

May 21, 2004

Mr. Jonathan G. Katz
Secretary
U.S. Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549-0506

Re: Disclosure Regarding Portfolio Managers – Proposed Rule
Release Nos. 33-8396; 34-49398; IC-26383; File No. S7-12-04

Dear Mr. Katz:

American Express Financial Corporation (“AEFC”) and American Express Asset Management Group Inc. (“AEAMG”) appreciate the opportunity to provide comments on the above-referenced proposal (the “Proposal”) concerning disclosure regarding portfolio managers of registered management investment companies. AEFC (File No. 801-14721) and AEAMG (File No. 801-25943) are investment advisers registered with the U.S. Securities and Exchange Commission (the “Commission”) pursuant to the Investment Advisers Act of 1940, as amended (the “Act”). AEFC provides research, analysis and investment management services for the American Express® Funds, which are open-end management investment companies registered with the Commission. AEAMG, a subsidiary of AEFC, provides research, analysis and investment management to institutional investors, including hedge funds for which an affiliate of AEAMG provides other management services.

AEFC and AEAMG generally support the Proposal and the Commission’s goal of disclosures regarding portfolio managers of registered management investment companies. We strongly agree that disclosure of a portfolio manager’s responsibility for management of more than one kind of account—for example, a mutual fund and a hedge fund—is a better way to address the potential conflicts of interest inherent in managing multiple types of accounts than a prohibition on such management. However, we suggest some modifications to improve the Proposal.

Benefits of side-by-side management. Allowing an individual portfolio manager to manage mutual funds and other investment accounts, including hedge funds, benefits small investors. Through mutual funds, these investors have access to top investment talent at potentially lower fees than would otherwise be available. Many highly performing mutual funds are managed by portfolio managers who also manage other accounts, including hedge funds. Portfolio managers can effectively meet their respective investors’ objectives running both a mutual fund and a hedge fund or other account, although the respective investment guidelines, strategies, benchmarks and objectives for these vehicles may be very different. Allowing the joint management of mutual funds and other investment accounts gives mutual fund investors access to the widest possible pool of investment talent and high quality portfolio managers.

Allowing joint management also enhances investment management firms' ability to retain talented portfolio managers. By managing a wide variety of accounts, investment advisers and individual portfolio managers are able to diversify their client base, as many businesses seek to do. If forced to choose between managing mutual funds and hedge funds, many portfolio managers would likely choose to manage hedge funds, because they provide more of an investment challenge, allow for a broader range of investment techniques and provide the opportunity to earn higher fees based on performance. This would hurt mutual fund investors, who over time would lose access to top investment talent. If managers are restricted from managing both mutual funds and hedge funds, the mutual fund shareholder will lose out on access to this investment talent. This diminishing of investors' choices would be anticompetitive in the mutual fund industry.

Compliance procedures and disclosure are appropriate. The combination of disclosure to mutual fund investors and compliance procedures required of investment advisers is an appropriate and sufficient way to address the potential conflicts involved when the same portfolio manager manages mutual funds and other types of accounts, including hedge funds. As the Commission noted in the text at note 27 in the above-referenced release (the "Proposing Release"), the Commission recently adopted rules requiring investment advisers "to implement policies and procedures that address conflicts arising from management of multiple funds and accounts, such as the allocation of investment opportunities and the allocation of aggregated trades." In fact, AEFC, AEAMG and numerous other investment advisers already have implemented extensive procedures to address such conflicts. We think it likely that investment advisers will adopt additional procedures as they implement compliance with the Commission's new rule.

We would suggest, however, that the proposed disclosures are broader than necessary to achieve the Commission's purpose. In order to help keep the disclosures to a reasonable length, we suggest that the Commission specifically limit the required disclosure of conflicts and procedures to address them to a summary of material conflicts of interest and of material procedures to address such conflicts.

Management of more than one kind of account by portfolio managers is extremely common in the investment management industry. While we support some modifications, we generally support the Commission's proposal of required disclosure as an enhanced means to address the potential conflicts.

Variable accounts. We support requiring the disclosures about portfolio managers for mutual funds underlying variable annuities and variable life insurance as well as other mutual funds. Investors should receive the appropriate disclosures regardless of whether their interest in the fund results from investment in a variable product.

Portfolio management team members. We support the concept of disclosure of a group of persons who are associated with a mutual fund's investment adviser and are "jointly and primarily responsible for the day-to-day management of the Fund's portfolio." This disclosure would become cumbersome, however, if the group had many members.

Consequently, we suggest a limit on the number of persons for whom disclosure must be provided if the rule otherwise would require disclosure for more than five persons (or some other reasonable number of persons). In such a situation, possible limitations might include the following: (1) If more than one person serves as a portfolio management team leader or is specifically identified as having lead portfolio management responsibility for all or a substantial part of the fund, provide the disclosure for those persons. If this would result in disclosures about more than five persons, apply the following two approaches to this group. (2) If more than five persons are jointly and primarily responsible, and either none is a team leader or lead portfolio manager, or there are more than five team leaders or lead portfolio managers, provide disclosure for the five persons reasonably determined to be most responsible for the day-to-day management. (3) If each member of the group manages a distinct part of the portfolio, provide disclosure for the persons responsible for the day-to-day management of a threshold percentage such as 10 percent of the portfolio. The latter approach could apply, for example, to a research fund for which 50 analysts each determines part of the portfolio. If no person managed the threshold percentage, then as is now the case, it could be sufficient to state that a group of persons associated with the adviser is jointly and primarily responsible for the day-to-day management.

It should not be necessary to describe the structure and decisionmaking process for portfolio management. That can be expected to result in broad disclosures that are not useful to investors. The more important disclosure for investors is the investment policy and strategy of the mutual fund.

Proposed requirements for other accounts managed. We generally support disclosure of the types of other accounts managed by the portfolio managers for mutual funds. However, we believe that the information generally should be required as of one day during the year—for example, the December 31 immediately preceding the date of the prospectus—so that mutual fund complexes and their investors will not be burdened with constant updates as investment advisers attract or lose investment management clients whose assets may be managed by persons who also manage a mutual fund. The updating of such disclosures could be especially confusing and burdensome when a fund is managed by a team of persons who also manage multiple other accounts.

Portfolio manager compensation. We support the Commission's proposal to require disclosure of the structure of and methods for determining the compensation of portfolio managers. When a fund is managed by a team, the disclosure should only be required for team members required to be identified as suggested above. We strongly urge the Commission not to expand its proposal to require disclosure of the amount of a portfolio manager's compensation. This would unduly invade the privacy of a portfolio manager and deter investment talent from portfolio management in the mutual fund industry.

We also suggest that the Commission make clear that disclosure is not required for non-core elements of compensation, especially those that are standard for all or most employees, such as retirement plans and health benefits.

Securities ownership. We support the concept of disclosure of ranges of securities ownership by portfolio managers and team members in the mutual fund and in other accounts for which that person has portfolio management responsibility. However, disclosure of ownership in securities in other accounts managed by the adviser or an affiliate seems overly broad. In the case of mutual funds that use the services of subadvisers that provide investment advisory services to numerous mutual fund families, this would especially complicate the disclosure beyond usefulness to the investor.

We support the proposal of providing the disclosure in ranges determined by dollar amounts. This is far preferable to providing information by a means that intrudes even further into the manager's privacy, such as percentage of net worth invested in a fund. However, we would submit that a maximum range disclosing an investment of "over \$1,000,000" intrudes significantly on a portfolio manager's privacy, and would prefer a smaller maximum range such as "over \$100,000."

We appreciate the opportunity to comment on the Proposal.

Sincerely,

William F. Truscott

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