

December 17, 2007

Memorandum to Our Mutual Fund Clients and Friends

**SEC Proposes New Prospectus Disclosure Requirements for Mutual Funds
and a New Summary Prospectus Delivery Option**

Introduction

The Securities and Exchange Commission (“SEC”) has once again waded into the thickets of “better” mutual fund disclosure and proposed a new short-form prospectus termed a “summary prospectus,” which could be used to satisfy a fund’s prospectus delivery obligations. The SEC also proposed amendments to Form N-1A, which is the form used to register mutual funds under the Investment Company Act of 1940 and to register their securities under the Securities Act of 1933 (the “Securities Act”). While the focus of the proposals is the new summary prospectus (replacing the profile prospectus adopted in 1998, which has been rarely used by funds), the proposed amendments to Form N-1A would make significant changes to the standard prospectus offering document. The proposed amendments would require a new version of the risk/return summary in the summary prospectus and an identical version of the summary at the beginning of the statutory prospectus.

If a fund elected to deliver its summary prospectus to investors in lieu of its statutory prospectus, it would be required to make its statutory prospectus, statement of additional information (“SAI”) and annual and semi-annual reports available on an Internet website. To address liability concerns, the SEC’s proposal would permit the statutory prospectus, the SAI and information from a recent shareholder report to be incorporated into the summary prospectus.

The proposals for the most part rearrange existing disclosure requirements for the profile and Form N-1A, while also adding information that is available in shareholder reports, such as portfolio holdings, to prospectus disclosure. The proposals, however, follow a less flexible disclosure approach, requiring that the revised risk/return summary appear in a standardized order in the statutory prospectus and the summary prospectus. In a prospectus that includes multiple funds, this summary information would have to be presented for each fund sequentially with no modifications to avoid repetition of the same information. A summary prospectus could only include information for one fund.

According to the SEC, multiple fund prospectuses tend to be “lengthy and complex” and act as barriers to investor understanding. The SEC believes its approach will address the problem of multiple fund prospectuses in the “least intrusive manner possible.” Others may view the proposed new requirements as increasing the complexity of multiple fund prospectuses by requiring the repetition of the same information about, for example, share purchases and redeemability, taxes and payments to intermediaries. The SEC also appears not to appreciate the fact that many investors are assisted by intermediaries, such as broker-dealers.

Comment Period

- *Comments should be submitted on or before: **February 28, 2008.***

Proposed Amendments to Form N-1A

The proposed amendments to Form N-1A would require a mutual fund prospectus to include a revised risk/return or summary section at the front of the prospectus. The summary section would consist of the following information:

- (i) investment objectives;
- (ii) fee table;
- (iii) principal investment strategies, risks, and performance;
- (iv) top ten portfolio holdings;
- (v) investment adviser (and sub-advisers) and portfolio managers;
- (vi) purchase and sale and tax information; and
- (vii) financial intermediary compensation information.

The proposed amendments would place certain limitations on the presentation of the information included in the summary section. The information would need to be presented in numerical order, as reflected above, and could not be preceded by any information other than a cover page or table of contents. The information in the summary section would also need to be limited to that information prescribed by the proposed amendments. For example, a fund could not include information in the summary section discussing the fund's exchange privileges.

A prospectus offering multiple funds would be required to present all summary information for each fund sequentially, and common summary information for all funds offered in the prospectus could not be integrated. As noted above, this proposed requirement will likely result in repetitive disclosure addressing, among other things, purchase and sale of shares, taxes and financial intermediary compensation.

The proposed amendments would modify existing requirements for certain information included in the summary section. For example, the proposed amendments would modify the current fee table requirements by:

- requiring funds that offer breakpoint discounts to include a brief narrative disclosure alerting investors to the availability of those discounts.
- permitting a fund to place two additional captions directly below the "Total Annual Fund Operating Expenses" caption in cases where there were expense reimbursement or fee waiver arrangements that reduced fund operating expenses and that will continue to reduce them for no less than one year from the effective date of the fund's registration statement.
- requiring the addition of portfolio turnover disclosure after the fee table example.

