

THE FINANCIAL SERVICES ROUNDTABLE



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Mr. Jonathan G. Katz
Secretary
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

RICHARD M. WHITING
EXECUTIVE DIRECTOR AND
GENERAL COUNSEL

Re: Disclosure Regarding Portfolio Managers of Registered Management
Investment Companies, File No. S7-12-04

Dear Mr. Katz:

The Financial Services Roundtable¹ (the “Roundtable”) appreciates the opportunity to comment on the proposal issued by the Securities and Exchange Commission (the “Commission”) on the disclosure of information about portfolio managers of registered investment companies.

Background

The Commission’s proposed amendments are geared toward improving the disclosure provided by registered management investment companies about their portfolio managers. The proposals would extend the existing disclosures that require registered management investment companies to provide basic information about their portfolio managers in the prospectus to include the members of management teams. The proposals would also require a registered management investment company to disclose additional information about its portfolio managers, including other accounts they manage, compensation structure, and ownership of securities in accounts they manage.

The Roundtable supports providing investors with general disclosure about the structure of portfolio manager compensation, other accounts managed by portfolio managers, and the ownership of securities in the accounts they manage. Providing this type of disclosure would assist investors in evaluating the portfolio managers’ and portfolio management teams’ backgrounds and determining if any conflicts of

¹ The Financial Services Roundtable represents 100 of the largest integrated financial services companies providing banking, insurance, and investment products and services to the American consumer. Roundtable member companies provide fuel for America's economic engine accounting directly for \$18.3 trillion in managed assets, \$678 billion in revenue, and 2.1 million jobs.

interest exist. However, we believe that providing information that is too specific, such as actual dollar amounts, would not be useful to the investor and would negatively impact how the funds are managed.

Identification of Portfolio Management Team Members

The Commission is proposing to amend Forms N1-A and N-2 to require funds to identify in their prospectus each member of a committee that is jointly and primarily responsible for the day-to-day management of the fund's portfolio. Roundtable member companies believe the general disclosure of the name, title, length of service and business experience of each team member is appropriate. We agree with the Commission that this information would assist investors in evaluating the background and experience of the fund's management. However, we oppose a more detailed description of each team member's role in the management of the fund, including specific disclosures about the "structure and decision-making process" of portfolio management teams. We believe that this type of disclosure is overly broad and the information requested would most likely not be that useful to investors. The structure and decision making process are elements that are in constant flux and, therefore, it would be difficult to keep the information accurate and current.

We believe that the Statement of Additional Information ("SAI") is the most appropriate location for the disclosure about portfolio management teams. Placing additional information in the prospectus, as proposed, would overload the investor with information or make the disclosure less meaningful. We support the Commission's proposal that investment companies indicate in their prospectus that additional information about portfolio managers' backgrounds is available in the SAI and that investment companies make this additional information available on their websites.

Disclosure of Other Accounts Managed and Potential Conflicts of Interest

The Commission has requested comment on the potential conflicts side-by-side management creates and investment companies' practices for managing these conflicts. The proposal would require funds to disclose in their SAI information about other accounts for which the fund's portfolio manager is primarily responsible for the day-to-day portfolio management.

In general, the Roundtable favors disclosure about number and type of other accounts managed by portfolio managers. We believe that this information would notify investors about potential conflicts of interest and provide them with more information about the portfolio manager's experience. We recommend however

that the Commission provide additional clarification on the definition of “other account” that will trigger these disclosures. We also believe that this disclosure should be limited to only those individuals with the authority to make investment decisions, and that no more than five individuals should be required to disclose this type of information. Furthermore, we oppose specific disclosure about the total assets in the other accounts, and the total assets subject to performance-based fee. We believe that this information can not be easily compared from fund to fund and therefore the information could be misleading.

Roundtable member companies recommend that disclosure about other accounts be included in the SAI. We agree with the Commission that including this information in the prospectus would tend to obscure more basic information that is important to the overall investment decision.

The Roundtable supports the Commission’s proposal requiring disclosure of the policies and procedures used by the fund or the fund’s adviser to address conflicts of interest, especially in light of the recently adopted rules that require investment advisers to implement policies and procedures that address conflicts that arise out of the management of multiple funds and accounts. We commend the Commission’s effort to mitigate the burden that this disclosure poses by allowing fund’s to include a copy of its policies and procedures in lieu of preparing additional descriptions. We would also suggest that the Commission consider providing funds the alternative of disclosing that they have policies and procedures that are reviewed by their board or directors annually. These policies and procedures would be made available upon request.

