MEMORANDUM Aug 29 1967

To: The Commission

From: Division of Corporate Regulation

Re: Arrangements by affiliates of mutual funds to receive commissions or "give-ups" on fund portfolio brokerage business

Recommendation: That the Commission not raise any objection at the present time to the arrangements described.

This memorandum updates the Commission's information regarding participation by various affiliated persons of mutual funds in arrangements to capture all or a portion of fund-related brokerage. Each of the arrangements known to the staff is summarized in Appendix A attached hereto.

Historically, brokerage commissions generated by portfolio transactions of mutual funds have been used in a variety of ways: i.e., (1) all of the commissions were kept by the broker executing the transactions for the fund ("the Dreyfus situation"); (2) the broker executing the transactions was directed to give up a portion of the commissions to other brokers who were thus rewarded for selling fund shares ("the Wellington situation"); (3) the broker executing the transactions was directed to give up a portion of the commissions to other brokers who provided the fund's investment adviser with services such as research reports, sales aids and pricing; and (4) a combination of (2) and (3).[1]

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[1] This discussion covers transactions executed on national securities exchanges. In addition, it is assumed that the broker who actually executes the transactions is chosen because of its ability to obtain best price and execution of the transaction.

Recently, new arrangements have been devised in which fund affiliates, who are not members of the New York Stock Exchange, are receiving all or a portion of the brokerage commissions generated by the funds. The most recent examples are the arrangements proposed by Hamilton Management Corporation, the investment adviser and principal underwriter of Hamilton Funds, Inc., and Pro Services, Inc. and Cannon & Company, Inc., the investment adviser-underwriter and regular broker, respectively, of Pro Fund, Inc. These arrangements are discussed in detail in Appendix A.[1]

These "recapturing-of-brokerage" arrangements are being employed, quite naturally, by the funds with captive sales organizations since they cannot increase their advisory fees by using fund commissions to reward selling dealers. Where an affiliated underwriter is dependent upon independent dealers to market the fund's shares, the practice of using brokerage to give the dealers added compensation for sale of fund shares will undoubtedly continue.

One technique used by affiliates is to become, or to establish a subsidiary which becomes, a member of a regional securities exchange. Thereafter, the affiliate (1) executes some of the fund's transactions on the regional exchange, or (2) receives give-ups from unaffiliated brokers who execute fund transactions on the New York Stock Exchange and who, in return, execute transactions for persons unrelated to the fund on the regional exchange and give up a portion of their commissions to the affiliate. Indeed, fund brokerage may be recaptured by an affiliate who is not an exchange member but is an NASD member, or, as in the case of Hamilton, a SECO member. The affiliate merely directs the broker executing the transaction on the New York Stock Exchange to give up commissions earned by that broker on unrelated transactions executed on regional exchanges.

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[1] The registration statement of Pro Fund, and the clearance memorandum relating thereto, are presently pending before the Commission.

In some cases, the affiliated persons of the mutual funds are sharing the benefits received with the funds by reducing the funds' advisory fees by the amount of total fees received less expenses[1] or by a certain percentage of net profits, e.g., 50%.[2] In other instances, the affiliated firms are keeping all of the brokerage received.[3]

The threshold question is whether there is justification for the affiliated person keeping all or even a portion of the fees obtained. The justification advanced for the affiliated person keeping a portion of the fees rests on the argument that there is no obligation on the part of the affiliated person to attempt to capture any of the commission paid by the fund. In short, "a half a loaf is better than none." This position is supported by the existence of the Dreyfus situation or the Wellington situation where the affiliate either receives all of the commissions or directs the commissions to enlarge the advisory fee, i.e., by compensating sales efforts which, in turn, enlarge the size of the fund and thus the advisory fee. In neither the Dreyfus nor Wellington situations does the fund shareholder benefit. Using fund commissions to pay for services rendered may also provide the affiliate with a valuable quid pro quo but yields the fund no direct benefits.[4] Since we have not as yet questioned these practices, it has been argued that we should be content with the arrangements in which the funds share, at least to some extent, in the benefits

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1 See discussion of Investors Diversified Services, Inc., Appendix A, p. 1.

