

Welcoming Remarks, 2014 General Membership Meeting

Serving Investors in an Evolving World

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Hello, and welcome to the 2014 General Membership Meeting of the Investment Company Institute. I'm Marie Chandoha, President and CEO of Charles Schwab Investment Management.

Every year, we come to this meeting to take stock as an industry. It is our opportunity to ask the big questions, and to address our toughest challenges standing side-by-side. It is where we can recognize both what we're doing well and what we can do better, and learn valuable lessons from our peers. And it is here where I am always so powerfully reminded of just how important our work is to the millions of the people and families we serve.

So it has been a genuine honor for me — both personally and professionally — to have chaired the planning committee that developed this year's General Membership Meeting. It's an exceptional program, and though there will be more time in the days ahead to thank the people and firms that made this event possible, I'd like to take a moment now to acknowledge the terrific job that the planning committee and staff at ICI performed in developing the ideas for the programming and for organizing the event.

And, of course, this conference would not have been possible without the generosity of our sponsors.

The theme of this year's General Membership Meeting is "Serving Investors in an Evolving World."

As a statement, and as a call to action, it's a theme that is both timely and timeless.

We all know that the one constant in life is change. What differs, however, is how we all react to it. Some of us immediately embrace change. Some of us fear it. But most, I suspect, fall somewhere in the middle. And I believe that's true whether we're talking about individuals, businesses, industries, or even nations.

Now consider the magnitude and pace of change we're surrounded by today. We all know that technology is radically disrupting everything — from how we conduct business, to how we form relationships, to how we interact with one another.

But it's more than just technology. There are massive social and geopolitical changes taking place across the globe — consider, for example, the struggle to define democracy in the Middle East, or the efforts by Russia to re-assert itself in its region and on the world stage. Tomorrow, we'll hear from the former Prime Minister of the United Kingdom, Tony Blair — a good example of a change agent, and someone who has a unique perspective about how the world is evolving.

In business, there isn't a single industry that has remained untouched by substantial change. The asset management industry is no exception. We are — and have been for the last several years — facing two huge shifts happening simultaneously:

- Our clients' needs and expectations have changed ...

- ... at the same time that the ecosystem within which we operate is also changing, from a regulatory, technology and market structure perspective.

So ... does that make you excited or nervous? Probably somewhere in the middle, right?

That's the point I really want to emphasize as we open this meeting. Over the next few days, we'll be discussing how change is driving just about every aspect of our business. I encourage you to focus less on the change itself, and more on how you — and how we as an industry — should react to it. And it's not just a matter of reacting to it — where does it make sense for us to initiate or accelerate it?

As you ask these questions, remember this — where there is change, there is almost always opportunity.

Now let me break down slightly further those two big shifts our industry is seeing — starting with how our clients' needs and expectations have transformed.

Research shows rather clearly that, following the financial crisis, our clients' mindsets and behaviors changed quite profoundly. They began to look to us for something different. State Street's Center for Applied Research in particular has looked closely at this, and what they've found is that while our industry is built around beating or matching a benchmark, our clients are looking beyond that. They're looking for solutions — for outcomes. Outperforming or matching an index might be a means to that end, but the message for us is clear — clients need help meeting their goals, whether it's generating income ... making college affordable ... retiring securely ... or any of the myriad milestones and dreams people aim for.

This is a distinct paradigm shift, and I see evidence of it in many ways. For one, it's in the numbers. Increasingly, people are investing in "solutions-based products," with more than \$120 billion flowing into balanced and other hybrid funds, as well as target date funds, during 2013.

I also hear it directly from our clients, which is the best evidence that the trend is real. For example, at an event I recently attended, I met a client who told me how much she loves ETFs, but she didn't know how to put them together in a portfolio with confidence. She urged us to create more-packaged solutions that would put our ETFs together and rebalance them as needed. As an industry, we need to think like our clients. We need to walk in their shoes; and adapt when they expect us to.

We also need to remember that this is something we do extremely well.

