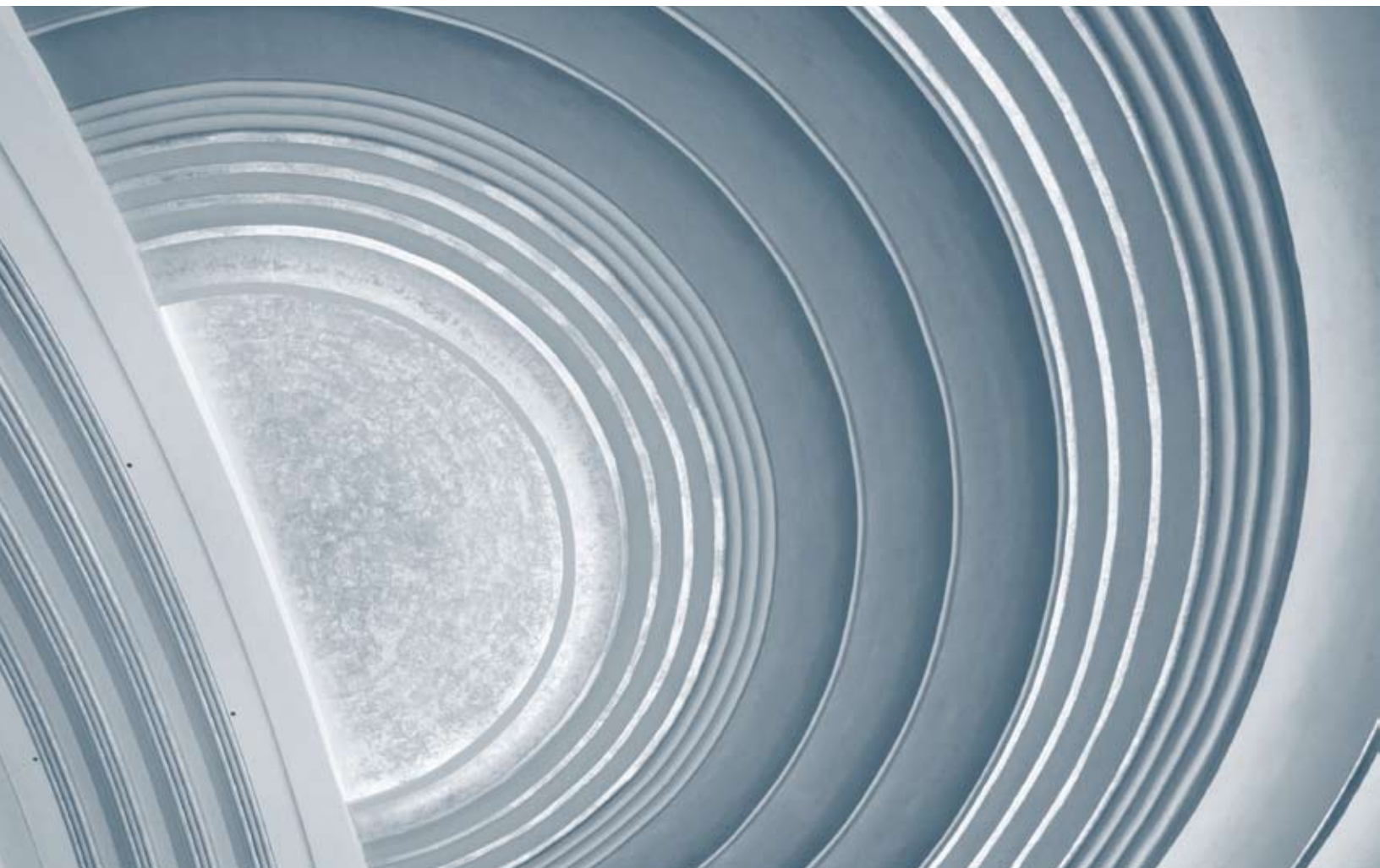


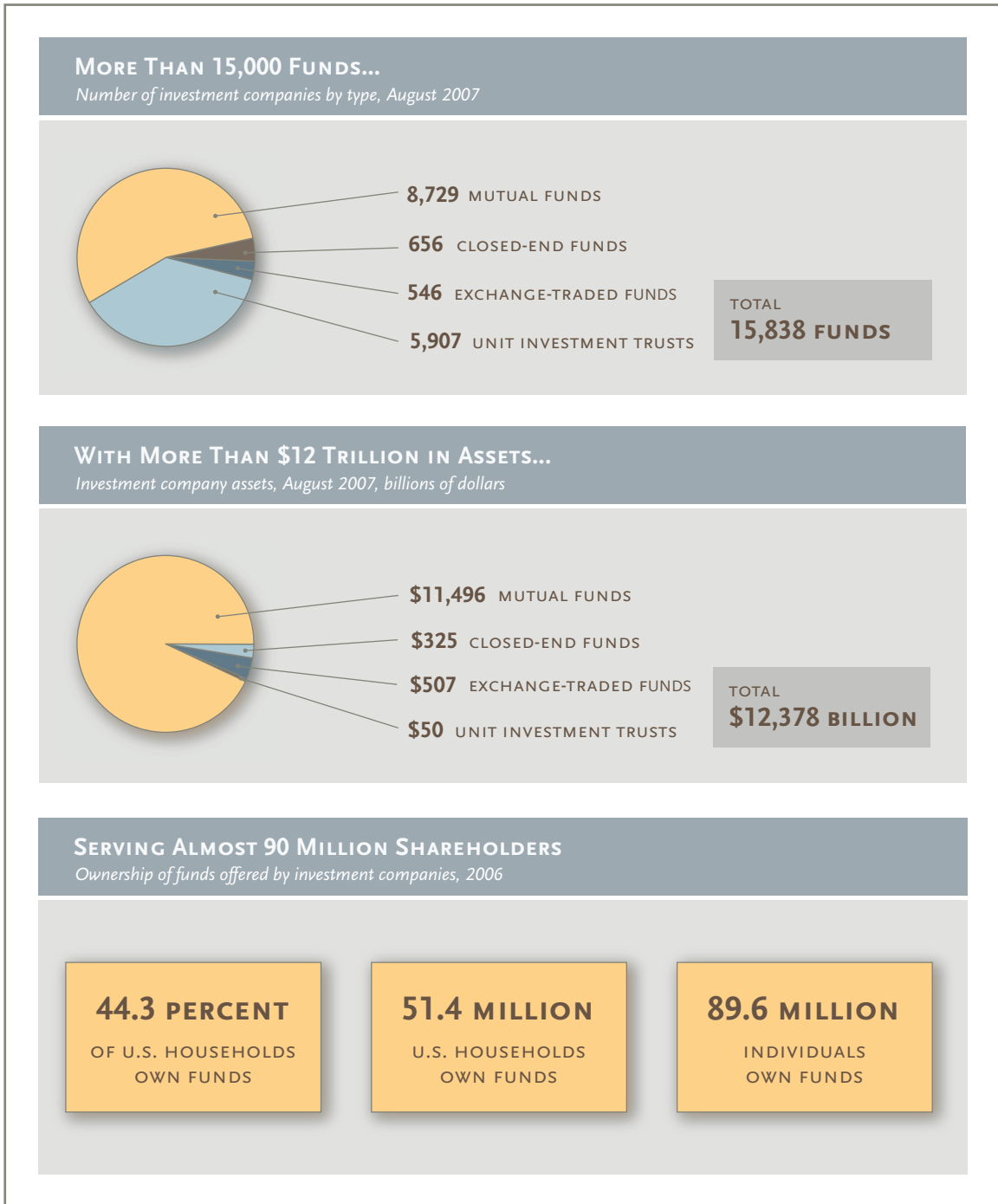
ANALYSIS. ADVOCACY. ACHIEVEMENT.

Promoting the interests of funds and their investors



2007 ANNUAL REPORT TO MEMBERS

WHO DOES ICI REPRESENT?



Source: Investment Company Institute

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2007 ANNUAL REPORT TO MEMBERS

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PRESIDENT'S LETTER

It took 66 years from the birth of the first modern American mutual fund for investment companies to accumulate \$1 trillion in assets. Just 16 years later, that total hit \$10 trillion. Today, with more than \$12 trillion entrusted to us, we must be ever mindful of our awesome responsibility to the almost 90 million shareholders whom we serve.

For ICI, that responsibility inspires us in our mission to ensure that legislators and regulators, as they pursue their policy priorities, are always cognizant of the need for regulation to be both effective and efficient in meeting the goal of protecting investors.

In fiscal year 2007, our mission was complicated by the change of control—and changing course—of Congress. The leaders of the 110th Congress adopted a different agenda from the one their predecessors in the 109th had pursued. Meanwhile, government regulators continued wrestling with issues of perennial interest to investment companies: prospectus disclosure reform, fund governance, and innovations for 401(k) plans—all top priorities for ICI and its members.

The ratio between new and old notwithstanding, ICI held firmly to its mission of serving its members and their shareholders in many ways.

- » ICI continued its nonpartisan approach to government relations by developing cordial working relationships with the new congressional leaders and maintaining strong ties to the old ones.
- » We worked tirelessly to ensure a sound regulatory framework for our industry. ICI produced a cornucopia of retirement-related data for policymakers to consider as they fashion an improved 401(k) disclosure regime for workers and retirees, and we worked closely with the Securities and Exchange Commission and other regulators to achieve the best possible outcomes for funds and investors.
- » ICI continued providing strong support to the Independent Directors Council in its efforts to promote effective fund boards and sound governance practices.
- » We served the investing public by issuing a wealth of reliable information about fund investing, by offering a wide range of investor education resources, and by interacting daily with members of the press who cover the fund industry.

» ICI continued expanding the body of research and statistics on funds and their shareholders, with a particular emphasis on retirement savings.

These are our strengths. Our members count on us to navigate the Washington labyrinth on their behalf, to promote constructive public policies, and to conduct research of the highest quality and value.

ICI and its membership share the abiding belief that what's good for the nearly 90 million Americans who trust us with their savings is good for our industry.

So many of our members selflessly give of their time and expertise to help us fashion and pursue sound public policy. We are grateful for your support and we look forward to continuing the progress we have made together with you, our members, in 2008 and beyond.

Paul Schott Stevens, President & CEO



Q&A

Martin L. Flanagan



What are the highlights of your two years as Chairman of ICI?

I believe that ICI has accomplished several notable goals, both tangible and intangible. In the first category, I'd have to point out the passage of the Pension Protection Act of 2006, which wrote into law so many important proposals, many of which we supported, to strengthen opportunities for America's retirement savers. We also made great strides on disclosure, particularly with our XBRL initiative.

On the intangible—or maybe the less tangible—side, we've been reminded how important it is to maintain good relations with investors and regulators. As markets

Martin L. Flanagan is President and CEO of INVESCO PLC and served as Chairman of the Investment Company Institute for fiscal years 2006 and 2007.

evolve, we have to be absolutely diligent about maintaining investor trust. We have also continued to work well with regulators to ensure that regulations don't unnecessarily inhibit the innovation and competition of dynamic financial markets. So we've improved the climate for investors and the industry alike to enjoy what I call the fundamental virtues of fund investing.

What role will mutual funds play in retirement security?

The big picture is that, for a couple of decades now, America's workers have been picking up more and more responsibility for the saving and investing decisions that will determine their retirement security. For many Americans, mutual funds have provided the foundation for their retirement savings, thanks to the fundamental strengths of funds—professional management, diversification, liquidity, and a wide range of choices.

The Chairman of ICI reflects on accomplishments of his term and the special factors that make the Institute effective in Washington.

How has ICI contributed to improving the retirement system? What more does ICI need to do?

ICI and the fund industry helped bring about a tremendous victory for America's retirement savers in 2006, when we worked tirelessly on passage of the Pension Protection Act. That act made higher limits for 401(k) and IRA contributions permanent. It encourages employers to automatically enroll their workers in their 401(k), which is especially valuable for young people. And it will empower fund companies and others with expertise to provide specific investment advice for 401(k) savers.

The job isn't done—as we saw this year with the Labor Department's proposed regulation for default investment options for workers who are auto-enrolled. But here again, the fund industry advocated solid investment principles, and we're very pleased that the final regulation came out in a way that benefits America's workers.

Looking forward—we need policies that will encourage more employers to offer plans, more workers to enroll, more savings, and smarter investment. Plans like 401(k)s should be simpler, with less paperwork—particularly for small businesses. ICI is continuing to work on these issues, and I am confident the fund industry will contribute its best ideas.

You've stressed the need for a fiduciary partnership between fund advisers and directors. How has that adviser-director relationship evolved, and what needs to be done to strengthen it?

Fund boards and fund advisers must work together to protect and advance shareholder interests. Investors need independent directors who are actively engaged, who provide insight as well as oversight.

ICI has promoted strong boards through the Independent Directors Council and the steps it has taken to support and educate directors. IDC has grown stronger, and I'm proud of that progress.

