AN EVALUATION OF MUTUAL FUND REDEMPTION FEES AND OTHER MARKET TIMING POLICIES

"...the Funds may not be able to detect excessive or short-term trading in Fund shares attributable to a particular investor who effects purchase and/or exchange activity in Fund shares through omnibus accounts."

--AllianceBernstein Growth Funds Prospectus, November 1, 2006.

Coalition of Mutual Fund Investors
Washington, D.C.
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Executive Summary

As the U.S. Securities and Exchange Commission ("SEC") finalizes its regulations and enforcement proceedings regarding market timing in mutual funds, the Coalition of Mutual Fund Investors ("CMFI")[1] has reviewed the SEC filings for the 50 largest mutual fund groups, to ascertain their current redemption fee and short-term trading policies.

The CMFI study found that 31of the largest mutual fund groups (62%) use redemption fees as a tool to deter abusive short-term trading. Unfortunately, 100% of these fund groups have disclosed in regulatory filings that they have no choice but to consider *excluding, waiving, or limiting* the enforcement of redemption fees in accounts held by third-party financial institutions.

Regulatory filings for the largest fund groups also disclose that the industry is using the *least effective accounting method* ("First In, First Out" or "FIFO") to calculate redemption fees, instead of an accounting methodology ("Last In, First Out" or "LIFO") that directly addresses short-term trading abuses.

This is the third study conducted by CMFI on this subject. In an August 2004 review of prospectus material filed by the largest fund groups, CMFI determined that a substantial majority of mutual fund groups—88%—were having difficulty applying redemption fees uniformly among all shareholders because a significant percentage of mutual fund shares are held in "omnibus accounts" managed by third-party financial institutions. This compliance problem became worse in CMFI's May 2005 study, where 97% of the fund groups disclosed significant problems in applying redemption fees in these third-party accounts.

Many investors transacting in mutual funds through a third-party financial institution or intermediary, such as a broker or a retirement plan, do not deal directly with a fund. Instead, shareholder statements and recordkeeping are handled by each intermediary, as well as all aspects of the business relationship with the investor.

At the end of each market trading day, financial intermediaries that utilize omnibus recordkeeping aggregate all trading requests from their customers and send a consolidated purchase and redemption order to each mutual fund. A mutual fund handles this consolidated order as a single transaction, recording the third-party intermediary on its books as one shareholder or omnibus account. Each omnibus account order may represent the transactions of hundreds of thousands of customers of a particular third-party financial institution. However, no information is generally disclosed to the compliance personnel at a mutual fund about the individual activities of these omnibus account investors, nor are the actual identities of the investors known to anyone but the financial intermediary.

[1] The Coalition of Mutual Fund Investors is an Internet-based shareholder advocacy organization representing the interests of individual mutual fund investors. The Coalition is based in Washington, D.C., and has a website that can be accessed at www.investorscoalition.com.

A number of the short-term trading abuses uncovered by state and federal regulators over the past several years occurred in these third-party omnibus accounts, as arbitrage investors were able to conceal their identities and trading activities.

The fact that *all* of the 50 largest mutual fund groups cannot uniformly enforce their rules within omnibus accounts demonstrates the need for full transparency in these accounts, in order to ensure that individual investors are protected from harmful market timing. The SEC has taken the first step towards this goal by finalizing a new rule to require intermediaries to supply identity and transaction information to mutual funds when requested to do so. With hundreds of different financial intermediaries marketing thousands of mutual funds, this "upon request" approach is likely to be an expensive mechanism to provide transparency within omnibus accounts. This approach also contains a strong bias towards the least intrusive common denominator for fund distribution, i.e., intermediaries preferring to do business with those mutual fund groups which are the least rigorous in requiring full disclosure and in enforcing the affected mutual fund's rules.

A better and more cost-effective solution to this problem is a requirement that financial intermediaries disclose shareholder identity and transaction information to mutual funds on a "same-day" basis or when each order is placed. With this information, funds will be able to: (1) monitor shareholder activity at the individual investor level on a *contemporaneous* basis, (2) be in a stronger position to ensure the uniform application of their policies and procedures, and (3) standardize the disclosure impact on intermediaries.

