

2009 GMM: ICI Chairman's Address

ICI Chairman's Address 2009 General Membership Meeting

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As Prepared For Delivery

Good afternoon. Thank you, Bill [McNabb, chairman of the GMM], for those remarks. It's clear that you are living and working every day in the spirit of this year's GMM theme—steadfast commitment. Your words should be an inspiration to all of us as we gather here today.

I'd like to express my gratitude to Bill McNabb and his hard-working organizing committee. They have put together an outstanding program, and we will all benefit. They have lined up some of the most outstanding leaders in our industry to give us their perspectives on how America's funds and their shareholders will fare in the new investing and regulatory climate. And we can definitely expect some thought-provoking views from our keynote speakers, Richard Davis from U.S. Bancorp and journalist Michael Lewis.

We are meeting today in extraordinary times indeed. 2008 will go down as the worst year for stocks since the Great Depression. Nearly every financial institution in America has been shaken. Millions of Americans are coping with losses in their home values, their investments, and their retirement savings.

You don't need a poll to tell you that investors are suffering. But I think the results of one recent industry survey are instructive.

More than half of the investors who responded said they were "panicked." Almost three-quarters said they felt helpless. And more than four out of five were angry.

In times like these, it's natural to want to duck ... to hide ... to turn away. If you looked at a recent issue of the *New Yorker*, you might have seen the cartoon of workers wheeling away that famous Wall Street statue of a charging bull—and replacing it with the figure of an ostrich, with its head in the sand.

But in that same survey, you can also see a strong streak of hope. Despite their unhappiness, three out of five investors also said they were "excited by the opportunities" that the market conditions have brought.

I'm with them. I am an optimist.

I'm optimistic about investing for the long term—and remember, investing for the long term is one of the key strengths of our industry. Yes, our economy and our financial system are battered. And we face large national challenges—to make our energy supplies more secure, to sustain the environment, and to reform health care, among others.

But the energy and innovation of the American people, of our scientists and engineers and entrepreneurs, have not been extinguished. And we can expect that the solutions to our national and global challenges will come largely through innovation and invention. Throughout our history, from the Erie Canal to the Edison electric system to the Internet, new solutions to our national problems have created new opportunities for investment.

My optimism about long-term investing fuels my belief in the future of our industry. The funds that our companies offer are the best vehicle the average American can find for participating in financial markets to reap the gains of those new opportunities—and to achieve his or her own financial goals.

Think about what the U.S. fund industry provides its 93 million shareholders. First, a wide range of choices for assets and investment styles—equities or bonds, active or passive, aggressive or conservative. Then, professional management. All this comes with the strongest regulatory framework of any investment product—mutual fund regulations that limit leverage, require diversification, enforce strict pricing discipline, and give shareholders transparency, secure custody for their assets, and oversight by trustees and directors, including independent directors.

Quite a package indeed.

Yes, funds and their shareholders have lost money in the markets. The events of the last 18 months have left investors no shelter from the storm. But funds have kept faith with their shareholders—they have maintained their steadfast commitment.

At OppenheimerFunds, we have reached out to investors and their advisers to help them assess their situation, reset their goals, and adjust their accounting for risk. My colleague Sean Keller will describe that outreach in one of our sessions tomorrow afternoon.

At Vanguard, Bill McNabb has taken his clear, plain-spoken messages to shareholders in online video chats—and as you can tell from his remarks today, Bill is a great communicator.

At other fund firms, CEOs are advising shareholders on the principles of sound investment management—and giving out their email addresses so shareholders can respond directly. Investor communications are driving home key messages—such as reminding shareholders that “time in the market generally prevails over timing the market.” And firms are hosting investor seminars and providing educational resources on their websites to help shareholders get their portfolios and retirement accounts back on track.

These are just a few examples; I’m sure every firm represented here today has a similar story to tell. It’s all part of the commitment that each fund maintains to its investors—no matter how difficult the conditions.

As an industry, we have another shareholder commitment to maintain. When our nation faces economic and financial challenges, we must engage in those debates. At almost \$10 trillion in assets, our funds are key players in the financial markets, and we have a responsibility to ensure that regulatory reforms do not undermine our industry to the detriment of our shareholders. And as the stewards for half of the assets in defined contribution and individual retirement accounts, we have a duty to speak out in defense of America’s private, employer-based retirement system.

Through ICI, we have been meeting that commitment as well. I’d like to touch briefly on two of the many areas where the Institute has been active—retirement savings and money market funds.

The fund industry is entrusted with the retirement savings of 46 million American households, in defined contribution and individual retirement accounts. We have a large stake in ensuring that policymakers understand the workings and the importance of today’s savings vehicles. I’m pleased that we have an outstanding panel on retirement issues on our program Friday.

Critics say that because Americans’ retirement accounts are down, 401(k) plans should be scrapped or shoved aside. We reject that idea—and so do Americans. ICI surveyed 3,000 households last fall. It was during the darkest days of the market decline—but their support for 401(k)s was overwhelming. Almost three out of four rejected the idea of reducing tax breaks for DC plans and IRAs. And 87 percent—almost nine out of 10—rejected the idea of barring individuals from making their own investment decisions in these plans.

