

TABLE VIII-20.—Number of officers, directors and partners of 155 investment advisers, 1960

Open-end company assets (in millions)	Corporations						Partnerships				
	Number of corporations	Median number of directors	Range of number of directors		Median number of officers	Range of number of officers		Number of partnerships	Median number of partners	Range of number of partners	
			High	Low		High	Low			High	Low
Under \$1.....	25	3	12	2	3	11	1	5	3	14	3
\$1 and under \$10.....	43	4	17	2	4	35	1	6	4.5	8	3
\$10 and under \$50.....	32	4	23	2	4	14	1	5	7	10	3
\$50 and under \$150.....	8	6.5	13	2	7.5	14	4	4	13.5	10	7
\$150 and under \$300.....	9	6	10	3	10	19	5	3	16	23	9
\$300 and under \$600.....	9	6	12	3	11	29	4	3	8	8	8
\$600 and over.....	4	8	10	5	13	15	6	1	5	5	5
Total.....	130	4	23	2	4	35	1	25	7	23	2

The boards of directors of the 134 corporate investment advisers vary in size from 2 to 23. Typically they are smaller than the boards of directors of the open-end companies which they supervise. The median number of board members of the 130 advisers for whom information was available was 4, whereas in chapter II the median number of directors of open-end companies was found to be 7. As may be observed in table VIII-20 the number of directors and officers of advisers of open-end companies tends to be directly related to the volume of open-end company assets subject to their management. It is interesting to note that this relationship does not hold consistently with respect to the number of partners for the advisers with the partnership form of organization. The two partnerships in the two largest size classes (Lord Abbett and Boston Management & Research) have fewer partners than the median-sized partnership in the next two smaller size classes. These are, of course, small numbers, but this pattern also reflects the fact that the number of partners depends in part on adviser policy with respect to the number of persons who should be given a proprietary interest in the success of the adviser. (Several of the partnerships in the size classes between \$50-\$300 million maintain a deliberate policy of "having the partnership interest widespread.")

Only 15 of the 163 advisers had advisory boards attached to themselves or to the open-end companies subject to their supervision. Two others had no formal advisory board, but had a number of technical experts available for regular periodic consultations on special issues. A substantial number of advisers also received investment and technical advice from others under established contractual arrangements. These are discussed below in section III, part B.

II. CONTROL AND AFFILIATIONS OF INVESTMENT ADVISERS

A. CONTROL

Introduction

There are two characteristics of investment advisers which have a particularly significant bearing on the way in which they are controlled. The first, which we dealt with in the previous section, concerns the size of these organizations. It was shown above that the volume of capital utilized and the number of employees of investment advisers, particularly those largely devoted to advising activity, are quite small. Consequently the need for tapping public sources of capital for financing the investment adviser itself has been at a minimum, and for this reason alone we would expect their ownership and control to be narrowly based and highly concentrated.

In the second place, investment advice is a highly specialized "custom" type service, calling for knowledge, intelligence, and judgment. Investment advisers very commonly grow and thrive under the auspices of particular individuals who investors are persuaded have these qualities to an exceptional degree. These individuals frequently exercise control, therefore, not only as a result of the factors of strategic position as promoters and concentrated ownership claims, but also because their services are unusually important to the organization. In fact, investment advisers are frequently identified with these particular individuals in the name of the adviser itself (Bullock,

holder of nonvoting stock. It may be seen further on the last row that 63 advisers, or 48.1 percent, had between 2 and 10 shareholders; which means that 98 advisers, or 74.8 percent of the corporate investment advisers, had 10 or fewer voting shareholders. Only 6 advisers, 3 of which were the commercial banks, had over 1,000 voting shareholders. It may be noted that a greater proportion of cases of nonvoting shareholders had over 1,000 owners than was the case with voting stockholders.

Parker, Chase, Price, Babson, Axe, Putnam, and Wade, to name a few).

These characteristics of investment advisers have contributed to the survival of noncorporate forms of organization to a greater degree than in other sectors of the economy in which individual firms control comparable asset totals. The importance of these noncorporate forms among investment advisers was discussed in the previous section. The identification of the means of control of the four advisers included in the present study that are individual proprietorships and the 25 that are partnerships presents no problem. The proprietor and the partners are the sole owners and have full control over the organization (insofar as there is an organization separable from the individuals in question).

