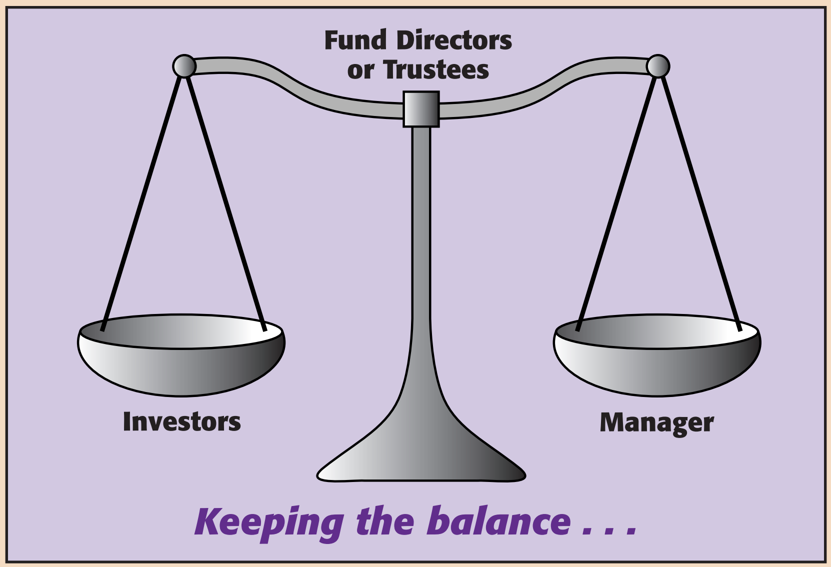
Hear My Voice: What A Fund Customer Wants From A Fund Director



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"The play is the thing . . ."

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William Shakespeare
who used it so effectively in Hamlet Act 3 Scene 2
to shed light on an important issue of his time.

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Hear My Voice: What A Fund Customer Wants From A Fund Director

A monolog of a knowledgeable fund shareholder describing what he would like fund directors to know.

A one act monolog written by C. Meyrick Payne of Management Practice Inc., and performed for the Fund Directions Newsletter/Mutual Fund Directors Forum Best Governance Practices Forum on December 9, 2004

The playlet will take about 15 minutes. Following the action, there will be time for a question and answer period to amplify the discussion. A transcript of the playlet is available on www.mfgovern.com and may be copied or modified, with attribution, to raise awareness of current issues in the fund industry.

Hear My Voice: What a Fund Customer Wants From a Fund Director

A one act playlet about the wants and needs of a knowledgeable fund shareholder.

Description of the Narrator

The narrator, Harry, is an imaginary shareholder of the Seminar Fund. He purchased his fund shares with the assistance of a financial planner more than two years ago and has become very knowledgeable about investing and fund operations. He is a Union worker from Ohio. He has been asked to describe the topics which he would like the directors of the Seminar Funds to monitor on his behalf.

Scene

The action takes place in an imaginary ad-hoc committee meeting of the Seminar Fund Board charged with the responsibility of researching what fund shareholders want from their Boards.

Time

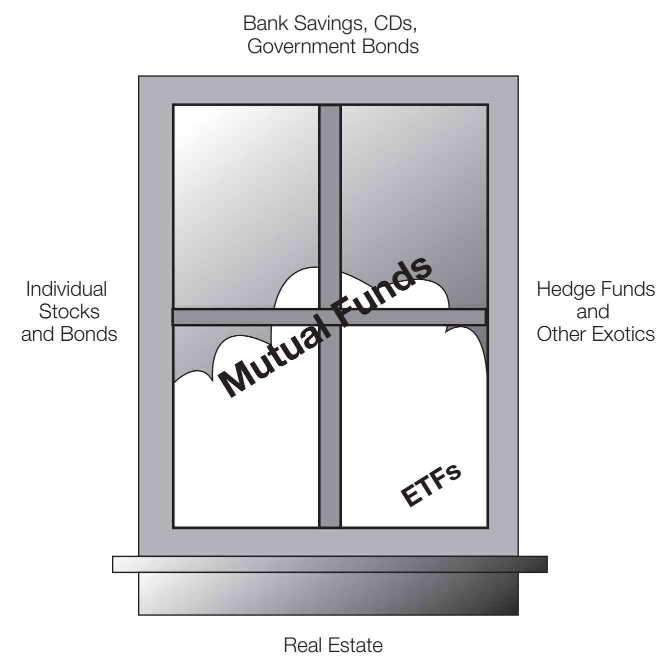
The action takes place in late 2004, about a year since the New York State Attorney General uncovered extensive wrong-doing in the mutual fund industry. In the ensuing 12 months, Congress, the SEC and the financial press have repeatedly highlighted problems in the fund industry. In spite of this bad press, assets have poured into mutual funds and relatively few customers have withdrawn their investments. However the Seminar Fund directors are anxious to learn from a knowledgeable fund customer how he wants them to safeguard his interests, particularly in light of the potential for substantial growth in mutual funds as various “privatized, tax-advantaged savings vehicles” are created by the new US Administration.

