The Asset Management Industry
SERVING INDIVIDUAL INVESTORS
INVESTMENT COMPANY INSTITUTE

MEMO# 18536

February 18, 2005

MUTUAL FUND INVESTMENT ADVISER AND AFFILIATED DISTRIBUTOR SETTLE SEC ENFORCEMENT ACTION RELATING TO MARKET TIMING

[18536] February 18, 2005 TO: CHIEF COMPLIANCE OFFICER COMMITTEE No. 16-05 COMPLIANCE ADVISORY COMMITTEE No. 15-05 SEC RULES MEMBERS No. 30-05 SMALL FUNDS MEMBERS No. 17-05 RE: MUTUAL FUND INVESTMENT ADVISER AND AFFILIATED DISTRIBUTOR SETTLE SEC ENFORCEMENT ACTION RELATING TO MARKET TIMING The Securities and Exchange Commission has issued an order making findings and imposing disgorgement, civil money penalties, and disclosure and compliance reforms in an administrative proceeding against a registered investment adviser to a group of mutual funds ("Funds") and the Funds' distributor (together, "Respondents").* The Respondents consented to the entry of the SEC Order without admitting or denying the SEC's findings. The action involved allegations that the Respondents facilitated undisclosed market timing arrangements in certain of the Funds. The SEC Order is summarized below. * See In the Matter of Columbia Management Advisors, Inc. and Columbia Funds Distributor, Inc., SEC Release Nos. 33-8534, 34-51164, IA-2531, IC-26752, Admin. Proc. File No. 3-11814 (Feb. 9, 2005) ("SEC Order"). The SEC Order also censures the Respondents and imposes a cease and desist order. Copies of the SEC Order and accompanying press release are available at http://www.sec.gov/litigation/admin/33-8534.htm and http://www.sec.gov/news/press/2005-15.htm, respectively. The SEC also issued orders against three former Columbia executives for conduct relating to market timing arrangements. See In the Matter of Joseph Palombo, SEC Release Nos. IA-2352 and IC-26753, Admin. Proc. File No. 3- 11815 (Feb. 9, 2005); In the Matter of Peter Martin, SEC Release Nos. 33-8537, 34-51166, IA-2353, and IC-26754, Admin. Proc. File No. 3-11816 (Feb. 9, 2005); In the Matter of Erik Gustafson, SEC Release Nos. IA-2354 and IC-26755, Admin. Proc. File No. 3-11817 (Feb. 9, 2005. In a compliant filed in district court, the SEC charged two additional former Columbia executives for conduct related to market timing arrangements. See SEC v. James Tambone and Robert Hussy, Civil Action No. 05-10247-NMG (D. Mass. Feb. 9, 2005). In addition, the Attorney General of New York announced a settlement with the Respondents of related state charges. See Spitzer, S.E.C. Reach Largest Mutual Fund Settlement Ever (press release issued by Office of NY State Attorney General Eliot Spitzer, March 15, 2004), which is available at http://www.oag.state.ny.us/press/2004/mar/mar15c_04.html. For a summary of this press release, see Memorandum to Board of Governors No. 27-04, Compliance Advisory Committee No. 40-04, Investment Company Directors No. 18-04, Primary Contacts – Member Complex No. 35-04, SEC Rules Members No. 50-04, and Small Funds Members No.

