



**Final Report**

**Focus Groups on a  
Summary Mutual Fund Prospectus**

**May 2008**

**Prepared for the:**

**Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549**

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## Overview and Methodology

The Securities and Exchange Commission (SEC) contracted with Abt SRBI to conduct three focus groups in April 2008 to assess investor views on a mutual fund summary prospectus. The summary fund prospectus was proposed by the Commission on November 15, 2007, in order to enhance the disclosures that are provided to mutual fund investors. A hypothetical summary fund prospectus was developed by SEC staff for testing in the focus groups and was also compared with a long-form prospectus and two multiple-fund prospectuses during the groups. In addition, portfolio disclosure and compensation/sales disclosures were also discussed in the groups.

The focus groups were conducted with investors in three cities, as shown in Table 1:

**Table 1**  
**SEC Focus Group Arrangements**  
**Summary Mutual Fund Prospectus**  
**April 2008**

Location	Date	Times	Number of Participants
Boston, Massachusetts	April 2, 2008	8:00 PM	10 (4 men, 6 women)
Denver, Colorado	April 9, 2008	8:00 PM	6 (3 men, 3 women)
Dallas, Texas	April 15, 2008	8:00 PM	9 (8 men, 1 woman)

In order to qualify to attend one of the focus groups, interviewees had to have purchased one or more mutual funds within the past two years. Also, prospective participants could not have taken part in a focus group within the past 12 months, nor could they have a family member who worked in market or survey research. The screening was conducted by telephone from Abt SRBI's Fort Myers, Florida, telephone center using a sample of households with incomes of \$75,000 or more in each of the three metropolitan areas where the groups were conducted. The screener is provided in Appendix 1.

All participants received a letter or email confirming the date, time, and location of their session (Appendix 2) with directions to the specific focus group facility in their area.

They also received a reminder call one day prior to the group (Appendix 3). An effort was made to recruit 15 potential participants for each group to ensure that eight to ten actually attended. Participants in the focus groups was paid an honorarium of \$75. All participants were re-screened upon arrival at the focus group facility to ensure that they fulfilled the criteria for participation.

The moderator's guide for these focus groups explored the following issues:

- Factors in investment decision-making;
- Reaction to statutory and summary prospectuses;
- Content of the summary prospectus;
- Portfolio holdings disclosures;
- Intermediary compensation, sales disclosures, and portfolio turnover disclosures;
- Importance of current information;
- Hard-copy versus online disclosures; and
- Multiple-fund disclosures.

A copy of the moderator's guide is contained in Appendix 4.

The OMB Approval number for this information collection (3235-0638) was provided to all participants at the beginning of each group and the following disclosure was also read:

Please keep in mind that the materials you will see today are being shown to you solely for the purpose of the focus group. These materials include one long-form fund prospectus, and two excerpts from two other fund prospectuses. These are actual fund prospectuses that have been edited to remove identifying information. You will also see a hypothetical short-form prospectus, and several examples of ways to show information about the stocks and bonds held by a mutual fund. Neither we nor the Securities and Exchange Commission are recommending these funds as appropriate investments. Nor are we endorsing or in any way promoting the fund groups that prepared the prospectuses, or expressing an opinion regarding the adequacy of the prospectuses.

The focus groups were moderated by Carla Jackson of Abt SRBI. Observers from the SEC were present at all of the focus groups.

## Investment Decision-making

Participants in the summary mutual fund prospectus focus groups consider a number of criteria in making a decision about an investment, including the following:

- Fees
- Investment objectives
- Risks
- Fund manager and his/her background
- Morningstar ratings
- Performance compared with the S&P or another index
- Tax consequences
- Portfolio holdings

One Boston participant noted, *“I like to make sure that the individual holdings are actually what the fund is supposed to be. Like if I buy a small cap, I don't want them to throw in a couple of bonds in there or too many, in order for performance purposes. So, I like to see what is inside of every fund, like to whatever extent I can, because I know they change their positions”*.

