

INVESTMENT COMPANY INSTITUTE



ANNUAL REPORT TO MEMBERS
2004

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INVESTMENT COMPANY INSTITUTE

2004 Annual Report to Members

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LETTER FROM THE CHAIRMAN




PAUL G. HAAGA, JR.

Trust. unity. Leadership.

Institute Chairman
Paul G. Haaga, Jr.



 With my term as Chairman of the Investment Company Institute now drawn to a close, I have had the opportunity to reflect on the dramatic developments in our industry over the past 15 months. There are important lessons here for us all. We would do well to bear them firmly in mind in the years ahead.

First and foremost is the imperative need to earn and keep the trust of fund investors. This is the foundation on which we as fiduciaries built all our past success, and upon it our future success surely depends as well. We can take some solace in the fact that fund shareholders generally retain a very favorable view of fund companies, despite the serious problems that have emerged since September 2003. But there is no room here for complacency. The months and years ahead will require us all to renew and strengthen our commitment to serve the interests of our shareholders.

The second lesson concerns how we engage as an industry at ICI. Participants in the Institute's activities come from literally every corner of the mutual fund business. In the marketplace we meet as the keenest of competitors. But at ICI we long have sought to put aside individual interests and pull together to promote public policies that benefit fund investors. We have learned that when we speak with a single, strong voice on such public policies we are likeliest to be heard. The past year has been especially challenging in this regard, and I want to extend my sincerest thanks to all those industry colleagues who worked together as ICI sought to respond in a forceful and credible manner to the trading abuses and their aftermath.

A third lesson concerns the importance of leadership. In May 2003, only a few of us were aware of Matt Fink's intention to retire from the Institute after 33 years of outstanding service to the organization, including more than 12 years as its President. We prevailed upon Matt to delay his departure, and it was delayed still further by the circumstances confronting ICI and the industry beginning in September 2003. For his unfailing commitment to ICI, for his leadership through good times and bad, and for his exceptional service to funds and fund shareholders, we are deeply indebted to Matt. Also departing in 2004 after long and accomplished careers at the Institute were Julie Domenick and Craig Tyle. We wish each of them great personal happiness and all success in future endeavors. We can be confident that ICI under Paul Stevens, who became President in June of this year, will build upon and enlarge its long tradition of leadership and service.

The past year has been challenging and eventful, as this Annual Report recounts in detail. It has been a privilege for me to serve as Chairman of ICI during this period. I am most grateful for your confidence in me. I join Paul Stevens and Jim Riepe, the Institute's new Chairman, in thanking you for your support of ICI and your continued active involvement in its important work.

Warmest regards,

Paul G. Haaga, Jr.
November 22, 2004

LETTER FROM THE PRESIDENT




PAUL SCHOTT STEVENS

mission. commitment. accomplishment.

Institute President
Paul Schott Stevens



 Our 2004 Annual Report to members recaps an extraordinary year in the history of the Institute and America's mutual funds. The events of the past year underscore the continuing, vital importance of the mission entrusted to the Institute in its by-laws:

- encouraging adherence to high ethical standards by all industry participants;
- advancing the interests of funds, their shareholders, directors, and investment advisers; and
- promoting public understanding of mutual funds and other investment companies.

These three objectives are essential organizing principles for the many and varied activities in which the Institute engages, as outlined in this Annual Report. The real measure of the Institute lies in the strength of our commitment to this mission—and our success in carrying it out. By this measure, 2004 was a year of serious challenges and considerable accomplishments.

We hope you will find the Annual Report useful and informative, in particular in describing how the fund industry, through ICI, responded to the trading abuses and other problems that emerged in the last year. These problems by no means involved all or even most fund companies. But they represented a stark departure from what had come to be expected of mutual funds, and they put at risk the reputation of all. Certainly, the events of the past year occasioned an unprecedented degree of public and governmental scrutiny as well as the adoption of numerous new regulatory requirements that continue to be felt throughout the industry. As we participate in this process on the industry's behalf, our focus has been and will remain fund shareholders. Ultimately, public policies and industry practices that do not serve shareholders' interests will not serve the interests of funds, their boards, or their advisers.

A great deal of the Institute's work in 2004 necessarily concerned the trading abuses and their consequences, but our attention was by no means limited to these matters. The Annual Report outlines our activities on many other fronts as well. Our efforts included, for example, representing the views of funds as investors in U.S. and foreign markets, seeking policy changes on behalf of the millions of Americans who invest in funds to save for retirement, working for fair tax treatment of fund shareholders, generating important industry research, and stepping up our communications with the news media.

I rejoined the ICI staff as President because I am deeply committed to the Institute's objectives and highly optimistic about our future. With good reason, notwithstanding the scandal, American investors retain a very high degree of confidence in mutual fund companies. Mutual funds remain unmatched as a way for ordinary investors to realize their long-term financial objectives. And recent events have forcefully reminded all in the industry that success rests upon investment advisers and independent directors alike—the fiduciaries who, between them, make mutual fund investing possible—being faithful to the trust placed in them by fund shareholders.

We appreciate your support of the Institute, and pledge to work hard in the year ahead to continue to earn your confidence.

Sincerely,

Paul Schott Stevens
November 22, 2004



INTRODUCTION

encourage. advance. promote.



n FY 2004, as outlined in the pages that follow, the Institute:

- addressed revelations of misconduct by fund companies through strong support for comprehensive reforms, all intended to preserve investor confidence and encourage adherence to high ethical standards across the industry;
- advanced the interests of ICI members through an array of initiatives designed to support fund directors, promote effective operation of the securities markets, increase savings opportunities and ensure fair tax treatment for fund investors, and improve fund operations and services; and
- promoted better public understanding of mutual funds through a diverse program of research, media relations, investor education, and other communications activities.

This Annual Report details the Institute's efforts in each of these areas, and provides additional information on ICI and its operations over the past year.

SECTION ONE



PRESERVING INVESTOR CONFIDENCE,
ENCOURAGING HIGH ETHICAL STANDARDS

encouraging high ethical standards



Encouraging adherence to high ethical standards by all industry participants is a core element of ICI's mission. In the Institute's history, this mission has never seemed more imperative than it did in 2003–04.

When President Franklin Roosevelt signed the Investment Company Act into law in 1940, he commended its industry supporters for their dedication to achieving higher standards of conduct in a securities industry recovering from the scandals of the 1920s and 1930s. This same spirit that led to the enactment of the 1940 Act—and, soon afterward, to formation of the association that became ICI—has consistently guided fund industry support for effective regulation and sound fiduciary practices.

Over the years, American investors have rewarded this approach. As of September 30, 2004, more than 92 million shareholders, representing nearly half of all the nation's households, had entrusted more than \$7.5 trillion to mutual funds. The industry's success rests on one cornerstone—the confidence of these investors. In the year past, the mutual fund trading abuses put at risk the reputation of the entire industry—and challenged ICI as never before. While the majority of fund companies were not implicated in the ensuing investigations, the abuses nonetheless shook the industry to its core and occasioned a broad, collective effort to preserve the confidence of fund shareholders.

Highlights of ICI's efforts included:

■ **RESPONDING FORCEFULLY TO EVIDENCE OF WRONGDOING.** On behalf of its members, the Institute called for tough law enforcement and strong measures to stop trading abuses.

■ **PARTICIPATING IN THE CONGRESSIONAL OVERSIGHT PROCESS.** Recognizing Congress' important oversight responsibility, the Institute worked closely with Congressional leaders as they considered the implications of improper trading practices.

■ **SUPPORTING THE SEC REGULATORY REFORM PROCESS.** The Institute and its members supported the thrust of the SEC reform efforts, and suggested ways to improve its regulatory proposals.

■ **HELPING IMPLEMENT NEW INDUSTRY PRACTICES.** The Institute assisted member firms in implementing new regulatory requirements.

THE MUTUAL FUND TRADING ABUSES

New York Attorney General Eliot Spitzer's September 3, 2003 announcement of a settlement with Canary Capital Partners signaled the outset of a government review of mutual funds more intensive than any undertaken in the modern history of the industry. Over the ensuing months, state and federal investigations uncovered evidence of trading misconduct at a number of fund companies as well as at brokerage firms and other sales intermediaries. Coming hard on the heels of major corporate and accounting scandals, the trading abuses uncovered at mutual fund companies aroused public concern and precipitated a wide-ranging reform process—including Congressional oversight, legislative proposals, new SEC regulations, media scrutiny, and renewed attention to compliance issues by fund boards and advisers.

Over the past year, the Institute was intent on this reform process. In early September 2003, Institute Chairman Paul Haaga said, "Fund shareholders have every right to expect that investment professionals will adhere to the highest standards of legal and ethical conduct. If it is true that some have failed to meet these standards and abused the public's trust, there are serious wrongs that must be righted." ICI's position did not change in the months that followed. ICI called for enforcement of the law against those

who abused shareholder trust, restitution to fund shareholders, and the adoption of measures to stop late trading and curb market timing. The Institute worked with House and Senate committees, on a bipartisan basis, as Congressional leaders conducted oversight of the industry and the SEC and considered the implications of the trading abuses. ICI supported the SEC as the Commission developed, proposed, and adopted new regulations to protect fund shareholders. It worked day-to-day with the financial press and other media chronicling the trading abuses. It brought together fund leaders—independent directors, senior management of fund advisers, compliance and legal experts, operations personnel, and others—to consider legislative and regulatory proposals and voluntary industry actions.

CONGRESSIONAL OVERSIGHT OF THE FUND INDUSTRY AND PROPOSED LEGISLATION

Out of concern for the potential impact of the trading abuses on millions of fund shareholders, the House Financial Services Committee and the Senate Banking Committee turned their attention to mutual fund issues over the past year. Indeed, the revelations of market timing and late trading triggered a degree of Congressional oversight of mutual funds rarely seen in the industry's history.



"These problems are serious and must be redressed but we should not lose sight of the fact that mutual funds still offer the best and least expensive way for millions of Americans to invest in the securities markets and reach important financial goals," ICI Chairman Paul Haaga testified before the Senate Banking Committee in March 2004.

Sen. Richard Shelby (R-AL), Chairman of the Senate Banking Committee, noted at a September 30, 2003 hearing, “I believe that we are at a critical juncture in regulating the securities industry. Although we cannot legislate morality or legislate away greed, we can ensure that the SEC relentlessly pursues wrongdoing to promote trust in our markets.”



From September 2003 to April 2004, Congressional committees conducted 15 oversight hearings—ten in the Senate Banking Committee alone. Numerous legislative proposals were introduced; two emerged from the House Financial Services Committee, and the House passed one (see *Mutual Fund Legislative Proposals Considered in 2003–2004* on page 12). The subjects of many of the hearings and legislative proposals, however, ranged beyond the improprieties uncovered in the state and federal investigations. In the Institute’s judgment, some provisions of the bills represented unjustified departures from an existing statutory framework that has proven to be effective and has adapted to changing market circumstances through SEC regulations (see *Examples of Legislative Provisions Opposed by ICI* on page 13).

To the credit of the leadership of the Congressional committees, this oversight process stimulated a productive dialogue among legislators, the SEC and its staff, state officials, the Institute, fund industry executives, independent fund directors, and industry observers.

As Sen. Richard Shelby (R-AL), Chairman of the Senate Banking Committee, observed in a hearing last spring, “Regulators, [the] industry and Congress must work collectively to restore integrity to our markets, and reassure investors that mutual funds are a vehicle in which they can safely invest their money.” The Congressional hearings facilitated this collective effort.

There emerged from this dialogue a consensus about certain fundamental issues:

- the continuing need for a strong, effective SEC;
- the unique expertise that the SEC has to forge an “action plan” to address the trading abuses;
- the benefits of reinforcing the system of oversight provided by independent fund directors;
- the importance of bolstering requirements pertaining to internal compliance and ethics; and
- the need for certain additional disclosures to investors.

Throughout this oversight process, the Institute and its members emphasized that, while regulatory reform was desirable to help address late trading and abusive short-term trading, Congress should not rush to legislate. Rather, it should consider the need for and implications of any proposed reforms,

take close account of the views and concerns of fund independent directors and the industry at large, and reject changes with harmful consequences, however unintended, for funds and their shareholders.

