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SERVING INDIVIDUAL INVESTORS

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PRESS COVERAGE OF "THE ENVIRONMENT FOR THE INVESTMENT COMPANY INDUSTRY IN THE 1990S"

May 30, 1990 TO: PUBLIC INFORMATION COMMITTEE NO. 17-90 RE: Press Coverage of "The Environment for the Investment Company Industry in the 1990s" ____ As you know, Jonathan Clements (WSJ) and Carole Gould (NYT) recently wrote articles based on the preliminary report on the fund industry in the 1990s. The report was prepared by Heidi S. Fiske, a consultant to the ICI, who made a preliminary report of her findings at the recent General Membership Meeting (a copy of her handout at the GMM is attached). While it is unlikely there will be much more press coverage until the final report is released this summer, this initial coverage raises concern over how the press will present the report's findings when it is widely available. Both the Journal and the Times latched onto the themes of significantly slower growth for the fund industry in the `90s than in the `80s, and a coming margin squeeze that could shrink profits for some sponsors. Once the final report is released, various companies will likely be contacted by the media for reaction. At its May 23 meeting, the ICI Marketing Committee expressed concern that future articles on the Fiske report may focus on certain negative themes, even though the study, overall, provides a positive outlook for the fund industry. The Committee suggests that in our individual discussions with the press we might emphasize these aspects of the report: * Industry Growth: Both the Times and Journal compared projected annual growth of 12 percent in the `90s to the unsustainable 30 percent rate of 1978-89 as the preliminary report did. However we can emphasize that several factors should enable the industry to continue growing at a very healthy rate, with total assets expected to increase from $1 trillion to $3.5 trillion in the next decade. This is a rate that would be superlative in most other industries. The report notes that pooled investment products will play an even broader role in Americans' financial life due to complexity of markets, the aging of the baby boomers, concern for retirement, greater interest in international investments, etc. These are all positive points that we can emphasize. * Defined Contribution Plans: These employee driven savings plans such as 401 (k), profit-sharing plans, and 403 (b) will become an even greater source of industry growth in the future-- what Heidi calls the "insti-vidual" markets. "These markets may be the fastest growing of all for mutual funds," the report observes. * Move Toward Equities: The industry should be a major beneficiary of greater investor interest in equities. The report says corporations need to deleverage their balance sheets after the 80s' debt boom, and investors need equity's higher returns to fund college and retirement expenses. "These two powerful forces are only part of what will lead to disproportionate growth of equity product in the 1990s." * International Investing: Investors will become more intrigued with the opportunities available on a global scale and will increasingly find mutual funds the best and most convenient way to access those opportunities. Both individuals and institutions have a relatively small portion of their assets invested in overseas markets, so this has the potential for tremendous growth over the decade. * Mutual funds have in the past few years "arrived" as a major force in the personal finance arena, and their importance will continue to increase in the future. These are some of the key themes the Marketing Committee feels should be emphasized with the media. They help shape a positive outlook for mutual funds in the years ahead, instead of an industry struggling to stay afloat at "only a projected 12 percent annual growth rate." As we move closer to publication of the final report, we can discuss how we might handle press inquiries. This will probably be an agenda item at our July 16 committee meeting. In the meantime, we wanted you to be aware of the current thinking and concerns on this subject. Steve Norwitz Erick Kanter

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