Co., and the Parker Corp. group with a 12.1 percent holding in United Electric Coal Co., were the only instances of holdings of 10 percent or more in portfolio companies among the 13 largest systems.

The heaviest concentration of very large holdings in 1958 was among the 10 control groups with assets of $150 to $300 million. This size class accounted for 84 of the 183 portfolio company holdings of 5 percent or over, 30 of the 33 holdings of 10 percent or more, and all 6 of the holdings of 20 percent or more. Attention has already been directed to the importance of the Insurance Securities Trust Fund, which falls in this size class, in the overall pattern of large holdings. This one company accounted for 53 of the 84 holdings of 5 percent or more and 21 of the 30 holdings of 10 percent or over, among the members of this size class.

Second in importance only to the Insurance Securities Trust Fund as an owner of very large holdings of portfolio company shares was the Axe-Houghton group, which was also a member of the $150 to $300 million size class in 1958. This 5-company system held 5 percent or more of the voting shares of 12 different portfolio companies in 1958, of which 4 were between 5 and 9.9 percent, 3 were of 10 to 19.9 percent, and 5 were 20 percent or over. The largest holding of this group (in terms of percentage of voting shares held) was 55 percent of the voting common of Katzenbach & Warren, held entirely by the Axe-Houghton Stock Fund. The second largest group holding, of 30.7 percent of the voting shares of Advance Industries, was owned 1 percent or more by three of the five members of the group. The voting stock of Smith & Wesson was owned 1 percent or more by four group members, with an aggregate group holding of 25.7 percent. Four of the five group members owned large holdings of Modern Engraving & Machine Co., with an aggregated group ownership of 23.1 percent. Three group members owned a total of 22.6 percent of the voting stock of Metropolitan Broadcasting Co. Members of the Axe-Houghton group also owned 14.8 percent of the voting shares of Flying Tiger Line, 12.6 percent of the stock of Shattuck Denn Mining Corp., and 11.3 percent of the voting shares of City Investing Co.

Of the two remaining holdings of 10 percent or more, the most important (discussed later in this chapter) involved the ownership of 24.7 percent of the voting common of the Missouri-Kansas-Texas Railroad Co. by State Street Investment Corp. The last holding of 10 percent or more of the shares of a portfolio company was owned by members of the Arnold Bernhard & Co. group (the three Value Line companies). The three members of this group held, respectively, 5 percent, 5 percent, and 3.2 percent of the voting shares of Swank, Inc., for an aggregate holding in 1958 of 13.2 percent.

In 1958 the officers and directors of the 154 open-end companies included in this survey had 23 individual holdings of 1 percent or more in portfolio companies of the open-end companies with which they were affiliated. In 8 of these 23 cases these large officer-director holdings were paralleled by holdings of 1 percent or more by the affiliated open-end company. In two instances, two officers and/or directors each held over 1 percent of the voting shares of the portfolio company. In two cases the individual holdings of the officer-directors were 5 percent or larger, and in one other instance two officer-directors of an open-end company, also principal officers of a portfolio company, together held almost 8 percent of the voting shares of the portfolio company. In one instance an open-end company holding of over 5 percent was complemented by an individual officer-director holding in a portfolio company in excess of 1 percent. In this case the investment company held 9.4 percent of the voting shares of a portfolio company and an officer-director held 1.6 percent; in another case three companies in a single control group held a total of 13.2 percent of the voting shares of a portfolio company, while the investment adviser held 2.1 percent of that company's shares.

Adding the large holdings of officers and directors of open-end companies to our earlier company totals would increase company large holdings by 13 (from 1,611 to 1,624), or by less than 1 percent, and would increase the number of portfolio company holdings of 5 percent or more by six (from 165 to 171), or by 4 percent. Of the six additional holdings of 5 percent or over, two are based solely on the officer-director holding and four combine with a preexisting company holding of between 1 and 4.9 percent to produce a holding of 5 percent or over.

