CHAPTER 1

Worldwide Regulated Open-End Funds

Investors around the world have historically demonstrated strong demand for regulated open-end funds (referred to in this chapter as regulated funds). In the past decade, worldwide net sales of regulated funds have totaled $19.9 trillion, and fund providers have expanded the vast array of choices, offering investors nearly 140,000 regulated funds. Demand for regulated funds strengthened considerably in 2023 as macroeconomic uncertainty receded, which contributed to positive net sales and a 15 percent increase in total net assets. By year-end 2023, regulated funds managed $68.9 trillion in total net assets worldwide.

IN THIS CHAPTER

What Are Regulated Funds?

The International Investment Funds Association (IIFA) defines regulated funds as collective investment pools that are substantively regulated, open-end investment funds.* Open-end funds are generally defined as those that issue new fund shares (or units) and redeem existing shares (or units) on demand. Such funds are typically regulated with respect to disclosure, the form of organization (for example, as either corporations or trusts), custody of fund assets, minimum capital, valuation of fund assets, and restrictions on fund investments (such as limits on leverage, types of eligible investments, and diversification of portfolio investments).

In the United States, however, regulated funds include not only open-end funds, consisting of mutual funds and exchange-traded funds (ETFs), but also unit investment trusts and closed-end funds.† In Europe, regulated funds include Undertakings for Collective Investment in Transferable Securities (UCITS)—ETFs, money market funds, and other categories of similarly regulated funds—and alternative investment funds, commonly known as AIFs.

In many countries, regulated funds may also include institutional funds, which are restricted to being sold to a limited number of non-retail investors; funds that offer guarantees or protection of principal via a legally binding guarantee of income or capital; and open-end real estate funds investing directly in real estate to a substantive degree.

At year-end 2023, fund providers globally offered 139,982 regulated funds (Figure 1.1). Europe had the largest number of regulated funds with 43 percent of the total, while equity funds were the most numerous types of regulated funds (33 percent), followed by balanced/mixed funds (25 percent), which also hold equities in their portfolios.

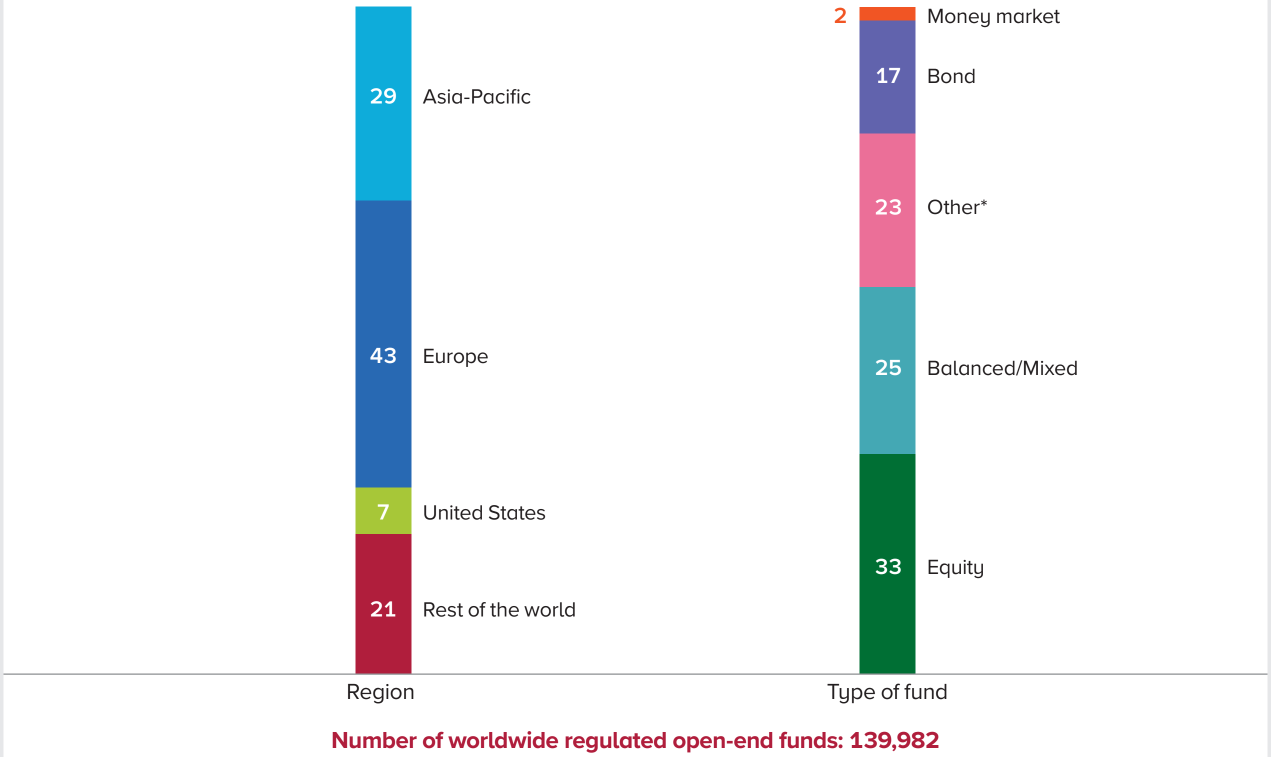
* The primary data source for worldwide regulated funds is the IIFA. In 2023, the IIFA collected data on worldwide regulated funds from 46 jurisdictions. For information on individual jurisdictions, see the statistical data tables available online at www.icifactbook.org/24-fb-data-tables.html. For more details about the IIFA data collection, see Worldwide Definitions of Terms and Classifications at www.ici.org/info/ww_q3_18_definitions.xls.

