

**INVESTMENT COMPANY INSTITUTE
1996 TAX & ACCOUNTING CONFERENCE**

Marriott Desert Springs Resort & Spa
Palm Desert, CA
September 16-18, 1996

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**SAMPLE LIST
OF
BOARD ACTIVITIES**

1. Renewal of Investment Advisory Agreements

(a) Considerations

- Terms of the agreement
- Nature and quality of services - advisory and other
- Capability of providing services
- Investment performance
- Reasonableness of the fee
- Economies of scale, breakpoints in advisory fee
- Fees paid to Adviser and its affiliates for services other than advisory
- Other fall-out benefits (including soft dollars) to Adviser and affiliates
- Expenses assumed by Adviser
- Adviser's costs
- Adviser's profits
- Comparative information for similar funds

(b) Procedures

- Board has duty to request and evaluate all necessary information
- Confer with experts
 - Independent legal counsel
 - Independent accountants
- Initial Committee review of adequacy of materials provided
 - Review criteria used for selection of peer groups
- Committee recommendation to full Board
- Full Board consideration

2. Renewal of Distribution Related Arrangements

(a) Underwriting and Distribution Services Agreement (which includes the Rule 12b-1 Plan)

- Considerations
 - Terms of the agreement and Rule 12b-1 Plan
 - SEC factors
 - Problems and circumstances to be addressed
 - How plan addresses the problems
 - Nature and amount of expenditures

- Overall costs
- Anticipated benefits
- Time for benefits to be achieved
- Nature and quality of services provided
- Carryover expenses and NASD caps
- Capability of providing distribution services
- Comparative information for similar funds
- Alternative fee arrangements
- Reasonable likelihood Plan will benefit Fund and Shareholders
- Procedures
(Same as procedures for renewal of advisory agreement)
 - Committee should review methodology for preparation of report of nature and amount of expenditures
- (b) Administrative Services Agreement
(Same factors and procedures as for Underwriting and Distribution Services Agreement)

3. Review Service Arrangements

- (a) Transfer Agency Agreement
 - Review level of fees and compare to competitive rates
 - Evaluate benefits to shareholders of current arrangements
 - Consider contractual terms (liability assumed) and resolution of any problems
- (b) Shareholder Service Agent
 - Consider quality of services provided
 - Consider profitability
- (c) Domestic Custody Agreement
 - Review level of fees and compare to competitive rates
 - Consider quality of services provided
 - Consider contractual terms (liability assumed) and resolutions of any problems
 - Review quality of services provided by subcustodians
- (d) Foreign Custody Agreement
 - Review level of fees and compare to competitive rates
 - Consider quality of services provided
 - Consider contractual terms (liability assumed) and resolution of any problems

- Make Rule 17f-5 findings
 - Review quality of services provided by subcustodians
- (e) Other Agreements or Arrangements
- Consider payments under networking agreements and agreements with Schwab and others

4. Select Auditors

- (a) Assure independence and expertise of outside auditors
- (b) Review outside auditor fees and functions
- Review allocation of work between Adviser/Administrator accounting staff and outside auditors
 - Discuss with fund accounting staff process for making audits more cost effective and efficient
- (c) Committee recommends outside auditors to the Board and the Board selects

5. Review Audited Financial Statements

- (a) Review proposed scope of audits with outside auditors
- (b) Review completion of audits with outside auditors
- Review Fund compliance with IRC requirements
 - Review Fund management letter, if any, and management response thereto
- (c) Evaluate internal accounting controls
- Review financial controls reports for affiliated service providers and for non-affiliated service providers
- (d) Review expense allocations (telephone, printing, postage) between Adviser and the Funds and among the Funds

6. Review Insurance Coverage

- (a) Renewal of fidelity bond
- Consider form of bond and amount of coverage
 - Consider allocation of premium and allocation of coverage pursuant to joint insured agreement
 - Consider participation of Adviser affiliates
 - Review report of claims, losses and payments under bond
- (b) Renewal of professional liability coverage (D&O/E&O)
- Consider form of bond amount of coverage
 - Consider allocation of premiums
 - Consider participation of Adviser affiliates
 - Review report of claims, losses and payments under bond

7. Review Valuation of Portfolio Securities

- (a) Review pricing services and pricing matrixes used
 - Evaluate reliability of prices provided
 - Consider any problems experienced
 - Review any procedures for overriding prices provided by services
- (b) Review procedures for “fair value” pricing of securities
- (c) Establish standards for the materiality of errors when calculating NAV
- (d) Review appropriateness of use of amortized cost valuation for short-term instruments

8. Review Money Market Fund Operations

- (a) Review continuing appropriateness of amortized cost pricing and money market fund procedures
- (b) Review procedures to assess quality of instruments
- (c) Review issues raised by complex instruments; consider need to establish procedures

9. Review Trading Practices

- (a) Review brokers and dealers used
- (b) Review brokerage costs (commissions and spreads) and principal transactions
- (c) Review sources, amounts and uses of soft dollars and evaluate appropriateness of soft dollar practices
- (d) Review Adviser’s policy for allocating investment opportunities
- (e) Review use of brokerage for Fund sales and payment of expenses

10. General Compliance Oversight

- (a) Review Code of Ethics
 - Review annual report prepared by Adviser regarding compliance under the Code and suggestions for amendments
 - Consider effectiveness of the Code, any changes in industry standards and appropriateness of continuing the Code or amending the Code
- (b) Review systems in place to assure compliance with:
 - Investment polices and restrictions
 - Pricing
 - IRC requirements
 - SEC filings requirements
 - Advertising rules
 - All exemptive orders, exemptive rules and no-action letters
 - Procedures established by the Board
 - Undertakings made in response to SEC inspections

- Money market fund rules
 - Blue sky registration requirements
- (c) Consider whether Board has set all necessary standards for operations
- Use of derivatives
 - Pricing of new securities
 - Quality standards for service providers
- (d) Review shareholder correspondence activity
- 11. Trustee Compensation and Recruitment**
- (a) Regularly review trustee compensation
- Compare to other funds and groups
- (b) On an as needed basis — recruit trustees to fill vacancies
- Preliminary check for statutory or practical disqualifications
 - Consider qualification to serve (time, experience, temperament)
- (c) Regular Board performance review
- Review performance of Board as a whole — make suggestions for more effective operations and oversight
 - Review appropriateness of continuing service by individual Board members
- (d) Propose guidelines for trustee recruitment and retention
- 12. Approve Post - Effective Amendment**
- (a) Consider continuing appropriateness of investment policies
- (b) Consider continuing adequacy of risk disclosure
- (c) Perform “due-diligence” on registration statement to relieve Board of liability
- (d) Review MD&A discussion in annual report
- 13. Review Procedures Established to Meet Regulatory Requirements; Consider Continuing Appropriateness and any Need to Amend**
- (a) Principal transactions with affiliates (Rule 17a-7)
- (b) Purchase of securities during an underwriting in which affiliate participates (Rule 10f-3)
- (c) Purchase of securities on agency basis from affiliate (Rule 17e-1)
- (d) Procedures for selecting counterparties for Repurchase Agreements
- (e) Special procedures for illiquid or restricted securities
- 14. Review Investment Operations**
- (a) Performance
- Review current and longer-term performance
 - Compare to benchmark index as well as to competitive funds