Table VII–5 describes the distribution of large holdings of open-end companies in portfolio companies according to the number of large holdings in each portfolio company that was owned 1 percent or more by at least one open-end company. It may be seen from this table that 572 (or 60 percent) of the 959 portfolio companies, 1 percent or more of whose stock was owned by some open-end company, were owned 1 percent or more by only one open-end company; and that 26 portfolio companies (3 percent) were owned 1 percent or more by at least 5 different open-end companies. It may be noted that the number of single large holdings in portfolio companies increased by 161, or by 39 percent, while the number of multiple large holdings increased by 203, or 110 percent, between 1952 and 1958. Whereas multiple large holdings in portfolio companies accounted for 31 percent of the total number in 1952, they involved 40 percent of all large holdings in 1958. The expansion of open-end company numbers and average size significantly increased the number and importance of multiple large holdings in portfolio companies between 1952 and 1958.

TABLE VII–5.—*Distribution of portfolio companies, by number of open-end investment companies that held 1 percent or more of voting shares, December 1952 and September 1958*

Number of large holdings in each portfolio company	Number of portfolio companies	
	1952	1958
1	411	572
2	112	226
3	48	98
4	17	37
5	6	17
6	1	5
7		3
8		0
9		1
Total	595	959

Table VII–6 describes the effect of the expansion in the number of large and multiple holdings of open-end companies on the aggregated large holdings in portfolio companies of all open-end companies.[19] It may be seen from this table that 297 portfolio companies were owned 5 percent or more by the aggregate of open-end company large holders in 1958, as compared with only 118 in 1952; and that 77 companies were owned 10 percent or more by all open-end company large holders in 1958, as compared with 25 in 1952. These aggregated values for the large holdings of all included open-end companies should be compared with the 165 holdings of 5 percent or more for all individual open-end companies, and 183 such holdings for 97 control groups in 1958.

INTERLOCKS OF OPEN-END INVESTMENT COMPANIES AND THEIR INVESTMENT ADVISERS WITH PORTFOLIO COMPANIES

The limitations imposed by the Investment Company Act of 1940 on interlocking officers and directors are focused on interlocks between investment companies and their investment adviser, regular broker, principal underwriter, banks, and investment bankers (sec. 10). The emphasis of the act is thus on limiting interlocks between investment company personnel and those who do extensive business on behalf of the investment company. Interlocks between investment companies and their advisers and portfolio companies are subject to no limitation, although some protection against abuses that might result from such affiliations is provided by the disclosure requirements of section 8, and by the regulation of transactions of affiliated persons in section 17.[20]

TABLE VII–6.—*Distribution of portfolio companies, by aggregate percentage of voting shares held in large holdings [1] by open-end investment companies, December 1952 and September 1958*

Aggregate percentage of voting shares	Number of portfolio companies [1]		Aggregate percentage of voting shares	Number of portfolio companies [1]	
	1952	1958		1952	1958
1 to 2.4	301	354	20 to 24.9	1	5
2.5 to 4.9	181	309	25 to 29.9	0	1
5 to 7.4	63	141	30 to 39.9	1	1
7.5 to 9.9	30	79	40 to 49.9	0	0
10 to 12.4	11	44	50+	0	1
12.5 to 14.9	5	15			
15 to 19.9	7	10	Total	[2] 600	[2] 960

[1] 1 percent or more of voting shares.
[2] The differences between the numbers of portfolio companies included in tables VII–5 and VII–6 result from the fact that the aggregations in table VII–6 include holdings below 1 percent in 1952 or 1958 where an open-end company held 1 or more percent of the shares of that portfolio company in the other year. Table VII–6 overstates the number of portfolio companies subject to a 1 percent or more holding by an open-end company by 5 for 1952 and 1 for 1958.

[19] It should be observed that this table sums only the large holdings of open-end companies, and thus excludes the numerous open-end company holdings in portfolio companies that were below 1 percent. This exclusion was based partly on the impracticability of a complete aggregation, but also on the belief that control significance attaches primarily to the larger holdings.

[20] There appear to be few State limitations on interlocks between mutual funds and portfolio companies. One exception is the Illinois requirement adopted in 1959 that mutual fund officers and directors affiliated with a portfolio company be obligated by the bylaws or charter of the fund, or by other commitment, to abstain from voting where the purchase and sale of shares of the relevant portfolio company is under consideration.

