

## ICI VIEWPOINTS

November 13, 2017

# 2017 Annual Report to Members: A Message from the Chairman

*This letter by ICI Chairman Ted Truscott was released in our [2017 Annual Report to Members](#).*

Every day, I'm reminded that each of us in the fund industry is driven to deliver ever-greater value for our fees and keep improving service to fund shareholders. Investors are demanding more from every asset manager—and the resulting competition drives us to innovate, find new efficiencies, and offer even better solutions for investors' needs.

## Providing a Strong Voice for Funds

Through its data and research, the Investment Company Institute demonstrates how this dynamic works for the benefit of fund shareholders. In the United States, [ICI data show](#), expense ratios incurred by investors in equity and bond funds have fallen by almost 40 percent over the past two decades.

### **Expense Ratios Incurred by Mutual Fund Investors Have Declined Substantially over the Past Two Decades 1996-2016**

Sources: Investment Company Institute, Lipper, and Morningstar. See "Trends in the Expenses and Fees of Funds, 2016" at [www.ici.org/pdf/per23-03.pdf](http://www.ici.org/pdf/per23-03.pdf).

Both actively managed and index funds have seen falling expenses. Similar, though less pronounced, trends are evident in jurisdictions with smaller markets that are still maturing.

These trends are the result of robust competition. In the United States, the United Kingdom, and other jurisdictions around the world, investors have a growing number of funds and a wider range of investment objectives and strategies available, enhancing their choices. Even with high-profile moves toward consolidation, overall concentration in the fund industry remains low, thanks to the constant entry of new competitors. Each decade, the list of the largest fund sponsors in a given market shifts: of the United Kingdom's 10 largest fund providers in 2008, for example, nine saw their ranking change by an average of almost four places, up or down, by 2015. The second-largest firm in 2015 wasn't even in the top 10 seven years earlier.

Vibrant competition helps focus the industry on meeting investors' needs. Similarly,

regulation should also focus on best serving investors. In this area—and many others—ICI plays an important role in providing solid data and the collective experience of our members to help policymakers understand which measures will achieve their stated goals and better serve fund shareholders, and which will burden investors with higher costs or less service or advice. When armed with this information, regulators can ensure that they do not favor one investing approach over another, reduce competition, stifle innovation, or erode funds' ability to promote efficient markets.

## **Pursuing a Sound Regulatory Framework**

For more than 75 years, ICI has pursued its core mission of preserving a sound framework of regulation for funds and their investors. The funds that we represent embrace appropriate regulation as necessary and desirable to establish trust among investors. Without that trust, investors would not allow our funds to manage more than \$20 trillion in US funds, nor trillions more in regulated funds in other jurisdictions.

Undoubtedly, sound regulation is a cornerstone of our success. Achieving it requires policymakers to be informed by analysis, and to craft new rules with robust input from the public. When it's not, we must work to inform and improve it.

To that end, [ICI has worked vigorously](#) in the past year to inform US regulators of the potentially harmful consequences of an overly prescriptive regime for managing liquidity risk. ICI has advocated for a modern regime for funds' use of derivatives, to ensure that investors can have access to the best and most efficient portfolio management that our funds can offer. And the Institute has provided voluminous data and analysis of the harm that retirement savers face under the Department of Labor's fiduciary rule.

In the United States and in international circles, [ICI has worked to preserve the framework of fund regulation](#) in the face of pressure from banking regulators to subject asset management to a wholly inappropriate and unnecessary regime of capital standards, enhanced prudential supervision, and other bank-like regulation. ICI's steadfast advocacy has helped inspire a thorough reexamination, in Congress and the administration, of the role and processes of the US Financial Stability Oversight Council. The council's global counterpart, the Financial Stability Board, also is rethinking its efforts to regulate asset management.

## **Playing a Growing Role Worldwide**

As [ICI's work on financial stability](#) illustrates, preserving the strength of funds also requires that we continue to expand our global perspective, something I believe in deeply as the head of a global firm.

As political polarization has grown within and between nations, the international environment for investing has grown more and more challenging. Regulators continue to increase their collaboration and promote ideas that transcend borders, and the fund industry must be prepared to respond. Fortunately, ICI's international program, [ICI Global](#), continues to grow in stature and prominence, effectively advocating in favor of stronger capital markets, greater use of funds for long-term savings, and investor-focused regulation in jurisdictions around the world. All of ICI's member funds benefit from this work.

Finding the right balance in regulation isn't easy. It's imperative that we keep trying for a simple reason: our industry cannot exist unless it meets the needs of investors. More than 100 million Americans and millions of savers in other jurisdictions rely upon our funds to help them meet their most important financial goals. We must remain focused on providing

those investors with great value, efficiency, and service. They challenge us—and each of us must rise to meet that challenge.

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