The 3 largest open-end companies attended very few portfolio company annual meetings in 1957; attendance was heaviest among the 14 responding companies with assets of between $150 to $600 million. The average number of meetings attended declines steadily from the 28.9 average of the $300 to $600 million class to the 1.4 average for the firms in the smallest ($1 to $10 million) size class. This parallels an increase in the proportion of firms attending no meetings whatsoever, from 20 percent in the $300 to $600 million class to 61 percent in the $1 to $10 million class. Only 13 of the 120 reporting companies attended as many as 10 portfolio company annual meetings in 1957, and only 5 attended 20 or more meetings. The latter 5 companies accounted for 221 (45 percent) of the 492 meetings attended in that year.

TABLE VII–11.—*Open-end investment company representation at stockholder meetings in 1957, by size of investment company*

Size of company (in millions)	Number of companies	Number of meetings attended	Mean number attended	Median number attended	Companies attending no meetings	
					Number	Percent
$1 and under $10	46	63	1.4	0	28	61
$10 and under $50	37	125	3.4	0	19	51
$50 and under $150	20	91	4.6	0	11	55
$150 and under $300	9	59	6.6	6	2	22
$300 and under $600	5	144	28.9	4	1	20
$600 and over	3	10	3.3	4	0	0
Total	120	492	4.1	0	61	51

In an enumeration of factors influencing open-end company attendance at annual meetings, only 14 of 165 items (8 percent) could be interpreted as bearing on the issues at stake at meetings, and several of these had reference to the possibility of a proxy fight. Convenience, including the location and timing of meetings, was mentioned 32 times (19 percent) as a factor affecting attendance. The major factor influencing attendance at meetings, mentioned 102 times (62 percent), was their occasional usefulness as a source of investment information.[28] Conversely, the main reason for the low attendance rates at annual meetings is that they are regarded by the management of many open-end companies as deficient in comparison with other means of obtaining essential information.

One large company describes annual meetings as—

> routine in nature and for the information of stockholders who do not follow the companies' affairs in detail * * *

And many companies call attention to the fact—

> that the information obtainable at such meetings, insofar as it is helpful to portfolio supervision, is usually available from other sources—printed materials, reports, and personal interview—more economically, particularly in view of the considerable amount of time that must be expended in attending such annual meetings.

[28] The remaining 17 items mentioned included the size of the investment company's holding, the size of the investment company itself, the desire to show confidence in the management, the type of security held, and others.

A number of companies also express the opinion that:

The trend in recent years to large stockholders' meetings has made less desirable the attendance by representatives of the company. The opportunity for discussing business problems and prospects in a large public meeting is quite limited. This can be accomplished more effectively in personal visits by company representatives to officers of the portfolio companies.

The result is that the typical company that attends meetings at all does so only—

as often as convenient and practicable in point of time and location, but special efforts are not generally made to attend such meetings because of their limited usefulness as a source of investment research information.

A number of companies note that special effort may be made to attend meetings in which stockholders—

are provided with worthwhile analysis of the last year's operations, current developments and outlook for the future; and those meetings which provide an opportunity to discuss the business with officers and department heads. For example, it is desirable to attend the annual stockholders' meeting of Union Carbide Corp., as the chief executive officers provide the meeting with a carefully prepared analysis of operations, new process and product developments, research, new plant construction, and other pertinent aspects of the business. It is desirable to attend the annual meetings of Chas. Pfizer & Co. because of the skill with which the meetings are conducted and the extent to which officers and department heads participate in a discussion of the business.

Another company notes that:

The Gulf Oil Co. meeting is always attended by a member of the firm because it is a practice of this company to include several sessions with institutional investors at the time of the annual shareholders' meeting.

Many companies confine their attendance to meetings held in the near vicinity of investment company headquarters. One large company notes that when a portfolio company located at a great distance holds its meeting in the New York-New Jersey area:

This affords a convenient time for the industry specialists of [that] * * * management company to meet with representatives of management before or after the formal annual meeting.

Another company states that:

The annual meeting of R. J. Reynolds Tobacco Co. in New Jersey has been attended because of the opportunity to talk to executives without the travel involved in going to North Carolina.

A number of companies express the view that attendance at meetings of their smaller portfolio companies is more valuable than that of larger companies, partly because of the less public character of the meetings which permits more contact with the officers, and partly because of the greater availability of published information regarding the larger companies. One large company also observes that:

In most instances, particularly with respect to the very largest companies, the company has found that the information it seeks can be most fully and economically secured by private meetings between its representatives and the officers of the portfolio companies.

