2025 Investment Company Fact Book

A Review of Trends and Activities in the Investment Company Industry

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2024 Facts at a Glance

Total worldwide assets invested in regulated open-end funds:* $73.9 trillion			
United States	Europe	Asia-Pacific	Rest of the world
$38.8 trillion	**$23.0 trillion**	**$8.1 trillion**	**$4.0 trillion**

US-registered investment company total net assets: $39.2 trillion			
Mutual funds	Exchange-traded funds	Traditional closed-end funds	Unit investment trusts
$28.5 trillion	**$10.3 trillion**	**$249 billion**	**$90 billion**

US-registered investment companies' share of:				
US corporate equity	US and foreign corporate bonds	US Treasury and government agency securities	US municipal securities	Commercial paper
32%	**24%**	**17%**	**28%**	**24%**

US household ownership of US-registered funds				
Number of households owning funds	Number of individuals owning funds	Percentage of households owning funds	Median mutual fund assets of mutual fund–owning households	Median number of mutual funds owned
74.0 million	**126.8 million**	**56.0%**	**$125,000**	**3**

US retirement market		
Total retirement market assets	Percentage of households with tax-advantaged retirement savings	DC plan and IRA assets invested in mutual funds
$44.1 trillion	**74%**	**$13.2 trillion**

* Regulated open-end funds include mutual funds, exchange-traded funds (ETFs), and institutional funds.

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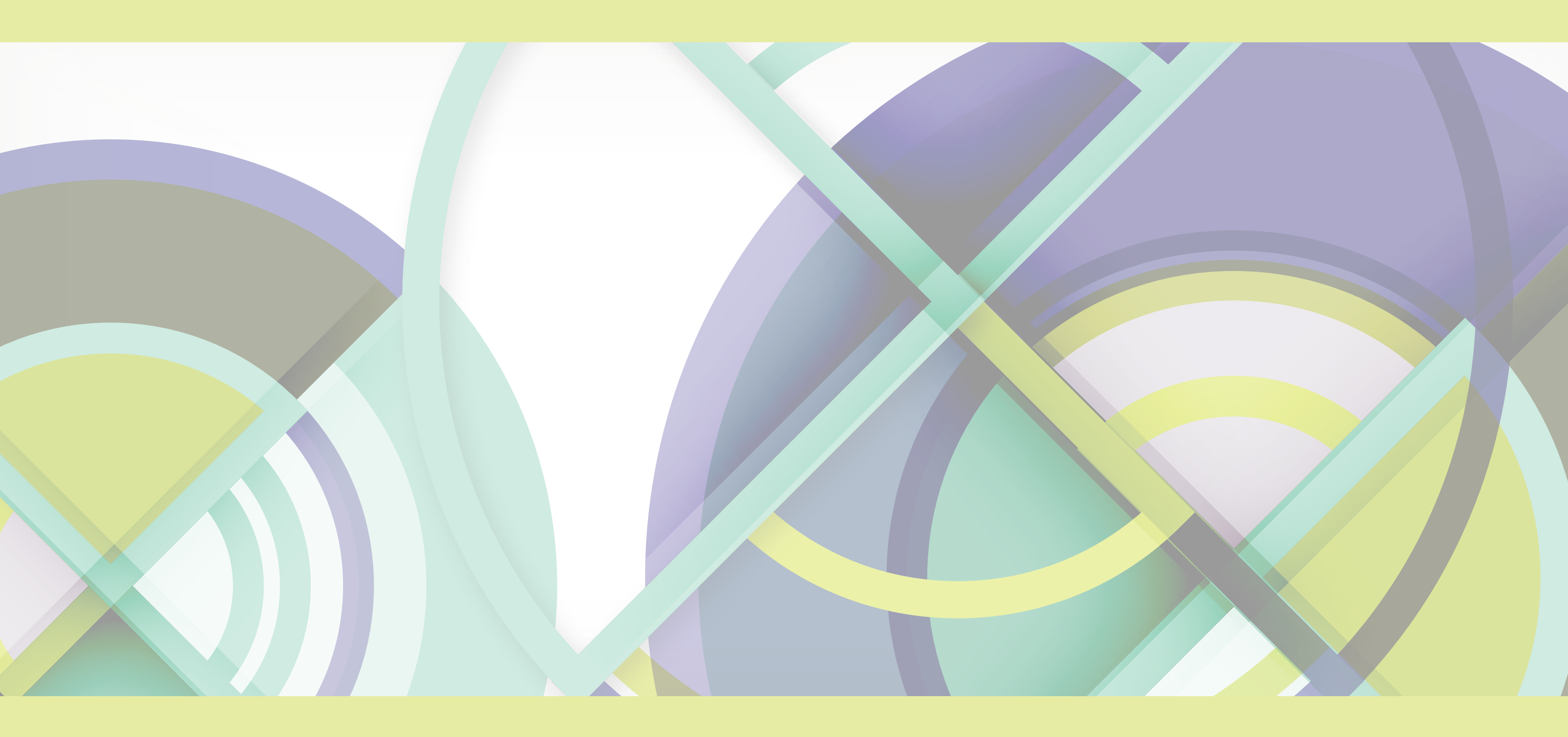

ICI

The Investment Company Institute (ICI) is the leading association representing regulated investment funds. ICI's mission is to strengthen the foundation of the asset management industry for the ultimate benefit of the long-term individual investor. Its members include mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and UCITS and similar funds offered to investors in other jurisdictions. ICI also represents its members in their capacity as investment advisers to collective investment trusts (CITs) and retail separately managed accounts (SMAs). ICI has offices in Washington DC, Brussels, and London.

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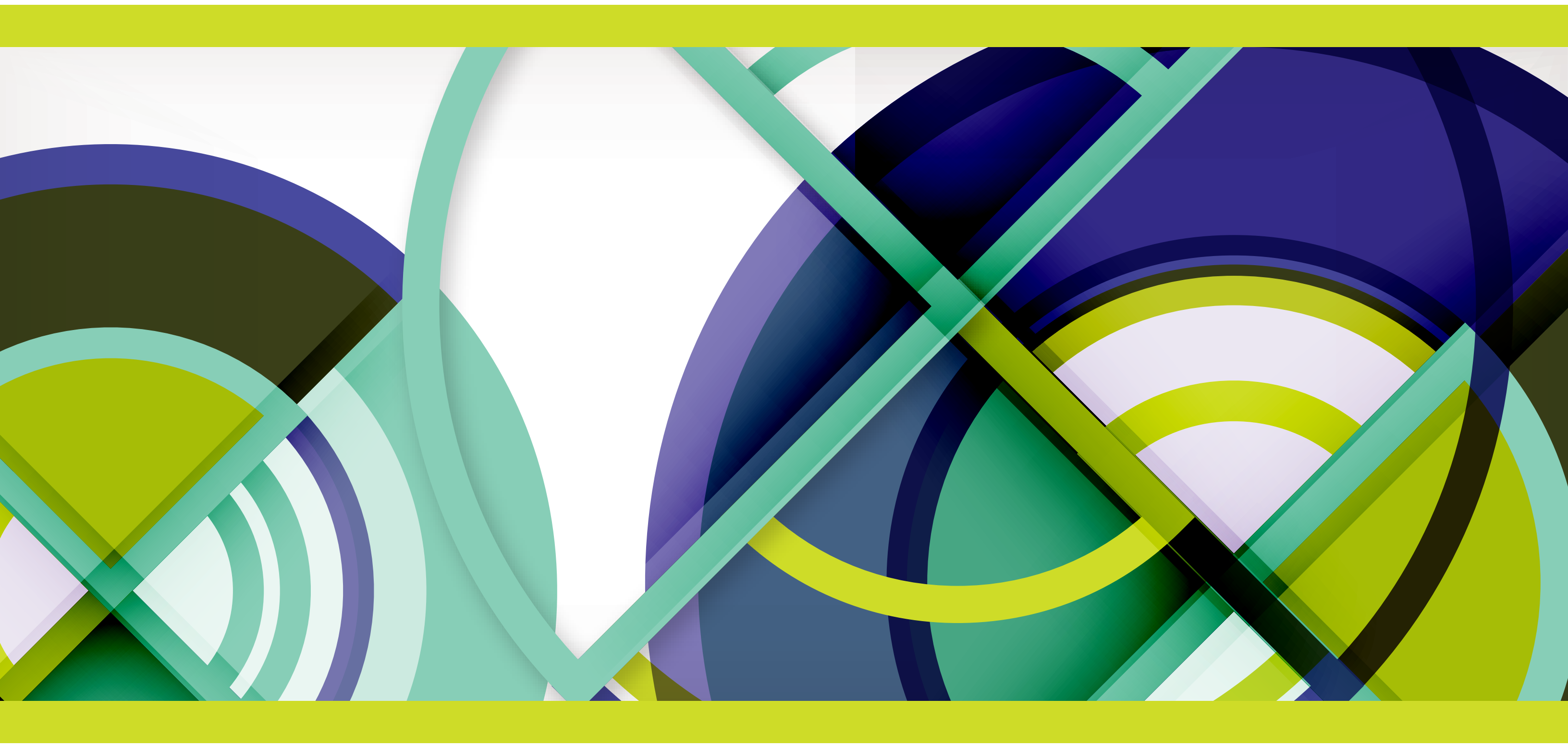

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Letter from the Chief Economist

Welcome to the 65th edition of the *Investment Company Fact Book*! *Fact Book* serves as a summary of the work ICI's Research Department does all year long. In 2024, we published more than 300 statistical reports and 26 research and policy publications alongside *ICI Viewpoints* and issue-specific summary fact sheets on various topics such as target date funds and activism in closed-end funds. Research Department staff also conducted countless presentations to ICI members, policymakers, and academia covering a wide range of issues related to trends in the fund industry, financial stability, retirement, and investor demographics.

ICI has always been a data-centered organization. In fact, our first data collections go back to 1940, when the National Association of Investment Companies (NAIC)—which later became ICI—was formed. We have always made those data open and found ways to make them more accessible: first in printed tables, then PDFs, and more recently in Excel files.

That's why I am so pleased to announce with this year's publication the launch of our new data visualization tool, designed specifically for the *Fact Book*. This innovative charting tool provides interactive and insightful visual representations of ICI's comprehensive statistical information.

Data Visualization Tool Key Features:

- **Interactive Charts:** Easily explore trends and patterns with dynamic visualizations. In addition, the charts you create can be downloaded as an image for you to use in other documents or media. The underlying data are still available to download as an Excel file.
- **User-Friendly Interface:** Navigate through data effortlessly with our intuitive design. Drop-down menus allow you to choose the data series and time frame you'd like to plot.

Every data series contained in each one of our 69 data tables in the *Fact Book* can be viewed in graphical form. Simply go to **www.icifactbook.org**, click on "2025 Data Tables," select the data table of your choice and click on the icon to access the data tool for that specific table.

We believe this tool will significantly improve your ability to analyze and interpret the data provided in the *Fact Book*. Whether you are tracking trends in mutual fund assets (shown in Table 1) or conducting in-depth research on the composition of money market fund portfolios (Tables 40 and 41), we hope our data visualization tool will be an invaluable resource to you.

Today is another step forward in ICI's long tradition of producing accessible research to inform policymakers, the press, and the public for the ultimate benefit of the long-term individual investor. We're excited for you to try our new data experience, but we're not stopping to rest. Let us know how we can improve the charting tool with additional features and send us any (hopefully rare) bug reports at **factbook@ici.org**.

Best regards,

Shelly

Shelly Antoniewicz
Chief Economist

ICI Senior Research Staff

Chief Economist

Shelly Antoniewicz leads the Institute's Research Department. She oversees statistical collections and research on US and global funds, financial markets, the US retirement market, financial stability, and investor demographics. Before joining ICI in 2005, Antoniewicz spent 13 years at the Federal Reserve Board of Governors as an economist and senior economist. She earned a BA in management science from the University of California, San Diego, and an MS and PhD in economics from the University of Wisconsin–Madison.

Senior Director of Retirement and Investor Research

Sarah Holden leads the Institute's research efforts on retirement and tax policy, as well as investor demographics and behavior. Holden, who joined ICI in 1999, heads efforts to track trends in household retirement saving activity and ownership of funds, as well as other investments inside and outside retirement accounts. Before joining ICI, Holden served as an economist at the Federal Reserve Board of Governors. She has a PhD in economics from the University of Michigan and a BA in mathematics and economics from Smith College.

Senior Director of Statistical Research

Judy Steenstra leads the Institute's statistical research activities, overseeing the collection and publication of weekly, monthly, quarterly, and annual data on open-end mutual funds, as well as data on closed-end funds, exchange-traded funds, unit investment trusts, and the worldwide fund industry. Steenstra joined ICI in 1987 and was appointed director of statistical research in 2000. She has a BS in marketing from The Pennsylvania State University.

Senior Director of Industry and Financial Analysis

Shane Worner leads the Institute's research efforts on the structure and trends of the mutual fund and exchange-traded fund industries, as well as on financial markets in the United States and globally. Before joining ICI, Worner worked at the International Organization of Securities Commissions (IOSCO), the Australian Securities and Investment Commission (ASIC), and for the Parliament of the Commonwealth of Australia. He earned a PhD in economics from the Australian National University in 2007 and holds a Bachelor of Commerce in economics from the University of Wollongong.

Acknowledgments

Publication of the *2025 Investment Company Fact Book* was directed by Daniel Schrass, economist, and Judy Steenstra, senior director of statistical research, working with David Clarfield, writer/editor, and Janet Zavistovich, senior creative director. Contributors from ICI's Research Department who developed and edited analysis, text, and data are Irina Atamanchuk, Steven Bass, Michael Bogdan, James Duvall, Lei Li, Michael Libanati, Hammad Qureshi, and Doug Richardson.

ICI's Research Department would like to wish Janet Zavistovich a fond farewell after 35 distinguished years at ICI. For more than three decades, Janet and her team have designed ICI's *Fact Book*, along with hundreds of other research publications, for the Research Department. Her creative lens has given our research a layer of polish that simply cannot be found at other organizations. We are exceptionally sad to see our long-time collaborator go, but we wish her the absolute best in retirement.

2024 ICI Research and Statistical Publications

ICI is the primary source of analysis and statistical information on the investment company industry. In addition to the annual *Investment Company Fact Book*, the Institute's Research Department released more than 300 papers, *ICI Viewpoints* posts, and statistical reports in 2024.

The *Investment Company Fact Book* remains one of ICI Research's most visible products. In its 65th edition, this ICI publication continues to provide the public and policymakers with a comprehensive summary of ICI's data and analysis.

Papers

Industry and Financial Analysis

- Accounting for International Exposure in Mutual Fund Performance Evaluation: Evidence from Target Date Funds, December 2024 (latest revision)
- "Ongoing Charges for UCITS in the European Union, 2023," *ICI Research Perspective*, December 2024
- Dilution and Strategic Complementarity in Fixed-Income Funds: Evidence from European UCITS, November 2024
- "The Closed-End Fund Market, 2023," *ICI Research Perspective*, May 2024
- "Trends in the Expenses and Fees of Funds, 2023," *ICI Research Perspective*, March 2024

Retirement and Investor Research

- A Day in the Life Cycle: Using Tax Data to Measure Changes in Income by Age, December 2024 (latest revision)
- Profile of ETF-Owning Households, 2024, *ICI Research Data Release*, December 2024
- "Profile of Mutual Fund Shareholders, 2024," *ICI Research Report*, December 2024
- *The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at ERISA 403(b) Plans, 2021*, December 2024
- The Case Against Eliminating Tax Deferral to Help Social Security, *Journal of Retirement,* October 2024
- "Characteristics of Mutual Fund Investors, 2024," *ICI Research Perspective*, October 2024
- "Ownership of Mutual Funds and Shareholder Sentiment, 2024," *ICI Research Perspective*, October 2024
- *The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at 401(k) Plans, 2021*, August 2024

- "What Does Consistent Participation in 401(k) Plans Generate? Changes in 401(k) Plan Account Balances and Asset Allocations, 2016–2022," *ICI Research Perspective*, August 2024
- "The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2023," *ICI Research Perspective*, July 2024
- Ten Important Facts About IRAs, July 2024
- Ten Important Facts About Roth IRAs, July 2024
- Ten Important Facts About 401(k) Plans, July 2024
- "The IRA Investor Profile: Roth IRA Investors' Activity, 2010–2020," *ICI Research Report*, June 2024
- *The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at ERISA 403(b) Plans, 2020*, April 2024
- "What US Households Consider When They Select Mutual Funds, 2023," *ICI Research Perspective*, April 2024
- "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2022," *ICI Research Perspective*, April 2024
- "The IRA Investor Profile: Traditional IRA Investors' Activity, 2010–2020," *ICI Research Report*, March 2024
- "American Views on Defined Contribution Plan Saving, 2023," *ICI Research Report*, February 2024
- "The Role of IRAs in US Households' Saving for Retirement, 2023," *ICI Research Perspective*, February 2024
- Profile of ETF-Owning Households, 2023, *ICI Research Data Release*, January 2024

ICI's papers and more are available at www.ici.org/research.

Analysis and Commentary: *ICI Viewpoints*

In addition to research papers, ICI staff produce analysis and commentary for the Institute's blog, *ICI Viewpoints*. Below are some examples of recent analysis by ICI staff. Please visit www.ici.org/viewpoints to find these and more.

- GAO Analysis Misrepresents Case for DOL Fiduciary Rule
  - See our fact sheet on mutual fund fees and expenses: Five Important Points on Mutual Fund Fees and Expenses
  - See our fact sheet on expense ratios of mutual funds in IRAs: IRA Investors in Mutual Funds Concentrate Their Assets in Lower-Cost Mutual Funds
- Fixing Our Broken Proxy Voting System
- Governance Protections of the 1940 Act and Abuses Allowed by Annual Meetings
  - See our fact sheet on closed-end fund activism: Closed-End Fund Activism
  - See ICI's first comment letter to the Securities and Exchange Commission on the NYSE's proposed rulemaking exempting closed-end funds from the annual meeting requirement.
  - See ICI's second comment letter.
  - See ICI's third comment letter.

- Stripping 401(k) Tax Breaks Won't Fix Social Security
- The New Face of Fund Ownership: A Bigger and More Diverse Marketplace
- The Fact(or)s Matter When Measuring TDF Performance
  - See our fact sheet on target date funds: Quick Facts on Target Date Funds
  - See our fact sheet on target date fund use in retirement plans: Quick Facts on Target Date Fund Use in Retirement Plans
- Revolutionizing Retirement
- Financial Policymakers Need to Look at the Facts About the "Growing Threat" of NBFI
  - See ICI's comment letter to the European Commission Consultation on the Adequacy of Macroprudential Policies.
- Americans' Retirement Savings Show Real Progress
- Ok, Boomer: Retirement Prospects for Younger Americans Actually Look Bright
- The SEC's Liquidity Proposal Is Arbitrary and Harmful to Investors
  - See our fact sheet on liquidity management: Liquidity Management, A Mutual Fund Success Story

Statistical Releases

Trends in Mutual Fund Investing

Monthly report that includes mutual fund sales, redemptions, assets, cash positions, exchange activity, and portfolio transactions for the period by 42 investment objectives.