Mutual Fund Legislative Proposals Considered in 2003 – 2004		
H.R. 2420 Mutual Funds Integrity and Fee Transparency Act of 2003	Sponsors: Rep. Richard H. Baker (R-LA) and 23 cosponsors	Introduced: 6/11/03; passed House of Representatives, 11/19/03, 418-2 vote
H.R. 2179 Securities Fraud Deterrence and Investor Restitution Act of 2003	Sponsors: Rep. Richard H. Baker (R-LA) and five cosponsors	Introduced: 5/23/03; approved by House Financial Services voice vote, 2/25/04; discharge by House Judiciary on 6/1/04
S. 1822 Mutual Fund Transparency Act of 2003	Sponsors: Sens. Daniel K. Akaka (D-HI), Joseph I. Lieberman (D-CT), and Peter Fitzgerald (R-IL)	Introduced: 11/5/03
S. 1958 Mutual Fund Investor Protection Act of 2003	Sponsors: Sens. John F. Kerry (D-MA) and Ted Kennedy (D-MA)	Introduced: 11/25/03
S. 1971 Mutual Fund Investor Confidence Restoration Act of 2003	Sponsors: Sens. Christopher J. Dodd (D-CT), Jon Corzine (D-NJ), and Joseph I. Lieberman (D-CT)	Introduced: 11/25/03
S. 2059 Mutual Fund Reform Act of 2004	Sponsors: Sen. Peter Fitzgerald (R-IL) and 12 cosponsors	Introduced: 2/10/04
H.R. 4505 Mutual Fund Reform Act of 2004	Sponsor: Rep. Paul E. Gillmor (R-OH)	Introduced: 6/3/04
S. 2497 Small Investor Protection Act of 2004	Sponsor: Sen. Joseph I. Lieberman (D-CT)	Introduced: 6/3/04

Examples of Legislative Provisions Opposed by ICI

- Ambiguous new fiduciary duties for fund directors
- Independent director certifications concerning day-to-day fund operations
- Creation of a new Mutual Fund Oversight Board
- Prohibition on the payment of distribution fees
- Prohibition on all revenue sharing and soft dollar arrangements
- Government definition of allowable fees and prior approval of any new fees
- Imposition of independent chair requirement by legislative fiat
- Racketeering (RICO) sanctions for mutual fund pricing and other violations
- Ban on simultaneous management of hedge funds and mutual funds

“As we take advantage of the opportunity to improve what is already a strong regulatory system,” observed ICI Chairman Paul Haaga, “it would be most unfortunate if the late trading and market-timing problems were used as a predicate for making changes that are not cost effective in fostering the interests of fund shareholders.” The Institute and its members urged Congress to avoid reforms that would render the industry less entrepreneurial, less competitive, less creative, and less responsive to investors’ changing needs. At the same time, ICI offered support for the SEC and for its prompt efforts to address the abuses through regulation. In February 2004 testimony, James S. Riepe, Vice Chairman of T. Rowe Price Group, cited the need for a strong SEC with adequate resources in order to ensure “continued effective

oversight” and “the successful implementation of new reforms.” The Institute acknowledged the reality that “a renewed commitment by fund leaders to the core principles that produced our past success” was no less important to restoring lost trust than any new laws or regulations.

As the 108th Congress draws to a close, mutual fund legislation seems unlikely. However, the Congressional interest in mutual funds and in the effectiveness of the SEC’s oversight of the industry will continue. As Chairman Shelby observed, Congress has an obligation to ensure that the SEC is armed with the powers necessary to fulfill its mission of investor protection, and Congress “stands ready to enhance the SEC’s authority through the grant of new authority” should that be necessary.



file photo

Recognizing that any reform measures could significantly affect the responsibilities of fund independent directors, the Institute sought to ensure that members of the independent director community had every opportunity to express their views to key policymakers. Vanessa C.L. Chang, an independent director of the New Perspective Fund, testified at a Senate Banking Committee hearing in March 2004.

Congressional Testimony by Industry Figures and ICI

Witnesses before the House and Senate included:

November 3, 2003	Matthew P. Fink President, ICI	Subcommittee on Financial Management Senate Governmental Affairs Committee
November 4, 2003	Paul G. Haaga, Jr. Chairman, ICI	Subcommittee on Capital Markets House Financial Services Committee
November 18, 2003	Matthew P. Fink President, ICI	Senate Banking Committee
January 27, 2004	Paul Schott Stevens Partner Dechert LLP Counsel to ICI	Subcommittee on Financial Management Senate Governmental Affairs Committee
February 25, 2004	James S. Riepe Vice Chairman T. Rowe Price Group, Inc.	Senate Banking Committee
February 26, 2004	Mellody Hobson President Ariel Capital Management, LLC/ Ariel Mutual Funds	Senate Banking Committee
March 2, 2004	William L. Armstrong Independent Chairman OppenheimerFunds Ann E. Bergin Managing Director The Depository Trust Clearinghouse Vanessa C.L. Chang Independent Director New Perspective Fund Marvin L. Mann Chairman of the Independent Trustees Fidelity Funds Michael S. Miller Managing Director The Vanguard Group	Senate Banking Committee
March 23, 2004	Robert Pozen Chairman MFS Investment Management	Senate Banking Committee
March 31, 2004	Harold Bradley Vice President and Senior Portfolio Manager American Century Investments Paul G. Haaga, Jr. Chairman, ICI Thomas O. Putnam Chairman Fenimore Asset Management, Inc. FAM Funds	Senate Banking Committee



At a February 26 Senate Banking Committee hearing, Ariel Capital Management President Mellody Hobson—seen here with the committee’s ranking Democrat Paul Sarbanes (D-MD)—provided context on the industry, explaining that small mutual fund companies like Ariel are the norm. Hobson stressed the importance of 12b-1 fees in providing small fund companies with access to broad distribution channels.

THE REGULATORY REFORM PROCESS

In testimony before the Senate Banking Committee in September 2003, Chairman William Donaldson announced the SEC’s plan to address the misconduct brought to light by Attorney General Spitzer. The plan provided for enforcement of the federal securities laws, cooperation with state officials in investigating the trading abuses, and reexamination of relevant SEC rules to determine how they should be strengthened in light of the scandal. ICI recommended that the SEC consider a number of initiatives in the process.

INSTITUTE INITIATIVES

In early October, ICI’s Board of Governors established two task forces chaired by industry leaders Terry K. Glenn, Chairman Americas & President, Merrill Lynch Investment Managers, and William M. Lyons, President & CEO, American Century Investments. The Board directed the task forces to identify regulatory solutions and new industry practices that would address late-trading and market-timing abuses and thereby maintain investor confidence in the industry at large. The task forces completed their work promptly and reported their recommendations to the Institute’s Executive

Committee. In October 2003, the Executive Committee determined as follows:

■ **HARD 4 PM CLOSE AT FUNDS.** Unless technological or other solutions could be found to ensure the integrity of order-taking systems at the thousands of financial intermediaries that make mutual funds available to their customers, prevention of late trading would require the imposition of a firm 4 pm deadline for all trades reported to mutual fund companies.

■ **MANDATORY REDEMPTION FEES.** In light of the effectiveness of redemption fees in curbing abusive short-term trading, a minimum 2 percent redemption fee (payable to the fund) should be imposed on the sale of virtually all mutual fund shares within five days of purchase. In fairness to all fund shareholders, the SEC should mandate such a fee in order to ensure that it is implemented uniformly by all intermediaries, including those maintaining so-called omnibus accounts and whose customer transactions accordingly are unknown to a fund. The Executive Committee noted the persistent problem of abusive market-timing strategies pursued, in a manner funds cannot detect or prevent, by brokerage customers, retirement plan participants, and others whose shares are held in omnibus accounts.

■ **REVISED CODES OF ETHICS.** To preclude any inappropriate trading of fund shares, investment advisers should clarify or amend their codes of ethics to provide for oversight of all trading activity by fund personnel in mutual funds offered or sponsored by the company.

The Institute submitted these recommendations to the SEC, and presented them shortly thereafter in testimony in both the House and Senate.

The SEC later issued rule proposals addressing each of these topics that reflected the Institute’s recommendations.

As the debate over mutual fund reforms evolved, policymakers identified further areas of concern and proposals to enhance compliance and eliminate potential conflicts of interest. The Institute’s Board of Governors accordingly decided to build

SEC Fund Reforms in 2003 – 2004	
PROPOSED OR FINAL REQUIREMENTS	ICI POSITION
TRADING RESTRICTIONS	
HARD 4 PM CLOSE:* Purchase or redemption orders would have to be received by a fund, its primary transfer agent, or a registered clearing agency by the time set by the fund to price its shares (usually 4 pm EST) in order to receive that day’s price.	Regulatory requirements must provide “rock-solid assurance” that mutual fund trades are placed and executed before 4 pm.
MANDATORY REDEMPTION FEE:* A fund would have to impose a redemption fee of 2 percent on the sale of most fund shares within five days of the original investment.	A uniform, mandatory fee would help combat abusive short-term trading that occurs in accounts held through intermediaries.
“DIRECTED BROKERAGE”: Fund investment advisers are prohibited from taking into account sales of fund shares when selecting a broker-dealer to execute transactions.	Prohibiting “directed brokerage” will help ensure that fund managers’ trading decisions are based on shareholders’ best interests.
FUND GOVERNANCE	
Virtually all funds must have boards of directors where: 1) at least 75 percent of the directors are independent; 2) an independent director serves as chairman; 3) the board conducts an annual self-assessment; 4) independent directors meet separately at least quarterly; and 5) independent directors are able to hire their own staff.	Strengthening fund governance will promote investor confidence in the governance system; the choice of chairman should be left to fund independent directors (and not dictated by SEC rules).
COMPLIANCE PROGRAMS AND CODES OF ETHICS	
Each fund must adopt comprehensive compliance policies and procedures and designate a chief compliance officer; investment advisers must adopt a code of ethics that includes reporting of holdings and transactions in affiliated mutual funds.	Rules will ensure that all funds have internal compliance programs and ethical standards that reinforce the duty to place investors’ interests first.

on its earlier initiatives and include two additional recommendations to the SEC. These were:

■ **SOFT DOLLARS.** Concluding that the current definition of “soft dollar” research is too expansive and thus susceptible to abuse, ICI’s Board of Governors recommended that the SEC substantially curtail the use of soft dollars, limiting it to proprietary intellectual property. As Institute Chairman Paul Haaga explained in a commentary published December 15, 2003 in *The Wall Street Journal*, the Board believed

its recommendation would help eliminate troublesome issues associated with the use of soft dollars.

■ **“DIRECTED BROKERAGE.”** ICI’s Board of Governors recommended that the SEC prohibit the practice of allocating brokerage in recognition of broker-dealers’ selling fund shares. The Board believed that this prohibition would help ensure that fund managers’ trading decisions are based on shareholders’ best interests. The SEC has since adopted rule amendments prohibiting the practice of “directed brokerage.”

SEC Fund Reforms in 2003 – 2004 (continued)

PROPOSED OR FINAL REQUIREMENTS	ICI POSITION
<p>DISCLOSURE</p> <p>MARKET TIMING, FAIR VALUATION, AND SELECTIVE DISCLOSURE: A fund must provide enhanced disclosure concerning market-timing policies and procedures, “fair valuation” practices, and policies and procedures for disclosing portfolio holdings.</p>	Enhanced disclosure will facilitate compliance with policies and help shareholders understand how funds will protect their interests; also could deter harmful market timing.
<p>SALES CHARGE BREAKPOINTS: Funds must provide enhanced disclosure regarding discounts on front-end sales loads.</p>	Enhanced disclosure will help ensure that investors are aware of applicable discounts.
<p>DOLLAR AMOUNT OF FUND EXPENSES; PORTFOLIO HOLDINGS: Funds must disclose the dollar cost of a \$1,000 fund investment semiannually and their portfolio holdings quarterly.</p>	Dollar amount disclosure will remind investors about the impact of expenses on investment returns and facilitate comparisons; quarterly holdings disclosure must include 60-day lag and expanded confidential treatment to avoid abuses.
<p>INVESTMENT ADVISORY CONTRACT APPROVAL: Funds must describe the reasons supporting the directors’ decision to approve the investment advisory contract.</p>	Ready availability will foster shareholder understanding of this key director responsibility; SEC should administer carefully to avoid chilling board deliberations.
<p>PORTFOLIO MANAGER COMPENSATION: Funds must provide enhanced disclosure regarding portfolio managers, their incentives in managing a fund, and potential conflicts of interest.</p>	Greater transparency will benefit investors, but must be balanced with legitimate privacy concerns.
<p>POINT-OF-SALE:* Broker-dealers would have to provide information to customers, at the point of sale and in transaction confirmations, regarding fund distribution costs and potential conflicts of interest.</p>	Point-of-sale disclosure would assist investors in evaluating purchase recommendations and understanding their broker’s financial interest in the transaction.

* Final action still pending.