When in attendance at meetings representatives of open-end companies are concerned almost exclusively with obtaining information, partly at general stockholder presentations, but, mainly by means of informal discussions with company officers and employees. The generally held view is that both obtaining information and influencing managerial decision making are far better achieved by private direct or indirect communication than by open opposition at meetings where the management proxy committee is almost certain to have dominant voting power. As already noted, with very few exceptions open-end companies convey their proxies to the management proxy committee even where the company plans to send a representative to an annual meeting.[29] Of those companies that have retained voting power at annual meetings, only five (three of whom are members of a single group) report having opposed management in any stockholder meeting between 1952 and 1958.

Portfolio company visits and other modes of communication

Visits by officers or industry analysts of open-end companies to portfolio companies are far more important than annual meetings as a source of investment information and as a means of communication, and a number of companies state explicitly that they have "substituted for such attendance personal visits or field trips to the offices of portfolio companies." Whereas the meetings of only some 5 percent of their portfolio companies are attended by representatives of open-end companies, a very much greater proportion of portfolio companies are visited each year. Of 137 companies reporting on this matter, 38 (28 percent) stated that they visited all or virtually all portfolio companies at least once a year, and another 34 (25 percent) alleged that they visit portfolio companies "frequently," but did not give results that could be quantified. Forty-eight companies (35 percent) engage in visits only occasionally or rarely, and 17 companies (12 percent) stated that they do not visit portfolio companies at all.

Visitation policy is significantly related to company size. Of the 22 companies (including the Keystone trusts as a single entity) with assets of $150 million or more, 13 reported that they visit all or virtually all portfolio companies at least once a year, and all 22 reported frequent visits. Thus, all 17 nonvisiting companies and all 48 occasional visitors fall in the below $150 million class; and the frequency rate of visits falls steadily as we move from larger to smaller size classes. A number of the small companies explain the fewness of their visits in terms of inability to afford them; others call attention to the availability of field trip information through "very well qualified nonaffiliated sources specializing in this technique * * *."

Visits to portfolio companies are part of a larger policy carried out by almost all large companies and many in the smaller size classes, of establishing and maintaining personal contacts with the management of portfolio companies for informational purposes. The small Delaware Fund states that—

> The company's policy is to establish a personal contact between its representatives and the management of every portfolio company, and to keep such contacts alive by correspondence, telephone calls, or personal visits, rather than depending upon the formal and public contacts at an annual meeting.

National Securities & Research Corp.—

> has a policy of contacting, at least semiannually, an executive officer of each portfolio company. This contact is made either by telephone or by a field trip. Each contact report is written up together with the industry specialist's conclusions and a copy of this report is disseminated to each member of the investment staff of the economics and investment department.

[29] This excludes those exceptional cases in which there is a full-fledged proxy fight.

Investors Mutual, which has virtually abandoned attendance at annual meetings, describes its contact policy as follows:

> All of the investment analysts engage in fieldwork and management interviews, and while there is no rigid scheduling of visits to portfolio companies, visits are made as related to the volatility of the industry or company being reviewed. Some companies are reviewed a number of times a year; others perhaps only once. Contact is also kept through telephone calls to responsible company officers; relations with these officers are developed to the point where this type of contact can contribute a real knowledge of up-to-the-moment trends. Investment bankers, brokers, and advisory services, of course, supplement the above material.
>
> Several hundred companies are followed with varying degrees of comprehensive research by these investment analysts. Therefore, it is not practical to detail here all of the field trips taken by the analysts. However, an indication of the scope of such traveling and field contact work can be gained by reference to the 450,000 miles traveled by this staff of analysts in the calendar year 1958. The traveling expenses incurred by the manager for such fieldwork during calendar year 1958 for the fund and affiliated companies approximated $40,000. Indicative of the extent of telephone communication with portfolio companies by the investment staff of the manager on behalf of the fund and affiliated companies is the amount spent by the manager for long-distance communications of this sort by the investment staff in 1958, which amount approximated $30,000.

Several companies, including the Boston Fund, Colonial Fund, and Investors Mutual indicate that, in the words of one company:

> In addition to these field trips, many executives of the companies whose securities the fund holds visit our office to review with the officers and/or research men developments in their own companies.

