CHAPTER III

THE MANAGEMENT FUNCTION AND ITS COST

To avail themselves of professional management and portfolio diversification, increasing numbers of Americans have been entrusting their capital to investment companies. In 1965 they paid more than $130 million to the managers of such companies for investment advisory and other managerial services. This chapter deals with the question whether requirements for approval of advisory contracts by shareholders and unaffiliated directors—the "few elementary safeguards" deemed adequate regulatory controls over management compensation in 1940[1]—continue to be adequate today in view of the present size of the investment company industry and its prospective future growth.

Mutual fund advisory fees have become the subject of considerable controversy as a result of the substantial growth of the funds during the last decade. Since 1959 the propriety of the fees paid to 18 advisory organizations serving most of the larger funds in the industry has been attacked in over 50 lawsuits brought by fund shareholders in State and Federal courts. The complaining shareholders contended that the compensation of the fund managers was excessive and violated applicable State law as well as the Investment Company Act.

Most of this litigation was terminated through settlements providing for future reductions in advisory fee rates. To the extent that the courts had occasion to scrutinize these fees in approving settlements or in passing on the merits of the plaintiffs' contentions, they were able to do so only on the basis of evidence placed before them in particular cases and under State law concepts which required the complaining shareholders to prove that the advisory fees under attack were so "shockingly" excessive as to constitute a "waste" of fund assets.[2] Hence the shareholder litigation could not answer the basic question raised by the Wharton Report as to the reasonableness of mutual fund advisory fees.

This chapter considers that question. Section A describes the managerial services that investment companies use. Sections B through F outline the arrangements by which they pay for such services, analyze the costs of such services to both externally and internally managed investment companies and compare those costs with the costs of similar services to other types of investment advisory clients. Section G examines the extent to which existing safeguards provide for reasonable limits on managerial compensation and presents the Commission's recommendations for changes in the law to enhance its efficacy in protecting the interests of investment company shareholders. Finally, section H deals with the special problem of protecting shareholder interests in connection with sales of management organizations.

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[1] Senate Hearings 252. See pp. 69-70, infra.
[2] See pp. 132-141, infra.

A. THE MANAGEMENT FUNCTION

1. Portfolio management

An examination of management costs in the investment company industry should begin by considering the process of portfolio management, the central factor in investment company operations. Investment company portfolio management involves a number of common elements. Although the emphasis placed on each element varies widely from company to company and from complex to complex, in most respects such management is not essentially different from the management of other large portfolios of securities.

(a) Analyses of the economy and of the securities markets

Investment company managers work within limitations imposed by the companies' fundamental policies and guidelines provided by basic investment objectives stated in the prospectus.[3] The managers, however, usually have discretion to adapt a fund's portfolio policy to their evaluations of the present state and future prospects of the economy in general and of the securities markets in particular. In making such evaluations they rely on information generally available from business, financial, and governmental publications. In addition, some investment company managers utilize the services of full-time economists, and some have economists on their boards of directors or advisory boards.[4]

The post-World War II era, generally, has been characterized by business prosperity and an upward trend in stock prices. The predominant tone in the business community, including its investment company segment, has been optimistic. Accordingly, even though at times investment companies have maintained relatively large cash reserves, during the period as a whole most investment companies have adhered to a policy of investing in common stocks to the extent permitted by their basic objectives. Analyses of particular industries and of specific securities have therefore become the most important part of the portfolio management function.

(b) Analyses of particular industries

Although most funds seek to maintain broadly diversified portfolios, their managers' appraisal of the relative prospects of different segments of the economy will exert considerable influence on investment policy. For example, a fund may as a matter of policy usually have some oil, utility, and automotive stocks in its portfolio. But the proportionate share of each of these industries in the total portfolio will vary from time to time in accordance with the managers' changing assessments of the outlook for particular industries.[5] And, of course, even the most highly diversified investment companies liquidate holdings in an industry whose prospects are deemed highly unfavorable. Though industry analysis plays a lesser role in the management of so-called "specialty funds," which confine their investments

[3] See pp. 45-46, supra.

[4] The Act defines an advisory board as a board which consists solely of persons who do not serve the fund in any managerial or executive capacity and which has advisoiy functions as to investments hut no power to make investment decisions. Sec. 2(a)(1).

[5] Significant changes occur from time to time in the industry composition of investment company portfolios. See Wharton Report 139-167.

to a particular industry or a limited group of industries: it is of some importance even there.[7]

(*c*) *Selecting specific securities*

Although considerable effort may be directed to analyses of the economy, the securities markets generally and the prospects for various industries, the problem of selecting those securities most likely to fulfill the company's investment objectives[8] is central to the management process. While some fund managers concentrate their efforts on selecting the one or two companies in an industry which they believe have the best potential prospects, others favor diversification within a selected industry. In either case, many of the managers of the larger funds maintain lists of several hundred stocks as to which they collect information on a more or less continuing basis. Responsibility for keeping this information current and for initiating recommendations with respect to purchases and sales is normally divided among a number of analysts. Since the number of industries usually exceeds the number of analysts, a single analyst is normally assigned to several industries.[9]

In evaluating specific securities there is a marked tendency to pay particular attention to factors deemed indicative of the quality of the particular company's management. Many fund managers place great stress on impressions of portfolio company managements derived from field visits.[10]

One fund manager stated that since the basic facts concerning a company are readily available in financial manuals and other published sources, the primary contribution which an analyst can make to the investment decision-making process is a firsthand evaluation of company management. At another large fund complex, each analyst was expected to visit four companies every other week. The analysts at this complex made 500 to 750 field visits a year. However, some managers place little stress on field visits. One such manager stated that it is skeptical about field visits because it believes that analysts seldom get an objective and useful picture of the corporation visited, since corporate executives are alert to "sell" their corporations to visiting analysts.

Regardless of the varying stresses investment company managers place on field visits, such visits often are used to supplement their analyses of the information concerning particular industries and companies generally available from the companies' financial and other reports, from financial and business manuals, and from other publications. Many managers—including the largest ones—also supplement their own staffs' analyses of particular industries and companies with those of analysts employed by brokerage houses and considered by the managers to be particularly knowledgeable in certain areas.[11] In

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[6] See p. 40 supra.

[7] For example, a fund that limits itself to insurance and bank stocks may take account of the relative prospects of the life, fire, and casualty segments of the insurance industry, of banks in different sections of the country, and of "wholesale" banks, i.e., those which deal primarily with relatively small numbers of substantial customers and with other banks as against "retail" banks which provide a broad range of financial services to a mass clientele.