Now, one of the most exciting prospects for improving the director-adviser partnership is a project that the Securities and Exchange Commission staff has launched to review the roles and responsibilities of fund boards. They are re-examining the tasks assigned to boards to make sure that directors can devote their attention to the matters that count most and are most in keeping with the role of a board. This grew out of [Investment Management Division Director] Buddy Donohue's vast experience with fund directors. I salute him for launching this project, because it has great potential to make boards even more effective on shareholders' behalf.

You also put a high priority on disclosure that would give mutual fund investors essential information in a timely, concise, and clear fashion. Are you pleased with the progress on this front?

ICI has made great strides in improving the transparency and usefulness of mutual fund data. We've advanced the concept of a new system for disclosure to fund buyers—what we call the “quick-start guide,” a brief disclosure document that gives fund buyers the key information that they want, backed up by a prospectus and other disclosures available on the web. All investors, including 401(k) plan savers, would benefit from this approach. We have every indication that the SEC is moving ahead steadily on a proposal in this area.

We have been fortunate to have the strong leadership of SEC Chairman Christopher Cox, who believes the Internet can empower investors. ICI placed a great deal of emphasis on the need for the SEC to bring disclosure reforms to completion, building on Chairman Cox's XBRL initiative and our efforts to apply XBRL to the information in funds' risk-return summaries.

Congress and regulators have been examining the issue of disclosure in 401(k) plans. What do political leaders and the industry need to do to help 401(k) investors?

We in the fund industry are strongly in favor of good disclosure for 401(k) plans, and have been for decades. We think all 401(k) savers need to know five key pieces of information—annual fees, investment objectives, risks, historical performance, and the identity of the investment manager. Of course, mutual funds

already provide all that information, while it's optional for some other 401(k) investments. So one top priority is to make sure that all 401(k) participants, no matter what their investment choices, get those five pieces of information.

Fees are just one of those five items. We've got to keep reminding Congress that if it focuses solely on costs, it can lose sight of the true value of 401(k)s, which is the role that wise investing can play in helping workers reach a secure retirement. Our task is to make sure Washington's spotlight remains focused on building high-quality, diversified portfolios that meet workers' needs.

How do you feel about the outlook for investment companies?

Investment companies have tremendous potential. Today's investors face almost limitless data on thousands of investment choices in a global economy. The companies that offer solutions for those investors will prosper. Our industry can meet that challenge, because we are flexible and innovative—and we provide a great value proposition.

Now, it is an economic fact that effective laws and regulation determine the pace of development and success of an industry. Mutual funds have always embraced effective, efficient regulation. One challenge we face is making sure that regulation doesn't put mutual funds at a competitive disadvantage to other products. If a rule is found to be good for investors and the markets when it applies to mutual funds, then it ought to be good for other products, as well. Part of ICI's mission is to make sure that regulations are not just fair, but justified and economical.



As Chairman, you've had the chance to see close-up how ICI operates on legal, legislative, and operational issues. What have you learned?

I have always had great respect for ICI's capabilities, and that has only grown. When I joined the Executive Committee in 2002, ICI did outstanding work on the regulatory front, particularly in working with the SEC. But the role of mutual funds had grown as they became the central savings vehicle for American households, and the organization needed to change, too. Now, under Paul Stevens, the Institute has remained firmly grounded with its roots in regulation, but has strengthened other key elements of the organization. It's made enormous progress in working with Capitol Hill and in communicating to the press

and the public. I have been in meetings with lawmakers, with Administration officials, and have seen the respect ICI earns through the depth of its research, the quality of its thinking, and the clarity of its communications.

That is a tribute to Paul and his staff—but it also reflects the strong role that the membership plays. There aren't many industries where 98 percent of the business comes together to speak with one voice on its most vital issues. Whether it's in the committees or on the Board of Governors, ICI members contribute significantly to shaping the best policies for funds and their investors. It's been exciting to watch that collaboration at work, and I look forward to remaining a part of it in the years ahead.

PROMOTING EFFECTIVE AND EFFICIENT REGULATION

In 2007, the regulatory tide that has inundated America's financial system since the turn of the century began to turn.

Policymakers of all political stripes have grown increasingly concerned that the structure and application of regulation in the United States could be eroding the competitiveness of its financial markets. That trend could undermine the well-being of the financial-services industry—a center of innovation and growth that is crucial to the country's future economic prosperity. Academics, business leaders, and political figures pointed with alarm to rapid inroads that foreign markets have made into Wall Street's long-standing leadership in capital formation, trading, and corporate finance.

The Institute participated in and benefited from this discussion. ICI's thoughtful contributions and involvement in groups studying the relative competitiveness of U.S. and overseas financial markets helped shape those panels' recommendations, particularly on



the future of retirement savings. At the same time, the Institute's leadership staked out a position of intellectual leadership on the importance of applying rigorous economic analysis to the activities of the Securities and Exchange Commission and other regulators—a stance that has already borne fruit for the investment companies that comprise ICI's membership.

A FRAMEWORK FOR ECONOMIC ANALYSIS

ICI has always supported strong regulation, including vigorous oversight by the SEC, to protect investors' interests. The high level of public confidence mutual funds enjoy is rooted in a framework of laws, backed up by examinations, disclosure, and vigilant regulatory reviews. But regulation must be efficient as well as effective—particularly in a climate of increasing global competition for capital and financial services.


In a speech to the Institute's Securities Law Developments Conference in December 2006, ICI President & CEO Paul Stevens outlined a framework for bringing economic analysis



to bear on SEC proposals to promulgate new rules or amend existing ones. The SEC is required to consider the effects of its regulation on efficiency, competition, and capital formation. As the DC Circuit Court of Appeals pointed out in its first decision on the SEC's fund governance rules, the SEC has a "statutory obligation to do what it can to apprise itself ... of the economic consequences of a proposed regulation before it decides whether to adopt the measure."

That economic analysis should start with an evaluation of whether regulation is necessary, or whether market forces can be used instead to protect investors' interests. Second, when a significant market failure justifies intervention, regulators should examine whether existing laws and regulations adequately address the problem. Many issues can be addressed through enforcement of existing rules, rather than promulgation of new ones.

Finally, when new rules are required, regulators need to closely examine all options with an eye toward their relative costs and benefits. The key question is: How can we best protect



"If our zeal for investor protection blinds us to the impact of regulation on our markets, investors will end up with higher costs, fewer options, and ultimately less protection."

—Paul Stevens, ICI President & CEO, at the ICI Securities Law Developments Conference, December 4, 2006

investors, consistent with the statutory mandate to promote efficiency, competition, and capital formation? Rules that erode these key qualities of the marketplace demand close scrutiny and must prove their benefits.

APPLYING ECONOMIC ANALYSIS

Consistent with these concerns, ICI has increasingly applied economic analysis to regulatory proposals. In the case of the New York Stock Exchange's proxy-voting reform proposals, this approach succeeded in protecting the fund industry's and its shareholders' interests.

In 2005, the New York Stock Exchange (NYSE) formed a Proxy Working Group to recommend ways to improve corporate governance by creating a more efficient voting system for investors. ICI interacted with the Working Group throughout its deliberations, seeking to educate its members on stark governance differences between investment companies and the operating companies that were the focus of its concerns. Yet the Working Group's report, released in June 2006, made no distinction between the two types of companies, and the rule proposals filed by the NYSE in October 2006 would have cost investment companies—and their shareholders—dearly.

The Big Board proposed to end the long-standing practice of allowing brokers to vote shares held "in street name" on their investors' behalf in uncontested elections of directors. This would have put an especially heavy burden on funds, because about two-thirds of open-end fund shareholders, and nearly all closed-end fund shareholders, are retail investors. Results from an exhaustive study of nearly 900 special and annual meetings of funds showed that only about one-third of beneficial owners with shares held in street name return their proxy ballots. The proposal to bar brokers from voting clients' shares would have forced funds to spend a great deal of time and money on gathering quorums for uncontested director elections—contests whose outcomes are virtually certain regardless of who casts the votes.

While ICI's securities-law experts continued to work with the NYSE and SEC, the Research Department set out to document these costs. Based on a survey of member firms comprising nearly 100 special and annual meetings, ICI economists found that ending



discretionary broker voting would more than double typical proxy costs, from \$1.65 per shareholder account to \$3.68, as many funds would have to solicit shareholders repeatedly to achieve quorums. Those extra costs would increase fund expense ratios by one or two basis points, with a larger impact—as much as five basis points—on funds with smaller average account balances. Even with these extra efforts, funds would be challenged to achieve quorums, because at least 52 percent of fund shares held in street name belong to so-called “objecting beneficial owners”—investors who have forbidden the shares’ issuers or third-party proxy solicitors to contact them.

The economic analysis had a near-immediate impact, as the NYSE and SEC recognized the extra burden placed on funds. In May 2007, the NYSE announced it would amend its proposal to exempt investment companies from the rule.

Another instance where the Institute’s economic expertise came into play to advance the fund industry’s interests involved the SEC’s long-running attempt to overhaul fund governance, requiring that 75 percent of a fund’s directors and its board chair be independent of the adviser. After a federal court sent the rules back to the agency twice, the SEC released for comment reports from its Office of Economic Analysis. The response by ICI’s Research Department concluded that the OEA reports provided no evidence that the independence requirements were necessary or that the proposed rules would provide any benefits that would justify their costs. ICI strongly urged the SEC to drop the rulemaking. As of the fall of 2007, the Commission had taken no further actions.

A GLOBAL VIEW

On the question of the burden of regulation on America’s financial markets, ICI’s is not a solitary voice in the wilderness. Three impressive groups of academic, business, political, and finance industry leaders have released reports on the competitiveness of the U.S. capital markets in recent months. Their conclusions are remarkably similar, and sobering.

All agreed that our domestic capital markets face strong and growing competition from overseas and that the regulatory climate in the United States was partly responsible.

The Committee on Capital Markets Regulation pointed to “differences in the legal rules governing the U.S. public markets and the foreign and private alternatives” as a contributing factor to rising levels of financial intermediation overseas. The Commission on Regulation of the U.S. Capital Markets in the 21st Century warned that “the competitive position of the U.S. capital markets is declining,” in part because of “a legal and regulatory system whose basic framework was established more than 70 years ago.” And McKinsey & Co., in a study commissioned by New York City Mayor Michael Bloomberg and Sen. Charles Schumer (D-NY), found that “operating in what they see as a complex and unpredictable (U.S.) legal and regulatory environment” was causing non-U.S. issuers to shy away from American markets.

ICI has participated in this larger dialogue, filing extensive comments with the study groups. Paul Stevens participated in the conference at which the Commission on Regulation’s report was unveiled.

Those reports focused largely on such measures of market activity as trading volume and numbers of initial public offerings. Yet the stakes for the mutual fund industry and its shareholders in this larger debate cannot be overlooked. Mutual funds draw regulators’ attention precisely because of their importance as a financial tool for millions of investors. The Institute’s latest figures show that 62 percent of the households that own mutual funds have incomes between \$25,000 and \$100,000. Regulations that unnecessarily burden this unique vehicle will raise costs and limit options for average Americans saving for their children’s education, their own retirement, and other goals.

It would be ironic and unfortunate if, in regulators’ desire to “perfect” mutual funds, funds become less competitive, less innovative, less attractive to talented investment managers and intermediaries—and less available or advantageous to the average investors they are designed to serve. ICI’s approach to regulation is designed to help avoid that outcome.

Q&A

Brian Reid



ICI has been a leading voice for economic analysis of securities regulation. Why is that so important, and what does ICI bring to the table?

It's important because securities laws are central to the fund industry. I think they are much like the framing in a house, providing the structure that the whole industry is built around. When rules and regulations change, you don't want to just knock a wall down—or build a new one—without giving it some thought. We bring to bear our technical expertise about the effects of implementing a rule. Ultimately it benefits shareholders if we provide that analysis and contribute to the public policy debate.

Brian Reid has been on the staff of the ICI Research Department since 1996 and has served as Chief Economist since 2005.

Obviously, we also share [with regulators] some analytical work on what the costs are. But economic analysis is more. Economic analysis asks, "Why is this rule being considered?"

Is there a problem that, for whatever reason, shareholders and fund advisers can't deal with through market forces? And then—does this rule actually deal with that issue, or can existing rules address that particular problem? We found with the independent chair rule, for example, that there were rules and regulations in place to address the particular concerns that the Securities and Exchange Commission raised.

The insights that ICI brings to regulations are rooted in the Research Department's day-to-day work of gathering industry statistics, aren't they?

Well, invariably we team up with Operations, the Law Department, and other groups within

ICI's Chief Economist describes how comprehensive industry data and economic analysis help shape public policy to benefit funds and investors.

ICI and the membership to understand the economics of the industry, how the industry works. But our data-gathering is another tool, a very effective one, to understand mutual fund firms, shareholders, and the services that fund firms deliver. I think that constantly reaching out and gathering information is very beneficial for helping us to stay on top of developments within the industry. We conduct 13 distinct surveys ranging from daily to annual frequency, and we have about 25 staff gathering data from our member firms, ranging from mutual fund holdings to shareholder flows to retirement assets. We also do three to four surveys a year of fund shareholders and investors that provide us with a great deal of insight.

