

ICI at 75: Facing the Future

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57th Annual General Membership Meeting

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As prepared for delivery.

Good afternoon! Welcome to the 2015 General Membership Meeting of the Investment Company Institute. Serving as the chair of the planning committee for the General Membership Meeting would be a true honor and a serious responsibility in any year but it's especially important this year, as we are commemorating the 75th anniversaries of both the '40 Acts and of ICI itself.

These are notable milestones. The framework of laws and regulations laid down for our industry 75 years ago has nurtured a phenomenal rise in fund investing. We have much to be proud of and grateful for.

That said, even at age 75, with all the success our industry has enjoyed, there is no room for complacency. We cannot rest on our laurels. As we look ahead, we must recommit ourselves, as fiduciaries, to serving the interests of the many millions of shareholders who entrust their savings to our funds.

Our General Membership Meeting provides an occasion for us to discuss how we can best live up to that responsibility—and more—as we move forward. It is appropriate, therefore, that the theme for this year’s meeting is “ICI at 75: Facing the Future.”

I’m truly excited about the program that the talented volunteers and staff of the GMM Planning Committee have put together this year. We will have more opportunities in the days ahead to thank the people and firms that made this event possible, but I’d like you to join me now in briefly acknowledging the fantastic job they did in organizing the event.

I’d also like to briefly thank our sponsors—after all, this conference would not have been possible without their generous support.

The efforts and support of our volunteers, staff, and sponsors help ensure that ICI can continue to offer the quality sessions that the GMM is widely known for.

This year’s sessions will feature a range of leaders from inside, as well as outside, the fund industry. As usual, we’ll hear from top regulators—including SEC Chair Mary Jo White, who will provide us with information and insights about the regulatory landscape in the United States.

We’ll also hear from leaders on the global stage—including, among others, IOSCO Secretary General David Wright and Admiral James Stavridis—about the challenges faced by the fund industry in today’s global system. Given our rapidly shrinking world, where the line between cross-border and domestic regulation is increasingly blurred—and where concerns about security too often rear their head—it’s especially important to stay informed about developments in these areas.

Of course, we’ll also hear from fund veterans about industry trends and opportunities—including, at today’s Policy Forum, from Walt Bettinger, president and CEO of Charles Schwab Corporation.

We also look forward to tomorrow’s conversation about ICI at 75, featuring former ICI chairmen Jack Brennan of Vanguard, Paul Haaga of Capital Group, and Jim Riepe of T. Rowe Price.

And throughout the meeting, we’ll hear from up-and-coming industry leaders, who will offer—as one session is aptly titled—“fresh perspectives” about the future of fund investing in an era of changing demographics and rapidly advancing technology.

As the GMM Planning Committee gathered and this robust program began to take shape, I began to think more and more about the arc of the fund industry—where we’ve been, and where we’re headed.

Our industry’s achievements have been built on the firm foundation of the ’40 Acts, and nurtured through the joint efforts of industry leaders and the Securities and Exchange Commission to promote the interests of fund investors.

Those achievements are, by themselves, stunning. But I'm even more impressed by our industry's relentless drive to evolve and innovate for the benefit of those same shareholders.

One area where we'll focus during this year's meeting involves online investment and savings advice—a rapidly developing innovation driven by technological advances, the ubiquity of the Internet, and rising expectations by a rising generation—the Millennials.

The Millennial generation are those born between the early '80s and the turn of the century, now aged 18 to 34. According to the U.S. Census Bureau, they will this year become the largest demographic group in the country. At more than 75 million, they will outnumber even the Baby Boom generation—and their demands are changing the ways we provide financial services.

These “digital natives” grew up with an expectation that technology will constantly get smaller, faster, more powerful, and easier to use.

Why should we care? For one thing, it's an opportunity. According to some estimates, Millennials currently control \$2 trillion in liquid assets—a number that will surge to \$7 trillion by 2020, as their incomes rise and wealth is handed down from previous generations.

Yet we also face challenges in serving this market. More than 70 percent of respondents in a recent Merrill Lynch survey described themselves as being “self-directed” in their investing, while more than 40 percent said that they do not have a financial advisor of any kind.