† Data for unit investment trusts and closed-end funds are not included in this chapter; these funds are discussed in chapter 2 and chapter 5, respectively.

FIGURE 1.1

Number of Worldwide Regulated Open-End Funds

Percentage of funds by region or type of fund, year-end 2023



* Other funds include guaranteed/protected funds, real estate funds, and other funds.

Note: Regulated open-end funds include mutual funds, ETFs, and institutional funds.

Source: International Investment Funds Association

Worldwide Total Net Assets of Regulated Funds

Worldwide total net assets of regulated funds partially rebounded in 2023 after a sharp decline in the previous year (Figure 1.2).* A confluence of macroeconomic and geopolitical factors affected worldwide capital markets in 2023, leading to a notable increase in the value of the underlying stocks and bonds held by regulated funds. Among the factors boosting financial markets in 2023:

- inflation eased faster than expected in many regions;
- synchronized central bank polices helped curb inflation expectations and provided some stability to the global financial system; and
- better than expected macroeconomic conditions, despite global geopolitical risks from Russia's ongoing invasion of Ukraine, the Israel–Hamas war, tensions between the United States and China over Taiwan, and international trade disruptions because of shipping attacks in the Red Sea.

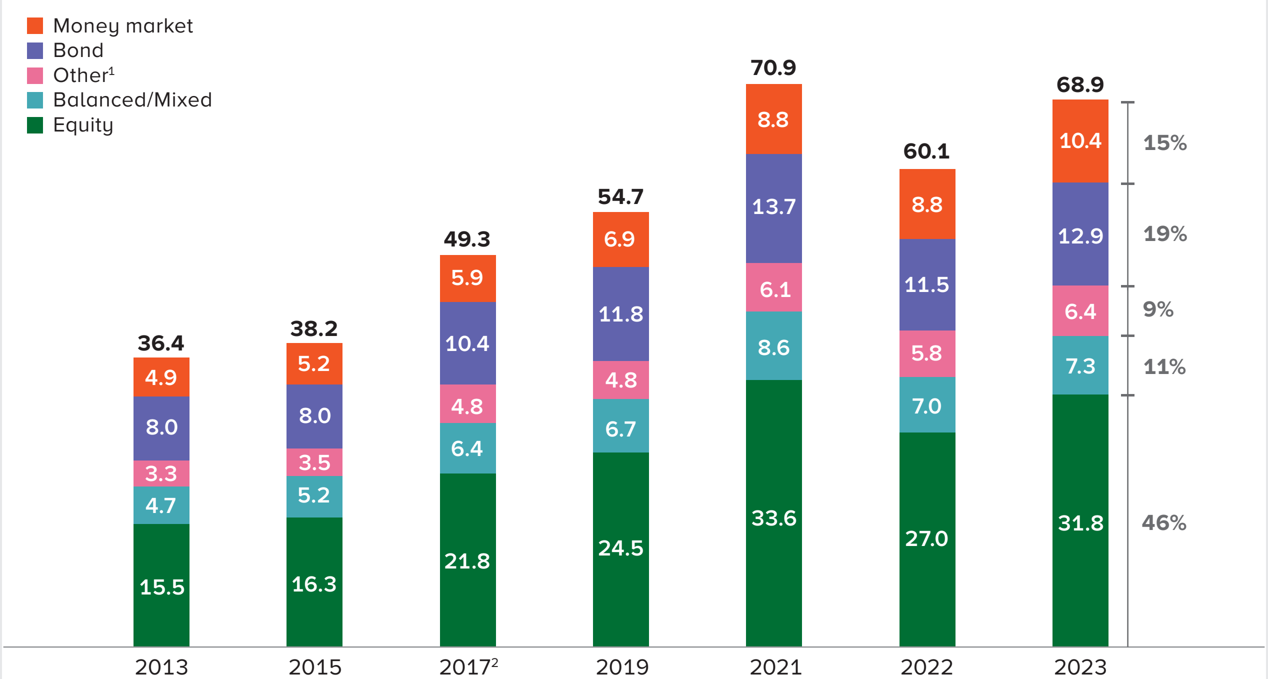
* In this chapter, unless otherwise noted, data for total net assets and net sales are denominated in US dollars.

With stock markets rising across the globe in 2023 (26 percent in the United States, 21 percent in Europe, and 12 percent in the Asia-Pacific region*) worldwide total net assets of equity funds, which invest primarily in publicly traded stocks, increased by 18 percent to $31.8 trillion at year-end 2023. Bond funds—which invest primarily in fixed-income securities—saw their total net assets increase 12 percent over the same period, somewhat reflecting total returns (capital gains and interest income) on bonds in Europe and the Asia-Pacific region of 7 percent and 6 percent, respectively.† Net assets of money market funds, which are regulated funds restricted to holding short-term, high-quality debt instruments, also increased substantially.

FIGURE 1.2

Total Net Assets of Worldwide Regulated Open-End Funds Increased to $68.9 Trillion in 2023

Trillions of US dollars by type of fund, year-end



Total number of worldwide regulated open-end funds

2013	2015	2017	2019	2021	2022	2023
97,371	106,060	113,223	122,571	131,815	137,846	139,982

[1] Other funds include guaranteed/protected funds, real estate funds, and other funds.