In the initial discussion about investment criteria, only a few participants said that they used prospectuses. One Boston participant said prospectuses are too generalized and lack sufficient depth to assist potential investors. But in contrast, another Boston participant noted, *“Some prospectuses are too in-depth. They just go round-and-round and they confuse you! And because of obligations to disclose the risk, it ends up sounding like a horrible instrument that you wouldn't want on your worst enemy! So, it's very difficult to find the well-written prospectus that gives you a balanced insight into what's really going on with that fund.”*

A Denver participant noted that he looked at the top ten holdings and performance in a prospectus, while another participant in the same group uses a mutual fund prospectus to get *“...an idea of what the whole fund is all about, we use it as a top-level guide in selecting where we want to go.”* A Dallas participant noted that the prospectus is very valuable in determining fund objectives which distinguish it from other offerings.

A Boston participant noted that a well-written prospectus has history, performance, and a reasonable number of projections. Understandable text was preferred to “legalese” and pages and pages of disclaimers by most participants. As an example of the type of information that is helpful, a Boston participant noted that one fund complex's website contains the type of information that is helpful to many investors as it is easy to read and has a useful section entitled “Who Should Invest in this Fund”.

Several Boston participants noted that they use an investment adviser rather than read prospectuses on their own. As one of those participants noted, *“One of the reasons why I've made a decision to pay a financial advisor to be my mutual fund picker is that I looked at prospectuses and found that they didn't give me any information that I could*

*understand. So, I'm not in a position to evaluate the mutual funds, but I still want to invest. So, I find that I found someone that I felt comfortable working with and that's what I pay him to do, is to read the prospectus and pick the mutual fund."*

## Statutory and Summary Prospectuses

Participants were asked to review both a statutory prospectus and a hypothetical summary prospectus. With respect to the long-form prospectus, one Boston participant noted that much of the information is boilerplate, so it does not really take very long to review the material specific to a particular fund. Denver participants found the investment objectives, top ten portfolio holdings, transactions fees, and graphs and charts to be helpful. A Dallas participant liked the table of contents which an investor could use to locate the sections of interest, and another liked the section on “how to compare the costs of investing.” Another Dallas participant noted that the long-form prospectus would answer any question any investor might have.

However, there were numerous negative comments about the length of the long-form prospectus:

- *“It’s just so long that it’s a disincentive to take the time to read it.”*
- *“There’s a lot of things (put there) because of legal reasons.”*
- *“...in a short time you can skim through it and pick out things. But there’s no way I’m going to read it!”*
- *“I consider this a reference book, not a primary book.”*
- *“...there’s so much detail in it that it gets to be that if you’ve got 12 mutual funds or something, it’s just an overwhelming amount of data that you’ve got to page through.”*
- *“...there’s too much information in here. If I sit down and read this, it would take me at least an hour.”*
- *“Much of this is just CYA.”*

In Dallas, several participants wanted the long-form prospectus to include information about who holds the funds. More comparisons with market benchmarks were suggested by another Dallas participant. In Boston, several participants said that an executive summary of the prospectus would be helpful, particularly if there were page number references to where in the full prospectus an investor could look for additional information.

Many participants liked the short-form prospectus. Essentially, participants thought it could be used as a screening tool to identify mutual funds in which they might be sufficiently interested to do some additional review. The language seemed easier to understand and the font was larger than in the long-form prospectus. As one Boston participant noted, *“I like the charts and the bar graphs because you can look at those and just in an instant, see how the fund is performing or get other information easily.”* Denver participants were also very complimentary about the short form and thought that it would be easy to use. For example, one participant noted that, *“I think it cuts to the important factors of performance, cost, objectives. I like it.”* Similarly, a Dallas participant noted, *“It’s a two-minute read. If I want more information, I can ask for it.”* However, several participants commented that the information about risk was essentially “boilerplate” and that so much detail on this topic is probably unnecessary in the short-form prospectus.

Some suggestions for changes to the short form included having comparisons to several indexes instead of only one so that potential investors could compare performance of the mutual fund against the market. Additional information about the tax consequences of portfolio turnover was also of interest, as was the background of the fund manager. One Denver participant commented that there were no pie charts in the short-form prospectus, which he had found helpful in the long-form prospectus.

Overall, participants viewed the short-form prospectus as a tool in determining whether or not to pursue additional research about a given fund. As one Denver participant noted, *“I think that this you’d read and if you’re interested and then you’ve got questions and you want to go more in-depth and go to the long one.”* Another participant in the same group noted that, *“I think both of them have their place. I think it would be foolish to give up the long-form for (the short form)’ and I think it would be foolish not to have the short-form and insist on a long-form. They both have their place”.* Several participants noted the importance of each fund using the same format for its short-form prospectus in order to facilitate investors’ comparisons among funds.