As a further protection to long-term mutual fund investors, every fund using a redemption fee should rely on the *LIFO ("Last In, First Out") accounting method* as it is the only method which matches the most recent purchases with the most recent redemptions. For historical reasons, the industry standard is the FIFO ("First In, First Out") method, which permits market timers to avoid redemption fees and otherwise circumvent fund trading restrictions.

CMFI Findings and Recommendations
June 2007

Methodology for the CMFI Study

CMFI reviewed annual prospectus filings with the SEC for the 50 largest mutual fund groups. The latest filing reviewed was May 1, 2007.

The 50 largest mutual fund groups were identified and ranked by the Financial Research Corporation, as reported in Money Management Executive on April 16, 2007. The 50 fund groups were ranked by the dollar amount of long-term assets, including exchange-traded funds ("ETFs").

Through a review of the public filings of these fund groups, each individual group was evaluated on the following questions:

(1) Does the fund group have a redemption fee for any of its domestic or international equity funds?

(2) Does the fund group have any other policies to deter market timing activities?

(3) Does the fund group have any exclusions, waivers, or limitations regarding its redemption fees or other market timing policies for shareholders in omnibus accounts held by third-party financial institutions or intermediaries, including broker-dealers, retirement account plans, financial advisors, or other institutional accounts?

(4) Does a fund group with a redemption fee policy use the LIFO ("Last In, First Out") or FIFO ("First In, First Out") accounting method?

Attached to this document is a listing of the 50 fund groups with a short description of the study's findings for each group. The actual SEC prospectus filings examined in the study are contained in a separate document entitled "An Evaluation of Mutual Fund Redemption Fees and Other Market Timing Policies, June 2007."

Summary of the Findings

(1) **Key Finding: Most Mutual Fund Groups Continue To Use Redemption Fees As a Tool to Deter Short-Term Trading Abuses**

Of the 50 fund groups evaluated, 31 groups (62%) have implemented redemption fees on at least one domestic or international equity fund.[2] This percentage is a reduction from CMFI's May 2005 study, which found that 35 groups (70%) had implemented redemption fee policies. The remaining 18 groups (36%) do not use redemption fees for any funds, although virtually all of these groups use other policies and procedures to deter excessive short-term trading. The final group, Barclays Global Investors, manages only exchange-traded funds (ETFs).[3]

The current number of fund groups with redemption fees closely mirrors the number of fund groups using this tool in the first CMFI study, released in August of 2004, where 32 of the 50 fund groups (64%) utilized a redemption fee on at least one equity fund.

(2) **Key Finding: More Fund Groups Are Disclosing in Prospectus Materials the Impossibility of Enforcing Redemption Fees Within Omnibus Accounts**

Every one of the 31 fund groups with a redemption fee policy (100%) disclosed in prospectus material that the funds and their transfer agents *may exclude, waive, or limit* the enforcement of redemption fees in omnibus accounts, including broker-dealer accounts, retirement plan accounts, or other institutional accounts where the financial intermediary maintains the underlying shareholder account.

This data represents a *3% increase* from the CMFI study of May 2005, which found that 97% of the fund groups disclosed *exclusions, waivers, or limitations* on the enforcement of redemption fees in third-party omnibus accounts. This data also represents a *12% increase* from the earlier CMFI study of August 2004, where 28 of 32 of the fund groups (88%) disclosed *exclusions, waivers, or limitations* regarding omnibus accounts.

Excerpts from the most current prospectus material filed with the SEC include the following statements:

- "The Fund typically is not able to identify trading by a particular beneficial owner through an omnibus account, which may make it *difficult or impossible* to determine if a particular account is engaged in market timing. Consequently, there is the risk that the Fund *may*

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[2] One of the 50 fund groups examined is Barclays Global Investors, which only offers exchange-traded funds (ETFs). As a result of the structure of ETFs, these funds do not need to utilize redemption fees or other market timing policies. If Barclays is not considered as a part of this analysis, then 31 mutual fund groups out of a total universe of 49 fund groups (63%) have redemption fee policies.

