

## NEWS RELEASE

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# ICI Chairman Urges Industry to Maintain Funds' Benefits, Investor Protections, May 2002

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Washington, DC, May 23, 2002 - Investment Company Institute Chairman Terry K. Glenn today told the nation's largest gathering of investment company executives that the enduring benefits and investor protections of mutual funds continue to attract shareholders in adverse, as well as prosperous, times.

"The events of the past year gave each of us an opportunity to realize our strengths both as a nation and individually," Glenn, also Chairman Americas and President of Merrill Lynch Funds, said during an [address](#) at the General Membership Meeting of the Institute, the national association of the investment company industry.

"When I think of all that has changed since we last met, I'm reminded also of what has held fast and true," Glenn remarked. "The tremendous benefits and protections enjoyed by mutual fund shareholders remain intact. Mutual funds continue to be attractive to investors for the same reasons that have driven the growth of the industry for decades—an unsurpassed combination of professional oversight, diversified portfolios, risk and volatility management, affordability, and innovative account services. And, unlike other pooled investment products, the mutual fund industry has been untainted by major scandal for more than 60 years."

Reviewing the state of the mutual fund industry, Glenn noted that more Americans own mutual funds than ever before. Overall, mutual fund ownership has reached 93 million individual shareholders, or one out of every three individuals in the United States, and more than half of all American households. Today, mutual fund investors have more than 8,000 investment choices. "This vibrant competition has produced substantially lower mutual fund costs, and has helped make saving and investing in mutual funds simpler and more accessible to millions of Americans," Glenn said.

Despite last year's market downturn—the market's second consecutive down year and a year in which an average bear market developed into one of the most severe since World War II—American households continued to increase their reliance on mutual funds as a way of investing in stocks, bonds and money market instruments. At the same time, households are decreasing their direct holdings of securities held outside of mutual funds.

"This shift to mutual funds occurs despite the expansion in recent years in alternatives to

traditional mutual funds, such as exchange-traded funds and separately managed accounts,” Glenn said. “These products so far appear to have had very modest effects on the demand for mutual funds.”

For the year, mutual funds reported a record net inflow of \$505 billion dollars, up from \$389 billion dollars in 2000 and ahead of the previous record of \$477 billion dollars in 1998. During the year all fund categories—stock, hybrid, bond, and money market—reported inflows. Bond and hybrid mutual fund flows turned positive for the first time since 1998, with inflows of \$88 billion dollars and \$9.5 billion dollars, respectively. Stock mutual funds realized net inflows of \$32 billion dollars. Money market fund inflows reached a record \$376 billion dollars last year.

Glenn noted that record inflows of new cash offset negative equity performance throughout much of last year. He cited Institute research to demonstrate that shareholder reaction to last year’s market downturn, in general, and the events of September 11, in particular, were muted.

“Even as our nation’s economy appeared poised to plunge deeper into a recession, mutual fund shareholders had a measured response to the uncertainty that gripped the markets,” Glenn said. “During this time, mutual fund shareholders looked beyond the headlines, and refused to turn to short-term solutions to reach their long-term investment goals.”

Glenn said the fortitude shown by mutual fund shareholders during last year’s market downturn demonstrates the value of educating investors. Two of the key messages of the Institute’s longstanding Investor Awareness campaign are the importance of diversification and the need for a long-term investment horizon.

Preserving and enhancing public confidence in mutual funds through investor awareness programs is a crucial element of the fund industry’s continued success, Glenn said. “Investor education will continue to be important, especially in light of the fact that greater responsibility for retirement planning and saving for higher education is increasingly placed on individuals,” he said. “These represent two of the Institute’s key initiatives going forward.”

Glenn closed by saying the fund industry remains united by its long-standing tradition of integrity and in its moral and legal obligation to serve shareholders responsibly following the principles established under the Investment Company Act of 1940. “Everything we do to hold true to our tradition and culture allows us to retain the respect of our regulators and, most importantly, the trust of our shareholders,” Glenn said. “I believe our industry’s precious tradition of integrity provides mutual fund shareholders with a measure of confidence in adverse, as well as, prosperous times.”