2 See first section of Appendix A.

3 See last section of Appendix A.

4 It has been argued that advisory services supplement the research of the investment adviser, thereby indirectly improving its advice to the fund.

received by their affiliates who are directly or indirectly capturing the brokerage commissions paid by the funds.[1]

Where the affiliated firm has not arranged to reduce the advisory fee by any portion of the amount of brokerage it captures, justification advanced, in one case, for the technique is based on the fact that the added compensation has been used exclusively for sales and promotion of the fund's shares and does not directly increase the revenues of the adviser.[2] This argument is a sham to the extent that it presumes any benefit is received by the fund or that no benefit is received by the adviser. However, this case is no worse than where, as in the Wellington situation, an affiliated firm uses brokerage to reward sales of fund shares. The same argument is applicable -- that is, what is the difference between the practice of recapturing give-ups by an affiliated firm which then promotes sales of fund shares and that of rewarding through give-ups those firms who sell fund shares?

The overall argument in support of these techniques is that the fund is entitled to arrive at any arrangement it wants with its adviser. Thus, an adviser may offer to advise the fund for an advisory fee alone or for an advisory fee plus a full or partial participation in fund brokerage.

From the standpoint of the Investment Company Act of 1940, we believe that there are two statutory provisions which are pertinent here, Section 17(e) and Section 36.

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1 The question of how much actually goes back to the fund, of course, is clouded by the issue of the proper allocation of the affiliates' expenses to be charged against the fees received. In other words, even though the affiliated person may agree to reduce the advisory fees by the amount of all the net profit, as in the case of IDS, affiliated persons may still profit through salaries which would be included in expenses. The problem is compounded where the affiliate also performs brokerage business unrelated to the fund since it must decide on a ratio of expenses related to and unrelated to the brokerage to be shared with the fund.

2 See Republic Technology Fund, Appendix A, page 10. See also the discussion of Associated Fund Trust or Pro Fund, Inc. for examples where no justification is given for the affiliate retaining all of the brokerage captured.

(1) Section 17(e)

Section 17(e) makes it unlawful for any affiliated person of a registered investment company, acting as agent, to accept from any source any compensation for the purchase or sale of any property to or for the investment company, "except in the course of such person's business as an underwriter or broker." This provision is designed to supplement the provisions of Section 17(a) which regulates situations in which the affiliated person acts as principal in selling property to or buying property from the fund. The classic example of a Section 17(e) situation would be the purchase of real estate by the fund through an affiliated real estate broker -- this is prohibited.[1] However, within certain prescribed rates of commission, Section 17(e) permits the legitimate securities brokerage business of a fund to be conducted through an affiliated broker.

It could be argued that, when the affiliated person receives all or any portion of a give-up, it is acting as an agent for the fund and is accepting compensation for the purchase or sale of property to or for the fund not related to its business as underwriter or broker; the affiliated person is not receiving the compensation "in the course of such person's business as an underwriter or broker," since it is not, in many cases, performing any brokerage function.[2] For example, Hamilton Fund's case will undoubtedly work in the following manner: A purchase for Hamilton Fund's portfolio will be executed on the New York Stock Exchange through a member of that exchange who is not affiliated with Hamilton Fund and who will charge the Fund a full

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1 See Bankers Securities Corporation 25 S.E.C. 364, 366 n. 1 (1947).

2 See Axe-Houghton Fund, Inc. 25 S.E.C. 133, 138 (1947). The argument is complicated by the fact that under regional exchange rules only a broker can receive give-ups. However, while the broker may be registered under the Securities Exchange Act, the definition of "broker" under the Investment Company Act does not include a company, such as Hamilton, which merely acts as underwriter of fund shares. Section 2(a)(6).

New York Stock Exchange minimum commission. The New York Stock Exchange member then will take unrelated transactions to the Boston Stock Exchange and give up a portion of the commissions on these transactions to Hamilton Management Corporation, the fund's adviser-underwriter and a SECO member. Hamilton Management conducts no business as a "broker" within the 1940 Act definition. While Hamilton Management acts as an underwriter, the sharing in give-up fees is not related to that function and, hence, it does not receive such in the course of its business as an underwriter.[1] The same theory is applicable to every situation where an NASD or SECO member is used to recapture any or all of the fund-related give-ups.