[3] See Footnote #2 above.

not be able to identify, deter or curtail market timing that occurs in the Fund, which may result in certain shareholders being able to market time the Fund while the shareholders in the Fund bear the burden of such activities." Columbia Acorn International Fund Prospectus, May 1, 2007 (emphasis added).

- "There are certain *limitations* on the Fund's ability to detect and prevent short-term trading. For example, while the Fund has access to trading information relating to investors who trade and hold their shares directly with the Fund, the Fund *may not have timely access to such information* for investors who trade through financial intermediaries such as broker dealers and financial advisors or through retirement plans." Evergreen Global and International Funds Prospectus, March 1, 2007 (emphasis added).

- "...the Fund anticipates that *limitations on its ability to identify trading activity to specific shareholders*, including where shares are held through intermediaries in multiple or omnibus accounts, will mean that these restrictions *may not be able to be applied uniformly* in all cases." Federated International Equity Fund Prospectus, February 1, 2007 (emphasis added).

- "By their nature, omnibus accounts ... *conceal the identity* of the individual investors from the Fund. This makes it more difficult to identify short-term transactions in the Funds, and makes assessment and collection of the Redemption Fee on transactions effected through such accounts *impossible* without the assistance of the financial intermediary....Due to these limitations on the assessment of the Redemption Fee, the Funds' use of Redemption Fees *may not successfully reduce or eliminate excessive short-term trading* in shares of the Funds or fully insulate Fund shareholders from associated costs or other dilution of the value of Fund shares." Allianz/PIMCO Domestic Stock Funds Prospectus, November 1, 2006, as revised January 1, 2007 (emphasis added).

More than *40%* of fund groups with redemption fee policies disclosed that operational deficiencies in intermediary record-keeping systems are a significant factor in the funds' inability to ensure uniform enforcement of a fee. More than *one-third* of the fund groups (34%) also disclosed that a lack of information about the underlying shareholders in these third-party accounts is a major obstacle to uniform treatment.

(3) **<u>Key Finding: Many Mutual Fund Groups Are Not Able to Enforce Excessive Short-Term Trading Policies in Omnibus Accounts</u>**

Of the 18 fund groups with no policy to impose a redemption fee, every one of these groups (100%) disclosed concerns about the ability or practicality of enforcing other policies and procedures to deter or limit excessive short-term trading in omnibus accounts. This data represents a *47% increase* from the CMFI study of May 2005, where 53% disclosed these concerns about omnibus accounts.

Excerpts from the prospectus material filed with the SEC include the following statements:

- "...the ability of the Funds to monitor, detect and curtail excessive trading through [omnibus accounts] may be *limited*, and there is *no guarantee* that the Funds will be able to identify shareholders who may have violated the Funds' excessive trading policy." <u>Dodge & Cox International Stock Fund Prospectus</u>, May 1, 2007 (emphasis added).

- "Because the funds receive these [omnibus account] orders on an aggregated basis and because these omnibus accounts may trade with numerous fund families with differing market timing policies, the funds are *substantially limite*d in their ability to identify or deter Excessive Traders or other abusive traders." <u>The Hartford Mutual Funds Prospectus</u>, March 1, 2007 (emphasis added).

- "MFSC is generally not able to identify trading by a particular shareholder within an omnibus account, which makes it difficult or impossible to determine if a particular underlying shareholder has violated the two exchange limit or is otherwise engaged in frequent trading....MFSC *may not be in a position* to monitor and deter frequent trading with respect to a *significant percentage* of a fund's shareholders." <u>MFS Asset Allocation Funds Prospectus Supplement</u>, April 1, 2007 (emphasis added).

(4) **<u>Key Finding: No Large Fund Groups Use the LIFO Accounting Method, Despite Its Effectiveness in Identifying Market Timers</u>**

In imposing a redemption fee, a fund typically chooses between two accounting methods: "FIFO" or "LIFO." Under FIFO ("First In, First Out"), fund shares held the longest time are treated as being redeemed first, and shares held the shortest time are treated as being redeemed last. Under LIFO ("Last In, First Out"), shares held the shortest time are treated as being redeemed first, and shares held the longest time are treated as being redeemed last.

