

no board of trustees of the trust entity itself. In the absence of any such board to approve the management and underwriting contract, the Empire Trust Co. is obliged to conduct an annual election of shareholders to obtain the required shareholder approval of National Securities & Research as investment manager and as sponsor underwriter.²⁴

The act of 1940 requires investment companies not exempted from its provisions to file registration statements with the Securities and Exchange Commission, detailing proposed company policy with respect to classification (open-end or closed-end, diversified or non-diversified), concentration of investment by industry, portfolio turnover, borrowing money, issuing senior securities, underwriting outside security issues, lending to persons, the purchase and sale of real estate and commodities, and other matters of fundamental policy.²⁵ The Investment Company Act also prohibits the management of any registered investment company from changing its policy on any of these issues from that laid down in its registration statement without authorization of a vote by a majority of the outstanding shares of the company.²⁶ Since the broad lines of company policy must be described to the investor in a prospectus offering the company's shares for sale, the shareholders of investment companies are protected in their right to be explicitly informed regarding certain aspects of the product they are buying, and to participate in decisions involving proposed substantial changes in the nature of this product.

All 156 open-end investment companies included in the present study have securities outstanding which they are committed to redeem on the demand of the owner.²⁷ One hundred and forty of these companies redeemed their shares at net asset value on September 30, 1958, although 21 reserved the right to charge up to 1 percent of net asset value for redemption, at the discretion of the management, and one company imposed a 1-percent discount for the redemption of shares that had been outstanding for less than 1 year. Ten companies levied a 1-percent redemption charge, four charged 0.5 percent, and one of the savings bank mutual funds charged 75 cents per share for redemption. Three of the companies with a redemption charge were not selling their shares in 1958, six were no-load companies, and three had only a nominal sales charge (2 percent or less). The redemption charge is apparently felt to provide some degree of deterrence to short-term trading in shares relatively sensitive to such activities.²⁸

The act of 1940 protects the shareholder's redemption privilege by providing that—

No registered investment company shall suspend the right of redemption or postpone the date of payment or satisfaction upon redemption of any redeemable security in accordance with its terms for more than seven days after the tender of such security to the company or its agent—

except where trading on the New York Stock Exchange has been restricted or closed longer than is normal, where an emergency exists which makes security sales impracticable, or for such other periods as the Commission may determine for shareholder protection.²⁹

²⁴ Prospectus, July 27, 1958, p. 18.

²⁵ Sec. 8(b).

²⁶ Sec. 13.

²⁷ This is the principal distinguishing feature of an open-end investment company. For the purposes of the act of 1940 an open-end company is defined as "a management company which is offering for sale or has outstanding any redeemable security of which it is the issuer" (Sec. 5(a)(1)).

²⁸ "The purpose of this discount is to discourage short-term trading in shares of the stock fund," Stein Roe & Farnham Funds (undated booklet), p. 10.

²⁹ Sec. 22(e).

The board of directors

From a legal standpoint, operating control of open-end investment companies is in the hands of boards of directors or trustees voted into power by company shareholders.³⁰ The board is the body empowered to enter into management and underwriting contracts for the company. Either it (or the shareholders) must vote annually if such contracts are to be continued, and the board is legally authorized to terminate management contracts on 60 days' notice. The board is also ultimately responsible for the investment policy and activities of the investment company. Even where extensive powers over investment decision making have been delegated by the board to an investment adviser, the board still usually subjects delegated actions to some kind of periodic review and has the legal power to insist on their alteration, so that it is formally correct to say, as many companies do, that—

Final approval of policy with respect to individual securities rests * * * with the officers and directors of the fund.³¹

Boards of directors of open-end investment companies vary in size from 3 (Templeton & Liddell Fund) to 18 members (Canada General Fund, Ltd.), with 7 the most frequently encountered board size (37 of 115 cases). In 46 of the 115 cases for which information was available, the board of directors included nine or more members. Of the 39 trusts, it has already been noted that 19 have a single corporate trustee; of the remaining 20 trusts with individual trustees, the number of trustees ranges from 3 (3 cases) to as many as 10 (Mutual Income Foundation), with 5 members the modal size (7 of 20).

