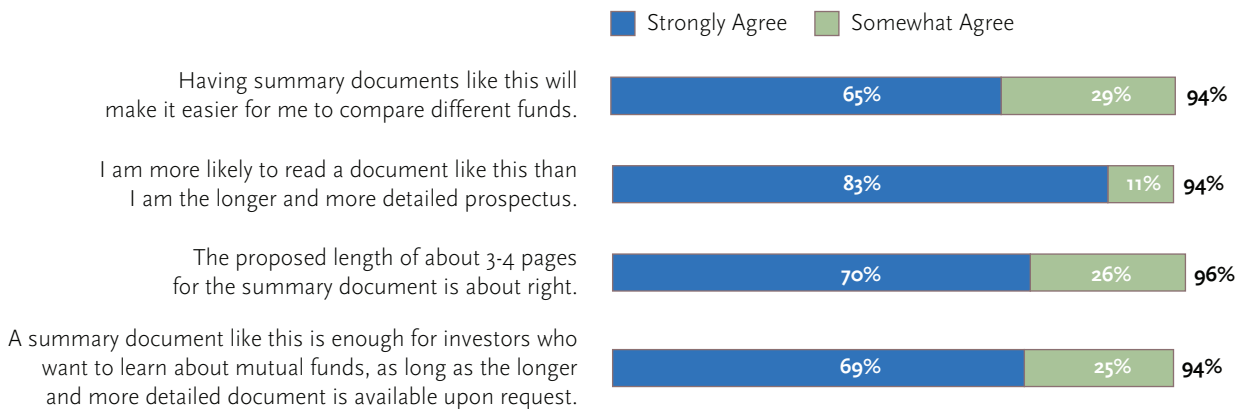
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<sup>7</sup> The results of earlier surveys are reported in *The Profile Prospectus: An Assessment by Mutual Fund Shareholders*, Report to the U.S. Securities and Exchange Commission by the Investment Company Institute (May 1996), available at [www.ici.org/pdf/rpt\\_profprspctus3.pdf](http://www.ici.org/pdf/rpt_profprspctus3.pdf), and *Understanding Investor Preferences for Mutual Fund Information*, Investment Company Institute (2006), available at [www.ici.org/pdf/rpt\\_o6\\_inv\\_prefs\\_full.pdf](http://www.ici.org/pdf/rpt_o6_inv_prefs_full.pdf)

FIGURE 1

**Investors are very receptive to the general idea of a shorter prospectus.**

*Percent of respondents*

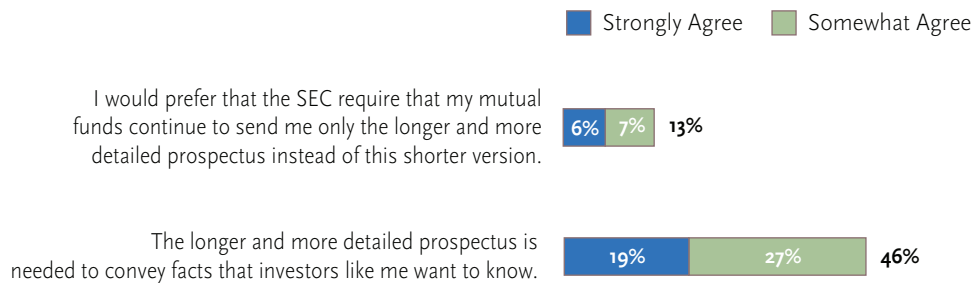


Investor responses to these statements confirmed their general support for receiving the Summary Prospectus provided the longer document is otherwise available. Few respondents either “strongly agree” or “somewhat agree” that the SEC should “require that my mutual funds continue to send me only the longer and more detailed prospectus” instead of the shorter version (Figure 2). The depth of feeling—particularly the fact that only 13 percent of respondents agreed that the SEC should keep the current disclosure requirements in place—is strongly indicative of mutual fund investors’ desire for some sort of change. In addition, a minority of respondents (46 percent) agree with the statement that the “longer and more detailed prospectus is needed to convey facts that investors like me want to know.”

FIGURE 2

**Investors reject the idea of maintaining the status quo when given that option.**

*Percent of respondents*



ICI fielded a large survey on this topic to gather enough observations that the sample could be divided and checked for differences across sub-groups. The aggregate results reported above—as well as all of the responses to questions about the Summary Prospectus in the sections that follow—are statistically invariant to several characteristics that ICI used to group respondents. In particular, the patterns of responses are basically the same when tabulated by demographic variables such as age and education, or investor characteristics such as use of investment advisers or ownership of funds inside or outside retirement plans at work.

## RELEVANCE OF SUMMARY PROSPECTUS SECTIONS

In the second set of questions, the ICI survey shifted the focus to the contents of the proposed Summary Prospectus. In this section, respondents were asked to react to the mocked-up Summary Prospectus, which was characterized in terms of 13 major sections:

- » Investment objective of the fund;
- » Fees and expenses of the fund;
- » Portfolio turnover;
- » Principal investment strategies;
- » Principal risks;
- » Annual total return chart;
- » Annual total return table;
- » Top 10 portfolio holdings;
- » Name of the investment adviser;
- » Name of the portfolio manager;
- » Information about how to purchase and sell fund shares;
- » Statement on dividends, capital gains, and taxes; and
- » Statement on payments to broker-dealers and other financial intermediaries.

