BUILDING INVESTOR KNOWLEDGE

Mutual Fund Leaders Speak Out

INVESTMENT COMPANY INSTITUTE®

The Investment Company Institute, headquartered in Washington, DC, is the national association of the American investment company industry. Its members include more than 7,000 mutual funds, 439 closed-end funds and nine sponsors of unit investment trusts. Its mutual fund members account for 95 percent of the industry's total assets.

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Mutual Fund Leaders Speak Out

"Never before has our society seen such an explosion of information. In today's marketplace of information, mutual funds must be the trusted sources of information and knowledge for our shareholders.

We do this:

- *By continuing to speak with one single clear voice as an industry;*
- *By communicating openly, honestly and understandably with our shareholders about the risks, as well as the rewards, of their investments;*
- *By educating existing shareholders, as well as future generations of investors, about the importance of planning and saving for secure retirements and other long-term goals;*
- *By working to harness investor expectations, particularly in times such as these with the market hitting record highs;*
- *By training our employees to better understand the increasingly sophisticated needs of shareholders;*
- *By investing in technology to help meet the challenges of the future; and*
- *By holding all members of our industry to the highest fiduciary standards consistent with our tradition of integrity."*

Don G. Powell
Chairman
Investment Company Institute

INTRODUCTION

Leaders from the mutual fund industry gathered in May 1998 in Washington, DC at the Investment Company Institute's General Membership Meeting to discuss key issues facing the mutual fund industry. Chief among those issues is informing investors about the risks and rewards of investing and providing the information investors need to make educated decisions as they plan for retirement or other long-term goals.

Three senior industry executives participated in a discussion with journalist and commentator James Glassman. In a wide-ranging exchange of views, Bridget A. Macaskill, President and CEO, OppenheimerFunds, Inc.; James S. Riepe, Vice Chairman, T. Rowe Price Associates, Inc.; and Michael J. C. Roth, President and CEO, USAA Investment Management Co., offered their thoughts on the importance of investor education in helping shareholders maintain realistic expectations, achieve retirement security and understand mutual fund fees and expenses.

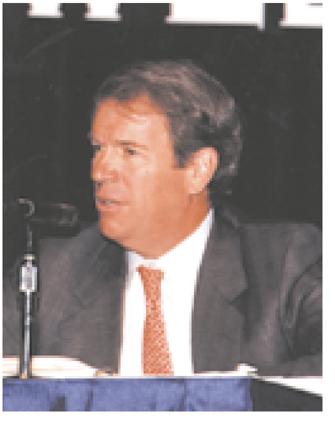
The following is an adaptation of that discussion.

1998 PANELISTS

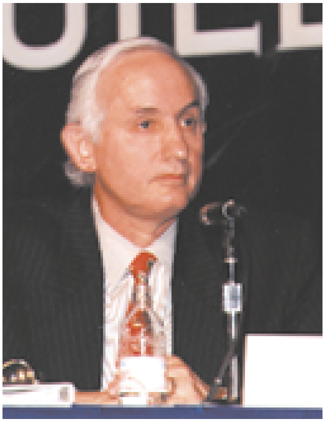
Bridget A. Macaskill

Ms. Macaskill is President and Chief Executive Officer of OppenheimerFunds, Inc., a position she has held since 1995. Ms. Macaskill began her career at Oppenheimer in 1983 as Vice President of Marketing. She serves on OppenheimerFunds' Board of Directors and Executive Committee. Ms. Macaskill is a member of the Investment Company Institute's Board of Governors and serves on the Board of Directors of Hillsdown Holdings, a major U.K. food company. Ms. Macaskill is a graduate of Edinburgh University in Scotland and completed postgraduate work at Edinburgh College of Commerce.

James S. Riepe



Mr. Riepe is Vice Chairman of T. Rowe Price Associates, Inc. and a member of its Management Committee. Mr. Riepe, a director and/or officer of all T. Rowe Price mutual funds, also serves as Chairman of the firm's marketing and service subsidiaries. He is a former Chairman of the Board of Governors of the Investment Company Institute and currently a member of its Executive Committee. In addition, he is a member of the Board of Governors of the National Association of Securities Dealers, Inc. and a director of its subsidiary, NASD Regulation, Inc. Mr. Riepe earned a BS and an MBA from the University of Pennsylvania's Wharton School.