[2] Data for Russia are for 2017:Q3.

Note: Regulated open-end funds include mutual funds, ETFs, and institutional funds.

Source: International Investment Funds Association

* As measured by the Wilshire 5000 Total Market Index, the MSCI Daily Total Return Gross Europe Index, and the MSCI Daily Total Return Gross AC Asia-Pacific Index, which are all expressed in US dollars.

† As measured by the ICE BofA Pan-Europe Broad Market Index (expressed in euros) and the Bloomberg Asian-Pacific Aggregate Total Return Index (expressed in Japanese yen), which both cover investment grade securities.

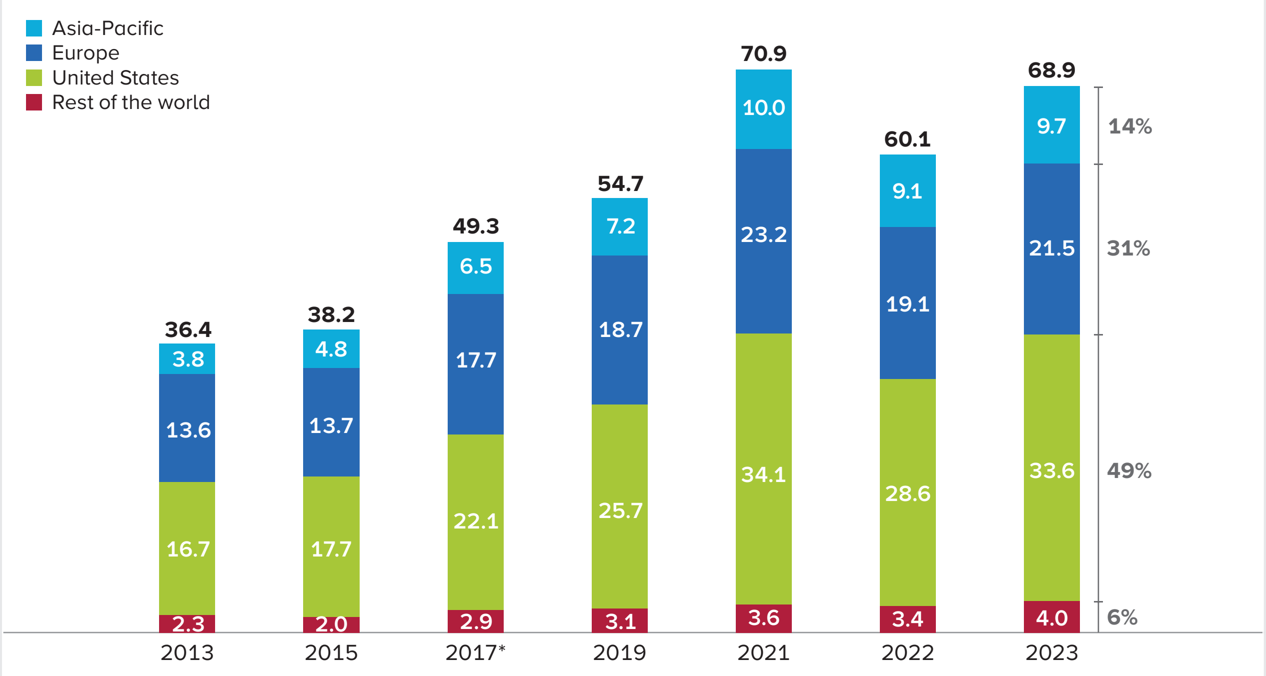
Total net assets of worldwide regulated funds also varied widely by geographic region (Figure 1.3). At year-end 2023, the majority of worldwide total net assets in regulated funds continued to be held in the United States (49 percent) and Europe (31 percent). Strong regulatory frameworks in both jurisdictions have contributed to their success. In recent decades, US-regulated funds have been bolstered by their availability as investment options in tax-advantaged accounts, such as 401(k) plans. Meanwhile, the UCITS framework has many provisions that allow for the pooling of assets. These include passporting (i.e., a UCITS established in one country can be sold cross-border into one or more other European countries), the availability of UCITS in countries outside of Europe, and allowing different share classes to be denominated in a range of different currencies or adapted to different tax structures.

Regulated funds in the Asia-Pacific region held another 14 percent of worldwide total net assets. Given the size of the population, the rapidly increasing economic development and wealth in many countries, and efforts to promote individual account-based saving and investing, the region's regulated fund market has potential for continued growth.

FIGURE 1.3

The United States Has the Largest Share of Total Net Assets of Worldwide Regulated Open-End Funds

Trillions of US dollars by region, year-end



* Data for Russia are for 2017:Q3.

Note: Regulated open-end funds include mutual funds, ETFs, and institutional funds.

