

FAQ

April 12, 2021

ICI Research 2014 Mutual Fund Reclassification: FAQs

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What is ICI's 2014 fund reclassification?

To reflect changes in the marketplace, ICI is modernizing its investment objective classifications for mutual funds.

What is an "investment objective"?

To help members, analysts, the media, and the public understand trends in mutual fund investing, ICI reports data on mutual funds at several levels of detail. From the broadest to the most detailed, those are:

- Level 1: Long term and money market
- Level 2: Equity, hybrid, bond, and money market
- Level 3: Domestic equity, world equity, hybrid, taxable bond, municipal bond, taxable money market, and tax-exempt money market
- Level 4: Thirteen composite investment objectives (for example, capital appreciation, world equity, hybrid, and investment grade bond)
- Level 5: Forty-two investment objectives (for example, growth, alternative strategies, global equity, flexible portfolio, and investment grade-short term)

Thus, investment objectives offer the greatest level of detail on trends in net assets, flows, and liquidity in mutual funds.

Why are the investment objectives changing now?

ICI last refreshed its data classifications in 1998. In 2011, ICI staff began working with members to identify investment objectives that had become too large and areas in which the industry had changed during the prior decade. ICI staff reviewed, then edited and expanded, definitions of the investment objectives to reflect current investing practices and language. Following our review and editing of the investment objective definitions, we determined where each of the roughly 18,000 funds that have been active since January 2000 would fit in the revised investment objective classifications by examining each fund's prospectus and classifying it accordingly. It took staff more than two years to complete this project. At this same time, we determined that our method of sales classifications also

needed to be updated to reflect industry changes (more detail on this in Question 9) and applied those new classifications to each fund as well.

What is the impact of these changes?

At the macro level, our categories—domestic equity, world equity, taxable bond, municipal bond, hybrid, taxable money market, and tax-exempt money market funds—will remain the same. These macro-level category data are found in ICI press releases and publicly available reports. The changes will occur at a more granular level, affecting the data at the composite investment objective and investment objective levels. These detailed level category data are available to ICI members, paying subscribers, and members of the media. These more comprehensive classifications give ICI and data users the ability to analyze the industry in more detail. The investment objective-level data appear in the detailed statistical tables, such as in [Trends in Mutual Fund Investing](#), but do not appear in the press releases.

Why is ICI doing a fund classification refresh now?

We monitor the industry, and when significant changes occur, we undertake a full fund reclassification. Our investment objectives have been updated approximately every 10 to 15 years to ensure that our classifications reflect current market practices. We do not make frequent changes to the fund classification system, because we want to ensure consistency in our industry data series.

When will it go into effect?

The new series of data will be released in March 2014, with the first report for February 2014 data. The public will see the new data series in both the March 26, monthly [Trends](#) report and weekly report on estimated long-term fund flows, and the March 27 weekly money market fund asset report.

What terminology will be different, and what will change?

The data press releases will largely look the same but there will be some improvements for clarity. We are standardizing the language in the press releases to make weekly and monthly reports consistent. For example, the term "stock" will become "equity" throughout all ICI data press releases. Money market funds provide another example, with "taxable non-government" becoming "prime&" in our weekly money market fund asset report and in the [Trends](#) report, to better reflect current terminology. We also will make note, in each release, that data for exchange-traded funds (ETFs) and funds that invest primarily in other mutual funds are excluded from the series, and that there is a separate monthly report for ETFs.

How will the investment objectives change?

In the old classification system, there were 33 categories for open-end mutual funds. Under the new data classification system, there are 42 categories. Many of the additional investment objectives were added under the bond category—mostly related to the term of the funds—allowing us to provide additional detail on these funds.

Since the alternative strategy category has emerged over the past several years, we have added alternative strategy investment objectives in the domestic equity, world equity, hybrid, and bond categories.

How will the methods of sales change?

The methods of sales do not appear in the press releases or most of the publications; however, data based on these categories are included in the [Supplement: Trends in Mutual Fund Investing](#), which is available to ICI members, paying subscribers, and members of the media. In the old classification system, there were six categories for open-end mutual funds—we now have five categories. For funds sold primarily through a network of broker-dealers, we combined three of the old categories into one new category. ICI also added a retirement category for funds sold predominantly through employer-sponsored retirement plans. The new retirement category is part of the larger retail category; however, these funds were part of the institutional category in the old classification system. This change will result in minor changes to the institutional/retail split in the weekly money market fund asset report.