Among the 31 fund groups with redemption fee policies, 26 groups (84%) disclosed in prospectus material that they use FIFO to calculate redemption fees. The other fund groups did not disclose anything about their choice of accounting method in prospectus filings.[4] *No fund group disclosed in prospectus filings the use of the LIFO accounting method, despite the fact that LIFO more accurately addresses short-term trading abuses by matching the most recent purchases with the most recent redemptions.*

CMFI Recommendations

(1) **Redemption Fees Are a Helpful Tool to Deter Market Timing**

Excessive short-term trading is harmful to the interests of long-term shareholders in a mutual fund. Trading profits taken by market timers dilute the value of the shares owned by other shareholders with longer time horizons. Short-term trading also increases fund transaction costs.

To address these problems, mutual fund boards have implemented redemption fees to eliminate or reduce the economic incentives of short-term trading. These fees also are designed to compensate long-term shareholders of a fund for the cost of abusive trading activities.

At least 62% of the largest fund groups use redemption fees as a tool to combat excessive short-term trading. Even though the SEC has decided that redemption fees should not be mandatory for all funds, the use of these fees is an important mechanism to protect the interests of long-term fund shareholders.

(2) **Financial Intermediaries Should Disclose Omnibus Account Information to Funds on a Same-Day Basis**

As determined by this CMFI review of the prospectus filings of the 50 largest fund groups, it is impossible for funds and their boards to ensure the equal and fair treatment of all shareholders when many shareholders own shares in omnibus accounts.

The current sales and distribution system in the mutual fund industry has created a bifurcated framework in which there are really two types of shareholders: (a) the "direct purchase" shareholder who deals directly with the fund; and (b) the "omnibus account" shareholder who transacts in fund shares through a third-party financial institution, such as a broker-dealer, retirement plan or financial advisor.

A "direct purchase" investor is recorded as a shareholder by the mutual fund, with the fund's compliance personnel assigned the task of monitoring the investor's trading activities. An "omnibus account" shareholder, on the other hand, does not transact

[4] CMFI did not review the Statement of Additional Information for any fund or fund group with respect to this issue.

directly with a mutual fund. Instead, shareholder statements and recordkeeping are handled by each intermediary, which then consolidates all trades with a mutual fund into a single order. Each omnibus account order may represent the transactions of hundreds of thousands of customers and individual accounts.

It is clear from this review of prospectus filings that mutual funds cannot adequately monitor the activities of omnibus account shareholders, or properly enforce fund policies and procedures, with respect to these shareholders. *Without exception, every non-ETF fund group examined in this study has adopted language in its prospectus filings informing investors that it may not or will not apply a redemption fee (or any other policy or procedure designed to deter excessive short-term trading) within omnibus accounts held by third-party intermediaries.*

This issue is critically important because omnibus accounts were at the heart of many of the trading abuses uncovered by federal, state, and industry regulators during the mutual fund scandals of just a few years ago. Additionally, allowing a lack of transparency in omnibus accounts permits different shareholders within the same class to have different rights and be treated in a non-uniform manner, contrary to the requirements of the Investment Company Act of 1940.

Many mutual funds use contractual commitments with fund intermediaries to enforce the rules of a particular fund. However, this approach is unworkable, as demonstrated by the results of this study, and by the fact that it is also not in the economic interest of these financial intermediaries to enforce mutual fund rules on their customers.

To address this regulatory problem, CMFI believes that the best solution is to *require full transparency at the individual investor level*, regardless of the distribution channel that an investor has chosen.

The SEC has taken the first step towards this goal by promulgating new Rule 22c-2, which requires that funds enter into written information-sharing agreements with all financial intermediaries.[5] These agreements permit the funds to request identity and transaction information at the investor level from intermediaries using omnibus accounting.

With hundreds of intermediaries distributing thousands of funds, it is highly likely that this "upon request" standard is going to be expensive to implement. Mutual fund boards and compliance personnel are going to impose different timetables and procedures on their intermediaries in implementing Rule 22c-2. Some may request investor-level information on a periodic basis, either quarterly, monthly, weekly or daily. Others may request this information only when internal surveillance of consolidated order information triggers a need for investor-level information from an intermediary.

