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2019 Annual Report to Members: A Letter to ICI's Membership

BY GEORGE C. W. GATCH AND PAUL SCHOTT STEVENS

Below is an abridged version of a letter by ICI Chairman George C. W. Gatch and ICI President and CEO Paul Schott Stevens that was released in ICI's 2019 annual report. To read their full letter, please see ICI's 2019 Annual Report to Members.



ICI Chairman George C. W. Gatch and ICI President and CEO Paul Schott Stevens

Anniversaries matter. Whether it has been 75 years since D-Day, 50 years since Woodstock, or 30 years since the fall of the Berlin Wall, an anniversary triggers a human urge to look back and assess crucial events. We want to see how those events shaped their own time, and how they echo in ours.

In 2020, we will mark the 80th anniversary of the modern fund industry—dating to the passage of the Investment Company and Investment Advisers Acts of 1940—and the 80th anniversary of the Investment Company Institute. It will provide an occasion to reflect on what our remarkable industry has accomplished—and what the future still has in store.

But as much as our industry has changed and grown, many things have remained constant—as our Annual Report to Members for 2019 makes clear. Throughout this year's report, you will find reminders of themes that echo throughout ICI's and the fund industry's history.

We Favor Sound, Effective Regulation

Sound, effective regulation has been crucial to the success of funds. ICI advocates consistently for a strong framework of regulation that serves the needs of investors and supports the indispensable role that funds play in our capital markets. With members on six continents, we pursue constructive regulation in jurisdictions around the globe.

We Support Disclosure and Access to Advice for Investors

Continual improvements in disclosure, investors' access to financial advice, and investor education have helped to fuel our industry's remarkable growth over the decades. The SEC resolved a long-running debate this year with the enactment of Regulation Best Interest and related rules. We supported the Commission's efforts and are pleased that the SEC has ensured that investors can continue to access financial advice in the form they prefer and at the price that best fits their needs.

ICI has long favored reforms to deliver disclosure to investors in the form they want and can best use. In 2018, the SEC took a historic step, enacting Rule 30e-3 to authorize US-registered funds to deliver shareholder reports online as the default option. But the paper industry—having lost at the Commission and in Congress—turned to the courts. As amicus curiae, ICI stepped forward to help defend the SEC's achievement. In August, the Court of Appeals for the DC Circuit dismissed the paper industry's lawsuit, clearing the way for a better disclosure regime and millions of dollars in savings for shareholders.

We Work to Enhance Retirement Security

In jurisdictions around the world, aging populations are putting more pressure on pay-as-you-go pension systems and fueling interest in funded, investment-oriented defined contribution (DC) plans. Professionally managed, transparent, and cost-effective funds are the natural vehicle for these new systems. ICI is applying its vast research experience with DC plan design to promote reforms in Europe, Japan, China, and other major markets, showcasing the powerful role that funds can play in helping savers build retirement resources.

The United States stands on the verge of enacting the largest private-sector retirement reforms since passage of the 2006 Pension Protection Act. The SECURE Act—"Setting Every Community Up for Retirement Enhancement"—embodies policies that ICI has long supported to help smaller businesses offer their employees retirement plans and to adjust to increasing longevity.

We Pursue Advocacy Grounded in Accurate Data and Sound Analysis

For most of its eight decades, the Institute has gathered data to improve both public understanding and the quality of policymaking around funds and their investors. Today that mission continues and takes us into new and more challenging areas. In 2019, for example, ICI updated its comprehensive analysis of how US funds vote their proxies at annual meetings of portfolio companies. The data demonstrate that funds cast their votes as conscientious fiduciaries should—in the interests of fund shareholders, taking into account a wide range of factors.

We Stay Abreast of Emerging Issues for a Diverse Membership

Accurate data and sound analysis also come to bear in dealing with new policy challenges, such as the “common ownership” hypothesis. Relying on our industry expertise, ICI has demonstrated to policymakers that this hypothesis rests on misunderstandings and incorrect assumptions about asset management. Through our research and communications programs, we have shared academic and industry research rebutting the claims of anticompetitive effects.

Another emerging issue is ESG or “sustainable” investing—products that satisfy particular preferences around environmental, social, or governance issues. Some investors want funds that meet these preferences, and fund sponsors have responded with a range of offerings. The Institute has worked, however, to ensure that policymakers do not create rules that impose a one-size ESG prescription on all funds and investors.

We Focus Intently on Member Service

While our fundamental commitments remain the same, the environment in which our funds operate is constantly changing. Through all of our activities—including our conferences and committee structures, as well as our advocacy—ICI works to represent and to engage a diverse membership.

We Work to Foster a Fiduciary Culture

From its founding in 1940, ICI has thrived thanks to the active support of its members. Our leadership and committee structures engage nearly 6,000 men and women—executives of fund sponsors, fund directors, and professionals of many kinds. Working with our dedicated staff in Washington, London, and Hong Kong, these member representatives devote their time and talents to addressing diverse issues, both large and small.

What is the sum effect of all that effort? It is just this: meeting the needs of investors. Investors must always come first, because our funds are fiduciaries dedicated to investors’ interests.

George C. W. Gatch is chairman of the Investment Company Institute and CEO of J.P. Morgan Asset Management; Paul Schott Stevens is president and CEO of the Investment Company Institute.