ACT 1

AT CURTAIN RISE: As the playlet begins, a stockholder of the Seminar Funds is seated in front of the Seminar Board of Directors about to begin his response to their question "What do you want us to do?"

HARRY: Good morning. Thank you for asking me for my opinion. I have been a Seminar customer for many years and no one has ever asked before. So I am grateful to be able to help you think about what needs to be done.

To start, I thought I would show you a picture of why I bought Seminar funds in the first place (Slide 1).



My financial planner, Jimmy—the guy who helps my family with figuring out what to do with our money—showed me this picture. I found it persuasive.

I think of the financial alternatives as a window with mutual funds in the middle. On all sides there are choices; some suitable for me, some not.

On one side there are bank savings accounts, certificates of deposit and even government bonds; boring, safe and unrewarding. We know we have to allocate some part of our savings to these, but they do not yield enough to meet our financial goals.

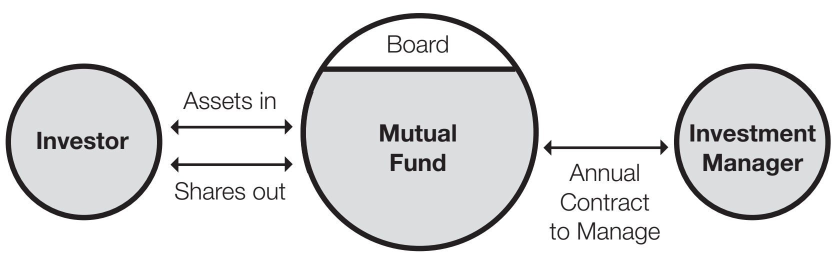
On another side are individual stocks. I don't have time to research these; I would much rather buy a basket of stocks which is managed by a professional.

On another side is real estate. We don't want any more thanks. We already have a money pit in Canton and a camp on Lake Erie. Real estate is too illiquid as a savings vehicle.

On another side are Hedge Funds. Please! I can't afford those risks and they are much too expensive for a saver like me. Perhaps for a rich family where the money is an investment, as opposed to savings.

But please remember I have alternatives to mutual funds. Jimmy tells me Exchange Traded Funds are growing quickly and they are much cheaper to own. And, he says, there are Internet Portfolios where he, or I, can invent our own mutual fund.

HARRY (continues): I drew this simple picture of how I see our relationship (Slide 2).



I put our money into the Seminar Fund and receive shares back. Actually I now understand these are shares in what you call an investment company …. and you all are directors of that company. You then contract with Seminar Management to invest the fund according to the principles laid out in the, almost unfathomable, prospectus.

Let me be clear. I see that my family does not actually have a contractual relationship with Seminar Management, but the fund, which you govern, does. But I want you to know that I do have a compact, an understanding, with them. I chose them; Jimmy works with them; and gets my statements from them. I don't want you flushing them down the toilet. But I do want to be treated fairly.

I am sure you know that we really can't go around selling our Seminar shares every ten minutes. Jimmy showed me that taxes will eat us alive and we have to pay some sort of commission to sell before six years are over. So our family wants you directors to look out for our interests.