Michael J. C. Roth

Mr. Roth is President and Chief Executive Officer of the USAA Investment Management Company. He began his career at USAA in 1978 as fixed-income analyst and was named President in 1990. He directs the management of the USAA family of mutual funds and the USAA Brokerage Services. Mr. Roth holds a BS in physics from the United States Air Force Academy and an MS from the University of Southern California Graduate School of Business. He has served on the Institute's Board of Governors.

THE IMPORTANCE OF INVESTOR EDUCATION

The mutual fund industry depends on the confidence of individuals who invest long-term to achieve their financial goals. The industry takes very seriously its responsibility to help individuals form realistic expectations and make well-informed investment decisions.

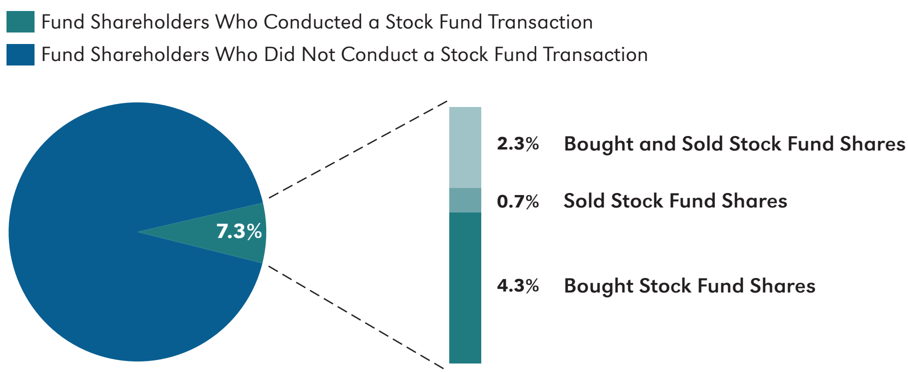
MR. ROTH: "An investor education program really has two goals. First, a shareholder who understands an investment is going to be a better investor and, second, for us, a better shareholder. The wise investor and saver is going to do a much better job of preparing for his or her future. And if we have imparted some of our wisdom, investors are going to behave in the marketplace in a way that will not harm them or the mutual fund industry in case of a downturn. The relationship between our representatives and the shareholder is the key to our existence and to helping investors understand the role of risk and reward."

MS. MACASKILL: "If you look at how investors have behaved in the last series of market breaks, there is no evidence to suggest that they are going to panic and run on mutual funds. I think that most investors who are investing in mutual funds really are investing for the long term."

MR. ROTH: "I agree. I remember the afternoon of October 19, 1987...the terror of that afternoon. Even then, we had to take no unusual measures to meet redemptions in the succeeding month. So we've been through some good tests and we've seen that investors are able to behave in a way that's not detrimental to themselves and to us. On top of that, we've taken some steps: we've arranged bank lines and we have various back-up sources [of cash] that would help us through heavy redemptions, if we had them."

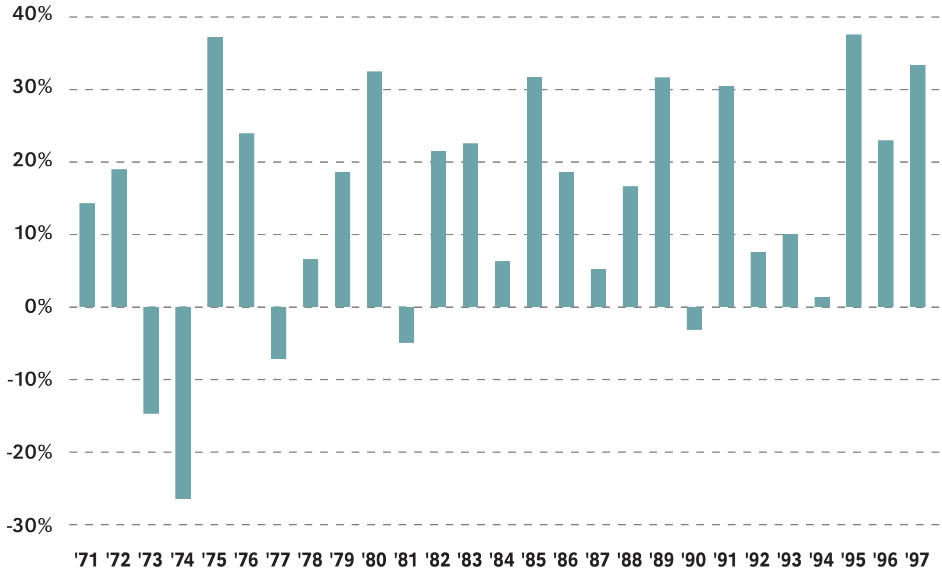
Mutual Fund Shareholder Reaction to the Stock Market Events of Late October, 1997

