A 0.50 percent annual fee rate was not uncommon even among the larger funds. Table III–3, at page 98, supra, shows the advisory fee rates and expense ratios for fiscal years ending between mid-1965 and mid-1966 of the 57 externally managed mutual funds that had net assets of $100 million and over on June 30, 1965.[63] Among these 57 funds the advisory fee rates ranged from the 0.23 percent charged to Bullock Fund, Ltd., the 56th largest fund, to the 0.74 percent charged to Capital Shares, Inc., the 52d largest fund.

The median annual fee of the 57 funds in 1965 was 0.48 percent and the mean fee was 0.45 percent of average net assets. Twenty of these funds paid an advisory fee of 0.50 percent or more of average net assets. Only 8 of the 57 funds paid fees of less than 0.35 percent of average net assets.

For the most part reductions from the traditional 0.50 percent rate reflect the application of scaled-down rates provided for in the advisory contracts. The extent of these scale downs and the asset levels at which they become operative vary considerably. For some funds, the scale-down provisions thus far have been of little or no practical consequence. For example, a scale down from the basic annual fee rate of 0.50 percent does not occur under the fee schedule adopted in 1963 by Hamilton Funds, Inc., until the fund's average net assets exceed $500 million. At the end of 1963 the fund's net assets were $330.8 million, and at June 30, 1966, they amounted to $489.1 million.

Table III–3 does suggest some tendency toward lower advisory fee rates among the largest funds. Thus, in 1965 the advisory fee rates of 12 of the 23 funds in the $100 million to under $200 million size category amounted to 0.50 percent or more of average net assets, but only 2 of the 20 funds in the $300 million and over size category—The Dreyfus Fund, Inc. and Hamilton Funds, Inc.—were charged that rate.

The relationship between lower advisory fee rates and large fund size, however, is not consistent. Among the 20 funds with net assets of $300 million and over, the lowest fee rates were paid by Wellington Fund, Inc. and Affiliated Fund, Inc., the second and fifth largest funds, respectively. However, the next lowest advisory fee rates were the 0.28 percent and 0.30 percent paid by Dividend Shares, Inc., and Chemical Fund, Inc., which ranked 16th and 17th in size, respectively. Similarly, although none of the 14 funds in the $200 million to under $300 million category paid annual advisory fee rates of 0.30 percent or less, three funds in the $100 million to under $200 million category paid advisory fees at such rates.

Since the advisory fee constitutes by far the most substantial part of the funds' operating expenses, there is a relationship between fund size, advisory fee rates and expense ratios among the 57 funds. The median expense ratio of the 57 funds was 0.57 percent. Affiliated Fund, Inc. which was charged the second lowest fee rate of 0.24 percent, had an expense ratio of 0.34 percent—the lowest expense ratio among the 57 funds. Capital Shares, Inc., which paid a substantially higher advisory fee rate than the other funds—74 percent—had by far the highest expense ratio, 1.04 percent.

However, there are inconsistencies in the relationship between advisory fee rates and expense ratios even among funds of comparable

[63] Excludes Institutional Investors Mutual Fund, Inc. (June 30, 1966, net assets approximately $128.8 million) whose shares are offered only to members of the Savings Banks Association of New York State.

sizes. To some extent this reflects variations in the extent of the nonadvisory services paid for by the advisory fee, but these variations explain only a part of the differences in the advisory fee rates. The advisory fees of most of the 20 funds in the $300 million and over category did not pay for substantially more nonadvisory services than those typically provided by mutual fund investment advisers in return for advisory fees. Thus, apart from the advisory fee, most of these funds incurred expenses for stock transfer, dividend disbursing, custodial, legal and auditing services and all or part of the costs of printing and mailing of shareholder reports and proxy statements. Their advisory fee rates ranged from 0.24 percent to 0.50 percent.

Moreover, the advisory fees of all but 2 of the 14 funds in the $200 million to under $300 million category paid for some nonadvisory services. The two funds which received only investment advisory services in return for such fees were Financial Industrial Fund, Inc. and National Securities Series—Stock Fund. These two funds were not only the largest in the $200 million to under $300 million category, but were among the funds in that category which paid a flat 0.50 percent fee in 1965.

(b) Changes in advisory contracts since 1960

The fact that many of the larger mutual funds now pay advisory fees at rates lower than the traditional 0.50 percent annual rate reflects for the most part changes in advisory contracts which have been made since the Wharton Report's 1960 survey. For example, of the 20 largest externally managed funds as of June 30, 1965, only 7 had advisory contracts in 1960 which contained scaled-down fee schedules.[64] By June 30, 1965, 17 of these 20 funds had such contracts. Those which did not were Insurance Securities Trust Fund, The Dreyfus Fund, Inc., and the Puritan Fund, Inc. A scaled-down advisory fee schedule has since been put into effect for the Puritan Fund. In addition, four of the seven funds that had scaled-down fee schedules in 1960 had adopted by 1965 new contracts which provide for further reductions from the basic rate. Two other funds—United Accumulative Fund and United Income Fund—also had advisory contract changes in 1965 which increased the advisory fee rates but nevertheless accounted for some savings to the funds because the adviser agreed to assume virtually all the funds' expenses in return for the advisory fees.[65]

[64] In the case of another fund (Fidelity Fund, Inc.), the fee was waived on $25 million of net assets.

[65] In 1963 the advisory contracts of Investors Mutual, Inc. and Investors Stock Fund, Inc. were changed to provide for a reduced fee schedule and for Investors Diversified Services, Inc., the adviser, to furnish or assume the cost of virtually all the nonadvisory services required by the funds' operations. Similar changes were effected for Investors Variable Payment Fund, Inc., the third largest IDS fund, on Oct. 15, 1964. These contract changes, along with the use of brokerage to reduce advisory fees (*see* pp. 109-110, *infra*) and the growth of the funds, have reduced the expense ratios of Investors Mutual from 0.50 percent of net assets in 1960 to 0.38 percent in 1965, Investors Stock Fund from 0.50 percent in 1960 to 0.43 percent in 1965 and Investors Variable Payment Fund from 0.50 percent in 1960 to 0.49 percent in 1965.

Chemical Fund, Inc. also reduced its advisory fee schedule on Apr. 1, 1966, from 0.25 percent to 0.20 percent on net assets over $500 million. At year end 1965, Chemical's net assets stood at $434 million.