## **Portfolio Holdings**

Virtually all of the focus group participants felt that the top ten portfolio holdings should be disclosed in a summary prospectus. However, there was also concern on the part of some participants that this information changes frequently and can quickly become outdated. Participants believed that this information is important for a potential mutual fund investor, although conceding that the top ten holdings can sometimes account for a relatively small proportion of a fund. One reason for the importance of this information is so investors can review the top ten portfolio holdings for their mutual funds to ensure that there is not excessive overlap among the funds they own.

Participants were also asked about their preference for the asset allocation of a fund, compared with the top ten portfolio holdings. Boston and Denver participants stated a preference for information about asset allocation rather than the top ten holdings, while Dallas participants preferred the top ten holdings. However, participants in all three cities stated that there should be room for both and asked if it had to be an either/or.

Participants were also shown three alternative formats for showing a fund's portfolio allocation: a list; a bar chart; and a pie chart. Some participants liked the list because it was easy to read, while others preferred the pie chart because it visually represented the distribution of the holdings. Few participants seemed to prefer the bar chart over the list or pie chart; several commented that they would have to add up the bars and that the pie chart was accordingly easier to use. A Denver participant noted that it is easier to use the pie chart than the bar chart to determine the proportions of holdings and a participant in the same group noted that, "*...the impact is much stronger on the pie chart.*" In Dallas, several participants said that they like the visual representation in the pie chart, but others preferred the list.

## **Intermediary Compensation, Sales Discounts, and Portfolio Turnover Disclosures**

### **Intermediary Compensation**

Most participants seemed to be aware that there may be conflicts of interest for financial intermediaries who sell the funds they recommend. The section on this topic in the summary prospectus was understandable to participants. Some participants indicated that they understood the disclosure to reference broker commissions and sales loads. In addition, a number of participants felt that new investors may not be aware of the potential conflict of interest.

All of the participants said that they wanted this information at the beginning of a relationship with a financial adviser and many also wished to be reminded of it whenever they made a purchase. As one Boston participant noted, having this information may mean a “go/no go” decision with respect to working with a particular financial advisor. As one Denver participant noted, *“I think it’s important for people who invest in mutual funds to know about it before they sign in or buy.”* However, in Dallas, one participant noted that the term “intermediary” may be unfamiliar to some participants and some additional clarification may accordingly be needed.

### **Sales Discounts**

Many participants thought that the section in the summary prospectus about sales discounts is too vague. One Boston participant thought it should say instead, *“Depending on the amount of the investment over the long run, the sales fees will be discounted,”* but others thought having the dollar amount of the minimum qualifying investment in the summary prospectus was helpful. A Boston participant wondered whether a chart showing discounts might fit in the summary prospectus. In Denver and Dallas, participants asked who keeps track of the \$25,000 investment level and some participants were unclear about the period of time over which the investment could be made in order to qualify for the discount. Overall, participants thought that the sales discount information would tell them to look further in the full prospectus or elsewhere if they need further details.

### **Portfolio Turnover Disclosures**

Similarly, participants thought the information about portfolio turnover in the summary prospectus was understandable, although somewhat vague or *“ambiguous”*. In Dallas, several participants characterized the information as a *“snapshot”* and noted that turnover could vary over a longer period of time. An average of data from five or ten years was perceived as potentially more useful by some participants. Some participants thought it might be helpful to have some information about the tax consequences of the turnover in this section.

## Multiple-Fund Disclosures

Participants were asked to review two multiple-fund sample disclosures. Generally, participants liked the idea of being able to compare various funds in a single document. As a Boston participant noted, “...*this actually allows you to compare the different choices within the company.*” Another participant in the same group said that is helpful to be able to compare a given fund with others that are slightly different. A Denver participant thought that the section on “How can I tell which fund is most appropriate for me” was very helpful. In addition, another Denver participant thought that the information about the objectives of the specific funds was very useful.

