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MEMORANDUM

To: The Commission

From: The Division of Corporate Regulation

Re: Different Methods Used By Investment Companies to Compute Fees

At a Commission Meeting on April 5, 1966, the Chairman referred to an article in that day's Wall Street Journal which, among other things, discussed the method used by a mutual fund for computing advisory fees on a basis different from the percentage of net asset value. The article discussed the new advisory fee scale of Convertible Securities and Growth Stock Fund. Its previous advisory agreement provided that the fund pay its manager one-half of 1 percent of the fund's net assets annually with provisions for reducing the fee on assets in excess of $200 million. The new agreement provides for a basic rate of 3/8 of 1 percent of the fund's net assets annually with an additional one-quarter of 1 percent in management fees if the fund outperforms the Dow-Jones industrial average and another 1/8 of 1 percent if such performances exceeds that of the Dow-Jones industrial average by 100% for the fiscal year. Since the fund had outperformed the industrial average in the last three years the fees for that period on the basis of the new scale would have been 1/8 of 1 percent higher than those charged.

There are other mutual funds which base their advisory fees in whole or in part on the performance of the fund. For the information of the Commission the names of these funds and their various fee arrangements are set forth below.

1) <u>Equity Fund</u> - The investment adviser receives one-sixth of the net profits (defined as net income including realized gains or losses on investments) of the Fund before deduction of charges for investment advisory services and taxes except stamp taxes. The fee for any one year is limited to no more than 1½ percent of the net asset value of the fund averaged on a monthly basis. No investment advisory fee is payable for any quarter unless the net asset value of the Fund at the end of that quarter plus dividends paid to shareholders subsequent to January 1, 1940 exceed the total net assets received by the Fund for its shares of stock which are outstanding at the end of such period.

2) <u>Incorporated Income Fund</u> - The compensation paid the investment adviser is 6 percent of the Fund's gross investment income (defined as dividends and interest accrued upon investment securities, including distributions of securities which are taxable as dividends under federal income tax laws but excluding gains or losses realized upon sales of investment securities), payable quarterly, and subject to reduction if the Fund's expenses exceed 1 percent of the average monthly net asset value of the Fund in any year.

3) <u>Oppenheimer Fund, Inc.</u> - The annual management fee equals the sum of (1) 10 percent of an amount derived by deducting the unrealized net loss (the difference between unrealized gains and unrealized losses) if any, represented by the market value of securities owned by the Fund at the end of the year, from the net realized capital gains of the Fund, (2) 10 percent of dividend income and (3) 10 percent of interest income received by the Fund

during each year. The total management fee for any year is limited to no more than 4 percent of the net asset value of the Fund at the end of that year.

4) The Technical Fund, Inc. - The Fund pays the investment adviser an annual fee equal to 10 percent of the aggregate dividend income, interest income and investment profits of the Fund for the fiscal year with regard to which the fee is to be paid. Investment profits for any year is defined to mean gains, both realized and unrealized plus option income, less losses, both realized and unrealized, allocable to such year. If the Fund should sustain an investment loss for any year, such loss will be offset against dividend and interest income in computing the management fee for that year.

5) Ivest Fund, Inc. - The Fund pays management fees of 3/8 of 1 percent per annum of its total net assets, valued quarterly plus an additional annual fee of 1/8 of 1 percent of the quarterly values of its total net assets if the investment performance of the Fund for the fiscal year equals that of the Dow-Jones Industrial Stock average plus an additional 1/8 of 1 percent if such performance exceeds that of the Dow-Jones Average by 2 percentage points for the fiscal year. The compensation is subject to reduction to the extent necessary to reduce the charges for the year (including this compensation) payable by the Fund to 1 percent of the average net asset value of the Fund for the year (plus any amount borrowed for investment purposes) computed quarterly.

6) <u>Leon B. Allen Fund, Inc.</u> - The Fund pays annual management fees equal to the sum of (1) 10 percent of an amount derived by deducting the unrealized net loss (the difference between unrealized gains and unrealized losses) if any, represented by the market value of securities owned by the Fund at the end of the year from the net realized capital gains of the Fund, (2) 10 percent of dividend income and (3) 10 percent of interest income of the Fund from securities held by it during each year. The total management fee for any one year is limited to no more than 4 percent of the net total assets of the Fund at the end of that year, based on market values.