- Review performance attribution
- (b) Conformance of activities with policies and restrictions
 - Review any new types of instruments purchased, expertise of adviser and any pricing difficulties
 - Review measures of risk for portfolios
- (c) Monitor portfolio turnover
 - Portfolio turnover in line with prospectus disclosure
 - Compare to industry norms
- (d) Monitor liquidity
 - Review types of securities that are considered illiquid and percentage of the portfolio
 - Review overall liquidity of portfolio
- (e) Monitor use of derivatives
 - Review types of derivatives purchased, uses of such instruments and percentage of the portfolio
- (f) Pricing of securities
 - Review prices of any securities priced based upon “fair value”
 - Review price overrides

15. Review Sales and Marketing

- (a) Review report on sales and redemptions
 - Compare with industry-wide activity
 - Major marketing campaigns
 - Major changes in marketing activities
- (b) Review quarterly report on Rule 12b-1 expenditures
 - NASD cap amounts and purposes of expenditures
- (c) Review quarterly report on administrative service expenditures

16. Review Shareholder Servicing Quality

- (a) Review Report on quality of shareholder services

17. Review Trading Reports

- (a) Review transactions for compliance with established procedures
 - Purchases from affiliates
 - Review justification for transactions between portfolios to assure best interests of both Funds
 - Review 17e-1 purchases
 - Purchases during underwriting
- (b) Review list of dealers for creditworthiness

- Repurchase agreement dealers
- OTC option dealers

18. Monitor Money Market Fund Operations

- (a) Monitor deviation in amortized cost pricing (versus market NAV)
- (b) Monitor appropriateness of weighted average maturity
 - Compare with industry norms
- (c) Monitor credit quality
 - Review additions to or deletions from approved list
 - Review quarterly purchases
 - Review unusual types of instruments

19. Declare and/or Ratify Dividends

20. Compliance

- (a) Perform oversight of Fund compliance
 - Review report from Adviser regarding
 - Conformance with investment practices
 - Necessary reports filed with SEC
- (b) Review reports from Adviser regarding compliance of access persons with Code; any violations and sanctions
- (c) Review any SEC inspection reports of Fund or Adviser

21. Consider Committee Reports as presented

22. Monitor Litigation

23. Amend Board-Set Policies on an As Needed Basis

- (a) Time of day for calculation of NAV
- (b) Approve changes in securities depositories used
- (c) Review any changes to the Adviser's policies for voting proxies
- (d) Appoint persons authorized to give instructions to custodians and transfer agents

BOARD OF DIRECTORS
COMPLIANCE ISSUES UNDER RULE 2A-7

I. Background - Rule 2a-7

Section 2(a)(41) of the Investment Company Act of 1940 (the “1940 Act”), in conjunction with Rules 2a-4 and 22c-1 under the 1940 Act, requires an investment company to calculate its current net asset value per share, for purposes of distribution, redemption, and repurchase, by valuing: (1) its portfolio securities with respect to which market quotations are readily available at current market value; and (2) its other securities and assets at their fair value as determined, in good faith, by the board of directors. Such “fair value” has been interpreted to mean the value that would be received upon the current sale of a security or asset.¹ On May 31, 1977, the SEC issued an interpretive release,² expressing the view that money market funds and other open-end investment companies that hold a significant amount of debt securities should: (1) determine the fair market value of short-term debt portfolio securities for which market quotations are not readily available with reference generally to current market factors; and (2) calculate their price per share to an accuracy of within .1% or \$.01 based upon a share value of \$10.00. Release 9786 indicated further that, because the amortized cost method of valuation would not take market factors into account, the use of that method under all but very limited circumstances would be inconsistent with the provisions of Rule 2a-4 under the 1940 Act. After the issuance of Release 9786, several orders were granted to money market funds to permit the use of amortized cost valuation. In 1982, the SEC proposed for comment Rule 2a-7, which generally codified the terms and conditions of the various exemptive orders.³ In 1983, the SEC adopted Rule 2a-7.⁴

Rule 2a-7 permits money market funds to maintain a stable share price by using either: (1) the “Amortized Cost Method”⁵ of valuation; or (2) the “Penny-Rounding Method”⁶ of pricing. In doing so, Rule 2a-7 exempts money market funds from the general market valuation requirements described above, but contains conditions designed to minimize the deviation between a fund’s stabilized share price and the market value of its portfolio. The basic objective of Rule 2a-7 is to control a fund’s exposure to credit risk (i.e., the exposure through default or otherwise of instruments in the portfolio to risks associated with the creditworthiness of the issuer of the instrument) and market risk (i.e., the exposure of its portfolio instruments to significant changes in value due to changes in prevailing interest rates).

¹ Investment Company Act Rel. No. 5847 (Oct. 21, 1969) and Investment Company Act Rel. No. 6295 (Dec. 23, 1970).

² Investment Company Act Rel. No. 9786 (June 7, 1977).

³ Investment Company Act Rel. No. 12206 (February 1, 1982) (the “1982 Proposing Release”).

⁴ Investment Company Act Rel. No. 13380 (July 11, 1983) (the “1983 Adopting Release”).

⁵ Rule 2a-7(a)(1) defines the “Amortized Cost Method” to mean “the method of calculating an investment company’s net asset value whereby portfolio securities are valued at the fund’s acquisition cost as adjusted for amortization of premium or accretion of discount rather than at their value based on current market factors.”

⁶ Rule 2a-7(a)(15) defines the “Penny-Rounding Method” to mean “the method of computing an investment company’s price per share for purposes of distribution, redemption and repurchase whereby the current net asset value per share is rounded to the nearest one percent.”

II. Board's Role Under Rule 2a-7

In promulgating Rule 2a-7, the SEC discussed at various points in the 1983 Adopting Release the role that a board should play to assure compliance with the various conditions of the Rule. Since 1983, a board's role in the 2a-7 process has been interpreted and adjusted in various SEC pronouncements.⁷ Throughout the regulatory adjustments, the SEC has recognized that while a board may lack technical expertise and must rely on the investment adviser to provide factual information and advice, the final responsibility for a fund's operations should remain with the board.

Rule 2a-7, while assigning certain matters to the board, does not: (1) require that the board personally become involved in the day-to-day operations of the fund; (2) require the board to be an insurer of the fund or of the fund's investment adviser; or (3) preclude the board from delegating certain duties and functions (to be carried out under its supervision). In supervising a money market fund's operations and delegating special responsibilities involving portfolio management to the fund's investment adviser or other delegate, the board is obligated, as a particular responsibility within the overall duty of care owed to the shareholders, to establish procedures reasonably designed, taking into account current market conditions and the fund's investment objective, to stabilize the net asset value of the fund as computed for the purposes of purchases and redemptions, at \$1.00 per share. Rule 2a-7 does, however, mandate that certain findings, determinations and actions be solely within the purview of the board. The following summarizes the various findings, determinations and actions of the board (or, where noted, its delegate) that must be made:

- A. Board Findings [Rule 2a-7(c)(1)]** The board of a money market fund must determine, in good faith, that it is in the best interests of the fund and its shareholders to maintain a stable net asset value per share or stable price per share, by virtue of either the Amortized Cost Method or the Penny-Rounding Method, and that the fund will continue to use such method only so long as the board believes that it fairly reflects the market-based net asset value per share.

