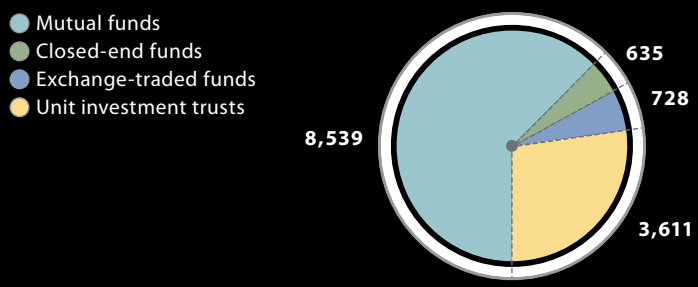
2010

ANNUAL REPORT TO MEMBERS

WHO DOES ICI REPRESENT?

More than 13,000 funds*

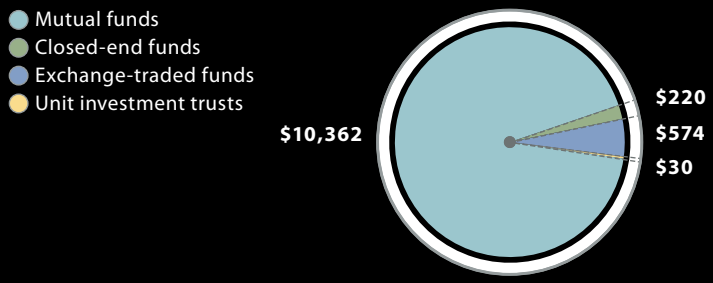
Number of investment companies by type



TOTAL
13,513 FUNDS

With more than $11 trillion in assets*

Investment company assets, billions of dollars



TOTAL
$11,186 BILLION

Serving more than 90 million shareholders

Ownership of funds offered by investment companies, 2010

44.5 PERCENT
OF U.S. HOUSEHOLDS OWN FUNDS

52.3 MILLION
U.S. HOUSEHOLDS OWN FUNDS

91.4 MILLION
INDIVIDUALS OWN FUNDS

**Data for mutual funds, closed-end funds, and ETFs are as of June 2010. Data for UITs are as of December 2009.*

Source: Investment Company Institute

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TO OUR MEMBERS

EDWARD C. BERNARD
Chairman, Investment Company Institute
Vice Chairman, T. Rowe Price Group, Inc.

On August 23, 1940, as the final legislative response to the stock market crash, President Franklin D. Roosevelt signed the Investment Company Act. His vow: "We will continue to push our program for the protection of the investor on all fronts." That same year, 33 investment companies formed what eventually became the Investment Company Institute. Its ongoing mission: to encourage high ethical standards throughout the industry, promote public understanding of fund investing, and broadly advance the interests of funds and their shareholders, directors, and advisers.

In the 70 years since, the strong regulatory framework based in the '40 Act has served investors well, even in the worst market conditions. That framework holds our funds to clear standards—for diversification, transparency, liquidity, valuation, and more. It backs up regulation with robust governance by independent directors. The '40 Act makes it clear that all of us in the fund industry are fiduciaries to our investors. We must recognize that our success depends on investor trust, and we must remind ourselves constantly of our duty to earn and keep that trust.

As for that other 70-year-old: in 2010, ICI faced the most challenging policy environment in its history—and delivered results on issues that go directly to the core of our business and our service to shareholders. In Congress, the regulatory agencies, and the courts, the Institute has marshaled its unique blend of legal expertise, research insights, operational knowledge, and skill in advocacy to the benefit of funds and their investors. Those efforts were buttressed by ICI's hard-earned reputation as a source of credible research and well-reasoned policy positions, as well as the involvement of members who contribute their energy and insight to the betterment of our industry.

These accomplishments are evident in this *Annual Report to Members*, and I urge you to review it. What might be less apparent is the great value that ICI represents for member funds and their shareholders. Since 1995, the five-fold growth of members' assets has vastly outpaced the increase in ICI's resources. I hope you'll agree with me that the effectiveness, credibility, and impact of ICI has increased significantly during that time. Innovative new products and lines of business, such as exchange-traded funds and target date funds, have steadily created new policy challenges, which the Institute has consistently met.

In response to the financial crisis, ICI has become even more efficient. The Institute has faced recent intense demands with a stringent budget and its smallest staff since 1996. We have asked the Institute to do much more with less—and ICI has delivered.

Our success as an industry rests principally upon our adhering to the highest fiduciary standards and our innovating to serve the needs of investors. But it also depends importantly upon our working together, through ICI, to ensure that the voices of funds and their shareholders are heard. This year's *Annual Report* is a record of that work. I hope you share my sense of pride in this great organization as you reflect on the year past and the challenges to come.

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EDWARD C. BERNARD
CHAIRMAN, INVESTMENT COMPANY INSTITUTE
VICE CHAIRMAN, T. ROWE PRICE GROUP, INC.

QUESTION & ANSWER

PAUL SCHOTT STEVENS
President and CEO
Investment Company Institute

You've said 2010 had the most challenging policy agenda in your 30 years of working on fund issues. What made it so difficult?

I think it's fair to say that in the past, the major issues came at ICI by ones and twos. In recent years, they seem to come by dozens and scores. In 2010, we had challenges in literally every part of our agenda—securities regulation, pension, tax, international—and at a legislative, regulatory, and even judicial level, with *Jones v. Harris*. The accounting standard-setters and self-regulatory organizations were active too.

The big, inescapable feature this past year was Dodd-Frank [Wall Street Reform and Consumer Protection Act], which clearly is the most important financial legislation since the New Deal. We will be absorbing its implications for many years to come.

How did funds fare in the legislation?

The *Financial Times* recently wrote: "Of all the industries operating within the financial sector, the one sustaining the least damage from the 2008 subprime/Lehman/Great Recession meltdown is probably the U.S. mutual fund industry." Credit for that goes largely to the fundamental strengths and fiduciary culture of funds, advisers, and boards.

The crisis wasn't about us, and for the most part the legislation wasn't either. The reforms don't go to the core of our business, as they do for many other financial industries. We did have to stay on top of events to make sure the legislation did not have unintended consequences for us. Given such a far-ranging process, I think we did an excellent job of that.

But you can't say the job is finished. Funds are investors, so we care deeply about the shape of markets, which will be affected decisively by this law. We'll be hard at work on upwards of 150 rulemakings, studies, and reports that could affect funds and their shareholders, and we'll be dealing with all our regulators, plus new entities like the Financial Stability Oversight Council.

ICI strongly argued that funds do not pose risks to the financial system. Did that argument affect the debate?

When you analyze the crisis, you can quickly distinguish mutual funds from the institutions that had a mix of characteristics that put the financial system at risk. Fund regulations reduce risk because investment companies face strict limits on leverage; they must invest largely in assets that are highly liquid; they are

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PRESIDENT AND CEO
INVESTMENT COMPANY INSTITUTE

transparent, and are subject to substantial independent oversight. And at the close of every day, every mutual fund must mark its assets to market. Moreover, while our industry manages more than $11 trillion in assets, the great majority of individual funds are small, and they are not interconnected—a sponsor cannot obligate one fund to shore up another. This system of regulation, which grew out of the great financial crisis of the 1930s, has stood the test of this latest crisis.

Other countries are responding to the financial crisis as well. What challenge does that present?

The wide-ranging reforms around the world emphasize the need for us to think about international aspects of fund investing. The International Organization of Securities Commissions is working actively to make regulation more consistent across nations. Policies set in one jurisdiction can have a significant influence elsewhere. We need to stay abreast of these international developments and make sure that all regulators recognize the impacts of their decisions. To do that, we will need to work in close collaboration with our counterparts around the world, such as EFAMA [European Fund and Asset Management Association]. These are very important relationships for us, and we strive to keep them strong and constructive.

Trading is crucial for funds, and the "flash crash" of May 6 exposed structural weaknesses in markets. How did ICI respond?

With more than $11 trillion invested for more than 90 million shareholders, we take a deep interest in market structure and the practices of market participants. The Securities and Exchange Commission is focusing on this, and we were very active, well before the flash crash, in advocating for markets that are competitive, transparent, and efficient.

The flash crash had a disproportionate impact on exchange-traded funds, and the SEC turned to ICI to help understand what happened. We jumped in with both feet, working with a dedicated group of our members to demonstrate that the impact on ETF trading was due to problems in the securities market structure. I think our work was very helpful to market regulators.

What impact has ICI's research on 401(k) and other retirement savers had on public debate?

Back in 2008, you'll recall, the media and some policymakers were painting a very bleak picture for 401(k) savers, without the benefit of all the facts—and no one was answering them. We stepped up. With our members, we put together records on more than

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PAUL SCHOTT STEVENS

22 million defined contribution accounts and looked at contributions, withdrawals, loans, and asset allocation. Contrary to the gloomy picture, we found that fewer than 4 percent of participants stopped contributing in 2008, and that fewer than 4 percent took withdrawals. 401(k) savers were staying the course, and they continue to do so.

We took that case to the media and to Congress, and we have since seen a sharp drop in the calls for radical changes to the 401(k) system. Our research opens doors so we can talk about realistic improvements for retirement security. America's 401(k)s are the envy of the world, but we know they can be better.

What happened with taxes in 2010, and what's coming for investors?

One welcome development was the House passage of the Regulated Investment Company Modernization Act. It will significantly benefit U.S. funds and their shareholders by updating, clarifying, and streamlining funds' tax rules. It's notable that when the rest of the financial services industry was running for cover, we were able to work with the House to move a bipartisan bill.

ICI and our members were also at the forefront when some lawmakers were talking about taxing securities transactions and when Congress looked to a "bank tax" to pay for failing financial institutions. These ideas were inimical to the interests of fund investors, and we successfully opposed them.

Next year, we will continue to support policies that promote savings and capital formation. That means Congress should keep the current tax rates on capital gains and dividends because raising those rates will distort investment and harm the sources of capital needed to build American businesses and create jobs. But promoting savings also will require policies that address spending and federal deficits. That's a big challenge for our nation.

How does it feel to be dealing with issues "by dozens and scores"?

I take tremendous pride and pleasure in working with the leadership of the Institute—not just our Board, but all the members who volunteer their time and talent on committees and working groups. We work closely with members to develop positions that reflect their priorities and protect the interests of fund investors. And then we have a tremendous staff to work on these issues. Our staff has displayed great teamwork on matters like Dodd-Frank—where our Government Affairs team got outstanding support from Law, Research, Operations, Public Communications, and the Independent Directors Council—and you can see the results. We have our share of challenges, but I feel very fortunate to be in this job at this time.

Paul Schott Stevens has been President and CEO of the Investment Company Institute since 2004.

SHAPING A FIRM FOUNDATION FOR FINANCE

"We recognize that our industry runs on investor trust, and that we must earn and keep the trust of investors every day of every year. We must remind ourselves constantly of our duty to investors."

EDWARD C. BERNARD
CHAIRMAN, INVESTMENT COMPANY INSTITUTE
VICE CHAIRMAN, T. ROWE PRICE GROUP, INC.

Even as the financial crisis reverberated through global markets and economies, policymakers launched a robust and sometimes heated debate on lessons of the crisis and measures to reduce the risks of future breakdowns.

For funds, one lesson quickly became clear: the comprehensive regulatory scheme based in the Investment Company Act of 1940 had safeguarded the interests of more than 90 million Americans who entrust their savings to funds. As legislators began work on what became the Dodd-Frank Wall Street Reform and Consumer Protection Act, Congress recognized the success of this regulatory scheme.

Working closely with its members, ICI offered strong support for measures to strengthen financial regulation. The Institute also monitored the legislation closely to ensure that lawmakers did not inadvertently impose additional, unwarranted burdens on funds and their shareholders.

The crisis raised other challenges for the fund industry. ICI continued its vigorous pursuit of making money market funds more resilient in the face of crisis without undermining the fundamental nature of these funds. Recognizing the importance of money market funds to the economy, groups representing state and local governments and American businesses rallied to their support. The Institute also engaged deeply in discussions of securities market structure. Rapid changes in securities trading have created new concerns, which ICI answered with in-depth analysis and advocacy favoring highly competitive, transparent, and efficient markets.

Passage of Dodd-Frank now ushers in a new phase as ICI addresses hundreds of new rules, reports, and studies mandated by the law. Marshaling the expertise of its members, ICI will remain vigilant in protecting the interests of funds and their shareholders.

POLICY AGENDA

RESPONDING TO THE CHALLENGES OF FINANCIAL REGULATORY REFORM

The unprecedented market events in 2008 exposed significant gaps in America's system of financial regulation. In 2010, Congress passed the most sweeping financial legislation since the Great Depression. ICI was an early advocate for improving the regulatory system and remained deeply engaged with legislators and regulators to work for reforms that would benefit funds and their investors.

From the beginning of the debate, ICI worked with its members to stake out a position as a thought leader and advocate for sound reform, emphasizing investor interests and financial stability. In March 2009, ICI offered one of the first comprehensive white papers on the topic. Congress called upon ICI to offer its views in testimony three times. ICI particularly focused on its suggestions for enhancing Securities and Exchange Commission oversight and for a council of regulators to gauge broad threats to the financial system and coordinate responses.

As debate gave way to legislation, it became clear that even in the depths of the financial crisis, the comprehensive regulatory scheme applied to investment companies had served well America's more than 90 million fund investors. While the final legislation—the Dodd-Frank Wall Street Reform and Consumer Protection Act—touches nearly every corner of the U.S. financial system, the new law leaves intact the system of regulation for mutual funds that emerged from the last great financial crisis and has evolved over the past 70 years. In particular, it preserves the SEC as funds' primary regulator and exempts funds, their advisers, and retirement plans from the jurisdiction of the new Consumer Financial Protection Bureau.

Controlling systemic risk is a crucial objective in the Dodd-Frank legislation. ICI moved early in the debate to establish that mutual funds are not likely to pose broad risks to the financial system. Addressing the Investment Company Directors Conference in November 2009, ICI President and CEO Paul Schott Stevens laid out a strong case that funds lack the structural factors associated with systemic risk: funds are generally individually small; they are not interconnected; their use of leverage is strictly limited; their assets are liquid and marked-to-market frequently; and they are highly transparent. Throughout the crafting of Dodd-Frank, ICI urged Congress to shape

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appropriate criteria for determining whether a financial company is systemically significant and will be subjected to heightened supervision by the Federal Reserve. In the unlikely event that a fund is deemed to be systemically significant, the law includes provisions that would give the council of regulators and the Federal Reserve discretion to craft alternative regulatory restrictions that are appropriate for funds.

Given the scope of the legislation, ICI was called upon to address a wide range of other issues as well. The Institute, with assistance from members, monitored the legislative process closely to ensure that lawmakers, in strengthening financial regulation generally, did not inadvertently disadvantage or impose additional, unwarranted burdens on funds and their shareholders. For example, ICI advocated measures to safeguard the interests of funds as investors and creditors in the liquidation of nonbank financial companies, as well as amendments to avoid imposing substantial costs and burdens on closed-end funds and exchange-traded funds when those funds solicit proxies in uncontested elections of directors.

