

SF512-04

**John E. Donaldson, Jr.**  
**2050 Charles Drive**  
**Hellertown, Pennsylvania 18055**

April 12, 2003

Mr. Jonathan G. Katz  
Secretary  
Securities and **Exchange** Commission  
450 Fifth Street, NW  
Washington DC 20549-0609

RE: File # S7-5 1-02

Dear Mr. Katz,

Recently, I wrote to Chairman Donaldson proposing additional mutual fund disclosure requirements. My letter was forwarded to Mr. Paul Cellupica who suggested that I send my comments to you. **Please** see the attached.

**As** you know, **when** a **mutual** fund investor chooses an actively managed stock or bond fund, the decision is driven by an expectation that the portfolio manager will, by virtue of investment acumen, consistently produce returns with no additional risk, net of fees, which exceed a passive alternative. (**An** investor can **always** increase expected return passively by simply selecting funds that replicate **the** index of **riskier asset** classes or sub-classes.)

Also, an investor that has crafted an asset allocation based on the **risk** and return expectations of various asset classes as represented by different indices selects an active manager with the premise **that** the securities of the relevant index will be the set from which the portfolio securities are selected. This premise allows for the execution of the investor's strategy and, equally important, the measurement of results. Is the investor truly achieving risk adjusted *excess* returns after fees?

Regrettably, mutual fund literature does not disclose the information required to permit the investor to readily answer three simple questions. First, did the portfolio manager invest **in** securities outside of the relevant index? If so, how did this affect the total return of the portfolio? What was the profile of these out-of-index holdings in terms of market capitalization, **market/book**, P/E, sector, domestic/international, credit quality or duration? Secondly, for equity funds, what has been the trend in terms of **size** and

growth vs. value'? Thirdly, for those securities selected from the relevant index, how much of the return, in the case of equities, **was** due **to** sector weight decisions, security selection and foreign **exchange**? In the case of fixed income how much was due to credit quality, duration and foreign exchange?

I urge you to consider required disclosure of 1) out of index holdings profiled as rioted above, 2) a time series presentation of the quintile distribution of market capitalization and market/book, and 3) return attribution (sector weighting, security selection, foreign **exchange**, country weighting, credit quality and duration). If this information was available on a timely basis, investors would be able to make informed decisions. The investor could better determine the origin of returns over time and thus judge if **the** returns are due to skill, the fees are justified and if the portfolio manager is investing in securities that are consistent with the investor's expectations.

Access to this information **is** in the best interests of the fund owner and should not be a burden to the fund operator as most, if not all, of this **data** is probably already produced to assist the portfolio manager. Thank you for your patient consideration of this request.

Sincerely,

A handwritten signature in black ink, appearing to read "John F. McDonald". The signature is fluid and cursive, with a large initial "J" and "M".

Enclosures

**John E. Donaldson, Jr.**  
**2050 Charles Drive**  
**Hellertown, Pennsylvania 18055**

March 5, 2003

Mr. William H. Donaldson  
Chairman  
Securities and Exchange Commission  
Washington, DC

Dear Mr. Donaldson,

I am **writing** to urge the SEC to take the necessary steps to cause mutual funds to disclose more information about investment returns. When I read the periodic reports on performance of the funds I own, I am unable to determine what factors have contributed to the difference in returns of the fund and its related index. The fund owner's understanding of investment strategies would be greatly enhanced **with return** attribution analysis along with capitalization and style data. Ideally, **this** information would be web site available monthly (in a time series array) shortly after the close of the month.

I propose that the attribution analysis deal with the following questions.

- 1) How much of the total return was due to "out of index" holdings? What is the profile of these "out of index" holdings in terms of market **cap.** market/book, P/E, sector and domestic/international? (Note: if a domestic fiind has foreign exchange exposure, what was the impact of foreign exchange on the total return?)
- 2) For holdings drawn from the related benchmark index, what portion of the total return can be attributed to sector weightings, security selection within sector and the mixed effect of the two factors!
- 3) For international fiinds what portion of the total return **was** due to foreign exchange and country weighting? (Note: Information relevant to questions 1 and 2 should be supplied in local currency terms for the regions representing the dominant currencies in the portfolio, for example the Euro and the Yen.)

In addition to the attribution information it **would** be very useful to have an ongoing disclosure of market capitalization and market/book data. I believe this information would best be provided with quintile distributions of these characteristics in a time series format.

The attribution analysis along with the capitalization and market/book data would materially improve the investor's understanding and evaluation of the investment strategies that have been employed by the fund manager. Access to this information is in the best interests of the fund owners and is not a competitive disadvantage for well managed funds.

Respectfully,



DIVISION OF  
INVESTMENT MANAGEMENT

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

March 25, 2003

Mr. John E. Donaldson, Jr.  
2050 Charles Drive  
Hellertown, PA 18055

Dear Mr. Donaldson:

Thank you for your March 5, 2003 letter to Chairman Donaldson regarding mutual fund disclosure of information about investment returns, which has been forwarded to me for reply. My office, the Office of Disclosure Regulation, is responsible for the rules that govern disclosures made by mutual funds. In your letter, you state that in reading the periodic reports of the funds that you own, you are unable to determine what factors contributed to the difference in returns of the fund and its related index. You urge that the Commission require mutual funds to disclose certain additional data regarding fund returns, to be available by web site monthly.

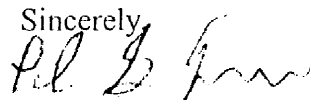
You may be interested to know that on December 18, 2002, the Commission proposed new rules that would revise mutual fund shareholder reports. The proposed rules are designed to improve disclosure of fund portfolio holdings and expenses. The full text of this rule proposal may be found on the Commission's website at <http://www.sec.gov/rules/proposed/ic-25870>.

We invite you to submit comments to the Commission on the proposed rules. Comments sent by hard copy should be submitted in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. Comments also may be submitted electronically at the following E-mail address: [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Your comment letter should refer to File No. S7-51-02. This file number should be included in the subject line if electronic mail is used. Comment letters will be available for public inspection and copying in the Commission's Public Reference Room, 450 Fifth Street, NW, Washington, DC 20549, and electronically submitted comment letters also will be posted on the Commission's website. The comment period for this proposal formally closed on February 14, 2003. However, we are continuing to consider comments received after that date and before the Commission takes final action.

The Commission's December proposal did not address the specific information you discuss in your letter. However, the Commission and its staff evaluate the requirements for mutual fund disclosure on an ongoing basis. Your opinions and suggestions are important to us in determining the information that fund investors deem important, and we will bear your recommendations in mind.

Thank you again for your letter.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul G. Cellupica". The signature is written in a cursive style with a large, sweeping initial "P".

Paul G. Cellupica  
Assistant Director