[8] Varying investment objectives influence the choice made. Thus fund managers may choose different stocks for an income-oriented fund than for a growth-oriented fund. Liberal yield would be an important criterion for the income fund but a matter of little or no consequence for the growth fund.

[9] For example, the managers of the largest fund complex assigned one of their analysts to the following industries: Aircraft manufacturing, construction materials and maintenance, electrical and electronics, hotel and real estate, and motion picture and television.

[10] Wharton Report 424.

[11] The supplementary investment advisory services obtained from brokerage houses are paid for by allocating to such houses a portion of the brokerage commissions generated by the funds portfolio transactions. See pp. 163-164, supra.

particular instances they also use the services of outside management, engineering and technical consultants.

Although the managers of most funds place considerable emphasis on the evaluation of basic information with respect to particular issues, many supplement this with technical evaluations of market behavior. Emphasis on this factor tends to be greatest in funds that pursue active trading nolicies and attempt to predict shcrt-run market activity in particular issues. In recent years, even funds which usually invest on a longer-term basis have placed somewhat greater emphasis on active trading.[12]

Exchange funds, on the other hand, are required by the tax considerations responsible for their existence to eschew a policy of active trading.[13] Because portfolio changes by an exchaage fund have marked tax consequences for its shareholders, its most important investment decisions are made when the fund is organized and the securities for which it will exchange its shares are selected.[14]

The depth of the markets in a particular stock may also be a significant factor in investment decisions. **A** fund that wishes to buy a substantial block of securities sometimes finds it difficult to implement its investment decision without upsetting the market.[15] Sometimes funds have to forego the purchase of a particular security because they are unable to obtain within a reasonable time an adequate quantity of the issue at an acceptable price. The depth of the market in particular issues may be important even to investment companies that are small by the standards of the investment company industry, since even their transactions, especially in relatively inactive issues, can have significant effects on the market.

2. Nonadvisory services

In addition to portfolio management, the operation of an investment company requires a variety of other management and administrative services. They include the preparation, printing and distribution of prospectuses, shareholder reports, and proxy material, the holding of directors' or trustees' and shareholders' meetings, the issuance, transfer and cancellation of share certificates, the payment of dividend and capital gain distributions, and compliance with State and Federal regulatory requirements. Although these services are not different from those generally required by all publicly owned business enterprises, mutual funds make more use of many of them because they offer and redeem their shares on a continuous basis.

Other management and administrative services required by an investment company are closely related to its business of investing in securities. These include brokerage services, safekeeping of the company's portfolio securities and other assets, receipt and delivery of securities bought and sold, receipt of dividend and interest income, proxy material and other communications from issuers of portfolio

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[12] See pp. 304–306, infra.

[13] See N. 68 at p. 42, supra.

[14] Exchange funds have appealed to persons who wished to exchange their highly appreciated securities for fund shares so as to obtain the benefits of diversification without exposing themselves to capital gains taxes. Since the tax basis of such funds' portfolio securities is generally a small fraction of their market value, portfolio changes require a judgment that a switch from one security to another is so advantageous as to justify paying the capital gains tax to which a large portion of the proceeds of the sale would be subject. Ibid.

[15] The sale of large blocks of securities through ordinary market channels may also have this effect. However, secondary and other block distribution techniques have been used to solve this problem. See pp. 161–162 and 282, infra.

securities—and in the case of mutual funds the computation, usually made once or twice daily, of offering and redemption prices for the fund's shares. Many of these services involve the use of data processing and other office equipment and clerical personnel. Some of them require the services of professionals such as lawyers and accountants.

3. Advisory organizations

Like typical business enterprises elsewhere in the economy, some investment companies, especially closed end. companies, are internally managed by officers and staffs employed directly by the companies. As noted in chapter II, however, the management function of most mutual funds is contracted out to an external investment advisory organization, the principals of which are the persons who organized and promoted the fund from its inception or the successors of such persons.[16] In such instances, the analysts and other professional personnel on whose expertise the fund relies are employees of the adviser, not of the fund. The top decision-makers to whom these persons report are typically the full-time officials of the adviser. They may be also officers of the fund, but even in that event they receive all or most of their remuneration from the adviser.

Although mutual fund advisory organizations often manage large pools of capital, even the larger ones generally employ relatively few people[17] and require relatively little capital of their own.[18] Table III–1 shows that the advisory organizations to the 10 largest investment company complexes, which had more than half of all mutual fund assets, employed a total staff of **1,784** full-time and **148** part-time personnel in **1965.** Moreover, over half of those people were in the employ of a single adviser, Investors Diversified Services, Inc. (IDS), which had 1,007 full- and part-time employees not including sales personnel. The funds managed by IDS had about **$5.2** billion in assets on June **30, 1966,** and form by far the largest of all mutual fund complexes. However, even considering the size **of** the IDS complex, the size of IDS's staff is not typical of mutual fund management organizations. It largely reflects the fact that, unlike the other advisers to the 10 largest complexes, IDS and its wholly owned subsidiaries are engaged in a number of businesses unrelated to its mutual fund activities which require extensive staffs. Most IDS employees spend most of their time in these other activities.[19]

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[16] See p. 46 infra. Of the 10 largest investment company complexes only 2—the MIT–MIGS complex and the so-called Broad Street complex—are internally managed. See pp. 102–108, infra.

[17] The Whartou Report found that of 82 investment advisers, largely or primarily engaged in advising mutual funds at the end of 1960, 54 had fewer than 10 employees and only 4 had 100 or more employees. In no instance did the number of employees exceed 600. Whartou Report 444.

[18] The Wharton Report found that 51 of the advisers referred to in the preceding footnote had a net worth of less than $100 000, and that only 11 of them had a net worth of $500,000 or more. Whartou Report 447. When a mutud fund adviser's net worth is substantial—as it now is in some instances—such net worth is often attributable to retained earnings derived from a profitable advisory relationship and/or the needs of the adviser's nonfund activities such as the operation of a life insurance company.

[19] Like some of the other advisory organizations, IDS has a life insurance company subsidiary, but it also is engaged in railway equipment financing, an extensive real estate mortgage business and the face-amount certificate business. Since 1941 this latter phase of IDS's activities has been carried on by its wholly owned subsidiary, Investors Syndicate of America, Inc. (June 30, 1966, assets approximately $824 million). However, a number of pre-1941 certificates issued by IDS itself are still outstanding. IDS is registered under the Act as a face-amount certificate company. See pp. 37-38, supra.