TABLE III–4.—*Comparison of 1960 and 1965 advisory fee rate schedules of the 20 largest externally managed funds as applied to June 30, 1965, net assets*

	June 30, 1965 net assets (millions)	Advisory fee payable under schedule in effect [a]				
		June 30, 1965 (thousands)	June 30, 1960 (thousands)	Decrease (increase) from 1960 (percent)	Under 1965 schedule (percent)	Under 1960 schedule (percent)
1. Investors Mutual, Inc	$2,793.0	$10,419.0	$13,965.0	25.4	0.37	0.50
2. Wellington Fund, Inc	1,934.5	4,820.1	5,073.8	5.0	.25	.26
3. Investors Stock Fund, Inc	1,546.0	[b] 6,616.0	7,730.0	14.4	.43	.50
4. Insurance Securities Trust Fund	1,227.7	[c] 6,066.7	6,066.7	----------	.49	.49
5. Affiliated Fund, Inc	1,134.1	2,755.7	3,022.8	8.8	.24	.27
6. United Accumulative Fund	1,040.1	[b] 4,524.8	4,360.4	(3.8)	.44	.42
7. Fundamental Investors, Inc	940.6	4,092.1	4,703.0	13.0	.44	.50
8. The Dreyfus Fund Inc	937.5	4,687.5	4,687.5	----------	.50	.50
9. United Income Fund	603.5	[b] 2,625.4	2,614.0	(.4)	.44	.43
10. Fidelity Fund, Inc	536.4	2,177.4	2,557.0	14.8	.41	.48
11. Hamilton Funds, Inc	407.1	2,035.5	2,035.5	----------	.50	.50
12. Investment Co. of America	404.6	1,418.9	1,456.6	2.6	.35	.36
13. Television-Electronics Fund, Inc	388.7	1,726.4	1,943.5	11.2	.44	.50
14. Investors Variable Payment Fund, Inc	383.4	[b] 1,871.0	1,917.0	2.4	.49	.50
15. Boston Fund, Inc	363.1	1,657.8	1,815.5	8.7	.46	.50
16. Dividend Shares, Inc	361.9	1,116.1	1,154.8	3.4	.31	.32
17. Chemical Fund, Inc	360.5	1,151.3	1,151.3	----------	.32	.32
18. The George Putnam Fund of Boston	360.5	1,331.5	1,331.5	----------	.37	.37
19. Puritan Fund, Inc	347.0	1,388.0	1,388.0	----------	.40	.40
20. Fidelity Trend Fund, Inc	301.0	1,454.0	1,505.0	3.4	.48	.50
Median	----------	----------	----------	3.0	.44	.49

[a] Advisory fees have been calculated on the basis of June 30, 1965 net assets. The fee schedules in effect as of that date and on June 30, 1960, were used in the calculation of the fees. Since fees normally are calculated on a daily, monthly, or quarterly average of net assets, the fees shown vary from the fees actually paid.

[b] Changes in the advisory contract since 1960 call for the adviser to perform additional services and to pay additional fund expenses in return for the advisory fee.

[c] MAT fee paid in 1965 by Insurance Securities Trust Fund. For method of calculating MAT fee, which is not based on average net assets, see p. 98, note b to table III–3, supra.

Table III–4 compares for the 20 largest externally managed funds as of June 30, 1965, the differences between 1965 and 1960 fee rates attributable to changes in the funds' advisory contracts. Reductions of 2.4 percent to 25.4 percent in the advisory fees payable are shown for 12 of the 20 funds; for 6 others no reductions are shown. While, as noted, the remaining two funds (United Accumulative Fund and United Income Fund) paid increased advisory fees, these increases were accompanied by the adviser's assumption of expenses previously borne by the funds.[66] For the group of 20 funds changes in advisory contracts caused a reduction in the median annual fee rate from the 0.49 percent payable under the 1960 fee schedules to the 0.44 percent payable under the fee schedules in effect on June 30, 1965.

Of the 12 funds for which fee reductions are shown, 7 of the reductions amounted to less than 10 percent of the fees payable under the 1960 schedule. Four of the five funds for which fee reductions exceeding 10 percent are shown still paid fees at annual rates ranging from 0.41 to 0.44 percent. Among the six funds for which no fee rate reductions are shown, two—the Dreyfus Fund, Inc., and Hamilton Funds, Inc.—had 1965 advisory fee rates of 0.50 percent.

[66] These two funds along with United Science and United Bond funds obtained additional savings from arrangements to share in the profits of their adviser's broker-dealer subsidiary. See pp. 109–110, infra.

4. *Evaluating the fairness of advisory fees—The need for comparative standards*

The changes in advisory fee rates that have occurred since **1960** were made against the background of pressures generated by the Wharton School Study and the pendency of stockholder litigation attacking as excessive the fees paid to investment advisers of many of the larger mutual funds. As noted, **17** of the **20** largest externally managed funds as of June **30, 1965,** have had their advisory fee rates changed since **1960.** For 11 of these **17** funds, the changes were made in whole or part in connection with settlements of stockholder suits.[67] Only **2** of these **11** settlements were reached prior to publication of the Wharton Report.

While the scaled-down advisory fee schedules of certain funds have produced some fee reductions for their shareholders, these reductions are not substantial in the light of the increases in fund assets. In **1965** more than one-half of the **57** externally managed funds with net assets of **$100** million and over—where the economies of size were likely to be the greatest—still paid annual advisory fees amounting to 0.48 percent or more of their average net assets.[68] And the fact that many of the larger funds have not shared in any part of the economies of size made possible by their growth leaves wholly unanswered, in instances too numerous to ignore, the basic question raised by the Wharton Report.

The Wharton Report indicated that the external advisers' practical control of the mutual funds under their management tends to weaken the role of competition and arm's-length bargaining in the fixing of advisory fees.[69] An examination of the charges paid by other purchasers of investment advice will help to test the validity of this hypothesis.

D. MANAGEMENT COSTS—INTERNALLY MANAGED VERSUS EXTERNALLY MANAGED INVESTMENT COMPANIES

1. *The cost of internal management*

The most similar context from which standards can be developed to evaluate the advisory fees that externally managed funds pay is the cost of investment advice to internally managed investment companies. As indicated previously, the Wharton Report found that in **1960** the internally managed companies, which employed their own advisory staffs, had significantly lower management costs than the externally managed funds, whose investment advisers were compensated by fees based, in most cases, on a fixed percentage of the fund's net assets.

