

Question No. 4. One strong implication from the testimony of the SEC is that mutual fund shareholders are all small and perhaps unsophisticated investors who do not have the ability to evaluate whether the management fee they pay is too high. Also, it was stated that the fee as to each of these investors is so small that none of them would be inclined to question the fee. Are there substantial individual investors or institutions who invest in mutual funds who would have the sophistication and the economic interest in challenging the level of management fees if they were so inclined?

Answer. The implication conveyed by the SEC that mutual fund investors lack the sophistication and the economic interest to effectively protect themselves is not true. One of the most important areas of growth in the mutual fund business has been in investments by institutions such as banks, pension funds, college endowment funds, trustees, churches, labor unions, etc. A 1954 survey showed that 58 mutual funds representing about 66% of industry assets had a total of 35,821 institutional mutual fund shareholder accounts valued at \$283 million. By the end of 1966, a total of 74 funds had 707,705 institutional shareholder accounts valued at \$4 billion. Many of these accounts are held or administered by highly sophisticated persons with broad financial experience. Yet not only do these people continue to invest in mutual funds but as far as can be determined none of them have been involved in management fee litigation or have threatened such actions. For example, the following table shows 15 of the most substantial investors in one of the large mutual funds which has a management fee rate of $\frac{1}{2}$ of 1%.

LISTING OF 15 OF THE LARGEST ACCOUNTS OF A \$2 BILLION MUTUAL FUND VALUED AT SEPT. 30, 1967

Registered owner	Shares owned	Net asset value
1. Northeastern Union's pension fund.....	243,200	\$3,750,100
2. A national union's pension trust.....	184,898	2,851,100
3. A large city bank as trustee for a chemical manufacturer's retirement plan.....	139,102	2,144,900
4. An oil company's retirement plan.....	137,599	2,121,700
5. A large city bank as trustee for a food manufacturer's profit sharing plan.....	124,159	1,914,500
6. A nominee for a large city bank acting as a trustee.....	118,138	1,832,400
7. A State treasurer as custodian for a school employees' retirement fund.....	88,823	1,369,600
8. A board of trustees for a State teachers' retirement fund.....	81,510	1,256,800
9. Trustees for a restaurant chain's retirement fund.....	51,471	793,600
10. A large city bank as trustee for a machinery company's employee retirement plan.....	48,765	751,900
11. A manufacturer's employees profit sharing plan.....	47,417	731,100
12. A manufacturer's profit sharing trust.....	42,885	661,200
13. A board of pensions for a midwestern church.....	42,744	659,100
14. A large city bank as trustee for an appliance manufacturer's profit sharing trust.....	40,693	627,400
15. A large city bank as trustee for an auto dealers profit sharing plan.....	37,576	579,400

Question No. 5. I understand some funds permit their stockholders to reinvest dividends at the net asset value without paying a sales load. Others provide dividends be reinvested at the public offering price. In the industry generally, in terms of dollars, what is the approximate percentages of dividends reinvested at net asset value and at the public offering price?

Answer. Most investment income dividends (both by dollars and by companies) are being reinvested at asset value with no sales charge.

Based on data collected by the Investment Company Institute for the first 6 months of 1967, 80% of the dollar amount of reinvested investment income was reinvested at net asset value (with no sales charge) and the remaining 20% at offering price (net asset value plus applicable sales charge).

Of the 302 funds listed in the Mutual Fund Panorama, compiled by Arthur Wiesenberger & Co., 211 companies, being 70% of the total listed, provided for reinvestment of dividends at net asset value, 78 companies, being 26% of the total, offered reinvestment of dividends at offering price, and the remaining 13 companies, being 4% of the total, made no provision for reinvestment.

Question No. 6. Would any reduction in sales which might result from the proposed reduction of sales charges to 5% have any effect on the ability of a fund to meet redemptions of its shares by shareholders, in view of testimony that the mutual funds receive almost enough cash from reinvestment of income dividends to meet redemptions?

Answer. Chairman Cohen testified that he did not think that mutual funds would be forced into liquidation if sales declined as a result of the 44% reduc-