TABLE III-1.—*Personnel* [a] *employed by the investment advisory organizations of the 10 largest investment company complexes as of Dec. 31, 1966*

Investment adviser	Number of funds managed [b]	Aggregate net asset managed [b]	Personnel: Executive statistical, economic, and research — Full time	Executive statistical, economic, and research — Part time	Other — Full time	Other — Part time	Total — Full time	Total — Part time
		Millions						
1. Investors Diversified Services, Inc. [d]	[c] 4	[c] $5,172.5	148	0	842	17	990	17
2. Internal Management (MIT-MIGS)	2	3,019.9	46	0	11	2	57	2
3. Fidelity Management and Research Co	12	2,678.3	58	0	77	7	135	7
4. Waddell & Reed, Inc. [e]	4	2,228.3	23	0	130	0	153	0
5. Wellington Management Co. [d]	3	2,050.4	30	0	46	0	76	0
6. Investors Management Co., Inc	4	1,581.1	22	0	14	78	36	78
7. Internal Management (Union Service Corp.) [f]	4	1,439.9	36	11	40	29	76	40
8. Lord Abbett & Co. [d]	2	1,282.3	19	0	69	0	88	0
9. Keystone Custodian Funds, Inc. [g]	13	1,194.4	49	0	46	0	95	0
10. The Putnam Management Co., Inc	4	1,193.3	11	0	67	4	78	4

[a] Excluding officers, directors, partners, and proprietors.
[b] As of June 30 1966.
[c] Does not include the adviser itself or its wholly owned face-amount certificate company, Investors Syndicate of America.
[d] Personnel as of Nov. 30, 1965.
[e] Does not include United Funds-Canada International, Ltd., which is managed by a separate staff employed by North American International, Ltd., a subsidiary of Waddell & Reed, Inc.
[f] Includes Tri-Continental Corp., a closed-end company, whose gross assets are included.
[g] Personnel as of Oct. 31, 1965.

Apart from IDS, the advisory organizations to the nine other complexes managed assets of approximately $16.3 billion with a total force of 925 full- and part-time employees or an average of one employee for each $18 million of assets managed. Of these organizations, Waddell and Reed, Inc. with 153 employees had the largest staff. The employees of the other eight advisory organizations ranged in number from 59 for the joint internal management staff of Massachusetts Investors Trust and Massachusetts Investors Growth Stock Fund, Inc. to 142 for Fidelity Management and Research Co.

Most employees of the ten largest advisory organizations were not classified as executive, statistical, economic, or research personnel. For example, 148 of IDS's 1,007 employees were so classified. The other nine organizations managed assets ranging from $1.2 billion to $3.0 billion with executive, statistical, economic, and research staffs ranging from 11 to 58 persons.

B. CONTRACTUAL ARRANGEMENTS

1. *Advisory contracts*

The Act prohibits any person from serving as an investment adviser to a registered investment company except pursuant to a written contract.[20] It also requires that the contract "precisely describe the compensation to be paid thereunder." [21] The Act does not, however, specify or set express limitations on the type of fee arrangements that may be contained in advisory contracts.[22]

Despite the wide latitude given by the Act, the overwhelming majority of advisory contracts in the mutual fund industry provide for the payment of advisory fees solely on the basis of the market value of the funds' average net assets.[23] The traditional formula has been a flat annnal rate of **0.50** percent of the fund's average net assets.[24] Since the publication of the Wharton Report in 1962, there has been a tendency, especially among the larger funds, to substitute scaled-down fee schedules for the traditional flat rate. Most such schedules still apply the standard 0.50 percent rate up to a breakpoint, which varies from $100 million to $500 million of net assets, and apply somewhat lower rates to any portion of the fund's assets in excess of that figure.[25]

The practice of calculating the advisory fee on a fixed percentage of the assets managed, whether or not the fee rate is scaled-down at higher asset levels, serves as a direct incentive for the investment adviser to devote its efforts to promoting the sale of the fund's shares. Since the advisory fee is based on the current market value of the fund's assets rather than on their cost, it also provides an incentive for increasing the value of the fund's portfolio through effective performance of the advisory function.

A few funds pay advisory fees on a basis related to or influenced by factors other than the market value of the funds' assets. For example, Insurance Securities Trust Fund, the ninth largest fund with net assets of $1.1 billion on June **30,** 1966, pays its adviser, Insurance Securities, Inc., a combined investment management, administrative, and trusteeship fee ("MAT fee") of 0.50 percent of the aggregate amount that the shareholders have paid or agreed to pay into the fund.[26] Thus, the fee is determined almost entirely by the success of

[20] Sec. 15(a).

[21] Sec. 15(a)(1). If an advisory contract continues in effect for a period of more than 2 years from the date of its execution, such continuance must he approved at least annually by the shareholders or by the directors, including a majority of those who are not parties to the contract **or** affiliated persons of any party. Secs. 15(a)(2) and 15(c). Advisory contracts must also provide that they may be terminated at any time, without the payment of any penalty, by the company on 60 days' written notice to the adviser (sec. 15(a)(3)), and that an assignment of the contract **by** the adviser results in its automatic termination (sec. 15(a)(4)).

[22] The Advisers Act prohibits contracts between advisers registered under that statute and their clients that provide for compensation "on the basis of a share of capital gains or capital appreciation of the funds or any portion of the **funds** of the client." Advisers Act, sec. 205(1). However, investment advisers whose only clients are mvestment companies or who have less than 15 clients and do not hold themselves out to the public generally as investment advisers are presently exempt from registration under the Advisers Act by reason of secs. 203(b)(2) and 203(b)(3) of that statute.

[23] The Wharton Report found that in 1960 all but 5 of the 163 advisers surveyed were compensated on this basis. Wharton Report 479–480. The 163 advisers managed 232 funds with total assets of $15.6 billion as **of** yearend 1960. Wharton Report **27.** During 1965.55 of the 57 externally managed funds with net assets in excess of $100 million as of June 30, 1965, paid advisory fees on this basis. The contracts usually provide that the fee is to be calculated on the average daily value of the fund's net assets. **In** some cases, however, month-end **or** quarter-end market values are averaged for purposes of computing the fee. In a few instances the fee is based on gross rather than net assets.

