CHAPTER 2

US-Registered Investment Companies

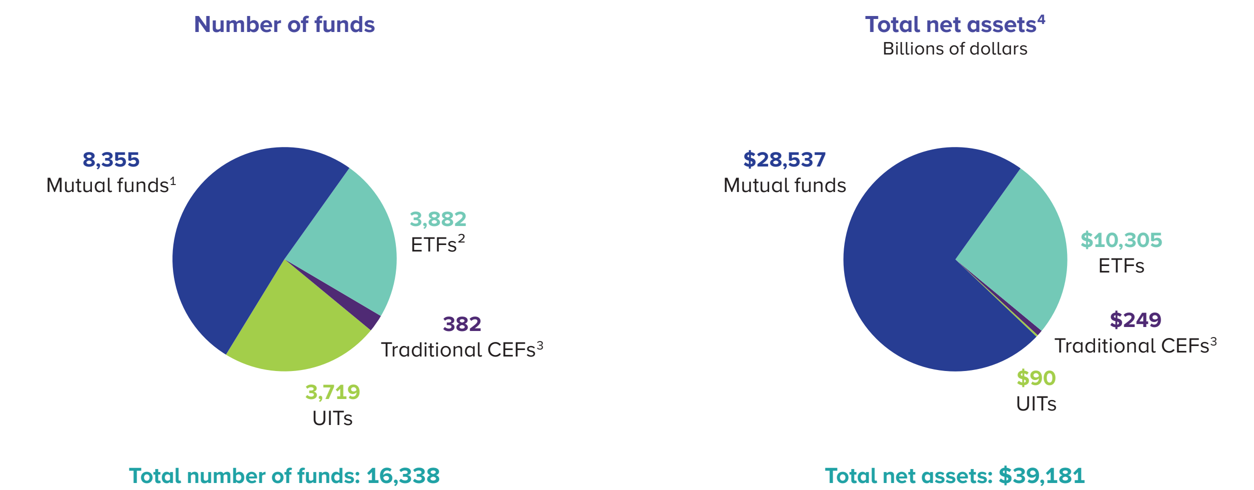
Registered investment companies are an important segment of the asset management industry in the United States. US-registered investment companies play a major role in the US economy and financial markets and a growing role in global financial markets. These funds managed $39.2 trillion in total net assets at year-end 2024, largely on behalf of more than 125 million US retail investors. The industry has experienced robust growth over the past three decades from asset appreciation and strong demand from households due to rising household wealth, the aging US population, and the evolution of employer-based retirement systems. US funds supply investment capital to securities markets around the world and are important investors in the US stock, bond, and money markets.

IN THIS CHAPTER

Number and Assets of Investment Companies

There were 16,338 investment companies* offered by US financial services companies at year-end 2024 (Figure 2.1). The overall number of investment companies has fluctuated modestly over the past decade as substantial growth in the number of exchange-traded funds (ETFs) has generally been offset by decreases in the number of unit investment trusts (UITs), mutual funds, and traditional closed-end funds (CEFs).

FIGURE 2.1
Most Investment Company Total Net Assets Are in Mutual Funds
Year-end 2024



[1] Mutual fund data for number of funds include mutual funds that invest primarily in other mutual funds.
[2] ETF data for number of funds include ETFs that invest primarily in other ETFs.
[3] CEF data include only traditional CEFs. CEF data for total net assets include preferred share classes.
[4] Total investment company assets include mutual fund holdings of CEFs and ETFs.

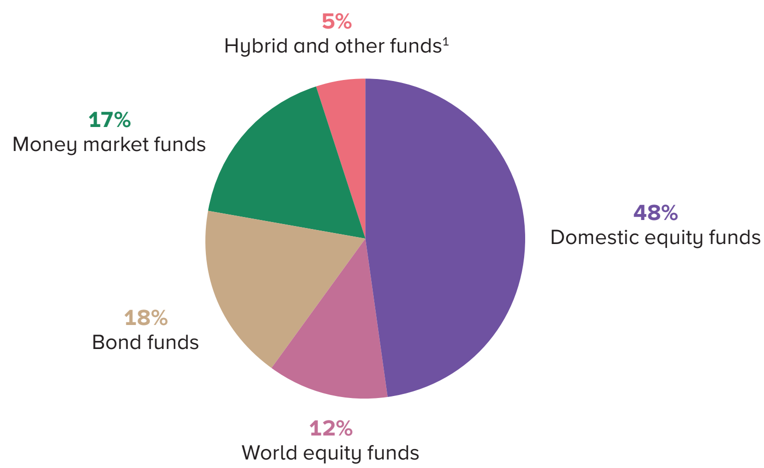
* The terms *investment companies* and *US investment companies* are used at times throughout this book in place of *US-registered investment companies*. US-registered investment companies are open-end mutual funds, ETFs, traditional CEFs, and UITs.

Total net assets in US-registered investment companies increased in 2024 to a year-end level of $39.2 trillion, with the vast majority held by mutual funds and ETFs (Figure 2.1). US-registered investment company total net assets were concentrated in long-term funds, with equity funds alone holding $23.5 trillion—60 percent of all investment company total net assets at year-end 2024 (Figure 2.2). Domestic equity funds (those that invest primarily in shares of US corporations) held $19.0 trillion in net assets; world equity funds (those that invest significantly in shares of non-US corporations) accounted for $4.6 trillion. Bond funds held $7.0 trillion in assets, while money market funds, hybrid funds, and other funds—such as those that invest primarily in commodities—held the remaining $8.7 trillion.

FIGURE 2.2

The Majority of Investment Company Total Net Assets Were in Equity Funds

Percentage of total net assets, year-end 2024



Investment company total net assets:[2] $39.2 trillion

[1] The *other funds* category includes ETFs—both registered and not registered under the Investment Company Act of 1940—that invest primarily in commodities, currencies, and futures.

[2] Total investment company assets include mutual fund holdings of CEFs and ETFs. CEF data include only traditional CEFs. CEF data for total net assets include preferred share classes.

During 2024, mutual funds recorded an aggregate $127 billion in positive net new cash flow as demand for money market funds more than offset outflows from long-term mutual funds (see Figure 3.3). Mutual fund shareholders reinvested $616 billion in income dividends and $512 billion in capital gains distributions that mutual funds paid out during the year. Investors continued to show strong demand for ETFs, with net share issuance (which includes reinvested dividends) exceeding $1.1 trillion in 2024 (see Figure 4.4). UITs experienced total deposits of nearly $61 billion and traditional CEFs had net redemptions of $1 billion (see Figure 5.2).