The Institute's advocacy was led by Chief Government Affairs Officers Donald C. Auerbach and Dean R. Sackett III, assisted by Deputy Senior Counsel Frances M. Stadler and Senior Associate Counsel Rachel H. Graham. But the long-running effort drew upon all of ICI's expertise—legal, research, operations, and communications—along with the considerable resources of ICI members and the perspective of the Independent Directors Council.

With the passage of Dodd-Frank, the fund industry's challenge has moved from the legislative to the regulatory arena. ICI has identified at least 150 rulemakings, studies, and reports mandated by the new law that will require close monitoring, analysis, and comment by the Institute on behalf of its members and their shareholders. Regulators will be called upon, for example, to implement the bill's provisions on systemic risk regulation and orderly liquidation of nonbank financial companies. While some of the fund industry's concerns were addressed in legislative language, ICI must participate actively in the ensuing rulemaking to ensure that regulations do not have unintended consequences for funds and

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their investors. Other areas of regulation could also have an impact: regulations defining "major swap participants" and implementing the law's derivatives trading provisions, for example, could subject some funds to new capital and reporting requirements.

The legislation also clarified the SEC's authority to require companies to put shareholder nominees for corporate boards on the proxy ballot. ICI has long supported appropriate proxy access for shareholders of operating companies, but the SEC rule proposed in June 2009 applied to both operating companies and investment companies without taking into account the significant differences between their board structures. ICI vigorously opposed the application of the SEC's proposal to investment companies. ICI argued that the Commission should instead carefully consider whether proxy access is needed in the investment company context, and then ensure that rules, if needed, are appropriately suited to the unique attributes of investment company boards. In adopting the final rule in August 2010, the SEC disregarded ICI's concern. Leading business groups have filed suit in federal court to overturn the new rule, including its application to investment companies. The SEC has stayed the rule while the suit is pending.

Dodd-Frank also calls for a study examining the standards of care applicable to broker-dealers and investment advisers who provide advice to individual investors. ICI argued that all investors deserve a strong, fiduciary standard of care that puts their interests above those of their intermediaries. ICI also pointed out that a thoughtful and deliberate approach to resolving this and other aspects of the regulatory regime for brokers and advisers should precede any reforms of existing SEC rules on compensation that funds pay to intermediaries. ICI made that point again in November 2010 when it commented on the SEC's proposal for significant changes to Rule 12b-1.

As these and other regulatory issues proceed, the echoes of the financial crisis will continue to reverberate through the financial system for many years. ICI will maintain its crucial role as a resource for the fund industry and for policymakers. The Institute will remain closely engaged to advance the interests of funds and their shareholders, directors, and advisers.

For more information about ICI's work on regulatory reform, please visit ***www.ici.org/govaffairs*** *and* ***www.ici.org/reg_reform****.*

CASE STUDY

MAKING MONEY MARKET FUNDS EVEN STRONGER

The year 2010 brought great progress in achieving one of the top mutual fund priorities to emerge from the financial crisis: the quest to make money market funds more resilient in the face of extreme market conditions. A combination of initiatives by sponsors of money market funds and decisive action by regulators led to swift adoption of crucial and wide-ranging reforms. The Institute continued to build upon the leadership of its Money Market Working Group to advance creative ideas to strengthen these funds, while resisting proposals that would change their fundamental nature and undermine their value to investors.

The liquidity and credit crisis that threatened global financial markets in September 2008 battered virtually every part of the financial system. But the failure of Reserve Primary Fund to maintain its $1.00 net asset value (NAV) focused attention on money market funds. In response, ICI formed the Money Market Working Group, which in March 2009 proposed an array of measures to make money market funds more secure.

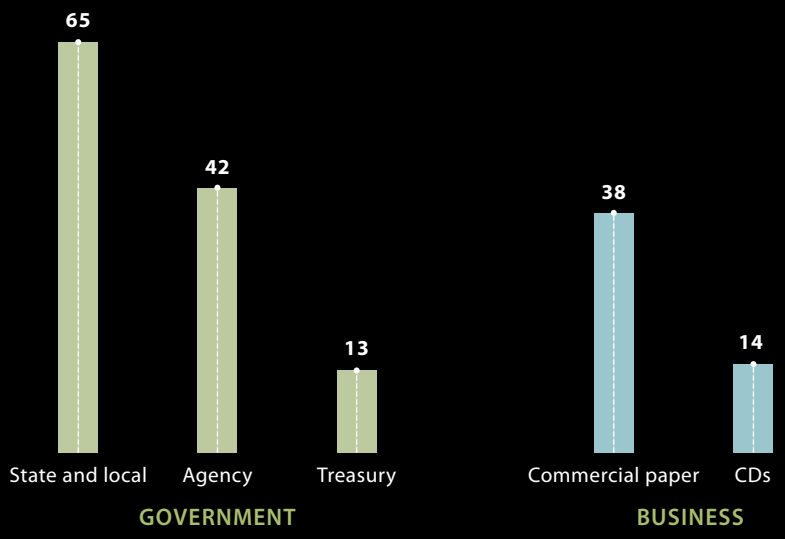
The Working Group's proposals anticipated a comprehensive set of reforms to Rule 2a-7 adopted by the Securities and Exchange Commission in January 2010. The rules further limit risks to money market funds' portfolios by raising the standards for credit quality and shortening funds' maturities. Significantly, the amendments require for the first time that money market funds maintain specified levels of liquid assets to ensure daily and weekly liquidity levels sufficient to meet redemption demands during times of market stress.

The SEC also gave money market fund boards the necessary tools to cope with extraordinary levels of redemptions by allowing an orderly liquidation of a troubled fund.

ICI strongly supported the new rules. "These and other changes will provide significant additional protections and will benefit money market fund investors," said ICI President and CEO Paul Stevens. "ICI will remain in close dialogue with the SEC and other regulators while they consider further changes to money market fund regulation."

Money Market Funds Provide Financing for Governments, Business

*Share of short-term securities held by money market funds, percentage**



** As of July 2010; state and local government as of December 2008*

Sources: Investment Company Institute, Federal Reserve Board, U.S. Treasury Department, Fannie Mae, Freddie Mac, and Federal Housing Finance Agency

"Governments depend on the safety and liquidity of money market funds for their constantly flowing operating funds and as part of their cash management strategy."

POLICY STATEMENT BY THE GOVERNMENT FINANCE OFFICERS ASSOCIATION

ICI continues to pursue efforts to make these funds even stronger for their investors. After the issuance of its report and recommendations, the Money Market Working Group began to explore additional ideas for providing liquidity for prime money market funds when liquidity is scarce. At the Mutual Funds and Investment Management Conference in March 2010, Stevens described the outlines of a possible industry-supported facility dedicated to providing additional liquidity to prime money market funds in the event of severe market conditions.

While supporting necessary changes to strengthen money market funds and the functioning of the money markets, ICI has continued to resist proposals advanced by regulators and others that would force money market funds to abandon the stable $1.00 NAV in favor of a floating NAV. In a number of speeches and comments, the Institute has pointed out the benefits of a stable NAV to shareholders regarding tax, accounting, and recordkeeping convenience, and stressed the potential damage that proposed changes could cause. "Make no mistake: forcing these funds to 'float' their NAV will destroy money market funds as we know them," Stevens told the March conference. "It will penalize individual investors and exact a high price in the American economy. But it will not—repeat, not—reduce risks to the financial system. By any measure, it is a bad idea."

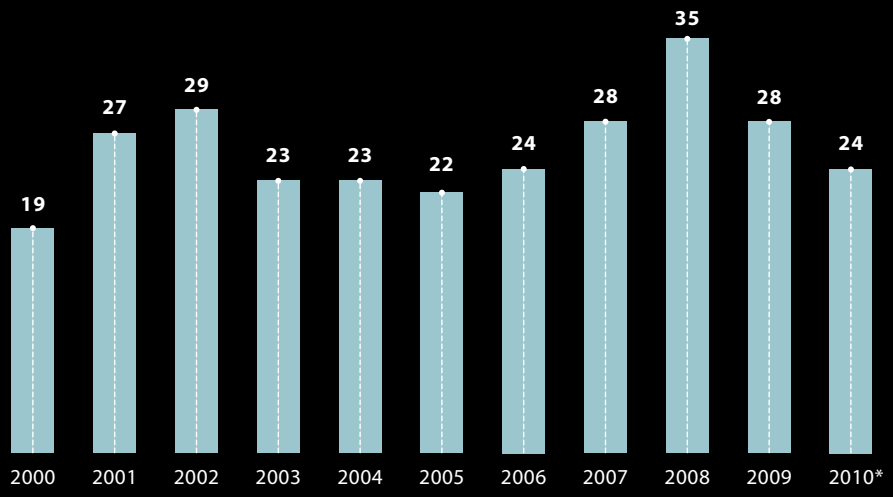
Users of money market funds and issuers in the money markets have voiced identical concerns. Groups representing state and local financial officials—who count on money market funds to purchase almost two-thirds of their short-term debt—have also been vocal: the Government Finance Officers Association adopted a policy statement pledging to oppose efforts to force money market funds to abandon their stable NAV, and the National Association of State Treasurers and the National Association of State Auditors, Comptrollers, and Treasurers both sent letters to Treasury Secretary Timothy F. Geithner supporting the stable NAV. Corporate users and issuers have written similar letters, led by the U.S. Chamber of Commerce, the National Association of Corporate Treasurers, Financial Executives International, and the Association for Financial Professionals. More than 40 individual companies have registered their support for a stable NAV. The issue will continue to be debated as regulators consider the report on money market funds issued by the President's Working Group on Financial Markets.

While regulators and the fund industry made great progress in strengthening the resilience of money market funds in 2010, there is a consensus that more can and should be done. ICI will continue to work with regulators and members to strengthen money market funds and uphold their long-standing position as a preferred vehicle of cash management for individuals, businesses, nonprofit organizations, and government agencies.

For more information about ICI's activities on money market funds, please visit ***www.ici.org/mmfs****.*

Businesses Rely on Money Market Funds for Cash Management

Money market funds' share of U.S. businesses' short-term assets, percentage



**As of June 2010*

Sources: Investment Company Institute and Federal Reserve Board

"Mandating a floating NAV would make short-term financing for American business less efficient and far more costly, ensuring a severe setback for an economy emerging from recession."

LETTER TO TREASURY SECRETARY TIMOTHY F. GEITHNER AND SEC CHAIRMAN MARY L. SCHAPIRO FROM 13 LEADING BUSINESS ORGANIZATIONS AND COMPANIES

CASE STUDY

PROMOTING COMPETITIVE, EFFICIENT MARKETS

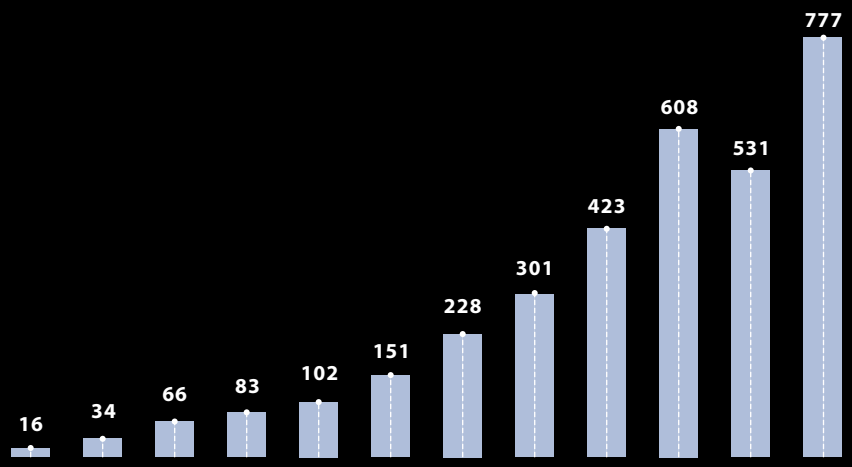
As institutional investors who collectively manage more than $11 trillion on behalf of more than 90 million individual shareholders, ICI members have a strong interest in ensuring that the U.S. securities markets are highly competitive, transparent, and efficient. Markets today function better, with lower costs, than ever before. Yet rapid changes in technology and incentives for market participants have made it difficult for funds to be certain that their trading is as efficient as it could be. In 2010, ICI engaged fully in regulators' efforts to examine and improve the structure of U.S. securities markets.

For funds, today's market structure poses significant challenges. Trading is fragmented: no single destination executes a significant percentage of trades, as familiar venues like the New York Stock Exchange compete for volume with broker-sponsored execution platforms and other alternative trading systems. All too often, different market centers are subject to different regulations for trading and other market functions. Market participants exploit technological advances to create new models that bring some benefits to the securities markets, but raise concerns about potentially abusive practices. Many of these models fall under the heading of high-frequency trading—ultra-fast, computerized trading of stocks, options, and other securities using complex algorithms to capitalize upon very small price differences between related securities or market centers.

In commenting on these changes, ICI has acknowledged the potential benefits—such as enhanced liquidity and tighter spreads between securities' bid and ask prices—that high-frequency traders can bring. At the same time, the Institute and members have urged regulators to focus on practices associated with these traders that could harm funds, their investors, and other market participants. These practices include widespread cancellation of orders, as well as strategies designed to detect and front-run mutual funds' trading of large blocks of securities. ICI has also raised concerns about liquidity rebates and other incentives used to encourage participants to route trades to particular market centers.

Total Net Assets and Number of ETFs

Billions of dollars, year-end, 1998–2009



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Number of ETFs	29	30	80	102	113	119	152	204	359	629	728	797

ETF data prior to 2001 were provided by Strategic Insight Simfund; ETF data include ETFs not registered under the Investment Company Act of 1940; ETF data exclude ETFs that invest primarily in other ETFs.

Sources: Investment Company Institute and Strategic Insight Simfund

ICI members have a strong interest in ensuring that the U.S. securities markets are highly competitive, transparent, and efficient.

In April, the Institute filed its most comprehensive statement on market structure issues in response to the Securities and Exchange Commission's concept release, in which the SEC floated a wide range of ideas for ways to improve U.S. markets, including an array of specific regulatory proposals. The Institute's letter advocated greater market transparency to address concerns about a lack of information of order routing and execution practices.

During the months that followed, ICI also commented on a series of specific SEC proposals for regulatory action covering risk management controls for brokers or dealers with market access; "flash orders" designed to give some market participants an advance look at orders; trading in "dark pools," venues that do not display quotations to the public; large trader reporting; and a consolidated order tracking system to capture data needed for cross-market trading surveillance. In each case, ICI called for balancing the need for market transparency with the goal of protecting fund shareholders from the effect of information leakage that could allow other traders to unfairly exploit funds' trading.

Public and policymaker concern over market structure rose sharply in the wake of the May 6 "flash crash," when the Dow Jones Industrial Average plunged about 600 points in less than 10 minutes and quickly rebounded. ICI contributed to efforts to understand the flash crash with detailed analysis of trading events and regulatory gaps. The Institute called for better coordination across the equity, options, and futures markets, particularly in light of regulatory gaps that affected the markets on May 6. ICI also urged updated market-wide and stock-by-stock circuit breakers—temporary trading halts triggered by specified price movements—as well as better procedures for resolving clearly erroneous trades. Further, the Institute urged the examination of both the use of market orders and the inconsistent practices of exchanges addressing major price movements.