Internal management is not characteristic of the investment company industry. **As** of June **30, 1965,** there were only **11** diversified investment companies with internal managements that had net assets of **$100** million and over. Five were closed-end companies, and six were mutual funds.

67 The advisory fee rate reductions for Investors Mutual, Inc., Investors Stock Fund, Inc. and Investors Variable Payment Fund, Inc., three funds managed by Investors Diversified Services Inc., reflect contract changes made in 1963 in connection with the settlement of stockholder litiwtion as well + further changes made in 1964 subsequent to the settlement. All other funds that have reduced fee rates since 1960 have done so only once.

68 See table III-3, at p. 98, supra.

69 Wharton Report 30.

Table 111–5, shows the 1965 ratios of expenses and of estimated management costs to average net assets for these 11 internally managed companies. The expense ratios cover all operating costs. The estimated management cost ratios cover the approximate cost of investment management plus the cost of those nonadvisory services commonly provided by external investment advisers in return for the advisory fee. The 1965 expense ratios of the 11 companies ranged from 0.18 percent of average net assets for Massachusetts Investors Trust and National Investors Corp. to 0.50 percent for Madison Fund, Inc. The median expense ratio for the 11 companies was 0.31 percent.

In internally as well as externally managed companies, the cost of management—principally investment advisory services—is the main operating expense. The 1965 estimated management cost ratios of the 11 internally managed companies ranged from 0.12 percent of average net assets for Massachusetts Investors Trust to 0.36 percent for Madison Fund, Inc. The median estimated management cost ratio for the 11 companies was 0.25 percent.

TABLE III–5.—*Estimated management cost and expense ratios of internally managed diversified investment companies with Dec. 31, 1966 net assests of $100 million and over for their fiscal years ended July 1, 1965–June 30, 1966*

Investment companies	Type	June 30, 1965, assets [a] (millions)	Operating expenses (thousands)	Estimated management costs (thousands)	Expense ratio (percent)	Estimated management cost ratio (percent)
1. Massachusetts Investors Trust	Openend	$2,102.6	$4,002.4	[b] $2,746.4	0.18	0.12
2. Massachusetts Investors Growth Stock Fund, Inc.	do.	738.9	2,922.2	[b] 2,019.5	.38	.26
3. Tri-Continental Corp	Closed end	544.1	1,064.4	[c] 634.1	.19	.11
4. National Investors Corp	Open end	447.4	892.4	[c] 504.2	.18	.10
5. Lehman Corp	Closed end	406.6	1,317.6	[b] 1,067.4	.31	.25
6. Broad Street Investing Corp	Open end	337.8	706.3	[c] 383.7	.20	.11
7. Madison Fund, Inc	Closed end	175.0	958.7	[d] 700.2	.50	.37
8. U.S. & Foreign Securities Corp	do	135.3	608.9	[g] 479.9	.43	.34
9. Elfun Trusts	Openend	122.9	338.7	[h] 169.9	.26	.13
10. Century Shares Trust	do	121.1	489.2	[f] 360.6	.38	.28
11. Adams Express Co	Closed end	115.6	448.4	[i] 311.9	.37	.26
Median					.31	.25
Mean					.31	.21

[a] Total assets for closed-end companies and net assets for open-end companies.
[b] For description of expense items included see p. 104 infra.
[c] For description of expense items included' see p. 107,' infra.
[d] Includes all expenses except registration, transfer and custody of securities, legal, auditing, and reporting *expenses.*
[e] Excludes all expenses except those for public relations, legal, accounting, transfer-dividend agent, registrar and taxes.
[f] includes all expenses except those for transfer and dividend disbursing agent, custodian, printing, and miscellaneous.
[g] Includes all expenses except those for professional services, stock transfer agent, registrar, custodian, and taxes.
[h] Includes all expenses except trust agent's fee, auditing and tax consulting fees, and State and local taxes.
[i] Includes all expenses except custodian, stock transfer, registrar, legal and auditing fees, and cost of reports and other shareholder communications and taxes.

The expense and management cost ratios of these companies are substantially lower than those of the larger externally managed mutual funds. The median 1965 expense ratio of the 57 externally managed funds with assets of $100 million and over at June 30, 1965, was 0.57 percent,[70] as against the 0.31 percent median expense ratio of the 11 internally managed companies. Similarly, the median advisory fee

[70] Table III–3, p. 98, supra.

rats of 0.45 percent paid by these 57 funds in 1965 was almost double the 0.25 percent median estimated management cost ratio of the internally managed companies during that year.

To a significant extent, the expense and estimated management cost ratios of the internally managed companies appear to reflect the economies of size inherent in the operation of investment companies. Five of the six largest internally managed companies belong to two of the largest investment company complexes. Massachusetts Investors Trust (MIT) and Massachusetts Investors Growth Stock Fund, Inc. (MIQS) form one; Tri-Continental Corp., National Investors Corp., and Broad Street Investing Corp., belong to another, the so-called Broad Street complex. Four of these five companies have the lowest expense and management cost ratios among the internally managed companies. A more detailed examination into the operating structure and expenses of the companies in these two complexes should be helpful in determining the extent to which their management costs may serve as a standard for evaluating the fairness of advisory fees charged to externally managed funds.

2. The MIT–MIGS complex

MIT, a diversified common stock fund, was organized in 1924 as a Massachusetts business trust. It is the oldest mutual fund in the United States and the second largest in the mutual fund industry, with net assets of $2.1 billion as of June 30, 1966. Its investment advisory and other management services are performed internally by a board of five trustees, an advisory board and a staff of employees, all of whom receive their compensation directly from the fund.

The MIT trustees and staff also furnish investment advice and management services to MIGS. MIGS was organized as a corporation in 1932, and the MIT trustees became its managers in 1934.[71] Although MIGS is also a diversified common stock fund, its investment objectives stress growth more than those of MIT. MIGS was the 10th largest mutual fund as of June 30, 1966, with net assets of $931.0 million. On that date the size of the MIT–MIGS complex was exceeded only by the $5.2 billion of assets held by the four funds that form the complex managed by Investors Diversified Services, Inc.

Although the five MIT trustees also serve as officers and directors of MIGS, they are compensated by each fund separately under different arrangements. MIT and MIGS, however, share research and general office expenses, including employee compensation, in proportion to the relative value of their net assets. MIT's management costs—its expense items for trustees' compensation and research and general office expenses—cover services substantially comparable to those typically furnished in return for the advisory fees paid by externally managed funds to their investment advisers.[72]

The internal management structure of MIT has resulted in a significant sharing of the economies of size with the fund and its shareholders. Its overall expense and management cost ratios consistently have been low compared to other funds in the industry. In 1953, MIT had

[71] From 1940 until 1952. MIGS was known as Massachusetts Investors Second Fund. Inc. Prior to 1940 its name was Supervised Shares, Inc.

