

## Welcoming Remarks, 2017 General Membership Meeting

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### 59th Annual General Membership Meeting

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*As prepared for delivery.*

Thank you everyone, and welcome to the 2017 ICI General Membership meeting. A lot has happened since we last met in May.

Exits have been announced—as the British and Europeans know. Curses have been broken—as Chicago Cubs fans know. Elections have been won and lost. And even in this era of modern medicine, we've seen epidemics on the rise.

Add all of these events together, and you would think our world was in crisis.

Yet, through it all, the markets told us something different. The S&P has rallied, the NASDAQ just broke through 6,000, and the Dow is hovering at record levels.

The Chinese word for crisis, *weiji*, may help explain this market behavior. *WEI* comes from the word danger, but the second character, *JI*, comes from the word opportunity. This little bit of insight is easy to forget in the heat of the moment—and there has been plenty of heat in our industry in the past year.

As a result, there are a lot of questions surrounding our industry today. My goal over the next 15 minutes is to present many of these questions—but not necessarily answers—for the purpose of framing the conference and prefacing many of the sessions.

And please do not expect any more Chinese wisdom. This is all I've got. My name is McNamara.

Let's start from the top. Looking at the macro environment, we see a number of turning points ahead that will affect our investors, our people, and our business.

### Globalism to Populism

The biggest transition in the current environment is a shift away from the dominant trend of globalism to support for parties with more populist messages. Two major examples of this shift include Britain's decision to leave the European Union and the election of Donald Trump.

In 2017, will this trend continue across Europe? Are the Dutch elections a sign of a reversal? Will Marine Le Pen bring a new wave of populism to France when the country goes to the polls this weekend—or not? And, will Angela Merkel be unseated in the German elections this September?

Importantly, will it be more difficult or possibly easier to run a global business in this environment?

## Monetary to Fiscal Policy

In addition, monetary policy is diverging across the globe.

The consensus view is that the Federal Reserve is likely to continue to hike interest rates over the next two years, while the European Central Bank and Bank of Japan will look to continue quantitative easing programs.

With growth still struggling globally, the focus is shifting away from monetary policy and toward fiscal spending. This transition is going to be important to watch.

Will it support growth and corporate earnings? Or will it drive debt and inflation sharply higher and spark more volatility? Will it drive demand for infrastructure products? Will it affect asset managers' ability to perform?

After years of low inflation or stagnation, we're beginning to see signs of inflation. But how much is enough? How much is too much? How will this affect retirement portfolios?

Millennials are just beginning to save for retirement, while Baby Boomers are in their draw-down years.

## Regulation to Deregulation

Another area that is diverging is global regulation.

Since the financial crisis, we have seen an uptick in regulation around the globe. Regulation surrounding the duties of intermediaries to their clients has grown in Australia, Canada, Europe, and Japan. In the United States, we believe it peaked in 2016 with the adoption of the Department of Labor's fiduciary rule.

Now we may be facing a new approach to regulation here at home—as President Trump puts it, regulation that is “efficient, effective, and appropriately tailored.” In fact, we may see regulations rescinded or revised as the focus shifts to facilitating more-efficient raising of capital. This approach may well have a big impact on growth and markets in 2017 and beyond.

This leads to a question: Will the rest of the world follow the policy shift we see in US regulation, or will regulation diverge globally? Let's look at the global context.

In the United States, President Trump is focusing on improving access to capital and reducing barriers to business formation, while European financial institutions have begun to push back against the wave of postcrisis regulation. In addition, the EU's Capital Markets Union initiative is aiming to deepen and strengthen the region's capital markets while decreasing dependence on bank financing—though its future may be in doubt, given the complexities of the United Kingdom's impending departure. Meanwhile, China is seeking the right mix of regulation and stimulus to drive structural reform while maintaining economic growth.

This leads to a number of questions. Do these differing policy perspectives and pressures enhance or decrease our overall performance for fund shareholders? Do they result in greater liquidity and access to information? How do they affect the role that fiduciaries play? And how will they affect asset managers' infrastructure, compliance functions, and operations?

Taking all these macro factors into consideration, what will investors do?

## Active and Passive

A common conversation in our industry involves a debate about which approach to investing is more effective: active or passive.

Clearly, over the current cycle, products offering just beta have done well. To be balanced, though, we have to examine the current cycle and the environment for active managers. Since the bottom in 2009, growth in the United States has been slow, interest rates have been extremely low, correlation among stocks has been high, and dispersion of returns has been low—not the best environment for a business model based on fundamental security selection.

Now, over the past several months, the market dynamics have been different. Are they sustainable? Are investors looking for passive market exposure coupled with lower fees, or for the potential of outperformance relative to the market net of fees?

The truth is—there are cases for passive, there are cases for active, and there are cases for both. We have entered an era where passive and active can play clearly defined roles in an investor's portfolio. It's our job to help investors understand these roles.

## US Money Market Funds

On the cash front, we saw money market reform change the landscape in 2016. One trillion dollars flowed out of prime funds and into government funds.

The questions here are: Are investors looking for more yield and are they ready to move? Will the pendulum swing back to prime, or will the spectrum for cash investments widen? It will be interesting to watch this evolve.

## Robo-Advisers

Let's discuss the impact of technology on distribution.

As Millennial behavior continues to push boundaries, their dependence on technology is a major disruptor in our industry. Let's take a look at traditional adviser and investor interactions:

Step A: A client speaks with an adviser and provides relevant information.

