

## **DISCLOSURE OF PORTFOLIO MANAGER COMPENSATION**

### **WHO, WHAT, WHERE, WHEN & WHY<sup>1</sup>**

#### **WHO'S COVERED**

- Any person(s) who are primarily responsible for the day-to-day management of the Portfolio
- Investment Committees
  1. All members (up to 5) who are jointly and primarily responsible for the day-to-day management of the Portfolio
  2. If more than 5 are jointly and responsible, then only the 5 with the most significant responsibility.
- Money Market Funds excluded, but not Index Funds

#### **WHAT'S DISCLOSED**

- NOT the amount
- Each element of compensation received from any source and how the amount is determined
- Elements of compensation include
  1. Salary
  2. Bonus
  3. Deferred Compensation
  4. Pension and retirement plans, unless generally available to all salaried employees and do not discriminate in favor of Portfolio Managers as to scope, terms and operation
- Describe with specificity how each element is set, for example:
  1. Fund performance
    - a. Absolute
    - b. Index Comparison
  2. Assets under management
- If the Portfolio Manager manages other accounts, e.g., hedge funds or separate accounts, any differences in methods of compensation must be disclosed.

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<sup>1</sup> The SEC proposed these new disclosure requirements in Investment Company Act Release No. 26383 (March 11, 2004) and adopted them in Investment Company Act Release No. 26533 (August 23, 2004).

## **WHERE DISCLOSED**

- The Statement of Additional Information

## **WHEN**

- For Portfolio's fiscal year
  1. Different fiscal years
  2. Bonus and other Allocation Issues
- SEC filings made after February 27, 2005

## **WHY**

- Transparency
- Assess alignment of portfolio manager's incentive with investor's interest
- Assess any conflicts if manage other accounts

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**EXAMPLES OF  
PORTFOLIO MANAGER COMPENSATION DISCLOSURE**

**PRUDENTIAL SERIES FUND**

**Sub-Adviser: Jennison Associates LLC**

**Portfolios**

**Conservative Balanced Portfolio  
Diversified Bond Portfolio  
Diversified Conservative Growth Portfolio**

Jennison seeks to maintain a highly competitive compensation program designed to attract and retain outstanding investment professionals, which includes portfolio managers and research analysts, and to align the interests of its investment professionals with that of its clients and overall firm results. Overall firm profitability determines the total amount of incentive compensation pool that is available for investment professionals.

Investment professionals are compensated with a combination of base salary and discretionary cash bonus. In general, the cash bonus comprises the majority of the compensation for investment professionals. Investment professionals' total compensation is determined through a subjective process that evaluates numerous qualitative and quantitative factors. Not all factors will be applicable to each investment professional and there is no particular weighting or formula for considering the factors. The factors considered for an investment professional whose primary role is portfolio management will differ from an investment professional who is a research analyst or portfolio manager with research analyst responsibilities. In addition, some portfolio managers or analysts may manage or contribute ideas to more than one product strategy and are evaluated accordingly. The factors that may be reviewed include the following:

- one and three year pre-tax investment performance of groupings of accounts relative to pre-determined passive indices and industry peer group data for the product strategy (e.g., large cap growth, large cap value) for which the portfolio manager is responsible;
- the investment professional's contribution to client portfolios' pre-tax one and three year performance from the investment professional's recommended stocks relative to the strategy's passive benchmarks and to the investment professional's respective coverage universes;
- Historical and long-term business potential of the product strategies;
- Qualitative factors such as teamwork and responsiveness;
- Other factors such as experience and other responsibilities such as being a team leader or supervisor may also affect an investment professional's total compensation.

**Sub-Adviser: AIM**

**Portfolios**

Small Capitalization Stock  
Stock Index  
Value  
Zero Coupon Bond 2005  
SP AIM Aggressive Growth

AIM seeks to maintain a compensation program that is competitively positioned to attract and retain high-caliber investment professionals. Portfolio managers receive a base salary, an incentive bonus opportunity, an equity compensation opportunity, and a benefits package. Portfolio manager compensation is reviewed and may be modified each year as appropriate to reflect changes in the market, as well as to adjust the factors used to determine bonuses to promote good sustained fund performance. AIM evaluates competitive market compensation by reviewing compensation survey results conducted by an independent third party of investment industry compensation. Each portfolio manager's compensation consists of the following five elements:

- **Base salary.** Each portfolio manager is paid a base salary. In setting the base salary, AIM's intention is to be competitive in light of the particular portfolio manager's experience and responsibilities.
- **Annual bonus.** Each portfolio manager is eligible to receive an annual cash bonus which has quantitative and non-quantitative components. Generally, 70% of the bonus is quantitatively determined, based typically on a four-year rolling average of pre-tax performance of all registered investment company accounts for which a portfolio manager has day-to-day management responsibilities versus the performance of a pre-determined peer group. In instances where a portfolio manager has responsibility for management of more than one fund, an asset weighted four-year rolling average is used.

