INVESTMENT COMPANY INSTITUTE

NEWS RELEASE

May 14, 2014

On Average, Investors Paid Lower Expense Ratios for Equity Funds in 2013, Continuing a Downward Trend

On Average, Investors Paid Lower Expense Ratios for Equity Funds in 2013, Continuing a Downward Trend

Expense Ratios for Hybrid and Bond Funds Were Largely Unchanged

Washington, DC, May 14, 2014 - Investors paid lower average expense ratios for equity mutual funds in 2013 compared to 2012, according to an annual Investment Company Institute report on fund expenses and fees. A fund's expense ratio is the fund's total annual expenses expressed as a percentage of a fund's net assets.

The report, "Trends in the Expenses and Fees of Mutual Funds, 2013," also shows that expense ratios of hybrid funds, bond funds, and target-date funds were largely unchanged in 2013, after declining significantly in the prior several years.

Competition, Economies of Scale Contribute to Decline in Equity Fund Expenses

In 2013, the average expense ratio that investors paid for equity funds saw a substantial decline —to 74 basis points (0.74 percent), representing a drop of 3 basis points from 2012. The average expense ratio of bond funds remained unchanged at 61 basis points, consistent with a small percentage decline in the total assets of bond funds last year. The average expense ratio of hybrid funds rose by 1 basis point in 2013, to 80 basis points.

"Appreciably lower expense ratios paid by investors for equity mutual funds in 2013 reflect the strongly competitive nature of the fund industry, as well as gains in equity fund assets which, through economies of scale, helped lower fund expense ratios," said Sean Collins, ICI's Senior Director of Industry and Financial Analysis. "This study also shows that the average expenses of both actively managed funds and index equity funds have been trending downward for more than a decade."

Expenses Paid for Equity Funds Continue Decade-Long Downward Trend

Assets in equity funds jumped from $5.94 trillion in 2012 to $7.76 trillion in 2013, reflecting both net cash inflows from investors and strong stock market performance. The decline in expenses paid for equity funds in 2013 marked the fourth straight year of declines, after an increase of 4 basis points in 2009 in the wake of the financial crisis. This pattern is not unexpected, given the decline in the stock market during the financial crisis and the stock market's subsequent recovery. As explained in the report, fund expense ratios often vary inversely with fund assets because of economies of scale.

Equity Fund Expense Ratios Are Inversely Related to Equity Fund Assets

*Assets are plotted as a two-year moving average.
Note: Figure excludes 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

During the last decade, the average expense ratio of actively managed equity funds has declined 21 basis points, while that of equity index funds has fallen 13 basis points.

Also during the past decade, the average expense ratio of bond funds has fallen 19 percent, and that of hybrid funds has declined 11 percent.

Widespread Fee Waivers for Money Market Funds Continued in 2013

Money market fund investors, on average, paid an expense ratio of 17 basis points in 2013, 1 basis point less than in 2012. Expense ratios of money market funds have fallen sharply for several years as the majority of funds waived fees to ensure that investors' net returns remained positive in the continuing low interest rate environment.

Asset-Weighted Average Expense Ratio for Funds of Funds Fell

The average expense ratio incurred by investors in funds of funds was 80 basis points in 2013, 3 basis points less than in 2012. The total expense ratio of funds of funds includes the expenses that a fund pays directly out of its assets as well as the expense ratios of the underlying funds in which it invests. Since 2005, the average expense ratio for investing in funds of funds has fallen 21 basis points.

Investors in target date mutual funds, which are often structured as funds of funds, paid an average expense ratio of 58 basis points in 2013, unchanged from 2012. During the past five years, the average expense ratio of target date funds has fallen 13 percent. The report discusses some of the factors behind this development.

ICI Methodology

In this annual study, 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) would overstate the impact of expenses of funds in which investors hold few dollars.

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.