How can I find out how you define each investment objective and method of sales?

Please see our [investment objective definitions](#) and [method of sales definitions](#).

When was the last time you did something like this?

Every year, ICI reclassifies funds based on changes in their prospectus language. Though it is a big data and programming undertaking, ICI periodically refreshes all of its database classifications. The last time we did this was in 1998. Before that, it was 1987.

Can I still get historical data from ICI?

Yes. Two different levels of historical data are available, going back to 1984 and 2000. On a macro level—domestic equity, world equity, taxable bond, municipal bond, hybrid, taxable money market, and tax-exempt money market funds—data is available beginning in January 1984, as we have provided before this reclassification effort. Macro-level categories will include consistent data, from 1984 to the present. Data at the composite investment objective and most investment objective levels will be available from January 2000 to the present.

Can I add the two categories together myself to create a longer time series?

No. Doing so would result in inaccurate data. Since we went through the fund prospectuses and reclassified each fund under the revised investment objectives, trying to blend the two data sets does not work; the result would be inconsistent data. We have consistent data at most investment objective levels beginning in 2000 and at the macro-level beginning in 1984.

Does this reclassification mean that your earlier data were inaccurate?

No. Our prior data were based on categories that reflected investing practices at the time. Those practices change over time, and this data reclassification updates the detailed investment objective-level definitions to reflect the current marketplace.

When will you do your next data reclassification?

Based on past practices, it's likely the next reclassification will not occur for at least 10 years.

What do ICI regular data releases include, and when are they released?

ICI Data Releases

Weekly Estimated Long-Term Mutual Fund Flows Wednesdays around midday Money Market Mutual Fund Assets Thursdays, late afternoon **Monthly** Trends in Mutual Fund Investing Second-to-last business day of the month ETF Assets and Net Issuance Last few business days of the month UIT Deposits Mid-month Money Market Fund Holdings (N-MFP) Mid-month **Quarterly** Closed-End Fund Data Second month following quarter-end Worldwide Mutual Fund Assets and Flows Around the end of the following quarter U.S. Retirement Assets Last Wednesday of the following quarter

Does this reclassification affect all of those reports?

No, this reclassification currently only involves mutual funds, so the reports on ETFs, closed-end funds, and unit investment trusts (UITs) will not be affected. The report that is most obviously affected is our monthly mutual fund report, because it includes data at the investment objective level. The other open-end mutual fund reports are affected much less, because the data on those reports are generally at the macro level. To help transition to the new classifications, both the [Trends](#) and weekly statistical reports will be released with the new classifications in the same week in March 2014.

What is the difference between ICI long-term and money market fund weekly data and comparable monthly data?

[Weekly estimates](#) of long-term fund flow estimates are derived from data collected covering more than 98 percent of industry assets. These long-term funds include domestic equity, world equity, taxable bonds, municipal bonds, and hybrid funds.

For the monthly [Trends](#) survey, ICI conducts a comprehensive survey of the U.S. mutual fund industry to collect and compile the actual dollar value of the components of the net new cash flows; investors' purchases, redemptions, and exchanges of fund shares; total net assets; and certain portfolio investment activities. The report provides these data by macro long-term and short-term fund category—including equity, hybrid, bond, and money market funds—as well as specific investment objectives, such as growth, emerging markets, and prime money market.

[Weekly money market fund](#) data are at a similar level of detail as the monthly [Trends](#) report. Each week, ICI reports assets of treasury and repo, treasury and agency, prime, and tax-exempt money market funds with a breakdown of retail and institutional money market fund categories. This data is reported to the Federal Reserve each week.

Where can I find your data tables?

These tables can be found on the statistics page of ICI's website, www.ici.org. Many data tables are publicly available on ICI's website in Excel format. Access to more-detailed data tables is [available by subscription](#). Beginning in March 2014, the [Trends](#) report will also include tables posted in Excel instead of PDF format.

March 2014

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