[5] See Mutual Fund Redemption Fees, 70 Fed. Reg. 13,328 (Mar. 18, 2005), 71 Fed. Reg. 11,351 (Mar. 7, 2006), and 71 Fed. Reg. 58,257 (Oct. 3, 2006), codified at 17 C.F.R. 270.22c-2.

Instead of creating new data processing systems that can accommodate multiple and varied information requests, it will be more cost-effective for funds and their intermediaries to develop a standardized approach for sharing this identity and transaction information. The least expensive and most effective method for sharing this information is to do so on a *same-day basis*, either at the end of each trading day or as orders are placed throughout the day. By receiving this information on a daily basis, each fund can accurately monitor shareholder activity at the individual investor level and be in a much stronger position to ensure the uniform application of its redemption fees and other market timing policies. This "same-day" disclosure requirement also will permit funds to ensure compliance with breakpoint discount policies, contingent charges, and other corporate actions such as dividend reinvestments.

Unfortunately, there is evidence that some within the fund industry are hoping to avoid this compliance function under Rule 22c-2. In recent fund group prospectus filings, a number of funds are now disclosing the fact that they intend to rely on "surveillance procedures at the omnibus level" to detect short-term trading patterns within third-party accounts. These surveillance procedures involve evaluating the aggregated orders that are coming in each day from financial intermediaries. If, and when, a suspicious pattern is detected, the fund will then request the underlying shareholder information. Nowhere are these surveillance procedures described, nor is any idea given as to their effectiveness in detecting short-term trading, except for the disclaimers previously quoted.

By aggregating all customer orders together, omnibus accounting conceals both the identity and the transactions of the beneficial owners behind the intermediary serving as the shareholder of record. It is impossible for mutual fund personnel to be able to accurately evaluate short-term trading activity without investor-level information. *Only when there is full transparency at the individual investor level can a fund say that it is able to enforce its market timing policies uniformly.*

Market timers and other investors executing arbitrage transaction in mutual funds are going to be successful at evading detection when only omnibus surveillance procedures are used. This is not going to be an effective solution to the problem. A process which regulates market timers after a transaction has been completed leaves a mutual fund with limited options to protect shareholder interests. When a violation is discovered days or weeks after a trading violation has occurred, a fund generally can only require the investor to redeem the remaining shares in his or her account and prohibit future purchases. Further, a beneficial owner engaged in market timing through an omnibus account structure has the ability to close out his or her account entirely before compliance personnel discover a potential violation of fund policies and request investor-level data.

The fact that every one of the 50 fund groups evaluated by this study has disclosed in prospectus filings the impossibility of enforcing these policies within

omnibus accounts should be ample evidence that the current system is not working and that looking only at aggregated order data is not a credible solution.[6]

CMFI also believes that a "same-day" information-sharing requirement can be accomplished at little expense with existing technology that is readily available within the industry. For example, the Fund/SERV, Networking, and Defined Contribution Clearance & Settlement processing platforms operated by the National Securities Clearing Corporation ("NSCC") permit transaction data to be provided in a standardized, same-day basis between mutual funds and their intermediaries. This technology provides a cost-effective mechanism for funds to monitor intermediary compliance with redemption fees, as well as other fund policies and procedures. Currently, more than 80% of the largest fund groups and financial intermediaries use NSCC platforms and services to exchange order and account information on a same-day basis.

(3) LIFO Should Be the Required Accounting Method for Redemption Fees

Market timing in its most basic form involves a "round trip" trade (i.e., a purchase and a redemption) within a short period of time. The best way to effectively discourage this rapid trading activity is to use an accounting method which directly addresses the underlying market timing transaction.

Of the two choices, the accounting method which best accomplishes this objective is LIFO ("Last In, First Out") because it matches the most recent transactions with each other. Clearly, this is the accounting method which a fund should use to impose its redemption fee instead of FIFO ("First In, First Out"), the current industry standard.

The FIFO method does trigger redemption fees when short-term trading activity involves a large portion of an individual account; however, a market timer will be able to circumvent this accounting method by creating a timing "ladder" or "tranche." Under this structure, a market timer can rapidly trade smaller and defined portions of a larger account balance, leaving an equal amount of shares untouched in the fund to avoid triggering a redemption fee.