Estimated Long-Term Mutual Fund Flows

Weekly report that provides aggregate estimates of net new cash flows to 16 categories of equity, hybrid, and bond mutual funds.

Estimated Exchange-Traded Fund (ETF) Net Issuance

Weekly report that provides aggregate estimates of net issuance to six categories of ETFs.

Combined Estimated Long-Term Mutual Fund Flows and ETF Net Issuance

Weekly news release and report that provides aggregate estimates of net new cash flows and net issuance to six categories of long-term mutual funds and ETFs.

Money Market Fund Assets

Weekly report on money market fund assets by type of fund.

Monthly Taxable Money Market Fund Portfolio Data

Monthly report based on data contained in SEC Form N-MFP that provides insights into the aggregated holdings of prime and government money market funds and the nature and maturity of security holdings and repurchase agreements.

Monthly Active and Index Data

Monthly combined mutual fund and ETF flows, assets, and number of funds, split into active and index categories and aggregated by broad investment classification.

Monthly ESG Data

Monthly combined flows, assets and number of funds for mutual funds and ETFs that invest according to ESG criteria aggregated by ESG focus.

Retirement Market Data

Quarterly report that includes individual retirement account (IRA) and defined contribution (DC) plan assets, mutual fund assets inside retirement accounts, and estimates of mutual fund net new cash flows to retirement accounts by type of fund.

Mutual Fund Distributions

Quarterly report that includes paid and reinvested capital gains and paid and reinvested income dividends of mutual funds by broad investment classification.

Institutional Mutual Fund Shareholder Data

Annual report that includes mutual fund asset information for various types of institutional shareholders, broken out by broad investment classification.

Closed-End Fund Data

Quarterly report that includes closed-end fund assets, number of funds, issuance, redemptions, distributions, use of leverage, and number of shareholders by investment objective.

Exchange-Traded Fund Data

Monthly report that includes assets, number of funds, issuance, and redemptions of ETFs by investment objective.

Unit Investment Trust Data

Monthly report that includes the value and number of new trust deposits by type and maturity.

Worldwide Regulated Open-End Fund Data

Quarterly report that includes assets, number of funds, and net sales by broad investment classification of funds in 46 jurisdictions worldwide.

These and other ICI statistics are available at www.ici.org/research/stats. To subscribe to ICI's statistical releases, visit www.ici.org/subscribe#stats-subscriptions.

Data Tables

The statistical data tables for the *2025 Investment Company Fact Book* are available online as interactive charts and Excel files. The data tables contain historical information on US mutual funds, exchange-traded funds, closed-end funds, and unit investment trusts, as well as information on worldwide regulated open-end funds.

SECTION ONE
US Mutual Fund Totals

SECTION TWO
US Closed-End Funds, Exchange-Traded Funds, and Unit Investment Trusts

SECTION THREE
US Long-Term Mutual Funds

SECTION FOUR
US Money Market Funds

SECTION FIVE
Additional Categories of US Mutual Funds

SECTION SIX
Institutional Investors in the US Mutual Fund Industry

SECTION SEVEN
Retirement Account Investing in US Mutual Funds

SECTION EIGHT
US-Registered Investment Companies

SECTION NINE
Worldwide Regulated Open-End Fund Totals

LEARN MORE

2025 Fact Book Data Tables
www.icifactbook.org/25-fb-data-tables.html

Methods and Assumptions

The following methods, unless otherwise specified, apply to all data in this book:

- Data for US-registered investment companies only include those that report statistical information to the Investment Company Institute. Assets of these companies are at least 98 percent of industry assets.
- Funds of funds are excluded from the data to avoid double counting.
- Dollars and percentages may not add to the totals presented because of rounding.
- Data for US-registered investment companies include exchange-traded funds that are not registered under the Investment Company Act of 1940.
- Long-term funds include equity funds, hybrid funds, and bond funds.

Data are subject to revision. Although information or data provided by independent sources are believed to be reliable, the Investment Company Institute is not responsible for their accuracy, completeness, or timeliness. Opinions expressed by independent sources are not necessarily those of the Institute. If you have questions or comments about this material, please contact the source directly.

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 $21.8 trillion, and fund providers have expanded the vast array of choices, offering investors nearly 144,000 regulated funds. Demand for regulated funds strengthened considerably in 2024 as official interest rates began to decline and general macroeconomic conditions improved, which contributed to positive net sales and a 7 percent increase in total net assets. By year-end 2024, regulated funds managed $73.9 trillion in total net assets worldwide.

IN THIS CHAPTER

11 What Are Regulated Funds?

12 Worldwide Total Net Assets of Regulated Funds

20 Size of Worldwide Regulated Funds in Global Capital Markets

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 (UITs), and closed-end funds (CEFs).† 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 2024, fund providers globally offered 143,858 regulated funds (Figure 1.1). Europe had the largest number of regulated funds with 42 percent of the total, while equity funds were the largest type of regulated funds (33 percent).

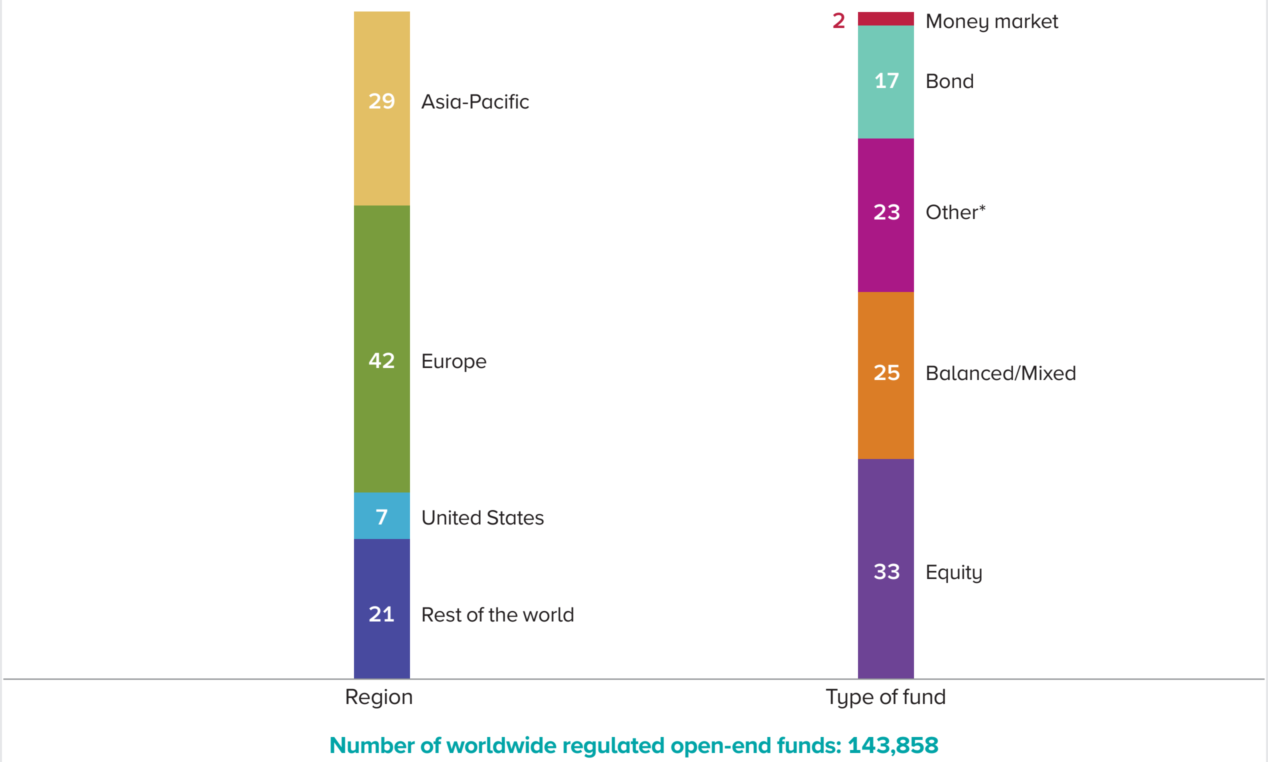
* The primary data source for worldwide regulated funds is the IIFA. In 2024, the IIFA collected data on worldwide regulated funds from 44 jurisdictions. For information on individual jurisdictions, see the statistical data tables available online at www.icifactbook.org/25-fb-data-tables.html. For more 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 2024



* 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 increased in 2024, continuing the growth trajectory from the previous year (Figure 1.2).* A confluence of macroeconomic and geopolitical factors affected worldwide capital markets in 2024, leading to a notable increase in the value of the underlying assets held by regulated funds. Among the factors affecting financial markets in 2024:

- **Monetary policy and interest rates:** Central banks worldwide, particularly the US Federal Reserve, played a crucial role. The Fed's decision to lower interest rates in September 2024, for the first time since the pandemic, signaled a shift in monetary policy and had widespread effects on borrowing costs, investment decisions, and currency valuations.
- **Strong corporate earnings:** Earnings growth accelerated across various sectors, with S&P 500 companies showing significant improvements. The ongoing artificial intelligence boom helped drive this growth.
- **Economic growth and falling inflation:** Solid economic growth and a decrease in inflation rates around the world provided a stable environment for market growth.

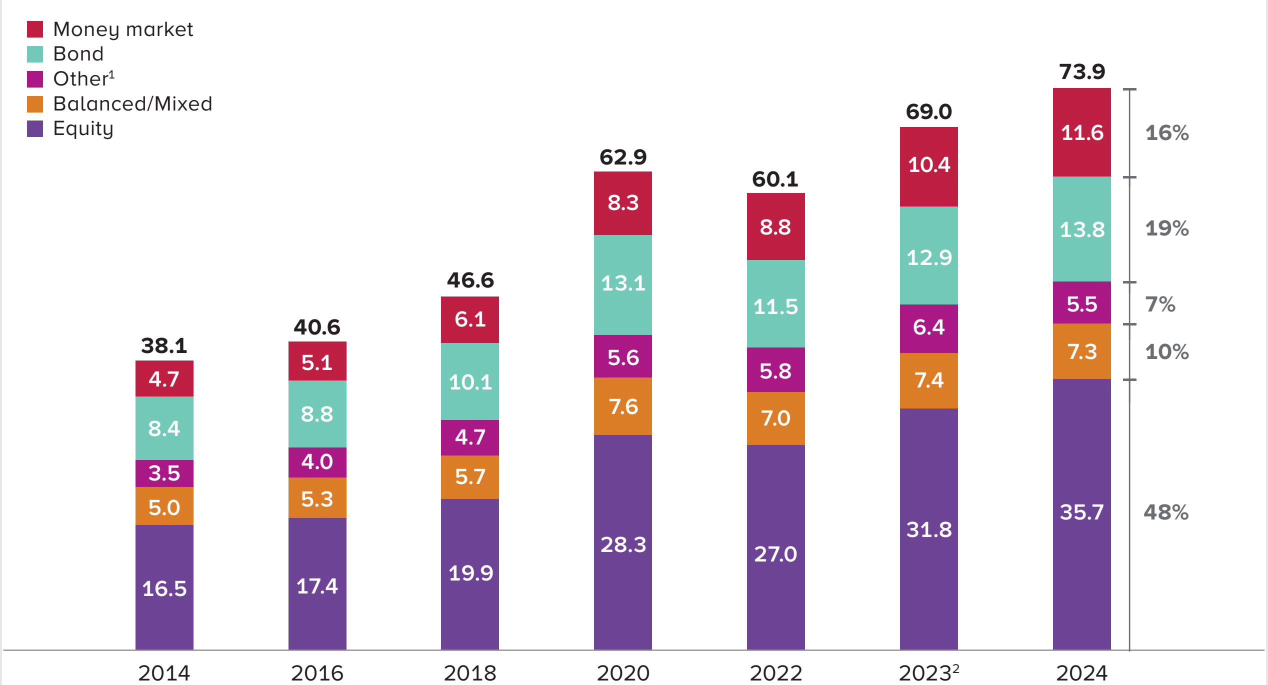
* In this chapter, unless otherwise noted, data for total net assets and net sales are denominated in US dollars.

With stock markets rising around the globe in 2024 (24 percent in the United States and 10 percent in the Asia-Pacific region*), worldwide total net assets of equity funds, which invest primarily in publicly traded stocks, increased by 12 percent to $35.7 trillion at year-end 2024. Bond funds—which invest primarily in fixed-income securities—saw their total net assets increase 7 percent over the same period, somewhat reflecting total returns (capital gains and interest income) on bonds in Europe and the Asia-Pacific region of 3 percent and 7 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 $73.9 Trillion in 2024

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



Total number of worldwide regulated open-end funds

2014	2016	2018	2020	2022	2023	2024
101,093	110,120	118,285	125,726	137,854	140,908	143,858

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

[2] Data for New Zealand are for 2023:Q2.

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

Source: International Investment Funds Association

* As measured by the FT Wilshire 5000 Total Return 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 Total Return Index (expressed in euros) and the Bloomberg Asian-Pacific Aggregate Total Return Index (expressed in Japanese yen), which both cover investment grade securities.

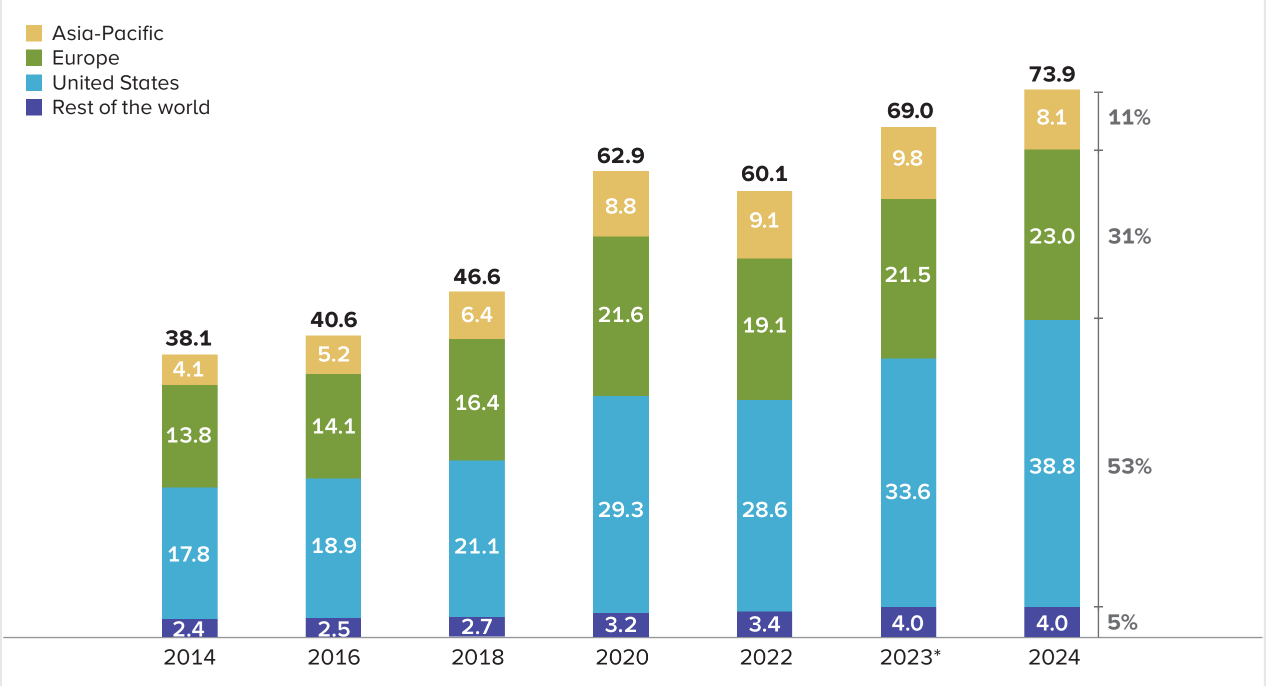
Total net assets of worldwide regulated funds also vary by geographic region (Figure 1.3). At year-end 2024, the majority of worldwide total net assets in regulated funds continued to be held in the United States (53 percent) and Europe (31 percent). Strong regulatory frameworks in both jurisdictions 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 11 percent of worldwide total net assets (Figure 1.3). 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 New Zealand are for 2023:Q2.

