

Letter to the Editor as it appeared in *The Wall Street Journal* on March 26, 2004

Independent, Diligent and Committed

In light of the concern about trading abuses involving mutual funds, we were disappointed with your March 17 article “Waking the Watchdog: As Scandals Mount, Boards of Mutual Funds Feel the Heat.”

First, your article fails to fully describe the manner in which independent fund directors are selected for fund boards. Management does not select the mutual fund’s independent directors, other independent directors do. This is now a regulatory requirement for all funds, but mutual funds not otherwise required to do so have voluntarily had independent directors select new directors for the board for several years. Furthermore, our experience has been that the independent directors conduct a serious and extensive search for directors who are both independent from management and who have the time and willingness to exercise rigorous oversight on behalf of fund shareholders.

Second, the article pejoratively characterizes the fact that many directors sit on boards that oversee multiple funds. We believe that our shareholders benefit from this arrangement for three important reasons: 1) most issues addressed by fund boards are common to all funds; 2) directors who oversee large pooled assets will be able to achieve economies of scale with the management company; and 3) senior management of the funds can attend to the business of a small number of boards in a manner that would be impossible if they were responding to 40 to 50 separate boards. Direct contact with senior management is critical to doing our job well.

Third, the article implies that fund management fees and expenses are increasing. In one recent study, the SEC analyzed advisory contracts negotiated by mutual fund directors with the 100 largest mutual funds, which represented 42% of all fund shareholder assets. The SEC found that 76 of these contracts provided for automatic percentage fee reductions. In fact, the SEC found that these contracts typically provided for six automatic percentage fee reductions as the fund passed certain size thresholds. These so-called breakpoints are negotiated by fund directors.

Studies not only show that management fee reductions are quite common, they show increases in mutual fund fee levels are rare. Last month, Strategic Insight, a mutual fund research firm, reported results of its study of the sharp bear market of 2002 and 2003, when many funds saw significant reductions in their assets under management. During that period, the study found only 23 out of 7,000 mutual funds - less than four-tenths of 1% - submitted filings to the SEC to increase their management fee percentages.

The article cites Morningstar Inc. data showing that the average fund expense ratio has risen over the past decade to 1.56%. Strategic Insight found that at the end of 2002 the average asset weighted expense ratio of equity mutual funds with assets of \$1 billion or more (representing \$1.379 trillion or 90% of the equity assets under management in the industry) was .949%.

Finally, you state that directors rarely spend more than 100 to 200 hours per year on their fund duties. This vastly understates the number of hours we actually devote to our jobs. In fact, several of us estimate our total hours to be four to five times the estimate.

We work diligently to protect our shareholders' interests and we believe the nation's investing public should be reassured that its interests are being represented in a conscientious and careful manner.

James H. Bodurtha
Independent Director, Merrill Lynch Funds

This letter was also signed by 11 independent directors and trustees of the following mutual funds: New Perspective Fund, T. Rowe Price Funds, Scudder Funds, AIGSunAmerica Funds, Anchor Series Trust, Harris Insight Funds, Putnam Funds, Fidelity Funds, Armada Funds, WM Group of Funds, AIM Funds, Allmerica Investment Trust