

Facing a Changing World

“Facing a Changing World”

55th Annual General Membership Meeting

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May 1, 2013

Marriott Wardman Park Hotel

Washington, DC

As prepared for delivery.

Thank you, Ted. And thank you for your leadership in chairing the volunteer committee that organized this year’s General Membership Meeting. I held the job two years ago; so I know how much work and dedication goes into planning a meeting of this scale. We owe you and your committee a big thank-you for putting together this great program.

Before I begin, we need to take a moment to recognize a great leader of the mutual fund industry. We learned yesterday of the death of David Silver, who served the Investment Company Institute for 25 years—including 14 years as President.

David joined ICI in 1966 when it had a staff of 20 and served an industry with \$35 billion in assets. When he retired in 1991, he left behind a staff of more than 100, serving funds with \$1.6 trillion in assets.

In that quarter-century, David was a tireless advocate of funds and their shareholders. He championed clearer disclosures and the creation of new types of funds to better serve investors. He was considered the “father of the Universal IRA” and was a founder of ICI Mutual.

Our industry and our investors owe an enormous debt of gratitude to David Silver, and our thoughts go out to his family and his many friends.

Ted has talked about the many rapid and sweeping changes that confront the markets and our funds—and how we must respond to best serve our investors. As he said, we have an obligation to capture opportunities; to manage risks; to understand the challenges of a global economy; and to help our shareholders understand and navigate them as well.

Our industry—collectively—must meet the challenges that arise from today’s unsettled financial, economic, and policy environment.

In my 25-plus years in this industry, we’ve always faced challenges—and, in turn, new opportunities. But, I’ve never wavered in my belief that mutual funds are the best and most efficient way for average investors to gain access to the markets and create their own personal wealth. I remain optimistic about the future of our industry and the prospects for our shareholders.

The global financial crisis peaked almost five years ago—but investors remain keenly aware of the impact it had, even with the tremendous returns in equity markets since March 2009.

The lingering influence of the crisis is reflected in investor confidence, in uncertain economic growth, in strains on governments’ budgets throughout the major economies, in high unemployment, and in monetary policy that has created an unprecedented stretch of near-zero interest rates.

And—of course—the aftermath of the crisis has brought a re-examination of financial regulation—country by country, and across borders.

How has the fund industry responded to the changing world around us? How have we lived up to our unchanging commitment to investors?

For the past 19 months, I’ve had the privilege to serve as Chairman of the Institute and participate in that response. I’ve joined with ICI’s staff and ICI’s members as they combine their talents to meet the challenges of a rapidly changing world.

Our industry’s professionals, from every discipline, have worked to address a rapidly evolving environment, without ever losing sight of the timeless values on which our funds are founded—fiduciary responsibility to investors; sound regulation and governance; innovation and competition.

Today, I want to describe in some detail how ICI has responded—and continues to respond—to three of the biggest policy challenges facing our funds and our investors:

- First, the intensive focus of regulators around the globe on funds and fund management. Whether it's the massive job of implementing the Dodd-Frank Act here in Washington, or the efforts of the Group of 20's Financial Stability Board to address systemic risks that spread across continents, policymakers still have a long list of rules to write in their quest to make markets and financial systems more resilient. These tasks are complicated by the need to ensure that regulations are necessary and are coordinated from one jurisdiction to the next.
- Second, the budget and debt problems that our country faces, and the need for a long-term plan to address our nation's deteriorating public finances.
- And third, the task of defending and preserving the system for retirement savings that is helping a large majority of Americans prepare for financial security later in life.

Over the past two decades, we've seen regulated funds emerge as major financial intermediaries around the world. Worldwide mutual fund assets were nearly \$27 trillion at the end of 2012—up 50 percent from 2005. Sponsors and managers of funds have been expanding their international reach and offering new opportunities to millions of investors.

International expansion has brought another trend—increased global regulation. And more and more, regulators in every country are looking across borders for policy ideas. Existing international bodies are working harder to coordinate their regulations—and new global regulators, like the Financial Stability Board, are springing up and exhibiting a keen interest in funds.