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

Source: International Investment Funds Association

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Worldwide Regulated Open-End Fund Assets and Flows

www.ici.org/research/stats/worldwide

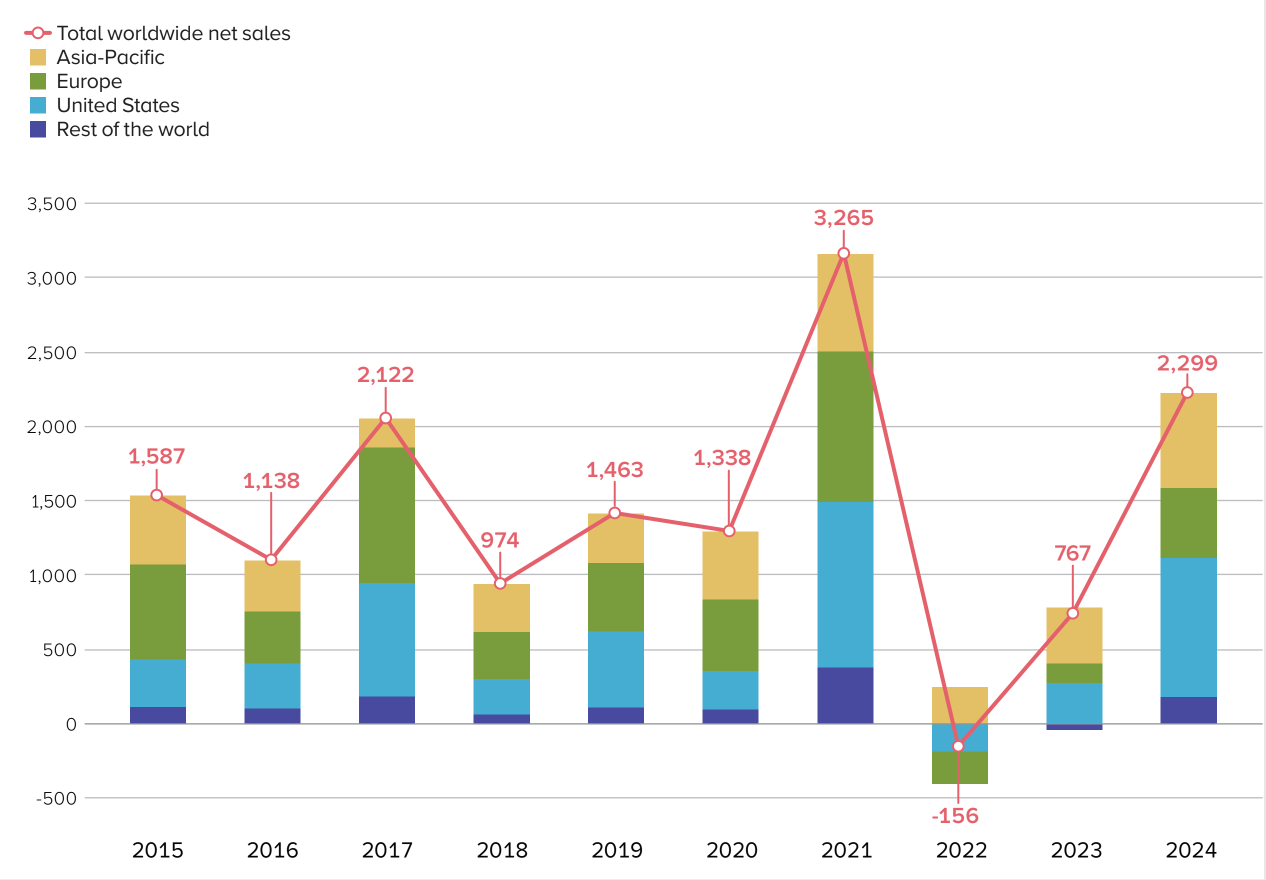
Worldwide Net Sales of Regulated Long-Term Funds

Worldwide demand for regulated long-term funds (equity, bond, balanced/mixed, and other) increased sharply in 2024. Net sales tripled in 2024 to $2.3 trillion (Figure 1.4). The strong increase in net inflows was driven by the United States and Europe, which had net inflows of $967 billion and $486 billion, respectively. Demand also remained strong in the Asia-Pacific region in 2024 ($659 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 2024

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

Trends in the European Investment Fund Industry

www.efama.org/node/501

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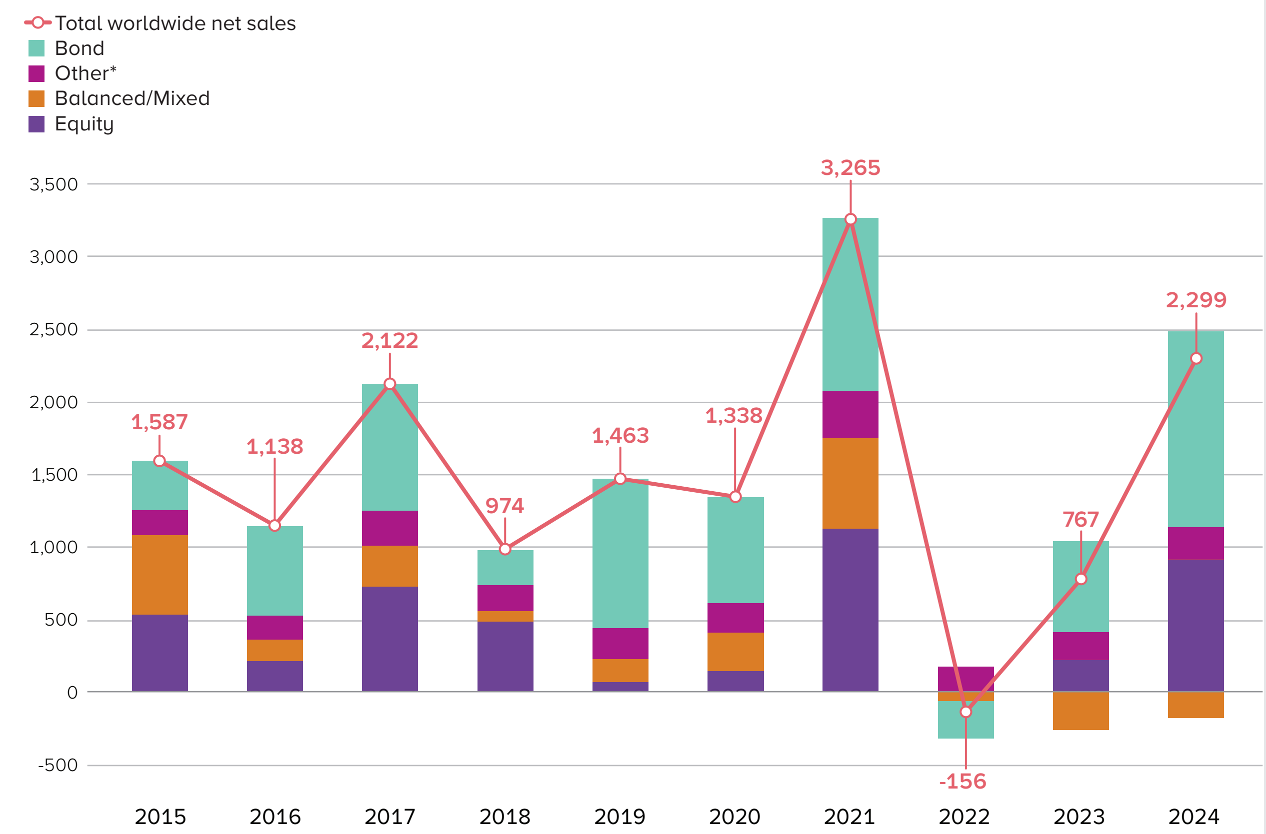
Worldwide net sales of regulated long-term funds continued to increase across most fund categories in 2024. For example, worldwide net sales of equity funds increased from $217 billion in 2023 to $909 billion in 2024 (Figure 1.5). Strong equity market performance around the world likely contributed to this heightened demand for equity funds, as net flows to equity funds have historically been related to world equity returns.

Net inflows into bond funds more than doubled in 2024 to $1.4 trillion (Figure 1.5). Investor expectations that central banks would soon begin lowering official interest rates likely drove this demand. Monetary policy is important because when interest rates fall, bond prices rise and vice versa. As such, fixed-income investors stand to gain from a reduction in interest rates. 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). Additionally, in a falling rate environment, investors may move more assets into bond funds to "lock in" higher yields.

FIGURE 1.5

Worldwide Net Sales of Regulated Open-End Long-Term 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

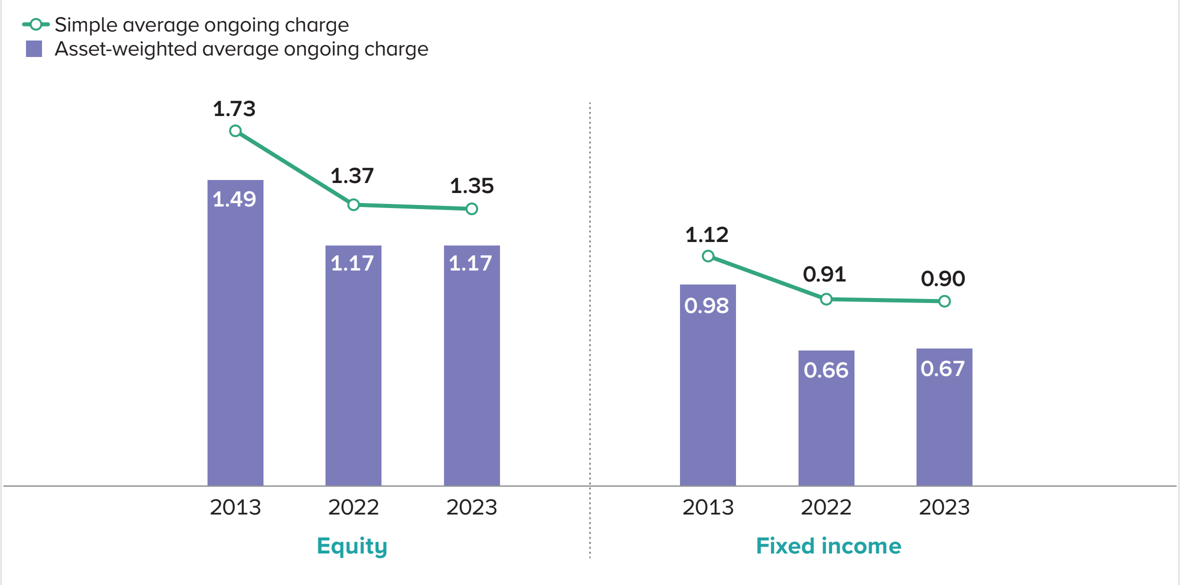
The UCITS Directive has become a global success story since its adoption in 1985, with net assets of €12.6 trillion in EU-domiciled UCITS at year-end 2024. Investors in Europe and other jurisdictions worldwide hold investments in these funds.

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 remained similar to the prior year's levels (Figure 1.6). However, since 2013, asset-weighted average ongoing charges for equity and fixed-income UCITS have declined 21 percent and 32 percent, respectively. In 2023, the asset-weighted average ongoing charge for equity funds was 1.17 percent. In other words, for every €100 invested in 2023, fund shareholders were charged €1.17 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.

CONTINUED ON THE NEXT PAGE

FIGURE 1.6
Investors in UCITS Pay Below-Average Ongoing Charges
Percent



Note: Data exclude UCITS ETFs.

Source: Investment Company Institute calculations of Morningstar Direct data. See *ICI Research Perspective*, "Ongoing Charges for UCITS in the European Union, 2023."

Worldwide Net Sales of Money Market Funds

Worldwide net sales of money market funds remained robust in 2024, totaling $1.5 trillion, unchanged from 2023 (Figure 1.7). Investors across all geographical regions continued to demonstrate demand for money market funds, with the United States accounting for more than half of total net inflows. Investor demand for money market funds in the United States and Europe was $920 billion and $239 billion in 2024, respectively. Additionally, in the Asia-Pacific region, money market funds experienced net inflows of $336 billion in 2024.

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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Ongoing Charges for UCITS in the European Union, 2023
www.ici.org/files/2024/per30-10.pdf

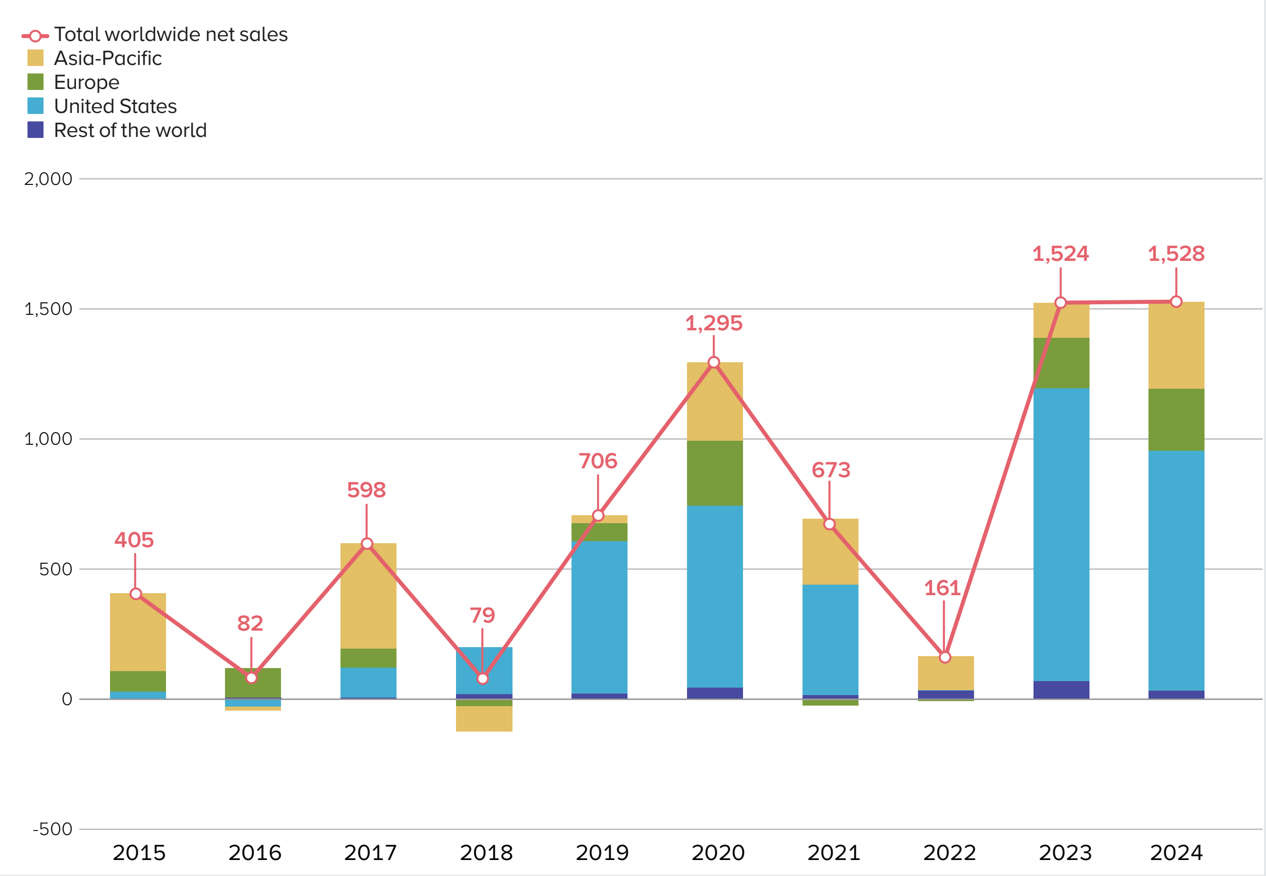
In the United States, net sales of money market funds remained positive because of sustained demand from both retail and institutional investors. In 2023, money market fund yields reached their highest level in more than 15 years, and yields continued to remain high in 2024 despite three cuts to the federal funds rate in the second half of the year. Both retail and institutional investors were attracted to the high market yields and low interest-rate risk offered by money market funds.

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. In the second half of 2024, the People's Bank of China lowered interest rates, decreasing the official one-year loan prime rate to 3.1 percent. The reduction in the short-term interest rate was part of a set of policy measures intended to address 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 Continued Strong in 2024

Billions of US dollars by region, annual



Source: International Investment Funds Association

Size of Worldwide Regulated Funds in Global Capital Markets

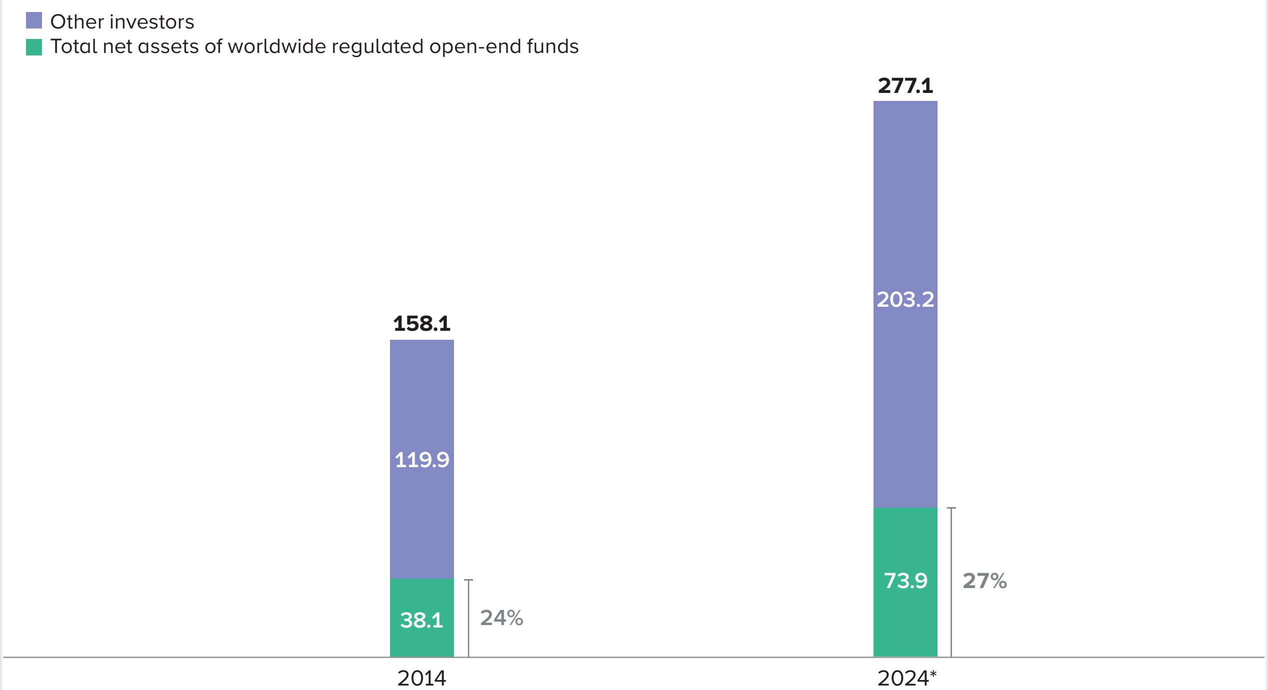
Regulated funds continue to be an important conduit for allocating capital globally, helping finance businesses, governments, and household activities. As of year-end 2024, worldwide capital markets, as measured by the value of equity and debt securities outstanding, totaled $277.1 trillion, of which regulated funds' net assets were 27 percent, or $73.9 trillion (Figure 1.8).

The share of worldwide capital markets held by regulated funds has grown over the past decade. In 2024, worldwide regulated funds held 27 percent of worldwide capital markets, compared with 24 percent in 2014 (Figure 1.8). 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, 2024.

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

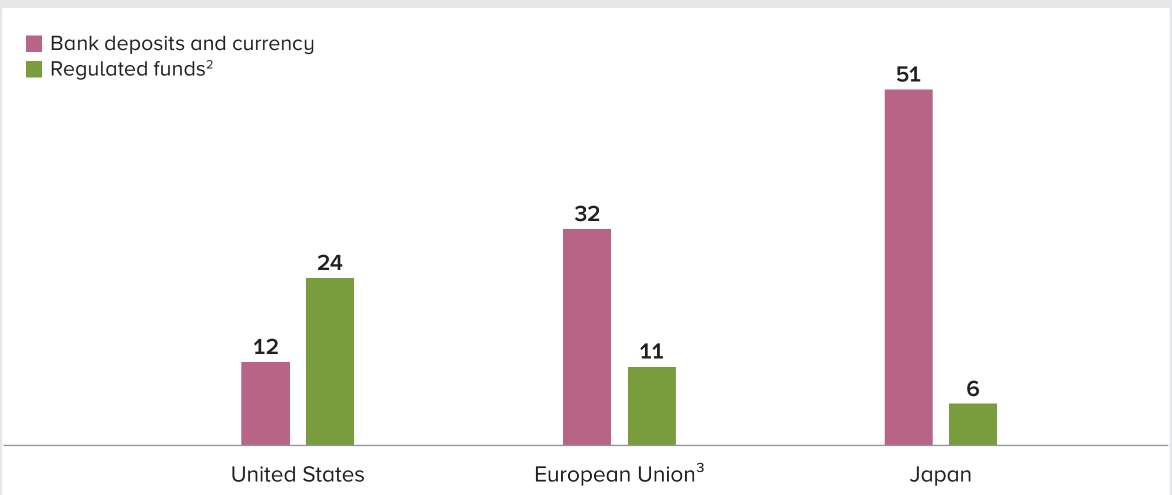
Generally speaking, a jurisdiction's financial system can be described as either market-based or bank-based depending on how its economy deploys savings and raises capital for the production of goods and services. For example, many jurisdictions within the European Union are considered to have bank-based 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 51 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 2024



[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 2024:Q3.

