

## Building a Fiduciary Culture in the Fund Industry, China's Fund Industry 20th Anniversary International Forum

### Building a Fiduciary Culture in the Fund Industry China's Fund Industry 20th Anniversary International Forum

**Paul Schott Stevens**  
**President and CEO**  
**Investment Company Institute**

**22 October 2018**  
**Beijing, China**

*As prepared for delivery.*

Thank you, Chairman Hong [Hong Lei, Chairman, Asset Management Association of China]. I am truly honoured to be here with so many colleagues and distinguished speakers, including Chairman Liu [Liu Shiyu] of the China Securities Regulatory Commission, Chairman [Leon] Campher from IIFA, and my long-time friend Peter de Proft, director general of EFAMA. This is truly a global gathering.

Let me join you all in offering congratulations to AMAC and China's regulated funds on this important anniversary. In human terms, the age of 20 marks the threshold of adult maturity—with the promise of a career, family, and a full life ahead.

With assets of 14 trillion renminbi, or 2 trillion US dollars, and serving many millions of investors, China's fund industry is certainly maturing—but with enormous promise for future development.

ICI stands ready, both as your peer association and as a participant in your market through our shared members, to foster and support that development in any way that we can.

Chairman Hong has tasked me to discuss the development of a fiduciary culture in the Chinese fund industry. I could not imagine an assignment that could matter more or be more important to me than this.

The mission of our industry is simple: we help ordinary workers and investors realise their most important financial goals, by harnessing the power of the capital markets in the service of savers.

These savers entrust us with more than their money—they trust us with their dreams. Their dreams of buying a house, amassing the capital to start a business, educating their children, or achieving security for their old age. They hope that our funds can help them realise these vital goals.

Why do they come to regulated funds? For many reasons—starting with professional management and diversification.

Compared to most other financial products, our funds are highly transparent. The comprehensive regulation of funds builds confidence.

But there is one factor that overrides them all—one factor that is absolutely essential. That factor is trust.

I know that in America, only a tiny percentage of our 100 million mutual fund investors have ever met someone who works for their fund. Most investors know about their funds principally by reputation and results. In most cases, there is no fund branch on the corner where you can take your money. Instead, investors in Maine send money to funds managed in California, and Alaskans buy

funds based in Georgia.

They do this because they trust regulated funds to safeguard their money, to treat them fairly, to follow the rules. Based on that trust, they have faith that funds can help deliver on their dreams.

A popular quotation in America states that “trust takes years to build, seconds to break, and forever to repair.” In the American fund industry, we have spent many decades building trust—and we work constantly to maintain it.

The key to maintaining investors’ trust is our fiduciary culture.

The word “fiduciary” is tossed around a great deal in financial services. The question is debated endlessly: “Who is a fiduciary?”

Well, make no mistake about it—those of us in the US fund industry are fiduciaries—whether as advisers to a fund or directors on a fund board. We are proud of that fact. We claim the title as an honour.

What does it mean to be a fiduciary?

In the West, we trace the concept to the customs and beliefs of the ancient Romans. The pagan goddess Fides was the personification of good faith. Her symbol was the outstretched and open hand, given as in solemn agreement.

“Fiducia”—a term in Roman law meaning confidence, trust, reliance, assurance—is closely related to the Latin noun “fides,” signifying belief or faith.

It’s also related to the adjective “fidelis,” meaning a person or institution that can be trusted, who is true, steadfast, and faithful. In America, we all know the motto of the US Marine Corps: “Semper Fidelis”—always faithful.

Essentially, a fiduciary is one who takes it upon himself to act for or advise another, thus inviting the other’s confidence and trust. Under our law, the distinguishing obligation of a fiduciary is the duty of loyalty.

Fulfilling such a duty is no small matter—especially in an enterprise as large and important as regulated funds.

Yet fiduciary duty is not solely a Western concept—of course not. Cultures with roots in Confucian teaching are very familiar with the goal of pursuing a harmonious “fiduciary community”—a place where each person bears duties of loyalty and benevolent care to elders, juniors, spouses, or friends.

Confucius called on each of us to ask ourselves: when we act on behalf of others, are we loyal to their best interests? Indeed, some scholars argue that Confucian loyalty is a stronger bond than the Western notion of fiduciary duty—because loyalty comes from within.

Despite these deep roots, fiduciary culture does not come naturally. The history of US fund industry demonstrates this.

The first investment companies in America were not known for their concern for investors. In the runaway bull market of the 1920s, investment trusts were virtually unregulated, and their managers exploited this freedom.

Economist John Kenneth Galbraith said that investment trusts were “the most notable piece of speculative architecture of the late twenties.”

But the most damning assessment came from one of our own—an investment company manager named Paul Cabot, who warned early in 1929 about “dishonesty, inattention and inability, and greed.”

He predicted that investment companies were headed for a time of “disaster and disgrace” that was “inevitable.”

That disaster did arrive, with the Great Crash of 1929—and with it came disgrace and loss of trust.

But after that calamity, the most farsighted members of our industry created a new culture for funds. They worked with Congress and the new Securities and Exchange Commission to help shape the Investment Company and Investment Advisers acts of 1940—the cornerstones of our modern regulatory system.

And the industry formed the National Association of Investment Companies, with a mission to work with regulators to ensure that funds and their advisers would pursue a fiduciary role—a role that puts investors first.

That association became the Investment Company Institute. For the past 78 years, we have worked to build and maintain that fiduciary culture. Throughout our history, there have been lapses—but each time, we have returned to that core principle, to putting

investors first.

In turn, our industry has been rewarded with growth—to more than 22 trillion US dollars in assets—and with the loyalty of investors. Fund shareholders overwhelmingly describe themselves as long-term investors—and they back that with their behavior, riding out market cycles and sticking with their goals through downturns.

How does an industry instill a fiduciary culture—a loyalty to the best interests of its clients that is not imposed by law, but that comes from within?

It starts, as it must, with sound regulation—and with a commitment to the spirit, as well as the letter, of the rules. Funds will go beyond the narrow requirements of the rules to demonstrate their loyalty to shareholders.

It builds with the collective action of associations—like ICI, like AMAC. Through our policy work, through our educational programs, we work to make the duties of loyalty and care foremost in our members' minds as they approach every issue. We educate fund directors to apply fiduciary principles as they oversee fund operations and performance on behalf of the shareholders they serve.

We remember that the trust of investors relies on the actions of all in our industry. Scandalous behavior by one fund can—and does—risk the reputation of all funds. We must promote the fiduciary culture in every adviser, every board.

And above all, we always ask Confucius's question: in our actions on behalf of shareholders, have we always been loyal to their interests? As one of ICI's greatest former chairmen, Paul Haaga, put it, on the day when funds fail to put shareholders' interests first, "funds won't be the investment of choice—and we won't deserve to be."

As the Chinese fund industry celebrates its 20th anniversary, it is earning the trust and confidence of millions.

As it stands on the threshold of maturity and development, it can help millions more of your citizens realise their deepest hopes and dreams.

And as it nurtures a deep and abiding fiduciary culture, it can build on the loyalty it shows to investors to reach greater and greater successes.

Once again, on behalf of the Investment Company Institute's global membership, I offer our most heartfelt congratulations on this happy occasion.