

## Average Expense Ratios for Equity, Hybrid, and Bond Mutual Funds Hit 20-Year Lows

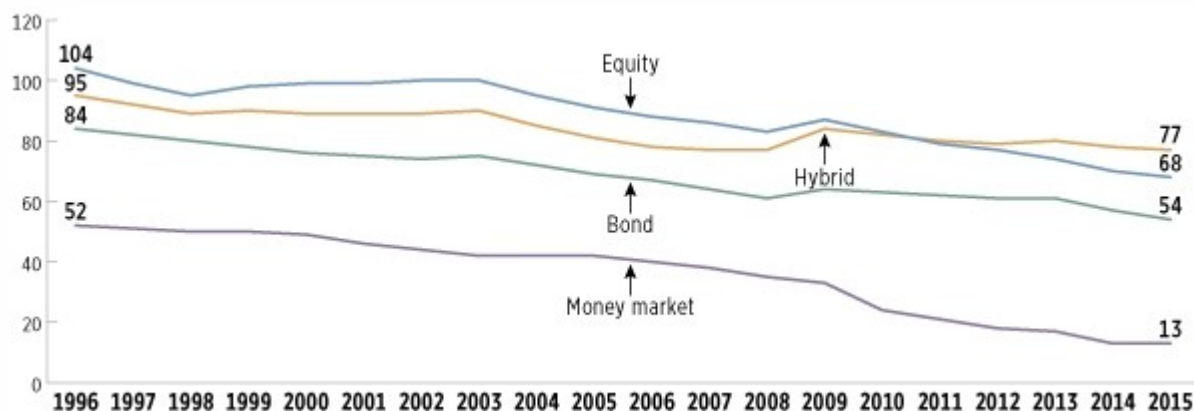
# Average Expense Ratios for Equity, Hybrid, and Bond Mutual Funds Hit 20-Year Lows

Washington, DC, March 16, 2016—Expense ratios for equity, hybrid, and bond mutual funds dropped in 2015 to the lowest level in at least 20 years, while money market fund expense ratios remained at their 2014 low, according to data released by the Investment Company Institute (ICI) today. A fund's expense ratio is the fund's total annual expenses expressed as a percentage of its net assets.

“Mutual fund expense ratios have been experiencing an overall decline for many years, driven by increased competition and growth in the fund industry,” said Sean Collins, ICI's senior director of industry and financial analysis. “Expense ratios for both actively managed and index funds have seen substantial declines.”

### Expense Ratios Have Declined Substantially Since 1996

*Basis points, 1996–2015*



Note: Expense ratios are measured as asset-weighted averages. Data exclude 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

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## Growing Popularity of Index Funds Contributes to Decline in Equity Fund Expense Ratios

Weighted by assets, average equity fund expense ratios fell 2 basis points to 68 basis points (0.68 percent of assets) in 2015. This follows a 4 basis point decline in 2014 and marks the sixth straight year in which equity fund expense ratios have fallen. An increase in the share of equity fund assets held in index funds contributed to the decline in equity fund expense ratios: actively managed equity fund assets fell by \$275 billion in 2015, while index equity fund assets rose by \$109 billion.

## Share of Assets in Costly-to-Manage Categories of Bond Funds Declines

Bond fund expense ratios averaged 54 basis points in 2015. In 2015, bond fund expense ratios fell 3 basis points, in large measure reflecting a decline in the assets of high-yield bond funds, which tend to have higher-than-average expense ratios. Performance of high-yield bonds suffered in 2015, pushing down the value of funds' holdings and prompting investor redemptions.

## Hybrid Mutual Fund Expense Ratios Fell Slightly in 2015

The average expense ratio of hybrid mutual funds, which invest in a mix of equities and bonds, fell 1 basis point to 77 basis points in 2015, a smaller decline than stock and bond funds experienced. Hybrid fund assets have increased substantially in recent years, with a portion of that growth occurring among "alternative strategy" funds, which now account for 8 percent of the assets of all hybrid funds. Alternative strategy funds offer fund investors diversification across a wider range of asset classes and lower correlation with the equity market, but such strategies can be more costly to manage. The average expense ratio for other types of hybrid funds fell 2 basis points in 2015.

