NEWS RELEASE

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Mutual Funds Provide Investors with Greater Service, Choice, and Information at Much Lower Cost Than Ever Before, March 2003

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Washington, DC, March 12, 2003 - The mutual fund industry is providing investors with more investment options, services and information—at much lower cost—than ever before, the chairman of the Investment Company Institute told a subcommittee of the House Financial Services Committee today.

“In fact, the cost of mutual funds is lower—far lower—than the cost of other financial services or products available to Americans,” said Paul G. Haaga, Executive Vice President of Capital Research and Management Company and chairman of the Institute, the national association of the mutual fund industry.

“Our industry’s practices—the funds we offer, the services we provide, and the fees we charge—are effectively serving tens of millions of fund investors,” he said.

Haaga’s remarks came during a hearing of the House Capital Markets Subcommittee examining how the mutual fund industry is serving the individual Americans who invest in stock, bond and money market funds. Haaga acknowledged the impact of the 37-month bear market and recent financial scandals on fund investors. “At a particularly difficult and challenging time in the history of the nation’s financial markets,” Haaga said. “I believe our industry is serving 95 million investors quite well.”

Haaga emphasized that reviewing the actual decisions made by both fund investors and fund companies revealed an intensively competitive market at work. From 1997 until 2001, “Eighty-three percent of all stock funds purchased by shareholders had expense ratios below the industry’s average of 1.62 percent.” Haaga pointed out that the expense ratio of a typical shareholder’s equity fund account was actually 0.99 percent, nearly 39 percent lower than the expense ratio of the average fund. These statistics compelled Haaga’s conclusion “that the market readily enables investors to find lower cost mutual funds.”

Most Investors Are Buying Lower Cost Stock Funds

Average Stock Fund Expense Ratio – 1.62%

Haaga told the panel that 79 percent of all shareholder accounts are in stock funds that charge less than the industry average. These accounts hold 87 percent of all stock fund assets. The trend holds true for other mutual fund asset classes, he noted. For bond funds, 74 percent of shareholder accounts have expense ratios that are lower than the average bond fund charges. For money market funds, the expense ratios for 61 percent of shareholder accounts are lower than average.

Most Investors Own Lower Cost Stock Funds

Most Stock Mutual Fund Assets Are In Lower Cost Funds

With respect to decisions made by mutual fund companies, Haaga highlighted findings from three recent mutual fund fee studies, including two from government agencies. Each study found that stock mutual funds that experience significant asset growth reduce their fees. Haaga first referred to an ICI study of 497 large stock funds. This study found that 74 percent of the studied funds had lowered their expense ratios by an average of 28 percent as they grew. Haaga then referred to a GAO study of 46 large stock funds. 85 percent of this group lowered their expense ratios by an average of 20 percent. Haaga said an SEC study that reviewed the management contracts at the 100 largest stock and bond funds found automatic fee reductions, linked to growth, in place at 76 percent of the relevant funds. He observed that many funds that experienced asset growth but did not lower their expense ratios had "rock bottom fees to begin with."

Studies Show That Most Mutual Funds That Have Grown Lowered Their Fees

"Operating and Expense Ratios, Assets, and Economies of Scale in Equity Mutual Funds," Investment Company Institute (December 2000) "Mutual Fund Fees: Additional Disclosure Could Encourage Price Competition," General Accounting Office (June 2000) "Report on Mutual Fund Fees and Expenses," Division of Investment Management, Securities & Exchange Commission (December 2000)

Haaga pointed out that, by their very nature, some of the automatic fee reductions that are triggered by economies of scale when assets grow can be lost when a fund's assets decline. While a declining market may cause the benefits of some automatic fee reductions to be lost, over longer periods these fee schedules have been beneficial to millions of fund investors. They result in huge savings from economies of scale that are shared with investors. The SEC fee study pointed out that about three-quarters of stock fund shareholders own funds with assets of more than $1 billion.

He also indicated that it is important to understand that mutual fund fee levels, which frequently include lower rates as assets grow, cannot be increased without three separate actions being taken—the fund's board must approve a fee increase; the board's independent directors must separately approve the fee increase; and the fund's shareholders must approve the increase in a shareholder vote. This is a key governance mechanism that helps protect and serve the interests of millions of mutual fund shareholders.

Haaga said a major part of the reason why mutual funds are effectively serving investors is the fact they are strictly regulated by the SEC. “Virtually every aspect of a mutual fund’s operations is governed by detailed regulations,” he said. “As we have for many years, the mutual fund industry views strict regulation as an asset rather than a liability. Under the SEC’s watchful eye, and accompanied by the effective oversight of independent directors, mutual funds have remained free of major scandal for more than 60 years. It’s no accident that historically, mutual funds have enjoyed unusually high levels of trust and support from fund investors.”

Haaga concluded by stressing that the mutual funds are providing investors with greater service, choice and information at much lower costs than ever before, while continuing to educate investors about diversification, asset allocation, various types of risk, the impact of fees and taxes, the need for realistic expectations and a long-term focus. “Investor education is a constant responsibility and an essential element of reinforcing confidence in our markets,” he said.