ICI's interest in promoting competitive and transparent markets extends beyond the equity markets. The Institute participated actively in a task force on tri-party repurchase agreements to reduce risks in this $1.8 trillion market. ICI also has been a leading advocate for better transparency in the municipal securities market.

The flash crash also focused attention on exchange-traded funds because ETF trades composed the majority of trades that were cancelled in the wake of the steep decline in stock prices. ICI formed a working group of ETF sponsors to analyze the trading on May 6 and examine regulatory, operational, or market structure factors that could affect the trading of ETFs. Through extensive data analysis, ICI made a compelling case that inefficiencies in current U.S. market structure, and not specific features of ETFs, were responsible for the disproportionate impact of the flash crash on ETFs.

ICI's interest in promoting competitive and transparent markets extends beyond the equity markets. The Institute participated actively in a task force on tri-party repurchase agreements, sponsored by the Federal Reserve Bank of New York, to reduce the risks in this $1.8 trillion market. The report's recommendations, designed to improve operations and enhance transparency, will benefit all market participants, including money market funds, which provide around one-third of the lending in the tri-party repo market.

The Institute also has been a leading advocate for better transparency in the municipal securities market. In May, the SEC adopted many of the changes ICI has supported when the SEC amended its chief disclosure rule for the market. During Congress's consideration of the Dodd-Frank Wall Street Reform and Consumer Protection Act, ICI staff closely monitored relevant provisions in the legislation, among them a mandate for an SEC study on municipal market transparency. ICI also offered its assistance to the SEC during a series of field hearings held to gather input from market participants and investors regarding ways to improve the municipal market. The Institute also generally supported SEC rules to improve disclosure in the asset-backed securities markets.

Clearly, today's fragmented and uneven securities markets raise many issues that could have significant impact on the trading that funds do on behalf of their investors. The Institute will remain vigorous in presenting its members' concerns to the SEC and other regulators, as ICI and its members continue to advocate for competitive, transparent, and efficient securities markets.

For more information about ICI's work on market structure issues, please visit ***www.ici.org/policy****.*

STANDING UP FOR STRONG GOVERNANCE AND A VIBRANT FUND INDUSTRY

The Supreme Court's unanimous decision brings stability and certainty for mutual funds, their directors, and more than 90 million investors, by endorsing the *Gartenberg* standard. This standard has well served the interests of funds and fund shareholders, who have seen their cost of investing fall by half in the last 20 years.

Strong governance is at the core of the regulatory scheme for mutual funds that grew out of the Investment Company Act of 1940. Fund directors—particularly independent directors—are charged with key oversight duties as fiduciaries for shareholders. As the industry has matured, so too has the role of independent directors. Today, on almost 90 percent of all fund boards, 75 percent or more of directors are independent.

This system of governance has helped foster a vibrant and competitive fund industry, to shareholders' benefit. More than 8,500 mutual funds strive to attract investors' dollars through performance, services, and cost. Competition has reduced the cost of investing: the average fees and expenses paid by stock and bond fund investors have been cut by half since 1990.

In 2010, the U.S. Supreme Court dealt with a direct challenge to a key function of independent directors: the review and approval of a fund's advisory contract, including fees. In its unanimous decision on *Jones v. Harris Associates L.P.*, the Court affirmed the "considerable weight" that courts should give to directors' decisionmaking as independent watchdogs acting on behalf of shareholders. The Court's decision reflected the economic analysis and insights into board functions that ICI and the Independent Directors Council provided in their separate briefs.

IDC serves the director community by providing a venue to advance education, promote communication, and develop policy positions. As IDC Chairman Michael S. Scofield turns over leadership, IDC and ICI remain committed to advocating for strong fund governance.

POLICY AGENDA

BRINGING CERTAINTY FOR FUNDS, DIRECTORS, AND SHAREHOLDERS: *JONES v. HARRIS*

by Mark A. Perry

The U.S. Supreme Court's much-anticipated decision in *Jones v. Harris Associates L.P.* is a historic ruling for the fund industry. It brings stability and certainty for mutual funds, their directors, and their shareholders in a key area—judicial review of mutual fund advisory fees. The unanimous *Jones* decision essentially validates the past three decades of practice in the industry and reaffirms the central role that independent directors play in reviewing and approving fees. The Court's opinion also represents a significant setback to the plaintiffs' securities bar, rejecting an approach that could have opened up fee decisions to more frequent and extensive litigation. Significantly, the ruling reflects the economic analysis and emphasis on director decisionmaking that ICI and the Independent Directors Council championed in their separate briefs before the Court.

Jones has its roots in Section 36(b) of the Investment Company Act of 1940, which imposes on investment advisers a "fiduciary duty" with respect to the "receipt of compensation for services." The mutual fund investors in *Jones* sued the adviser for alleged breach of this duty. Such suits typically claim that the adviser's fee is "excessive" relative to some reference point. The *Jones* plaintiffs argued that a disparity between fees charged to funds and those charged to other clients warranted a trial on the "reasonableness" of the advisory fee.

In its March 2010 opinion, the Supreme Court held that "to face liability under [Section] 36(b), an investment adviser must charge a fee that is so large that it bears no reasonable relationship to the services rendered and could not have been the product of arm's length bargaining." The Court adopted this formulation from a 1982 lower-court decision, *Gartenberg v. Merrill Lynch Asset Management Inc.*, which also outlined a list of "factors" that courts should consider in fee challenges.

ICI and IDC had urged the Court to endorse the *Gartenberg* standard, which has guided fund boards for almost 30 years. During that time, many federal trial and appellate courts have applied *Gartenberg* to evaluate fee challenges brought under 36(b). *Jones* recognizes the correctness of this approach, and thus should not cause major changes in directors' role in approving advisory fees or the litigation landscape.

Mark A. Perry is a partner in the Washington, DC, office of Gibson, Dunn & Crutcher LLP, and has represented ICI and IDC in various matters, including the Jones v. Harris *case in the Supreme Court.*

Mark A. Perry, Partner, Gibson, Dunn & Crutcher LLP, offers his analysis of the *Jones v. Harris* decision at a conference sponsored by ICI and IDC. He was joined by John D. Donovan, Partner, Ropes & Gray LLP and Supreme Court counsel to Harris Associates L.P., and Laura T. Starks, Independent Director, TIAA-CREF Funds.

The unanimous *Jones* decision essentially validates the past three decades of practice in the industry and reaffirms the central role that independent directors play in reviewing and approving fees.

But the decision does contain important messages on fee deliberations for advisers and boards. For example, *Jones* confirms that fee comparisons are integral to reviewing that process: courts have statutory authority to weigh both fees that an adviser charges other nonmutual fund clients and fees that other advisers charge similar funds. Yet the Court rejected any notion that a fee disparity, in itself, is unlawful: "Only where plaintiffs have shown a large disparity in fees that cannot be explained by the different services in addition to other evidence that the fee is outside the arm's-length range will trial be appropriate." Thus, it remains important for advisers and boards to engage in meaningful dialogue regarding not just fees, but also the services provided and variations among clients or asset classes.

The Supreme Court also provided guidance on the process of contract approval. The *Jones* decision recognizes that "if the disinterested directors considered the relevant factors, their decision to approve a particular fee agreement is entitled to considerable weight, even if a court might weigh the factors differently." Importantly, the Court ruled that judges are not to independently evaluate the "reasonableness" of advisory fees. However, the opinion points out that "a court's evaluation of an investment adviser's fiduciary duty must take into account both procedure and substance." Thus, the deference given a board's decisionmaking may vary depending on the robustness of the approval process. This should remind all those concerned of the importance of ensuring and documenting that directors receive all the information required by statute or reasonably requested by the board.

For the plaintiffs' securities bar, the *Jones* decision raises major hurdles to future fee cases. The *Jones* plaintiffs proposed a standard under which any disparity between the advisory fee and fees charged to other clients would be sufficient to warrant a trial, with essentially no deference to the directors' approval of the advisory contract. The Court firmly rejected that approach, confirming that Section 36(b) cases can, in the main, be resolved without trial. *Jones* thus continues a series of recent Supreme Court decisions recognizing that private securities lawsuits can impose extraordinary costs on organizations and their managers—costs that frequently are passed on to customers. The Court, like Congress, has embraced rules that allow courts to bring non-meritorious private suits to an early termination.

The Supreme Court relies on *amicus* briefs to bring broader perspectives and expertise to a case, and the impact of the ICI and IDC briefs is clearly reflected in the Court's decision.

When the Supreme Court agreed to hear *Jones*, the fund industry immediately recognized the importance of this challenge to the fee-setting process. In response, ICI and IDC each filed a brief as an *amicus curiae* (friend of the court) to ensure that the industry's point of view would be heard. Working with IDC in the preparation of its brief, I was struck by the range of resources and true team effort that ICI and IDC brought to bear. ICI's research, operations, and government affairs staff offered valuable perspectives, as did ICI Mutual Insurance Company and ICI's members. The Institute's public communications staff coordinated broad outreach to the media, resulting in nine editorial commentaries and dozens of media interviews. ICI, IDC, and outside counsel helped coordinate filings in the Supreme Court to ensure that *amici*'s arguments were consistent, complementary, and comprehensive.

ICI's brief urged the Supreme Court to adopt the *Gartenberg* standard, stressing that this framework has provided useful guidance for advisers, directors, and courts for almost 30 years. ICI also relied on its research and data to demonstrate that the fund industry is competitive and dynamic, providing investors increasing choices and services coupled with declining costs.

IDC's brief emphasized the role of fund directors in reviewing and approving advisory contracts, and their statutory charge to protect the interests of investors. IDC explained that Section 36(b) itself requires courts to defer to director decisionmaking in appropriate cases, and offered a framework for exercising such deference.

The Supreme Court relies on *amicus* briefs to bring broader perspectives and expertise to a case, and the impact of the ICI and IDC briefs is clearly reflected in the Court's decision. The Court relied on ICI's research in describing the industry structure and its interplay with the *Gartenberg* approach, and it is notable that ICI's *Investment Company Fact Book* is the only nonlegal source cited in the *Jones* opinion. The influence of IDC's brief can be seen in the Court's repeated reference to the role of fund directors and the Court's framework for judicial deference to director decisionmaking, which is very similar to the one proposed by IDC.

The *Jones* decision provides a vital clarification for funds' fee-setting—a process that lies at the heart of the industry's economics. Ultimately, this ruling should benefit everyone concerned with funds—advisers, directors, and shareholders—in maintaining a vibrant, competitive sector that meets the needs of America's investors.

For more information about ICI's work on Jones v. Harris, *please visit* **www.ici.org/jvh**.

QUESTION & ANSWER

MICHAEL S. SCOFIELD
Chairman, Independent Directors Council
Independent Director, Wells Fargo Advantage Funds

You were Chairman of the Independent Directors Council during a historic time that included the *Jones v. Harris* Supreme Court case. From a director's point of view, why was it such an important case?

Jones v. Harris addressed a fundamental function of independent directors, which is the evaluation and approval of the fund's advisory contract, including the adviser's compensation. Participating in this process on behalf of fund shareholders is one of the central reasons boards exist. The plaintiffs argued that substituting federal district court judges for directors would be better for investors, but when you read the Supreme Court's opinion, you see that argument soundly rejected. In fact, the opinion makes it clear that independent directors act as important watchdogs for investors.

IDC and ICI both filed friend-of-the-court briefs in *Jones v. Harris*. Why was it important to get the perspectives of both IDC and ICI into the record of this case?

It was crucial that the record included a complete picture of the industry. The two briefs informed the Justices about not just the industry, but the important role of independent directors. Unlike a case where the Court has previously defined the statutory language governing the decision, *Jones* involved legal issues unfamiliar to the Court. In many respects, *Jones* was a case of first impressions. By filing briefs from ICI as well as IDC, we were able to provide a comprehensive overview of the industry and also advocate for the sound regulatory regime and industry practices that guide directors. And because IDC and ICI presented slightly different—but complementary—perspectives, the Court received a full introduction to our industry. The importance of these briefs is clear when you read the transcript of the oral argument. Justices asked such fundamental questions as, "What does the word 'fiduciary' in the statute mean?" I believe the two briefs made a significant contribution to the successful outcome of the case.

What has IDC done to help directors understand the implications of the *Jones* decision?

Two weeks after the *Jones* decision, IDC and ICI hosted a joint conference to discuss the impact and the implications of the opinion. We selected speakers to analyze the Court's decision from different perspectives. The speakers included independent directors as well as attorneys for all the stakeholders in the industry. We even included one of the plaintiffs'

"The [*Jones*] plaintiffs argued that substituting federal district court judges for directors would be better for investors, but when you read the Supreme Court's opinion, you see that argument soundly rejected . . . the opinion makes it clear that independent directors act as important watchdogs for investors."

MICHAEL S. SCOFIELD
CHAIRMAN, INDEPENDENT DIRECTORS COUNCIL
INDEPENDENT DIRECTOR, WELLS FARGO ADVANTAGE FUNDS

attorneys. At IDC chapter meetings across the country, there has been discussions about what, if any, changes in the 15(c) process might be appropriate. Even though the decision probably won't radically change practices of boards—they've always been robust in their evaluation of the adviser's management contract—directors had the opportunity to evaluate the nuances of the Court's opinion.

During your tenure, the country experienced the worst financial crisis in decades and a money market fund "broke the dollar." How did IDC and ICI serve the director community during that time? The leadership of IDC and ICI proved both agile and able. An ICI ad hoc committee was created, which produced a definitive work: ICI's *Report of the Money Market Working Group*. That report was magnificent in the way it set forth measures to make money market funds stronger and more resilient. The report framed the debate by defining issues that were being overlooked or misunderstood and directed the discussion to the proper track. Look, money market funds are very beneficial to both retail investors and commercial markets across the United States, including municipalities, state governments, and large corporations. Amid all the confusion and debate on the causes and contributors to the crisis, some were calling for funds to be regulated out of existence. The report cut through all that noise and provided the basis for many of the reforms to the money market fund rule that were ultimately adopted by the Securities and Exchange Commission. All participants in that effort are entitled to our wholehearted thanks. Throughout this time, IDC and its leadership carefully monitored developments, weighed in on policy matters when it was appropriate to do so, and kept the director community informed.

Let's talk about the educational offerings IDC has for fund directors. One of your priorities for IDC has been to offer directors high-caliber educational offerings. Have your efforts paid off? Yes, I think so. IDC delivers a broad array of educational programs to directors, no question. In fact, I am going to pat us collectively on the back, because we've made sure that very busy people get the information they need. We have combined the West and

"IDC delivers a broad array of educational programs to directors, no question. In fact, I am going to pat us collectively on the back, because we've made sure that very busy people get the information they need."