38-04, Apr. 2, 2004 [17347]. The settlement document with the Attorney General of New York has not been publicly released as of the date of this Memorandum. 2 Findings According to the SEC Order, from at least 1998 through 2003, the distributor entered into arrangements with at least nine companies and individuals allowing them to engage in short- term trading in at least seven of the Funds. In connection with certain of the arrangements, the SEC Order finds that the Respondents accepted so-called “sticky assets” – long-term investments that were to remain in place in return for allowing the investors to market time the Funds. The SEC Order further finds that the adviser knew and approved of all but one of the arrangements and allowed them to continue. In addition to these specific arrangements, the SEC Order states that the Respondents allowed or failed to prevent hundreds of other accounts (including employees in the Respondents’ parent company’s 401(k) plan) from engaging in a practice of short-term or excessive trading despite the fact that the arrangements and trades were directly contrary to representations made in the Funds’ prospectuses. According to the SEC Order, throughout the relevant period, the Respondents never disclosed to the long-term shareholders or to the independent trustees of the Funds the special arrangements they made with these short-term and excessive traders. As a result of the conduct generally described above, the SEC Order finds that • the adviser willfully violated (and the distributor willfully aided and abetted such violations of) Sections 206(1) and 206(2) of the Investment Advisers Act of 1940 by permitting short-term and excessive trading contrary to disclosure in the Funds’ prospectuses and failing to disclose to the Funds’ Board of Trustees or shareholders the conflicts of interest created when it accepted market timing money; • the adviser willfully violated Section 204A of the Investment Advisers Act by failing to have written procedures in place to prevent nonpublic disclosure of the Funds’ portfolio holdings to one or more market timers in the Funds; • the Respondents willfully violated Section 17(d) of the Investment Company Act of 1940 and Rule 17d-1 under that Act by participating in and effecting transactions in connection with joint arrangements in which the Funds were participants without an SEC order approving the transactions; • the adviser willfully violated (and the distributor willfully aided and abetted such violations of) Section 34(b) of the Investment Company Act by filing with the SEC prospectuses that contained material misstatements or omissions; • the distributor willfully violated Section 17(a) of the Securities Act of 1933, by offering and selling shares of the Funds using prospectuses that contained materially misleading statements; • the distributor willfully violated Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 under that Act by engaging in fraudulent conduct in connection with the purchase and sale of securities; and 3 • the distributor willfully violated Section 15(c) of the Securities Exchange Act and Rule 15c1-2 under that Act, by effecting transactions in the purchase or sale of securities by means of a manipulative, deceptive, or other fraudulent device or contrivance. Voluntary Undertakings In determining to accept the offers of settlement, the SEC considered the following efforts voluntarily undertaken by the Funds: • At least 75% of the members of the Board of Trustees of any of the Funds will be independent trustees as described in the SEC Order. • The chairman of the Board of Trustees of any of the Funds will be independent as described in the SEC Order. • Any person who acts as counsel to the independent trustees of the Funds will be independent as described in the SEC Order. • No action will be taken by the Funds’ Board of Trustees or by any committee thereof unless such action is approved by a majority of the independent members (as described in the SEC Order) of the Board of Trustees or of such committee. • Every five years, commencing in 2005, each of the Funds will hold a meeting of shareholders at which the Board of Trustees will be elected. • Each of the Funds will designate an independent compliance officer reporting to its Board of Trustees as being responsible for assisting the Board of Trustees and any of its committees in monitoring compliance by the Respondents with the federal securities laws, the Respondents’ duties to

fund shareholders, and the code of ethics in all matters relevant to the operation of the Funds. Required Undertakings • Ongoing Cooperation: Respondents will cooperate fully with the SEC in any and all investigations, litigations or other proceedings relating to or arising from the matters described in the SEC Order. • Compliance and Oversight Structure: The Respondents' have agreed to the following undertakings: o Code of Ethics Oversight Committee: Each Respondent will maintain a Code of Ethics Oversight Committee, comprised of senior executives of the Respondent's operating business, that will be responsible for all matters relating to issues arising under the Respondent's code of ethics. Each Respondent will report to the Compliance or Audit Committee of the Funds' Board of Trustees at least quarterly on issues arising under the code of ethics, including violations of the code. Any material violations of the code will be reported promptly to the Funds' Board of Trustees. 4 o Internal Compliance Controls Committee: Each Respondent will establish an Internal Compliance Controls Committee. The Committee will review compliance issues throughout the business of the Respondent, endeavor to develop solutions to those issues as they may arise from time to time, and oversee implementation of those solutions. Quarterly reports on the activities of the Committee will be provided to the Compliance or Audit Committee of the Funds' Board of Trustees. o Reports: Each Respondent will provide to its Board of Directors the same reports of the Code of Ethics Oversight Committee and the Internal Compliance Controls Committee that it provides to the Compliance or Audit Committee of the Funds' Board of Trustees. o Senior Employee: Each Respondent will establish and staff a full-time senior-level position whose responsibilities will include compliance matters related to conflicts of interest. He or she will report directly to the chief compliance officer ("CCO") of the Respondent. o CCO: Each Respondent will require that its CCO or a member of his or her staff review compliance with the policies and procedures established to address compliance issues under the federal securities laws and that any violations be reported to its Internal Compliance Controls Committee. o Quarterly Compliance Reporting: Each Respondent's CCO will report to the independent trustees of the Funds at least quarterly any breach of fiduciary duty or the federal securities laws of which the CCO becomes aware. Any material breach will be reported promptly to the independent trustees of the Funds. o Ombudsman: Each Respondent will establish a corporate ombudsman to whom its employees may convey concerns about ethics matters or questionable practices. The Respondent will review any matters brought to the ombudsman's attention relating to fund business, along with any resolution of such matters, with the independent trustees of the Funds with such frequency as the independent trustees may instruct. • Independent Compliance Consultant (Adviser): Within 30 days of the SEC Order, the adviser will retain an Independent Compliance Consultant not unacceptable to the SEC staff and to the majority of the Funds' independent trustees to conduct a comprehensive review of its supervisory, compliance, and other policies and procedures designed to prevent and detect conflicts of interest, breaches of fiduciary duty, breaches of the code of ethics, and federal securities law violations by the adviser and its employees. The review will include, but not be limited to: (1) the adviser's market timing and late trading controls across all areas of its business; (2) pricing practices that may make the Funds vulnerable to market timing; (3) use by the Funds of short-term trading fees and other controls for deterring excessive short term trading; (4) possible governance changes in the Funds' boards to include committees organized by market sector or other criteria so as to improve compliance; and (5) the adviser's policies and procedures 5 concerning conflicts of interest, including conflicts arising from advisory services to multiple clients. The adviser will require that the Independent Compliance Consultant complete its review and provide its recommendations in a report to the adviser, the Board of Trustees, and the SEC staff no more than 120 days after the SEC Order. • Independent Compliance Consultant (Distributor): Within 30 days of the SEC Order, the distributor will retain an