And on top of this data-gathering operation, you have essentially an economic think-tank.

That's right. Within the department, we now have six PhD economists, all with a great deal of public policy research experience, because we hire from places like the Treasury Department, the Federal Reserve, and the Congressional Budget Office. That experience is quite valuable in terms of being able to communicate with policymakers. Academics tend to think abstractly, and push away the institutional detail about how an industry operates and how investors behave.

Policymakers should look to see how those institutional details are going to affect the results of a particular law or regulation.

The rules around IRA withdrawals are a perfect example. We wrote a paper for the Wharton Pension Conference this year showing that investors generally defer IRA withdrawals until their 60s and 70s. The rules for withdrawals are fairly simple and clear, and people follow them. Conversely, the rules for contributing to IRAs are extremely complex, and most people who are eligible to contribute, don't.

The other benefit of your background, and that of your senior economists, is that you have a lot of connections in the agencies that matter to the industry.

As with any profession, relationships are important. During last summer's credit market crunch, we immediately got on the phone with staff economists at the Federal Reserve Board. They were, as observers of the markets, trying to understand what was happening, first, in the bond markets, then the money markets. They wanted more frequent updates of our data. They also needed someone to provide a connection to the industry so that they could go out and gather information for the Federal Reserve Board and the Federal Open Market Committee.

At one point during the credit crunch some overseas funds ceased redeeming shares. We organized a conference call with Fed staff to walk them through the extremely limited circumstances under which U.S. mutual funds could actually cease redemptions. I think that these and other activities were very helpful in working through questions that the Fed staff had about how mutual funds operate and serve as examples of how we can act as a conduit of information during periods of crisis.

When you're trying to use research to advance a policy position, it's got to be credible—and a trade association is automatically suspect. How does ICI clear that credibility hurdle?

We do that through our publications and by working and interacting directly with colleagues at the Treasury, the SEC, the Department of Labor, and other places. We also have developed a body of research, and an integrity around that research, that [regulators] can understand and trust. Take our work on mutual fund fees, which we started back in the mid-'90s. At the time, there were no databases available that included funds that had closed, and so we needed to go back and build a database that encompassed both existing funds and funds that were no longer in existence. We could then look at the trends in what individuals were actually paying for the mutual funds that they were investing in. We showed that investors have historically and increasingly chosen to invest in lower-cost funds and share classes. It took a long time, almost 10 years, but eventually, with the weight of our evidence and the quality of our work, that idea gained broad acceptance.

We recognize that it takes a long time to build up a reputation for providing solid research, and it doesn't take very long for the integrity of that research to be challenged. And so our goal is to always provide the intellectual basis for what we're doing.

What's the Institute's role in helping policymakers and the public understand retirement issues?

I think we have a couple of roles. The first is to provide economic analysis of rules and regulations. The second is to provide an overview of trends and developments in the retirement market. We collect data on how IRA and 401(k) plan assets are invested in mutual funds. And since funds manage about half of the IRA and 401(k) markets, getting a snapshot of how much is invested in mutual funds gives us a pretty good handle on what the overall market trends are—usually three to four years before the official government data are published. This is important not just for discussing trends with reporters and policymakers, but also for our member firms. It provides them data that they can benchmark against their own competitive position.

As you look into 2008 and beyond, what's on the research agenda?

One project that we have underway is analyzing mutual fund proxy votes. Understanding how funds vote their proxies has been an ongoing interest on the part of regulators as well as the press. There is, I think, a view in some circles that shareholder proposals [on the corporate proxy] are generally good proposals, and management proposals are generally bad. That is a gross mischaracterization. In fact, many management proposals are on



the proxy because large shareholders, such as mutual funds, have worked behind the scenes with management to put forward corporate governance changes that are good for shareholders. And there are proposals initiated by a few investors that may not be in the economic interests of other shareholders. The goal of our research is to put into context the types of proposals on corporate proxies and examine how funds vote on these issues.

Another project that we have in the field is a survey of recent retirees and how they manage their 401(k) rollover. Did they immediately spend it or invest it? If they invested it, how did they reach those decisions?

That's the sort of question where our work can be very valuable, because policymakers are often worried that people will not make good decisions. They then pass laws or write regulations to encourage or force people to make certain choices. One key goal in our research is to understand how and why people make decisions. More often than not, we find that those decisions are pretty rational. If we can inform policymakers of that fact, we can help make sure their rules don't create new problems or hamper innovation in the market.

BRINGING FUND INVESTORS THE INFORMATION THEY NEED AND USE

“The Internet clearly has enormous potential as a tool of investor information and education. The question is: How can we use this tool to improve the accessibility, utility, and quality of the information we provide?”

**—ICI President & CEO Paul Schott Stevens, at the National Press Club,
February 14, 2006**

Disclosure that best serves fund shareholders has long been a priority item for the Institute. Over the last two years, Stevens and ICI Chairman Martin L. Flanagan have intensified that focus. In fiscal year 2007, the Institute’s efforts moved investor-friendly, cost-effective disclosure closer to fruition. ICI’s model for improved disclosure is firmly rooted in its research program and in the fund industry’s long experience with investors and their preferences for obtaining and using information in making investment choices. More recently, the industry and the Institute have championed the use of the Internet to communicate with fund investors.



GIVING INVESTORS A “QUICK-START GUIDE”

The latest evidence of shareholders’ interest in streamlined disclosure comes from a 2006 survey of more than 700 recent fund buyers. That study demonstrated investors’ strong desire for a clear, concise summary of the information they find most useful in picking a fund: the fund’s fees and expenses, associated risks, price per share, performance compared to an index, and historical performance. Further ICI research shows the power of the Internet in reaching fund investors: 92 percent of fund-owning households had Internet access in 2006, and 79 percent of those households use the web for financial purposes.


Based on those findings, ICI has envisioned what Stevens calls a “quick-start guide” for mutual funds, akin to the familiar brief instructions that accompany most consumer electronics products. The guide would be a clear, concise summary document, to be provided to fund buyers by electronic delivery or on paper, with the crucial information



investors need. The guide would prominently feature directions for obtaining additional information that some investors and market participants desire—including the traditional prospectus—either on the Internet or, upon request, on paper. “In today’s world, we do not have to choose between either flooding all investors’ mailboxes with fat prospectuses or shortchanging the information available to the market,” Stevens told the Mutual Funds and Investment Management Conference in March 2007.

HARNESSING THE POWER OF THE INTERNET

In its efforts on disclosure reform, ICI has found a kindred spirit in Securities and Exchange Commission Chairman Christopher Cox, who has long expressed strong interest in empowering investors through the use of the Internet. In response to Cox’s interest, ICI has adapted a computer language used for financial reports, known as eXtensible Business



“When it comes to managing their financial lives, it’s clear that millions of the people we serve would prefer the Internet—and with it, the enormously more powerful tools that are available to search through long documents, and use the information that’s in them.”

—Christopher Cox, SEC Chairman, at the ICI General Membership Meeting,
May 10, 2007

Reporting Language, or XBRL, so that mutual funds can attach electronic “tags” to data in the funds’ risk-return summary. This system for applying data tags, which the SEC approved for voluntary use in August 2007, may eventually enable investors to search for and compare information on the performance, risks, and fees of dozens of funds with just a few keystrokes, as Cox demonstrated during his keynote address at ICI’s General Membership Meeting in May 2007. This XBRL taxonomy is the only one developed to date by any financial-services industry to extend the analytic power of XBRL beyond financial statement data. ICI’s leadership on XBRL has been hailed by Cox and Andrew “Buddy” Donohue, Director of the SEC’s Division of Investment Management.

ICI has pursued its vision for disclosure reform in other venues as well. In Europe, ICI championed the European Commission’s proposal to provide short, meaningful explanations of the risks and costs associated with investments in a UCITS (Undertakings for Collective Investment in Transferable Securities) fund, a step that harmonizes key investor disclosure requirements across the European Union.

The quest for better disclosure remains a top priority for ICI and has moved into prominence at the SEC. In testimony before the Senate Banking, Housing, and Urban Affairs Committee in July, Chairman Cox said the SEC is continuing work on a simplified disclosure document for mutual fund investors that would provide better information about investment objectives, strategies, risks, and costs. He stressed that the simplified disclosure should also be available to 401(k) plan participants and pledged the SEC’s aid for the Department of Labor’s ongoing disclosure improvements (page 26). ICI continues to pursue its vigorous efforts to bring on a new age of investor awareness and understanding.



CASE STUDY:

Ensuring Clear Disclosure for 401(k) Savers and Sponsors

Defined contribution retirement plans are now firmly established as the cornerstone of America's private system for retirement security. Passage of the Pension Protection Act of 2006, coupled with the 25th anniversary of 401(k) plans in November 2006, marked the ascendancy of these self-directed savings plans—and the central role that mutual funds have played in nurturing the 401(k) system. But with their increasing prominence, 401(k) plans also must undergo more scrutiny. During fiscal year 2007, questions about whether workers understood the services and expenses in their plans became paramount in Washington's debates on retirement policy.

At ICI, these questions were nothing new. For 30 years, the Institute has led efforts to enhance the disclosure given to all parties actively engaged in providing and using self-directed retirement plans. Today, half of all assets in 401(k) plans are invested in mutual funds. So ICI is well positioned to contribute its expertise and offer leadership to the policy debate through an interdisciplinary effort working with the Department of Labor, other trade groups, Congress, and the media.

The ICI Board of Governors summed up the Institute's principles for retirement plan

disclosure in a policy statement in January 2007. The statement drew a clear distinction between the information needs of employers who sponsor plans and the workers who participate in them: Employers need to understand a plan's total fees and the economic relationships among service providers to the plan, while workers benefit most from simple, straightforward explanations of each available investment option. The statement stresses that 401(k) participants should receive the same key information for all investment products.

With these principles, ICI took a leading role in the Labor Department's projects to improve 401(k) disclosure for employers, workers, and the public. ICI helped lead a coalition of trade associations in drafting clear principles to govern participant disclosure. The statement was delivered to the Department in July with the backing of 12 associations representing employers, financial services firms, and benefit providers.

ICI's leadership role is strengthened by the Institute's highly regarded research on retirement, investor behavior, and mutual fund fees and expenses. For the 401(k)'s 25th anniversary, ICI's Research and Law departments summarized the long and



complicated history of these plans, including the significant constraints they often faced. In a second paper, the Institute's economists and lawyers examined the services that 401(k) plans require and the arrangements plan sponsors and service providers use to pay for those services. This paper revealed that 401(k) assets invested in mutual funds are concentrated in low-cost, low-turnover funds, with three-quarters of all stock-fund assets placed in funds with expense ratios of 100 basis points or less.

Meeting Congress's interest in 401(k) disclosure has called upon all of ICI's public-policy resources. Institute staff worked intensely with leaders and Washington representatives of ICI members to coordinate the industry's response. In October 2007, ICI President & CEO Paul Stevens testified before the House Ways and Means Committee on

the value of 401(k) plans and ICI's support for enhanced disclosure.

As the 110th Congress wraps up its first year, the legislative outlook on 401(k) disclosure reform remains uncertain. In July, Rep. George Miller (D-CA) introduced the 401(k) Fair Disclosure for Retirement Security Act of 2007, followed in October by a bill authored by Rep. Richard E. Neal (D-MA). The Institute's long record in favor of strong and effective 401(k) disclosure should stand the mutual fund industry in good stead. ICI will work with Congress, the Labor Department, and the Securities and Exchange Commission to ensure that all the players in 401(k)s receive the information they need, want, and can best put to use to help Americans achieve their goals for retirement security.

Q&A

Doug Anderson



What is the role of operations? Why is it so important that ICI be involved?

The primary focus of operations is a continuous pursuit of better and more efficient ways to deliver service to fund investors, both directly and through various intermediaries. That focus plays out in a variety of ways, from implementing new fund products and

Douglas L. Anderson is Senior Vice President of Delaware Investments and has chaired ICI's Operations Committee since 2005. He is one of more than 3,000 industry professionals who help advance ICI's objectives through their work on 15 standing committees and 29 industry task forces, advisory committees, and working groups (page 59). Through these groups, ICI members analyze and shape the policy alternatives that ICI advocates on behalf of members.

services to training customer-facing staff and empowering them to provide fund investors with the best possible customer experience. ICI provides a forum for the operations community to collaborate on best practices and to develop and enhance industry utilities that benefit all funds and their shareholders.

The Institute also looks to the operations community, just as it looks to its other member constituencies, for advice on the feasibility of legislative and regulatory proposals. My operations colleagues around the industry and I see it as a vital part of our roles as ICI members to help the Institute advocate the best possible outcomes for funds and their shareholders. Another important role of the operations community is to help the industry adapt to new requirements. Without proper implementation, investors can't realize the intended benefits of laws and regulations.

The Chair of ICI's Operations Committee describes how ICI promotes better policies and better service to shareholders.

