support from studies of the distributive trades,[50] and it is partially confirmed by evidence as to fee rates charged open-end companies with advisers and managers. In the 21 cases among the advisers included in this survey, where there are both advisers and external managers, the above hypothesis would suggest that with two organizations superimposed on the investment company, advisory fee rates should be higher than in otherwise comparable cases. This turns out to be true in a significantly large proportion of cases. Of these 21 cases, 8 were virtually identical with the average for their size class, 13 were substantially above the average, and 2 (including 1 waiver case) were significantly below the average.

IV. Income and Expense Account Analysis

The analysis of income and expense ratios contained in this section is based on the investment advisers' operating statements for fiscal years ended during the latter half of 1960 and the early months of 1961. It was not possible to obtain data covering the respondents' operations in lines of business other than advisory services to clients and the underwriting of investment company shares, and it has not been possible to specify in every case, therefore, the importance of the advisory services provided by investment advisers under contract to the investment companies, as a proportion of their total operations. As a further result, estimates could not be made in every case of the rates of return on net worth contributed by investment company business to the advisers' aggregate earnings. In many instances, however, the principal "outside" income of the investment advisers has been the fees received for advisory services to clients other than investment companies, and in most such instances it has been possible to incorporate the relevant data into the present analysis.

It is in this connection, moreover, that one of the significant conclusions of this study emerges. It will be seen below that for each size class of investment advisers (classified by size of total assets managed) the total operating expense ratios are sharply higher in those cases where income is received from both investment company and noninvestment company clients, than in cases where the adviser is managing investment company assets only. And it will be seen also that within each of these asset size classes the total operating expense ratios increase fairly consistently with increases in the percentage of the total advisory income received from noninvestment company clients. This conclusion, that the relative cost of generating a dollar of income is higher for "other" clients than for investment company clients, is particularly significant in the light of the earlier conclusion that the effective management fee rates imposed by the advisers is in general higher for investment company clients. This analysis of costs per dollar of income will be supplemented by an analysis of costs per dollar of assets managed, and it will be seen that the foregoing conclusion is confirmed: the operating cost per dollar of assets managed is in general higher in cases where both investment company and other clients' assets are managed, and in a majority of the size and type classes observed this absolute cost ratio increases as

[50] A. C. Hoffman, "Large-Scale Organization in the Food Industries," TNEC Monograph No. 35, 1940, passim.

the proportion of income received from noninvestment company clients increases.

For purposes of the financial analysis the investment advisers were combined where appropriate into investment advisory groups, based principally on the existence of a common ownership of the voting securities of the separate advisory firms. The groupings were based also on the fact that such firms frequently obtained services, or enjoyed access to investment and research information, from other member firms of the group, or from the parent organization. Income and expense items were in these cases consolidated, and in instances where a return on net worth was able to be specified the investment and earnings of the group as a whole were examined.

Attention will focus in parts of the financial study on the relative operating ratios of advisory firms which perform both an advisory and an underwriting function on behalf of investment companies. For this purpose the respondents were requested to allocate expense items between these two functions, based either on their own regular accounting procedures or on other bases established for purposes of this report. It is of interest that in many cases such allocations appear not to have been made by the firms as part of their routine accounting operations, and reliance therefore had to be placed on their ad hoc distribution of expenses made in reply to the questionnaire. Explanations of the bases of allocation were not supplied by all firms, and in those instances in which there was reason to believe that the allocations were not made on a satisfactory basis (for example, where expenses were distributed between the advisory and the underwriting functions simply in proportion to the total income received from each) the replies were not included in the analysis. On the basis of the usable replies, the operating ratios applicable to the underwriting function are fairly consistently higher than those for the advisory function. These higher ratios are due to relatively larger nonsalary, rather than salary, expenses, and this, in turn, has resulted from fairly heavy selling and sales promotion expenses (other than salesmen's and dealers' commissions). The data available for analysis in this connection, however, relate only to the underwriting experience of a sample of investment adviser-underwriters, and do not refer to underwriting activities in the investment company industry as a whole.

