

November 4, 2010

VIA ELECTRONIC MAIL

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: Comments on Proposed Rulemaking on Mutual Fund Distribution Fees and Confirmations (File. No. S7-15-10)

Dear Ms. Murphy,

I am a Senior Vice President and Wealth Advisor with a major global investment firm. I have been with the firm since 1981 and serve the investment needs of individual and corporate clients.

I submit this letter in response to the Commission's request for comment on the proposal regarding Mutual Fund Distribution Fees.

While the 278-page proposal with its nearly 600 footnotes is quite complex, the crux of the proposal can be reduced to the issues raised by the request for comment on page 124 of the proposal: *Are asset-based distribution fees associated with level-load share classes an efficient means to pay for ongoing investment advice?* I believe the answer to this question is an unequivocal "Yes" and offer the following observations as support.

Many mutual fund investors want professional help. Many investors want the help of a professional financial advisor. In fact the Investment Company Institute reports that some 77% of all mutual funds are purchased through an investment professional. Investors want help with both the *content* of their portfolios, including asset allocation, fund selection, and monitoring, and with the *context* of their portfolios, that is, overall planning and investment counsel and advice.

Investors want this help not one time, but over time. The process of providing investment advice and financial counsel is just that, an ongoing process, not a one-off transaction. This kind of help occurs both *before and after* a mutual fund purchase occurs, over the entire life of the investor-advisor relationship.

These mutual fund investors are willing to pay for this help. Many investors do not have the time, interest, expertise, or experience to manage their own mutual fund portfolios and conduct their own long-term planning. These investors

value the advice and service that a financial professional can provide, and are willing to pay for that advice and service over time.

Certainly some investors do not want the help of a financial advisor, often motivated by their unwillingness to pay for professional advice and service. These investors by and large have an aversion to paying fees of any kind for investment advice or service, regardless of how or when those fees are charged. For these investors, no fee arrangement—wrap advisory fees, front-end loads, level loads, or 12b-1 fees—is acceptable or justifiable.

Many investors like and want the asset-based distribution fees offered by level-load shares as a means of paying for the ongoing advice and service they desire. While certainly other mutual fund fee arrangements exist to compensate a financial advisor for ongoing investment advice—front-end loads, wrap fees, and advisory fees—many investors do not like or want these arrangements. In serving clients over the past 29 years, it has been my experience that very few investors prefer to pay a front-end sales charge in an A share. Even with a breakpoint, investors understand that the front-end load fee arrangement presumes a long-term commitment to an uncertain investment in an uncertain world, a premise that doesn't seem rational to many investors in today's volatile markets. Additionally, many investors do not like the fee-based arrangement, as they do not want a quarterly fee charged outside their funds, especially since many of them are unable to deduct these fees on their tax return. The current C share arrangement, however, appeals to many investors as an efficient means to pay for ongoing advice, counsel, and service. Because these fees are charged at the fund level on a “net” basis, they provide significant flexibility with regard to asset allocation, fund and fund family selection and diversification, and variable and uncertain fund holding periods. Many investors find asset-based, fund-level pricing to be simple, tractable, and convenient when compared with other pricing arrangements. They like knowing that the returns they receive are net of fees, avoiding the exercise of having to adjust nominal returns to account for externally-charged advisory fees.

Proposed C share conversion and A share equivalence: a solution in search of a problem? Requiring existing C shares and new C share purchases to convert to A shares solves a problem that does not exist. The intertwined, symbiotic relationship between mutual fund investing and long term planning doesn't stop at the point of C share conversion to A shares. The client-advisor relationship and all that it entails isn't measured in a “load equivalent”. The process of managing a mutual fund portfolio and planning and monitoring a client's overall financial situation doesn't end on conversion day. Mandating that existing C shares and new C share purchases must ultimately convert to A shares in order to achieve share class equivalency is disconnected from the ongoing needs of the investor and disregards the realities, demands, and expectations of the investor-advisor relationship. Furthermore, absent achieving a significant breakpoint, why would any investor, under the proposal, ever buy an

A share if the C share converts at share class equivalency (since the cost of the C share would be less than the A share before conversion and the same after conversion)? The unintended consequence of this element of the proposal is that the A share would be rendered irrelevant as a legitimate share class alternative; it would simply become a governor, a rate cap, for the C share. By extension, the SEC moves from being a mutual fund industry regulator to a mutual fund industry rate-maker.

Rationalize the investment advisor-broker dealer fiduciary conundrum first.

The issues surrounding mutual fund pricing can't be properly considered without first settling the investment advisor-broker dealer fiduciary issue. The rules and regulations that underlie mutual fund fee and pricing arrangements, both existing and proposed, are grounded in legal fiction. Regardless, investors who want and need the ongoing help of a financial advisor are going to pay an ongoing fee based on a percentage of assets, whether that fee is gross (charged outside the fund, as in a fee-based account) or net (as in a C share, charged at the fund level). The advice and service provided to the investor under these "gross" and "net" mutual fund fee arrangements is *exactly the same*, so the "advisor" vs. "broker" label (and the body of law and regulation that supports it) that underlies these arrangements is not in keeping with the realities of the marketplace. Any consideration of changes to Rule 12b-1 should occur only after the investment advisor-broker dealer issue is rationalized.

In summary, many mutual fund investors desire ongoing advice and counsel and are willing to pay for it. The current level-load arrangement is a very efficient way for investors to pay for that ongoing advice, as long as it is disclosed with clarity and transparency. The proposal to convert both existing and new purchases of C shares to A shares in an attempt to achieve share class equivalence is misguided and not in keeping with the realities of the investor-advisor relationship and the investor's desire for ongoing advice and counsel. **The proposal creates a host of obstacles for the level-load share class, a share class that effectively serves the needs of investors with the flexibility, efficiency, convenience, and simplicity they desire. Simply put, investors like the current C share arrangement as a means of paying for the ongoing advice and counsel of a financial professional.**

Thank you for the opportunity to submit these comments. I appreciate the Commission's consideration of this important issue and the long-term implications of potential actions on investors, advisors, and the mutual fund industry as a whole.

Respectfully,

Gregory A. Watts