Questions about the importance of each section were asked in this same order during every interview, so respondents could progress systematically from start to finish through the mocked-up Summary Prospectus. For each section, respondents were asked to characterize their view of the section's importance on a four-point scale. The possible responses were:

- » “very important, need to keep in summary document”;
- » “somewhat important, keep if space available”;
- » “useful, but having the information available online or by request is sufficient”; and
- » “not important, don't need to keep.”

Respondents generally agree that every section of the proposed SEC document should either be kept in the summary document or kept if space is available. Nevertheless, there are noticeable differences in the strengths of those beliefs.

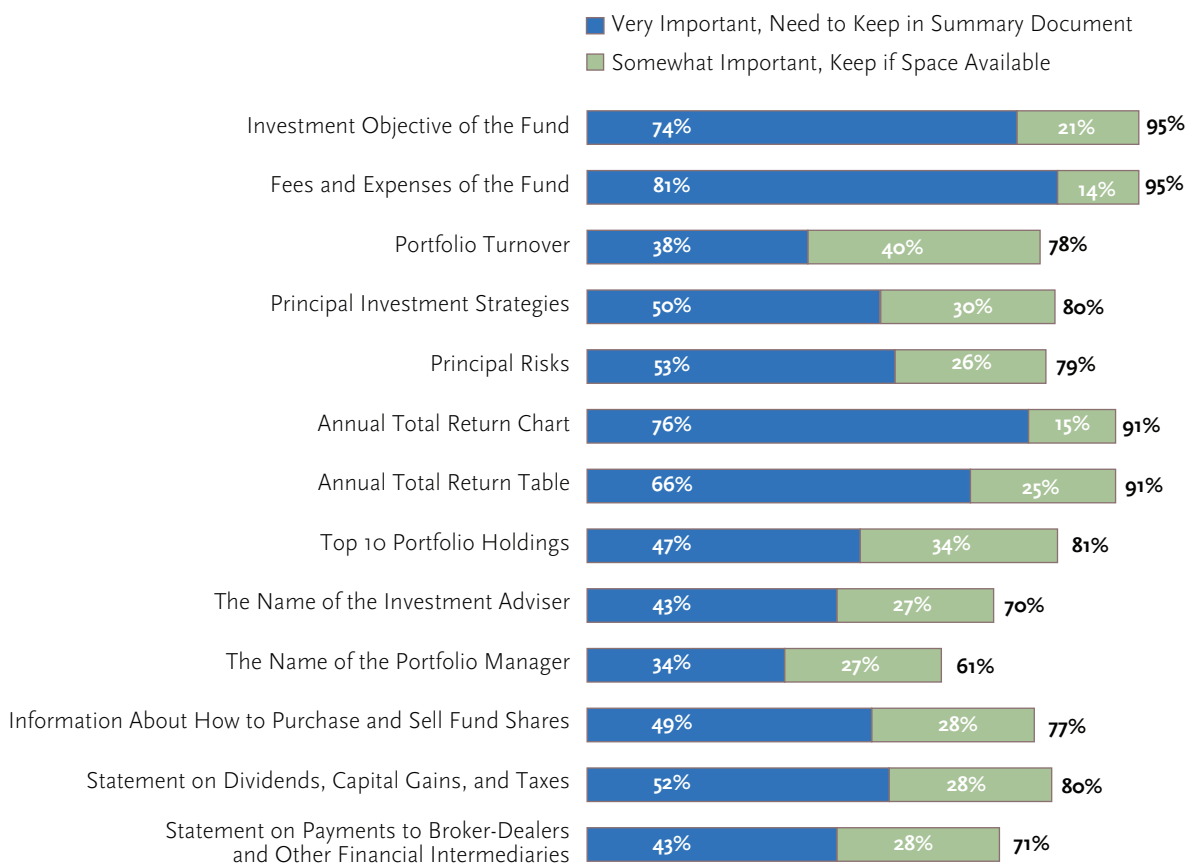
The investment objectives, fees and expenses, and the annual total return chart and table draw the strongest sentiments (Figure 3). At least two-thirds of respondents think each of these components is “very important,” and should be kept in the summary document. If the “somewhat important” responses are included, more than 90 percent of respondents believe these components should be part of the Summary Prospectus if space is available.



FIGURE 3

**Investors believe every major subsection of proposed Summary Prospectus is either very or somewhat important, but not all subsections are equally important.**

*Percent of respondents*



Half or more of respondents believe that principal investment strategies, principal risks, and the proposed statement on dividends, capital gains, and taxes are also in the “very important, need to keep” category. Approximately 80 percent of respondents rate these three items as at least “somewhat important, keep if space available.”

Fewer than half of respondents place the remaining components of the proposed document in the “very important, need to keep” category. Those items include portfolio turnover, top 10 portfolio holdings, name of investment adviser, name of portfolio manager, information about purchasing and selling fund shares, and the statement on payments to broker-dealers. However, more than 50 percent of respondents agree that every section of the proposed Summary Prospectus is at least “somewhat important,” and the information should be represented in the final version, if space is available.

Together with the general agreement that the sample Summary Prospectus is “about the right length,” these findings provide insight into which elements are most important to include in the final Summary Prospectus, and which ones, in the interest of brevity, might be made available through other means, such as the long-form prospectus or the fund’s website. As noted above, there is widespread agreement that the investment objectives, strategies, risks, fees and expenses, annual total return, and tax information fall into the “very important, need to keep” category. As to the other information, while it is generally viewed as important, many respondents show a willingness to obtain it elsewhere if space is not available in the Summary Prospectus.