Source: International Investment Funds Association

Worldwide Regulated Open-End Fund Assets and Flows

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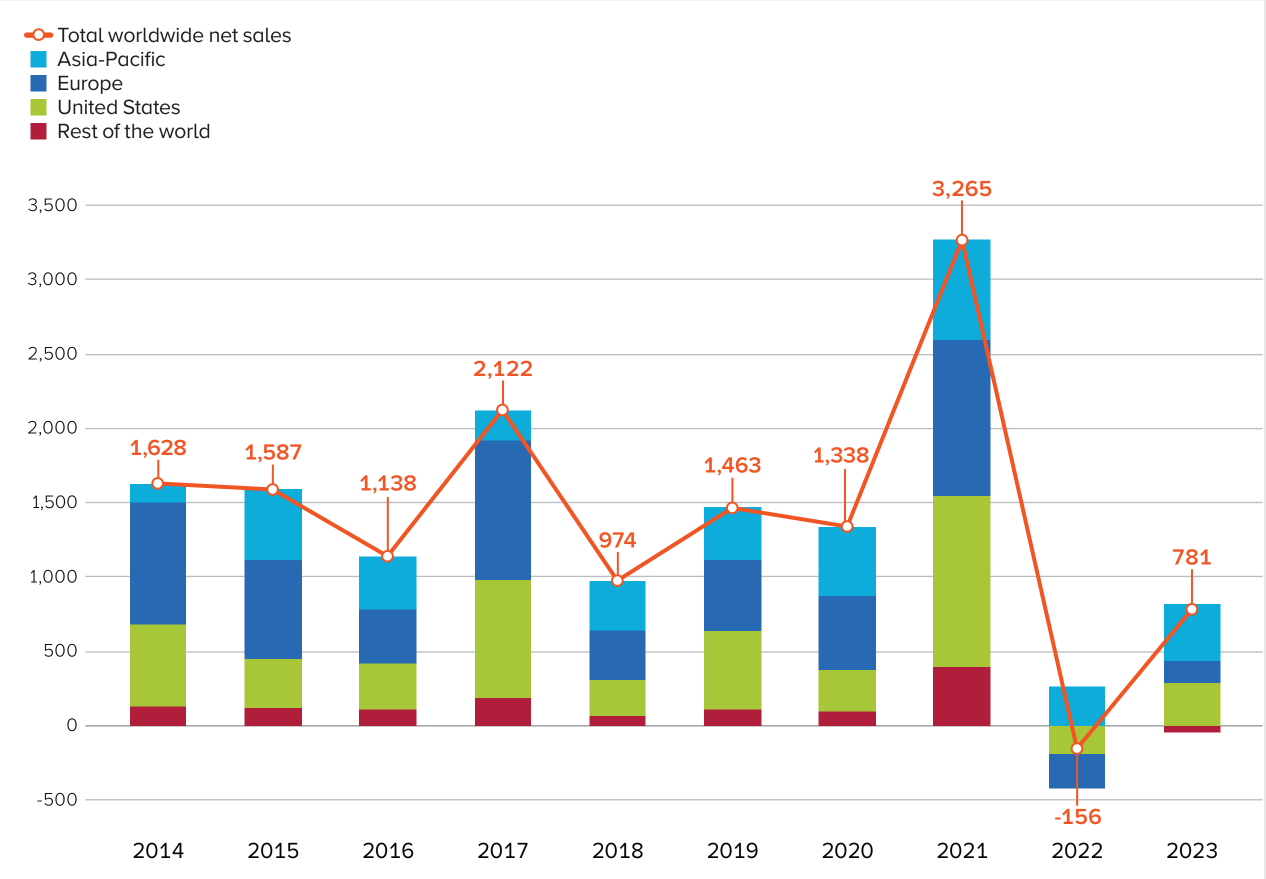
Worldwide Net Sales of Regulated Long-Term Funds

Worldwide demand for regulated long-term funds (equity, bond, balanced/mixed, and other) increased sharply in 2023, from net redemptions of $156 billion in 2022 to net sales of $781 billion in 2023 (Figure 1.4). The return to net inflows for long-term funds was driven by the United States and Europe, which had net inflows of $287 billion and $150 billion, respectively. Demand also remained strong in the Asia-Pacific region in 2023 ($386 billion), which was driven by net inflows in China and Japan.

FIGURE 1.4

Worldwide Net Sales of Regulated Open-End Long-Term Funds Increased in 2023

Billions of US dollars by region, annual



Note: Regulated open-end funds include mutual funds, ETFs, and institutional funds. Long-term funds include equity funds, balanced/mixed funds, bond funds, and other funds (guaranteed/protected, real estate, and other funds), but exclude money market funds.

Source: International Investment Funds Association

Worldwide net sales of regulated long-term funds increased across most fund categories in 2023 when compared with 2022. For example, worldwide net sales of equity funds increased from net outflows of $2 billion in 2022 to net inflows of $218 billion in 2023 (Figure 1.5). The increase in net sales was likely associated with the general improvement in global equity markets, as net flows to equity funds have historically been related to world equity returns.