How does ICI's Operations Committee function? What areas of operations does the committee focus on?

The Operations Committee serves primarily as an umbrella group that helps to shape the strategic direction for a number of very active subcommittees. These subcommittees have ambitious agendas to develop operating standards and create efficiencies and cost reductions for funds and investors. ICI member firms, by allowing their operations professionals to make the commitment necessary to participate actively in these groups, do the industry and fund investors a great service, and I commend them all for their indispensable support.

One of the longest serving and busiest of the subcommittees is the Broker/Dealer Advisory Committee (BDAC), chaired by Nino Palermo of American Funds. The BDAC brought the industry Fund/SERV, Networking, and other vital services that have automated the operating environment for funds and their retail intermediaries. Another group, the Bank, Trust, and Recordkeeper Advisory Committee, led by Stuart Bateman of Franklin Templeton, works with other financial institutions, including retirement plan administrators, to strengthen and standardize operations. Mary Corcoran of AIM Investors chairs the

Transfer Agent Advisory Committee, which has developed processing and procedural uniformity across a broad range of business and compliance practices. ICI's International Operations Advisory Committee provides a forum for members with offshore operations. Led by Ghassan Hakim of Franklin Templeton, this group encourages the development of operating standards and business tools that will help drive down costs and facilitate growth in cross-border investing.

I am very proud of the work that the subcommittees do and I think they deserve a tremendous amount of credit.

What are some issues where the operations community has had a particularly active role?

One recent example is the SEC's Rule 22c-2, the redemption fee rule. Since the rule was proposed, the operations community has focused on implementation of the rule, including cost, consistency, and efficiency. We want to ensure that the regulation is applied consistently throughout the industry, no matter the size of the fund, and that all funds can meet the new requirements in the manner that's most cost-effective for shareholders. Standardization of processing helps funds comply with the regulation effectively.

The costs of complying with this rule will be considerable. But thanks to the excellent work of ICI's Standardized Data Reporting Working Group and the Depository Trust Clearing Corporation (DTCC), this process will be much smoother. The working group labored tirelessly with DTCC to create a comprehensive set of reporting standards and a system that will enable funds to review intermediaries' compliance with redemption fee and market timing policies.

ICI's Broker/Dealer Advisory Committee also worked with DTCC on the Mutual Fund Profile Service database. What was the membership's role in the evolution of this service?

The DTCC Mutual Fund Profile Service is a great example of the industry taking steps to solve a problem and actually taking the solution one step further. The original intent behind creating a fund information repository was to ensure that fund investors were receiving the breakpoint discounts for which they were eligible, by housing in one place all the relevant data needed by broker-dealers and other fund intermediaries.

But the industry recognized that this system could provide information far beyond just breakpoint data. Now the Profile service includes information on each fund's investment objective, minimum and maximum investment requirements, fee schedule, linkage rules, and other prospectus policies to help ensure that investors receive best pricing, plus accurate and timely processing of their transactions. As of today, more than 100 fund families with over 15,000 securities have converted to the new service. And FINRA [the Financial Industry Regulatory Authority] is helping out tremendously by providing public

access to key Profile data through its web-based search tool.

In what other ways can funds capitalize on technology?

There are many models for effective use of technology currently in the market. In fact, ICI's Technology Committee recently was made a permanent standing committee in recognition of the critical role of technology in the industry. To a large extent, ICI relies on the committee, chaired by Andrea Young of Janus, for guidance on the technology dimensions of policy matters.

Together with the Transfer Agent Advisory Committee, the Technology Committee helps the fund industry consider the myriad ways that technology can have a positive impact on efforts to service shareholders. What we've seen is that one of the best ways to use technology is to put all of a company's available information into the hands of the employees who interact directly with customers. The ability to answer questions quickly and comprehensively is often more important to customers than even product performance.

Technology also is crucial to helping funds with business continuity planning (BCP), disaster recovery, and overall business resiliency. Has the Institute focused on these issues?

With the Technology Committee's assistance, the Institute represents its members' interests and helps review government proposals to help ensure continuity of the financial sector in the event of an emergency. As head of BCP efforts for Delaware Investments, I can tell you that it's vital to address business continuity industrywide. If we ever face a business disruption, it's essential that every



fund be on the same page and able to respond appropriately.

What will the Operations Committee address in the coming year?

Recently, we've been focusing on how operations can best help fund boards. To that end, we are engaged in an ongoing dialogue aimed at identifying best practices for communicating with and otherwise supporting fund boards about fund operations. We are also pursuing a project to create a new third-party review engagement under which an audit firm would test an intermediary's compliance with a fund's policies and report its findings back to the fund.

Is the operations community receptive to collaboration on industry issues?

The operations community is somewhat unique in that we're all looking for a common good. We are looking for ways to standardize operations and to make them more efficient, so our segment of the industry is more inclined to cooperate than to compete. This aspect makes the committee format that much more effective. By bringing together representatives from throughout ICI membership, we get to share the knowledge and experience of many in order to introduce improvements and benefits for all—funds, intermediaries, and most importantly, fund investors.

STRENGTHENING AMERICA'S RETIREMENT SYSTEM

As Americans take more control of their retirement savings, they increasingly turn to mutual funds to help them reach their long-term financial goals.

Mutual funds manage one-quarter of the \$16.6 trillion U.S. retirement market and are the largest component of assets in both defined contribution plans and Individual Retirement Accounts.

As stewards for the ever-growing number of American savers, the fund industry has been a strong advocate for measures to make retirement saving easier, more comprehensible, and more effective. That advocacy was especially evident in ICI's and the fund industry's tireless support of the Pension Protection Act of 2006 (PPA), which passed Congress in August 2006. The Act addressed many of the Institute's top legislative priorities and granted them a secure place in the law. Victory on Capitol Hill, however, is just a milestone: To ensure that the law serves workers, employers, and the fund industry, ICI has remained active as a forceful advocate before regulators to see that the new provisions are implemented accurately, effectively, and quickly.



The Institute's Pension Protection Act Developments Conference in February 2007 brought together fund industry professionals and service providers with key government regulators to examine the Act's potential to increase savings, improve retirement plan operations, and help workers by encouraging professional investment advice. The conference also examined how the Act's disclosure requirements intersected with the Department of Labor's reform agenda (page 26).

ACCESS TO INVESTMENT ADVICE

The investment advice provisions of the PPA addressed another of the Institute's policy goals: to give retirement plan participants easier access to high-quality investment advice, subject to fiduciary and disclosure safeguards. An ICI study released in April 2007 showed that 82 percent of shareholders who own funds outside of retirement plans at work use investment advisers. Yet shareholders who own funds through employer plans and IRAs have long been denied the benefits of receiving advice from the plan or IRA service provider.

While the PPA is clear in its intent to expand advice offerings, a number of issues remained open to interpretation, including the mechanics of how advice is provided. Over the past year, the Institute has actively engaged with the Labor Department on guidance and regulations to implement these provisions. For example, the law required the Department to determine whether financial institutions that provide IRAs are capable of creating computer models that take into account the vast array of investments available in IRAs. In a survey of its members early in 2007, ICI found that none of the respondents offered a computer model that met the law's requirements. As a result, the Institute urged DOL to begin work immediately on a class exemption for IRA advice that would provide an alternative means for IRA holders to receive investment advice.

“ICI has been a very valuable partner to the Labor Department as it's looked at a wide range of issues, both PPA related and non-PPA related.”

—Robert Doyle, Director, Office of Regulations and Interpretations, Employee Benefits Security Administration, at the ICI Pension Protection Act Developments Conference, February 7, 2007



AUTOMATIC ENROLLMENT


“One of the great accomplishments of the PPA,” Vanguard Chairman and CEO John J. Brennan told ICI’s Pension Protection Act Developments conference, “was to recognize ... and codify into law” elements of what Brennan called an “autopilot 401(k).” Central to that structure are provisions that encourage employers to create automatic enrollment for their 401(k)s, advancing ICI’s long-standing objective to make it easier for American workers to participate in retirement savings plans.

When workers are automatically enrolled in their workplace plan, academic research shows that plan participation increases sharply. The increase is particularly notable among young workers and those with lower incomes. Research conducted by ICI and the Employee Benefit Research Institute finds that, for lower-income workers, under the right conditions, increased participation can double the median amount of income available in retirement.



These research results illustrate the vital need for proper implementation of the PPA's automatic enrollment provisions. In 2007, ICI sought guidance from the Departments of Labor and Treasury on employers' obligations to auto-enrolled workers, including notices and withdrawal rights. It also engaged extensively with the Labor Department and the White House Office of Management and Budget to ensure that default investments would give auto-enrolled participants the best opportunity to achieve their long-term investment goals and retirement security (page 38).

Overall, the Pension Protection Act provides many new challenges and opportunities for the defined contribution retirement system. The mutual fund industry has played a central role in the development of 401(k) plans, and will continue to innovate and expand the system. If this legislation is implemented properly, it undoubtedly will usher in yet another round of innovation that will take the 401(k) into a new era of expanding coverage and increasing effectiveness in meeting Americans' retirement needs.



“The role of mutual funds and 401(k) plans isn’t just to provide average Americans with a vehicle to invest—but a vehicle to invest wisely. Wise investing is understanding that meeting personal goals is still more important than beating the market. Investors need solid information to make sound investment decisions.”

—Martin L. Flanagan, ICI Chairman, at the ICI General Membership Meeting, May 9, 2007

CASE STUDY:

Promoting Sound Default Investments

Winning passage of major legislation isn't enough to ensure that good policy results. The Institute must remain deeply involved in the Executive Branch's process of writing regulations to implement the law—and must be vigilant against efforts to thwart Congress's intent.

The struggle over the Department of Labor's regulations to implement the Pension Protection Act's automatic enrollment provisions offers a clear example of how important that vigilance can be. Congress charged the Department of Labor (DOL) with defining a list of Qualified Default Investment Alternatives (QDIAs), a range of investments suitable for long-term retirement saving. Employers who automatically enroll their workers in a 401(k) plan can enjoy a safe harbor from some legal liabilities if they direct participants' contributions into one of the investments on the Department's list.

The right default investment options are critical if workers are to realize the full benefits of automatic enrollment. Academic research reveals that auto-enrolled workers tend to keep their contribution rates and asset allocations at the default settings for years. Congress recognized this behavior and called for QDIAs to use a mix of equities, fixed income, and other asset classes to offer auto-enrolled

workers a solid chance to generate sufficient retirement assets.

The Labor Department's initial QDIA proposal, published in September 2006, followed Congress's intent. The proposal provided a safe harbor to employers who directed employee contributions into a lifecycle fund, a balanced fund, or a managed account program. ICI strongly supported the draft regulation and worked with DOL to resolve technical issues.

Other financial interests, however, took aim at the proposed regulation. Life insurers, in particular, were upset that their "stable value" products—intermediate-term, interest-bearing investments—were omitted from the QDIA list. The American Council of Life Insurers urged the White House Office of Management and Budget to reject DOL's final QDIA regulation unless it included stable value products as qualified default investments.

ICI was compelled to respond, and mounted a vigorous defense of the original DOL proposal. The response enlisted resources from across ICI. The pension regulation group in the Law Department crafted legal analysis spelling out Congress's intent to require that QDIA options include a mix of asset classes. Economists in ICI's Research Department analyzed the harm today's young workers would suffer if their employers used stable value funds: A computer



model comparing 5,000 possible scenarios for the stock and bond markets over the next 36 years found that in almost 90 percent of those possible futures, a typical lifecycle fund would deliver a higher 401(k) balance at retirement than the average stable value product.

Staff of the Government Affairs Department visited Administration officials and Capitol Hill to inform policymakers and their staff of the risks of including stable value products in the safe harbor. The Public Communications Department garnered news coverage and positive support for the original DOL proposal from columnists. In a commentary published on *Forbes.com*, ICI President & CEO Paul Schott Stevens argued: “America’s retirement policy should be oriented toward the long term. Stable value funds ... are not appropriate

as a long-term investment for the bulk of a worker’s retirement assets. America’s workers have much to lose if their retirement savings are placed by default in investments that emphasize safety over long-term growth.”

ICI’s members also mobilized, urging the Labor Department to focus the QDIA list on a mix of asset classes that combine asset appreciation and capital preservation.

In its final regulations, issued in October 2007, DOL maintained its original position, endorsed by ICI, that default investments should include lifecycle and balanced funds and managed account programs. The regulation allows an employer to use a capital preservation product, such as a stable value fund, as a default investment only for the first 120 days after an employee is automatically enrolled.

Q&A

Amy Lancellotta



You've been at the IDC almost a year now. What stands out most?

The complexity and the range of fund directors' duties, and how beneficial programs like ours can be in helping directors address the myriad issues they're required to oversee. Interacting with directors this year has also underscored for me how diligently they approach their duties. Outside observers may not fully appreciate that providing fiduciary oversight to an industry serving almost 90 million investors with more than \$12 trillion in assets is no easy task and one that takes a high level of dedication.