Corporate investment advisers

The traditional problems associated with "separation of ownership from control" have arisen with the spread in the use of the corporate form. These problems are applicable to investment advisers and open-end companies in an unusual way. The investment advisers themselves, as we shall see, are generally closely held and subject to ownership control. Open-end investment companies, on the other hand, constitute extreme examples of diffused ownership, stockholder passivity, and the dominance of "management control." By means of strategic position, interlocking personnel, and control of the proxy machinery of open-end companies, the managements of these closely held advisers are assured renewal of advisory contracts and effective control over the widely held open-end investment companies.

We shall return to these points later in this section. We turn now to a consideration of the means by which corporate investment advisers themselves are controlled.

(1) *Types of stock outstanding.*—Of the 134 corporate advisers, 96 have only 1 class of stock outstanding. In 29 cases, advisers have 2 classes of shares outstanding and, in 9 cases, they have 3 classes of shares. In 17 cases advisers have preferred stock outstanding. The total number of classes of shares issued is closely related to the size of the adviser (measured by open-end assets managed); but the issuance of preferred shares appears to be unrelated to size. Thirty-five corporate investment advisers, or more than one-quarter of the total, have nonvoting stock outstanding. This again is directly related to adviser size, as may be seen in the last column of table VIII-21. Only the \$50-\$150 million class interrupts the progression from 75 percent of the advisers in the largest class having nonvoting stock outstanding to 20 percent of the advisers in the smallest size class.

(2) *Concentration of shareholdings of investment advisers.*—Table VIII-21 describes the number of voting and nonvoting shareholders of 134 corporate investment advisers, by size class, for the end of 1960. Since the three large commercial banks in the \$10-\$50 million size class substantially alter the picture as regards numbers of shareholders, the data are shown with and without these banks included. We can see from the first column that in the case of three of the four advisers in the largest size class, there was only a single shareholder of the voting stock; and at the bottom of column 1 we can see that 35 advisers (26.1 percent) had only one voting shareholder, and 9 had a single

TABLE VIII-21.—Number of shareholders of voting and nonvoting stock for 134 investment advisers, by size of open-end company assets managed, 1960

Open-end company assets (in millions)	Type of stock	Number of shareholders																Total	
		1		2-10		11-25		26-50		51-100		101-500		501-1,000		Over 1,000		Number	Percent
		Number of advisers	Percent	Number of advisers	Percent	Number of advisers	Percent	Number of advisers	Percent	Number of advisers	Percent	Number of advisers	Percent	Number of advisers	Percent				
0 and under \$1.....	(Voting.....	5	20.0	12	48.0	5	20.0	1	4.0	1	4.0	1	4.0					25	100.0
	(Nonvoting.....	2	40.0	1	20.0	2	40.0											5	20.0
\$1 and under \$10.....	(Voting.....	10	22.7	25	56.8	3	6.8	3	6.8	1	2.3	2	4.5					44	100.0
	(Nonvoting.....	2	20.0	4	40.0	2	20.0	1	10.0			1	10.0					10	20.9
\$10 and under \$50 ¹ (excluding 3 banks).....	(Voting.....	9	29.0	18	58.1	1	3.2	1	3.2	1	3.2	1	3.2					31	100.0
	(Nonvoting.....	4	40.0	3	30.0	3	30.0											10	32.3
\$10 and under \$50 ¹	(Voting.....	9	26.5	18	52.9	1	2.9	1	2.9	1	2.9	1	2.9			3	8.8	34	100.0
	(Nonvoting.....	4	40.0	3	30.0	3	30.0											10	29.4
\$50 and under \$150.....	(Voting.....	3	33.3	3	33.3			1	11.1			2	22.2					9	100.0
	(Nonvoting.....					1	100.0											1	11.1
\$150 and under \$300.....	(Voting.....	5	55.6	1	11.1	1	11.1	2	22.2									9	100.0
	(Nonvoting.....									1	33.3			1	33.3	1	33.3	3	33.3
\$300 and under \$600.....	(Voting.....			4	44.4	2	22.2	1	11.1									2	22.2
	(Nonvoting.....			1	33.3	1	33.3											1	33.3
\$600 and over.....	(Voting.....	3	75.0															1	25.0
	(Nonvoting.....	1	33.3															2	66.7
Total (excluding 3 banks).....	(Voting.....	35	26.7	63	48.1	12	9.2	9	6.9	3	2.3	6	4.6	0	0.0	3	2.3	131	100.0
	(Nonvoting.....	9	25.7	9	25.7	9	25.7	1	2.9	1	2.9	1	2.9	1	2.9	4	11.4	35	26.7
Total.....	(Voting.....	35	26.1	63	47.0	12	9.0	9	6.7	3	2.2	6	4.5	0	0.0	6	4.5	134	100.0
	(Nonvoting.....	9	25.7	9	25.7	9	25.7	1	2.9	1	2.9	1	2.9	1	2.9	4	11.4	35	26.1

¹ Percentage of advisers in size class that have issued nonvoting stock.