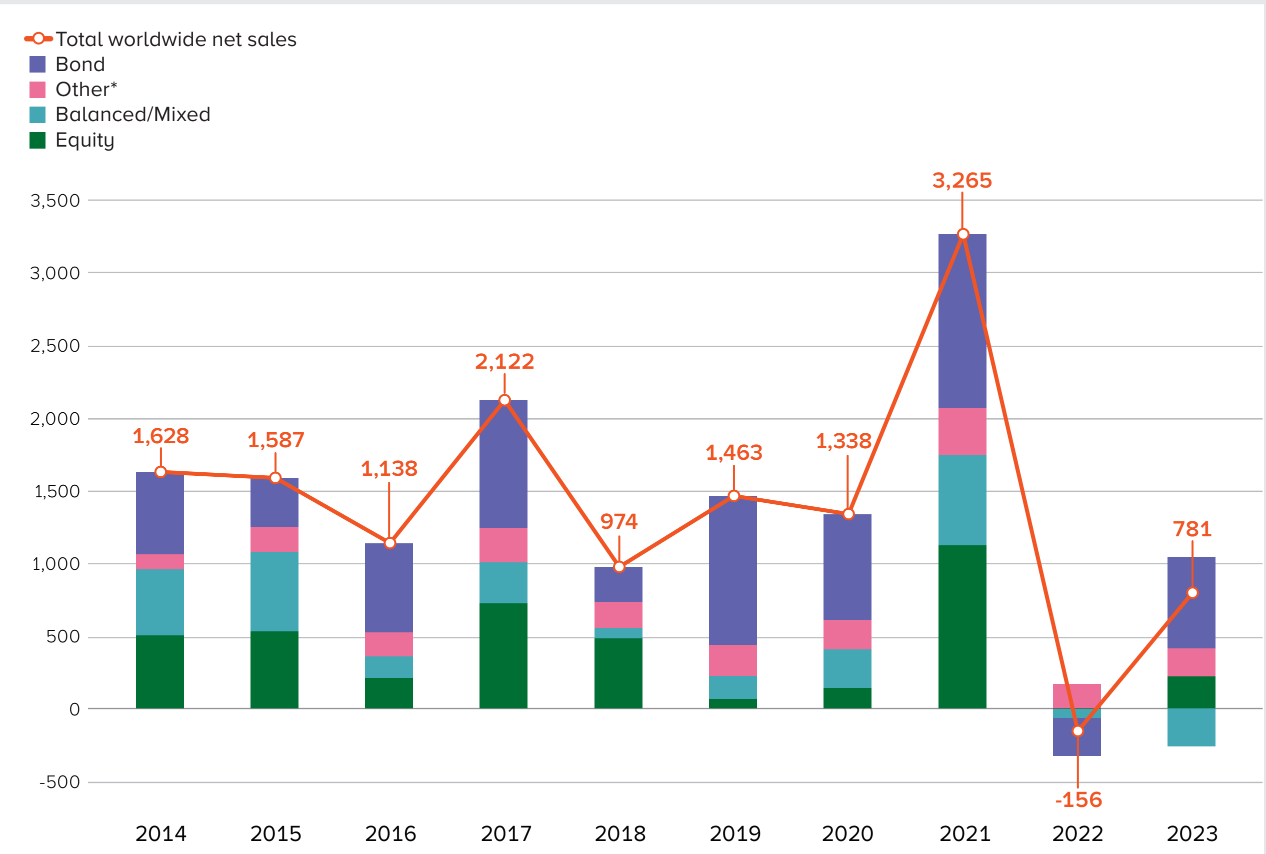
Bond funds also experienced a major shift in net sales, going from net outflows of $260 billion in 2022 to net inflows of $631 billion in 2023 (Figure 1.5). This reversal was primarily driven by continuing developments around inflation and interest rates. Following rampant inflation and soaring interest rates in 2022, inflation generally fell around the world throughout 2023 and short-term interest rates stabilized during the second half of the year.

The trajectory of monetary policy is important because when interest rates rise, bond prices fall (and vice versa). As such, fixed-income investors stand to gain from any potential reduction in official interest rates. Additionally, like the experience with equity fund returns and flows, net flows to bond funds have historically been related to bond returns (see Figure 3.5).

FIGURE 1.5

Worldwide Net Sales of Regulated Open-End Funds Was Primarily from Inflows into Bond Funds

Billions of US dollars by type of fund, annual



* Other funds include guaranteed/protected funds, real estate funds, and other funds.
Note: Regulated open-end funds include mutual funds, ETFs, and institutional funds.
Source: International Investment Funds Association

Ongoing Charges for UCITS in the European Union

The UCITS Directive has become a global success story since its adoption in 1985, with net assets of €11.1 trillion in EU-domiciled UCITS at year-end 2023. Investments in these funds are held by investors in Europe and other jurisdictions worldwide. In recent years, there has been increased attention to the costs and charges paid by shareholders of investment funds, particularly in Europe.* For example, in December 2023, the European Securities and Markets Authority (ESMA) issued its latest report investigating costs and performance of EU retail investment products.†

Like regulated fund investors in other countries, UCITS investors incur ongoing charges that cover the provision of services, including portfolio management, administration, compliance costs, accounting services, legal costs, and payments to distributors. The total cost of these charges is disclosed to investors through either the total expense ratio (TER), often found in a UCITS' annual report and other marketing documents, or the ongoing charges figure (OCF), found in the Key Information Document (KID).

On an asset-weighted basis, average ongoing charges of equity and fixed-income UCITS continued their downward trend in 2022 (Figure 1.6). Since 2013, asset-weighted average ongoing charges for equity and fixed-income UCITS have declined 21 percent and 32 percent, respectively. In 2022, the asset-weighted average ongoing charge for equity funds fell to 1.18 percent from 1.21 percent in 2021. In other words, for every €100 invested in 2022, fund shareholders were charged €1.18 in ongoing fees. Additionally, the asset-weighted average ongoing charges for equity and fixed-income funds were below their respective simple averages, which indicates that investors tend to concentrate their assets in lower-cost funds.

