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SECURITIES AND EXCHANGE COMMISSION
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INVESTMENT COMPANY ACT OF 1940
Release No. 7130

SURVEY OF INVESTMENT COMPANY INCENTIVE
FEE ARRANGEMENTS

In order to assist registered investment companies, their officers and directors, and others concerned with compliance with the provisions of the federal securities laws, especially those which relate to investment company incentive fee arrangements, the Commission is publishing a Survey of Investment Company Incentive Fee Arrangements prepared by the Division of Corporate Regulation.

As indicated in Investment Company Act Release No. 7113 (April 6, 1972) there were 999 active open and closed-end investment companies registered with the Commission on January 3, 1972. Of these, 103 had performance fee arrangements in effect on that date.

Publication of this Survey is not intended to indicate the Commission's approval of any of the features of investment company incentive fee arrangements contained in it. As indicated in Investment Company Act Release No. 7113, a number of investment company incentive fee contracts now in use contain features which are unfair to investment companies. Publication of the Survey at this time is intended to assist those persons who must consider the fairness of such contracts in meeting their fiduciary duties.

By the Commission.

Ronald F. Hunt
Secretary

SURVEY OF INVESTMENT COMPANY INCENTIVE FEE
ARRANGEMENTS IN EFFECT AS OF JANUARY 3, 1972

Prepared by the Division of Corporate Regulation

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Characteristics of Incentive Fee Contracts

Characteristics of incentive fee contracts as revealed by the Survey include the following features: 1/

Investment company performance is related to the Standard & Poor's 500 Stock Composite Index (approximately 63 percent of the companies).

The fulcrum fee (paid when performance equals that of an index) is .50 to .75 percent of net asset value (approximately 74 percent of the investment companies surveyed).

The minimum fee is 0 (21 companies) to .50 percent of net asset value (approximately 95 percent of the investment companies fall in this range).

The maximum fee is 0.75 to 1.00 percent of net asset value (approximately 55 percent of the companies).

The time interval over which performance is measured is a fiscal year (approximately 55 percent of the companies).

Performance computations include an adjustment for distributions paid by the investment company out of realized capital gains (approximately 93 percent), but do not include an adjustment for cash dividends paid out of investment income by the investment company or by the companies whose securities make up the index (approximately 79 percent).

Performance differences are measured in percentage points (89 percent of the investment companies) rather than percentages (9 percent of the investment companies).

Most contracts include a null zone, an interval around the point at which the investment company's performance equals that of the index and in which no incentive or penalty fee would be paid (approximately 57 percent of the companies). The most common null zones fall in the range between ± 1 percentage point or ± 5 percentage points (approximately 43 percent of the investment companies surveyed had null zones in this range).

1/ This description is based upon modal values (i.e., the most frequent value in each distribution) but may not describe any single contract, the exact average of the statistics, or the wide dispersion of values among contracts.

The maximum fee adjustment occurs when the performance difference (measured between the index and the company) is between ± 6 percentage points and ± 10 percentage points (approximately 53 percent of the investment companies). 2/

Approximately half the companies have performance fee adjustments which increase and decrease continuously as the performance difference increases and decreases and the other half have fee adjustments which change only for whole unit changes in performance differences.

2/ The range of differences which result in maximum fee adjustments was quite broad. Several companies provided for a maximum fee adjustment for any difference in performance and one company provided for the maximum fee adjustment for a performance difference of 24 percentage points (the difference between the performance of the index and the performance of the company).

TABLE I

INDICES USED FOR
PERFORMANCE MEASUREMENT

<u>INDEX</u>	<u>NUMBER OF INVESTMENT COMPANIES</u>
S & P 500	65
S & P 425	5
Dow Jones 30 Industrials	10
Dow Jones 65 Stock Composite	5
NYSE Composite Index	14
Average of Three or More Indices	1
Best Performing of Three or More Indices	2
91 Day Treasury Bill Rate	<u>1</u>
TOTAL	103

TABLE II

PERIODS OVER WHICH
PERFORMANCE IS MEASURED

<u>TIME PERIOD</u>	<u>NUMBER OF INVESTMENT COMPANIES</u>
1 Year	57
Rolling 12 Months ^{1/}	24
Rolling 4 Quarters	12
Rolling 24 Months	1
Fiscal 3 years	1
Rolling 36 Months	6
Rolling 12 Quarters	<u>2</u>
Total	103

1/ A rolling period is a moving average of the number of subperiods selected by the company. For example, a rolling 12 months is a moving average of investment performance computed at the end of each month by taking the average of the preceding 12 months.

