companies are the beneficial owners of a majority of the voting shares of the controlled company. Minority ownership control is necessarily an arbitrary concept, since any positive holding less than 50 percent is, strictly speaking, a minority interest, and the ownership of 0.001 percent of the shares by a controlling management group could therefore be said to be an instance of control by a minority ownership interest. In order to give this concept greater significance we will follow the convention of assuming that minority ownership control requires a substantial holding, and that a 5 percent block of shares qualifies as a minimum minority interest for our purpose.[41] Non-ownership control we have called management control, following a standard designation of the case where the effective power to determine management personnel and the basic policies of an institution rests in the hands of a group without a substantial ownership stake in the enterprise, as defined above.

TABLE II–14.—*Types of control of 156 open-end investment companies, by size of open-end company assets, Sept. 30, 1958*

[Open-end company assets in millions of dollars]

Type of control	1 and under 10	10 and under 50	50 and under 300	300 and over	Total
Majority ownership	1	1			2
Minority ownership (5 percent and above)	10	2	2		14
Management	45	46	39	9	139
Other [1]	1				1
Total	57	49	41	9	156

[1] The directors of the Savings Bank Investment Fund were chosen indirectly by vote of the savings banks of Massachusetts, irrespective of ownership of shares in that company.

TABLE II–15.—*Mechanisms of control of 156 open-end investment companies, by size of open-end company assets, Sept. 30, 1958*

[Open-end company assets in millions of dollars]

Mechanisms of control	1 and under 10	10 and under 50	50 and under 300	300 and over	Total
Majority ownership	1	1			2
Minority ownership (10 percent and above)	6	2			8
Management control via trust agreement	5	10	6	1	22
Management control via strategic position and control of proxy machinery	37	31	33	7	108
Trust control by strategic position and control of proxy machinery	7	5	2	1	15
Other [1]	1				1
Total	57	49	41	9	156

[1] The directors of the Savings Bank Investment Fund were chosen indirectly by vote of the savings banks of Massachusetts, irrespective of ownership of shares in that company.

Table II–15 describes the relationship between the size of open-end investment companies and the mechanisms by which control is maintained by controlling individuals and groups. In this classification, the orientation is toward the question of how open-end companies are controlled. Here also we have two ownership categories, but while there is a complete overlap between majority ownership as a type

[41] The beneficial ownership of 5 percent or more of a company's voting shares is one principal criterion of an "affiliated person" used in the Investment Company Act of 1940, sec. 2(a)(3). See further, "The Distribution of Ownership in the 200 Largest Nonfinancial Corporations," T.N.E.C. Monograph No. 29 (1940), pp. 103ff.

and mechanism of control, in this classification minority ownership control refers to cases where the minority holding is sufficiently large to constitute an actual or potential factor of significance in maintaining control. This is, of course, very difficult if not impossible to ascertain, so that we are compelled to make another arbitrary judgment as to how large a minority holding must be to have significance as a mechanism of control. We have selected 10 percent as a minimum minority holding that is inherently significant for control,[42] but the classification of minority ownership as a means of control should be properly read as a form of management control in which the usual mechanisms sustaining management control are supplemented by a sizable block of shares, beneficially owned by the management group, that serves as an additional element consolidating management power.

The third class, management control via a trust agreement, relates to those cases where a group of trustees operating under a trust agreement are able to perpetuate themselves in control of an investment company and choose their successors by means of powers granted to them under a deed of trust without any formal power of management selection in the hands of shareholders. Management control proper refers to those situations in which a management group holds and maintains effective power by virtue of strategic position (traceable in most instances to participation in the promotion of the company), the wide diffusion of voting shares, shareholder apathy, and management control of the proxy machinery. The fifth classification refers to those cases where there is a trust agreement, but where the shareholders are still permitted to vote annually for the trustees or for renewal of the management and/or underwriting contract. This is, therefore, a special case of management control proper, since the trust agreement does not itself assure management control.

Majority ownership control.—Majority control, in the sense of effective power to select managerial personnel or otherwise determine policy held by the beneficial owner or owners of a majority of a company's shares, is not applicable to any of the 152 open-end investment companies included in the present study that sell or have sold shares to the public.[43] This is not at all surprising in view of the fact that a management group wishing merely to supervise the investments of a relatively closed group would have little inducement to register as an open-end investment company, and the act of 1940 explicitly exempts from the registration requirement any company that has securities outstanding that are beneficially owned by not more than 100 persons and is not making and does not intend to make a public offering of its shares. A number of open-end companies have evolved out of private investment companies, but once a decision is made to sell a management service to a wide clientele via public sales, the preservation of majority control is likely to be very short lived. Only 2 of the 156 companies included in the present study fall into the category of majority ownership control, and both are open-end

[42] The Investment Company Act of 1940 establishes "more than 25 per centum of the voting securities of a company" as its criterion for a presumption of control through share ownership, sec. 2(a)(9). This criterion, which departs radically from the 10 percent standard laid down in the Public Utility Act of 1935, seriously underestimates the role which smaller blocks of shares have and still may play in the establishment and maintenance of control. Cf. T.N.E.C. Monograph No. 29, pp. 104–131.