Ironically, this approach operates in a similar fashion to some of the market timing transactions uncovered by regulators: a significant sum is invested in a fund as a "sticky asset," while other monies are permitted to be used for market timing activities. The use of the FIFO accounting method will still permit market timers to rapidly trade fund shares as long as a "sticky asset" balance of an equal amount is maintained to avoid a redemption fee.

CMFI acknowledges that the use of LIFO is not a perfect solution in all circumstances involving short-term trading. For example, LIFO restricts an investor

[6] For example, Harbor Funds states the following in its Prospectus for the Harbor International Fund: "Because Harbor Funds normally monitors trading activity at the omnibus account level, Harbor Funds may not be able to detect or prevent excessive short-term trading or market timing activity at the underlying customer level."

from redeeming older shares if he or she has recently invested in new shares, at least for the applicable redemption fee period, which is typically between 7 and 60 days. However, the potential harm to other shareholders in having both a purchase and a redemption of fund shares within a short-time period should outweigh any damage to an otherwise innocent shareholder making a new purchase of fund shares.

Despite this restriction on additional purchases, LIFO is still a better accounting method for funds to use and should be the method required by the SEC to calculate redemption fees.

Conclusion

While it is universally accepted that redemption fees are a helpful tool to combat market timing abuses, an examination of the policies of the 50 largest mutual fund groups by CMFI demonstrates conclusively that the fund industry is not able to enforce redemption fees and other market timing policies on shareholders whose identity, transactions, and holdings are concealed in omnibus accounts operated by financial intermediaries. The fund industry is so concerned about this problem that 100% of the 50 largest fund groups have added disclosure language in prospectus filings making it clear that funds are not able to uniformly apply their redemption fee and market timing policies on beneficial shareholders in omnibus accounts.

To avoid making a misrepresentation about what can be done to deter excessive short-term trading, all of the fund groups using redemption fees disclosed in their SEC filings that they have no choice by to consider excluding, waiving, or limiting the enforcement of these fees in omnibus accounts. All of the fund groups with non-redemption fee market timing policies raised similar concerns in SEC filings about their ability to enforce these policies within omnibus accounts.

A number of the funds cite operational and systems limitations at the intermediary level as a cause of this problem. A number of funds also cite the lack of information about omnibus shareholders and their transactions as a reason for non-compliance.

To address the fund industry's bifurcated structure of "omnibus account" and "direct purchase" shareholders, CMFI proposes that financial intermediaries be required to disclose shareholder identity and transaction information to mutual funds on a *same-day or transactional basis*, so that each fund can monitor shareholder activity and be in a position to ensure the uniform application of its policies and procedures.

CMFI believes that intermediary information disclosure will not be expensive to implement because of existing technology that is readily available to make these disclosures on a daily or transactional basis.

CMFI also advocates that mutual funds apply redemption fees using the LIFO ("Last In, First Out") accounting method because that is the method which matches the

most recent transactions with each other. The industry standard, FIFO, permits market timers to circumvent redemption fee policies.

For copies of the 2004, 2005, and 2007 CMFI studies on mutual fund redemption fees and other market timing policies, or to obtain more information about CMFI and its activities, please visit the Coalition's website at www.investorscoalition.com.

Attachment

CMFI STUDY: AN EVALUATION OF MUTUAL FUND REDEMPTION FEES AND OTHER MARKET TIMING POLICIES

LARGEST 50 MUTUAL FUND GROUPS

Description of Results by Fund Group

June 2007

Key: OAs=Omnibus Accounts; OA=Omnibus Account; 3P=Third-Party

Fund Complex	Accounting Method	Redemption Fee(s)	Omnibus Account (OA) Policies
AIM	FIFO	Yes	Ability to monitor trades is *severely limited* or *nonexistent; Exempts* OAs w/out systems to impose fee
Alliance		No	*No guarantee* that Fund can identify market timers or curtail market timing activities in OAs
American Century		Yes	Ability to monitor trades in OAs is *severely limited* because Fund generally does not have access to underlying shareholder information; may be *limitations* on ability of OAs to impose restrictions on trading practices of their clients