TABLE III

INVESTMENT COMPANIES CLASSIFIED BY FULCRUM FEE PAYABLE WHEN
THEIR PERFORMANCE IS EQUAL TO THE PERFORMANCE OF THE INDEX
AND INVESTMENT COMPANIES WITH A PERFORMANCE FEE WHICH MAY
DECREASE TO ZERO CLASSIFIED BY FULCRUM FEES PAYABLE

<u>Range of Fulcrum Fees Payable (% Of Avg. Net Asset Value) 1/</u>	<u>Number of Investment Companies</u>	<u>Number of Investment Companies With Fee Which May Decrease to Zero</u>
less than .50	5	1
.50	26	3
.51 to .59	1	None
.60	17	None
.61 to .74	8	None
.75	24	4
.76 to .99	2	None
1.00	14	7
greater than 1.00	5	5
Not Readily Classifiable ^{2/}	1	1
TOTALS	103	21

^{1/} Fulcrum fees in some contracts increase and decrease as a percent of average net asset value depending upon the total value of average net assets. For simplification of the statistics, the fulcrum fee rate used is always that rate which is payable for the lowest possible total of average net assets.

^{2/} One investment company has no fulcrum fee. This company uses only a maximum and a minimum fee.

TABLE IV

RANGE OF MINIMUM
FEES PAYABLE

<u>Minimum Fee Payable</u> <u>(% Of Avg. Net Asset Value)</u>	<u>Number of</u> <u>Investment Companies</u>
0	21
.1 to .24	6
.25	17
.26 to .39	18
.40	16
.41 to .49	2
.50	18
.51 to .59	2
.60 to .69	2
.75	<u>1</u>
Total	103

1/ Based upon the minimum performance fee payable, assuming the base fee used in Table III. Absolute minimum fees may be lower depending upon applicability of a lower fulcrum fee.

TABLE V

RANGE OF MAXIMUM FEES PAYABLE

<u>Maximum Fee</u> <u>(% OF Avg. Net Asset Value)</u>	<u>Number of</u> <u>Investment Companies</u>
less than .50	2
.50	3
.51 to .74	8
.75	13
.76 to .79	0
.80	21
.81 to .99	10
1.00	13
1.01 to 1.24	4
1.25	7
1.50	9
1.75	1
2.00	7
2.40	1
2.50	1
3.00	1
4.00	<u>2</u>
TOTAL	103

This is the maximum total fee payable assuming the fulcrum fee used in Table III.

TABLE VI

<u>RANGE OF NULL ZONES</u>		<u>1/</u>
No Interval		44
<u>±</u> .5 percentage points		2
<u>±</u> 1 percentage points		8
<u>±</u> 1.5 percentage points		2
<u>±</u> 2 percentage points		12
<u>±</u> 3 percentage points		7
<u>±</u> 5 percentage points		15
<u>±</u> 8 percentage points		1
<u>±</u> 10 percentage points		4
<u>±</u> 4 percent		1
<u>±</u> 10 percent		4
<u>±</u> 15 percent		1
<u>±</u> 25 percent		1
<u>±</u> 50 percent		1
Total		<u>103</u>

1/ The null zone is the interval, measured in percentage points or percent, around the point where the performance of the investment company equals the performance of the index. No performance fee adjustment (up or down) is payable until the performance difference as measured between the company and the index reaches the limits (such as ± 1 percentage point, ± 2 percentage points) of the company's null zone. For example, an investment company with a null zone of ± 5 percentage points would be paid the fulcrum fee unless the performance of the company was at least 5 percentage points better or 5 percentage points worse than the index. Null zones are measured around each company's performance as related to the particular index which the company has chosen for comparison.

