

9511, you asked me for information concerning the number of plan sponsors which are "exclusively sales organizations" (transcript P. 463). I told you I would find the answer and report it to you.

I have checked the information available to me with respect to the more than forty (40) companies which offer contractual plans. I find that three of those companies are exclusively sales companies, and do not either directly or indirectly act as the investment advisor for any mutual fund whose shares are used as the underlying investment in the contractual plan. In addition, however, at least two large plan sponsors, First Investors Corporation and Investors Planning Corporation of America, derive a very significant part of their revenues from selling shares of mutual funds for which they are not investment advisors.

I should emphasize that despite the fact that most contractual plan sponsors are not exclusively sales organizations, the SEC's proposal to abolish the front-end load would destroy the contractual plan business as a whole and would have a most severe impact on almost all mutual fund organizations which include the sale of contractual plans. Abolition of the front-end load would also deny to investors a valuable means for the periodic accumulation of mutual fund shares.

Some of the largest companies which sponsor contractual plans, including a significant number of publicly owned companies, derive very substantial revenues from this source, and elimination of the front-end load would seriously affect their financial positions, even though they might continue to derive revenues from other sources. In fact, some mutual fund sales organizations effect most of their sales in the form of contractual plans, and the elimination of contractual plans would in all likelihood result in such a limitation on the inflow of new capital to the related mutual funds as to cause a substantial excess of redemptions over inflow of new capital.

In the case of smaller mutual funds, the elimination of the contractual plan could well mean the entire destruction of the mutual fund complex. For instance, there are twenty-one contractual plan sponsors whose contractual plans relate to mutual funds with assets of \$50,000,000.00 or less. It is well known that it is very difficult for investment advisors to receive substantial revenues from the management of mutual funds of that size. For instance, assuming an annual advisory fee of one-half of one percent, a fund of \$10,000,000.00 of net assets would have a management fee of \$50,000.00 a year, and a fund of \$40,000,000.00 would have a management fee of \$200,000.00 a year. From those fees, the investment advisor has to pay all its own expenses and many expenses of the mutual fund as well. The revenues derived from the sales of contractual plans and the new cash inflow to the mutual funds from this source are essential to the existence of these mutual fund organizations.

In addition, new groups organizing mutual funds very often couple these with contractual plans and depend upon contractual plans as an essential source of revenues to assist them in establishing their programs. The elimination of the contractual plan would mean that many of these mutual funds would never be organized and the benefits of a wider variety of mutual funds to choose from would not be made available to potential investors.

Finally, and most important, elimination of the front-end load would deny to a vast group of potential investors the opportunity to invest in mutual funds or to invest in any equity vehicle at all. It is only because of the incentives offered by the front-end load that mutual fund salesmen have been able to bring the benefits of mutual fund investing to many persons of moderate means who would not otherwise have learned about this vehicle.

Let me take this opportunity again to express my appreciation to you and your colleagues for permitting our association to testify before your subcommittee. If you should have any further questions or should you desire any further information, please do not hesitate to let me know.

Sincerely,

JOHN H. KOSTMAYER.

Mr. KEITH. Well, we get back to the question that I have raised throughout these hearings, as to which came first here, the investment company or the sales organization.

I noted that in one bit of testimony it was said—I think it was Mr. Cohen's though it may not have been—that the investment company sought out sales forces to sell shares so that there could be more assets