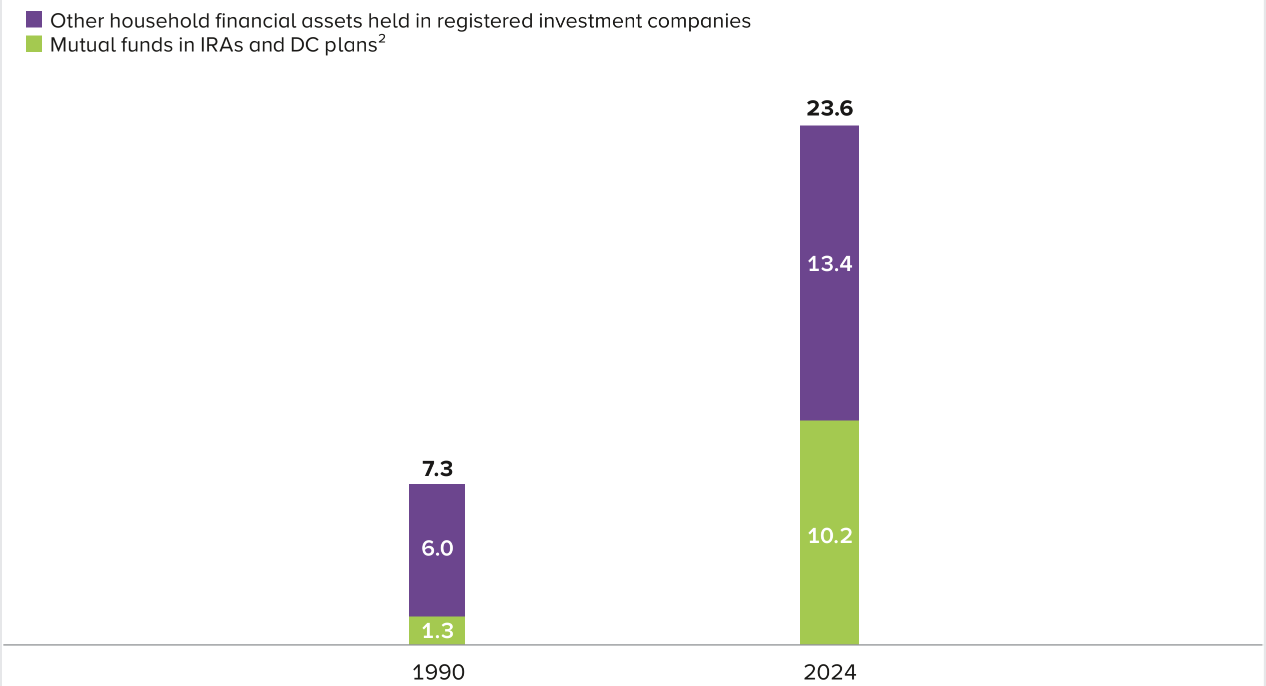
Americans' Continued Reliance on Investment Companies

Households make up the largest group of investors in funds, and registered investment companies managed 23.6 percent of household financial assets at year-end 2024 (Figure 2.3). The growth of mutual funds inside individual retirement accounts (IRAs) and defined contribution (DC) plans, particularly 401(k) plans, explains some of the increased household reliance on investment companies in the past three decades. Mutual funds in IRAs and DC plans made up 10.2 percent of household financial assets at year-end 2024, up from 1.3 percent in 1990.

FIGURE 2.3

Households Rely More on Investment Companies—Partly from Increased Holdings Inside DC Plans and IRAs

Percentage of US household financial assets,[1] year-end



[1] Household financial assets held in registered investment companies include holdings of mutual funds, ETFs, CEFs, and UITs. Mutual funds held in employer-sponsored DC plans, IRAs, variable annuities, 529 plans, and Coverdell education savings accounts are included.

[2] DC plans include private-sector employer-sponsored DC plans (such as 401(k) plans), 403(b) plans, and 457 plans.

Sources: Investment Company Institute and Federal Reserve Board

Businesses and other institutional investors also rely on funds. For instance, institutions can use money market funds to manage some of their cash and other short-term assets. Institutional investors also have contributed to the growing demand for ETFs. Investment managers—for mutual funds, pension funds, hedge funds, and insurance companies—use ETFs to invest in markets, manage liquidity and investor flows, or hedge their exposures.

Role of Investment Companies in Financial Markets

Investment companies have been important investors in domestic financial markets for much of the past 30 years. They have held a largely stable share of the securities outstanding across a variety of asset classes in recent years, mainly through mutual funds. At year-end 2024, investment companies held 32 percent of US corporate equities outstanding (Figure 2.4).

Investment companies held 24 percent of bonds issued by US corporations and foreign bonds held by US residents at year-end 2024 and 17 percent of the US Treasury and government agency securities outstanding. Investment companies also have been important investors in the US municipal securities market, holding 28 percent of the securities outstanding at year-end 2024. Finally, mutual funds (primarily prime money market funds) held 24 percent of the US commercial paper market—a critical source of short-term funding for many major corporations around the world.

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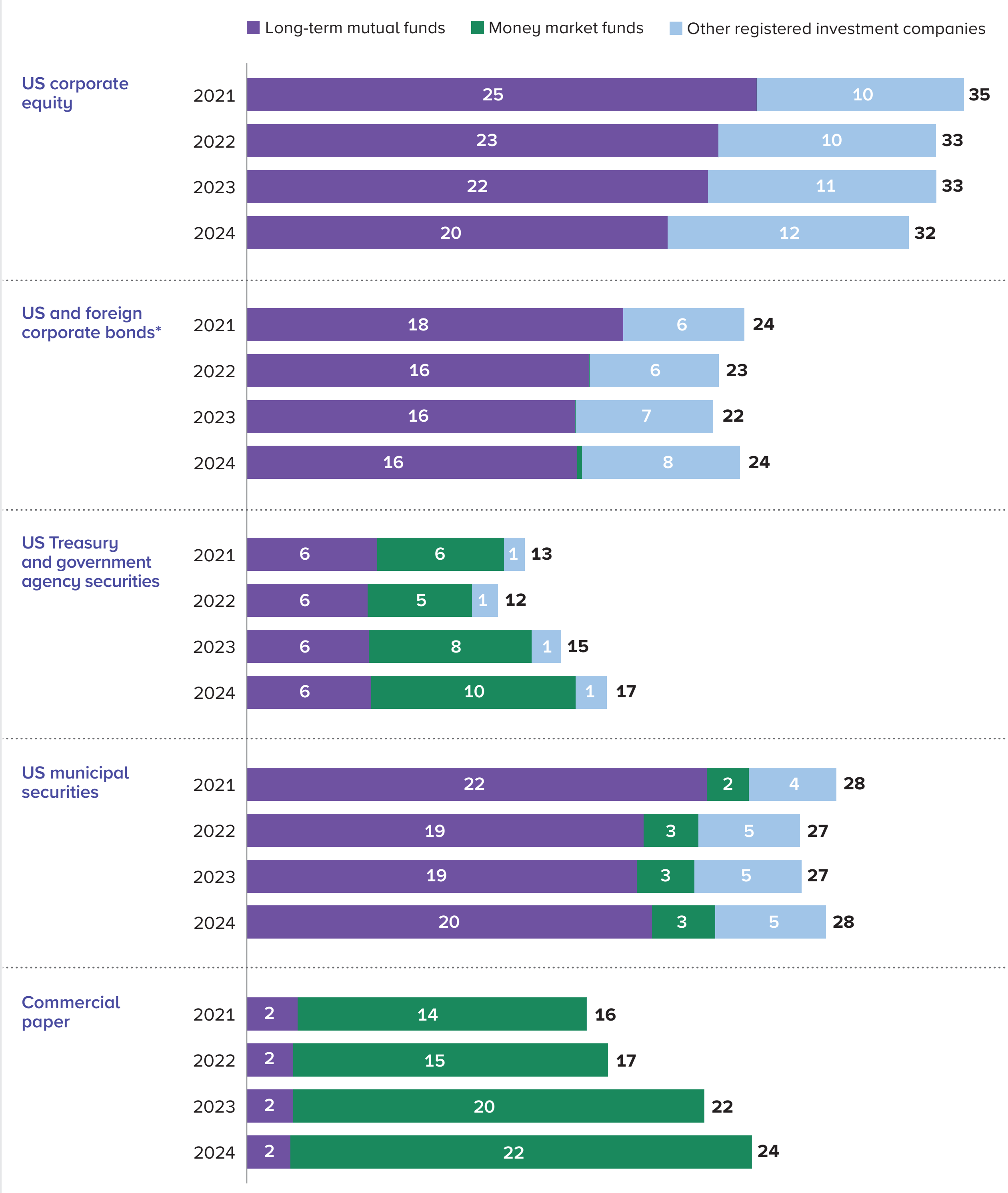
FIGURE 2.4

Investment Companies Channel Investment to Stock, Bond, and Money Markets

Percentage of total market value of securities held by investment companies, year-end



* Money market fund holdings of US and foreign corporate bonds were less than 0.25 percent in all years.