² \$10,000,000-\$50,000,000 class is presented with and without 3 banks.

Table VIII-22 presents a summary view of the number of stockholders of investment advisers of open-end investment companies at the close of 1960. Since the three large commercial banks included in the \$10-\$50 million class again substantially alter the picture as regards numbers of shareholders, the data are shown with and without these banks included. The mean and median number of shareholders can be seen in this table to be directly related to the size of open-end company assets managed, especially in the total columns, but there are deviations from this pattern. The mean values are greatly affected by individual instances of numerous shareholders (see the column describing the largest number in each size class), but even the mean values are strikingly small. The median values are more representative and significant here as they exclude the extreme deviations which tend to dominate the mean value. In two of the larger classes the median value for number of voting shareholders was one; and for all corporate advisers the median value for number of voting shareholders and for all shareholders was only four.

The closely held and highly concentrated character of shareholdings of corporate investment advisers may also be seen by inspection of tables VIII-23—VIII-25 which show the concentration of ownership of voting stock of 134 investment advisers held by the largest shareholder, the officers and directors of the adviser, and all holders of 5 percent or more of the voting shares of the investment adviser, respectively. It may be seen in Table VIII-23 that in 89 instances (66.5 percent) the largest shareholder owns 50 percent or more of the outstanding voting shares of a corporate investment adviser. This pattern does not appear to vary systematically by size of open-end assets managed by the investment adviser. Officer and director holdings of voting shares are also very high, with this group owning a majority of voting shares in the case of 79 (58.9 percent) of all advisers. This seems to be more characteristic of the advisers managing less than \$150 million of open-end assets than of the larger systems. For the advisers of the larger systems, 10 of 22 (45.5 percent) were majority-owned by the officers and directors; for the smaller systems, 69 of 112 (61.6 percent) were owned 50 percent or more by their officers and directors.

Holders of 5 percent or more of the voting shares accounted for all of the voting shares in the case of 74 advisers (55.2 percent); and they accounted for the majority of voting shares in the case of 123 (91.8 percent) of the 134 corporate advisers included here.

In table VIII-26 an attempt has been made to summarize this information on the distribution of ownership, plus supplementary data on owners and managers, with a classification of forms of control of investment advisers of open-end investment companies. It is clear that the high concentration of stock ownership of investment advisers has resulted in a predominance of majority ownership as the form of control of investment advisers. One hundred and seventeen, or 87.3 percent, of the 134 corporate advisers were controlled by majority ownership interests. If we view partnerships and proprietorships as special cases of majority ownership control, then majority ownership is the form of control accounting for almost nine-tenths of the total number of investment advisers. Ownership control of all sorts characterizes approximately 95 percent of the investment advisers of open-end companies, since the three cases in the "other" category are made up of advisers that are joint subsidiaries of two or more other companies.

TABLE VIII-26.—Form of control of investment advisers of open-end investment companies, 1960
[Open-end company assets (in millions of dollars)]

Form of control	600 and over		300 and under 600		150 and under 300		50 and under 150		10 and under 50		1 and under 10		Under 1		Total		
	Num-ber	Per-cent	Num-ber	Per-cent	Num-ber	Per-cent	Num-ber	Per-cent	Num-ber	Per-cent	Num-ber	Per-cent	Num-ber	Per-cent	Num-ber	Per-cent	
1. Majority:																	
(a) By individual or family group.....	2	40	5	50	1	8.3	3	23.1	8	20.0	20	39.2	12	37.5	51	31.3	
(b) By management group or small bloc of stockholders.....					2	16.7	2	15.4	10	25.0	11	21.6	6	18.8	31	19.0	
(c) By a company.....	1	20	1	10	5	41.7	2	13.4	9	22.5	12	23.5	5	13.6	35	21.5	
2. Large majority control.....	3	60	6	60	8	66.7	7	53.9	27	67.5	43	84.3	23	71.9	117	71.8	
3. Small minority control (35-49 percent).....	1	20					1	7.7	2	5.0	1	2.0	1	3.1	6	3.7	
4. Management control.....			1	10											1	1.6	
5. Partnership.....	1	20	1	10	3	25.0	4	30.8	5	12.5	6	11.8	5	13.6	7	4.3	
6. Proprietorship.....									1	2.5	1	2.0	2	6.3	4	2.5	
7. Other.....							1	7.7	2	5.0					3	1.8	
Total.....	5	100	10	100	12	100.0	13	100.0	40	100.0	51	100.0	32	100.0	163	100.0	

¹ Owned by a group of savings banks.