[43] There are five instances among these publicly owned companies where a single owner holds over 50 percent of the outstanding shares of an open-end company. In four of these cases the single owner is the record holder for a substantial number of beneficial owners, under a share accumulation plan or other type of arrangement, in which the ultimate owners retain all formal voting rights. The exception is the Istel Fund, discussed above.

companies exclusively owned and operated by mutual savings banks, one in New York and the other in Connecticut.[44]

In sum, for all practical purposes, majority control is a negligible form and method of control in the open-end investment company business. Only two companies (1.3 percent of the number included in this study), accounting for approximately 0.4 percent of industry assets, fit this category, and neither of these companies has ever sold shares to the public. This contrasts sharply with the importance of majority control among the largest nonfinancial corporations in the late 1930's, at which time 20 (11 percent) of the largest 176 were found to be subject to majority control.[45]

Minority ownership control.—Data relating to the beneficial ownership of the shares of open-end companies by officers and directors of each company, and their immediate families, are presented in table II–16. This information was derived from company prospectuses, material submitted in reply to a question concerning the shareholdings and affiliations of the 20 largest owners of company shares, and direct inquiry in a number of cases where beneficial and fiduciary holdings were difficult to disentangle. In some instances, remnants of fiduciary holdings may still be included in our estimates of management holdings,[46] and in some cases our information was confined to the holdings of the officers and directors alone. Nonetheless, this table is felt to represent a close approximation to the shareholdings of management groups of the companies included in this tabulation. In no case was control found to reside in the hands of shareholders with substantial minority holdings who were not included in or closely affiliated with the management group apparently controlling the company.

TABLE II–16.—*Percentage holdings of management groups in the shares of 156 open-end investment companies, by size of open-end company assets, Sept. 30, 1958*

Percent of shares held	$1,000,000 and under $10,000,000	$10,000,000 and under $50,000,000	$50,000,000 and under $300,000,000	$300,000,000 and over	Total
Less than 1 percent	18	28	32	9	87
1 to 4.9 percent	22	12	3		37
5 to 9.9 percent	4		2		6
10 percent and above	6	2			8
Unclassified [1]	7	7	4		18
Total	57	49	41	9	156

[1] The 18 unclassified companies include the 3 savings bank investment companies, the 10 Keystone trusts, and 5 other institutions for which our information would not permit a separation of fiduciary and nominee holdings of management from their beneficially owned shares. In none of these cases, however, did the beneficial shareholdings of management groups reach the 5-percent level.

[44] The third open-end company owned and operated by mutual savings banks, the Savings Bank Investment Fund of Massachusetts, falls into a class by itself. It has no voting shares, and its directors are chosen by "incorporators," who are the individuals elected to directorships of the Mutual Savings Bank Central Fund at county and district meetings at which all Massachusetts savings banks are or may be represented. This central fund was created during the depression of the 1930's for the purpose of protecting the depositors of Massachusetts savings banks (and the banks themselves), and it and the above-mentioned election procedures were established by sec. 2, ch. 44, of the Massachusetts Acts of 1932. The management of the Savings Bank Investment Fund, under this system, is chosen indirectly by vote of all participating savings banks in Massachusetts, whether or not they own shares in the investment company.

[45] Gordon, op. cit., pp. 39–41.

[46] In 15 cases the beneficial holdings of the management group were found to be less than 5 percent, but unallocable beyond that because of fiduciary and nominee holdings. These, plus the 3 savings bank companies, make up the 18 unclassified cases.

It may be seen from this table that only 14 (or 9 percent) of the 156 open-end investment companies included in the present study were controlled by a management group holding a substantial beneficial minority interest (5 percent or more) of the shares of the investment company. These 14 companies held assets totaling $502.9 million, or 4.1 percent of the September 30, 1958, assets of all open-end companies. In 8 of these 14 cases, or in 5 percent of the companies studied, the beneficial minority holdings of management groups were as large as 10 percent of the outstanding shares, and in 1 of these 8 (the Leon B. Allen Fund), the holdings of the management group exceeded 20 percent of the company's shares. The aggregate assets of the eight companies with very substantial minority holdings (10 percent or more) by the management group (and where, in terms of our classifications, minority shareholdings might reasonably be included as a significant mechanism of control) amounted to only $59 million, or approximately 0.5 percent of all open-end company assets. These values for minority ownership as either type or mechanism of control also contrast sharply with those found for minority ownership control among the largest nonfinancial corporations, where data for the late 1930's indicated that 98, or 55 percent, of the largest 176 nonfinancial corporations were subject to control by individuals or groups with substantial minority holdings.[47]

It may be noted from table II–16 that 12 of the 14 companies with minority ownership as the type of control were in the size classes below $50 million, the remaining two companies falling into the $50–$300 million size class. Of the eight companies with very substantial minority shareholdings (10 percent or more) in the hands of the management group, the largest was General Capital Corp., which had assets of only $16.2 million as of September 30, 1958. Six of these eight companies had assets below $10 million.

