SPEECH

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ICI Chairman's Remarks at ICI's 2007 General Membership Meeting

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Thank you, Brian [Murdock, chairman of the General Membership Meeting], for those remarks. It’s clear that you wake up every morning happy to be playing your part in this industry. You have truly reminded us of the enduring value of mutual funds -- and the program that you have put together will keep that value clearly before us in the days ahead. I want to thank you and your planning committee for the outstanding job you’ve done in organizing this General Membership Meeting.

We are all part of an industry that is innovative, competitive, and central to the financial security of Americans. In little more than a generation, mutual funds have grown to become one of the most important savings vehicles for ordinary households.

In 1980, registered investment companies held nearly 3 percent of the financial assets of American households.

In 2006, that figure was over 23 percent -- almost one-quarter of Americans’ financial wealth. That’s more than bank deposits, more than insurance policies, more than the individual securities in brokerage accounts.

Investment in funds has grown because they provide the average American investor tremendous benefits. For a small investment, at a relatively low cost, an investor receives:

- A diversified portfolio;
- Professional investment management;
- Liquidity; and
- A wide range of choices and service levels.

In my view, mutual funds provide the best value in financial services.

Can you imagine the impact on those millions of Americans who use IRAs and 401(k)s as their principal or sole savings vehicle if mutual funds did not exist? Individual investors need mutual funds now more than ever before.

At the same time, our leadership and fiduciary role also subject us to scrutiny each and every day. Investors hold us to high standards -- and they should. We should not only expect close scrutiny, but understand that our role demands it. And we are better for it.

Today I want to address some areas where our role has raised investor expectations, and how we are meeting that responsibility. I want to discuss our role in improving retirement security for Americans -- and the new challenge of addressing policymakers' concerns about fees and disclosure in retirement plans.

I will also highlight the crucial partnership between fund advisers and fund boards in protecting the interests of shareholders.

The Retirement Challenge: Investing in America's Future

Last year we saw two remarkable developments in America's system for retirement savings. 2006 brought the passage of the Pension Protection Act, landmark legislation that strongly affirmed the central role that the 401(k) and other defined-contribution retirement plans will play in providing retirement security.

The mutual fund industry worked very hard to win passage of the pension act. ICI worked closely with our members to build a strong bipartisan relationship with Congressional leaders. That positioned us to serve as a vocal and effective advocate for savings -- and to advance the pension reforms that our nation needs.

2006 also marked the 25th anniversary of 401(k) plans. 401(k)s now hold $2.7 trillion in assets -- forming the very core of America's private-sector retirement savings. Over that quarter-century, we have seen a remarkable shift in the makeup of our pension system.

In 1980, 83 percent of workers in the private sector who had pensions were in traditional defined-benefit plans, and 40 percent were in defined-contribution plans. For the majority of participants, those DC plans were supplements to a traditional pension.

By 2000, those figures had reversed: 87 percent of workers with pensions were in DC plans, and only 42 percent were in defined-benefit pensions. This confirms the strong trend toward defined contribution.

The pension act makes 401(k)s and similar plans stronger and more attractive for both employers and participants. It encourages employers to enroll workers automatically, but ultimately, it's the plan participants who benefit most. Companies that automatically sign up their workers in 401(k) plans find that more than nine out of 10 workers participate in the plan. Congress -- to its credit -- recognized that automatic enrollment was a powerful tool to meet the needs of workers, particularly young workers, who weren't taking the initiative to save on their own. So the pension act eases the way for more employers to offer automatic enrollment, which ultimately improves retirement security for millions of Americans.

The act also addresses another vital need -- investment advice for workers. In today's world, families are increasingly crunched for time. For many families, a 401(k) is their first -- and their largest -- foray into investing. For that reason, it's vital that workers get it right -- from the start. Investment advice is one tool to help them, and the pension act makes it easier for a worker to get investment advice from the provider who knows his or her 401(k) plan best.

Issues Around 401(k) Plans: Disclosure

The success of 401(k) plans, however, has drawn scrutiny. Because of their flexibility and innovation, 401(k) plans can be complex. A plan can call upon the services of many different providers -- investment managers, recordkeepers, consultants, transfer agents, and investor-service specialists.

With all these services and relationships, policymakers want to know: What are participants and sponsors getting for their money? And can sponsors and participants understand what they're paying?

