

CHAPTER VII  
OPEN-END INVESTMENT COMPANIES AND PORTFOLIO  
COMPANY CONTROL <sup>1</sup>

INTRODUCTION

The extent and effects of control over industrial and commercial firms by financial institutions has long been a subject of concern to the public, Congress, and various governmental agencies. With the rapid growth of investment companies in the 1920's, this issue became distinctly applicable to these institutions, which were "used to influence or control other corporations in almost every major type of business enterprise." <sup>2</sup> In part 4 of its report on "Investment Trusts and Investment Companies," published in 1942, the Securities and Exchange Commission concluded that control over industrial enterprises was "one of the most important aspects of the investment company movement, particularly from the point of view of the national economy." <sup>3</sup> Their estimate of the extent to which portfolio company control constituted a problem during the two decades preceding this report was as follows:

Although the great majority of all investment companies in the United States do not appear to have attempted any control over the issuers of the securities in their portfolio, many investment companies, at one time or another, have held blocks of securities sufficient to control at least one enterprise. In addition, some larger investment companies have made the ownership of blocks of securities carrying working control, or at least a voice in the management, their main business. In other cases securities conveying such control have been subordinated to diversified holdings, without control features. Broadly speaking, over the last 15 years there have been in existence approximately 30 investment-holding companies, with an equal or larger number of management investment companies which controlled some industrial companies but with whom control of industrial enterprises was more incidental. \* \* \*

According to data compiled for the year 1935, the Commission found that 34 management investment companies had "control interests" in 105 portfolio companies, of which 14 were subject to majority control, 28 "working control" (10-50 percent voting power), and 63 "working interest" (1-10 percent). Twenty-two investment-holding companies held control interests in 82 portfolio companies, of which 22 were cases of majority control, 43 cases of working control, and 17 cases of working interest. For both types of investment companies taken together, the foregoing substantial investments were accompanied by 267 interlocking directorships and 94 banking affiliations suggestive of possible control or influence in portfolio company management.<sup>5</sup>

<sup>1</sup> By Edward S. Herman.

<sup>2</sup> "Report of the Securities and Exchange Commission on Investment Trusts and Investment Companies," pt. 4 ("Control and Influence Over Industry and Economic Significance of Investment Companies"), Washington, D.C., 1942, p. 1.

<sup>3</sup> *Ibid.*

<sup>4</sup> *Ibid.*, p. 2.

<sup>5</sup> *Ibid.*, p. 8.

In considering the effects of extensive portfolio company control by investment companies, the 1942 report described in some detail (mainly by case illustration) four principal ill effects or abuses that had at one time or another resulted from investment company control.<sup>6</sup> Two of these ill effects were classified under "effects upon the investment company," although there was an implicit concern with their impact on investors and the public. First was the greater risk of failure resulting from lack of diversification. It was acknowledged that providing investors with a diversified investment is not the only useful function that may be performed by an investment company, and cognizance was taken of losses suffered with diversified portfolios; nevertheless, "investment companies have sustained most substantial losses when they have invested a large part of their assets in 'special situations.'"<sup>7</sup> The second danger stemming from portfolio company control was alleged to be the tendency to continue investing in a situation where a heavy commitment had been undertaken.

The second pair of ill effects or abuses resulting from investment company control were placed under the heading "Effects Upon the Controlled Companies." The first of these is changes in financial policy, which includes the realignment of the capital structure of the controlled enterprises in the interests of the controlling companies, and changes in dividend policy in accordance with the financial advantage of the controlling companies. The final adverse effect relates to the acquisition and use of controlling or substantial minority interests to arrange and profit from a merger of the controlled properties.