Comment: A board should make the determination that it is in the best interests of the fund and its shareholders to maintain a stable net asset value per share or stable price per share before relying upon the Rule. Thereafter, as part of a regular (e.g., quarterly) review, particularly in connection with the review of market value deviations discussed below, a board should make the determination that \$1.00 fairly reflects the fund's market-based net asset value per share.

- B. Portfolio Maturity [Rule 2a-7(c)(2)]**. A money market fund must maintain a dollar-weighted average portfolio maturity appropriate to its objective of maintaining a stable

⁷ In a letter dated May 8, 1990 to all money market funds (the "1990 SEC Letter"), the Director of the Division of Investment Management of the SEC sought to clarify certain aspects of the board's role. The Board's role was expanded to address certain technical issues in the 1991 Amendments [Investment Company Act Rel. No. 18005 (Feb. 20, 1991) (the "1991 Adopting Release"); Investment Company Act Rel. No. 17584 (July 17, 1990) (the "1990 Proposing Release")], then again modified in connection with the 1996 Amendments [Investment Company Act Rel. No. 19959 (Dec. 17, 1993) (the "1993 Proposing Release"); Investment Company Act Rel. No. 21837 (Mar. 21, 1996) (the "1996 Adopting Release")].

net asset value per share or price per share: Provided, however, That the money market fund may not:

- (1) Purchase any instrument with a remaining maturity of greater than 397 calendar days (except for a fund not using the Amortized Cost Method); or
- (2) In the case of a fund not using the Amortized Cost Method, purchase a Government Security with a remaining maturity of greater than 762 calendar days; or
- (3) Maintain a dollar-weighted average portfolio maturity that exceeds ninety days.

Comment: In discussing the portfolio maturity requirement, the SEC stated in the 1983 Adopting Release that:

This provision imposes an obligation on the directors of the fund to ascertain that the fund is maintaining an average portfolio maturity that, given the then current market conditions, will permit it to maintain a stable price or net asset value per share. During periods of higher volatility in the market, the board of directors should be aware of the greater difficulty in maintaining a stable price or net asset value per share and should take steps to insure that they are providing adequate oversight to the money market fund.

In the 1991 Adopting Release, the SEC followed-up this notion stating that a fund:

must maintain a dollar-weighted average portfolio maturity appropriate to its objective of maintaining a stable net asset value or price per share. Thus, in delegating portfolio management responsibilities to the fund's investment adviser, the board should adopt guidelines with respect to portfolio maturity designed to assure that this objective is met.

A board should consider, therefore, whether is appropriate to set maturity ranges for the fund, rather than just relying upon the 90-day maximum limit contained in the Rule. In addition, as part of a regular (e.g., quarterly) review process, Rule 2a-7 procedures could require the adviser to report maturity ranges for the fund, such as the "low," "high" and "quarter-end."

- C. Portfolio Quality [Rule 2a-7(c)(3)(i)]. A money market fund must limit its portfolio investments, including Puts and repurchase agreements, to those United States Dollar-Denominated securities that the fund's board (or its delegate) determines present minimal credit risks (which determination must be based on factors pertaining to credit quality in addition to any rating assigned to such securities by NRSRO) and which are at the time of acquisition Eligible Securities.**

Comment: In discussing the exact role to be played by a board itself in this process, the 1983 Adopting Release stated:

The Commission believes that the ultimate responsibility for the quality of portfolio instruments should be placed on the board of directors, who have undertaken special responsibilities designed to ensure stability of the fund. However, as discussed earlier, although the rule provides that the fund will invest only in those instruments which the board has determined to be of sufficient quality, the Commission will not object to the delegation of the day-to-day function of determining quality, provided that the board retains sufficient oversight. An example of acceptable delegation would be for the board to set forth a list of "approved instruments" in which the fund could invest, such list including only those instruments which the board had evaluated and determined presented minimal credit risks. The board could also approve guidelines for the investment adviser regarding what factors would be necessary in order to deem a particular instrument as presenting minimal credit risk. The investment adviser would then evaluate the particular instruments proposed for investment and make only conforming investments. In either case, on a periodic basis the board should secure from the investment adviser and review both a listing of all instruments acquired and a representation that the fund has invested in

only acceptable instruments. The board, of course, could revise the list of approved instruments or the investment factors to be used by the investment adviser.

Again, these examples are not meant to set the exclusive methods by which the board could fulfill its responsibilities. However, they are meant to provide guidance as to what the Commission would consider adequate oversight. Generally, adequate oversight would involve the board satisfying itself in advance that the methods to be used by the adviser in fulfilling the functions are correct, and then reviewing the adviser's actions. However, the Commission is of the view that the board would not be complying with the requirement to review the quality of the fund's portfolio instruments if it merely approved the transactions in which the fund engaged, after the fact.

As a practical matter, most boards delegate the minimal credit risk determination requirement to the adviser, subject to board-approved credit guidelines that set forth the analysis to be performed by the adviser. In the 1990 Letter, the Director of the Division of Investment Management of the SEC cited the following examples of elements of a minimal credit risk analysis:

(i) a cash flow analysis; (ii) an assessment of the issuer's ability to react to future events, including a review of the issuer's competitive position, cost structure and capital intensiveness; (iii) an assessment of the issuer's liquidity, including bank lines of credit and alternative sources of liquidity, to support its commercial paper; and (iv) a "worst case scenario" evaluation of the issuer's ability to repay its short-term debt from cash sources or asset liquidations in the event that the issuer's backup credit facilities are unavailable.

Many funds pick up some, or all, of these factors in their credit guidelines. Such credit guidelines are typically reviewed and approved at least annually by the board. Also, many advisers periodically (e.g., quarterly) provide the board with a list of all securities purchased, along with a representation that all such purchases were in accordance with Rule 2a-7 and the board-approved credit guidelines.

D. Rule 2a-7 Procedures

1. Amortized Cost

(a) General [Rule 2a-7(c)(6)(i)]. In supervising a money market fund's operations and delegating special responsibilities involving portfolio management to the money market fund's investment adviser, the fund's board, as a particular responsibility within the overall duty of care owed to

its shareholders, must establish written procedures reasonably designed, taking into account current market conditions and the fund's investment objectives, to stabilize the fund's net asset value per share, as computed for the purpose of distribution, redemption and repurchase, at a single value.

(b) Shadow Pricing [Rule 2a-7(c)(6)(ii)(A)]. Written procedures must provide:

- (1) That the extent of deviation, if any, of the current net asset value per share calculated using available market quotations (or an appropriate substitute which reflects current market conditions) from the money market fund's amortized cost price per share, shall be calculated at such intervals as the board determines appropriate and reasonable in light of current market conditions;
- (2) For the periodic review by the board of the amount of the deviation as well as the methods used to calculate the deviation; and
- (3) For the maintenance of records of the determination of deviation and the board's review thereof.

Comment: A common practice is for a board to instruct the adviser to calculate the deviation between the amortized cost price per share and the net asset value weekly, with more frequent calculations (e.g., daily) if the deviation exceeds a trigger point (e.g., \$.0025 per share). The range of deviations (e.g., "high," "low" and "quarter-end") may then be reviewed by the board quarterly.