These are important issues, and we applaud Congress, the Department of Labor, and the SEC for taking them up. 401(k)s are so important, so central to America's retirement future, that we as a nation cannot afford to leave questions about fees and disclosure hanging over this system. Mutual funds hold roughly half of the assets in 401(k)s and IRAs. So, as you might expect, when Washington's focus turns to 401(k)s, their gaze falls on mutual funds.

But -- as you are well aware -- 401(k)s are not just about mutual funds. The remaining half of the assets are invested in other vehicles, including employer's stock, guaranteed insurance contracts or GICs, separately managed accounts, bank commingled trusts; and other products.

No matter what the investment options, workers and sponsors need the same clear and transparent information. The quality of disclosure that a 401(k) plan receives should be comprehensive and apply to all investment options in the plan.

We are working with the Department of Labor, the SEC and Congress to ensure clarity on our position. We strongly believe that plan sponsors should have all the information they need to understand:

- The total fees in their plans;
- How expenses are allocated between sponsors and participants;
- How service providers are sharing those expenses; and
- The risk and return profile of the investment choices within the plan.

The role of mutual funds and 401(k) plans isn't just to provide average Americans with a vehicle to invest – but a vehicle to invest wisely. Wise investing is understanding that meeting personal goals is still more important than beating the market. Investors need solid information to make sound investment decisions.

That means disclosing fees -- and more. We have called upon the Labor Department to require that all 401(k) participants receive a clear, concise statement for each investment option.

This statement should cover not just annual fees, but also four other very important factors:

- Investment objectives;
- Principal risks;
- Historical performance; and
- The investment adviser that manages the product's investments.

If that sounds like a lot of data, consider this: It's exactly the information that mutual fund investors get today. That is, mutual funds provide crucial information needed to invest wisely!

Here's an important fact that has been overlooked in much of the debate: For most 401(k)s that are invested in mutual funds, the participant-paid fees are summed up in the funds' expense ratio. Those figures are clearly disclosed in the funds' prospectuses. And any other costs -- such as trading costs -- are spelled out in the funds' disclosure documents and reflected in the funds' performance.

Plan sponsors and participants whose 401(k)s are in mutual funds can generally see their total fees in the prospectus. And they can tell how they're doing -- net of fees -- by looking at bottom-line performance …each and every day, if one chooses.

Let's go to the numbers. ICI's research shows that the fees that mutual fund investors pay have fallen by half over the last 25 years. Not only are investors paying less, the services they receive have been greatly enhanced during that period.

Last year, ICI looked specifically at the fees paid in 401(k) plans. It's clear that 401(k) sponsors and participants gravitate toward lower-cost, lower-turnover mutual funds. In 2005, three-quarters of 401(k) stock fund assets were in funds charging less than 100 basis points.

Issues Around 401(k) Plans: Value

We're proud of our industry's record of reducing costs and improving efficiency, driven by strong competition, constant innovation and improving service levels. But when policymakers examine the 401(k) system, they will be doing investors a disservice if they focus exclusively on fees. Because if all the focus is on fees, we can easily lose sight of the true value of 401(k)s.

Too much focus on fees could also drive employers and workers to look only at holding down total investment costs -- when they should be looking at how to provide investment growth by constructing portfolios with the full range of investment options to help build retirement nest eggs.

It gets back to this notion of wise investing. Wise investors realize that when it comes to meeting long-term goals, time in the market beats timing the market. Mutual funds have unlocked the power of the markets for millions of Americans. Now, we have to help everyone benefit from the markets through wiser investing.

Consider this. Six years ago, the low-fee investment option in the Enron and WorldCom retirement plans was company stock. In hindsight, that option turned out to be a very costly one for participants.

Even in less dramatic circumstances, the low-fee option is not always the best choice for a worker whose investment horizon spans 30, 40, or even 50 years. The low-fee approach could potentially push investors to make bad decisions.

The role of investment options within 401(k) plans is to give investors a greater opportunity to invest wisely by building diversified portfolios and participating in the markets globally.

Take money-market funds. Money funds generally are less expensive than long-term equity mutual funds. We all know that they both have a place as part of a well-diversified portfolio but equity returns over time far outpace money-market returns.

For workers hoping to stay ahead of inflation … to see their money grow throughout a long career … and to live on their savings for decades in retirement … too much investment in money funds is not a sound strategy. Keeping their money in cash will cost them dearly in their old age. They must have access to the full range of investment options -- from money markets to emerging markets. Clearly, we should help workers become wise investors by enabling investment decisions that are based on more than just fees.