In only 2 of 101 cases for which information was available in 1958 did the boards of directors of open-end companies plan to meet on a regular basis more frequently than once a month. In 45 cases the board was reported to have met monthly, and in 39 instances, quarterly.³² Boards of trustees tended to meet more frequently, with 7 of the 20 boards meeting more often than once a month. Corresponding to these differences in the frequency of meetings is a significant difference in the investment decision making activities of boards of directors and trustees. Replies to a question relating to board functions in the decision making process indicate that boards of trustees played an active role in the selection of portfolio securities in more than one-half of the open-end trusts with individual trustees. By contrast, fewer than one-tenth of the corporate boards of directors participated in investment decision making activities beyond reviewing and approving investment decisions made by others, and in a substantial number of instances the board of directors appeared to be a purely nominal body whose principal function was the fulfilling of a legal requirement.³³

The active management of the portfolio of open-end investment companies typically is delegated to an investment adviser, or to one

³⁰ Excepting, of course, trusts without shareholder voting rights. In these cases, control is still in the hands of a group of trustees, but without regular shareholder sanction by annual vote. It will be assumed that this exception is implicit in much of what follows and need not be repeated in each case.

³¹ Scudder, Stevens & Clark Fund, Prospectus, Oct. 17, 1958, p. 6.

³² A more extensive discussion of the frequency of board meetings and the role of the board of directors in investment decisionmaking, based on fuller and more up-to-date information, is presented in ch. VIII.

³³ This does not, of course, differentiate boards of directors of open-end investment companies from the boards of large publicly owned nonfinancial corporations, except perhaps in degree, since "for the most part, the board of directors has surrendered its function of active decision making in the large corporation. 'Outside' directors function, if at all, primarily as financial and business advisers * * *. But the job of actually making the decisions which are the essence of the leadership function rests primarily with the executives themselves." R. A. Gordon, "Business Leadership in the Large Corporation" (Washington: Brookings, 1945), p. 145.

or several principal officers³⁴ of the investment company, who are usually also affiliated with the adviser. The board of directors of the Axe-Houghton Fund A, for example, meets quarterly in order "to review periodically the recommendations of the investment adviser to determine whether they are consistent with the general policy and objectives of the company and to appraise the investment results achieved * * *. The responsibility for investment decisions relating to both the general portfolio structure and the day-to-day purchases of portfolio securities is delegated to the investment adviser." In the case of United Funds, Inc., the board of directors, which meets once a month, "has delegated the formulation of portfolio decisions to the management company, Continental Research Corp.," although the board retains "the unrestricted right and power to veto or change any investment decisions made by the manager." An administrative committee, consisting of the four executive officers of the management company, plus two other officers of the management company, "makes the actual decisions on portfolio transactions and instructs and authorizes the trading department to enter orders to purchase or sell securities." In the case of Dividend Shares:

The selection of individual securities for purchase and sale within the framework of the investment policy as laid down by the board of directors is primarily the function of the investment committee composed of several senior officers of the company; namely, the president and two vice presidents.

These three officers (and, in fact, all eight officers of the company) are affiliated with the company's investment manager, Calvin Bullock, Ltd.

The 13-member board of directors of the Wellington Fund meets monthly, and has "the responsibility to see that investment policy is at all times in accord with the fundamental objectives of the fund." The active supervision of the company's securities "is accomplished through a management contract between Wellington Fund and the Wellington Co. (investment adviser), which provides, among other things, that the Wellington Co. shall furnish to the fund advice and recommendations with respect to the purchase and sale of securities, shall provide such statistical, research, analytical, and technical services, information, and reports as may reasonably be required, and, in general, shall superintend the affairs of the fund, subject always to the control of the board of directors." Recommendations as to general portfolio structure and day-to-day purchases of securities are made to a vice president of the Wellington Fund by the Investment Committee of the Wellington Co. This investment committee has two subdivisions, an "investment policy group" and an "investment program group." The former, made up "of the senior officers of the Wellington Co. who are also senior officers of Wellington Fund * * * decide upon current investment policy which, in their judgment, would most appropriately fit the fundamental objectives of the fund." The program group is responsible for seeing "that the decisions of the policy group are carried into being by recommendations for purchase and sale of appropriate securities." These recommendations are transmitted to "an officer of Wellington Fund, or one of his assistants, who actually places with brokers orders for purchase and sale of portfolio securities." Mr. Walter L. Morgan, president and a director of both Wellington Fund and the Wellington Co., is beneficial owner

³⁴ Principal officers are used in this report to designate the president, vice presidents, and chairman of the board of the companies in question.

of all of the common stock and most of the preferred stock of the latter organization.³⁵ Including Mr. Morgan, five officers and/or directors of the Wellington Co. are members of the board of Wellington Fund, and five of the six principal officers of Wellington Fund are affiliated with the investment adviser-underwriter, the Wellington Co.