Since a substantial number of open-end companies and investment advisers have self-imposed limits on portfolio company interlocks, they were asked to state their policy on this matter. Tables VII-7 and VII-8 summarize the replies to this question from 137 open-end companies and 128 investment advisers. Sixty-five open-end companies stated that they had "no policy" regarding portfolio company interlocks; however, 33 of these did in fact have one or more interlock with a portfolio company in 1958, and they were therefore placed in the category "permit." With this reclassification it was found that 63 of the 137 respondents (46 percent) permit portfolio company interlocks, 35 (26 percent) discourage or prohibit them, 7 (5 percent) encourage them, and 32 (23 percent) have no interlocks and no stated policy on this question.[21] Of the 128 investment advisers for whom information was available, 46 (36 percent) permit them, 43 (34 percent) discourage or prohibit portfolio company interlocks, 8 (6 percent) encourage them, and 31 (24 percent) have neither interlocks nor any stated policy on this matter. Investment advisers are evidently somewhat more reluctant to permit portfolio company interlocks than are open-end companies.

TABLE VII-7.—*Policy of open-end investment companies as to officer-director interlocks with portfolio companies, by size of investment company*

Size of company (in millions)	Number of companies	Encourage	Permit	Prohibit	No interlocks and no stated policy
$1 and under $10	48	1	13	10	24
$10 and under $50	43	3	21	12	7
$50 and under $150	25	3	[1] 17	4	1
$150 and under $300	12		[1] 9	3	
$300 and under $600	6		[1] 2	4	
$600 and over	3		1	2	
Total	137	7	63	35	32

[1] In 1 case, officers prohibited but not directors.

TABLE VII-8.—*Policy of investment advisers of open-end investment companies as to officer-director interlocks with portfolio companies, by size of investment company*

Size of company (in millions)	Number of companies	Encourage	Permit	Prohibit	No interlocks and no stated policy
$1 and under $10	46	1	10	12	23
$10 and under $50	40	3	16	14	7
$50 and under $150	21	4	12	4	1
$150 and under $300	12		6	6	
$300 and under $600	7		[1] 2	5	
$600 and over	2			2	
Total	128	8	46	43	31

[1] In both cases officers prohibited but not directors.

[21] A number of the smaller companies have no policy simply because "the issue has not as yet arisen."

It is also apparent that the largest companies look with less favor on portfolio company interlocks than do companies of smaller size. Of the 9 companies with assets over $300 million that have boards of directors (and/or trustees) and officers (this excludes the 10 trusts managed by Keystone Custodian Funds), 6 (67 percent) discourage or prohibit interlocks, 1 permits director but not officer interlocks, and 2 permit interlocks with portfolio companies on an unrestricted basis. Of the nine investment advisers associated with companies in this size class (excluding MIT which has no investment adviser), seven (78 percent) discourage or prohibit portfolio company interlocks and the other two permit them for directors but not officers. In the smaller size classes only 29 of 128 companies (23 percent) and 36 of 119 investment advisers (30 percent) discourage or prohibit officer and director interlocks with portfolio companies.

Those companies (and advisers) that are favorably disposed toward portfolio company interlocks are typically impressed with their value as "good listening posts" that "benefit the fund by providing opportunity for a closer study of the affairs of that particular company." A smaller number of companies permit interlocks on the ground that "any restrictions in this area would be undesirable by limiting choice of managerial talent as well as restricting investment selection." Companies and investment advisers that discourage portfolio company affiliations are generally desirous of avoiding any conflict of interest that might influence (or seem to influence) investment policy or involve managing portfolio companies. Some companies mention the disfavor with which portfolio company interlocks are regarded by State and Federal regulatory authorities as factors influencing their policy.

How extensively are open-end investment companies and their investment advisers interlocked with portfolio companies? Of the 147 [22] companies (plus their advisers) included in the present study, 86 (59 percent) had no portfolio company interlocks and 61 (41 percent) had 1 or more interlock in 1958.[23] The 61 companies with interlocks had a total of 263 interlocks distributed among 219 portfolio companies. The distribution of the number of interlocked portfolio companies, described in table VII–9, shows that 20 of the 61 companies with interlocks had only a single portfolio company interlock, 42 of the 61 were interlocked with 3 or fewer portfolio companies, and 15 open-end companies were interlocked with 5 or more portfolio companies. For all open-end companies, the average number of interlocked portfolio companies was 1.5 and the median was zero. For the 61 companies that were interlocked with 1 or more portfolio companies, the average number of interlocked portfolio companies was 3.6 and the median number was 2.