[24] See Wharton Report 28–29, 482–485.

[25] See pp. 97–102, infra.

[26] Insurance Securities Trust **Fund** is a trust which issues a type **of** security called a "participating agreement." These participating agreements are sold to investors on either a lump-sum basis (the "single Payment plan") or a periodic payment basis (the "accumnlative plan"). Both plans mature in 10 years. The MAT fee paid bv investors in the fund covers all operating expenses of the fnnd. It is equal to **5** percent ***of*** the aggregate payments to be made under a particular agreement. The MAT fee is deducted from mcome, or if no income is available from corpus, at the rate of 0.50 percent per annum. Since the accumulative plan is sold extensively it is significant that the base on which the MAT fee is calculated includes amounts "agreed to **be** invested': in addition to amounts actually invested. The fee, however, mag not exceed one-twelfth of **1** percent per mouth of net payments invested in the fund. This fee limitation stays in effect until 55 percent of the agreed payments on an accumulative plan have been made.

the fund's selling efforts.[27] Neither capital gains, capital losses, income, nor any other factor that might be considered a measure of investment performance enters into the determination of the fee.[28]

Some funds have advisory contracts which specifically relate the advisory fee to the fund's investment performance. In most of these instances, the adviser's fee is based on a percentage of both investment income and net capital gains.[29] In a few instances it is based entirely on investment income.[30] Performance-based fee arrangements, like those based on a percentage of assets, provide strong incentives for increasing fund size through sales of shares. The larger the size of the assets managed, the greater the potential for increasing the dollar amount of the fund's income and capital gains and hence the amount of the advisory fee.

2. Services paid for by the advisory fee

Since most mutual funds have no staffs of their own, the nonadvisory services they require are performed in varying degrees by their investment advisers and principal underwriters, corporate trust departments of banks, and broker-dealers. Most funds receive some of these services from their investment advisers in return for the advisory fee. The Wharton Report noted, however, that the extent of nonadvisory services provided by investment advisers and paid for by the basic advisory fee varied widely in 1960.[31]

That variation still exists. In some cases, advisory fees cover all normal operating expenses of the funds, except taxes and expenses for services provided by their principal underwriters.[32] In others, the advisory fee pays only for investment management; the fund pays an additional fee to its investment adviser, principal underwriter or to another organization designated as its "trustee" or "business manager" for nonadvisory services or obtains them directly from banks, brokerdealers, attorneys, accountants, and printers.

Table III-2 shows the extent to which various nonadvisory services and expenses were performed or absorbed in 1964 by the investment advisers to 100 funds in return for the advisory fee. Advisers to 89 of the 100 funds paid the salaries and other Compensation of the funds' executive officers. As officers of the funds, these persons perform or supervise the performance of various nonadvisory management and administrative services. In most instances these same persons perform similar functions for other funds under the adviser's management. Moreover, they are officers or employees of the adviser-

[27] Since both plans for the purchase of the funds shares mature and terminate in 10 years, the investor who wishes to maintain his investment in the fund for more than 10 years must enter into a new participating agreement. Not only is a full sales load charged on the full amount of the reinvestment, but the MAT fee also is calculated on this basis. Thus, any appreciation in the original investment will be reflected in both the amount of the sales load and the MAT fee upon reinvestment.

[28] In rising markets, the Insurance Securities Trust Fund arrangement results in lower fees and in declining markets it results in higher fees to the adviser than would be the case if the fees were computed on the conventional percentage-of-assets basis.

[29] For example, the advisory contract of Oppenheimer Fund, Inc. (June 30, 1966, net assets approximately $75 million) provides for an annual fee consisting of: (1) 10 percent of the amount by which the fund's net realized capital gains, if any, exceed its net unrealized capital losses, if any; plus (2) 10 percent of its dividend and interest income during the year. The advisory contract of Ivest Fund, Inc. (June 30, 1966, net assets approximately $34 million) illustrates another type of performance-based fee arrangement. That contract provides for a basic annual fee of 0.375 percent of average net assets plus additional percentages, which may amount to as much as 0.25 percent of net assets, based on comparisons between the fund's performance during the year and that of the Dow-Jones Industrial Stock Average.

[30] Such instances are quite infrequent. In 1960 only 5 of 174 investment companies were paying advisors fees based on their income. Wharton Report 480. In 1985 only one of the 57 externally managed funds in the $100 million or over class—Putnam Income Fund, Inc.—computed its advisory fee on this basis.

[31] Wharton Report 476-479.

[32] Brokerage commissions also are not paid for by advisory fees. They are not regarded as operating expenses but as capital expenditures which are reflected in the measurement of gains and losses on portfolio securities.

underwriter and also may devote a substantial portion of their time to investment advisory and sales activities on behalf of the adviser-underwriter. Allocations of the compensation that such persons receive from the adviser-underwriter between the various activities they perform for the adviser-underwriter and for the funds are not generally available.

Advisers to 87 of the 100 funds covered by table III-2 paid occupancy and office rental expenses for the funds, and 85 funds also received clerical and bookkeeping services from their adviser. In addition, 66 of the funds received accounting services from their advisers, while in 62 cases advisers paid for stationery, supplies, and printing.[33]

TABLE III-2.—*Nonadvisory expenses covered by the advisory fees of 100 mutual funds* [a]

Expense [b]	Number of funds		
	Expense fully covered	Expense partially covered	Expense not covered
1. Salaries and compensation of officers	88	1	11
2. Occupancy and office rental	85	2	13
3. Clerical and bookkeeping	81	4	15
4. Determination of offering and redemption prices	71	1	28
5. Accounting services	65	1	34
6. Stationery, supplies, and printing	54	8	38
7. Registration and filing fees	40	4	56
8. Salaries and compensation of directors [c]	32	0	68
9. Legal fees	25	4	71
10. Reports to shareholders	25	2	73
11. Auditing services	16	2	82
12. Stock transfer and dividend disbursing fee	10	2	88
13. Custodian fee	4	2	94

[a] Selected, after eliminating funds with the same adviser, from externally managed mutual funds that filed annual reports with the Commission prior to Jan. 1, 1966, on form N-1R adopted on Jan. 25, 1965. See Investment Company Act Release No. 4151 (Jan. 25, 1965).
[b] Excludes expenses which were not covered by the basic advisory fee.
[c] Includes only directors who are unaffiliated with the adviser or principal underwriter.