Among the smaller companies, the same pattern of delegation of authority in regard to decisionmaking is generally encountered. For the Sterling Investment Fund:

The board of directors does not manage the investment portfolio of the company, but has delegated to the officers of the company the authority for formulating and implementing investment decisions. * * * Pursuant to this authority, an investment committee has been set up which passes on major questions of investment management, while day-to-day investment decisions are handled informally by the president, acting either individually or jointly with one or more other officers, or by another officer or officers designated by him. * * * While the company has a contract with a management company, the investing function is entirely in the hands of the officers of the company. In most cases, these officers are also officers of the management company, but in managing the investments of this company, they act in the capacity of officers of this company, to which they are responsible.

The board of directors of Supervised Shares, which meets quarterly—has delegated full authority of portfolio decisions * * * to the officers of the company consisting of T. C. Henderson, president, E. A. Petersen, vice president, and C. C. Plambeck, secretary-treasurer. * * *

Supervised Shares is party to a management and underwriting contract with T. C. Henderson & Co., whose president, Mr. T. C. Henderson, owns 92.5 percent of the voting shares of the management-underwriting firm. Mr. Henderson is president of both T. C. Henderson & Co. and Supervised Shares, Mr. E. A. Petersen is vice president of both the manager-underwriter and the investment company, and Mr. C. C. Plambeck is secretary-treasurer of Supervised Shares and statistician-analyst for T. C. Henderson & Co.

In the case of the Haydock Fund:

The president and vice president, who are also directors of the fund, constitute a management committee and make the final portfolio decisions.

The management of Haydock goes on to make the interesting observation that:

It is difficult to say that the board has to any extent delegated the formulation of portfolio decisions to investment advisers. The fund does, as already stated, have a management contract with Haydock, Peabody, & Hawley but Messrs. Peabody and Haydock are president and vice president, respectively, of the fund.

These examples indicate that the allocation of actual decision-making functions to groups within and external to open-end investment companies is complicated by the fact that active roles in and control of open-end companies is usually concentrated in the hands of relatively few individuals who function in multiple capacities. These extensive overlaps of key personnel between investment company and adviser point to a fundamental ambiguity concerning the locus of control as between the board of directors or trustees of the investment company and its presumptive agent employed to advise it or to manage its security portfolio under board supervision. This calls for a more extensive inquiry into the real locus of open-end investment company control.

³⁵ This refers, of course, to the period prior to the recent public offering of nonvoting stock in the Wellington Co.

CONTROL

Distribution of the shares of open-end investment companies

All but five of the 156 open-end companies responding to the first questionnaire were offering their shares for continuous sale on September 30, 1958,³⁶ and all but 4 of those engaged in the selling of shares were offering them to an unrestricted clientele. Three of these exceptions, Institutional Investors Mutual Fund, Savings Bank Investment Fund, and Mutual Investment Fund of Connecticut, are open-end companies set up under special legislative enactments in New York, Massachusetts, and Connecticut for the exclusive benefit of mutual savings banks within their respective States. These three savings bank investment companies constitute a nonhomogeneous element in our universe, since their continuous offerings are made exclusively to State-chartered mutual savings banks. The fourth company selling only to a restricted clientele is Elfing Trusts, a mutual fund affiliated with General Electric Co. and offering shares only to certain persons connected with General Electric.

For all the companies that reported the number of shareholders in 1958, the average number of shareholders was 25,100 and the median was 8,792. The number of shareholders was clearly related to investment company asset size, as may be seen in table II-9, where the mean, median, and range of number of shareholders is described for four size classes of open-end investment companies. It may be observed in this table that even in the smallest size class the median firm in this respect had more than 1,000 shareholders, and that the average and median number of shareholders increases markedly as we proceed upward in asset size.