The proposed amendments would require new disclosure concerning portfolio holdings and payments to broker-dealers and other financial intermediaries. The summary section would need to include a list of the ten largest issues contained in the fund's portfolio, in descending order, together with the percentage of net assets represented by each and the following statement regarding payments to broker-dealers and other financial intermediaries:

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may influence the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment. Ask your salesperson or visit your financial intermediary's Web site for more information.

The SEC has provided a sample summary section in its proposing release. A copy of the sample summary section is attached as Appendix A.

The proposed amendments would eliminate the existing provisions in Form N-1A that permit a fund to omit detailed purchase and sale information from the prospectus and to provide such information in a separate document. According to the proposing release, this option has been used infrequently.

Rule 498 and Summary Prospectus Delivery Option for Mutual Funds

Reflecting its new "layered approach" to disclosure, the SEC has proposed amending Rule 498, the current "profile" rule, to permit a person to satisfy its prospectus delivery obligations under the Securities Act with respect to mutual fund shares by sending or giving the fund's summary prospectus to investors and by providing access to the fund's statutory prospectus and other documents (e.g., SAI and annual and semi-annual reports) via an Internet website.¹ The summary prospectus and the provision of fund documents via the Internet would have to comply with the specific requirements and conditions of the proposed rule, which are discussed below. In addition, the new rule would require a fund to deliver the statutory prospectus in paper or by e-mail upon request.

Proposed Rule 498 would also provide relief from the definition of prospectus under the Securities Act for certain communications that are preceded or accompanied by a summary prospectus. A communication relating to a fund offering (e.g., newsletter, advertisement, website) would not be deemed a prospectus if (i) prior to or at the same time with the communication, a summary prospectus complying with the content requirements of the proposed rule at the time of the communication was sent to the person to whom the communication was

¹ If other materials accompany the Summary Prospectus, the Summary Prospectus must be given "greater prominence" than the additional materials.

made and (ii) the conditions of the proposed rule addressing the Internet accessibility of fund documents were satisfied.²

Summary Prospectus Content Requirements

Proposed Rule 498 would require the summary prospectus to include the same information as the summary section of the statutory prospectus. Like the proposed amendments to Form N-1A, the proposed rule would place limitations on the information included in the summary prospectus. The summary prospectus information would need to be presented in the numerical order discussed above with respect to the summary section and could not be preceded by any information other than the cover page and table of contents. In addition, the information would need to be limited to that prescribed by the proposed rule.

As noted above, a summary prospectus could describe one fund only, although it could describe multiple classes of that fund. This proposed requirement would require a multi-fund complex to maintain a summary prospectus for each of its funds, which would likely result in substantial printing and other costs to the complex.

The proposed rule would require the cover page of the summary prospectus to include the fund's name, the share classes, a statement identifying the document as a "summary prospectus", the approximate date of the summary prospectus's first use, and the following legend:

Before you invest, you may want to review the Fund's prospectus, which contains more information about the Fund and its risks. You can find the Fund's prospectus and other information about the Fund online at [_____]. You can also get this information at no cost by calling [_____] or by sending an email request to [_____].

The proposed rule would require the summary prospectus to include performance and portfolio holdings information, which would have to be updated quarterly. This information would include:

- the current bar chart and average annual return table as of the end of the most recent calendar quarter prior to the summary prospectus's first use; and
- the fund's top ten portfolio holdings as of the end of the most recent calendar quarter prior to the summary prospectus's first use or the immediately prior calendar quarter if the most recent calendar quarter ended less than one month prior to the summary prospectus's first use.