The two large open-end companies with substantial management holdings were the One William Street Fund ($252 million in assets) and State Street Investment Co. ($176 million). In neither case did the shareholdings of the management group amount to as much as 10 percent of the outstanding shares, nor did existing management shareholdings appear to be an important factor in the explanation of how control has been maintained in recent years. In both cases, however, the existence of substantial minority interests was related to the sources of the existing pattern of management control. The substantial minority interest in One William Street Fund arose from the fact that in the process of formation of this company, it issued 3.3 million shares of One William Street Fund valued at $38.2 million in exchange for the security portfolio of the Aurora Corp. plus $466,553 in cash. The latter organization was a private investment company, owned largely by a group of executives of the Ford Motor Co. and their families. Six stockholders and executives of Aurora assumed directorships in the One William Street Fund, one became president of the fund, and three became members of its five-man executive committee. The creation of a substantial minority interest in One William Street thus corresponded to the assumption of a position of influence (although not control) [48] by the holders of this large block of shares.

[47] Ibid., pp. 40, 41.

[48] Control of the One William Street Fund is undoubtedly shared to some degree, but the predominant influence in its management is Lehman Brothers, who organized the fund, functions as investment adviser and (through a subsidiary) underwriter, has 5 representatives on the 15 member board of directors, and accounts for all 4 of the principal officers of the company (including the president, Mr. Dorsey Richardson, who was directly affiliated with Lehman Brothers in 1958, although formerly president of Aurora Corp.).

State Street Investment Co. was organized by three individuals as a private investment medium in 1924, and all the capital of the company was contributed by its promoters. The organization was kept entirely closed until 1926, at which time friends and associates of the sponsors were invited to buy shares. It was not until 1932 that a public campaign for the sale of the shares of State Street Investment Co. was inaugurated, to be discontinued after 12 years of public sales in 1944. The substantial minority interest held by the management group controlling this organization was an outgrowth of the early conception by this group that such an organization might usefully serve as a "joint account" and vehicle for the personal investment of the sponsors and their family and associates.[49]

In a number of other cases substantial minority holdings by management groups reflect the incomplete evolution of investment companies from private instruments for the investment of the funds of the family, friends, and clients of investment managers and counselors, to publicly owned organizations. The small Leon B. Allen Fund, for example, was established following some 25 years of management of a group of individual investment accounts by Mr. Leon B. Allen, to permit the accommodation of otherwise uneconomic small accounts and at the same time reduce costs by enlarging the scale of operation.[50] The original purpose of the controlling management group of the Wall Street Investing Corp., which owned beneficially a significant block of the company's shares, "was to pool their skills and resources for the handling of investment assets for themselves and their families." [51] The predecessor company to the Templeton & Liddell Fund was organized in 1948 as a personal holding company by the management of the investment counseling firm, Templeton, Dobbrow & Vance, and was converted into an open-end company in 1952 "to provide investment management for relatives of clients and friends who had relatively small investments and for certain other clients with larger funds who wished to be relieved of the details of handling their investments." [52]

Substantial minority interests held by the managements of newly organized open-end companies, or by companies that have not grown much since their inception, is also likely to result from the requirement of the act of 1940 that not more than 25 persons contribute a total of at least $100,000 by purchasing securities from the new company, before it can make a public offering of securities.[53] Such initial capital contributions typically come largely from the members of the promoting management group themselves, so that until the company achieves success in the public sale of shares, relatively substantial minority holdings are likely to persist. In the case of the Stein Roe & Farnham Stock Fund, for example, the company was incorporated on April 15, 1958, and private capital amounting to $120,000 was initially contributed by officers and directors of the company and certain other partners and employees of the promoting investment counseling firm of Stein Roe & Farnham. On June 24, 1958, the officers and directors of the company owned 56.7 percent of its outstanding shares. Public sales of stock began in July, and by December 31,

[49] SEC, "Report on Investment Trusts and Investment Companies," pt. I (1939), pp. 104, 105.
[50] Prospectus, Sept. 15, 1958, p. 2.
[51] Prospectus, May 1, 1958, p. 3.
[52] Prospectus, Dec. 10, 1958, p. 3.
[53] Sec. 14(a).

1958, the company had net assets of $6.1 million. On January 20, 1959, the officers and directors of Stein Roe & Farnham Stock Fund reported a beneficial interest in the company's shares amounting to 1.4 percent of those outstanding.[54]

Management control.—Management control is used here to refer to the situation where effective power over the selection of managerial personnel, and the making of basic policy decisions, is held by a management group without substantial ownership interest in the controlled company. This is the overwhelmingly predominant type of control in the open-end investment company business. One hundred and thirty-nine, or 89 percent of the open-end companies included in this study, with $11.7 billion in assets, or 94.4 percent of all open-end investment company assets, fell into this category in 1958. In each of these 139 companies, the controlling management group owned beneficially less than 5 percent of the company's shares, and in at least [55] 87 instances (56 percent) the controlling management group owned less than 1 percent of the shares of the controlled company. This is, again, in marked contrast with the importance of management shareholdings and management control as found in studies of the largest nonfinancial enterprises. The median management shareholding found among the largest 176 nonfinancial companies in the late 1930's was approximately 2.1 percent, whereas the median-sized holding in our group of open-end companies is below 1 percent; and management control was found in 58, or 33 percent, of the largest 176 nonfinancial companies, [56] as compared with 89 percent of the open-end investment companies.