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

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

23 Number and Assets of Investment Companies

25 Americans' Continued Reliance on Investment Companies

26 Role of Investment Companies in Financial Markets

28 Growth of Index Funds

32 Fund Complexes and Sponsors

37 Environmental, Social, and Governance Investing

40 Investment Company Employment

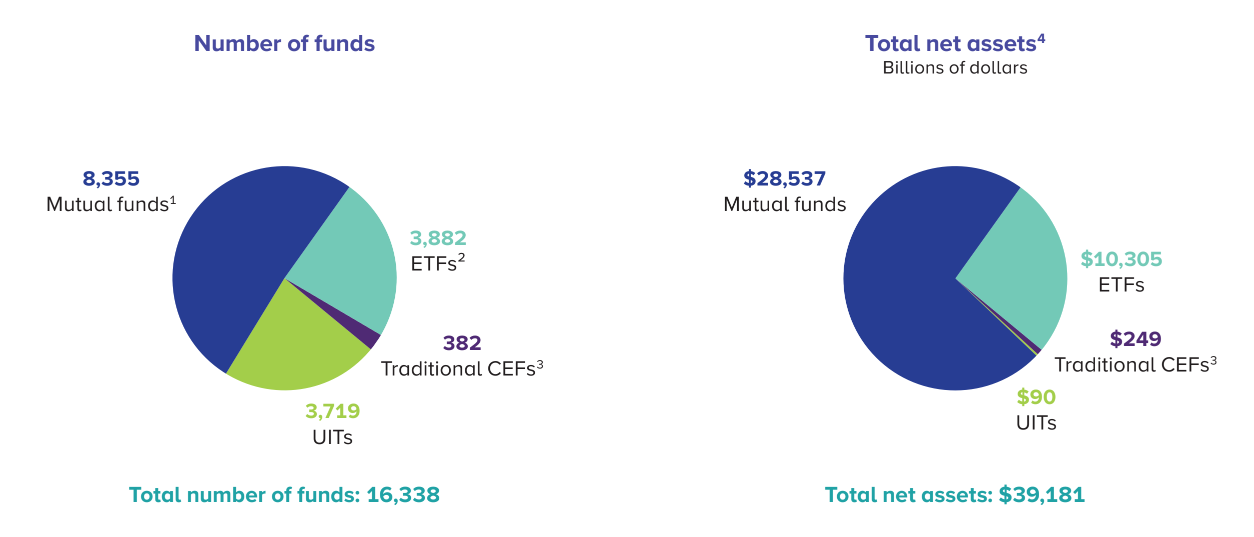
Number and Assets of Investment Companies

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.

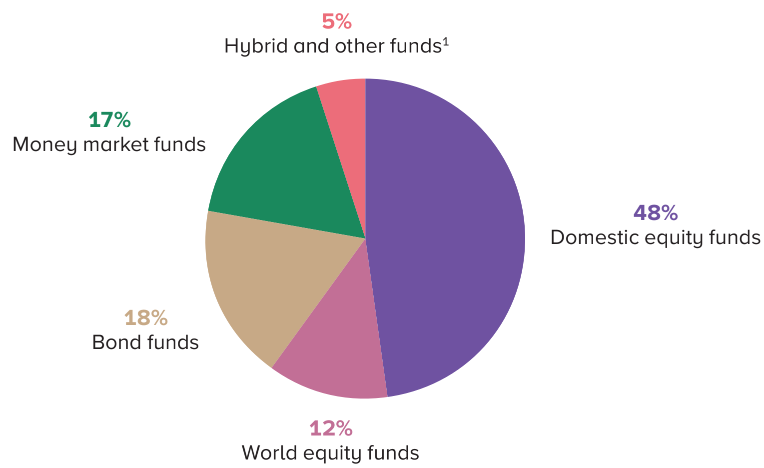
* The terms *investment companies* and *US investment companies* are used at times throughout this book in place of *US-registered investment companies*. US-registered investment companies are open-end mutual funds, ETFs, traditional CEFs, and UITs.

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).

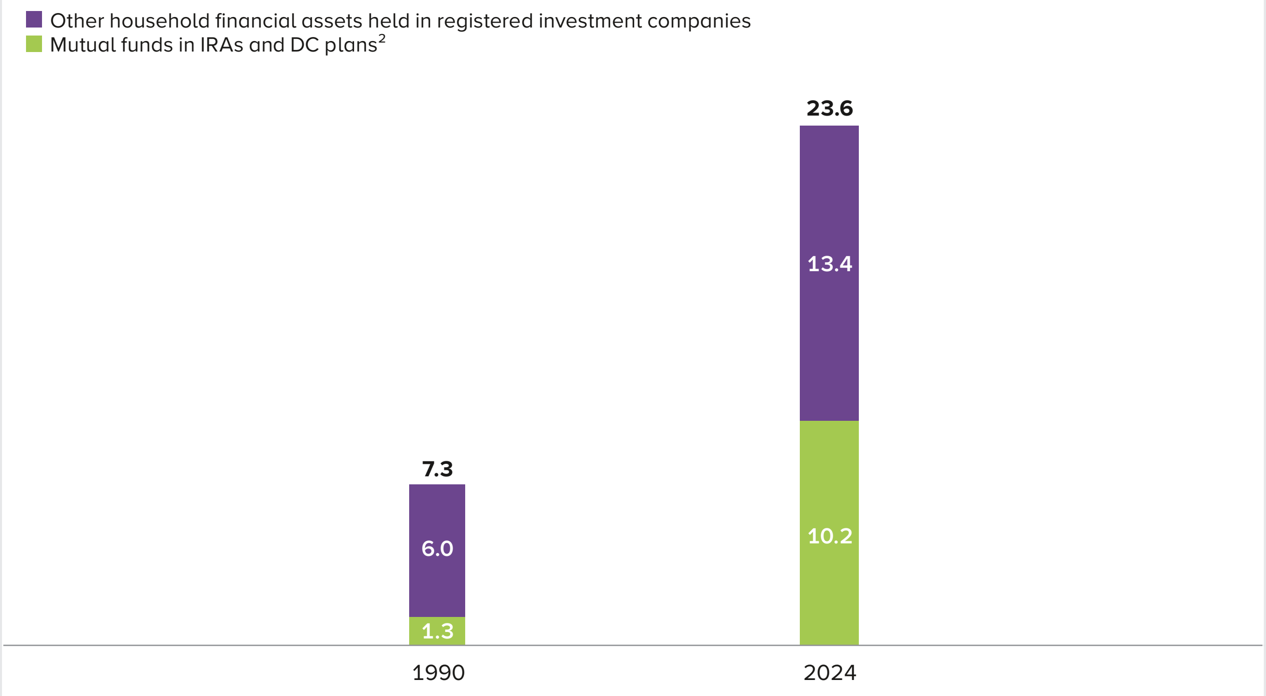
Americans' Continued Reliance on Investment Companies

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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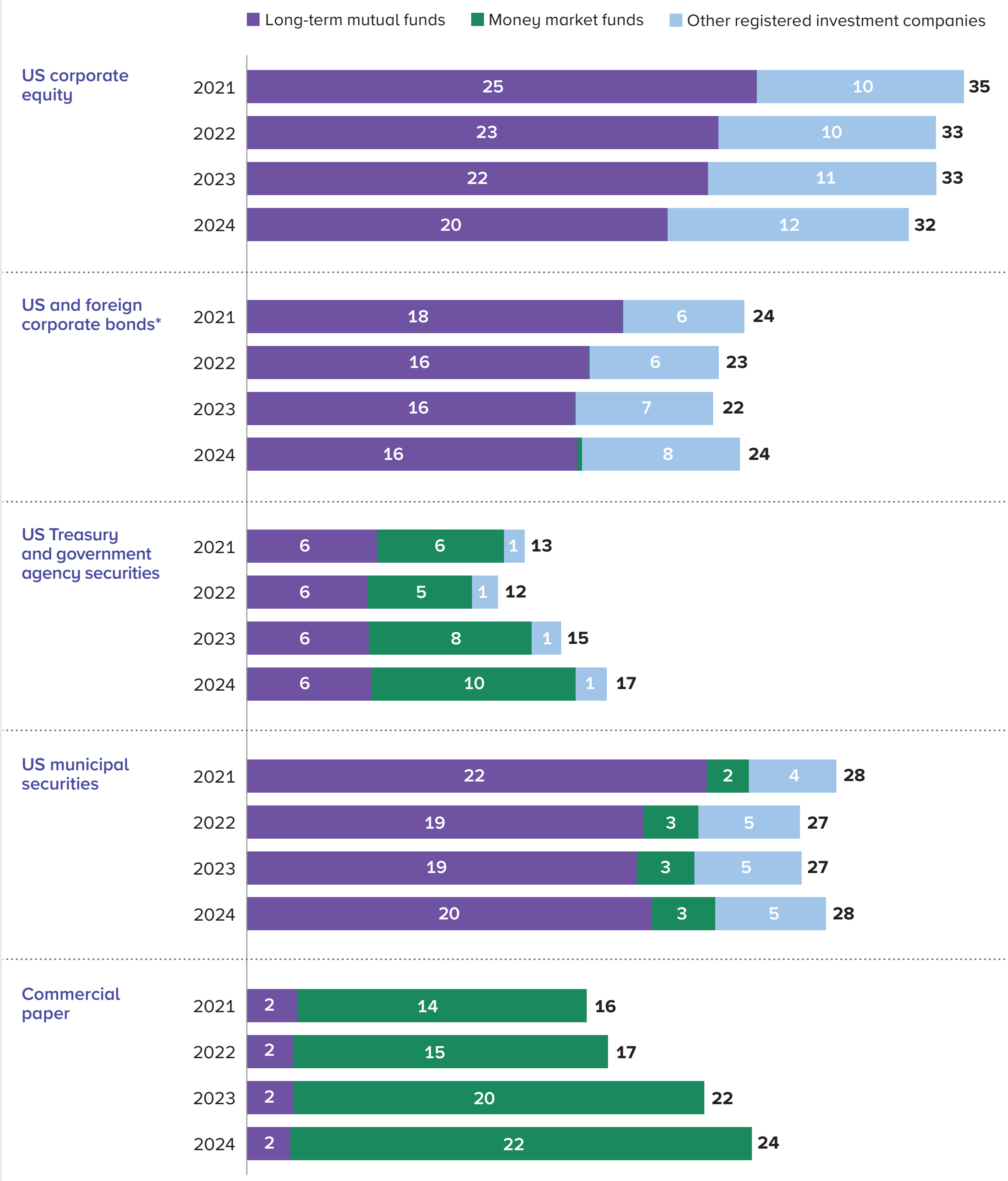
FIGURE 2.4

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

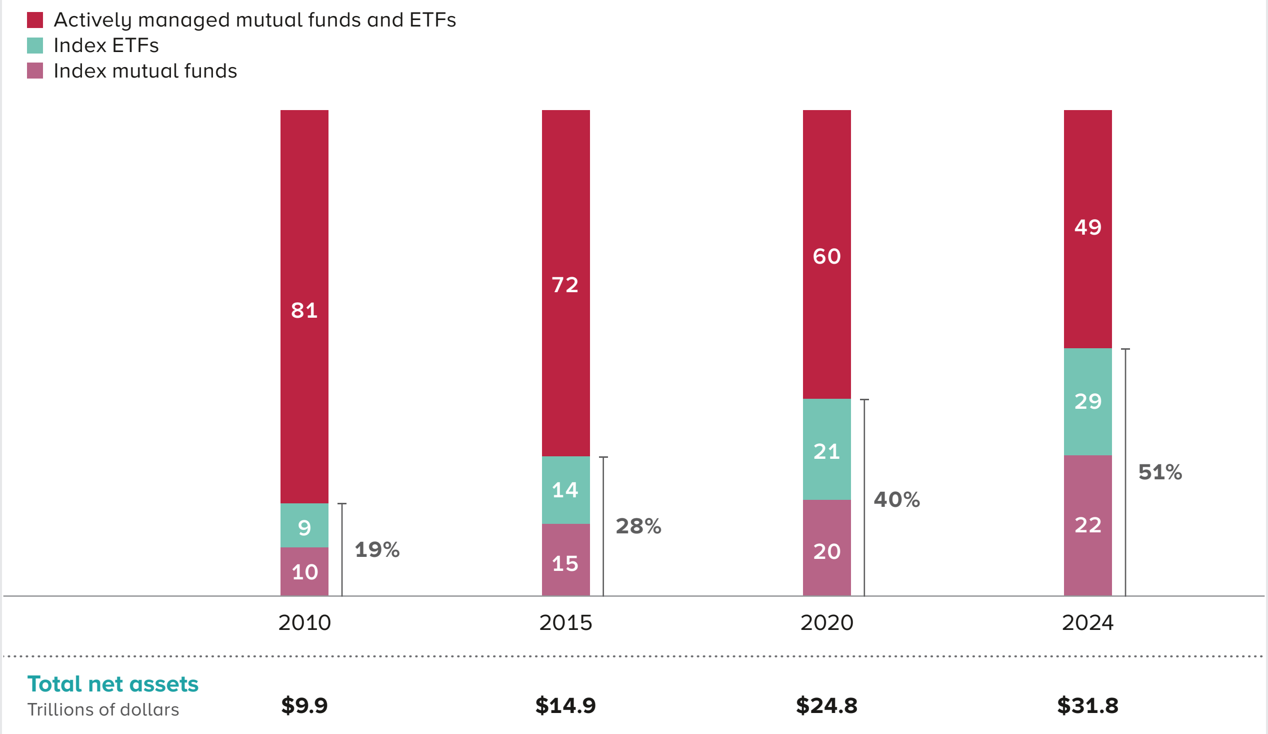
Index funds are designed to track the performance of a market index. To do this, the fund manager purchases all the securities in the index or a representative sample of them—mirroring the index composition—so that the performance of the fund tracks the value of the index. This approach to portfolio 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

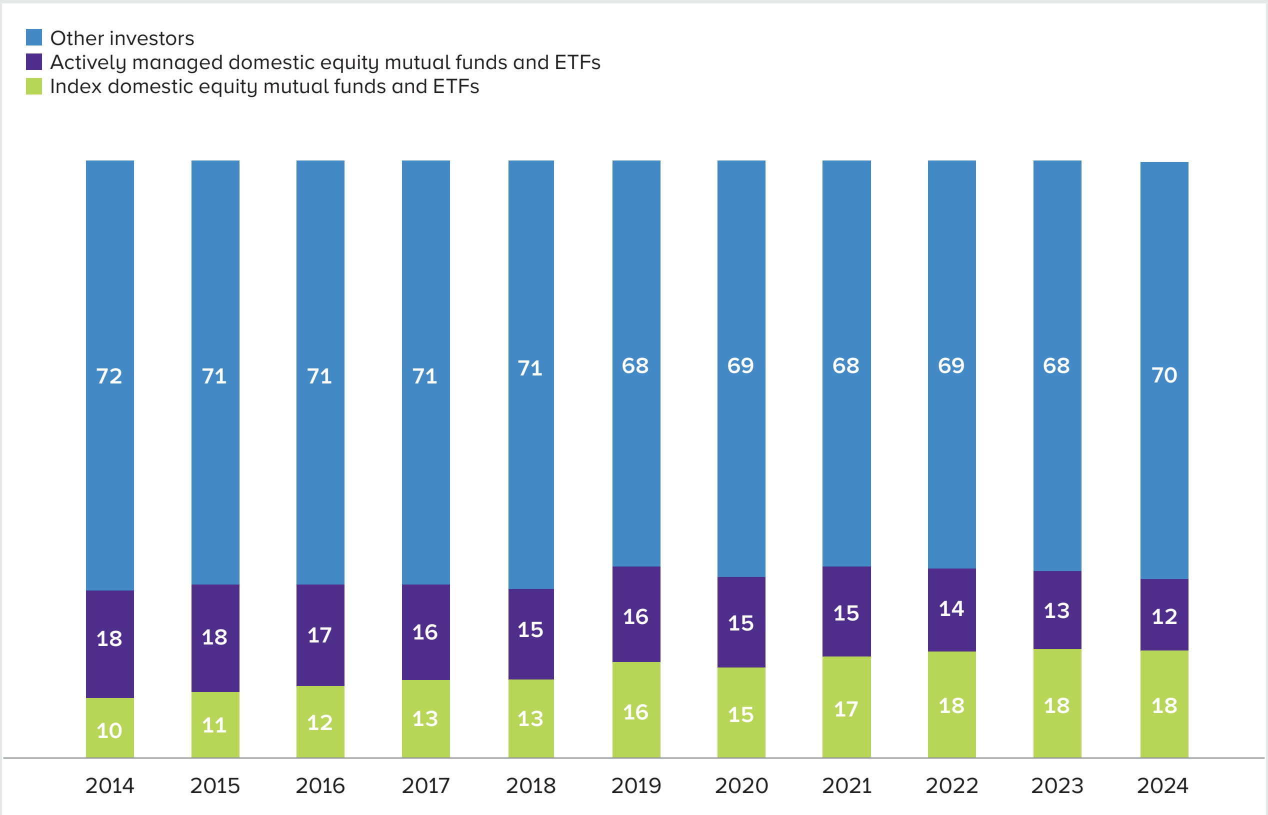
Percentage of long-term total net assets, year-end