Amy B.R. Lancellotta joined the Independent Directors Council (IDC) as Managing Director in November 2006 after 17 years in ICI's Law Department.

To help directors perform their duties, we try to bring the collective expertise of the mutual fund community to bear in fund governance discussions and to keep directors informed and aware of changes and overall developments affecting their service to shareholders.

How does IDC achieve its objectives?

IDC has three missions: advancing director education, promoting interaction and communication among fund directors, and assisting in the formulation of policy positions on issues that impact fund boards. IDC is comprised of committees to promote these missions. We also periodically receive input from the director community, as we did this year in a landmark survey, on how we're doing and how we can better meet directors' needs.

What did they tell you?

The survey indicated that independent directors view IDC as an effective organization,

The Managing Director of the Independent Directors Council details how interaction and education help directors better serve their funds.

particularly in providing them valuable, current, and relevant information. Survey results indicate that IDC provides a very important benefit by helping directors stay abreast of developments that affect them. Directors added, though, that IDC should focus more of its resources on its educational mission and also should enhance the visibility and quality of the IDC website.

How does IDC keep directors abreast of fund industry developments?

We do that in a variety of ways. One way is through the papers that we publish, which provide fund directors with practical guidance and insight on topics of interest. Our most recent paper, *Board Oversight of Certain Service Providers*, offers practical guidance to fund boards in their oversight role selecting and evaluating fund administrators, custodians, fund accounting agents, transfer agents, and securities lending agents. We also recently formed a task force to study the issue of fund investments in derivatives. That task force is working on a paper to be published early next year.

IDC also hosts conferences and workshops to keep the director community current. These programs feature a number of topical panels and informal discussions and bring directors together with their peers, industry

experts, practitioners, and regulators. The discussions and interactions among these industry participants give directors an in-depth look at the implications of recent industry developments. This past spring, for example, IDC held a workshop focusing on capital markets and trading considerations for fund directors—an important topic that, I don't believe, anyone has addressed before. The workshop featured discussions on oversight of equity and fixed-income trading, derivatives, and portfolio risk and portfolio compliance. From events like these, directors gain a unique perspective on their roles as fund overseers that they are able to bring back to their boardrooms.

Sounds like getting directors together is an important part of your job.

Yes. Back in the early 1990s, when ICI launched a directors services committee—the precursor to IDC—promoting direct interaction was identified as an important component in assisting directors. In 1994, ICI held the first Investment Company Directors Conference, which remains our signature annual event. Since then, we've branched out into different event formats—workshops, roundtables, and chapter meetings—based on director feedback and our continued belief in the importance of face-to-face participation and interaction. We're all for using technology

to assist directors, but encouraging in-person contact—not just between directors and IDC staff, but also among themselves and with industry regulators, independent counsel, and fund management—will always remain an important aspect of our focus.

Our chapter program uses that in-person approach with a format geared specifically toward providing more interaction among directors on fund governance. We're also looking to find ways to promote the availability of IDC staff for one-on-one meetings with individual fund boards. Feedback from our survey indicated that not all directors were aware that the IDC staff were available for these meetings.

Reform of Rule 12b-1 has been a major topic. What are IDC's views?

The Securities and Exchange Commission hasn't released a formal proposal to amend Rule 12b-1, but it has been taking a close look at its evolution and its application. IDC supports the review of Rule 12b-1, particularly as it relates to director responsibilities.

In comments sent to the SEC in July, we made several recommendations aimed at modernizing director oversight of 12b-1 plans. We also called for improved disclosure to shareholders about the fees.

IDC believes that boards should continue to be involved in overseeing 12b-1 plans. But we think the rule should distinguish between a board's role in overseeing 12b-1 fees used for marketing purposes by the fund's adviser and board oversight of 12b-1 fees used to pay financial intermediaries for advice and

shareholder servicing. In IDC's opinion, boards should not be required, every year, to approve 12b-1 fees used for advice and shareholder servicing—which is how the vast majority of 12b-1 fees are used.

To improve investor understanding of the services that investors receive for 12b-1 fees, we suggested eliminating the confusing term “12b-1” in favor of a more descriptive and straightforward term that better describes the fee. We also recommended that shareholders receive 12b-1 disclosure at the “point of sale”—so long as similar fee disclosures are applied to all investment products offered by intermediaries, not just funds.

Looking ahead at fiscal year 2008, what is on IDC's agenda?

On the home front, we are looking to improve our communications, partially in response to feedback from directors. This year, we redesigned our monthly newsletter, *Board Update*, and added a new feature, “In the Spotlight,” where we periodically interview an industry expert on topics of interest to fund directors—securities lending, for example. We've embarked on a redesign of our website. We are also exploring ways to improve our conferences and workshops—expanding the range of speakers, making sessions more interactive, and including sessions tailored to directors with varying levels of expertise.

On the policy front, a major focus will probably be modernizing the role of fund directors. At the SEC, Buddy Donohue announced his intention to review directors' responsibilities. Since then, we've looked closely at ways to enhance the effectiveness of fund boards,



and engaged in informal discussions with the SEC. As a first step, we've recommended that modernization should focus on director duties that have become ritualistic and on tasks that may be better handled by a fund's chief compliance officer or some other officer that the board designates. Relieving boards of some of these responsibilities—such as the need to review detailed reports on certain affiliated transactions every quarter—will allow them to devote more time to focus on broader oversight issues affecting funds and their shareholders.

This is the sort of initiative where IDC can really make a strong contribution. As a voice for independent directors, we can make sure that policymakers understand how complex those directors' duties have become, and what steps will help directors carry out those duties most effectively. IDC has only been in operation for three short years, but directors and policymakers alike tell us that we've already made a mark. I'm really looking forward to building on that solid base to continue to help directors as they perform their vital work.

PURSUING OUR POLICY AGENDA IN 2008 AND BEYOND

Since 1940, ICI and its predecessor organizations have sought sound, stable, and effective regulation for investment companies and their shareholders. In that time, mutual funds have grown in prominence and importance to American households across the spectrum of income and wealth, particularly as those families strive to amass assets they need for a secure retirement. Legislative and regulatory decisions governing taxes, savings policy, and domestic and global financial markets are thus crucial determinants of the financial well-being of American families—and the economic health of the nation.

Tax policy is often a central concern for funds and their shareholders. The taxes investors pay can be affected not only by changes within the Internal Revenue Code, but also by regulation of other aspects of fund operations, such as the treatment of fees assessed under Rule 12b-1. These issues will remain a policy focus for the Institute in fiscal year 2008 and beyond. (A review of ICI action on selected policy developments during fiscal year 2007 can be found inside the back cover of this *Report*).



PROMOTING SAVINGS THROUGH TAX POLICY

At the end of 2010, tax rates on both earned and investment income are scheduled to return to levels in effect in 2000. To avert this change, Congress and the White House must act to extend lower rates enacted in 2001 and 2003. In particular, if Congress fails to extend the 2003 legislation, investors will see their tax rates on capital gains and dividends rise from the current maximum of 15 percent. In general, capital gains will incur a tax levy of as much as 20 percent, while dividends will be taxed at rates ranging up to 39.6 percent.

ICI has consistently supported lower tax rates on investment income. The Institute calls on Congress to make permanent lower tax rates that encourage savings and investment.

The GROWTH Act: Fair Taxation for Fund Investors

Of the nearly 90 million Americans who own mutual funds, 31 million own them in long-term, taxable fund accounts. For these investors, one of the most frustrating aspects of tax law is that they pay taxes each year on the appreciation of fund shares that they may not sell for years. In June 2007, Reps. Paul Ryan (R-WI), Artur Davis (D-AL), and Joseph Crowley (D-NY) introduced legislation—H.R. 2796, the Generate Retirement Ownership Through Long-Term Holding (GROWTH) Act of 2007—that would allow fund investors to keep more dollars invested longer. Similar legislation, S. 2126, was introduced in the Senate in October 2007 by Sens. Tim Johnson (D-SD) and Mike Crapo (R-ID).

Cost-Basis Reporting: Helping Funds and Investors Meet Their Tax Obligations

According to the Internal Revenue Service, investors' failure to accurately report capital gains accounted for \$11 billion of the estimated \$345 billion "tax gap" in 2001—tax revenues that were owed but not collected. As Congress seeks revenue to meet its fiscal responsibilities, leaders of the Senate Finance Committee have concentrated on measures to close this tax gap, including proposals to require investment companies and brokers to report to investors and the IRS the investors' cost basis on the sale of mutual fund and securities holdings.

The Institute supports efforts to ensure that investors comply with their tax obligations accurately and efficiently. Over the past 15 years, a substantial portion of the fund industry has voluntarily provided cost basis information to a significant, and growing, portion of



ICI President & CEO Paul Stevens and ICI Chairman Martin L. Flanagan, President and CEO of INVESCO PLC, greet Speaker of the House Nancy Pelosi (D-CA) prior to her address at ICI's Third Annual Mutual Fund Leadership Dinner and Policy Forum in May 2007.

its shareholders. In a June statement to Finance Committee staff, ICI emphasized that a mandatory basis-reporting regime must be easy to administer and must result in the dissemination of useful information to fund shareholders and others; that funds and fund distributors must be given sufficient time to address operational challenges of such a system; and that any legislative changes must maintain flexibility in the methods that funds and their shareholders may use when computing cost basis.

RECONSIDERING RULE 12b-1

Preserving the tax efficiency of mutual funds for investors became an important objective for ICI in 2007 during the debate over Rule 12b-1 under the Investment Company Act.

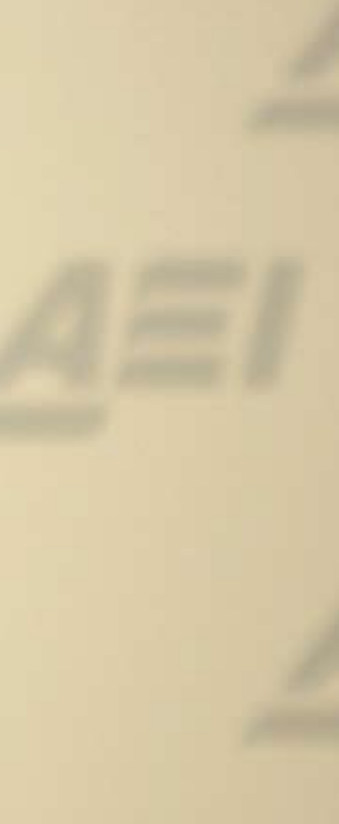
Securities and Exchange Commission Chairman Christopher Cox convened a roundtable on the evolution and uses of Rule 12b-1 and 12b-1 fees in June 2007. Appearing before the House Financial Services Committee later that month, Cox testified that the SEC was



engaged in a thorough review of Rule 12b-1 as part of a comprehensive look at mutual fund fees and disclosure.

ICI supports the SEC effort to review Rule 12b-1, but will continue to urge the agency to retain the rule's basic framework. Rule 12b-1 is integral both to the structure and success of the mutual fund industry. The rule and its associated fees give investors the option of paying distribution costs over time, help investors gain access to funds that otherwise might not be available to them, and compensate financial intermediaries, upon whom so many fund investors depend. ICI research showed that many of the proposals to fundamentally alter Rule 12b-1 would raise investors' tax burden significantly. These proposals would also limit investor choices, increase barriers to entry to the industry, and impose significant operational costs that could ultimately fall upon investors.

ICI expects the Securities and Exchange Commission to issue a rule proposal regarding Rule 12b-1 by the end of 2007.



“What directors really need to be looking at is, are shareholders benefiting? Are they receiving the value, are they receiving the services, for which 12b-1 pays?”

—Mary Bush, Independent Director, Pioneer Funds, at the American Enterprise Institute Conference on Rule 12b-1, September 14, 2007

Carrying the Industry's Message to Lawmakers on Capitol Hill

ICI pursues a consistent policy of bipartisan engagement with Capitol Hill, no matter which party is in the majority. While the change of control in Congress in 2007 represented a dramatic shift, ICI's programs and events on the Hill continue to promote direct, effective contact with policymakers regardless of party affiliation.

The Chairman's Council Program, formed in 1997, and ICI PAC encourage fund industry leaders to participate in the political process on issues of importance to funds and their shareholders. ICI Governor John W. McGonigle, Vice Chairman of Federated Investors, Inc., began in October an unprecedented fourth term as the head

HIGHLIGHTS OF INTERACTION ON THE HILL



Top left: Rep. Paul Ryan (R-WI), House cosponsor of the GROWTH Act, discusses tax policy with ICI Governors John W. McGonigle, Vice Chairman of Federated Investors, Inc., and John V. Murphy, Chairman and CEO of OppenheimerFunds, Inc., at ICI's September 2007 Executive Committee meeting.

Top right: ICI President & CEO Paul Schott Stevens and Sen. Michael B. Enzi (R-WY) discuss 401(k) fee disclosure issues at a fundraiser for the Ranking Member of the Senate Committee on Health, Education, Labor, & Pensions.