COMPREHENSIVE SEC REGULATORY REFORMS

Between December 2003 and August 2004, the SEC proposed or considered 13 major mutual fund reforms and finalized nine rules (see pages 16–17). While some of the proposals dealt directly with late trading and abusive short-term trading, others addressed fund operations, governance, compliance, disclosure, and sales practices. The SEC intended these rules not only to remedy the specific abuses identified in the course of its investigation, but also to prevent future problems. For example, the first rule finalized by the SEC—the fund compliance rule—touches on virtually all aspects of a fund’s operations, and seeks to account for all of a fund’s compliance responsibilities under the federal securities laws. The rule also helps ensure that all fund boards remain informed on compliance matters. The rule had its origin in a 1994 ICI proposal to the SEC concerning the establishment of minimum standards for fund compliance programs.

In comment letters developed with the input of relevant Institute member committees, in meetings with the SEC, and in public statements, the

Institute supported the thrust of the SEC’s reforms and suggested ways to enhance the effectiveness of the rules without imposing undue regulatory burdens or adversely impacting fund shareholders. In the area of fund governance, for example, ICI supported new board composition, separate meeting, self-assessment, and record retention requirements affecting independent directors. On the question of whether SEC rules should require that mutual fund boards be chaired by an independent director, however, ICI was “pro-choice”: the Institute noted various, successful models existing in the industry and observed that fund boards were capable of deciding this issue themselves, especially in light of the new board composition standard, which would assure a three-quarter majority of independent directors.

The three proposals that remain pending (the hard 4 pm close, mandatory redemption fee, and point-of-sale disclosure) involve the relationships between, and relative responsibilities of, funds and the various intermediaries through which investors own mutual funds. The Institute continues to work with the SEC and representatives of intermediaries to find workable solutions to these issues that will protect the interests of fund shareholders.

FY 2005 Efforts to Support Implementation of New Compliance Rules

- **COMPLIANCE WORKSHOPS.** The Institute began a series of mutual fund compliance workshops in October 2004 focusing on the requirements under the new rules. The workshops featured compliance examiners from local SEC regional offices.
- **CHIEF COMPLIANCE OFFICER COMMITTEE.** The Institute formed a new standing committee to provide a forum for chief compliance officers to interact with their peers, share their perspectives on compliance challenges, and keep informed about industry compliance practices.
- **MUTUAL FUND COMPLIANCE SURVEY.** The Institute is preparing a survey to solicit information on how members have implemented the new compliance rules as well as how they will monitor ongoing compliance. ICI plans to release a report summarizing the results.
- **2005 COMPLIANCE CONFERENCE.** ICI will sponsor its second annual compliance conference in June 2005.

The Impact of Reforms on Closed-End Funds and UITs

CLOSED-END FUNDS. Many of the reform measures adopted by the SEC apply equally to closed-end funds. The SEC staff granted an ICI no-action request concerning application of the fund compliance rule to closed-end fund underwriters. In addition, this past year the stock exchanges adopted new corporate governance requirements that apply to listed companies, which include many closed-end funds. The final rules reflect Institute recommendations to tailor them for closed-end funds.

UNIT INVESTMENT TRUSTS. Some of the reform measures (e.g., compliance rule, point-of-sale disclosure) adopted by the SEC likewise apply to UITs. The Institute's comment letters sought to address unique considerations for UITs.

HELPING MEMBERS IMPLEMENT NEW SEC RULES

ICI devotes significant resources each year to assisting mutual funds, their directors, and investment advisers in complying with applicable regulations and laws and implementing new regulatory requirements. Given the unprecedented pace and volume of regulatory reforms, 2004 provided many opportunities to do so. Implementing the SEC's new compliance rules proved, in itself, to be one of the most labor intensive efforts in recent years. ICI began consulting with members on implementation issues as soon as the rules were finalized in December 2003. At a conference held in June 2004, cosponsored by ICI and the newly created Independent Directors Council (see page 22), panelists considered issues such as the selection and responsibilities of the fund's chief compliance officer (CCO), strategies for developing and documenting the required compliance policies and procedures, the duties and responsibilities of mutual fund boards, and the interaction between the fund's CCO and the fund's service providers.

The Institute formed a new chief compliance officer standing committee to provide a forum for CCOs to interact with their peers, share their perspectives on compliance challenges, and keep informed about industry compliance practices. ICI also began a series of compliance workshops in various cities, and started work on a survey soliciting information on member compliance programs.

ICI often seeks additional guidance from government agencies about interpretive and practical issues that arise when implementing new rules. In 2004, the Institute sought and received informal guidance from the SEC's Division of Investment Management to ease burdens on fund directors and CCOs, affirming that CCOs may rely on summaries of service providers' policies and procedures to meet compliance requirements. ICI also communicated to the SEC the difficulties investment advisers were experiencing in complying with the original compliance date for the investment adviser code of ethics rule.

SECTION TWO



ADVANCING THE INTERESTS OF FUNDS,
THEIR SHAREHOLDERS, DIRECTORS, AND ADVISERS

advancing the interests



Advancing the interests of mutual funds, their shareholders, directors, and investment advisers is a second core element of ICI's mission. Throughout its history, ICI has worked on behalf of this community to secure a variety of public policy objectives.

Over the past year, highlights of ICI's efforts included:

■ **PROMOTING THE ROLE OF FUND DIRECTORS.** ICI supported the establishment of a new Independent Directors Council to enhance outreach and education activities for independent directors and help communicate their views more effectively to policymakers and the media.

■ **PARTICIPATING IN SECURITIES MARKET INITIATIVES.** ICI sought to ensure that securities markets operate efficiently and effectively for funds as investors and for fund shareholders.

■ **INCREASING TAX-DEFERRED SAVINGS OPPORTUNITIES FOR FUND INVESTORS.** ICI supported initiatives to enhance savings opportunities and ensure that rules governing these accounts effectively serve investors and retirement plan participants.

■ **ENSURING FAIR TAX TREATMENT FOR FUND INVESTORS.** The Institute supported tax measures that ensure a "level playing field" for investors who choose to invest in the securities markets using mutual funds and other investment companies.

■ **IMPROVING FUND OPERATIONS AND SERVICES.** ICI programs continued to bring together a wide range of fund personnel from the operations, investor services, fund accounting, pricing and reporting, and technology communities to enhance services, reduce costs, and protect shareholders.

■ **ESTABLISHING MARKET ACCESS OVERSEAS.** ICI assisted funds in complying with foreign regulatory requirements and worked to ensure that foreign laws and regulations do not discriminate against U.S. funds or impede the ability of U.S. investment management firms to serve overseas shareholders.

■ **PROVIDING RESPONSIVE, EFFECTIVE MEMBER SERVICES.** ICI provided its investment company members, their directors, officers, and employees a range of ongoing, specialized services to keep them abreast of legal, regulatory, legislative, and other industry developments.

PROMOTING THE ROLE OF FUND DIRECTORS

THE FORMATION OF THE INDEPENDENT DIRECTORS COUNCIL

In fall 2003, a group of independent directors serving on the Institute’s Board of Governors came together to propose the formation of the Independent Directors Council (IDC). Their purpose in forming the IDC was several fold—to help ensure that policymakers in Congress and at the SEC hear the views of independent fund directors as they consider changes in laws and regulations; to promote better public understanding of fund governance issues and the work of fund directors; and to address the growing complexity of fund governance responsibilities by providing the director community a program of continuing professional development and education, planned by and for independent directors. In January 2004, these and other independent directors proposed to the Institute’s Board of Governors, and the Board agreed, that the IDC be organized and serve as “the voice of independent directors at ICI”—an entity with its own leadership, committees, and dedicated staff, working cooperatively with ICI at large.

The Independent Directors Council began operating in May 2004, and its establishment represents one of the most important organizational changes in ICI’s recent history. From another perspective, however, the IDC is an extension of the Institute’s activities on behalf of fund independent directors over many years. In 1995, the Institute organized a Director Services Committee with membership consisting exclusively of fund directors. Under the Committee’s direction, ICI has sponsored an annual Investment Company Directors’ Conference since 1995, the first yearly, industry-wide conference devoted specifically to the concerns of fund directors, and one that has enjoyed broad participation across the director community. To help fund boards benchmark their practices, ICI launched its Directors’ Practices Study in 1994. This survey remains an authoritative source of information on a range of fund governance issues and is relied upon by fund directors across the industry. For many years, ICI has engaged in other activities for fund directors, including special workshops for new directors, regional meetings with directors, and briefings for fund boards by senior ICI staff.

SEC Chairman William Donaldson spoke to some 242 independent directors from 127 fund complexes in a luncheon address delivered at the 2004 Investment Company Directors’ Conference. Donaldson praised the establishment of the Independent Directors Council (IDC) and applauded its chair, James Bodurtha, for his leadership of the IDC.



The Institute's previous activities on behalf of independent directors have strengthened fund governance policies as well. In 1999, the Institute convened the Advisory Group on Best Practices for Fund Directors, consisting of leading fund executives and independent directors. The Advisory Group developed a slate of 15 "best practice" recommendations for fund boards, designed to better protect fund shareholders. The Institute's Board of Governors endorsed these recommendations in July 1999 and urged all ICI members to implement them. Many of the recommendations first developed by the Advisory Group—including a super-majority of independent directors on fund boards, periodic board self-evaluations, and independent counsel for fund independent directors—were later adopted by the SEC and applied across the industry.

With support from the Institute at all levels, the Independent Directors Council has this legacy of accomplishment upon which to build its efforts on behalf of independent directors and fund boards. Over the past year, the views of fund independent directors were essential as Congress and the SEC considered legislative and regulatory reforms, many of them relating directly to the role and responsibilities of directors. Numerous independent directors from around the industry stepped forward and engaged actively in this process by filing comment letters, meeting with legislators and regulators, testifying before Congress, and speaking out on the issues in the media. The IDC will help to ensure that independent directors continue to play a vital role in this process.

Independent Directors Council Activities and Resources

The Independent Directors Council offers programs and resources for fund directors:

- **ANNUAL CONFERENCE.** IDC now sponsors the annual Investment Company Directors' Conference held by ICI since 1995. The conference agenda varies, but generally focuses on current regulatory and policy issues affecting funds and their shareholders, as well as topics of practical interest to fund boards.
- **TOPICAL WORKSHOPS.** Each spring, IDC will hold at least one program highlighting issues of particular interest to investment company directors.
- **CHAPTER MEETINGS.** IDC has already begun this outreach effort, forming "director chapters" across the country to facilitate discussion amongst fund directors about governance issues affecting funds, their shareholders, and director duties.
- **WEBSITE AND NEWSLETTER.** IDC maintains a website (www.idc1.org) and newsletter (*Board Update*) to ensure that directors have 24-hour-a-day access to fund governance news, resources, and information about upcoming events.
- **DIRECTORS' PRACTICES STUDY.** The study surveys a variety of fund governance issues and includes information on board practices and director compensation.

For more information, contact IDC Managing Director Marguerite Bateman at 202/326-5813 or visit www.idc1.org.

Independent Directors Council (as of October 20, 2004)

CHAIRMAN:

James H. Bodurtha, Independent Director, Merrill Lynch Funds

MEMBERS:

Dorothy A. Berry, Independent Director, Professionally Managed Portfolios

Vanessa C.L. Chang, Independent Director, New Perspective Fund

Darlene DeRemer, Independent Director, Nicholas-Applegate Funds

Samuel M. Eisenstat, Independent Director, AIG SunAmerica Funds/Independent Trustee,
Anchor Series Trust

David A. Hughey, Independent Director, FAM Funds

Susan B. Kerley, Independent Director, CitiFunds/Independent Director, NY Life MainStay Funds

Howard J. Kerr, Independent Director, Van Kampen Funds

Robert E. La Blanc, Independent Director, Prudential Mutual Funds

C. Alan MacDonald, Independent Director, Lord Abbett Funds

Marvin L. Mann, Independent Director, Fidelity Funds

Thomas F. Morrissey, Independent Director, Victory Funds

Robert D. Neary, Independent Director, Armada Funds

Jock Patton, Independent Director, ING Funds

Donald H. Pratt, Independent Director, American Century Funds

Thomas E. Stitzel, Independent Director, Columbia Funds

Robert W. Uek, Independent Director, Hillview Group of Investment Companies/Independent Director,
TT International Funds

Ranne P. Warner, Independent Director, Allmerica Funds

Roman L. Weil, Independent Director, NY Life MainStay VP Funds

Rosalie J. Wolf, Independent Director, Alliance Bernstein Funds

Clayton K. Yeutter, Independent Director, Oppenheimer Funds

James W. Zug, Independent Director, Brandywine Funds

ABOUT THE IDC

The IDC consists of a chairman and 21 members drawn from fund groups around the nation. They are joined by seven of the independent directors who currently serve on the Institute's Board of Governors (see *Appendix A* on page 49). The funds on whose boards these directors serve have aggregate assets of \$2.9 trillion (39 percent of the industry total). The IDC has established five committees to fulfill its mission. The Chairman heads the IDC Executive Committee that oversees all of the Council's activities, including the work of four other IDC committees. The Education Committee develops and promotes educational programs and materials for independent directors of mutual funds. The Policy Committee anticipates and develops policies on issues that relate to mutual funds and their shareholders, including the preparation of responses by the IDC to regulatory and legislative proposals. The Communications Committee promotes independent director participation in the activities of the IDC through enhanced communication and outreach efforts, and helps disseminate IDC policy positions. The Nominating and Governance Committee identifies, evaluates, and recommends to the IDC candidates for membership on the IDC, and establishes and maintains IDC governance principles.