The analysis in the remainder of this section will be concerned principally with 2 separate samples of investment advisory firms, one containing 86 firms having corporate form, and one containing 19 partnerships and sole proprietorships. This division was necessary in view of the wide variability in the manner in which the latter firms reported the amounts of partners' drawings and salaries, and in view of their different liabilities to taxation. Comparisons between the corporations and the partnerships will be made at appropriate points, and various subsidiary samples employed for other analyses will also be specified as necessary.

TABLE VIII–45.—*Combined income account of 86 investment advisers having corporate form, by size of open-end investment company assets managed, fiscal years ended 1960–61*

[In thousands of dollars]

Income and expense items	Open-end company assets (in millions of dollars)							
	Over 600	300 and under 600	150 and under 300	50 and under 150	10 and under 50	1 and under 10	Less than 1	Total
Income:								
From open-end investment companies	10,241.3	10,777.3	5,552.7	2,627.2	2,973.9	400.2	36.0	32,608.6
From other advisory clients	94.8	513.9	6,560.0	6,610.0	1,772.3	3,275.1	34.7	18,861.2
Total income	10,336.1	11,291.2	12,113.1	9,237.2	4,746.2	3,675.3	70.7	51,469.8
Expenditures:								
Salaries of officers and directors	1,107.6	2,068.2	1,207.6	1,419.5	1,438.4	1,385.7	43.4	8,670.4
Other salaries	1,427.9	2,151.5	3,982.6	2,917.0	936.3	1,175.1	14.2	12,604.6
Fees for technical and consultant services	219.8	96.6	123.1	139.2	136.0	25.8	1.4	741.9
Statistical and research	573.3	108.2	166.8	208.6	256.3	64.0	1.5	1,378.7
Sales promotion	--------	172.0	185.4	1,435.3	194.3	31.3	4.8	2,023.1
General administrative expenses	2,425.9	1,534.3	2,327.2	1,755.8	1,003.3	959.6	35.4	10,041.5
Special charges	--------	129.9	--------	--------	78.5	42.0	.6	251.0
Total nonsalary expenses	3,218.9	2,041.0	2,802.5	3,538.9	1,668.4	1,122.6	43.6	14,435.9
Total operating expenses	5,754.4	6,260.7	7,992.7	7,875.4	4,043.2	3,683.3	101.2	35,710.9
Net income before taxes	4,581.7	5,030.5	4,120.4	1,361.8	703.0	(8.0)	(30.5)	15,758.9
Income taxes	2,473.8	2,118.6	878.9	464.5	312.6	47.6	--------	6,296.0
Net income after taxes	2,107.9	2,912.0	3,241.5	897.2	390.4	(55.6)	(30.5)	9,462.9
Number of advisers in size class	3	7	6	7	25	27	11	86

TABLE VIII–46.—*Income and expense ratios of 86 investment advisers having corporate form, by size of open-end investment company assets managed, fiscal years ended 1960–61*

[In percent]

Income and expense items	Open-end company assets (in millions of dollars)							
	Over 600	300 and under 600	150 and under 300	50 and under 150	10 and under 50	1 and under 10	Less than 1	Total
Income:								
From open-end investment companies	99.1	95.4	45.8	28.4	62.7	10.9	50.9	63.4
From other clients	.9	4.6	54.2	71.6	37.3	89.1	49.1	36.6
Total income	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Expenditures:								
Salaries of officers and directors	10.7	18.3	10.0	15.4	30.3	37.7	61.4	16.8
Other salaries	13.8	19.0	32.9	31.6	19.7	32.0	20.1	24.5
Fees for technical and consultant services	2.1	.9	1.0	1.5	2.9	.7	2.0	1.4
Statistical and research	5.5	1.0	1.4	2.3	5.4	1.7	2.1	2.7
Sales promotion	--------	1.5	1.5	15.5	4.1	.9	6.8	3.9
General administrative expenses	23.5	13.6	19.2	19.0	21.1	26.1	50.1	19.5
Special charges	--------	1.2	--------	--------	1.7	1.1	.8	.5
Total nonsalary expenses	31.1	18.1	23.1	38.3	35.2	30.5	61.7	28.0
Total operating expenses	55.7	55.4	66.0	85.3	85.2	100.2	143.1	69.4
Net income before taxes	44.3	44.6	34.0	14.7	14.8	(.2)	(43.1)	30.6
Net income after taxes	20.4	25.8	26.8	9.7	8.2	(1.5)	(43.1)	18.4
Expense items as percent of total operating expenses:								
(*a*) Salaries of officers and directors	19.2	33.0	15.1	18.0	35.6	37.6	42.9	24.3
(*b*) Other salaries	24.8	34.4	49.8	37.0	23.2	31.9	14.0	35.3
(*c*) Nonsalary expenses	55.9	32.6	35.1	44.9	41.3	30.5	43.1	40.4
Total operating expenses	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

