

Investors and Investing—The Way Forward

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GMM Chairman’s Welcome Address

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Chairman, General Membership Meeting

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Good afternoon, and welcome to the Investment Company Institute’s General Membership Meeting. I’m Mark Fetting, Chairman and CEO of Legg Mason, and for the last year I’ve had the great pleasure of chairing the hard-working group of volunteers who brought you this year’s program – what we like to call “GMM-plus.”

The GMM is always an important gathering for our industry, where we learn about the latest policy issues, gain perspective on economic and investment trends, and meet colleagues from across a wide range of disciplines. This year’s GMM is no exception. We’ve lined up an outstanding array of speakers and panelists, from inside our member companies and out, to give you new ideas and perspectives, to challenge your thinking, and to lead the industry forward after the credit crisis – all in the tradition of our General Membership Meeting.

But this year, there’s that “plus.” In conjunction with the GMM, ICI has brought together three additional conferences:

- The Mutual Fund Compliance Programs Conference;
- The Operations and Technology Conference, and
- The Investment Company Directors Workshop,

... along with a full schedule of meetings for many of the key ICI committees.

These conferences complement each other and expand upon the theme that our planning committee chose for this year's GMM – "Investors and Investing – The Way Forward." They ensure that we have brought together the most diverse group of fund industry professionals and directors, from the widest range of disciplines, to enrich our dialogue and bring different points of view to our discussions. They are designed to bring more to you, the participant – more choices and more perspectives.

And we are pleased that companies from all areas of the investment management industry are underwriting key events at the 52nd Annual GMM. I want to thank PricewaterhouseCoopers, State Street, DST Systems, Boston Financial Data Services and J.P. Morgan. The generous support of these firms helps ICI to continue offering high-quality conference programs.

During our three days together, we'll learn about how leaders in the investment field are finding opportunity in the aftermath of the financial crisis and what they see coming in the months ahead. We'll get key viewpoints on how global economic trends will affect U.S. funds and their investors, and what the lessons of the 2008 election tell us about the future of American politics and financial policy. We'll all have the opportunity to hear from Mary Schapiro as she shares with us where she's taking the Securities and Exchange Commission and what their regulatory initiatives mean for the growth and potential of our funds.

Then, thanks to the unique character of this year's GMM, we'll take those insights into meetings with our peers, to inform our discussions of specific issues – whether those relate to compliance programs, or board matters, or operations and technology, or the sessions on fund distribution and retirement policy trends on the GMM program.

And throughout, we will keep our focus on our clients and investing and how to lead the way forward. Mutual funds continue to be the primary means of investing for ordinary Americans -- more than 50 million households in the United States hold mutual fund investments. Now more than ever, we need to help investors rebuild wealth after the market dislocation and to continue to save for the future.

We are meeting at a critical juncture. Our industry and our investors have come through an unprecedented period of strain. Stock market investors have endured a decade of disappointing returns, capped by a sharp and severe bear market. We've experienced a credit crisis that shook the foundations of our financial system.

History has shown that events of this magnitude have a significant impact on investors, on markets, and on policymakers. We're certainly seeing investors continue to turn away from risk – as is evident in the strong turn toward bond funds that we saw during 2009. Every year, the ICI Research department asks American households: How much risk will you undertake for the hope of higher returns? Since 2001, Americans have been dialing back that tolerance for risk.

Investors' confidence has been shaken – and their elected representatives have taken note. We face significant challenges as lawmakers and regulators address these concerns and try to strike the right balance for the financial system of the future.

But our focus is on the way forward – and recent signs seem to indicate that things are looking up.

First, as we all know, the market has rebounded strongly in the last year.

And investors have responded. We've seen 13 straight months of net new cash flows into mutual funds. Bond funds have performed strongly for investors, and have gained the lion's share of the new cash -- \$429 billion since last March. But now we see equity funds starting to come back as well – they've attracted \$33 billion since the start of 2010. The good news is that we're coming out of a bear market and making up lost ground for our shareholders.