(percent of respondents to an ICI survey)



Shareholder behavior reported during the late October market selloff is consistent with other research showing that fund shareholders have a long-term investment horizon and a basic understanding of risk.

Volatility: Stock Market Returns Fluctuate from Year to Year



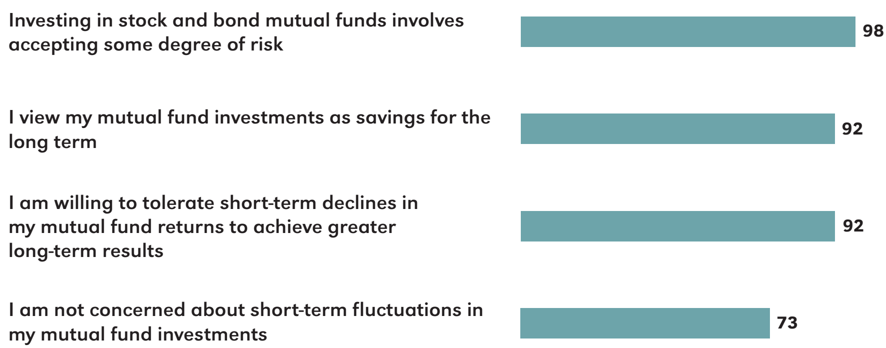
Source: Haver Analytics

MR. RIEPE: "We need to continue providing investors with a broad understanding of markets. The fact that there are going to be short-term swings is simply a reality. The fact that we haven't had a major correction for a while is the exception that proves the rule. This market will retrench. But the fact is, none of us know when that will happen and to what degree. Investors should not try to guess about market movements, but they should not have dollars in equities that cannot absorb the kind of volatility that's inevitable in this market. The reality, however, is that volatility is dramatically reduced over long-term holding periods."

MS. MACASKILL: "Investors are a lot smarter today than they were even five years ago. Five years ago, the predominance of small investors would say 'I can't afford to take any risk.' What we hear now is something completely different. They have a much better understanding that risk and reward go hand in hand. They also understand that it's time in the market rather than timing the market that counts. We have a constant responsibility to teach

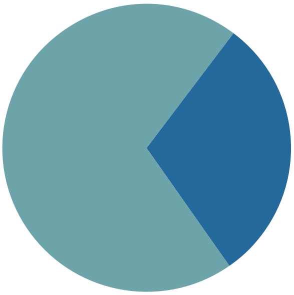
Shareholder Attitudes About Fund Investing

(percent of respondents who agree with survey statements)



Source: *Shareholders' Assessment of Mutual Fund Risk Measurements* (1995) (unpublished survey results), Investment Company Institute

Baby Boomers Inadequately Prepared for Retirement



According to Institute research, the majority of Baby Boomers indicate that current financial concerns prevent them from saving for the long term.

Source: *The Baby Boom Generation: A Financial Portrait,* Investment Company Institute

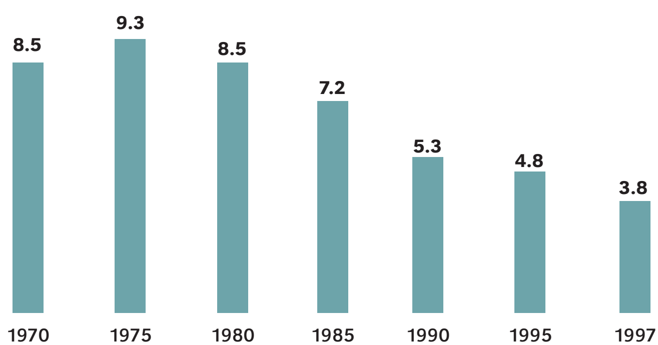
investors about the fundamentals. Although investors do know more, we should be wary of the difference between information and knowledge. There is a lot more information out there, but are investors really acting on it? In some cases the answer is that they're not. The danger is that we should not confuse talking with walking. The job isn't over. We need to continue to stress the basics."