MICHAEL S. SCOFIELD

East Coast conferences into a single event, held in a central location. We hold chapter meetings in a number of locations so that directors can gather in small groups. We also offer a number of educational conference calls to enable directors to participate by phone. On top of all this, IDC's Spring Workshop coincided with ICI's General Membership Meeting for the first time. Directors appreciated the convenience and benefits of being able to attend both meetings at the same time.

I also want to say that e-communications—including the website—are extensions of IDC's educational offerings. The website is a one-stop site for directors looking for task force papers, materials from educational conference calls and webinars, and information about upcoming events and chapter meetings, as well as IDC's comment letters. Directors have access to ICI's website and those considerable resources, too. Directors also receive *ICI Daily* via email every day, and *Board Update* arrives monthly with an excellent summary of the month's most pertinent information.

Frankly, it's hard to imagine that there's anything that gets missed.

Reflecting on your past two years, what was your greatest achievement?

The opportunity to participate at the Supreme Court level for the *Jones* case was definitely the highlight of my tenure. Being part of the IDC team during this challenging time was very gratifying because I saw all the resources of IDC and ICI brought to bear for the good of shareholders and the industry. The work of Amy [Lancellotta, Managing Director of IDC] and Annette [Capretta, Deputy Managing Director of IDC] on IDC's brief really paid off. I am proud of what IDC has achieved, and I look forward to its future growth and success.

Dorothy Berry [Independent Chair, Professionally Managed Portfolios and Independent Trustee, PNC Funds] will be taking over as IDC chair. Any thoughts for her?

Throughout her career, Dorothy has served shareholders and the independent director community with distinction. Her leadership skills are highly respected—she doesn't need any guidance from me. I'll enjoy working with Dorothy and seeing IDC achieve even greater things because of her able stewardship.

For more information about IDC's work, please visit ***www.idc.org****.*

Michael S. Scofield has been a member of ICI's Board of Governors since 2008 and a member of IDC's Governing Council since 2005. He served as Chairman of IDC from 2008 to 2010.

BUILDING AN EVER-STRONGER RETIREMENT SYSTEM

The 401(k) system is a uniquely American creation—innovative, flexible, driven by a distinctive private-sector partnership operating in a framework of sound policy decisions, and well-suited to the needs of an evolving workforce.

For decades, ICI members have helped millions of Americans work toward a vital personal goal: financial security in retirement. In 2010, ICI continued to draw upon its members' experience and expertise as it articulated both the strengths of America's retirement system and ideas for addressing the nation's retirement challenges.

Broadly, ICI has advocated for the continued development of a retirement system that offers Americans opportunities to save while maintaining the flexibility they want and the choices they need. ICI has celebrated innovation in policy and products, while stressing the need to conserve what has worked.

One success story has been the growth of the private defined contribution (DC) retirement system. In December 2009, Americans held $4.1 trillion in DC plans and another $4.3 trillion in individual retirement accounts. This accumulation is all the more impressive given that a core feature of the private retirement system—the 401(k) plan—is less than 30 years old.

On this foundation of success, ICI continues to work with Congress and regulators on ways to improve the 401(k) and other retirement vehicles. From expanding education about lifetime income options to enhancing understanding of target retirement date funds, the Institute consistently advances sensible ways to empower retirement savers: more knowledge, easy access to clear information, and an array of investment options to accommodate their personal situations and goals.

POLICY AGENDA

ADVOCATING DISCLOSURE AND CHOICE TO STRENGTHEN THE 401(k) SYSTEM

Over the three decades since its inception, the 401(k) plan has emerged as a cornerstone of Americans' retirement security. The mutual fund industry has been a key partner, along with employers, other service providers, and government, in developing 401(k) and other defined contribution plans into an innovative, flexible system that is well-adapted to the needs of an evolving American workforce. ICI has supported that development with research, legal expertise, advocacy, and education—all key elements in ICI's work on retirement issues during 2010.

The unsettling events of 2008—when the stock market's rapid decline cut the average 401(k) balance by almost one-quarter—continued to reverberate in policy debates. ICI worked with policymakers on needed changes to strengthen the defined contribution system while ensuring its essential features—choice, innovation, and flexibility—were not undermined. Throughout these debates, ICI supported its positions with hard data and informed analysis.

For many years, the Institute has brought its extensive research on 401(k) plan fees and investor preferences to bear on the quest for meaningful disclosure of 401(k) fees. ICI consistently supported the Department of Labor's efforts to ensure that employers and workers receive the clear, concise information they need to help them make informed decisions about all 401(k) investment options.

This year, the DOL pursued two initiatives to reach that goal. In March, it released an interim final rule to improve disclosure from plan service providers to employers who offer 401(k) plans. In a comment letter filed in August 2010, ICI supported the service provider disclosure regulation, saying the rule would render significant dividends for employers because it will allow them to be better informed about plan service providers and will give them fee information on all plan investments. The DOL also made progress on improved disclosure to plan participants—another goal long supported by ICI.

But tax legislation passed by the House in May threatened to derail progress toward these goals by imposing new statutory requirements on disclosure to employers and workers. ICI argued forcefully to the House and Senate that enactment of the legislation simply would postpone completion of the DOL's rules and delay implementation of needed disclosure reform. The provisions requiring statutory 401(k) disclosure were removed from the legislation.

John J. Brennan, Chairman Emeritus, Vanguard, and Mellody Hobson, President, Ariel Investments, LLC, take questions at a National Press Club event in Washington, DC, on the enduring confidence that Americans have in their 401(k) plans.

"Investors have largely stayed the course. Being in the markets compounds the benefits of economic growth and interest, and that's how wealth is created."

JOHN J. BRENNAN
CHAIRMAN EMERITUS
VANGUARD

In October, the DOL released the final regulations for participant disclosure. The rule's focus is to provide workers with straightforward, key information on all the investment options and fees associated with their 401(k) plans. As ICI advocated, the required disclosures for mutual funds are consistent with those required under the Securities and Exchange Commission's rules.

ICI's advocacy on behalf of the 401(k) system extended to the courts in 2010, as litigation tested whether large plans can be sued for using mutual funds as plan investments. In *Loomis v. Exelon*, plaintiffs pursued claims that plan fiduciaries acted imprudently by including "retail" mutual funds on 401(k) plan menus. ICI filed a friend-of-the-court brief pointing out that mutual funds are widespread investment options in 401(k) plans and explaining how plaintiffs and the DOL, which also filed a brief in the case, were mischaracterizing mutual fund fees. ICI's brief, filed jointly with the ERISA Industry Committee, was mentioned favorably by the judges during oral argument on the case in the U.S. Circuit Court of Appeals for the Seventh Circuit.

The success of the account-based defined contribution retirement system has brought focus on the issue of how retirees can manage their assets to last a lifetime. The February 2010 report of Vice President Joe Biden's Middle Class Task Force helped spark the Obama Administration's interest in policies that could promote guaranteed lifetime income products. As a result, the DOL and the U.S. Department of the Treasury sought information on whether plan sponsors and participants should be given incentives to encourage greater use of annuities in defined contribution plans and individual retirement accounts. In comments filed in May, ICI rejected the notion of one-size-fits-all solutions for retirement planning.

ICI's advocacy for retiree choice is based on substantial research on how Americans decide to take distributions from their defined contribution plan accounts or IRAs. In a recent ICI household survey, retirees report that they have a wide variety of spending needs in their retirement. ICI surveys also indicate that Americans are overwhelmingly opposed to proposals that would cost them control over their retirement assets. ICI found that more than 70 percent of all households disagree with the notion of requiring retirees to buy annuities with a portion of their assets, whether that annuity is offered by an insurance company or by the government. ICI research also shows that retirees are careful stewards of their retirement assets and make sound choices among the options they have available when it comes to retirement planning.

"Now more than ever, we all have to depend on how skillfully we plan and invest, and whether we make good use of tax-advantaged savings plans such as IRAs and 401(k) accounts."

MELLODY HOBSON
PRESIDENT
ARIEL INVESTMENTS, LLC

"The role of government should be to promote access to education and information to help individuals make informed decisions," wrote Paul Stevens, ICI President and CEO, in a commentary published in *BNA Pensions and Benefits Daily*. Both annuity and non-annuity approaches to lifetime income are valid, he noted, and government should not favor one approach over another. Stevens shared and expanded on these views at a joint hearing held by the DOL and the Treasury Department in September 2010. "The primary concern for policy in the realm of lifetime income should be ensuring that participants and other retiring individuals have access to clear, concise, and comprehensive information about their options and the tradeoffs involved in their choices," Stevens said.

While legislative and regulatory advocacy remains crucial, the Institute also has used its considerable research and knowledge to bolster public support for the 401(k) system. In January 2010, ICI published extensive data from household surveys and account records on public attitudes toward 401(k) plans and participants' behavior in the face of the financial crisis. The findings were clear: American workers are still confident that retirement plan accounts can help them reach their retirement goals and Americans are supportive of key features of the plans. "Americans believe these plans can deliver," Stevens told a Newsmakers forum at the National Press Club in Washington, DC. Stevens was joined at the forum by John J. Brennan, Chairman Emeritus of Vanguard, and Mellody Hobson, President of Ariel Investments, who brought their perspectives and their firms' experience with investors to the discussion.

These public attitudes are rooted in support for one of the key principles of 401(k) plans—leaving choices to workers and employers. Among households that had defined contribution plans, nearly all surveyed voiced support for individual choice and control of their investments. ICI's survey of recordkeeper data from nearly 24 million defined contribution accounts showed that workers confirmed their confidence in 401(k)s with commitment. The data showed that participants continued to contribute through the tough market, withdrawal activity stayed at limited levels, and loan activity was in line with the experience of the past several years.

The 401(k) system will remain fundamental to our national retirement system, and its structure is still evolving to further improve its ability to provide retirement security and to match demand for greater flexibility. The fund industry has a long history of partnering with employers, workers, government, and other financial interests to help build and enhance the 401(k)—a history that is integral to the success story of these plans. ICI, in partnership with its members, will work to shape the future of the 401(k) to provide retirement security to millions of Americans.

For more information about ICI's work on retirement research and policy, please visit ***www.ici.org/401k***.

CASE STUDY

ENHANCING UNDERSTANDING OF TARGET DATE FUNDS

Target retirement date funds continue to grow rapidly, demonstrating in the market their appeal to retirement savers. As of September 2010, these funds held about $310 billion in assets, representing an increase of more than 30 percent from a year earlier. Although target retirement date funds accounted for less than 10 percent of total 401(k) plan assets, three-quarters of 401(k) plans included these funds as a plan option. In this environment, ICI—whose members are entrusted with the retirement savings of 47 million U.S. households—has worked with regulators and policymakers to enhance public understanding of target retirement date funds and to ensure that the interests of their investors are protected.

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ICI has been a strong voice in the public debate surrounding legislative and regulatory initiatives regarding target retirement date funds.

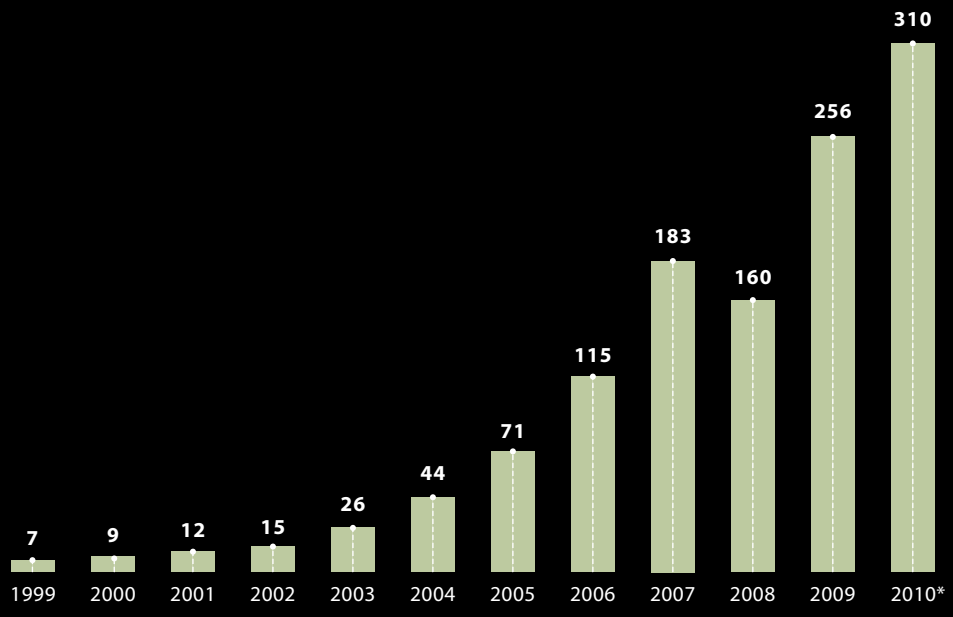
In testimony submitted for an October 2009 hearing by the Senate Special Committee on Aging, ICI supported policymakers' efforts to examine the funds to help ensure that this product continues to meet the needs of plans and participants, particularly in light of the effects of the financial crisis of 2008. ICI also called for redoubled efforts to educate investors about investing, retirement savings products, and the benefits of consistent retirement saving.

The testimony cautioned against government regulation of details in the design, management, or use of target retirement date funds. Instead, ICI advocated enhanced disclosure to address gaps in the public understanding of these funds. In addition, ICI argued it is imperative that any new rules apply to all products using target date strategies, whether offered as mutual funds, collective trusts, or other pooled products.

In the spring, the Securities and Exchange Commission and Department of Labor issued joint guidance to investors on target date funds. ICI welcomed

Target Date Mutual Funds Grow Rapidly

Billions of dollars, end-of-period, 1999–2010:Q2



**As of September 2010*

Source: Investment Company Institute

Target retirement date funds provide a convenient way to save for retirement. Through these funds, an investor can purchase a mix of asset classes that is professionally designed, managed, and rebalanced as the participant ages.

the release as "sensible guidance" for investment decisions about these funds.

In June 2010, the SEC proposed significant amendments to its antifraud and advertising rules to detail information that must appear in target date fund marketing materials and ads. Among other things, the agency's proposal would require a fund to include an illustration of its asset allocation over time, or glide path.

