
FREDERIC T. KUTSCHER ASSOCIATES, INC.

Comprehensive financial counsel for individuals, families and trusts

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Given your extensive commitments in mutual funds, we think it's important to communicate our thoughts regarding the crescendo of allegations of abuses by mutual fund management. As you probably know, New York's Attorney General Eliot Spitzer and the SEC have identified at least nine mutual fund companies (or persons involved with management in these companies) that are or may be implicated and/or criminally charged.

The integrity of mutual fund management is the paramount factor we use in selecting funds for our clients' portfolios, as well as for our personal portfolios. We've written about this subject for years, but now our words take on a particular urgency and significance. Below we provide a short synopsis of the allegations that have been made to date. However, because we feel the topic deserves examination in a far more thorough manner than can be communicated in a short letter, we'd like to invite you to participate in a conference call with us at 9:30 a.m. on Saturday, November 22 (12:30 pm for our East Coast clients). We will be following up on or about November 18th with a telephone number and dial-in code for the call.

As things now stand, the allegations relate to two sorts of improper activity by fund employees and management, with one practice being clearly illegal and the others inappropriate and harmful to shareholders:

- 1) Allowing trade orders to be manipulated after trading deadlines. This enables certain speculators to take advantage of announcements and other potentially influential events which occur after trading deadlines. This "late trading" is clearly illegal.
- 2) Allowing speculators to use a fund as a "market timing" mechanism, particularly to exploit time-zone variations in international funds, even though the fund managers state in the fund's prospectus that they discourage this activity. Market timing is not illegal per se, but it is inappropriate if it is permitted contrary to the prospectus.

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To date, Bank of America, Alger, Prudential, Federated, Janus, Strong, Alliance, Putnam and Bank One have been named in investigations or, in some cases, charged criminally. Importantly, to the best of our knowledge, none of the specific investments we've recommended for your portfolio have been implicated.

During our November 22nd conference call we'd like to cover why we have confidence in your mutual fund management teams and why we believe the mutual fund mechanism for investing has viability. We want to explore and discuss how some of what Attorney General Spitzer and the SEC are investigating involves management judgment calls and not criminal activity. The Attorney General and the SEC have requested information from the 80 largest mutual fund companies in the U.S. Where this investigation leads depends, at least partly, on media attention, the political environment, and how the SEC uses its regulatory powers.

We think it's important for you to participate in our discussion so you can assess the meaning of the news as it develops.

Please join us on Saturday, November 22nd for our conference call.

Sincerely yours,

FREDERIC T. KUTSCHER