

clude lawyers, college presidents and businessmen. The number of independent directors on the IDS funds boards exceeds the requirements of the Investment Company Act.

The funds have a full-time president, vice-president general-counsel and secretary-treasurer. These officers do not report to IDS and are not affiliated in any way with IDS. They are accountable solely to the boards of the funds. These officers continuously monitor IDS' services. They have access to all records and are provided with periodic and special reports in form and content established by them. Any revision of procedures or standards of business, and any significant changes in existing policies, are discussed with the funds' officers and directors.

The fund directors meet monthly. An executive committee of each board meets weekly. At each meeting of the fund boards IDS makes a formal report. This report includes, among other things, a complete analysis of the stock market and the performance of the funds, as well as a discussion of the economic outlook, the market outlook and the investment strategy to be employed on behalf of each of the funds.

Contract Negotiations

In the past five years four new sets of contracts were entered into with the funds.

In 1966 the contracts were amended to provide for a reduction of the management fees equivalent to the entire net profits attributable to fund securities transactions realized by an IDS subsidiary which had become a member of the Pacific Coast Stock Exchange for this purpose in 1965.

The other three contract revisions were the outgrowth of protracted negotiations. In each instance the funds appointed a negotiating committee composed of independent directors and the funds' General Counsel. For these negotiations IDS furnishes complete financial information concerning IDS' business relationships with the funds. In addition, all available information with respect to other mutual funds and mutual fund managers is obtained and considered.

IDS also formed a negotiating committee to meet with the committee representing the funds. Negotiations of the new contract which went into effect in 1963 extended from April 9, 1962 to November 7, 1962. The negotiations of the 1964 contract changes extended from January 15, 1964 to June 23, 1964. The negotiations of the 1967 contract extended from May 19, 1966 to September 14, 1966.

During the periods of negotiations, these committees met several times each month, sometimes separately and sometimes jointly. During these meetings various offers and counter offers were made and discussed and various alternate arrangements considered. The ultimate agreement as to each contract was the result of genuine arm's length negotiations.

Other Factors Affecting Management Fees

There have been other developments which have contributed to reduction of management fees in the industry generally. As the mutual fund industry—including IDS—grew rapidly after World War II, particularly during the middle and later fifties, management fees grew proportionately. The industry, fund managers as well as fund directors, began to reexamine what until then had been the standard fee of .50% of net assets annually. Some fees were reduced.

By the early 1960's the level of mutual fund management fees was challenged in litigation brought on behalf of the shareholders of various mutual funds. Most of these suits were resolved by reductions in fees, generally by the adoption of sliding scales which provided for lower fee charges as the funds' assets grow.

As the industry grew, there was greater public awareness of mutual funds and the various levels of charges. This awareness increased competition among funds with respect to fee rates, and funds with higher charges met pressure to reduce their expenses to those of their competitors. This pressure was increased by the publicity surrounding the Wharton School Report and the 1963 SEC Special Study of the Securities Markets.

The Results at IDS

For all of these reasons—fund negotiations, increased competition, shareholder litigation, and greater public awareness—management fees generally, and at IDS in particular, have been steadily and substantially reduced in recent years.