This theory has difficulties when applied to situations where a member of a regional exchange is used, e.g., the Channing fund complex (see page 4 of Appendix A). In this situation, often the Exchange member does conduct a general brokerage business. It must be argued here that Section 17(e) was intended to be limited to permitting affiliated brokers to earn commissions where they actually execute fund portfolio transactions and was not intended to permit them to share in the commissions paid to unaffiliated brokers executing the transactions. Of course, this theory does not reach the Dreyfus case. Section 17(e) was designed to authorize exactly the Dreyfus arrangement. Dreyfus & Company, the broker, is receiving a fee which is permitted by Section 17(e)(2)(A) - namely, "the usual and customary broker's commission if the sale is effected on a securities exchange" - since its commission charge to the customer is always the minimum exchange commission, although there may be arrangements of sharing the commission among various brokers. Where the fund does benefit, it is merely because one of the persons sharing in the commission has other contractual relationships to the customer - i.e., adviser to the fund -- that a portion of the commission is being passed on to the beneficiary.

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[1] Axe-Houghton Fund, Inc., supra.

The Section 17(e) argument also has problems when applied to the Wellington Fund case. It would have to be argued that Wellington Management Company, the fund's investment adviser, is indirectly receiving compensation from fund-related give-ups by virtue of the fact that its advisory fee is increased as a result of an increase in assets attributable to shares sold by dealers receiving give-ups. However, we do not believe that the Section 17(e) prohibition has any validity when applied to the Dreyfus and Wellington cases though it is difficult to distinguish these cases as an economic matter from those in which Section 17(e) might prohibit the adviser from receiving benefit. Application of Section 17(e) to the Hamilton, Channing or similar situations would have the disadvantages of attacking only part of the problem and resulting in the affiliated persons' refusal to recapture give-ups for the fund at all if they could not also obtain some of the benefits. On the other hand, it would seem unfair to require Hamilton, Channing, etc. to recoup all commissions for the funds, while Dreyfus, Wellington, etc. need recoup none. The critical point, therefore, seems to revolve around the creation of an obligation on the part of the fund and its directors to recapture give-ups, irrespective of whether or not the fund has a captive selling organization.

(2) Section 36

This Section authorizes the Commission to enjoin affiliated persons of registered investment companies from committing gross misconduct or gross abuse of trust in respect of such registered company. It can be argued that the power to direct fund brokerage business is a valuable asset of the fund. Therefore, those persons who stand in a fiduciary relationship to the fund are under an obligation to make certain that this valuable right is exercised for benefit of the

fund and not for benefit of affiliated persons to the fund's detriment.[1] It could be argued that, in the Dreyfus case, the Fund should insist that Dreyfus & Co. make give-ups to Dreyfus Corp. and that the latter reduce its fee to the Fund by the amount thereof. The same could be said of the Wellington situation. The Fund should stop the practice of using give-ups to reward dealers selling Fund shares and should require the executing brokers to give up commissions on regional exchanges to its affiliated underwriter, who is an NASD member (there is no legal impediment to this action being now taken by fund managers).[2] This approach has the advantage of covering all of the possible arrangements and would preserve the vitality of regional exchanges.

The difficulty with the Section 36 approach is in urging that a gross abuse has occurred. Dreyfus & Co. would defend on the ground that Section 17(e) permits it to collect a minimum exchange commission (we would have to argue that Section 17(e) does not authorize an unreasonable fee even if it is the minimum exchange commission); Wellington would urge that increased fund sales give all shareholders the benefit of size; those advisers who are receiving services would argue that the fund benefits from the ability of the adviser to provide better advice. We believe that a successful prosecution under Section 36 would be difficult.

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[1] The conflicts that may arise where a portion of the brokerage give-ups is passed back to the fund are best illustrated by the Imperial Group Funds. See page 5 of Appendix A. Imperial Financial Services, investment adviser to the funds, has a subsidiary which, as a Pacific Coast Stock Exchange member, recaptures some fund brokerage and the funds share in a portion of the recaptured amount. However, the adviser also uses fund brokerage to obtain services from brokers for its own benefit. Therefore, although it has created a funnel for brokerage savings for the fund, the adviser must, nevertheless, choose in each instance whether to use the funnel to benefit itself and the funds or to benefit only by using recapturable brokerage to obtain services.