The advisers to a large majority of the funds—72 out of 100—furnished them with services required in connection with the determination of the offering. and redemption prices of the funds' shares. These services mainly involve calculations of the fund's per share net asset value based on current market prices of its portfolio securities and the number of fund shares outstanding. Usually the information as to current market prices is obtained by the adviser from a broker-dealer and paid for with brokerage commissions generated by the fund's portfolio transactions.

Almost all mutual funds use banks as custodians, and banks frequently serve also as the funds' stock transfer and dividend disbursing agents. Pees €or stock transfer, dividend disbursing, and custodial services are by far the most substantial nonadvisory expenses incurred in the operation of a mutual fund.[34] Advisers seldom assume these

[33] Table III-2 indicates that a majority of the advisers furnish the funds with clerical bookkeeping and accounting services and stationery, supplies, and printing. However these items do 'not include tde extensive clerical, bookkeeping and accounting services and the substantial expenses for stationery, supplies and printing incident to the furnishing of reports to shareholders and to stock transfer, dividend disbursing, and custodial services.

[34] For example, among: the 20 largest externally managed funds, the amounts spent for these services in 1964 by those funds that paid for them separately from the advisory fee ranged from $101,936 in the case of Chemical Fund, Inc., to $828,154 in the case of Wellington Fund, Inc.

expenses. Only 12 of the 100 funds covered in table III–2 received stock transfer and dividend disbursing services from their advisers in return for the basic management fee. In only six instances did the fee pay for custodial services.

The advisory fees paid by a majority of funds covered in table III–2 also did not encompass securities registration and filing fees,[35] salaries and compensation of directors, legal and auditing services, and the costs of reports to shareholders.[36]

The advisory fees of a few of the larger funds pay for all their normal operating expenses, except taxes and those expenses assumed by the adviser-underwriter pursuant to its underwriting agreement with the funds.[37] These funds include the three largest of the five managed by Investors Diversified Services, Inc. and the four funds comprising United Funds, Inc., managed by Waddell & Reed, Inc. The MAT fee paid by Insurance Securities Trust Fund to its adviser, Insurance Securities, Inc., also covers all normal operating expenses of the fund. The adviser's assumption of all normal operating expenses in the case of the IDS funds and in that of the United Funds reflects changes made in those funds' advisory contracts since 1962.

3. *Administrative fees*

In addition to the advisory fee, some mutual funds pay an administrative fee based on a percentage of average net assets to their investment adviser, principal underwriter, or trustee for all or part of the nonadvisory management and administrative services required by them. In these instances, the advisory fee pays only for services incident to the investment advisory function, while the administrative fee covers the nonadvisory services performed or paid for by the adviser, principal underwriter, or trustee.

An example of this type of arrangement is the fees paid by the nine Keystone Custodian Funds, which are organized as trusts. Keystone Custodian Funds, Inc., is named as trustee of the funds under the trust agreements. It furnishes investment management services to the funds and provides them with or assumes the expenses of all the nonadvisory services required by them.[38] For its investment management services, the trustee charges an annual fee of **0.50** percent on the first $150 million of the combined asset value of the nine funds and scaled-down fee rates on the balance. For the nonadvisory services and expenses, the trustee charges a "recurring fee" at the annual rate of 0.25 percent on the first **$500** million of the combined asset value of the funds and at scaled-down rates on the excess.[39] On June **30,** 1966, the Keystone Custodian Funds, which

[35] In some cases, registration and filing fees are assumed by principal underwriters.

[36] The amounts spent by those of the 20 largest externally managed funds that paid remuneration to their unaffiliated directors separately from the advisory fee ranged in 1964 from $2,500 for The Dreyfus Fund, Inc. to $47,500 for Chemical Fund, Inc. Nor do legal and auditing fees represent substantial expenses. The largest amount paid in 1964 by those of the 20 funds that bore such fees directly was $77,853 in the case of Fundamental Investors, Inc. The 1964 expenses borne by the 20 funds in connection with printing of shareholder reports were more substantial, ranging from $35,871 for Chemical Fund, Inc. to $169,752 (including postage and stationery) for United Accumulative Fund.

[37] Some of these funds are included in the sample of 100 funds covered by table III-2.

[38] The Act specifically excludes a "bona fide trustee" from its definition of an investment adviser Sec. 2(a)(19)(A). However, since the functions of Keystone Custodian Funds, Inc. with respect to the 9 funds organized as trusts include those of an investment adviser, it is considered as such for purposes of this report. Keystone Custodian Funds, Inc. also serves as investment adviser, and is considered as such within the Act's technical definition, to Keystone International Fund, Inc., Investors Capital Exchange Fund, Inc., and Constitution Exchange Fund, Inc., which are corporations. The Keystone Company of Boston, a wholly owned subsidiary of Keystone Custodian Funds, Inc., is principal underwriter to all the Keystone funds except the two exchange funds.

[39] One of the 9 funds—Keystone Custodian Fund Series B–1, whose portfolio consists entirely of investment grade bonds—pays advisory and recurring fees at one-half the rate charged the other funds.

then numbered ten,[40] had combined assets of $1.1 billion. The investment management fee rate charged 9 of the 10 funds during their fiscal years ended July 1, 1965, to June 30, 1966, amounted to approximately 0.37 percent of average net assets. The recurring fee amounted to about 0.21 percent of average net assets and the ratio of operating expenses to average net assets ("expense ratio") amounted to about 0.58 percent.[41]

Similar fee arrangements are provided for in the trust agreement governing the organization and operation of the seven funds which comprise the National Securities Series. The seven funds are registered under the Act as a single investment company issuing seven different series of stock, each representing an interest in a separate portfolio of securities. The investment company is a trust of which Empire Trust Co., a large New York City bank, is the trustee. Empire's duties under the trust agreement include services as custodian, and stock transfer and dividend disbursing agent for the seven funds. National Securities Research Corp., a separate company, which is not otherwise affiliated with the trustee, is designated in the trust agreement as sponsor, investment adviser and principal underwriter for the seven funds. For its services as investment adviser, National Securities Research Corp. receives an annual fee of 0.50 percent of the funds' average net assets. For its services as trustee, custodian, and stock transfer and dividend disbursing agent, Empire Trust Co. receives a separate fee, which is set at 0.25 percent of the first $60 million of the funds' combined yearly net assets and at scaled-down rates for higher asset levels.