Sixteen open-end companies had multiple interlocks with at least one portfolio company—i.e., they had two or more officers, directors, or advisory board members who were also officers and directors of the same portfolio company. MIT, Investment Co. of America, Gas Industries Fund (now Colonial Energy Shares), Canada General Fund, and the Texas Fund each had two separate multiple interlocks with

[22] Including the 10 Keystone Trusts as a single company for the purposes of this analysis.

[23] In this discussion an interlock includes any officer, director, or advisory board member of the investment company or its investment adviser, who was an officer or director of a portfolio company.

portfolio companies. There were a total of 21 multiple interlocks among the included investment companies in 1958, of which 14 were dual, 5 triple, 1 quadruple, and in the special case of Elfun Trusts,[24] there were 8 interlocks with one portfolio company.

TABLE VII-9.—*Distribution of open-end investment companies by number of portfolio company interlocks,[1] by size of investment company, 1958*

Size of investment company (in millions)	Number of investment companies	Number of portfolio companies												
		0	1	2	3	4	5	6	7	8	9	12	14	15
$1 and under $10	56	45	5	4	----	1	----	----	----	----	1	----	----	----
$10 and under $50	43	27	4	4	3	1	1	1	----	----	1	----	1	----
$50 and under $150	26	9	6	2	3	----	----	1	----	2	1	1	----	1
$150 and under $300	12	----	3	3	1	2	----	2	----	----	1	----	----	----
$300 and under $600	7	4	1	1	1	----	----	----	----	----	----	----	----	----
$600 and over	3	1	1	----	----	----	----	----	----	----	1	----	----	----
Total	147	86	20	14	8	4	1	4	0	2	5	1	1	1

[1] Interlocks of investment advisers as well as the officers, directors, and advisory board members of the investment companies are included in this distribution.

It may be seen from table VII-10 that the average number of portfolio company interlocks rises as company size increases, but only up to the $150 to $300 million size class. The average number of interlocks tends to fall with further increases in asset size, up to the largest size class. However, the increase in the average number of interlocks in that class is due entirely to the large number of interlocks of MIT; the other two members had a total of one portfolio company interlock between them. Of the 10 companies (and associated advisers) with assets in excess of $300 million, MIT had interlocks with 9 portfolio companies, United Funds with 3, Fidelity 2, Investors Mutual and Fundamental Investors 1 apiece, and the other 5 very large companies had no interlocks with portfolio companies. Only MIT (with 2 triple interlocks) among the largest 10 companies had a multiple interlock with a portfolio company.

TABLE VII-10.—*Summary statistics concerning portfolio company interlocks,[1] by size of investment company, 1958*

Size of company (in millions)	Number of companies	Number of interlocked portfolio companies	Mean number of interlocked portfolio companies	Median number of interlocked portfolio companies	Investment companies with no interlocks		Number of multiple interlocks
					Number	Percent	
$1 and under $10	56	26	0.5	0	45	80	0
$10 and under $50	43	59	1.4	0	27	63	8
$50 and under $150	26	77	3.0	1.5	9	35	8
$150 and under $300	12	41	3.4	2.5	0	0	3
$300 and under $600	7	6	.9	0	4	57	0
$600 and over	3	10	3.3	1.0	1	33	2
Total	147	219	1.5	0	86	58	21

[1] The interlocks of officers, directors, and advisory board members of investment advisers as well as of the investment companies are included in this distribution.

[24] Elfun Trusts is a mutual fund open only to certain employees of General Electric Co., and it is closely interlocked with its founder company.

Insofar as interlocks are related to the number and size of large holdings and the prestige value of an interlock to a portfolio company, we would expect the average number of portfolio company interlocks to rise with an increase in size of investment company. We have already seen the close relationship between investment company size and the number of large holdings in portfolio companies. There might also appear to be greater distinction associated with an affiliation with one of the giants in the investment company business than with a smaller company. Nevertheless, only MIT among the very large companies in the industry has built up a pattern of interlocks with portfolio companies such as might be expected in the light of these two factors. The contrary behavior on the part of the other very large companies must be explained primarily in terms of a deliberate policy decision made by many of these companies, to avoid a type of affiliation that might involve a conflict of interest in investment decision making. This is made easier for the largest companies by the fact that they do not need to seek prestige by means of such affiliations. Furthermore, their informational needs are usually adequately met by a professional staff and by services received from brokers in exchange for brokerage business.

