

COMMENTS ON TRANSGRESSIONS IN THE MUTUAL FUND INDUSTRY

In light of recent articles concerning mutual-fund company transgressions, we believe a few comments are in order. It is with a degree of sadness but also contempt that we are witnessing a broad cross section of mutual-fund companies violating their investors' trust. It amazes us that so many will sell their good name for so little. The 1990's "go-go" attitude of business excess and questionable ethics appears to have spread to various areas of the investment-management industry. During this period, we at First Pacific Advisors, Inc. have always placed the interest of our clients and shareholders first. For example:

1. At various times we have chosen to close certain of your Funds to new investors so as to control their rate of growth.
2. We instituted a 2% rear-end load for assets held for less than 90 days in an attempt to minimize short-term trading activity. We have also locked out clients who have demonstrated a history of repeated short-term trading.
3. We have a code of ethics that is taken seriously by all associates at FPA as well as by your Funds' Board of Directors. A formal report and discussion of personal trading occurs at every board meeting.
4. We have never used your commission dollars to purchase access or buy influence in the marketing of your Funds. We know that this has cost FPA in terms of gaining assets under management, but we did not view this type of activity as benefiting our shareholders.
5. The use of "soft-dollar" payments has been minimal and almost exclusively for the acquisition of research. Among the larger commitments is for research that provides information that is used by your Boards to monitor your Funds' performance and expenses. "Soft-dollar" payments as a percentage of assets under management have generally averaged less than two basis points (2/100 of a percentage point).
6. We have worked hard to manage and reduce the operating expense ratios of your Funds. In addition, because portfolio turnover rates are kept low, transaction costs are minimized.
7. Finally, we are significant owners of your Funds and, therefore, we are very mindful of any actions that would not be in the best interests of the Funds.

At times we have felt that we were totally out of step with the rest of the industry. For over thirty years, we have taken corporate governance as a critically important element in the management of our business. We have found it interesting to watch how the investment industry's nomenclature has changed over the years. We have witnessed the growing tendency by which investment management firms and financial conglomerates refer to their business as a process of "gathering assets" and that their investors are to be viewed as "customers." These are the terms that marketing professionals use and not those of investment stewards. At FPA, we refer to our investors as either clients or shareholders and not as customers. In our opinion, our terms denote a higher level of meaning and importance. In essence, we view our clients and shareholders as partners. In a solid partnership, one does not seek to disadvantage one's partners. This industry trend toward a marketing focus can create a culture that is prone to excess. Despite this trend, our firm remains focused on investing and not marketing. In fact, we have no in-house marketing professionals for either institutional separate accounts or mutual funds. We have only client service professionals. It is with a sense of pride that we can mention that our firm has been included in two recent articles that speak of firms that consider their investors' needs first. In the October issue of Money Magazine, Jason Zweig's article, "The Great Fund Rip-Off," refers to the FPA Funds positively, while The Street.com's October 13 article, "Three Good Things Fund Managers Do," highlights several firms positively and, again, the FPA Funds are included.

We, the Principals of FPA, as well as the rest of our associates, can assure you, our partners, that the protection and growth of your assets is paramount in our thinking. Your success is our success. We thank you for the trust that you have placed in us, and we promise to continue to earn it every day.

Sincerely,

Robert L. Rodriguez
Principal and Chief Executive Officer
October 31, 2003

J. Richard Atwood
Principal and Chief Operating Officer