[72] They include all investment management services, office rental and equipment, various clerical, bookkeeping and accounting services, and services in connection with the preparation of shareholder reports and compliance with other requirements of State and Federal law. MIT and MIGS pay separately for their own stock transfer, dividend disbursing, custodial, legal, and auditing services and the cost of printing and mailing annual reports and other shareholder communications. For discussion of services typically provided by advisers to externally managed funds in return for advisory fees, see pp. 90–92, supra.

yearend net assets of **$522.4** million and its overall expenses amounted to **$1.4** million or **0.27** percent of average net assets. Of this amount trustees' compensation and research and general office expense accounted for approximately **$1** million or **0.21** percent of average net assets. By the end of **1962,** MIT's net assets had tripled to **$1.6** billion. Its expenses for that year were less than **$3.1** million, a little more than double **1953** expenses, and resulted in a **0.19** percent ratio of expenses to average net assets. Trustees' compensation and research and general office expense amounted to **$2.1** million in 1962, or a management cost equal to **0.13** percent of average net assets. At yearend **1965** MIT's net assets had climbed to **$2.3** billion. Its expense ratio dropped to 0.18 percent and trustees' compensation and research and general office expense to **0.12** percent of average net assets.

Unlike the top managements of most publicly held corporations, the MIT trustees are not paid a fixed basic salary. Their compensation is limited by MIT's trust agreement to maximum fees, which are computed in part on a percentage of MIT's net asset value and in part on its gross investment income.[73] Although the trustees charge for their services at the maximum fee rates, those rates are substantially lower than the advisory fee rates charged to externally managed funds. Hence, the amounts spent by MIT for investment advice and other management services reflect a portion, but by no means all, of the economies of size obtainable from MIT's growth. During the period **1953–65,** MIT's net assets quadrupled, while trustees' compensation more than doubled, increasing from **$0.7** million in **1953** to **$1.6** million in **1965.**

MIT's expense and management cost ratios are significantly lower than those of MIGS. This is so because MIGS pays compensation to the five MIT trustees and to the other persons who serve as its directors and as members of its advisory board at substantially higher rates than does MIT.[74] MIGS' expense ratio for **1965** was **0.38** percent of average net assets. Compensation to MIGS' directors and advisory board members amounted to **0.22** percent of average net assets.

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[73] The maximum compensation for MIT's trustees and advisory board members as a group is computed as follows:

On average net assets:
- 0.0350 percent per annum of the first $100 million,
- 0.0175 percent of the next $150 million, and
- 0.0100 percent of the excess over $250 million;

plus

On gross investment income (excluding capital gains and losses):
- 2.50 percent of the Erst $1.250 million
- 1.50 percent of the next $1.875 million,' and
- 0.75 percent of the excess over $3.125 million.

From MIT's inception until Oct. 1,1935, aggregate compensation of trustees and advisory board members was limited to 6 percent of annual gross investment income, excluding capital gains and losses. On Oct. 1, 1935, it was voluntarily reduced to 5 percent, and another voluntary reduction was arranged in 1941 when shareholders were notified that the trustees' compensation would be limited to the income attributable to 6 million shares adjusted to reflect shares issued to capitalize net realized capital gains. The trustees have been reported as stating that they adopted the 6 million share limitation because they decided that "they were, or soon might be, making an embarrassingly good living from the trust" ("Big Money in Boston," Fortune, December 1949,117). As a result of this limitation, the trustees' aggregate compensation amounted to 2.73 percent of gross investment income during the first half of 1952. In July 1952 however, the limitation was dropped and the present fee schedule adopted with the approval of shareholders. At the end of 1952, MIT had 25 million shares outstanding. At year end 1965 the number of outstanding shares had increased to 127.4 million.

[74] Aggregate compensation for the MIT trustees and other persons serving as MIGS directors and advisory board members is computed solely on the basis of average net assets as follows:
- 0.25 percent per annum on the first $500 million of average net assets,
- 0.15 percent on the next $250 million
- 0.10 percent on the next $250 million:
- 0.05 percent on the balance.

Prior to February 1962, MIGS' rate of compensation for its directors was a flat 0.25 percent of average net assets per annum. The present fee schedule was made retrozctive to the fiscal year ending Nov. 30, 1961, reducing the compensation of MIGS directors for that Escal year from $1,250,396 to $1,229,336.

In contrast, the compensation paid by MIT to its trustees and advisory board members amounted to **0.07** percent of average net assets. During the period fiscal **1953** to fiscal **1965** the net assets of MIGS increased almost twentyfold **($42.1** million to **$870.6** million), while compensation paid its directors increased more than twelvefold **($0.1** million in **1953** to **$1.33** million in **1965).**

The combined compensation paid to the MIT trustees for their services to MIT and MIGS is substantial. During **1965** it amounted to almost **$2.3** million and was divided as follows:

	Compensation paid by MIT (calendar year)	Compensation paid by MIGS (fiscal year ended Nov. 30) =	Total
Kenneth L. Isaacs	$396,152	$225,770	$621,922
George K. Whitney	280,134	178,658	458,792
William B. Moses, Jr.	316,037	180,091	496,128
John L. Cooper	313,704	180,091	493,795
Dwight P. Robinson [b]	46,392	56,180	102,572
Harrison F. Condon, Jr. [c]	64,343	36,844	101,187
Total	1,416,762	857,634	2,274,396

Although the five MIT trustees are fulltime officials of both funds, two other directors of MIGS, Henry T. Vance and William F. Shelley, are also affiliated with and devote most of their time to the operations of Vance Sanders & Co., Inc., principal underwriter for MIT and MIGS, and of other mutual funds which they serve as officials. In **1965** thev received **$225,672** each for their services as MIGS directors in addition to remuneration from their other mutual fund activities. Five other MIGS directors and the advisory board members of both MIGS and MIT receive relatively modest compensation on an annual and per meeting basis.