The predominance of management control in the open-end investment company business, as noted previously, is the direct result of the unusually wide diffusion of ownership of open-end company shares, the passivity of shareholders of mutual funds,[57] and control of the proxy machinery by the promoting management group. Underlying these factors, however, are three influences of basic importance. First is the appeal of mutual funds to large numbers of individuals of moderate means, which has contributed to the wide diffusion of shares and shareholder inactivity. Second is the redemption feature of mutual fund shares, which facilitates exit from the fund as the normal outlet for dissatisfaction with management performance. Finally, to an unusual extent the acquisition of shares in this industry appears to be regarded as the purchase of the continuing services of a particular management group. Insofar as this is true, then firm control by a specific management group is inevitable—buyers of the shares of a particular fund do so on the presumption that control will be in the hands of the existing management, and those that become dissatisfied can redeem their shares and transfer their assets elsewhere. Thus, even where the stockholder does possess the formal right to vote for

[54] Prospectus, July 1, 1958, p. 7; prospectus, Feb. 25, 1959, p. 8.

[55] Fifteen listed as unclassified were known to be under 5 percent but were unallocable between "less than 1 percent" and "1-4.9 percent" due to insufficient information.

[56] Gordon, op. cit., pp. 26, 41.

[57] According to the representations of all industry members queried on this matter, personal attendance at annual meetings by shareholders not affiliated with the management of open-end companies has been extremely sparse. Typical replies to questions along these lines indicate that "none," "one or two," or "a handful" of independent shareholders generally attend the annual meetings of open-end companies. Under these conditions, annual meetings are necessarily pro forma, and are typically held in the offices of the investment company without any noticeable pressure on facilities. In several instances company managements have made a deliberate effort to encourage shareholder attendance by means of increased publicity and the fixing of meetings at convenient times and places. None of these endeavors are reported to have met with success.

trustees, directors, or the renewal of management or underwriting contracts, the factors just enumerated suggest that these rights are likely to have little bearing on mutual fund control.

a. Trust agreements

As was observed earlier, 22 of the 156 open-end companies included in the present study, with assets totalling $2.4 billion on September 30, 1958, were trusts without shareholder voting rights.[58] These constitute a pure type of management control, with the group promoting the trust managing the trust properties on a self-perpetuating and co-optative basis, under the authority of the deed of trust. This is not to say that the powers of the management of this type or organization are unlimited—they are sharply circumscribed by law, by the trust agreement itself, which is commonly detailed and subject to amendment only by assenting vote of the shareholders,[59] by the legal sanctions against abuses by fiduciaries, and by the desire to attract purchasers of shares and to induce firm holdings on the part of existing shareholders. However, within these important limits the managements of such trusts have complete discretion with respect to policy and the right to perpetuate themselves in office and select their own successors.

Of the 39 trusts included in this study, 19, including the 10 Keystone trusts as separate entities, had a corporate trustee, and 20 had individual trustees. Of these 20 trusts with individual trustees, 9 were managed entirely by the trustees and their staff within the trust organization itself. The other 11 trusts with individual trustees employ a separate organization as investment adviser, to assist or take the place of the trustees in managing the company's investment portfolio.

Where the trust has a corporate trustee, only in the case of the 10 Keystone trusts and the Massachusetts Life Fund are the trustees also controlling investment manager of the company. In the other eight instances, the trustee proper is a bank or trust company that usually serves as custodian, transfer agent, and sometimes business manager of the company. In the case of the Knickerbocker Fund, for example, the trustee is the Manufacturers Trust Co., which holds in safekeeping all the cash and securities of the fund, but—

> does not * * * provide any trusteeship protection or maintain any supervisory function over management in such matters as purchase and sale of portfolio securities or payment of dividends.[60]

The fund was organized by the investment counseling firm of Karl D. Pettit & Co., which manages the fund's portfolio under contract as "investment counselors." The sponsor and principal distributor of the fund, Knickerbocker Shares, Inc., is controlled by the management of the investment counseling firm by virtue of majority ownership of Knickerbocker Shares by Mr. Karl Pettit and his family.

In the case of National Securities Series, the trustee, Empire Trust Co., serves as custodian of all company assets, registrar, and transfer

[58] For the qualifications to this statement and a discussion of the protections to shareholders provided by section 13(b) of the Investment Company Act of 1940, see the discussion earlier in this chapter.

[59] A large minority of the trust agreements also have a termination date, either specific, or more commonly, 20 or 21 years after the death of the last survivor of the original group of trustees; and most of them provide for the dissolution of the trust under certain other conditions. Century Shares Trust typifies the most frequently encountered arrangement: the deed of trust stipulates that the trust will expire 21 years after the death of the last survivor of the original trustees, and that the trust may be terminated prior to that date by the trustees, with the approval of the owners of a majority of the outstanding shares of the trust. Prospectus, March 25, 1958, p. 7.