We also support the Commission’s decision to provide additional disclosure rather than a ban on joint management. As the Commission staff has stated, a ban likely would reduce the pool of high quality, talented portfolio managers who are willing to manage mutual funds. Reducing the pool of portfolio managers would restrict competition in the mutual fund industry. Team-managed mutual funds might find the members of the team changing more frequently, as team members leave the mutual fund to manage other accounts that would not invoke the ban. For example, a portfolio manager would continue to be free to manage investments for pension funds and hedge funds. Banning a mutual fund portfolio manager from managing a hedge fund also does not protect mutual fund shareholders from potential conflicts of interest posed by joint management of other types of accounts, including accounts with higher management fees.

Disclosure of Portfolio Manager Compensation Structure

The Roundtable supports general disclosure of the structure of portfolio manger compensation. As stated in the Commission’s proposal, this information could

help investors assess the extent to which the portfolio manager's interests are aligned with theirs, as well as the level of confidence that the portfolio manager has in the fund's investment strategy. We do not believe that every team member in a portfolio management team should be required to disclose the structure of their compensation. Disclosure should be limited to only those with authority to make investment decisions and should not involve disclosing information for more than five individuals in a portfolio management team.

We strongly support the Commission's proposal to disclose only the structure of compensation rather than actual amount of compensation. However, we recommend that the Commission refine some of the structural items to be disclosed. For example, portfolio managers should only be required to disclose the most important elements of compensation, such as salary. Disclosure should not be required for less relevant items, such as health benefits. We believe that disclosing actual compensation amounts or requiring overly specific disclosure of the compensation structure would discourage portfolio managers from carrying out their duties and that this specific type of information is of little value to investors.

The Roundtable believes the SAI is the appropriate document for this type of disclosure. Disclosing this information in the prospectus may distract the investor from more valuable investment information. We support the Commission's proposal that the prospectus draw the investor's attention to the fact that additional disclosure about the structure of portfolio manager compensation is available in the SAI and that the information is also available on the investment company's website.

Disclosure of Securities Ownership of Portfolio Managers

The Roundtable supports additional disclosure by portfolio managers about securities ownership. We believe disclosure of ownership of securities in the fund and the other accounts identified as under joint management is appropriate and would give investors information that will assist them in making an informed investment decision.

However, we do not believe that every team member needs to make these disclosures. We believe that only those with authority to make investment decisions should be required to disclose securities ownership and that this requirement should be limited to five individuals. We also believe that disclosure of the ownership of securities in any other account managed by an investment adviser of the fund is overly broad, unnecessary and would create specific problems for sub- advised and multiple manager funds.

We agree with the Commission's proposal requiring the disclosure of a range of dollar amounts of securities owned by the portfolio manager versus the actual dollar value. However, we believe that the dollar ranges should conform to the rules governing directors and not be broken down into additional sub-categories of ranges. We also do not favor the disclosure of what percentage of the portfolio manager's net worth is invested in securities of the fund or other accounts. We believe that would be difficult to accurately calculate and maintain current percentage information.

The Roundtable recommends limited disclosure of securities owned by immediate family members. We support the Commission's proposed disclosure requirement which includes spouses and children residing in the same household. In order to ease the compliance burden, we recommend that this rule include a limit to the disclosure amount of minor children. We do not believe that this disclosure should be extended beyond the nuclear family. Disclosure with respect to parents, in-laws, siblings would be too attenuated and difficult to administer.

The Roundtable believes that the SAI is the appropriate location for the proposed disclosure of securities ownership. We support disclosing this information in the SAI along with a statement in the prospectus stating that additional information about portfolio manager securities ownership is available in SAI and that this information will be provided on the investment company's website.

Conclusion

Roundtable member companies appreciate the Commission's efforts in improving the existing disclosures provided by registered management investment companies about their portfolio managers. In general, we support disclosure about the structure of portfolio manager compensation, other accounts managed by portfolio managers, and the ownership of securities in the accounts they manage. We believe that general disclosures would help investors understand portfolio managers' incentives and would allow them to better assess which funds will meet their objectives. We recommend that any information about potential conflicts of interest or other accounts managed be limited to only those individuals with the authority to make investment decisions.

We caution the Commission not to require specific disclosures, such as actual dollar amounts paid to individuals. This information is not valuable to investors and would have a negative affect on how portfolio managers manage funds. Similarly, we oppose specific information about the structure and decision making process and other information that changes at such a rate that it would provide inaccurate or misleading information to the investor.

Finally, we believe that the SAI is the most appropriate place to disclose additional information about portfolio managers. Making these disclosures in the prospectus would distract the investor from more important investment information. In addition to being placed in the SAI, this information should be referenced in the prospectus and more detailed information should be posted on the investment company's website.

If you have any further questions or comments on this matter, please do not hesitate to contact me or John Beccia at (202) 289-4322.

Sincerely,

Richard M. Whiting

Richard M. Whiting
Executive Director and General Counsel