Focus group participants seemed to have no difficulty in reading the multiple-fund prospectuses. In Dallas, a participant noted that, “*It’s actually got several funds... it does give you ... the differences between funds, and how they are going to allocate, what are their ranges, what are they doing, how they perform, compares them, their returns before taxes as well as some benchmark rates, so I like that.*” Another Dallas participant noted, “*I saw the S&P mentioned in the one fund and the other one. But I like the way that the comparisons are made on these formats a lot better than what we had previously. I like to see this kind of comparison.*”

Participants saw a place for both the multiple-fund and single-fund disclosures, depending upon an investor’s objective. The multiple-fund disclosure would allow investors to compare funds and narrow their choices, while the single-fund prospectus would provide them more detail about the fund. As one Boston participant noted, “*There’s two different purposes. You try to pick out in a group of what you want. And when you find out what you want then you have to go to the fund and get the information from that.*” Overall, the multiple-fund disclosure could be used as a screening tool to determine which funds to research in more detail. A Dallas participant noted, “*If I’m interested in a balanced fund, I don’t care about this stuff that’s in here about income funds and growth funds. If I’m interested in purchasing a personal strategy fund then... I’d like to see this (the multiple- fund disclosure).*” Another Dallas participant said, “*...To me this is kind of a compromise. It’s not as detailed as a 45-page. But again, much more information than just the four-page short prospectus.*”

Participants were also asked how many funds are too many in a multiple-fund disclosure. One Boston participant noted, “*I thought there were too many in the international fund; like 7 or 8 funds. It just really makes your head spin when you have to read all that*”. Another Boston participant noted that “*Three is good, five is pushing it. More than five is just noise*”, and a Denver participant noted, “*...I suppose it would be hard to put a number on it. But...I’d say five.*”. In Dallas, a participant said, “*[I]f you give us maybe four or something like [that], somebody can go through it. If you start getting ten funds in a document, that’s a lot.*” Overall, participants in all of the groups seemed to indicate that three funds are acceptable in a single document but that five might be too many.

The page limit depended upon the type of information provided. Charts and graphics were viewed as helpful, but “legalese” was not. One Denver participant noted that, “*I get a report that’s about like this twice a year from one of the companies that I have and it probably lists 50 funds. Three pages, then three pages and then three pages. And ... it’s ... a lot cheaper to send me one of those (multiple-fund disclosures), than all the different*

*ones!*” It appeared that this participant just looked for the relevant funds upon receiving the report.

### **Importance of Current Information**

In terms of the currency of the information relating to fund performance and portfolio holdings, data as of the previous month or quarter was preferred. Many participants also noted the importance of looking at performance and portfolio holdings over the long term. There was not much interest in placing a telephone call to obtain up-to-date information, but most participants said they would be willing to go to a website for this information. But a Dallas participant noted that *“I think it depends somewhat on the fund itself. If you’re talking about emerging markets and small caps, I kind of expect a little bit more turnover and so I want to see more information. But if I’m talking about a bond fund that only buys Treasuries, you know, there’s no need to show me what they held every month – I don’t care because I already know that it’s stable. But on a more volatile fund, I would want to have more data.”*

### **Preference for Hard-Copy or Online Information**

Participants in all three groups were mixed in their preference for online or paper investment information. While most participants said they were willing and able to go online to find information, they liked the idea of receiving summary information in paper format. The availability of the summary prospectus in paper format and the statutory prospectus online was seen as acceptable by most participants. Some participants preferred to read lengthy documents on the computer screen, while others indicated that they prefer paper documents. One Denver participant noted, *"I'm going to look online and then if it's something that you think, 'Yes, this is the one I'm going to have a serious interest in,' then ask for the prospectus to be mailed or download it."*

One Boston participant noted that, *"... the paper is nice to have in summary; I think that's a good summary to whet your appetite. But the real meat-and-potatoes, if you could get it online, I'm perfectly fine with that."* A Denver participant said, *"I think this [the short-form prospectus] is much more user-friendly, you can scan it. But I think it's just as important to have the two."* And finally, a participant in Dallas noted that, *"I just think if you're trying to compare funds, if you're taking a prospectus and looking; something like 'this' [the short-form prospectus] gives you something to go through and do a much easier task. And then maybe you want more detail and then you can pull it off the Internet or whatever...."*

Saving paper and printing out only what was really needed, rather than always receiving paper copies, was seen positively by many participants. As one Denver participant noted, *"... I have a filing cabinet with all my monthly reports that I can go back and refer to. And I like it online where I just delete it when I'm through reading it. So, they serve two different functions."*

**Appendix 1:**  
**Focus Group Screener**

### 4218 TELEPHONE FOCUS GROUP SCREENER (Combined)

Introduction: Hello, I'm \_\_\_\_\_ with the research firm of Abt SRBI Inc. We are assisting the Securities and Exchange Commission (SEC) with research about investors in the U.S.

