

Doing What We Said We'd Do

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President's Address

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Thank you, Mark [Fetting, GMM Chairman], for those thoughtful comments. Putting investors first is the key to our businesses' success, and your determination to put investors at the center of our GMM has resulted in an outstanding program for the next three days. We will recognize the members of the GMM Planning Committee tomorrow at lunch, but I can't let this opportunity pass without expressing my appreciation to Mark and his committee for their dedication and hard work.

This year's committee had the additional challenge of integrating three other conferences into our GMM program. They've done a great job. You will have the widest range of choices that any GMM has ever provided.

This year, we also have brought our annual Policy Forum into the GMM program. We launched the Policy Forum five years ago as an opportunity for the leadership of our industry to gain insights from Washington policy experts on key issues. We're pleased now to make this same opportunity available to everyone attending GMM.

The Institute's policy agenda today is long and complex. It embraces many fund-specific issues, as well as the broadest national concerns, like reform of financial services regulation, the future of our retirement system, and the looming debate on taxation and spending.

In our Policy Forum, we will get insights on these and other issues from two prominent political leaders who are now out of the arena – former Senate Majority Leader Trent Lott and former Senator and New Jersey Governor Jon Corzine. We're expecting a great discussion.

We meet today as the Senate is engaged in a historic debate over the future of financial services regulation. This landmark legislation will affect everyone in this room – as a consumer, as a saver, as an investor, not to mention as a financial services professional. The bill that ultimately passes will shape U.S. financial markets and influence our ability to compete in global markets. It will have a heavy bearing on how the American economy fares for decades to come.

Now, your next question might be – if the stakes are that high, Paul, what are you doing here?

Rest assured that even as we host this conference, the Institute hasn't taken its eyes off the legislative process.

Indeed, we have been at work on this legislation for months. Let me give you a sense of the scale: Since the Administration put forward its proposals for reform last summer, there have been at least six major rewrites of the package, and countless smaller amendments. When you consider that many of those bills have been upwards of 1,200 pages, and each has to be scrutinized for subtle changes that could creep in on any page – well, that's a lot of eyestrain.

I don't want to get into the details of the legislation, which are still very much in flux, or the process.

I do want to note that the thrust of this effort has not been aimed at mutual funds or other registered investment companies.

Much of the emphasis of this legislation is on controlling systemic risks. We have made the case that mutual funds do not pose broad risks for the financial system at large. As a result, our comprehensive system of regulation and oversight will remain largely unchanged and in the hands of the Securities and Exchange Commission. On Capitol Hill, we are focused primarily on proposals that would have unintended and potentially harmful effects on funds and their shareholders. And we are pointing these problems out to lawmakers.

The debate has raised many questions about how our financial system should function. One such question goes to the heart of the relationship between financial services firms and their customers.

That is: What is a fiduciary?

Should brokers have a fiduciary duty when they give advice to clients? Are market-makers or dealers fiduciaries to the buyers and sellers they serve? Does proprietary trading compromise a firm's fiduciary role in other aspects of its business?

As it investigates the crisis and tries to craft solutions, Washington is searching for answers to those questions, among many others. The image that comes to my mind is that of Diogenes, the ancient Greek philosopher, wandering with his lantern up and down Wall Street, asking each person he meets, "Are you a fiduciary?"

And it seems to me that a lot of the businesses and executives he encounters are scrambling to escape the light of his lantern. Some have even referred to "fiduciary" as the "F word."

Well, let me be clear: Those of us in the fund industry are fiduciaries – whether as advisers to a fund or directors on a fund board. We are proud of that fact. We stand up in that light.

At the GMM six years ago, I pointed out that "America's mutual funds are financial intermediaries that bestride the globe and span generations. We should not only expect close scrutiny, but understand that our size and importance demand it."

Those were dark days for the fund industry. It was vital then that we re-establish credibility and trust with investors and many other constituencies. So when I gave my first speech as President of ICI in June 2004, I spent a great deal of time talking about our role as fiduciaries.