Sources: Investment Company Institute, Federal Reserve Board, and World Federation of Exchanges

Growth of Index Funds

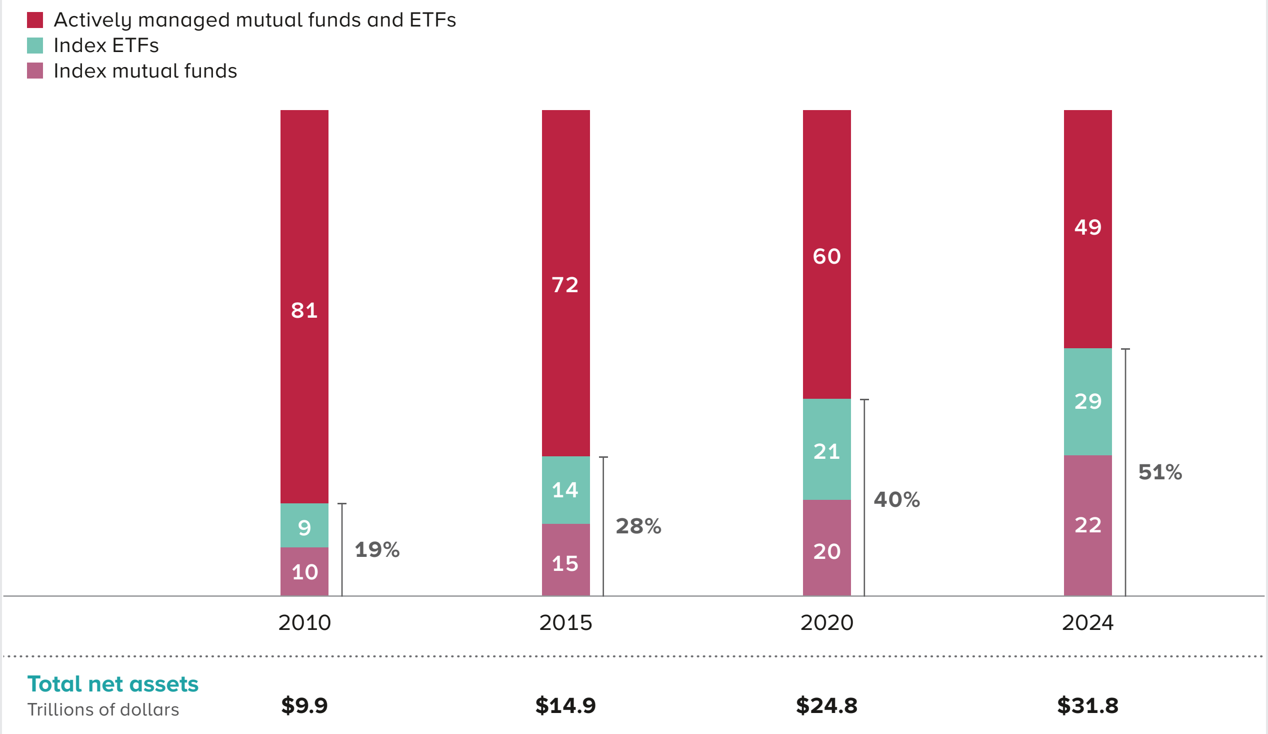
Index funds are designed to track the performance of a market index. To do this, the fund manager purchases all the securities in the index or a representative sample of them—mirroring the index composition—so that the performance of the fund tracks the value of the index. This approach to portfolio management is the primary reason that index funds tend to have below-average expense ratios (see Figures 6.4 and 6.5).

Index mutual funds were first offered in the 1970s, followed by index ETFs in the 1990s. By year-end 2024, total net assets in these two index fund categories had grown to $16.2 trillion. Along with this growth, index fund assets have become a larger share of overall fund assets. At year-end 2024, index mutual funds and index ETFs together accounted for the majority (51 percent) of assets in long-term funds, up from 19 percent at year-end 2010 (Figure 2.5).

FIGURE 2.5

Index Funds Have Grown as a Share of the Fund Market

Percentage of long-term total net assets, year-end



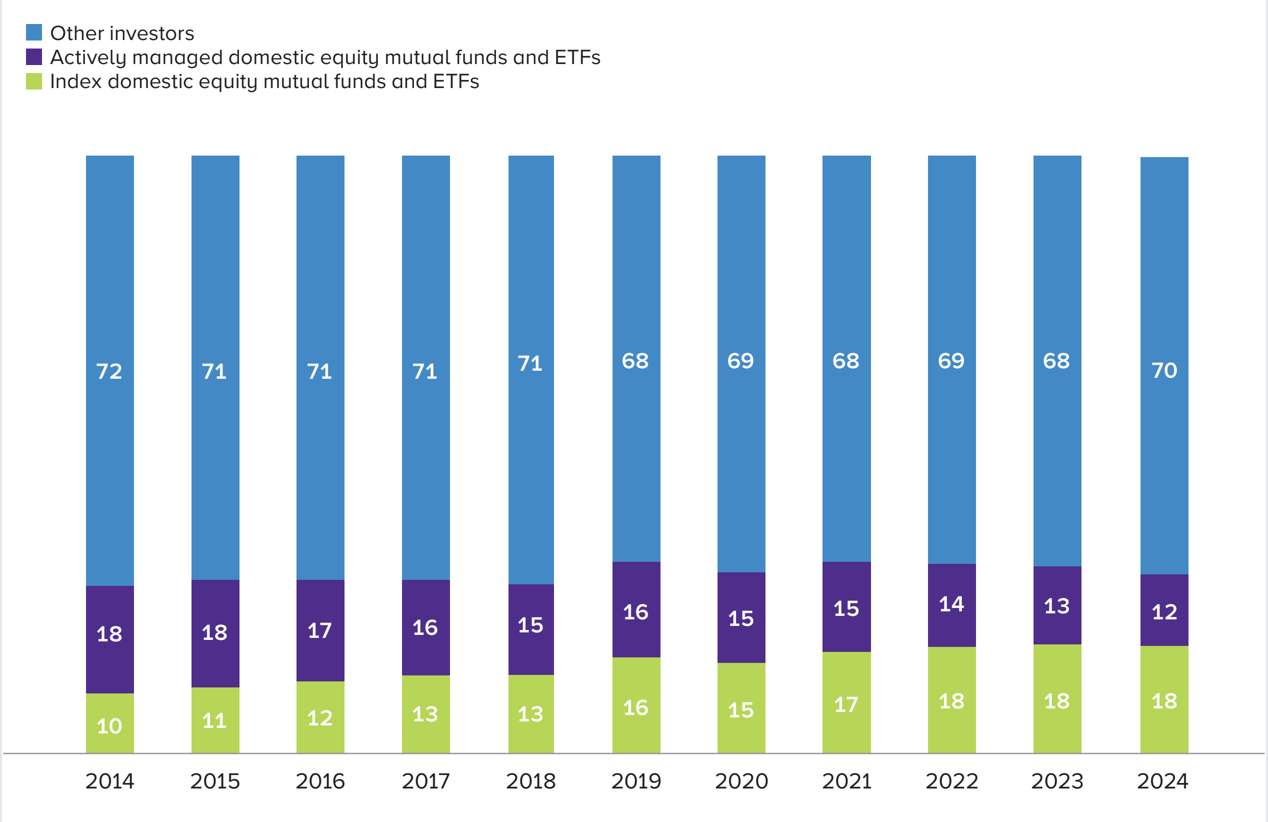
Note: Data exclude money market funds. Data for ETFs exclude commodity ETFs.