Second, Americans have stayed the course on their No. 1 financial goal – saving for retirement – and have been rewarded for their patience. ICI Research shows that retirement savers didn't run for the exits during the bear market, as many commentators expected and even urged them to do. Retirement savers have told us they have confidence that they'll reach those goals. And now, our member companies and other retirement providers report that 401(k) balances are coming back strongly.

Third, we have emerged from this crisis with a continued commitment to our investors. Across our firms, we are reaching out, through all available channels, to engage with our shareholders. We're focusing on delivering on our investment mission. At Legg Mason, we are focused on innovative ways to help investors rebuild wealth. That influences everything we do, from product development to a collaborative sales approach to our support of our investment teams as they assess lessons learned from the financial crisis and build them into their investment processes.

What do we as an industry bring to our investors at this juncture?

We bring the core strengths of fund investing. Our funds give investors portfolios that are diversified and professionally managed. They operate under a strict framework of regulation that brings transparency, liquidity, strict pricing discipline, and strong limits on leverage. Our funds are not sheltered from the markets' harsh winds – but they are designed to weather market storms better than most investment vehicles. Tomorrow's leadership panel, moderated by Vanguard's Bill McNabb, will discuss how funds can deploy those core strengths in the new, post-crisis world we now face.

We bring expertise. Investing is never easy – but there's nothing like a bear market to demonstrate the importance of expertise. Shareholders need the skills of our professional managers and the expertise they bring to bear, in a disciplined strategy, to achieve the best possible returns. The deep knowledge on tap in our industry will be on display tomorrow, when Ted Truscott of Ameriprise Financial leads a discussion on "Market Insights in the Current World Economy."

We bring perspective. In the asset bubbles of the last decade, it was easy for Americans to take for granted the fundamentals of balancing risk and return, to get caught up in the hot sector or the sure thing of the moment. At our Operations and Technology Conference, the focus will be on service standards and the importance of communicating regularly with investors, particularly in tumultuous markets. Working with investors directly or through their financial advisers, we can help them achieve a grounded mix of assets that will better withstand the markets' ups and downs.

We bring innovation. Investors increasingly are not just looking for access to asset classes – they want solutions to problems. Our fund sponsors have pioneered products that tap new markets, address the challenges of retirement saving, and make the core strengths of fund investing available to both the long-term saver and the tactical investor. You'll also hear tomorrow from senior leaders in each of the key distribution channels on how they're innovating to serve investors. And we're fortunate to have a panel of experts on retirement saving, along with Assistant Secretary of Labor Phyllis Borzi, to describe how funds can meet workers' needs for new solutions for lifetime savings and income.

Most important, we bring the highest standards of fiduciary responsibility and ethical behavior. Each of our firms approaches doing the right thing for their investors in their own way.

At Legg Mason, we have a commitment to “no chalk on our shoes.” It was a maxim of Chip Mason, and it is a principle that we continue to live by today.

We think about it like a football field, with the boundaries laid out with lines of chalk. A player can stick to the field, clearly playing in bounds, or he can crowd the line, cutting close to the edge. If he's on the line, he's going to get chalk on his shoes.

When it comes to ethical behavior, Legg Mason employees are expected to stay far away from the boundary lines. “No chalk on our shoes” means that we stay in-bounds, steer clear of the close call, and don't step over – or even on – the ethical lines.

Our investors expect no less of us.

At a time like this, it's especially important that we remind ourselves what our business has always been about – and where we are going. And that's why we've put together this year's GMM under the theme – “Investors and Investing – the Way Forward.” It promises to be a great program, and I look forward to the rich dialogue that will take place at all of these conferences.

It now gives me great pleasure to introduce Paul Schott Stevens, the president and CEO of the Investment Company Institute, to bring his perspective. Thank you for your attention, and please welcome Paul Stevens.