Fund Complex	Accounting Method	Redemption Fee(s)	Omnibus Account (OA) Policies
American Funds		No	Purchase blocking policy *will not apply* to OAs that have not adopted procedures to implement policy; *no guarantee* that all instances of frequent trading will be prevented
Barclays		n/a	Exchange-traded fund (ETF)
BlackRock	FIFO	Yes	Certain OAs *exempt* from application of redemption fee policy; Fund *may not be able* to determine if OA order is short-term or excessive
BNY Hamilton	FIFO	Yes	OAs make it *more difficult* to identify abusive trading activities and Fund *may be unable* to eliminate abusive traders in OAs
Columbia	FIFO	Yes	Fund *typically not able* to identify trading in OAs, which may make it *difficult or impossible* to determine if a particular account is engaged in market timing
Davis Funds		No	Ability to monitor or enforce market timing policy in OAs is *limited*
DFA Funds		No	*No assurance* that Fund will be able to identify excessive short-term trading or curtail such practices

Fund Complex	Accounting Method	Redemption Fee(s)	Omnibus Account (OA) Policies
Dodge & Cox		No	Ability to monitor, detect and curtail excessive trading *limited* in OAs; *no guarantee* that Fund can identify shareholders who may have violated the Fund's excessive trading policy
Dreyfus	FIFO	Yes	Fund's ability to monitor OA trading is *limited* and dependent on cooperation of OAs to provide information on individual shareholder transactions
DWS-Scudder	FIFO	Yes	*No assurance* that Fund market timing restrictions can be effective in limiting short-term and excessive trading in OAs; Fund will temporarily *waive* fee in OAs without systems capability to assess the fee at the account level
Eaton Vance		Yes	Fund *cannot ensure* application of fee in OAs
Evergreen		No	Certain *limitations* exist on Fund's ability to detect and prevent short-term trading in OAs; Fund *may be unable* to compel financial intermediaries to apply the Fund's short-term trading policy
Federated	FIFO	Yes	Fund anticipates *limitations* on its ability to identify trading activity in OAs; trading restrictions *may not be able to be applied uniformly* in all cases

Fund Complex	Accounting Method	Redemption Fee(s)	Omnibus Account (OA) Policies
Fidelity	FIFO	Yes	Short-term trading in OAs is *likely to go undetected* by the fund and may increase costs and disrupt portfolio management; *No assurance* that Fund can successfully detect or deter market timing in OAs
First Eagle	FIFO	Yes	Funds depend on cooperation from intermediaries, thereby *limiting* the Fund's ability to monitor and discourage inappropriate trading; Funds *do not have access to account-level activity* in OAs
Franklin Templeton	FIFO	Yes	Ability to monitor trading or enforce trading policy is *limited* in OAs; Fund *may not be able t*o detect market timing in OAs
GMO		Yes	Fund's ability to detect and prevent frequent trading strategies is *limited* and dependent on OA's cooperation
Goldman Sachs	FIFO	Yes	Fund's ability to monitor and detect market timing or apply redemption fee in OAs is *limited*; *No assurance* that Fund will be able to identify all those who trade excessively or employ a market timing strategy and curtail their trading in every instance

Fund Complex	Accounting Method	Redemption Fee(s)	Omnibus Account (OA) Policies
Harbor Capital	FIFO	Yes	*Exempts* fee in OAs without systems capability to impose fee; Fund *not able to detect or prevent* excessive short-term trading or market timing activity at underlying customer level
Hartford		No	Ability to identify or deter excessive trading in OAs is *substantially limited*
IXIS	FIFO	Yes	Ability of Fund to monitor OA trades is *severely limited* because intermediary maintains record of Fund's underlying beneficial owners
Janus		Yes	*Exempts* fee in OAs without systems capability; *difficult* to identify excessive trading in OAs
John Hancock		No	Ability of fund to monitor trades in OAs is *severely limited*
JP Morgan	FIFO	Yes	*No assurance* that Fund can successfully locate or eliminate market timing in OAs; *exempts* fee and market timing policies in OAs
Julius Baer		No	Ability of Fund to monitor trades in OAs is *severely limited*
Legg Mason	FIFO	Yes	Relies on 3rd party intermediaries to assess fee; *no assurance* that intermediaries will properly assess the fee