The performance and portfolio holdings information would have to be updated at the end of each succeeding calendar quarter not later than one month after the completion of the quarter. A fund could reflect the updated performance and portfolio holdings information in the summary

² If a Summary Prospectus were delivered with the communication, the Summary Prospectus could not be bound with the communication and must be given "greater prominence" than the communication.

prospectus by affixing a label or sticker, or by other reasonable means, and would not be required to reprint the summary prospectus each quarter.³

This proposed requirement would also likely result in substantial printing and other costs and would require fund complexes to review their recordkeeping practices. A fund relying on the proposed rule would be required, for example, to deliver to any investor purchasing fund shares during the third quarter a summary prospectus and the second quarter performance supplement (i.e., the supplement reflecting the fund's performance information and top ten portfolio holdings for the second quarter).

Conditions Addressing Internet Accessibility of Fund Documents

The proposed rule would require a fund to make its current summary prospectus, statutory prospectus, SAI and most recent annual and semi-annual reports available on the Internet website (i.e., the website specified on the cover page of the summary prospectus). Such documents would have to be available on the website before the summary prospectus is sent to investors, and current versions of the documents would have to remain on the website for at least 90 days after fund shares are delivered (or a communication is sent or given) to investors.

Fund documents made available on the Internet would need to be presented in a format that permits investors or potential investors to navigate among documents and within documents. The format would have to:

- (i) permit persons accessing the statutory prospectus or SAI to move directly back and forth between the table of contents in the document and each section of that document referenced in the table of contents, and
- (ii) permit persons accessing the summary prospectus to move directly back and forth between each section of the summary prospectus and (A) any section of the statutory prospectus and SAI that provides additional detail concerning that section of the summary prospectus or (B) tables of contents in the statutory prospectus and SAI that prominently display the sections within those documents that provide additional detail concerning information contained in the summary prospectus.

Acknowledging that there may be times when, despite its best efforts, a fund would not be in compliance with the Internet posting requirements of the proposed rule, the SEC has included a safe harbor provision addressing such circumstances. A fund could rely on the safe harbor provision provided that:

- (i) it has reasonable procedures in place to ensure that fund documents are available on the website, and

³ Although the SEC has addressed filing the Summary Prospectus with the SEC pursuant to Rule 497, the SEC has not addressed whether or how the performance and portfolio holdings information supplements to the Summary Prospectus should be filed with the SEC.

- (ii) it takes prompt action to restore the accessibility of fund documents on the website as soon as possible after it becomes aware of the documents' inaccessibility.

Liability Issues Related to and Filing Requirements for the Summary Prospectus

Proposed Rule 498 would permit a fund to incorporate by reference into the summary prospectus information contained in its statutory prospectus and SAI, as well as any information from its most recent shareholder report, subject to certain conditions. Those conditions would include the following:

- the fund could not incorporate by reference any information that is required to be included in the summary prospectus;
- reference may be made only to another document that contains the information, and not to another document that incorporates the information by reference; and
- the fund documents incorporated by reference must be accessible in accordance with the rule's conditions addressing Internet accessibility of fund documents.

The ability to incorporate fund documents by reference into the summary prospectus reflects the SEC's approach to liability embodied in Rule 159 under the Securities Act. An investor would be deemed to have received those fund documents incorporated by reference into the summary prospectus at the time the investor receives the summary prospectus, provided, that, the conditions of the proposed rule were satisfied. Presumably, a court considering an investor claim based on a material misstatement or omission made at the time of purchase (e.g., Section 12(a)(2) or Section 17(a)(2) claims) would need to consider the disclosures included in the summary prospectus and any document properly incorporated by reference into the summary prospectus if the summary prospectus was delivered to the investor prior to or at the time of purchase.

In its proposing release, the SEC stated that providing investors with a summary prospectus in good faith compliance with the proposed rule would allow reliance on Section 19(a) of the Securities Act against a claim that the summary prospectus did not include information that is disclosed in the fund's statutory prospectus, *whether or not the fund incorporates the statutory prospectus by reference into the summary prospectus*. This statement would seem to indicate that courts considering the matter should consider a fund's intent to rely on the proposed rule, rather than the fund's strict compliance with the incorporation by reference requirements of the proposed rule.