SAVING FOR RETIREMENT SECURITY

The ability of working Americans to look forward to a dignified retirement has become a bedrock of American life. But securing the goal that many once took for granted seems more elusive than ever. It need not be this way. No matter how society resolves the future of Social Security, the fact remains that there are other prudent steps we could take now that would give future generations the power to put a secure and comfortable retirement within reach.

MR. RIEPE: "We must continue educating the population, not just savers, about the importance of saving and investing. The reality is that Social Security is no longer a safety net. It is now the primary source of retirement income for tens of millions of people. Congress should encourage savings. Our tax laws are set up to discourage savings in this country. That's one of the reasons our savings rate is so pitiful compared with the rest of the world."

U.S. Personal Saving as a Percent of Disposable Personal Income



Government statistics show the personal saving rate has declined over time.

Source: Federal Reserve Board

MS. MACASKILL: "I sometimes feel that we have put the cart before the horse. We have done a pretty good job of training investors about some of the investment concepts, but we have not done as well in teaching them how to save. America's savings rate is about 4.4 percent of GDP, one of the lowest in the developed world. Frankly, it's not good to be a wonderful investor, understanding all the investment concepts, if you're not saving enough. Our next challenge is to focus on teaching Americans to save better. We have a constant responsibility to teach investors the fundamentals, to stress the basics. Our job isn't over."

MR. RIEPE: "One of the biggest challenges on the corporate retirement plan side is the range of knowledge of participants. When an investor comes to us about one of our mutual funds, they are doing it of their own volition and they are doing so with some information. But when you are in a retirement plan, you really are required to become an investor and it doesn't matter if you are eighth-grade educated or post-graduate educated. Our main work is done initially at the employer level. I think the Department of Labor has done a very good job of raising the issue of participant education. And I think companies like ours and others who work in this area are doing a tremendous job of making the information useful."

MR. ROTH: "I think we've done a good job of building up the idea of saving for retirement. But we've just begun to touch on answering the question of what happens when you get to retirement and begin to live off of your portfolio. That's when an understanding of risk and reward really comes into play."

DISCLOSURE AND INVESTOR AWARENESS OF FEES AND EXPENSES

Full disclosure is the touchstone of the mutual fund industry and serves millions of investors extremely well. Standardized tables and plain-English descriptions give everyone, including investors and those who advise them, the tools needed to make informed investment decisions. Our challenge—the industry, regulators, media and investors themselves—is to find ways to better use this extraordinary and valuable information. The mutual fund industry supports practical measures to help investors understand all elements of investing, including information about fees. The industry is committed to ensuring that shareholders are fully informed when making decisions about their personal finances and their futures.

Do investors know enough about mutual fund fees and expense ratios?

MR. ROTH: "They indeed may not know. But today they'd be a lot closer to knowing than they were 10 years ago because there are a lot of places, including a table in every fund prospectus, where they can find information about fees and expense ratios."

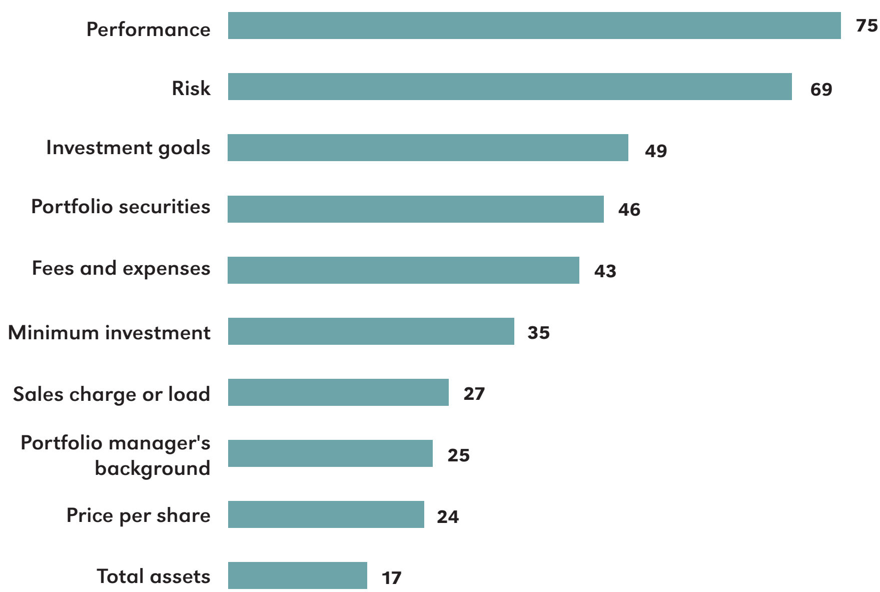
MR. RIEPE: "The debate about expenses is a credit to the industry because you cannot have it about other financial service products. You can have this debate about mutual funds because we disclose all of this information. Investors can find it out very easily if they want to. This transparency that investment companies provide to the investor is exactly what enables us to have this discussion."