Fund Complex	Accounting Method	Redemption Fee(s)	Omnibus Account (OA) Policies
Lord Abbett		No	Fund has procedures in place to monitor 3P intermediaries; *procedures may be less than effective* at detecting and preventing frequent trading than procedures used in non-OAs
MFS		No	Fund generally *not able* to identify trading in an OA; Fund *may not be in a position* to monitor and deter frequent trading with respect to a significant portion of Fund shareholders
Morgan Stanley (Retail)	FIFO	Yes	Fund *limited* in its ability to monitor trading activities or enforce redemption fee in OAs; *No assurance* that Fund will be able to eliminate all market timing activities
Morgan Stanley (Institutional)	FIFO	Yes	Fund *limited* in its ability to monitor trading activity or enforce redemption fee in OAs; *no assurance* that Fund will be able to eliminate all market timing activities
Oakmark	FIFO	Yes	*Exempts* fee in certain OAs; relies on OA cooperation; *no guarantee* that all excessive short-term trading will be detected in OAs
Oppenheimer	FIFO	Yes	*Exempts* fee in certain OAs; Fund *may not be able* to detect short-term trading in OAs

Fund Complex	Accounting Method	Redemption Fee(s)	Omnibus Account (OA) Policies
PIMCO	FIFO	Yes	Fund *may not be able* to impose and/or collect fee in OAs without intermediary cooperation; redemption fee limitations in OAs *may not* successfully reduce or eliminate excessive short-term trading or fully insulate Fund shareholders from costs of excessive trading or other dilution of the value of Fund shares
Pioneer		No	Ability to monitor trading practices in OAs is *limited* and dependent on OAs cooperation
Principal		Yes	Fee may be *waived* in OAs if intermediary is unable or unwilling to impose fee
Prudential/Jennison Dryden		No	Fund *cannot monitor trading* in OAs; *no guarantee* that Fund or intermediaries will be able to identify market-timers or curtail their trading practices
Putnam	FIFO	Yes	*Exempts* fee in certain OAs; Fund *not able* to identify trading by beneficial owners in OAs which makes it *difficult or impossible* to determine if a shareholder is engaging in excessive short-term trading

Fund Complex	Accounting Method	Redemption Fee(s)	Omnibus Account (OA) Policies
RiverSource		No	*Exempts* OAs from exchange limits/restrictions; Fund *cannot guarantee* that it will be able to identify and restrict all short-term trading activity
Frank Russell		No	Fund *may not be able* to detect frequent trading activity in OAs; *no guarantee* that Fund will be able to identify frequent trading or curtail such practices
Charles Schwab	FIFO	Yes	Fund *may not be able* to collect fee in OAs; Fund *reserves right to waive* fee in OAs
SEI Investments		No	Fund will monitor ST trading in intermediary accounts; certain intermediaries may be *unable or unwilling* to enforce Fund trading or exchange restrictions
SSgA		No	No redemption fee after 1/2/07; ability of Fund to assess fee is *limited* in OAs; *no assurance* that the redemption fee will be charged in every instance called for by the Fund's policy
T. Rowe Price	FIFO	Yes	Relies on OAs to assess fee on beneficial owner; *no assurances* that Fund will be successful in identifying all intermediaries or that the intermediaries will properly assess the fees

Fund Complex	Accounting Method	Redemption Fee(s)	Omnibus Account (OA) Policies
USAA		No	*No assurance* that Fund monitoring activities will detect or prevent all excessive short-term trading; Fund must rely on cooperation of intermediaries because it *does not receive* underlying trade data
Vanguard	FIFO	Yes	Fund *cannot always monitor* investor level trade data in OAs; *no assurances* that Fund will successfully identify all intermediaries or that intermediaries will properly assess fees or administer frequent-trading policies
Van Kampen	FIFO	Yes	Fee *may not be imposed* for for certain OAs
Wells Fargo	FIFO	Yes	*No assurances* that all intermediaries will properly assess redemption fees; ability to monitor and discourage excessive trading in OAs *may be limited*