TABLE VII

DIFFERENCE IN PERFORMANCE WHICH RESULTS
IN THE MAXIMUM INCENTIVE OR PENALTY FEE

<u>Differential</u>	<u>Number of Investment Companies</u>
<u>Units Expressed as Percentage Point</u>	
+ 1.25 percentage points	1
+ 2 percentage points	6
+ 4 percentage points	2
+ 5 percentage points	4
+ 6 percentage points	16
+ 7 percentage points	3
+ 7.5 percentage points	1
+ 8 percentage points	5
+ 8.3 percentage points	1
+ 10 percentage points	26
+ 10 percentage points and 100%	3
+ 11 percentage points	1
+ 12 percentage points	6
+ 15 percentage points	5
+ 15 percentage points and 100%	1
+ 16 percentage points	1
+ 20 percentage points	6
+ 20 percentage points and 100%	1
+ 24 percentage points	1
Subtotal: Expressed as Percentage Point	90
<u>Units Expressed as Percent</u>	
+ 8 percent	1
+ 10 percent	1
+ 30 percent	1
+ 50 percent	1
+ 70 percent	1
+ 75 percent	1
+107.5 percent	1
+200 percent	1
+ 25 percent plus 20 percentage points	1
Subtotal: Expressed as Percent	9
Varies as base fee varies	2
Maximum incentive or penalty occurs for any difference in performance	<u>2</u>
TOTAL	103

Table VIII

TREATMENT OF REALIZED CAPITAL GAINS DISTRIBUTIONS IN
THE COMPUTATION OF THE PERFORMANCE OF THE COMPANY

<u>Treatment</u>	<u>Number of Investment Companies</u>
Distributions considered <u>reinvested</u> at record date ^{1/}	22
Distributions considered <u>reinvested</u> on payment date	17
Distributions considered <u>reinvested</u> with no specific date	18
Performance <u>adjusted</u> for capital gains distributions but no date specified	35
Performance <u>adjusted</u> for capital gains distributions at end of period	4
Performance measurement includes realized capital gains only	1
No adjustment	1
No adjustment specified	5
	<hr style="width: 10%; margin-left: auto; margin-right: 0;"/> 103

^{1/} Record date is assumed to be equivalent to the ex-distribution date.

TABLE IX

TREATMENT OF CASH DIVIDENDS PAID OUT OF INVESTMENT INCOME IN THE COMPUTATION
OF THE PERFORMANCE OF THE COMPANY AND THE INDEX

<u>Treatment</u>	<u>Number of Investment companies</u>
No adjustment is made in the performance of the investment company for cash dividends paid by it and no adjustment is made in the performance of the index for cash dividends paid on securities in the index.	76
Investment company deducts the change in its undistributed net income from its performance, and makes no adjustment for the dividends paid on the securities in the index.	17
Dividends paid by the investment company and dividends paid on the securities in the index are added back to the respective performances at the end of the year.	1
Dividends paid by the investment company are considered reinvested in shares of the company on the payment date while dividends paid on the securities in the index are added to the index at the end of the year.	2
Dividends paid by the investment company are included in its performance computation, but the method of adjustment is not specified. The index is not adjusted for dividends.	1
No adjustment specified	5
Dividends and net income received by the investment company are included in its performance computation. The index is the yield on 91 Day Treasury Bills.	<u>1</u>
TOTAL	103

TABLE X

CONTINUOUS AND DISCRETE PERFORMANCE INTERVALS^{1/}

Continuous change in fee as performance difference increases or decreases	40
Continuous change in fee as performance difference increases or decreases but only after null zone	12
Performance fee changes only for discrete changes in performance difference	49
No Performance Interval	$\frac{2}{103}$

^{1/} Under contracts with continuous changes the fee changes slightly with the slightest performance difference between the index and the investment company. Continuous fees are indicated under many contracts by the statement "Fractions will be prorated." Under contracts with discrete intervals the fee changes in steps as the performance difference reaches designated break points.