The critics talk a lot about the fees that 401(k) service providers charge. What they don’t mention is the long list of services that 401(k) plans provide—not just investment management and recordkeeping,

but legal services, audits, websites and call centers, and participant education.

The critics also have a tendency to inflate those fees. They've taken advantage of the fact that there isn't comprehensive data on fees across a range of 401(k) plans. So ICI engaged the retirement plan experts at Deloitte Consulting to get those numbers. Deloitte surveyed 130 plans, of all sizes and types, and calculated an "all-in fee" that covered all the services, investment and administrative, for each plan. The bottom line? The median all-in fee for these plans was 72 basis points. Less than three-quarters of 1 percent—quite a bargain compared to the 3 percent that some critics cite.

Now, none of this suggests that 401(k)s or our retirement system are flawless. In fact, we believe our retirement system can and *must* be improved.

Start with disclosure. For more than 30 years, ICI has favored better disclosure in retirement plans. Thanks to the securities laws, mutual funds already offer far more transparency than any other 401(k) investment option. Participants deserve quality information no matter what options their plans offer.

But let's make two things clear. First, disclosure is not just about fees. Fees are important—but so are risks, performance, and investment objectives. All those factors need to be disclosed.

Second, disclosure has to be useful. Employers and workers need to receive information they can put to use to make better choices. Any policy that overwhelms sponsors and participants with data that they don't meet is a bad idea.

Beyond disclosure, ICI has many other ideas for improving Americans' retirement security. We want to make it easier for employers to offer retirement plans, and for workers to save even if they don't have a plan. We want to consider whether plans should be required to provide automatic enrollment and auto-escalation. We want to build on our historic commitment to investor education.

Most important—we want Congress and the President to put Social Security on a sound financial footing. If Washington wants to restore working Americans' confidence in retirement security, it must first restore Social Security.

This agenda will preserve and strengthen 401(k)s as a key supplement to Social Security in helping Americans build a secure retirement. It draws upon the deep business experience of ICI's members and the expertise of the Institute's economists and lawyers to promote sound public policy.

Another area where ICI has brought its resources to bear is the debate over money market funds. As you know, more than a year into the credit crisis, and after an unprecedented series of events, the Reserve Primary Fund became only the second money market fund in history to "break a dollar" last September.

In November, ICI's Executive Committee formally chartered a Money Market Working Group, led by Vanguard's Jack Brennan, to address questions about how the money market operates and how

money market funds should be regulated. They faced a daunting challenge. They needed to preserve the features that make money market funds so valuable to investors, to issuers, and to the economy. But they also needed to make funds more resilient, to better withstand even the most adverse market conditions.

Jack Brennan will lead a panel tomorrow that will touch on these issues. But let me give you a sneak preview.

The Brennan Report literally “writes the book” on money market funds—and draws the blueprint for the future of this vital product. It offers new and heightened standards for the operation of money market funds in every key area—including liquidity, credit quality, maturity, client concentration, and transparency.

As these recommendations are adopted by the industry, tomorrow’s money market fund investors will face even less risk than today’s do. But the Working Group went further, to look at how to treat all investors in a fund fairly if that fund should break a dollar. They urge the Securities and Exchange Commission to authorize money market funds’ boards to suspend redemptions of fund shares temporarily for funds facing a cascade of redemptions that it is unable to meet—and permanently for funds preparing to liquidate, in order to treat all shareholders fairly.

The Working Group also considered proposals made by others that would fundamentally alter today’s money market funds—ideas such as floating funds’ net asset value, or requiring insurance, or converting money market funds into special-purpose banks. In each case, the group concluded that these ideas are impracticable and could hurt investors, issuers, and other participants in the money market.

The Brennan Report’s recommendations have been well received. Without endorsing the report, SEC Chairman Mary Schapiro and Treasury Secretary Timothy Geithner have both called for strengthening the regulatory framework for money market funds. They cited the same areas—credit quality, liquidity, and mitigating the risk of a run—that the Working Group focused on. The SEC has indicated that it will come forward with a package of proposals soon, and we look forward to working with them on it.

But we’re not just waiting around. Members of the Working Group committed to move ahead voluntarily on those proposals that can be implemented without regulatory action. And ICI’s Board of Governors called upon all money market funds to do the same. Reports from our members indicate that they are moving rapidly to implement these proposals.

This isn’t the first time the fund industry has moved ahead to impose higher standards of conduct upon itself. We did it in 1994, with restrictions on personal trading, and in 1999, with best practices for boards of directors.

Because that, too, is part of our steadfast commitment to shareholders—a dedication to hold ourselves to the highest standards of conduct.

So what do we mean by “steadfast commitment”? It means standing by our shareholders during the most challenging market conditions of our lifetimes. It means standing up for sound policy for America’s retirement savers, participants in the money market, and other investors. And it means leading the way on best practices and sound regulation.

I can’t tell you what lies ahead. I won’t pretend to predict when the markets will recover, or how the economy will fare between now and next year’s GMM.

I *can* tell you that I believe the future of our industry is bright—because we offer the investment vehicle best suited to helping Americans meet their financial goals, and because we maintain that steadfast commitment that you will hear so much about in the next two days.

Thank you for your attention. We have a great program for a productive and useful General Membership Meeting, and I hope you’ll enjoy it.

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