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William H. Donaldson, Chairman  
Securities and Exchange Commission  
450 Fifth Street, NW, Suite 6000  
Washington, DC 20549

Matthew P. Fink, President  
Investment Company Institute  
1401 H Street, NW  
Washington, DC 20005

32

Gentlemen:

I read with great interest the article on page D11 of today's Wall Street Journal describing the series of steps the Investment Company Institute has proposed to the Securities and Exchange Commission intended to make more information available on portfolio transaction costs. This action is greatly needed, in my opinion, but the proposal is incomplete as set forth in the article. The intent of this letter is to suggest how this can be remedied.

By way of background, I founded Harbor Capital Advisors in 1983 and launched our first mutual fund in 1986 with many more funds subsequently added. I was the president and chairman of our board until retiring in mid-2000. Net asset value was approximately \$18 billion at that time. Transaction costs – and indeed all costs – were of great interest to me and I had the opportunity to study them closely in our family of funds.

It is correct to disclose cash transaction costs. This money leaves the system and therefore is a drag on shareholder performance. However, commissions are only a portion of the cash costs. If the various bid/ask spreads (for both exchange trades and stock and bond net trades) were also added to commissions, then a shareholder would have the complete cash cost (other than some miscellaneous fees) of his fund. So called market impact costs can be disregarded because they do not represent money leaving the system and because the net effect on a portfolio with many transactions over a year (turnover is almost always an annualized number) will be approximately zero. The true components of cost that affect long-term shareholders are turnover (an audited number is already available) and cash costs per transaction; when extended this provides the cost which should be disclosed as a proportion of net asset value just like the expense ratio. Average transaction cost for a broad universe of comparable funds (i.e. large growth, small value, etc.) would be useful to disclose along with the fund's transaction cost.

I am not a theoretician or academic, but rather an investment professional and practitioner. There are no studies I can send you to back up what I am suggesting. My ideas are based simply on observations in my own family of funds over the last 24 years.

Again, I am delighted to see progress on this most important matter. While the proposal is a step in the right direction, it disregards a meaningful proportion of cash costs. This should really be corrected or the result will be misleading. I would be glad to discuss anything contained in this letter with you or your staff.

Sincerely,

Ronald C. Boller

Ronald C. Boller