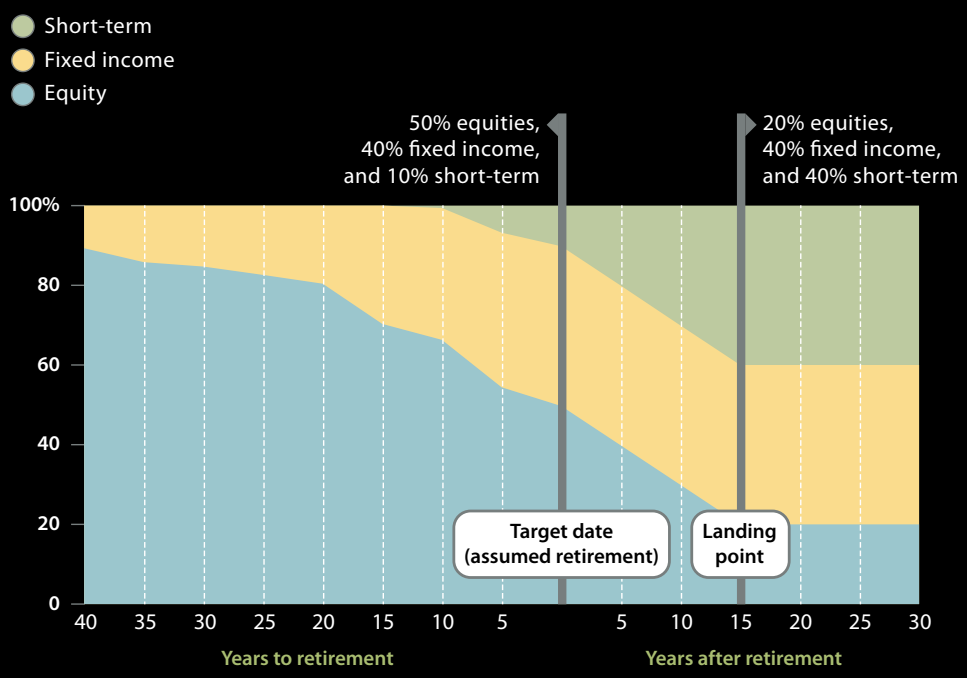
The Institute's August comment letter supported the "spirit and core" of the proposal. Like ICI's *Principles to Enhance Understanding of Target Date Funds*, the SEC proposal focuses on communicating key pieces of information about target date funds to investors and emphasizes the use of a graphic glide path illustration to explain the fund's asset allocation. ICI urged the Commission, however, to continue its long-standing practice of not dictating specific content of fund marketing materials. In that spirit, the Institute opposed an SEC proposal to require a target date retirement fund to disclose the fund's asset allocation at the target date next to the first use of the fund's name in marketing materials. The Institute called the glide path illustration the proposal's most important element and also argued that the DOL should apply any advertising standards equally to target date strategies that are not mutual funds.

Policymaker, media, and public interest in target retirement date funds remains strong. ICI's research analysis and policy expertise will be key to efforts to enhance understanding of this crucial product as its role in America's retirement system grows.

For more information about ICI's work on target retirement date funds, please visit ***www.ici.org/trdf****.*

ICI's research analysis and policy expertise will be key to efforts to enhance understanding of target date funds as their role in America's retirement system grows.

Glide Path Illustrations Communicate Key Information



The figure illustrates a fund with a glide path that is expected to reach its final asset allocation 15 years after the target date, and that uses equity, fixed income, and short-term assets as its broad asset classes. The illustration features the asset allocation over the life of the fund, including at the target date and landing point.

ICI's *Principles to Enhance Understanding of Target Date Funds* call for each target date fund to provide prominent disclosure of five key pieces of information, including the fund's asset allocation over time, or glide path, presented as an illustration. A glide path illustration, used in conjunction with the *Principles'* other recommended disclosures, communicates important features of a target date fund to investors at a glance and is an effective tool in enhancing understanding of a fund.

HELPING FUNDS SERVE SHAREHOLDERS AND THE PUBLIC

The ICI Research Department seeks to bring together the highest quality data and scholarship about investment companies, fund shareholders, and the retirement market; to serve as a resource for ICI members, educators, government officials, journalists, and the general public; and to facilitate sound, well-informed public policies affecting investment companies, their investors, and retirement markets.

The mutual fund industry can only succeed by putting investors first. More than 90 million investors now place their trust in funds, and the fund industry must continually guard and nurture that trust. ICI helps funds do so by promoting public understanding of funds and fund investing, and by helping members find ways to make investing more efficient and effective.

In these endeavors, ICI depends enormously on the involvement and support of its members. ICI Research, for example, rests on the data that members provide through 13 distinct surveys every year, ranging from daily snapshots of flows from nearly 5,000 share classes to annual measurements of institutional investments. This wellspring of information is gathered and analyzed by ICI Research's 40-strong team, which includes economists with extensive experience in the government's economic agencies. ICI's data and in-depth policy reports inform analysts and policymakers who more than ever value insight into how Americans save, build wealth, and react to market developments.

Funds also build trust by delivering outstanding service to their shareholders. For decades, ICI has brought together industry leaders to tackle operational challenges faced by funds and fund distributors alike. With members' help, the Institute addresses accounting, technological, and trading issues that affect funds' operations and shareholder service. The result has been the development of systems that enable investors and their financial advisers to buy, manage, and sell funds efficiently and at low cost. With exciting advances in technology as well as financial innovations within a well-established regulatory framework, investors can expect more from an industry that works for them.

QUESTION & ANSWER

SARAH A. HOLDEN
Senior Director of Retirement and Investor Research
Investment Company Institute

2010 was a banner year for ICI Research: the fiftieth edition of the *Investment Company Fact Book,* research cited by the Supreme Court, and a first-ever database on individual retirement account investors. What do those developments say about ICI Research?

Well, they say that ICI continues to expand upon a long history of research, which has a reputation for solid statistics, clear insights, and integrity. ICI builds its advocacy for funds, their shareholders, directors, and advisers on a foundation of concrete data, and ICI Research is central to providing those facts and increasing public understanding of the issues we study.

The Institute conducts research on a scale that few industry associations can match, combined with the depth of our research effort and the expertise of our staff. We also have a longstanding commitment to publish the numbers, whatever they are. If assets went down, they went down. If there were outflows, there were outflows. So we have integrity—we stick to the facts, whether it's good or bad news, and we publish it.

ICI research was cited in *Jones v. Harris*. What does it show about the economics of the fund industry—particularly competition and fees?

My colleagues have conducted analysis that finds the fund industry is dynamic and competitive. This is reflected in the fees and expenses, which have tended to fall under competitive and other pressures over time. Shareholders concentrate their assets in lower-cost funds, and we see that over time the average expenses paid by mutual fund shareholders have fallen. ICI Research provided evidence and arguments for the friend-of-the-court brief the Institute filed in *Jones v. Harris*, and the work by my ICI Research colleagues published in ICI's *Investment Company Fact Book* was the only nonlegal source of data cited by the U.S. Supreme Court in its opinion.

ICI Research has a long history of data gathering and scholarship going back to the 1940s. How does this foundation of research shape your work today?

To understand the way forward, it helps to know where you've been. We started gathering figures on industry assets and sales almost from the start of the industry in 1940, and we launched our investor research before the first *Fact Book* was published in 1958.

The current incarnation of our investor data collection is the Annual Mutual Fund Shareholder Tracking Survey, which we've conducted since 1987. We survey some 4,200 U.S. households each year to find out how they're saving and investing. It's one of the longest-running surveys on fund investors, and the results are

"I think our biggest priority is continuing our commitment to produce high-quality research and maintaining our high level of member commitment….This means continuing to innovate and…build on our long legacy of robust research."

SARAH A. HOLDEN
SENIOR DIRECTOR OF RETIREMENT AND INVESTOR RESEARCH
INVESTMENT COMPANY INSTITUTE

a valuable resource for policymakers, researchers, and members who seek to understand the characteristics and sentiments of households that own mutual funds. We are also a source for IRA research, giving insight into how people use IRAs as they're saving for retirement and, indeed, in retirement. All this data collection helps ground our understanding of retirement issues in hard data and analysis.

How does ICI Research work with members?

It's a two-way street. Our members provide us with data, and we provide them with whatever help we can in terms of aggregate trends and research. I'm always impressed by how committed our members are to providing quality data on a timely basis. You get a sense that they not only care very deeply about their own fund houses, but also about the entire fund neighborhood. This makes our aggregate totals robust and representative. On the other side of the street, we serve as a resource to members, providing them with numerous data updates and reports throughout the year. We also answer specific questions through countless emails and phone calls.

Another way we work with members is through the committee structure at ICI. We update members of a given committee on information that's relevant to them with high-level summaries of our research and policy issues that have come up since the committee last met.

How has ICI's research program evolved?

Well, the research program has expanded, both in terms of staff and in depth over time. For example, we used to look only at mutual fund shareholders working through just a set of our members, whereas now we're conducting nationwide surveys across all U.S. households. We've expanded the range of topics that we're addressing, and we're addressing them from different angles and, in some cases, we are partnering with other organizations. We have a longstanding collaborative effort with the Employee Benefit Research Institute, studying a database on some 24 million 401(k) participants. And we just launched a collaboration with the Securities Industry and Financial Markets Association on a data collection effort that gathers recordkeeper data for IRA investors—The IRA Investor Database.

You published the first findings from The IRA Investor Database in July. How will this research help ICI and policymakers?

These data expand our understanding of the role that IRAs play in individuals' retirement planning,

"Our research has found that retirement savers are a very committed group. …They're mindful and have a long-term view. They're good stewards of their assets."

SARAH A. HOLDEN

providing a deeper look into the demographics, decisions, and activities of IRA investors. Using recordkeeper data, it is possible to analyze the exact dollar amounts involved in individual IRA investors' contribution, rollover, asset allocation, and withdrawal activities. The first report uncovered a small but committed group of individuals using traditional IRAs as a contributory savings vehicle.

How did ICI Research study 401(k) plan participants' behavior during the financial crisis, and what did you learn?

We took a three-pronged approach to study the impact of the financial crisis. We fielded our risk-tolerance survey questions to find out how mutual fund shareholders feel about risk, and whether their confidence or sentiment changes as the market changes. We fielded a new household survey in the fall of 2008 and 2009 to gather public attitudes toward defined contribution plans. We also created a survey to find out what 401(k) participants were really doing by going directly to the plan recordkeepers.

We found commitment and confidence in the 401(k) vehicle. We learned that loan activity was in line with the past several years; most participants continued contributing through the tough market; and only a small percentage of participants took withdrawals.

Did that surprise you?

Not really. Our research has found that retirement savers are a very committed group through good markets and bad markets. Retirement savers really strike me as very resilient. They stay calm in the face of headlines that basically tell them they should be bailing out. They're mindful and have a long-term view. They're good stewards of their assets—whether those assets are in their employer-sponsored plans or IRAs. People recognized that leaving the market is a bad choice, and they decided, "We've earmarked that money for retirement and we're not going to lose sight of that goal." They stick to their guns and, paycheck by paycheck, accumulate a nest egg.

Looking forward, what do you see as the biggest priority for ICI Research?

I think our biggest priority is continuing our commitment to produce high-quality research and maintaining our high level of member commitment. So, this involves keeping the engagement of members as high as it is now to maintain the wide, representative base for our information. It means continuing our household surveys to track core demographic and financial information while also refining the surveys to address new policy issues as they arise. Going forward, this means continuing to innovate and broaden our research abilities to build on our long legacy of robust research.

For more information about ICI's research work, please visit ***www.ici.org/research****.*

Sarah A. Holden joined ICI in 1999 and has been the Senior Director of Retirement and Investor Research since 2007.

QUESTION & ANSWER

DONALD J. BOTELER
Vice President of Operations and Continuing Education
Investment Company Institute

What approach does ICI Operations take to help funds serve shareholders effectively?

We do it in three ways. First, we bring industry operations leaders together to help solve common business problems. When we find a consensus around a best practice or standard, we then help organize initiatives to build tools to those standards that create efficiency, reduce risk and cost, and deliver continually improving service to shareholders.

The next is our work on the front end of the policy process. A new rule may be proposed that could significantly affect or inadvertently disrupt fund operations. We get input from our members, in practical terms, and make that part of the overall position that ICI will take in communicating members' concerns to policymakers.

The final leg is implementation. So the curtain falls—we now have new regulation with which all funds have to comply. How do we do that in the most effective, least expensive way? We try to resolve any issues through standardizing, leveraging technology, and developing centralized tools wherever possible.

How does Operations channel the expertise of ICI members?

We rely primarily on our various committees, working groups, and task forces. Each member firm can appoint someone to each of our standing committees, such as the Operations Committee, Accounting/Treasurers Committee, or the Technology Committee. Most of the heavy lifting on industry projects is done in the Broker/Dealer Advisory Committee; the Bank, Trust, and Recordkeeper Advisory Committee; and the Transfer Agent Advisory Committee. After all my years at ICI, I am still amazed at the degree of cooperation and *esprit de corps* that our industry's operations professionals demonstrate in pursuit of the common good. They deserve all the credit.

How does Operations share insights?

One example among many would be our recently published transfer agent study. Transfer agency and shareholder servicing together are typically a fund's second biggest cost, outside of investment advisory services. Every other year, we collect transfer agent billing and related data from participating members and cut that information six ways to Sunday, including calculating an all-in cost. That way, members who

"After all my years at ICI, I am still amazed at the degree of cooperation and *esprit de corps* that our industry's operations professionals demonstrate in pursuit of the common good."

DONALD J. BOTELER
VICE PRESIDENT OF OPERATIONS AND CONTINUING EDUCATION
INVESTMENT COMPANY INSTITUTE

participate in the study can get actionable insights based on fund type, type of transfer agent relationship, billing methodology, distribution method, and other criteria. It's particularly important these days because the omnibus account trend is leading to a dispersion of recordkeeping and servicing among third parties.

In what ways has the recent financial crisis affected the operations community?

The crisis caused us to focus like a laser on several areas of valuation and accounting. For example, with respect to valuation, many of our members are working more closely with their pricing vendors on what's called the challenge process. During the crisis, market illiquidity made daily pricing more difficult, and the pricing vendor community had trouble supporting all the challenges. We have a group that is concentrating on this issue, and they are coming up with some very forward-looking ideas about making the information flow more transparent in both directions. This could lead to improvements in the whole process of daily pricing.

And accounting?

One thing the crisis did was create urgency around the development of one global set of standards for accounting and financial reporting. It's a noble purpose, but it's a big, big challenge. So we are paying close attention and engaging with the standard-setters on issues of importance to mutual funds.

We've also been working hard, like everyone else at ICI, to preserve money market funds as a viable financial product for investors. The Financial Accounting Standards Board recently proposed that money market funds present their financial statements at market value rather than amortized cost. There's so little difference between the portfolio at amortized cost and at market that we're suggesting it doesn't make much sense to force this change, especially since this information will soon be available in public filings every month in accordance with new Securities and Exchange Commission requirements.

Another part of that proposal—one that would affect all funds—would treat portfolio transaction costs as operating expenses. Currently, transaction costs are added to the cost basis of securities purchased and deducted from proceeds of securities sold, reducing reported gains or increasing reported losses. We are strongly against moving away from that approach. The expense ratio would become less useful for investors, and funds would have a book or tax difference because the tax authorities aren't changing their approach to transaction costs.

> "The basic nature of the operations challenge is the same: how do we move money and information more efficiently and seamlessly?"
>
> DONALD J. BOTELER

You've been with ICI since 1986. How do today's operations challenges compare to challenges back then?

The basic nature of the operations challenge is the same: how do we move money and information more efficiently and seamlessly? How do we end the paper chase? How do we adapt to constant change?

When I joined ICI, a group of funds and distributors were already meeting regularly to help develop the trading platform that standardized interactions between funds and brokers. That platform, known as Fund/SERV—along with the NSCC Networking service that soon followed—became the foundation for a full suite of mutual fund services built and maintained by the Depository Trust & Clearing Corporation (DTCC). From the beginning, we have supported an ongoing collaboration between the DTCC, our industry operations leaders, and their many business partners. A host of other services have been implemented since then to support retirement plans, 529 plans, banks, trusts, and other sources of business.

