

Mutual Funds: Past, Present, and Future

Chairman's Remarks at 2006 Mutual Fund Leadership Dinner

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Good evening. I want to thank you for attending the annual Investment Company Institute Mutual Fund Leadership Dinner.

We are honored to have nearly 40 distinguished members of Congress in attendance – together with several members of the SEC – and senior officials of the Labor and Treasury Departments.

This demonstrates the importance that legislators, our regulators, and the Administration place on encouraging Americans to build their financial future.

On behalf of the Institute, I'd like to express our gratitude to Secretary of the Treasury John W. Snow for serving as keynote speaker tonight.

With so many issues and challenges facing our nation's savings and retirement system, we appreciate this opportunity to hear from a leading policymaker.

I'm glad to see that fund leadership is also here in force. That includes our Institute Board members, members of the Independent Directors Council, and other senior executives and board leaders from fund complexes throughout the country. We are all participants in a valuable partnership on behalf of shareholders.

Tonight, I want to examine some fundamental questions for our industry.

- Are mutual funds as important to the average investor as they have been in the past?
- What role are they likely to play in the future – as a vehicle for building wealth and financial security for average Americans, and as a driver of economic growth?
- What can and should our fellow Americans expect from the mutual fund industry?

There is no question that our capital markets are undergoing explosive changes today. We see a dynamic, private equity sector. We see growing competition from new, pooled investments like hedge funds.

The investment space is getting crowded!

Is there still a place for mutual funds?

You won't be surprised to hear that I strongly believe that there is not only an important role for mutual funds – but a growing role.

One of the most important roles of mutual funds is the one for which they are best known – providing tens of millions of Americans the ability to invest.

High-net-worth individuals have always had many investment options. But for most Americans trying to build financial security, mutual funds are the most effective, efficient, and practical solution. For many, they are the only game in town – thankfully, a very good one!

The average American investor benefits tremendously from mutual funds. For a small investment, at a relatively low cost, an investor receives:

- A diversified portfolio;
- Professional investment management;
- Liquidity; and
- A wide range of choices and service levels.

Can you imagine the impact on those millions of Americans who use IRAs and 401(k)s as their principal or sole savings vehicle if mutual funds did not exist? Today, nearly half of the \$7.6 trillion held in DC plans and IRAs are invested in mutual funds.

Individual investors need mutual funds more than ever before.

But it isn't just American investors who benefit from mutual funds – it is the American economy. Mutual funds encourage equity investing and a long-term outlook. They help ensure capital market stability by providing:

- Structure,
- Clarity, and
- Transparency.

They stimulate economic growth with important benefits in local economies, such as employment.

The Economist said it best a few years ago when it pointed out that mutual funds are “the biggest source of capital for American companies ...giving small and medium-sized businesses unprecedented access to capital markets.”

Investing used to be a narrow, elite activity. Now, it is a widespread opportunity for most Americans. It helps empower average Americans – giving them an important tool to help:

- Save for retirement;
- Buy a home; and
- Send their children to college – for many of us, the American dream!

The mutual fund industry is committed to preserving the fundamental virtues of mutual fund investing – helping tens of millions of Americans build their financial security.

The role of mutual funds isn't just to provide average Americans with a vehicle to invest – but a vehicle to invest wisely.

People realize that it isn't enough simply to save. We all know that if you're not keeping up with inflation, you're falling behind. The past may have been characterized by money in the mattress, but our future depends on savings being invested broadly in the market.

The key is wise investing.

Wise investing is understanding that meeting personal goals is still more important than beating the market.

Wise investors realize that when it comes to meeting long-term goals, time in the market beats timing the market.

It's the tortoise vs. the hare. Wise investing is realizing that it is the tortoise that wins over the long haul. That's where mutual funds come in.

Mutual funds have unlocked the power of the markets for millions of Americans. Now, we have to help everyone benefit from the markets through wiser investing.

Everyone wants to know: Am I investing in the right way, in the right places?

No question about it, people today have more demands on their time than in the past. In fact, the average day seems to last about 28 hours. So even as investing is more important than ever – doing it right is more challenging than ever.

Mutual funds are the vehicle of choice to get it right.

Innovation among mutual funds continues to expand the choices available – empowering investors from all walks of life. Mutual funds provide a wide range of options for a wide range of investors – at every age – and at every stage of life.

Competition among mutual fund firms has led to an ever-broadening array of types of funds, including:

- Open-end funds;
- Closed-end funds;
- Exchange-traded funds;
- IRAS, and 401(k)s – the list goes on.

These funds represent the full spectrum of investment choices. You can invest in:

- Passive index funds or active funds;
- Global equity funds or specific country funds;
- Municipal bonds or high-yield bonds;
- Small-cap equity or large-cap equity;
- Growth stocks or value stocks.

The investment choice exists to meet almost any investor need. Importantly, investors can choose to construct their own investment program or choose to work with a professional advisor.

The important notion is this – innovation has been driven by the needs of investors and competitive market forces.

It is critical that funds remain competitive, dynamic, and responsive to investor needs. Look at how many people are depending on them – 92 million and counting!

I strongly believe the mutual fund product is one of the best innovations for individuals who want to save and invest.

The ICI is working on behalf of investors in the development of initiatives affecting the structure of the markets.

We bring Wall Street to Main Street – and vice versa.

We are proud of our long track record of championing rules and policies that benefit investors – from tax policies to market regulation.

Our role includes providing relevant information to investors in the most timely and cost-effective manner. In this day and age, that must include the use of the Internet. Our studies confirm the high penetration of Internet use – nearly 90 percent of mutual fund investors have access to the Internet.

