

**INVESTMENT
COMPANY
INSTITUTE**

**THE PROFILE
PROSPECTUS:
AN ASSESSMENT
BY MUTUAL FUND
SHAREHOLDERS**

**VOLUME II
MUTUAL FUND
COMPANY RESEARCH**

*Report to the U.S. Securities and Exchange Commission by
the Investment Company Institute—May 1996*

TABLE OF CONTENTS

Executive Summary	iii
Background	iii
Findings Related to Individual Investors’ Acceptance of the Profile Prospectus	iv
Findings Related to Professional Financial Advisers’ Acceptance of the Profile Prospectus	vi
Mutual Fund Company Research Reports	I
Section I: American Express Financial Corporation	I
Section II: Capital Research and Management Company.	17
Section III: The Dreyfus Corporation	31
Section IV: FMR Corp. (Fidelity)	51
Section V: Scudder, Stevens & Clark, Inc.	87
Section VI: The Vanguard Group, Inc.	95
Appendix: Profile Prospectus Prototype	107

EXECUTIVE SUMMARY

Background

On October 13, 1994, Arthur Levitt, Jr., Chairman of the U.S. Securities and Exchange Commission (SEC), launched an innovative project to develop a new mutual fund disclosure document that would provide investors with clear and concise information in a standard format. The new document, termed the “profile prospectus,” was aimed at making it “easier for [investors] to make comparisons, and easier to get right to the key issues they need to know before investing.”¹

In response to Chairman Levitt’s initiative, the Investment Company Institute and eight of its mutual fund members, in collaboration with the SEC and the Investment

Companies Committee of the North American Securities Administrators Association (NASAA), developed a prototype of the profile prospectus. Since SEC approval in August 1995, the eight fund groups have developed and provided profile prospectuses to prospective investors for some 38 equity, bond, and money market funds.

The fund groups that developed the prototype document and participated in the project are American Express Financial Corporation; Bank of America N.T. & S.A.; Capital Research and Management Company; The Dreyfus Corporation; FMR Corp.; Scudder, Stevens & Clark, Inc.; T. Rowe Price Associates, Inc.; and The Vanguard Group, Inc.

As part of this project, the Institute and its members agreed to undertake research on the usefulness and effectiveness of the profile prospectus. This volume includes the findings from the quantitative research conducted by six participating fund groups. The Institute’s research is in Volume I.

The research approaches taken by these six companies varied considerably. The Dreyfus Corporation; FMR Corp. (Fidelity); Scudder, Stevens & Clark, Inc.; and The Vanguard Group, Inc.—all of which are primarily direct marketers—surveyed randomly selected, prospective investors who had been sent a profile prospectus

along with a Section 10(a) prospectus and other fund materials. These prospective investors compared and evaluated the features of the profile and Section 10(a) prospectuses. The four companies used somewhat different survey methodologies. Dreyfus and Vanguard conducted telephone surveys and had control groups who received standard customer information packages that included the Section 10(a) prospectus but not a profile prospectus. Both companies compared the responses of the prospective investors who had received the profile prospectus with the responses of those who had not. Fidelity and Scudder sent both the Section 10(a) prospectus and the profile prospectus in their customer information packages to randomly selected prospective investors. Fidelity obtained responses by telephone, while Scudder surveyed recipients by mail.

American Express Financial Corporation, a fund complex with its own sales force of financial planners, undertook mail surveys with random samples of its current shareholders and its financial planners to obtain their evaluations of the profile and the Section 10(a) prospectuses. Capital Research and Management Company, which distributes its funds through third-party financial advisers and brokers, interviewed by telephone a randomly selected sample of brokers and other advisers who in 1995 had sold at least \$100,000 worth of shares in Capital Research’s American Funds in at least five transactions.

These six studies form a valuable source of information about the effectiveness of the profile prospectus as it was used in actual investment decisions. Taken alone, each of these surveys represents the views of a discrete group of a firm’s existing or potential customers and, as such, the results of each might be regarded as anecdotal. Taken as a whole, however, the number and variety of the research studies—and the general consistency of their results—provide a unique source of insight about the profile prospectus and its potential value to investors as they made actual investment decisions.

