INVESTMENT COMPANY INSTITUTE

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July 12, 2019

Focus on Funds: Fund Fees and Expenses Continue to Fall

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US mutual fund and exchange-traded fund (ETF) investors continue to benefit from the industrywide trend of falling fund fees and expenses. In the July 12, 2019, edition of *Focus on Funds*, ICI Senior Director of Industry and Financial Analysis Shelly Antoniewicz recaps the key trends.

Transcript

Stephanie Ortbals-Tibbs, ICI director of media relations: American fund investors continue to enjoy falling fees and expenses. The downward trends are detailed in ICI's latest report. Here are the key takeaways.

Shelly Antoniewicz, ICI senior director of industry and financial analysis: The asset-weighted average expense ratio for equity funds was 55 basis points in 2018; that's down 4 basis points from 2017. Now, that may not sound like a lot for one year, but think about 20 years ago. So, if we go back to 1997, it was almost 100 basis points. So, this has really been a long trend, a long move.

Even in 2018 with a 4 basis point move down, it was coming from economies of scale. We have funds that are getting larger—that means fixed expenses are a smaller share of the assets. That brings down the expense ratio. Also, competition plays a role as well, so we have funds that are actively lowering their expense ratios. Almost half of funds had lower expense ratios in 2018. Part of that's economies of scale; part of that is funds actively bringing those expense ratios down.

Ortbals-Tibbs: This doesn't have any particular relevance to certain fund categories. Whether it's equity, whether it's bonds, whether it's in an active or an index space, this is happening.

Antoniewicz: This is happening in active and index. We see the average expense ratio for an index equity fund in 2018 was 8 basis points. That is flat from 2017, but has definitely come down if you look over that long time period as well.

Ortbals-Tibbs: You also take a look at ETFs in this report.

Antoniewicz: I often get asked the question: “Why is it higher than the index equity mutual fund expense ratio?” And there are a couple answers to that. One is for index equity mutual funds, those funds tend to be much larger, and so they’ve gotten the economies of scale to naturally have lower expense ratios. That’s one reason. And the second reason is that in the index mutual fund space, those funds are more concentrated in large-cap equities, and those tend to have lower expense ratios just naturally. Index equity ETFs are not as concentrated in the large-cap space. They have more in mid-cap or small-cap equity funds and also with smart beta, so those ETFs tend to have higher expense ratios.

Additional Resources

- News Release: Investors Carefully Consider Fees and Expenses as well as Performance When Selecting Mutual Funds
- ICI Research and Statistics
- 2019 Investment Company Fact Book