The growth in index funds has been concentrated in funds that invest primarily in US equities, with 45 percent of inflows into index funds over the past decade going to domestic equity funds. But despite their significant growth, index domestic equity mutual funds and ETFs remain relatively small investors in the US stock markets, holding only 18 percent of the value of US stocks at year-end 2024 (Figure 2.6). Actively managed domestic equity mutual funds and ETFs held another 12 percent, while other investors—including hedge funds, pension funds, life insurance companies, and individuals—held the majority (70 percent).

FIGURE **2.6**

Index Domestic Equity Fund Share of US Stock Market Is Small

Percentage of US stock market capitalization, year-end



Sources: Investment Company Institute and World Federation of Exchanges

Unit Investment Trusts

Unit investment trusts (UITs) are registered investment companies with characteristics of both mutual funds and traditional CEFs. Like mutual funds, UITs issue redeemable shares (called units), and like traditional CEFs, they typically issue a specific, fixed number of shares. But unlike either mutual funds or traditional CEFs, UITs have a preset termination date based on the portfolio's investments and the UIT's investment goals. UITs investing in long-term bonds might have a preset termination date of 20 to 30 years, depending on the maturity of the bonds they hold. UITs investing in stocks might seek to capture capital appreciation in a few years or less. When a UIT terminates, proceeds from the securities are paid to unit holders or, at a unit holder's election, reinvested in another trust.

UITs fall into two main categories: debt (or bond) trusts and equity trusts. Debt trusts are classified as taxable or tax-free; equity trusts are classified as domestic or international/global. The first UIT, introduced in 1961, held tax-free bonds, and historically, most UIT total net assets were invested in bonds. Equity UITs, however, have grown in popularity over the past three decades. At year-end 2024, assets in equity UITs far exceeded those of bond UITs, constituting 95 percent of UIT total net assets (Figure 2.7). The number of trusts outstanding has decreased, as sponsors have created fewer new trusts and existing trusts have reached their preset termination dates.

Federal law requires that UITs have a largely fixed portfolio—one that is not actively managed or traded. Once the trust's portfolio has been selected, its composition may change only in very limited circumstances. Most UITs hold a diversified portfolio, described in detail in the prospectus, with securities professionally selected to meet a stated investment goal, such as growth, income, or capital appreciation.

Investors can obtain UIT price quotes from brokerage or investment firms and investment company websites. Some UITs list their prices on the Nasdaq Fund Network. Some broker-dealers offer their own trusts or sell trusts offered by nationally recognized independent sponsors. Units of these trusts can be bought through their registered representatives. Units can also be bought from the representatives of smaller investment firms that sell trusts sponsored by third-party firms.

Though a fixed number of units of a UIT are sold in a public offering, a trust sponsor is likely to maintain a secondary market, where investors can sell their units back to the sponsor and other investors can buy those units. Even absent a secondary market, UITs are required by law to redeem outstanding units at their net asset value (NAV), which is based on the underlying securities' current market value.

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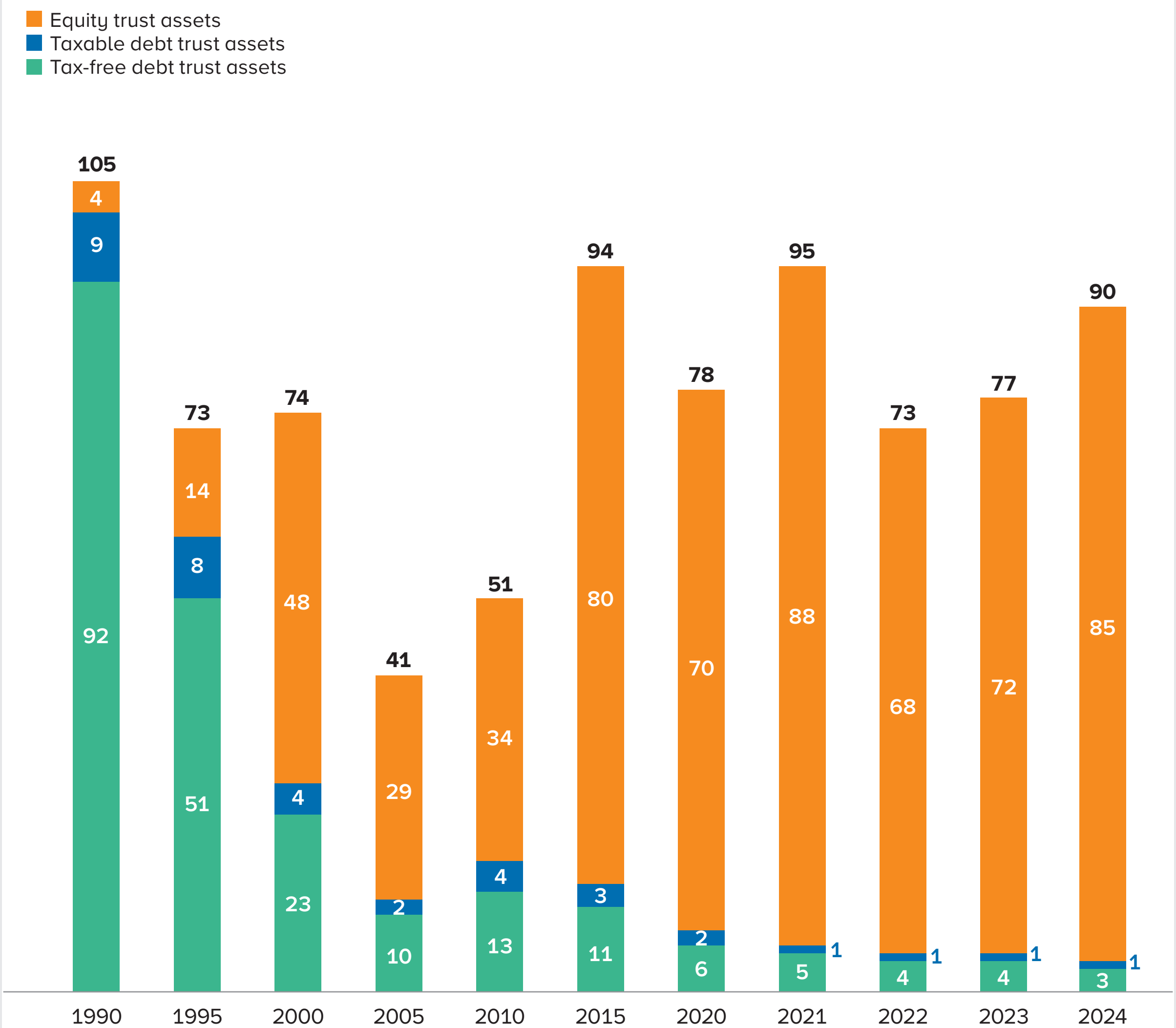
FIGURE 2.7

Total Net Assets of UITs Have Shifted from Tax-Free Debt Trusts to Equity Trusts

Billions of dollars, year-end



Total number of trusts

1990	1995	2000	2005	2010	2015	2020	2021	2022	2023	2024
12,131	12,979	10,072	6,019	5,971	5,188	4,310	4,112	3,966	3,750	3,719

