

**SEC ADOPTS RULES ON SHAREHOLDER REPORTS AND QUARTERLY
PORTFOLIO DISCLOSURE OF
REGISTERED MANAGEMENT INVESTMENT COMPANIES**

The Securities and Exchange Commission (the “SEC”) recently adopted final rules¹ setting forth amended guidelines for investment companies to follow when disclosing their fund expenses and their portfolio holdings. The key components of these rules are as follows:

- Open-end management investment companies (“mutual funds” or “funds”) must disclose fund expenses borne by shareholders during the reporting period in annual and semi-annual reports to shareholders;
- Investment management companies registered under the Investment Company Act of 1940 (the “Investment Company Act”) are permitted to include a summary portfolio schedule, rather than a schedule in its entirety, in their reports to shareholders, provided that the complete portfolio schedule is filed with the SEC on Form N-CSR semi-annually and is provided to shareholders upon request, free of charge;
- Money market funds are exempt from including a portfolio schedule in reports to shareholders, provided that this information is filed with the SEC on Form N-CSR and is provided to shareholders upon request, free of charge;
- Reports to shareholders by funds are required to include a tabular or graphic presentation of a fund’s portfolio holdings by identifiable categories;
- Funds must file their complete portfolio schedules as of the end of their first and third fiscal quarters with the SEC on new Form N-Q, which (as with the semi-annual Form N-CSRs) will be filed under the Investment Company Act and the Securities Exchange Act of 1934 and certified by the fund’s principal executive and financial officers; and
- Mutual funds are required to include Management’s Discussion of Fund Performance as part of their annual shareholder reports.

I. COMPLIANCE DATES

The amendments become effective on May 10, 2004. The compliance dates are as follows:

- **Fund Reports:** All fund reports to shareholders for **annual or semi-annual** periods ending on or after **July 9, 2004** must comply with these amendments.

¹ SEC Release Nos. 33-9392, 34-49333 (February 27, 2004).

- **Form N-Q:** Funds must file quarterly reports on Form N-Q with respect to **any fiscal quarter** ending on or after **July 9, 2004**. A delayed compliance requirement date is in effect for the part of Form N-Q dealing with the certifying officers' responsibility for establishing and maintaining internal controls over financial reporting, until the first report on Form N-Q following a report on Form N-CSR that is required to contain these portions of the certification.
- **Form N-CSR:** Funds will be required to comply with amendments to Form N-CSR concerning internal controls beginning **May 10, 2004**.² However, transition rules will not require compliance with specific provisions requiring the disclosure of changes in internal controls over financial reporting with respect to the entire semi-annual period covered by the report, until the earlier of **June 30, 2005** or the date that a fund has filed its first report on Form N-Q.

II. DISCLOSURE OF FUND EXPENSES

Under the new rules, mutual funds are required to disclose the following fee information in their reports to shareholders:

1. the cost in dollars associated with an investment of \$1,000, based on the fund's actual expenses and actual return for the period; and
2. the cost in dollars associated with an investment of \$1,000, based on the fund's actual expenses for the period and an assumed return of five percent per year.

The first disclosure allows shareholders to estimate their expenses during the previous reporting period, and the second disclosure enables shareholders to compare their fund's expenses with competing funds.

Fund reports must include expense ratios as percentages, base the expense figures on expenses associated with a \$1,000 investment, explain the types of costs charged by mutual funds, describe how investors can use the information in the expense examples to estimate their own expenses, show in tabular format the figures for beginning and ending account value and expenses paid, and base the expense calculations on the fund's most recent fiscal half-year. In addition, any fund that charges account fees or other recurring fees that are not included in the expense fees discussed above will be required to make the following disclosures: (1) the amount of these fees; (2) a description of the accounts that are charged these fees; and (3) an explanation of how an investor would use this information to estimate the total ongoing expenses paid over the period, the impact of these fees on ending account value, and how an investor would use this information to compare the ongoing costs of investing in different funds.

² The amendments require disclosure of any change in the registrant's internal control over financial reporting that occurred during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registration's internal control over financial reporting.

III. DISCLOSURE OF PORTFOLIO HOLDINGS

A. Summary Portfolio Schedule

Under the new rules, a fund will be able to include a summary portfolio schedule in its reports to shareholders as long as the complete schedule is available to shareholders free of charge. The summary must include the 50 largest holdings in unaffiliated issuers as well as any holding in an unaffiliated issuer that exceeds one percent of the fund's net asset value. When determining what holdings are deemed to exceed one percent of the fund's net asset value, the rules include several very specific requirements with regard to aggregation.³

B. Quarterly Filing of Complete Portfolio Schedule

Under the amendments, funds will have to file their complete portfolio holdings schedule with the SEC each quarter. For the second and fourth fiscal quarters the fund will be required to file these schedules on Form N-CSR and for the first and third quarters on new Form N-Q. Schedules must be filed within 60 days after the end of the quarter.

Form N-Q is filed under both the Investment Company Act and the Securities Exchange Act of 1934. It requires the same filing of investment schedules as required in the annual and semi-annual reports to shareholders. Although Form N-Q must be filed electronically on EDGAR, it need not be delivered to shareholders. Form N-Q must be signed and certified by the fund's principal executive and financial officers, as set forth in Section 302 of the Sarbanes-Oxley Act of 2002. As part of the certification process, a fund's management (including its executive and financial officers) would be required to evaluate the effectiveness of the fund's disclosure controls and procedures within the 90-day period prior to the filing of the Form N-Q, and also to disclose the conclusions reached.

C. Money Market Funds Exemption

Money markets will no longer be required to include their portfolio schedules in reports to shareholders, as long as such schedules are made available to shareholders upon request, free of charge. In addition, money market funds must disclose their complete portfolio semi-annually on Form N-CSR.

³ The aggregation rules are not necessarily intuitive and in preparing reports funds should be careful to observe the procedures set forth.

D. Additional Requirements

1. *Management's Discussion of Fund Performance.* Mutual funds (excluding money market funds) must include a Management's Discussion of Fund Performance ("MDFP") in their annual reports to shareholders.
2. *Tabular or Graphic Presentation of Portfolio Holdings.* Funds must now include in their annual and semi-annual reports to the shareholders a presentation consisting of tables, charts or graphs that shows the fund's portfolio holdings using categories such as industry sector, geographic region, credit quality or maturity. The SEC allows funds flexibility in determining which categories are appropriate.

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March 17, 2004

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