A board generally should determine/review the methods used to calculate the deviation at least annually. In lieu of actual market quotations, a fund may use a matrix or valuations from a pricing service. To the extent the board approves these alternative valuation methods, the board should note the SEC's comments in the 1983 Adopting Release that:

The Commission will not object if a fund, with the approval of its board, determines the market-based value of each instrument using estimates of market value which reflect current market conditions or using values derived from yield data relating to classes of money market instruments obtained from reputable sources, provided that certain minimum conditions are met. Where estimates of market value rather than actual quotations are used, the board should review and approve the method by which such estimates will be obtained. Any pricing system based on yield data for

selected instruments used by a fund must be based upon market quotations for sufficient numbers and types of instruments to be a representative sample of each class of instrument held in the portfolio, both in terms of the types of instruments as well as the differing quality of the instruments. Moreover, periodically, the board should check the accuracy of the pricing system or the estimates. If the fund uses an outside service to provide this type of pricing for its portfolio instruments, it may not delegate to the provider of the service the ultimate responsibility to check the accuracy of the system.

- (c) **Prompt Consideration of Deviation [Rule 2a-7(c)(6)(ii)(B)]**. In the event such deviation from the fund's amortized cost price per share exceeds 1/2 of 1 percent, the board must promptly consider what action, if any, should be initiated by the board.

Comment: Such actions may include the sale of portfolio securities prior to maturity to realize capital gains or losses or to shorten average portfolio maturities, withholding dividends, redemption of shares in kind or establishing a net asset value per share by using available market quotations. In fact, most boards have never had to face these decisions because, when funds have come close to "breaking a buck," the adviser has stepped up to bail out the fund.

Although an adviser is not required to bail out a fund, query whether a board, as part of its fiduciary duties to a fund, should consider an adviser's financial capabilities to bail out the fund and set an overall issuer exposure limit at an amount that is reasonable within an adviser's financial capabilities to cover.

While not necessarily coming to that conclusion, the SEC did say in the 1996 Adopting Release:

In the case of the bankruptcy of Orange County, most of the funds holding the notes held a fairly small portion of their assets in Orange County notes. As a result, in some cases, the fund could maintain its share price without any assistance from the fund's adviser; in other cases, the adviser was in a position to take steps to prevent the fund from breaking a dollar only because the fund's Orange County Note position was relatively small. While, as the Commission has stated several times, no adviser is required to guarantee its fund against the possibility of breaking a dollar, experience has demonstrated that diversification may not only limit investment risk, but also may place the fund in a better

position to address (or avoid) significant deviation between a fund's market-based and amortized cost values.

(d) **Material Dilution or Unfair Results [Rule 2a-7(c)(6)(ii)(C)]**. Where the board believes the extent of any deviation from the money market fund's amortized cost price per share may result in material dilution or other unfair results to investors or existing shareholders, it shall cause the fund to take such action as it deems appropriate to eliminate or reduce to the extent reasonably practicable such dilution or unfair results.

2. **Penny-Rounding Method [Rule 2a-7(c)(7)]**. In the case of a money market fund using the Penny-Rounding Method, in supervising the money market fund's operations and delegating special responsibilities involving portfolio management to the fund's investment adviser, the fund's board must undertake as a particular responsibility within the overall duty of care owed to its shareholders, to assure to the extent reasonably practicable, taking into account current market conditions affecting the fund's investment objectives, that the fund's price per share as computed for the purpose of distribution, redemption and repurchase, rounded to the nearest one percent, will not deviate from the single price established by the board.

3. **Specific Procedures**.

(a) **Securities for Which Maturity Is Determined by Reference to Demand Features [Rule 2a-7(c)(8)(i)]**. In the case of a security for which maturity is determined by reference to a Demand Feature, written procedures shall require ongoing review of the security's continued minimal credit risks, which review must be based on, among other things, financial data for the most recent fiscal year of the issuer of the Demand Feature and, in the case of a security subject to a Conditional Demand Feature, the issuer of the security, whether such data is publicly available or provided under the terms of the security's governing documentation.

(b) **Securities Subject to Puts [Rule 2a-7(c)(8)(ii)]**. In the case of a security subject to one or more Puts that the board (or its delegate) has determined not to rely upon for purposes of determining the quality, maturity or liquidity of the security pursuant to Rule 2a-7(c)(4)(vi)(B)(4), written procedures shall require periodic evaluation of such determination.

(c) **Adjustable Rate Securities Without Demand Features [Rule 2a-7(c)(8)(iii)]**. In the case of a Variable Rate or Floating Rate Security that does not have a Demand Feature and for which maturity is determined pursuant to paragraphs (d)(1) (i.e., Adjustable Rate Government Securities), (d)(2) (i.e., Short-Term Variable Rate Securities) or (d)(4) (i.e., Short-Term Floating Rate Securities), written procedures shall require periodic review of whether the security, upon readjustment of its

interest rate, can reasonably be expected to have a market value that approximates its amortized cost.

Comment: This requirement is driven, in part, by the development of inverse floaters, capped floaters, leveraged floaters and other “derivatives,” which the SEC in the 1993 Proposing Release said “were developed and purchased by money market funds whose advisers have asserted...meet the definitions of variable or floating rate instruments because they believe they are likely to return to par upon the next interest rate adjustment date.” (Emphasis added.) The recordkeeping requirement, in essence, requires an adviser to prove-up its “approximate par” determinations. In response to industry comment that this would impose undue paperwork burdens, in the 1996 Adopting Release, the SEC noted that a fund’s board is not required to:

maintain a written determination for each *individual* adjustable rate security in the fund’s portfolio — it is sufficient for the fund to maintain the required record for each type of security (e.g., one record could be maintained for several different adjustable rate securities of similar credit quality whose interest rate readjustment mechanisms are tied to LIBOR plus or minus a number of basis points that make the securities similarly sensitive to interest rate changes).

- (d) **Asset Backed Securities [Rule 2a-7(c)(8)(iv)]**. In the case of an Asset Backed Security, written procedures shall require the fund to periodically determine whether a person other than the Special Purpose Entity is the issuer of all or a portion of the Asset Back Security for purposes of the issuer diversification requirements (see, 2a-7 (c)(4)(vi)(A)(4)).

Comment: In essence, a fund is required to treat any person whose obligations constitute 10% or more of the principal of an Asset Backed Security as an issuer, rather than the pool as a whole, for diversification purposes. A board should consider limiting a fund to investing in Asset Backed Securities that are structured such that no obligor will constitute 10% or more of the pool or that specifically identify 10% or more obligors and the amount of their obligations. For some Asset Backed Securities this may be impossible because the obligors may not even be identifiable. If the Asset Backed Security is not structured as noted above, the fund will have to have procedures to periodically (e.g., daily) determine whether any person is a 10% or more obligor.