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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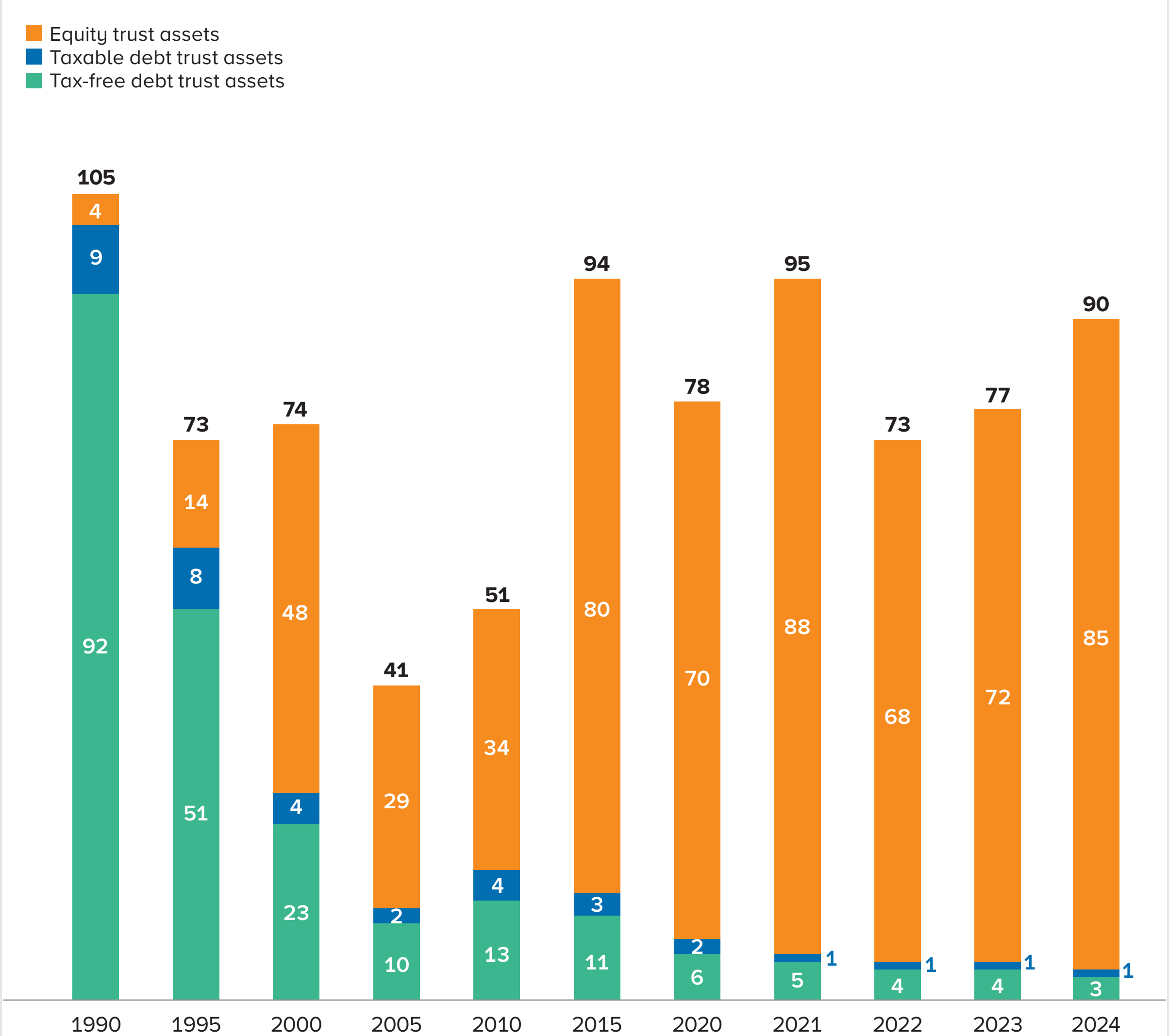
FIGURE 2.7

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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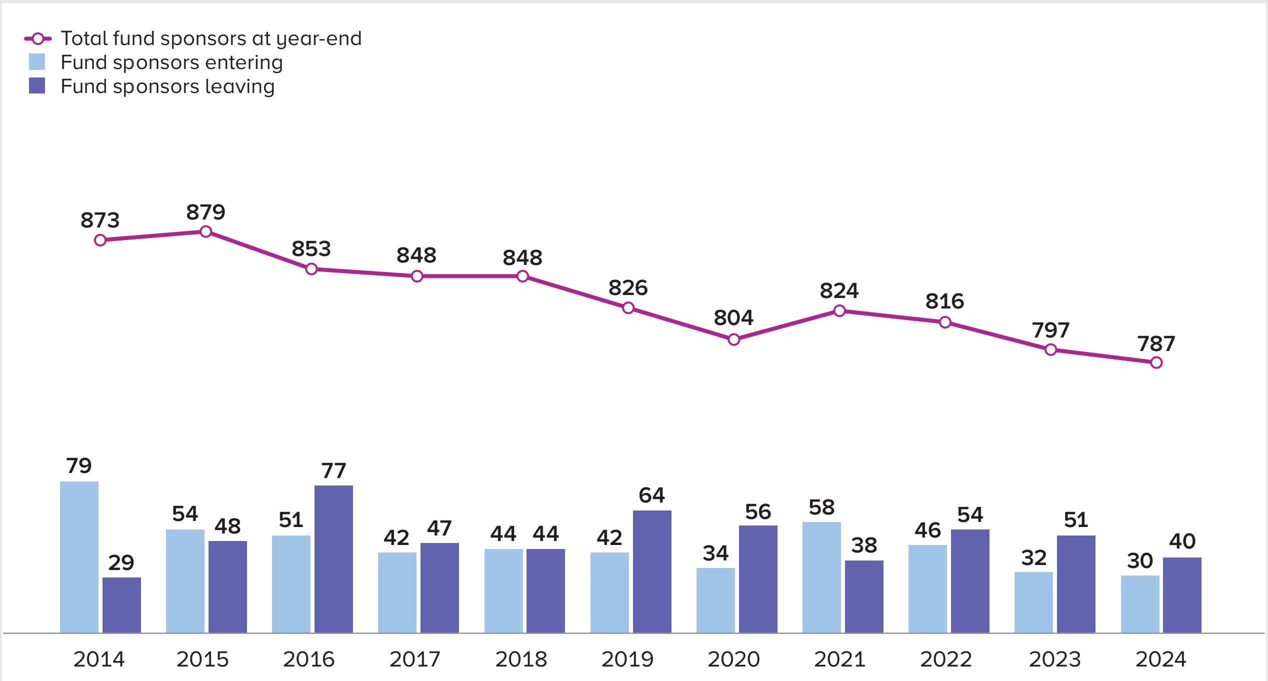
Fund Complexes and Sponsors

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



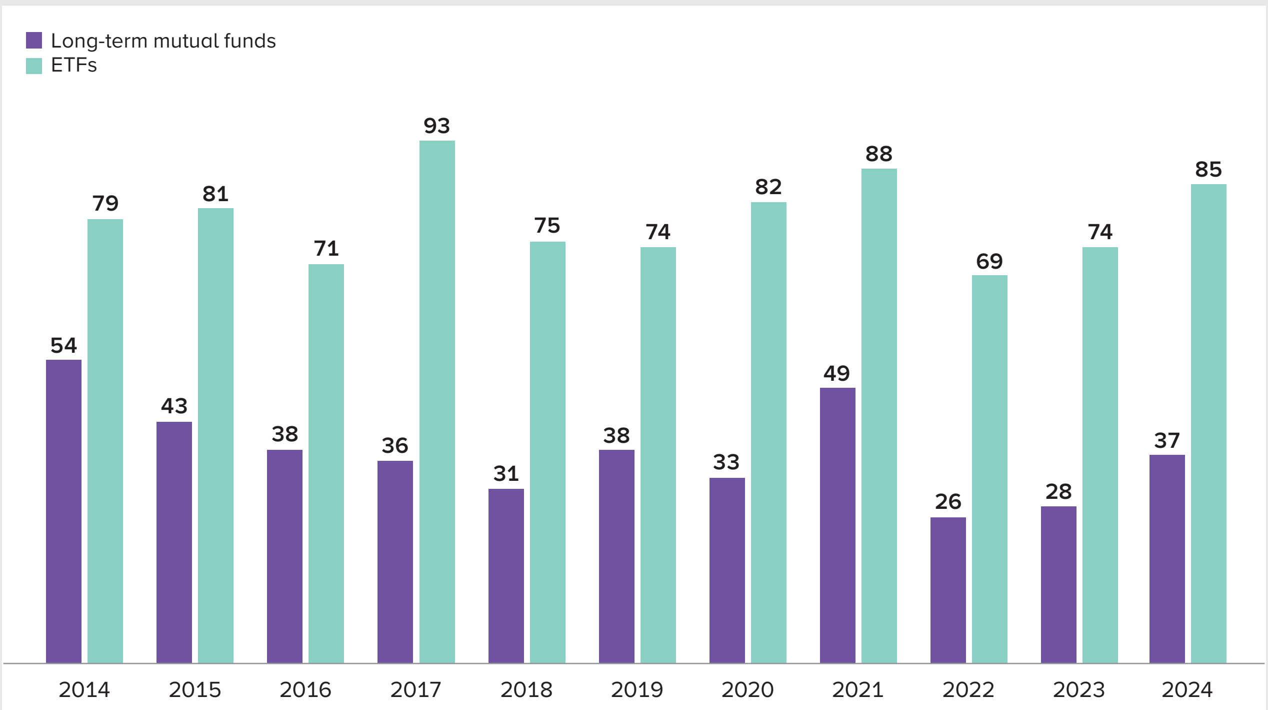
Many recent entrants to the fund industry have adopted solutions in which the fund's sponsor arranges for a third party to provide certain services (e.g., audit, trustee, some legal) through a turnkey setup. This allows the sponsor to focus more on managing portfolios and gathering assets. Through an 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.

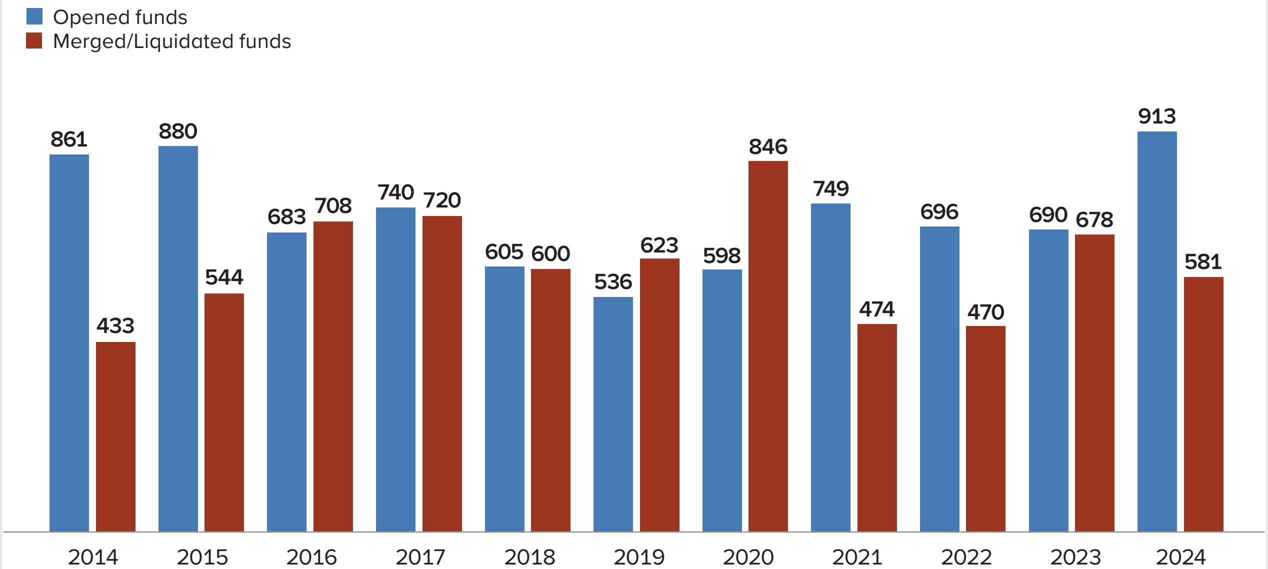
At least two factors have contributed to the rise in industry concentration. First, the increased concentration reflects the growing popularity of index funds—the 10 largest fund complexes manage most of the assets in index mutual funds. Actively managed domestic equity mutual funds had outflows in every 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.

CONTINUED ON THE NEXT PAGE

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).

ESG Resource Center
www.ici.org/esg

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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).

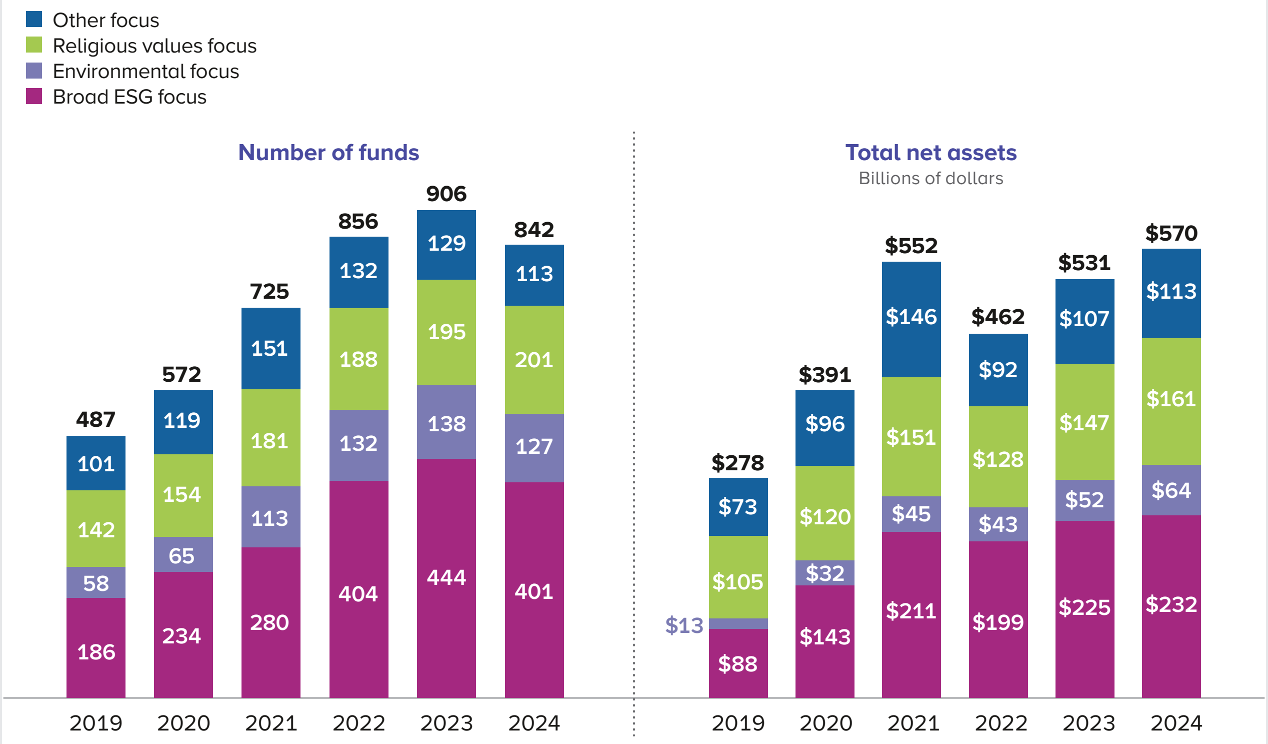
ICI classifies ESG-criteria funds into groups based on the frameworks or guidelines expressed at the forefront of their principal investment strategies sections.

- **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

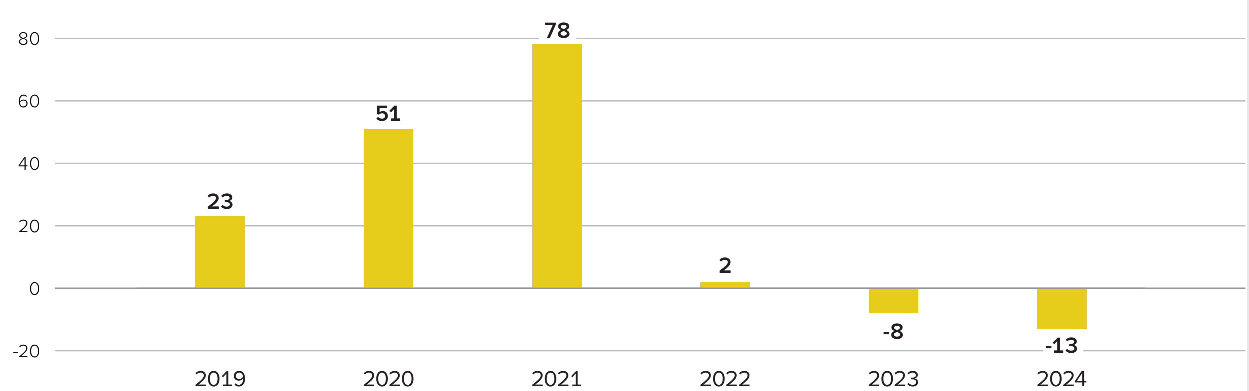


Note: Data include mutual funds and ETFs. Data include mutual funds that invest primarily in other mutual funds and ETFs that invest primarily in other ETFs.

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

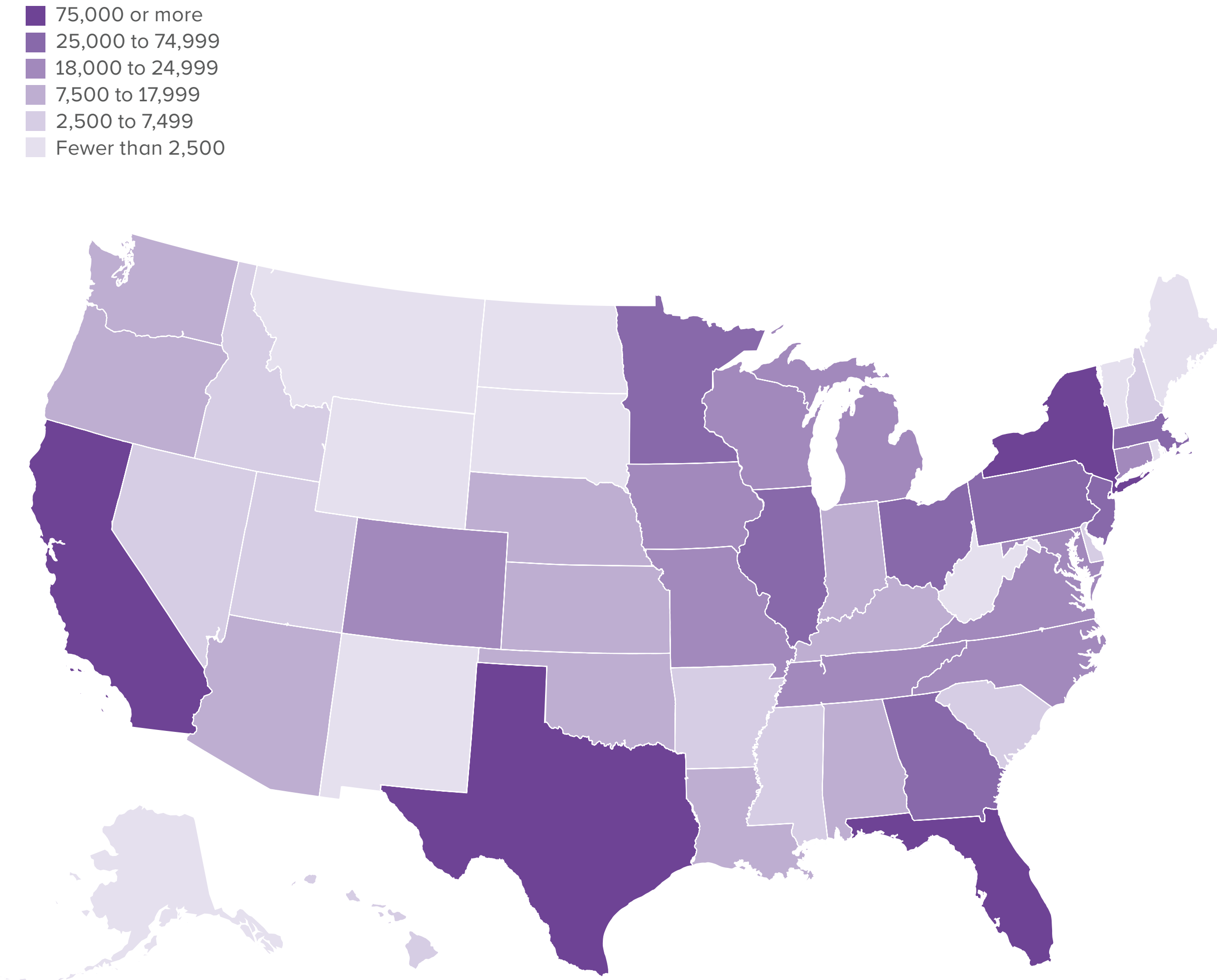
Registered investment companies typically do not have employees—instead, they contract with other businesses to provide services to the fund. Except for UITs, funds in the United States have fund boards that oversee the management of the fund and represent the interests of the fund shareholders. Fund 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

CHAPTER 3

US Mutual Funds

A mutual fund is an investment company that pools money from shareholders and invests in a portfolio of securities. In 2024, 71.0 million US households owned mutual funds, representing more than 120 million individual investors. Investors rely on mutual funds to meet long-term personal financial objectives, such as education, a home purchase, or preparing for retirement. US households and institutions also use money market funds as cash management tools. Mutual funds, including money market funds, had net inflows of $127 billion in 2024, or 0.5 percent of year-end 2023 total net assets. Changing demographics, portfolio rebalancing, and investors' reactions to US and worldwide economic and financial conditions play important roles in determining how demand for specific types of mutual funds—and for mutual funds in general—evolves.