The object of this extensive network of communication is twofold: First, open-end companies seek information of an objective character as to the prospects and position of portfolio companies.[30] A second purpose of management contacts is frequently said to be—

> to appraise the depth of the management team. The industry specialists and officers not only spend time with the top executives but they get down to see the plant operation and talk to the second and third echelons of management. They are interested in the extent of training programs and in such matters as incentive compensation, promotion from within the organization, and the degree of nepotism, if any, which exists.

In sum, the larger open-end companies generally maintain extensive personal contacts with officers of portfolio companies by means of numerous visits, supplemented by telephone calls, personal correspondence, and attendance at meetings (particularly where portfolio company officers are likely to be available for private informal conversations). As company size declines there are still many companies maintaining extensive personal contacts, but increasing numbers of companies depend on advisory services, brokers, and other sources of information.

ADVICE, CONSULTATIONS, AND CONCERTED ACTION

The numerous personal contacts between representatives of open-end investment companies and portfolio companies are not only a source of information to the investment company; they afford them

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[30] According to one medium-sized company, "The information sought is along the following lines:
"1. Earnings outlook for the current quarter, half year, year, and subsequent year or years, if possible.
"2. Prospects regarding dividend retention, increase, decrease, stock dividends, or stock splits.
"3. The likelihood of any new financing, and, if so, what type.
"4. The possibilities of major plant increases, additions, or new plant construction.
"5. Possibilities regarding corporate acquisitions, mergers, etc.
"6. Inquiries as to the development of any important new products.
"7. The approximate amount of money expended for research and advertising.
"8. The likelihood of any major management changes."

the opportunity of presenting their views concerning desirable policy on the part of portfolio companies; and they enable the portfolio companies to seek and obtain advice from their knowledgeable shareholders. Occasionally these informal exchanges of views are supplemented by formal communications in which advice is offered by or requested of an open-end company. Much less frequently open-end companies have engaged in concerted action with other stockholders to persuade portfolio company managements to follow some particular line of action.

Informal exchanges of views are engaged in by most open-end companies that maintain extensive personal contacts with portfolio company managements. However, a substantial number of companies insist that their own contributions to such discussions are negligible, since they are interested solely in acquiring information. Formal exchanges in which communication is made for the primary purpose of offering or soliciting advice are reportedly infrequent and confined mainly to the larger companies and control groups.

The three issues concerning which advice is most frequently offered and sought are dividend policy, methods and timing of new financing, and mergers.

Dividend policy

A large company that occasionally offers advice on dividend policy states that:

> It is an established technique in security analysis to make a definite comment as to dividend policy in order to draw out a return comment of management on this subject.

However, other companies explicitly deny discussing this matter at all, and some state that discussions of dividend policy—

> are not routine and normally take place only when there has been a marked change in the earnings of a particular portfolio company.

Although most of the suggestions to portfolio companies pertain to the level of dividends, several companies have urged—

> a more regular rate of dividend during the year, rather than smaller dividends in the first three quarters and a large extra dividend at the year end.

Over three-fourths of the 40 reported recommendations by open-end companies concerning the level of portfolio company dividends have urged dividend rates higher than those proposed by the portfolio company management. In approximately 60 percent of the cases reported, the dividend rate was not changed in the direction recommended by the investment company.

Financing

A large number of open-end companies report that they are frequently consulted informally on conditions in financial markets and the type of financing that would be most advantageous for raising additional capital. Formal consultations have also taken place, particularly where the open-end company holding was such as to necessitate its approval—as in instances—

> when the indentures of bonds owned by the company required bondholder approval of such proposed action—

or where the holding was quite large, or—

> where the company was an actual or potential purchaser of such securities, usually on a private placement basis.

Several large companies also report having been contacted by portfolio companies for advice on terms of security issues under negotiation for private placement with other institutional investors.

In only a few instances are open-end companies reported to have taken the initiative in contacting a portfolio company for the purpose of offering advice on financing methods. Those cases that did occur usually involved objections to any further issuance of equity securities or to the use of convertible debentures or preferred stock. In one illustrative case, an officer of a large company followed up a telephone conversation with an executive of an oil company with a letter setting forth the investment company's objections to a proposed new issue of convertible debentures.

> It was pointed out that there was a reduction in earnings per share in the preceding year due to an increase in common shares outstanding through the calling of a convertible debenture issue and it seemed unfair to face common stockholders with further potential dilution of their equity by another convertible issue, more particularly because common stockholders would not be offered rights to subscribe to it. The president replied, stating the reasons for the decision as to this method of financing, which was later carried out.

Shortly thereafter, the investment company disposed of its entire holding of this stock.