Bottom left: Rep. Robert E. Andrews (D-NJ), Chairman of the House Health, Employment, Labor, and Pensions Subcommittee, discusses 401(k) and other retirement security issues with ICI Chief Government Affairs Officer Daniel F. C. Crowley at a September 2007 fundraiser.

Bottom right: ICI Vice Chairman Paul G. Haaga, Jr., also Vice Chairman of Capital Research and Management Company, discusses U.S. securities market competitiveness with Sen. John E. Sununu (R-NH) at an October 2007 fundraiser.

of the Chairman's Council. Under his leadership, the Council has raised record levels of funds to support ICI's political activities.

In fiscal year 2007, ICI hosted nine formal events in addition to its direct advocacy on Capitol Hill. The premier event on ICI's political calendar is the Mutual Fund Leadership Dinner and Policy Forum, held each spring to bring industry leaders into dialogue with Members of Congress and other key public policy officials. The

May 2007 event featured appearances by Speaker of the House Nancy Pelosi (D-CA), Chairman of the House Financial Services Committee Barney Frank (D-MA), Senator Jack Reed (D-RI), and former Congressman Lee Hamilton, co-chair of the Iraqi Study Group. The formal and informal discussions surrounding the Leadership events help ensure that key officials hear directly the concerns of fund industry leaders on retirement, tax, and securities issues that can affect funds and their shareholders.



Top left: ICI Governor John V. Murphy, Chairman and CEO of OppenheimerFunds, Inc., discusses the securities agenda for the 110th Congress with House Majority Leader Steny Hoyer (D-MD), at a March 2007 fundraiser.

Top right: ICI Governor John W. McGonigle, Vice Chairman of Federated Investors, Inc., speaks with Rep. Paul Kanjorski (D-PA), Chairman of the House Capital Markets Subcommittee, at a January 2007 fundraiser.

Bottom left: Sens. Evan Bayh (D-IN), Ben Nelson (D-NE), and Kent Conrad (D-ND) take part in a May ICI fundraiser for Sen. Tim Johnson (D-SD), cosponsor of the GROWTH Act (S. 2126).

Bottom right: Sen. Charles Schumer (D-NY), a member of the Senate Banking Committee, discusses financial services issues with ICI Governor Robert S. Dow, General Partner, Lord Abbett, and E. Thayer Bigelow, Managing General Partner, Lord Abbett, at the Third Annual Mutual Fund Leadership Dinner and Policy Forum in May 2007.

APPENDICES

Appendix A: ICI ORGANIZATION AND FINANCES

ICI is a 501(c)(6) organization that represents investment companies on regulatory, legislative, and securities industry initiatives that affect funds and their shareholders. ICI members include U.S.-registered open-end investment companies, closed-end investment companies, exchange-traded funds, sponsors of unit investment trusts, and their investment advisers and principal underwriters.

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 B on page 58 for a list of ICI's Board). The Institute employs a staff of 172 (see Appendix E on page 60 for a listing of select ICI staff).



2007 ICI EXECUTIVE COMMITTEE

Seated (l. to r.): Robert S. Dow, James H. Bodurtha, Martin L. Flanagan, Robert W. Uek, John W. McGonigle, John F. Cogan, Jr.

Standing: Mark R. Fetting, John D. DesPrez, III, Anthony W. Deering, Paul Schott Stevens, John V. Murphy, Paul G. Haaga, Jr., Brian T. Zino, Robert C. Pozen, John J. Brennan

Not pictured: George C.W. Gatch and Abigail P. Johnson

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 an 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 eight Governors as well as the Institute's President and Chief Operating Officer.

Fifteen standing committees, bringing together nearly 1,500 industry professionals, guide the Institute's policy work. Institute standing committees perform a number of important roles, including assisting with the analysis and formulation of policy positions and gathering and disseminating information about industry practices (see Appendix D on page 59 for a list of Institute standing committees). In addition, 29 industry advisory committees, task forces, forums, and working groups with more than 2,000 participants tackle a broad range of regulatory, operations, and business issues. 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.

ICI UNAUDITED FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

(As of September 30, 2007)

Assets

Cash and cash equivalents	\$ 1,024,879
Investments, at market value	39,817,343
Accounts receivable	693,002
Prepaid expenses	879,494
Other assets	440,010

Furniture, equipment, and leasehold improvements, net (less accumulated depreciation of \$8,362,079)	<u>3,115,663</u>
--	------------------

Total assets	<u>\$45,970,391</u>
--------------	---------------------

Liabilities and Net Assets

Liabilities

Payroll and related charges accrued and withheld	\$10,592,661
Accounts payable and accrued expenses	3,332,687
Deferred revenue	1,638,624
Rent credit	1,185,046
Deferred rent	<u>1,107,684</u>

Total liabilities	<u>17,856,702</u>
-------------------	-------------------

Net Assets

Undesignated net assets	27,113,689
Board-designated net assets	<u>1,000,000</u>

Total net assets	<u>28,113,689</u>
------------------	-------------------

Total liabilities and net assets	<u>\$45,970,391</u>
----------------------------------	---------------------

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

(For the Year Ended September 30, 2007)

Core Income

Membership dues	\$42,288,743
Investment income	2,369,838
Royalty income	890,769
Program income	<u>1,278,618</u>
Total core income	<u>\$46,827,968</u>

Core Expenses

Administrative expenses	\$34,758,628
Program expenses	7,572,933
Depreciation and lobby proxy tax	<u>2,735,020</u>
Total core expenses	<u>45,066,581</u>

Changes in net assets—core	<u>\$ 1,761,387</u>
----------------------------	---------------------

Self-Funded Income

Conferences	\$ 3,890,270
Other self-funded income	<u>540,961</u>
Total self-funded income	<u>\$ 4,431,231</u>

Self-Funded Expenses

Conferences	\$ 3,511,376
Other self-funded expenses	<u>398,203</u>
Total self-funded expenses	<u>3,909,579</u>

Changes in net assets—self-funded	<u>521,652</u>
-----------------------------------	----------------

Changes in net assets from operations	2,283,039
---------------------------------------	-----------

Non-operating expenses	<u>158,647</u>
------------------------	----------------

Changes in net assets	2,124,392
-----------------------	-----------

Net assets, beginning of year	<u>25,989,297</u>
-------------------------------	-------------------

Net assets, end of year	<u>\$28,113,689</u>
-------------------------	---------------------

These financial statements are preliminary unaudited statements as of September 30, 2007. Audited financial statements for the fiscal year ended September 30, 2007 will be available after February 1, 2008. For information on obtaining copies of the audited statements, please contact Mark Delcoco at 202/326-5974.

Finances

Throughout its history, the Institute has sought to prudently manage its financial affairs in a manner deemed appropriate by the Board of Governors, which is responsible for approving ICI's annual expense budget and its member dues rate. The Board of Governors considers both the Institute's core and self-funded activities when approving the annual dues rate.

Core Activities (i.e., regulatory, legislative, operational, economic research, and public communication initiatives in support of investment companies and their shareholders, directors, and advisers) are related to public policy. Reflecting the Institute's strategic focus on issues affecting 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 of ICI total revenues—91 percent—comes from dues, investment income, royalties, and miscellaneous program sources (see Figure 1). Similarly, by design, more than 90 percent of the Institute's total resources are devoted to core activities (see Figure 2). Core expenses support the wide range of initiatives described in this report.

Self-Funded Activities (e.g., 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 out-of-pocket costs plus provide a margin to cover associated staff costs 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 and to support the Institute's government affairs efforts (see Figure 3).

Dues: For fiscal year 2007, the Board approved the same annual dues rates for open-end and closed-end dues as were assessed in fiscal years 2005 and 2006. Because the marginal dues rate declines as funds accumulate greater assets, open-end dues per \$10,000 of industry assets declined to \$0.043, down from \$0.047 in fiscal year 2006 (see Figure 4).

FIGURE 1

TOTAL REVENUES: FY 2007 = \$51,259,199

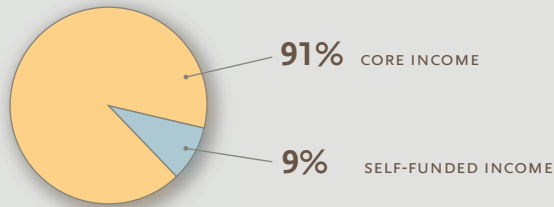


FIGURE 2

TOTAL OPERATING EXPENSES: FY 2007 = \$48,976,160

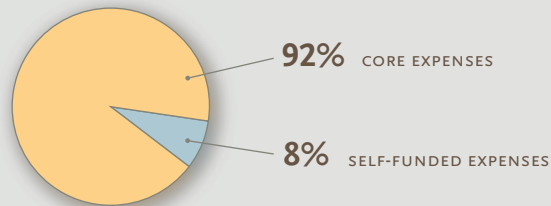


FIGURE 3

SELF-FUNDED ACTIVITIES: FY 2007 = \$4,431,231

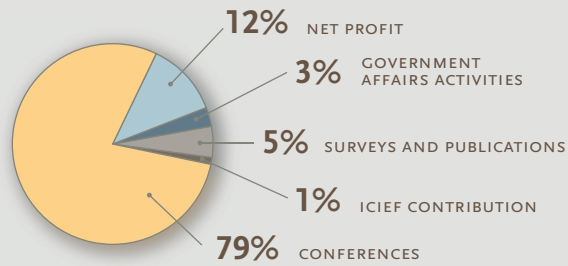
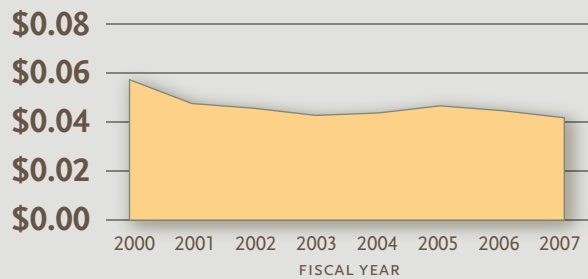


FIGURE 4

DUES PER \$10,000 OF ASSETS



Appendix B: FISCAL YEAR 2007 BOARD OF GOVERNORS

(as of September 30, 2007)

Mr. Martin L. Flanagan ^{1,2,3,6}

*ICI Chairman
President & CEO
INVESCO PLC*

Mr. Paul G. Haaga, Jr. ¹

*ICI Vice Chairman
Vice Chairman
Capital Research & Management
Company*

Ms. Anne F. Ackerley

*Managing Director
BlackRock Investments, Inc.*

Mr. William L. Armstrong ⁵

*Independent Chairman & Trustee
OppenheimerFunds*

Mr. Edward C. Bernard

*Vice Chairman
T. Rowe Price Group, Inc.*

Mr. James H. Bodurtha ^{1,2,5}

*Independent Director
BlackRock Funds*

Mr. John J. Brennan ^{1,2}

*Chairman & CEO
Vanguard*

Mr. Christopher W. Claus

*President
USAA Financial Services Group*

Mr. John F. Cogan, Jr. ¹

*Chairman
Pioneer Investment Management
USA Inc.*

Mr. Anthony W. Deering ^{*,1,5}

*Independent Director
T. Rowe Price Funds*

Mr. John D. DesPrez, III ^{*,1}

*President & CEO
John Hancock Financial Services, Inc.*

Mr. Robert C. Doll

*Vice Chairman & Global CIO for
Equities
BlackRock, Inc.*

Mr. Robert S. Dow ^{1,3,6}

*Managing Partner
Lord, Abbett & Co. LLC*

Mr. Kenneth C. Eich

*Chief Operating Officer
Davis Selected Advisers, L.P.*

Mr. Ralph C. Eucher

*President & CEO
Principal Funds*

Mr. Dennis H. Ferro

*President & CEO
Evergreen Investments, Inc.*

Mr. Mark R. Fetting ^{1,6}

*Senior Executive Vice President
Legg Mason, Inc.*

Mr. George C. W. Gatch ^{1,6}

*President & CEO, J.P. Morgan Funds
J.P. Morgan Asset Management*

Mr. C. Gary Gerst ⁵

*Chairman of Board
Henderson Global Funds*

Mr. Charles E. Haldeman Jr. ³

*President & CEO
Putnam Investments*

Mr. Peter A. Harbeck

*President & CEO
AIG SunAmerica Asset Management
Corp.*

Mr. Brent R. Harris ^{*,3,6}

*Chairman
PIMCO Funds*

Mr. James B. Hawkes ²

*Chairman, President & CEO
Eaton Vance Corporation*

Ms. Diana P. Herrmann

*President & CEO
Aquila Investment Management LLC*

Mr. John A. Hill ^{*,5}

*Chairman of the Trustees
Putnam Funds*

Ms. Melody Hobson

*President
Ariel Capital Management, LLC*

Ms. Edith E. Holiday ⁵

*Independent Director
Franklin Templeton Funds*

Ms. Abigail P. Johnson ¹

*President
Fidelity Investments*

Mr. Gregory E. Johnson

*President & CEO
Franklin Resources, Inc.*

Ms. Susan B. Kerley ⁵

*Independent Director
MainStay Funds and Legg Mason
Partners Funds*

Mr. John W. McGonigle ^{1,6}

*Vice Chairman, Chief Legal Officer
Federated Investors, Inc.*

Mr. Randall W. Merk

*Exec. Vice President & President,
Schwab Financial Products
Charles Schwab and Co., Inc.*