The SEC has proposed amending Rule 497 to require the summary prospectus to be filed with the SEC on EDGAR no later than the fifth business day after the date that it is first used. In connection with this proposed amendment, the SEC has stated that the summary prospectus would be filed as part of the registration statement, but would not be deemed a part of the registration statement for purposes of Section 11 of the Securities Act. Thus, a fund would not be subject to Section 11 liability with respect to the summary prospectus, although it would be

subject to Section 11 liability with respect to the summary section of its statutory prospectus, which under the proposals, should not differ materially from the summary prospectus.

The SEC noted in its proposing release that the summary prospectus would be subject to the stop order and other administrative provisions of Section 8 of the Securities Act and that these powers would be in addition to its powers under Section 10(b) of the Securities Act to prevent or suspend the use of the summary prospectus.

Conclusion

Although the proposals represent a less flexible disclosure approach to statutory prospectus disclosure for multi-fund complexes that utilize a combined prospectus, the proposals present an interesting and potentially viable alternative to the current prospectus delivery requirements. We believe that the SEC should consider revising the proposed Form N-1A amendments to make them less onerous and costly to multi-fund complexes and their shareholders.

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If you have any questions or need more information, please contact Kathleen Clarke or Paul Miller at (202)737-8833.

THE XYZ BALANCED FUND

(Class A and Class B Shares)

SUMMARY PROSPECTUS

November 1, 2007

Before you invest, you may want to review the Fund's prospectus, which contains more information about the Fund and its risks. You can find the Fund's prospectus and other information about the Fund, including the statement of additional information and most recent reports to shareholders, online at [Web address]. You can also get this information at no cost by calling 1-800-000-0000 or by sending an e-mail request to [e-mail address]. The Fund's prospectus and statement of additional information, both dated April 27, 2007, and most recent report to shareholders, dated June 30, 2007, are all incorporated by reference into this Summary Prospectus.

Investment Objective: Income and capital growth consistent with reasonable risks.

Fees and Expenses of the Fund: The tables below describe the fees and expenses that you may pay if you buy and hold shares of the Fund. You may qualify for sales charge discounts if you and your family invest, or agree to invest in the future, at least \$25,000 in XYZ Funds.

Shareholder Fees (fees paid directly from your investment)

	Class A	Class B
Maximum Sales Charge (Load) Imposed on Purchases (as percentage of offering price)	5.75%	None
Maximum Deferred Sales Charge (Load) (as percentage of the lower of original purchase price or sale proceeds)	None	5.00%

Annual Fund Operating Expenses (ongoing expenses that you pay each year as a percentage of the value of your investment)

	Class A	Class B
Management Fees	0.66%	0.66%
Distribution (12b-1) Fees	0.00%	0.75%
Service (12b-1) Fees	0.23%	0.23%
Other Expenses	0.28%	0.46%
Total Annual Fund Operating Expenses	1.17%	2.10%

Example

The Example below is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. The Example assumes that you invest \$10,000 in the Fund for the time periods indicated. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Class A (whether or not shares are redeemed)	\$687	\$925	\$1,182	\$1,914
Class B (if shares are redeemed)	\$713	\$958	\$1,329	\$1,974
Class B (if shares are not redeemed)	\$213	\$658	\$1,129	\$1,974

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or “turns over” its portfolio). A higher portfolio turnover may indicate higher transaction costs. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund’s performance. During the most recent fiscal year, the Fund’s portfolio turnover rate was 63% of the average value of its whole portfolio.

Principal Investment Strategies: The Fund invests mainly in common stocks, bonds, and notes of U.S. and foreign companies.