E. Downgrades, Defaults and Other Events

1. Downgrades

- (a) **General [Rule 2a-7(c)(5)(i)(A)]**. Upon the occurrence of either (1) a security ceases to be First Tier⁸ or (2) an Unrated or Second Tier Security receives a below Second Tier rating,⁹ the board (or its delegate) must reassess promptly whether such security continues to present minimal credit risks and shall cause the fund to take such action as the board (or its delegate) determines is in the best interests of the fund and its shareholders.
- (b) **Securities to Be Disposed Of [Rule 2a-7(c)(5)(i)(B)]**. The reassessment of a security that either (1) ceases to be First Tier or (2) is an Unrated or Second Tier that has received a below Second Tier rating shall not be required if, in accordance with procedures adopted by the board, the security is disposed of (or matures) within five Business days of the specified event and, in the case of a security that is Unrated or Second Tier that receives a below Second Tier rating, the board is subsequently notified of the adviser's actions.

Comment: If a security is A-2/P-2/D-3, it is an Eligible Security. If a security is A-2/P-2, it is an Eligible Security; but if it subsequently is rated D-3 it must promptly be reassessed or disposed of, and in either case, specifically reported to the board.

- (c) **Special Rule for Securities Subject to Demand Features [Rule 2a-7(c)(5)(i)(C)]**. In the event that after giving effect to a rating downgrade, more than five percent of the fund's Total Assets are invested in securities issued by or subject to Demand Features from a single institution that are Second Tier Securities, the board of directors (or its delegate) shall cause the fund to reduce its investment in securities issued by or subject to Demand Features from that institution to no more than five percent of its Total Assets by exercising the Demand Features at the next succeeding exercise date(s), absent a finding by the board that disposal of the portfolio security would not be in the best interests of the money market fund.

2. **Defaults and Other Events [Rule 2a-7(c)(5)(ii)]**. Upon the occurrence of any of the following events with respect to a portfolio security, the money market fund must dispose of such security as soon as practicable consistent with achieving an orderly disposition of the security, by sale, exercise of any Demand Feature or otherwise, absent a finding by the board of directors that disposal of the portfolio

⁸ A portfolio security of a money market fund ceases to be a First Tier Security either because it no longer has the highest rating from the Requisite NRSROs or, in the case of an Unrated Security, the board of directors (or its delegate) determines that the security is no longer of comparable quality to a First Tier Security.

⁹ A downgrade of an Unrated or Second Tier Security occurs if the money market fund's investment adviser (or any person to whom the fund's board of directors has delegated portfolio management responsibilities) becomes aware that any Unrated Security or Second Tier Security held by the money market fund has, since the security was acquired by the fund, been given a rating by any NRSRO below the NRSRO's second-highest rating category.

security would not be in the best interests of the fund (which determination may take into account, among other factors, market conditions that could affect the orderly disposition of the portfolio security):

- (a) The default with respect to a portfolio security (other than an immaterial default unrelated to the financial condition of the issuer);
- (b) A portfolio security ceases to be an Eligible Security;
- (c) A portfolio security has been determined to no longer present minimal credit risks; or
- (d) An Event of Insolvency occurs with respect to the issuer of or the provider of any Put with respect to a portfolio security other than a Put with respect to which a non-reliance determination has been made pursuant to Rule 2a-7(c)(4)(vi)(B)(4).

F. Securities Subject to Conditional Demand Features [Rule 2a-7(c)(3)(iii)]. A security that is subject to a Conditional Demand Feature (“Underlying Security”) may be determined to be an Eligible Security or a First Tier Security only if:

- (1) The Conditional Demand Feature is an Eligible Security or First Tier Security, as the case may be; and
- (2) At the time of the purchase of the Underlying Security, the money market fund’s board (or its delegate) has determined that there is minimal risk that the circumstances that would result in the Conditional Demand Feature not being exercisable will occur; and
 - (a) The conditions limiting exercise either can be monitored readily by the fund, or relate to the taxability, under federal, state or local law, of the interest payments on the security; or
 - (b) The terms of the Conditional Demand Feature require that the fund will receive notice of the occurrence of the condition and the opportunity to exercise the Demand Feature in accordance with its terms; and
- (3)
 - (a) If the Underlying Security has a remaining maturity of 397 days or less, the Underlying Security (or the debt securities of issuer of the Underlying Security) has received a short-term rating by the Requisite NRSROs within the NRSROs’ two highest short-term ratings categories (within which there may be sub-categories or gradations indicating relative standing) or, if unrated, is determined to be of comparable quality by the fund’s board (or its delegate); or
 - (b) If the Underlying Security has a remaining maturity of more than 397 calendar days, the Underlying Security (or the debt securities of the issuer of the Underlying Security) has received a long-term rating by the

Requisite NRSROs within the NRSROs' two highest long-term rating categories (within which there may be sub-categories or gradations indicating relative standing) or, if unrated, is determined to be of comparable quality by the money market fund's board (or its delegate).

Comment: The requirement that the board determine that there is minimal risk that a Conditional Demand Feature would not be exercisable and that the conditions limiting exercise be readily monitorable is new. To complicate matters, this requirement does not apply to securities issued on or before June 3, 1996. As a practical matter, a board may wish to consider limiting all such securities to having only the following conditions:

- (i) a default on a scheduled payment of principal or interest on the underlying security;
- (ii) the issuer of the underlying security or the guarantor becoming subject to a bankruptcy, receivership or similar insolvency proceeding;
- (iii) a downgrade of the underlying security or a guarantor of the underlying security to below investment grade by the requisite NRSROs; and
- (iv) the interest payments on a security which, in the opinion of counsel, are exempt from regular income tax subsequently becoming subject to such a tax as a result of (a) an adverse determination by a court of competent jurisdiction or by the Internal Revenue Service, or (b) a change in applicable law or regulation.

G. Diversification Calculations - Shares in Master Funds [Rule 2a-7(c)(4)(vi)(A)(5)]. A money market fund substantially all of the assets of which consist of shares of another money market fund acquired in reliance on section 12(d)(1)(E) of the 1940 Act may be deemed to be in compliance with the diversification requirements of Rule 2a-7 if the board (or its delegate) reasonably believes that the money market fund in which it has invested is in compliance with the diversification requirements of Rule 2a-7.

H. Put Diversification Calculations - Puts Not Relied Upon [Rule 2a-7(c)(4)(vi)(B)(4)]. If the fund's board (or its delegate) determines to not rely on a Put to determine the quality (pursuant to Rule 2a-7(c)(3)(ii) or (c)(3)(iii)), or maturity (pursuant to Rule 2a-7(d)), or liquidity of the portfolio security and maintains a record of this determination (pursuant to Rule 2a-7(c)(8)(ii) and (c)(9)(vi)), the Put diversification requirements of Rule 2a-7(c)(4)(v) need not be satisfied as with respect to such put.

I. Unrated Securities [Rule 2a-7(a)(9) and (11)]. An Unrated Security that is of comparable quality to a security meeting the requirements of Rule 2a-7(a)(9)(i) or (ii) (i.e., an "Eligible Security") or a security meeting the requirements of Rule 2a-7(a)(11)(i)

and (ii) (i.e., a “First Tier Security”) as determined by the fund’s board (or its delegate) may be treated as an Eligible Security or First Tier Security, as the case may be.

