Funds Create Clearer Lines of Communication with Shareholders

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A growing number of fund boards are revamping their policies dealing with shareholder communications. During the past year, the boards of the MFS, AIM, Nicholas Applegate, Scudder, Munder and Evergreen Funds have all sought to create clearer lines of contact between shareholders and directors.

The move toward creating improved means of communication comes on the heels of an SEC rule that requires boards to disclose the ways shareholders can communicate with directors. Adopting such means of communication is not mandatory, however. The rule's compliance date was Jan. 1, 2004.

For the most part, the changes boards are making to their shareholder communication policies deal with designating and disclosing a point person who will receive the correspondence. Funds have typically listed the advisor's address as the point of contact with directors, although there is no standard practice.

The possible reasons behind this change are several. For one, many boards are eager to make every effort to improve dialogue with shareholders in the wake of the scandal. For another, boards may not want to find themselves in the position of disclosing that they lack specific ways for shareholders to communicate with them.

For its part, the board of the MFS Funds states in a July SEC filing its new policy. Under the policy, shareholders' written communication may be sent to the board's independent chief compliance officer (CCO). The CCO is responsible for forwarding all communication that he deems appropriate to the board. Previously, says MFS spokesman John Reilly, such communications were directed to the funds' secretary.

Under the new disclosure rule, the SEC requires that funds disclose in proxy statements how shareholders can communicate with funds' boards.
MFS has also included this information in its funds' prospectuses as a best practice, says Reilly.

Thus far, MFS seems to be unique in routing shareholder communication with the board through the funds' CCO. Some see the influence of the firm's new nonexecutive chairman, Robert Pozen, in this new policy.

"Pozen has done some interesting things to unilaterally impose shareholder-friendly terms," says Niels Holch, founder of the Coalition of Mutual Fund Investors, a shareholder advocate organization. Another shareholder-friendly move that MFS has adopted is increasing disclosure regarding fund expenses in shareholder statements, Holch says.

But others within the industry question whether the CCO should be involved in this issue. They say CCOs may already have too much on their plates.

In a move similar to that of MFS, the Nicholas Applegate Funds disclosed in a May SEC filing that some fund shareholders may now send written communications to the president of the fund, who will forward all relevant letters to the board.

The policy applies to PA Fund Management's closed-end funds, two of which are Nicholas Applegate Funds, and the rest are Pimco funds, says Brian Shlissel, president of the fund.

The change was made in January in connection with the SEC disclosure rule, says Shlissel. Previously, shareholders sent any questions or complaints to the fund, rather than to a specific person.

The filing states that Shlissel is responsible for reviewing the communication and submitting it to the board for review at its next meeting. In cases where Shlissel deems the communication requires immediate attention, he will forward it to the board "promptly after receipt." Queries that ask about the shareholder's statements would be filtered out as would other communications that do not clearly pertain to the board.

Asking shareholders to direct their communication to the president streamlines the process. In large companies, written communication without a contact name can sometimes float around without getting to the right person.

"It made it easier to facilitate getting any appropriate communication to the board," says Shlissel. He notes, though, that thus far he has not received any letters from investors.

The AIM Funds board, on the other hand, has received communication in various forms from shareholders as a result of a change to its shareholder communication policy, says Ivy McLemore, first vice president of corporate communications at AIM.

The AIM Fund complex now states in SEC filings that shareholders can send any communication to the board, care of McLemore, whose e-mail and postal addresses, as well as phone number are provided. The filing states that McLemore will forward the communication to the appropriate board members.

The AIM board implemented the change in December 2003. Previously it had no formal policy dealing with board and shareholder communications, says McLemore.

The Scudder, Evergreen and Munder fund boards have also made it easier for shareholders to send their questions and complaints to the boards.
The Munder board is establishing an address for shareholders to contact it directly. The Evergreen board has set up a new address for shareholders to direct their mail in Charlotte, N.C., where the trustee's office is located. And the Scudder board now has a post office box for the purpose.

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