Mr. Thomas M. Mistele

*COO & General Counsel
Dodge & Cox*

Mr. Brian A. Murdock ³

*President & CEO
New York Life Investment
Management LLC*

Mr. John V. Murphy ^{1,6}

*Chairman & CEO
OppenheimerFunds, Inc.*

Dr. Alfred E. Osborne Jr. ⁵

*Independent Trustee
FPA Funds*

Mr. Robert C. Pozen ¹

*Chairman
MFS Investment Management*

Mr. Thomas O. Putnam

*Chairman
Fenimore Asset Management, Inc.*

Ms. Ruth H. Quigley ⁵

*Independent Director
AIM Family of Funds*

Ms. Judy Rice

*President
Prudential Investments*

Mr. Lewis A. Sanders

*Chairman & CEO
AllianceBernstein, L.P.*

Mr. Axel Schwarzer

*Managing Director
Deutsche Asset Management, Inc.*

Mr. Michael D. Stroh ²

*CEO
Waddell and Reed, Inc.*

Mr. Peter E. Sundman

*President
Neuberger Berman Management Inc.*

Mr. Owen D. Thomas ^{*}

*President & COO, Investment
Management
Morgan Stanley*

Mr. Garrett Thornburg

*Chairman & CEO
Thornburg Investment Management,
Inc.*

Mr. Robert W. Uek ^{1,4}

*Independent Trustee
MFS Funds*

Mr. John C. Walters

*Executive Vice President
Hartford Life, Inc.*

Mr. Lloyd A. Wennlund

*Executive Vice President & Managing
Director
Northern Trust Global Investments*

Mr. Christopher L. Wilson

*Managing Director, Head of Mutual
Funds
Columbia Management Group, Inc.*

Dr. Patricia K. Woolf ⁵

*Independent Director
American Funds*

Mr. Brian T. Zino ^{*,1,6}

*President
J. & W. Seligman & Co, Incorporated*

* Governor on Sabbatical

¹ Executive Committee member

² Audit Committee member

³ Investment Committee member

⁴ Chairman of the Independent
Directors Council

⁵ Participant in Independent
Directors Council activities

⁶ Chairman's Council member

Appendix C: GOVERNING COUNCIL OF THE INDEPENDENT DIRECTORS COUNCIL

(as of September 30, 2007)

The Independent Directors Council (www.idc1.org) enhances outreach and education activities for independent directors and helps communicate their views more effectively to policymakers and the media.

Mr. Robert W. Uek
IDC Chairman & Independent Director
MFS Funds

Mr. Lynn L. Anderson
Independent Director
SSgA Funds

Ms. Dorothy A. Berry
Independent Director
Allegiant Funds
Independent Director
Professionally Managed Portfolios

Ms. Mary K. Bush
Independent Director
Pioneer Funds

Ms. Vanessa C. L. Chang
Independent Director
American Funds

Ms. Darlene T. DeRemer
Independent Director
AIG Strategic Hedge Fund of Funds
Independent Director
Nicholas-Applegate Funds

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

Mr. Richard W. Gilbert
Independent Director
Principal Funds

Ms. Cynthia A. Hargadon
Independent Director
Pax World Funds

Mr. Joel W. Motley
Independent Director
OppenheimerFunds

Mr. Robert D. Neary
Independent Director
Allegiant Funds

Mr. Donald H. Pratt
Independent Director
American Century Funds

Mr. Richard A. Redeker
Independent Director
Prudential Retail Funds

Mr. Michael Scofield
Independent Director
Evergreen Funds

Ms. Laura T. Starks
Independent Director
TIAA-CREF Funds

Mr. Thomas E. Stitzel
Independent Director
Columbia Funds

Ms. Virginia Stringer
Independent Director
First American Funds

Mr. Roman L. Weil
Independent Director
MainStay Funds

Ms. Rosalie J. Wolf
Independent Director
The Sanford C. Bernstein Funds

Mr. James W. Zug
Independent Director
Allianz Funds
Independent Director
Brandywine Funds

Appendix D: ICI STANDING COMMITTEES AND CHAIRS

(as of September 30, 2007)

ACCOUNTING/TREASURERS

Mr. Richard J. Thomas
Senior Vice President & Treasurer
Federated Investors

CHIEF COMPLIANCE OFFICER

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

CLOSED-END INVESTMENT COMPANY

Mr. John D. Diederich
Managing Director & COO
Royce & Associates, LLC

INTERNATIONAL

Mr. David Oestreicher
Vice President & Associate Legal Counsel
T. Rowe Price Associates, Inc.

INVESTMENT ADVISERS

Vacant

OPERATIONS

Mr. Douglas L. Anderson
Senior Vice President
Delaware Investments

PENSION

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

PUBLIC COMMUNICATIONS

Mr. Ivy B. McLemore
Director, Media Relations
INVESCO Funds Group, Inc.

RESEARCH

Ms. Beth R. Segers
Managing Director
Putnam Investment Management,
LLC

SALES FORCE MARKETING

Mr. Keith F. Hartstein
President & CEO
John Hancock Funds

SEC RULES

Mr. Frank J. Nasta
Managing Director & General Counsel
J. & W. Seligman & Co. Incorporated

SHAREHOLDER COMMUNICATIONS

Mr. David M. Maher
Vice President-Fidelity
Communications & Advertising
Fidelity Investments

SMALL FUNDS

Ms. Diana P. Herrmann
President & CEO
Aquila Investment Management LLC

TAX

Ms. Gwen L. Shaneyfelt
Senior Vice President, Global Taxation
Franklin Templeton Investments

UNIT INVESTMENT TRUST

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

Appendix E: ICI STAFF

EXECUTIVE OFFICE

Paul Schott Stevens^{1, 2}
President & CEO

Peter H. Gallary²
Chief Operating Officer

GOVERNMENT AFFAIRS

Daniel F. C. Crowley
Chief Government Affairs Officer

Leslie B. Kramerich
Government Affairs Officer, Retirement Security & Tax Policy

Dean R. Sackett
Government Affairs Officer, Financial Services Policy

Donald C. Auerbach
Director, Financial Services Policy

Peter J. Gunas
Director, Retirement, Security, & Tax Policy

James R. Hart
Political Affairs Officer

INDEPENDENT DIRECTORS COUNCIL

Amy B.R. Lancellotta
Managing Director

Annette M. Capretta
Deputy Managing Director

Lisa C. Hamman
Associate Counsel

LAW

Karrie McMillan
General Counsel

Susan M. Olson
Senior Counsel, International Affairs

Mary S. Podesta
Senior Counsel, Pension Regulation

Elena C. Barone
Associate Counsel

Michael L. Hadley
Associate Counsel

Robert C. Grohowski
Senior Counsel, Investment Companies

Frances M. Stadler³
Deputy Senior Counsel

Dorothy M. Donohue
Senior Associate Counsel

Tamara K. Salmon
Senior Associate Counsel

Rachel H. Graham
Associate Counsel

Mara L. Shreck
Assistant Counsel

Ari Burstein
Senior Counsel, Capital Markets

Jane G. Heinrichs
Associate Counsel

Heather L. Traeger
Assistant Counsel

Keith D. Lawson⁴
Senior Counsel, Tax Law

Lisa M. Robinson
Associate Counsel

Karen L. Gibian
Associate Counsel

OPERATIONS AND CONTINUING EDUCATION

Donald J. Boteler
Vice President, Operations and Continuing Education

Linda J. Brenner
Director, Operations and Continuing Education

Martin A. Burns
Director, Institutional Operations and Service

Diane E. Butler
Director, Transfer Agency & International Operations

Kathleen C. Joaquin
Director, Operations – Distribution & Service

Peter G. Salmon
Director, Operations & Technology

Gregory M. Smith
Director, Operations – Compliance & Fund Accounting

PUBLIC COMMUNICATIONS

F. Gregory Ahern
Chief Public Communications Officer

Susan J. Duncan
Senior Director, Member Communications & ICI Education Foundation

Edward F. Giltenan
Senior Director, Media Relations

Mike McNamee
Senior Director, Policy Writing & Editorial

Janet M. Zavistovich
Senior Director, Communications Design

Michael W. Budzinski
Director, Member Communications

Denise M. Murray
Director, ICI Education Foundation

Michael A. Shore
Director, Media Relations

Christopher Wloszczyna
Director, Media Relations

RESEARCH

Brian K. Reid
Chief Economist

Sean S. Collins
Senior Director, Industry & Financial Analysis

Rochelle L. Antoniewicz
Senior Economist

Sarah A. Holden
Senior Director, Retirement and Investor Research

Peter J. Brady
Senior Economist

John Sabelhaus
Senior Economist

Judith A. Steenstra
Senior Director, Statistical Research

Sheila M. McDonald
Director, Statistical Research

Erin H. Short
Director, Statistical Research

ADMINISTRATION

Christopher E. Boyland
Senior Director & Information Technology Officer

Andrew L. Colb
Director, System Operations

Theresa A. Brooks
Director, Library Services

Mark A. Delcoco
Controller/Treasurer

Jane A. Forsythe
Senior Director, Conferences

Mary D. Kramer
Vice President, Human Resources

Suzanne N. Rand
Director, Human Resources

Sheila F. Moore
Director, Office Services

Mark W. Walecka
Senior Director, Information Services

Paul R. Camarata
Director, Information Services

Sandra J. West
Senior Director, Membership

Michelle M. Kretsch
Manager, Membership

¹ Member of Executive Committee of ICI's Board of Governors

² Chairman's Council member

³ Secretary to ICI

⁴ Secretary to ICI's Chairman's Council, Assistant Treasurer to ICI PAC, Political Compliance Counsel

Appendix F: PUBLICATIONS AND RELEASES, FISCAL YEAR 2007

RESEARCH PUBLICATIONS

The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2006, *Fundamentals*, September 2007
(www.ici.org/pdf/fm-v16n4.pdf)

401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2006, *Perspective*, August 2007
(www.ici.org/pdf/per13-01.pdf)

The U.S. Retirement Market, 2006, *Fundamentals*, July 2007 (www.ici.org/pdf/fm-v16n3.pdf)

Fees and Expenses of Mutual Funds, 2006, *Fundamentals*, June 2007 (www.ici.org/pdf/fm-v16n2.pdf)

2007 *Investment Company Fact Book*, May 2007 (www.icifactbook.org)

Why Do Mutual Fund Investors Use Professional Financial Advisers?, *Fundamentals*, May 2007
(www.ici.org/pdf/fm-v16n1.pdf)

A Review of the SEC Office of Economic Analysis Board Independence Studies, March 2007
(www.ici.org/pdf/ppr_07_oea_study.pdf)

Shareholder Sentiment About the Mutual Fund Industry, 2006, *Fundamentals*, December 2006
(www.ici.org/pdf/fm-v15n8.pdf)

401(k) Plans: A 25-Year Retrospective, *Perspective*, November 2006 (www.ici.org/pdf/per12-02.pdf)

The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, *Fundamentals*, November 2006
(www.ici.org/pdf/fm-v15n7.pdf)

Ownership of Mutual Funds and Use of the Internet, 2006, *Fundamentals*, October 2006
(www.ici.org/pdf/fm-v15n6.pdf)

OTHER ICI POLICY PUBLICATIONS

Chief Risk Officers in the Mutual Fund Industry, August 2007 (members.ici.org)

Report of the Working Group on Rule 12b-1, May 2007 (www.ici.org/pdf/rpt_07_12b-1.pdf)

ICI Policy Statement on Retirement Plan Disclosure, February 2007 (www.ici.org/pdf/ppr_07_ret_disclosure_stmt.pdf)

Costs of Eliminating Discretionary Broker Voting on Uncontested Elections of Investment Company Directors, December 2006
(www.ici.org/pdf/wht_broker_voting.pdf)

Electronic Recordkeeping & Communications Guidance for Investment Companies and Investment Advisers, November 2006
(members.ici.org)

STATISTICAL RELEASES

Trends in Mutual Fund Investing: a monthly news release describing mutual fund sales, redemptions, assets, cash positions, exchange activity, and portfolio transactions for the period. (www.ici.org/stats/mf/arctrends/index.html)

Money Market Mutual Fund Assets: a weekly report on retail and institutional money market fund assets.
(www.ici.org/stats/mf/index.html)

Closed-End Fund Statistics: a quarterly report on closed-end fund assets and proceeds. (www.ici.org/stats/ce/index.html)

Exchange-Traded Funds: a monthly report that includes assets, number of funds, issuance, and redemptions of ETFs.
(www.ici.org/stats/etf/index.html)

Unit Investment Trusts: a monthly report that includes value and number of deposits of new trusts by type and maturity.
(www.ici.org/stats/uit/index.html)

Worldwide Mutual Fund Market: a quarterly report that includes assets, number of funds, and net sales of mutual funds in countries worldwide. (www.ici.org/stats/mf/arcglo/index.html)

A complete list of ICI research publications and statistical releases is available on the Institute's public website at www.ici.org/stats/index.html. ICI policy publications, unless otherwise indicated, are available only on the Institute's member website (password-protected). Participant-funded studies are not listed.