In response to the SEC's adoption of new fund governance rules in June 2004, the IDC formed two task forces to develop practical guidance and help fund boards implement the new standards—one on the annual self-evaluation process, and another on the role of the independent director as board

chair. Most recently, the IDC has announced the formation of a task force to study the issue of oversight by directors of multiple funds. All of these issues have been the subject of discussions at chapter meetings, now held in eight cities across the country.

IDC members also have met with members of the media to brief them on matters relating to fund governance. Further, the IDC has coordinated meetings of fund directors with SEC staff members as part of an ongoing effort to keep the SEC staff informed about board practices.

FUNDS AS INVESTORS

The Institute plays an important role in making U.S. and foreign securities markets work more effectively for investors who participate in stock, bond, and money markets through mutual funds. ICI works with U.S. and foreign legislators, regulators, securities market officials, and other market participants to ensure that capital markets operate efficiently. Furthermore, the Institute has consistently supported initiatives and reforms that help keep markets competitive, transparent, and liquid.

U.S. MARKETS

In recognition of the impact that the U.S. securities market structure has on funds and their shareholders, the Institute has long been a participant in initiatives to improve the way securities are traded on the New York Stock Exchange (NYSE) and in the NASDAQ market, as well as in other U.S. equity and fixed-income markets.



Annette Nazareth, Director of the SEC's Division of Market Regulation, speaks about proposed changes to U.S. equity market structure, at the Institute's sixth annual Equity Markets Conference.

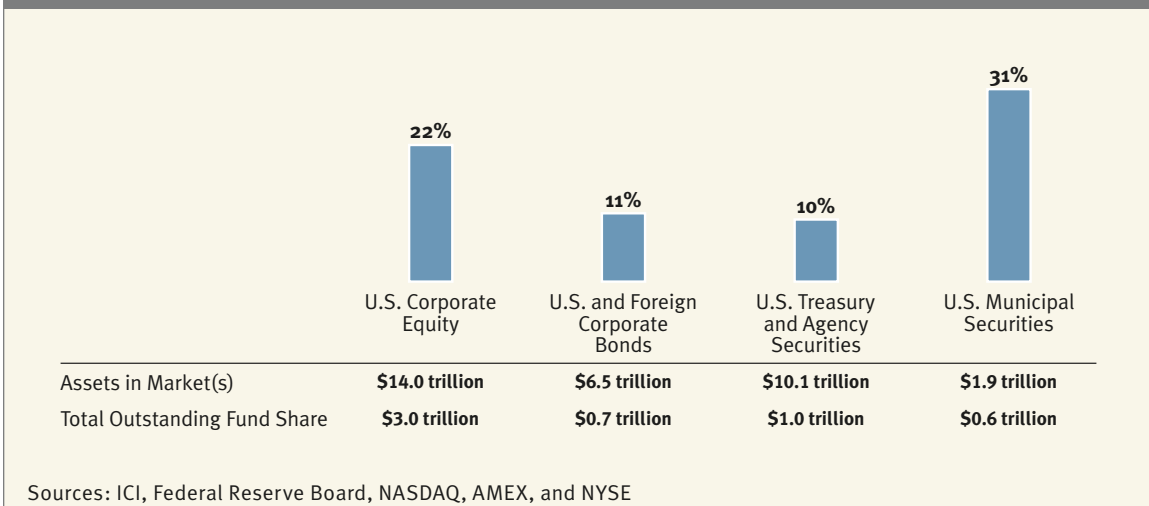
In 2004, the Institute's visibility on U.S. market structure issues continued to grow through formal and informal presentations of industry viewpoints to policymakers and the media, as well as through conferences and other efforts to facilitate interaction between market officials and investors. Earlier this year, for example, Institute members testified on behalf of ICI at Congressional and SEC hearings devoted to market structure reform efforts. In a New York press briefing, ICI supplemented the points delivered in member testimony, presenting fund industry views on proposed market reforms and explaining how they would affect funds and their shareholders. ICI's sixth annual Equity

Markets Conference—with record attendance this past September—brought together leading officials from the SEC, securities markets, mutual funds, broker-dealers, and other market participants as well as Congressional staff to consider market structure issues and proposals and their impact on investors.

Through these events and in formal comments to the SEC and self-regulatory organizations like the NYSE, ICI made recommendations on several securities market reform proposals. In supporting the tenets of Regulation NMS, an SEC proposal to enhance transparency and efficiency through a

MUTUAL FUND HOLDINGS OF SELECTED SECURITIES, 2003

(share of total market securities held by mutual funds)



national market structure, ICI applauded the SEC's effort to tackle a variety of problems investors face when trading in the equity markets, and suggested ways to facilitate more efficient trading by institutional investors. ICI also called for changes to NYSE trading systems that would allow for greater market automation, and recommended corporate governance reforms that would increase investor representation on the NYSE Board.

FOREIGN MARKETS

ICI also works overseas—through contact with foreign regulators and other officials—to remove impediments to portfolio investing abroad by U.S. funds, and supports global initiatives that serve to strengthen corporate governance and protect and facilitate U.S. funds' rights as shareholders.

ICI was active in several foreign markets on behalf of U.S. funds and their investors in 2004. ICI recommendations to the Indian and Chinese governments called for the elimination of disincentives to portfolio investment brought about by those countries' restrictive foreign institutional investor licensing rules. ICI also helped secure new European Union (EU) legislation that streamlines the rules under which asset managers file reports of significant ownership of European securities, and participated in consultations to improve EU corporate governance. As an active member in the International Corporate Governance Network, ICI played a leading role in 2004 initiatives to remove impediments to cross-border proxy voting.

ENCOURAGING SAVING THROUGH TAX-ADVANTAGED ACCOUNTS

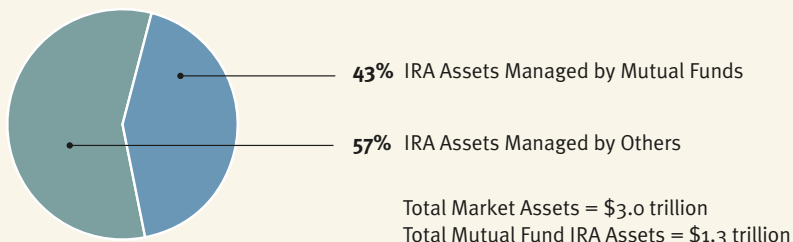
The Institute supports national policies that create or enhance tax-advantaged savings accounts for mutual fund and other investors because of the benefits such accounts provide to shareholders seeking to meet long-term financial goals. Historically, ICI has supported landmark legislation establishing such accounts, as well as initiatives designed to ensure that laws and regulations governing these accounts effectively serve the interests of investors and plan participants.

LEGISLATION TO EXPAND SAVING OPPORTUNITIES

ICI has been a proponent of legislation to establish tax-advantaged retirement and education savings accounts—such as Individual Retirement Accounts (IRAs), Section 401(k) pension plans, and Section 529 Education Savings Plans. The Institute supported legislation that first created the IRA some 30 years ago. More recently, ICI has promoted legislative initiatives that, among other things, resulted in the creation of SIMPLE retirement plans for employees of small businesses, Roth IRAs, and significantly expanded contribution limits for working Americans who use any of the major types of tax-advantaged accounts.

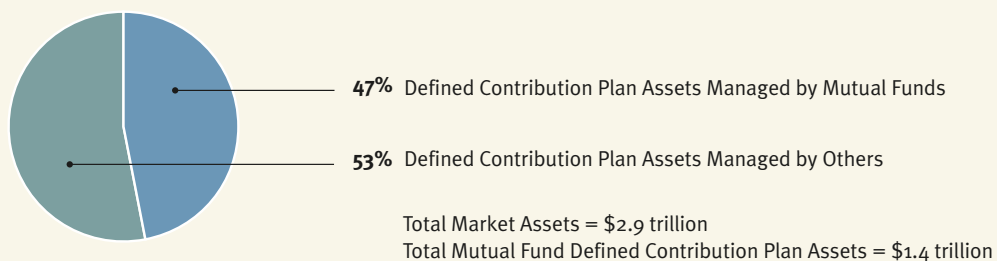
MUTUAL FUND SHARE OF THE IRA MARKET, 2003

(percent of total assets)



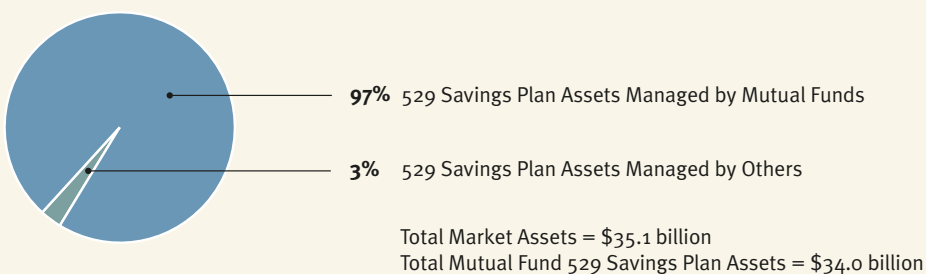
MUTUAL FUND SHARE OF THE DEFINED CONTRIBUTION PLAN MARKET, 2003

(percent of total assets)



MUTUAL FUND SHARE OF THE 529 SAVINGS PLAN MARKET, 2003

(percent of total assets)



Sources: ICI, College Savings Plans Network

In 2004, policymakers proposed additional measures for stimulating savings and investment, such as deferring capital gains taxes for mutual fund investors until a fund is sold and permanently expanding eligible contributions to 401(k) plans and IRAs. ICI has supported these proposals. One important legislative proposal to simplify tax-advantaged savings is the Bush Administration's plan to create Lifetime Savings Accounts and Retirement Savings Accounts. These accounts would enhance the ability of average taxpayers to meet education, health care, and retirement costs.

FACILITATING SOUND INVESTING IN TAX-ADVANTAGED ACCOUNTS

The structures and criteria for tax-advantaged accounts are complex. ICI works to encourage legislation and regulation that make these accounts effective, understandable, and workable for plan participants and other investors. In 2004, the Institute testified before the U.S. Department of Labor's ERISA Advisory Council, advocating better disclosure to plan sponsors and participants, including disclosure about fees and expenses—something that ICI has long encouraged. The Institute also supported legislation (such as H.R. 1000 and S. 1698 in the 108th Congress) that would respond to 401(k) plan participants' need for access to objective, professional investment advice, subject to appropriate fiduciary protections.

FAIR TAX TREATMENT FOR FUND SHAREHOLDERS

ICI supports national tax policies that ensure fund shareholders receive tax treatment similar to direct investors in stocks, bonds, and other securities. Unlike most corporations, a mutual fund generally distributes all of its earnings each year and is taxed only on amounts it retains. Fund investors ultimately are responsible for paying tax on the fund earnings they receive either as cash or additional shares. Despite this straightforward "pass-through" tax treatment of fund earnings, however, complex tax laws and regulations at the state, federal, and international level often subject fund investors to disparate tax treatment. For many years, the Institute has supported tax treatment that ensures a "level playing field" for investors who choose to invest in the securities markets through mutual funds and other investment companies.

In 2004, Congress approved two tax bills containing provisions long sought by the Institute. One bill eliminates disparate tax treatment of overseas investors who purchase shares of U.S. funds instead of investing directly in U.S. securities. The second bill makes important technical corrections in the tax code to avoid disadvantageous treatment for shareholders of global and international funds.