² A joint subsidiary of 3 companies.

³ A joint subsidiary of 2 companies.

TABLE VIII-22.—Mean, median, and range of number of shareholders of 134 investment advisers, by size of open-end company assets managed, 1960

Open-end company assets (in millions)	Number of companies		Mean number of shareholders			Median number of shareholders			Largest number of shareholders			Smallest number of shareholders		
	Number with voting share-holders	Number with non-voting share-holders	Voting share-holders	Non-voting share-holders	Total	Voting share-holders	Non-voting share-holders	Total	Voting share-holders	Non-voting share-holders	Total	Voting share-holders	Non-voting share-holders	Total
0 and under 1.....	25	5	19.4	8.0	21.0	5	3.0	5	202	19	202	1	1	1
\$1 and under \$10.....	44	10	16.7	24.1	22.2	4	3.0	4	259	135	268	1	1	1
\$10 and under \$50 ¹ (excluding 3 banks).....	31	10	11.6	7.8	12.5	4	3.0	4	228	19	228	1	1	1
\$50 and under \$150.....	9	1	33.8	11.0	1,507.1	2	3.0	3	39,304	19	39,304	1	1	1
\$150 and under \$300.....	9	3	10.9	666.0	232.9	2	11	8	127	11	127	1	1	1
\$300 and under \$600.....	9	3	438.1	504.3	605.2	12	591.0	1	43	1,364	1,364	3	8	3
\$600 and over.....	4	3	1,160.3	1,712.8	2,456.0	4	1,381.0	690	4,638	3,488	2,132	1	1	1
All nonbank advisers.....	131	35	81.4	1,258.7	147.2	4	10.0	4	4,638	3,736	6,019	1	1	1
All advisers.....	134	35	480.9	258.7	548.4	4	10.0	4	39,304	3,736	39,304	1	1	1

¹ \$10 million to \$50 million class is presented with and without 3 banks.

TABLE VIII-23.—Percentage of voting stock owned by the largest shareholder (and immediate family), 134 investment advisers of open-end companies, 1960

Percent of shares owned	[Open-end company assets (in millions of dollars)]															
	600 and over		300 and under 600		150 and under 300		50 and under 150		10 and under 50		1 and under 10		0 and under 1		Total	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
100.....	13	75.0	1	11.1	6	66.7	3	33.3	9	26.5	12	27.3	7	28.0	41	30.6
75 and under 100.....	1	5.6	2	22.2	1	11.1	2	11.1	5	14.7	11	25.0	6	24.0	25	18.7
50 and under 75.....	1	5.6	3	33.3	2	22.2	2	22.2	4	11.8	10	22.7	4	16.0	23	17.2
25 and under 50.....	2	11.1	1	11.1	1	11.1	3	33.3	11	32.4	7	15.9	4	16.0	25	18.7
Under 25.....	1	5.6	3	33.3	1	11.1	3	33.3	5	14.7	4	9.1	4	16.0	20	14.9
Total.....	4	100.0	9	100.0	9	100.0	9	100.0	34	100.0	44	100.0	25	100.0	134	100.0

¹ Includes voting trust.

² Excludes direct interest of Murchison family in Investors Diversified Services.

