tives have made similar statements. *In fact, no person has disclosed any widespread demand for any of this legislation.*

When a prospective investor considers purchasing a mutual fund he considers the sales commission and the management fee together which are prominently printed on the front page and repeated elsewhere in the official prospectus. *He knows how much he is undertaking to pay in each category—sales and management.*

The only conclusion one can reach is that the SEC proposal to reduce the sales charge is *clearly designed to reduce the sales of mutual fund shares.*[2] We believe it would have that effect. (And we now know it is intended to have that effect.) In our own mutual funds, contract negotiations are certainly carried on as arm's length transactions. The investment advisory and the distribution contracts are continuously studied by a Special Committee of independent members of the Board of Directors, which makes reports and recommendations to the entire Board. In such studies, they take into consideration all elements that should be considered and this has resulted in bargaining negotiations with the investment adviser and distributor. We believe that any *independent* Board of Directors of mutual funds should and will resort to this same extensive study and will review these matters and negotiate the contracts in the best interests of their shareholders.

The officers and directors of our Funds, as we believe is true of other mutual funds, firmly believe that our mutual fund shares offer an exceptionally fine investment media for the small investor, and this apparently has been the conclusion of the SEC as indicated by their foregoing quotations. We do not think that any law should be passed that would be prejudicial to mutual fund shareholders or to prospective mutual fund shareholders. Any effort that would set such fees by law or permit the SEC to set them would be to completely discredit not only the business judgment but in some respects the integrity and honesty of the officers and directors of the funds, and if such would cause small investors not to be approached and have mutual funds explained to them or would cause redemptions by existing shareholders, it would certainly in our opinion be against the public interest.

In the SEC Report and the Senate and House hearings, no evidence is given of any extensive research in the area of sales and sales charges of mutual funds to justify the recommendation that has been made. On the other hand, facts show that mutual fund salesmen are now well-trained and informed (at considerable expense), that they are making an honest but certainly not an exorbitant income from such sales,[3] and that the distributor of our funds has actually operated at a loss from underwriting in some years and made small profits in others.

We submit that no proper legislative purpose has been shown to justify the principal changes proposed in the bill (see Senate Transcript of Hearings at pages 65 and 66). The SEC admits that no study has been made to justify the proposals to reduce commissions. Consequently, *the effect of this legislation is speculative* and the consequences cannot be predicted.

Appendix "A"

Insurance Anti-Rebate Statutes

The following is a citation to the principal Insurance Anti-Rebate Statute in each of the 50 states and the District of Columbia:

Alabama Insurance Code, Title 28, § 90(4)(8); Alaska Statute § 21.36.100; Arizona Statute § 20–449; Arkansas Statute § 66–3005(8); California Insurance Code §§ 750, 751; Colorado Statute § 72–14–4(10)(a); Connecticut Statute Chapter 676, § 38–59; Delaware Statute, Title 18, § 534(8)(A); District of Columbia Code Annotated, § 35–715; 18A Florida Statute Annotated § 626.0611 (1960); Georgia Statute § 56–704(8)(a); Hawaii Statute, Chapter 181, § 643(h); Idaho Statute § 41–1314; Illinois Statute Annotated, Chapter 73, § 763; Burn's Indiana Statutes, Section 39–5304(A)(8); Iowa Code Annotated, Title XX, Chapter 507B, Section 4(8); Kansas Statutes Annotated 40–2404(8); Kentucky Revised Statutes, Section 304.932; Section 1214(A)(8), Title 22, Revised Statutes of Louisana; Section 2905(8), Chapter 25, Title 24, General Statutes of Maine;

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[2] This was first written before this fact was confirmed by oral testimony at Senate hearings. (See pages 65–66 of typewritten Senate Hearings, S. 1659, July 31, 1967.)
[3] See Senate Hearings, p. 65.