## PREFERENCES FOR ALTERNATIVE PRESENTATIONS

In the Proposing Release, the SEC raises several questions about specific approaches to presenting information in the Summary Prospectus. The third portion of the ICI survey addresses some of those questions by asking respondents to choose between alternative approaches to presenting information about particular disclosure items.

As the telephone interviews progressed to this third set of questions, respondents were asked to set aside Exhibit 1, the mocked-up Summary Prospectus, and to pick up Exhibit 2. This second exhibit has four pages. Each page is split in half: the top half shows a section extracted from the mocked-up Summary Prospectus, and the bottom half shows an alternative presentation for the same section. The two halves are clearly labeled Option A and Option B. Respondents were told that the top half (Option A) is the version proposed by the SEC, while the bottom half (Option B) is an alternative being considered, about which ICI would like their opinions.

For each of the four pages of Exhibit 2, respondents were asked basically the same question: Did they “prefer Option A,” “prefer Option B,” or “like both Option A and Option B about the same”? In each case, they are reminded that Option A is “the same as in the Summary Prospectus you just looked at,” which clearly associates that option with the first two portions of the survey. As with some of the questions in the first portion, there is some concern that respondents may be quick to agree with a statement (or, in this case, a presentational approach) that they don’t fully understand, simply because it is offered as the default. However, the results from this portion of the survey suggest that respondents do not simply choose the default version, Option A. Indeed, in two of the four cases, a majority of the respondents preferred Option B.

## Exhibit 2 (Page 1)

### Option A

## THE XYZ EQUITY GROWTH FUND

(Class A and Class B Shares)

## SUMMARY PROSPECTUS

November 1, 2007

Before you invest, you may want to review the Fund's prospectus, which contains more information about the Fund and its risks. You can find the Fund's prospectus and other information about the Fund, including the statement of additional information and most recent reports to shareholders, online at [www.xyzfunds.com](http://www.xyzfunds.com). You can also get this information at no cost by calling 1-800-000-0000 or by sending an e-mail request to [info@xyzfunds.com](mailto:info@xyzfunds.com). The Fund's prospectus and statement of additional information, both dated April 27, 2007, and most recent report to shareholders, dated June 30, 2007, are all incorporated by reference into this Summary Prospectus.

**Investment Objective:** Long-term capital growth.

**Fees and Expenses of the Fund:** The tables below describe the fees and expenses that you may pay if you buy and hold shares of the Fund. You may qualify for sales charge discounts if you and your family invest, or agree to invest in the future, at least \$25,000 in XYZ Funds.

### Shareholder Fees (fees paid directly from your investment)

	Class A	Class B
Maximum Sales Charge (Load) Imposed on Purchases (as percentage of offering price)	5.75%	None
Maximum Deferred Sales Charge (Load) (as percentage of the lower of original purchase price or sale proceeds)	None	5.00%

### Option B

## THE XYZ EQUITY GROWTH FUND

(Class A and Class B Shares)

## SUMMARY PROSPECTUS

November 1, 2007

Before you invest, you may want to review the Fund's prospectus, which contains more information about the Fund and its risks. You can find the Fund's prospectus and other information about the Fund, including the statement of additional information and most recent reports to shareholders, online at [www.xyzfunds.com](http://www.xyzfunds.com). You can also get this information at no cost by calling 1-800-000-0000 or by sending an e-mail request to [info@xyzfunds.com](mailto:info@xyzfunds.com). The Fund's prospectus and statement of additional information, both dated April 27, 2007, and most recent report to shareholders, dated June 30, 2007, are all incorporated by reference into this Summary Prospectus.

**Investment Objective:** Long-term capital growth.

**Principal Investment Strategies:** In selecting stocks for the fund, the portfolio manager selects primarily from the 1,500 largest publicly traded U.S. companies. The managers use quantitative models to construct the portfolio of stocks for the fund.

### Principal Risks:

- You could lose money by investing in the Fund.
- **STYLE RISK** - If at any time the market is not favoring the fund's quantitative investment style, the fund's gains may not be as big as, or its losses may be bigger than, other equity funds using different investment styles.
- **BENCHMARK CORRELATION** - The fund's performance will be tied to the performance of its benchmark. If the fund's benchmark goes down, it is likely that the fund's performance will go down.
- **MARKET RISK** - The value of the fund's shares will go up and down based on the performance of the companies whose securities it owns and other factors generally affecting the securities market.
- **PRICE VOLATILITY** - The value of the fund's shares may fluctuate significantly in the short term.
- **PRINCIPAL LOSS** - At any given time your shares may be worth less than the price you paid for them. In other words, it is possible to lose money by investing in the fund.

**Fees and Expenses of the Fund:** The tables below describe the fees and expenses that you may pay if you buy and hold shares of the Fund. You may qualify for sales charge discounts if you and your family invest, or agree to invest in the future, at least \$25,000 in XYZ fund.

