

a means for the enforcement of a fiduciary's obligations in a conflict-of-interest situation, and it is the traditional means for such enforcement, independent scrutiny by a court of equity, not by the SEC. I understand, and I am frank to say that I did not have a chance to read his testimony carefully, but I understand that the judge who testified suggested that perhaps in the best of all possible worlds, that scrutiny should in the first place be done by the SEC.

We considered that. We abandoned it. We did not wish anyone to have any notion that the Commission was reaching for additional power, and we wished to make as clear as we possibly could that this issue, when it arose, would be in the hands of an independent body in the traditional American way, in the courts of law.

Now while the industry insists that its fees should be reasonable, that they are reasonable, that they always have been and always will be reasonable, even in this conflict-of-interest situation, they are singularly reluctant to submit this question to any sort of independent and impartial review. Although, as I intend to point out in more detail later, we by no means suggest that all investment advisory fees are unreasonable, or even that most of them are, it would be singular indeed, given the situation which prevailed, if all fees have always been and always will be reasonable. No such suggestion finds any support in the record.

The dollar amount of fees has grown tremendously as the funds have grown, and this notwithstanding the fact, which the industry admits, that the costs of investment management do not rise very rapidly if at all as the fund grows, and I have just introduced some statistics which cover 1966, which the industry argued was a troubled year, and yet it reflects the fact that they did very well. They did a great deal better than any of the other financial institutions to which they have referred. I might say they did a great deal better than practically anybody else in the securities business.

Now fees and expense ratios of the large funds vary all over the place, and I must emphasize that our points have been directed to the large funds, because as the funds grow larger, the economies of size become apparent. Actually, this is the vehicle they created. They wanted a corporation. They wanted people to come in. This is where the word mutual may have an effect, Mr. Keith. By joining together, and as you grow you get the benefits of economy that a large institution provides. These people have been significantly reluctant to share in any fair way those economies with the people whose money they manage and who have made possible this unparalleled prosperity which they enjoy.

We are not against prosperity. We think that they should have profits. They should be reasonable profits. But we think the investor deserves some recognition too.

Now one large fund will pay \$6 million and another about the same size will pay \$3 million to be advised, and of course internally managed funds pay far less. In this connection, we also have a situation of a group of funds which have their own service organization, a service organization which takes care of the needs of the various funds at cost, allocated in proportion to the size of the funds, and it is very interesting, and if I may I would like to introduce the figures as they relate to that situation. I brought copies along for all members of the committee and anyone else having an interest in the matter.