new fund enables us to pool investment funds in such a manner so that the smallest participant can enjoy the benefit of diversification and the economies that larger scale investment commitments afford.

It should be reemphasized that these tax-exempt bond funds are for the investment of existing trusts being administered by trust departments, and a decision as to whether a particular trust account will be invested in whole or in part in a collective fund is entirely at the discretion of the trustees. Banks report each year on these funds to all participating beneficiaries and co-trustees, revealing the amount of each tax-exempt security held, the changes from year to year through purchase or sales, and the change in unit values. In 1962 there were 24 tax-exempt bond funds operated by trust departments and by the end of 1965 there were 104 such funds.[5] While the reports of relatively few of these funds have been available to us, those examined reveal the investment policies of the reporting trust departments and have served as the basis for some of the statements of policy herein.

2. COMPOSITION OF SECURITIES PURCHASED

No data are available to indicate the proportion of general obligation bonds held as compared with revenue bonds in all personal trusts. However, there has been a considerable increase in the relative amount of revenue bonds issued by State and local governments. In 1948 revenue or nonguaranteed State and local securities amounted to 12.4 percent of the total State and local issues outstanding.[6] By 1963 about 39 percent of outstanding issues were revenue bonds.[7] In 1965 when $7.2 billion of general obligation bonds were issued, $3.5 billion of revenue bonds were sold.[8] Since revenue bonds, therefore, have become a large proportion of total State and municipal bonds available, and in most cases have been of good quality, there has been a tendency for trust departments to add relatively to the holdings of revenue bonds. This has been so particularly because trust departments tend to buy more tax-exempt securities upon original issue than in the secondary market. The following reveals the reasoning on revenue bonds of one trust department which operates a substantial tax-exempt bond fund:

In general, our objective has been to invest the fund's assets in good quality, higher yielding tax-exempt bonds. This philosophy is reflected in our selective use of revenue-secured obligations which now comprise the fund's largest holdings, in terms of both their relative share of total assets and the size of individual issues purchased. Among the more important advantages of investment in these issues are the generally large supply of bonds available for additional purchases and a ready market in the event that sales may be desirable, the potential for capital gains due to the fact that many issues are undervalued in the early stages of a facility's development, and the often substantial yield differential from other tax-exempt issues.

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[5] "Collective Investment Funds Operated Under or in General Conformity with Regulation 9 of the Comptroller of the Currency." Compiled annually by the trust division, the American Bankers Association, New York.
[6] Roland I. Robinson, "Postwar Market for State and Local Government Securities," Princeton University Press, Princeton, N.J., 1960.
[7] "Statistical Abstract of the United States 1965," U.S. Department of Commerce, Bureau of the Census, table No. 573.
[8] Federal Reserve bulletin, June 1966.