Helping Secure the Nation's Financial Infrastructure

ICI actively represents the industry in the Financial Services Sector Coordinating Council for Critical Infrastructure Protection and Homeland Security (FSSCC), a group convened under the auspices of the U.S. Treasury Department to foster cooperation between the public and private sectors in understanding and addressing vulnerabilities to physical and cyber attacks against the nation's financial infrastructure.

FUND OPERATIONS: WORKING FOR SHAREHOLDERS BEHIND THE SCENES

ICI, its members, and representatives from other segments of the securities industry have addressed fund operations issues for more than 36 years. What began in the 1960s as an effort to help members adapt to new legal requirements and develop appropriate standards and practices has grown into a broad-based program that brings together fund personnel from the operations, investor services, fund accounting, pricing and reporting, and technology communities to enhance services, reduce costs, and protect investors. In 2003 and 2004, this required focusing on the implications of recent SEC regulatory reforms, and coordination of disaster recovery and business continuity planning efforts by ICI member firms.

PARTICIPATING IN 2004 REGULATORY REFORM EFFORTS

Through its Operations group, ICI worked to highlight for policymakers the practical business and operational aspects of proposed solutions to the problems of late trading and abusive market timing. ICI promoted cooperation and dialogue between funds and intermediaries. ICI also

supported fund chief compliance officer efforts to document fund service providers' compliance policies and procedures for the benefit of fund boards.

Over the past year, ICI also continued its efforts to ensure that financial intermediaries provide appropriate sales load discounts to investors. ICI served as a member on the Joint NASD/Industry Task Force on Breakpoints formed in 2003, coordinated member involvement on the task force, and continues to work with members and their financial intermediaries to ensure that mutual fund shareholders receive the sales charge discounts to which they are entitled. Other 2004 highlights included efforts to streamline processing of retirement plan and college savings plan transactions and to reduce problems associated with the lack of transparency in omnibus accounts.

POST 9/11: BUSINESS CONTINUITY PLANNING

In the aftermath of the September 11, 2001 terrorist attacks, business continuity planning became a priority for the financial services industry. ICI continues to spearhead disaster recovery and business

continuity planning (BCP) in the mutual fund industry, with the development of a benchmarking survey to assess industrywide preparedness in eight major areas, including technology recovery and crisis management. ICI has also developed a special web page for disseminating information related to BCP policy developments and also for use in emergency situations.

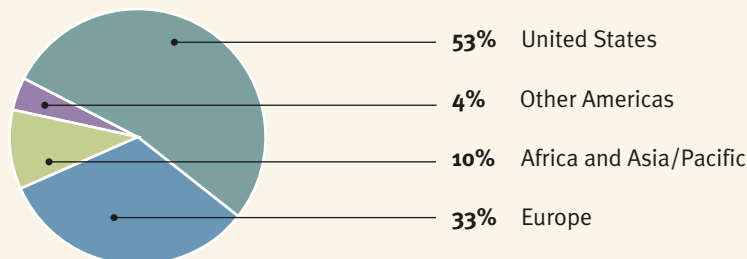
ESTABLISHING MARKET ACCESS OVERSEAS

Although the U.S. mutual fund market is the largest in the world, 47 percent or \$6.8 trillion of worldwide mutual fund assets are domiciled outside the United States. ICI works to ensure that foreign laws and regulations do not discriminate against U.S. funds or impede the ability of U.S. investment management firms to serve foreign shareholders. For those members that sponsor funds abroad, the Institute also assists in

compliance with foreign regulatory requirements. In 2004, for example, ICI:

- secured amendments to Japanese law to rescind measures that would have imposed discriminatory tax burdens on Japanese investors in foreign funds;
- submitted policy papers that helped persuade the European Commission not to impose bank-style capital charges on asset managers;
- worked with U.S. trade negotiators to obtain non-discriminatory treatment abroad for U.S. funds and U.S. firms; and
- helped secure provisions in trade agreements with seven countries that improve the ability of U.S. firms to use their expertise in serving mutual fund shareholders worldwide.

WORLDWIDE MUTUAL FUND ASSETS BY REGION, JUNE 2004 (percent of total assets)



Sources: European Federation of Investment Funds and Companies, ICI, and other national mutual fund associations



From left: John Brennan, Chairman and CEO of The Vanguard Group, Inc.; Jason Zweig, columnist for *Money* magazine; Dawn-Marie Driscoll, Independent Director at Scudder Funds; and Robert S. Dow, Managing Partner at Lord, Abnett & Co., LLC discuss “The Changing Mutual Fund Environment and Its Impact on Shareholders” at the 46th annual ICI General Membership Meeting in May 2004.

ICI also helps members comply with foreign laws and regulations that affect their operations overseas, offering, for example, access to an online database that provides up-to-date information on the applicable securities laws and regulations in almost 40 countries.

ICI MEMBER SERVICES

ICI provides a range of specialized services to its investment company members, their directors, officers, and employees of their advisers—including conferences, workshops, training materials, and insurance coverage available to members through ICI Mutual Insurance Company. In this way, the Institute helps industry professionals stay abreast of legal, regulatory, legislative, and other developments. ICI events provide an opportunity to interact with industry peers, including officials of ICI member firms, ICI staff, government regulators and legislators, legal and accounting professionals, the media, industry commentators, and other

experts in the field of customer service. Ten major Institute conferences and workshops, attended by more than 5,000 industry professionals, were held during fiscal year 2004, and ICI plans a total of 14 in fiscal year 2005 (See *Appendix C* on page 55).

The Institute began offering self-study continuing education courses in 1993. The courses, designed for employees of mutual fund organizations, banks, broker/dealers, and service providers to the fund industry, have helped more than 13,000 fund industry employees improve their knowledge on a variety of fund topics. Six courses include modules on the fundamentals of mutual funds as well as specialized presentations on fund communications, the retirement market, and fund transfer agents. Updated regularly and available online, all of the Institute’s training programs help members meet the “Firm Element” component of the NASD’s continuing education requirements for investment professionals.

ICI MUTUAL INSURANCE COMPANY

ICIM, the fund industry's captive insurance company, remains the leader in providing insurance and risk management services to meet funds' evolving business needs. ICIM is also a leader in providing fund independent directors with comprehensive insurance coverage tailored to their needs, including an "Independent Director Safety Net" program. The "Safety Net" program addresses the common insurance concerns independent directors raise, and includes stand-alone policies and enhancements to joint policies.

ICIM's benefit to the fund industry has never been more apparent than in the aftermath of the trading scandal. Its influence kept the commercial insurance markets from overreacting, and it has been a


valuable resource for fund groups and their counsel in litigation defense. In addition, ICIM continued to provide the coverage that funds need for regulatory investigations and costs of correction. ICIM has published a series of groundbreaking studies on risk and risk management techniques in the areas of corporate-action processing, portfolio management, computer security, and defense cost management, among other topics. ICIM also offers fraud prevention services, including a database of frauds and attempted frauds, alerts about fraudulent schemes, and fraud prevention workshops. ICI Mutual Insurance Brokers, Inc., an ICIM subsidiary, offers ICI members and associate members additional coverage, including professional liability policies, lost instrument bonds, and ERISA bonds.

SECTION THREE



PROMOTING PUBLIC UNDERSTANDING OF FUNDS,
FUND SHAREHOLDERS, AND FUND INVESTING

promoting public understanding

romoting the public's understanding of mutual funds is a third core element of ICI's mission. The Institute established a public communications program more than 60 years ago, and it has grown along with the fund industry's increased prominence in the financial services industry.

Initially, the Institute's public outreach concentrated on increasing awareness of funds and educating investors about the benefits of fund investing. Today, as a result of funds' tremendous growth and their prominent role in the U.S. economy, ICI serves more as a spokesman for the fund industry before policymakers, opinion leaders, and the global media. Never was this role more important than in 2004, when trading abuses precipitated intense public scrutiny of funds and how they serve their shareholders.

Over the past year, ICI efforts to promote public understanding of the industry included the following:

- **ICI RESEARCH.** ICI's research program involves the compilation, analysis, and dissemination of information on the U.S. investment company industry and its investors.

- **MEDIA RELATIONS.** The Institute disseminates information to the media and the general public through daily interactions with financial and business press, in publications, and via the Internet.

- **INVESTOR EDUCATION.** Primarily through the work of its Education Foundation (ICIEF), ICI helps provide fund investors with the information necessary to develop realistic goals and expectations, evaluate risk, and make informed investment decisions.



Newly elected ICI President Paul Stevens spoke at the National Press Club in Washington, DC in June 2004. "We should not only expect close scrutiny," said Stevens, "but understand that our size and importance demand it. This process is one of the great strengths of our nation and our economic society. We are better for it."

ICI RESEARCH

A key component of ICI's public outreach is a research program that promotes understanding of funds, fund investing, and fund investors. What began in 1944 simply as a data collection from 100 mutual funds and closed-end funds managing \$2 billion in assets has evolved into a diverse program compiling, analyzing, and disseminating information on the approximately \$8 trillion U.S. investment company industry and its investors. ICI also serves as a clearinghouse for statistics on the \$6.8 trillion fund industry serving investors outside the United States. (Institute research can be found at www.ici.org/stats/index.html.)

The Institute's research program includes five different components: industry statistics, shareholder demographics, the economics of the fund industry, mutual funds' role in the retirement market, and outreach to the academic community.

INDUSTRY STATISTICS

ICI is the primary source of statistical information and analysis on the investment company industry. The Institute provides members, government agencies, policymakers, the media, scholars, and the general public comprehensive and reliable data drawn from 9,000 mutual funds, 600 closed-end funds, 150 exchange-traded funds, and seven unit investment trust sponsors. The Institute disseminates these data through roughly 100 monthly, quarterly, or annual statistical releases and reports on industry asset and cash flow trends.

SHAREHOLDER DEMOGRAPHICS

ICI collects, aggregates, and analyzes data on U.S. households and individual fund shareholders. These surveys depict mutual fund ownership in the United States and identify the characteristics, trends, behaviors, and needs of fund owners. In

2004, ICI released, for the first time, the results of a survey that has tracked investor sentiment about the fund industry for the past eight years. The research found that shareholders retain a very favorable view of fund companies, notwithstanding the trading abuses and recent bear market.

ECONOMICS OF THE FUND INDUSTRY

Institute research publications offer detailed examinations of the economics of the mutual fund industry. The Institute's annual review, first published in 1997, analyzes current industry developments and discusses the effect of specific public policies on fund economics. ICI also publishes an annual examination of trends in fund fees and expenses that has helped policymakers and others better understand the costs of fund ownership. This research, conducted since 1998, demonstrates the strong competition that characterizes the industry—costs of fund investing have declined significantly over the past 20 years and most fund shareholders seek out lower cost funds. In 2003, ICI also released a study comparing portfolio management fees charged by mutual funds with those charged by pension funds—a subject of continuing research interest.

RETIREMENT MARKET

Nearly half of all Individual Retirement Account (IRA) and 401(k) plan assets are invested in mutual funds. Accordingly, ICI closely follows developments in the \$12 trillion U.S. retirement market. In 2004, the Institute's annual retirement survey tracked the growth and development of the retirement market and the role that mutual funds play there. The Institute also continued its commitment to analyzing the behavior of 401(k) plan participants. Collaborating again with the Employee Benefit Research Institute (EBRI), ICI released updated data on the asset

allocation, account balance, and loan activity of 401(k) plan participants. The EBRI/ICI Data Collection Project is the largest database available on participants in 401(k) retirement plans. ICI also examines and releases data annually on the U.S. households who own IRAs. This research identifies the characteristics of traditional, Roth, and employer-sponsored IRA owners and describes their investment behavior.

SCHOLARLY INTEREST IN MUTUAL FUNDS

The prominence of mutual funds as financial intermediaries has stimulated growing academic interest in the fund industry. ICI reaches out to academics, scholars, and other industry observers, spotlighting issues and topics affecting funds and their shareholders. These efforts provide fund industry perspective and analysis on issues of interest to scholars, and encourage interaction and dialogue among fund industry researchers.

Mutual Fund Ownership, 2004

HOW MANY PEOPLE OWN MUTUAL FUNDS?

92 MILLION INDIVIDUALS IN

54 MILLION U.S. HOUSEHOLDS own mutual funds

WHO ARE THEY?

48 YEARS, median age

71 PERCENT are married or living with a partner

56 PERCENT are college graduates

77 PERCENT are employed

49 PERCENT are Baby Boomers

24 PERCENT are Generation X

WHAT DO THEY OWN?

\$125,000, median household financial assets, excluding residence

47 PERCENT, median household financial assets in mutual funds

69 PERCENT own IRAs

84 PERCENT own defined contribution retirement plan accounts

WHAT IS IN THEIR FUND PORTFOLIO?