High fund performance (against applicable peer group) would deliver compensation generally associated with top pay in the industry (determined by reference to the third-party provided compensation survey information) and poor fund performance (versus applicable peer group) could result in no bonus. The amount of fund assets under management typically have an impact on the bonus potential (for example, managing more assets increases the bonus potential); however, this factor typically carries less weight than relative performance. The remaining 30% portion of the bonus is discretionary as determined by AIM and takes into account other subjective factors.

- **Equity-based compensation.** Portfolio managers may be awarded options to purchase common shares and/or granted restricted shares of AMVESCAP stock from pools determined from time to time by the Remuneration Committee of the AMVESCAP Board of Directors. Awards of equity-based compensation typically vest over time, so as to create incentives to retain key talent.

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- **Participation in group insurance programs.** Portfolio managers are provided life insurance coverage in the form of a group variable universal life insurance policy, under which they may make additional contributions to purchase additional insurance coverage or for investment purposes.
- **Participation in deferred compensation plan.** Portfolio managers are eligible to participate in a non-qualified deferred compensation plan, which affords participating employees the tax benefits of deferring the receipt of a portion of their cash compensation.

Portfolio managers also participate in benefit plans and programs available generally to all employees.

**Portfolio**

**SP Davis Value**

Kenneth Feinberg's compensation as a Davis Advisors employee consists of (i) a base salary, (ii) an annual bonus equal to a percentage of growth in Davis Advisors' profits, (iii) awards of equity ("Units") in Davis Advisors including Units, options on Units, and/or phantom Units, and (iv) an incentive plan whereby Davis Advisors purchases shares in selected funds managed by Davis Advisors. At the end of specified periods, generally five-years following the date of purchase, some, all, or none of the fund shares will be registered in the employee's name based on fund performance, after expenses on a pre-tax basis, versus the S&P 500 Index, and versus peer groups as defined by Morningstar or Lipper. Davis Advisors' portfolio managers are provided benefits packages including life insurance, health insurance, and participation in company 401(k) plan comparable to that received by other company employees.

Christopher Davis' annual compensation as an employee and general partner of Davis Advisors consists of a base salary. Davis Advisors' portfolio managers are provided benefits packages including life insurance, health insurance, and participation in company 401(k) plan comparable to that received by other company employees.

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## **ARIEL INVESTMENT TRUST**

John W. Rogers, Jr. is the portfolio manager for both Ariel Fund and Ariel Appreciation Fund and all other accounts managed by the Adviser, none of which are a pooled investment vehicle.

Mr. Rogers' compensation is composed of (i) a base salary that is calculated based upon market factors for comparable CEOs of comparable advisory firms; (ii) a quarterly bonus that is related to the profitability of the Adviser; (iii) an annual incentive that is based upon goals set by the Adviser's Board of Directors that are tied to the annual performance of both Ariel Fund and Ariel Appreciation Fund, the performance of the Adviser (profitability standards (EBITDA margin)), adherence to investment strategy and Mr. Rogers executing various annual goals; and (iv) a stock grant that is based upon Mr. Rogers' contribution to the Adviser and his perceived value in the marketplace. There is no set formula for any of the above components of Mr. Rogers' compensation; rather, all compensation is based upon the successful execution of goals determined by the Adviser's Board of Directors at the beginning of each year.

## **T. ROWE PRICE**

### Portfolio Manager Compensation

Portfolio manager compensation consists primarily of a base salary, a cash bonus, and an equity incentive that usually comes in the form of a stock option grant. Occasionally, portfolio managers will also have the opportunity to participate in venture capital partnerships. Compensation is variable and is determined based on the following factors.

Investment performance over one-, three-, five-, and 10-year periods is the most important input. We evaluate performance in absolute, relative, and risk-adjusted terms. Relative performance and risk-adjusted performance are determined with reference to the broad based index (ex. S&P500) and the Lipper index (ex. Large-Cap Growth) set forth in the fund's prospectus, though other benchmarks may be used as well. Investment results are also compared to comparably managed funds of competitive investment management firms. These comparable funds are approved by our Investment Steering Committees and are the same ones presented to our mutual fund directors in their regular review of fund performance. Performance is primarily measured on a pre-tax basis though tax-efficiency is considered and is especially important for the Tax Efficient Funds. It is important to note that compensation is viewed with a long term time horizon. The more consistent a manager's performance over time, the higher the compensation opportunity. The increase or decrease in a fund's assets due to the purchase or sale of fund shares is not considered a material factor. In reviewing relative performance for fixed income funds, a fund's expense ratio is usually taken into account.

Contribution to our overall investment process is an important consideration as well. Sharing ideas with other portfolio managers, working effectively with and mentoring our younger analysts, and being good corporate citizens are important components of our long term success and are highly valued.

All employees of T. Rowe Price, including portfolio managers, participate in a 401(k) plan sponsored by T. Rowe Price Group. In addition, all employees are eligible to purchase T. Rowe Price common stock through an employee stock purchase plan that features a limited corporate matching contribution. Eligibility for and participation in these plans is on the same basis as for all employees. Finally, all vice presidents of T. Rowe Price Group, including all portfolio managers, receive supplemental medical/hospital reimbursement benefits.