### Shareholder Fees (fees paid directly from your investment)

	Class A	Class B
Maximum Sales Charge (Load) Imposed on Purchases (as percentage of offering price)	5.75%	None
Maximum Deferred Sales Charge (Load) (as percentage of the lower of original purchase price or sale proceeds)	None	5.00%

## PLACEMENT OF INVESTMENT STRATEGIES AND PRINCIPAL RISKS

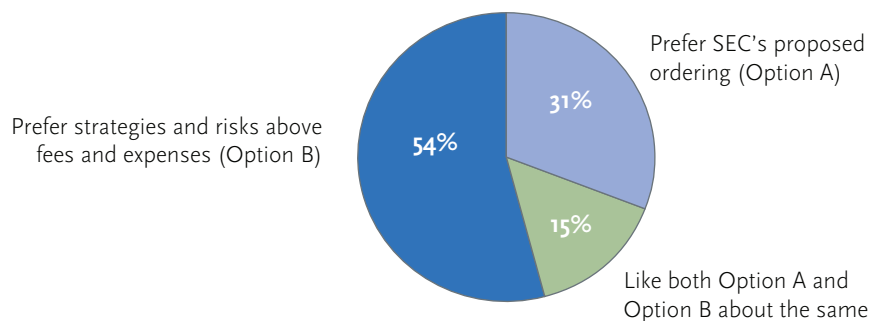
The first head-to-head comparison in this third survey section addresses the ordering of information in the Summary Prospectus. In Option A, based on the mocked-up Summary Prospectus, the fees and expenses of the fund are described immediately following the fund's investment objective. In the alternative version, the narratives on investment strategies and principal risks are moved above the fee and expense information. More than half (54 percent) of respondents prefer that version of the front page, and 15 percent like that presentation at least as much as they like the SEC version in Option A (Figure 4).

---

FIGURE 4

**A majority of investors generally prefer an alternative presentation in which the principal investment strategies and risks are moved above the fees and expenses of the fund in the Summary Prospectus.**

*Percent of respondents*



## Exhibit 2 (Page 2)

### Option A

**Fees and Expenses of the Fund:** The tables below describe the fees and expenses that you may pay if you buy and hold shares of the Fund. You may qualify for sales charge discounts if you and your family invest, or agree to invest in the future, at least \$25,000 in XYZ Funds.

Shareholder Fees (fees paid directly from your investment)		
	Class A	Class B
Maximum Sales Charge (Load) Imposed on Purchases (as percentage of offering price)	5.75%	None
Maximum Deferred Sales Charge (Load) (as percentage of the lower of original purchase price or sale proceeds)	None	5.00%

Annual Fund Operating Expenses (ongoing expenses that you pay each year as a percentage of the value of your investment)		
	Class A	Class B
Management Fees	0.66%	0.66%
Distribution (12b-1) Fees	0.00%	0.75%
Service (12b-1) Fees	0.23%	0.23%
Other Expenses	0.28%	0.46%
<b>Total Annual Fund Operating Expenses</b>	<b>1.17%</b>	<b>2.10%</b>

### Option B

**Fees and Expenses of the Fund:** The tables below describe the fees and expenses that you may pay if you buy and hold shares of the Fund. You may qualify for sales charge discounts if you and your family invest, or agree to invest in the future, at least \$25,000 in XYZ fund.

Shareholder Fees (fees paid directly from your investment)		
	Class A	Class B
Maximum Sales Charge (Load) Imposed on Purchases (as percentage of offering price)	5.75%	None
Maximum Deferred Sales Charge (Load) (as percentage of the lower of original purchase price or sale proceeds)	None	5.00%

Annual Fund Operating Expenses (expenses paid by the fund and borne indirectly by shareholders)		
	Class A	Class B
<b>Total Annual Fund Operating Expenses</b>	<b>1.17%</b>	<b>2.10%</b>

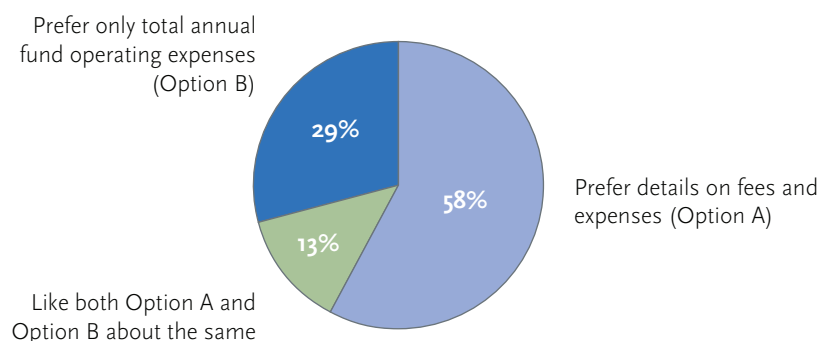
## LEVEL OF DETAIL IN THE FEE TABLE

The second head-to-head comparison addresses the amount of detail provided in the fee table. In the SEC’s proposed Summary Prospectus, that table presents annual fund operating expenses divided into four categories. The alternative presentation only shows the total annual operating expenses, which is the bottom line of the SEC fee table. In this case, the majority of respondents (58 percent) prefer the detailed table proposed by the SEC (Figure 5). More than one-quarter (29 percent) prefer the Option B alternative, and another 13 percent say they “like both Option A and Option B about the same.”