70 PERCENT bought first mutual fund more than 10 years ago

4 MUTUAL FUNDS, median number owned

\$48,000, median mutual fund assets

58 PERCENT purchased first mutual fund through defined contribution retirement plan

80 PERCENT own equity mutual funds

HOW DO THEY INVEST?

71 PERCENT tend to rely on professional investment advice

84 PERCENT are willing to take average or more financial risk for comparable gain

92 PERCENT are saving for retirement

Source: *Profile of Mutual Fund Shareholders*, Investment Company Institute, 2004 (www.ici.org/pdf/rpt_profile04.pdf)

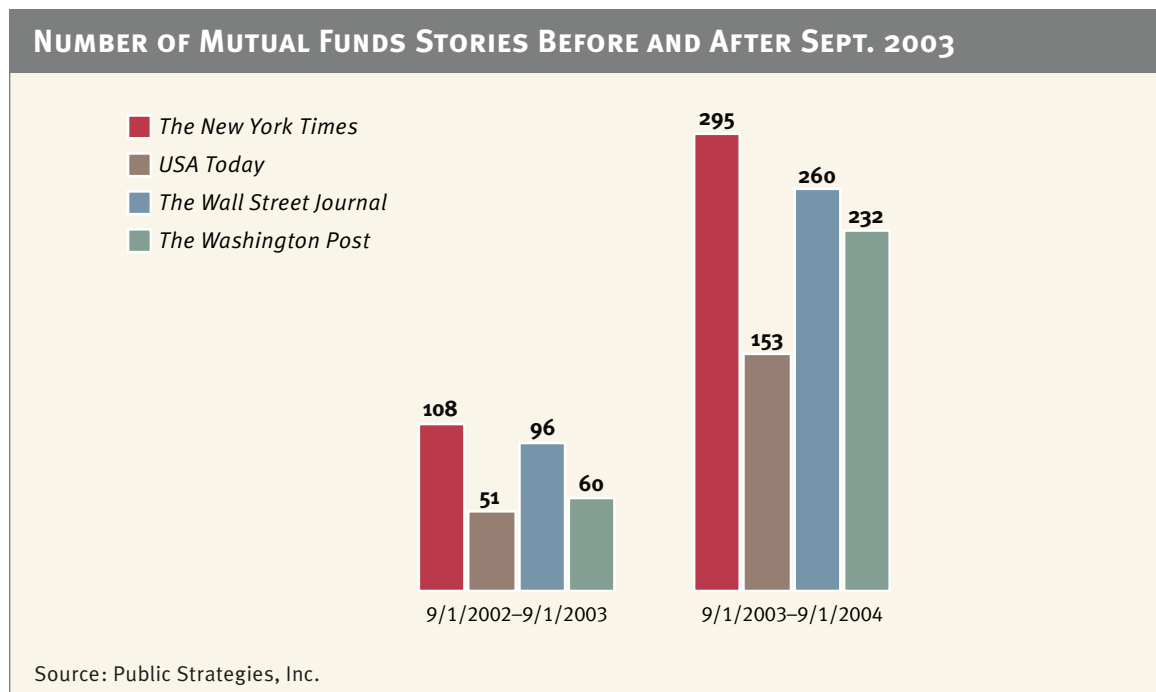
In 2004, ICI sponsored its biannual academic conference. The conference gathered ICI members and academic researchers to discuss mutual fund governance, fund distribution methods, and the cost of fund management and its impact on shareholder returns. ICI also continued to participate in outside events sponsored by universities and other academic organizations.

MEDIA AND OTHER PUBLIC INTERACTION

The Institute disseminates information on funds, investing, and shareholders through daily interaction with the media, in regular public commentary, through speeches, op-eds, press conferences, and other public events, and through its public website. In 2004, the level of media interest and the coverage of the fund industry in major financial and broad-based news publications increased more

than fourfold. In response, the Institute sought to communicate fund industry opinions on the trading abuses brought to light in September 2003 and mutual funds' commitment to pro-shareholder reforms.

In 2004, industry leaders and ICI representatives were interviewed on CBS, CNBC, and CNN. ICI leaders authored op-eds published in *The Wall Street Journal* and *USA Today* concerning fund issues and the industry's positions. The Institute also launched a series of advertisements in leading Washington, DC policy publications to publicize fund industry actions in response to the scandal and to dispel misconceptions about mutual funds. Throughout the year, ICI consistently sought to correct misunderstandings or reporting errors concerning mutual funds and crucial industry issues.



FUND INDUSTRY VIEWPOINTS



Op-ed pieces by ICI Chairman Paul Haaga and ICI President Paul Stevens appeared in December 2003 and September 2004, respectively. A series of ads based on ICI research appeared in Capitol Hill publications and on ICI's website.

The past year provided the Institute's new leaders with opportunities to reconfirm the fund industry's commitment to reform and strengthen ICI's media presence. A June 2004 National Press Club speech in Washington, DC delivered by Paul Stevens, ICI's new president, represented a starting point for the outreach effort, and ICI followed up with a series of press briefings in Washington, New York, Boston, and Chicago and editorial meetings with *The Wall Street Journal*, *The New York Times*, and *The Washington Post*. By autumn 2004, all major news and industry trade publications had participated in face-to-face briefings with Stevens and other ICI leaders.

A year removed from revelations of the trading abuses, ICI continued to reach out to media to provide perspective and explain the constructive steps taken to protect shareholder interests. The effort helped ensure that media portrayals reflected the important, sustained work of mutual funds in accomplishing reforms. The Institute's effort culminated with an op-ed by Stevens published in *The Wall Street Journal* on September 13, 2004.



“Folks who like more cyberglitz... can try the *Investing for Success* course. Sponsored by several nonprofit groups... it’s designed to close the investing ‘knowledge gap’ between African Americans and others with similar incomes. Anyone, of course, can make use of the plentiful online materials. Each section, including those on risk tolerance and on planning for retirement, makes clever use of pop-up windows for colorful charts, graphs, and calculators, and you’ll find lots of links to additional information.”

—*Business Week Online*

ICI continues to focus on increasing its interactions and communication with the press and industry observers, leveraging ICI research to promote a better understanding of mutual funds and their investors and disseminating industry positions on fund issues through print, electronic, and other public media.

PROMOTING INVESTOR EDUCATION

Ensuring that investors have the information needed to develop realistic goals and expectations, evaluate risk, and make informed investment decisions is a vitally important objective for mutual funds. The Institute helps in the process primarily through the work of its Education Foundation (ICIEF), a 501(c)(3) affiliate founded in 1989.

ICIEF partners with government agencies and other nonprofit organizations to develop, support, and enhance investor education initiatives. For example, ICIEF is a charter partner on the boards of the American Savings Education Council and the Alliance for Investor Education. This past fiscal year, the Foundation took part in “Financial Literacy Day on the Hill” and participated in the conferences of the UNITY Journalists (African-American, Hispanic, Asian, and Native American journalists), the National Organization of Blacks in Government, the Congressional Black Caucus Foundation, and the Congressional Hispanic Caucus Institute.

ICIEF cosponsors personal money management seminars presented at Historically Black Colleges and Universities (HBCUs) by the Society for Financial Education and Professional Development (SFE PD). Here, SFE PD President Theodore Daniels discusses *Investing for Success* materials with a Bowie State University student.



For the past four years, ICIEF's focus has been its *Investing for Success* program, a partnership with the National Urban League, Hispanic College Fund, and Society for Financial Education and Professional Development. This program is designed to promote the benefits of long-term investing in underserved communities. The partnership develops and distributes personal investing materials through community workshops and conferences, at Historically Black Colleges and Universities, and in award-winning, interactive web courses available in English and Spanish (www.investingforsuccess.org and www.invertirconexito.org). Workshops are presented by African-American or Hispanic investment professionals from local ICI member

firms. Neither the workshops nor the materials promote any commercial products, services, firms, or individuals and all are offered free of charge.

In September 2004, ICIEF agreed to partner with the Foundation for Investor Education (FIE), an affiliate of the Securities Industry Association. FIE sponsors the Stock Market Game™, an online stock market simulation used by 16,000 teachers and 500,000 students in grades 4 to 12 each year. This year, for the first time in its 27-year history, the game will include mutual funds. ICIEF will collaborate with FIE in the development and promotion of mutual fund curriculum materials to accompany the expanded game.


SECTION FOUR



ABOUT ICI

Leadership. governance. resources.

LEADERSHIP TRANSITION IN 2004

 In May 2003, ICI President Matthew P. Fink informed ICI's Executive Committee of his plans to retire after nearly 34 years of service to the Institute. Thereafter, ICI Chairman Paul Haaga announced the formation of a committee to identify a successor. Following a national search, Paul Schott Stevens was elected to succeed Fink on March 10, 2004. Stevens previously had served as the Institute's General Counsel from 1993 to 1997. He rejoined the Institute as President on June 1, 2004.

As ICI General Counsel, Stevens helped spearhead important industry initiatives, including the development of best practices on personal investing, expansion of the Institute's programs for fund directors, and passage of the National Securities Markets Improvements Act of 1996. Stevens' career outside the Institute includes varied roles in private law practice, as corporate counsel, and in senior government positions, including at the Reagan White House. In remarks delivered at an October 2004 conference, SEC Chairman William Donaldson said, "Paul [Stevens] has a record of strong leadership and I am confident he will represent the interest of investment companies and investors alike."

Also joining ICI in 2004 was new General Counsel Elizabeth R. Krentzman, following the departure of 16-year ICI veteran Craig Tyle. Krentzman, who had served on the SEC staff, came to ICI from Deloitte & Touche LLP, where, as a partner, she developed and led the firm's consulting and regulatory compliance practice for mutual funds.

GOVERNANCE AND MEMBER INVOLVEMENT

ICI is a 501(c)(6) organization that represents investment companies, their shareholders, directors, and investment advisers on regulatory, legislative, and securities industry initiatives that affect mutual funds. The ICI president and staff report to the Institute's Board of Governors, which is responsible for overseeing the business affairs of ICI and determining the Institute's positions on public policy matters (see *Appendix A* on page 49 for a list of ICI's Board). The Institute employs a staff of 165 (see *Appendix B* on page 53 for a description of each ICI Department).

ICI's Board of Governors is composed of 46 representatives of mutual fund advisers and independent fund directors. Governors are elected annually to staggered three-year terms and represent a broad cross-section of the fund industry. The Board is geographically diverse and includes representatives from large and small fund families as well as fund groups sponsored by independent asset managers, broker-dealers, banks, and insurance companies. This broad-based representation helps to ensure that the Institute's policy deliberations consider all segments of the fund industry and all investment company shareholders.

Five committees assist the Board of Governors with various aspects of the Institute's affairs. These include a 15-person Executive Committee—responsible for evaluating policy alternatives and various business matters and making recommendations to the Board of Governors—as well as Audit, Compensation, Investment, and Nominating Committees. Other than the Institute's president,

who is a member of the Executive Committee, all members of these committees are governors. The Board has also appointed a Chairman's Council to administer the Institute's political action programs, including the political action committee—ICI PAC. The Chairman's Council includes six governors as well as the Institute's president and chief operating officer (see *Appendix A* on page 49 for a listing of ICI's Board and *Appendix B* on page 53 for a listing of ICI staff).

The Institute's policy work is driven by 15 standing committees that bring together nearly 1,300 industry professionals. In addition, 32 industry advisory committees, task forces, forums, and working groups with more than 1,700 participants tackle a broad range of regulatory, operations, and business issues, such as mutual fund pricing, transfer agent operations, and Section 529 Education Savings Plans. Institute committees perform a number of important roles, including assisting with the analysis and formulation of policy positions, and

ICI President Retires After 33 Years



Matt Fink discusses his years at the Institute with CNBC's Tyler Mathisen at ICI's 2004 General Membership Meeting.

Matt Fink—who joined ICI in 1971 as a staff attorney and was named General Counsel in 1977—became President in 1991. During a long and distinguished tenure, he was instrumental in the development of many regulatory and legislative innovations that helped mutual funds bring investing opportunities to millions of Americans. Also stepping down in FY 2004 were Institute Executive Vice President Julie Domenick and General Counsel Craig S. Tyle, who ably led the Institute's government relations and legal staffs, respectively, for many years.

gathering and disseminating information about industry practices (see *Appendix B* on page 52 for a list of Institute standing committees, staff, and affiliated organizations). In these and all of its activities, the Institute strictly observes federal and state antitrust laws, in accordance with a well-established compliance policy and program.