[60] Prospectus, Mar. 11, 1958, p. 5.

agent, and is responsible for determining the price of shares and managing the annual vote of shareholders (for continuation of the management and underwriting contracts). However, National Securities Series was organized by National Securities & Research Corp., which has functioned since the inception of National Securities Series as its sponsor-underwriter and investment manager, and the trustee—

> acts as it is directed by the economics and investment department of the investment manager * * *[61]

The 19 open-end companies with corporate trustees are unequaled among the members of this industry for lack of substantiality. None of them has the personnel or facilities that usually characterize going concerns. They consist essentially of a collection of assets (cash and securities) in the hands of a custodian, and a trust agreement that establishes their legal existence and defines a set of relationships among trustee, manager, underwriter, and shareholders. The company proper is a legal shell, established and utilized by external organizations that sell its shares, manage its assets, and dispose of its income.

b. Strategic position and the proxy machinery

The strategic position of the management of an open-end investment company is usually well consolidated in the very process by which a new open-end company is organized. Typically, a charter to do business is obtained, officers and directors are selected, and an investment advisory or management contract is entered into by the promoter-management group, before any securities are sold. The initial sale of securities is made to a small group of promoters, their friends and relatives, and clients of the promoters—often investment counselors or security dealers—as a private offering.[62] Thus, for example, the predecessor company to the Dreyfus Fund—the Nesbett Fund—raised an initial sum of $357,000 by means of a private offering to some 15 subscribers, the sale following all the formalities of organization, including the entering into a management contract. The Scudder Special Fund entered into a formal investment advisory contract with Scudder, Stevens & Clark on June 5, 1956, and began a sale of shares to clients, partners, and employees of Scudder, Stevens & Clark on June 8, 1956.

In the case of the Lazard Fund, organized in 1958, the investment company was incorporated in Maryland on May 28, 1958, starting out as a closed-end company. An investment advisory contract was entered into by an initial group of officers and directors with Lazard Freres & Co. on June 26, 1958, and a public offering of shares was begun on June 27, to be concluded July 11, 1958. The sale was carried out with the understanding that upon delivery of the shares sold (which amounted to $117.9 million) Lazard was to assume the obligation of accepting outstanding shares for redemption, thus becoming an open-end company. The investment advisory contract with Lazard Freres was to remain in effect until the first annual meeting of the new company.[63]

With few exceptions, the advisory contract entered into by a company and its investment manager provides, as in the contract between the E. W. Axe & Co. and Axe-Houghton Fund A, that the adviser

[61] National Securities Series, Prospectus, July 15, 1958, p. 10.
[62] See the discussion earlier in this chapter of "Minority Ownership Control."
[63] Prospectus, June 27, 1958, p. 4.

will not only "furnish investment advice to the fund" but will also "provide the fund with administrative services and facilities, including personnel, office space, and supplies." [64] The contract between Capital Research & Management Co. and American Mutual Fund requires, among other things, that the adviser "provide suitable office space in Los Angeles, and provide necessary bookkeeping, clerical, and administrative services." [65] In most cases, the office space provided by the adviser is at the identical address of and within the adviser's own offices.

In addition to providing clerical services and office space and supplies, many advisers have contracted to pay the salaries of the officers of the company, and most of them absorb within the management fee the salaries of officers and directors that are affiliated with the adviser. Capital Research & Management Co. is required by contract to pay the salaries of all officers of the American Mutual Fund.[66] The adviser of the Bullock Fund, Calvin Bullock, Ltd., "furnishes the company with its offices, attends to clerical and accounting work for the company, furnishes statistical information, and pays the compensation of such of the directors or officers of the company as are directors, officers, or employees of Calvin Bullock, Ltd." [67] The expenses which are usually not included within the management fee, but remain to be paid by the company itself, include the charges of the custodian, transfer agent, auditors, legal counsel, reports to stockholders, costs of annual meetings, costs of disbursing dividends, taxes, and registration and filing fees.

In a number of open-end company prospectuses it is stated explicitly that the investment adviser "provides it [the investment company] with management services and *executive* and other personnel," in addition to office space, clerical services, etc.[68] This is quite important in grasping the substantive character of control of open-end investment companies. As may be seen in table II–17, in 62 or 56.4 percent of the 110 corporate open-end companies for which information was available all principal corporate officers—president, vice presidents, and the chairman of the board—were directly affiliated with the adviser, and in 96 or 87.3 percent, one-half or more of their principal officers were so affiliated. Similar percentages apply to the affiliations of all officers of open-end companies (table II–18). In most instances a majority of members of the board of directors of open-end companies were not affiliated with the adviser.[69] However, the active management of open-end investment companies is generally in the hands of one or a few principal officers of the company, or has been delegated explicitly to the investment adviser. This pervasive interpenetration of executive personnel, taken in conjunction with the fact that open-end companies are almost invariably organized by a management group associated with the adviser, and the present limitations on the role of independent directors, suggests that open-end investment companies are typically legal shells without genuine autonomy, controlled by external management interests.