A. INCOME AND OPERATING RATIOS FOR 86 CORPORATIONS

Table VIII–45 contains a summary of the income and expense data for 86 advisers having corporate form and reporting during the time period specified. Table VIII–46 presents the same data in the form of percentage distributions. Some indication of the division of the advisers' interests is obtained by noting that out of a total income from advisory activities of $51.5 million, some $18.9 million, or 36.6 percent, was received from noninvestment company clients, leaving 63.4 percent of total income derived from investment company contracts. For the sample corporations as a whole the total salary expenses amounted to 41.3 percent of gross income, and total nonsalary expenses absorbed 28 percent of the income stream. More generally, for the industry as a whole the total operating expenses of the investment advisory function is divided between salary and nonsalary expenses in the approximate ratio of 60 and 40 percent, respectively. Noteworthy also, because of the very small magnitudes involved, are the "fees paid for technical and other investment consultant services," and "payments for statistical, research and related services." These items amount in the aggregate to only 1.4 and 2.7 percent, respectively of gross earnings. For the research activity, of course, a good deal of the relevant expenditure is made in the form of what is here called "other salaries," and this expense item will be examined more fully below. The sample corporation's total operating ratio of 69.4 percent provides a profit margin before income taxes of 30.6 percent, which reduces to a net after tax margin of 18.4 percent.

It is of special interest in the present study to examine the manner in which the ratios under discussion vary as changes occur in the amount of assets managed by the investment advisers. To what extent, in other words, are profit margins and expenses of operation directly or inversely related to the size of the adviser's total operations; and to what extent do variations in operating ratios, as the size of assets managed increases, reflect variations in underlying expense components? To analyze these questions, and to examine the effects of varying scales of advisory activities, two separate bases of classification were adopted. The first, which is not the most appropriate for this purpose, is adopted in tables VIII–45 and VIII–46, principally for purposes of retaining symmetry with the classification of investment companies and investment advisers adopted in earlier parts of this report. Here the advisers are examined in size classes according to the size of open-end investment company assets managed. In the following section of the analysis the advisers will be classified according to the size of total assets managed, including those of both investment company and noninvestment company clients.

Tables VIII–45 and VIII–46, however, do shed some light on the question of where in this industry the management of investment company assets tends to be a part-time function combined with the management of other clients' assets, and where the management of the former becomes a more specialized and virtually full-time operation. Table VIII–47 summarizes three of the more significant relationships to be adduced in this connection. First, the percentage of the investment advisers' total incomes which is obtained from other clients tends to increase as the size of investment company assets managed decreases. Table VIII–47 indicates that a break in this relation occurs in the $10 to $50 million size class, the income from noninvestment company clients falling in this size class to 37.3 percent, though it rises again to 89.1 percent for the next smallest size class of assets. The advisers to the very small investment companies, those managing assets of less than $1 million, receive about half their income from these sources. But it is more important to note that it is only in those cases in which the advisers are managing investment company assets of less than $300 million that the income received from other clients is a significant share of total income.

TABLE VIII–47.—*Income from noninvestment company clients, salary expenses, and total operating expenses as percentages of total income for advisers having corporate form, 1960–61*

Open-end company assets (in millions)	Income from other clients as percent of total income	Expenses as percent of total income	
		Other salaries	Total operating expenses
0 and under $1	49.1	20.1	143.1
$1 and under $10	89.1	32.0	100.2
$10 and under $50	37.3	19.7	85.2
$50 and under $150	71.6	31.6	85.3
$150 and under $300	54.2	32.9	66.0
$300 and under $600	4.6	19.0	55.4
$600 and over	.9	13.8	55.7