Although the earlier study of portfolio company control was concerned in the main with the ill effects of such developments, some note was taken of potential benefits that might be derived from substantial holdings of investment companies. Although investment company contributions to the capital needs of small and new businesses had been comparatively negligible, the authors of the 1942 report looked hopefully for an expansion of investment company activity in that area, despite the acknowledged inevitability of lender control in such circumstances.<sup>8</sup> It was also felt that investment companies might effectively aid in reorganizations "by furnishing the additional capital to salvage the corporation," as well as acquiring the securities of closely held corporations and either holding them as a permanent investment or seasoning them prior to ultimate distribution to the public. Finally, it was suggested that the investment company movement might benefit investors and society by providing a class of informed and articulate minority stockholders.<sup>9</sup>

Investment company control of portfolio companies was an important but not primary concern of the Investment Company Act of 1940. The findings and declaration of policy of that act found investment companies affected with a national public interest in that, among

<sup>6</sup> *Ibid.*, pp. 22 ff.

<sup>7</sup> *Ibid.*, p. 22.

<sup>8</sup> *Ibid.*, p. 369.

<sup>9</sup> "Investment companies may serve the useful role of representatives of the great number of inarticulate and ineffective individual investors in industrial corporations in which investment companies are also interested. Throughout the course of the existence of such industrial corporations, various problems are presented to their stockholders which require a degree of knowledge of financial and management practices not possessed by the average stockholder. Investment companies by virtue of their research facilities and specialized personnel are not only in a position to adequately appraise these situations but also have the financial means to make their support or opposition effective. These investment companies can perform the function of sophisticated investors, disassociated from the management of their portfolio companies. They can appraise the activities of the management critically and expertly, and in that manner not only serve their own interests but the interest of the other public stockholders" (*ibid.*, p. 371).

other things, "(3) such companies customarily invest and trade in securities issued by, and may dominate and control or otherwise affect the policies and management of, companies engaged in business in interstate commerce; \* \* \*,"<sup>10</sup> Moreover, the authorization of an investigation of the effects of a growth in the size of investment companies in section 14(b) specifically mentioned the potential effects of size "on companies in which investment companies are interested \* \* \*."

On the other hand, portfolio company control did not appear in section 1(b) in the list of eight conditions that adversely affect investors and the public interest. More important, the limitations on portfolio company control imposed by the act of 1940 were narrowly restricted in scope. For one thing, companies which held controlling interests in industrial enterprises were not required to dispose of such holdings—if not entirely exempted from the act they were merely obligated to disclose their "nondiversified" character and investment policy and abide by a number of limitations on transactions and other matters. Thus, the Atlas Corp. was able to register as a closed-end nondiversified management company and declare a policy of investing in "special situations" without any capital limitations. It has systematically "acquired controlling interests in enterprises with the primary purpose of maturing the investment so as to realize profits from capital appreciation rather than dividends or interest."<sup>11</sup>

Secondly, the exemptions from classification as an investment company under section 3(b) of the act are extensive and provide the basis for exclusion from regulation of many important companies holding substantial diversified and undiversified stock interests in other companies. Excluded from regulation under this section is:

(1) Any issuer primarily engaged, directly or through a wholly owned subsidiary or subsidiaries, in a business or businesses other than that of investing, reinvesting, owning, holding, or trading in securities.

(2) Any issuer which the Commission, upon application by such issuer, finds and by order declares to be primarily engaged in a business or businesses other than that of investing, reinvesting, owning, holding, or trading in securities either directly or (A) through majority-owned subsidiaries or (B) through controlled companies conducting similar types of businesses.

The Investment Company Act of 1940 was clearly not directed toward dismantling the holding company or the investment-holding company. In fact the coverage of section 3(b) suggests that the exercise of "a controlling influence over the management and policies" of companies in which an investment company has substantial holdings and the fact that it "participates in the operation of their businesses," are the very considerations that exempt it from regulation as an investment company.<sup>12</sup> It should also be pointed out that where a company maintains a controlling influence over management with respect to a substantial portion of its security portfolio, but still holds 40–50 percent of its noncash assets in miscellaneous securities not held for control, it will still be exempted from regulation as an investment company.<sup>13</sup>

Finally, diversified management companies are limited by section 5(b) of the act to holding shares of any one portfolio company in an

<sup>10</sup> Sec. 1(a)(3).

<sup>11</sup> *In the matter of Atlas Corporation, et al.*, 37 S.E.C. 72, 74 (1957).

