

these, unhampered by trustees or by incurring any risk of loss of their own capital. There is nothing to prevent them from manipulating the funds to their own advantage, but, even apart from such possible manipulation, they stand to gain a very high rate of return on their own capital, while avoiding any loss which may result from using the debenture funds in speculative investments. In such circumstances it becomes all the more imperative that those who direct policy should be men of undoubted integrity.

(c) *Investment Policy*.—Two basic canons of investment policy should be the diversification of investments and the avoidance of speculative investments. One authority states that a trust with a capital of £2,000,000 should not invest more than £3,000 in any one enterprise. As a general principle, securities should not be purchased save in established undertakings with ample assets, and which have been proved by experience to be sound. The Investment Executive Trust of New Zealand, Ltd., violates both these canons.

Its debenture certificates provide that, on completion of an issue of debentures, not more than 10 per cent. of the funds contributed shall be in any one security; but this provision does not apply *until* the issue is completed. Hence, it can be deliberately evaded by refraining from completing an issue, and the appearance of security through diversification is illusory. The existence of a large number of subsidiary or related companies facilitates such evasion; for it is possible to place investments in several such concerns and then divert them to a particular object, which may be selected primarily because it furthers the interests of the directors themselves. The interests of debenture-holders are subsidiary. Investment trusts which are mindful of the interests of those who invest with them, and anxious for their own reputation, should refrain from the establishment of subsidiary or interlocked companies, except for such ancillary purposes as the marketing of their debentures. The Investment Executive Trust Group, hereinafter described in detail, comprises at least fifteen companies which are connected by common shareholders or directors, shareholdings in each other, or other forms of financial interdependence. No elaborate argument is required to demonstrate the openings which this gives to use the funds of debenture-holders to serve the personal ends of those in control, or to obtain profits by way of commission, or the danger that the security of debenture-holders may be steadily whittled away.

The second basic canon, the avoidance of speculative securities, has also been flagrantly violated; for it will be shown that a considerable proportion of the funds of the debenture-holders has been used in the purchase and renovation of a building. This is certainly neither an established concern nor a proven enterprise, but is definitely a speculative investment. It will be shown that the device of subsidiary or related companies has been used to facilitate this investment. At the same time, it has enabled the transaction to be undertaken in such a way as to throw the burden of risk on the debenture-holders, while leaving it open to the directors to enjoy any exceptional profits which might conceivably be realized. Debenture-holders have no means of obtaining knowledge of the transactions directed to the purchase of this building, because they have no powers in regard to inspection of the portfolios of securities.

PART III.—ORGANIZATION OF COMPANIES IN THE INVESTMENT EXECUTIVE TRUST GROUP.

In this section we describe the organization of fifteen companies which comprise the Investment Executive Trust of New Zealand, Ltd., and its affiliates.

We desire to point out that the respective lists of shareholders are not complete lists; we have chosen names that are common to most of the companies, for the purpose of showing the intermeshing ownership and control. The concentration of control is effected through the holding of shares by one company in another. The names of companies which hold shares in other companies of the group are in italic type.

(1) *The Investment Executive Trust of New Zealand, Ltd.*—This is a public company incorporated in New Zealand in May, 1929. It is an investment trust following fairly closely the lines of what is known as a contractual trust company. Its present authorized capital is £100,000 in 250,000 ordinary