Appendix G: ICI AND IDC EVENTS

INSTITUTE FISCAL YEAR 2007–2008 CONFERENCES AND WORKSHOPS

October 8–11, 2006	Operations & Technology	Huntington Beach, CA
October 27, 2006	Closed-End Fund Workshop	New York, NY
November 1–3, 2006	Investment Company Directors (West Coast)¹	San Francisco, CA
November 14–16, 2006	Investment Company Directors (East Coast)¹	Washington, DC
December 4–5, 2006	Securities Law Developments²	Washington, DC
January 17–19, 2007	Mutual Funds and Investment Management in Asia	Hong Kong
February 7, 2007	Pension Protection Act Developments	Washington, DC
March 25–28, 2007	Mutual Funds and Investment Management³	Palm Desert, CA
March 29–30, 2007	Investment Company Directors Workshop¹	New York, NY
April 19–20, 2007	Mutual Fund Compliance Programs	Washington, DC
May 9–11, 2007	General Membership Meeting	Washington, DC
July 11, 2007	Independent Counsel Roundtable⁴	Washington, DC
September 30–October 3, 2007	Tax and Accounting	San Diego, CA
October 11, 2007	Closed-End Fund Workshop	New York, NY
October 12, 2007	Equity, Fixed-Income & Derivatives Market	New York, NY
October 17–19, 2007	Operations & Technology	Washington, DC
November 5–7, 2007	Investment Company Directors (East Coast)¹	Washington, DC
November 27–29, 2007	Investment Company Directors (West Coast)¹	San Francisco, CA
December 6–7, 2007	Securities Law Developments²	Washington, DC
March 16–19, 2008	Mutual Funds and Investment Management³	Phoenix, AZ
March 25, 2008	Complex Securities Workshop	San Francisco, CA
April 1–2, 2008	Investment Company Directors Workshop¹	Washington, DC
April 17, 2008	Mutual Funds Operations and Compliance Workshop	San Francisco, CA
April 17–18, 2008	Mutual Fund Compliance Programs	Washington, DC
May 7–9, 2008	General Membership Meeting	Washington, DC
May 29, 2008	Complex Securities Workshop	New York, NY
June 4, 2008	Complex Securities Workshop	Boston, MA
September 14–17, 2008	Tax and Accounting	Chicago, IL
September 17, 2008	Operations and Compliance Workshop	Boston, MA
TBA	Equity, Fixed-Income & Derivatives Markets	New York, NY

¹ Sponsored by the Independent Directors Council

² Sponsored by the ICI Education Foundation

³ Cosponsored by the Federal Bar Association and ICI

⁴ Cosponsored by the Independent Directors Council and ICI

Appendix H: 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.

In fiscal year 2007, ICIEF conducted seven *Investing for Success* (I4S) workshops, including sessions at the Blacks in Government National Training Conference, and presented at the University of Maryland Personal Finance for Professionals Seminar. ICIEF also expanded its outreach—to Capitol Hill, where it demonstrated its programs for staff of key congressional committees interested in financial education; to the armed forces, through participation in the Moneywise in the Military program; and to Home Free USA, an organization that promotes homeownership for lower-income families.



ICIEF is a sponsor of the Stock Market Game, which teaches students in Grades 4 through 12 about investing in mutual funds as well as stocks. The Foundation is a charter member of the American Savings Education Council, and hosts the National Forum to Encourage Lower Income Household Savings. ICIEF annually sponsors ICI's Securities Law Developments Conference. Web versions of ICIEF's workshops are available at www.investingforsuccess.org and www.invertirconexito.org.

Appendix I: ICI MUTUAL INSURANCE COMPANY

ICI Mutual 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. An organization must be an ICI member to purchase insurance from ICIM.

2007 GENERAL MEMBERSHIP MEETING

More than 1,200 industry professionals attended the Institute's 2007 General Membership Meeting at its new location, the Marriott Wardman Park Hotel in Washington, DC, on May 9–11, 2007.



Highlights included keynote speeches by Christopher Cox, Chairman of the Securities and Exchange Commission, and Mary L. Schapiro, CEO of the Financial Industry Regulatory Authority. Michael Goldstein, one of the U.S. asset management industry's foremost analysts, led a panel of experts in discussing trends that have shaped the industry, and Chris Anderson (pictured above), author of *The Long Tail: Why the Future of Business Is Selling Less of More*, delivered an outstanding presentation on new technologies and niche markets. The Exhibit Hall provided attendees with networking opportunities and the chance to view products and services from nearly 100 fund service providers.

50TH ANNUAL GENERAL MEMBERSHIP MEETING

May 7–9, 2008, Washington, DC

ICI will look back at the history of the mutual fund industry and anticipate the future opportunities for the industry and its shareholders at the 50th Annual General Membership Meeting, scheduled for May 2008.

To celebrate a half-century of the GMM—the fund industry's premier collegial forum for the discussion of industry news, trends, and shareholder services—ICI is assembling a special program of speakers, educational opportunities, and networking events.

Leading the Way on Policy Issues

Year in and year out, ICI pursues a wide range of issues that can have a significant effect on investment companies and the shareholders they serve. Some key issues in fiscal year 2007:

- » **Broker voting (see page 12).** ICI issued a detailed economic analysis that contributed to the NYSE's decision to exempt investment companies from a proposal to bar brokers from voting shares on behalf of their customers.
- » **401(k) plan disclosure (see page 26).** ICI played a leading role in regulatory and legislative consideration of enhanced disclosure for self-directed retirement plans.
- » **Default investments for 401(k) plans (see page 38).** ICI strongly supported the Department of Labor's efforts to ensure that the contributions of auto-enrolled 401(k) plan participants were directed into appropriate long-term savings vehicles.
- » **Reconsidering Rule 12b-1 (see page 48).** ICI urged the Securities and Exchange Commission to retain Rule 12b-1's integral role in the structure of the mutual fund industry.

See the table inside for further policy activity during fiscal year 2007.

ICI Action on Selected Policy D

	Issue	ICI Response
Retirement Security	Investment advice implementation: ICI and other trade groups met with Department of Labor (DOL) officials regarding issues pertaining to the investment advice provision in Section 601 of the Pension Protection Act.	DOL confirmed that pre-PPA guidance concerning investment advice remains valid. DOL also clarified, per an ICI request, the consistency of legal standards for plan fiduciaries regardless of their reliance on PPA exemptions, and provided helpful advice on other exemption conditions.
	Cross-trade relief: A Pension Protection Act provision allows investment managers for large ERISA plans to cross-trade, or match trades between different clients to reduce the trading costs for each. The measure required implementing guidance from DOL. The PPA neglected to provide cross-trade relief for investment managers to small ERISA plans.	Submitted comments to the DOL that called for changes that will ensure the cross-trade guidance is workable. ICI provided testimony to the ERISA Advisory Council that included a call for expanding cross-trade relief to smaller plans. Based on ICI testimony, the Council recommended an expansion of cross-trading relief to investment managers of smaller plans.
U.S. and Global Securities Markets	U.S.-China Strategic Economic Dialogue (SED): U.S and Chinese officials launched the SED to promote economic cooperation and the growth of U.S.-China relations. ICI participated, along with seven other trade groups, in the effort to address the interests of U.S. financial services firms, including the asset management industry, in these discussions.	Engaged with the U.S. Treasury Department and other executive agencies to promote the fund industry's views on the U.S.-China relationship, emphasizing the need for China to liberalize access to Chinese securities and markets. China committed to raise its quota on foreign portfolio investment to \$30 billion, and announced new rules allowing certain Chinese securities firms to invest in offshore securities.
	U.S. securities market competitiveness: Two commissions formed in late 2006 examined U.S. capital markets and their competitiveness in the world. The commissions looked at capital market efficiency, the costs and benefits of regulation, and whether regulation may unintentionally be making U.S. markets less competitive in the global economy.	Supported these efforts to explore the competitiveness of the U.S. capital markets. In a submission to the U.S. Chamber of Commerce, ICI called for the support of policies that encourage competition; eliminate unnecessary complexity, cost, and regulatory burdens; and maintain and strengthen tax and regulatory policies that encourage saving (page 14).
	Municipal securities market reform: Chairman and staff of the Securities and Exchange Commission (SEC) called for improvements in accounting and disclosure in the municipal securities market.	Created an advisory committee to examine issues impacting funds in the municipal securities markets, and incorporated related panel discussions in a fall securities market conference.
Operational/Regulatory Reform	Independent directors and chair: The SEC published its third request for comment on proposed rules requiring that 75 percent of fund directors, including the chair, be independent of the fund adviser. The SEC also released studies by its Office of Economic Analysis (OEA) on the costs and benefits of the proposals.	Concluded that OEA studies provide no basis for assuming significant benefits would result from requiring an independent chair or 75 percent independent directors. ICI urged the SEC to close the rulemaking with no further action.
	Mutual fund redemption fees: SEC rules adopted in 2005 and amended in 2006 require funds to enter into shareholder information agreements with intermediaries to provide funds necessary trade information to combat market-timing abuses by investors.	Continued work with regulators and others to facilitate compliance with the SEC's rule. An ICI-organized working group of fund companies, broker-dealers, pension plan administrators, and variable annuity sponsors developed standardized data reporting (page 28). ICI received SEC no-action relief making it easier to execute agreements with foreign intermediaries.

Developments, Fiscal Year 2007

	Issue	ICI Response
Operational/Regulatory Reform	Short-selling rules: The SEC proposed changes to its short-selling rules in connection with public offerings.	Noted that the proposal could result in inadvertent violations by funds and investment advisers. The SEC incorporated ICI recommendations into the adopted rule and created an exception for investment companies from problematic rule provisions.
	Risk management: With the integration and globalization of financial services and the SEC's increasing emphasis on risk management, larger fund organizations have increasingly hired chief risk officers to manage either enterprise-wide risk or investment/portfolio risk.	ICI's Risk Management Advisory Committee undertook a study of the role of the CRO and how the position has been integrated into mutual fund organizations, particularly the relationship with other firm employees with more discrete risk-management responsibility.
	Closed-end fund issues: Closed-end fund assets have more than doubled in the past six years as the closed-end market evolved. Advisers to these funds sought a forum to discuss issues affecting their operations and service to investors.	Launched an annual closed-end fund workshop to address corporate governance, managed distribution policies, shareholder communications, and other issues as they apply to closed-end funds.
	Exchange-traded fund issues: ETFs have operated pursuant to exemptive relief first granted in 1993. As ETFs have matured and become established in the markets, concerns have arisen that exemptive conditions have become outdated.	Formed an advisory committee focused on legal and regulatory issues affecting ETFs, and a standing committee, approved by ICI's Board of Governors, to address broad business issues.
Fund Disclosure	eXtensible Business Reporting Language (XBRL): The SEC has promoted interactive data as a means to improve disclosure to investors. The SEC proposed and voted unanimously to allow funds to submit data-tagged versions of the risk/return summary in their prospectuses on a voluntary basis.	Continued assisting member participation in voluntary XBRL efforts, part of a broader industry and SEC effort to improve the disclosure that investors receive. ICI unveiled draft XBRL taxonomy, and hosted a workshop for member firms to discuss strategies for using data tagging in SEC filings.
	Fund distribution calculation and disclosure: ICI believes Rule 19a-1 of the Investment Company Act has not kept pace with technological advances and no longer adequately addresses the types and complexity of investments made by funds, the accounting and tax treatment of these investments, and the significant changes in fund distribution practices.	Worked with members to develop recommendations that would modernize Rule 19a-1. ICI recommendations would require dissemination of a wide range of information about distributions via the Internet, within a reasonable amount of time after a distribution, and in periodic shareholder communications.
Accounting Treatment	Uncertain tax positions: The Financial Accounting Standards Board released Interpretation No. 48 (FIN 48), which clarifies the standards that companies must apply in determining whether their tax positions can be recognized in their financial statements.	Urged delay in the effective date of FIN 48, noting that it threatens to require funds to reduce inappropriately their net asset values for taxes they will not be required to pay. ICI advanced proposals for guidance that would ensure appropriate treatment governing uncertain tax positions. SEC deferred application of the pronouncement for six months and provided guidance resolving problems faced by the industry.
	Inverse floaters: Auditors notified certain municipal bond funds that their accounting treatment of "inverse floater interests," a complex financial instrument designed to address the demand for short-term paper in the municipal market, needed change.	Engaged actively with auditors, affected funds, and SEC staff on the disruptive impact of the auditors' position.



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The Investment Company Institute is the national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds (ETFs), and unit investment trusts (UITs). ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. Members of ICI manage total assets of \$12.1 trillion and serve almost 90 million shareholders.