

customers, the fund shareholders. At IDS, 10 of the 12 directors of each of the four funds are unaffiliated with IDS.

This system has now been attacked as inadequate to protect the customer from overcharging by the fund's creator and manager. I think this attack is ill-founded. The fact is that there is no other industry in the United States, at least insofar as I have been able to discover, whose customers have the unique protection that the customers of this industry have.

Here the customers have disclosed to them in writing the precise cost of the service before purchasing it, and all material facts relating to it. The customers of few industries have even that today. Then, in addition, by law, they have the additional protection of an independent committee in the form of the unaffiliated directors, with the power and duty to oversee the operation, and to represent them with respect to any future changes in the charge for the service.

So far as I am aware, since 1940 no management fee has ever been raised. On the other hand, there have been substantial and significant reductions.

CREATION OF THE IDS MANAGEMENT FUNDS

Probably no two funds complexes conduct their operations in exactly the same manner. I think it would be helpful to describe how the IDS group of funds operates within the present legal framework and economic environment.

IDS was incorporated in 1894 in Minnesota. Until 1940 it was engaged solely in issuing and distributing installment savings contracts, known as face amount certificates, with a guaranteed fixed return at maturity. They were sold directly by sales representatives of IDS. The IDS investment department was responsible for the investment of the certificate reserves.

In 1940, after the passage of the Investment Company Act, IDS organized its first mutual fund, Investors Mutual, to be distributed exclusively by the IDS sales force directly to individual investors. Investors Mutual is a balanced fund: 35 to 40% of its assets are invested in fixed income securities, bonds or preferred stocks, the balance in common stocks, generally of a strongly blue chip character. Income has been one of the prime objectives of the fund. Today Investors Mutual has 440,000 accounts and \$3 billion in assets. It is the largest mutual fund in the world.

In 1945 IDS formed Investors Stock Fund, a common stock fund emphasizing income as well as growth. Today Stock Fund has 370,000 accounts and \$2 billion in assets. It is the fourth largest mutual fund in the United States.

At the same time that Investors Stock Fund was formed, IDS formed Investors Selective Fund. It is a small fund and its assets are invested in bonds and preferred stocks. Today it has 6,300 accounts and \$39 million in assets.

In 1957 IDS formed Investors Variable Payment Fund. It is a common stock fund like Investors Stock Fund, but with current income only an incidental objective. Today it has approximately 190,000 accounts and \$830 million in assets.

THE IDS DISTRIBUTION SYSTEM

IDS is itself a broker-dealer registered with the SEC under the Securities Exchange Act of 1934 and with the "blue sky" agencies of the various states. However, the only products sold by IDS sales representatives are the face amount certificates issued by a subsidiary of IDS, the shares of the IDS managed funds and insurance policies issued by another subsidiary. No one other than IDS representatives sells these products. This system in which our own sales force deals directly with our customers is known as direct distribution. We do not distribute to customers through other broker-dealers, a system known as dealer distribution.

Organization of the IDS Sales Force

IDS has a sales force of approximately 4,000 fulltime career representatives; they have no other employment or source of earned income. They are not moonlighters who work at one job during the day and then go out to make occasional securities sales to friends or relatives in the evening.

The IDS sales representatives are carefully selected, trained and supervised by an extensive organization headed by the Vice-President Sales and his staff in Minneapolis, and by nine Regional Vice Presidents, 170 Divisional Sales Managers and 675 District Sales Managers in the field.

Selection and Training of IDS Sales Representatives

The Divisional Sales Managers seek out potential IDS representatives. They interview and test them and check their references and backgrounds. All of this