[64] Prospectus, Sept. 26, 1958, p. 6. A fuller discussion of the services supplied mutual funds by their advisers is given in ch. VIII, sec. III, pt. A.
[65] Prospectus, Jan. 6, 1958, p. 11.
[66] Loc. cit.
[67] Prospectus, Feb. 21, 1958, p. 6.
[68] Affiliated Fund, Prospectus, Jan. 29, 1958, p. 9. [Italics added.]
[69] Data on the affiliations of boards of directors of open-end companies, and more complete and up-to-date information on affiliations of fund officers with advisers is presented in sec. II of ch. VIII.

TABLE II–17.—*Percentage of open-end investment company principal officers affiliated with the investment adviser, Sept. 30, 1958*

	Number of companies	Percent of companies
Percent of principal officers affiliated with the investment adviser:		
100	62	56.4
75 to 99	17	15.4
50 to 74	17	15.4
1 to 49	8	7.3
0	6	5.5
Total	110	100.0

TABLE II–18.—*Percentage of open-end investment company officers affiliated with the investment adviser, Sept. 30, 1958*

	Number of companies	Percent of companies
Percent of officers affiliated with the investment adviser:		
100	44	40.0
75 to 99	28	25.5
50 to 74	22	20.0
1 to 49	11	10.0
0	5	4.5
Total	110	100.0

Having occupied the strategic positions within the organization at its inception, the management group is able to preserve its control over the investment company as an almost automatic consequence of management control over the proxy machinery. Personal attendance of shareholders at annual meetings of open-end companies has been unusually small, and shareholder voting at annual elections has been almost invariably carried out by means of proxies turned over to the management proxy committee.[70] It may be seen in table II–19 that in only 20 of the 107 elections for which information was obtained did the management proxy committee vote fewer than 60 percent of the eligible shares. Table II–20 indicates that in 104 of these 107 elections, the management proxy committee of the open-end companies voted 90 or more percent of the shares voted at the election, while in 94 cases (88 percent of the elections) the management proxy committee voted 99 or 100 percent of the shares voted. Between the end of 1952 and September 30, 1958, in no instance did the management proxy committee vote fewer than 75 percent of the shares voted at an annual election of the open-end companies included in this study, and in no case was there a contest for the proxies of one of these companies.

[70] This is also true of shareholder voting at annual meetings of large corporations in other sectors of the economy. No attempt has been made in the present study to measure the differences between open-end and other companies in this respect.

TABLE II–19.—*Percentage of eligible shares voted by the management proxy committee, for 107 companies, by size of open-end company assets, 1957*

[Dollar amounts in millions]

Percentage of shares voted	Open-end company assets								Total	
	1 and under 10		10 and under 50		50 and under 300		300 and over		Number of companies	Percent of companies
	Number of companies	Percent of companies	Number of companies	Percent of companies	Number of companies	Percent of companies	Number of companies	Percent of companies		
90 to 100	2	5.0	1	3.6	0	0	0	0	3	2.8
80 to 89.9	4	10.0	1	3.6	1	3.1	0	0	6	5.6
70 to 79.9	12	30.0	8	28.6	11	34.4	2	28.6	33	30.8
60 to 69.9	10	25.0	13	46.3	17	53.1	5	71.4	45	42.1
50 to 59.9	9	22.5	5	17.9	3	9.4	0	0	17	15.9
Below 50	3	7.5	0	0	0	0	0	0	3	2.8
Total	40	100.0	28	100.0	32	100.0	7	100.0	107	100.0

TABLE II–20.—*Percentage of voted shares voted by the management proxy committee, for 107 companies, by size of open-end company assets, 1957*

[Dollar amounts in millions]

Percentage of shares voted	Open-end company assets								Total	
	1 and under 10		10 and under 50		50 and under 300		300 and over		Number of companies	Percent of companies
	Number of companies	Percent of companies	Number of companies	Percent of companies	Number of companies	Percent of companies	Number of companies	Percent of companies		
99 to 100	30	75.0	24	85.7	32	100.0	6	85.7	92	86.0
90 to 98.9	8	20.0	4	14.3	0	0	0	0	12	11.2
80 to 89.9	2	5.0	0	0	0	0	0	0	2	1.9
70 to 79.9	0	0	0	0	0	0	1	14.3	1	.9
Below 70	0	0	0	0	0	0	0	0	0	0
Total	40	100.0	28	100.0	32	100.0	7	100.0	107	100.0

Control of multifirm groups [71]

As was indicated above, the 156 open-end investment companies included in the present study fall into 99 systems or control groups, of which 29 are multifirm and 70 are single-firm units. If we include the 10 Keystone trusts as separate entities, the Keystone system had the largest number of legally distinguishable units with 11 (the 10 trusts plus Keystone Fund of Canada, Ltd.). The Investors Diversified Services group, the largest open-end system in terms of asset size, and the E. W. Axe group, each comprised five separate corporate open-end companies. Three groups, Calvin Bullock, Capital Research and Management, and Scudder, Stevens & Clark, included 4 open-end companies; 7 groups had 3 units each, and the remaining 16 multifirm groups contained 2 units apiece.