## Money Market Fund Expense Ratios Remained Stable in 2015

Money market fund expense ratios averaged 13 basis points in 2015, unchanged from 2014. The current low interest rate environment has limited the expense ratios of money market funds over the last few years, as these funds have waived portions of their fees to prevent their net yields falling below zero. In 2015, 98 percent of money market fund share classes waived at least some portion of their

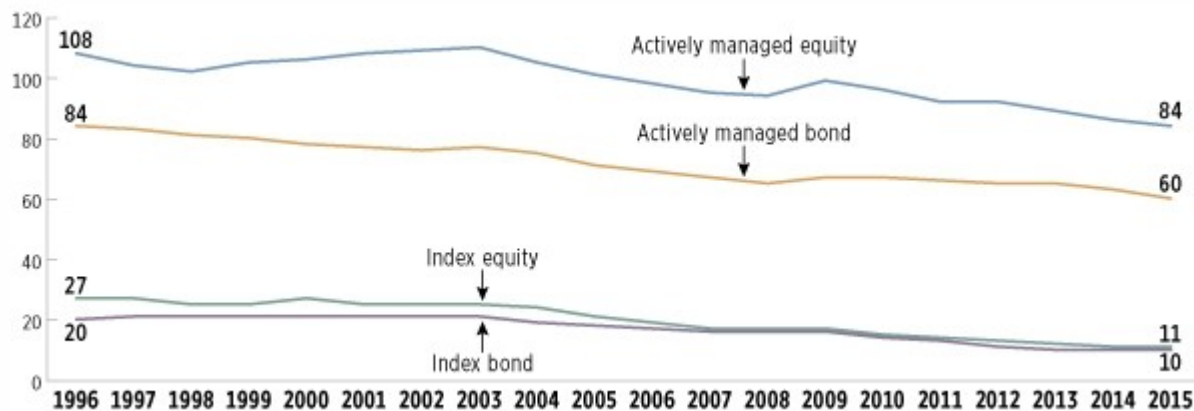
fees. Fund advisers and their distributors pay for these waivers, which totaled an estimated \$5.5 billion in 2015.

## Actively Managed Equity and Bond Fund Expense Ratios Continued Steady Decline

The average expense ratios for actively managed equity and bond funds fell by 2 and 3 basis points, respectively, in 2015, though the expense ratios of index funds have leveled out in the past two years. The declining cost of actively managed funds was due in large part to competitive pressures and investor interest in lower-cost funds. For both actively managed and index funds, this demand for lower-cost funds is evidenced by the concentration of assets in the very lowest cost funds. In 2015, 57 percent of the assets of actively managed equity funds were held in the 10 percent of such funds with the lowest expense ratios. In 2015, 69 percent of index equity fund assets were held in the 10 percent of index equity funds with the lowest expense ratios.

### Expense Ratios of Actively Managed and Index Funds

*Basis points, 1996–2015*



Note: Expense ratios are measured as asset-weighted averages. Data exclude 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

## ICI Methodology

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) overstate the impact of the expenses of funds in which investors hold few dollars.

## Expense Ratios Have Declined Substantially Since 1996

*Basis points, 1996–2015*

<b>Year</b>	<b>Equity</b>	<b>Hybrid</b>	<b>Bond</b>	<b>Money market</b>
1996	104	95	84	52
1997	99	92	82	51
1998	95	89	80	50
1999	98	90	78	50
2000	99	89	76	49
2001	99	89	75	46
2002	100	89	74	44
2003	100	90	75	42
2004	95	85	72	42
2005	91	81	69	42
2006	88	78	67	40
2007	86	77	64	38
2008	83	77	61	35
2009	87	84	64	33

2010	83	82	63	24
2011	79	80	62	21
2012	77	79	61	18
2013	74	80	61	17
2014	70	78	57	13
2015	68	77	54	13

Note: Expense ratios are measured as asset-weighted averages. Data exclude 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

## Expense Ratios of Actively Managed and Index Funds

*Basis points, 1996–2015*

Year	Actively managed		Index	
	Equity	Bond	Equity	Bond
1996	108	84	27	20
1997	104	83	27	21
1998	102	81	25	21
1999	105	80	25	21
2000	106	78	27	21

2001	108	77	25	21
2002	109	76	25	21
2003	110	77	25	21
2004	105	75	24	19
2005	101	71	21	18
2006	98	69	19	17
2007	95	67	17	16
2008	94	65	17	16
2009	99	67	17	16
2010	96	67	15	14
2011	92	66	14	13
2012	92	65	13	11
2013	89	65	12	10
2014	86	63	11	10
2015	84	60	11	10

Note: Expense ratios are measured as asset-weighted averages. Data exclude 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

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