



# Greenspring Fund, Incorporated

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June 17, 2004

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

RECEIVED  
OFFICE OF THE SECRETARY  
JUN 21 2004

Re: File No. S7 03 04, "Investment Company Governance," Release No. IC 26323

Dear Mr. Katz:

I am writing to express my views on some of the proposed regulatory initiatives that have been put forth recently. There is no evidence that many of these proposed solutions would correct today's problems, but many may in fact harm the shareholders whose best interests are presumably at stake. A healthy dose of reality and thoughtfulness should be administered before undertaking any actions that may have unintended negative consequences.

Mutual funds are started by investment advisors who believe that they have a product that the investing public finds valuable. Therefore, it is in the advisor's best interest to provide as desirable and rewarding a product as possible to shareholders so that they become long term investors in the fund. Investment advisors earn an advisory fee for managing a mutual fund. This is where the goals of an advisor and a shareholder differ — similar to the different motivations of a store owner who makes a greater profit by charging a higher price for a product and his customer who would prefer the store to charge as low a price as possible. The free market comes in to play here, putting practical constraints on the prices that will allow some profit, but not an exorbitant amount (which would draw others to the business eager to undercut the greedy storeowner).

No one is more motivated to provide an attractive mutual fund product than the investment advisor whose livelihood depends upon shareholders' acceptance. If shareholders are unhappy, they can simply pick up the phone, redeem their shares, and move to one of thousands of competing mutual funds, where they believe superior investment returns, lower expenses, or improved servicing will make them happier.

After examining the recent regulatory issues within the mutual fund industry, one finds that funds that broke rules or violated shareholders' trust had both "interested" as well as "independent" Chairmen, as well as independent boards. Therefore, the evidence indicates that to mandate greater control by outsiders, whether in the form of an independent Chairman or a greater percentage of independent directors, would have little, if any, impact on the problems, but would result in increased expenses for mutual funds whose investment advisors would also have less time to focus on the most important aspect of managing a mutual fund — providing superior investment performance.

Mutual funds are one of the most “transparent” types of corporations in existence. Mutual funds’ financial statements are easy-to-comprehend, audited annually, and readily accessible. There are a plethora of independent mutual fund research companies that provide useful information to investors, who can easily move from mutual fund to mutual fund should they so desire. Some pundits-of-the-day (in some cases individuals who once had high profile positions) seem eager to step in front of any microphone or television camera and decry the erosion of investor confidence. This pandering is not backed up by real numbers, as the net inflows into mutual funds, even after mutual fund improprieties were publicized, have been strongly positive. Shareholders did not abandon mutual funds in general. Instead, they yanked their money out of organizations that were tainted and re-invested their funds into mutual funds with whom they had developed greater trust. An informed free market works.

I strongly believe that those who broke current laws should be prosecuted with vigor. They betrayed their shareholders. If they broke the law, they should suffer the legal consequences. Fortunately, those that did not break the law, but still acted in ways grossly contrary to shareholders’ best interests, have suffered, as investors have exited their funds in droves. An informed free market works.

Imposing broad new regulations upon the mutual fund industry will hurt current shareholders by placing a greater legal and regulatory burden upon mutual funds. The increased legal and accounting efforts will cost shareholders dollars and distract management from its most important job of pursuing investment performance. Better enforcement of existing laws would solve many of the problems faced today.

Regulatory overkill will drive many of the brightest minds out of the mutual fund world and towards the management of hedge funds instead. Should this already existing trend accelerate, the investor with more modest sums to invest, or less of an opportunity to research investment options, will suffer.

Greater disclosure of relevant information would allow shareholders to make better informed decisions. If an independent Chairman is desirable in the eyes of some investors, then make that information readily accessible. If the composition of the Board of Directors is important to some, then make the disclosure of that information more prominent. Disclosure of fees should be clear and understandable. Personal trading policies are also very relevant and should be more clearly disclosed. There are many steps that can be taken to give shareholders more data so that they can make a better informed decision. Let the shareholders decide what is important to them, instead of politicians and regulators. Let an informed free market exert its powerful influence and discipline upon mutual funds.

Please take the time to take measured, well thought out steps, and do not rush into misguided solutions that may placate some, but cause harm to a greater number of investors.

Thank you very much for your time and efforts.

Respectfully,



Charles vK. Carlson  
President

cc: Hon. William H. Donaldson  
Commissioner Paul S. Atkins  
Commissioner Cynthia A. Glassman  
Commissioner Harvey J. Goldschmid  
Commissioner Roel C. Campos