And we are still making good progress, thanks to leadership and help from industry volunteers. Automating account transfers, preparing for mandatory cost basis reporting, and meeting the challenge of a movement among brokers to an omnibus account business model—all of these things will add up to incalculable savings for funds and fund investors. Looking ahead, we need to continually strengthen the ICI-DTCC partnership, keep a sharp eye out for incipient trends, and move quickly to respond to members' changing needs. I know my team at ICI will be ready. Their good work with our members and others accounts for much of the progress we've made.

What are a few trends that you and your team have a sharp eye on now?

ICI's Broker/Dealer Advisory Committee has been working on a range of initiatives that together build transparency into the omnibus account environment. One of these new services—tentatively called OmniSERV—will enhance data transparency to facilitate compliance and oversight activities. It will also provide centralized, automated reconciliation and invoicing capabilities.

Data security, privacy, and remote processing are also hot buttons for funds and shareholders. Investment professionals want to communicate with clients and others using the latest kind of mobile devices. Technology folks are responsible for checking whether these communications are secure. Sharing best practices around these concerns is a priority for our Technology Committee.

Last, but certainly not least, the proposal to overhaul the distribution of mutual funds and replace Rule 12b-1 could have far-reaching ramifications for the industry and for operations professionals in particular. We'll see how that plays out. It's exciting to be part of it, that's for sure. I've had a lot of problems to solve at ICI, but boredom has not been one of them.

For more information about ICI's work on operations, please visit ***www.ici.org/operations****.*

Donald J. Boteler joined ICI in 1986 and has been Vice President of Operations and Continuing Education at ICI since 1993.

ICI'S POLITICAL ENGAGEMENT

THE CHAIRMAN'S COUNCIL AND ICI PAC

Debates and decisions made on Capitol Hill often have significant implications for funds and investors. So ICI, following a measured, bipartisan approach, promotes fund industry participation in the political process. Through events and programs, the Institute fosters dialogue with policymakers who understand the important role the fund industry plays in the financial security of their constituents.

Two important components of ICI's political engagement are the Chairman's Council and ICI's political action committee, ICI PAC. Appointed by ICI's Board of Governors, the Chairman's Council oversees ICI political activities, including ICI PAC. The Chairman's Council sets fundraising objectives and suggested minimum contribution levels for ICI member companies, who can contribute to ICI PAC after signing an authorization form.

John W. McGonigle, Vice Chairman at Federated Investors, Inc., has chaired the Chairman's Council since 2005. Under his leadership, the Council has played a vital role in ICI's political engagement and has consistently expanded its presence with record levels of contribution. Total fundraising for the Chairman's Council, for example, has risen from $1.4 million raised during the 2003–2004 congressional election cycle to a projected $2.5 million for the cycle ending in November 2010.

"John's track record of accomplishment as the head of the Chairman's Council is truly striking," says Edward C. Bernard, Vice Chairman of T. Rowe Price Group. "We've all been inspired by his passion and leadership."

"John has been instrumental in building ICI's political program, which is one that will continue to serve funds and investors as Congress addresses the nation's challenges," says Robert S. Dow, Senior Partner at Lord, Abbett & Co. LLC.

In fiscal year 2010, ICI PAC hosted events for five Democrats and five Republicans seeking reelection to either the U.S. House of Representatives or the U.S. Senate. The Chairman's Council chooses these candidates for their knowledge of the fund industry, the interest they have demonstrated in it, and their presence on legislative committees of importance to funds. The Chairman's Council also compiles a list of recommended candidates to whom employees or PACs of member companies are encouraged to contribute.

Thus, ICI members have three ways to engage politically via the Chairman's Council: contribute to ICI PAC, participate in an ICI PAC fundraiser, or contribute to a recommended candidate. This flexible yet targeted approach ensures that the industry builds its rapport with key members of Congress.

Rep. Jim Himes (D-CT) and John W. McGonigle, ICI Governor and Chairman, ICI Chairman's Council, and Vice Chairman, Federated Investors, Inc., discuss fund industry issues, March 4, 2010.

"The Chairman's Council and ICI PAC provide individuals in the fund industry a united voice in support of members of Congress who understand the importance of funds as intermediaries that serve the long-term financial needs of more than 90 million investors."

JOHN W. McGONIGLE
CHAIRMAN, ICI CHAIRMAN'S COUNCIL
VICE CHAIRMAN, FEDERATED INVESTORS, INC.

CLOCKWISE FROM TOP LEFT:

Rep. Paul Ryan (R-WI) exchanges views at ICI's Sixth Annual Leadership Dinner with ICI Governor Lloyd A. Wennlund, Executive Vice President and Managing Director, Northern Trust Global Investments; ICI Governor Michael D. Strohm, Chief Executive Officer, Waddell & Reed, Inc.; Mark Nerud, President and CEO, Jackson National Asset Management LLC; and ICI Governor Michael J. Cosgrove, President and CEO, Mutual Funds, GE Asset Management, Inc., May 5, 2010.

ICI Governor John F. Cogan Jr., Chairman, Pioneer Investment Management USA Inc., and Rep. Richard E. Neal (D-MA) at ICI's Sixth Annual Leadership Dinner.

Rep. Kevin McCarthy (R-CA) addresses attendees at a fundraising event, June 16, 2010.

Rep. Gregory W. Meeks (D-NY) attends ICI's Sixth Annual Leadership Dinner with ICI Governor Robert C. Pozen, Chairman Emeritus, MFS Investment Management, and Donald C. Auerbach, ICI Chief Government Affairs Officer, May 5, 2010.

CLOCKWISE FROM TOP LEFT:

Senator Barbara Mikulski (D-MD) talks with ICI Chairman Edward C. Bernard, Vice Chairman, T. Rowe Price Group, Inc., and ICI President and CEO Paul Stevens, September 15, 2010.

Rep. Tom Price (R-GA) is welcomed to ICI by Dean R. Sackett III, ICI Chief Government Affairs Officer, July 28, 2010.

ICI Governor Brent R. Harris, Chairman, PIMCO Funds; House Republican Whip Eric Cantor (R-VA); and ICI Governor Paul G. Haaga Jr., Chairman, Capital Research and Management Company; converse at a fundraiser, October 9, 2010.

Rep. Allyson Y. Schwartz (D-PA) fields questions, July 14, 2010.

INVESTORS AND INVESTING: THE WAY FORWARD

52nd ANNUAL ICI GENERAL MEMBERSHIP MEETING

In May 2010, ICI's 52nd Annual General Membership Meeting (GMM) assembled an extraordinarily diverse group of industry professionals. For the first time, GMM was co-located with three other conferences—the Operations and Technology Conference, the Mutual Fund Compliance Programs Conference, and the Investment Company Directors Workshop. This innovative approach allowed attendees at each conference to choose from GMM's rich program of events.

"Mutual funds continue to be the primary means of investing for ordinary Americans," Mark R. Fetting, Chairman of the 2010 GMM and Chairman and CEO of Legg Mason, Inc., told attendees. "Now more than ever, we need to help investors rebuild wealth after the market dislocation and to continue to save for the future."

A panel of industry leaders, moderated by F. William McNabb III, Chairman and CEO of Vanguard, discussed the importance of learning lessons from the recent financial crisis, creating a fiduciary standard for brokers, and keeping the $1.00 net asset value (NAV) for money market funds. "We hear from our investors all the time that they really value the stability of the $1.00 per share," McNabb said. "I think [it is] a very vital thing for us as we go forward."

At the Investment Company Directors Workshop, a panel of directors discussed "Evolving Trends in Fund Products and Implications for Fund Boards," stressing the importance of communication between a fund's board and management, particularly when a new fund is introduced.

Leaders at the Operations and Technology Conference shared information about how their organizations are dealing with current challenges, changing markets, and industry consolidation. Specific topics discussed were globalization, product and customer evolution, and managing information technology.

At the Compliance Conference, panelists touched upon a number of regulatory and ethical issues with a focus on how the role and responsibilities of Chief Compliance Officers are evolving in response to new regulatory demands.

Andrew "Buddy" Donohue, Director of the Securities and Exchange Commission Division of Investment Management, called for improvements to municipal market transparency and discussed the stable $1.00 NAV of money market funds. Donohue also addressed the Commission's plans on Rule 12b-1 and the SEC review of derivatives used by exchange-traded funds and mutual funds.

For the first time, the 2010 GMM included the Policy Forum, where former Senate Majority Leader Trent Lott (R-MS) and former Senator and Governor Jon Corzine (D-NJ) addressed anti-incumbent sentiment, agreeing that the public mood poses significant challenges for both political parties.

ICI General Membership Meeting Chairman Mark R. Fetting, Chairman and CEO, Legg Mason, Inc., addresses the GMM opening session.

"We have emerged from this crisis with a continued commitment to our investors. Across our firms, we are reaching out, through all available channels, to engage with our shareholders. We're focusing on delivering on our investment mission."

MARK R. FETTING
CHAIRMAN, ICI GENERAL MEMBERSHIP MEETING
CHAIRMAN AND CEO, LEGG MASON, INC.

PROMOTING INNOVATION IN FINANCIAL EDUCATION

ICI EDUCATION FOUNDATION

The Investment Company Institute Education Foundation (ICIEF) awarded three new grants to promote investor education in 2010, bringing the total number of grants to six since the program was launched last year.

The Institute's Education Foundation supports ICI's policy agenda. Since its formation in 1989, ICIEF has pursued the overarching objective of advocating financial literacy and, in so doing, building visibility and goodwill for the Institute and its members. Over the years, the Foundation has planned, sponsored, and promoted investment education programs that benefit Institute members, fund shareholders, and the investing public. ICIEF focuses its efforts in areas that do not compete with ICI members' programs and that offer the opportunity for maximum impact with limited resources.

The Education Foundation has partnered with government agencies and other nonprofit organizations to develop and deliver investment education programs to specific audiences such as college and secondary school teachers and students, journalists, and underserved populations, including African-American and Hispanic investors. ICIEF has also become a well-known participant in a variety of advocacy coalitions, conferences, and initiatives that promote financial education, saving, and investment nationwide. As part of this effort, the Foundation has engaged with many organizations, including the Securities and Exchange Commission, the North American Securities Administrators Association, the Financial Industry Regulatory Authority, and the U.S. Departments of Education, Treasury, and Labor.

Since the program launched in mid-2009, ICIEF has awarded six grants to Junior Achievement of the National Capital Area, STRIVE DC, UNCF (the United Negro College Fund), SIFMA Foundation, Arlington County Office of Virginia Cooperative Extension, and the University of Maryland.

ICIEF accepts grant applications continually and reviews them on a quarterly basis.
For more information about ICI's work on financial education, please visit ***www.icief.org****.*

Ben S. Bernanke, Chairman of the Board of Governors of the Federal Reserve System, addresses school children in the investment storefront, sponsored by the ICI Education Foundation, at the Junior Achievement Finance Park, Fairfax County, VA.

The need for investor education has never been more apparent or widespread. ICIEF's objective for this grant program is to identify, inspire, or replicate best practices in investor education that build knowledge and create confidence, starting in the national capital region.

APPENDICES

ICI works closely with members who volunteer their time and talent on committees and working groups to develop policy positions that reflect funds' priorities and protect the interests of fund investors.

APPENDIX A

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 mutual funds, exchange-traded funds, closed-end 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, page 64).

The Institute employs a staff of 157 (see Appendix E, page 67). ICI's Board of Governors is composed of 46 members, representing ICI member companies and independent directors of investment companies. Governors are elected annually to staggered three-year terms. 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 five 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 programs, including the political action committee, ICI PAC (page 52). The Chairman's Council includes eight Governors and the Treasurer of ICI PAC. The Institute's President serves as an *ex officio* member.

The needs of investment company independent directors are addressed through the Independent Directors Council (Appendix C, page 66). IDC organizes educational programs, keeps directors informed of industry and regulatory developments, and assists in the development and communication of policy positions on key issues for fund boards.

Seventeen standing committees, bringing together more than 1,600 industry professionals, guide the Institute's policy work. ICI standing committees perform a number of important roles, including assisting with formulation of policy positions as well as gathering and disseminating information on industry practices (see Appendix D, page 66). In addition, 27 industry advisory committees, task forces, forums, and working groups with more than 2,000 participants tackle a range of regulatory, operations, and business issues. In all of its activities, ICI 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, 2010

ASSETS	
Cash and cash equivalents	$891,249
Investments, at market value	42,044,319
Accounts receivable	541,196
Prepaid expenses	1,855,484
Other assets	660,862
Furniture, equipment, and leasehold improvements, net (less accumulated depreciation of $10,038,134)	2,984,299
Total assets	$48,977,409
LIABILITIES AND NET ASSETS	
Liabilities	
Payroll and related charges accrued and withheld	$16,975,437
Accounts payable and accrued expenses	3,993,534
Deferred revenue	257,278
Rent credit	617,400
Deferred rent	2,042,353
Total liabilities	23,886,002
Assets	
Undesignated net assets	24,091,407
Board designated net assets	1,000,000
Total net assets	25,091,407
Total liabilities and net assets	$48,977,409

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

for the year ended September 30, 2010

CORE INCOME	
Membership dues	$44,012,095
Investment income	1,591,534
Royalty income	914,707
Program income	1,192,588
Total core income	47,710,924
CORE EXPENSES	
Administrative expenses	$38,557,533
Program expenses	5,182,592
Depreciation and lobby proxy tax	3,004,710
Total core expenses	46,744,835
Change in net assets–core	$966,089
SELF-FUNDED INCOME	
Conferences	$3,391,533
Other self-funded income	931,051
Total self-funded income	$4,322,584
SELF-FUNDED EXPENSES	
Conferences	$3,121,187
Other self-funded expenses	496,073
Total self-funded expenses	3,617,260
Change in net assets–self-funded	705,324
Change in net assets from operations	1,671,413
Non-operating expenses	1,810,404
Actuarial pension/postretirement plan loss	357,475
Change in net assets	(496,466)
Net assets, beginning of year	25,587,873
Net assets, end of year	$25,091,407

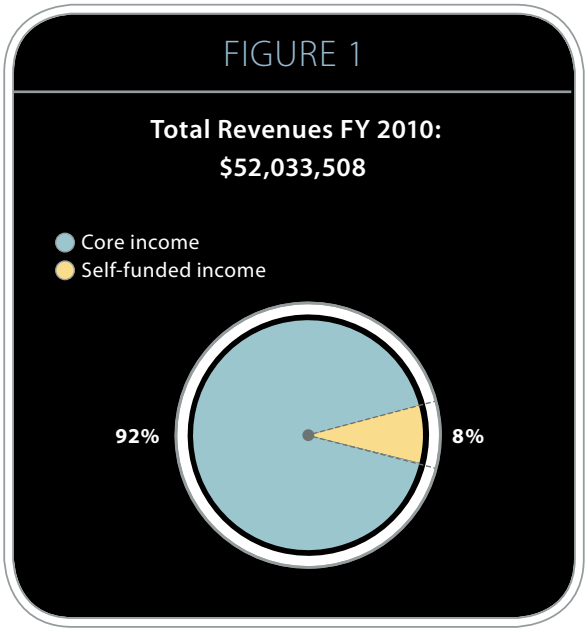
These financial statements are preliminary unaudited statements as of September 30, 2010. Audited financial statements for the fiscal year ended September 30, 2010, will be available after February 1, 2011. For information on obtaining copies of the audited statements, please contact Mark Delcoco at 202/326-5974.