More significant is the fact that even this rather crude classification of the sample of investment advisers suggests a tendency for the operating expense ratios to increase as the relative importance of other clients' assets increases. The first and third columns of table VIII–47 indicate that between the second largest and the second smallest size classes the relative importance of income from other clients increased from 4.6 percent of total income to 89.1 percent, and the total operating ratios increased from 55.4 percent to 100.2 percent. But this progression of the operating ratio is also due to the economies of large-scale operation in the management of assets, as confirmed, for example, by the summary data presented in table VIII–50 below. Further evidence will therefore be adduced in the following section to show that a positive relation does also exist between the operating ratios and the proportionate importance of other clients' assets. Table VIII–47, however, does indicate that the other salaries ratio changes in the same direction as does the proportionate income from other clients.

The importance of advisory services to noninvestment company clients as changes occur in the size of open-end investment company assets managed is shown in table VIII–48. The median percentage of total income received from noninvestment company clients increases consistently from 2.6 percent in the largest size class to 89.7 percent in the $1 to $10 million asset size class.

TABLE VIII–48.—*Percentage of total income from noninvestment company clients, open-end investment company advisers,[1] by size of open-end company assets managed, 1960–61*

Open-end company assets (in millions)	Number of advisers	Number advising investment companies only	Number advising other clients	Income from noninvestment company clients as percent of total income	
				Range	Median
Under $1	11	9	2	54.9–91.3	
$1 and under $10	27	16	11	29.0–99.6	89.7
$10 and under $50	25	19	6	41.2–87.9	78.5
$50 and under $150	7	2	5	3.6–85.3	67.1
$150 and under $300	6	3	3	15.9–84.9	38.3
$300 and under $600	7	4	3	1.3–22.3	5.6
Over $600	3	2	1		2.6
All advisers	86	55	31	1.3–99.6	75.5

[1] Advisers having corporate form (see tables VIII–45 and VIII–46).

In view of the division of activities between the management of investment company assets and the assets of noninvestment company clients, considerably more importance attaches to the analysis summarized in table VIII–49. At this point the same 86 advisers having corporate form are classified according to the size of total assets managed, and each such size class is divided into those advisers managing investment company assets only, and those managing varying combinations of investment company and other clients' assets. It was seen in table VIII–48 that the latter accounted for 31 of the total of 86 advisers. It is found also that for these 31 advisers the relation between total income from advisory sources and the income received from other clients was distributed as follows: In 9 instances the income from noninvestment company clients amounted to less than 40 percent of total income, in a further 9 instances the corresponding ratio was between 40 and 80 percent, and in the remaining 13 instances the ratio exceeded 80 percent. In six of these latter cases more than nine-tenths of total income was received from other clients, the highest such ratio recorded reaching 99.6 percent. Table 49 therefore adopts the 40- and 80-percent levels as benchmarks for dividing the advisers having noninvestment company clients into subclasses for purposes of studying the impact on operating ratios of differing divisions of the income streams between the two classes of clients. The principal conclusions of the analysis can be summarized as follows:

In each of the six size classes (the largest six of the seven classes) in which combinations of assets of both types of clients are managed, the total operating ratio is higher in instances where noninvestment company assests are also managed, than where the advisory activities are confined to investment company assets alone. Table VIII–50 below summarizes this significant relation.

TABLE VIII-49.—*Operating expenses of investment advisers having corporate form, as percent of total income, by size of total assests managed, fiscal years 1960–61*

[IC=investment companies; OC=other clients]