HARRY (continues): Well what does that mean? Here we get to the interesting part.

First, please recognize why we bought Seminar in the first place; we want the best possible shake at a fair return on our money, we are willing to accept the risk we signed up for, we don't want to be abused and we want decent service.

Look, I know you can't guarantee me a return—if I wanted that I would have put my savings in another part of the window. But I do want you to see that I have the best possible shot at winning. Please don't let some dog manage my money; or don't let all the good investment opportunities go to some other fund that Seminar manages, and don't let arbitrageurs late-trade or market-time against me.

We don't want to be abused by the Seminar guys spending our money unnecessarily. Sometimes I worry that the richest people in our community carry a business card which says Portfolio Manager. I work in a factory and can tell you that the guys and gals who build bridges, control air traffic, defend our nation and teach our kids, work hard and add tremendous value to our lives. Please don't let the compensation that I, and people like me, pay to the fund managers, become disproportionate to the difficulty and risk they actually take.

Sure, we want good service but not so good that we don't get any return! Please don't let the technology bugaboo convince you that endless streams of my money need to be spent.

HARRY (continues): {This section may be omitted from the playlet if time is constrained} I wanted to explain why my family's savings are different to other peoples' investment. I use this picture to illustrate the point (Slide 3).

Risk to: / Risk of:	Financial Institutions	Sophisticated Investors	Retail Investors	Retail Savers
Failure or Credit Risk				
Theft				
Investment Loss				
Inflated Expenses				
Conflict of Interest				
Misallocation of Benefits				

The types of risk are shown as rows and the types of investor are shown as columns.

As I see it, there are relatively simple risks, like credit failure or theft which, anyone can understand; even if they can't always protect themselves from it. I also understand investment risk; no one can guarantee me a comfortable return and I and don't expect you too either; but I do ask you to see that I get a good shot at it.

I understand the risk of inflated expenses but I can't do anything about it as I am not on watch all the time. I see that as part of your job.

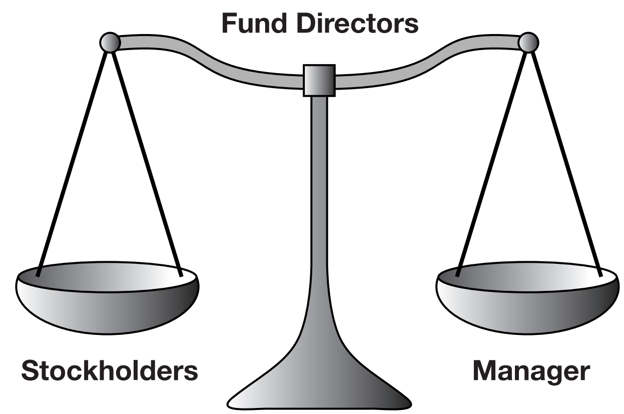
I really do want you to monitor "conflicts of interest". Anyone can see that if I give you my hard earned money, conflicts can arise. Please look out for my interests. Be loyal to me!

Finally there are "fall-out" benefits which can accrue to the manager because of my money; whether they are IPO privileges or just old fashioned favors. Do me a favor; be sure I receive my fair share.

In the columns you see different types of investor. Financial institutions and sophisticated investors can look out for themselves. Retail investors have the luxury of treating mutual funds as incremental money. For us, as retail savers, these funds represent our kids' education and our retirement. Please look out for them!

As the arrow shows, the more complicated the risk, and the less sophisticated the fund stockholder, the more I ask from you.

