

NEWS RELEASE

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Average Expense Ratios for Equity, Hybrid, and Bond Mutual Funds Hit 20-Year Lows

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Washington, DC, March 16, 2016—Expense ratios for equity, hybrid, and bond mutual funds dropped in 2015 to the lowest level in at least 20 years, while money market fund expense ratios remained at their 2014 low, according to data released by the Investment Company Institute (ICI) today. A fund's expense ratio is the fund's total annual expenses expressed as a percentage of its net assets.

"Mutual fund expense ratios have been experiencing an overall decline for many years, driven by increased competition and growth in the fund industry," said Sean Collins, ICI's senior director of industry and financial analysis. "Expense ratios for both actively managed and index funds have seen substantial declines."

Expense Ratios Have Declined Substantially Since 1996 Basis points, 1996-2015

Note: Expense ratios are measured as asset-weighted averages. Data exclude mutual funds available as investment choices in variable annuities and mutual funds that invest primarily in other mutual funds.

Sources: Investment Company Institute and Lipper

Growing Popularity of Index Funds Contributes to Decline in Equity Fund Expense Ratios

Weighted by assets, average equity fund expense ratios fell 2 basis points to 68 basis points (0.68 percent of assets) in 2015. This follows a 4 basis point decline in 2014 and marks the sixth straight year in which equity fund expense ratios have fallen. An increase in the share of equity fund assets held in index funds contributed to the decline in equity fund expense ratios: actively managed equity fund assets fell by \$275 billion in 2015, while index equity fund assets rose by \$109 billion.

Share of Assets in Costly-to-Manage Categories of Bond Funds Declines

Bond fund expense ratios averaged 54 basis points in 2015. In 2015, bond fund expense ratios fell 3 basis points, in large measure reflecting a decline in the assets of high-yield bond funds, which tend to have higher-than-average expense ratios. Performance of high-yield bonds suffered in 2015, pushing down the value of funds' holdings and prompting investor redemptions.

Hybrid Mutual Fund Expense Ratios Fell Slightly in 2015

The average expense ratio of hybrid mutual funds, which invest in a mix of equities and bonds, fell 1 basis point to 77 basis points in 2015, a smaller decline than stock and bond funds experienced. Hybrid fund assets have increased substantially in recent years, with a portion of that growth occurring among "alternative strategy" funds, which now account for 8 percent of the assets of all hybrid funds. Alternative strategy funds offer fund investors diversification across a wider range of asset classes and lower correlation with the equity market, but such strategies can be more costly to manage. The average expense ratio for other types of hybrid funds fell 2 basis points in 2015.

Money Market Fund Expense Ratios Remained Stable in 2015

Money market fund expense ratios averaged 13 basis points in 2015, unchanged from 2014. The current low interest rate environment has limited the expense ratios of money market funds over the last few years, as these funds have waived portions of their fees to prevent their net yields falling below zero. In 2015, 98 percent of money market fund share classes waived at least some portion of their fees. Fund advisers and their distributors pay for these waivers, which totaled an estimated \$5.5 billion in 2015.

Actively Managed Equity and Bond Fund Expense Ratios Continued Steady Decline

The average expense ratios for actively managed equity and bond funds fell by 2 and 3 basis points, respectively, in 2015, though the expense ratios of index funds have leveled out in the past two years. The declining cost of actively managed funds was due in large part to competitive pressures and investor interest in lower-cost funds. For both actively managed and index funds, this demand for lower-cost funds is evidenced by the concentration of assets in the very lowest cost funds. In 2015, 57 percent of the assets of actively managed equity funds were held in the 10 percent of such funds with the lowest expense ratios. In 2015, 69 percent of index equity fund assets were held in the 10 percent of index equity funds with the lowest expense ratios.

Expense Ratios of Actively Managed and Index Funds Basis points, 1996-2015

Note: Expense ratios are measured as asset-weighted averages. Data exclude mutual funds

available as investment choices in variable annuities and mutual funds that invest primarily in other mutual funds.

Sources: Investment Company Institute and Lipper

ICI Methodology

ICI evaluates fee trends using asset-weighted averages to summarize the expenses that shareholders actually pay through mutual funds. To compute the average, ICI weights each fund's expense ratio by that fund's end-of-year assets. Simple averages (counting each fund's expense ratio equally) overstate the impact of the expenses of funds in which investors hold few dollars.

Expense Ratios Have Declined Substantially Since 1996 **Basis points, 1996-2015**

Year
Equity

Hybrid

Bond

Money market

1996

104

95

84

52

1997

99

92

82

51

1998

95

89

80

50

1999

98

90
78
50
2000
99
89
76
49
2001
99
89
75
46
2002
100
89
74
44
2003
100
90
75
42
2004
95
85
72
42
2005
91
81

69

42

2006

88

78

67

40

2007

86

77

64

38

2008

83

77

61

35

2009

87

84

64

33

2010

83

82

63

24

2011

79

80

62

21

2012
77

79

61

18

2013
74

80

61

17

2014
70

78

57

13

2015
68

77

54

13

Note: Expense ratios are measured as asset-weighted averages. Data exclude mutual funds available as investment choices in variable annuities and mutual funds that invest primarily in other mutual funds.

Sources: Investment Company Institute and Lipper

Expense Ratios of Actively Managed and Index Funds
Basis points, 1996-2015

Year Actively managed Index
Equity

Bond

Equity

Bond

1996

108

84

27

20

1997

104

83

27

21

1998

102

81

25

21

1999

105

80

25

21

2000

106

78

27

21

2001

108

77

25

21

2002

109

76

25

21

2003

110

77

25

21

2004

105

75

24

19

2005

101

71

21

18

2006

98

69

19

17

2007

95

67

17

16

2008

94

65

17

16

2009

99

67

17

16

2010

96

67

15

14

2011

92

66

14

13

2012

92

65

13

11

2013

89

65

12

10

2014

86

63

11

10

2015

84

60

11

10

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Sources: Investment Company Institute and Lipper

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