TABLE VIII-24.—Percentage of voting stock owned by the officers and directors of the adviser, 134 investment advisers of open-end companies, 1960
[Open-end company assets (in millions of dollars)]

Percent of shares owned	600 and over		300 and under 600		150 and under 300		50 and under 150		10 and under 50		1 and under 10		0 and under 1		Total	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
100.....	1	25.0	1	11.1	1	11.1	4	44.4	7	20.6	16	36.4	9	36.0	39	29.1
75 and under 100.....			4	44.4	2	22.2			8	23.5	9	20.5	4	16.0	27	20.1
50 and under 75.....			1	11.1			1	11.1	3	8.8	4	9.1	4	16.0	13	9.7
25 and under 50.....			2	22.2			1	11.1	1	2.9	3	6.8	4	16.0	11	8.2
Under 25.....	3	75.0	1	11.1	6	66.7	3	33.3	15	44.1	12	27.3	4	16.0	44	32.3
Total.....	4	100.0	9	100.0	9	100.0	9	100.0	34	100.0	44	100.0	25	100.0	134	100.0

TABLE VIII-25.—Percentage of voting stock owned by all holders of 5 percent or more of the shares of the adviser, 134 investment advisers of open-end companies, 1960

[Open-end company assets (in millions of dollars)]

Percent of shares owned	600 and over		300 and under 600		150 and under 300		50 and under 150		10 and under 50		1 and under 10		0 and under 1		Total	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
100.....	3	75.0	2	22.2	6	66.7	6	66.7	19	55.9	25	56.8	13	52.0	74	55.2
75 and under 100.....			5	55.6	2	22.2			10	29.4	14	31.8	6	24.0	37	27.8
50 and under 75.....	1	25.0			1	11.1			2	5.9	3	6.8	5	20.0	12	9.0
25 and under 50.....			2	22.2			1	11.1			2	4.5	1	4.0	6	4.5
Under 25.....							2	22.2	3	8.8					5	3.7
Total.....	4	100.0	9	100.0	9	100.0	9	100.0	34	100.0	44	100.0	25	100.0	134	100.0

The contrast between the pattern of ownership and control of open-end investment companies and their investment advisers is striking. While the median number of shareholders for our group of investment advisers is 4, the median found for open-end investment companies in 1958 was 8,792. The largest shareholder owned 50 percent of the shares of 6 specialized and unusual open-end investment companies out of a total of 147, or 4.1 percent, in 1958; whereas the largest shareholder owned 50 percent or more of the voting shares in 89 of 134 cases, or in over two-thirds of all corporate investment advisers of open-end companies. The same contrast holds for officer and director holdings: management groups owned more than 5 percent of the shares of open-end companies in only 17 of 156 cases in 1958 (10.9 percent); management groups owned more than 50 percent of the voting shares in the case of 79 of 134 advisers (58.9 percent). Ownership was the dominant mechanism of control in the case of a maximum of 10 of 156 open-end companies (6.4 percent), as compared with 156 of 163 advisers of open-end companies (95.7 percent). The situation, then, is one in which exceptionally diffused shareholdings and an otherwise weak relationship between ownership and control characterize open-end investment companies, which facilitates management control by investment advisers who are themselves small, closely held and dominated by the absolutely small but relatively large ownership interests of their promoters.

Public sales and public ownership of investment adviser shares

With the growth in size of open-end company systems and their investment advisers and underwriters, and an increase in the earning power of management and selling groups, there has been some expansion in sales of newly issued adviser and underwriter stock. In the 5-year period ending December 31, 1960, seven advisers and three principal underwriters made public offerings of their own stock. In addition, two other advisers have from time to time sold their shares to wholesalers and dealers in the shares of their supervised investment companies.¹⁹ One major underwriter and one large adviser have also sold substantial blocks of their own shares to executive personnel. By and large the sums involved in these direct sales by advisers to dealers or the public have been small; the largest have been appendages to much more substantial sales by controlling management personnel.

In recent years there has been a significant increase in the number and volume of public offerings by major stockholders of investment advisers. With the growth in size of open-end company assets, a substantial number of closely held advisers and distributors have become large earners. In a number of instances controlling individuals of advisers and underwriters have attempted, mainly for tax and inheritance reasons, to capture the capitalized value of this increased earnings flow (and prospective further increases in the future) by public sales of their securities to outsiders.

¹⁹ B. C. Morton has an option to buy additional shares of nonvoting preferred stock of A. S. Karasick & Co., at \$0.25 per share, in amounts related to the investment adviser's increase in income due to B. C. Morton sales.

Since 1959 Investors Counsel, Inc., has been offering its nonvoting common stock at par value to underwriters and dealers selling shares of its two supervised investment companies, at the rate of between 70 and 140 shares for each \$25,000 of net assets added to either company. "Dealers who sell shares of the fund will thus have an opportunity to acquire an ownership interest in the management company, which the fund believes will stimulate the sale of its shares and maintain the interest of dealers in the fund." Capital Life Insurance Shares and Growth Stock Fund prospectus, Dec. 29, 1960, p. 5.