

MEMO# 7665

February 27, 1996

MINUTES OF JANUARY 18, 1996 MEETING

February 27, 1996 TO: MARKETING POLICY COMMITTEE No. 8-96 SALES FORCE MARKETING COMMITTEE No. 5-96 RE: MINUTES OF JANUARY 18, 1996 MEETING

Attached for your information are the minutes of the January 18, 1996 Sales Force Marketing Committee meeting that was held in Key Biscayne, Florida, along with a list of meeting attendees. The next meeting of the Sales Force Marketing Committee is scheduled for Friday, April 19, 1996 at the Institute offices in Washington, DC. If you have any suggestions for topics that you would like to see addressed at that meeting, please complete and return the attached form to me as soon as possible. If you have any questions about the enclosed minutes or if I can be of assistance in any way, please call me at 202/326-5883. Linda Brenner Director, Sales Force Marketing and Financial Planning Services Attachments INVESTMENT COMPANY INSTITUTE Sales Force Marketing Committee Name:

Title:

Company:

Phone Number:

I would like to see
the following topics addressed at the April 19, 1996 Sales Force Marketing Committee
meeting: _____

Please
return this form to: Linda Brenner Investment Company Institute 1401 H Street, NW
Washington, DC 20005 202/326-5883 (phone) 202/326-5853 (fax) MINUTES Sales Force
Marketing Committee Investment Company Institute January 18, 1996 Key Biscayne, Florida
Chairman Mark Freeman began the meeting by asking for member introductions and for
approval of the minutes from the September 29, 1995 meeting. He then explained that the
Committee would break into smaller groups, with each group discussing one of the
following topics: Asset Allocation: Are There Meaningful Benefits for Clients?; The No-Load
Marketplace; and Mutual Fund Wrap Fee Programs. Mr. Freeman emphasized that breaking
into smaller groups was an experiment for the Committee and he was concerned that some
topics were so important that all Committee members should be present for the full
discussion. He suggested that, in the future, the Committee might try breaking into smaller
groups with all of the groups addressing a single topic. Mr. Freeman asked the Committee
members to send their suggestions for improving the format of Committee meetings and
for agenda topics to Linda Brenner at the Institute. Following the hour-long breakout
sessions, the Committee reconvened to hear a summary of each discussion from the group
leaders. Dave Conine from Merrill Lynch presented the summary on asset allocation. He
began by explaining that asset allocation helps financial advisors to learn more about their
clients, lowers investment risk, and expands investment options. He also stated that asset

allocation provides a roadmap for the investment advisor and client to arrive at a consensus about investment decisions, helps guide investor behavior, and limits rash decisions. It can also lead to higher client retention because it forces advisors and investors to communicate regularly and work together as a team. The breakout session raised a number of issues about asset allocation, including: Whether asset allocation must be dynamic? Is there a need for rebalancing? What options are available for recovering the costs of asset allocation services? How do we train reps about asset allocation? Dick Humphrey from Van Kampen American Capital then explained that his group began their discussion by examining what's currently happening in the mutual fund business with respect to no-load funds. He referred to Strategic Insight research indicating that the perception of a major shift to direct purchases by investors may be incorrect. The group discussed their perception that advisor-distributed funds, including funds sold through wrap fee programs, Schwab's OneSource program, fee-based advisors, and institutions, represent the fastest growing trend in the industry. They also questioned whether the industry should continue to refer to funds as "no-load" or "load" because of the blurring of distinction between these funds. The collective opinion was that, in the future, everyone might sell no-load funds, with fees being added by the advisor. Mr. Humphrey then addressed the topic of Morningstar ratings. He explained that these ratings have a tremendous impact on load funds because many brokers only recommend four- or five- star funds. Morningstar's performance ratings are based on total returns adjusted for sales charges. This rating method leads to a higher percentage of no-load funds receiving four and five stars. This method ignores the fact that many of the dollars going into load funds are reinvested dividends, qualified plan money, \$1 million purchases, and LOI investments are actually invested at NAV. In addition, no-load funds are often sold with fees imposed by the advisor. Mr. Humphrey ended his summary with the suggestion that the Investment Company Institute approach Morningstar about changing its performance rating system so that sales charges are no longer taken into account. Bob Leo from MFS provided the final breakout session summary. He began by citing statistics from Cerulli Associates showing that mutual fund wrap fee assets had grown to \$17 billion by mid-1995. Wirehouse sponsors represent 41 percent of these assets; mutual funds 17 percent; financial planning firms 14 percent; clearing firms 12 percent; with the remaining assets spread among third parties, banks, and regionals. A question was raised as to whether wrap fee programs are truly innovative. The breakout session group identified the following positive attributes of wrap fee programs for clients: They provide a total investment package for the investor with regular reporting. Wrap fee programs provide the ability to buy load funds on a pay-as-you-go basis (many funds in a wrap fee program do not offer C shares). Many programs allow free transfers between fund families. They put the broker on the same side of the table as the client. The broker continues to make money as long as the client relationship lasts. The group also discussed various negative qualities of wrap fee programs, including the fact that the programs are expensive for clients, with total fees averaging 2½ percent per year, and the possibility that quarterly statements might encourage a short-term outlook. In addition, the group briefly explored the market's reaction to converting from commissions to asset-based fees. There was widespread agreement among participants that the growth of mutual fund wrap fee assets would continue to match or outpace the growth of the overall mutual fund industry. Following the breakout session summaries, John Rogers spoke on the topic of "Implementing and Making Use of the Chartered Mutual Fund Counselor (CMFC) Program." He began by announcing that the mutual fund education program, which had been jointly sponsored by the National Endowment for Financial Education and the Investment Company Institute (with oversight from the Institute's Sales Force Marketing Committee), was complete and accepting enrollments. Mr. Rogers reminded the Committee of the CMFC program's objectives: to increase investment professionals' knowledge of mutual funds so