Sixty-six (or 30 percent) of the two hundred and nineteen portfolio companies interlocked with an open-end investment company were also subject to ownership of voting stock by the interlocked investment company to the amount of 1 percent or more. Ten of the twenty-one portfolio companies involved in multiple interlocks with open-end companies were owned by 1 percent or more by the affiliated investment company. Eight of the two hundred and nineteen portfolio companies interlocked with an open-end company were owned 5 percent or more by the affiliated investment company, and 1 of the 21 multiple interlocks was accompanied by ownership of 5 percent or more of the portfolio company's voting shares.

Thirty of the sixty-six portfolio companies that were simultaneously interlocked with an open-end company and owned by an amount of 1 percent or more by the affiliated company were interlocked with a company with assets exceeding $150 million. Nineteen of these cases occurred among the 12 companies with assets of $150 to $300 million, and 11 involved 1 of the 10 companies with assets exceeding $300 million. All 9 portfolio companies with which MIT was interlocked were owned by MIT in an amount of 1 percent or more; otherwise, only United Funds and Fidelity Fund, among the 10 largest companies, were interlocked with (single) companies in which they owned 1 percent or more of the outstanding voting shares. In the $150 to $300 million class Incorporated Investors was interlocked with six and State Street Investment Co. five portfolio companies in which they owned 1 percent or more of the voting shares. Among the companies with assets between $50 to $150 million, American Mutual Fund and Gas Industries Fund (Colonial Energy Shares) were interlocked with four, and Broad Street Investing Corp. and the Colonial Fund with three portfolio companies in which they had an interest of 1 percent or more.

Of the eight instances in which there was an interlock and simultaneous ownership of 5 percent or more of the portfolio company's voting securities by the affiliated investment company, two involved companies with assets over $300 million. MIT had a triple interlock with American Research & Development Corp. (as did its closely affiliated associate company, Massachusetts Investors Growth Stock Fund), and owned 7.3 percent of the voting shares of this portfolio company (9.6 percent for the group when we add in the 2.3 percent holdings of the Growth Stock Fund). A former chairman of MIT was also one of the organizers of this portfolio company in 1946. The other large holding combined with an interlock among the very large companies was the 5 percent holding by United Funds in Controls Co. of America.

Among the companies with assets between $150 and $300 million there were three holdings of 5 percent or more, along with interlocks of officers and/or directors. Insurance Securities Trust Fund held 10 percent of the stock of Hanover Fire Insurance Co., with which it had a common director. Incorporated Investors was interlocked with the Atlantic Coast Line Railroad Co., in which it held 5.7 percent of the stock, and Rayonier, Inc., in which it held 7.3 percent of the voting shares.

Among the companies in the $50 to $150 million size class, the Gas Industries Fund (Colonial Energy Shares) had an interlock with the Cascade Natural Gas Co., in which it had a 5-percent interest in 1958. Axe-Houghton Fund B was interlocked with Flying Tiger Line, in which it held a 7.9 percent interest, and in which the Axe-Houghton group taken together held 14.8 percent. The Axe-Houghton Stock Fund, with assets of less than $10 million in 1958, was interlocked with Katzenback & Warren, in which it held 55 percent of the stock.

A number of companies with portfolio company interlocks indicated that investment company representatives serve actively on various portfolio company committees that consider methods of financing, mergers, and other matters that involve these individuals in decision-making where a conflict of interest may exist between investor and portfolio company. Information on these matters was never given in sufficient detail for any appraisal to be made of the specific nature and method of resolution of a conflict of interest. One company reported that two of its officer-directors were also officer-directors of a portfolio company, whose shares were held through a period during which the portfolio company went into bankruptcy. The sale of securities in this company by the investment company appears to have been carried out at about the time the two investment company executives were replaced along with the entire board of the portfolio company.

OPEN-END COMPANY BEHAVIOR AS STOCKHOLDER

Voting behavior

Virtually all open-end investment companies vote at annual elections of portfolio companies by means of proxies, which are, with rare exception, given to the management proxy committee. Even where annual meetings are attended by representatives of the investment company or its investment adviser, it is usual for the company's proxies to be turned over to the management proxy committee prior to the meeting. The typical policy is that of MIT, that:

> Representatives of the Trust do not vote in person at stockholders' meetings, since all proxies are processed and sent in or withheld prior to meetings. * * *

A few companies report that:

Occasionally a proxy is executed in favor of an individual associated with the company so that he may vote the proxy at the meeting.