¹ Remarks by Chairman Arthur Levitt, Jr., before the National Press Club (October 13, 1994).

Findings Related to Individual Investors' Acceptance of the Profile Prospectus

1. Individual investors gave high marks to the layout, organization, length, and clarity of the profile prospectus.

The investors who participated in the fund groups' surveys liked the format and content of the profile prospectus. In some of the surveys, respondents were asked to evaluate both the profile prospectus and the Section 10(a) prospectus on specific attributes. In such instances, investors preferred the profile prospectus over the Section 10(a) prospectus (see American Express, p. 7; Fidelity,

p. 77). In other surveys, respondents were simply asked to assess attributes of the profile prospectus (Scudder, p. 91; Vanguard, p. 102). Under this approach, the vast majority of investors said the content and length of the profile prospectus met their needs.

- n In American Express' survey of current shareholders, more respondents rated the layout, length, and clarity of the profile prospectus as excellent than rated the Section 10(a) prospectus as excellent. More responding shareholders also described the profile prospectus as simplifying fund risks, as being well-organized, and as being easy to understand.
- n In Fidelity's survey of prospective buyers, 64 percent thought the profile prospectus was better than the Section 10(a) prospectus for finding information, 61 percent for the clarity of the information presented, 55 percent for usefulness in making an investment decision, 53 percent for the organization of the information, and 53 percent for the completeness of the information.
- n In Scudder's survey of fund inquirers, more than 80 percent indicated that the profile prospectus was easy to read, was clearly written, was user-friendly, was understandable, was well-organized, and was focused on the key issues.
- n In Vanguard's survey of fund inquirers, 75 percent or more of prospective buyers rated it as excellent or good for ease in understanding and locating information.

2. Investors found the information presented in the profile prospectus to be useful for making investment decisions.

Several of the investor surveys asked respondents to evaluate the overall usefulness of the profile prospectus (Dreyfus, p. 44), while others specifically asked respondents to rate the usefulness of each of the 11 items of information included in the profile prospectus (Fidelity, p. 79; Scudder, p. 90 and 92, Vanguard, p. 102). Under both approaches, respondents generally found the profile prospectus to be useful, and the majority also rated all 11 items as useful, particularly those on past performance, investment goals, and risks.

- n In Dreyfus' survey of prospective buyers, 49 percent said the profile prospectus was extremely or very useful for making fund investment decisions. Only 5 percent found the profile prospectus to be not useful.
- n In Fidelity's survey of prospective buyers, 90 percent or more thought the profile prospectus' discussions of fund performance, goals, and risks were useful. More than 70 percent thought its descriptions of investor appropriateness, investment strategies, services available, fund expenses, share purchase and redemption procedures, dividend and capital gains distributions, and the investment adviser were useful.
- n In Scudder's survey of prospective buyers, 64 percent gave the profile prospectus an overall rating of very useful, while only 47 percent gave the same response for the Section 10(a) prospectus. More than 85 percent of respondents found each of the 11 items of information in the profile prospectus to be very useful, especially past performance, investment objectives, investment strategies, fees, and expenses.
- n In Vanguard's survey, 79 percent of prospective buyers who received the profile prospectus rated the profile prospectus as either excellent or good for making investment decisions.

3. More investors read the profile prospectus than the Section 10(a) prospectus.

Prospective fund investors who were sent both the profile and Section 10(a) prospectuses after inquiring about a particular fund were asked about their readership of these two documents. More respondents indicated that they had read the profile prospectus than said they had read the Section 10(a) prospectus, indicating that the profile prospectus would have wider readership than the Section 10(a) prospectus (Dreyfus, p. 37; Fidelity, p. 75; Scudder, p. 90). Similarly, in a survey of randomly selected current shareholders who were sent a profile prospectus and a Section 10(a) prospectus, more respondents indicated they would read the profile prospectus than would read the Section 10(a) prospectus (American Express, p. 9).