<sup>12</sup> *In the Matter of Bessemer Securities*, 13 S.E.C. 281, 291 (1943); *In the Matter of Henry J. Kaiser Company*, 36 S.E.C. 626 (1956).

<sup>13</sup> *In the Matter of George W. Helme Company*, 9 S.E.C. 16 (1941); *In the Matter of Newmont Mining Corporation*, 36 S.E.C. 429 (1955); *In the Matter of Northeast Capital Corporation*, 37 S.E.C. 715 (1957).

amount not exceeding 5 percent of the assets of the investment company and 10 percent of the outstanding voting securities of any portfolio company, with these limits to apply to only 75 percent of the total assets of the investment company. These restrictions were not based primarily on a desire to limit portfolio company control per se, but rather to define the limits of control consistent with classification as a diversified company.<sup>14</sup>

The proviso exempting 25 percent of the assets of a diversified company from the 5 and 10 percent rule was inserted to allow more leeway for investment in small business. It was felt that to encourage investment in the illiquid stock of a small company—

the investment company must be in a position where it can have some control or influence over the management.<sup>15</sup>

Thus, one-quarter of the assets of diversified investment companies was explicitly made available for the purchases of important controlling interests in portfolio companies.<sup>16</sup> There is no restriction of control to portfolio companies of any particular type or size class. There are also no limits imposed on multiple holdings of portfolio company shares by investment companies constituting parts of a single control group.

At the time of the passage of the Investment Company Act of 1940, open-end companies were still of modest importance in the total investment company picture, and the Securities and Exchange Commission study of portfolio company control by investment companies explicitly noted that—

only closed-end management investment companies (including investment-holding companies) have been concerned with control of industry. Other types of investment companies, such as fixed trusts and open-end management companies, may be neglected for purposes of the chapter.<sup>17</sup>

However, the open-end sector of the investment company business has grown very rapidly since 1940, and the size of many individual companies has reached impressive levels. As a facet of the size study of open-end investment companies this chapter is therefore directed toward ascertaining the effects of the increase in size of open-end investment companies on their control and influence over portfolio companies.

Although the open-end companies included in the present inquiry were all confined by the shareholding limits imposed on diversified companies by the Investment Company Act of 1940, we have seen that these limits leave considerable leeway for substantial and possibly controlling interests in portfolio companies. This study affords an opportunity to test the effectiveness of the limitations of the act on investment company control over portfolio companies, and to observe the effects of the rise of a body of important institutional investors on the management and control of portfolio companies.

Unless otherwise noted the information on which the present chapter is based was derived from questionnaire returns submitted by open-end investment companies during 1959.

<sup>14</sup> See the testimony of Mr. David Schenker, counsel in charge of the SEC investment company study, "Investment Trusts and Investment Companies," hearings before a subcommittee of the Senate Committee on Banking and Currency, on S. 3580, pt. I (1940), p. 192.

<sup>15</sup> *Ibid.*, p. 189.

<sup>16</sup> In the earlier version of the Investment Company Act, S. 3580, there was an unconditional limitation of investment in the securities of any one issuer to 5 percent of the assets of the investment company. Investment companies were also restricted to holding no more than 15 percent of their assets in voting securities exceeding 5 percent of the voting shares of portfolio companies. (See *ibid.*, p. 4.)

<sup>17</sup> *Op. cit.*, p. 2.

## CONCENTRATION OF OWNERSHIP OF VOTING SHARES IN PORTFOLIO COMPANIES BY OPEN-END INVESTMENT COMPANIES

*Limits to open-end company holdings*

We have seen that the Investment Company Act of 1940 limits the ownership in any one portfolio company by a diversified investment company to 5 percent of the total assets of the investment company and 10 percent of the voting shares of the issuer, for at least 75 percent of investment company assets. The act thus permits investments up to 10 percent of the voting shares of portfolio companies with the single constraint that no more than 5 percent of investment company assets may be invested in one security; and for 25 percent of the assets of a diversified company there is no restriction on the absolute or relative size of investments. Within the limits of this law a fully invested diversified investment company could conceivably own as few as 16 holdings—1 equal to 25 percent of the investment company's assets (and any percentage of the voting securities of the portfolio company), and 15 each equal to 5 percent of the assets of the investment company and up to 10 percent of the voting shares of each portfolio company.

