



www.aquilafunds.com

Thought For the Month

“Big Brother is Watching”

Whether you are aware of it or not, each and every shareholder in a mutual fund has a “Big Brother” looking out for his or her interests. In actuality, several “Big Brothers” – the Securities and Exchange Commission (“SEC”), the Financial Industry Regulatory Authority (“FINRA”), and each fund’s own Trustees and management – enforce stringent rules and regulations for shareholders’ benefit.

Mutual funds are perhaps one of the most highly regulated businesses in the United States. All funds and their sponsoring organizations are subject to extensive disclosure requirements and continuous oversight and regulation of their operations.

At the forefront of those who regulate mutual funds is the SEC. Primarily through mandates in the Investment Company Act of 1940, three other separate laws, and a host of specific rules, this Federal agency is responsible for overseeing compliance with all aspects of the operations of mutual funds through rule-making, inspections, and stringent enforcements. Each law has its own unique set of compliance issues that need to be attended to by funds. These laws cover everything from mandating filing of preliminary prospectuses for review and registration, to limiting what can be shown in fund advertisements and other sales materials, to regulating the activities of the investment adviser in the purchase and sale of securities for a fund’s portfolio, to assuring that funds are managed for the specific benefit of shareholders by preventing self dealings on the part of fund management. Organizations which do not comply with the SEC’s mandates may be subject to censure, fines, and, in the extreme, possible expulsion from the fund business.

The SEC’s staff periodically visits fund sponsoring organizations to conduct compliance examinations, in addition to examining information that is filed by funds. A report is issued at the conclusion of each examination which details problem areas and requests corrective action. Serious deficiencies are referred to the SEC’s Enforcement Unit. Since the total assets of the Aquila Group of Funds places it in the upper 30% in size in the country, we are subject to frequent reviews by the SEC staff. We take great pride that no serious matters have ever been raised in any fund in these examinations by the SEC staff.

With passage of amendments to the Securities Exchange Act, the NASD, a self-regulatory organization which has authority over brokers and dealers that sell mutual funds, began to work in conjunction with the SEC. Among other things, the NASD reviews all advertisements and literature that its members use with shareholders or prospective investors and requires its members to comply with the “just and equitable principles of trade” prescribed in the NASD’s Rules of Fair Practice when selling mutual fund shares to investors.

For all funds, adherence to SEC and NASD rules is mandatory.

Additionally, most fund sponsoring organizations, including Aquila, are members of the Investment Company Institute (“ICI”), the national association of the investment company industry. The ICI works diligently to enhance the investor protections mandated by the SEC and the NASD by providing additional guidance to member firms on ethical standards and other industry-wide investor protection concerns, often suggesting the implementation of policies before they are mandated by the SEC.

Considerable attention is given to compliance and regulatory matters by all funds within the Aquila Group of Funds. The Board of Trustees and management of each fund with the Aquila Group have instituted its own set of internal controls and safeguards to ensure that its operations are above reproach. In addition to a highly knowledgeable and experienced general counsel firm for its funds, Aquila draws upon, as needed, a special legal “brain trust” consisting of individuals well familiar with the specialized nature of mutual funds, the SEC, and the NASD. Additionally, management periodically conducts its own internal intensive examination, similar to that of the SEC, to ensure that all compliance matters are being properly handled.

While infractions of securities laws make headlines, they account for only a tiny percentage of the overall activities of the very large mutual fund industry. In general, because of the many safeguards in place and the intense oversight by the “Big Brothers,” shareholders are well looked after. Rest assured that Aquila Management Corporation, on behalf of each of the funds in the Aquila Group, intends to do its part to keep it that way.

This “Thought” is not authorized for distribution unless a current Prospectus precedes or accompanies it.

Aquila Distributors, Inc. – 9/03