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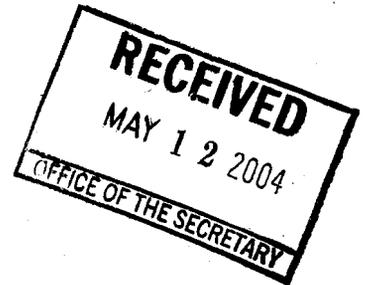
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AQUILA
MANAGEMENT CORPORATION

May 11, 2004

Mr. William H. Donaldson
Chairman
Securities and Exchange Commission
450 Fifth Street, NW
Washington, D.C. 20549



Re: Independent Chairs of Mutual Fund Boards

Dear Chairman Donaldson:

This comment letter is to address the matter of independent Trustee chairs for mutual fund groups. Let me come right to the point - I personally see no advantage whatsoever of removing an interested chair and replacing that person with an independent chair. I have read substantially and have listened to many discussions on the subject, both pro and con, and still come away with the same belief - that no particular good will come from having an independent chair. In fact, I see nothing but disadvantage for the mutual fund industry.

What I foresee happening, if this proposal is adopted, is that the mutual fund industry will suffer from a decrease in entrepreneurs willing to put their time, effort and money behind innovation of new worthwhile fund products, since they will not be allowed to chair what they create.

The Aquilasm Group of Funds

As an entrepreneur, I founded the Aquilasm Group of Funds about 20 years ago after having been involved several years before that with the creation of one of the earlier money-market funds in the nation. From the outset as well as thereafter, the Aquila Group was funded by me and my family. This group now totals 11 funds with a total of nearly \$4 billion dollars. By industry standards, the asset size of our fund group is not large, but it is still within the upper 32% of all fund organizations in the country.

The largest segment of the Aquilasm Group of Funds is represented by seven single-state tax-free bond funds - Hawaii, Arizona, Oregon, Colorado, Kentucky, Rhode Island and Utah. As of March 31, 2004, these Aquila tax-free bond funds ranked #14 in asset size out of 107 similar type mutual fund groups. In terms of net new assets for the

year 2003, the Aquila single-state bond funds ranked #1 in terms of net new inflows out of the total of 107 funds in the fund group – almost exclusively from retail sources through various brokerage type firms. Additionally, the Lipper organization awarded Aquila as being the Best Bond Fund Group in the country for 2003.

Asset Gathering

In garnering assets from the retail market with each fund, Aquila and I have had to be prepared to live with whatever market environment existed. For example, from 1994 to 2000, the interest of investors in bond funds was basically flat while that for equities ballooned during this period. As a result, Aquila had to support, through paying operating and marketing expenses, and waiving fees, two of our newer tax-free fund products – our Utah and Rhode Island funds. We had to be prepared to do this until these funds reached a critical mass size of approximately \$100 million each. There was no quick fix under the then current market conditions.

Aquila did not engage in paying brokerage firms to gain special treatment to enlarge the asset size. In fact, before these two funds broke even in terms of covering their internal operating costs and marketing activities, the combined cost totaled approximately \$6 million in out-of-pocket money from Aquila over a period of 9 years. Aquila also created an equity fund – Aquila Rocky Mountain Equity Fund, the only fund of its type specializing in this geographic area - in July, 1994 and spent approximately \$1.5 million in operating costs and marketing expenses before this fund broke even at an asset size of approximately \$13 million.

The Funds' Entrepreneurial Spirit

With each of the seven tax-free bond funds, as well as the Aquila Rocky Mountain Equity Fund, new ground was broken for these types of funds in each state, or region. Had we not created these funds, investors would not have the opportunity to benefit from what the funds offer. We strongly believe that shareholders have been distinctly rewarded by our efforts in developing these mutual fund products.

Now, I ask you, if I did not take the lead in developing these funds, but rather was under the jurisdiction of an independent chair, why would I spend the time, effort and money to do this? With the proposed new independent chair rule, the Commission is essentially mandating someone else to steer the ship. Why then would an entrepreneur spend the time, money and effort to build the ship in the first place? Entrepreneurial opportunities have always been at the very core of business growth within our nation.

Inconsistent Requirement

In my opinion, it is unfair to require an independent Chair for mutual fund groups, and not to have the same requirement of corporations. Independent Trustees are charged with making all sorts of other important decisions – why shouldn't they be able to determine who is best suited to serve as Chair.