Take, for example, the role we've played in the retirement space. As you all know, the traditional pension plan is losing ground, particularly in the private sector, and the 401(k) plan has emerged as the primary retirement savings vehicle for millions of Americans. That has brought great benefits — in ownership and portability — to workers, but it has also placed more responsibility for investment decisions on those individuals, who are not professional investors.

It is the asset management industry, working with employers, that has stepped in and filled that critical gap. As the 401(k) has evolved, we continue to deliver solutions that are helping many people reach retirement financially secure. And it's working. According to ICI, for example, investors put more than \$53 billion into target date funds in 2013.

Demand for packaged-solution products is one important way clients are changing. In back-to-back panels tomorrow morning — led by Ed Bernard from T. Rowe Price, and by John Casey from Casey Quirk & Associates — we'll hear about other changes too, such as how clients want — and expect — to interface with us in different ways: via mobile devices, chat, web, and phone.

We'll also hear about how the face of the client is changing. With wealth growing faster outside the United States than domestically, the asset management industry has globalized. With this trend comes the challenges of dealing with cultural differences, providing localized product options, and understanding and responding to the specific needs of clients in multiple countries. Tomorrow afternoon, George Gatch from JP Morgan will lead a panel on this very topic.

These are exciting and challenging times. As I said earlier, where there is change there is almost always opportunity. Clients are asking us — loud and clear — for help. It's now up to us to respond — just as we have always done, and will always do.

Now let me turn my attention quickly to the other big shift we're facing — changes to the ecosystem within which we operate.

On Thursday morning, we'll hear from SEC Chair Mary Jo White, who will provide us with a regulatory update. Imagine having her job during this period of hyper-change.

What's clear is that the regulatory bar on our industry is moving. In a few minutes, we'll hear from ICI President and CEO Paul Schott Stevens, who will talk to us about how we as an industry should inform public policy about asset management and defend the crucial role of capital markets in global finance. Later he'll invite one of the visionary leaders in asset management — Laurence Fink,

Chairman and CEO of BlackRock — to the stage to continue the discussion.

Of course, the markets in which we operate are a key part of our ecosystem. Michael Lewis' new book *Flash Boys* has brought a huge amount of attention to the impact that high-frequency trading is having on equity markets. But it's not just the equity markets that have changed. Bond market structure also has changed, as regulation has forced banks to be more conservative with their capital. Bond desks are holding smaller inventories, which is affecting the broader market and how we manage portfolios. And as investors, we must react to the changes in market structure taking shape both in equities and bonds.

I've touched on so many examples of change. There's another type too — the things you don't see coming. Who ever heard of Heartbleed before April 7th? Cybersecurity is a great recent example of how there are always new factors affecting our environment that press the need for change. In fact, the ICI Operations and Technology Conference, and the Compliance Conference — which are two of three other conferences running concurrently with GMM — will feature sessions examining the evolving cybersecurity landscape.

Does all this change make you nervous?

It shouldn't.

The mutual fund industry has a long history of responding to our ever-changing ecosystem, and effectively meeting our clients' needs.

Change forces us to innovate; to develop new and dynamic solutions.

But it also requires action. So, while you're here, push yourself to ask the big questions; address the toughest challenges. This is our opportunity to take a step forward together, and to make progress as an industry.

We should also remind ourselves who we're working for. That's the one thing that never changes. In the midst of all of the changes swirling around us in the fund industry, we must never forget — or be complacent about — the fiduciary obligation that we owe to our millions of shareholders.

We've got a wide range of choices for you over the next three days. Once again this year, we've combined the General Membership Meeting program with three other conferences — the Operations and Technology and Compliance conferences that I previously mentioned, and the Directors Workshop. So take a look at the full agenda, and tailor a program that is right for you.

With that, it is now my great pleasure to introduce Paul Schott Stevens, who next month will celebrate his 10-year anniversary as ICI president and CEO.

Ladies and gentlemen, please welcome Paul Stevens.