

2001 General Membership Meeting: Overview of Chairman, President Reports

ICI Chairman, President Discuss Maintaining Shareholder Confidence

Washington, DC, May 17, 2001 - Investment Company Institute President Matthew P. Fink and Chairman Terry K. Glenn spoke at the ICI's General Membership Meeting about ways industry participants can maintain investor confidence in a changing business landscape in the new millennium.

Glenn, in his [report](#), outlined several key facts about mutual funds and said he is confident that the industry's longstanding culture of serving shareholders responsibly will continue to enable it to "recognize changes as opportunities" to benefit shareholders.

Fink, in his [report](#), discussed three areas where the fund industry "must move in the right direction" for investors: the laws that protect fund shareholders; the standards the industry sets for itself; and the responsibilities that come with the industry's prominence.

Video excerpts from Mr. Glenn's and Mr. Fink's speeches are linked below.

Our business is long-term . . .

Text of video clip [Terry K. Glenn, ICI Chairman]:

"Even as imitators seek to develop products to compete against mutual funds, I believe that mutual funds will continue to be preferred by many different kinds of investors for many different reasons, especially in helping them attain their long-term financial goals. After all, our business—like our perspective—is long term. That has always meant ensuring that investors are placed first and that they are always protected."

Fund shareholders do not want encyclopedic disclosure . . .

Text of video clip [Matthew P. Fink, ICI President]:

"The SEC is now beginning a review of our second disclosure document—our shareholder report. Again, the goal is to refocus these reports on matters most essential to informed investment decisions. We strongly support this effort.

However, other groups want mutual funds to report more information and to do so more frequently, particularly a fund's complete list of its current portfolio holdings. I read a lot of literature and articles, but I've yet to see any evidence that people who invest in mutual funds want more encyclopedic disclosure. But we have seen considerable evidence that people who trade against mutual funds would welcome more information."

Fund shareholders do not drive the stock market . . .

Video produced in Real Video format:low or high bandwidth (47 secs.) (streaming video; may not be available behind a firewall)

Text of video clip [Terry K. Glenn, ICI Chairman]:

"There is no established correlation between mutual fund flows and stock market activity. Consider the facts. In 2000, as I mentioned, shareholders purchased a record \$309 billion in equity mutual fund shares. Yet, also in 2000, the NasdaqComposite Index fell 39.3 percent in the worst year since it was created in 1971. The Dow Jones Industrial Average fell 6.2 percent to suffer its worst year since 1981. One year earlier, equity fund inflows totaled far less—\$188 billion—even though the markets were up significantly, with the

Nasdaq rising more than 86 percent and the Dow Jones Industrial Average gaining 25.2 percent." [Also see the recent [Federal Reserve report](#) finding "little evidence that mutual fund investors have been a destabilizing force in the U.S. equity market in recent years."]

Tax system improvements help shareholders meet long-term goals . . .

Text of video clip [Matthew P. Fink, ICI President]:

"Our industry's prominence now obliges us to address important issues that go beyond traditional mutual fund regulation and operations. Moving in the right direction for our shareholders means that our voice must be heard on national policy debates that affect their interests.

Nowhere is this responsibility more evident than in public policies that affect long-term savings and investment [e.g., [Portman/Cardin](#) and [Grassley/Baucus](#) legislation]. We must support policies that help individuals better prepare for major life events such as retirement and education."

Vibrant competition has produced substantially lower costs . . .

Text of video clip [Terry K. Glenn, ICI Chairman]:

"It's hard for me to imagine that in this, the world's most successful free market economy, anyone could suggest that an industry with 8,000 competing investment choices delivered through literally hundreds of thousands of points of sale, where the barrier to new market entrants is very small, that competition doesn't exist. However, as Matt Fink is fond of saying, mutual fund fees have been a topic of discussion since the first mutual fund was introduced, principally because of the high level of disclosure mutual funds provide to shareholders.

[Institute research](#) shows that the cost of investing in mutual funds has decreased significantly over the past two decades. Recent studies by the [General Accounting Office](#) and the [Securities and Exchange Commission](#) generally have found that mutual fund operating expense ratios decline with asset growth and that larger funds have lower expense ratios than smaller funds. This strongly suggests that most equity fund shareholders have benefited from economies of scale."

Products mimicking mutual funds avoid critical investor protections . . .

Text of video clip [Matthew P. Fink, ICI President]:

"[Products that mimic mutual funds](#) but avoid critical investor protections are creating serious and unnecessary risks to this basic foundation. Indeed, if parallel industries are permitted to develop, one regulated, one unregulated, I guarantee you the only direction we will be moving in is a 'race to the bottom,' as competitive forces force all competitors to minimize regulatory costs."