- ⁿ In American Express' survey of current shareholders, 57 percent of respondents said they were very likely to read the profile prospectus, while only 21 percent said they were very likely to read the Section 10(a) prospectus.
- ⁿ In Dreyfus' survey of prospective buyers, 45 percent said they had thoroughly read the profile prospectus, while less than one third indicated that they had thoroughly read the Section 10(a) prospectus.
- ⁿ In Fidelity's survey of prospective buyers, 44 percent indicated that they had thoroughly read the profile prospectus, while 30 percent had thoroughly read the Section 10(a) prospectus.
- ⁿ In Scudder's survey of inquirers, 73 percent said that they had carefully read the profile prospectus, while 38 percent reported having done so with the Section 10(a) prospectus.

4. Investors would like to receive the profile prospectus.

Investors in several of the studies were asked their preference for receiving the profile prospectus. In some, they were asked if they would like to receive it with the option of requesting the Section 10(a) prospectus (American Express, p. 10; Fidelity, p. 81). In others, investors were simply asked if they would like to receive the profile prospectus alone or with the Section 10(a) prospectus (Dreyfus, p. 45; Scudder, p. 93). Both approaches indicated that investors would like to receive the profile.

- ⁿ In American Express' survey of current shareholders, 62 percent of respondents preferred to receive the profile prospectus, either alone or with the option of requesting a Section 10(a) prospectus; 19 percent preferred to receive the two documents together; and 19 percent preferred to receive only the Section 10(a) prospectus, either alone or with the option of requesting the profile prospectus.
- ⁿ In Dreyfus' survey of fund inquirers, 45 percent indicated that they would prefer to receive both the profile prospectus and the Section 10(a) prospectus in a fund's fulfillment kit, 37 percent preferred to receive only the profile prospectus, and 18 percent the Section 10(a) prospectus without the profile prospectus. (Respondents were not asked if they would like to receive the profile prospectus with the option of requesting the Section 10(a) prospectus.)
- ⁿ In Fidelity's survey of prospective buyers, 61 percent favored receiving the profile prospectus along with an 800 telephone number through which the Section 10(a) prospectus could be requested.
- ⁿ In Scudder's survey of prospective investors, 72 percent indicated they would like to receive both the profile and the Section 10(a) prospectus, 22 percent only the profile prospectus, and 6 percent only the Section 10(a) prospectus. (Respondents were not asked if they would like to receive the profile prospectus with the option of requesting the Section 10(a) prospectus.)

Findings Related to Professional Financial Advisers' Views of the Profile Prospectus

1. Professional financial advisers have a favorable impression of the profile prospectus.

Like individual investors, professional financial advisers also had a positive view of the profile prospectus (Capital Research, p. 21; American Express, p. 12).

- ▮ In Capital Research's survey of professional financial advisers, 93 percent had a favorable reaction to the profile prospectus.
- ▮ In American Express' survey of professional financial advisers, 39 percent of responding advisers gave the profile prospectus an overall assessment of excellent and 39 percent an overall assessment of good.

2. Professional financial advisers prefer the layout, length, and content of the profile prospectus to that of the Section 10(a) prospectus.

Professional financial advisers felt the profile prospectus provided investors with information in an easy-to-understand format that would help them to understand a fund's characteristics (Capital Research, p. 26; American Express, p. 13).

- ▮ In Capital Research's survey of professional financial advisers, 87 percent of financial advisers preferred the profile prospectus for helping investors make an investment decisions.
- ▮ In American Express' survey of financial advisers, the majority gave higher marks to the layout, length, and content of the profile prospectus than to the Section 10(a) prospectus. For example, 45 percent of advisers rated the layout of the profile prospectus as excellent, while 17 percent of respondents gave the Section 10(a) prospectus this rating.

3. Professional financial advisers would use the profile prospectus with investors.

The research indicated that professional financial advisers would mail the profile prospectus to current and prospective customers and would use it in client meetings (American Express, p. 16; Capital Research, p. 24).

- ▮ In American Express' adviser survey, 75 percent of responding advisers said they would like to send investors the profile prospectus, either alone or with the option to request a Section 10(a) prospectus. Twenty-five percent of the advisers would prefer to send investors the Section 10(a) prospectus, either alone or with the option to request a profile prospectus.
- ▮ In Capital Research's survey of professional financial advisers, 78 percent said they were extremely likely or very likely to use the profile prospectus in face-to-face meetings with investors, and 56 percent were extremely likely or very likely to send a profile prospectus to an investor along with a Section 10(a) prospectus.