Unit Investment Trust Data

www.ici.org/research/stats/uit

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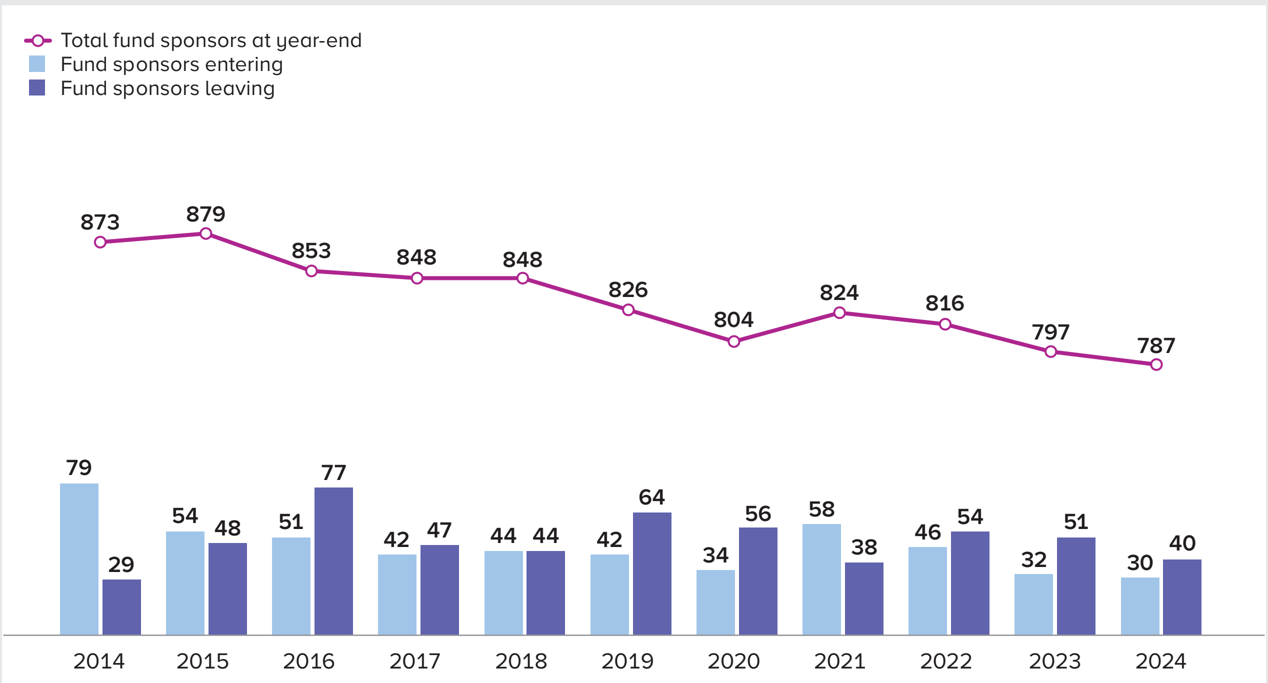
Fund Complexes and Sponsors

At year-end 2024, 787 fund sponsors from around the world competed in the US market to provide investment management services to fund investors (Figure 2.8). The decline in the number of fund sponsors since year-end 2015 may be due to a variety of business decisions, including larger fund sponsors acquiring smaller ones, fund sponsors liquidating funds and leaving the business, or larger sponsors selling their advisory businesses. Prior to 2015, the number of fund sponsors had been increasing as the economy and financial markets recovered from the 2007–2009 financial crisis. Overall, from year-end 2014 through year-end 2024, 433 sponsors entered the market while 519 left, for a net decrease of 86.

FIGURE 2.8

Number of Fund Sponsors Has Generally Declined Since 2015



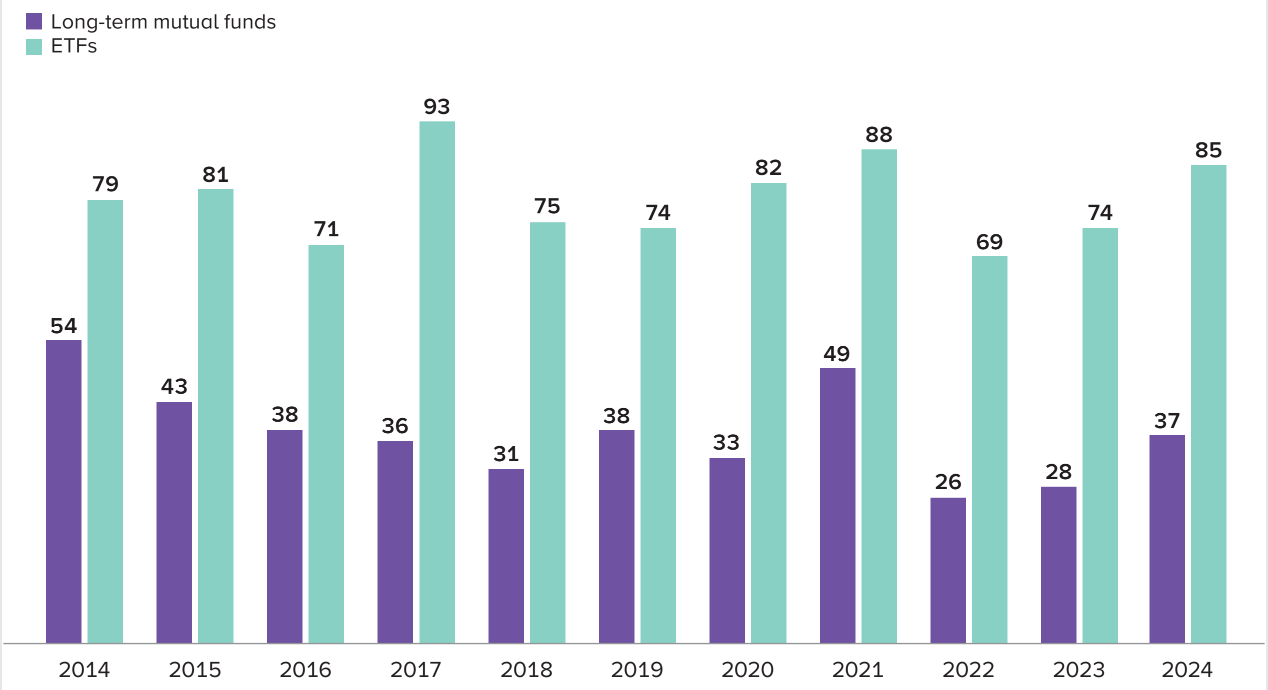
Many recent entrants to the fund industry have adopted solutions in which the fund's sponsor arranges for a third party to provide certain services (e.g., audit, trustee, some legal) through a turnkey setup. This allows the sponsor to focus more on managing portfolios and gathering assets. Through an arrangement known as a series trust, the third party provides services to multiple independent fund sponsors under a single complex that serves as an "umbrella." This can be cost-efficient because the costs of operating funds are spread across the combined assets of a number of funds in the series trust.

The increased availability of other investment products has led to changes in how investors are allocating their portfolios. The percentage of mutual fund companies retaining assets and attracting net new investments generally has been lower in recent years. In 2024, 37 percent of fund complexes saw positive flows to their long-term mutual funds, while 85 percent of ETF sponsors had positive net share issuance (Figure 2.9).

FIGURE 2.9

Easier Access to Other Investment Products Has Dampened Inflows into Long-Term Mutual Funds

Percentage of fund complexes with positive net flows



Note: Long-term mutual fund data include net new cash flow and reinvested dividends; ETF data for net share issuance include reinvested dividends.