IN THIS CHAPTER

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57 Money Market Funds

Overview of Mutual Fund Trends

The US mutual fund industry remained the largest in the world, with $28.5 trillion in total net assets at year-end 2024. The majority of US mutual fund net assets were in long-term mutual funds, with equity funds alone making up 53 percent of US mutual fund net assets. Money market funds were the second-largest category, with 24 percent of net assets. Bond funds (18 percent) and hybrid funds (6 percent) held the remainder.

Investor Demand for US Mutual Funds

A variety of factors influence investor demand for mutual funds. For example, US households rely on equity, bond, and hybrid mutual funds to meet long-term personal financial objectives, such as preparing for retirement, saving for emergencies, or saving for education. US households, as well as businesses and other institutional investors, use money market funds as cash management tools because they provide a high degree of liquidity and access to short-term market yields.

Investor demand for mutual funds remained robust in 2024, as inflows into money market funds and bond funds more than offset outflows from equity funds and hybrid funds. Money market funds experienced strong demand as investors were attracted to high short-term yields. Bond mutual funds saw modest demand, with bond market returns and portfolio rebalancing likely playing key roles. By contrast, equity mutual funds experienced outflows in 2024 (despite strong stock market returns), primarily reflecting an ongoing shift to other products and portfolio rebalancing.

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Monthly Trends in Mutual Fund Investing
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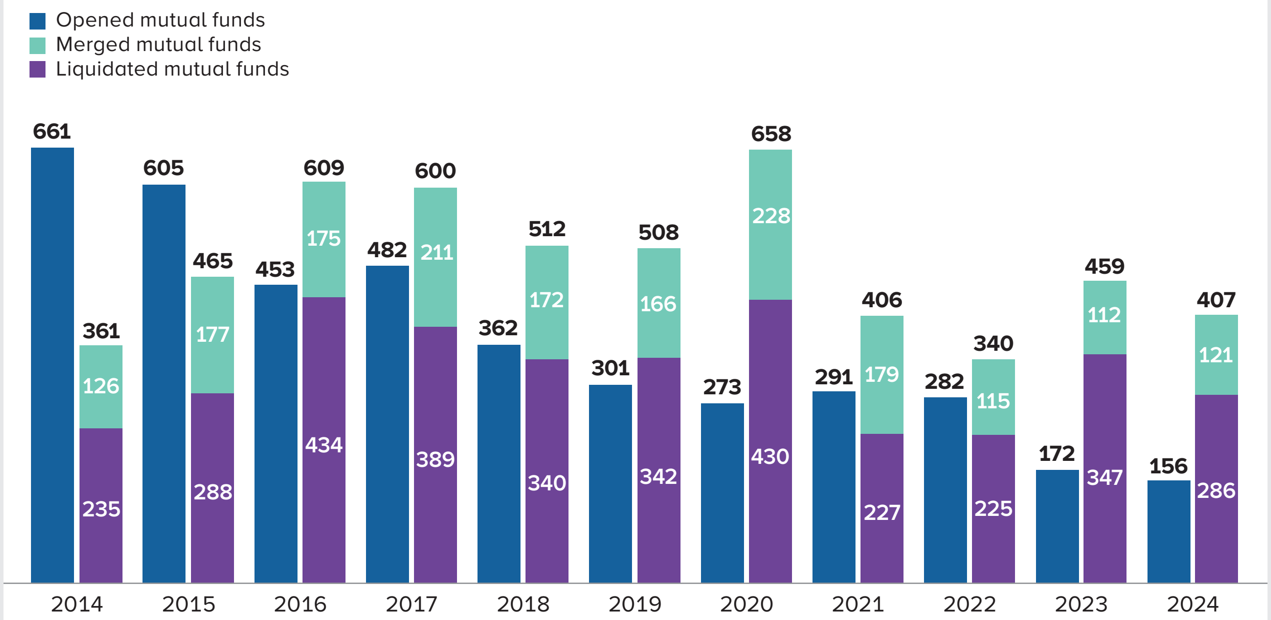
Entry and Exit of US Mutual Funds

Mutual fund sponsors create new funds to meet investor demand, and they merge or liquidate those that do not attract sufficient investor interest. A total of 156 mutual funds opened in 2024, down slightly from 2023 (Figure 3.1). A steep drop in the number of equity fund launches that was partially offset by an increase in bond fund launches contributed to the modest decline in the number of mutual funds that opened in 2024. During the same time, the number of mutual funds that were either merged or liquidated decreased 11 percent to 407 as sponsors eliminated fewer equity mutual funds from their lineups.

FIGURE 3.1

Mutual Funds Enter and Exit the Industry Because of Competition and Investor Demand



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.

Investors in US Mutual Funds

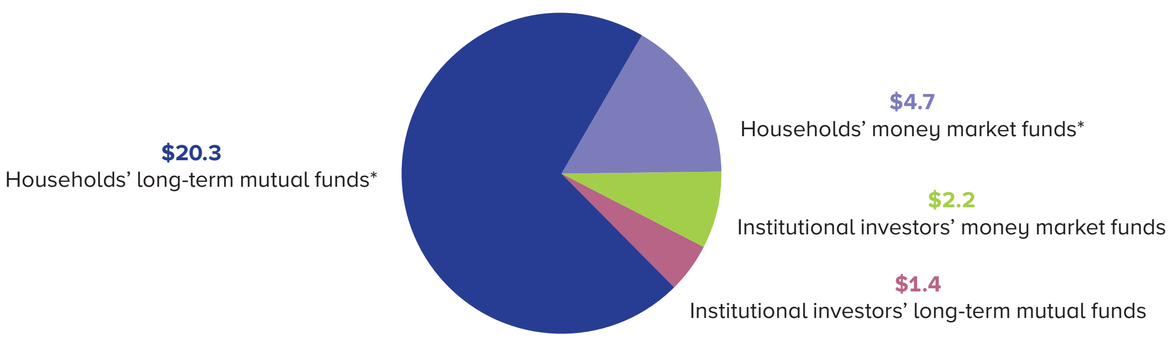
Demand for mutual funds is, in part, related to the types of investors who hold mutual fund shares. Retail investors (i.e., households) held the vast majority (88 percent) of the $28.5 trillion in US mutual fund net assets at year-end 2024 (Figure 3.2). When looking at only long-term mutual funds, the share of net assets held by retail investors was even higher (94 percent). Retail investors also held substantial money market fund net assets ($4.7 trillion), but this was a relatively small share (19 percent) of their total mutual fund net assets ($25.0 trillion).

By contrast, institutional investors such as nonfinancial businesses, financial institutions, and nonprofit organizations held a relatively small portion of mutual fund net assets. At year-end 2024, institutions held $3.6 trillion or 12 percent of mutual fund net assets (Figure 3.2), the majority (61 percent) of which was held in money market funds. One of the primary reasons institutions use money market funds is to help manage their cash balances.

FIGURE 3.2

Households Held 88 Percent of Mutual Fund Total Net Assets

Trillions of dollars, year-end 2024



Mutual fund total net assets: $28.5 trillion
Long-term mutual fund total net assets: $21.7 trillion
Money market fund total net assets: $6.9 trillion

* Mutual funds held as investments in individual retirement accounts, defined contribution retirement plans, variable annuities, 529 plans, and Coverdell education savings accounts are counted as household holdings of mutual funds.

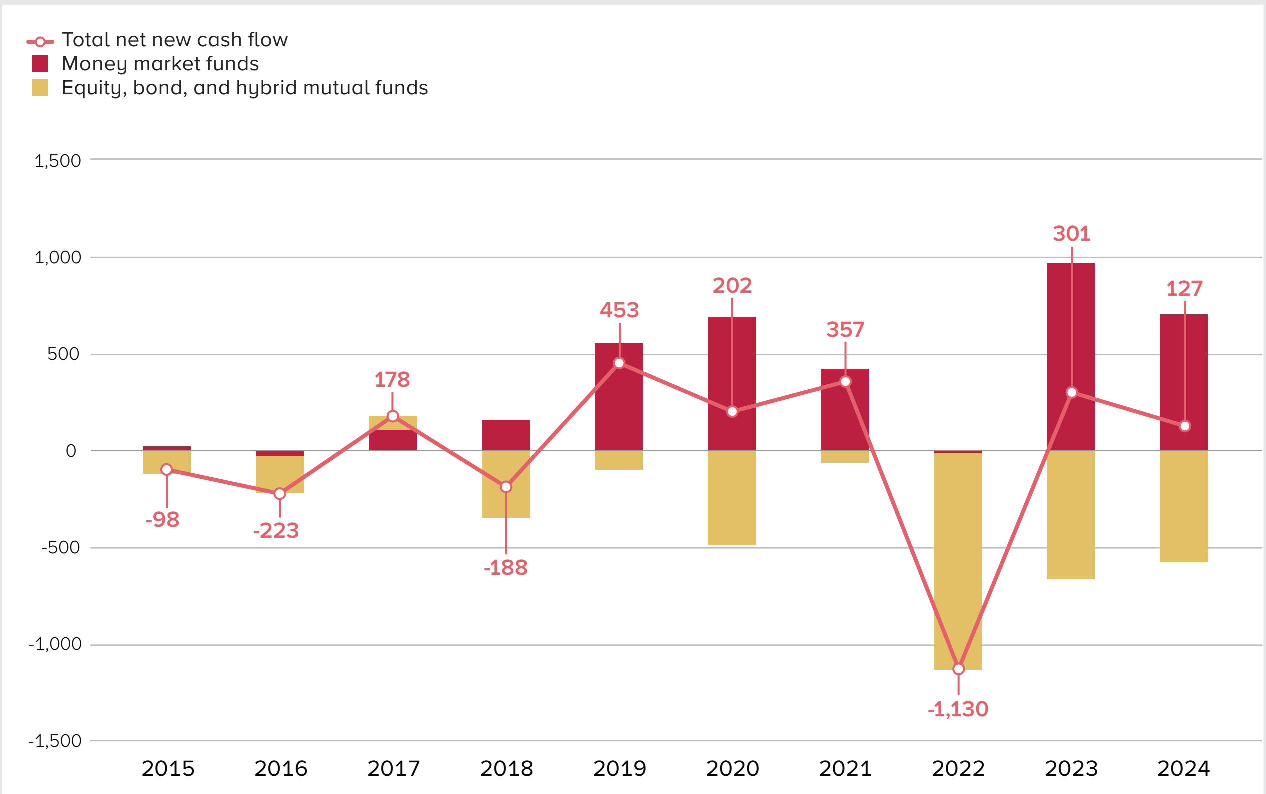
Developments in Mutual Fund Flows

Overall demand for mutual funds as measured by net new cash flow—new fund sales less redemptions, plus net exchanges—declined in 2024 (Figure 3.3). In 2024, mutual funds had net inflows of $127 billion (0.5 percent of year-end 2023 total net assets), following net inflows of $301 billion in 2023. Long-term mutual funds experienced net outflows of $576 billion in 2024, while money market funds saw net inflows of $703 billion. A number of factors—including interest rate risks, an evolving economic outlook, ongoing demographic trends, and demand for indexed products—appeared to influence US mutual fund flows in 2024.

FIGURE 3.3

Inflows to Money Market Funds More Than Offset Outflows from Long-Term Mutual Funds in 2024

Billions of dollars, annual



The US Economy and Financial Markets in 2024

The US economy and financial markets experienced a great year in 2024. The US economy grew at a solid pace of 2.8 percent, extending its exceptional performance relative to other major economies in recent years.* A healthy labor market, resilient consumer spending, and robust domestic investment all contributed to this economic growth. Although the unemployment rate ticked up from 3.8 percent in December 2023 to 4.2 percent in July 2024 and remained relatively stable in the second half of the year, this level was still low by historical standards. Inflation continued to ease in 2024. The year-over-year Consumer Price Index (CPI) growth declined from 3.4 percent in December 2023 to a three-year low of 2.4 percent in September 2024 before rebounding somewhat to 2.9 percent at year-end.

Convinced that tight monetary policy had produced sufficient progress on taming inflation and cooling economic activity, the Federal Reserve started to cut the federal funds rate, its benchmark interest rate, in September. By year-end 2024, the Federal Reserve had cut the federal funds rate by a total of one full percentage point to a target range of 4.25 to 4.50 percent.

Despite bouts of high volatility in 2024, US stocks had another strong year, with total returns of 23.8 percent, following total returns of 26.1 percent in 2023.† Strong corporate earnings, easing inflation, and the Federal Reserve's interest rate cuts fueled this equity market gain. Bonds performed well in the first three quarters of 2024 with a total return of 5.2 percent through September.‡ In the last quarter, however, bond markets reversed course, ending the year with a total return of 1.8 percent.

Long-Term Mutual Fund Flows

Although net new cash flows into long-term mutual funds are typically correlated with market returns, they tend to be a relatively small percentage of total net assets even during episodes of market turmoil. Several factors may contribute to this phenomenon. For example, households (i.e., retail investors) own the vast majority of US long-term mutual fund net assets (Figure 3.2). Retail investors generally respond less strongly to market events than do institutional investors. Most notably, households often use mutual funds to save for the long term, such as for college or retirement. Many of these investors make stable contributions through periodic payroll deductions, even during periods of market stress. In addition, many mutual fund shareholders seek the advice of financial advisers, who may provide a steadying influence during market downturns. Furthermore, because net assets in mutual funds are spread across more than 120 million investors who have a wide variety of individual characteristics (such as age or appetite for risk) and goals (such as saving for retirement, emergencies, or education), investors are also bound to have a wide range of views on market conditions and how best to respond to those conditions to meet their individual goals. As a result, even during months when funds as a whole experience net outflows, some investors continue to purchase fund shares.

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* For example, in 2024, GDP growth was 1.0 percent in the European Union and 0.9 percent in the United Kingdom.

† As measured by the FT Wilshire 5000 Total Return Index.

‡ As measured by the S&P US Aggregate Bond Index.

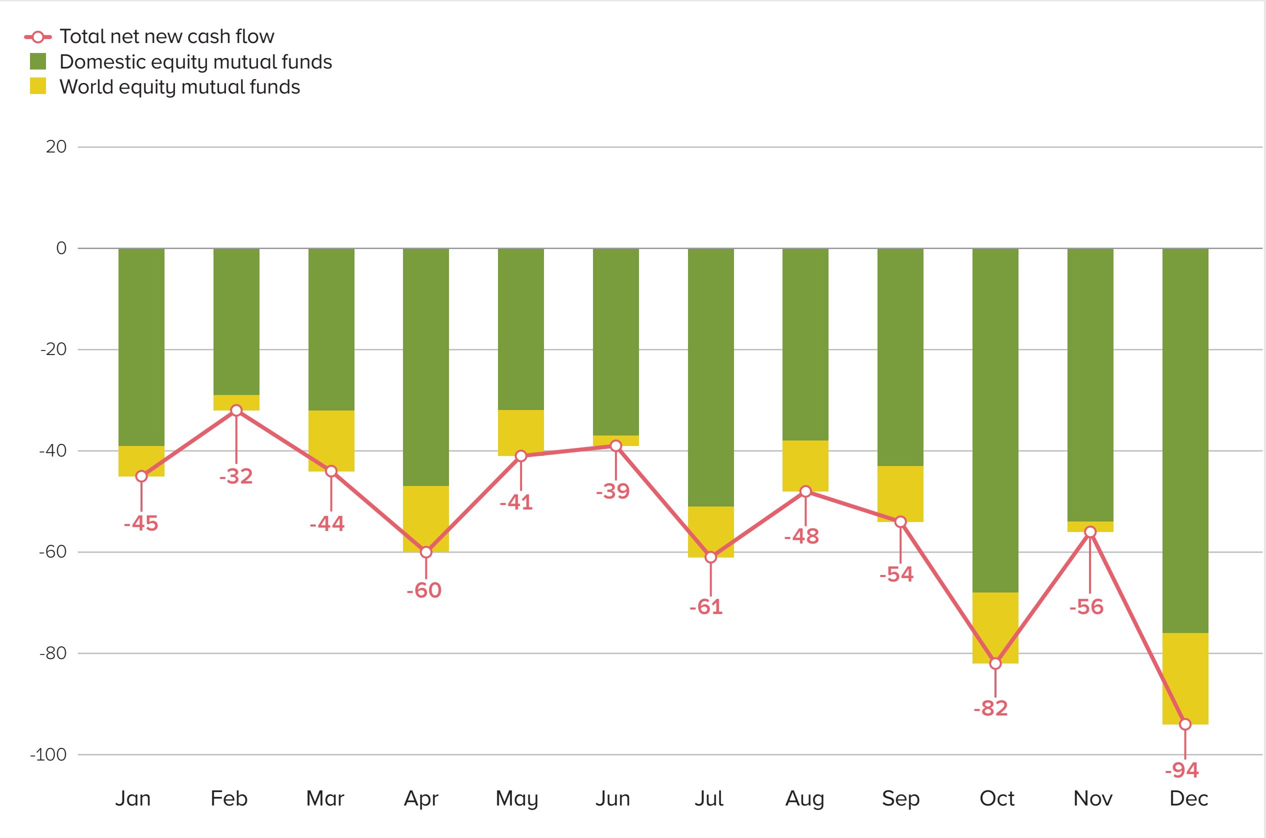
Equity Mutual Funds

Equity mutual funds experienced net outflows every month in 2024, totaling $655 billion over the year or 4.9 percent of their year-end 2023 total net assets (Figure 3.4). In the first three months of the year, investors had redeemed, on net, $120 billion from equity mutual funds. Flows to mutual funds, in general, tend to be bolstered in the first quarter of a year because investors who receive year-end bonuses may invest that money relatively quickly in the new year. In addition, some investors wait to make contributions to their individual retirement accounts (IRAs) before filing their tax returns. As the year progressed, net outflows from equity mutual funds accelerated, with investors redeeming, on net, $534 billion from April through December.