I noted then that the concepts underlying the term "fiduciary" spring from customs and beliefs of the ancient Romans. The pagan goddess Fides was the personification of good faith. Her symbol was the outstretched hand, given as in solemn agreement. "Fiducia" – a term in Roman law meaning confidence, trust, reliance, assurance – is closely related to the Latin noun "fides," signifying belief or faith. It's also related to the adjective "fidelis," meaning a person or institution that can be trusted, who is true, steadfast, and faithful. We all know this word from the U.S. Marine Corps motto, "Semper Fidelis" – always faithful.

Essentially, a fiduciary is one who takes it upon himself to act for or advise another, thus inviting the other's confidence and trust. Under our law, the distinguishing obligation of a fiduciary is the duty of loyalty.

Fulfilling such a duty is no small matter. Especially in an enterprise as large and important as mutual funds, trust is precious and necessary indeed.

Hemingway wrote that "duty" is "What I said I'd do." Doing what we said we'd do is central to the nature of our business.

We invite the public's trust and confidence. Millions of shareholders have placed their trust and confidence in us. We must earn that trust and confidence every day.

To be sure, our economy has gone through a wrenching financial crisis. Legislation and regulation are necessary and important. But no matter what happens in the Senate in the coming weeks – no matter what reforms ultimately become law – our fundamental challenge remains the same. It is to keep faith with our shareholders and remain true to our role as their fiduciaries.

It is a challenge that we must never forget. It is a burden we are privileged to bear.

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One measure of the confidence that investors place in our funds is our industry's long record of growth. We measure that growth month by month – indeed, week by week – in our statistical reports. But once a year, we stop and take a thorough look at the size,

the functioning, and the role of funds in America's financial markets and Americans' financial lives. We publish the results of that sweeping overview just in time for GMM, and we call it our Investment Company Fact Book.

This year's Fact Book, which you found on your chairs, celebrates a landmark: it is the 50th edition.

The first in this series was published in 1958 – long before there was a Morningstar, a Lipper, a Strategic Insight, or an EBRI. Except for a couple of years in the 1960s, the Fact Book has been published annually ever since. It is a uniquely valuable source of data and analysis on the scale, operations, and uses of U.S. mutual funds and other registered investment companies.

This is our 50th Fact Book, but ICI has been gathering data to help improve public understanding of funds for almost 70 years. We began collecting industry statistics in 1944 – when there were 68 mutual funds with \$882 million in assets under management.

At first, we focused simply on the size and scope of the industry – sales, assets, and portfolio holdings.

But our interests soon expanded: In the 1950s, we started surveying mutual fund investors and publishing profiles of fund shareholders. We also began tracking the use of mutual funds in retirement plans. In 1980, ICI started providing data on money market funds to the Federal Reserve. In 1992, we created our current data series on investment funds worldwide.

Today, ICI conducts research on a scale that few industry associations can match. We now have more than 60 gigabytes of information about funds and investors. We compile 13 distinct surveys every year. They range from daily snapshots of flows from nearly 5,000 share classes to annual measurements of institutional investments. A staff of 40 engages in data collection, research, and analysis. Publications around the globe cite our data virtually every day.

None of this would be possible without the cooperation of our members – you – who provide us with the raw data for our reports.

But ICI Research provides more than just the facts. Smart, informed analysis is also key. Our outstanding team of PhD economists, led by Brian Reid, brings broad experience from the Federal Reserve, the Treasury, the Labor Department, and the Congressional Budget Office.

They constitute a unique resource for our association and our members. Every day they work to educate policymakers, regulators, journalists, and academics on the unique features of the funds that our members offer. Our economists are in constant contact with our members, and their analysis of industry trends and policy proposals is informed by a deep understanding of how funds, distributors, retirement plans, and investors actually operate.