Income and expenditures	Total assets managed (in millions of dollars)															
	Over 600					300 to 600					150 to 300					
	IC clients only	IC and OC				IC clients only	IC and OC				IC clients only	IC and OC				
		Total	Income from OC as percent of total income				Total	Income from OC as percent of total income				Total	Income from OC as percent of total income			
			Less than 40	40 to 80	More than 80			Less than 40	40 to 80	More than 80			Less than 40	40 to 80	More than 80	
Income	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
Expenditures:																
Salaries of officers and directors	12.9	8.4	8.4	----	8.4	16.6	26.1	21.1	38.3	33.7	15.9	32.2	26.5	39.1	32.4	
Other salaries	18.4	33.3	11.2	----	44.6	9.1	31.7	30.3	23.1	37.8	18.8	23.6	22.9	23.0	29.2	
Fees for technical and consultant services	.7	1.4	3.3	----	.5	1.1	.5	.5	.4	.6	1.6	1.8	3.4	.2	.5	
Statistical and research	.6	5.2	10.0	----	2.7	.5	1.2	1.5	1.0	.7	.4	1.3	2.4	----	1.7	
Sales promotion	----	.6	.6	----	.6	----	2.7	3.2	7.5	----	----	4.5	8.6	.04	2.7	
General and administrative expenses	16.2	22.2	36.5	----	14.9	7.3	21.2	20.5	15.2	24.7	22.4	20.7	21.3	18.3	27.2	
Special charges	----	----	----	----	----	2.1	----	----	----	----	----	2.8	----	7.1	----	
Total nonsalary expenses	17.5	29.5	50.4	----	18.7	11.0	25.6	25.7	24.1	26.0	24.3	31.1	35.5	25.5	32.1	
Total operating expenses	48.8	71.2	70.0	----	71.8	36.7	83.4	77.1	85.5	97.5	59.0	87.0	84.9	87.7	93.8	
Net income before taxes	51.2	28.8	30.0	----	28.2	63.3	16.6	22.9	14.5	2.5	41.0	13.0	15.1	12.3	6.2	
Net income after taxes	23.1	22.1	15.9	----	25.3	38.1	9.1	12.6	7.7	1.4	19.0	7.0	7.4	7.3	4.1	
Expense items as percent of total operating expenses:																
(a) Salaries of officers and directors	26.4	11.8	11.9	----	11.7	45.4	31.3	27.4	44.8	34.5	27.0	37.1	31.2	44.6	34.6	
(b) Other salaries	37.8	46.7	16.1	----	62.2	24.7	38.0	39.3	27.0	38.8	31.8	27.2	27.0	26.3	31.2	
(c) Nonsalary expenses	35.8	41.5	72.0	----	26.1	29.9	30.7	33.3	28.2	26.7	41.2	35.7	41.8	29.1	34.2	
Total operating expenses	100.0	100.0	100.0	----	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
Number of advisers in classes	2	5	2	----	3	4	7	4	1	2	3	5	1	2	2	

TABLE VIII-49.—*Operating expenses of investment advisers having corporate form, as percent of totol income, by size of total assets managed, fiscal years, 1960–61*—Continued

[IC=investment companies; OC=other clients]

Income and expenditures	Total assets managed (in millions of dollars)															
	50 to 150					10 to 50					1 to 10					Less than 1
	IC clinets only	IC and OC				IC clients only	IC and OC				IC clients only	IC and OC				IC clients only
		Total	Income from OC as percent of total income				Total	Income from OC as percent of total income				Total	Income from OC as percent of total income			
			Less than 40	40 to 80	More than 80			Less than 40	40 to 80	More than 80			Less than 40	40 to 80	More than 80	
Income	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Expenditures:																
Salaries of officers and directors	28.5	15.0	21.0	43.8	12.9	25.0	49.5	--------	50.3	47.4	53.8	38.9	7.1	48.8	--------	59.7
Other salaries	16.3	19.7	2.2	19.2	20.9	18.5	17.6	--------	19.2	13.4	15.7	66.5	13.4	82.9	--------	14.1
Fees for technical and consultant services	3.0	2.3	.8	--------	2.6	5.5	.1	--------	.1	--------	3.9	2.3	--------	3.0	--------	1.0
Statistical and research	3.6	.6	.5	1.6	.6	11.3	1.2	--------	1.3	.9	8.8	19.6	5.4	24.0	--------	4.9
Sales promotion	1.7	28.8	--------	7.6	31.9	2.6	2.0	--------	1.1	4.4	2.4	9.7	--------	12.7	--------	2.9
General and administrative expenses	15.3	24.5	5.6	22.1	25.9	22.1	18.2	--------	15.6	24.9	33.3	24.6	3.6	31.1	--------	68.9
Special charges	--------	--------	--------	--------	--------	.2	.1	--------	--------	.4	17.7	--------	--------	--------	--------	--------
Total nonsalary expenses	23.5	56.3	7.0	31.3	61.0	41.7	21.5	--------	17.9	30.6	66.0	56.0	8.9	70.5	--------	78.0
Total operating expenses	68.3	90.9	30.1	94.3	94.8	85.2	88.5	--------	87.5	91.3	135.5	161.5	29.5	202.2	--------	151.5
Net income before taxes	31.7	9.1	69.9	5.7	5.2	14.8	11.5	--------	12.5	8.7	(35.5)	(61.5)	70.5	(102.2)	--------	(51.5)
Net income after taxes	17.7	6.7	68.8	1.7	2.7	7.2	10.3	--------	12.0	5.8	(39.5)	(61.7)	69.4	(102.2)	--------	(51.5)
Expense items as percent of total operating expenses:																
(*a*) Salaries of officers and directors	41.8	16.5	69.6	46.5	13.6	29.3	55.9	--------	57.6	51.9	39.7	24.1	24.2	24.1	--------	39.3
(*b*) Other salaries	23.9	21.6	7.3	20.3	22.0	21.7	19.8	--------	21.9	14.7	11.6	41.2	45.5	41.0	--------	9.3
(*c*) Nonsalary expenses	34.3	61.9	23.1	33.2	33.2	49.0	24.3	--------	20.5	33.5	48.7	34.7	30.3	34.9	--------	51.4
Total operating expenditures	100.0	100.0	100.0	100.0	100.0	100.0	100.0	--------	100,0	100.0	100.0	100.0	100.0	100.0	--------	100.0
Number of advisers in classes	3	6	1	1	4	18	5	--------	3	2	16	3	1	2	--------	9