It should also be pointed out that several States impose limits on the concentration of mutual fund assets of funds selling shares within their jurisdiction. Ohio has had a 5-and-10-percent rule, applicable to 100 percent of investment company assets, in effect since 1940. And several other States, including New Hampshire, Maine, and California, have also put into effect rules very similar to that of Ohio. This means that mutual funds whose shares are sold in these States must adapt to portfolio concentration rules somewhat more restrictive than those imposed by the act of 1940.

Open-end investment companies have in no instance pushed the degree of concentration of their holdings anywhere near these legal limits. With redeemable shares outstanding, they have generally felt compelled to place considerable emphasis on maintaining adequately liquid (i.e., readily marketable) assets, which in turn necessitates, among other things, relatively small holdings in individual portfolio companies. Moreover, all or virtually all open-end companies have declared their policy to be one of managing a diversified investment portfolio rather than attempting to manage portfolio companies.

Of 150 open-end companies whose prospectuses or questionnaire replies permitted a definite conclusion on this point, all but 25 had limits on the size of holdings in portfolio companies that were more restrictive than those required by the act of 1940. Almost two-thirds of these companies (98 of 150) stated in their prospectuses that they cannot invest in any one company an amount in excess of 5 percent of the assets of the investment company or 10 percent of the voting securities of any portfolio company, without mention of any unrestricted 25 percent of investment company assets. That is to say, about two-thirds fix their limits in accordance with the "Ohio rule." Eleven companies have put into their bylaws or internal regulations a "5 and 5" percent rule, also without any provision for some proportion of assets subject to no size restrictions. As already noted, 25 companies have not restricted themselves beyond the limits imposed

by the act of 1940. The remaining seven companies have a variety of self-imposed regulations (strict 5-percent asset limits; strict 10-percent limits on acquisitions of voting securities of portfolio companies; no restrictions for 20 percent of investment company assets; and others). These self-imposed limits on portfolio company investments beyond those required by law were explained by open-end companies, in order of frequency, as a consequence of (1) an intention to concentrate on investment management and to avoid involvement in the management problems of portfolio companies, and (2) a desire to maintain an adequately diversified portfolio, primarily to assure the marketability of portfolio assets.

*Large holdings<sup>18</sup> in portfolio companies by open-end investment companies*

Of the 154 open-end companies that replied to a question requesting information on holdings of 1 percent or more of the voting shares of portfolio companies, 80 (or 52 percent) held at least 1 such large holding as of September 30, 1958. On December 31, 1952, 116 of these 154 companies were in existence; of these, 47 (or 41 percent) had at least 1 portfolio company holding of 1 percent or more on that date. The growth in numbers and average size of open-end companies has thus been associated with a substantial increase in the number and proportion of companies with at least one sizable portfolio company holding.

Table VII-1 shows the number of open-end companies with one or more large portfolio company holding, by the number of such holdings owned by these companies. It may be seen from this table that 54 (67 percent) of the 80 companies with at least 1 large holding owned 5 or more large holdings in 1958; that 42 companies held 10 or more large holdings in portfolio companies in 1958, as compared with 26 in 1952; and that the number of companies with 25 or more large holdings increased from 13 to 21 between 1952 and 1958.

TABLE VII-1.—*Distribution of open-end investment companies, by number of large portfolio company holdings,<sup>1</sup> December 1952 and September 1958*

Number of holdings of 1 percent or more	Number of open-end investment companies	
	1952	1958
1 to 4.....	15	26
5 to 9.....	6	12
10 to 14.....	8	11
15 to 24.....	5	10
25 to 49.....	10	12
50 to 74.....	2	2
75 to 99.....	1	5
100 and over.....	1	2
Total.....	47	80

<sup>1</sup> 1 percent or more of voting shares.