Risk of Independent Chair Becoming Interested

Another very important matter involves the role of an independent Chair. At what point does the independent Chair cross the line and become essentially an interested Chair if that person is really going to know every aspect of what is going on in the mutual fund organization and perhaps take on additional liability in that regard (for example, if they are required to certify financials under Sarbanes Oxley). If there is, in fact, additional liability (be it real or perceived), such Chair might insist upon additional compensation. At what point does such compensation "jeopardize" one's independence? Indeed, it is worth noting that with some of the fund groups that were charged with market timing, they had independent chairs supposedly controlling their operations.

Aquila's Approach to Independent Trustees

You should be interested in knowing that each of the funds that Aquila has created has more than a majority of independent Trustees, and has had this situation since each fund's inception. Many of the independent Trustees are from the specific individual states involved. Thus, they are able to provide us with further insight in the nuances of the economy, and other pertinent information, of the state. The portfolio management of each fund is also directed out of the location in which the fund invests.

Each fund board has for some time appointed an independent person to act on behalf of the entire group of independent Trustees with each fund (a "lead independent Trustee"). Independent Trustees of our boards are by no means "yes" people, and they never have been. They have always been encouraged to speak up about any subject they wished to explore. Additionally, our independent Trustees have instituted the practice of having an independent meeting prior to every general Board meeting so that they have an opportunity to add items to the agenda and discuss matters in private. Further, through the appointed independent Trustee (lead independent Trustee) with each fund, a combined meeting of independent Trustees representing all boards is held at least once a year so that all the funds have the opportunity to discuss any and all matters of mutual interest in private.

Aquila's Hands-On Approach With Shareholders

It is worth noting that each of the seven single-state bond funds has had from its inception an annual meeting based in the particular state to which shareholders are invited – and they generally attend in large numbers (i.e., over 500 in-state shareholders attended the 19th Annual Meeting in Hawaii in September, 2003). At these meetings, Trustees are elected each year and the independent auditor is ratified. Following the business part of the meeting, an informational session is then conducted regarding the operations of the fund with the opportunity for shareholders to ask any unscreened questions they wish.

A Super-Majority of Independent Trustees Should Suffice

I personally see relatively little value in a Board that is 75% independent. We have operated with each of the Aquila boards always having a majority - 60% or higher - of independents. I don't believe there has ever been a difficult situation between the independent Trustees and management that has not been resolved in the favor of shareholders. Shareholder interests have always been foremost in the minds of every board member. A 2/3's representation by independent Trustees should be adequate enough to handle any situation that might have difficulty. Indeed, any percentage above 50% provides independent Trustees with control, which they are free to exercise at any time. If independent Trustees do their jobs right, having 75% as well as possibly an independent chair is superfluous.

With the Aquilasm Group of Funds, independent Trustees have always had the opportunity to discuss and negotiate for fees within the fund complex without having the interested Chairman present and they have always done so. There is adequate information available within the industry to ensure that the independent Trustees are provided with fair and unbiased material about which to make well-documented decisions on fee structure(s) for the benefit of shareholders.

I think it is worth pointing out to the Commission that the Aquilasm Group of Funds have consistently had management fees, as well as expense ratios, which generally are decidedly on the lower side of similar-type funds in the industry.

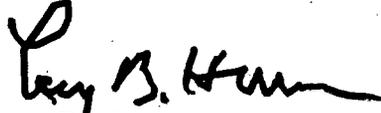
Summary

I wholeheartedly support the Commission's desire to take action to "clean up" the problems in the mutual fund industry. I abhor the fact that some bad apples have tainted the entire mutual fund industry. I, for one, would be happy to have the tarnishing stop. However, I do not believe that anyone will be served by mandating an independent chair. In fact, I firmly believe that this action will be contrary to the future well being of the industry. Not having an entrepreneurial interested chair makes all the difference in the world in terms of initiatives to create products which are of value to investors.

In my opinion, the Commission's Chief Compliance Officer Rule should substantially assist in avoiding future scandals in the mutual fund industry. The Commission should, however, very clearly and more specifically define through its Rules those practices which it feels are inappropriate. Once final Rules adopted, they should be very specific in letting fund groups and also brokerage firms know exactly how they should operate under the guidance of whatever practices can and cannot be used. All the various problem areas such as marketing timing, late trading, revenue sharing, soft dollars, fair valuation, etc. should be clearly spelled out in the Rules and then implemented accordingly. The Chief Compliance Officer should report on a quarterly basis to the independent Trustees on each area of activity that the Commission feels should be appropriately monitored.

I appreciate the opportunity to voice my comments to you and to each one of the Commissioners.

Sincerely,



Lacy B. Herrmann
Chairman and Chief Executive Officer

cc: Commissioner Paul S. Atkins
Commissioner Roel C. Campos
Commissioner Cynthia A. Glassman
Commission Harvey J. Goldschmid
Secretary Jonathan G. Katz