FIGURE 3.4

Equity Mutual Funds Experienced Net Outflows Throughout 2024

Billions of dollars; monthly, 2024



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From December Outflows to January Inflows: Seasonal Factors in Mutual Fund Flows

www.ici.org/viewpoints/view_19_seasonal_nncf

Net outflows from equity mutual funds in 2024 were likely driven by continued investor demand for equity exchange-traded funds (ETFs) and portfolio rebalancing. As discussed in Chapter 4, demand for ETFs has been very strong for the past decade. Equity ETFs had net creations in every month of 2024, which resulted in $840 billion in net share issuance over the year (see Figure 4.4). By contrast, equity mutual funds had net outflows of $655 billion in 2024 (Figure 3.4). Additionally, portfolio rebalancing likely also played a role in outflows from equity mutual funds. As equity markets outperformed bond markets by a wide margin in 2024, investors and target date funds following asset allocation strategies would have needed to sell equity funds and buy bond funds to remain at their target allocations.

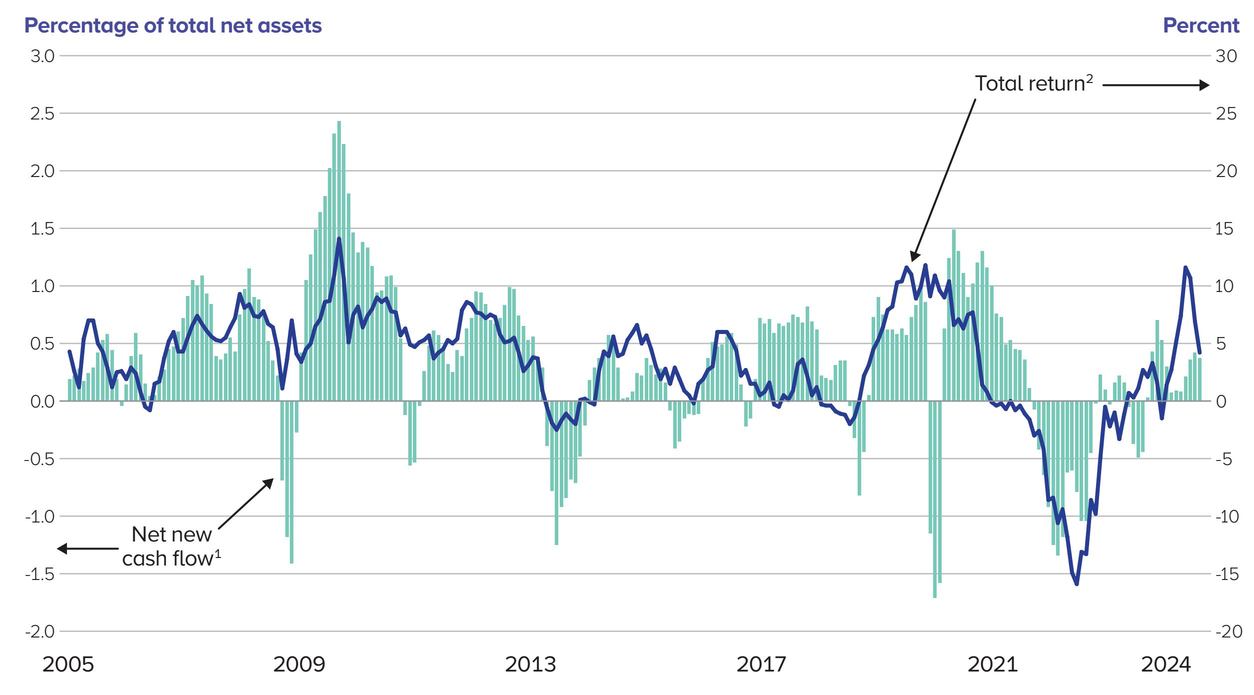
Bond Mutual Funds

Bond mutual fund net new cash flows typically are correlated with the performance of US bonds (Figure 3.5), which, in turn, is largely driven by the US interest rate environment. In 2024, bond mutual funds faced significant interest rate volatility, as long-term interest rates fluctuated widely throughout the year. The yield on the 10-year Treasury started 2024 at 3.9 percent, increased to 4.7 percent in late April, and then retreated to as low as 3.6 percent in September before bouncing back to 4.6 percent at year-end. A variety of factors, including inflation uncertainty, an evolving economic outlook, and shifting expectations of monetary policies, contributed to these fluctuations.

FIGURE 3.5

Net New Cash Flow to Bond Mutual Funds Is Typically Related to Bond Returns

Monthly



[1] Net new cash flow is reported as a percentage of previous month-end bond mutual fund total net assets, plotted as a three-month moving average. Data exclude high-yield bond mutual funds.

[2] The total return on bonds is measured as the year-over-year percent change in the FTSE US Broad Investment Grade Bond Index.

Sources: Investment Company Institute, FTSE Russell, and Refinitiv

Taxable bond mutual funds experienced net inflows of $163 billion in 2024, or 4.1 percent of their year-end 2023 total net assets (Figure 3.6), reversing two years of net outflows. In addition to the small, positive return on US bonds in 2024, portfolio rebalancing may have contributed to taxable bond mutual fund inflows as stocks significantly outperformed bonds in 2024.

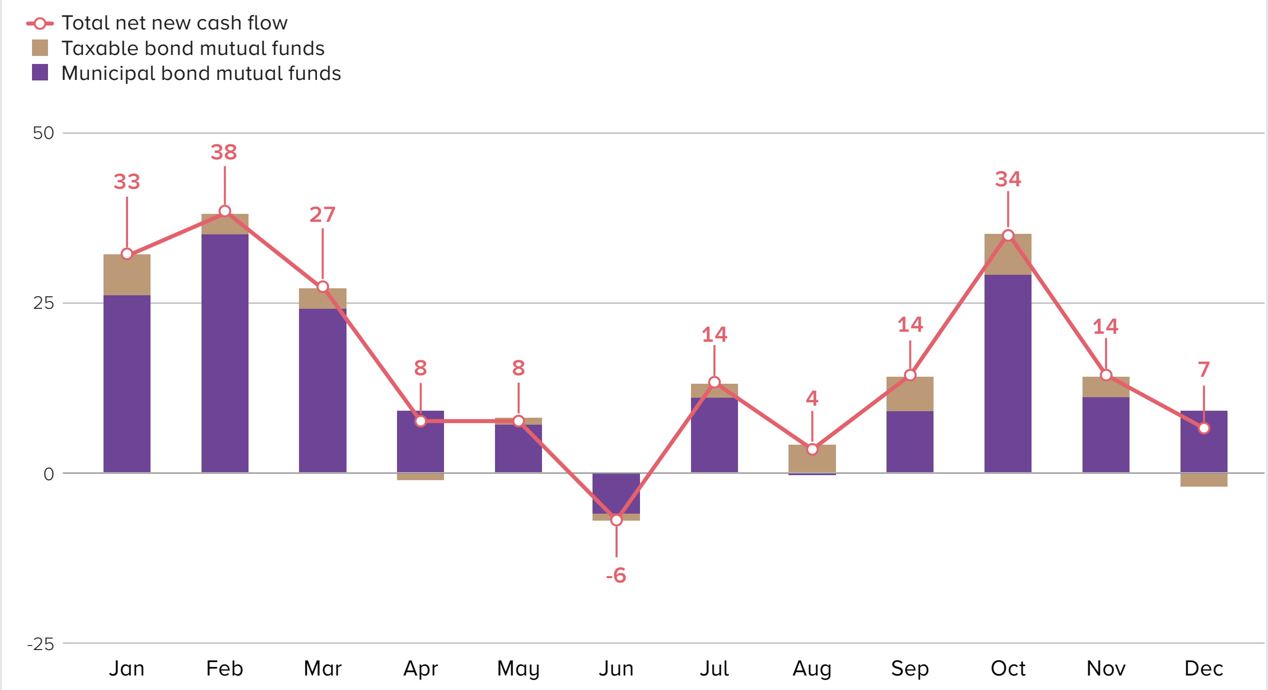
All categories of taxable bond mutual funds experienced inflows in 2024, with investment grade bond funds experiencing the bulk of inflows—$65 billion, which represented 2.9 percent of their year-end 2023 total net assets. Multisector bond mutual funds saw net inflows of $60 billion (10.8 percent); world bond mutual funds, which typically hold a mix of bonds denominated in US dollars and foreign currencies, saw net inflows of $28 billion (5.8 percent); high yield bond funds saw net inflows of $8 billion (2.5 percent); and government bond mutual funds saw net inflows of $2 billion (0.5 percent).

Municipal bond mutual funds also experienced inflows in 2024, with net inflows totaling $29 billion for the year, or 3.9 percent of their year-end 2023 net assets.

FIGURE 3.6

Net New Cash Flow to Bond Mutual Funds Was Generally Positive Throughout 2024

Billions of dollars; monthly, 2024



How Bond Mutual Funds Manage Investor Flows

When meeting redemptions, fund managers' actions are guided by market conditions, expected investor flows, and other factors. A fund might decide to sell some of its holdings to raise the cash needed to fulfill redemptions. But its choice of which particular securities to sell may depend on market conditions. For example, during a market downturn, with liquidity at a premium, some fund managers might seek to add shareholder value by selling some of their funds' more-liquid bonds (which, being in high demand, are trading at a premium to fundamental value). Other fund managers may conclude that it is necessary and appropriate to sell a representative "slice" of their funds' entire portfolios.

Bond mutual fund managers have other ways of meeting redemption requests. For example, a fund might already have cash on hand. Alternatively, the fund may use the cash that bond mutual funds receive each day in the form of interest income from bonds held in the portfolio, proceeds from matured bonds, or new sales of fund shares.

In addition, bond funds often use derivatives or hold liquid assets other than cash. For example, a high-yield bond fund might hold some portion of its assets in equities because equities are very liquid and the return profiles of high-yield bonds and equities can be similar. Derivatives can be more liquid than their physical counterparts, and funds are required to segregate liquid assets to support their derivatives positions. As these positions are closed, this cash collateral provides a ready source of liquidity to meet redemptions. This is especially true for many of the funds commonly called liquid alternative funds, as these funds are explicitly designed to allow frequent investor trading and do so in large measure through the use of derivatives.

Long-Term Demand for Bond Mutual Funds

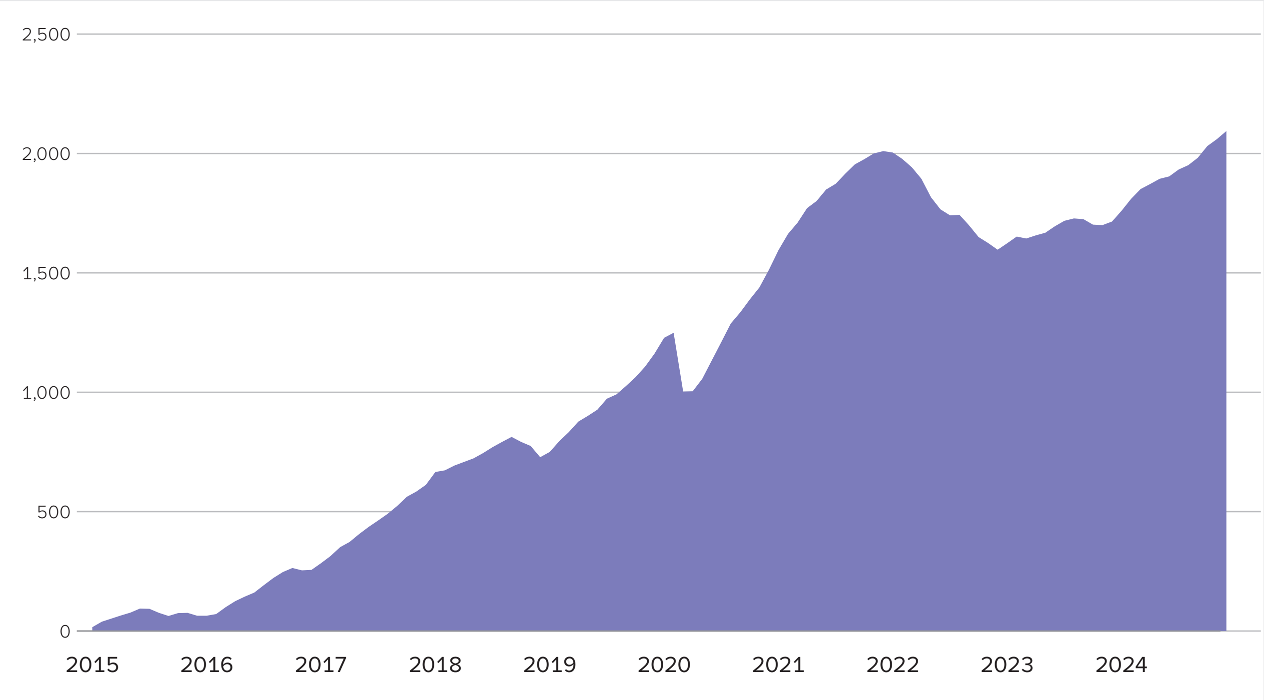
Despite outflows in 2022 and 2023, bond mutual funds have received $2.1 trillion in net new cash flows and reinvested dividends in the past decade (Figure 3.7).

A number of factors have contributed to this long-term demand for bond mutual funds, including demographics. Older investors tend to have larger account balances because they have had more time to accumulate savings and take advantage of compounding. At the same time, as investors age, they tend to shift toward fixed-income products. Over the past decade, the aging US population has boosted flows to bond funds.

FIGURE 3.7

Bond Mutual Funds Have Experienced Net Inflows Through Most of the Past Decade

Cumulative flows to bond mutual funds, billions of dollars, monthly



Note: Bond mutual fund data include net new cash flow and reinvested dividends.

The popularity of target date mutual funds has also contributed to strong demand for bond mutual funds during this period. Target date funds invest in a changing mix of equities and fixed-income investments. As the fund approaches and passes its target date (which is usually specified in the fund's name), the fund gradually reallocates assets from equities to fixed-income investments, including bonds. Over the past 10 years, target date mutual funds have received net inflows of $310 billion. At year-end 2024, target date mutual funds had total net assets of $2.0 trillion. Investor interest in these funds likely reflects their automatic rebalancing features as well as their inclusion as an investment option in many defined contribution (DC) plans (see Figure 8.10).

These long-term factors, combined with mostly positive annual returns on bonds and inflows from portfolio allocation strategies, have boosted bond mutual fund total net assets from $3.5 trillion at year-end 2014 to $5.1 trillion at year-end 2024. Even with this growth, long-term mutual funds' share of US bond markets—most of which is held by bond mutual funds—has stayed relatively stable in recent years (see Figure 2.4).

Growth of Other Investment Products

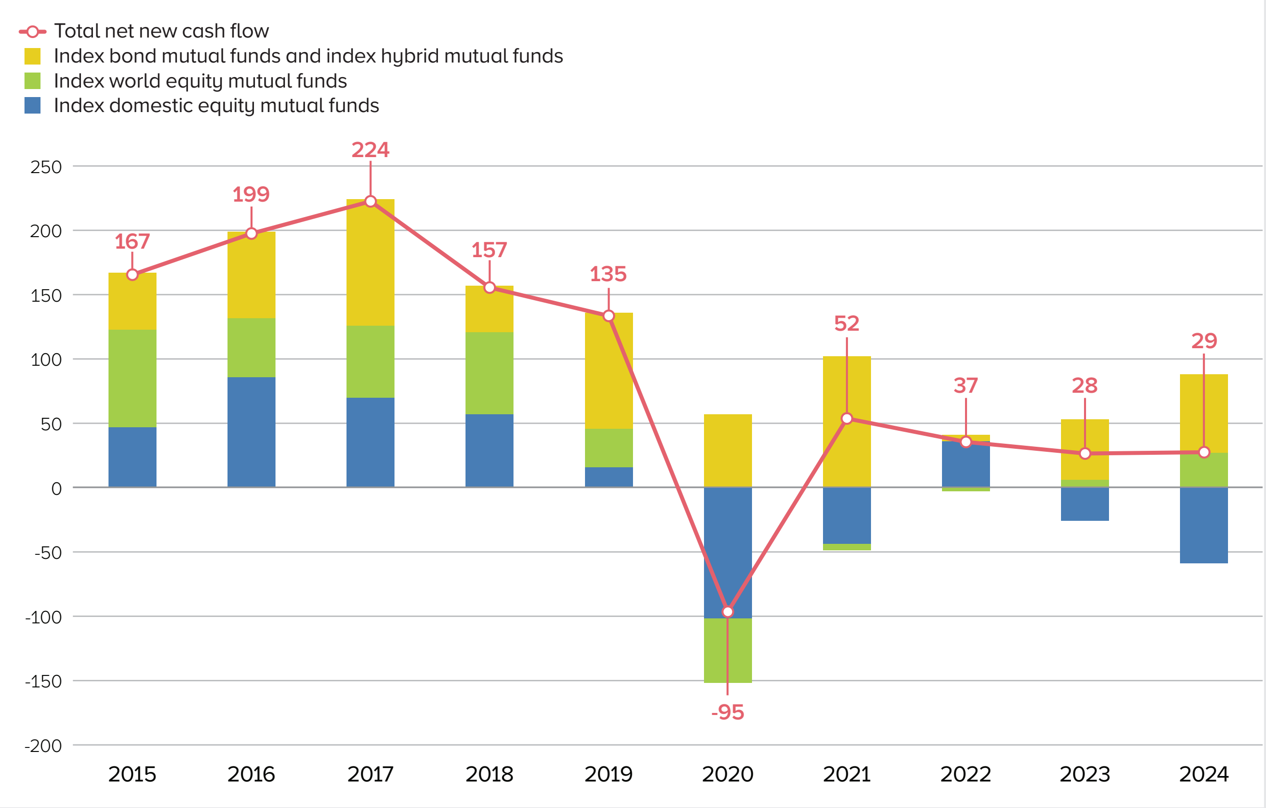
Outflows from some long-term mutual funds over the past decade reflect a broader shift, driven by both investors and retirement plan sponsors, toward other pooled investment vehicles. This trend is reflected in the outflows from actively managed mutual funds and the growth of index mutual funds, ETFs, and collective investment trusts (CITs) since 2007.