TABLE II-9.—Mean, median, and range of number of shareholders by size of open-end company assets, 1958¹

Size of company (in millions of dollars)	Number of shareholders			
	Mean	Median	Smallest	Largest
1 and under 10 (41 companies).....	2,504	1,431	10	15,063
10 and under 50 (39 companies).....	10,147	7,882	91	29,859
50 and under 300 (35 companies).....	36,501	27,220	6,289	87,851
300 and over (8 companies).....	163,854	151,014	71,283	280,787
Total (123 companies).....	25,100	8,792	10	280,787

¹ Based on 123 companies reporting number of shareholders between Jan. 1 and Dec. 31, 1958.

There are 4 companies that reported fewer than 100 shareholders 3 of which were the savings bank investment companies mentioned above. In the smallest size class, besides 2 of the 3 mutual savings bank companies, only Continental American Fund reported fewer than 100 shareholders; in fact, its 12 shareholders is the smallest number of any company included in the present study. However, this is a case where an unusual mode of distribution of the company's shares results in data on record ownership greatly understating the number of beneficial owners. Continental American Fund, subsequently brought into the De Vegh group, was organized in 1956 to serve as a vehicle for providing investors abroad with a means of acquiring

³⁶ The five exceptions were State Street Investment Co., the Lazard Fund, New York Capital Fund of Canada, Ltd., De Vegh Mutual Fund, and United Fund Accumulative Series TA.

a diversified portfolio of U.S. securities. For the "convenience of investors abroad," instead of issuing shares directly to foreign buyers, the Belgian-American Bank & Trust Co., custodian, distributor, and one of the controlling promoters of the company, arranged to issue bearer depositary receipts for the shares, which it purchased and made available through six agent companies in Belgium, Luxembourg, and Switzerland. Two nominees for the Belgian-American Bank were record owners of 65.8 percent of the shares of the investment company under this arrangement. If Continental American and the two small savings bank companies are set aside as special cases, the Preston Moss Fund had the smallest number of shareholders in the \$1 million and under \$10 million size class, with 228. The median number of shareholders in this size class was 1,431.

In the \$10 million and under \$50 million class the 91 shareholder low is accounted for by the largest of the 3 savings bank investment companies, Institutional Investors Mutual Fund. If we exclude this company as a special case, the smallest number of shareholders reported in this class would be the 1,870 for the Pine Street Fund. The median number of shareholders in this class was 7,882. In the \$50 million and under \$300 million class the median number of shareholders was 27,220, and for companies with assets of \$300 million or more, the median number of shareholders was 151,014.

Only 2 of the 9 open-end companies with assets of \$300 million or over had fewer than 100,000 shareholders.³⁷ Fidelity Fund had the smallest number of shareholders in this class, with 71,283, and Investors Mutual had the largest number, with 280,787 shareholders in 1958.

The concentration of shareholdings among 147 open-end investment companies on September 30, 1958, is described in tables II-10, II-11, and II-12. It should be noted that these data relate entirely to record holdings, which frequently include within a single holding a substantial number of separate beneficial interests. Thus, e.g., in 152 of the 2,366 cases where the affiliations of the 20 largest open-end company shareholders were identifiable, the record owner of the shares was a security dealer. These include many of the larger holdings, and in most instances they are nonbeneficial holdings held for the benefit of a number of separate clients. It follows that the data summarized in these tables overstate the degree of concentration of beneficial ownership in the included open-end companies.

The concentration of record ownership of shares is inversely (and closely) related to size. In six of the nine companies in the class with assets of \$300 million and over, the largest shareholder held less than 0.5 percent of the outstanding shares, and in only one company in this class did a shareholder own over 1 percent of the shares (Fundamental Investors, 2.2 percent). In the case of Investors Mutual, the largest shareholder owned only 0.04 percent of the outstanding voting shares, and the largest shareholder of United Funds, Inc., owned only 0.06 percent of that company's shares. In only 1 of these 9 companies did the largest 20 shareholders own over 5 percent of the shares (Fundamental Investors, 5.5 percent).

³⁷ United Funds is excluded from table II-9 because of the fact that the number of shareholders was only available for each of its four separate series. However, although there is no way by which we can aggregate the number of individual shareholders for the combined series, 1 of the 4 series had over 100,000 shareholders taken by itself.