Independent Compliance Consultant not unacceptable to the SEC staff and to the majority of the Funds' independent trustees to conduct a comprehensive review of its sales practices, supervisory, compliance, and other policies and procedures designed to prevent and detect conflicts of interest, breaches of fiduciary duty, breaches of the code of ethics, and federal securities law violations by the distributor and its employees. The distributor will require the Independent Compliance Consultant to also review the distributor's policies and procedures concerning provision of non-public information relating to fund portfolio holdings and weighted value. The distributor will require that the Independent Compliance Consultant complete its review and provide its recommendations in a report to the distributor, the Board of Trustees, and the SEC staff no more than 120 days after the SEC Order. • Independent Distribution Consultant: Within 10 days of the SEC Order, the Respondents will retain an Independent Distribution Consultant acceptable to the SEC staff and to the majority of the Funds' independent trustees. The consultant will develop a plan to distribute the total disgorgement and penalties ordered under the SEC Order. The Respondents will require that the Independent Distribution Consultant submit the distribution plan to the Respondents and the SEC staff within 100 days of the SEC Order. Following the issuance of an SEC Order approving a final plan of disgorgement, the Independent Distribution Consultant and the Respondents will take all necessary and appropriate steps to administer the final plan. • Periodic Compliance Review: At least once every other year, commencing in 2006, the Respondents will undergo a compliance review by a third party that is not an interested person of the Respondents. The third party will issue a report of its findings and recommendations to the Internal Controls Committee for the adviser or the distributor and the Compliance or Audit Committee of the Funds' Board of Trustees. • Certification: No later than 24 months after the SEC Order, the chief executive officer of each Respondent will certify to the SEC in writing that the Respondent has fully adopted and complied in all material respects with the undertakings and the recommendations of the Independent Compliance Consultant, or will describe any material non-adoption or non-compliance. • Excess Recovery: If Respondents recover with respect to the actions set forth in the SEC Order an amount, after fees and expenses, in excess of the aggregate amount paid by the Respondents for the benefit of the Funds or their shareholders, then the excess amount will be paid to the SEC for distribution pursuant to the distribution plan described above. • Recordkeeping: Any record, except electronic mail, of the Respondents' compliance with the undertakings will be preserved for at least six years from the end of the fiscal year 6 last used, the first two years in an easily accessible place. Any electronic mail of the Respondents' compliance with the undertakings will be preserved for at least three years from the end of the fiscal year last used, the first two years in an easily accessible place. Disgorgement and Civil Penalties • The Respondents will together pay $70,000,000 in disgorgement and a civil money penalty of $70,000,000. Jane G. Heinrichs Assistant Counsel

---