FINANCES

Throughout its history, the Institute has sought to control member dues and ICI spending and prudently manage the Institute’s financial affairs in a manner deemed appropriate by the Board of Governors, which is responsible for the overall affairs of ICI including approval of the annual budget and the member dues rate.

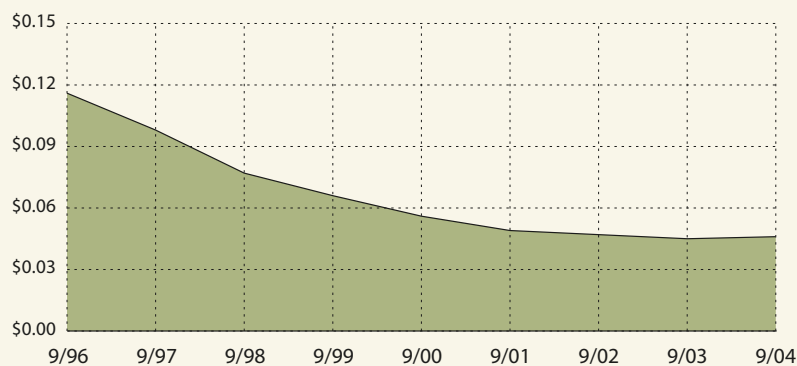
DUES: Between FY 1996 and FY 2004, as mutual funds experienced rapid growth, the annual dues rate declined by 33 percent as a result of a series of Board-approved discounts from the standard

dues schedule. During this period, open-end fund dues declined from \$0.116 per \$10,000 of industry assets to \$0.046 per \$10,000 of industry assets (see Figure 4-1). In FY 2004, open-end fund dues totaled approximately \$29.5 million, which was less than the dues assessed in each of the preceding five years.

SPENDING: Resources expended by the Institute grew modestly during the late 1990s and were quickly reduced in response to the market declines that occurred during 2000 through mid-2003. The compound growth rate in core expenses over the past five years was 3.1 percent and the compound growth rate in staff was –2.1 percent. Current ICI staffing is 165 positions, which is 10 percent below staffing at the end of 1999. For the first time in four years, staffing increased in FY 2004 as a result of adding three positions to support expansion of the Independent Directors Council.

[figure 4-1]

DUES PER \$10,000 OF ASSETS

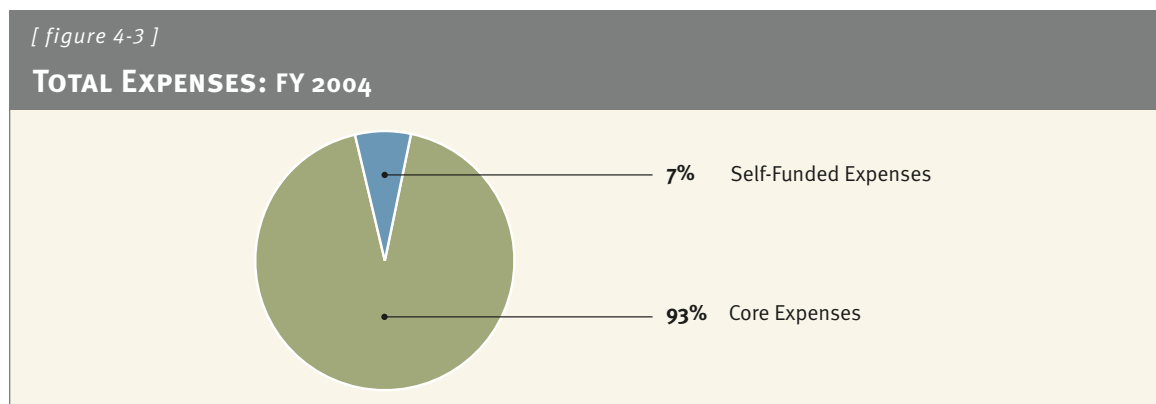
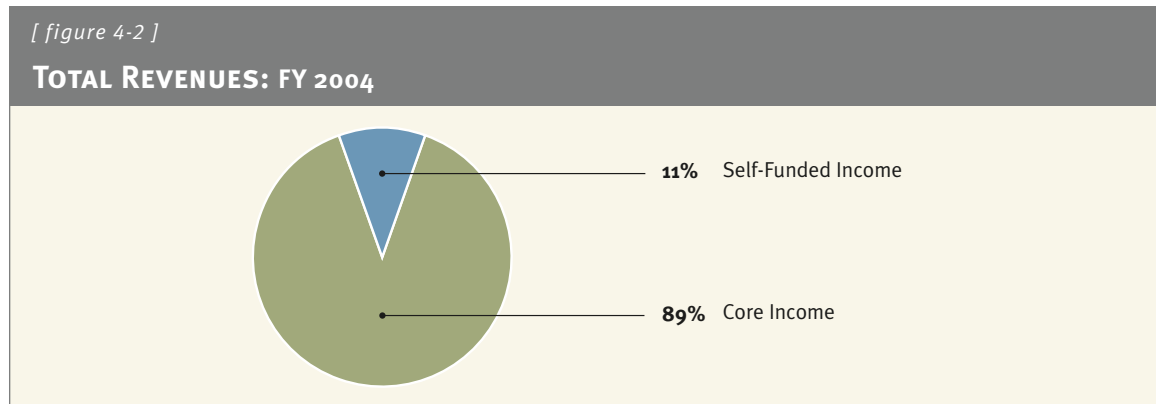


FINANCIAL RESERVES: Since 2001, the Board has pursued a policy of reducing the Institute’s reserves, which had grown to approximately 74 percent of annual expenses, by managing the dues rate to produce an operating deficit. In FY 2004, the Institute drew down capital reserves by approximately \$5.1 million. At September 30, 2004, reserves were approximately \$21 million, or 49 percent of annual expenses, which was the target approved by the Board last October and deemed an appropriate sustainable level of reserves.

FINANCIAL OVERSIGHT: The Board of Governors evaluates the financial effect of the Institute’s core and self-funded activities when they approve the annual dues rate.

CORE ACTIVITIES (i.e., regulatory, legislative, operational, economic research, and public communication initiatives in support of investment companies, their shareholders, directors, and advisers) are public policy related. Reflecting the Institute’s strategic focus on issues affecting mutual funds, the Board of Governors has chosen to fund core activities with dues, rather than seek alternative sources of revenues such as sales of publications. The significant majority, approximately 90 percent, of ICI total revenues comes from dues, investment income, royalties, and miscellaneous program sources (see Figure 4-2).

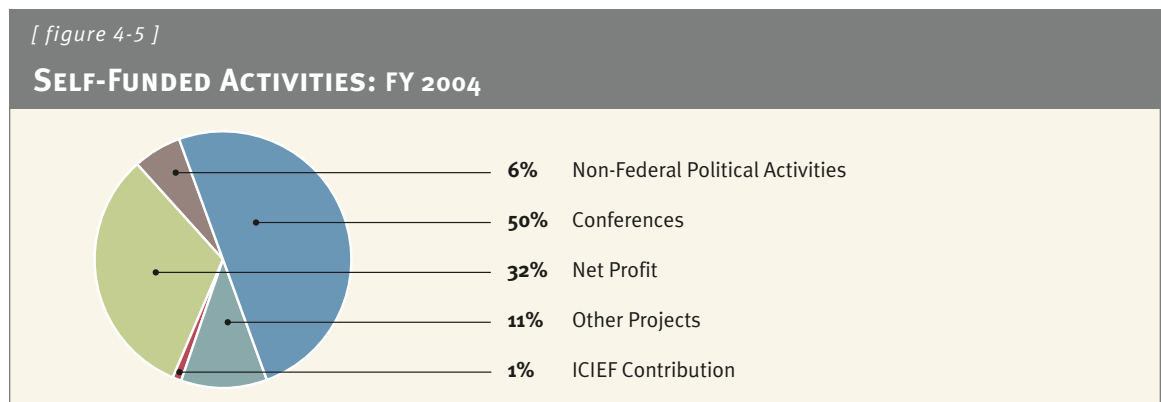
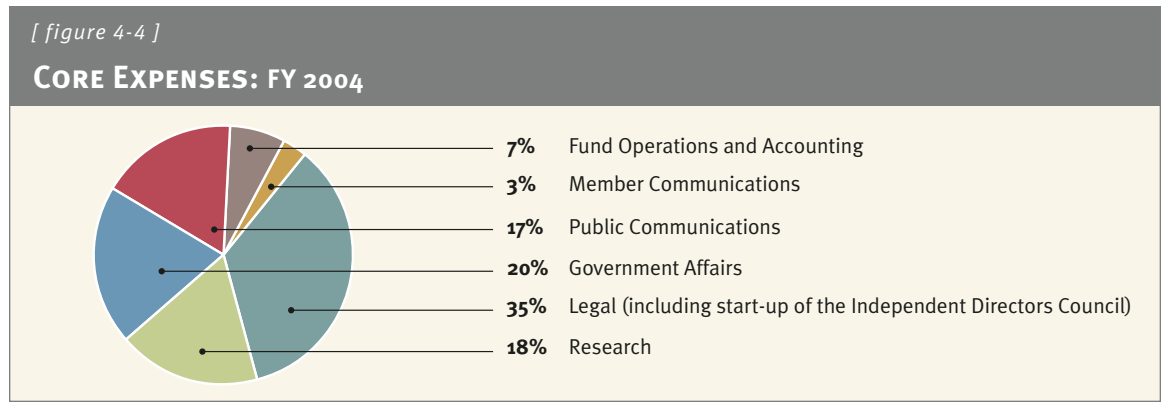
Similarly, by design, over 90 percent of the Institute’s total resources are devoted to core activities (see Figure 4-3).



Core expenses support the wide range of initiatives described in this Annual Report (see Figure 4-4).

SELF-FUNDED ACTIVITIES (i.e., conferences and special surveys) are supported by separate fees paid by companies and individuals who participate in these activities. The financial goal for self-funded activities is that fees should cover all direct costs plus 50 percent to ensure that these activities are not subsidized by member dues. Each year a portion of the net profit from self-funded activities is contributed to the ICI Education Foundation. To support the Institute’s government affairs efforts, in presidential election years such as 2004, a portion of the net profit from self-funded activities is devoted to participating in both national party conventions (see Figure 4-5).

FY 2005 DUES: On October 8, 2004, the Board of Governors reviewed the many policy challenges and strategic goals mutual funds and the Institute will have to address in the next few years. Based on this evaluation, the Board of Governors approved an increase in the open-end fund dues rate of approximately 14 percent. This increase will cause open-end fund dues to rise to \$0.049 per \$10,000 of industry assets, which is the same rate assessed in FY 2001. The Board earmarked the additional dues to replenish and provide the resources ICI will need to help mutual funds address the regulatory and legislative challenges that lie ahead and sustain an adequate level of financial reserves.



SECTION FIVE



APPENDICES

organization. personnel. activities.

APPENDIX A: BOARD OF GOVERNORS

(as of October 8, 2004)

Mr. James S. Riepe^{1,6}

ICI Chairman &

Vice Chairman

T. Rowe Price Group, Inc.

Mr. Paul. G. Haaga, Jr.¹

ICI Vice Chairman &

Executive Vice President

Capital Research and Management Company

Ms. Anne F. Ackerley

Managing Director

BlackRock Investments, Inc.

Mr. Lynn L. Anderson²

Chairman of the Board and CEO

Russell Investment Group

Mr. James H. Bodurtha^{1,4}

Independent Director

Merrill Lynch Funds

Mr. John J. Brennan³

Chairman and CEO

The Vanguard Group, Inc.

Mr. Stephen E. Canter

Chairman and CEO

The Dreyfus Corporation

Mr. Christopher W. Claus

President and CEO

USAA Investment Management Company

Mr. John F. Cogan, Jr.¹

Chairman

Pioneer Investment Management USA, Inc.

Mr. Christopher M. Condron

President and CEO

AXA Financial Inc.

Mr. Anthony W. Deering⁵

Independent Director

T. Rowe Price Funds

Mr. John D. DesPrez III

President and CEO

John Hancock Financial Services, Inc.

Mr. Andrew J. Donohue

General Counsel and First Vice President

Merrill Lynch Investment Managers

Mr. Robert S. Dow⁶

Managing Partner

Lord, Abbett and Co., LLC

Ms. Dawn-Marie Driscoll^{3,5}

Independent Director

Scudder Funds

Mr. Kenneth C. Eich

Chief Operating Officer

Davis Selected Advisers, L.P.

Mr. Ralph C. Eucher

President and CEO

Principal Mutual Funds

Mr. Dennis H. Ferro

President, CEO, and CIO

Evergreen Investment Management Company LLC

Mr. Mark R. Fetting

President, Asset Management

Legg Mason, Inc.

