

Enhanced Prospectus Disclosure and New Prospectus Delivery Option for Mutual Funds

January 16, 2009

Introduction

On January 13, 2009, the Securities and Exchange Commission (SEC) adopted a new mutual fund disclosure framework, originally proposed in November 2007, intended to provide investors with information that is easier to use and more readily accessible than the current framework.

To implement this new disclosure framework, the SEC is adopting amendments to Form N-1A, requiring mutual funds to include a summary section at the front of their prospectuses, consisting of key information about the fund, including investment objectives and strategies, risks, costs, and performance. In addition, the SEC is adopting amendments to Form N-1A relating to exchange-traded funds (ETFs) that are intended to result in the disclosure of more useful information to investors who purchase shares of ETFs on national securities exchanges. Finally, the SEC is also adopting a new option for satisfying prospectus delivery requirements whereby key information will be sent or given to investors in the form of a summary prospectus, with a full statutory prospectus available electronically on the Internet.

All initial registration statements on Form N-1A, and all post-effective amendments that are either annual updates or additions of new series filed on or after January 1, 2010, must comply with the amendments. The final compliance date for filing amendments to effective registration statements to comply with the new requirements is January 1, 2011.

New Prospectus Summary Section

The adopted amendments require that the statutory prospectus of every mutual fund include a summary section at the front of the prospectus consisting of key information investors can use to evaluate and compare a fund. The summary section of a statutory prospectus will consist of the following information, in the following order: (i) investment objectives, (ii) costs (fees), (iii) principal investment strategies, (iv) risks and performance, (v) investment advisers and portfolio managers, (vi) purchase and sale information, (vii) tax information, and (viii) financial intermediary compensation.

For multi-fund prospectuses, a summary section for each fund must be provided. Information for multiple funds may not be integrated, although the information related to purchase and sale of fund shares, taxes, and financial intermediary compensation may be integrated if it is identical for all funds covered in the prospectus. A prospectus for a fund with multiple share classes may, at the fund's discretion, present the summary information separately for each class, integrate the information for multiple classes, or use another presentation that is consistent with disclosing the summary information in a standard order. Mutual funds that are used as investment options for retirement plans and variable insurance contracts may modify or omit the purchase and sale information section.

Information included in the summary section need not be repeated in the prospectus. While a fund may include information in the prospectus that is not required, a fund may not include any such additional information in the summary section of the prospectus.

The following outlines certain requirements with respect to the summary section:

Fees

- A mutual fund that offers discounts on front-end sales charges for volume purchases (“breakpoint discounts”) will be required to include a brief narrative informing investors of the availability of such discounts. Specifically, the narrative will be required to (i) state the minimum level of investment required to qualify for a discount, (ii) inform the investor that further information is available from the investor’s financial professional, and (iii) identify the section heading and page number of the fund’s prospectus and SAI where more information may be found.
- The required parenthetical in the heading “Annual Fund Operating Expenses (expenses that are deducted from Fund assets)” will be revised to read “(expenses that you pay each year as a percentage of the value of your investment).”
- A mutual fund offering a contractual expense reimbursement or fee waiver arrangement for a period of no less than one year will be permitted to include two additional captions directly below “Total Annual Fund Operating Expenses” in the fee table, to reflect the amount of the expense reimbursement or fee waiver and the fund’s net expenses after such reimbursement or waiver. A fund that discloses this information will be required to further disclose the period for which the reimbursement or waiver arrangement is expected to continue, including the expected termination date, and briefly describe who can terminate the arrangement and under what circumstances.
- A mutual fund, other than a money market fund, is now required to disclose its portfolio turnover rate for the most recent fiscal year as a percentage of the average value of its portfolio. A brief explanation of the effect of portfolio turnover on transaction costs and fund performance will also be included, as well as a discussion of the adverse tax consequences that may result from higher portfolio turnover rate when fund shares are held in a taxable account.

Risks and Performance

- In addition to the bar chart and table illustrating a fund's returns and past performance, a mutual fund that makes updated performance information available on a website or via a toll-free (or collect) telephone call will be required to include a statement explaining the availability of the information that includes the website and/or telephone number.