FIGURE 5

**Investors generally do not prefer an alternative presentation of fees and expenses which shows less detail than in the proposed Summary Prospectus.**

*Percent of respondents*



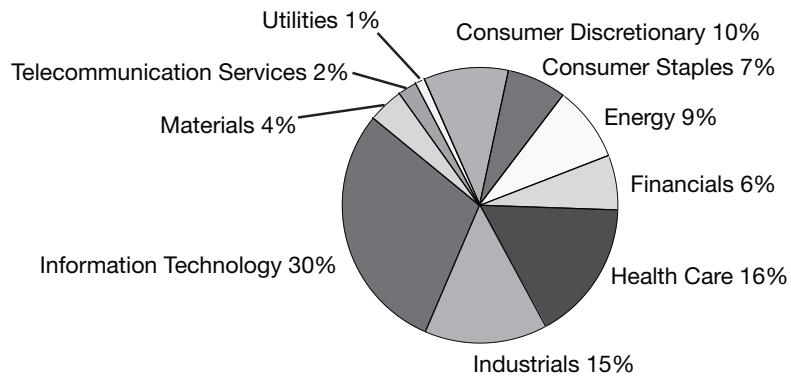
**Exhibit 2 (Page 3)**

Option A

Top Ten Portfolio Holdings (percent of total net assets) as of September 30, 2007			
Rank	Security	Rank	Security
1	ZXY, Inc. (3.0%)	6	The DEF Co. (1.3%)
2	The ABC Co. (2.3%)	7	The NOP Corp. (1.3%)
3	ZXY Growth, Inc. (1.7%)	8	HIJ Co. (1.1%)
4	The TUV Corp. (1.6%)	9	ABC Corp. (1.0%)
5	QRS Co. (1.4%)	10	OPQ, Inc. (0.9%)

Option B

**Sector Allocation**



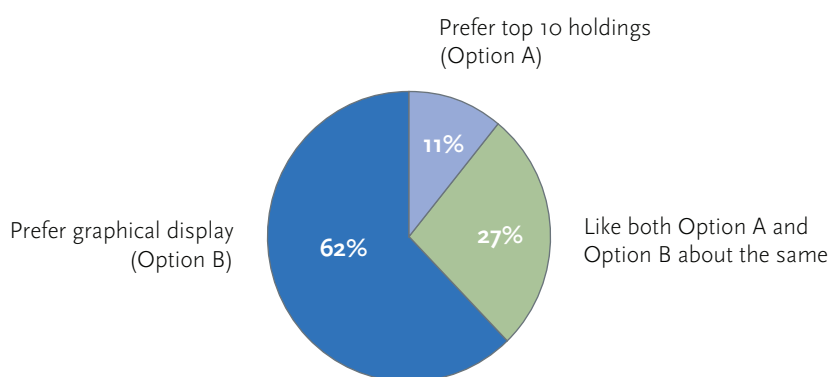
## PRESENTATION OF FUND HOLDINGS

The third head-to-head comparison deals with the approach to conveying information about the fund's holdings. In this survey, Option A presents the hypothetical top 10 holdings used in the mocked-up SEC version; the alternative tested as Option B is a detailed sector allocation of the funds' holdings by industries depicted in the form of a pie chart. Support for this specific alternative is quite strong. More than six in 10 respondents (62 percent) prefer a graphical display of fund asset holdings by industry (Option B) when that is compared side-by-side with the SEC-proposed table of top 10 individual securities held in the fund's portfolio (Figure 6). Another 27 percent believe the sector allocation chart is at least as good, leaving only 11 percent preferring the table of top 10 portfolio holdings.

FIGURE 6

### Investors generally prefer an alternative presentation in which a graphical display of fund holdings by sector is substituted for the proposed table of top 10 portfolio holdings.

*Percent of respondents*





## Exhibit 2 (Page 4)

### Option A

Average Annual Total Returns for Periods Ended December 31, 2006			
	1 Year	5 Years	10 Years
Class A (Return Before Taxes)	4.04%	5.72%	7.26%
Class A (Return After Taxes on Distributions)	2.48	4.52	5.05
Class A (Return After Taxes on Distributions and Sale of Fund Shares)	2.30	4.34	4.90
Class B (Return Before Taxes)	4.38	5.62	7.12
S&P 500 Index (reflects no deduction for fees, expenses or taxes)	15.79%	6.19%	8.42%

The after-tax returns are shown only for Class A shares and are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts.

### Option B

Average Annual Total Returns for Periods Ended December 31, 2006			
	1 Year	5 Years	10 Years
Class A	4.04%	5.72%	7.26%
Class B	4.38	5.62	7.12
S&P 500 Index (reflects no deduction for fees or expenses)	15.79%	6.19%	8.42%

## LEVEL OF DETAIL ON ANNUAL TOTAL RETURN

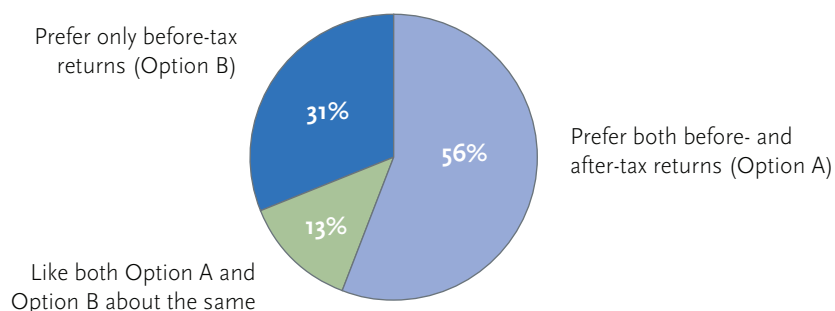
The fourth head-to-head comparison involved alternative presentations for details about the fund's average annual total return. In this case, the alternative (Option B) shortens the table of outcomes from that in the SEC's proposal by eliminating the two lines reporting hypothetical after-tax returns and the text needed to explain after-tax returns and why those returns may not be relevant (e.g., for funds owned through a 401(k) plan or individual retirement account (IRA)). More than half (56 percent) of respondents favor retaining the longer SEC version (Option A) of the table (Figure 7). Another 13 percent express no preference, leaving only 31 percent preferring the table that excludes after-tax calculations (Option B).