This on-the-ground knowledge proved invaluable during the financial crisis. ICI provided critically important information to policy makers about the money markets, the role of money market funds, issues involving municipal securities, and the overall reaction of investors to those extraordinary events.

ICI long has prided itself on its substantive approach. It is no surprise, then, that ICI Research permeates everything that the Institute does. It grounds our policy recommendations in hard data and rigorous analysis. It gives the Institute credibility as an advocate on behalf of funds and their investors.

In the winter of 2008 – during the darkest weeks of the financial crisis – our private-sector system of retirement savings was under assault. Political leaders and the media were reacting – or over-reacting – to the market-driven declines in 401(k) balances. Other retirement plans were suffering similar losses; for that matter, so were investors of all kinds. But critics focused on 401(k)s. Some seized on this moment to call for dismantling defined contribution plans, for retiring the 401(k) system and replacing it with yet more government guarantees.

At a time when most others were running for cover, ICI Research demonstrated two key facts:

First, American households continued to place great confidence in 401(k) plans as a tool for meeting their retirement goals.

Second, plan participants were staying the course in their 401(k) accounts despite market losses.

Let me tell you – these findings came as quite a surprise to the press. They were of great interest to Capitol Hill as well. I like to think that our data, combined with similar reports from our members, helped stem the rush toward radical changes in retirement plans.

ICI Research has helped shape how analysts and policymakers think about the fund industry as well. This is clear from our long-running research on fund fees, which began in the mid-1990s. Early on, our economists recognized a trend of investors putting more money into funds that charge lower fees – a trend that has grown over the past two decades, cutting the cost of fund investing by half.

Over the years, we have supplemented our fee research with other significant work – on the governance practices observed by fund boards; on the high degree of competition in the market for funds; on the innovations that fund sponsors have created; on the services that funds provide; and on the changes in fund distribution that have helped shape competition and fees.

To be sure, we have had our share of skeptics and critics. But we have made inroads. In its recent opinion in *Jones v. Harris*, the U.S. Supreme Court cited just one private source of data – the Investment Company Fact Book. That’s significant, because ICI Research went to the core of many important issues in *Jones*. The outcome in that case offers, I believe, an implicit acceptance of our view of a truly vibrant fund industry – one that delivers value to investors and operates in a framework of very effective governance.

For any research organization, this sort of acceptance has to be earned. Fortunately, ICI Research has earned it, through our track record – nearly 70 years of gathering and publishing the facts.

Our predecessors recognized years ago that ICI Research could only be valuable if it was credible. We build that credibility through a disciplined approach based in the highest standards of scholarship. We build it by taking our work public and subjecting it to the scrutiny of others in open debate, from policy conferences to the blogosphere. We build credibility through our economists’ constant interaction with their peers in government and academia.

And we build it by publishing the data no matter how it reflects on our industry. We began to publish annual survey data on shareholders’ views of the fund industry in 2004 – exactly when our image was tarred by the market-timing problems afflicting many funds. Similarly, when funds’ expense ratios inched up in 2009, we didn’t fudge the facts. Instead, we predicted a year in advance that the sharp market-driven drop in fund assets was likely to make expense ratios rise slightly. And then we published the numbers that showed the increase.

I started out by marking the 50th edition of our Fact Book – a landmark achievement. But I strongly believe that the best is yet to come.

In the months ahead, ICI will publish research on proxy votes cast by mutual funds.

We’re at work on an analysis of portfolio trading costs.

Later this year we expect to unveil a new database on individual retirement accounts – a massive data collection that will vastly improve our understanding of IRAs.

And with a full policy agenda ahead, ICI Research will continue to bring the facts to the table.

After 50 Fact Books – after almost seven decades of data collection – ICI has built a unique resource of great value to funds, shareholders, policymakers, and the public at large. We’ll keep building on that foundation for their benefit for decades to come.

So happy anniversary, Fact Book –and many happy returns!

Thank you for your time and your attention, and I hope you have a great three days at our conferences.