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* European Securities and Markets Authority, *Final Report on the 2021 CSA on Costs and Fees*. Available at www.esma.europa.eu/sites/default/files/library/esma34-45-1673_final_report_on_the_2021_csa_on_costs_and_fees.pdf.

† European Securities and Markets Authority, *Costs and Performance of EU Retail Investment Products 2023*. Available at www.esma.europa.eu/sites/default/files/2023-12/ESMA50-524821-3052_Market_Report_on_Costs_and_Performance_of_EU_Retail_Investment_Products.pdf.

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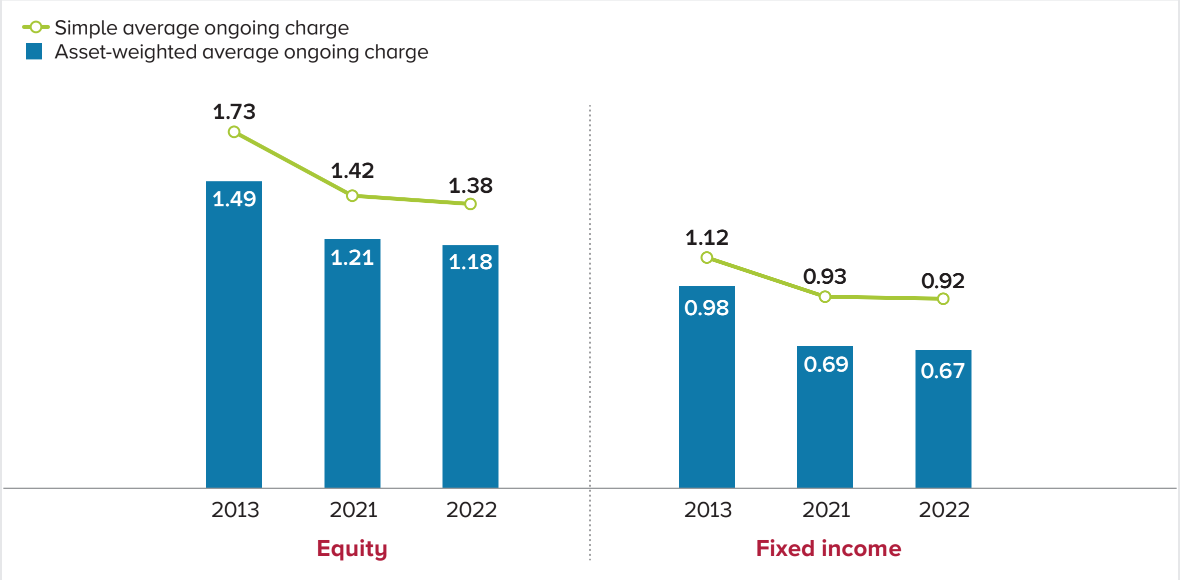
Ongoing Charges for UCITS in the European Union, 2022
www.ici.org/files/2023/per29-08.pdf

Ongoing Charges for UCITS in the European Union, CONTINUED

FIGURE 1.6

Investors in UCITS Pay Below-Average Ongoing Charges

Percent



Note: Data exclude ETFs.

Source: Investment Company Institute calculations of Morningstar Direct data. See *ICI Research Perspective*, "Ongoing Charges for UCITS in the European Union, 2022."

Worldwide Net Sales of Money Market Funds

Worldwide net sales of money market funds totaled $1.5 trillion in 2023, up from $161 billion in 2022 (Figure 1.7). The increase in worldwide demand for money market funds was spread across all geographical regions but was primarily driven by a substantial increase in net inflows in the United States. Investor demand for money market funds in the United States increased from $1 billion in 2022 to $1.1 trillion in 2023. In the Asia-Pacific region, money market funds experienced net inflows of $136 billion in 2023, about even with the net inflows of $132 billion in 2022.

Investors use money market funds because they are professionally managed, tightly regulated vehicles with holdings limited to high-quality, short-term debt instruments. As such, they are highly liquid, attractive, cash-like alternatives to bank deposits. Generally, demand for money market funds is dependent upon their yields and interest rate risk exposure relative to other high-quality fixed-income securities.

