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REPORT ON THE ENVIRONMENT FOR THE INVESTMENT COMPANY INDUSTRY IN THE 1990S

October 5, 1990 TO: MEMBERS - ONE PER COMPLEX NO. 43-90 RE: REPORT ON THE ENVIRONMENT FOR THE INVESTMENT COMPANY INDUSTRY IN THE 1990S ____ Enclosed is a copy of "The Environment for the Investment Company Industry in the 1990s", a recently completed study conducted for the Institute by Heidi Fiske Associates. This broad-ranging study is based on extensive research and interviews with over 250 industry leaders, regulators, analysts and competitors. It was commissioned by the Institute's Board of Governors to help members anticipate how to best serve the investing public and to prosper in the coming decade, and to aid the Board in planning the Institute's future direction. Assets of mutual funds are likely to show robust growth of just over 12 percent a year during the 1990s, according to projections for the report by ICI Chief Economist Jacob Dreyer. From just under $1 trillion at the end of 1989, mutual fund assets could reach $3.5 trillion or more by the end of 2000. The Fiske report goes on to project that mutual funds will represent an increasingly larger share of Americans' financial wealth during the 1990s. Pooled investments of many kinds are expected to enjoy continued popularity, including those in competition with mutual funds. This is undoubtedly due in large measure to the success of funds in the 1980s, when in some years assets exploded at a 25 percent rate. Projected annual growth rates in the 1990s are considered more sustainable than those of the previous decade. Experts inside and outside the industry, asked for their views of the 1990s, say they expect traditional mutual fund organizations to face keener competition, particularly from commercial banks, which are expected to be permitted to enter more fully the mutual funds market. Also cited as challenges facing the industry are the opportunities for American fund groups to compete in expanding new markets abroad and the probable influx of well financed foreign competitors in the U.S. marketplace. The report emphasizes that advanced computer technology will play a strategic role for funds in providing improved service at manageable cost. By mid-decade, many shareholders will be obtaining advice and service via computer. The report also identifies fund marketing as the likeliest operation to be revolutionized by technology, with the strongest influence on funds that are marketed directly. The report anticipates a resurgence in equity-like products in the 1990s. Mutual funds stand to benefit from the arrival of attractive new products which offer equity returns along with some features to comfort the risk-averse investor. Within institutional markets, mutual funds' prospects are deemed most bright in the realm of smaller private pension reserves, which are growing particularly rapidly. Recent marketing studies suggest that both defined benefit and defined contribution plans of such smaller companies, will prove an important source of growth for funds, which deliver expert management at competitive costs. The report identifies (401(k) plans as particularly promising markets, but challenging ones. "The trick is to reach this diffuse market profitably," it notes. The report also predicts that the individual investor will become even more important because of growth in markets where they will share the investment decision making with an institution. The institution, typically an employer, will determine what investment options to provide; the individual decides which option to use. Such markets are dubbed "insti- vidual" by the authors and include many 401(k) and 403(b) plans and Simplified Employee Plan IRAs. The report addresses the debate concerning the future savings rate of the baby boom generation, and notes that, unless the nation's overall savings rate increases, most of the impetus for asset growth will come from internal buildup. Consequently, industry leaders emphasized that client retention would be a significant concern. While the Institute provided substantial assistance to Fiske Associates in the preparation of the report, conclusions and projections in the report are those of the study's authors and do not necessarily represent the official position of the Institute staff or its' membership. A technical appendix to the report, as well as a full bibliography, are being prepared and will be made available to you in the near future. For additional copies of the report, please contact Michelle Worthy, Investment Company Institute, 1600 M Street, NW, Suite 600, Washington, DC 20036. We would welcome your comments or questions about the report. David Silver President

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