TABLE II-10.—Percentage of shares held by the largest shareholder for 147 open-end investment companies, by size of open-end company assets, Sept. 30, 1958

Open-end company assets (in millions of dollars)	Percentage of shares held by the largest record owners														Total	
	0.0 to 0.49 percent		0.50 to 0.99 percent		1.0 to 4.9 percent		5.0 to 9.9 percent		10.0 to 19.9 percent		20.0 to 49.9 percent		50.0 percent and above		Number of companies	Percent of companies
	Number of companies	Percent of companies	Number of companies	Percent of companies	Number of companies	Percent of companies	Number of companies	Percent of companies	Number of companies	Percent of companies	Number of companies	Percent of companies	Number of companies	Percent of companies		
1 and under 10.....	1	1.8	2	3.7	31	57.5	9	16.7	6	11.1	1	1.8	4	7.4	54	100
10 and under 50.....	9	19.6	11	23.9	17	37.0	3	6.5	3	6.5	1	2.2	2	4.3	46	100
50 and under 300.....	14	36.8	6	13.2	15	39.5	1	5.3	1	2.6	1	2.6	-----	-----	38	100
300 and over.....	6	66.7	2	22.2	1	11.1	-----	-----	-----	-----	-----	-----	-----	-----	9	100
Total.....	30	20.4	20	13.6	64	43.6	14	9.5	10	6.8	3	2.0	6	4.1	147	100

TABLE II-11.—Percentage of shares held by the 5 largest shareholders for 147 open-end investment companies, by size of open-end company assets, Sept. 30, 1958

Open-end company assets (in millions of dollars)	Percentage of shares held by the 5 largest record owners														Total	
	0.0 to 0.49 percent		0.50 to 0.99 percent		1.0 to 4.9 percent		5.0 to 9.9 percent		10.0 to 19.9 percent		20.0 to 49.9 percent		50.0 percent and above		Number of companies	Percent of companies
	Number of companies	Percent of companies	Number of companies	Percent of companies	Number of companies	Percent of companies	Number of companies	Percent of companies	Number of companies	Percent of companies	Number of companies	Percent of companies	Number of companies	Percent of companies		
1 and under 10.....	-----	-----	-----	-----	8	14.8	15	27.8	21	38.8	5	9.3	5	9.3	54	100
10 and under 50.....	1	2.2	1	2.2	25	54.3	7	15.2	7	15.2	3	6.5	2	4.3	46	100
50 and under 300.....	-----	-----	6	15.8	26	68.4	3	7.9	1	2.6	2	5.3	-----	-----	38	100
300 and over.....	4	44.5	2	22.2	3	33.3	-----	-----	-----	-----	-----	-----	-----	-----	9	100
Total.....	5	3.4	9	6.1	62	42.2	25	17.0	29	19.7	10	6.8	7	4.8	147	100

TABLE II-12.—Percentage of shares held by the 20 largest shareholders for 147 open-end investment companies, by size of open-end company assets, Sept. 30, 1958

Open-end company assets (in millions of dollars)	Percentage of shares held by the 20 largest record owners														Total	
	0.0 to 0.49 percent		0.50 to 0.99 percent		1.0 to 4.9 percent		5.0 to 9.9 percent		10.0 to 19.9 percent		20.0 to 49.9 percent		50.0 percent and above		Num-ber of com-panies	Per-cent of com-panies
	Num-ber of com-panies	Per-cent of com-panies	Num-ber of com-panies	Per-cent of com-panies	Num-ber of com-panies	Per-cent of com-panies	Num-ber of com-panies	Per-cent of com-panies	Num-ber of com-panies	Per-cent of com-panies	Num-ber of com-panies	Per-cent of com-panies	Num-ber of com-panies	Per-cent of com-panies		
1 and under 10	—	—	—	—	2	3.7	3	5.5	16	29.7	27	50.0	6	11.1	54	100
10 and under 50	—	—	12	26.1	13	28.3	10	26.3	11	23.9	6	13.0	3	6.5	46	100
50 and under 300	—	—	22	57.9	10	26.3	1	11.1	3	7.9	3	7.9	—	—	38	100
300 and over	1	11.1	3	33.3	4	44.5	—	—	—	—	—	—	—	—	9	100
Total	1	0.7	4	2.7	40	27.2	37	18.4	30	20.4	36	24.5	9	6.1	147	100

In the \$50 to \$300 million class, the largest record owner in 20 of 38 companies held less than 1 percent of the outstanding shares, and in all but 3 instances the largest shareholder of the companies in this class owned less than 5 percent of the company's shares. In two of these three exceptional cases (Television-Electronics and Lazard) the largest owner is a security dealer holding shares as nominee for a number of clients; in the third case (Scudder, Stevens & Clark Fund) the largest holder was a trustee for a large block of shares issued in the process of absorbing another investment company.³⁸ In only 5 of the 39 companies in this size class did the 20 largest record owners hold 10 percent or more of the company's outstanding shares. These include the 3 companies already mentioned, plus One William Street and Century Shares Trust, in both of which nominee and trust holdings were important in the largest 20.

