

174

FERGUS REID III
202 JUNE ROAD
STAMFORD, CONNECTICUT 06903

May 18, 2004

RECEIVED
ES 107100
2004 MAY 21 P 10:16

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

RECEIVED
MAY 25 2004
OFFICE OF THE SECRETARY

Dear Chairman Donaldson: **S7-03-04**

I have served as an independent chairman of the JP Morgan Funds (or predecessor funds) for over 14 years and want to personally go on record, as a concerned independent trustee, who strongly supports the proposed change that all investment companies be required to have independent chairpersons. As an independent chairman, I am familiar with the challenges of balancing a board's responsibilities to its shareholders with the legitimate interests of the fund's management company. However, if a board chairman is part of or connected with the management company, or a service company, in any way he (she) can never be truly free of the appearance of self-interest.

The SEC --- the Congress --- the Courts --- and industry "best practices" have long since required fund boards to be controlled by independent trustees. The intent is clear --- why dilute it by allowing a "conflicted" chair?? The fact that management companies are fighting so hard for the "interested" chair actually makes the case against it. ---- A rule change is necessary and important because:

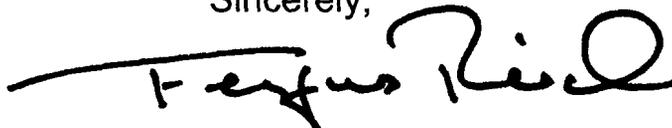
- 1) The chairman controls the agenda. --- The time and timing of dealing with important fund issues should not be in the hands of someone who has a potential conflict.
- 2) The chairman controls and sets the tone for the board's relationship with and attitude towards the management company. --- If the chairperson is part of the management company, or someone affiliated with it, this relationship will soon be compromised.

- 3) The Lead Director concept is flawed --- A lead director is immediately at a disadvantage when dealing with a strong interested chairman. To assert him or herself, the lead director must oppose or go around the wishes of an interested chairman. This creates tension and ill will and is rarely politically expedient.
- 4) Interested chairmen are, in fact, often “negotiating with themselves” when the interests of shareholders and the interests of the management companies are at odds as they are when 12b1 fees – advisory fees – and soft dollars are being considered.
- 5) The argument that some of the recent scandals have occurred at fund complexes with disinterested chairmen is not an excuse for inaction. A fund board led by a vigorous independent chair is still more likely to do something about management flaws than a board with a management-connected chair. As a matter of fact, it is important to note that recent scandals have not been connected to any independent chairmen. --- This, however, is not true for interested chairmen. Witness the charges against the interested chairmen of PIMCO and the Strong Funds for example.
- 6) Increased time commitments for independent chairmen will not be too great when measured against the importance of the tasks and responsibilities. --- On average I spend more than one-half of a regular business week on the affairs of our Boards and our Funds and can assure you that most of our trustees would be willing to do the same if called upon.
- 7) Opponents suggest that mandating an independent chair is Just “cosmetics”. I suggest that at a time when our industry’s image has been so tarnished, “cosmetics” and public perception are important!

Lastly, it is interesting to note that the majority of independent trustees who seem to favor management's position are, in fact, trustees of mutual funds with strong management oriented chairpersons. ----- Is it possible that they have become too comfortable with the status quo?

Now is the time to finally complete the job of weaning control away from the sponsors of funds by delivering complete control of oversight of fund affairs into the hands of independent trustees and the shareholders who actually own those funds.

Sincerely,

A handwritten signature in black ink that reads "Fergus Reid". The signature is written in a cursive style with a long horizontal stroke extending to the left.

Fergus Reid

FR/rm

Cc: The Honorable Cynthia Glassman, Commissioner
The Honorable Harvey J. Goldschmid, Commissioner
The Honorable Paul S. Atkins, Commissioner
The Honorable Roel C. Campos, Commissioner

Mr. Paul F. Roye, Director of Investment Management