3. The** Broad **Street complex

The internally managed investment companies in the so-called Broad Street complex have for many years consistently achieved relatively low management cost and expense ratios and significant economies of size for investors. The Broad Street complex is sponsored by, and affiliated with, the brokerage house of **J.** & W. Seligman & Co. ("Seligman"), a New **York** Stock Exchange member. **It** consists of Tri-Continental Corp., a diversified closed-end investment company with assets of ***$535.5* million,**[75] and three mutual funds—(1) Broad Street Investing Corp., a common stock fund with net assets of **$328.7** million; **(2)** National Investors Corp., another common stock fund with net assets of **$559.1** million and with more growth-oriented investment objectives than Broad Street Investing Corp.; and **(3)** Whitehall Fund, Inc., a balanced fund with net assets of **$16.6 million.**[76]

Five partners **of** Seligman serve as officers and/or directors of the four investment companies in the complex. They receive fixed salaries for their services directly from the four investment companies which share this expense in proportion to each company's sbare of

[75] **Tri-Continental Corp. has a wholly owned investment company subsidiary—Tri-Continental Financial Corp.—which invests in more speculative securities than does Tri-Continental.**

[76] **All asset figures as of June 30,1966.**

the total assets of the complex." The officers also receive substantial additional compensation as partners of Seligman, which acts as regular broker to the companies in the complex and receives a large portion of the brokerage commissions generated by their portfolio transactions.[78]

The four companies receive investment advisory and administrative services from their officers and from a staff employed by Union Service Corp. ("Union"). Union is jointly owned by Tri-Continental Corp. and the three mutual funds. Most of the investment companies' officers are also officers and directors of Union. In addition to investment management, Union provides each company with office space, accounting, budgetary and bookkeeping services and services in connection with the preparation of shareholder reports and proxy solicitation material, and compliance with other requirements of State and Federal law. Each investment company pays separately for its stock transfer, custodial, dividend disbursing, legal and auditing services, taxes and the cost of printing and mailing shareholder communications and of holding shareholder meetings.

The management and administrative services provided by Union, in conjunction with the officers of the companies, are thus comparable to those typically paid for by the advisory fees of the externally managed funds.[79] However, unlike the externally managed mutual funds, the investment companies in the Broad Street complex do not pay a gross advisory fee for these services. Instead they share the compensation of their officers and the actual costs of operating Union on the basis of their varying percentages of the total assets of the complex.[80]

The internal management arrangements of the investment companies in the Broad Street complex have resulted in relatively low expense ratios and management cost ratios. Their shareholders have benefited from the growth of the complex to an extent unique in the mutual fund industry. For example, in **1953** Broad Street Investing Corp. had year end net assets of **$36.2** million. Its ratio of expenses to average net assets was **0.44** percent. During that year, the fund spent **$80,260** for its share of officers' salaries, directors' fees and Union's operating costs, for a management cost ratio of **0.24** percent of average net assets. By the end of **1962** the fund's net assets were **$249.1** million, seven times those at yearend **1953,** but its overall expenses and management costs were less than four times those of **1953.** Its expense ratio was **0.24** percent and its management cost ratio was **0.13** percent of average net assets. By yearend **1965,** Broad Street Investing Corp.'s net assets had increased to **$363.8** million, while its expense ratio dropped to **0.20** percent of average net assets. In that year the fund paid **$53,429** for officers' salaries, **$6,800** for directors' fees and **$323,498** for Union's operating costs, representing a total management cost of **0.11** percent of average net assets.[81]

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77 In 1966 the four companies paid approximately 5213 thousand in officers' salaries.

78 In 1965 the four companies paid aggregate brokerage commissions of $2.4 million. Seligman received approximately $1.7 million or 72.9 percent of this amount.

79 See pp. 90-92, infra.

80 Seligman, which maintains a substantial organization separate from Union, also pays a portion of Union's expenses for those of Union's facilities which it uses.

81 In 1965 brokerage commissions paid by Broad Street Investing Corp. to Seligman amounted to $431,382, eight times the $53,368 paid in 1953.

4. Economies of size and mutual fund complexes

The relatively low expense and management cost ratios of the companies in the Broad Street complex in part reflect the management economies obtainable when such costs are spread among the assets of the various funds served by the same advisory organization. Since all four companies in the Broad Street complex share Union's operating costs and the compensation of their common officers in proportion to their relative asset size, even the $17 million Whitehall Fund, Inc., the smallest of the four companies, had a relatively low expense ratio—0.31 percent of average net assets in 1965.

The economies of size in the management of the Broad Street complex are not peculiar to internally managed funds. They result from the fact that much of the investment advisory process—the general economic forecasting, the evaluation of particular industries, and the selection of specific stocks—undertaken for the management of one fund's portfolio is also useful in connection with the management of the other funds served by Union. Although the various funds in a single complex usually have somewhat different investment objectives, their portfolios often overlap to a substantial extent.

However, with respect to advisory fees, externally managed funds belonging to large complexes are generally treated as completely separate entities. Although scaled-down fee schedules may reflect to some extent the economies of size in investment company management, they seldom give express recognition to these economies on a complex-wide basis. Of the advisers to the larger externally managed mutual fund complexes, only Keystone Custodian Funds, Inc., Waddell & Reed, Inc., and National Securities & Research Corp. charge advisory fees calculated on the combined assets of more than one fund under their management.

5. Use of brokerage commissions to reduce management costs

The relatively low expense and management cost ratios of the companies in the Broad Street complex also are attributable to the substantial brokerage commissions paid by the companies to Seligman. The officers and directors of the investment companies who are partners in the brokerage firm derive substantial compensation from Seligman in addition to that paid directly to them by the investment companies. This compensation, however, only partly accounts for the relatively lower management costs of these companies. Even if the brokerage commissions received from the four companies by Seligman were considered in evaluating the managerial costs of these companies, such costs would not rise to the level of the advisory fees typically paid to investment advisers by externally managed funds. For example, the 1965 management costs of Broad Street Investing Corp., if increased by 60 percent of the brokerage commissions—the percentage of fund brokerage commissions which executing brokers commonly give to such other brokers as the fund manager may designate[82]—paid to Seligman during that year, would have resulted in a management cost ratio of 0.18 percent of average net assets and an expense ratio of 0.23 percent.

The use of brokerage commissions to pay for investment advisory services is common in the securities industry. Investment advisers who are also broker-dealers often reduce advisory fees charged nonfund clients by a specified portion of the brokerage commissions generated

[82] See pp. 169–172, infra.

by their nonfund advisory accounts or otherwise take them into account in setting advisory fee rates for nonfund clients. Moreover, the level of the minimum commission rates of the national securities exchanges is affected by the fact that brokerage commissions compensate brokers not only for execution and clearing services but for investment advice and other services customarily provided without extra charge.