J. Board Delegation [Rule 2a-7(e)]. A money market fund’s board may delegate to the fund’s investment adviser or officers the responsibility to make any determination required to be made by the board under Rule 2a-7 (other than the determinations identified below) provided:

1. **Written Guidelines.** The board establishes and periodically reviews written guidelines (including guidelines for determining whether securities present minimal credit risks as required in Rule 2a-7(c)(3)) and procedures under which the delegate makes such determinations.
2. **Oversight.** The board exercises adequate oversight (through periodic reviews of fund investments and the delegate’s procedures in connection with investment decisions and prompt review of the adviser’s actions in the event of the default of a security or Event of Insolvency with respect to the issuer of the security or any Put to which it is subject that requires notification of the Commission under 2a-7(c)(5)(iii)) to assure that the guidelines and procedures are being followed.

K. Board Delegation - Not Delegatable.

A board may not delegate the determinations required by Rule 2a-7(c)(1), (c)(5)(i)(C), (c)(5)(ii), (c)(6)(i), (c)(6)(ii)(A), (B) and (C) and (c)(7), which are:

1. **Board Findings [Rule 2a-7(c)(i)].** The determination that the fund should maintain a stable net asset value.
2. **Downgrades - Special Rule for Securities Subject to Demand Features [Rule 2a-7(c)(5)(i)(C)].** The determination to not exercise a Demand Feature or otherwise dispose of the underlying security to bring the fund’s exposure to a Second Tier Issuer under 5% of Total Assets.
3. **Defaults and Other Events [Rule 2a-7(c)(5)(ii)].** The determination to not dispose of a security that (A) is subject to default, (B) ceases to be an Eligible Security, (C) no longer presents minimal credit risks or (D) is affected by an Event of Insolvency with respect to the issuer of or provider of any Put with respect to the security (other than a Put not relied upon pursuant to Rule 2a-7(c)(iv)(B)(4)).
4. **Approval of Rule 2a-7 Procedures - Amortized Cost [Rule 2a-7(c)(6)(i)].** The approval of Rule 2a-7 Procedures for a fund relying upon the amortized cost method of valuation.
5. Approval of Rule 2a-7 Procedures - Amortized Cost - Shadow Pricing, Prompt Considering of Deviation and Material Dilution or Unfair Results [Rule 2a-7(c)(6)(ii)(A), (B) and (C)]. The duty to determine shadow pricing procedures,

review deviations and consider actions relating to deviations in excess of 1/2 of 1% or that may result in material or unfair dilution.

6. **Approval of Rule 2a-7 Procedures - Penny-Rounding [Rule 2a-7(c)(7)]**. The approval of Rule 2a-7 procedures for a fund relying upon the penny-rounding method of valuation.

* * * * *

To: The Board of _____

Re: Portfolio Transaction Policies and Procedures

- General Portfolio Transaction Procedures (p. 3)
- Brokerage Allocation (p. 5)
 - “Soft Dollars”
- Allocation of Transactions (p. 11)
- Use of Fund Brokerage to Pay Fund Expenses (p. 13)
- Recapture of Underwriting Concessions (p. 14)

As the Boards are aware, issues regarding mutual fund portfolio transactions policies and procedures have received significant attention recently. To assist the Boards in their oversight duties, we have consolidated in this report various information that has been previously discussed with the Boards (both in writing and orally), along with additional information where necessary to supplement the discussions.

SUMMARY

General Portfolio Transaction Procedures

The Adviser places the orders for Fund portfolio transactions with the overriding objective of seeking the best execution of orders, which includes best net prices.

Brokerage Allocation (including “soft dollars”)

With respect to transactions involving brokerage commissions, when more than one broker is believed to be capable of providing the best combination of price and execution, the Adviser will often direct the trade to a broker that has furnished it with research. Commissions are directed in three ways:

- (1) through the Adviser’s Equity Trading Desk for research provided generally to the Adviser consisting of:
 - (a) traditional in-house broker research
 - (b) “third party” services
- (2) by the Fund portfolio managers for research provided directly to the Funds.
- (3) through the Adviser’s Equity Trading Desk to those firms that have sold or are selling shares of the Adviser’s Sponsored Mutual Funds.

Principal Trades

With respect to principal trades, the Adviser typically seeks to effectuate the trade at [bid/ask/mean].

Allocation of Transactions

The Adviser's overriding objective, both in priority of execution and allocation of price, is fairness to its clients. Generally, orders are processed and executed on a first-in, first-out basis (with delineated exceptions).

Use of Fund Brokerage to Pay Fund Expenses

The Funds do not attempt to use brokerage to pay Fund expenses.

Recapture of Underwriting Concessions

The Funds do not attempt to recapture underwriting discounts or selling concessions (except, to the extent practical, in tax-exempt and foreign securities).

GENERAL PORTFOLIO TRANSACTION PROCEDURES

The Adviser is the investment manager for the Funds and the Adviser and its affiliates also furnish investment management services to other clients including the Funds. At times investment decisions may be made to purchase or sell the same investment securities for one or more Fund and for one or more of the other clients advised by the Adviser. When two or more of such clients are simultaneously engaged in the purchase or sale of the same security, the transactions are allocated as to amount and price in a manner considered equitable to each and so that each receives, to the extent practicable, the average price of such transactions.

The above mentioned factors may have a detrimental effect on the quantities or prices of securities available to a Fund. On the other hand, the ability of a Fund to participate in volume transactions may produce better execution for the Fund in some cases. The Board of each Fund believes that the benefits of the Adviser' organization outweigh any limitations that may arise from simultaneous transactions.

The Adviser, in effecting purchases and sales of portfolio securities for the account of a Fund, implements the Fund's policy of seeking best execution of orders, which includes best net prices, except to the extent that the Adviser may be permitted to pay higher brokerage commissions for research services as described below. Consistent with this policy, orders for portfolio transactions are placed with broker-dealer firms giving consideration to the quality, quantity and nature of each firm's professional services, which include execution, clearance procedures, wire service quotations and statistical and other research information provided to a Fund and the Adviser. Any research benefits derived are available for all clients, including clients of affiliated companies. Since statistical and other research information is only supplementary to research efforts of the Adviser and still must be analyzed and reviewed by its staff, the receipt of research information is not expected to materially reduce its expenses. In selecting among firms believed to meet the criteria for handling a particular transaction, the Adviser may give consideration to those firms that have sold or are selling shares of the Funds, as well as to those firms that provide market, statistical and other research information to the Fund and the Adviser. The Adviser is not authorized to pay higher commissions or in the case of principal trades, higher prices, to firms that provide such services, except as provided below. The Fund may purchase instruments issued by banks that are receiving service payments or commissions; however, no preferences will be given in making such portfolio purchases. Money market instruments are normally purchased in principal transactions directly from the issuer or from an underwriter or market maker. There are normally no brokerage commissions paid for such purchases. Purchases from underwriters include a commission or concession paid by the issuer to the underwriter, and purchases from dealers serving as market makers include the spread between the bid and ask prices.

"Paying-up"

The Adviser may in certain instances be permitted to pay higher brokerage commissions solely for receipt of market, statistical and other research services. Subject to Section 28(e) of the Securities and Exchange Act of 1934 and procedures adopted by the Board of a Fund, a Fund could pay to a firm that provides research services to the Adviser a commission for effecting a

securities transaction for the Fund in excess of the amount other firms would have charged for the transaction. A Fund could do this if the Adviser determines in good faith that the greater commission is reasonable in relation to the value of the research services provided by the executing firm viewed in terms either of a particular transaction or the Adviser's overall responsibilities to a particular Fund or other clients.