*IF ASKED: (EACH INTERVIEWER WILL HAVE THIS INFORMATION)*

*If respondents ask how their name was obtained, tell them their phone number was randomly selected from lists of telephone numbers in the local calling area.*

*This collection of information has been approved by the U.S. Office of Management and Budget (OMB). The OMB Clearance Number is \_\_\_\_-\_\_\_\_. If you like, I can give you a name and address where you can send comments and questions about the proposed focus group.*

*(SEC Contact Information Here)*

SC. May I speak with the person, or one of the persons, in your household who is primarily responsible for making financial decisions for the household?

- |   |              |                               |
|---|--------------|-------------------------------|
| 1 | Same rspn    |                               |
| 2 | New rspn     | REPEAT INTRO                  |
| 3 | No such rspn | SCREEN OUT                    |
| 4 | Refuse       | THANK AND END, [Soft Refusal] |

1. Do you own any stocks, bonds, or mutual funds that are NOT part of a 401(k) plan or other employer-sponsored retirement program?

- |   |            |           |
|---|------------|-----------|
| 1 | Yes        | CONTINUE  |
| 2 | No         | GO TO Q4a |
| 8 | Don't know | GO TO Q4a |
| 9 | Refused    | GO TO Q4a |

2. Do you own any ... (READ LIST)

- |   |              | Yes | No | DK | RF |
|---|--------------|-----|----|----|----|
| a | Stocks       | 1   | 2  | 8  | 9  |
| b | Bonds        | 1   | 2  | 8  | 9  |
| c | Mutual Funds | 1   | 2  | 8  | 9  |

3. Which of the following statements best describes your approach to investing in stocks, bonds, and/or mutual funds?

- |   |  |
|---|--|
| 1 | I make most of my own investment decisions, or             |
| 2 | My financial advisor makes most of my investment decisions |



4. Not including those in a 401(k) plan or other employer-sponsored retirement program, how often do you buy and sell stocks, bonds or mutual funds? Would you say it is ... (READ LIST)

- 1 Daily
- 2 Weekly
- 3 Monthly
- 4 Yearly or Less
- 8 (VOL) Don't know
- 9 (VOL) Refused

4a. (IF Q1 = 2, 8, OR 9, OR Q2c = YES) Have you purchased any mutual funds within the last two years?

- 1 Yes
- 2 No GO TO DECISION
- 8 Don't know GO TO DECISION
- 9 Refused GO TO DECISION

4b. (IF Q4a= YES) How many mutual funds have you purchased within the last two years?

- 1 One fund
- 2 Multiple funds
- 3 Zero funds GO TO DECISION
- 4 Don't know GO TO DECISION
- 5 Refused GO TO DECISION

4c. (IF Q4a= YES) (Is / Are) your mutual fund(s) part of a 401K plan, or did you purchase (it / them) directly?

- 1 401(k) GO TO DECISION
- 2 Direct Purchase
- 3 Both

4d. (IF Q4c = Direct Purchase or Both) How did you go about making your most recent mutual fund purchase?

- 1 Bank
- 2 Broker / Dealer
- 3 Insurance agent
- 4 Direct from fund
- 5 Other (SPECIFY)

**Decision**

***Prospectus Focus Groups (8 PM)***

**Boston: Recruit one group where: 4a = 1 and 4b = 1 or 2 . Recruit at least one respondent with the additional characteristic: 4d =1 , 4d=2, 4d=3, 4d=4.**

***Plain English Focus Groups (6 PM)***

**Not in Boston: Recruit 1 group of Average Investors: Q2a, b, or c = 1 AND Q3 = 2**

**Boston: Recruit 1 group of Active Investors: Q2a, b, or c = 1 AND Q3 = 1**

**All others should be thanked and terminated. Those who qualify for one of the groups should then proceed to Q5.**

5. Does anyone in your immediate family work in the market research or survey research industry?

- |   |        |                     |
|---|--------|---------------------|
| 1 | Yes    | THANK AND TERMINATE |
| 2 | No     | CONTINUE            |
| 3 | DK/REF | THANK AND TERMINATE |

6. Have you ever participated in a focus group before? (IF ASKED: A FOCUS GROUP IS A GROUP DISCUSSION ON A SPECIFIC TOPIC LED BY A MODERATOR AND USUALLY HELD IN A FORMAL RESEARCH FACILITY.)