They also are risk-averse. In fact, most are very conservative in their approach to investing. Perhaps that's not surprising, given that they've lived through—and watched their parents live through—the fallouts of a number of financial crises, including the tech bubble of 2000 and the Great Recession of recent years.

There's also a trust issue here—and an irony. According to the Pew Research Center, just 19 percent of Millennials say “most people can be trusted,” compared to 40 percent of Boomers.

Yet, thanks to the Internet, this is the most connected generation ever, one that trusts in the “wisdom of crowds” and that places itself at the center of a range of technology-enabled social networks.

So—Millennials don't trust people, but they trust technology. Though this might sound a bit scary, I would argue it isn't bad or good—it's simply different. And it's a reality that we in the fund industry must embrace. In fact, we already are—you'll hear more about this over the course of the conference.

The reason I'm not intimidated by this shift in how an entire generation is approaching its finances is because the need to adapt to changing circumstances is nothing new to the fund industry.

Our industry was, after all, born out of the turmoil of the Great Depression. It has thrived through market ups and downs, responding to the needs of shareholders over the years by providing such

innovations as international funds, money market funds, exchange-traded funds, and target-date funds.

I have no doubt that we will respond to our new environment with the same competitive drive and creative spirit we've always shown. Funds will continue to develop technology, upgrade infrastructure, and enhance processes so that we can continue to offer new choices, provide new services, reduce costs, expand education—and, ultimately, improve the breadth and quality of what we provide for every type of customer.

As the sheer volume of financial products has grown over the years, investors have faced a daunting menu of options in an increasingly complex and volatile world. What has made me most proud of the industry over the past decade is not only how we have evolved to meet changing investor needs with more comprehensive investment solutions, but how our interaction with investors and financial advisors is based on a platform of education and insights that help investors make better long-term investment decisions. We are helping them to ignore the 24-hour news cycle and noise that distracts them from a long-term perspective.

Whether you're an end investor, a financial advisor, or an institution, today—thanks to the efforts of the fund industry—you can get access to information on college savings, retirement planning, asset allocation, portfolio construction techniques, liability-driven investing—just about any topic, at any level of sophistication. And the quality of this information is extraordinary.

Financial advisors have shown a voracious appetite for knowledge about the capital markets—and are themselves passing along this knowledge to end-investors. This is a major shift in the dynamic of investment management that is still in its early phases and will continue to be a main focus.

And in the midst of all this change, our responsibility to the customer—the shareholder—remains the constant. For the past 75 years, our fiduciary duty has served as the anchor that keeps us grounded in the firm foundation provided by the '40 Acts. We must never forget this as we focus on the past, and the future.

Now that I've given you a glimpse at the long term, let's quickly review the short term. This year's meeting will offer you many learning and networking opportunities over the next three days. As we have done for a number of years now, this year we've combined the General Membership Meeting program with three other conferences—the Operations and Technology Conference, the Mutual Fund Compliance Programs Conference, and the Fund Directors Workshop.

If that sounds like a lot, don't worry—ICI has created a mobile app for the event that provides access to the conference schedule, materials, and logistical information. It's easy to use the app to tailor a program that is right for you, to post and tweet about the conference, and even to ask questions of the speakers—all from your tablet or smartphone.

If you haven't already downloaded it for free to your device, I encourage you to do so.

Now, it's my privilege to hand the podium over to my friend Bill McNabb, chairman and CEO of The Vanguard Group, and chairman of the Investment Company Institute. Bill joined Vanguard in 1986, became CEO in 2008, and was named chairman of firm's Board of Directors and Board of Trustees in 2009. Before being named to these posts, he had led each of Vanguard's client-facing business divisions, most recently serving as managing director of Vanguard's institutional and international businesses.

Bill has held the role of ICI chairman since October of 2013—and he certainly knows a thing or two about responding to change and competing on a global scale.

But before Bill takes the podium, I'd like to introduce a short video celebrating the two important anniversaries I've previously mentioned—the founding of the '40 Acts, and of ICI.

The modern fund industry's founding documents and the Institute have played crucial roles in the growth of funds and the success of our shareholders, so let's take a moment to savor our past as we look forward to the next three days—and the next 75 years!

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