TABLE VIII–50.—*Operating ratios of corporate investment advisers, by size of total assets managed, 1960–61*

[In percent]

Total assets managed (in millions)	Operating ratios [1] for advisers having— Investment company clients only (1)	Investment company and other clients (2)	Col. (2)—col. (1) (3)
$1 and under $10	135.5	161.5	26.0
$10 and under $50	81.5	88.5	7.0
$50 and under $150	68.3	90.9	21.7
$150 and under $300	59.0	87.0	28.0
$300 and under $600	36.7	83.4	46.7
$600 and over	48.8	71.2	22.4

[1] Total operating expenses as a percent of total income.

At this point the economies of scale previously referred to are clearly apparent. For advisers having investment company clients only, the operating ratio rose from 48.8 percent to 135.5 percent between the largest and the smallest size class in the table, and a similar, though less pronounced, increase in the operating ratio occurs where non-investment company assets are managed also. In other words, the operating ratios decline fairly consistently as the size of assets increases. Significantly, however, the decline in operating ratios is much more rapid in cases where investment company assets alone are managed. In that type class of advisers the operating ratio declines by some 32.7 percentage points between the $10 to $50 million asset size class and the largest size class of assets, those in excess of $600 million. For the advisers managing "other clients' " assets also, the decline in operating ratios between the same size classes is only about half as much, or some 17.3 percentage points.

It appears from this summary also, and it is confirmed by the more complete data of table VIII–49, that losses occurred (owing to heavy salary and general administrative expenses) in the smaller size classes of assets managed. It seems, therefore, that for the advisory activities in this industry a minimum profitable size of assets exists. Of the 86 advisers having corporate form, and whose operating expense ratios are summarized in table VIII–49, 25 reported losses. Nine of these twenty-five firms managed total assets of less than $1 million, a further 10 managed assets of between $1 million and $10 million, 5 managed assets between $10 million and $50 million, and only 1 managed assets of more than $50 million. The median size of assets managed by the 25 firms recording losses was only $1.5 million.

Reference to column 3 of table VIII–50 suggests that while the relatively higher cost of managing "other clients' " assets is not pronounced when the size of assets managed is small, the margin by which the costs of managing these assets exceeds the costs of managing investment company assets alone increases as the size of assets managed increases, up to a level somewhere near $600 million. In table VIII–50, for example, the operating ratio for advisers managing a combination of investment company and other clients' assets exceeds the ratio for those managing only investment company assets by 7 percentage points in the $10 to $50 million asset size class, and the difference increases consistently to 46.7 percentage points in the second largest asset size class, $300 to $600 million.