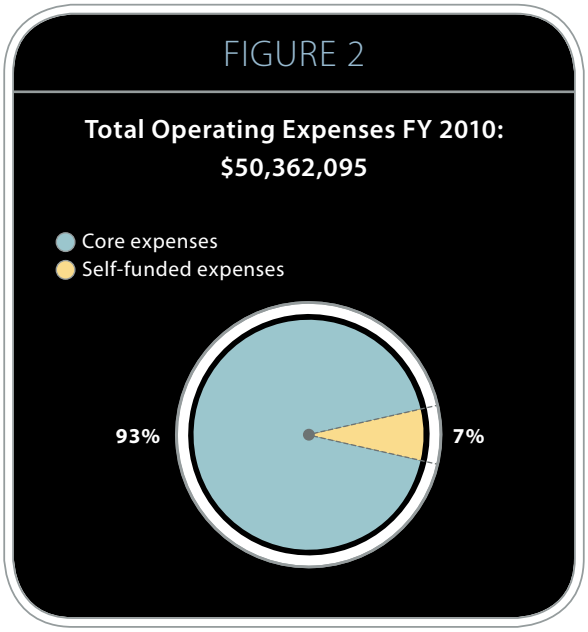
FINANCES

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 budget and its member net dues rate. The Board of Governors considers both the Institute's core and self-funded activities when approving the annual net dues rate.

Core activities are related to public policy and include regulatory, legislative, operational, economic research, and public communication initiatives in support of investment companies and their shareholders, directors, and advisers. Reflecting the Institute's strategic focus on issues affecting investment companies, 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's total revenues, 92 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, 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 and provide a margin to cover associated staff costs to ensure that these activities are not subsidized by member dues.





Board of Governors

as of September 30, 2010

Edward C. Bernard[2, 3, 4, 6, 7]
ICI Chairman
Vice Chairman
T. Rowe Price Group, Inc.

Martin L. Flanagan[1, 2, 7]
ICI Vice Chairman
President and CEO
Invesco, Ltd.

John Amboian
Chief Executive Officer
Nuveen Investments, LLC

Lynn L. Anderson[2]
Independent Director
SSgA Funds

Jonathan R. Baum
Chairman and CEO
The Dreyfus Corporation

Dorothy A. Berry
Independent Chair
Professionally Managed Portfolios
Independent Trustee
PNC Funds

James H. Bodurtha[3]
Independent Director
BlackRock Funds

Mary K. Bush
Independent Director
Pioneer Funds

Christopher W. Claus[1]
President
USAA Financial Services Group

John F. Cogan Jr.[1, 2]
Chairman
Pioneer Investment Management USA Inc.

Michael J. Cosgrove
President and CEO, Mutual Funds
GE Asset Management, Inc.

Patrick P. Coyne
President
Delaware Investments

Bruce L. Crockett
Independent Trustee and Chairman
Invesco Funds

Richard S. Davis[2]
Managing Director
BlackRock, Inc.

Anthony W. Deering
Independent Director
T. Rowe Price Funds

Robert S. Dow[2, 4, 6]
Senior Partner
Lord, Abbett & Co. LLC

Kenneth C. Eich
Chief Operating Officer
Davis Selected Advisers, L.P.

Ralph C. Eucher
Chairman
Principal Funds

Thomas E. Faust Jr.[4]
Chairman and CEO
Eaton Vance Corporation

Mark R. Fetting[2, 6]
Chairman and CEO
Legg Mason, Inc.

George C. W. Gatch[2, 3, 6]
CEO, J.P. Morgan Funds
JPMorgan Asset Management

C. Gary Gerst[1]
Independent Chair
Henderson Global Funds

Paul G. Haaga Jr.[2, 7]
Chairman
Capital Research and Management Company

John T. Hailer
President and CEO, U.S. and Asia
Natixis Global Asset Management, L.P.

Peter A. Harbeck
President and CEO
SunAmerica Asset Management Corp.

Brent R. Harris[4, 6]
Chairman
PIMCO Funds

Diana P. Herrmann
President and CEO
Aquila Investment Management LLC

Mellody Hobson[2, 6]
President
Ariel Investments, LLC

Edith E. Holiday[1]
Independent Director
Franklin Templeton Funds

Gregory E. Johnson[2, 6]
President and CEO
Franklin Resources, Inc.

Susan B. Kerley[1]
Independent Director
MainStay Funds
Legg Mason Partners Funds

John Y. Kim
Chief Executive Officer
New York Life Investments

John W. McGonigle[1, 2, 6]
Vice Chairman
Federated Investors, Inc.

F. William McNabb III[2]
Chairman and CEO
Vanguard

James A. McNamara
President and CEO
Goldman Sachs Mutual Funds

Randall W. Merk[1]
Executive Vice President, Investment Management Services
Charles Schwab & Co., Inc.

Thomas M. Mistele
COO and General Counsel
Dodge & Cox

Jacques P. Perold[2]
Head of Asset Management
Fidelity Investments

Robert C. Pozen[2]
Chairman Emeritus
MFS Investment Management

Donald H. Pratt
Independent Chair
American Century Funds–Kansas City Board

J. Alan Reid Jr.
Chief Executive Officer
Forward Management LLC

Robert L. Reynolds
President and CEO
Putnam Investments

Judy Rice[1]
President
Prudential Investments

Thomas S. Schreier[3]
Chief Executive Officer
FAF Advisors, Inc.

Michael S. Scofield[2, 5]
Independent Director
Wells Fargo Advantage Funds

Michael D. Strohm[1, 3]
Chief Executive Officer
Waddell & Reed, Inc.

Jonathan Thomas
President and CEO
American Century Investments

Garrett Thornburg
Chairman
Thornburg Investment Management, Inc.

William F. Truscott[4]
CEO, U.S. Asset Management and President, Annuities
Columbia Management

Robert W. Uek
Independent Trustee
MFS Funds

Lloyd A. Wennlund[1]
Executive Vice President and Managing Director
Northern Trust Global Investments

[1] Governor on sabbatical
[2] Executive Committee
[3] Audit Committee
[4] Investment Committee
[5] Chairman of the Independent Directors Council
[6] Chairman's Council
[7] ICI Education Foundation Board

2010 ICI EXECUTIVE COMMITTEE

SEATED: **Mark R. Fetting, Michael S. Scofield, George C. W. Gatch, John F. Cogan Jr., F. William McNabb III, Robert S. Dow**

STANDING: **Martin L. Flanagan, Mellody Hobson, Jacques P. Perold, Paul Schott Stevens, Edward C. Bernard, John W. McGonigle, Paul G. Haaga Jr., Gregory E. Johnson, Robert C. Pozen**

NOT PICTURED: **Lynn L. Anderson, Richard S. Davis**

"Our success as an industry rests principally upon our adhering to the highest fiduciary standards and our innovating to serve the needs of investors. But it also depends importantly upon our working together, through ICI, to ensure that the voices of funds and their shareholders are heard."

EDWARD C. BERNARD
CHAIRMAN, INVESTMENT COMPANY INSTITUTE
VICE CHAIRMAN, T. ROWE PRICE GROUP, INC.

APPENDIX C

Governing Council of the Independent Directors Council

as of September 30, 2010

Lynn L. Anderson*
Independent Director
SSgA Funds

Ashok N. Bakhru
Independent Director
Goldman Sachs Funds

Dorothy A. Berry*
Independent Chair
Professionally Managed Portfolios
Independent Trustee
PNC Funds

James H. Bodurtha*
Independent Director
BlackRock Funds

Mary K. Bush*
Independent Director
Pioneer Funds

Vanessa C. L. Chang
Independent Director
American Funds

Bruce L. Crockett*
Independent Trustee and Chairman
Invesco Funds

Anthony W. Deering*
Independent Director
T. Rowe Price Funds

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

Peter S. Drotch
Independent Director
ING Funds

Paul K. Freeman
Independent Director
DWS Funds

C. Gary Gerst*
Independent Chair
Henderson Global Funds

Cynthia A. Hargadon
Independent Director
PAX World Funds

Edith E. Holiday*
Independent Director
Franklin Templeton Funds

Susan B. Kerley*
Independent Director
MainStay Funds
Legg Mason Partners Funds

Garry L. Moody
Independent Director
AllianceBernstein Funds

Joel W. Motley
Independent Director
OppenheimerFunds

Robert D. Neary
Independent Director
Allegiant Funds

Alfred E. Osborne Jr.
Independent Director
FPA Funds

Donald H. Pratt*
IndependentChair
American Century Funds–Kansas City Board

Richard A. Redeker
Independent Director
Prudential Retail Funds

Michael S. Scofield*
IDC Chairman
Independent Director
Wells Fargo Advantage Funds

Laura T. Starks
Independent Director
TIAA-CREF Funds

Susan M. Sterne
Independent Director
Sentinel Funds

Virginia L. Stringer
Independent Director
First American Funds

George Sullivan Jr.
Independent Director
SEI Funds

Robert W. Uek*
Independent Trustee
MFS Funds

Roman L. Weil
Independent Director
MainStay Funds

Gary N. Wilner
Independent Director
Oakmark Funds

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

Jonathan F. Zeschin
Independent Director
Dividend Capital Funds
Matthews International Funds

James W. Zug
Independent Director
Allianz Funds
Brandywine Funds

*On ICI Board of Governors

APPENDIX D

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ICI Standing Committees and Chairs

as of September 30, 2010

ACCOUNTING/TREASURERS
Brian W. Wixted
Senior Vice President and Treasurer
OppenheimerFunds, Inc.

CHIEF COMPLIANCE OFFICER
Pauline C. Scalvino
Chief Compliance Officer
The Vanguard Group, Inc.

CLOSED-END INVESTMENT COMPANY
Keith A. Weller
Executive Director and Senior Associate General Counsel
UBS Global Asset Management (Americas) Inc.

ETFs (EXCHANGE-TRADED FUNDS)
James E. Ross
Senior Managing Director
State Street Global Advisors

INTERNATIONAL
Liliane Corzo
Vice President and Associate Counsel
Capital Research and Management Company

INVESTMENT ADVISERS
Vacant

OPERATIONS
Basil Fox
President
Franklin Templeton Investor Services LLC

PENSION
Lisa H. Lattan
Vice President and Associate General Counsel
American Century Investments

PUBLIC COMMUNICATIONS
Ivy B. McLemore
Senior Director, Corporate Communication
Invesco Ltd.

RESEARCH
Drew Elder
Senior Vice President and Relationship Manager
Janus Capital Group, Inc.

RISK MANAGEMENT
Joseph A. Carrier
Chief Risk Officer
Legg Mason, Inc.

SALES FORCE MARKETING
Peter D. Jones
President
Franklin/Templeton Distributors, Inc.

SEC RULES
Amy Doberman
General Counsel
ProFund Advisors, LLC

SMALL FUNDS
Susan B. McGee
President and General Counsel
U.S. Global Investors, Inc.

TAX
Gwen L. Shaneyfelt
Senior Vice President–Global Taxation
Franklin Templeton Investments

TECHNOLOGY
Michael L. Radziemski
Partner and Chief Information Officer
Lord, Abbett & Co. LLC

UNIT INVESTMENT TRUSTS
W. Scott Jardine
General Counsel
First Trust Advisors, L.P.

APPENDIX E

ICI Staff

EXECUTIVE OFFICE

Paul Schott Stevens[1, 2, 6]
President and CEO

Peter H. Gallary[3]
Chief Operating Officer

GOVERNMENT AFFAIRS

Donald C. Auerbach
Chief Government Affairs Officer and Co-Head

Dean R. Sackett III
Chief Government Affairs Officer and Co-Head

Peter J. Gunas
Government Affairs Officer, Retirement Security and 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

Robert C. Grohowski
Senior Counsel, Investment Companies

Frances M. Stadler[4]
Deputy Senior Counsel

Dorothy M. Donohue
Senior Associate Counsel

Rachel H. Graham
Senior Associate Counsel

Tamara K. Salmon
Senior Associate Counsel

Mara L. Shreck
Associate Counsel

Ari Burstein
Senior Counsel, Capital Markets

Jane G. Heinrichs
Senior Associate Counsel

Heather L. Traeger
Associate Counsel

Mary S. Podesta
Senior Counsel, Pension Regulation

Elena B. Chism
Associate Counsel

Michael L. Hadley
Associate Counsel

Anna A. Driggs
Associate Counsel

Keith D. Lawson[5]
Senior Counsel, Tax Law

Karen L. Gibian
Associate Counsel

Susan M. Olson
Senior Counsel, International Affairs

Eva M. Mykolenko
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 and International Operations

Kathleen C. Joaquin
Director, Operations–Distribution and Service

Peter G. Salmon
Director, Operations and Technology

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

PUBLIC COMMUNICATIONS

F. Gregory Ahern
Chief Public Communications Officer

Susan J. Duncan
Senior Director, Public Communications
Vice President, ICI Education Foundation

Mike McNamee
Senior Director, Policy Writing and Editorial

Jennifer S. Smith
Director, Editorial

Janet M. Zavistovich
Senior Director, Communications Design

Jodi M. Weakland
Director, Design

Ianthe Zabel
Senior Director, Media Relations

Rachel W. McTague
Director, Media Relations

RESEARCH

Brian K. Reid
Chief Economist

Sarah A. Holden
Senior Director, Retirement and Investor Research

Peter J. Brady
Senior Economist

John E. Sabelhaus
Senior Economist

Sean S. Collins
Senior Director, Industry and Financial Analysis

Rochelle L. Antoniewicz
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 and Information Technology Officer

Andrew L. Colb
Director, System Operations

Paul R. Camarata
Director, Electronic Data Collection

Mark A. Delcoco
Controller/Treasurer

Patricia L. Conley
Director, Accounting

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

Lee D. Butler
Director, Information Services

Sandra J. West
Senior Director, Membership

Michelle M. Kretsch
Director, Membership

[1] Executive Committee of ICI's Board of Governors
[2] Chairman's Council (*ex officio*)
[3] Chairman's Council and Treasurer to ICI PAC
[4] Secretary to ICI
[5] Secretary to ICI's Chairman's Council, Assistant Treasurer to ICI PAC, Political Compliance Counsel
[6] ICI Education Foundation Board

APPENDIX F

Publications and Releases

RESEARCH AND POLICY PUBLICATIONS

A complete list of ICI research publications, statistical releases, and policy publications is available on the Institute's website at www.ici.org/research. Participant-funded studies are not listed.