BROKERAGE ALLOCATION

BACKGROUND

A. History of Soft-Dollar Arrangements

Under long-standing applications of common law agency principles and the Federal securities laws, an investment adviser has a duty to obtain the best combination of price and execution in buying and selling securities on behalf of a client. A number of judgmental factors make up the “Best Execution Rule,” one of which is the level of brokerage commissions paid. While commission rates are a factor that must be considered, they are not determinative. An investment adviser may also consider such factors as a broker’s execution capabilities, a broker’s willingness and ability to accommodate a trade, and the broker’s financial and operational condition. Recognizing these and other factors, an adviser may effect a trade at a brokerage commission in excess of what another broker would have charged for the same transaction.

Prior to May 1, 1975 (“May Day”), the level of brokerage commissions was, in essence, a non-factor because commission rates were fixed. This fixed commission schedule resulted in commissions being paid to brokers that were, for most trades, far in excess of the brokers’ costs. Accordingly, brokers competed for brokerage business by offering research products and services to investment advisers in return for the fixed commission. (This practice became known as a “soft dollar” arrangement.)

On May 1, 1975, fixed commission rates were abolished and brokers were free to compete on commission rates. The investment community, however, was concerned that such competition could result in the unbundling of broker-provided research services, which would inhibit or eliminate the receipt of such services, which, in turn, could affect the level of services provided overall by an adviser to its clients. Furthermore, the investment community was concerned that if an investment adviser continued to participate in soft dollar arrangements, such adviser could be considered to have violated its fiduciary duty to its clients to obtain Best Execution. In response to those concerns, Congress enacted Rule 28(e), as a “safe harbor,” which provided that an adviser could not be held to have breached its fiduciary duty “solely by reason” of purchasing research with soft dollars.

Over the years, the 28(e) safe harbor has, in addition to preserving the continued flow of traditional “in-house” research to investment advisers, fostered the development of “third party” research services.

B. Soft-Dollar Arrangements Under Section 28(e)

1. Conditions. Products/services may be acquired through allocation of commissions (but not dealer selling concessions on underwriting discounts on new issues) under Section 28(e) if the following conditions are met:

- (a) The product/service must be “brokerage or research” related (as opposed to “administrative” in nature). A person is considered to provide “brokerage or research” if he:
- (i) furnishes advice, either directly or through publications or writings, as to the value of securities, the advisability of investing in, purchasing, or selling securities, and the availability of securities or purchases or sellers of securities;
 - (ii) furnishes analyses and reports concerning issuers, industries, securities, economic factors and trends, portfolio strategy, and the performance of accounts; or
 - (iii) effects securities transactions and performs functions incidental thereto (such as clearance, settlement, and custody) or required in connection therewith, by rules of the Commission or a self-regulatory organization of which such person is a member or person associated with a member in which such person is a participant.
- (b) The adviser must determine in good faith that the value of the product/service is commensurate with the cost thereof;
- (c) Where products/services have a “mixed use,” the adviser must make a reasonable allocation of the cost of the products/services in accordance with the adviser’s anticipated research and non-research uses, and the cost attributable to non-research use must be paid for in hard dollars;
- (d) Section 28(e) protects only the allocation of commissions paid in securities transactions. The SEC staff has opined that principal transactions, including riskless principal transactions, and commissions paid on futures transactions do not fall within the protection of Section 28(e). Therefore, the allocation for research of dealer selling concessions and underwriting discounts in purchases of new issues is *not* permitted; and

(e) The product/service must be provided to the adviser by the executing broker (or its correspondent broker); acquisition of third party research may be permissible but only if the broker (not the adviser) is obligated to pay the third party producer for the research.

2. Permissible Products/Services. A particular product/service may be paid for in soft dollars *only* if it provides “lawful and appropriate assistance to the money manager in the performance of his investment decision making responsibilities.” The SEC generally will not express a view as to whether a specific product/service may be paid for in soft dollars, but the following classification of items is widely accepted.

(a) Permissible Items

- Investment research publications and subscriptions
- Computer hardware and quotation equipment¹⁰
- Fees for research conferences and seminars
- Performance rating services used in investment process

(b) Impermissible Items

- Overhead expenses (*e.g.*, office space, typewriters, furniture, clerical assistance)
- Expenses incidental to research conferences/seminars (*e.g.*, air fare, hotels, meals, entertainment)
- Performance rating services used for client reporting/new business presentations

Adviser’s Brokerage Allocation Policies

The Adviser, the investment adviser to the Funds, places the orders for the purchase and sale of portfolio securities on behalf of each Fund. The Adviser’s overriding objective in effecting portfolio transactions is to seek to obtain the best combination of price and execution (*i.e.*, the Adviser follows the Best Execution Rule).

A. Commission Rates

In effecting trades, the Adviser uses the following commission rate schedule (although the Equity Trading Department uses its best judgment in negotiating commissions and, in

¹⁰ These items usually have a mixed use requiring a cost allocation between research (permissible) and non-research (impermissible) uses.

some cases, may agree to a higher or lower commission [**Insert Schedule: Sample Below**]):

- (a) \$50 flat fee per trade for trades of 0-499 shares;
- (b) \$0.10/share for trades of 500-1999 shares; and
- (c) \$0.07/share for trades of 2000 shares or more, subject to negotiation.

B. Brokerage Allocation

With respect to transactions in securities involving brokerage commissions, when more than one broker is believed to be capable of providing the best combination of price and execution, the Adviser will often direct the trade to a broker that has furnished it with research. Commissions are directed for research in one of two ways: (1) through the Advisers's Equity Trading Desk for research provided generally to the Adviser¹¹; and (2) by the Fund portfolio managers for research specifically for their respective Funds.

1. The Adviser's Firm-Wide Research

The Adviser's Director of Research and his professional staff periodically prepare "target" brokerage allocation lists for research products and services received by the firm. The list has two parts: (1) traditional in-house research received from brokers, and (2) "third party" research products and services received from brokers.

(a) Traditional In-House Research

The Adviser generally receives traditional in-house research from most of the brokers through which it executes trades. On a periodic basis, the Adviser research analysts grade the level of research received by the firm. Based upon those grades, the Adviser develops target commission dollars that it endeavors to direct so as to ensure that it continues to receive traditional in-house research that it feels is useful. [Attached as Exhibit 1 is the research target list and status report.]

(b) "Third Party" Services

In addition to the traditional type of in-house research that the Adviser receives from most of the brokers through which it executes trades, the Adviser also receives what is called "third party" services. Third party services generally include types of products and services that may be available on a hard-dollar basis. In evaluating such services, the Adviser

¹¹ Section 28(e) does not require an adviser to trace the benefit derived from a particular research service to the account of the client paying the commission to the broker which provided the service. Thus, for example, an adviser permissibly may allocate commissions on transactions for the accounts of clients invested solely in equity securities to a broker providing research services related to fixed-income securities.

attempts to ascribe both a soft-dollar and a hard-dollar price for the services. Like the target list for traditional research, the Adviser also develops target commission dollars that it endeavors to direct so as to ensure that it continues to receive the services that it feels are useful. [Attached as Exhibit 2 is the third party research target list and status report. Attached as Exhibit 3 is a description of current third party research soft-dollar services.]

