

ICI VIEWPOINTS

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Navigating a Changed—and Global—Industry

By Jeanne Arnold

Navigating the ever-changing landscape and increasingly global nature of the fund industry took center stage during several panels at ICI's 55th General Member Meeting (GMM).

The GMM Leadership Panel, titled "Fund Leadership in a Changed World," featured CEOs discussing the difficulties they face finding returns in today's economic environment without incurring undue risk. "Once upon a time, 5 percent was easy to come by, but in this environment it's challenging" said Alan Reid, president and CEO of Forward. He also discussed a common dilemma he faces, given expectations that interest rates will soon rise, driving down bond prices. "People say, 'We're risk-averse.' Well then, why does one buy bonds at this point in interest rates? That is the challenge: How does one find income without incurring too much risk?"

Clients "are looking more and more to asset managers to find solutions," said Elizabeth Corley, Global CEO of Allianz Global Investors, "which means we have to look everywhere for where you can get that yield...You can't just go for the pure return; you have to go find out how that fits into risk appetite for clients."

During the session, panelists also discussed their views on active and passive management, the challenge of reaching and educating investors in the digital age, and regulation's effect on their business.

"The regulators' zeal for minimizing risk is an interesting one," stated Scott Powers, president and CEO of State Street Global Advisors. "We have an industry that is built on risk-taking. Most of our clients...need to take risk to get a 7.5 percent return. And we can't allow ourselves to think we can regulate away or manage the appetite to take risk in the marketplace." Panelists expressed concern that regulators are focusing too much on yesterday's problems, and not enough on tomorrow's.

"We know the next [interruption] in the market is not going to be driven by the same factors that happened last time," said Marie Chandoha, president and CEO of Charles Schwab Investment Management Inc., who moderated the panel. For example, she argued, cybersecurity currently is "probably more of a significant issue than, say, money market funds."

The ways in which investment companies are adapting to the increasingly global nature of the fund industry is another theme that came up in other panels. In a session titled "Navigating a Changing World," Ian Bremmer, founder and president of Eurasia Group, first talked about how global politics are affecting businesses worldwide and then answered a series of questions from ICI Vice Chairman Edward C. Bernard, Vice Chairman of T.Rowe Price.

Bremmer warned that "we are entering into a period where politics is truly going to affect the marketplace." Over the next decade, he said, we will see shifts in geopolitics and "a market environment that we haven't seen in generations." It will be "more volatile, more uncomfortable, [and] much more uncertain."

Bremmer also stressed that "the United States is not going to be the world's largest economy for much longer, and the majority of the world's growth will come from emerging markets." This will change the way U.S. companies invest in or expand into those markets, he said, using China as an example: "China is going to be the world's largest economy soon," he explained. "Investing in China when it's the largest economy [will be] different from when they needed our money."

China's role in the world and the fund industry was also a topic of discussion in "China's Impact on the World Economy," a session moderated by GMM Chairman William F. "Ted" Truscott, CEO of Global Asset Management for Columbia Management and

Threadneedle Investments. The panel featured Carl E. Walter, former CEO and COO of J.P. Morgan's banking subsidiary in China; Peter Alexander, Principal at Z-Ben Advisors in Shanghai; and ICI Global Steering Committee member George Ding, CEO of HuaAn Funds.

Walter kicked off the session with a presentation about China's financial system and why reforming that system could mean dismantling everything that keeps the government in power financially. After the Asian financial crisis of 1998, he explained, China began to restructure its banks and decided that America's system of capital markets and big banks was a good system to emulate.

Yet the banks in China are really "policy banks," he explained. "They make policy loans depending on what the [Communist] party wants." This sometimes means that the government funds bad investments, said Walter, because "it's not the party's job to determine whether the investment is good or not...The party's job is to create jobs."

This relationship means that "the banks are too big to fail," said Walter. If a bank collapsed in China and the government allowed it to go bankrupt—as the United States did with Lehman Brothers in 2008—the Chinese government would go bankrupt as well, argued Walter, creating "the biggest challenge the party has had to face."

After Walter's presentation, panelists discussed several other topics, including the role of asset managers in China and advice for those looking to make money there.

"People are so focused on the inherent risks that exist in China," said Alexander. "But what I find funny is that there isn't as much time spent trying to determine what the expected rewards or returns are for investing in the market...I think you can make money [there] across numerous industries."

Alexander also advised audience members "to assess whether China makes sense for their long-term goals and to get in...Don't try to time the market in China; it's never going to be clear and obvious when you should get in."

To watch this entire session on video, as well as other sessions from ICI's 55th General Membership Meeting, [visit the 2013 GMM Videos page](#).

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