401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2008, *Perspective*, October 2009
www.ici.org/pdf/per15-02.pdf

The Evolving Role of IRAs in U.S. Retirement Planning, *Perspective*, November 2009
www.ici.org/pdf/per15-03.pdf

Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2009, *Fundamentals*, December 2009
www.ici.org/pdf/fm-v18n7.pdf

Characteristics of Mutual Fund Investors, 2009, *Fundamentals*, December 2009
www.ici.org/pdf/fm-v18n8.pdf

Enduring Confidence in the 401(k) System, January 2010
www.ici.org/pdf/ppr_10_ret_saving.pdf

The Role of IRAs in U.S. Households' Saving for Retirement, 2009, *Fundamentals*, January 2010
www.ici.org/pdf/fm-v19n1.pdf

Profile of Mutual Fund Shareholders, 2009, February 2010
www.ici.org/pdf/rpt_profile10.pdf

Trends in the Fees and Expenses of Mutual Funds, 2009, *Fundamentals*, April 2010
www.ici.org/pdf/fm-v19n2.pdf

2010 Investment Company Fact Book, April 2010
www.icifactbook.org

The U.S. Retirement Market, 2009, *Fundamentals*, May 2010
www.ici.org/pdf/fm-v19n3.pdf

The Closed-End Fund Market, 2009, *Fundamentals*, June 2010
www.ici.org/pdf/fm-v19n4.pdf

The IRA Investor Profile: Traditional IRA Investors' Contribution Activity, 2007 and 2008, July 2010
www.ici.org/pdf/rpt_10_ira_contributions.pdf
(Data taken from The IRA Investor Database™)

Defined Contribution Plan Participants' Activities: First Quarter 2010, August 2010
www.ici.org/pdf/ppr_10_rec_survey-q1.pdf

The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2009, *Fundamentals*, September 2010
www.ici.org/pdf/fm-v19n5.pdf

Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2009, *Fundamentals*, September 2010
www.ici.org/pdf/fm-v19n6.pdf

Characteristics of Mutual Fund Investors, 2010, *Fundamentals*, September 2010
www.ici.org/pdf/fm-v19n7.pdf

INDEPENDENT DIRECTORS COUNCIL PUBLICATION

Board Oversight of Subadvisers, January 2010

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.

Long-Term Mutual Fund Flows: A weekly report that provides aggregate estimates of net new cash flows to equity, hybrid, and bond funds.

Money Market Mutual Fund Assets: A weekly report on money market fund assets by type of fund.

Closed-End Fund Statistics: A quarterly report on closed-end fund assets, number of funds, issuance, and number of shareholders.

Exchange-Traded Funds: A monthly report that includes assets, number of funds, issuance, and redemptions of ETFs.

Unit Investment Trusts: A monthly report that includes the value and number of deposits of new trusts by type and maturity.

Worldwide Mutual Fund Market: A quarterly report that includes assets, number of funds, and net sales of mutual funds in countries worldwide.

The U.S. Retirement Market: A quarterly update of the total assets and the role of mutual funds in the U.S. retirement market.

APPENDIX G

ICI and IDC Events

November 11–13, 2009	Investment Company Directors Conference[1]	Amelia Island, FL
December 9, 2009	Securities Law Developments Conference[2]	Washington, DC
March 14–17, 2010	Mutual Funds and Investment Management Conference[3]	Phoenix, AZ
April 14, 2010	*Jones v. Harris*: Impact and Implications[4]	Washington, DC
May 5–7, 2010	General Membership Meeting	Washington, DC
May 5–7, 2010	Operations and Technology Conference	Washington, DC
May 6, 2010	investment Company Directors Workshop[1]	Washington, DC
May 6–7, 2010	Mutual Fund Compliance Programs Conference	Washington, DC
September 26–29, 2010	Tax and Accounting Conference	Phoenix, AZ

[1] Sponsored by IDC
[2] Sponsored by the ICI Education Foundation
[3] Cosponsored by ICI and the Federal Bar Association
[4] Cosponsored by ICI and IDC

Leading the Way on Policy Issues

FINANCIAL SERVICES REGULATORY REFORM (PAGE 10)

ICI was an early advocate for improving the structure of the financial regulatory system. Despite the sweeping reach of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the law leaves intact the system of regulation for funds that has evolved over the past 70 years. ICI and its members sought to ensure that lawmakers, in strengthening financial regulation generally, did not inadvertently impose additional, unwarranted burdens on funds and their shareholders.

MONEY MARKET FUNDS (PAGE 14)

The proposals by ICI's Money Market Working Group anticipated a comprehensive set of reforms to Rule 2a-7 adopted by the Securities and Exchange Commission in January 2010. The Working Group developed the idea of an industry-supported facility dedicated to providing additional liquidity to prime money market funds in the event of severe market conditions. ICI opposed moves to abandon a stable $1.00 net asset value for money market funds.

MARKET STRUCTURE ISSUES (PAGE 18)

ICI has been vigorous in presenting its members' concerns about the structure of today's securities markets to the SEC and other regulators. In the wake of the May 6 "flash crash," ICI's data and market insights demonstrated that the disproportionate impact of the May 6 events on ETF trades was largely the result of inefficiencies in the current U.S. market structure.

JONES v. HARRIS (PAGE 24)

The U.S. Supreme Court's unanimous decision on fund fees helps bring stability and certainty for mutual funds, their directors, and more than 90 million investors. Friend-of-the-court briefs filed by ICI and the Independent Directors Council provided the Court significant economic analysis on competition in the fund industry and insights into the crucial role played by independent directors.

AFFIRMATION OF THE 401(k) SYSTEM (PAGE 34)

The stock market's rapid decline in 2008 cut the average 401(k) balance by almost one-quarter. Using data and informed analysis, ICI advocated changes and engaged with Congress in opposing unreasonable disclosure legislation. ICI supported the Department of Labor's interim final rule to provide effective disclosure from plan service providers to employers who offer 401(k) plans. ICI also supported a DOL rule requiring that employees receive key information on all investments on their 401(k) menu.

ICI ACTION ON SELECT POLICY DEVELOPMENTS, FISCAL YEAR 2010

RETIREMENT

INVESTMENT ADVICE: The Department of Labor proposed changes to its rules implementing the investment advice provision of the Pension Protection Act that would suggest advisers should disregard historical performance and focus solely on fees.

ICI's strong response marshaled economic analysis and policy arguments demonstrating that historical performance is widely used by advisers and that there would be significant unintended consequences if the DOL attempted to establish by rule the parameters of generally accepted investment theory.

AFFIRMATION OF 401(k): See page 34.

TARGET RETIREMENT DATE FUNDS: See page 38.

FUND AND CORPORATE GOVERNANCE

PROXY ACCESS: In August 2010, the Securities and Exchange Commission adopted changes to the federal proxy rules, making it easier for shareholders to nominate directors, including fund directors.

In letters to and meetings with the SEC, ICI urged exclusion of funds from its access proposal since the proposal failed to take into account crucial differences in the governance models of operating companies and investment companies, including the most prevalent types of fund boards: unitary or cluster boards. The SEC has stayed the rules pending resolution of a suit filed in federal court.

PROXY INFRASTRUCTURE: The SEC in July 2010 issued a concept release requesting comments about the accuracy, transparency, and efficiency of the proxy voting process.

ICI recommended that: companies be permitted to communicate more directly with their shareholders and provide proxy cards along with Notices when relying on the SEC's notice and access model; shareholders be permitted to provide advance voting instructions; and all institutional investors, not just funds, be required to disclose how they voted their proxies.

CORPORATE GOVERNANCE: A House subcommittee held a hearing in April 2010 covering a variety of corporate governance topics including proxy access, mandatory independent board chairs, and disclosure of proxy votes.

In its testimony, ICI: stressed that any legislation confirming the SEC's authority to adopt proxy access requirements should also require the SEC to take into account relevant differences between operating companies and investment companies; opposed provisions that would require every issuer, including investment companies, to have an independent board chair; and supported a provision that would require every institutional investment manager to disclose its proxy votes.

JONES v. HARRIS: See page 24.

FINANCIAL MARKETS

PAY-TO-PLAY FOR INVESTMENT ADVISERS: In July 2010, the SEC adopted a new rule designed to inhibit "pay-to-play practices" by investment advisers through restrictions on political contributions to government officials.

ICI recommended modifications to clarify and narrow the scope of the rule; the final rule applies to funds only if they are an investment option of a participant-directed plan or program of a government entity.

TRI-PARTY REPURCHASE AGREEMENTS: The Task Force on Tri-Party Repo Infrastructure, a body sponsored by the Federal Reserve Bank of New York, issued recommendations for reducing risks related to the $1.8 trillion tri-party repo market. Money market funds provide about one-third of the lending in this market, in which banks and investors lend overnight cash to dealers.

An active member of the Task Force, ICI helped develop the recommendations, including drafting a set of guidelines detailing steps money market funds would take in the event of a dealer default.

MARKET STRUCTURE ISSUES: See page 18.

FUND REGULATION

RULE 12b-1: The SEC proposed changes in July 2010 to the regulatory framework governing the use of fund assets to pay for expenses related to distribution of fund shares, including Rule 12b-1.

In its comment letter, ICI questioned both the timing and costs of the wide-ranging proposal, and highlighted a number of legal and practical issues for funds distributed in various channels.

PRIVATE RIGHT OF ACTION: A District Court judge in California found a private right of action allowing shareholders to sue under Section 13(a) of the Investment Company Act, based in large part on the Sudan Accountability and Divestment Act.

ICI filed a friend-of-the-court brief in the case, arguing that Section 13(a) does not contain a private right of action. The Ninth Circuit agreed with ICI's position, taking note of an amendment to the Act obtained by ICI clarifying that Congress did not intend to create a private right of action in Section 13(a).

CONSOLIDATION OF FUNDS ADVISED: The Financial Accounting Standards Board's FAS 167 might require an investment adviser to consolidate funds advised for financial reporting purposes.

ICI urged FASB to defer application of this requirement, arguing that consolidation misrepresents the adviser's financial position. ICI also pointed out that deferral could enable FASB to converge its consolidation guidance with the International Accounting Standards Board. FASB deferred application of FAS 167.

TRANSACTION COSTS: In May 2010, FASB released a proposal that would require funds to measure and recognize transaction costs on portfolio trades as expenses in the financial statement and in the expense ratio.

ICI opposed recognizing transaction costs as expenses, arguing the change diminished the utility of the expense ratio as a measure of funds' ongoing operating costs. ICI also pointed out that the lack of implementation guidance for measuring implicit transaction costs would introduce serious comparability concerns, and recommended other means for improving disclosure of these costs.

FINRA ADVERTISING PROPOSAL AND SOCIAL MEDIA WEBSITE GUIDANCE: FINRA issued guidance to member firms in January 2010 regarding the use of social networking websites such as Facebook, Twitter, LinkedIn, and blogs to communicate with the public. In September 2010, FINRA requested comment on proposed new rules governing member communications with the public.

Consistent with ICI views, FINRA's social media website guidance provided that third-party posts are not considered to be the firm's communication with the public, and the principal approval, content, and filing requirements of NASD Rule 2210 do not apply. ICI recommended permitting retail communications based on noninteractive investment analysis tools and urged FINRA to apply a materiality standard with respect to the disclosure required to accompany subsidized yields. ICI also recommended not requiring filing of retail communications sent to existing customers that are not promotional in nature, and that correspondence continue to be excluded from principal review and filing with FINRA.

STATE ISSUES: Minnesota state lawmakers sought to significantly increase mutual fund filing fees in the proposed state budget.

In correspondence with Minnesota Governor Tim Pawlenty, ICI noted the unfairness of the proposal and its likely negative impact on Minnesota investors. Governor Pawlenty pledged to veto any budget bill that included the fee increase, which was subsequently dropped from the state budget.

FINANCIAL SERVICES REGULATORY REFORM: See page 10.

MONEY MARKET FUND REFORM: See page 14.

INTERNATIONAL

ANTI–MONEY LAUNDERING: The Financial Crimes Enforcement Network (FinCEN) issued a final rule defining mutual funds as "financial institutions" under the Bank Secrecy Act, requiring mutual funds to comply with rules on the creation and retention of records or information for transmittals of funds.

ICI supported the application of these requirements to mutual funds, but requested that funds receive a three-month extension of the rule's compliance date. FinCEN granted the request.

EUROPEAN REGULATION: European Union legislators and regulators continued work on a directive to create a harmonized EU regime to protect investors against potential risks associated with "alternative investment funds."

Through correspondence and meetings with EU officials, ICI supported efforts for a harmonized regime for alternative investment funds. ICI raised concerns, however, that proposed language would practically preclude registered investment companies from obtaining investment advisory services from EU managers, and preclude selling registered investment companies to EU investors.

MONEY MARKET FUNDS: The Committee of European Securities Regulators (CESR) issued a proposal for a common definition of European money market funds.

Because the EU has no harmonized definition of a money market fund, ICI commended CESR's efforts. ICI pointed out that without a common definition, investors could be confused by funds that appear to be similar to money market funds. ICI generally supported the strong risk-limiting provisions proposed for European short-term money market funds but recommended further provisions for liquidity and diversification.

POINT-OF-SALE DISCLOSURE: The International Organization of Securities Commissions Technical Committee published a report on point-of-sale disclosure requirements for collective investment schemes, such as mutual funds.

Both separately and in a coalition letter with 19 investment fund associations, ICI expressed the firm belief that point-of-sale disclosure requirements should apply to all investment products, not just collective investment schemes.

TAXES

COST BASIS REPORTING: As part of the Energy Improvement and Extension Act of 2008, brokers and mutual funds are required as of January 1, 2012, to report to customers and the IRS the customers' cost basis in securities (including mutual fund shares) sold or redeemed, and the long-term or short-term nature of any gain or loss.

The IRS adopted many of ICI's recommendations in the final cost basis reporting regulations, including simplifying transfers of inherited securities and providing more flexibility for shareholders to determine the cost basis of their shares.

RIC MODERNIZATION: The U.S. House of Representatives passed the Regulated Investment Company Modernization Act of 2010, a bill that modernizes the tax rules applicable to funds.

As noted in ICI testimony, enactment of the Regulated Investment Company Modernization Act would significantly benefit funds and their shareholders.

INVESTOR ACTION ON TAXES: Concerns about market volatility and federal deficits spurred interest in tax proposals, including taxing securities transactions and a "Financial Crisis Responsibility Fee."

ICI created a web-based tax resource center that provides extensive information about tax legislation that could affect funds and investors, and also encourages investors to contact Congress. In a speech, ICI President and CEO Paul Stevens explained how taxing stock transactions would hit Main Street investors.

GROWTH ACT: The Generate Retirement Ownership Through Long-Term Holding (GROWTH) Act was introduced in the U.S. House on a bipartisan basis by Representatives Paul Ryan (R-WI), Artur Davis (D-AL), and Joseph Crowley (D-NY). The act would tax mutual fund investors on their market gains only when they sell their fund shares.

As a longtime supporter of the GROWTH Act, ICI pointed out that the act helps boost the financial wherewithal of millions of Americans as they build retirement security and savings.

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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 $12.05 trillion and serve over 90 million shareholders.