Equally significant is the fact that, within each size class of assets managed, the operating ratios of those advisers having a combination of types of clients increase consistently with increases in the percentage of the income stream accounted for by income from other clients. The fuller details of this relationship are again contained in table VIII–49, and are summarized in table VIII–51. The consistent nature of the relationship confirms the earlier conclusion that the management of non-investment-company assets is a relatively more expensive operation than the management of investment company assets alone. It has already been implied that it is in the case of the last-mentioned type of advisory-management activity that economies of larger scale operation appear more rapidly.

TABLE VIII–51.—*Operating ratios for investment advisers serving investment companies and other clients, by percentage of total income received from other clients, by total assets managed, 1960–61*

Total assets managed (in millions)	Percentage of total income from other clients		
	Less than 40 percent	40 to 80 percent	More than 80 percent
$1 and under $10	29.5	202.2	(1)
$10 and under $50	(1)	87.5	91.3
$50 and under $150	30.1	94.3	94.8
$150 and under $300	84.9	87.7	93.8
$300 and under $600	77.1	85.5	97.5
$600 and over	70.0	(1)	71.8

1 Not applicable.

The principal explanation of this higher relative cost of managing non-investment-company assets may be seen in table VIII–49 to be due in many instances to nonsalary expenses, though the questionnaire responses do not permit a detailed analysis of the particular nonsalary expenses involved. The total non-salary-expense ratio was significantly lower once again for those advisers managing only investment company assets in the largest four size classes: 17.5 percent as compared with 29.5 percent for the largest size class of assets, those in excess of $600 million, and 23.5 percent compared with 56.3 percent for the $50 to $150 million asset size class.

A more consistent relation pointing to the reasons for the higher costs of managing non-investment-company assets is observed in table VIII–49 under the expense heading "other salaries" (salaries other than those of directors and officers). The importance of this item warrants the sharper focus provided by table VIII–52. The indicated ratio is higher for advisers managing non-investment-company assets in every asset size class except the $10 to $50 million class, in which case the ratios are approximately equal. It appears that the advisers require a larger number of employees and incur higher salary expenditures when the assets managed are made up of a larger number of diverse investment accounts.

Again, as in the analysis of the total operating expense ratios, this relatively important expense item of "other salaries" tends to increase as does the percentage of the total advisory income stream received from non-investment-company clients. Table VIII–53 summarizes the relationships at this point.

TABLE VIII–52.—*"Other salaries" expense ratios of corporate investment advisers, by size of total assets managed, 1960–61*

Total assets managed (in millions)	"Other salaries" as percent of total income	
	Investment company clients only	Investment company and other clients
	Percent	*Percent*
$1 and under $10	15.7	66.5
$10 and under $50	18.4	17.6
$50 and under $150	16.3	19.7
$150 and under $300	18.8	23.6
$300 and under $600	9.1	31.7
$600 and over	18.4	33.3

TABLE VIII–53.—*"Other salaries" expense ratios of corporate investment advisers serving investment companies and other clients, by percentage of total income received from other clients, by total assets managed, 1960–61*

Total assets managed (in millions)	Percentage of total income from other clients		
	Less than 40 percent	40 to 80 percent	More than 80 percent
$1 and under $10	13.4	82.9	(1)
$10 and under $50	(1)	19.2	13.4
$50 and under $150	2.2	19.2	20.9
$150 and under $300	22.9	23.0	29.2
$300 and under $600	30.3	23.1	37.8
$600 and over	11.2	(1)	44.6

[1] Not available.

The conclusion that the salary expenses under discussion are an increasing function of the size and diversity of non-investment-company accounts handled by the investment advisers is thus confirmed in every size class of assets except the $10 to $50 million class. A dip in the strength of the relation is to be noted in the $300 to $600 million size class.

The total salary expenses, it was noted in the summary statement at the commencement of this section, constituted the heaviest specified expense item in the investment advisers' financial statements. For the combined 86 corporations under examination, total salaries absorbed 41 percent of the total incomes, and accounted for 60 percent of total operating expenses (table VIII–46). When attention is shifted to the behavior of the salary expense ratios as changes occur in the size of total assets managed, it is necessary to distinguish between salary payments to directors and officers on the one hand, and salary payments to other employees. It would seem that while changes in the size or remuneration of boards of directors and officers do not necessarily take place as the size of total assets managed increases, an increase in total salary payments to other employees may be