

3226 Country Club Parkway
Castle Rock, Colorado 80108



February 2, 2004

Jonathan G. Katz, Secretary
U.S. Securities & Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549-0609

Reference: File No. S7-03-04

**PROPOSED RULE AMENDMENTS TO ENHANCE INDEPENDENCE
AND EFFECTIVENESS OF FUND BOARDS**

I am writing in response to the request for comments on the referenced proposal. I am a trustee of four (4) single state municipal bond mutual funds where each has a separate board and operates independently all with the same management company. The asset size ranges from \$120 million to \$450 million. The board sizes vary from 6 to 8 trustees with 2 or 3 interested trustees in each. I have been a mutual fund trustee for 17 years and am currently chair of one audit committee and one independent trustee committee.

Board Composition - support

The suggested increase in the share of independent directors to 75% of the board is a positive step in improving governance. Increasingly the meaningful work is being done within board committees of independent directors (e.g. audit, nominating) and having a broad set of skills and experiences as part of these discussions strengthens the outcomes. Since so many funds are already at greater than 50% independent and this possibility is well known, there is no reason why it can't be implemented within 18 months.

I do not support eliminating all interested directors. There are a variety of reasons why a director is classified as interested and not all interested directors are executives in the management company. Each board should have the flexibility to achieve the necessary skills and experiences for its type of mutual fund.

Relative to a cost assessment, two of my four boards will have to add an independent trustee or two while the other two boards can meet this requirement without increasing the number of trustees.

Independent Chair of the Board - support

Each of the funds of which I am a trustee has had a chair of the independent trustees (similar to a lead director) for a number of years. While this form of governance improved the involvement of the independent trustees, it is still difficult to influence the Board meeting

agenda to assure full discussion of the more important items. Having an independent chair will significantly change the dynamics of the board meetings.

Consequently I support mutual funds having an independent director as a non-executive chair. This change will clearly demonstrate the responsibilities and accountability of the independent directors. Given the current practice of many boards with a management executive as chair, I do not believe this change will happen without it being required.

One of the primary concerns for any independent director relative to being chair is the Sarbanes-Oxley requirement for annual certification. Since small mutual funds are unlikely to hire their own staff, the flexibility to have a non-executive chair is essential to any director being willing to assume this additional responsibility.

Our boards already have independent trustees as the chair of all committees, which works well. Each of the chairs and the fund officers are elected annually. Also the shareholders elect the board each year.

Annual Self-Assessment – support with concerns

Board self-assessments are rarely done today in any structured way. This clearly should be integrated into the regular activities of the board whether done annually or every few years.

Neither committee functions nor the number of funds served are an issue for the funds on which I serve due to the commonality of the funds structure (single state muni bonds). This additional requirement is of little consequence in my situation but does appear to be relevant to the larger fund complexes.

My only concern is whether doing this review annually will tend to make it trivial and routine resulting in little attention to the self-assessment outcomes.

Separate Sessions – do not support (not necessary)

I believe it is unnecessary to specify the number of times the independent directors meet each year. In our funds and in the others of which I am aware, the independent trustees already meet at least quarterly whether as an audit committee, nominating committee or to discuss other specific topics such as contract renewals. It is very hard to avoid having meetings of independent directors given the increasing number of responsibilities assigned to independent directors.

Independent Director Staff – support but do not require

While appropriate for some, it is quite unlikely that any small fund will want to spend the money to have permanent staff. Nor will the independent directors be willing to oversee the activities of any such staff. We currently hire outside experts and consultants as needed all

3226 Country Club Parkway
Castle Rock, Colorado 80108

with a close attention to the impact on fund expenses. I am not convinced that stating this capability is necessary although doing so would do no harm.

Concerning independent legal counsel, our experience is that the fund's independent counsel is able to provide most of the advice and guidance needed for the independent trustees. Annually the independent trustees require the fund's counsel to certify that the firm has done no work for the management company or any other service provider. When more technical advice is needed, lawyers with specialized knowledge are hired. Therefore there has been no need for the independent trustees to have counsel separate from the fund's counsel. To date these positions have been one and the same.

Record keeping for Approval of Advisory Contracts - support

This proposed requirement is most appropriate and I would have thought the requirement already existed. In the funds I am familiar with, careful attention is paid to the information used each year for contract renewals and the completeness of the board meeting minutes in recording the findings of the independent trustees. This provision should not increase the amount of materials provided nor the storage space to retain the related records.

General Comments – definition of independent director

In addition to the above items, I believe more rigorous rules are needed regarding who can be considered an independent director. The ICI Best Practices recommendations are an example of the kind of changes needed to achieve the desired director independence. The current definition is too narrow and allows some potential conflicts to be ignored.

If I can be of further assistance, please let me know at the above address or by calling (303) 949-8868.

Sincerely,

Anne J. Mills