Welcoming Remarks, 2016 General Membership Meeting

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58th Annual General Membership Meeting

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As prepared for delivery.

Good afternoon and welcome! I'm Tom Faust, Chairman and CEO of Eaton Vance. As chair of the 2016 ICI General Membership Meeting, it's my pleasure to open this 58th annual gathering of Institute members.

This afternoon, we will first hear from ICI Chairman, and Vanguard Chairman and CEO, Bill McNabb. We'll then turn to what I'm sure will be a fascinating Policy Forum, featuring former New York City Mayor Michael Bloomberg.

ICI President and CEO Paul Stevens will engage Mayor Bloomberg in a wide-ranging discussion, covering the many phases of the mayor's illustrious career, examining the contributors to his success, discussing his approach to public service and philanthropy, and hearing his thoughts on this year's extraordinary political season.

Discussions of political matters will not only open this year's conference, but will also close it. On Friday morning, we'll wrap up our program hearing from Stuart Rothenberg and Charlie Cook, two of the foremost seers in American politics. While nobody—including the two of them—could have foreseen this year's presidential race, their thoughts about the coming elections are sure to be insightful.

For all the turmoil here in the United States, the winds of change are hardly confined to this country—indeed, they are picking up speed across much of the globe. To help you gain a deeper understanding of today's most important global issues, I will host a session Friday morning with Kevin Kajiwara, co-president of Teneo Intelligence.

Within the asset management industry, a key driver of change continues to be regulation. In the wake of the Great Recession financial crisis, regulators at home and abroad continue to focus sharp attention on the risks they perceive in investment management.

In his remarks, Bill McNabb will address the changes in the global regulatory environment now facing our industry.

On Friday morning, we will hear from Mary Jo White, chair of the U.S. Securities and Exchange Commission. Chair White will discuss the important rulemaking initiatives now arising from the "financial stability" agenda she laid out in December 2014. These include the current SEC proposals addressing data reporting, liquidity risk management, and derivatives, as well as pending transition-planning and stress-testing proposals.

ICI and its members are no strangers to regulatory initiatives like these, and certainly don't take a passive role in their development. The Institute's 75-year history of constructive engagement with the SEC gives us an important voice as the Commission's ideas and concepts are debated and shaped into rules.

The SEC is certainly not the only regulatory body with an interest in asset management. The Federal Reserve, Treasury, and Financial Stability Oversight Council here in the United States, foreign securities and banking regulators, and the International Organization of Securities Commissions and Financial Stability Board as global umbrella organizations, all consider investment management as within their purview and exert considerable influence over the industry.

While directed at providers of investment advice, not fund managers, the new Department of Labor rule establishing a "fiduciary" standard for investment advice to covered retirement accounts is widely expected to cause dramatic shifts in how funds are used by financial advisors. Most observers expect the DOL fiduciary rule to accelerate the trend toward growing use of low-cost funds without sales loads or distribution and service fees.

Drivers of disruptive change in asset management, of course, don't just include new regulatory initiatives. Changes in market conditions, shifting investor tastes, and fund industry innovations can also have a profound impact on the shape of asset management.

One of the many invaluable services that the ICI provides is publishing the *Investment Company Fact Book*, which for many years has been released annually at the time of this meeting. The *Fact Book* is the definitive source of data about the fund industry—an indispensable resource for fund sponsors, policy-makers, regulators, academics and the investing public alike.

This year's *Fact Book* makes clear that disruptive change is not something that *may* hit the asset management industry sometime in the future, but, rather, is already upon us. Not so many years ago, open-end funds were overwhelmingly actively managed, and investors bought and sold fund shares in transactions directly with the fund itself. Index funds were market-cap weighted. If you wanted investment advice, you paid for it through a sales load or distribution and service fee—or both—charged by the fund and passed through to your financial advisor. You built your 401(k) plan portfolio from a menu of standalone funds. Things have certainly changed!

As most of this audience is aware, we've seen a sea change in investors' taste in funds over the past decade. At the end of 2005, less than 13 percent of assets invested in long-term funds were in passive strategies; in the past 10 years that share has more than doubled, to 28.5 percent. Over the same timeframe, the share of long-term fund assets invested in exchange-traded funds has more than tripled, from 4 percent to 14 percent.

While the biggest change in the fund landscape in recent years has been shifts from active to passive and from mutual funds to ETFs, other notable developments include the growing embrace of non-cap-weighted indexes, so-called "smart beta" strategies, and the increasing use of target date funds by defined contribution plan participants, particularly younger workers.