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FIGURE 7

**Investors generally do not prefer an alternative presentation of average annual total returns which shows less detail and does not provide example after-tax calculations, as in the proposed Summary Prospectus.**

*Percent of respondents*



## RESPONDENTS' USE OF THE INTERNET

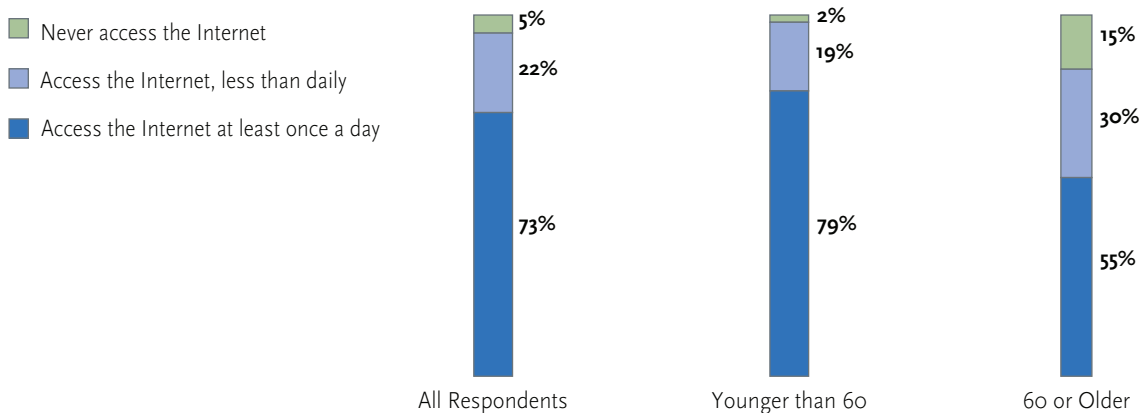
As indicated above, under the SEC's proposal, funds would be permitted to deliver a Summary Prospectus to investors instead of the current long-form prospectus if they meet certain requirements, including making the long-form prospectus and other information available online and on paper upon request. Because Internet-based disclosure of some fund information is an integral part of the proposal, the last section of the ICI investor survey addresses Internet use across the survey population. The answers to these questions confirm the findings in earlier ICI research on the topic.<sup>8</sup> Mutual fund investors already make extensive use of the Internet in their daily lives, and they see the Internet as "the wave of the future" for obtaining investment information.

More than nine out of 10 respondents (95 percent) report using the Internet, and 73 percent report that they use the Internet at least once daily (Figure 8). Rates of Internet access and use are lower for people age 60 or older. However, 85 percent of respondents in that group use the Internet, and the majority (55 percent) report using the Internet daily.

The survey also investigated whether or not mutual fund investors use the Internet to get financial information or for related purposes. The recent survey shows that among those who access the Internet, almost 90 percent overall and more than 80 percent of people age 60 or older gather financial information online (Figure 9). These activities include, for example, visiting fund company websites and checking bank or investment account balances. Fewer respondents—just over 30 percent—actually buy or sell investments online, but it is clear that mutual fund owners are generally acclimated to and comfortable with getting financial information via the Internet.

FIGURE 8

**A great majority of mutual fund owners access the Internet, and most do so at least once a day.**  
*Percent of respondents*



<sup>8</sup> See, for example, *Understanding Investor Preferences for Mutual Fund Information*, Investment Company Institute (2006).

FIGURE 9

**Shareholders use the Internet to gather financial information.**

*Percent of respondents who access the Internet*

Uses of the Internet During Past 12 Months	All	Younger than 60	60 or older
Gather financial information (total)	88%	89%	84%
Check bank or investment account balance	82%	84%	74%
Visit a financial chat room or blog	11%	13%	4%
Obtain investment information	69%	72%	57%
Visit fund company websites	55%	56%	52%
Contact a professional financial adviser	23%	21%	28%
Buy or sell investments	32%	31%	34%

Note: Multiple responses are included.

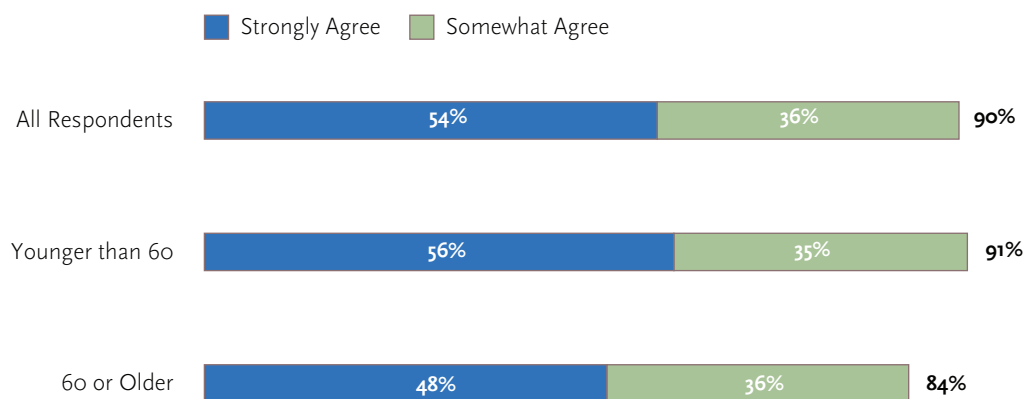
Virtually all respondents (90 percent) agree or strongly agree with the statement that “getting investment information online is the wave of the future.” The rates of agreement with that statement did not differ significantly between younger and older investors (Figure 10).