Mr. Martin L. Flanagan

President and Co-CEO

Franklin Templeton Investments

Mr. George C. W. Gatch⁶

President and CEO

J.P. Morgan Funds

Mr. C. Gary Gerst⁵
Independent Director and Chairman
Harris Insight Funds

Mr. Robert H. Graham¹
Chairman
AIM Management Group, Inc.

Mr. Charles E. Haldeman, Jr.
President and CEO
Putnam Investments

Mr. Thomas L. Hansberger
President and CEO
Hansberger Global Investors, Inc.

Mr. Peter A. Harbeck
President and CEO
AIG SunAmerica Asset Management, Corp.

Mr. Brent R. Harris^{1,6}
Chairman
PIMCO Funds

Mr. James B. Hawkes²
CEO
Eaton Vance Corp.

Mr. James M. Hennessy
President and CEO
ING Funds

Ms. Diana P. Herrmann
CEO and Vice Chair
Aquila Investment Management LLC

Mr. John A. Hill⁵
Chairman of the Trustees
Putnam Funds

Ms. Edith E. Holiday
Independent Director
Franklin Templeton Funds

Mr. Stephen H. Hopkins¹
Chief Operating Officer
Citigroup Asset Management

Ms. Abigail P. Johnson
President
Fidelity Management and Research Company

Mr. Peter S. Kraus
Co-Head of Investment Management Division
Goldman Sachs and Co.

Mr. William M. Lyons^{1,6}
President and CEO
American Century Investments

Mr. John W. McGonigle^{1,6}
Vice Chairman
Federated Investors, Inc.

Mr. Mitchell M. Merin¹
President and COO, Investment Management
Morgan Stanley

Ms. Paula R. Meyer
Senior Vice President and Managing Director
American Express Funds

Mr. John V. Murphy^{1,6}
Chairman, President, and CEO
OppenheimerFunds, Inc.

Dr. Alfred E. Osborne, Jr.⁵
Independent Trustee
WM Group of Funds

Mr. William G. Papesh
President
WM Advisors, Inc.

Mr. Robert C. Pozen
Chairman
MFS Investment Management

Mr. Thomas O. Putnam
Chairman
Fenimore Asset Management, Inc.

Ms. Ruth H. Quigley⁵
Independent Director
AIM Family of Funds

Ms. Judy Rice
President
Prudential Investments

Mr. John W. Rogers, Jr.
Chairman and CEO
Ariel Capital Management, LLC

Mr. Lewis A. Sanders
Chairman and CEO
Alliance Capital Management, L.P.

Mr. William N. Shiebler
CEO
Deutsche Asset Management, Americas

Mr. Michael D. Strohm²
CEO and President
Waddell and Reed, Inc.

Mr. Peter E. Sundman
President
Neuberger Berman Management, Inc.

Mr. Peter S. Voss
President and CEO
CDC IXIS Asset Management

Mr. John C. Walters
Executive Vice President
Hartford Life, Inc.

Mr. Lloyd A. Wennlund
Executive Vice President and Managing Director
Northern Trust Global Investments

Dr. Patricia K. Woolf⁵
Independent Director
American Funds

Mr. Brian T. Zino^{1,6}
President
J. & W. Seligman & Co. Incorporated

¹ Executive Committee member

² Audit Committee member

³ Executive and Audit Committee member

⁴ Chairman of the Independent Directors Council

⁵ Participates in Independent Directors Council activities

⁶ Chairman's Council member

APPENDIX B: STANDING COMMITTEES AND CHAIRS, ICI ORGANIZATION, AND AFFILIATED ORGANIZATIONS

ICI STANDING COMMITTEES AND CHAIRS (15)

Accounting/Treasurers

Mr. Joseph A. Carrier
Vice President & Treasurer
T. Rowe Price

Chief Compliance Officer

Mr. James M. Davis
Director, Global Compliance
Franklin Templeton Investments

Closed-End Investment Company

Mr. John D. Diederich
Chief Operating Officer
Royce & Associates, LLC

International

Mr. Murray L. Simpson
Executive Vice President and General Counsel
Franklin Resources, Inc.

Investment Advisers

Mr. Michael F. Rosenbaum
Managing Director and General Counsel
Citigroup Asset Management

Operations

Ms. Janet Clifford
President
MFS Service Center, Inc.

Pension

Mr. Dennis Simmons
Principal – Legal
The Vanguard Group, Inc.

Public Communications

Mr. Ivy B. McLemore
Director of Communications
AIM Investments

Research

Ms. Hannah S. Grove
Managing Director and Chief Marketing Officer
Merrill Lynch Investment Managers

Sales Force Marketing

Mr. Keith F. Hartstein
Executive Vice President
John Hancock Funds, LLC

SEC Rules

Mr. Michael J. Downer
Senior Vice President – Fund Business
Mgmt. Group
Capital Research and Management Company

Shareholder Communications

Mr. David M. Maher
Vice President – Customer Communications
Fidelity Investments

Small Funds

Ms. Diana P. Herrmann
CEO and Vice Chair
Aquila Investment Management LLC

Tax

Mr. Donald C. Burke
First Vice President and Treasurer of Funds
Merrill Lynch Investment Managers

Unit Investment Trust

Mr. Steven M. Massoni
Managing Director, UIT Division
Van Kampen Investments, Inc.

ICI ORGANIZATION

The majority of the Institute's staff is devoted to supporting public policy initiatives on behalf of mutual funds, their shareholders, directors, and investment advisers. Three administrative departments support the policy departments. A description of each department's role and the senior staff responsible for the department are shown below.

EXECUTIVE OFFICE

The Executive Office, under the direction of the Board of Governors, is responsible for the strategy and overall management of the Institute.

Paul Schott Stevens
President

Lawrence R. Maffia
Executive Vice President and Chief Operating Officer

LEGAL

The Legal Department represents the Institute before various governmental bodies, including the SEC, the IRS, the Departments of Labor and Treasury, state governments, and foreign and international authorities. The Legal Department also advises in securities and financial regulation, tax, pension, and other policy and legal issues of interest to ICI.

Elizabeth R. Krentzman
General Counsel

Amy B. Lancellotta
Senior Counsel – Securities

Keith D. Lawson
Senior Counsel – Pension/Tax

Mary S. Podesta
Senior Counsel – International

GOVERNMENT AFFAIRS

The Government Affairs Department represents the mutual fund industry before the Administration and U.S. Congress on securities, tax, pension, and other legislative initiatives that affect investment companies and their shareholders.

Daniel F. C. Crowley
Chief Government Affairs Officer

PUBLIC COMMUNICATIONS

The Public Communications Department disseminates information on funds, investing, and shareholders through daily interaction with the media, in regular public commentary, through speeches, op-eds, press conferences, and other public events, and through its public website.

John P. Collins
Managing Director – Public Communications

Susan J. Duncan
Assistant Vice President – Public Communications

RESEARCH

The Research Department maintains a comprehensive program of industry research and statistical data collections. The Research staff collects and disseminates industry statistics, and conducts research studies relating to issues of public policy, economic and market developments, and shareholder demographics.

John D. Rea
Vice President – Research and Chief Economist

OPERATIONS AND CONTINUING EDUCATION

The Operations and Continuing Education Department seeks solutions to traditional back-office business problems through studies, coordination of activities with other segments of the securities industry, and guidance on mutual fund accounting, reporting, and operations. The Continuing Education Group produces self-paced education programs for industry professionals and also produces an annual directory of fund service providers.

Donald J. Boteler
Vice President – Operations and Continuing Education

STRATEGIC ANALYSIS

The Strategic Analysis Department analyzes the implications of major public policy issues facing the industry.

Timothy J. Forde
Vice President – Strategic Analysis

ADMINISTRATION

The Administration Department provides support services for other Institute departments, including conference management, information technology, and accounting, library, membership, and office services.

Thomas S. Simmons
Vice President – Administration

HUMAN RESOURCES

The Human Resources Department is responsible for Institute recruitment and staffing, employee benefits, staff training and development, compensation, performance management, and employee relations.

Mary D. Kramer
Vice President – Human Resources

INFORMATION SERVICES

The Information Services Department is responsible for managing the Institute's member website, <http://members.ici.org>, and facilitating the electronic transmission of statistical data and other industry information between the Institute and its members.

Mark W. Walecka
Vice President – Information Services

ICI EDUCATION FOUNDATION

The ICI Education Foundation (ICIEF), a 501(c)(3) educational affiliate of the Investment Company Institute, partners with U.S. government agencies and other nonprofit organizations to help develop, promote, and enhance investor education initiatives on behalf of the mutual fund industry.

Lawrence R. Maffia
President

Susan J. Duncan
Vice President

ICI MUTUAL INSURANCE COMPANY

ICIM is an independent company formed by the mutual fund industry to provide various forms of liability insurance and risk management services to mutual funds, their directors, and advisers. To purchase insurance from ICIM, an organization must be an ICI member.

Natalie Shirley
President

INDEPENDENT DIRECTORS COUNCIL

The Independent Directors Council enhances outreach and education activities for independent directors and helps communicate their views more effectively to policymakers and the media.

Marguerite Bateman
Managing Director – Independent Directors Council

APPENDIX C: CONFERENCES, WORKSHOPS, AND LEARNING COURSES

Institute Fiscal Year 2004–2005 Conferences and Workshops

October 15–17, 2003	Investment Company Directors	Washington, DC
October 19–21, 2003	Operations	New Orleans, LA
November 10–11, 2003	Anti-Money Laundering	Washington, DC
December 4–5, 2003	Securities Law Developments ¹	Washington, DC
March 21–24, 2004	Mutual Funds and Investment Management ²	Palm Desert, CA
April 2, 2004	New Directors	Washington, DC
May 9–12, 2004	Globalisation of Mutual Funds ³	Bermuda
May 18–20, 2004	General Membership Meeting	Washington, DC
June 28–29, 2004	Mutual Fund Compliance ⁴	Washington, DC
September 23, 2004	Equity Markets	New York, NY
October 3–6, 2004	Tax & Accounting	San Antonio, TX
October 12, 2004	Mutual Fund Compliance	Chicago, IL
October 20–22, 2004	Investment Company Directors ⁵	Washington, DC
October 27, 2004	Mutual Fund Compliance	San Francisco, CA
November 7–10, 2004	Operations	Orlando, FL
November 18, 2004	Mutual Fund Compliance	Boston, MA
December 6–7, 2004	Securities Law Developments ¹	Washington, DC
February 18, 2005	Anti-Money Laundering	San Francisco, CA
February 24, 2005	Anti-Money Laundering	Boston, MA
March 13–16, 2005	Mutual Funds and Investment Management ²	Palm Desert, CA
May 1–4, 2005	Globalisation of Mutual Funds ³	Bermuda
May 11–13, 2005	General Membership Meeting	Washington, DC
June 2005	Mutual Fund Compliance	Washington, DC
September 2005	Equity Markets	New York, NY

For more information on ICI conferences and workshops, visit <http://conferences.ici.org>.

¹ Sponsored by the ICI Education Foundation

² Cosponsored by the Federal Bar Association and ICI

³ Cosponsored by the International Bar Association and ICI

⁴ Cosponsored by the Independent Directors Council and ICI

⁵ Sponsored by the Independent Directors Council

SIX ICI LEARNING COURSES

The Fundamentals of Mutual Funds	A two-part course covering the nature and organization of mutual funds.
Mutual Funds: Communications with the Public	A two-part course covering the rules and regulations governing a mutual fund's communications with the public.
IRA Fundamentals for Financial Industry Professionals	A detailed overview of the fundamentals of Traditional IRAs, Roth IRAs, Simplified Employee Pension (SEP) IRAs, and Savings Incentive Match Plans for Employees (SIMPLE) IRAs.
Retirement Plan Distributions, Loans and Withdrawals	An exploration of the types of distributions available from tax-qualified retirement plans and the options a retirement plan participant has when he/she is eligible to receive a distribution. The course also covers retirement plan loans, hardship withdrawals, and qualified domestic relations orders.
Retirement Plan Fundamentals for Financial Industry Professionals	A detailed overview of the tax advantages of retirement plans, contribution limits, plan sponsor responsibilities, and the key requirements of qualified retirement plans. Specific types of plans covered by the course include 401(k) plans, 403(b) plans, profit-sharing plans, and money purchase pension plans.
The Role and Responsibilities of a Mutual Fund Transfer Agent	A detailed overview of the organization and operation of a mutual fund transfer agent.

For more information on ICI courses, visit www.icilearning.org.



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