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8 March 2004

Mr. Jonathan G. Katz
Secretary
Security & Exchange Commission
450 Fifth Street NW
Washington DC 20549-0609

Re: File S7-03-04
Investment Company Governance

Dear Mr. Katz:

Thank you for giving us the opportunity to comment on the proposed rule dealing with investment company governance.

I represent ownership in a small firm, managing approximately $600 million in assets. We have been in business 31 years. Our assets include four no-load investment company funds with combined assets of approximately $100 million. Three of the four funds feature innovative styles, however they are small and our firm has needed to waive fees and provide support to keep them afloat.

The differences between small and large firms are significant. The small firm, typically, was launched by one or more entrepreneurs who desired to benefit from a profitable firm. However, the entrepreneur very likely favored an investment style or approach, liked to serve clients, and believed that his approach to the market would be advantageous. Small firms get much of their business from recommendations from existing clients. Such firms tend to serve clients they might meet at church or synagogue, at social or civic clubs, and other charitable or neighborhood functions. Clients are often personal acquaintances, not remote and unknown entities. It is not in the best interest of small firms to take advantage of these clients, and we expect that it does not frequently happen.

Large firms, on the other hand, are frequently owned by absentee entities. Ownership of some firms may be in the public domain. Their management and key personnel are often employees and not owners. Some executives may never meet clients, and their loyalty may be more to the firm.

In small firms, the principals have to wear a large variety of hats. A few key executives oversee compliance; they are responsible for the administration of the firm, and all the tax, finance, marketing, and personnel matters relating to the firm. Their principal focus should be, *and needs to be*, on achieving top results for clients, communicating with clients, and serving them properly. The burden of additional regulations falls heavily on these key personnel in small firms. Compliance in small firms is very time consuming and because of this it may consume so much executive time as to work against the best interests of clients.

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Mutual funds supervised by small firms are frequently used by firm employees as investment vehicles. In our firm, for example, our top two officers (and others) invest largely by purchasing shares of our own mutual funds, paying the same fee as other shareholders. Likewise, our company assets and the retirement plan for our employees are invested in the same way. It is not credible that actions adverse to shareholders would knowingly be permitted in these circumstances.

In a small investment company, the chairman of the fund board is typically an officer of the advisor. In many cases, such as at our firm, he serves without compensation. Since three of the four funds in our fund family are not at a profitable level, the fund advisor has needed to supplement the revenues to cover expenses. The compensation of independent directors has necessarily been very limited. Whether a poorly compensated independent chairman could be sufficiently motivated to spend the requisite time and effort to gather materials for the meeting, to become sufficiently aware of the fund activities, is also very problematic. The proposal that an independent director should serve as chairman and be compensated for this would cause many small investment companies to reconsider their decision to remain in the investment company business.

Much the same rationale applies to giving independent directors the authorization to hire and compensate employees to help them fill their duties. If funds are only marginally profitable or are unprofitable, there won't be sufficient revenue to permit them to hire employees for this purpose. Independent directors are unlikely to use their own personal funds for this hiring.

In any case, hiring additional staff, hiring additional counsel, independent chairmen and generating additional paperwork are all burdens that must ultimately be born by clients. ***Unless there is strong empirical evidence of the need for this, and that such an action would lead to a desirable result, we suggest that all such burdens be exempted for fund families with less than $500 million in assets.***

It's the nature of America to encourage entrepreneurship. Many small funds offer innovative approaches to management of assets, and approaches that have been very successful throughout recent bear markets. They have served their clients with fidelity and success. Actions that would jeopardize this relationship are not appropriate.

Thank you for giving us the opportunity to comment on these proposed rules.

Sincerely,

F. E. James, Ph.D.

FEJ/lm