Unlike the recurring fees paid by the Keystone Custodian Funds, the trustee's fees do not cover all the operating expenses of the National Securities Series funds. During their fiscal years ended April 30, 1966, the additional expenses incurred by the funds included costs of printing, postage, and auditing fees. As of June 30, 1966, the seven funds had combined net assets of $683.2 million. Expense ratios for fiscal 1966 ranged from 0.69 to 0.74 percent of each fund's average net assets. Advisory fees represented 0.50 percent, trustee's fees represented 0.12 percent, and the balance represented other expenses incurred separately by the individual funds.[42]

Axe Houghton Fund B, Inc. is an example of a fund which pays an administrative fee to its principal underwriter. E. W. Axe & Co., Inc. acts as investment adviser to the fund and receives an annual fee of 0.50 percent on the first $100 million of average daily net assets and a scaled-down fee rate on the balance. In addition, the fund pays the principal underwriter, Axe Securities Corp., which is closely affiliated with the investment adviser, a "continuing fee" at the annual rate of 0.20 percent on the first $50 million of average daily net assets and at scaled-down rates on the balance. The principal underwriter acts as the distributor of the fund's shares and provides the fund with certain administrative services.[43] The fund, however,

[40] On Aug. 1, 1966, Keystone Custodian Fund Series B-3 was merged into the Series B-4 fund.

[41] Since not all of the 10 funds have the same fiscal year, there is some difference in the annual rates. However, the fees are calculated daily and allocated to each fund at the same rate.

[42] In connection with the settlement of stockholder snits against the investment adviser and trustee, a new fee schedule has been approved for the seven funds. As recently approved by shareholders, the advisory fee is now computed according to scaled-down rates based on the combined net asset value of the seven funds. The trustee's fee also has been reduced. See table III-11 at p. 154, infra.

[43] The fund's current prospectus states that the principal underwriter pays "all costs connected with quoting prices of the Fund's shares in newspapers, printing and distributing statistical information and other special material and maintaining the qualification of the shares for sales under applicable Federal laws and regulations and under state blue sky laws."

bears a variety of other expenses, including salaries, custodial fees, stock transfer and dividend disbursing fees, legal and auditing fees, and taxes. As of June 30, 1966, the fund had net assets of $258.9 million. Its expense ratio for its fiscal year 1965 was 0.71 percent. Its continuing fee amounted to 0.13 percent of average net assets, while the combined fees paid to its adviser-underwriter amounted to 0.56 percent of average net assets during that year.

Washington Mutual Investors Fund, Inc. (June 30, 1966, approximate net assets $181.6 million) illustrates another type of administrative fee arrangement. Capital Research & Management Co., its investment adviser, provides the fund with investment management services and maintains its accounting records.[44] A corporation wholly owned by the partners of Johnston, Lemon & Co., a Washington, D.C., brokerage firm, serves as the fund's "business manager." Partners of the brokerage firm are fund directors, and the business manager furnishes the fund with executive personnel, office space, stenographic facilities and related services. For these services the fund pays its investment adviser and its business manager an aggregate annual fee of 0.50 percent on the first $125 million of net assets and 0.45 percent on the balance. Each receives one-half of the aggregate fee.[45] In addition to this fee, the fund bears other expenses, including stock transfer, custodial, legal and auditing fees and the cost of shareholder reports. In its fiscal year ending April 30, 1966, its expense ratio was 0.68 percent.

C. THE COST OF MANAGEMENT

1. *The economies of size*

The cost of providing investment advice to mutual funds depends on a variety of factors, including the techniques utilized in the advisory process and the extent to which the adviser relies upon outside sources rather than its own staff for the collection and analysis of the information necessary for its investment decisions. It is generally recognized, however, that increases in the assets of a fund do not lead to a commensurate increase in the cost of furnishing it with investment advice and other managerial services. As Mr. Merrill Griswold, then chairman of the board of trustees of the internally managed MIT,[46] testified in the Senate hearings leading to passage of the Act:

> It is now almost axiomatic in the trust business that operating costs decline proportionately as the size of a trust increases.
>
> * * * * *
>
> * * * [whether a company is a $1-million company, a $10-million company, or a $100-million company, it has to maintain an office, pay rent, pay for long-distance telephone calls, retain experts, clerks, stenographers, all the numerous expenses that go with it; and those expenses do not go up proportionately. We maintain what we consider to be a very good research department. We have a number of men who receive good salaries, and a large staff. If our trust were

[44] Capital Research & Management Co. also manages two other mutual funds—the Investment Co. of America and American Mutual Fund, Inc., with aggregate net assets of $870 million as of June 30, 1966.

[45] The business manager pays a portion of its fee to Capital Research & Management Co. for maintenance of the fund's accounting records. In fiscal 1966 this amounted to $45,485 of its $382,623 fee.

[46] In 1940 MIT was the largest mutual fund with net assets of approximately $121 million.

> half as large, if we were to do the same kind of an investment job, we could not fire one single one of those people.
>
> * * * * *
>
> It is our belief that further growth in the assets of Massachusetts Investors Trust would bring about still further reduction in proportionate costs of operation, with resulting benefit to all shareholders.[47]

The economies of size, in large measure, reflect the fact. that the management of both large and small security portfolios requires much the same general economic and market forecasting, analyses of various industry groups and evaluations of particular securities. Increases in fund size are not necessarily followed by increases in the number of portfolio securities, since even a relatively small fund may be large enough to attain adequate diversification of investment risk. Indeed, in recent years there has been a tendency among many larger funds to decrease rather than increase the number of common stock holdings in their portfolios despite substantial growth through sales of fund shares.[48]

The Wharton Report's examination of the operating ratios[49] of mutual fund advisory organizations for fiscal years ended during the latter months of **1960** and the earlier months of **1961** showed that these economies of size were very pronounced. Among the advisers surveyed which managed only investment company assets, operating ratios tended to be much higher for advisers managing smaller amounts of assets than for those advising larger amounts.[50]

The financial history of some of the larger mutual fund advisory organizations supports the Wharton Report's views with respect to the significance of the economies of size.[51] For example, the mutual fund advisory fee revenues of IDS, the largest advisory organization, increased from **$4.9** million in **1955** to **$15.7** million in **1962,** the year before it reduced its advisory fee rates.[52] While its advisory fees during the same period thus increased by **$10.8** million, its operating expenses allocable to these revenues increased by only **$2.3** million. **Its** operating ratio declined from 50 percent in **1955** to **30** percent in **1962.**

Even more substantial economies of size were experienced by The Dreyfus Corp. for the period **1961** through the first **9** months of **1965.** The Dreyfus Corp. is investment adviser to The Dreyfus Fund, which grew from net assets of **$171** million at year end **1960** to **$1.1** billion at September **30, 1965.** The advisory fees received by The Dreyfus Corp. almost tripled, increasing from about **$1.2** million in

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47 Senate Hearings 498.