These trends pose a significant challenge for global funds—as, for example, U.S. and European regulators both focus on money market funds with proposals that could severely undermine the value of these funds to their investors.

Two years ago, the leadership of ICI recognized the growing challenge of global regulation—and resolved to address it. In October 2011, we launched ICI Global to advance the interests of regulated funds, their managers, and their investors on a global basis – not just in a national or regional jurisdiction.

A year and a half after that launch, ICI Global is making great strides.

- More than 30 global fund advisers from Europe, Asia, and North America have joined the organization.
- Our London office, with four staff, is representing our members' interests with regulators and other fund associations, with strong legal, research, and communications support from ICI's Washington headquarters.
- And today, May 1, is the first official day of our Hong Kong office—although our new Head of Asia Pacific, Qiumei Yang, is spending her first week on the job here with us at GMM.

Working with its members, ICI Global is pursuing an active policy agenda. It's involved in debates over the role of funds in financial stability, covering such issues as money market fund regulation and securities lending.

We've engaged in trans-national regulatory developments, including the implementation of FATCA.

On trading and market structure, ICI Global has emerged as the first group to provide an organized global voice for the buy-side.

And we're bringing a global perspective to retirement savings, highlighting the role funds can play in pension systems around the world—the central topic for an ICI Global conference in Hong Kong next month.

ICI Global is providing new intellectual capital to the most critical and far-reaching policy debates that affect funds. It's also promoting the role of registered funds worldwide as effective vehicles for long-term savings and investment.

No organization other than ICI could have launched an effort like this. The Institute brings to bear deep intellectual resources and more than seven decades of experience with legal, research, and operations issues for funds. It commands the respect of regulators, market participants, and industry groups globally.

With the successful launch of ICI Global, the Institute is working to advance key interests of regulated funds as global financial intermediaries, in dialogue with policymakers worldwide.

That's a daunting task, and one that seems to grow only more challenging—and more important—every day.

Of course, we have important challenges here at home as well.

In the U.S., we're facing a crucial debate on national priorities around our federal budget.

Like many of you, I'm struck by the deteriorating state of our nation's finances. We're caught up in short-term political debates—and neglecting the need to develop a sound long-term plan to put our country's finances on a stable footing.

The numbers should speak for themselves. The U.S. Treasury debt held by the public has doubled in the last five years, to almost \$12 trillion. Our federal government has posted deficits in excess of \$1 trillion for four straight years. The ratio of U.S. debt to GDP has climbed to more than 70 percent—the highest level since World War II. This is unsustainable and unhealthy.

We've recently witnessed vivid examples of what can happen to nations that allow their indebtedness to grow out of control. When the ability of a country to service its debts comes into question, interest rates skyrocket and contribute to a painful period of economic deterioration. The pattern has been repeated in country after country.

Sir John Templeton once said, "Only one thing is more important than learning from experience, and that is not learning from experience." We need to ensure that we learn from what we've seen elsewhere—and ensure that this pattern does not repeat in the U.S.

Clearly, there are no easy fixes to the current imbalance between spending and revenues—and this is not a problem that the fund industry can address directly.

But it's clear that our country must develop a realistic plan for reducing our debt over the long term without sabotaging the economy in the short term—and we in the fund industry have been strong advocates for action.

ICI and its members have called upon the Administration and Congress to focus on developing a clear path toward reforms of both the tax code and major spending programs. These are vitally important steps toward setting our nation's fiscal house in order, and our economy on a course toward stronger growth.

Without such a plan, we'll face continued uncertainty. When businesses face uncertainty, they can't make longer-term plans to invest capital and hire workers. When investors face uncertainty, they pull back and avoid even reasonable risks. And, not surprisingly, uncertainty tends to weigh heavily on financial markets as well.

Bill McNabb, chairman and CEO of Vanguard, recently identified doubts about “how we can sustain our national debt” as the “most significant” factor in what he called an “uncertainty tax” that is weighing down the economy.