The concentration of mutual fund and ETF assets managed by the largest fund complexes has increased over time. The share of assets managed by the five largest firms rose from 35 percent at year-end 2005 to 57 percent at year-end 2024 (Figure 2.10). Some of the increase in market share occurred at the expense of the middle tier of firms—those ranked from 11 to 25—whose market share fell from 21 percent in 2005 to 14 percent in 2024.

FIGURE 2.10

Share of Mutual Fund and ETF Assets at the Largest Fund Complexes Has Increased

Percentage of total net assets of mutual funds and ETFs, year-end

	2005	2010	2015	2020	2021	2022	2023	2024
Largest 5 complexes	35	42	45	53	54	55	56	57
Largest 10 complexes	46	55	56	64	66	68	69	71
Largest 25 complexes	67	74	75	81	83	84	85	85

Note: Data for ETFs exclude non–1940 Act ETFs.

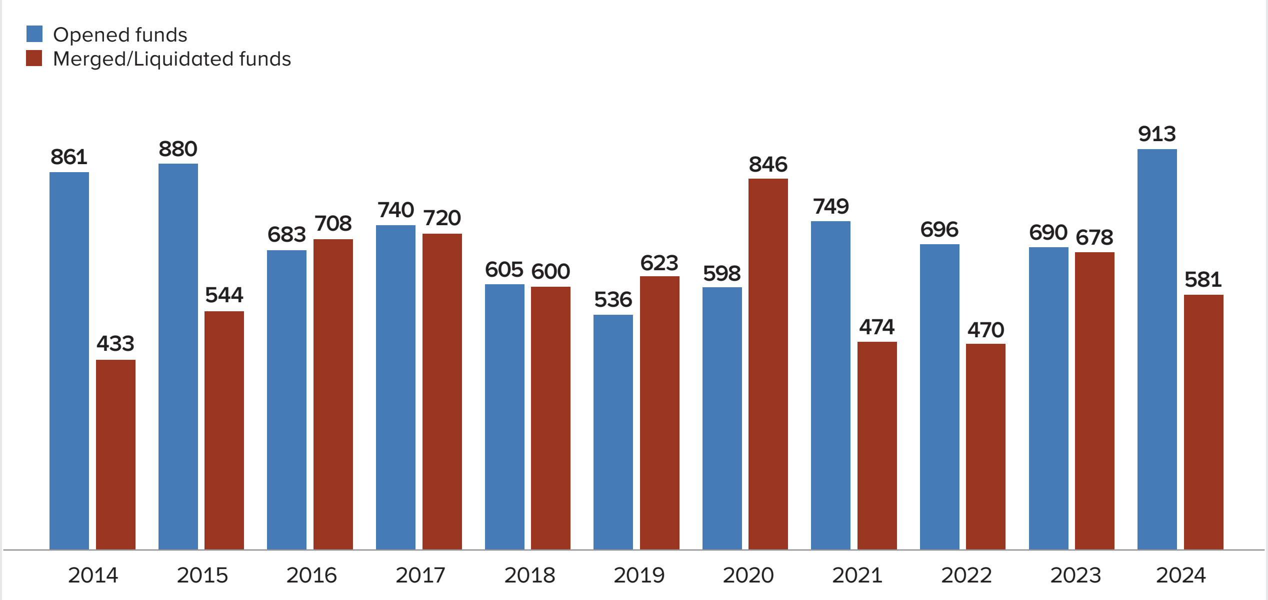
At least two factors have contributed to the rise in industry concentration. First, the increased concentration reflects the growing popularity of index funds—the 10 largest fund complexes manage most of the assets in index mutual funds. Actively managed domestic equity mutual funds had outflows in every year after 2005, while index domestic equity mutual funds and index domestic equity ETFs have generally experienced inflows over this period. Second, generally strong inflows over the past decade to bond mutual funds and ETFs (see Figures 3.7 and 4.4), which are fewer in number and are less likely to be offered by smaller fund sponsors, helped boost the share of assets managed by large fund complexes.

Macroeconomic conditions and competitive dynamics can affect the supply of funds offered for sale. Fund sponsors create new funds to meet investor demand and merge or liquidate those that do not attract sufficient investor interest. A total of 913 mutual funds and ETFs opened in 2024, up substantially from 690 in 2023 and higher than the 2014–2023 annual average of 704 (Figure 2.11). The number of mutual fund and ETF mergers and liquidations decreased from 678 in 2023 to 581 in 2024.

FIGURE 2.11

Mutual Funds and ETFs Enter and Exit in a Competitive Market

Number of funds



Note: Data include mutual funds that do not report statistical information to the Investment Company Institute and mutual funds that invest primarily in other mutual funds. ETF data include ETFs that invest primarily in other ETFs.

Fund Proxy Voting Reflects Heterogeneous Industry

Investment companies are shareholders of public companies and have held a steady share of US-issued corporate equities outstanding over the past several years (Figure 2.4). Like any company shareholder, they are entitled to vote on proxy proposals put forth by a company's board or its shareholders. Funds normally delegate proxy voting responsibilities to fund advisers, which have a fiduciary duty to vote in the best interest of fund shareholders.

During proxy year 2024 (the 12 months that ended June 30, 2024), shareholders of the 3,000 largest US public companies considered 26,739 proposals—98 percent (26,094) of these were proposed by management and 2 percent (645) were submitted by shareholders. Investment companies cast nearly 8.8 million votes on these proposals, with each investment company voting, on average, on more than 1,600 separate proxy proposals. Because management proposals account for the bulk of proxy proposals, 71 percent of funds' votes were cast on management proposals related to uncontested elections of directors, with an additional 11 percent and 9 percent related to management proposals on management compensation and ratification of audit firms, respectively.

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Fund Proxy Voting Reflects Heterogeneous Industry, CONTINUED

Investment companies voted in favor of management proposals 92 percent of the time. The strong support for management proxy proposals likely reflects that the vast majority of them are not controversial—83 percent of management proposals were uncontested elections of directors and ratifications of the audit firms that companies selected.

During the same proxy year, 4 percent of the votes that investment companies cast were on 645 shareholder proxy proposals. Among the shareholder proposals, 50 percent were related to social and environmental matters, 13 percent to board structures and elections, 13 percent to shareholder rights and anti-takeover issues, and the remainder to compensation matters and miscellaneous issues. Shareholder proxy proposals received support from investment companies, on average, 29 percent of the time.

Investment companies' support for shareholder proposals varied considerably depending on a range of factors. These factors included, among other things, the details of the proposal, the issuer to whom the proposal applied, and the backdrop and context in which the proposal was set. Investment companies tend to offer more support for shareholder proxy proposals that are likely to increase their rights as company shareholders. For example, investment companies voted in favor of shareholder proxy proposals related to shareholder rights or anti-takeover measures 68 percent of the time in proxy year 2024.

Investment companies, on average, have provided more limited support for social and environmental proposals. In proxy year 2024, these proposals received a favorable vote 21 percent of the time. Average levels of support can mask important nuances of how investment companies vote on such issues. These kinds of proposals, though classified generally as "social and environmental," cover a wide array of issues, including the environment, diversity in hiring practices, human rights matters, and the safety of a company's business operations.

In addition, these proposals must be viewed in context. For example, suppose virtually identical proposals are directed to two different companies. An investment company might view the proposal as appropriate for the first company, but inappropriate for the second because the latter has already taken steps to address the proposal's concerns.

In short, there is no one-size-fits-all description of how funds vote, other than to say that investment companies seek to vote in the interests of their shareholders and in a way that is consistent with their investment objectives and policies.

