(3) They render investment counseling and supervisory services primarily to clients other than investment companies.

The oldest no-load fund in the group was organized in 1928 and now has net assets of about $117 million. The youngest was organized as recently as 1965 and its net assets now amount to about $1,600,000. The largest fund in our group, organized in 1950, now has net assets of about $358 million.

Typically, the counseling firms in our group had been in business for some years before creating their no-load funds. They had been performing counseling services for their various individual clients but had found it impractical to handle small accounts on an individual basis and had therefore found it necessary to specify a minimum fee for accounts they would accept. As a result, each of them had had the experience over the years of turning down requests to serve smaller accounts. Each of the firms decided that a good solution would be to create a no-load fund as a vehicle for combining investments of these people of smaller resources who could not be economically served as individual clients but who wanted unbiased, expert investment advice.

Section 10(d) of the Investment Company Act takes the form of an exemption from the provisions of sections 10(a) and 10(b)(2) and permits an investment company meeting its special requirements to have its entire board, except for one director, consist of individuals who are affiliated with the investment adviser or officers or employees of the company itself. (Under the bill, the only change would be to substitute the concept of "interested" for "affiliated.") Among several requirements to qualify for the exemption, the critical ones are that no sales load may be charged and no sales or promotion expenses may be incurred by the investment company itself. Accordingly, there are no commissions paid to salesmen by any of the members of our group, and relatively little promotional effort. Essentially, those who have become investors in these funds have done so on their own initiative, because they wanted to get expert and disinterested services of a particular counseling firm through the medium of its sponsored fund.

Our reason for appearing today is to be sure that the particular features of our situation are not lost sight of in the exploration of wider questions. Perhaps our group should be pleased and reassured by the fact that the SEC's long report discussing the mutual fund business devotes almost no space to us. On the other hand, although there has been no suggestion that the assumptions underlying section 10(d) have proved invalid in any way, certain of the amendments that the Commission is recommending, particularly those relating to fees for management services and independence of directors, would affect us along with the rest of the industry and as a practical matter would eliminate the distinctive treatment that Congress wrote into section 10(d) in 1940. Again, although we are members of the ICI and subscribe generally to the presentation made on behalf of all of its members, we felt that we ourselves needed to bring to your attention some special impacts of the proposed legislation on the no-load group.

Obviously, we do not contend that the advisory or management fee charged to no-load funds should be other than "reasonable." The real question is how the fee and its reasonableness should be determined. Our basic position is that the fees paid by the no-load funds to their