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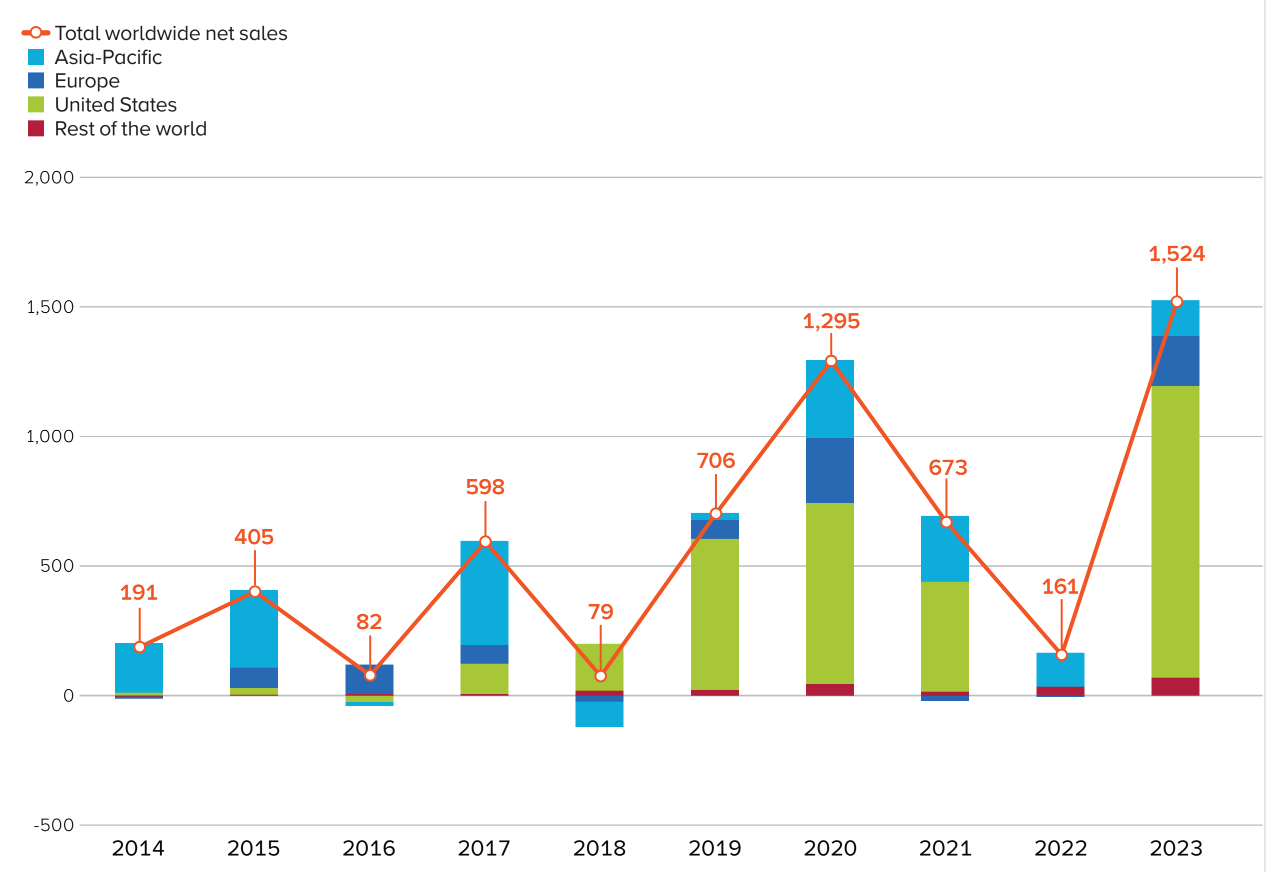
In the United States, net sales of money market funds increased because of heightened demand from both retail and institutional investors. In 2023, money market fund yields reached their highest level in more than 15 years. Both retail and institutional investors were attracted to the high market yields and low interest rate risk offered by money market funds, especially in light of the substantial interest rate volatility that bond funds were experiencing during this time.

Demand for money market funds in the Asia-Pacific region is dominated by Chinese money market funds, which hold the bulk of money market fund total net assets in the region. The People's Bank of China lowered interest rates further in 2023, decreasing the official one-year Loan Prime Rate to 3.45 percent. The reduction in the short-term interest rate was in response to sluggish economic performance. Regardless, net inflows into money market funds in the Asia-Pacific region remained positive for the year.

FIGURE 1.7

Worldwide Net Sales of Money Market Funds Increased Sharply in 2023

Billions of US dollars by region, annual



Source: International Investment Funds Association

Size of Worldwide Regulated Funds in Global Capital Markets

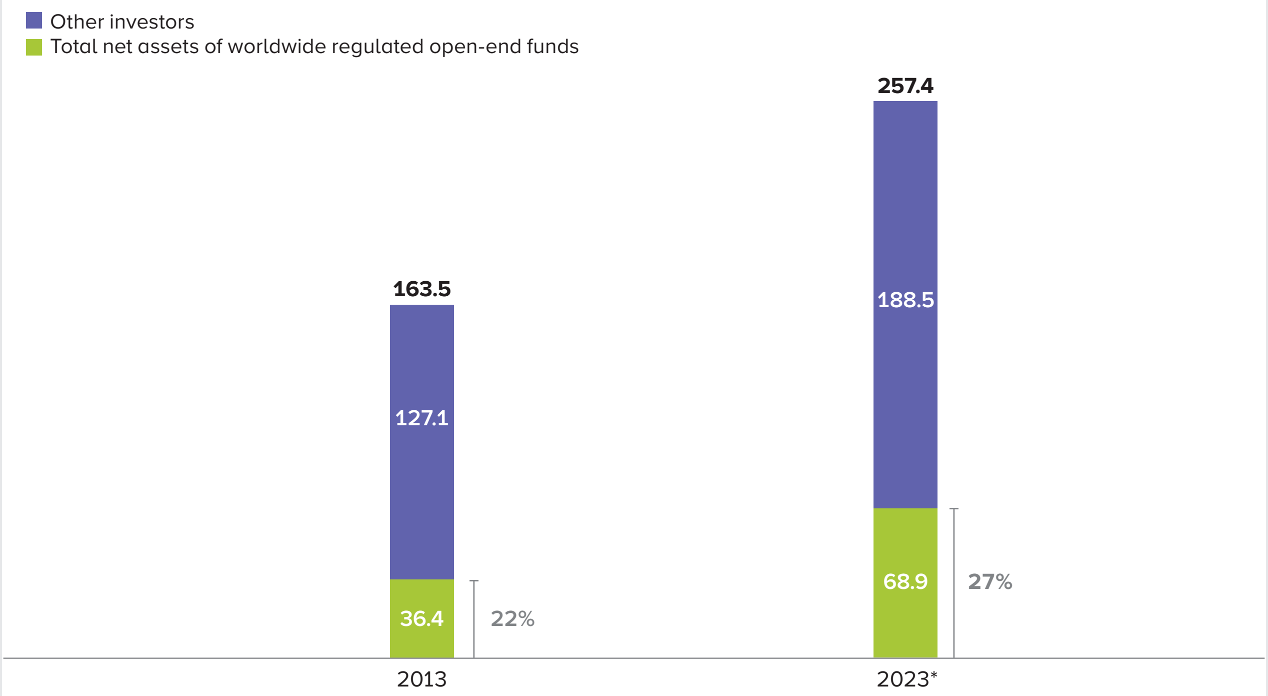
Regulated funds continue to be an important conduit for allocating capital globally, helping finance businesses, governments, and household activities. As of year-end 2023, worldwide capital markets, as measured by the value of equity and debt securities outstanding, totaled $257.4 trillion, of which regulated funds' net assets were 27 percent, or $68.9 trillion (Figure 1.8).