There were 11 multifirm groups and 2 single-firm units (Wellington Fund and National Securities Series) with assets in excess of $300

[71] Looser ties between open-end companies based on interlocking directors, officers, advisers, and consultants, which are not of sufficient strength to define groups subject to common control and/or investment management, are not discussed in this report.

million on September 30, 1958.[72] Of the 38 open-end companies included within the 11 multifirm systems, 14, with assets of $2 billion, were controlled by trustees under trust agreements which made no provision for annual shareholder elections.[73] The remaining 24 open-end companies in the largest 11 multifirm systems, with assets of $5 billion, were corporations. In only 1 of these 24 corporations did the controlling management group hold as much as 1 percent of the outstanding voting shares of the company.[74] In only 1 of the 38 companies in these groups did the 20 largest shareholders own as much as 20 percent of the outstanding shares (Keystone Series B–1, 21.9 percent), and in only six instances did the 20 largest shareholders own over 10 percent of the outstanding shares.

All 38 open-end companies included in the 11 largest multicompany systems were controlled by management groups without significant ownership interest in the controlled companies. Fourteen of these companies were subject to pure management control via a trust agreement; the remaining 24 companies were controlled by originating management groups or their successors by virtue of strategic position and control of the corporate proxy machinery. The 11 largest multifirm systems were each unified by extensive interlocks of key personnel and by common advisers and underwriters in every case where these were utilized. In the Vance Sanders group, for example, which is one of the more loosely integrated of the large systems, the three member companies, the Boston Fund, Canada General Fund, and Century Shares Trust, all have as their common underwriter Vance Sanders & Co. The Boston Fund and Canada General Fund have as their investment adviser the Boston Management & Research Co., a partnership closely interlocked with Vance Sanders & Co. and the group investment companies. Century Shares has no investment manager, but is directed by a group of six trustees, including Mr. Henry T. Vance, a partner of Vance Sanders & Co., and president and director of both the Boston Fund and the Canada General Fund, and three other trustees affiliated with other members of the Vance Sanders group.

A more closely knit system is illustrated by the Hugh W. Long & Co. group, which included the fourth largest open-end company, Fundamental Investors, and two other open-end companies covered in the present study. These three companies all had the same directors (10), officers (9), and principal officers (6), a common underwriter (Hugh W. Long & Co.) and a common investment adviser (Investors Management Co.). Three of the ten directors and all nine officers were affiliated with Hugh W. Long & Co. or its wholly owned subsidiary, Investors Management Co.

The 18 multifirm groups with assets of less than $300 million present a less uniform picture of types and mechanisms of control than do the larger systems. In 4 of the 48 companies in these groups, the management group had a substantial ownership interest in the controlled investment company, and in one of these cases the management interest exceeded 10 percent of the company's shares (Value Line Fund). Ten of the forty eight companies in these smaller

[72] Since this date the establishment of the Wellington Equity Fund has made the Wellington group a multifirm operation. National Securities Series is a multifund unit, although a single trust entity.

[73] These are the 10 Keystone Trusts, MIT, the two Eaton and Howard trusts, and Century Shares Trust.

[74] In the case of the Keystone Fund of Canada, the management group owned 1.1 percent of the company's outstanding voting shares in 1958.

multifirm systems were trusts, in nine of which the shareholders held rights to vote in annual elections for trustees or the renewal of management and/or underwriting contracts.[75] Thus, in one instance management control was assured by the terms of a trust agreement, and in one case management control was facilitated by a very substantial minority holding by the management group. In the other 46 cases management control was maintained by means of strategic position and control of the proxy machinery.

With 3 exceptions, to be discussed below, each of the open-end companies in the 18 smaller multicompany groups was evidently subject to control common to all member so fits group, reflected in a common investment adviser and underwriter (where applicable), and extensive interlocks of managerial and advisory personnel. In the case of the closely knit George Putnam group, for example, the two companies in the group (the George Putnam Fund of Boston and the Putnam Growth Fund) had a common investment adviser, the Putnam Management Co., a common underwriter, Putnam Fund Distributors, and six common trustees.

The three open-end companies in the unique and interesting J. & W. Seligman group, the Broad Street Investing Corp., National Investors, and the Whitehall Fund, had as an investment adviser a jointly owned subsidiary, Union Service Corp., which supplied investment research and administrative services to the three companies at cost. All three companies had a common underwriter, Broad Street Sales, which was wholly owned by Tri-Continental Financial Corp., a member of the investment company group dominated by the brokerage firm of J. & W. Seligman & Co. A majority of directors and all of the principal officers of each of the three open-end companies were either partners of Seligman & Co. or officers or directors of another Seligman subsidiary (exclusive of the three open-end companies).