One of the most encouraging facts our studies revealed is that the “Internet gap” – so evident in the early years – seems to be disappearing. Internet use has grown dramatically, without regard to age,

education, or income.

The SEC recognizes the potential of technology to improve the quality and efficiency of financial reporting. Chairman Chris Cox has embraced technology in an important way.

Look at [the Commission's XBRL initiative](#), referred to by Chairman Cox as an Interactive Data Initiative that will help facilitate a move from long, hard-to-read disclosure documents to easily navigated web pages that help investors find the data they want. XBRL has the potential to help connect investors directly to the specific financial information they desire.

The goal is to leverage technology to better inform investors – beginning with improved disclosure. In that same light, we have encouraged the SEC to embrace the Internet as an effective and efficient vehicle of disclosure for investors.

It is an economic fact that effective laws and regulation determine the pace of development and success of an industry.

This is extremely relevant to the mutual fund industry, where fiduciary values are at the foundation of our work. Preserving and protecting investor trust is a top priority.

We are all committed to protecting the interests of fund investors.

The fund industry must continue to work with legislators and regulators productively on behalf of investors.

Additionally, fund directors and fund advisers must continue to work together to protect and advance shareholder interests. Fund shareholders and fund advisers alike benefit not just from independent directors' fiduciary oversight, but from their insight as well.

Cooperation among everyone in this room is the key to ensuring the success of fund investors.

These are all important aspects of an industry characterized by integrity and fairness:

- Full and meaningful disclosure;
- Respected fund governance;
- Relevant shareholder approvals;
- Adherence to fiduciary duty; and
- Very tough enforcement.

But perhaps the most powerful form of accountability is still the kind that Adam Smith talked about over 200 years ago – the marketplace.

Market scrutiny is especially important to mutual funds. In fact, mutual funds are arguably the most scrutinized investment product in the world – reflecting their unique place as a primary vehicle of mass

investment for savings and retirement.

Mutual funds are scrutinized every minute of every business day, 52 weeks a year. The power of market competition offers the strictest, most comprehensive form of regulation imaginable. Today, with lightning speed, investors can impose the ultimate discipline – the sell decision.

In that sense, investors have tremendous power to regulate – and they use it. Mutual funds that want to remain relevant have to maintain their reputation. We've seen the way the market sorts these things out – fairly, effectively – and sometimes – ruthlessly.

It's not a matter of either the regulatory framework or market competition. It's a matter of both – providing the accountability that investors have a right to expect and the confidence that makes markets work.

Mutual funds have played many roles for many years. But now they are more important than ever – because today Americans bear an increasing responsibility for building their financial future.

We have a virtual avalanche of baby boomers. They can look forward to a long future – benefiting from the modern miracle of longer lives.

At the same time, they are increasingly worried that they will outlive their savings. People look at how much longer they can expect to enjoy retirement, and wonder: Will I be able to afford it?

Americans look at escalating tuition costs, and ask themselves: Will we be able to pay for our children's education?

People look at the growing cost of health care, and wonder: How will I pay for health insurance after I retire?

Meanwhile, traditional pensions are facing challenges. We are seeing a shift from defined benefit plans to defined contribution plans. And the long-term solvency of the Social Security system is questioned. As Treasury Secretary Snow said recently, we see a "looming financial crisis for our nation as the baby boom generation moves into retirement."

There may be disagreement over how to address these issues – but the advice is simple and clear.

It is unwise for any of us to rely on employer-sponsored or government-sponsored plans alone. All Americans, as individuals, must participate in saving for retirement.

In the face of these challenges to financial security, where can people turn to build their financial future?

Let me suggest that mutual funds are a critical part of the solution.

Congress clearly recognizes the importance of an effective defined contribution system. We want to work with you to ensure the defined contribution system effectively meets the needs of more Americans.

We want to work with you to help develop tax policies that promote savings and encourage more Americans to save for their retirement.

A good example of that is the [Growth Act](#), which has bipartisan support in both the House and the Senate. It would eliminate the unintended incentive for investors to sell their shares. The tax deferral in this legislation – and I emphasize deferral – would remove the annual statement shock, thereby promoting long-term savings.

We also want to continue to work with the Department of Labor to ensure the effectiveness of retirement provisions for workers.

We appreciate the continuing focus the SEC has devoted to mutual fund issues, and the Commission's continuing efforts to ensure that our investors have confidence in mutual funds and the markets in which they invest.

And finally, don't underestimate the power of simplicity. I've learned this firsthand. The simpler we make savings, the more people will save. Straightforward plans such as "save at work," "save for retirement," and "save for family" are moves in the right direction. Simplicity will increase savings!

Both parties – by tackling tough, important issues regarding pensions and taxes – are helping more Americans grow their savings and strengthen the economy.

All of these matters are important because the interests of so many people are at stake. People are entitled to the highest standards of fiduciary duty. That is why the ICI and the mutual fund industry are committed to pursuing the highest ethical standards at all times. Earning trust is something we must do every day.

Everyone here has a common goal – we are committed to promoting:

- Savings and investment;
- Economic growth; and
- Financial independence for Americans.

This is part of a long and valued tradition in American history. America is a place where people are able to build a better life for themselves and their families. Our nation has always provided fertile ground for the growth of a vibrant middle class.

This is unique in human history, and still uncommon in much of the world. Wealth creation for the many – not the few – is one of the great stories of our time.

We are proud that our industry has helped make it possible for tens of millions of Americans to buy a house, send their kids to school, and build a secure retirement.

We are proud to have helped Americans achieve so much – and we are committed to helping them achieve even more.

We look forward to working with Congress, the Administration, and our regulators to create opportunity and financial security for all Americans.

Thank you for joining us this evening. And thank you for all that you do for our investors and our country.

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