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Playing a Bigger Game: Why ICI Is Moving Into Private Markets

Eric J. Pan
President and CEO
Investment Company Institute

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Thank you, Carol, for your remarks, and thank you for chairing this summit. But most of all, thank you for your decades of principled leadership at MFS. You are a champion of retail investors and a credit to the entire industry. We're sad to see you retire next year, but rest assured, your impact will be felt for decades to come. Thank you for leaving such a remarkable legacy!

I'd like to build off Carol's remarks. She said we need to "play a bigger game," and at ICI, we couldn't agree more. Investors are looking to *us* (the members of ICI) to deliver for *them*, especially in this time of market uncertainty. They need us to collaborate, to create new products that meet their needs, and to reform policies that stand in the way of achieving their goals. Ultimately, investors need us to further deepen our long-running efforts to democratize finance. That, more than anything, is what it means to play a bigger game. It's about enabling even more Americans to play—and *win*—the game of long-term investing.

To that end, I'm going to focus today on one of ICI's strategic priorities: giving retail investors *real* access to private markets.

This initiative reflects a convergence of events. In the past few years, many ICI member firms have started to develop retail-focused products that tap into private markets. You're working hard to give investors more options in private credit and private equity, as well as real estate and infrastructure. At the same time, private markets themselves are looking to welcome retail investors, who've long been on the outside looking in. Given the merging of interests, there's an easy and obvious opportunity for collaboration given ICI's mission to represent the asset management industry that serves individual investors.

This initiative is a natural outgrowth of ICI's mission and our industry's purpose. We have always been at the forefront of democratizing finance for retail investors. Carol touched on how the success of our industry depends on innovation and boundary-pushing. Money market funds and ETFs are just a few of the innovations we've helped pioneer and made possible through policy advocacy. As we look to the future, we need to continue pushing the boundaries, and private markets may well be an important new opportunity for retail investors.

The rise of private markets cannot be ignored as a fringe part of the investment ecosystem. In 2013—just 12 short years ago—private markets had investments of $4 trillion. A decade later, that number had nearly quadrupled, to $15 trillion. By one measure, private markets have already hit the $25 trillion mark, which means their growth is accelerating even faster than expected.

Institutional investors, such as pension funds and insurance companies, have helped drive this growth. They recognize the potential upsides, and historically, they've allocated five times as much as retail investors to such alternative investments. This trend also reflects the fact that the number of publicly traded companies has been steadily declining. In 1996, there were more than 7,300 public companies in the United States. By 2024, that number had dropped to about 4,300. Institutional investors are looking for more opportunities, not fewer, and increasingly, they're finding them in the private markets.

All told, the number of private companies in the U.S. with more than 100 employees has grown by 46% in recent decades, in part because companies are staying private much longer. In 1980, companies that ultimately went public did so after six years, but now, that process takes an average of 14 years. As a result, more than 80% of global companies with more than $100 million in revenue are private today. And the number of IPOs in the last 25 years was 58% lower than it was between 1980 and 2000.

Given these trends, the institutional shift toward private markets is not surprising, and in today's world a total market portfolio must include private investments. In addition, investors expect to be compensated with higher returns for taking on more investment risk from holding private securities. No wonder institutional investors are piling into private markets.

But retail investors don't have the same access. They overwhelmingly rely on regulated funds for long-term investing, but federal policies severely limit how much those funds can invest in alternative asset classes, even when the funds don't have daily redeemability. As a result, individual investors are largely stuck with the declining number of publicly traded companies, unable to meaningfully participate in the dynamic rise of private markets. Put simply, a huge and growing amount of wealth-generating potential is out of retail investors' reach, concentrated in a dramatically smaller number of institutional hands.

This should change. If the democratization of finance means anything, it's that individual middle class investors deserve similar opportunities as wealthy or institutional investors. That's especially true amid the ongoing divergence between public and private markets.

In a way, retail investors are being punished for economic trends that are out of their control. In addition to the decline of publicly traded companies, the consolidation of banking has led to a 72% decline in commercial bank lending in the leveraged loan markets over the past 40 years. Non-bank lenders have rushed in to fill this gap with private credit, and they now provide 86% of the leveraged loan market. Private credit is now seen as an integral part of the spectrum of fixed income investments, which ranges from U.S.

Treasuries to corporate investment grade, to high-yield and emerging market bonds. There are ways for ordinary investors to access all these other fixed income asset classes through funds, so why shouldn't they be able to diversify their investment exposure and access private credit also?

Retail investors should be able to invest in the companies that would have gone public 25 years ago, but stay private today. They should be able to invest in the next generation of potentially transformative companies, because getting in earlier could lead to much bigger returns later. Ultimately, investors deserve the freedom to take whatever approach works best for them.

For all these reasons, ICI believes it is important to advocate for individual investor access to private markets. We are pushing to give retail investors greater access to everything those markets have to offer. And we're confident that we can do this in ways that both empower *and* protect investors.