The share of worldwide capital markets held by regulated funds has grown over the past decade. In 2023, worldwide regulated funds held 27 percent of worldwide capital markets, compared with 22 percent in 2013. The remaining 73 percent were held by a wide range of other investors, such as central banks, sovereign wealth funds, pension plans (both defined benefit and defined contribution), banks, insurance companies, hedge funds and private equity funds, broker-dealers, and households' direct holdings of stocks and bonds.

FIGURE 1.8

Worldwide Regulated Funds Held 27 Percent of Worldwide Equity and Debt Markets

Trillions of US dollars, year-end



* Data for worldwide debt markets are as of September 30, 2023.

Note: Regulated open-end funds include mutual funds, ETFs, and institutional funds.

Source: Investment Company Institute calculations of data from the International Investment Funds Association, World Federation of Exchanges, Bank for International Settlements, and Refinitiv

Fund Ownership in Market-Based Versus Bank-Based Economies

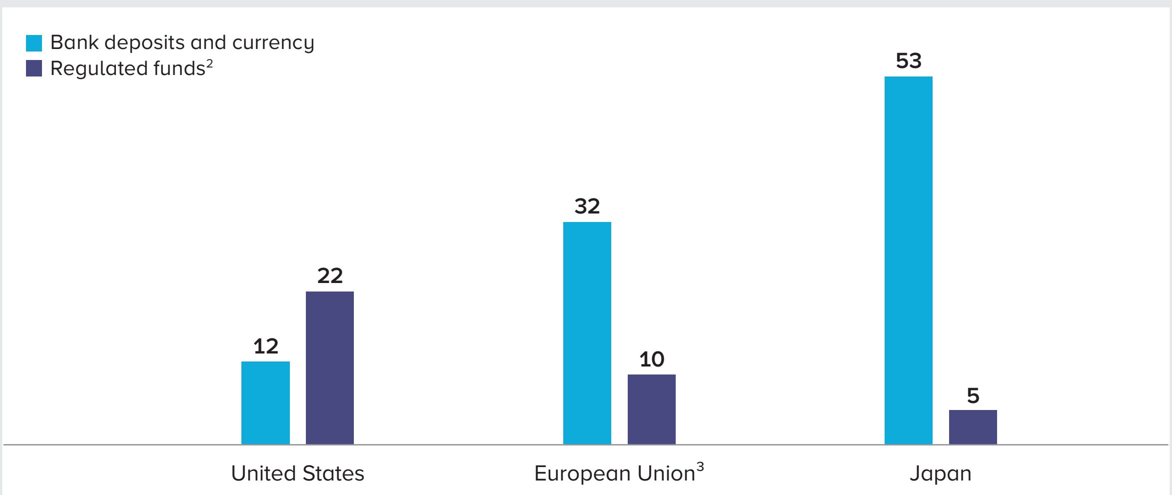
Generally speaking, a jurisdiction's financial system can be described as either market-based or bank-based depending on how its economy deploys savings and raises capital for the production of goods and services. For example, many jurisdictions within the European Union are considered to have bank-based economies, since banks are more often used to mobilize investor savings and allocate capital. Conversely, the United States is usually considered a market-based economy since capital markets are the main conduit for investor savings and deploying capital. The structure of capital allocation in an economy is a factor that can influence the demand for regulated funds because they tend to make up a greater share of household wealth in market-based economies.

In the European Union and Japan, where investors have traditionally allocated savings and capital to banks, households hold more of their financial wealth in bank products. European and Japanese households hold 32 percent and 53 percent, respectively, of their financial wealth in banks, with a more modest share in regulated funds (Figure 1.9). By comparison, households in the United States hold a much lower share of their financial wealth in banks and a much larger share in regulated funds.

FIGURE 1.9

US Households Hold More of Their Wealth in Regulated Funds; Bank-Centric Countries Have a Lower Share

Percentage of household[1] financial wealth, year-end 2023



[1] Households include households and nonprofit institutions serving households.

[2] For the United States, regulated funds include total net assets held by mutual funds and ETFs. For the European Union and Japan, regulated funds include investment fund shares as defined by their respective systems of national accounts.

[3] Data for Poland are as of 2023:Q3.

Sources: Investment Company Institute, Federal Reserve Board, Eurostat, and Bank of Japan