In very few instances were recommendations of an open-end company that ran counter to management proposals reported effective. One case of this sort had its inception in a visit by a representative of a large company to a portfolio company engaged in coal mining. The treasurer of the coal company described to this representative a proposed issue of convertible debentures, conversion of which would have diluted the common by about 11 percent. The investment company representative indicated to the treasurer that the company would be opposed to any convertible debenture financing.

> The treasurer of the coal company indicated that he was reluctant to enter into convertible financing if it was strongly opposed by the company. The company representative also called on a director of the coal company and outlined the company's opposition to any convertible financing at that time. A few weeks later the company received a letter from the treasurer of the coal company stating that the proposed convertible debenture issue had been abandoned a few weeks before because of a bad money market and because of the lack of enthusiasm for it on the part of some large stockholders including the company.

Mergers

Although the smaller open-end companies report few discussions of prospective mergers with portfolio companies, they are of frequent occurrence among the companies (or control groups) with assets in excess of $150 million. One of the very large companies reports that:

> In cases where the fund is a large holder (and this is the usual case) companies almost invariably submit merger proposals for informal consideration prior to the formal making of the proposal.

Several other companies also state that they are commonly consulted on merger proposals where their holdings are substantial.

Representatives of several large open-end companies have participated on portfolio company merger committees designed to work out merger arrangements with other companies. One company reported two separate instances of officers, also directors of the portfolio companies, active on merger committees of these portfolio companies.

One of these merger committees was successful in its efforts; the other had not yet consummated a merger.

Although open-end companies have sometimes recommended the rejection of the terms of a proposed merger when consulted as to their merits, all reported cases of investment company initiative on mergers found them urging portfolio companies to accept particular proposals or to explore the possibilities of merger. In one case, a group of five investment companies sent a joint telegram to the president of an independent oil- and gas-producing company, urging the directors of the company to—

> accept a proposal of a major oil company that a study of the oil and gas reserves of the former be made, as a basis for possible ultimate acquisition of its assets for cash. * * * The reason given in the telegram for adopting this suggestion was that the cash payment ultimately to stockholders would be much higher than the normal market price for the independent oil company's stock.

This exploration was carried out, but the directors of the independent company decided against negotiating with the major oil company on merger terms.

Selection of officers and directors of portfolio companies

No independent company with assets below $150 million reports having been consulted or offering advice in the selection of officers and directors of portfolio companies. Several of the larger systems report having recommended certain individuals as officers or (more commonly) directors of portfolio companies. One investment company lists nine such recommendations, of which seven were acted upon favorably. Another large company, which is occasionally consulted on vacancies on boards of directors of portfolio companies, suggested to a railroad in which it held over 5 percent of the voting shares—

> that a vacancy created by the death of one of their directors who was also a director of this company should be filled by another officer of this company and the vacancy was so filled.

One of the largest open-end companies described two episodes in which it urged representation of substantial stockholders on the boards of directors of portfolio companies. In one of these cases a specific individual was put forward to fill one of three newly created directorships; in the other it was pointed out to a portfolio company management that the shareholdings of "outside" directors were extremely small, and it was suggested that greater representation of substantial owners would be in order. In neither of these cases was the recommendation of the open-end company accepted.

Concerted action with other large stockholders

The open-end companies included in the present survey reported very few instances in which they engaged in concerted action with other large stockholders. One such episode was referred to above in connection with advice on mergers, in which a group of five investment companies sent a joint telegram, urging an independent oil and gas company to explore a merger possibility. Another company reported collaborating from time to time with another large shareholder in connection with a portfolio company request that the portfolio company be permitted to subordinate a bond issue (over one-third of which was held by the investment company) to enable it to factor its receivables more economically. The same company also participated in the initiation of a proxy fight against a portfolio company management whose chief officer was subsequently criminally indicted for a long series of questionable transactions. Another large company participated with others in bringing about a change in the management of a large cigarette manufacturer. This change was effectuated without a proxy contest, and one of the principal officers of the investment company was later selected as a member of the board of directors of that portfolio company.

The most unusual instance reported of participation in concerted action by an open-end investment company involved State Street Investment Corp., which in June 1955 acquired 200,000 shares of common stock of the Missouri-Kansas-Texas Railroad Co. At the same time Pennroad Corp. and Bear, Stearns & Co. also acquired 200,000 and 50,000 shares, respectively. In July 1955, four directors representing these new large shareholders were elected to the board of the railroad, including a vice president of State Street Investment Corp. All of the new directors have participated in the management of the railroad, which selected a new president and chief executive officer in early 1957.