Of the 4 companies controlled by the investment counseling and management firm, Scudder, Stevens & Clark, 3 had a common investment manager and a common underwriter (Scudder, Stevens & Clark, and Scudder Fund Distributors), and all 4 companies had a minimum of 10 officers and directors affiliated with 1 of the other 3 companies or with Scudder, Stevens & Clark itself. However, the Scudder Fund of Canada employed an outside underwriter (William Street Sales), and had its own investment manager, Scudder, Stevens & Clark, Ltd. The underwriter was not otherwise affiliated with the Scudder group, but Scudder, Stevens & Clark, Ltd., was owned and advised by the parent company, Scudder, Stevens & Clark.

The Axe-Templeton Growth Fund of Canada has been included in this study as a member of the E. W. Axe group. The other four members of that group [76] were clearly parts of a unified system, with a common investment manager (E. W. Axe & Co.), underwriter (Axe Securities Corp.), an almost uniformly common set of directors and officers, and with Emerson W. and Ruth H. Axe president and vice president, respectively, of each company. The Axe-Templeton Growth Fund was organized by the management of Templeton, Dobbrow & Vance in 1954 as the Templeton Growth Fund of Canada

[75] The exception was the Bond Investment Trust of America, affiliated with the Colonial Fund and the Gas Industries Fund (now Colonial Energy Shares), and now in process of liquidation, its assets having been merged into the Colonial Fund on May 1, 1959.

[76] Axe-Houghton Fund A, Axe-Houghton Fund B, Axe-Houghton Stock Fund, and the Axe Science & Electronics Corp.

Ltd., with Templeton, Dobbrow & Vance as investment manager. In 1957 the company name was changed to Axe-Templeton Growth Fund of Canada, simultaneously with shareholder approval of a management contract with a newly formed enterprise, Axe-Templeton Management Ltd., jointly owned by E. W. and R. H. Axe and John M. Templeton. Mr. Templeton was made president of the renamed investment company, and Templeton, Dobbrow & Vance entered into a contract to furnish investment advice to the new investment adviser, but a majority of shares of the new management company were held by Emerson and Ruth Axe and the effective management of the company appears to have been shifted to the Axe group headquarters in Tarrytown, N.Y.

In three instances companies have been included within control groups despite the absence of common control with other group members. In each case the criterion for inclusion was the existence of common investment management among the members of these groups. In the case of Templeton & Liddell Fund and Missiles-Jets & Automation Fund, which have been placed in a single control group, both companies were parties to contracts with the investment counseling firm, Templeton, Dobbrow & Vance for the provision of "advice and recommendations with respect to investments." However, while Templeton, Dobbrow & Vance organized and was closely interlocked with the Templeton & Liddell Fund, it did not promote the other member of the group, it occupied no executive positions in that company, and had only 2 directorships out of a total of 11. Missiles-Jets & Automation Fund also had a contract with Missiles-Jets & Automation Management Co., which performed the purely administrative functions connected with the operation of the fund. It is this company that was dominated by the individuals who were instrumental in promoting the fund, and who evidently retained control of that enterprise. This group must be regarded as definitely loosely knit, with common investment management but apparently distinct cores of control.

Capital Research & Management Co. was the controlling center of a group consisting of the Investment Co. of America, International Resources Fund, and Americal Mutual Fund. These three companies had a common investment manager (Capital Research), a common underwriter (American Funds Distributors, Inc.), and numerous interlocks of directors and officers among the investment companies and between them and Capital Research & Management Co. Capital Research also served as investment manager for Washington Mutual Investors Fund, and "supervises the fund's investments, conducts its investment program, and maintains accounting records of the fund." [77] However, the promoter of this company was the brokerage firm, Johnston, Lemon & Co., which has continued as business manager and dominated the directorships and executive positions of Washington Mutual. Capital Research & Management Co. was represented by only a single member of the board of directors of this company. In this case, again, we have a company included within a group because of common investment management, despite a clearly limited control position by the investment manager.

[77] Prospectus, Sept. 4, 1958, p. 2.

Security Management, Inc., a wholly owned subsidiary of A. E. Weltner & Co., was the investment adviser for both Mutual Trust and United Fund Accumulative Series TA. In neither case, however, did the investment adviser or its parent company appear to exercise predominant control. Mutual Trust was organized by the management of Mutual Distributors, Inc., which had functioned as the principal underwriter of the trust since its inception. The trust was managed by five trustees, including the president of Mutual Distributors, the president of A. E. Weltner & Co., and three other individuals. At best, A. E. Weltner & Co. shared in a joint control of this company.

United Fund Accumulative Series TA was organized by a sponsor-manager company that is no longer in existence. The investment company appeared to be controlled in 1958 by Commerce Trust Co., the trustee and custodian of United. "Due to the refusal to act of the former manager of the Trust, the trustee became entitled to receive the management fees and assumed certain functions in the management of the Trust assets. Security Management, Inc., acts as investment adviser of the Trust and is compensated for its services by the trustee from the management fees." [78] In the case of each of these companies in the Weltner group, therefore, there was common investment management provided by the Weltner subsidiary, Security Management, Inc., but with effective control residing, at least in part, elsewhere.

[78] Report to Certificate Holders as at Dec. 31, 1957, p. 7, n. 2.