Mr. WATKINS. Mr. Cohen, do you mind giving me the page you are on?

Mr. COHEN. I am reading from some notes——

Mr. WATKINS. I thought so.

Mr. COHEN (continuing). That I prepared, Mr. Watkins. As I said, I was going to——

Mr. WATKINS. All right, you go ahead. If you get back to your script let me know. Are you going to read your script?

Mr. COHEN. No, sir. I offer the script for the record, but when I have completed this I would be more than happy, subject to the chairman's wishes, to take any questions you may wish to put to me.

Mr. WATKINS. But you are not using your record now. You are speaking off the cuff.

Mr. COHEN. I am using some notes. It is intended to summarize the situation, perhaps to highlight some of the more important issues as I see them.

Mr. WATKINS. You go right ahead. I was just lost here. I couldn't find it in the script.

Mr. COHEN. I am sorry, sir.

They also made the point that the investment adviser creates the fund, and operates it in effect as a business. Many of them stated that "It is our fund, we run it, we manage it, we control it," and I don't think there is anything wrong in them saying it. They were just admitting what is a fact of life.

The investment adviser does control the fund. But nowhere have they been willing to mention, even under the rather penetrating questions put by the subcommittee, what is a necessary consequence of the situation that they concede as well as an important fact of life in this business, and that is that the investment adviser in effect sets the fee, and he does so in a situation in which he has a very definite conflict of interest. In fact, this point was emphasized by a number of witnesses, some of whom referred to the fact that the investment advisory organization was a corporation which had shareholders, and that obviously, though perhaps they didn't put it exactly this way, their shareholders are interested in maximizing the profits that they may gain from the service that they provide to the investment company.

I can't think of a more classic case of a conflict of interest, and a stronger case of two groups pulling in opposite directions, and yet the person who sits in that position sits at the head of the table and he sits at the foot of the table, and he sits all around the table.

In this connection I think I should reemphasize that, with one exception that I recall, no one suggested that the directors are really in a position to negotiate, as that term is normally understood, in the fixing of fees. In fact, there were some witnesses, including some who sit on the boards of investment companies, who suggested that that was not the purpose for which they were chosen. One, who I believe is a practicing lawyer as well as a member of the board, suggested it would be inconsistent with his obligation as a director to attempt, in any way, to upset the relationship between the adviser and the fund in any such bargaining arrangement. Now, unless, of course, there is the possibility that the board might change the arrangement, I have great difficulty in seeing how any type of effective or even ineffective bargaining can take place.