Table VII-2 lists the names and number of large holdings of open-end companies with 25 or more large holdings for the end of 1952 and September 30, 1958. It may be noted that Investors Mutual was the only open-end company in 1952 with as many as 100 large holdings, and that by 1958 it was joined in this category by National Securities Series. It may also be observed that MIT, Incorporated

<sup>18</sup> "Large holding" is used below to refer to a holding of 1 percent or more of the voting shares of a portfolio company, unless otherwise specified.

Investors, Dividend Shares, and State Street Investment Corp., all held fewer large holdings in 1958 than they did in 1952. However, in the case of MIT and Incorporated Investors, other group members (Massachusetts Growth Stock Fund and Incorporated Income Fund) increased their large holdings sufficiently to enter the 25 or over class and more than offset the decline in large holdings of the senior group members.

It may also be seen from table VII-2 that the aggregated number of large holdings of companies owning 25 or more such holdings increased from 644 to 1,163 (or by 81 percent), between 1952 and 1958. Since there were 47 open-end companies in 1952 with an aggregate of 882 large holdings, the 13 companies with 25 or more large holdings (28 percent of the large holders) accounted for 73 percent of all holdings of 1 percent or more; the 21 companies with 25 or more large holdings in 1958 (26 percent of the companies with large holdings) accounted for 72 percent of the 1,611 holdings of 1 percent or more owned by open-end companies in that year.

TABLE VII-2.—Open-end investment companies with 25 or more large holdings<sup>1</sup> in portfolio companies, by number of large holdings, December 1952 and September 1958

<i>Name of company</i>	1952	<i>Number of large holdings</i>
1. Investors Mutual.....		102
2. Massachusetts Investors Trust.....		93
3. Affiliated Fund.....		79
4. National Securities Series.....		47
5. Insurance Securities Trust Fund.....		46
6. Fundamental Investors.....		43
7. Wellington Fund.....		42
8. Incorporated Investors.....		42
9. TV-Electronics Fund.....		38
10. Fidelity Fund.....		30
11. State Street Investment Corp.....		30
12. Keystone S-4 Fund.....		26
13. Dividend Shares.....		26
Total.....		644
	1958	
1. Investors Mutual.....		120
2. National Securities Series.....		113
3. Massachusetts Investors Trust.....		84
4. TV-Electronics Fund.....		84
5. United Funds.....		78
6. Insurance Securities Trust Fund.....		78
7. Investors Stock Fund.....		75
8. Affiliated Fund.....		72
9. Wellington Fund.....		56
10. Value Line Income Fund.....		49
11. Fidelity Fund.....		42
12. Fundamental Investors.....		41
13. Pioneer Fund.....		37
14. Incorporated Investors.....		36
15. Gas Industries Fund.....		33
16. Massachusetts Investors Growth Stock Fund.....		33
17. Puritan Fund.....		29
18. Incorporated Income Fund.....		28
19. Axe-Houghton Fund B.....		25
20. Institutional Income Fund.....		25
21. State Street Investment Corp.....		25
Total.....		1,163

<sup>1</sup> 1 percent or more of voting shares.

As might be expected there is a significant relationship between size and the number of large portfolio company holdings of open-end investment companies. In 1958 all 9 of the companies with assets exceeding \$300 million owned 25 or more large holdings; 5 of the 12 companies with assets of \$150-300 million had 25 or more large holdings; 5 of 29 companies with assets between \$50 and \$150 million had 25 or more; and 2 of the 48 companies with assets of \$10-50 million, and none of the 56 companies in the \$1-10 million class, had 25 or more large portfolio company holdings in 1958. Only Institutional Income Fund and the Pioneer Fund among the 104 companies with assets below \$50 million had 25 or more large portfolio company holdings. In 1952, each of the 5 companies with assets of \$150 million or over had 25 or more large holdings; 6 of the 13 companies with assets of \$50-150 million owned 25 or more large holdings, and 2 of the 98 companies with assets below \$50 million owned 25 or more large holdings (including 1 company, Keystone S-4, in the smallest size class).