In the mutual fund industry, however, brokerage commissions are seldom used to reduce the cost of investment advice. The majority of investment advisers are not affiliated with broker-dealers, and a large portion of the brokerage commissions generated by the mutual funds under their management is used to reward unaffiliated broker-dealers for sales of fund shares.[83]

In some instances the funds' investment advisers are themselves broker-dealers or are affiliates of broker-dealers who receive a large portion of the brokerage commissions generated by these funds. They obtain this business and retain the entire commission because of their relationship to the fund. Nevertheless, the advisory fees charged most of these funds do not reflect a sharing of any portion of the advisers' profits from these revenues. For example, in 1965 the Dreyfus Fund, Inc., paid approximately $2.4 million in brokerage commissions to its affiliate, Dreyfus & Co., a member of the New York Stock Exchange and other national securities exchanges. During that year the fund also paid its investment adviser, a corporation wholly owned by Dreyfus & Co. for most of the year, an advisory fee of $5.1 million at the rate of 0.50 percent of average net assets.[84]

Similarly, since 1959 Insurance Securities Trust Fund has executed all of its portfolio transactions through its investment adviser, Insurance Securities, Inc. ("ISI"). The fund invests only in insurance and bank stocks. These stocks are traded almost entirely in the over-the-counter market where there is no minimum commission schedule. However, the fund is charged commissions within the limits of the New York Stock Exchange minimum commission rate schedule on its portfolio transactions. Despite this, the 1965 MAT fee rates of the fund are the same as those in effect prior to 1959 when ISI did not share in any of the brokerage commissions generated by the fund's portfolio transactions. In its fiscal year ended June 30, 1965, ISI received from the fund $5.4 million in MAT fees and about $1.1 million in brokerage commissions.

In 1965 IDS and Waddell & Reed, Inc.,[85] formed broker-dealer subsidiaries which were admitted to membership in the Pacific Coast Stock Exchange. These subsidiaries execute transactions in securities traded on the exchange for the funds in the complexes. They also do substantial amounts of Pacific Coast Stock Exchange business for brokers who execute orders for the funds on other exchanges. All of the net profits from the operation of its broker-deder subsidiaries are credited by IDS against the advisory fees paid by the funds. Waddell & Reed, Inc., reduces the advisory fees payable by the funds

[83] See pp. 164–167, infra.
[84] Although the investment adviser became a publicly held company in October 1965, Dreyfus & Co. still serves as regular broker to the fund.
[85] Waddell & Reed, Inc., is adviser to the fourth largest fund eompler.

under its management by 50 percent of its broker-dealer subsidiary's net profits.[86]

Both Waddell & Reed, Inc., and IDS act as principal underwriter to the funds under their management. Shares of the IDS funds are distributed exclusively, and those of Waddell & Reed, Inc., almost exclusively, through their own retail selling organizations rather than through independent broker-dealers. While Waddell & Reed, Inc., and IDS utilized brokerage to compensate broker-dealers for supplementary investment advice and other services, they have had little or no occasion to use it as extra compensation for sales of fund shares.

6. *changes in management costs—Internally versus externally managed funds*

Although the expenses of MIT and, to a lesser extent, those of the companies in the Broad Street complex include a substantial amount of managerial compensation, their expense and management cost ratios are significantly lower than those of each of the 57 largest externally managed funds. The expense ratios of these funds as shown in table 111–3 at page —, supra, ranged from 0.34 percent for Affiliated Fund, Inc.—almost double MIT's 0.18 percent expense ratio—to 1.04 percent for Capital Shares, Inc.

The disparity between the expense ratios of the 57 largest externally managed funds and those of Broad Street Investing Corp. and MIT is primarily due to differences in charges for management services. The median annual advisory fee rate of 0.48 percent for the 57 funds was 4 times or more the 0.10 and 0.11 percent management cost ratios of the companies in the Broad Street complex and the 0.12 percent of ratio of MIT in 1965. Even the 0.26, 0.24, and 0.23 percent advisory fee rates paid respectively by Wellington Fund, Inc., Affiliated Fund, Inc., and Bullock Fund, Ltd., which were the lowest among the 57 funds, amounted to about twice the management cost per dollar of assets managed on behalf of the shareholders of MIT and Broad Street Investing Corp.

As noted, current advisory fees reflect reductions in fee rates made since 1962 against the pressures generated by the settlement of shareholder litigation and the publication of the Wharton Report. A measure of the disparity between advisory fees charged externally managed funds in the absence of these pressures and the management costs of the internally managed funds can be obtained by comparing for a period prior to 1962 the changes in net assets, expense ratios, and management cost ratios of the Broad Street companies and MIT with those of the largest externally managed funds.

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[86] Channing Financial Corp., an investment adviser and principal underwriter to a large mutual fund complex, recently purchased an interest in a member firm of the Pacific Coast Stock Exchange but has not indicated to what extent, if any, profits from brokerage business obtainable by virtue of its relationship to the funds under its management will be credited against the advisory fees paid by those funds. A broker-dealer subsidiary of Imperial Financial Services, Inc., adviser-underwriter to a relatively small fund complex, has also obtained membership in the Pacific Coast Stock Exchange, and a portion of the subsidiary's profits will be applied against the advisory fees paid by the fund.

Table III–6 shows the changes in net assets, expense ratios, and their components—advisory fee rates and other expense ratios between fiscal years 1953 and 1962 for 18 of the 20 largest funds as of June 30, 1965. In 1962 the median expense ratio of these funds was 0.54 percent, more than double the 0.24 percent expense ratio of Broad Street Investing Corp. and almost three times the 0.19 percent expense ratio of MIT for the same year. The 1962 expense ratios do, however, reflect some economies of size realized by the funds and their shareholders. For 1953 the median expense ratio was 0.66 percent.