The good news is that this uncertainty can be removed. A plan that provides assurances of getting our fiscal house in order will be a key contributor to a revived economy, and an environment where markets can truly thrive.

Can our country do this? Some would argue that our government and our political system are so divided by partisanship that compromise and shared sacrifice are impossible.

I don't buy that.

I firmly believe that our democratic process can work toward a practical, long-term solution. As Benjamin Franklin noted, “Energy and persistence conquer all things.”

But let's be clear: as we pursue a more stable fiscal path, we can't lose sight of other national priorities—including the importance of ensuring Americans' opportunity to achieve a secure retirement.

We hear a lot of criticism of America's retirement system. Much of that commentary is overstated. Still, we all can agree that our retirement system can and should be improved.

But look carefully, and it's clear: Americans today have the tools to build security for their retirement years. And for millions of working Americans, those tools are being used to amass more resources and to produce more income in retirement than earlier generations enjoyed.

Social Security forms the foundation, providing a base of income for almost all working Americans—particularly those with lifetime incomes below the median.

Many retirees have significant equity in their homes, which provide shelter and in some cases an asset to draw upon.

Employment-based retirement savings, coupled with individual retirement accounts and personal savings, round out retirement resources for a vast majority of retiring households – particularly middle- and upper-income households.

Millions of Americans have these tools, and, for the most part, they are using them effectively.

Consider this: eight out of 10 households approaching retirement age hold retirement resources, whether in defined-benefit pensions, defined-contribution plans, IRAs, or a mix.

In fact, more retirees have private-sector pension income today—from defined contribution and defined benefit plans—than in the 1970s. And they have more pension income.

Let me spell that out for the skeptics in the audience: the share of retirees receiving private-sector pension income has increased by more than 50 percent since 1975, and the median amount of pension income they receive is up almost 40 percent—after inflation.

And today's working households have more assets specifically earmarked for retirement. Adjusted for inflation and population growth, retirement assets were nearly six times higher in 2012 than in 1975.

These improvements occurred as 401(k) and other DC plans became increasingly common. Contrary to the drumbeat of criticism that we hear, the rise of 401(k) plans has coincided with greater wealth and better prospects for retirees and near-retirees. And the fund industry—which manages half of the assets in 401(k) plans and IRAs—can be proud of its contributions.

In short—America's retirement system is working.

The challenge is to keep it working.

That means putting Social Security on a sound financial footing. It means creating simpler plans for smaller workplaces, and preserving flexibility and innovation in our employer-driven system.

It also means resisting calls to undermine retirement savings—like recent proposals to impose lifetime limits on accrued retirement assets, or to “cap” the benefit of tax-deferred savings above a certain income level.

Both proposals would complicate planning for employers and individuals and discourage employers from offering retirement plans. In short, implementing either would punish savings.

If there's one thing America doesn't need at this juncture, it's a proposal to discourage saving. I don't need to quote Ben Franklin to convince you of that.

These proposals claim to target the top three tax brackets. But they would take a toll up and down the income scale. With the loss of employer plans, lower-paid workers would lose more than the benefits of tax deferral. They'd lose the convenience of payroll deduction; the "nudge" of automatic enrollment and auto-escalation; employer matches; professional investment management; and financial education. And they'd lose the regulatory protections that surround employer-based plans.

How can the fund industry address this challenge?

ICI and its members are defending the retirement system—with research, with clear communications, and with effective advocacy.

And together we're working to educate lawmakers and the public on the central role that tax incentives play in meeting a crucial national priority—building a more secure retirement for today's and tomorrow's workers.

Now, it won't be easy.

But in our history, we've tackled many difficult challenges. In a changing world, we can be certain that we'll face many more.

If we face those challenges with the benefit of our long experience; with energy; with persistence; and above all, with our commitment to investors—we can indeed navigate this changing world.

It's been a great privilege for me to help lead the Institute through these turbulent times, and to address you here today.

Thank you.

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