

NEWS RELEASE

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ICI President Issues Statement Concerning Mutual Fund Fees, January 2004

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Washington, DC, January 27, 2004 - Matthew P. Fink, president of the Investment Company Institute, said today that New York Attorney General Eliot Spitzer's assertion that mutual funds charge more for portfolio advisory fees than pension funds is "a misinterpretation of the data." Spitzer made the comment during a [hearing](#) of the Senate Governmental Affairs subcommittee on Financial Management. "Unfortunately Mr. Spitzer continues to base his conclusions on a grossly flawed methodology which has been [proven incorrect](#)," Fink said. "The study Mr. Spitzer continues to cite is simply wrong in its characterization of mutual fund management fees as compared to pension fund advisory fees."

Spitzer attempted to undermine a critique produced by the ICI of a 2001 law journal article by John Freeman and Stewart Brown. Freeman's and Brown's analysis purported to compare the costs of portfolio management services paid by pension plans with those of mutual funds. On the basis of their calculations, they argued that mutual funds pay considerably more for portfolio management than do pension plans. However, the ICI's study showed that Freeman's and Brown's analysis compared the "investment advisory fees" paid by pension plans for portfolio management with the "management fees" of mutual funds. The ICI's study showed that this is an "apples-to-oranges" comparison because the management fees of mutual funds cover more than just portfolio management. The management fees of mutual funds support the costs of fund executives, shareholder communications, fund pricing, fund accounting and bookkeeping, costs of building and office equipment, and compliance with state and federal laws and regulations. Thus, the analysis in the Freeman and Brown article, which Spitzer was referring to, says little about the relative costs that pension plans and mutual funds incur for portfolio management.

The ICI's study also provided an "apples-to-apples" comparison of the fees that pension plans and mutual portfolio management by examining the subadvisory fees of mutual funds. The ICI's study found that the portfolio management fees paid by pension plans were nearly identical with those paid by subadvised mutual funds, and the study thus concluded that there is no evidence that mutual fund investors overpay for investment advice. Fink noted "Mr. Spitzer tried to undermine the ICI's study by claiming that subadvisory fees are not representative of fees paid by all mutual funds for portfolio management." However, Fink added that "we think we made an apples-to-apples comparison, but whatever your

views on that, Freeman's and Brown's analysis is just plain wrong because they failed to realize that the management fees of mutual funds cover a whole range of business activities in addition to pure portfolio management."

"Unfortunately, Mr. Spitzer continues to rely on Freeman's and Brown's incorrect, flawed data. The fact is that there is little difference in fees for comparable services provided to pension funds and mutual funds, and had Freeman and Brown conducted such a study they would have reached the same conclusion," Fink said. "Like others who have relied on Freeman's and Brown's study, Mr. Spitzer seeks to re-justify its assumptions in light of new information, but incorrectly so. Mr. Spitzer's new assertions that 1) only 20 percent of mutual funds use sub-advisors makes for an insignificant comparison; 2) that the use of sub-advisory services by mutual funds is some hybrid transaction which is competitively bid as compared to in-house portfolio management; and 3) that mutual funds with sub-advisory contracts apply a premium of 20-30 basis points are wrong on all counts. In particular, mutual funds contract out to sub-advisors for their expertise, not on the basis of price. And, the 20 to 30 basis point alleged premium Mr. Spitzer alludes to represents the non-portfolio management cost of servicing and maintaining fund accounts which Freeman and Brown failed to account for in the first place."

Fink also noted that a representative from [Lipper](#) Inc, an independent mutual fund research company, who also testified today stated pension funds "do not necessarily pay more" for advisory services than mutual fund customers.