Distribution, too, has changed. Driven by growth in registered investment advisers and broker-dealer advisory programs, so-called "institutional class" mutual fund shares that don't charge sales loads or distribution and service fees have become the prevalent share class of many traditional load funds.

Reflecting changing distribution patterns, economies of scale, and growing industrywide competition, the expenses paid by mutual fund shareholders have declined markedly over the past decade—both in actively managed funds and index funds. On an overall basis, weighted average expense ratios are down 25 percent for equity funds and 22 percent for income funds.

While investors have benefited from expanded product choice and lower fund expenses, the story for fund advisers is decidedly less favorable. On average, advisory fee rates are lower, distribution costs for fund sponsors are higher, and a majority of fund complexes are in net outflows.

Last month, a leading business publication printed an article describing asset management as facing "its Napster moment," comparing the challenges confronting investment managers today to those faced by music companies in the early 2000s, when Napster, and then iTunes, caused industry revenues to drop precipitously.

Whether or not that analogy holds, there's no denying that these are challenging times for our industry. As the CEO of a public asset manager, I experience that every day.

Despite the difficulties we now face, I can't help being optimistic about the future of investment management. Over the 90-plus year history of the U.S. fund industry, we've experienced any number of cloudy days. Why this industry has been so successful through the decades is pretty simple—a nimbleness in responding to changing markets and regulatory conditions, the willing embrace of innovation and technology, and a relentless focus on doing what's best for the investors we serve. I have no doubt that a stronger and better investment industry will emerge from this challenging period.

Given what's going on in the industry, it should be no surprise that disruptive change is a persistent topic throughout this year's GMM. I hope each of you finds the meeting to be a source of insight and a useful guide. Here's a quick overview of the rest of our agenda.

Tomorrow morning will begin with a series of interactive breakfast discussions, followed by a panel of up-and-coming leaders sharing their thoughts on what the future holds for the industry.

In the next session, CNBC's Tyler Mathiesen will talk to Krishna Memani, chief investment officer of OppenheimerFunds, and Liz Ann Sonders, senior vice president and chief investment strategist for Charles Schwab, about trends and opportunities they see in the investment landscape in the United States and around the world.

For tomorrow's lunch, we are joined by Walter Isaacson, the author, journalist and well-known chronicler of the history of innovation. Walter will be interviewed by Ted Truscott, CEO of Columbia-Threadneedle Investments. Walter and Ted will delve into the history of disruptive innovation, and share thoughts about the future of our industry. It promises to be a fascinating discussion.

Tomorrow afternoon, how to survive and thrive amid transformative change will be the focus of three concurrent sessions of the companion ICI Operations and Technology Conference, Mutual Fund Compliance Programs Conference, and Fund Directors Workshop.

The conferences' open-architecture, build-your-own-schedule approach enables you to hear from experts on topics of your choosing, including how emerging technologies are affecting the asset management industry, how the global asset management landscape is evolving, how "big data" initiatives are changing the fund industry, and how demographic trends and diversity initiatives are changing the faces of the industry's workforce. You can also learn about new regulatory initiatives on the horizon, and the continuing evolution of fund compliance requirements.

While absorbing all that this meeting has to offer, you can also enjoy excellent food, outstanding entertainment, and ample opportunities to network with friends and colleagues from across the industry.

Meetings of this size and scope and caliber don't just happen, but reflect a lot of hard work by the talented volunteers and staff of our Planning Committee. Although we will have other occasions in the days ahead to thank the people and firms that made this event possible, please join me now in briefly acknowledging the fantastic job our Planning Committee did in organizing this event.

I'd also like to briefly thank the meeting sponsors that made this all possible through their generous support.

Before I close, I'd like to remind you that there is a mobile app for the meeting to help you navigate the next three days. The app gives you access to the conference schedule and logistics, enables you to share information about the conference on social media, and provides the portal through which you can ask questions of our speakers and panelists. If you haven't already downloaded the meeting app to your tablet or smartphone, I encourage you to do so.

It's now my pleasure to hand the podium over to my friend Bill McNabb, chairman and CEO of The Vanguard Group, and chairman of the Investment Company Institute.

Bill is one of the true leaders of our industry—a longtime investor advocate and spokesman for both Vanguard and the industry as a whole. Bill joined Vanguard in 1986 and led each of Vanguard's client-facing business divisions before becoming CEO in 2008. He is also the first, and only, person ever to serve three consecutive terms as chairman of the ICI. I can't think of a better person to help kick off this year's conference. Please join me in welcoming Bill McNabb.