[2] We might argue that the fund is allowing the adviser to use a valuable asset - brokerage - and, therefore, that the adviser-underwriter should reimburse the fund at least the value it receives from the use of the brokerage. This same argument may be made where brokerage is directed for services.

CONCLUSION

While we believe that a cause of action might lie under the sections discussed, the problem can be successfully resolved by the abolition of give-ups, which the Division of Trading and Markets is now studying, and by a revision of the minimum commission rate structure of the New York Stock Exchange.

APPENDIX A

The Division has prepared this memorandum to present, for the information of the Commission, a comparison of existing and proposed arrangements whereby some of the portfolio brokerage expenses of certain mutual funds are credited toward and reduce the advisory fees of those funds. In addition, the memorandum discusses situations in which fund affiliates share or propose to share in give-ups arising from fund portfolio brokerage commissions, without any apparent benefit to the funds involved.[1]

I. Present Arrangements for Fee Reduction Based on Fund Brokerage

1. Investors Diversified Services, Inc. ("IDS")

IDS is the investment adviser and principal underwriter of Investors Mutual, Inc., Investors Stock Fund, Inc., Investors Variable Payment Fund, Inc. and Investors Selective Fund, Inc.

IDS organized a broker-dealer subsidiary, IDS Securities Corporation ("IDSS"), which, in August 1965, gained admission as a member firm of the Pacific Coast Stock Exchange. Since that time, IDS and the funds which it advises have had an advisory fee arrangement whereby the pre-tax net income of IDSS is credited toward the advisory fees payable by the funds to IDS. Each fund's fee is reduced by the pre-tax net income of IDSS from all sources attributable to each specific fund (excluding investment income of IDSS).

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[1] The statistics contained in this memorandum are based upon facts presently available to the Division. We are currently seeking additional information from the companies involved in order to make the statistics more meaningful.

The following table shows the impact of the fee reduction upon each fund in the IDS complex:

	Mutual	Stock	Variable	Selective
Net Assets	$ 2,660,836,477	$1,692,047,641	$576,215,169	$40,138,082
Reduction of Advisory Fee based on Brokerage	1,018,569	961,956	835,208	333
Net Advisory Fee Paid (after reduction)	9,743,870	6,337,087	1,673,501	164,737
Total Brokerage paid to All Brokers For	4,628,096	4,264,106	3,242,987	2,144
Fiscal Year Ended	9-30-66	10-31-66	11-30-66	11-30-66

2. Waddell & Reed Inc. - United Funds, Inc.

Waddell & Reed, Inc., acts as investment adviser and principal underwriter of United Funds, Inc. ("United"), which has four series of shares, United Accumulative Fund, United Income Fund, United Science Fund and United Bond Fund.

Beginning September 1, 1965, the advisory fee payable by United to Waddell & Reed was reduced by an amount computed on the basis of the net income from all sources of Kansas City Securities Corporation ("KCSC"), a broker-dealer subsidiary of Waddell & Reed and a member firm of the Pacific Coast Stock Exchange. Until September 1, 1966, the formula provided that 40% of the net income of KCSC from all sources would be credited against the advisory fee otherwise payable by United. The credit against the advisory fee is apportioned among the four series of United in the ratio of the advisory fees otherwise payable by each series. Since September 1, 1966, the formula has provided that United's advisory fee would be credited with the greater of (A) 100% of the after-tax net income of KCSC resulting from transactions

executed by KCSC directly for United, or (B) 50% of the after-tax net income of KCSC from all sources.[1]

The gross income of KCSC derived directly from United is composed of commissions from transactions executed by it for the Fund on the Pacific Coast Exchange. The other revenues of KCSC consist of (1) reciprocal business and give-ups from brokerage firms which are members of the Pacific Coast Exchange, as well as the New York Stock Exchange, and which execute transactions for United on the New York Stock Exchange, (2) direct business from institutions on the Pacific Coast Exchange, and (3) by virtue of its membership in the NASD, give-ups from transactions on other exchanges whose rules permit give-ups to NASD members.

Out of the total commissions earned by KCSC during 1966, approximately 40% represented executions for United and 60% came from other sources.