Investment Advisers and Portfolio Managers

- A fund will be required to disclose the name of each investment adviser and sub-adviser, as well as the name, title, and length of service of the fund’s portfolio managers that are jointly and primarily responsible for the day-to-day management of the fund’s portfolio.

Purchase and Sale Information

- A fund will be required to disclose the dollar amount of the fund’s minimum initial or subsequent investment requirement and to identify the procedures for redeeming shares (e.g., by written request, telephone, or wire transfer).

Tax Information

- A fund will be required to state, as applicable, that it intends to make distributions that may be taxed as ordinary income or capital gains or that the fund intends to distribute tax-exempt income.
- A fund that discloses that it invests in securities generating tax-exempt income will be required to provide, as applicable, a general statement to the effect that a portion of the fund’s distributions may be subject to federal income tax.

Financial Intermediary Compensation

- A fund that pays (either directly or through its related companies) financial intermediaries for the sale of fund shares or related services will be required to include disclosure to alert investors to the potential conflicts of

interest arising from such arrangements and direct investors to their salesperson or the financial intermediary's website for further information.

ETF Prospectuses

The adopted amendments to Form N-1A with respect to ETF prospectuses are designed to meet the needs of investors who purchase ETF shares in the secondary market, rather than financial institutions that purchase creation units directly from an ETF. These amendments will not apply to ETFs with creation units of fewer than 25,000 shares, as individual or retail investors may be more likely to transact in creation units through a financial institution if the creation unit size is fewer than 25,000 shares.

Specifically, the amendments eliminate the Form N-1A requirement that ETF prospectuses disclose information on how to buy and redeem shares directly from an ETF, as it is not relevant to investors who are secondary market purchasers of ETF shares. ETFs will still be required to include disclosure on how creation units are offered to the public in the SAI.

ETF prospectuses will be required to include the following facts: (i) the number of shares contained in a creation unit; (ii) that individual shares may only be bought and sold on the secondary market through a broker dealer; and (iii) that shareholders may pay more than net asset value (NAV) when they buy ETF shares and receive less than NAV when they sell ETF shares because shares are bought and sold at current market prices. Further, the fee table of an ETF prospectus will not include fees and expenses for purchases or redemptions of creation units, and the narrative preceding the example in the fee table will include a statement that investors in ETF shares may pay brokerage commissions that are not reflected in the example.

The amendments codify current ETF orders that require that investors be alerted to the relationship between NAV and the market price of ETF shares. ETF prospectuses will be required to disclose to investors information about the extent and frequency with which market prices of the ETF shares have tracked the ETF's NAV. For purposes of this requirement, the term "market price" means either the closing price on the principal market on which ETF shares trade or within the range between the highest offer and the lowest bid, if that price more accurately reflects the current market value of the ETF's shares at the time the ETF calculates its NAV.

An ETF will be required to disclose in its prospectus the number of trading days during the most recently completed calendar year and quarters since that year on which the market price of the ETF shares was greater than the ETF's NAV, and the number of days it was less than the ETF's NAV (premium/discount information). Unlike current ETF orders, the amendments allow an ETF to omit this specific premium/discount information if this information is provided on the ETF's website and the prospectus discloses this website.

New Delivery Option for Mutual Fund Prospectuses

In an effort to provide investors with more useable information that they are more likely to understand, the SEC is replacing Rule 498 of the Securities Act of 1933 (Securities Act) with a new rule that permits a fund to deliver a "summary prospectus" in lieu of a statutory prospectus, so long as the statutory prospectus and other fund reports are made available online. A fund distributing a summary prospectus will also be required to provide a statutory prospectus and other fund reports to an investor in paper or via email within three days of such a request. The summary prospectus is required to include the same information and in the same order as is required in the summary section described above. If a fund supplements a statutory prospectus and changes information in the summary section, the fund's summary prospectus is required to be supplemented as well. As with the summary section, a summary prospectus may only describe one fund, although it may describe multiple classes of the same fund. A summary prospectus must be filed with the SEC on EDGAR no later than the date of first use.