As we proceed to the two smaller size classes, the concentration of record holdings increases markedly. In these classes, 29 of the 100 included companies had record owners with 5 or more percent of the outstanding shares; 17 of the 29 had single owners with 10 percent or more; and 8 had owners with 20 or more percent of the shares. In only 4 of these 29 cases, however, did an individual or trustee for an individual own 5 percent or more of the shares, and in only 1 of the 17 cases did an individual owner hold over 10 percent of the voting shares of an open-end company.³⁹ In 17 instances, the holdings in excess of 5 percent found in the 2 smaller classes of investment companies were owned by nominees or trustees for multiple beneficial owners, including 3 in which the record owner was the nominee for a share accumulation plan. In six of the eight cases in which 20 percent or more of the shares was held by a single owner, the shares were in the hands of a nominee for many beneficial owners. In a seventh case, the high concentration was a result of the narrow ownership base of one of the open-end companies selling shares only to savings banks (the Mutual Investment Fund of Connecticut). In the last case, the Istel Fund, the management of the fund participated in the establishment of the Curacao Securities Corp., domiciled in Curacao in the Dutch West Indies, and organized solely to hold shares of the Istel Fund. Those shareholders of Istel who might benefit from the tax advantages of ownership of a Dutch firm were given the option of buying shares of Curacao Securities as an indirect means of holding shares of the Istel Fund, and on September 30, 1958, Curacao Securities had over 1,000 shareholders and owned 70 percent of the outstanding shares of Istel. This arrangement is legally quite distinct from the case of nominee ownership for beneficial owners, but it is similar in that many beneficial owners with voting rights are obscured by a single record owner.

Even without discounting the significance of the larger record holdings in open-end companies in view of their overstatement of the extent of concentration of beneficial ownership, the concentration

³⁸ Phillips Investment Co. was merged into Scudder, Stevens & Clark Fund in 1956 by an exchange of Scudder, Stevens & Clark shares valued at \$14.5 million, for the assets of the absorbed company. Mrs. Mildred Phillips Gray, formerly president of Phillips Investment Co., became record owner, as trustee for the former owners of the absorbed company, of 13.5 percent of the shares of Scudder, Stevens & Clark Fund.

³⁹ Leon B. Allen Fund, Inc.

of ownership of open-end investment companies must be regarded as exceptionally low. In a study of the holdings of the 20 largest record owners of the common stock of the 176 largest nonfinancial corporations, which excluded from the largest 20 all record holdings in the name of banks, brokers, and others held for undisclosed beneficiaries, in only 19 cases (10.8 percent) did the 20 largest owners hold less than 5 percent of the outstanding shares, and in 101 instances (57.4 percent) the 20 largest holders accounted for 20 percent or more of the common stock of these large firms.⁴⁰ In table II-12 it may be seen that in 45 of 147 open-end companies, or 30.6 percent of the total, the 20 largest stockholders owned less than 5 percent of the total shares outstanding; and in only 45 cases (30.6 percent) did the largest 20 stockholders hold 20 or more percent of the outstanding shares. It should be noted that this relatively wide diffusion of stock ownership of open-end investment companies manifests itself despite the fact that 68 percent of the companies in this study have assets below \$50 million, whereas none of the above-mentioned 176 large nonfinancial companies had assets below \$60 million.

One hundred and thirty open-end companies responded to a request for information regarding the names and affiliations of the 20 largest stockholders. After extensive processing of the 2,577 names, 211 were unallocable for lack of information as to affiliations. Most of these were business ventures of unknown character. Individuals, and trustees, nominees, and custodians for individuals, comprised 64 percent of the aggregate number of reported large shareholders. Even though this is the only sizable category in our classification, it understates the importance of individuals as owners, since the second largest category, security dealers (5.9 percent), is also composed largely of the accounts of individuals, and various other holders included elsewhere, as well as some part of the unallocable class, should probably be included in the individual ownership category. Individual owners undoubtedly comprise well over two-thirds of the number of the 20 largest shareholders in our 130-company sample. The low concentration of ownership and the preponderance of individual holdings of shares of open-end companies reflects the attraction which mutual funds have had for relatively small wealth holders as a means of participating in equity ownership.