Critics say that retail investors will be exposed to greater risk in private markets, and we agree that any such risks should be mitigated. The fact is that regulated funds already offer the best protection. They're governed by strict legal requirements, including robust oversight from an independent board, an adviser who is subject to a fiduciary duty, diversification requirements, limitations on leverage and transactions with affiliates, and shareholder disclosure requirements, among many other commonsense guardrails. By using regulated funds to invest in private markets, retail investors will get the best of both worlds—and the protections they deserve.

At a practical level, ICI is focused on four big areas of reform. We're seeking to expand access, expand flexibility, expand options, and expand availability on retirement platforms.

When it comes to the first goal—expanding access—we're urging the SEC to lift its 15% limit on alternative investments by retail-facing closed-end funds. This policy will allow fund providers to offer new products and tailor them to investors who want much more diversification and access to private markets. Institutional investors have long proven the benefits of this "fund-of funds" approach, and thanks to them, firefighters, police officers, and teachers are heavily invested in private markets while enjoying transparency and strong oversight.

For the SEC, expanding access isn't a heavy lift. The Commission has never issued a formal regulation, and the 15% limit on private funds is simply an informal position taken by the SEC staff. This fact alone shows that regulators never intended the limit to be permanent, and since markets have changed, the restrictions should change for the sake of investors. The sooner the better.

Our second goal is expanding flexibility, especially on the operational front. We called on the SEC to update the conditions for co-investment by regulated funds, including closed-end funds and business development companies, and we're glad to see that they heard us. In early April, the SEC sought comment on a new, principles-based framework for co-investment, and the official order was issued this week. This welcome relief will make it easier for funds designed for retail investors to access private markets opportunities. And we look forward to working with the SEC staff on additional steps to expand co-investment flexibility, including for open-end funds.

Our third goal is to expand options, especially through closed-end funds. These funds are generally the easiest way for investors to access private markets, but they're also easy targets for activist investors. We want the SEC to let closed-end funds protect retail investors, including by ending the annual meeting requirement that activist investors abuse for short-term gain. With commonsense protections, closed-end funds will enable far more retail investors to benefit from private markets over the long term.

That's also why we're urging Congress to pass the Increasing Investor Opportunities Act, which would close a loophole that activist investors take advantage of to harm closed-end funds. A federal law is obviously best, but failing that, a federal regulation would create a better system, too. On that note, we're looking forward to working with new SEC chairman, Paul Atkins. He has a solid track record of working collaboratively with the asset management industry to advance reforms. I'm confident we'll find many areas to partner in pursuit of further empowering investors.

As for our fourth and final goal, we're looking to expand the availability of private markets strategies on retirement platforms such as 401(k) plans. We're exploring ways to address the fiduciary liability concerns that in the past have inhibited plan sponsors from selecting target-date funds and other investment options that use private markets strategies. More than 156 million Americans have ERISA plans, so allowing target-date funds to add private funds as a component is a great way for them to diversify their portfolios. The first Trump administration began moving in this direction, and we're looking for ways to build on those initial steps.

The benefits for investors will be many. They'll have more options through greater diversification and the opportunity to benefit from greater investment returns through less liquid structures. And funds will benefit, too. They'll have more flexible and tailored capital needs, and the opportunity to provide their investors with a greater range of choices.

I'd also like to emphasize that our partnership can help improve private markets, too, especially when it comes to standardization. Given their rapid and ongoing growth, these markets are still searching for industry best practices, and ICI can help identify and implement them, much as we've done for regulated funds. Bottom line, we want to successfully extend private market product access to retail investors. We realize there are operational challenges at play, but ICI is working on solutions to these hurdles. Achieving this goal will require smart use of technology along with process reengineering to permit distribution at scale. Optimal success can only be achieved when industry participants agree to collaborate on these matters for the benefit of individual investors by elevating service, lowering operating costs, and seeking to scale operations to unlock private market product access to retail investors. ICI is prepared to take the lead in supporting the private market industry as it strives to extend product access to individual investors.

I know you can see how this initiative fully aligns with our long-standing mission to democratize finance. Three years ago, I announced that one of ICI's major goals is to modernize the '40 Act for the sake of retail investors, and expanding access to private markets is central to this vision. These markets are the next frontier, full of boundless opportunities for Americans who want to save for a home, their children's education, and their retirement. Our goal, and our *job*, is to help them seize those opportunities, so they can achieve their American Dream.

In the days ahead, we'll share more about this strategic priority, including how you can get involved. We also welcome your feedback, so please, reach out to ICI to share your thoughts. We're doing this to help your companies serve individual investors at an even higher level—to play a bigger game. As we move forward, your insights are essential to finding the best path forward.

That's what this is really about—finding the path that's best for asset managers to serve investors, and ultimately, the *many* paths that are best for *every* individual long-term investor. We have a chance to deliver another new era of access, affordability, and options for Americans. As we take the next step on this journey, I thank you for your support, your partnership, and your continued leadership on behalf of retail investors.

I hope you enjoy this year's Leadership Summit.

Now, please give a warm welcome to Gunjan Kedia, President and CEO of U.S. Bancorp, and Ryan Hicke, CEO of SEI.