TABLE III-6.—*Advisory fee rates and expense ratios for fiscal years ended 1953 and 1962 of the largest externally managed funds as of June 30, 1965*[a]

Fund	Fiscal yearend net assets			Expense ratios			Advisory fee rates [b]			Other expense ratios		
	1953 (millions)	1962 (millions)	Increase (percent)	1953 (percent)	1962 (percent)	Decrease (percent)	1953 (percent)	1962 (percent)	Decrease (percent)	1953 (percent)	1962 (percent)	Decrease (percent)
1. Investors Mutual, Inc.	$472.4	$1,719.4	264.0	0.56	0.52	7.1	0.50	0.50	0	0.0B	0.02	66.7
2. Wellington Fund, Inc.	280.9	1,389.6	394.7	.50	.36	28.0	.34	.26	23.5	.16	.10	37.5
3. Investors Stock Fund, Inc.	54.1	883.2	1,532.5	.60	.53	11.7	.50	.50	0	.10	.03	70.0
4. Insurance Securities Trust Fund	87.6	882.5	907.4	.47	.37	21.3	[c].47	[c].37	21.3	0	0	0
5. Affiliated Fund, Inc.	248.7	687.7	176.5	.58	.41	29.3	.33	.27	18.2	.25	.14	44.0
6. United Accumulative Fund	21.7	609.3	2,707.8	.89	.55	38.2	.50	.44	12.0	.39	.11	71.8
7. Fundamental Investors, Inc.	156.4	642.7	310.9	.64	.62	3.1	.50	.50	0	.14	.12	14.3
8. The Dreyfus Fund, Inc.	1.5	361.3	23,986.7	1.00	.67	33.0	.50	.50	0	50.0	.17	66.0
9. United Income Fund	72.7	342.9	371.7	.77	.57	26.0	.50	.46	8.0	.27	.11	59.3
10. Fidelity Fund, Inc.	91.8	408.3	344.8	.63	.53	15.9	.50	.42	16.0	.13	.11	15.4
11. Hamilton Funds, Inc.	16.1	258.4	1,505.0	.94	.74	21.3	.50	.50	0	.44	.24	45.5
12. Investment Co. of America	26.8	245.2	814.9	.85	.61	28.2	.40	.36	10.0	.45	.25	44.4
13. Television-Electronics Fund, Inc.	27.8	331.0	1,090.6	.73	.73	0	.50	.50	0	.23	.23	0
14. Boston Fund, Inc.[d]	99.9	308.5	208.8	.63	.58	7.9	.50	.49	2.0	.13	.09	30.8
15. Dividend Shares, Inc.	116.3	268.7	131.0	.70	.50	28.6	.44	.33	25.0	.26	.17	34.6
16. Chemical Fund, Inc.	55.6	256.2	360.8	.68	.47	30.9	.50	.33	34.0	.18	.14	22.2
17. The George Putnam Fund of Boston	67.1	286.1	326.4	.64	.48	25.0	.52	.39	25.0	.12	.09	25.0
18. Puritan Fund, Inc.	.9	117.5	12,955.6	[e].89	.57	'36.0	[e].50	.40	20.0	[e].39	.17	47.4
Median	69.9	352.2	383.2						11.0	.21	.12	40.8

[a] These funds were among the 20 largest externally managed funds as of June 30, 1965. Investors Variable Payment Fund, Inc., and Fidelity Trend Fund, Inc., the 14th and 20th largest funds, respectively, were not organized until 1957 and 1958, respectively, and have been omitted from this table.

[b] For method of calculation see table III-3, note b, at p. 98, supra.

[c] Advisory fee consists of combined MAT fee.

[d] Fiscal years ended Jan. 31, 1963, and 1954.

[e] Pro forma expense ratio. In fiscal 1953 (ended July 31), Fidelity Management & Research Co., Puritan Fund's adviser, waived its annual advisory fee of 0.50 percent of average net assets and assumed $56 of the fund's expenses. This resulted in an actual expense ratio of 0.38 percent for that year.

However, the most substantial reductions occurred not in advisory fees rates but in the ratios of other expenses which reflect the cost of custodial, stock transfer, dividend disbursement, legal and auditing services, and stationery, supplies, and printing. These services, unlike those received in return for advisory fees, are generally obtained from persons unaffiliated with the funds. Thus, from 1953 to 1962, the median decrease in the annual advisory fee rate of the 18 funds was 11.0 percent, while the median decrease in the other expense ratios was 40.8 percent.

In fiscal 1953, the lowest advisory fee rates among the 18 funds were charged to Wellington Fund, Inc., Affiliated Fund, Inc., Dividend Shares, Inc., and the Investment Co. of America. They ranged from 0.33 to 0.44 percent. All the other funds, except Insurance Securities Trust Fund, were charged advisory fee rates of 0.50 percent or higher. Significantly, in 1962 and 1965 [87] these four funds, along with a fifth, Chemical Fund, Inc., had the lowest advisory fee rates of the 18 externally managed funds in table 111–6. As noted, by 1965 many of the other 13 funds' advisers—in the context of pressures generated by the Wharton Report and the institution of shareholder litigation—had reduced their fee rates. But for the most part these reductions were not nearly as significant as those put into effect by the advisers to the other five funds during the earlier period.

The reductions in the advisory fee rates of the individual funds between 1953 and 1962 had little relationship to the rate of increase in the net assets of the funds. Most significantly, the growth of 6 of the 18 funds listed in table 111–6 far exceeded all others. Their 1962 year end net assets were from 15 to 240 times greater than their 1953 year end net assets. But in four out of six cases their growth did not affect the advisory fee rates that they paid.

None of these funds has derived as much benefit from its growth as MIT and the companies in the Broad Street complex. The disparities between the benefits of growth obtained by the externally managed funds and those with internal management cannot be explained by inherent differences in the cost of rendering investment advice or by other efficiencies of operations between the two types of management structures. For example, MIT estimated that in 1962—after allocating approximately $400,000 of the $2.1 million spent for management services to its cost of management and administrative services not related to the investment advisory function—it spent an estimated $1.7 million, or approximately 0.11 percent of average net assets, for investment advice. The management of the Broad Street complex estimated, after similarly allocating its 1962 management costs between investment advisory and other functions, that the companies in the complex spent about $800,000 or approximately 0.08 percent of their average aggregate net assets for investment advice.

During the same fiscal year the total amounts paid by Investors Mutual, Inc. ("Investors Mutual") and Investors Stock Fund, Inc. ("Investors Stock") under their advisory agreements with IDS were $9.2 million and $4.8 million, respectively. It was estimated by IDS that approximately $1.5 million of Investors Mutual's advisory fee and about $900,000 of Investors Stock's advisory fee covered the

[87] See table III–3, at p. 98, supra.

cost of providing nonadvisory services.[88] Thus, these funds paid $7.7 million and $3.9 million, respectively, for investment advice.[89] Expressed as percentages of estimated average net assets, the amounts spent for investment advice were 0.41 and 0.31 percent, respectively. IDS estimated the out-of-pocket cost to it in 1962 of providing Investors Mutual and Investors Stock with investment advice at $670,000 and $410,000, respectively.