There is considerable variation among open-end companies in procedure in the handling of proxy solicitations. Particularly among the very large companies, fairly elaborate routines have been sometimes developed whereby proxy requests are automatically turned over to industry specialists, who initially examine each proxy statement. Where the agenda contained in the proxy statement is routine, the specialist so notes and passes the material on to the appropriate officer. If the agenda involves issues calling for more careful consideration, the industry specialist usually prepares a memorandum on the issues, along with his recommendations, which are then taken up by an officer or committee of officers. This is roughly the procedure followed by MIT, Investors Diversified Services, Keystone Custodian Funds, and National Securities & Research Corp.[25]

A more common procedure is one in which proxy solicitations are referred to an officer delegated to handle them, who refers them where deemed necessary to the research staff of the company. Solicitations received by Dividend Shares, e.g.—

are scrutinized by [the officer in charge of portfolio administration] before being approved for execution. In cases where further study appears indicated, the appropriate industry specialist of the investment adviser is requested to investigate and report his findings. Where basic policy questions are involved, the matter is discussed with the investment committee of the company.

An additional large number of replies suggest that proxies are frequently handled by company officers without reference to research personnel. Proxy solicitations received by the Chemical Fund, for example, are examined by officers of the company—

who vote in accordance with their best judgments, and return the executed proxies to the portfolio companies. If questions arise as to matters to be voted upon, the proxies are referred to the executive vice president or president of the company, who in certain cases contact officers of the portfolio companies in order to resolve the questions prior to voting.

The substantial number of open-end companies that automatically return their proxies to the management proxy committee as a matter of principle or policy require only the simplest procedures. The same is true of the few companies that have "followed the general policy of taking no action whatsoever on proxy solicitation material. * * *"

In voting their stock, open-end investment companies are generally dependable and even vigorous supporters of the managements of portfolio companies. The industry explanation commonly given for this phenomenon is stated by Broad Street Investing Corp., in the following language:

The basic reason for this policy is that the corporation is engaged in investing and not in the management of companies or the reorganization or revamping of businesses or corporate managements. One obvious investment criterion is how well managed is a candidate for investment, a qualification which is carefully scrutinized and weighed. Without reasonable confidence in a management, no investment will be made. Action in supporting that management at annual

[25] National Securities & Research Corp. has an unusually complex procedure for arriving at a final decision in the handling of a proxy solicitation: "If the investment committee is unanimous, the proxy is returned to Empire Trust Co. with instructions as to how the proxy should be voted. In the event the investment committee is not unanimous, the matter is referred to the policy committee. Each member of the policy committee is furnished with the proxy material, the recommendations of the industry specialist, and the vote of the investment committee. The policy committee votes and a majority rules on each item where there has been disagreement in the investment committee vote."

meetings is a normal and natural expression of that confidence. Only a marked departure from proper corporate practice warrants a deviation from this policy. When confidence in a management has been shaken or lost, the investment involved is reduced or liquidated.

This view is reinforced in the minds of managements of a number of open-end companies by the importance of friendly relations with portfolio company executives for the assurance of access to essential investment information. One company notes as one advantage of prompt return of proxies to the management proxy committee (in routine cases) that:

> It also helps to gain the goodwill of the management concerned which is important to the management firm's analysts in their effort to obtain from management information of investment value.

Another large company states that:

> Neither the fund nor the manager invites or encourages the solicitation of its votes in advance of an impending proxy contest, and they do not deliver or promise its proxy to anyone until the issues have been presented through the prescribed SEC procedure. The fund, through its manager, follows the practice whenever possible of fully advising the management of the portfolio company of this policy. This practice of fully setting forth its proxy policy to the management of the portfolio company has proven helpful to the fund and to the investment staff of the manager in maintaining a liaison with the management of the portfolio company. The maintenance of this liaison has been a vital ingredient in the continuous and effective investment appraisal of the securities of the portfolio companies.

The importance of this quest for information is discussed further below in connection with visitation policy.