48 See pp. 294–298.

49 The Wharton Report defined operating ratio as total operating expenses as apercent of totalincome. Wharton Report 503.

50 Wharton Report 503.

51 Pertinent data are limited. As has been noted, mutual fund advisory organizations frequently Serve as prmcipal underwriters for the funds under their management, and some engage in substantial nonfund activities. (See p. 88, supra.) At present they are not required to and generally do not publish earnings statements allocating their expenses incident to the fund advisory function. Such information for a small number of advisers is contained in various proxy statements filed with the Commission by funds under their management. In addition, Insurance Securities Trust Fund regularly includes allocated earnings Statements of its Investment adviser, Insurance Securities, Inc., in annual reports filed with the Commission, and such information for 1960 through the first 9 months of 1965 was contained in the Securities Act registration statement of The Dreyfus Corp., adviser to The Dreyfus Fund, in connection with a public offering of the adviser's stock. For further discussion of available data concerning operating ratios of mutual fund advlsory organizations, see pp. 121–125, infra.

52 For the effect on IDS's operating ratios of changes in advisory contracts with the funds under its management, see p. 125, infra.

1961 to $3.4 million in 1964. During the same period operating expenses allocable to the advisory fees rose at a much slower rate. Those expenses increased from $469,000 in 1961 to $846,000 in 1964. Thus, the operating ratio of The Dreyfus Corp. declined from 39 percent in 1961 to 25 percent in 1964. For the first 9 months of 1965, its operating ratio declined further to 21 percent.

The economies of size reflected in the mutual fund management operations of IDS, adviser to the largest fund complex, and of The Dreyfus Corp., adviser to one of the fastest growing funds, are not necessarily representative of other large advisory organizations. However, six of the eight other large advisers for which data are available over a period of years reflected economies of size in their fund advisory operations.[53] In most cases, the decline during the period in operating costs per dollar of assets managed was significant.[54]

2. 1960 advisory fees—The findings of the Wharton Report

Although the Wharton Report found substantial economies of size in the management of mutual funds, it concluded that in most instances these economies had not been reflected in the advisory fees that the funds paid in 1960. In approximately four out of every five cases mutual fund advisory fee rates were fixed and did not vary with the size of the assets managed.[55] The annual fees "tended to cluster heavily about the traditional annual rate of 0.50 percent of average net assets." [56] More than 72 percent of the advisers charged that rate or more in 1960.[57] The advisers to three of the five largest fund complexes charged the funds in those complexes advisory fees that were close to or at the 0.50 percent rate.[58]

The Wharton Report found that many mutual fund advisers adhered to the traditional 0.50 percent rate despite substantial increases in the size of the fund assets under their management during the 1950's. Of the 25 companies with net assets of more than $50 million that paid the same 0.50 percent fee rate in 1958 as in 1952, 17 had asset increases of 100 percent or more and 6 had increased their assets by 500 percent or more during this period.[59] The Report further indicated that investment advisers serving both mutual fund and other clients. had scaled down the fee rates charged for the management of large portfolios of their nonfund clients without doing so for their much larger fund clients.[60]

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53 The six advisory organizations are: Investors Management Co., Insurance Securities, Inc., the Putnam Management Co., Supervised Investors Services, Inc., Waddell & Reed, Inc., and the Wellington Management Co.

54 One other adviser for which data are available—the Parker Corp., formerly adviser to Incorporated Investors Fund and Incorporated Income Fund—experienced a decrease in advisory fee revenues for 1961–63 and its operating ratio increased from 62.8 to 70.5 percent during this period. The data on an eighth adviser, E. W. Axe & Co., Inc., which did a large nonfund advisory business, showed no pattern of economies of size.

55 Wharton Report 480.

56 Wharton Report 28.

57 Wharton Report 482.

58 Wharton Report 490.

59 Wharton Report 490.

60 Wharton Report 489.

The Report noted that the failure of mutual fund advisory fees to reflect the economies of size in 1960 had caused fund fee rates to be substantially higher at comparable asset levels than the fee rates that fund advisers had charged the aggregate of their nonfund clients. In only 4 of the 17 instances where the aggregate assets of mutual funds exceeded those managed for other clients was the rate charged the funds lower than that charged the aggregate of nonfund clients.[61]

The Wharton Report also found that the advisory fee rates paid to external advisers tended to be substantially higher than the rates for comparable management services paid by funds which did not have investment advisers; i.e., the internally managed funds. In 1960 management costs of less than 0.50 percent of average net assets were incurred by each of the seven internally managed funds having net assets of $50 million or more. Five out of the seven funds incurred management costs amounting to less than 0.30 percent of their average net assets. In contrast, 26 of 40 externally managed funds with assets over $50 million paid advisory fees in 1960 of 0.50 percent or more of average net assets. Only three paid fees at rates below 0.30 percent.[62]

3. Advisory-fee rates since 1960

(a) 1965 advisory fee rates

The Wharton Report's finding that annual advisory fee rates in 1960 tended to cluster around 0.50 percent of average net assets was less true—but not uncommon—in the mutual fund industry during 1965. Most externally managed funds, including some of the larger ones, paid that rate or more on all of their net assets. All but a few of these funds paid that rate on a substantial portion of their net assets.

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[61] Wharton Report 489. Moreover, in one of these cases the adviser had only one nonfund client; in another case, the adviser was under common ownership with the principal underwriter of the fund, which received a sponsor's fee of 1 percent of net assets. If both fees were added together, the mutual fund fee rate would have exceeded the fee rates charged other clients.

[62] Wharton Report 485.