The cover of a summary prospectus must include the fund's name and share classes, the exchange ticker symbol(s) of the fund and each of its classes, a statement identifying the document as a summary prospectus, and the approximate date of the summary prospectus's first use. Additionally, the cover or beginning of the summary prospectus must include a legend informing the investor of the availability of a statutory prospectus and other materials via a website, a toll-free or collect-call phone number, and/or an email address. The listed website must lead *directly* to the statutory prospectus. If the summary prospectus incorporates information by reference from another document, such document and the date of such document must be clearly identified, as well as the means of obtaining such document free of charge. A summary prospectus must also provide a website and/or toll-free or collect-call telephone number through which an investor can receive updated performance information on a quarterly basis.

If providing a summary prospectus, a fund's current summary prospectus, statutory prospectus, SAI, and most recent annual and semiannual reports are required to be accessible, free of charge, on the website specified on the cover. Such materials must be available for at least 90 days, although the materials may be updated during the 90-day period.

This information must be presented in a format that is readable both online and when printed on paper. Additionally, an investor must be able to retain the electronic versions of the materials, free of charge, through downloading or other capabilities. With respect to statutory prospectuses and SAIs available online, such documents must allow an investor to move between each section heading in a table of contents and the corresponding section of the document via a link. Further, an investor must have the ability to move between the corresponding sections of the online summary prospectus and the online statutory prospectus and SAI. The new rule includes a safe harbor that recognizes the possibility of events beyond a fund's control (e.g., system outages, weather, etc.) that may temporarily prohibit compliance with the Internet posting requirements.

The new rule requires that if distributed with accompanying materials (except other summary or statutory prospectuses), a summary prospectus must be given greater prominence than any accompanying material. The greater prominence requirement may be satisfied by placing the summary prospectus on top of the group of documents that are provided together. Additionally, the new rule prohibits the summary prospectus from being bound together with any other materials. An exception to this prohibition, however, occurs when a summary prospectus for a fund that is available as an investment option in a variable annuity or variable life insurance contract is bound together with the statutory prospectus for the contract and summary/statutory prospectuses for other investment options available under the contract.

Under the new rule, the delivery requirements of Section 5(b)(2) of the Securities Act will be satisfied by providing an investor a summary prospectus if (i) the summary prospectus is sent or provided no later the time of the carrying or delivery of the fund security; (ii) the summary prospectus is not bound together with any materials, except as allowed above; (iii) the summary prospectus satisfies the new rules requirements; and (iv) the summary prospectus, statutory prospectus, and other materials are available on the Internet as specified in the new rule and described above. Additionally, any communication relating to a mutual fund offering that is delivered to an investor shall not be deemed a prospectus if, at the time of such communication, these same conditions are met.

To view the SEC's adopting release, please visit <http://www.sec.gov/rules/final/2009/33-8998.pdf>.

How Morgan Lewis Can Help

If you have any questions concerning these important legal developments, please contact any of the following Morgan Lewis attorneys:

Philadelphia

Timothy W. Levin 215.963.5037 tlevin@morganlewis.com

Washington, D.C.

W. John McGuire 202.739.5654 wjmcguire@morganlewis.com

Christopher D. Menconi 202.739.5896 cmenconi@morganlewis.com

Beau Yanoshik 202.739.5676 byanoshik@morganlewis.com

About Morgan, Lewis & Bockius LLP

Morgan Lewis is an international law firm with more than 1,500 lawyers in 22 offices located in Beijing, Boston, Brussels, Chicago, Dallas, Frankfurt, Harrisburg, Houston, Irvine, Los Angeles, Miami, Minneapolis, New York, Palo Alto, Paris, Philadelphia, Pittsburgh, Princeton, San Francisco, Tokyo, and Washington, D.C. For more information about Morgan Lewis or its practices, please visit us online at www.morganlewis.com.

This FYI Alert is provided as a general informational service to clients and friends of Morgan, Lewis & Bockius LLP. It should not be construed as, and does not constitute, legal advice on any specific matter, nor does this message create an attorney-client relationship. These materials may be considered Attorney Advertising in some states. Please note that the prior results discussed in the material do not guarantee similar outcomes.

© 2009 Morgan, Lewis & Bockius LLP. All Rights Reserved.