

**OPENING STATEMENT OF
RANKING DEMOCRATIC MEMBER PAUL E. KANJORSKI
SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE,
AND GOVERNMENT SPONSORED ENTERPRISES
HEARING ON MUTUAL FUND INDUSTRY PRACTICES AND
THEIR EFFECT ON INDIVIDUAL INVESTORS
WEDNESDAY, MARCH 12, 2003**

Mr. Chairman, thank you for the opportunity to offer my initial thoughts about mutual funds before we hear from our witnesses. I want each of them and you to know that I approach today's hearing and future discussions on mutual fund issues with an open mind.

As we begin our examination of mutual funds in the 108th Congress, I feel it is important to review some basic facts about this dynamic industry. According to the Securities and Exchange Commission, at the end of fiscal 2002, mutual funds managed \$6.1 trillion in investments, significantly more than the \$3.7 trillion deposited at commercial banks. Additionally, the SEC calculated that 93 million investors living in 54 million households owned mutual funds.

The mutual fund industry has also evolved dramatically in the last several decades. The number of mutual funds has grown from 564 in 1980 to nearly 8,300 today. In addition, assets in mutual fund portfolios totaled just \$56 billion in 1978. By 1990, this figure increased to \$1.1 trillion, and by the turn of the century mutual fund assets had expanded another sixfold. Today, mutual funds also represent about 20 percent of our nation's equities market. Without question, we can therefore conclude that mutual funds constitute a major sector of our nation's economy.

As the mutual fund industry has grown, it has worked to bring the benefits of securities ownership to millions of hardworking Americans. Many securities experts have noted that the typical investor would find it expensive and difficult to construct a portfolio as diversified as that of a mutual fund. I wholeheartedly agree. Mutual funds have clearly provided an economical way for middle-class Americans to obtain the same kind of professional management and investment diversification that was previously available only to large-scale institutions and wealthy investors. In short, mutual funds have worked to democratize investing.

Despite this tremendous success, securities experts continue to examine how we can improve the performance of the mutual fund industry and advance the interests of U.S. investors. Some recent public policy debates in this area have focused on disclosing proxy votes to mutual fund shareholders, modifying industry oversight through the creation of a self-regulatory organization, and increasing the frequency of mutual fund holdings disclosures. Although each of these issues is important, today we will generally focus our examinations on the cost of mutual fund ownership, an issue that many consider as the most consequential.

As you know, Mr. Chairman, I have made investor protection one of my top priorities for my work on this committee. Understanding the costs of operating a mutual fund and learning how such expenditures affect investing is, in my view, therefore very important. These fees and loads will, after all,

have a significant effect on investor returns. A recent story in *USA Today*, for example, determined that for government securities mutual funds, the group with the lowest expense ratios averaged a 41 percent gain over five years while those with the highest expense ratios grew by 34 percent during the same time frame. Small differences in annual fees will ultimately result in major differences in long-term returns.

During our deliberations today, I expect that we will hear many conflicting views on the issue of mutual fund fees. Some of our witnesses will cite studies showing that these expenses have increased in recent years, while other panelists will refer to analyses demonstrating a gradual decrease in such fees. Although each side in this debate will seek to use statistics to its advantage, our job should be to learn more about the industry today so that we can work to improve public policy in the future.

For my part, I hope that these experts will answer a number of questions that I have about mutual fund fees. I would like to determine whether investors have obtained the benefits of economies of scale as the size and scope of the mutual fund industry has grown. I also want to learn more about the calculation of 12b-1 fees, the use soft dollar arrangements, and the effects of portfolio transaction expenses.

In closing, Mr. Chairman, I look forward to hearing from our expert witnesses on these important issues. Mutual funds have successfully worked to help middle-income American families to save for an early retirement, higher education, and a new home. We need to ensure that this success continues. I therefore look forward to working with you to examine these other matters related to the mutual fund industry in the weeks and months ahead.