In that year IDS received $15.7 million in advisory fees from all five mutual funds then under its management and its profits before income taxes from those fees were approximately $11 million, or 69.8 percent of the total fees received.

IDS, unlike many advisers whose staffs include their entrepreneurial founders (or their successors), is owned by public investors and Allegheny Corporation, a publicly held company. Hence the investment advisory services it provides are produced by a staff presumably hired at the going market rate. The highest salary paid by IDS in 1962 was the $75,000 (plus $20,462 in "fringe benefits") paid to the chairman of the board, who devoted almost all of his time to sales and administrative problems. The head of the investment advisory staff earned $50,000 (plus $7,500 in fringe benefits) during the same period. By contrast, in 1962 the combined compensation paid to the five MIT trustees for their services to MIT and MIGS was almost $2.1 million.

E. MUTUAL FUND ADVISORY FEES VERSUS FEES CHARGED OTHER TYPES OF INVESTMENT ADVISORY CLIENTS

1. *Bank fees for pension and profit-sharing plans*

Although the management costs of internally managed investment companies, such as MIT and Broad Street Investing Corp., have been significantly lower than the advisory fees of externally managed mutual funds, these lower costs do not necessarily reflect the effects of active competition or arm's-length bargaining. An example of active competition—including price competition—for investment management clients is the competition among banks and other investment advisers to act as investment advisers to noninsured corporate pension and profit-sharing plans. These plans share the characteristics of mutual funds to the extent that both have portfolios representing pools of investment capital which receive professional investment management.

For investment management services to pension and profit-sharing plans, banks usually charge an annual advisory fee expressed as either a fixed percentage or a fixed charge per thousand dollars of the portfolio's current asset value. In either case, the basic fee rate is sharply scaled down for larger portfolios. The services paid for by the advisory fee usually include, in addition to investment advice,

[88] These figures reflect only the cost to IDS of providing such services. These allocations assume that none of the expenses of IDS sales personnel should be charged to fund administrative costs. Based on a survey conducted by a public accounting firm in November of 1962. IDS has contended that 8.9 percent of the expenses of such personnel are related to serving existing shareholders (as opposed to soliciting new sales) and thus constitute administrative expenses. This allocation was not accepted by the Commission's staff. Adopting IDS' approach would add $664,000 to Investors Mutual's administrative expense and $713,000 to Investors Stock's administrative expense. This would reduce the amount attributable to payments for investment advice to about $7.0 million and $2.4 million, respectively.

[89] IDS devoted the bulk of the $6.76 million in brokerage commissions generated by the funds under its management in calendar year 1962 to the purchase of supplemental services utilized in their advisory function. (In 1961 Investors Mutual and Investors Stock accounted for about 70 percent—33 and 37 percent from each respectively—of the commissions generated by the five IDS funds.) In contrast, MIT devoted roughly 11 percent of the $1.59 million in brokerage commissions it generated in 1962 to the purchase of such services.

receipt and recording of contributions from employers, receipt, safe-keeping, and delivery of portfolio securities, collection of interest and dividend payments, preparation of periodic reports to employers or to the committee supervising the operations of the plan, preparation and filing of certain tax forms, and accounting services by the bank's internal staff or in cooperation with outside auditors. The banks usually impose a separate charge for the maintenance of separate records for, and the payment of benefits to, the beneficiaries of the pension or profit-sharing plan.

Table III–7 sets forth the fee schedules, and annual advisory fees for a $100 million portfolio under these schedules for pension and profit-sharing plans published by six leading banks. The annual advisory fee for a $100 million portfolio charged by five of the six banks amounts to 0.06 percent of total asset value, a rate less than one-eighth of the **0.50** percent rate commonly charged to mutual funds of that size and only half as much as the **0.12** percent management cost rate of MIT in 1965.[90]

TABLE III–7. —*Annual advisory fees chargeable to a $100 million portfolio under bank fee schedules for pension and profit-sharing plans*

Name of bank	Fee schedule	Amount of advisory fee	Advisory fee as a percent of $100 million
1. Old Colony Trust Co.	$6.00 per $1,000, first ... $100,000 $5.00 per $1,000, next ... 100,000 $3.00 per $1,000, next ... 300,000 $2.40 per $1,000, next ... 500,000 $1.20 per $1,000, next ... 4,000,000 $0.65 per $1,000, next ... 20,000,000 $0.55 per $1,000, next ... 25,000,000 $0.50 per $1,000, on the excess.	$59,750	0.06
2. Continental Illinois National Bank	$3.00 per $1,000, first ... $1,000,000 $2.00 per $1,000, next ... 1,000,000 $1.00 per $1,000, next ... 8,000,000 $0.67 per $1,000, next ... 15,000,000 "Quotations by analysis, upon request" over $25,000,000 [a]	73,300	.07
3. Manufacturers Hanover Trust Co.	⅓ of 1% on first ... $1,000,000 ⅛ of 1% on next ... 4,000,000 1/15 of 1% on next ... 20,000,000 1/20 of 1% on next ... 175,000,000 1/30 of 1% on excess.	59,166	.06
4. Chase Manhattan Bank	⅓ of 1% on first ... $1,000,000 ⅛ of 1% on next ... 4,000,000 1/15 of 1% on next ... 20,000,000 1/20 of 1% on next ... 50,000,000 "Further decremental rates" on excess over $75,000,000 [b]	59,166	.06
5. Morgan Guaranty Trust Co.	⅓ of 1% on first ... $1,000,000 ⅛ of 1% on next ... 4,000,000 1/15 of 1% on next ... 15,000,000 1/20 of 1% on balance.	58,333	.06
6. North Carolina National Bank	½ of 1% on first ... $100,000 ⅕ of 1% on next ... 900,000 1/10 of 1% on next ... 14,000,000 1/20 of 1% on excess over ... 15,000,000	58,800	.06

[a] $0.67 per $1,000 applied on excess over $25,000,000 in lieu of quotation based on analysis.
[b] 1/20 of 1 percent rate applied on excess over $75,000,000 in lieu of further "decremental rates."

[90] Although the advisory fee rates for a $100 million portfolio under the published fee schedule of the other bank amounts to 0.07 percent of the total assets, the published fee schedule of this bank specifically provides for "quotation by analyses" for portfolios over $25 million.