Internet usage is still not universal, particularly among older investors. That fact suggests that any new disclosure regime should retain an option for paper delivery, as would be the case under the Summary Prospectus proposal. However, the responses in the current survey suggest that funds can look forward to many of their customers—young and old—taking advantage of electronic delivery for the Summary Prospectus and other required disclosures.

FIGURE 10

**The great majority of mutual fund investors agree with the statement that “getting investment information online is the wave of the future.”**

*Percent of respondents*



## APPENDIX I: SURVEY DESIGN

The survey on investors' views of the SEC's Summary Prospectus proposal conducted by ICI faced two major methodological challenges. The first was time: to obtain results in time to provide useful input to the SEC's rulemaking process, ICI fielded the survey quickly and kept the survey instrument brief. The second challenge was one of survey design: to give informed reactions to specific points about the Summary Prospectus, survey respondents had to see mocked-up versions of the proposed Summary Prospectus. It was also necessary to show investors some specific alternatives for a few key sections of the proposed Summary Prospectus to ask about their preferences. Thus, the second challenge was to put sample documents in the hands of respondents for their review during the survey, while avoiding overloading them.

To meet these challenges, ICI employed a phone-mail-phone approach.<sup>9</sup> The first phase involved a telephone screening survey employing random digit dialing ("RDD") to identify qualified subjects for the study. Respondents to the RDD screening survey were asked whether they had purchased a mutual fund, either directly or through a retirement plan at work, within the last five years. If a respondent qualified, he or she was invited to participate in the actual interview, which was to be conducted by telephone within a week or so of the initial contact. In the interim, respondents received by mail two "exhibits" to which they were asked to refer during the interview (see Exhibit 1 on pages 21-23 and Exhibit 2 on pages 10-16). Eligible respondents were told they would receive a modest incentive (\$10) for participating in the survey, and that incentive was included in the pre-interview mailing. The final round of the study consisted of telephone interviews, averaging 26 minutes in length, with qualified respondents.

In total, just over 500 respondents completed the Summary Prospectus survey.<sup>10</sup> Overall response rates among eligible participants were quite high, and almost all of the participating respondents answered all of the specific questions about the Summary Prospectus proposal (i.e., the refusal/don't know rates were negligible for those questions). The survey also contained a number of background questions, responses to which indicate that the sample of respondents is generally representative of the mutual fund shareholder population. In particular, survey respondents' age, income, and other characteristics are generally consistent with the characteristics revealed in other, larger surveys used in ongoing research about mutual fund owners.<sup>11</sup>

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<sup>9</sup> The survey was conducted on behalf of the ICI by GfK Custom Research North America. The initial random digit dialing ("RDD") phase occurred in the first week of January 2008. The follow-up phone interviews occurred during the last three weeks of January 2008.

<sup>10</sup> The statistical margin of error for a survey of this size is  $\pm 4.35$  percentage points at the 95 percent confidence level.

<sup>11</sup> Holden, Sarah, and Michael Bogdan, "Trends in Ownership of Mutual Funds in the United States, 2007," *ICI Fundamentals*, Washington, DC: Investment Company Institute, November 2007. The sample in the current survey is slightly younger, more educated, and more likely to own funds both inside and outside retirement plans at work than is the sample in the earlier work. Those differences are consistent, however, with the fact that the sample in this survey includes only people who have purchased funds in the last five years, while the sample in the earlier work was drawn from the entire universe of mutual fund owners.

# APPENDIX II: SURVEY EXHIBIT 1

## Exhibit 1 (Page 1)

### THE XYZ EQUITY GROWTH FUND

(Class A and Class B Shares)

### SUMMARY PROSPECTUS

November 1, 2007

Before you invest, you may want to review the Fund's prospectus, which contains more information about the Fund and its risks. You can find the Fund's prospectus and other information about the Fund, including the statement of additional information and most recent reports to shareholders, online at [www.xyzfunds.com](http://www.xyzfunds.com). You can also get this information at no cost by calling 1-800-000-0000 or by sending an e-mail request to [info@xyzfunds.com](mailto:info@xyzfunds.com). The Fund's prospectus and statement of additional information, both dated April 27, 2007, and most recent report to shareholders, dated June 30, 2007, are all incorporated by reference into this Summary Prospectus.

**Investment Objective:** Long-term capital growth.

**Fees and Expenses of the Fund:** The tables below describe the fees and expenses that you may pay if you buy and hold shares of the Fund. You may qualify for sales charge discounts if you and your family invest, or agree to invest in the future, at least \$25,000 in XYZ Funds.

Shareholder Fees (fees paid directly from your investment)		
	Class A	Class B
Maximum Sales Charge (Load) Imposed on Purchases (as percentage of offering price)	5.75%	None
Maximum Deferred Sales Charge (Load) (as percentage of the lower of original purchase price or sale proceeds)	None	5.00%

Annual Fund Operating Expenses (ongoing expenses that you pay each year as a percentage of the value of your investment)		
	Class A	Class B
Management Fees	0.66%	0.66%
Distribution (12b-1) Fees	0.00%	0.75%
Service (12b-1) Fees	0.23%	0.23%
Other Expenses	0.28%	0.46%
<b>Total Annual Fund Operating Expenses</b>	<b>1.17%</b>	<b>2.10%</b>

#### Example

The Example below is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. The Example assumes that you invest \$10,000 in the Fund for the time periods indicated. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Class A (whether or not shares are redeemed)	\$687	\$925	\$1,182	\$1,914
Class B (if shares are redeemed)	\$713	\$958	\$1,329	\$1,974
Class B (if shares are not redeemed)	\$213	\$658	\$1,129	\$1,974

**Portfolio Turnover**

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or “turns over” its portfolio). A higher portfolio turnover may indicate higher transaction costs. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund’s performance. During the most recent fiscal year, the Fund’s portfolio turnover rate was 63% of the average value of its whole portfolio.

