

Summary: The Staff proposal is disappointing; it suggests a **lack of understanding of what SHOULD BE important to a mutual fund investor**, and even of some fundamental facts of investing life, particularly in regard to taxes. These comments offer specifics to create a more informed level playing field for both investors and the mutual fund organizations.

Comments on Illustrative Summary Prospectus

Fees and Expenses

- 1) Shareholder Fees box should indicate presence of any **break points** in sales charges, and the levels at which they apply. Format at election of registrant.
- 2) Annual Fund Operating Expenses should include a footnote keyed to caption "Total" (and, as appropriate, detail captions), when applicable, indicating current level of any **fee waiver(s)** and the date through which such waiver is guaranteed.

Portfolio Turnover

- 1) The standardized (implied mandatory) text is largely appropriate. However, the sentence which reads "These [transaction] costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance" should conclude with the words "and the **investor's exposure to taxable future capital gains distributions.**"
- 2) The most recent year's portfolio turnover rate may not be representative. Data for the **last five full years** should be presented, latest year first.
- 3) Section should be followed immediately by section on Top Ten Holdings (as revised per remarks below) and then the sections on Investment Adviser and Portfolio Manager to maintain the thread of thought and lead logically to Principal Investment Strategies.

Top Ten Portfolio Holdings

- 1) Data should be **arrayed in columnar form** for ease of grasp with percent of total net assets in one column, and a **column added for "Full Years Continuously in Portfolio"** to give dimension to portfolio turnover statistics.
- 2) The table should be **footed with the Total percentage** represented by the Top Ten, with the total dollars (in millions) represented by the group shown below. Another line below that should show the **total number of holdings** at statement date.
- 3) The presentation should be in a single column with the right half of the page given to a **table of the Sector representation** of the entire portfolio. This should be done **at the macro level** of some standard classification scheme, (e.g., Financials, Health, Technology, etc.)
- 4) For balanced funds the percentage split among common equities, preferred stocks, convertible securities, and fixed income securities should be displayed in a table.

Investment Adviser

Text should **require "since [year]"** to avoid any misconceptions about responsibility for the performance record displayed elsewhere.

Principal Investment Strategies

Standards for this section should include

- **When strategy was changed**, if not continuously in place for the entire performance period.
- **Which strategies are fundamental** (capable of being changed only with approval of shareholders)
- Any **percentage ceilings or floors** on holdings of a particular type

Principal Risks

1) Mutual fund lawyers, in litigation avoidance mode, will attempt to load this section, even in the Summary Prospectus, with verbose, arcane text. Cut this off at the pass: **Establish a description of standard risks that any mutual fund investment faces** (in addition to “you could lose money”), including Market Risk, Currency Risk, that securities or sectors selected may not perform as well as expected (or as well as others that could have been selected), that if the fund sells securities before they reach their market peak fund performance may suffer, if the fund faces large or continued withdrawals it may be obliged to dispose of holdings non-optimally, and similar banalities which make the eyes glaze over. **Publish this standard list on the SEC website** and refer to it in the Summary Prospectus (and Standard Prospectus).

2) **Confine the dialog in this section to the specific risk factors which distinguish the fund** from funds in general (e.g., the higher risk of small capitalization equities or foreign securities or a “focused,” non-diversified portfolio).

Annual Total Return

The SEC should **prescribe standard dimensions for this bar chart**. The standard should be based on display on an 8-1/2” x 11’ page in a paper prospectus or as printed out from a website download onto a similar size sheet. It should **mandate a ten calendar year span** irrespective of the inception of the mutual fund. The minimum span of percentages should extend from +30% to -30% as shown in the illustrative example, with a heavy horizontal line at 0%. Funds for which performance exceeds these % limits may add intervals in 10% increments; only increments required should be added, there being no need for top and bottom balance outside the 30/30 standard bounds. This will **assure that the bar chart for ANY mutual fund is capable of being directly compared visually** when placed side by side with (or superimposed on) the bar chart for any other.

Average Annual Total Returns

1) Table should **include a column for 3 years**, a standard yardstick. Gap between 1 year and 5 years is too great; multiple reference points are useful to gauge consistency (or lack of it) in performance.

2) Caption for “Return After Taxes on Distributions and Sale of Fund Shares” should **add text “or Conversion of 401(k) or IRA.”** Although fund investor may retain an economic interest in the fund after such a conversion, his assets will take a hit upon such a conversion from a retirement plan to a Roth IRA or the investor’s taxable account.

3) **Comment in illustrative last line** about after tax returns being not relevant for shares held in tax-deferred accounts is flawed, and, as written **is false**.

Line Graph of Results of \$10,000 Initial Investment (Suggested Addition)

The Commission should require the Summary Prospectus (and Standard Prospectus) to include such a line graph, which is a frequent feature of mutual fund annual reports. As in the case of the Annual Total Return bar chart discussed above, **the dimensions of this chart should be mandated to insure direct comparability among all funds.** Standards should include these:

1) Width to be accommodated based on an 8-1/2" x 11" page print.
2) Chart to be anchored at January 1 of the first calendar year, or at such latter date as the fund commenced operation. (Only one chart is to be published irrespective of the number of share classes offered.)