TABLE III-3.—*Advisory fee rates and expense ratios of externally managed mutual funds with June 30, 1965 net assets of $100 million and over for their fiscal years ended July 1, 1965–June 30, 1966*

Name of fund	Net assets as of June 30, 1965 (millions)	Total expenses (thousands)	Advisory fee (thousands)*	Expense ratio (percent)	Advisory fee rate (percent) [b]
1. Investors Mutual, Inc	$2,793.0	10,438.1	$10,438.1	0.38	0.38
2. Wellington Fund, Inc	1,934.5	7,512.6	4,923.9	.38	.26
3. Investors Stock Fund, Inc	1,546.0	6,698.4	6,698.4	.43	.43
4. Insurance Securities Trust Fund	1,227.7	6,066.7	[c] 6,066.7	.47	[c] .47
5. Affiliated Fund, Inc	1,134.1	3,985.7	2,829.5	.34	.24
6. United Accumulative Fund	1,040.1	5,106.3	4,633.0	.46	.42
7. Fundamental Investors, Inc	940.[illegible]	5,337.4	4,310.8	.52	.42
8. The Dreyfus Fund, Inc	937.5	6,227.3	5,109.0	.60	.5a
9. United Income Fund	603.5	3,015.2	2,719.2	.47	.42
10. Fidelity Fund, Inc	536.4	2,909.2	2,318.6	.50	.40
11. Hamilton Funds, Inc	407.1	2,666.0	2,066.1	.67	.50
12. Investment Company of America	404.[illegible]	2,472.3	1,511.5	.67	.35
13. Television-Electronics Fund, Inc	388.7	2,550.9	1,807.1	.62	.44
14. Investors Variable Payment Fund, Inc	383.4	1,969.6	1,969.6	.49	.49
15. Boston Fund, Inc	363.1	1,985.8	1,688.4	.54	.46
16. Dividend Shares, Inc	361.9	1,775.4	1,138.6	.44	.28
17. Chemical Fund, Inc	360.5	1,788.2	1,160.6	.46	.30
18. The George Putnam Fund of Boston	360.5	1,664.5	1,346.9	.44	.36
19. Puritan Fund, Inc	347.0	1,621.5	1,227.6	.53	.40
20. Fidelity Trend Fund, Inc	301.[illegible]	2,295.1	1,690.6	.63	.46
21. National Securities Series—Stock Series	294.6	2,230.4	1,616.2	.69	.50
22. Financial Industrial Fund, Inc	294.5	2,023.7	1,512.0	.67	.50
23. American Mutual Fund, Inc	285.1	1,819.3	1,317.3	.62	.45
24. The Putnam Growth Fund	283.3	1,826.8	1,315.4	.61	.44
25. State Street Investment Corp	270.8	1,523.7	1,343.8	.52	.46
26. Putnam Investors Fund, Inc	251.8	1,496.8	1,094.4	.56	.41
27. Group Securities, Inc.—Common Stock Fund	240.0	1,780.6	1,235.9	.71	.49
28. United Science Fund	230.4	1,236.2	1,114.3	.49	.44
29. Axe-Houghton Fund, B, Inc	228.2	1,679.2	1,335.7	.71	[d] .56
30. Keystone Custodian Funds, Inc. Series S-4	226.7	1,648.4	[e] 1,648.4	.56	[e] .56
31. Fidelity Capital Fund, Inc	225.7	1,655.2	1,248.5	.64	.48
32. The One William Street Fund, Inc	225.5	1,220.8	783.1	.51	.33
33. Eaton & Howard Stock Fund	225.1	1,356.8	1,160.3	.58	.50
34. Eaton & Howard Balanced Fund	224.1	1,280.0	1,118.9	.55	.50
35. Delaware Fund, Inc	197.1	1,550.9	1,099.9	.70	.50
36. Commonwealth Investment Co	174.9	1,083.2	886.4	.59	.48
37. The Putnam Income Fund	165.8	687.0	154.1	.41	.27
38. The Colonial Fund, Inc	161.0	898.6	733.4	.60	.49
39. Selected American Shares, Inc	148.2	986.2	895.3	.61	.50
40. T. Rowe Price Growth Stock Fund, Inc	146.8	940.8	676.7	.60	.43
41. National Securities Series—Growth Stock Series	144.9	1,132.6	820.7	.69	.50
42. Channing Growth Fund, Inc	143.2	1,078.8	712.0	.75	.50
43. Diversified Investment Fund, Inc	143.0	980.0	714.2	.66	.48
44. Federal Street Fund	134.0	775.4	719.7	.53	.50
45. Keystone Custodian Funds, Inc. Series K-2	134.0	827.7	[e] 827.7	.58	[e] .58
46. Massachusetts Life Fund	130.7	723.6	657.1	.54	.50
47. Keystone Custodian Funds, Inc. Series S-2	128.0	780.6	[e] 780.6	.59	[e] .59
48. Loomis-Sayles Mutual Fund, Inc	126.5	785.4	610.8	.61	.48
49. Washington Mutual Investors Fund, Inc	123.7	1,076.9	[f] 765.2	.68	[f] .48
50. Scudder, Stevens & Clark Balanced Fund, Inc	118.5	719.2	613.3	.59	.50
51. Keystone Custodian Funds, Inc. Series K-1	117.7	726.7	[e] 726.7	.57	[e] .57
52. Capital Shares, Inc	117.1	1,313.2	935.8	1.04	.74
53. Diversified Growth Stock Fund, Inc	114.8	927.7	628.8	.71	.48
54. Keystone Custodian Funds, Inc. Series S-3	109.3	653.5	[e] 653.5	.58	[e] .58
55. Life Insurance Investors, Inc	108.6	689.8	350.1	.58	.30
56. Bullock Fund, Ltd	105.3	455.4	273.5	.38	.23
57. Stein Roe & Farnham Balanced Fund, Inc	102.5	594.9	528.6	.55	.49
Mean				.57	.45
Median				.57	.48

[a] As noted at pp. 90–92 supra., the nonadvisory expenses covered by the advisory fee vary among the funds.

[b] The advisory fee rate is the advisory fee as a percentage of average net assets. The fee rates used are those given in the prospectus. In those cases where the rate was not given it has in most instances been calculated pursuant to the following formula:

$$\text{Advisory fee rate} = \frac{\text{advisory fee}}{\text{average net assets}}$$

Average net assets have been calculated pursuant to the following formula:

$$\text{Average net assets} = \frac{\text{operating expenses}}{\text{operating expense ratio}}$$

[c] Includes entire MAT fee. See pp. 89–90, supra.

[d] Includes the management fee and continuing fee paid to the underwriter which is closely affiliated with the investment adviser. See pp. 93–94, supra.

[e] Includes investment management and recurring fees paid to its trustee. See pp. 92–93, supra.

[f] Includes both the fees to the fund's investment adviser and its business manager. See p. 94, supra.