With the proliferation of mutual funds, one would expect that fees and expenses would go down. But some say this isn't happening. Why?

MR. RIEPE: "Let me make two points. First, it is very hard to measure the cost of sales loads. And one of the dramatic changes that has occurred in the distribution of mutual funds is the reduction of sales loads. When I entered the business, it was a straight 8.5 percent up-front load. Now you're seeing the average sales charge on equity funds down to 5 percent, 4.5 percent or lower, and some bond funds are lower than that. Also, certain sales expenses now have been included in the expense ratio and that makes comparisons harder because we have historical expense ratios that exclude front-end charges, compared with current ratios with distribution charges embedded in them. But in terms of the cost to the investor, the change is not as dramatic as it appears. Second, there has been a real proliferation of specialty funds: small-cap funds, international funds, funds with narrowly defined objectives. Those funds, by necessity perhaps, carry higher fees. The most telling point is to examine funds that have been around for 10, 15 or 20 years and follow them as their assets have grown. In most cases, certainly not all, but in most, expense ratios do in fact come down. Economies of scale are shared."

MS. MACASKILL: "The proliferation of funds has meant that we have many more funds but the average size of stock funds has actually gone down. The economies of scale come when a fund grows bigger. The other thing we tend to overlook is that the level of services provided to investors has changed dramatically. One study showed that total expenses in equity funds have gone up 11 basis points in 10 years. Over that same period, we have provided investors with a lot more information and education, 24-hour access to information, phone transactions, Internet transactions, etc. We have done a lot to make investing in mutual funds more convenient for investors. And really, shareholders haven't paid for that. And the expenses have stayed the same despite the fact that some of the sales charges are now embedded in those expenses."

Mutual Fund Shareholder Considerations Before Investing
(percent)



Information reviewed by recent buyers before making their most recent purchase of a stock or bond fund. Multiple responses are included.

Source: *Shareholder Assessment of Risk Disclosure Methods* (1996), Investment Company Institute

"Individual mutual funds must continue and intensify their educational efforts through presidents' letters, shareholder reports, newsletters and websites. Fund groups must educate investors:

- *With plain talk about mutual funds and investing;*
- *By emphasizing the need for personal planning for retirement;*
- *By explaining that markets go down as well as up, that trees do not grow limitlessly to the sky, and that the recent string of record returns is highly unusual and unsustainable;*
- *By laying out the relationship between risk and reward;*
- *By disclosing all fees in a clear and understandable manner;*
- *By teaching the benefits of asset allocation and diversification;*
- *By stressing the need to take a patient, long-term view; and*
- *By doing everything we can to help investors form realistic expectations."*

Matthew P. Fink
President
Investment Company Institute

Additional Investor Awareness Materials
Available from the Investment Company Institute

- *A Guide to Mutual Funds (English and Spanish editions)*
- *A Guide to Closed-end Funds (English and Spanish editions)*
- *A Guide to Unit Investment Trusts (English and Spanish editions)*
- *A Guide to Bond Mutual Funds (English and Spanish editions)*
- *A Guide to Understanding Mutual Funds*
- *Questions You Should Ask Before You Invest in Mutual Funds*

These publications, and other investor awareness resources, are available on the Institute's website, www.ici.org. To order copies of these brochures, please call 202/326-5872.

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