Table II-13 shows the distribution of large shareholdings among the major categories of shareholder affiliations, by four open-end company size classes. Individual ownership appears to be more important among the large shareholders of the smaller companies than among the larger, even though the decline in percentage importance of individual holdings is reversed when we move from the \$50 to \$300 million to the largest size class. Similarly, institutional holdings tend to be relatively more important for the larger open-end companies, although the increase from small to large company is frequently broken as we move beyond the \$50 to \$300 million class.

⁴⁰ Gordon, *op. cit.*, pp. 34-35. These data were derived from "The Distribution of Ownership in the 200 Largest Nonfinancial Corporations," TNEC Monograph No. 29 (1940), p. 103 ff.

TABLE II-13.—Affiliations of the largest 20 shareholders of 130 open-end investment companies, by size of open-end company assets, Sept. 30, 1953

[Dollar amounts in millions]

Affiliations of shareholders	1 and under 10		10 and under 50		50 and under 300		300 and over		Total	
	Num-ber	Per-cent	Num-ber	Per-cent	Num-ber	Per-cent	Num-ber	Per-cent	Num-ber	Per-cent
Individuals.....	682	67.2	480	58.4	302	48.7	68	56.7	1,532	59.4
Trustees or nominees or custodians for individuals.....	67	6.6	33	4.0	17	2.7	2	1.7	119	4.6
Security dealers.....	39	3.8	48	5.8	56	9.0	9	7.5	152	5.9
Other trusts and foundations.....	43	4.2	22	2.7	21	3.4	8	6.7	94	3.7
Officers, directors, and trustees of the company or its investment manager.....	23	2.3	18	2.2	35	5.6	1	.8	77	3.0
Nominees for banks.....	23	2.3	15	1.8	24	3.9	8	6.7	70	2.7
Savings banks.....	31	3.0	22	2.7	4	.7	1	.8	58	2.3
Profit-sharing plans.....	15	1.5	23	2.8	18	2.9	1	.8	57	2.2
Employee social security plans.....	7	.7	13	1.6	16	2.6	1	.8	37	1.4
Insurance companies.....	7	.7	15	1.8	11	1.8	1	.8	34	1.3
Industrial and commercial firms.....	9	.9	13	1.6	6	1.0	1	.8	29	1.1
Religious and fraternal organizations.....	3	.3	14	1.7	17	2.7	2	1.7	36	1.4
Colleges and other private schools.....	4	.4	2	.2	11	1.8	3	2.5	20	.8
Other.....	11	1.1	12	1.5	25	4.0	3	2.5	51	2.0
Unknown.....	51	5.0	92	11.2	57	9.2	11	9.2	211	8.2
Total.....	1,015	100.0	822	100.0	620	100.0	120	100.0	2,577	100.0

Types and mechanisms of control

Nature and classifications of control.—Control refers to the effective power to determine or decisively influence the management and basic policies of an organization. It is an elusive concept since apparent and formal control relationships frequently obscure the substance of control, which often rests on complex economic and personal relationships that are difficult to disentangle. It may be active or latent, explicit or tacitly understood; it may be held by a single individual or shared by many; it may be virtually unlimited in scope or it may be applicable only with respect to certain decisions and within certain limits of discretion. The determination of the locus of control in specific cases is thus a difficult task calling for a qualitative assessment of the relative importance of a number of factors, some measurable, others subtle and indefinable.

It is important to distinguish between the problem of determining who controls and how control is established and maintained. This is particularly useful in connection with the frequently ambiguous notion of minority control, which is sometimes discussed exclusively in terms of whether or not the controlling individuals have an ownership interest, and is elsewhere related primarily to the issue of whether the minority interest is itself an important factor in the origination and maintenance of a control position. Both of these perspectives are important, the first as an index of the extent to which ownership has been separated from control; the second, as a means of understanding the processes by which control is established and perpetuated.

Table II-14 summarizes the relationship between the size of open-end investment companies and the extent to which controlling individuals have ownership interests in the controlled enterprises. That is to say, it is concerned with an important facet of the question of who controls. Positive ownership interests are broken down into majority and minority ownership control. The former refers to cases where an individual, company, or closely knit group of individuals or