2. **Fund-Specific Research**

In addition to the Adviser firm-wide research, each of the equity Fund portfolio managers may also direct up to ___% of the Fund's commission dollars to pay for research products/services used by such Fund.

3. **Sales of Fund Shares**

In selecting among firms meeting the best execution objective for handling a particular transaction, the Adviser's Equity Trading Desk may give consideration to those firms that have sold or are selling shares of the Funds. The Adviser is not permitted to pay higher commissions or, in the case of principal trades, higher prices to firms for sales of Fund shares.

4. **Principal Trades**

With respect to principal trades, the Adviser seeks to effectuate the trade at the best price in the best market which could be with an OTC marketmaker or over an electronic trading system.

SUMMARY
For the Year Ended 12/31/____

	<u>Fund</u> <u>A</u>	<u>Fund</u> <u>B</u>	<u>Fund</u> <u>C</u>	<u>Fund</u> <u>D</u>	<u>Fund</u> <u>E</u>
Total Commissions Paid					
Average Commission Rate					
In-House Research					
Total Commissions Paid					
Percent of Total Commissions					
Average Commission Rate					
Third Party Research					
Total Commissions Paid					
Percent of Total Commissions					
Average Commission Rate					
Fund-Specific Research					
Total Commissions Paid					
Percent of Total Commissions					
Average Commission					
Rate					
Sales of Fund Shares					
Total Commissions Paid					
Percent of Total Commissions					
Average Commission Rate					

PROCEDURES FOR EXECUTION AND ALLOCATION OF ADVISER CLIENT PORTFOLIO TRANSACTIONS

OBJECTIVES

- Fairness to clients both in the priority of execution of orders for their accounts and in the allocation of the price (and commission, if applicable) obtained in execution on aggregated orders for the accounts of more than one client.
- Timeliness and efficiency in the execution of orders.
- Accuracy of the Adviser's records regarding orders given for client accounts and of client security positions, in compliance with applicable regulatory requirements.

GENERAL PROCEDURES

- Orders are executed only based upon written trade tickets received by the trading desk. Similarly, the modification or cancellation of any client transaction, whether at the request of the portfolio manager or the trading desk, must also be recorded in writing on a trade ticket.
- All orders are time-stamped automatically if entered through the automated order entry system or manually if entered on a hand-written ticket. Tickets are time-stamped a second time upon receipt by the trading desk of notification of execution.
- Orders are generally processed and executed on a first-in, first-out basis, in the order received by the trading desk, with the following exceptions:
 - In the interest of efficiency, execution of orders for the accounts of clients which have designated particular brokers to be used on a "restricted" basis may and generally will be delayed until execution of other pending (non-designated or "free-to-execute") orders has been completed.
 - Traders may, in consultation with the responsible portfolio manager, delay the execution of orders in a particular security when, in their judgment, market conditions in the security to be purchased or sold make such delay advisable.
 - When the trader has been advised or is otherwise aware that multiple orders for the purchase or sale of the same security can be expected, the earliest orders received may be held unexecuted, to be aggregated for block execution with later orders received.

AGGREGATED ("BLOCK") EXECUTIONS

- All client accounts participating in an aggregated execution shall receive the same execution price (and commission, if any).

- Where the full amount of the aggregated order is not executed, the partial amount actually executed shall be allocated among the participating client accounts pro-rata on the basis of order size, subject to rounding to “round lot” amounts. Partial order tickets shall be re-written for the remaining unexecuted amounts.
- Where the executing broker-dealer establishes an intra-day “average pricing” account to collect series of “working order” executions during the course of the trading day, the full amount actually executed shall be allocated to the participating client accounts at the average price (and commission, if any) actually obtained before the end of the day to close out the position in the average price account.
 - “Average price” account amounts may *not* be carried overnight without allocation to client accounts.
 - Partial order tickets shall be re-written for the remaining unexecuted amounts, if any.

NEW ISSUES

- All managers must indicate interest by account or fund at least 24 hours prior to the pricing of the deal.
- The Adviser’s allocation will be distributed on the basis of equity assets under management for each individual account or fund.
- If, after the allocation process, a manager decides that the position allocated is too small to be maintained in the original interested account or fund, those unwanted shares must be sold in the secondary market. Shares may not be reallocated to other accounts or funds. (Cross-transactions between mutual funds [and other the Adviser managed accounts] may be allowed under Rule 17a-7 procedures.)
- Accounts with restricted brokerage are not eligible to participate in new issue offerings.
- All allocations will be made in round lots, with the accounts having the least equity assets being allocated first.

USE OF FUND BROKERAGE TO PAY FUND EXPENSES

From time to time, the Funds and the Adviser are approached with proposals to use Fund brokerage to pay Fund expenses. Because the Funds' brokerage is an asset of Funds, the manner in which the Fund brokerage is used is periodically reviewed by the Funds' Boards.

The Boards have reviewed the legal issues pertaining to and the costs (in terms of cost and research to the Adviser from "soft dollars" and the risk of sacrificing best execution) from using Fund brokerage to pay Fund expenses and have adopted a policy of a not seeking to use Fund brokerage to pay Fund expenses.

However, as new proposals from the brokerage community are presented to the Funds and the Adviser, the Funds' officers will evaluate such proposals and, if appropriate, review them with the Boards.

RECAPTURE OF UNDERWRITING CONCESSIONS

The Board has reviewed the legal issues pertaining to and the practicability of attempting to recapture underwriting discounts or selling concessions when portfolio securities are purchased in underwritten offerings. However, the Board has adopted a policy of not seeking recapture of transaction costs from securities firms in United States distributions, except as to tax-exempt securities and foreign securities, because of restrictions imposed under the Rules of Fair Practice of the National Association of Securities Dealers.

EXHIBIT 1

IN-HOUSE RESEARCH COMMISSIONS

<u>Brokerage Firm</u>	<u>Target</u>	<u>Actual Commissions</u>	<u>YTD Balance</u>
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EXHIBIT 2

THIRD PARTY RESEARCH COMMISSIONS

<u>Brokerage Firm</u>	<u>Research Service</u>	<u>Target</u>	<u>Actual Commissions</u>	<u>YTD Balance</u>
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EXHIBIT 3

SALES OF FUND SHARES

<u>Brokerage Firm</u>	<u>Target</u>	<u>Actual Commissions</u>	<u>YTD Balance</u>
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EXHIBIT 4

**DESCRIPTION OF CURRENT THIRD PARTY RESEARCH
SOFT-DOLLAR SERVICES**

[SAMPLES]

Amex Quotes (Price information) used as pricing inputs on American Stock Exchange-listed securities on all Adviser terminals with intraday prices. Hard dollar price based on usage is estimated at \$_____; soft dollar target through _____ is \$_____.

Bloomberg Services (Securities analysis package and market information) used by Fixed Income Research. Hard dollar price is \$_____; soft dollar target is \$_____ through _____.

CMS (Bond portfolio analysis system) used by bond department. Hard dollar varies with usage, but is estimated at \$_____; soft dollar target is \$_____.

* * * *

(continued)