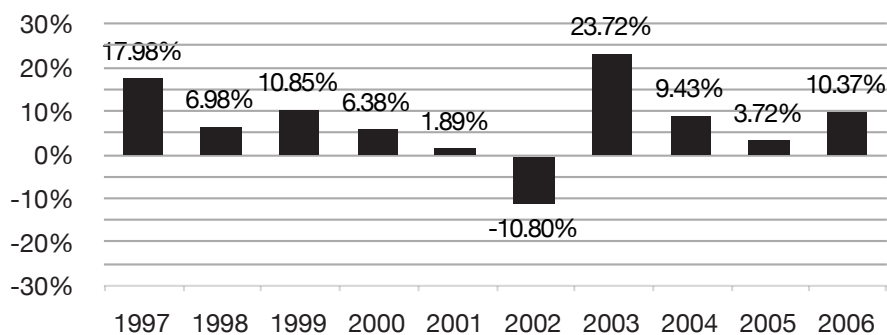
**Principal Investment Strategies:** In selecting stocks for the fund, the portfolio manager selects primarily from the 1,500 largest publicly traded U.S. companies. The managers use quantitative models to construct the portfolio of stocks for the fund.

**Principal Risks:**

- You could lose money by investing in the Fund.
- **STYLE RISK** - If at any time the market is not favoring the fund's quantitative investment style, the fund's gains may not be as big as, or its losses may be bigger than, other equity funds using different investment styles.
- **BENCHMARK CORRELATION** - The fund's performance will be tied to the performance of its benchmark. If the fund's benchmark goes down, it is likely that the fund's performance will go down.
- **MARKET RISK** - The value of the fund's shares will go up and down based on the performance of the companies whose securities it owns and other factors generally affecting the securities market.
- **PRICE VOLATILITY** - The value of the fund's shares may fluctuate significantly in the short term.
- **PRINCIPAL LOSS** - At any given time your shares may be worth less than the price you paid for them. In other words, it is possible to lose money by investing in the fund.

**Annual Total Return:** The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund’s performance from year to year for Class A shares. The table shows how the Fund’s average annual returns for 1, 5, and 10 years compared with those of a broad measure of market performance. The Fund’s past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future.

Sales charges are not reflected in the bar chart, and if those charges were included, returns would be less than those shown.



Best Quarter (ended 6/30/03): 12.08%. Worst Quarter (ended 9/30/01): -11.06%. The year-to-date return as of the most recent calendar quarter, which ended September 30, 2007, was 7.03%.

Average Annual Total Returns for Periods Ended December 31, 2006			
	1 Year	5 Years	10 Years
Class A (Return Before Taxes)	4.04%	5.72%	7.26%
Class A (Return After Taxes on Distributions)	2.48	4.52	5.05
Class A (Return After Taxes on Distributions and Sale of Fund Shares)	2.30	4.34	4.90
Class B (Return Before Taxes)	4.38	5.62	7.12
S&P 500 Index (reflects no deduction for fees, expenses or taxes)	15.79%	6.19%	8.42%

The after-tax returns are shown only for Class A shares and are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts.

Top Ten Portfolio Holdings (percent of total net assets) as of September 30, 2007			
Rank	Security	Rank	Security
1	ZXY, Inc. (3.0%)	6	The DEF Co. (1.3%)
2	The ABC Co. (2.3%)	7	The NOP Corp. (1.3%)
3	ZXY Growth, Inc. (1.7%)	8	HIJ Co. (1.1%)
4	The TUV Corp. (1.6%)	9	ABC Corp. (1.0%)
5	QRS Co. (1.4%)	10	OPQ, Inc. (0.9%)

**Investment Adviser:** XYZ Management Company, LLC

**Portfolio Manager:** John E. Smith, CFA, Vice President and Equity Portfolio Manager of XYZ Management Company, LLC. Mr. Smith has managed the Fund since 2005.

**Purchase and Sale of Fund Shares:** You may purchase or redeem shares of the Fund on any business day online or through our Web site at [www.xyzfunds.com](http://www.xyzfunds.com), by mail (XYZ Funds, Box 1000, Anytown, USA 10000), or by telephone at 800-000-0000. Shares may be purchased by electronic bank transfer, by check, or by wire. You may receive redemption proceeds by electronic bank transfer or by check. You generally buy and redeem shares at the Fund's next-determined net asset value (NAV) after XYZ receives your request in good order. NAVs are determined only on days when the NYSE is open for regular trading. The minimum initial purchase is \$2,500. The minimum subsequent investment is \$100 (or \$50 under an automatic investment plan).

**Dividends, Capital Gains, and Taxes:** The Fund's distributions are taxable, and will be taxed as ordinary income or capital gains, unless you are investing through a tax-deferred arrangement, such as a 401(k) plan or an individual retirement account.

**Payments to Broker-Dealers and Other Financial Intermediaries:** If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may influence the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment. Ask your salesperson or visit your financial intermediary's Web site for more information.





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