

## FACT SHEET

April 12, 2021

# Mutual Fund Investment Objective Definitions

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**Classifications are made by reviewing mutual fund prospectuses for language included in these definitions.**

To reflect changes in the marketplace, ICI has modernized its investment objective classifications for open-end mutual funds. 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. The changes will occur at a more detailed level, affecting the data at the composite investment objective and investment objective levels.

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

- **Level 1:** Long-term funds and money market funds
- **Level 2:** Equity, hybrid, bond, and money market funds
- **Level 3:** Domestic equity, world equity, hybrid, taxable bond, municipal bond, taxable money market funds, and tax-exempt money market funds
- **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)

### **Long Term Funds (Level 1)   Equity (Level 2)   Domestic Equity (Level 3)**

**Capital appreciation** funds seek growth of capital; dividends are not a primary consideration. (Level 4)   **Growth** funds invest primarily in common stock of growth companies, which are those that exhibit signs of above-average growth, even if the share price is high relative to earnings/intrinsic value. (Level 5)   **Sector** funds seek capital appreciation by investing in companies in related fields or specific industries. (Level 5)   **Alternative strategy** funds seek to provide capital appreciation while minimizing risk by employing long/short, market neutral, leveraged, or inverse strategies. (Level 5)   **Total return** funds seek a combination of current income and capital appreciation by investing in equity securities. (Level 4)   **Value** funds invest primarily in common stock of value companies, which are those that are out of favor with investors, appear underpriced by the market relative to their earnings/intrinsic value, or have high dividend yields. (Level 5)   **Blend** funds invest primarily in common stock of both growth and value companies or are

not limited to the types of companies in which they can invest. (Level 5) **World Equity (Level 3)** **World equity** funds invest primarily in stocks of foreign companies. (Level 4) **Emerging markets** funds invest primarily in companies based in less-developed countries. (Level 5) **Global equity** funds invest primarily in equity securities traded worldwide, including equity securities of US companies. (Level 5) **International equity** funds must invest in equity securities of companies located outside the United States, and cannot invest in US companies' stocks. (Level 5) **Regional equity** funds invest in companies that are based in a specific part of the world. (Level 5) **Alternative strategies: world equity** funds invest in companies traded worldwide, including companies based in the United States, specific regions, or emerging markets, while employing long/short, market neutral, leveraged, or inverse strategies. (Level 5) **Data are not available prior to 1/31/2007.** **Hybrid (Level 2)** **Hybrid (Level 3)** **Hybrid** funds invest in a mix of equity and debt securities. (Level 4) **Asset allocation** funds seek high total return by investing in a mix of equities, fixed-income securities, and money market instruments. Unlike flexible portfolio funds (defined below), this type of fund is required to strictly maintain a precisely defined weighting of its asset classes. (Level 5) **Balanced** funds invest in a specific mix of equity securities and bonds with the three-part objective of conserving principal, providing income, and achieving long-term growth of both principal and income. (Level 5) **Flexible portfolio** funds are designed to provide high total return by investing in common stock, bonds and other debt securities, and money market securities. The portfolio may hold up to 100 percent of any one of these types of securities and may easily change, depending on market conditions. (Level 5) **Income-Mixed** funds invest in a variety of income producing securities, including equities and fixed-income securities. They seek a high level of current income for shareholders. Capital appreciation is not a primary objective. (Level 5) **Hybrid: alternative strategies** funds seek to provide capital appreciation while minimizing risk by investing in a mix of equity and fixed-income securities while employing long/short, market neutral, leverage, inverse, or commodity strategies. (Level 5) **Data are not available prior to 1/31/2006.** **Bond (Level 2)** **Taxable Bond (Level 3)** **Investment grade** funds seek current income by investing primarily in investment grade debt securities. (Level 4) **Investment grade: multi-term** funds seek a high level of income by investing two-thirds or more of their portfolios in investment grade debt with no explicit restrictions on average maturity or duration. (Level 5) **Investment grade: long-term** funds seek a high level of income by investing two-thirds or more of their portfolios in investment grade debt with an average maturity or duration of more than 10 years. (Level 5) **Investment grade: intermediate-term** funds seek a high level of income with two-thirds or more of their portfolios at all times in investment grade debt with an average maturity or duration of five to 10 years. (Level 5) **Investment grade: short-term** funds seek a high level of current income by investing two-thirds or more of their portfolios at all times in investment grade debt with an average maturity or duration of one to five years. (Level 5) **Investment grade: ultrashort-term** funds seek a high level of current income by investing two-thirds or more of their portfolios at all times in investment grade debt with an average maturity or duration of less than one year. (Level 5) **Inflation protected** funds invest in inflation-protected or inflation-indexed securities other than TIPS. (Level 5) **Data are not available prior to 1/31/2003.** **High yield (Level 4)** **High yield** funds seek current income by investing two-thirds or more of their portfolios in lower-rated corporate bonds (Baa or lower by Moody's and BBB or lower by Standard and Poor's rating services). (Level 5) **Government bond** funds pursue an objective of high current income by investing in taxable bonds issued, or backed, by the US government. (Level 4) **Government bond: multi-term** funds invest at least two-thirds of their portfolios in US government securities with no stated average maturity or duration. (Level 5)