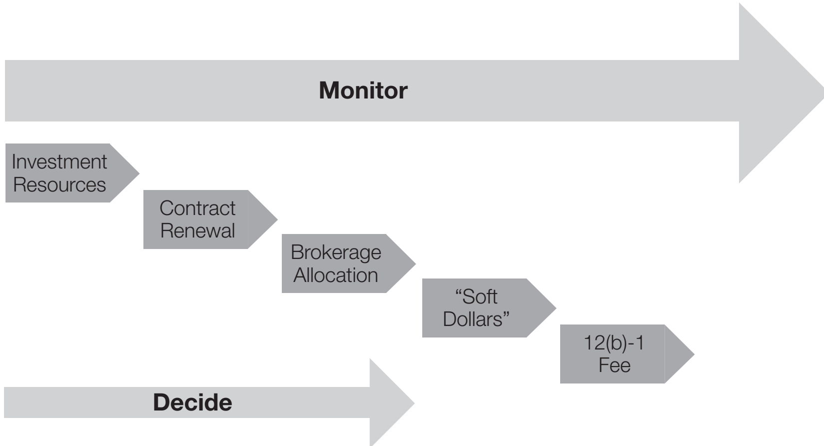
HARRY (continues): I drew this little picture of how I see your role as fund directors (Slide 4).



It is a scale of justice with you doing the balancing. As I understand it, your job is to see that the Customer, and the Manager, are treated fairly. Notice I said Customer. Although I am a fund shareholder, I am also the customer. As my representative I think of you as representing me—like the Union; if you want to think of it that way.

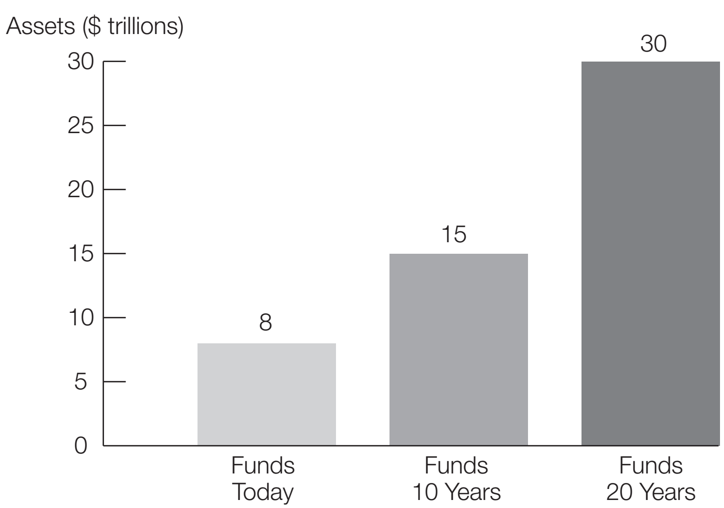
Back to the scales; you are paid to ensure that all is fair—business judgment I believe the lawyers call. What I am worried about is if, in this imaginary court, are you receiving enough evidence from the stockholder side?

Now the way I think of it, you have monitoring responsibilities and decision responsibilities (Slide 5). The monitoring goes on all the time. Compliance with the various rules and prospectus disclosure seem like the most important elements in this monitoring function.



The decisions you have to make include the allocation of investment resources, the renewal and terms of the advisory contract, the allocation of brokerage, the use of soft dollars and the amount of 12(b)-1 fee. When you decide these things please be sure that you look at the evidence from my point of view as well as the managers.

HARRY (continues): In the run up to the recent election, I became very interested in George Bush's approach to solving the Social Security problem. He wants to privatize some part of it. And that is on top of Health Savings Accounts, Retirement Savings Accounts, and College Savings Accounts.



The way I see it (Slide 6), your Mutual Fund industry has been stuck at $8 trillion in assets for several years now. With all these new savings accounts, your industry may well grow to $15 trillion in ten years and $30 trillion in twenty, but only if you can reassure me that I, and millions like me, can get a fair shake. That is your job. Hear my voice!

PLAYLET ENDS AND QUESTION TIME BEGINS

This **Management Practice Inc.** booklet contains the text of a playlet used by Management Practice to illustrate the critial role of mutual fund directors.

Management Practice Inc. is the publisher of the *Uneasy Chaperone* series of books for the independent directors of mutual funds.

C. Meyrick Payne is senior partner of the economic and business consulting firm, Management Practice Inc., which specializes in working on issues of fund governance for the independent directors of mutual funds. Mr. Payne is not a lawyer and nothing in this booklet should be construed as legal advice, which can only be obtained from a qualified professional.

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