- |   |     |                   |
|---|-----|-------------------|
| 1 | Yes | CONTINUE          |
| 2 | No  | GO TO QUESTION 8. |

7. Was this participation in the last 12 months?

- |   |     |                     |
|---|-----|---------------------|
| 1 | Yes | THANK AND TERMINATE |
| 2 | No  | CONTINUE            |

8. Gender (RECORD. TRY TO GET A MIX)

- |     |        |
|-----|--------|
| [ ] | Male   |
| [ ] | Female |

**EXTEND INVITATION TO ELIGIBLE RESPONDENTS:** We would like to invite you to attend an informal group discussion with about 10 other people to discuss making investment decisions. We are not trying to sell you anything and you will only be asked to express your opinions. This discussion will last approximately two hours and you will receive \$75.00 for participating in this important research study.

(Plain English Focus Groups) Day, Date, Time, Location

(Prospectus Focus Groups) Day, Date, Time, Location

9. Can you attend?

- 1 Yes           CONTINUE
- 2 No            THANK YOU AND HAVE A NICE EVENING (DAY)

IF YES, SAY: Thank you for agreeing to participate. We will be mailing or emailing you a letter and calling you the day before the discussion to confirm the time and location. Could you please give me your:

Name: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_ (zip) \_\_\_\_\_

Phone # (home) \_\_\_\_\_ (work) \_\_\_\_\_

Email: \_\_\_\_\_

If you have any questions about the group, please feel free to call Abt SRBI at the following toll-free number: 1-888-772-4269.

We look forward to seeing you at the group discussion and appreciate your willingness to take part in this important research study.

Thank you and have a nice evening (day).

**Appendix 2:**  
**Focus Group Confirmation Letter/Email**

Dear \_\_\_\_\_ :

Thank you for agreeing to participate in the group discussion to be sponsored by the Securities and Exchange Commission (SEC) on \_\_\_\_\_, \_\_\_\_\_ beginning at \_\_\_\_\_ P.M.. The session will be held at \_\_\_\_\_.  
Directions to the facility are attached.

This should be an interesting discussion which will provide valuable insight to the SEC about the experiences of investors and we appreciate your willingness to participate. We will be paying \$75 as a “thank you” for your participation. We will also serve a light snack prior to the session, so please plan to come a little early. Please plan to stay for the entire group discussion.

Again, thank you for agreeing to take part in this important group discussion and we look forward to meeting you.

Sincerely,

Carla Jackson  
Vice President  
Abt SRBI Research

Attachment

**Appendix 3:**  
**Focus Group Telephone Reminder**

**Telephone Confirmation for  
SEC Focus Groups**

Name \_\_\_\_\_

Home phone \_\_\_\_\_

Work phone \_\_\_\_\_

Hello, this is \_\_\_\_\_ from SRBI Research. May I please speak with  
\_\_\_\_\_.

(IF NEEDED: REPEAT Hello, this is \_\_\_\_\_ from SRBI Research.)

I am calling to confirm that you will be attending the SEC focus group on  
\_\_\_\_\_, \_\_\_\_\_ at \_\_\_\_\_ PM at \_\_\_\_\_.

- 1 Yes, confirms
- 2 No, will not be there -> We're sorry that you won't be able to make it.

(IF YES: Did you receive the directions we sent you in the mail?)

- 1 Yes
- 2 No - ASK IF THEY NEED DIRECTIONS.

Thank you, we look forward to seeing you there.

Have a nice evening.

**Appendix 4:**  
**Focus Group Moderator's Guide**



## **MODERATOR'S GUIDE**

### **SUMMARY MUTUAL FUND PROSPECTUS FOCUS GROUPS**

#### **INTRODUCTION**

Introduction of the moderator.