Step B: The adviser makes investment recommendations based on discovery.

Step C: The adviser creates a portfolio with the objective of meeting the investor's investment goals.

Now, in "robo land":

Step 1: The client researches investing options online and provides profile information.

Step 2: The robo-adviser's system determines an asset allocation by running algorithms it sees as appropriate for the profile.

Step 3: The algorithm selects investment options or provides a menu of options for the client to meet their goals.

The question is, does it have to be ABC or 123? If working with a human is too manual to be sustainable, and interfacing with a computer is efficient but only appeals to a certain type of investor, then maybe a way to go about this is to offer combinations like  $A+2+3$  or perhaps  $A+2+C$ .

This all begs the question: What role will financial advisers play in the future? Will humans be relegated to a niche function while the field becomes dominated by robo-advisers? Or will humans hold their own and provide value that robos cannot, while leveraging technology to provide a better client experience?

For many of us, an asset manager distributes products in the following fashion. Home office professionals work to garner shelf space or model placement. Wholesalers are trained and deployed to sell products to financial advisers and platforms that in turn sell products to investors. Asset manager to wholesaler to adviser to investor—is this value chain sustainable?

Will technology shrink the asset manager sales force? Or will technology increase the productivity of current salespeople and improve the experience for end investors while reducing cost? Don't miss the Friday morning panel on the future of investment advice, which will examine these questions.

## Industry Consolidation

Next, let's take a look at the concentration of assets and flows in the US mutual fund industry.

Today the majority of the net new flows—and, thus, assets—go to and reside with a small number of the largest asset managers that offer a broad selection of investment products. In 2007, 78 percent of long-term mutual fund new net flows went to the top 10 asset managers. So far this year, 93 percent of such flows went to the top 10 managers.

Then are number of niche players. Highly specialized and successful, will they stay independent?

In the middle we have managers with strong capabilities. Will they merge? Will they focus on being niche players? How will they define themselves?

Regulatory and distribution models continue to challenge margins. How will small and mid-sized companies compete in this environment?

Asset managers in aggregate have seen limited consolidation relative to other sectors of financial service. Is this the environment for greater consolidation—or not?

## Retirement

And finally, let's briefly examine shifting demographics and the impact to retirement.

Baby Boomers are starting to move out of the workforce and into retirement. Generation Xers are still in the middle of their careers.

Millennials are just getting started—yet already are influencing the rapid adoption of financial technology solutions.

How will we save for retirement? Will tax reform affect the tax treatment of retirement savings?

Will this affect rollovers, individual retirement accounts (IRAs), and 401(k) benefits? Will Millennials look for more help and advice? If so, where?

## **GMM Provides Answers**

We designed the program for this year's General Membership Meeting with all these questions and more in mind. Over the next two or so days, you'll benefit from a variety of fast-paced GMM sessions, as well as sessions from our three other concurrent conferences: the Operations and Technology Conference, the Mutual Fund Compliance Programs Conference, and the Fund Directors Workshop.

In total, this year's program will feature 38 sessions, with 80 speakers scheduled to speak for more than 1,000 minutes to 1,300 attendees from around the world—23 countries, to be precise.

In these turbulent times, it's especially valuable to learn from proven leaders. That's why I'm excited that this afternoon will feature a discussion between ICI President and CEO Paul Schott Stevens and retired General Stanley McChrystal, described by former Defense secretary Robert Gates as "perhaps the finest warrior and leader of men in combat I ever met." Among other things, General McChrystal—whom I admire greatly—will discuss how to build stronger organizations by breaking down barriers and creating a "team of teams."

Speaking of transformative leaders, tomorrow we'll be joined by GE Chairman and CEO Jeff Immelt, who will talk to Paul about how he has sharpened GE's focus on its core businesses, and how the company's innovation and expansion in software development has led some to refer to it as "the 125-year-old start-up."

In other sessions, we'll get fresh perspectives from up-and-coming fund industry leaders, gain market insights from chief investment strategists, and learn how diversity can help companies become stronger and more competitive. We'll learn about how geopolitical events could affect markets, how technology could transform our world, and even get into the nitty-gritty of how to comply with existing and pending regulations while maintaining our unwavering commitment to our shareholders.

All of this—the great program, plus the excellent food, outstanding entertainment, and ample opportunity to network with peers—it all comes to us thanks to the hard work of the talented volunteers and staff of the GMM Planning Committee. Please join me now in briefly acknowledging the fantastic job they have done in organizing the event. I'd also like to briefly thank the sponsors that made this all possible through their generous support.

Now, it's my pleasure to introduce Ted Truscott, CEO of Columbia Threadneedle Investments, and chair of ICI's Board of Governors.

Ted previously served as CIO of Zurich Scudder Investments, Americas, and managing director of Zurich Scudder Investments. He also worked as a portfolio manager and equity research analyst at Scudder, Stevens & Clark, focusing on Latin American countries and securities, and as a credit analyst and banking officer at Chemical Bank covering Asian banks and corporations. In other words, he's uniquely qualified to help lead a global organization like ICI. I also appreciate the fact that he understands the position I'm in, having chaired the GMM planning committee in 2013!

Ted earned his bachelor's degree in East Asian studies from Middlebury College—where he serves on the Board of Trustees—and his MBA in finance from the New York University Stern School of Business. Please join me in welcoming Ted Truscott.