that they may better serve their clients; to help investment professionals meet the Securities Industry Continuing Education Program requirements; and to offer investment professionals a designation as a mutual fund expert. Several Committee members explained that their firms were committed to the CMFC program and would require many of their employees, including wholesalers, sales desk representatives, and customer service representatives, to enroll in the program. These members also said that their firms would sponsor brokers to obtain the designation. Mark Freeman stated that he believes the CMFC program will play an important role in proving to the media that the industry is serious about the quality of advice provided to mutual fund investors. Sandy West, Director of Policy and Market Research for the Institute, provided a brief update about the Institutes current research agenda, including research being done on the profile prospectus and various risk measurements. She also stated that members have shown strong interest in a new participant-funded project concerning shareholders perceptions of financial advisors. Mr. Freeman then announced that the next meeting of the Sales Force Marketing Committee was scheduled for Friday, April 19, 1996 at the Institute offices in Washington, DC. The meeting was adjourned at 10:10 am. Sales Force Marketing Committee Investment Company Institute January 18, 1996 Key Biscayne, FL Attendance List

Steve Allen

Lord, Abbett & Co. Michael Andrews Midwest Funds Phil Beaver AAL Capital Mgmt. Katherine Berger Berger Funds Judith B. Bramson Aetna Retirement Services Pamela Carello DeBolt Pioneer C. Wesley Carr Keystone Hans Carstensen GNA Capital Mgmt. Jim Cash Flagship Mike Cemo AIM Distributors Mary Kay Coleman AIM Distributors David Conine Merrill Lynch Ira Cox Flag Investors Funds Richard Daly Piper Capital Richard Davis Flagship Funds Carol Dickbar Evergreen Investment Services Sue Ducklow Fortis Financial Julie Ann D'Antuono Fidelity Norlyn Feldman Cadaret, Grant & Co. Bert Feuss Franklin Templeton Linda Finnerty Alliance Capital Mark Freeman American Funds Distributors Dennis Gallant Funds Distributor Mark Gordon Seligman Financial Services Jim Greenawalt Kemper Distributors Inc. Russ Haskell Keystone Steve Hermes Waddell & Reed Stephen Hill Heritage Asset Management Mary Sue Hoban Pioneer Toby Hoden Oppenheimer Jan Holman American Express Financial Advisors Dick Humphrey Van Kampen American Capital Ray Jespersen Wasatch Advisors Moira Kelly Paine Webber Barbara Kirby Fortis Financial Ellen Krott Delaware Group Sheila F. Lamb Alliance Capital John Lauderdale Principal Preservation Jeffrey Lauterbach Sentinel John Lawrence Capital Research & Management Tony Leamer Safeco Bob Leo MFS Dave Levinson ITT Hartford Angela Levos State Street Research Steve Long Pioneer Mutual Funds Pam Maloney Charles Schwab Loretta McCarthy Oppenheimer Funds Jeffrey McGregor Colonial Ed McVey Franklin/Templeton Larry A. Medin Fortis Financial John Mellechez Nicholas Applegate Jim Milligan Wasatch Frank Mistero Mainstay Funds Doug Muren Evergreen Investment Services Steve Neamtz New England Funds Bill Nichols John Hancock Funds Dushyant Pandit PNC Financial Russ Parker John Nuveen & Co. Sue Perez Oppenheimer Tim Pitts Oppenheimer Funds Dist. Brigitte Rochereau Calvert Group Julie Roth Capital Research & Management Kent Schmeckpeper PNC Financial Catherine Shaffer The SoGen Funds Bruce Specia New England Funds Ugis Sprudz John Nuveen & Co. Frank Tonnemaker Voyageur Funds Brian Trumbore PIMCO Advisors Mike Valenti Evergreen Funds Bill Wallace Aquila Distributors Whit Wannamaker Sierra Trust Funds Gretchen Wells Funds Distributor Bernard Whalen Funds Distributor Whit Whitaker Eaton Vance Distributors, Inc. Russell Wiese Davis Funds Bill Wright Nationwide Institute Staff: Linda Brenner Stephanie Brown Sue Duncan Dick Pogue Jim Swinney Sandy West

should not be considered a substitute for, legal advice.