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Environmental, Social, and Governance Investing

Perhaps one of the most significant recent global trends is the increasing attention being paid to environmental, social, and governance (ESG) matters. These matters vary widely but are generally considered to include topics related to climate change, diversity and inclusion, human rights, the rights of company shareholders, and company compensation structures. The fund industry is responding to increased investor interest in ESG investing by, among other things, creating new funds that explicitly tailor their investments to specific ESG criteria.

Funds consider ESG factors to varying degrees. For decades, some funds have incorporated ESG factors into their investment processes as a way to enhance fund performance, manage investment risks, and identify emerging investment risks and opportunities. These factors are considered just as they would with macroeconomic or interest rate risks, idiosyncratic business risks, and investment exposures to particular companies, industries, or geographical regions. Because these funds “integrate” ESG factors into the investment process, this type of investing is known as ESG integration.

Funds’ use of ESG integration is distinct from funds’ use of “sustainable investing strategies,” which use ESG analysis as a significant part of the fund’s investment thesis as a way to pursue investment returns and ESG-related outcomes.

Approaches to ESG Investing

The investment strategies funds use vary, as do the ways they describe their approaches. This section describes some of the most common approaches.

- **Exclusionary investing:** Investment strategies that exclude, or “screen out,” investments in particular industries or companies that do not meet certain ESG criteria. This may also be described as negative screening, sustainable investing, or socially responsible investing (SRI).
- **Inclusionary investing:** Investment strategies that generally seek investment returns by pursuing a strategic investing thesis focusing on investments that systematically tilt a portfolio based on ESG factors alongside traditional financial analysis. This may also be described as best-in-class, ESG thematic investing, ESG tilt, positive screening, or sustainable investing.
- **Impact investing:** Investment strategies that seek to generate positive, measurable social and environmental impact alongside a financial return. This may also be described as community, goal-based, sustainable, or thematic investing.

These common approaches to ESG investing are not mutually exclusive—a single fund may use multiple approaches (e.g., a best-in-class fund that excludes certain types of investments). As a result, seeking to classify funds that invest according to ESG criteria as solely exclusionary, inclusionary, or impact can be challenging. Applying ICI’s long-standing general approach to classifying funds enables research into these funds (e.g., tracking data and monitoring trends).

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How ICI Categorizes Funds for Research and Statistical Purposes

ICI seeks to categorize funds as objectively as possible by applying predetermined rules and definitions to the prospectus language of mutual funds, ETFs, and CEFs, with a special focus on the "investment objective" and "principal investment strategies" sections.

For example, ICI Research uses prospectus language to determine which of four broad categories to place a fund in: equity, bond, hybrid, or money market. Funds are then placed in subcategories—for example, classifying equity funds as large-, mid-, or small-cap, or classifying bond funds as investment grade or high-yield. To keep fund classifications up to date, ICI monitors funds' prospectuses for material revisions.

This approach produces fund classifications that are consistent and relatively stable, which is very helpful when monitoring current and historical trends in fund data.

Using ICI's Approach to Classify Funds That Invest According to ESG Criteria

ICI Research examines the prospectuses of funds to classify those that invest according to ESG criteria using the same approach that it does for other categories across all funds. In particular, ICI looks for language indicating that a fund places an important and explicit emphasis on environmental, social, or governance criteria to achieve certain goals.

Following this approach, in 2024, 842 mutual funds and ETFs with assets of $570 billion were classified generally as investing according to exclusionary, inclusionary, or impact investing ESG criteria (Figure 2.12). Even though net assets of ESG-criteria funds increased in 2024, the number of ESG-criteria funds decreased, which likely reflects the weaker demand for these funds over the past two years. Net outflows from ESG-criteria funds were $8 billion in 2023 and $13 billion in 2024 (Figure 2.13).

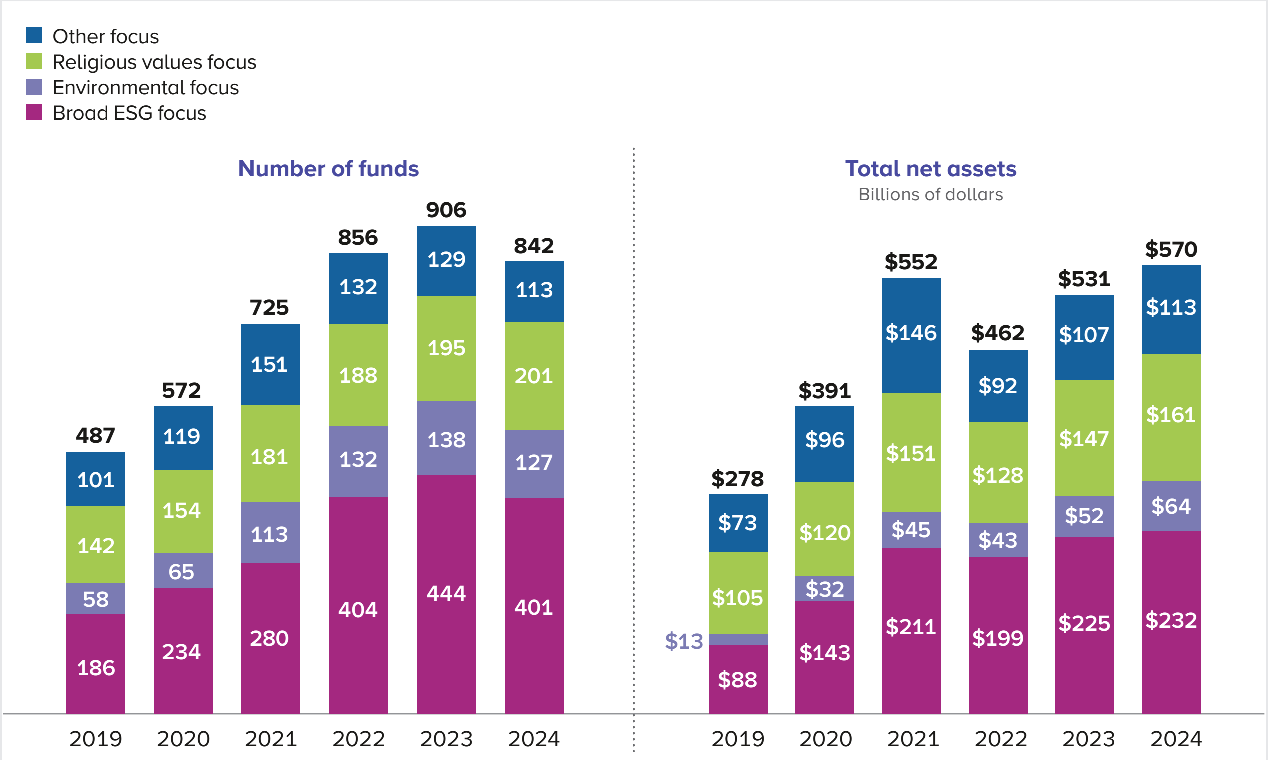
ICI classifies ESG-criteria funds into groups based on the frameworks or guidelines expressed at the forefront of their principal investment strategies sections.

