

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

To: Governor Eccles

From: Mr. Morrill

Before your departure for the West you asked me to obtain for you certain information regarding the investments of the Federal Reserve Retirement System in common stocks. Since Mr. Van Fossen was in the best position to analyze the facts and put them into the shape called for by your questions, I asked him to do so, and the results are set forth in his memorandum of September 17, 1948, attached. I believe that he has covered very completely all the questions which you asked.



9-17-48.

Attachment.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date September 17, 1948.

To Mr. Morrill

Subject: _____

From Mr. Van Fossen

vt

In accordance with request contained in your August 23 memorandum, I have prepared the attached table showing separately for common stocks purchased prior to December 1, 1947, and for those purchased thereafter the cost, annual yield, estimated earnings to August 31, 1948, and market value as of August 31, 1948. The statement also contains a tabulation showing purchases of common stocks by months from December 1947 to August 1948, both inclusive. The joint meeting of the Presidents and the Board was held on December 9, 1947. No information is available as to the amount of common stocks, if any, purchased in December prior to the joint meeting of the Board and the Presidents. Accordingly, in the attached tabulation the holdings of common stocks on November 30, 1947, were taken as representing substantially the amount on hand at the time of the joint meeting.

Arrangements with the Northern Trust Company regarding its services and the compensation therefor fall into three distinct periods. In the first period extending from the organization of the Retirement System until July 10, 1944, the Northern Trust Company of Chicago and the United States Trust Company of New York acted as depositaries and custodians for the Retirement System and also as investment advisors and for their services received 1 per cent of the net income from investments of the Retirement System.

On July 10, 1944, an agreement was entered into with the Northern Trust Company under which it was to manage the investment fund of the Retirement System subject to general supervision by the Investment Committee. For this service the Northern Trust Company received an additional $\frac{3}{4}$ of 1 per cent of the income from all investments so that the total cost of the services of the two trust companies to the Retirement System amounted to $1\frac{3}{4}$ per cent of the net income from the fund.

At the June 5, 1946, meeting of the Board of Trustees of the Retirement System a resolution was adopted providing for the transfer of the custody of all securities of the Retirement System to the Federal Reserve Banks of New York and Chicago. Arrangements effecting this transfer were made as promptly as possible thereafter, whereupon the payment of 1 per cent of net income for the services of the trust companies as custodians was discontinued and the only payment was to the Northern Trust Company of Chicago for its services as manager of the investment fund for which it continued to receive $\frac{3}{4}$ of 1 per cent of the total income.

To: Mr. Morrill

-2-

It will be noted from the above that no change in the arrangement with the Northern Trust Company has occurred since the resolution adopted by the Board of Trustees at its meeting on June 5, 1946, was put into effect.

Income from investments during the year ended February 29, 1948, was slightly in excess of \$2,000,000 and under the terms of the agreement with the Northern Trust Company that Company was paid \$15,552.12 as the management fee. With the same income, under the original agreement with the Northern Trust Company and the United States Trust Company the payment presumably would have been \$20,736.16, and under the agreement that was in effect from July 10, 1944 until about the middle of 1946 the payment presumably would have been \$36,288.28.

Attachment

Cost and Estimated Yield of Common Stocks
Purchased by the Retirement System

	<u>Stocks pur- chased prior to Dec. 1, 1947</u>	<u>Stocks pur- chased Dec. 1947 to Aug. 1948, both inclusive</u>	<u>Total stocks purchased to Aug. 31, 1948</u>
Cost	\$759,729	\$1,258,378*	\$2,018,108*
Annual yield at dividend rates on purchase	4.42%	4.77%	4.63%
Estimated earnings to August 31, 1948	\$25,129	\$17,629	\$42,758
Above plus stock dividend	25,918	18,220	44,138
Market value on August 31, 1948	728,395	1,266,080	1,994,475
Excess of cost over August 31, 1948, market value	31,334	(7,702)#	23,633
Annual yield at dividend rates on August 31, 1948	4.84%	4.98%	4.92%

* Net purchases, i.e., after deducting \$1,380 received from sale of 17-1/2 shares of Standard Oil Company of New Jersey stock, acquired as a stock dividend.

Excess of August 31 market value over cost.

Purchases December 1947 to August 1948 by Months

<u>Month</u>	<u>Cost</u>	<u>Yield at divi- dend rates on purchase</u>
December 1947	\$195,733	4.83 %
January 1948	26,955	4.82 %
February 1948	---	---
March 1948	250,556	4.91 %
April 1948	276,004	4.46 %
May 1948	220,040	4.49 %
June 1948	99,550	4.71 %
July 1948	133,184	4.96 %
August 1948	57,736	5.88 %
Total	1,259,758	---
Less sales	1,380	---
Total, net	1,258,378	4.77 %

Note: As the dividends on common stocks are subject to change, it is, of course, impossible to accrue earnings on such investments in the same manner as is done commonly with bonds and preferred stocks. The estimated earnings in the above table are slightly less than actual earnings because (1) no allowance is made for earnings for the fractional part of a month the stocks were held during the calendar month in which they were purchased and (2) dividends in a number of cases were increased after the stocks were acquired.