Table VII-3 shows the distribution of large portfolio company holdings of 154 open-end companies by size of holding and size class of investment company, for the end of 1952 and September 30, 1958. From this table we can see that in 1958 approximately one-half of the holdings of 1 percent or more (813 of 1,611) were of between 1 and 1.9 percent of the voting shares of portfolio companies, and that 90 percent of the large holdings (1,446 of 1,611) were between 1 and 4.9 percent. One hundred and sixty-five (10 percent) of the large holdings were of 5 percent or more of the voting shares of portfolio companies, and 24 of the 165 were of 10 percent or more of portfolio company voting shares. The number of large holdings increased from 882 to 1,611, or by 83 percent, between the end of 1952 and September 30, 1958. The number of large holdings of 1-1.9 percent size increased from 518 to 813, or by only 57 percent; the number of holdings of 5 percent or more increased from 52 to 165, or by 217 percent.

In 1958 the 3 open-end companies with assets exceeding \$600 million held 260 of the 1,611 large holdings (16 percent), but only 13 (8 percent) of the holdings of 5 percent or greater, and no holdings as large as 10 percent of the voting shares of portfolio companies. The 21 companies with assets of \$150 million or over held 897 (or 56 percent) of the large holdings, and 113 (68 percent) of the holdings of 5 percent or more. The remaining 714 large holdings (44 percent) and 52 holdings of 5 percent or more (32 percent) were owned by companies with assets under \$150 million. Almost half of the remaining large holdings (343) were held by companies with assets between \$50 and \$150 million; and 371 large holdings (23 percent of the total) and 29 holdings of 5 percent or over (18 percent of the aggregate) were owned by the 104 companies with assets under \$50 million.

In order to permit observation of the effects on the distribution of large holdings of multiple-share ownership of portfolio companies by members of the same control group, table VII-4 was constructed on a group basis, with a group defined as a company or companies subject to common investment management (and usually common

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control). This procedure reduces the number and increases the average size of large holdings, since two or more holdings in the same portfolio company by different companies in the same control group are shown here as one larger holding. On a group basis, the number of holdings of 5 percent or more in 1958 was 183 (as compared with 165 on a company basis), and the number of holdings of 10 percent or more was 33 (as compared with 24 on a company basis). The group classification thus yields a significantly larger number of very sizable holdings than does a classification based on the company.

TABLE VII-3.—Number of large portfolio company holdings<sup>1</sup> by open-end investment companies, by size of investment company, December 1952 and September 1958

Company size (in millions)	Number of companies		Size of holding (percent)																		Total		
			1-1.9		2-2.9		3-3.9		4-4.9		5-5.9		6-7.9		8-9.9		10-19.9		20+				
	1952	1958	1952	1958	1952	1958	1952	1958	1952	1958	1952	1958	1952	1958	1952	1958	1952	1958	1952	1958	1952	1958	
\$1 and under \$10.....	60	56	31	69	9	35	3	27	3	15	0	5	0	18	0	1	0	0	0	1	1	47	171
\$10 and under \$50.....	38	48	118	122	46	41	11	17	3	16	4	1	3	2	7	1	1	0	0	0	193	200	
\$50 and under \$150.....	13	29	156	196	54	72	29	33	18	19	8	13	7	4	6	6	5	0	0	0	283	343	
\$150 and under \$300.....	3	12	107	134	41	65	11	33	3	21	1	19	0	22	0	17	1	22	0	1	164	334	
\$300 and under \$600.....	2	6	106	166	46	73	23	37	11	8	4	9	2	9	3	1	0	0	0	0	195	305	
\$600 and over.....	0	3	0	126	0	71	0	33	0	17	0	7	0	3	0	3	0	0	0	0	0	0	260
Total.....	116	154	518	813	196	357	77	180	38	96	17	54	12	58	16	29	7	22	1	2	882	1,611	

<sup>1</sup> 1 percent or more of voting shares.TABLE VII-4.—Number of large portfolio company holdings<sup>1</sup> by open-end investment company groups, by size of group, December 1952 and September 1958