**Government bond: long-term** funds invest at least two-thirds of their portfolios in US government securities that have an average maturity or duration of more than 10 years. (Level 5)

**Government bond: intermediate-term** funds invest at least two-thirds of their portfolios in US government securities that have an average maturity or duration of five years to 10 years. (Level 5)

**Government bond: short-term** funds invest at least two-thirds of their portfolios in US government securities that have an average maturity or duration of one to five years. (Level 5)

**Mortgage-backed** funds invest at least two-thirds of their portfolios in pooled mortgage-backed securities. (Level 5)

**Multisector bond** funds seek to provide high current income for their shareholders by investing predominantly in a combination of domestic fixed-income securities, including mortgage-backed securities and high yield bonds, and may invest up to 25 percent in bonds issued by foreign companies and governments. (Level 4)

**Multisector: multi-term** funds invest at least two-thirds of their portfolios in US fixed-income securities with no stated average maturity or duration. (Level 5)

**Multisector: long / intermediate-term** funds invest at least two-thirds of their portfolios in US fixed-income securities with average maturity or duration of more than five years. (Level 5)

**Multisector: short-term** funds invest at least two-thirds of their portfolios in US fixed-income securities with average maturity or duration of one to five years. (Level 5)

**Multisector: alternative strategies** funds seek to provide high capital appreciation and/or current income while minimizing risk by investing in US fixed-income securities while employing long/short, market neutral, leverage, or inverse strategies. (Level 5)

**Data are not available prior to 1/31/2007.**

**World bond** funds seek current income by investing in the debt securities of foreign companies and governments. (Level 4)

**Global bond: multi-term** funds invest in worldwide debt securities, with no stated average maturity/duration or an average maturity/duration of more than five years. These funds may invest in debt securities of US companies. (Level 5)

**Global bond: short-term** funds invest in worldwide debt securities, with an average maturity or duration of one to five years. These funds may invest in debt securities of US companies. (Level 5)

**International bond** funds invest at least two-thirds of their portfolios in a combination of foreign government and corporate debt. (Level 5)

**Municipal Bond (Level 3)**

**State municipal bond (Level 4)**

**State municipal bond** funds invest primarily in municipal bonds of a single state. The bonds are exempt from federal income tax as well as state taxes for residents of that state. (Level 5)

**National municipal bond** funds invest in a national mix of municipal bonds with the objective of providing high after-tax yields. (Level 4)

**National municipal bond: multi-term funds** invest predominantly in municipal bonds with an average maturity or duration of more than five years or no specific stated maturity. The bonds are usually exempt from federal income tax, but may be taxed under state and local laws. (Level 5)

**National municipal bond: short-term** funds invest predominantly in municipal bonds with an average maturity or duration of one to five years. The bonds are usually exempt from federal income tax, but may be taxed under state and local laws. (Level 5)

**Money Market (Level 1)**

**Money Market (Level 2)**

**Taxable Money Market (Level 3)**

**Taxable money market** funds seek to maintain a stable net asset value by investing in short-term, high-grade securities sold in the money market. The average maturity of their portfolios is limited to 60 days or less. (Level 4)

**Treasury and repo money market** funds invest in securities issued by the US Treasury, including repurchase agreements collateralized fully by US Treasury securities. (Level 5)

**Treasury and agency money market** funds invest in securities issued or guaranteed by the US government or its agencies and repurchase agreements for those securities. (Level 5)

**Prime money market** funds invest in a variety of money market instruments, including certificates of deposit of large banks, commercial paper, and banker's acceptances. (Level 5)

**Tax-Exempt Money Market (Level 3)**

**Tax-exempt money**

**market** funds seek income that is not taxed by the federal government, and in some cases states and municipalities, by investing in municipal securities with relatively short maturities. The average maturity of their portfolios is limited to 60 days or less. (Level 4)

**National tax-exempt money market** funds seek income that is not taxed by the federal government by investing in municipal securities with relatively short maturities. (Level 5)

**State tax-exempt money market** funds predominantly invest in short-term municipal bonds of a single state, which are exempt from federal income tax as well as state taxes for residents of the state included in the fund issue. (Level 5)

*November 2016*

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