Year Ending	12-31-66	12-31-65
Net Assets of United (all classes)	$2,171,819,886	$2,219,598,110
Reduction of advisory fee based on Brokerage	770,573	not available
Net Advisory fee paid (after reduction)	8,529,410	8,470,827
Total Brokerage paid[2]	10,889,998	5,599,794
Brokerage paid or directed to KCSC	1,759,105	369,609

1 In computing net income directly from transactions for United, expenses are allocated in the ratio that gross income from direct transactions for the Fund bears to total gross income of KCSC.

2 "Total Brokerage paid" includes computed mark-ups and mark-downs in principal transactions.

3. Channing Fund Complex

The Channing complex of funds is composed of Channing Growth Fund, Channing Balanced Fund, Channing Special Fund, Channing Stock Fund and Channing Income Fund, Inc. These funds are advised by VanStrum & Towne, Inc., which is under common control with a number of corporations, including Emmet A. Larkin & Co., Inc. ("Larkin"), a broker-dealer and member of the Pacific Coast Exchange.

In April 1967, the funds entered into a new advisory agreement with VanStrum & Towne pursuant to which advisory fees payable by each fund would be reduced, retroactive to December 1, 1966, by 50% of the after-tax net income of Larkin derived directly or indirectly from transactions for that fund. A transaction shall be deemed as having arisen in respect of a fund when (1) Larkin executes the transaction as the fund's broker; (2) Larkin receives give-ups from other brokers at the direction of the fund or VanStrum & Towne; and (3) Larkin executes transactions for unrelated parties and the fund's independent directors and VanStrum & Towne designate such transactions as having arisen in respect of the fund.

The following table shows the advisory fees and brokerage commissions paid by the Channing funds for the year ended November 30, 1966, prior to the fee reduction arrangement:[1]

[1] VanStrum & Towne acts as adviser to two other small funds, but it appears that no fee reduction arrangement has been effected with these funds.

	Growth	Balanced	Special	Stock	Income
Net Assets of Fund	$200,401,907	$99,133,729	$18,322,656	$31,057,244	$44,338,921
Advisory Fee Paid	964,319	511,367	82,606	180,826	236,215
Total Brokerage	1,570,175	393,200	442,853	393,245	139,114
Direct Brokerage to Larkin	138,174	54,333	5,347	4,096	2,496

4. Imperial Group Funds

Imperial Financial Services, Inc. ("IFS") is the investment adviser and manager for Imperial Growth Fund, Inc., Imperial Capital Fund, Inc. and Josten Growth Fund, Inc. IFS formed a subsidiary, Imperial Securities, Inc., ("Securities"), a broker-dealer which is a member firm of the Pacific Coast Exchange. Securities has been in business since April, 1966. The funds pay an advisory-management fee to IFS of 3/4 of 1% of average net assets. IFS reduces that fee by 50% of Securities' pre-tax net income,[1] except that Securities retains an additional $15,000 from the funds' portion. The resultant amount is divided among each of the funds in the same proportion as the revenues of Securities are derived directly or indirectly from each of the funds.

[1] "Pre-tax net income" does not include income from securities held for Securities' own account or from the sale of fund shares. In addition, the computation of the formula does not give the funds any portion of Securities' profit from non-investment company related business.

	Imperial Capital	Imperial Growth	Josten Growth
Fiscal Year	November 30, 1966	December 31, 1966	December 31, 1966
Net Assets	$26,030,632	$4,800,885	$220,579
Fee Reduction based on Brokerage	12,751	3,637	207
Net Advisory Fee Paid	189,437	28,024	783
Total Brokerage Paid (approx.)	133,000	45,000	2,281
Brokerage to Securities (approx.)	31,000	6,000	425
Brokerage to Brokers who gave up to Securities (approx.)	58,000	25,000	1,408
Reduced rate of advisory management fee	.70%	.67%	.44%

II. Proposed Brokerage Sharing Arrangements

1. Steadman Security Corporation's Proposal

Steadman Security Corporation is the manager of Steadman Science & Growth Fund, Inc., Steadman Investment Fund, Inc., and Steadman Shares in American Industry, Inc. Steadman Security Corporation has established a wholly-owned broker-dealer subsidiary, Republic Securities Corporation, which has applied for membership on the Philadelphia-Baltimore-Washington Stock Exchange ("PBW").

