[redacted]

**From:** [redacted]
**Sent:** Thursday, December 12, 2002 6:21 PM
**To:** Lummanick, James
**Cc:** [redacted]
**Subject:** market timing

market timing12-02doc

for your review and comment.


FOIA Confidential Treatment Requested

- The INVESCO Funds' prospectus disclosure states that four exchanges are allowed. The funds reserve the right to change this policy when ***it is in the best interests of the Fund and its shareholders***. It also states that 60 days notice will be provided to shareholders of ***all*** policy changes that affect all of the shareholders. IFG has made exceptions to this policy that may be considered contrary to the prospectus disclosure. The level of market timing activity is not in the best interest of the non-market timing shareholders, nor have they been provided notification of the change in policy 60 days in advance. INVESCO Funds Group may be incurring business risk by continuing this market timing practice.
- The high volume of market timing activity increases the risk that portfolio managers may make errors, as is evidenced by recent compliance violations.
- Sales quotas achieved by the sales groups may be overstated due to the constant movement of balances.
- By causing frequent inflows and outflows, the market-timing investors impact the investment style of the fund. For example, a portfolio manager may need to buy or sell securities or hold cash at times that are contrary to his or her views of the best strategy in the current market. In short, market timers can interfere with the PM's decision-making process.
- Market timing increases cash equivalent balances or the trading transactions in the fund. The long-term holders of the fund do not cause the need for increased cash, interest bearing instruments or increased transaction costs. However, the long-term holders are the investors that receive the fund distributions of any taxable ordinary income or capital gains generated due to the market-timing activity. The long-term investor's after-tax performance is reduced by the taxes on the distributions. The market timers that generate the additional taxable distribution activity are NOT invested at distribution time to intentionally avoid taxes on the distributions they caused!!
- The inflows and outflows of market timers can cause significant variations in a fund's TNA. We have noted fluctuations of up to 12% in and out within 24 hours. The calculation and timing of expense accruals is based on snapshots of assets under management. The long term investors pay the expense charges for the duration of the year. The calculation of the expense accruals is impacted by the timing of market timer activity. When the timers are in a fund even for just one day, the expense accruals are charged to the long term investor daily!!
- The year-to-date market timing activity in some classes of our funds exceeds 1000%. The total year-to-date market timing activity exceeds IFG's total assets under management.
- A large percentage of the market timing activity that the equity funds experience is exchanged in and out of the IFG money market funds. The money funds portfolio management team is forced to adopt a highly liquid investment strategy to accommodate the large volume of inflows and outflows. This strategy includes positions in excess of 50% TNA in overnight repurchase agreements.
- Other market timing activity is redeemed out of the IFG complex to unaffiliated money funds. The short amount of time that the assets are in the complex creates volatility.

- The high volume of fund share transactions processed by IFG increases the operating costs of our company as well as increases the potential for errors to occur. When market timers call to request that IFG research or cancel and correct trades, the reconciliation process is very time consuming and extensive. Market-timing shareholder statements are often multiple pages long due to the volume of trading
- The Dynamics Fund is whipsawed by large dollar amounts of market timing activity. This fund is marketed to children and their families at the monthly Mutual Funds Saturday program held at the Young American's Bank.
- Consider whether ADV disclosure of timing policies is needed.

Possible actions to be considered:

Discontinue or reduce the amount of market timing activity accepted in the funds.

Change the prospectus disclosure. This option may require 60 days advance notification to shareholders.

Add non-waived redemption fees to all of the funds to slow activity and to reduce burden to long-term investors.

Change timing policy and prospectus disclosure to permit delayed exchanges as recently allowed by the SEC.