INVESTMENT COMPANY INSTITUTE

SPEECH

March 12, 2003

Costs and Benefits of Mutual Funds

Institute Chairman and President Discuss Costs and Benefits of Mutual Funds
Washington, DC, March 12, 2003 - In a press briefing today, ICI Chairman Paul G. Haaga, Jr. and President Matthew P. Fink discussed the effectiveness of mutual funds at providing investors with greater service, choice, and information, at lower cost, than ever before.

The Advantages of Mutual Funds....

Text of sound bite [Institute President Matthew P. Fink]:

"Mutual funds have introduced millions of Americans to investing. They've democratized the way middle-class people invest. Today, one out of three Americans own mutual fund shares. And if you look at middle-income households—people with income of $35,000 to $50,000 a year—half of them own mutual funds. The industry not only has provided diversified portfolios and professional management under very strict SEC regulation, but has devoted a lot of energy to educating people about the basics of investing."

Mutual Fund Fees....

Text of sound bite [Institute President Matthew P. Fink]:

"[W]hen you buy a fund, you receive a prospectus and in the front of that prospectus is a fee table, which lays out how much you, the investor, pay directly. For example, if you pay a sales load, it will tell you that. And, secondly, it will tell you how much the fund pays annually and your pro rata share of that.... if the fund pays a management fee, a 12b-1 fee, etc. To drive the point home, the fee table also has an example. If you put $10,000 in, how much would your expenses be over a one year period, over a three year period, over a five year period, and over a ten year period—aggregating anything you pay directly like a sales load and your pro rata share of the fund's expenses. So it's very, very explicit, not just laid out in the fee table, but driven home by these four examples. This allows investors, by using a $10,000 standard number, you can take any of the 8,000 funds in the country and look at them and compare their expenses."

Text of sound bite [Institute Chairman Paul G. Haaga, Jr.]:

"The typical fund investor pays far less than what the average fund charges... Consider a business with two models of cars for sale—one's for $20,000 and one sells for $40,000. The average price of the cars is obviously $30,000. But if 80 people buy the less expensive car, and only 20 choose the more expensive car, the typical buyer does not pay the average price charged by the seller. In fact, nobody does…. The fact that the typical shareholder who holds funds today is paying far less than the average fund charges is compelling evidence that our industry’s practices, the funds we offer, the services we provide, and the fees we charge are serving tens of millions of investors faithfully and effectively. In particular, it’s apparent that the market readily enables fund investors to find the lower cost mutual funds. The proof is in their purchases.”

Regulating Mutual Funds….

Text of sound bite [Institute Chairman Paul G. Haaga, Jr.]:

“A major part of the reason mutual funds are effectively serving investors is the fact that they’re strictly regulated by the SEC, as Matt discussed. Virtually every aspect of a fund’s operations is governed by detailed regulations. It might surprise some of you, but we view this strict regulation as an asset rather than a liability. We boast about it. Under the SEC’s watchful eye, mutual funds have remained free of major scandal for more than 60 years. And it’s no accident that, historically, mutual funds have enjoyed unusually high levels of trust and support from the public.”