3) **Vertical dimension is to be based on a mandated standard logarithmic scale** covering the interval from the starting level of \$10,000 to \$30,000. The X axis of the graph would be extended upward and downward in the same logarithmic scale as required by the history to be traced. Thus a cumulative decline from the initial amount to \$3,333 would be represented by the same vertical distance as the base interval of \$10,000 to \$30,000, since it would require a tripling in value to get back to the initial amount.

4) **The chart should present three lines instead of just a single line representing Total Return (before tax).** The Commission should mandate the inclusion of lines tracing (a) the value of the initial shares obtained for the initial \$10,000 investment, and (b) the value of shares obtained initially plus those obtained through re-investment of capital gains distributions (both short term and long term). The top line of the graph, equal to Total Return, would represent (c) the value of shares obtained initially plus through re-investment of capital gains distributions and ordinary income dividends. The three zones between the base line and the top line should be distinguished by different colors, or by three shades of the same color (including black among the options).

Since the performance line graph of every mutual fund would have the same length Y axis, and all charts would have annual intervals of equal width, **a given percentage change over a like number of years would involve the identical portrayal on any chart. The slope of the graphed lines would be directly comparable among funds, representing the different respective rates of compound annual growth.** This would be true even if the standard chart were proportionally reduced to fit on a 5-1/2" x 8-1/2" page frequently used in small format prospectuses. The Commission should impose significant fines or penalties (Including suspension of registration for a second offense) for departing from the mandated standard proportions.

By highlighting the significance of dividends and capital gains distributions, the patterns of which vary widely among funds, **the charts will more effectively convey the character of different funds** arising out of their disparate investment philosophies and operating practices. It will visually signal the dividend cash flow which could have been accepted and deployed elsewhere, and the tax exposure which accompanies large capital gains distributions.

Purchases and Sales of Fund Shares

This section should include minimums for IRA accounts and similar tax-advantaged programs if different from general levels.

Dividends, Capital Gains, and Taxes

1) The illustrative text is appropriate and accurate, but incomplete. **and by capital gains distributions.** Data should be shown for the largest share class only. This will amplify the visual presentation of the suggested line graph discussed above.

3) The section should **report the pro-rata Undistributed Net Capital Gains as a Percent of the Net Asset Value** for the largest share class as of the most recent reporting date in the Summary. This provides an indicator of an investor's potential capital gains tax exposure.

4) **The normal approximate dates of dividend and distribution declarations and payment should be indicated.** Fund indications here should be viewed as a commitment to make the declaration (or an announcement of no declaration) within plus or minus three calendar days of the dates cited.

5) **A standard caveat would be appropriate:** "A share purchase shortly before the distribution date exposes the investor to an almost immediate loss of capital. This loss is due to the tax liability on the portion of the share purchase price equal to the capital gains distribution declared, since the net asset value of the share will decline by the amount of the intended payment."

Reports and Other Information Available to Shareholders (Suggested Addition)

1) How often printed and posted Interim and Annual Reports are available, and the committed dates for mailing and/or posting.

2) What (other) information is available on the fund website at all times.

3) What information is included in the SAI and how to get it

Views on Desired Improvements to Standard Printed Prospectuses

1) Incorporate all standards and principles espoused above for the Summary Prospectus.

2) **Require a supplemental Line Graph depicting results from a \$1,000 investment made each of the last ten calendar years** on the first business day of January. The graphs would have the same dimensional rules as that described above for Total Return, and lines and zones outlining the options on re-investment. It would demonstrate the advantages of dollar cost averaging, and would be an appropriate educational tool for participants in 401(k) or 529 plans and similar arrangements. It would communicate the results of a "stay the course" investment philosophy, which so many current investors fail to grasp.

Views on Other Disclosure Issues

Mutual funds should not be required to disclose their portfolio holdings (at least not more than the Top Ten) **more often than twice a year** (at the fiscal year-end of the particular fund and at the midpoint). **I'm one of those paying for the investment management which creates that portfolio line-up and for the research which makes it possible** (through the management fees charged to my account and perhaps in sales loads, and **I am not happy about every Tom, Dick and Harry having access to it. This output represents the "intellectual capital" of the fund - MY intellectual**

capital, since I am an owner. The government does not seek to have Campbell Soup disclose its recipes, nor DuPont or Genentech its processes and findings, nor Microsoft its coding. Nor are the New England Patriots obliged to transmit the diagram of the next play directly from the huddle (or the bench) to the press box. Why should MY intellectual capital in the fund be hung out on the line like so much Monday laundry?

Funds should be encouraged to shield some decisions by portfolio entries such as “Positions in the process of being established or eliminated” matched by the composite aggregate value at statement date. Some fund companies with huge portfolios can achieve this with an “Other securities” caption.

Less would be more - for the individual investor and for the financial community as a whole. If less frequent and less complete detail on holdings were available it would **curb the herd instinct** of both individual investors and the analysts and portfolio managers who are prone to emulate those counterparts viewed to be consistently successful. Who knows? Perhaps we could reduce the magnitudes of bubbles and sell-offs.

Background of the Respondent

Retired from varied business career which included an early stint as a Senior Investment Analyst for a major insurance company. Bought first stock in 1957, first mutual fund in 1965 (latter still owned, though partially harvested). Manages three household investment accounts which include mutual fund holdings (both load and non-load) in taxable and tax-advantaged sub-accounts. Over the years has owned funds from more than a dozen fund families. Reads reports, prospectuses; votes proxies.