Group size (in millions)	Number of groups		Size of holding (percent)																		Total		
			1-1.9		2-2.9		3-3.9		4-4.9		5-5.9		6-7.9		8-9.9		10-19.9		20+				
	1952	1958	1952	1958	1952	1958	1952	1958	1952	1958	1952	1958	1952	1958	1952	1958	1952	1958	1952	1958	1952	1958	
\$1 and under \$10.....	45	32	14	5	3	2	2	0	1	0	0	0	0	0	0	0	0	0	0	0	0	20	7
\$10 and under \$50.....	16	30	28	53	18	24	4	8	3	9	4	0	4	0	3	0	1	0	0	0	0	65	94
\$50 and under \$150.....	14	12	114	80	46	42	31	24	28	15	14	8	7	9	5	2	9	1	2	0	256	181	
\$150 and under \$300.....	5	10	123	130	54	60	27	37	8	24	1	19	3	17	0	18	1	24	0	6	217	335	
\$300 and under \$600.....	2	10	92	306	45	103	28	67	9	28	10	16	3	24	3	2	4	2	0	0	194	548	
\$600 and over.....	0	3	0	153	0	84	0	41	0	25	0	14	0	14	0	7	0	0	0	0	0	0	338
Total.....	82	97	371	727	166	315	92	177	49	101	29	67	17	64	11	29	15	27	2	6	752	1,503	

<sup>1</sup> 1 percent or more of voting shares.

Furthermore, the concentration of large holdings is very substantially increased when companies are allocated to control groups. The 3 control groups with assets exceeding \$600 million held 338 of the large holdings (22 percent, as compared with 16 percent for the 3 largest companies) and 35 of the holdings of 5 percent or more (19 percent, as compared with 8 percent for the 3 largest companies). The 13 control groups with assets of \$300 million or over held 886 of the large holdings (59 percent) and 79 of the holdings of 5 percent or over (43 percent). The 62 groups with assets below \$50 million held only 101 (7 percent) of the large holdings and none of the 5 percent or larger portfolio company holdings of open-end companies. On a group basis there was a significant increase between 1952 and 1958 in the relative (as well as absolute) importance of the large holdings of systems with assets of \$150 million or more (from 55 to 81 percent of all large holdings).

The pattern of large holdings in both 1952 and 1958 was very much dominated by the numerous large holdings of a single company, Insurance Securities Trust Fund, of Oakland, Calif. This large company, with assets of \$299 million on September 30, 1958, is confined by its deed of trust to acquiring the common stocks of 104 specific fire, casualty, and life insurance companies. Only if these are not available, or if the price asked is so high that the average dividend for the preceding 10 years is less than 3 percent per annum on the quoted price, may other securities be purchased, and then only such as are legal for investment by insurance companies in California. This company is also strictly limited by its trust agreement to acquiring no more than 10 percent of the voting securities of any portfolio company. On September 30, 1958, it had pushed exactly to this limit in the case of 21 different portfolio companies, and held between 5 and 9.9 percent of the voting stock of an additional 32 insurance companies. Insurance Securities Trust Fund thus held 5 percent or more of the voting stock of 53 portfolio companies in 1958. It accounted for 32 percent of all open-end company holdings of 5 percent or more, and virtually all (21 of 24) holdings of 10 percent or more of portfolio company shares. With holdings consolidated on a group basis, Insurance Securities Trust accounted for 29 percent of all group holdings of 5 percent or over and 64 percent of all group holdings of 10 percent or more.

It has already been observed that none of the three open-end company control groups with assets in excess of \$600 million had a holding as large as 10 percent of the voting shares of any portfolio company. The Wellington Fund had only two holdings between 5 and 9.9 percent; the MIT group (including MIT and Massachusetts Investors Growth Stock Fund) had only four holdings in that size range; and the 5 companies in the largest system, that managed by Investors Diversified Services, had 30 portfolio company holdings of between 5 and 9.9 percent in 1958.

Of the remaining 10 systems with assets of \$300 million or over, only the Parker Corp. group (including Incorporated Investors and Incorporated Income Fund) with 10 and National Securities Series with 18 had substantial numbers of portfolio company holdings of 5 percent or more. Three of these ten systems had no holdings as large as 5 percent and two had only one such holding. The Boston Fund with a 10-percent holding of the voting stock of the Excelsior Life Insurance