

any indication in the committee report or in the legislative debate on this matter?

Mr. JENNINGS. I haven't reviewed that, Congressman Keith.

Mr. KEITH. That would be in connection with your studies on the SEC position. You say here on page 5, your comment was that "This is a most curious type of financial structure."

Mr. JENNINGS. That is right.

Mr. KEITH. If, as I understand it, it has been patterned ever since 1940 for this kind of operation, it is well understood by buyers of mutual funds, not the unsophisticated but the more sophisticated buyer, certainly there has been a lot of stress given to this unique nature.

Mr. JENNINGS. You understand why I made that statement.

Mr. KEITH. This is unique to this industry but I would not say it is a most curious type of financial structure. I think it is one that has found great acceptance here and elsewhere.

Mr. JENNINGS. Well, you do find in industry occasionally a company being organized and then a management company contracting to perform the services at a flat fee. That generally has been prevented now by regulation, but the management fee of course is a very nice way of getting away from internalization, but generally in American industry you do not have externally managed companies. You have it only in this particular aspect of financial institutions actually.

Mr. KEITH. But this is the accepted way.

Mr. JENNINGS. Oh, yes.

Mr. KEITH. Now would you maintain that that the internally managed mutual fund executive group are reasonably paid?

Mr. JENNINGS. Yes. I think that the figures I have seen, for instance, take the Massachusetts Investors Trust, where the five trustees get \$450,000 a year. I think that compares rather favorably with other types of financial management, and as I understand it, the operating expense ratio and the adviser costs there are about one-third of the cost of an externally managed—

Mr. KEITH. Yes; but the cost to the individual shareholder is relatively inconsequential. What the SEC is trying to get at is the reasonableness of the remuneration to the entrepreneur, and in one case you have an internally managed company where they are making a lot more money than some of the externally managed companies with smaller portfolios, and you are arguing now that they are worth what they are getting because of the size of the portfolio.

Mr. JENNINGS. No. All I am saying is that when you have—this is a form of corporate operation or a business organization, and it seems to me to be really anomalous that, say, a billion dollar fund can't hire directly its management, but has to get an externally managed adviser to do that operation.

This must seem curious even to you. It is so common, however, that sometimes you know we get to the point where what is really anomalous we take for granted, and I think that is the only thing—

Mr. KEITH. I agree that we oftentimes find some things that we have taken for granted yet in retrospect, we wonder how we ever happened to go along with that as long as we did. But if you understand the history of these funds, you realize that the law permitted and encouraged this kind of activity and these people took advantage of it.