Explanation of the nature of the general study – to provide input to the Securities and Exchange Commission (SEC) about a short-form prospectus for mutual funds.

Explanation of the purpose of the focus group approach -- to explore in a semi-structured manner what people think about the issues.

- The group discussion of the issues often generates deeper insights than individual one-on-one interviews.
- A topic oriented discussion of issues allows the participants, who know more about the issues than the researchers, to identify the important dimensions that might be lost in a structured interview setting.
- It's interactive so that the participants can talk back to us -- ask us what we mean, tell us when a question doesn't make any sense, or means different things to different people.

#### **BASIC GROUND RULES:**

- Certain collections of information, such as focus groups, require approval from the Office of Management and Budget. The approval number for this project is 3235-0638.
- To ensure your privacy, our contract with this facility forbids them to tell us anything about you except your first name.
- We are audio-taping the meeting for use in preparing a report about findings. These tapes, along with the transcript of this session, will be given to the SEC. Your identity, and information that would identify you to anyone outside of this study, will not be disclosed without your consent, except as provided by law.
- Because we are taping this meeting, I ask that you speak loudly and clearly. If I think you are speaking too softly to be heard on the tape, I will ask you to speak up.
- Please speak just one at a time so everyone has a chance to participate.

- Don't engage in side conversations -- we need for everyone to hear what the others are saying and for everything that's said to be heard easily on the tape.
- Sometimes I'll go around the table and ask everyone for their input. At other times, I will just throw a topic open for general discussion.
- Participation -- we need to get a full range of opinions, and we need everyone's participation. You are here to talk. I am here to listen.
- No evaluation -- there are no right and wrong answers. We expect differences in how people see things, and we need to know about these differences.
- Feel free to disagree or question each other. The purpose of a group session is that we learn things in group interchanges that we don't get out of one-on-one discussions. If someone says something you disagree with, please let us know.
- Some observers from the SEC are present behind the one-way mirror. They want to hear what you have to say about the topics we'll discuss, but we don't want you to feel constrained by their presence.
- If you have a cellular phone, please turn it off. We don't want the group to be disturbed, and we also need your full attention during the session.
- The session will last about two hours.

## **DISCLAIMER**

Please keep in mind that the materials you will see today are being shown to you solely for the purpose of the focus group. These materials include one long-form fund prospectus, and two excerpts from two other fund prospectuses. These are actual fund prospectuses that have been edited to remove identifying information. You will also see a hypothetical short-form prospectus, and several examples of ways to show information about the stocks and bonds held by a mutual fund. Neither we nor the Securities and Exchange Commission are recommending these funds as appropriate investments. Nor are we endorsing or in any way promoting the fund groups that prepared the prospectuses, or expressing an opinion regarding the adequacy of the prospectuses.

## **MODERATOR'S NOTE:**

The following materials are needed for this focus group:

- Long-form prospectus
- Short-form prospectus
- Top ten portfolio holdings list (in short-form prospectus)
- Three samples of portfolio disclosure: Portfolio allocation list; portfolio allocation pie chart; portfolio allocation bar chart

- Intermediary compensation disclosure (in short-form prospectus)
- Sales charge discounts disclosure (in short-form prospectus)
- Portfolio turnover disclosure (in short-form prospectus)
- Multiple-fund and single fund disclosure documents

## **INTRODUCTION OF PARTICIPANTS**

Let's go around the table. Please introduce yourself (first name only).

How many of you have been in a focus group before?

Could you describe your involvement with mutual funds – do you invest on your own? Through a retirement plan such as a 401(k) plan or other employer-sponsored retirement program?

## **INVESTMENT DECISION-MAKING**

What information is important to you when making a decision about investing in mutual funds? How important is each of the following?

- Investment objectives and strategies
- Risks
- Costs
- Performance
- Top ten portfolio holdings
- Fund managers
- How to buy and sell shares
- Tax consequences
- Payment to broker-dealers and other financial intermediaries

Have you ever used a mutual fund prospectus? If not, why not?

If you have used a prospectus, what types of information do you look for? What types of information have you looked for in a prospectus, but not found?

## **SUMMARY PROSPECTUS VS. STATUTORY PROSPECTUS**

Please take a few minutes to review the materials that I am passing out to you. Then I'll have some questions to ask you about these materials. Each of you should have a *long-form prospectus* and a *short-form prospectus*.