In reply to a general question regarding the handling of proxies, one-fourth of the responding companies stated outright that they always return their proxies to the management proxy committee of the portfolio company. Most of the remaining companies stated that this was their usual policy; only a few (7 of 127) suggested that their abstentions and votes against management proposals were on a scale justifying special note. A majority of companies stated that they investigate closely the proposals of minority stockholders, but less than half have ever voted for a minority proposal and these voted for them very rarely. Of 147 responding companies 17 claim to have voted against a management stock option plan at some time between the end of 1952 and September 30, 1958. A somewhat higher proportion of the larger than the smaller companies have voted against such plans, but the differences are not great, and the extent of opposition at all size levels has been slight. Of the 22 companies with assets in excess of $150 million, 17 report no recorded opposition to a stock option plan during the entire period.[26]

Open-end companies have shown a greater willingness to oppose portfolio company managements on matters affecting the voting, preemption, and income rights of shareholders. This opposition has been expressed by direct communication as well as by vote, and has been particularly common where managements have proposed a weakening or elimination of preemptive rights, or where convertible bond issues have been contemplated. The Wellington Fund has voted regularly against proposals to eliminate preemptive rights of

[26] One medium-sized company explains its support of all such plans on the ground that "the company believes that the management of the portfolio company is best qualified to determine the levels of compensation necessary to run its business properly." The board of directors of one of the large companies passed a resolution in 1958 that provided that proxies will be delivered "(a) To such person or persons who will vote in favor of the election of directors and auditors proposed by management where no controversy appears, and to vote against recurrent proposals for cumulative voting and salary and pension limitations, if such action is recommended by the Investment Adviser and if such officers agree therewith. * * *"

shareholders, and it "has voiced its opposition to such proposals, either in writing or by personal communication. * * *" MIT, National Securities Series, and others, have voted on several different occasions against changes in the voting rights of common stockholders, reduced preemptive rights, increases in common stock issues, the issuance of convertible bonds or preference shares, and similar matters.

In reply to a question relating to proxy fights, only 12 companies in 9 separate control groups reported having returned proxies to groups opposing managements of portfolio companies during the period from the end of 1952 to September 30, 1958. Only in the case of a single proxy contest during this period (the William-McWilliams Industries proxy fight of 1958) did two unaffiliated open-end companies aline themselves with the opposition at the same time. Only single companies reported voting with the opposition in the Montgomery Ward contest in 1955, in the New York, New Haven & Hartford fight in 1954, in the New York Central fight of 1954, and in the New York Trust Co. proxy fight in 1959. Given the several hundred solicitations for proxies by antimanagement groups during this period and the large number of portfolio holdings by the investment companies included in the present study, this number of opposition participations in proxy contests is remarkably low.

Part of the explanation of this infrequency of participation with opposition groups in proxy fights is the fact that a number of companies adhere to the policy of withholding proxies rather than transmitting them to opposition groups as an indication of dissatisfaction. This is true of MIT, for example, which did not give proxies to an opposition group during this period, but which on several occasions withheld proxies. Investors Mutual returned its proxy to an opposition group on only one occasion during this period, but it abstained from voting in those "relatively few situations in which issues are not clear, or * * * there is no more effective way to disapprove." The more important reason, already alluded to, is the general propensity of open-end companies to dispose of stock in companies whose management has lost favor. Many companies also stress their desire to concentrate attention on investment management rather than get involved in the management problems of portfolio companies.[27] A number of companies also express the view that "disapproval of management policies is most effectively recorded by the sale of stock."

Attendance at stockholders' meetings

Table VII–11 summarizes the information furnished by 120 open-end companies regarding the number of meetings attended by their representatives during 1957. These companies attended a total of 492 annual meetings of portfolio companies in 1957; however, slightly more than one-half (61) did not attend any meetings during that year, and the overall average for reporting companies was about 4 meetings attended per year. Since a sample check of the number of common stocks held by these 120 companies gives an average of 78 common stock holdings per company, these companies attended approximately 1 of every 20 meetings in which they were entitled to participate in that year.

[27] One of the members of the Capital Research and Management group (American Mutual Fund) stated that "It is the belief of the investment adviser that the interests of the stockholders of the company are better served by the investment adviser devoting its efforts to the careful selection of investment and the constant supervision of the portfolio instead of engaging in a proxy dispute with management in an attempt to change the management, its character or its policies."