The spotlight Washington is shining on 401(k) plans must be broad enough to illuminate issues like these. This is essential to ensure a secure retirement for all Americans.

After a quarter-century, the 401(k) system has made great strides. But there are still many challenges ahead as we strive to help the defined-contribution retirement system live up to its full potential.

You can be sure that ICI and our members will continue to work with policymakers in Washington, and with our partners in the private sector, to strengthen retirement security for working Americans.

Fiduciary Partnership of Boards and Advisers

It is an economic fact that effective laws and regulation determine the pace of development and success of an industry.

This is extremely relevant to the mutual fund industry, where fiduciary values are at the foundation of our work. Preserving and protecting investor trust is a top priority.

The fund industry must continue to work with legislators and regulators productively on behalf of investors. All of us are committed to protecting the interests of fund investors.

We recognize the enormous trust that Americans have placed in our products and our industry. We are committed to living up to that trust by operating to the highest ethical standards. At all times, we must be guided by the best interests of fund shareholders. Part of our commitment is reflected in ICI's support for effective and vigilant regulation of our industry. We're in constant dialogue with regulators -- which you can see from looking at our GMM program. We're very pleased that you'll have a chance to hear SEC Chairman Christopher Cox and NASD Chair Mary Schapiro. It's important that we understand their views on the issues facing our industry.

We also believe strongly that fund boards and fund advisers must work together to protect and advance shareholder interests. That means independent directors who are actively engaged and provide not just fiduciary oversight but insight as well.

Fund boards are at the core of the structure laid down in the Investment Company Act of 1940 -- and independent directors are a vital part of those boards. This governance structure has supported the rise of mutual funds as the nation's largest financial intermediary in just the last generation. Our 94 million shareholders are well served by the fiduciary partnership between investment advisers and their funds' independent directors.

ICI has a long record of support for strong, well-informed boards. We created the Independent Directors Council -- and I am proud of the steps it has taken to support and educate directors. We also supported most of the recent proposals to strengthen fund governance -- including the Chief Compliance Officer rule. We welcome the requirement that all funds employ CCOs who report directly to their boards. Indeed, leaders of the Independent Directors Council regard the CCO rule as one of the most important regulations ever adopted by the SEC in support of sound governance.

We're also excited about a project that Buddy Donohue, director of the SEC's Investment Management Division, has launched to review the roles and responsibilities of fund boards. Buddy has been attending board meetings and further informing himself about how today's fund boards function.

As you may know, Buddy has a deep working knowledge of the industry from his days as a fund company general counsel. I'm sure that he's been hearing that today's boards are dealing with new and expanded responsibilities, enormous detail and complexity, and a host of new issues and pressures.

Buddy has said that he wants to re-examine the tasks assigned to fund directors … to make sure that directors can devote their attention to the matters that count most … and, in the end, to allow directors to concentrate on tasks that are in keeping with the role of a board. This is a timely and important exercise, and we commend Buddy Donohue for pursuing it.

Conclusion

Whatever the issue -- whether it's fund governance, or building a better 401(k) system and helping investors get better, more useful information -- our industry is working with two goals in mind. We want to maintain investors' trust in our industry and our funds. And we want to preserve the fundamental virtues of mutual fund investing, providing: diversification, professional management, and value. Financial markets are dynamic, innovative and competitive. Mutual funds have emerged as the most effective and practical solution for Americans to take advantage of the financial markets.

But it isn't just American investors who benefit from mutual funds -- it is the American economy. Mutual funds encourage equity investing and a long-term outlook. They help ensure capital market stability by providing structure; clarity; and transparency. They also stimulate economic growth with important benefits in local economies, such as employment.

What we have in America is unique in human history. Wealth creation for the many -- not the few -- it is one of the great stories of our time. Our industry has been and remains central to that story. We are proud that mutual funds have helped make it possible for tens of millions of Americans to buy a house, send their kids to school and build a secure retirement.

We're here this week to consider the enduring value of mutual funds. Funds have endured because they have helped Americans meet their financial dreams.

If we dedicate our creativity, our energy and our integrity to serving investors, mutual funds will not just endure. They will thrive -- by filling an ever-growing need in Americans' lives.

Thank you for your attention, and I hope you enjoy your General Membership Meeting.

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should not be considered a substitute for, legal advice.