- **Broad ESG focus:** These funds focus broadly on ESG matters. They consider all three elements of ESG (rather than focusing on one or two of the considerations) or may include ESG in their names. Index funds in this group may track a socially responsible index such as the MSCI KLD 400 Social Index.
- **Environmental focus:** These funds focus more narrowly on environmental matters. They may include terms such as alternative energy, climate change, clean energy, environmental solutions, or low carbon in their principal investment strategies or fund names.
- **Religious values focus:** These funds invest in accordance with specific religious values.
- **Other focus:** These funds focus more narrowly on some combination of environmental, social, and/or governance elements, but not all three. They often negatively screen to eliminate certain types of investments

FIGURE 2.12

Number of Funds That Invest According to ESG Criteria Decreased in 2024

By focus, year-end

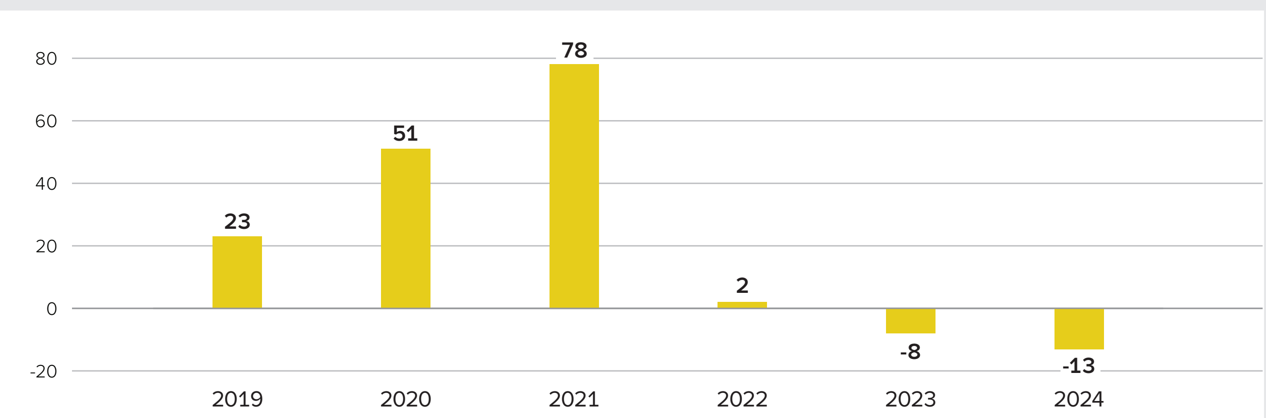


Note: Data include mutual funds and ETFs. Data include mutual funds that invest primarily in other mutual funds and ETFs that invest primarily in other ETFs.

FIGURE 2.13

ESG-Criteria Funds Continued to See Outflows in 2024

Net new cash flow to mutual funds and net share issuance of ETFs, billions of dollars, annual



Note: Data include mutual funds and ETFs. Data include mutual funds that invest primarily in other mutual funds and ETFs that invest primarily in other ETFs.

Investment Company Employment

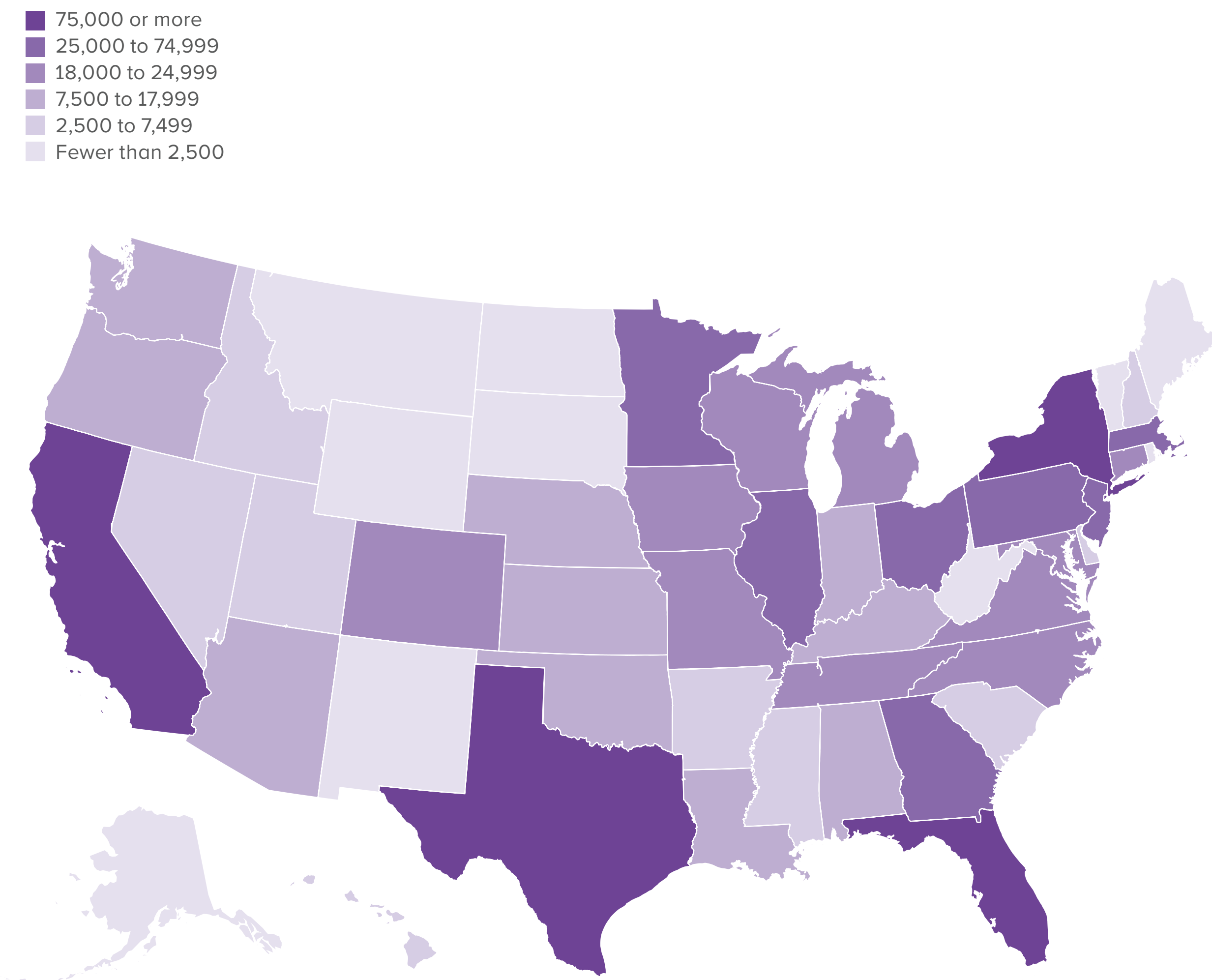
Registered investment companies typically do not have employees—instead, they contract with other businesses to provide services to the fund. Except for UITs, funds in the United States have fund boards that oversee the management of the fund and represent the interests of the fund shareholders. Fund boards must approve all major contracts between the fund and its service providers, including the advisory contract with a fund's investment adviser, who is usually also the fund's sponsor.

Fund sponsors and third-party service providers offer advisory, recordkeeping, administrative, custody, and other services to funds and their investors. Investment company–related employment in the United States was 1.1 million in 2023 (Figure 2.14). For many industries, employment tends to be concentrated in locations where the industry began. The same is true for investment companies: those located in Massachusetts and New York, early hubs of investment company operations, employ 16 percent of fund industry workers. As the industry has grown, other states—including California, Florida, and Texas—have become major centers of fund industry employment. Fund companies in these three states employed an additional 27 percent of US fund industry employees in 2023.

FIGURE 2.14

Investment Companies Provide Employment for 1.1 Million Individuals Across the United States

Estimated number of employees of fund sponsors and their service providers by state, 2023



Total investment company–related national employment: 1.1 million

Source: Investment Company Institute calculations of 2023 NAICS data from The Business Dynamics Research Consortium: a project of the University of Wisconsin, Institute for Business and Entrepreneurship