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The Honorable William H. Donaldson
Chairman
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

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Dear Chairman Donaldson:

I applaud the efforts of the Securities and Exchange Commission ("SEC") to bring greater responsibility to the mutual fund industry. I am especially pleased to see the cooperation of the SEC with our North Carolina State Treasurer Richard Moore who has been an outspoken leader in this reform effort.

However, I feel that some constructive criticism of the January 14th proposal is in order so that our collective goals are met. By way of disclosure, I am both a manager and investor in mutual funds.

As a guideline I will address point by point the issues as presented in the January 14th release.

Corporate Governance

- Board Composition of 75% Independents

Due to high director fees, independent board directors are not independent at all. In fact, most directors' annual fees far exceed the average investor account in the fund. More "independents' simply adds more fund expenses which you are trying to reduce or control. The assertion that more directors will help negotiate lower advisory fees simply makes no sense. It is in the interest of both independent as well as inside directors to control fees so that the performance track record of the fund is optimized. More directors does not equal better directors. In fact, I would argue that more directors tend to foster a more bureaucratic environment where fraud can flourish. Better directors equals better directors.

There are pros and cons to highly compensated board members. It is difficult to imagine that board members would take the liability for the fund without fair compensation.

However, today it must be admitted that fees are generally rich enough that directors are no longer "independent."

- Independent Chairman

This is window dressing. The chairman may chair meetings, but he or she has no greater responsibility or liability than any other inside or independent directors.

- The Annual Self Assessment

Greater clarification is needed in this area or it will be a routine "check the box function."

- Separate Meetings of Independent Directors

After serving on corporate boards, I have often found it beneficial to ask management to leave a meeting to be able to confidentially review management effectiveness. As this recommendation is written, I feel greater clarification is needed. Are face-to-face meetings required or are telephonic meetings sufficient? If face-to-face is to be required, what is the extra expense of compliance to the fund? Since one of the aspirations of the directive is to improve collegiality, I wonder if golf foursomes without management will count as meetings? Will green fees be passed on to shareholders?

- Independent Director Staff

Does this mean that the fund will have to authorize each director to have a personal administrator to handle all of the compliance related information sent to them? Or does this mean that fund regulations will be sufficiently onerous that the fund will need a chief legal counsel and a CFO present at meetings, complemented by separate counsel, financial and other administrative staff for the independent directors?

Having given some criticism, I owe you some suggestion.

SEC Compliance and Accountability

I compliment the SEC on the job being done today. In our office our vernacular has changed from "If the SEC audits" to "When the SEC audits." This discipline has made our staff much more diligent and aware in areas of record keeping, etc. We know that we will be seeing the SEC every two to four years.

Also, our board is highly educated that they are responsible for fees charged to the Fund, best practices for executions, trading conflicts by controlling parties, etc. All of this information is thoroughly reviewed at each board meeting.

I know the SEC is being reported to as to appropriate oversight. The degree to which this information also needs to be available to investors may need some review.

Better Directors Not More Directors

As mutual fund boards are analyzed, the board members are generally successful, honest and intelligent individuals from many walks of life. However, many are poorly educated about the issues of money management and mutual fund governance. I am reasonably intelligent and successful, but without significant further education I would probably make a poor brain surgeon. Why then should a surgeon, untrained in money management be expected to be a good mutual fund board member?

I would recommend that SEC empower the Investment Company Institute to develop an online interactive training program to train board members. All board members would have to successfully complete this before joining a mutual fund board. The model for this training could be the continuing education modules currently endorsed by the SEC for Series 7 brokers.

The following would be the areas of review:

I. Basic Money Management
- Modern Portfolio Theory
- Glossary of investment terms
- Types of asset classes and relative roles of each in portfolios

II. The 1940 Act
- Brief history of the mutual fund industry

III. Requirements of the fund
- Requirements of the director resulting from the Act and subsequent legislation.

I am confident that in a couple of hours, new board members could be better armed to know the right questions to ask than many directors who learn "on the job" today. This would also impose a higher cognizance of responsibilities on board members.

In summary, I again applaud the Commission on the work done to ensure effective investment company governance. Unfortunately, I am not convinced that the current proposal accomplishes the goals controlling fund expenses or enhancing board governance.

To quote a February 2004 **Kiplinger's** article "the sad fact is that most fund directors instead of acting like watchdogs, behave more like lap dogs." I do not think that harnessing board governance with 75% lap dogs accomplishes much for the investor.

Best regards,

Hunt Broyhill

M. Hunt Broyhill
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cc: NC State Treasurer, Richard Moore
Congressman Richard Burr
Paul H. Broyhill