Principal Risks:

- You could lose money by investing in the Fund.
- Risk Number Two –

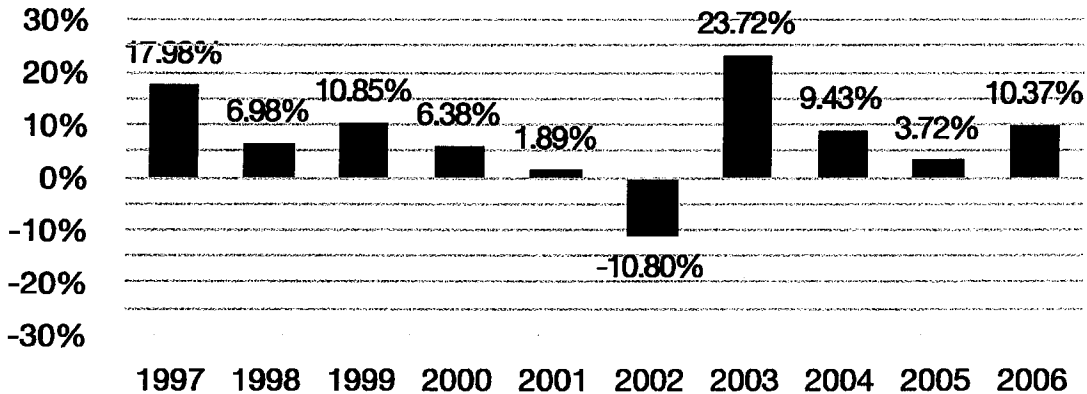
- Risk Number Three –

- Risk Number Four –

- Risk Number Five –

Annual Total Return: The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund’s performance from year to year for Class A shares. The table shows how the Fund’s average annual returns for 1, 5, and 10 years compared with those of a broad measure of market performance. The Fund’s past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future.

Sales charges are not reflected in the bar chart, and if those charges were included, returns would be less than those shown.



Best Quarter (ended 6/30/03): 12.08%. Worst Quarter (ended 9/30/01): -11.06%. The year-to-date return as of the most recent calendar quarter, which ended September 30, 2007, was 7.03%.

Average Annual Total Returns for Periods Ended December 31, 2006

	1 Year	5 Years	10 Years
Class A (Return Before Taxes)	4.04%	5.72%	7.26%
Class A (Return After Taxes on Distributions)	2.48	4.52	5.05
Class A (Return After Taxes on Distributions and Sale of Fund Shares)	2.30	4.34	4.90
Class B (Return Before Taxes)	4.38	5.62	7.12
S&P 500 Index (reflects no deduction for fees, expenses or taxes)	15.79%	6.19%	8.42%

The after-tax returns are shown only for Class A shares and are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts.

Top Ten Portfolio Holdings (percent of total net assets) as of September 30, 2007

Rank	Security	Rank	Security
1	XYZ, Inc. (3.0%)	6	The DEF Co. (1.3%)
2	The ABC Co. (2.3%)	7	The NOP Corp. (1.3%)
3	XYZ Growth, Inc. (1.7%)	8	HIJ Co. (1.1%)
4	The TUV Corp. (1.6%)	9	ABC Corp. (1.0%)
5	QRS Co. (1.4%)	10	OPQ, Inc. (0.9%)

Investment Adviser: XYZ Management Company, LLC

Portfolio Manager: John E. Smith, CFA, Vice President and Equity Portfolio Manager of XYZ Management Company, LLC. Mr. Smith has managed the Fund since 2005.

Purchase and Sale of Fund Shares: You may purchase or redeem shares of the Fund on any business day online or through our Web site at [Web address], by mail (XYZ Funds, Box 1000, Anytown, USA 10000), or by telephone at 800-000-0000. Shares may be purchased by electronic bank transfer, by check, or by wire. You may receive redemption proceeds by electronic bank transfer or by check. You generally buy and redeem shares at the Fund's next-determined net asset value (NAV) after XYZ receives your request in good order. NAVs are determined only on days when the NYSE is open for regular trading. The minimum initial purchase is \$2,500. The minimum subsequent investment is \$100 (or \$50 under an automatic investment plan).

Dividends, Capital Gains, and Taxes: The Fund's distributions are taxable, and will be taxed as ordinary income or capital gains, unless you are investing through a tax-deferred arrangement, such as a 401(k) plan or an individual retirement account.

Payments to Broker-Dealers and Other Financial Intermediaries: If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may influence the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment. Ask your salesperson or visit your financial intermediary's Web site for more information.