How helpful would the long-form prospectus be in making an investment decision?

- What did you find particularly helpful?
- What was not helpful?
- Was anything missing that you would like to find?
- What did you like or not like about the format?

How helpful would the short-form prospectus be in making an investment decision?

- What did you find particularly helpful?
- What was not helpful?
- Was anything missing that you would like to find?
- What did you like or not like about the format?

If you had a choice, which one of these documents would you be more likely to look at to find out about a fund? What do you like most about the content or format of the document you chose?

**CONTENT OF THE SUMMARY PROSPECTUS (INCLUDING PORTFOLIO HOLDINGS AND FINANCIAL INTERMEDIARY COMPENSATION)**

*[Direct participants to top-ten portfolio holdings list in the short-form prospectus.]*

Do you think a fund should list its top ten investments in the short-form prospectus? Is this something you normally would consider helpful in researching a fund?

I am going to distribute several examples of ways to show information about the stocks and bonds held by a mutual fund.

*[Distribute 3 samples of portfolio disclosure showing: (1) a portfolio allocation list; (2) a portfolio allocation pie chart; and (3) a portfolio allocation bar chart.]*

*[Direct participants to portfolio allocation list.]*

If information about a fund's investments would interest you, how much detail do you think would be helpful to you? Would you rather see a list of the top ten companies the fund invests in, like the one in the short-form prospectus, or the portfolio allocation list shown in this example, or something else?

*[Direct participants to compare the portfolio allocation list with the documents showing the pie chart and the bar chart.]*

Would you rather see portfolio allocation information in a list, or in some other format, such as a pie chart or bar chart?

What do you find helpful or unhelpful about each of these presentations?

Were you aware that payments made to persons who sell mutual funds create conflicts of interest that may affect the recommendations you receive?

*[Direct participants to intermediary compensation disclosure.]*

Do you find this information to be understandable? Is it useful?

When would it be most useful for you to receive information about payments made to your salesperson? (Choose one of the following.)

- At the beginning of your relationship with a broker/dealer or other financial intermediary?
- At the point in time when you decide whether to purchase a mutual fund?
- Upon confirmation of a mutual fund purchase?

After reading this disclosure [intermediary compensation disclosure], would you want to find out more about these payments? If so, how would you prefer to do that? By calling your salesperson? On the Internet? In a written document? Other?

*[Direct participants to disclosure relating to sales charge discounts.]*

Do you find the information about sales charge discounts understandable? Is it useful?

*[Direct participants to disclosure relating to portfolio turnover.]*

Do you find the information about the fund's portfolio turnover understandable? Is it useful?

## **MULTIPLE-FUND VS. SINGLE FUND FORMAT**

I also want to provide you with two documents that contain information about several funds.

Please take a moment to look at the documents. What do you think about them? Are they more or less helpful than the short-form prospectus that describes just one fund? What are the advantages and disadvantages of a combined presentation for several funds?

Compare the two documents. One is longer than the other and combines the information for more funds. With that in mind, what do you think about combining information for two funds, five funds, 10 funds, or more than 10 funds? Is there a point at which the presentation becomes hard to understand?

Would a prospectus combining information for more than one fund be too long if it were 10 pages, 25 pages, 50 pages, 75 pages, or 100 pages?

## **IMPORTANCE OF CURRENT INFORMATION**

How up-to-date should the performance and portfolio holdings information be in a prospectus – as of the end of the most recent calendar year, calendar half-year, calendar quarter, or month? Why?

Is it important to you to obtain up-to-date performance or portfolio holdings information in the prospectus or would it be sufficient if the prospectus directed you to a toll-free number or website for updated information?

## **PAPER VERSUS ONLINE INFORMATION**

[Note to Moderator: Ask each individual in focus group to respond to the following.]

How do you like to receive information about mutual funds? Paper? Online?

What do you think of the idea of receiving a short-form prospectus in paper, with more detailed information online?

(Moderator excuses himself/herself to go into the client room to ask observers if there is anything they would like to ask or have clarified). Asks any other questions/clarifications upon return.

Thank you for coming here tonight and sharing your thoughts and ideas with me. You have given us a great deal of help. Please check with the hostess on your way out of this room.

Good night!