It is proposed that, subject to the practice of seeking "the most favorable prices in the execution of orders", the funds would place portfolio brokerage transactions with Republic for which they would be charged a standard commission. In addition, it is contemplated that Republic would receive revenues from (a) give-ups from firms which are members of both the

New York Stock Exchange and PBW, (b) give-ups from fund transactions on other regional exchanges which allow give-ups to NASD members, and (c) commissions computed at exchange rates on transactions for the funds in the over-the-counter market where it would be cheaper for the funds to use Republic than to deal directly with market-makers.[1]

Steadman Security Corporation proposes a credit towards the advisory fee payable by each fund of 40% of the net income of Republic attributable to each fund. Republic submitted estimated monthly figures, based upon the approximate dollar volume of the funds in the first four months of 1967, to show how the funds would benefit from the proposed arrangement.

Monthly	Science	Investment	Shares	Total
Total Attributable[2] Income of Republic	$5,920	$720	$1,360	$8,000
Less Attributable Expenses of Republic	4,158	506	956	5,620
Attributable Net Income of Republic	$1,762	$214	$ 404	$2,380
Reduction in fee	$ 705	$ 86	$ 162	$ 953

The following breakdown of estimated monthly expenses of Republic was submitted:

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[1] The staff has informed counsel to Steadman that brokerage commissions paid by the funds to Republic in the over-the-counter market may be improper.

[2] It is estimated that 25% of the total commissions paid by these funds in 1966 will equal the total income of Republic attributable to the funds.

Salaries:	ESTIMATED MONTHLY EXPENSES
Full-time personnel	$1,500
Part-time personnel	1,905
Payroll taxes and benefits	174
Rent and office services	250
Telephone	100
Postage	10
Accounting and auditing	125
Legal	100
Floor brokerage	800
Taxes - D.C., Delaware	50
Insurance	50
Stationery and supplies	30
Dues and subscriptions	50
Clearing expense	200
Other Exchange expense	150
Organizational expense	100
Maintenance and repairs	10
Other services	10
Miscellaneous	55
Total Expenses	$5,619

2. Hamilton Management Corporation's Proposal

Hamilton Management Corporation has informed the staff that the Boston Stock Exchange rules permit exchange members to give up a portion of their commissions on orders executed on the exchange to NASD and SECO members.

Hamilton Management is a SECO member and the investment adviser and principal underwriter of Hamilton Funds Inc., an open-end investment company whose net assets amounted to $489,972,000 at December 31, 1966.

Hamilton Management proposes to enter into arrangements with member firms of the New York Stock Exchange who are also members of the Boston Stock Exchange, whereby such firms would execute transactions for the Fund's portfolio on the New York Stock Exchange.

Those brokers would, in turn, then take orders unrelated to the Fund to the Boston Stock Exchange and give up a portion of their commissions so earned to Hamilton Management.

Hamilton Management proposes to pass back to the Fund 50% of its net revenues from this give-up arrangement. The Fund proposes to use this return from Hamilton Management to offset the Fund's operating expenses, other than its advisory fee, and then to use any excess against the advisory fee. The entire arrangement will be disclosed in the Fund's prospectus.

Hamilton Management has also indicated that it is exploring the possibility of establishing a wholly-owned subsidiary which would join the NASD. The purpose of the subsidiary would be to receive give-ups from Fund portfolio transactions where block crosses were directed to regional exchanges. The give-ups, if and when received, would also be passed back to the Fund to the extent of 50% after expenses.

III. Give-ups to Fund Affiliates

1. Associated Fund Trust-Consumers Investment Fund, Inc.

Consumers-Investor Planning Corporation and Professional Investment Management Company, each a wholly-owned subsidiary of Consumers Financial Corporation, are the Sponsor of Associated Fund Trust and the investment adviser to Consumers Investment Fund, Inc., respectively.

The prospectuses of the funds disclose that the Sponsor of Associated and the Adviser to Consumers each reserves the right to receive give-ups from brokers executing transactions for the funds on exchanges permitting give-ups to non-members who are members of the NASD. During the year ended September 30, 1966, Consumers-Investor Planning Corporation received $27,224 in such give-ups on transactions of Associated Fund Trust, while the total brokerage commissions paid by Associated amounted to $861,064. Professional Investment Management

Company received no give-ups from Consumers Investment Fund transactions through December 31, 1966. None of the give-ups received by the Sponsor or Adviser, respectively, have been applied to a reduction of fees payable by the funds and it is not presently contemplated that the funds will receive any such benefits from the give-ups.

The prospectus of Associated Fund Trust contains the following statement: "Such (give-up) commissions increase the Sponsor Company's earnings and are not received in respect of services rendered to the Fund." The prospectus of Consumers Investment Fund contains substantially the same disclosure.

2. Republic Technology Fund, Inc.

Republic Technology Fund is advised by Salik Management Corporation, which is under common control with Salik & Co., the Fund's underwriter, and Salik Bank in Basel AG (Switzerland).

Salik & Co., a member of the NASD, receives give-ups on transactions executed for the Fund on securities exchanges which permit give-ups to NASD members. Out of total brokerage commissions paid by the Fund in the year ending April 30, 1967, amounting to $537,635, Salik & Co. received give-ups of $26,878.

In addition, the Fund may place a portion of its brokerage transactions with the Salik Bank for execution on the Swiss stock exchanges at standard commission rates, although no brokerage was paid to the Salik Bank during the latest fiscal year.

None of the give-ups or commissions received by the Salik companies are credited towards any of the fees payable by the Fund to Salik companies.

The Republic prospectus discloses the give-up arrangement. This matter has been discussed with counsel for Salik. The justification advanced for the arrangement is that the extra compensation received by Salik & Co. has been used exclusively for sales and promotion of the Fund's shares and does not increase the revenues of Salik Management Corporation.

3. Pro Fund, Inc.

The prospectus of Pro Fund, Inc., whose Securities Act registration statement is pending, indicates that Pro Services, Inc., the investment adviser and principal underwriter of the Fund, and Cannon & Company, Inc., a broker-dealer two of whose officers are presently directors of the Fund and which it is contemplated will be the principal broker for the Fund, may receive give-ups or reciprocal business from other broker-dealers on transactions executed for the Fund. Cannon & Company, Inc. is a member of the Philadelphia-Baltimore-Washington Exchange; Pro Services, Inc., is not an exchange member, although it is a member of the NASD.

The give-ups may be received in the following situations:

The Fund will direct brokerage business to Cannon & Company and Cannon & Company may execute the transaction on the Philadelphia-Baltimore-Washington Exchange. Cannon & Company may give up part of its commission to Pro Services, Inc., a non-member of the Exchange, such give-ups being permitted by the rules of the Philadelphia-Baltimore-Washington Exchange. The Fund may also place orders with Cannon & Company which can be executed only on the New York Stock Exchange. The member firm that executes the transaction may also be a member of the Philadelphia-Baltimore-Washington Exchange. In such case, Cannon & Company and Pro Services, Inc. may receive give-ups from the member.

There is presently no arrangement between the Fund, its adviser and Cannon & Company whereby the Fund would share in the give-ups being given to the adviser and the broker. As

stated in the clearance memorandum, the Fund's prospectus will contain disclosure of the fact that any give-ups received by the affiliates, will be extra compensation to them for which they perform no extra services.

4. Investors Research Fund, Inc.

A recent routine inspection has uncovered the practice of Investors Research Fund, Inc. placing all orders for purchase and sale of portfolio securities with Hope Street Investors, its principal underwriter. Hope Street then immediately relays the transaction to Hayden, Stone and Co. which executes it on the New York or Pacific Coast Exchanges. Hope Street, which has a preferential rate status on the Pacific Coast Exchange, receives a give-up of 25% on Pacific Coast Exchange transactions.

During the fiscal year ended December 31, 1966, Hope Street received approximately $10,500 in give-ups from Hayden, Stone, while the Fund paid approximately $57,000 in brokerage commissions during that year. The give-ups received by Hope Street are not passed back to the Fund in the form of any reduction in fees payable by the Fund to any party.[1] The inspection report indicates that no services are performed by Hope Street which would otherwise entitle it to receive these give-ups. The report also indicates that the receipt of these give-ups provides the sole incentive for Hope Street's existence since during its latest full fiscal year its revenues derived from the sale of the Fund's shares were approximately equal to its expenses.

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[1] Hope Street is not affiliated with the Fund's investment adviser.