Index mutual funds—which hold all (or a representative sample) of the securities in a specified index—are popular among investors. Of households that owned mutual funds, 48 percent owned at least one index equity mutual fund in 2024. As of year-end 2024, 513 index mutual funds managed total net assets of $6.9 trillion. For 2024 as a whole, investors added $29 billion in net new cash flow to these funds (Figure 3.8). Outflows from index domestic equity mutual funds ($59 billion) were more than offset by inflows into index bond mutual funds and index world equity mutual funds ($62 billion and $27 billion, respectively).

FIGURE 3.8

Index Mutual Funds Saw Net Inflows in 2024

Billions of dollars, annual

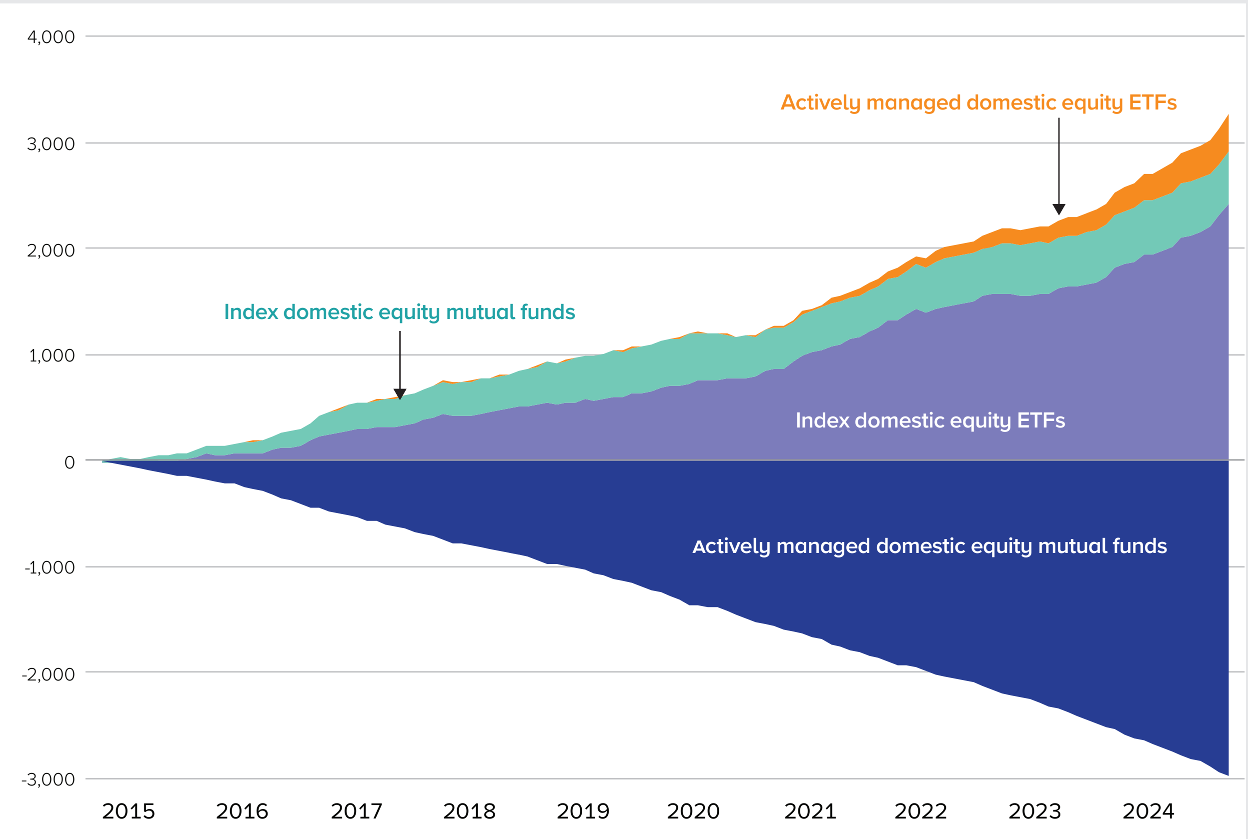


Index domestic equity mutual funds and ETFs have particularly benefited from the overall increase in investor demand for index-based investment products. From 2015 through 2024, index domestic equity mutual funds and ETFs received $2.9 trillion in net new cash and reinvested dividends, while actively managed domestic equity mutual funds experienced net outflows of $3.0 trillion (Figure 3.9). Index domestic equity ETFs have grown rapidly, attracting nearly five times the amount of net inflows into index domestic equity mutual funds since 2015. Part of the increasing popularity of ETFs in the past decade is attributable to more brokers and financial advisers using them in their clients' portfolios. In 2023, full-service brokers and fee-based advisers had 31 percent and 45 percent, respectively, of their clients' household assets invested in ETFs, up sharply from 9 percent and 18 percent in 2013 (Figure 3.10).

FIGURE 3.9

Some of the Outflows from Domestic Equity Mutual Funds Have Gone to ETFs

Cumulative flows to domestic equity mutual funds and net share issuance of domestic equity ETFs, billions of dollars, monthly

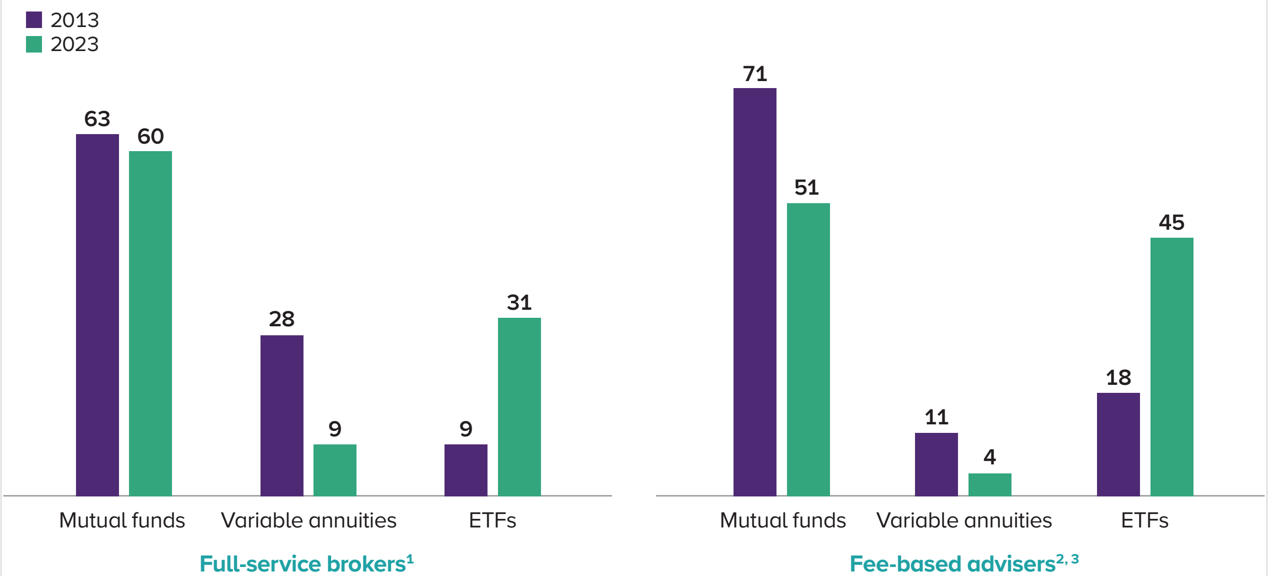


Note: Mutual fund data include net new cash flow and reinvested dividends; ETF data for net share issuance include reinvested dividends.

FIGURE 3.10

Fee-Based Advisers Are Investing Larger Portions of Client Portfolios in ETFs

Percentage of household assets invested in investment category by adviser type



[1] This category includes wirehouses as well as regional, independent, and bank broker-dealers.

[2] This category includes registered investment advisers and dually registered investment adviser broker-dealers.

[3] This category excludes an unknown portion of assets from investors who received fee-based advice but implemented trades themselves through discount brokers and fund supermarkets.

Note: In this figure, household assets include household holdings of mutual funds, variable annuities, and ETFs.

Source: Cerulli Associates, "The State of US Retail and Institutional Asset Management, 2024"

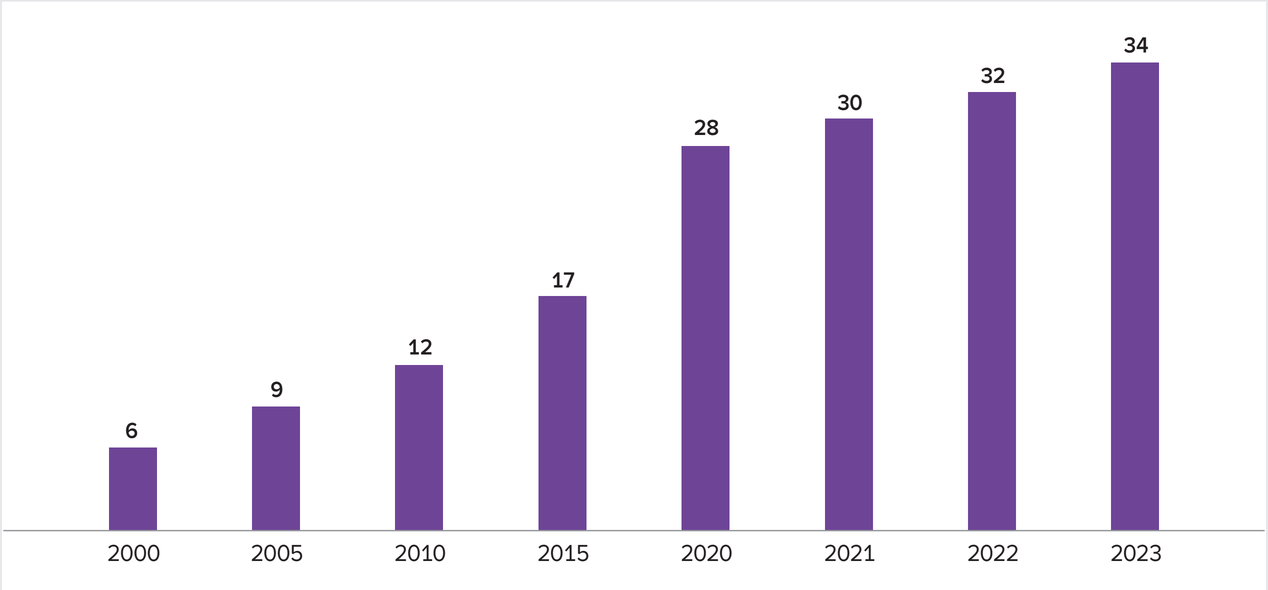
CITs are an alternative to mutual funds for DC plans. Like mutual funds, CITs pool the assets of investors and (either actively or passively) invest those assets according to a particular strategy. Much like institutional share classes of mutual funds, CITs generally require substantial minimum investment thresholds, which can limit the costs of managing pooled investment products. Unlike mutual funds, which are regulated under the Investment Company Act of 1940, CITs are regulated under banking laws and are not marketed as widely as mutual funds; this can also reduce their operational and compliance costs as compared with mutual funds.

More retirement plan sponsors have begun offering CITs as options in 401(k) plan lineups. As Figure 3.11 demonstrates, this trend has translated into a growing share of assets held in CITs by large 401(k) plans. That share increased from 6 percent in 2000 to an estimated 34 percent in 2023. This recent expansion is due, in part, to the growth in target date CITs.

FIGURE 3.11

Assets of Large 401(k) Plans Are Increasingly Held in Collective Investment Trusts

Percentage of assets in large 401(k) plans*



* Large 401(k) plans are those that filed Form 5500 Schedule H (typically plans with 100 participants or more).

Note: Assets exclude Direct Filing Entity assets that are reinvested in collective investment trusts. Data prior to 2023 come from the Form 5500 Research data sets released by the Department of Labor. Data for 2023 are preliminary, based on Department of Labor Form 5500 latest data sets.

Source: Investment Company Institute calculations of Department of Labor Form 5500 data

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Sold Under False Pretenses: The SEC's Money Market Fund Reform is Causing Damage

www.ici.org/viewpoints/25-view-mmf-reforms

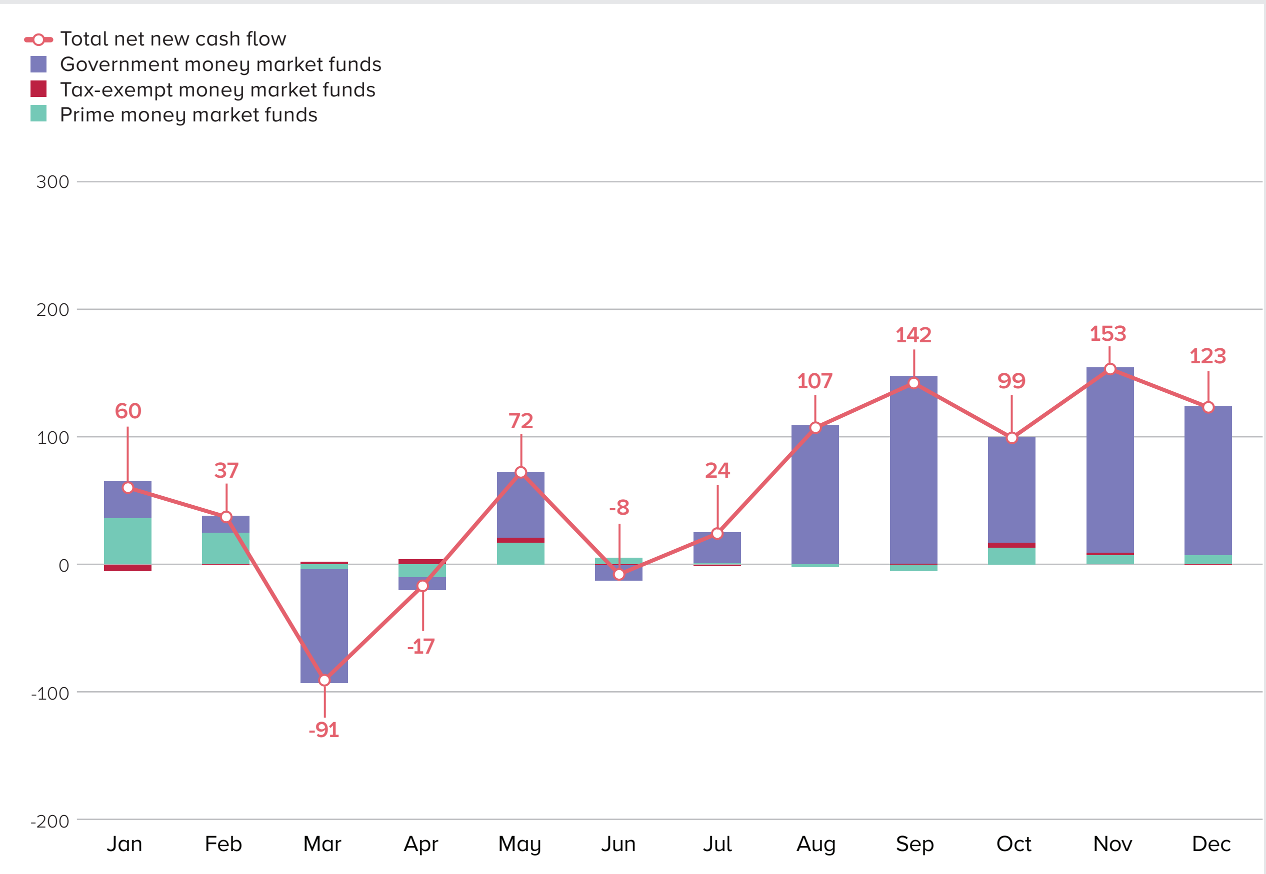
Money Market Funds

In 2024, money market funds saw substantial inflows of $703 billion (Figure 3.12) as short-term interest rates remained elevated. Demand was positive for all categories of money market funds in 2024, with government money market funds experiencing the bulk of inflows ($606 billion). Prime money market funds and tax-exempt money market funds saw inflows of $88 billion and $9 billion, respectively.

In July 2023, the Securities and Exchange Commission (SEC) adopted in its money market funds reforms a mandatory liquidity fee requirement for institutional prime money market funds. This new rule requires institutional prime funds to charge investors a liquidity fee under certain conditions, which is complex and costly for some money market fund sponsors to calculate. These concerns led 16 institutional prime funds to either liquidate or convert to government money market funds before the rule's implementation on October 2, 2024.* These funds had about $60 billion in net assets at the time of their liquidation or conversion.

FIGURE 3.12 **Money Market Funds Experienced Strong Demand in 2024**

Billions of dollars; monthly, 2024



* These data only include public institutional prime money market funds. Five nonpublic institutional prime money market funds, with about $220 billion in net assets, either moved to government strategies or liquidated or converted to non–money market strategies.

CHAPTER 4

US Exchange-Traded Funds

ETFs are a convenient, cost-effective tool for investors seeking to gain or shed exposure to broad markets, particular sectors or geographical regions, or specific investment strategies. Demand for ETFs has grown markedly as investors—both institutional and retail—increasingly turn to them as investment options. In the past 10 years, net share issuance of ETFs has totaled $5.4 trillion. As investor demand has increased, sponsors have offered more ETFs with a greater variety of investment objectives. With $10.3 trillion in total net assets at year-end 2024, the US ETF industry remained the largest in the world.

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66 Characteristics of ETF-Owning Households

What Is an ETF?

An exchange-traded fund (ETF) is a pooled investment vehicle with shares that investors can buy and sell throughout the day on a stock exchange at a market-determined price. Investors may buy or sell ETF shares through a broker or in a brokerage account just as they would trade shares of any publicly traded company. ETFs have been available as an investment product for more than 30 years in the United States. Most ETFs are structured as open-end investment companies (like mutual funds) or unit investment trusts (UITs) and are governed by the same regulations. Other ETFs—primarily those investing in commodities, currencies, and futures—have different structures and are subject to different regulatory requirements.

ETF Total Net Assets

At year-end 2024, the US ETF market—with 3,637 funds and $10.3 trillion in total net assets—remained the largest in the world, accounting for 71 percent of the $14.4 trillion in ETF net assets worldwide.* Within the United States, total net assets in ETFs accounted for 26 percent of assets managed by investment companies at year-end 2024 (see Figure 2.1). ETFs have been available for more than 30 years, and throughout that time, large-cap domestic equity ETFs have accounted for a substantial proportion of ETF net assets. At year-end 2024, net assets in large-cap domestic equity ETFs totaled $3.8 trillion, or 37 percent of ETF net assets (Figure 4.1). Bond ETFs, which have been fueled by strong investor demand over the past several years, accounted for $1.8 trillion (17 percent) of ETF net assets.

Learn More About ETFs

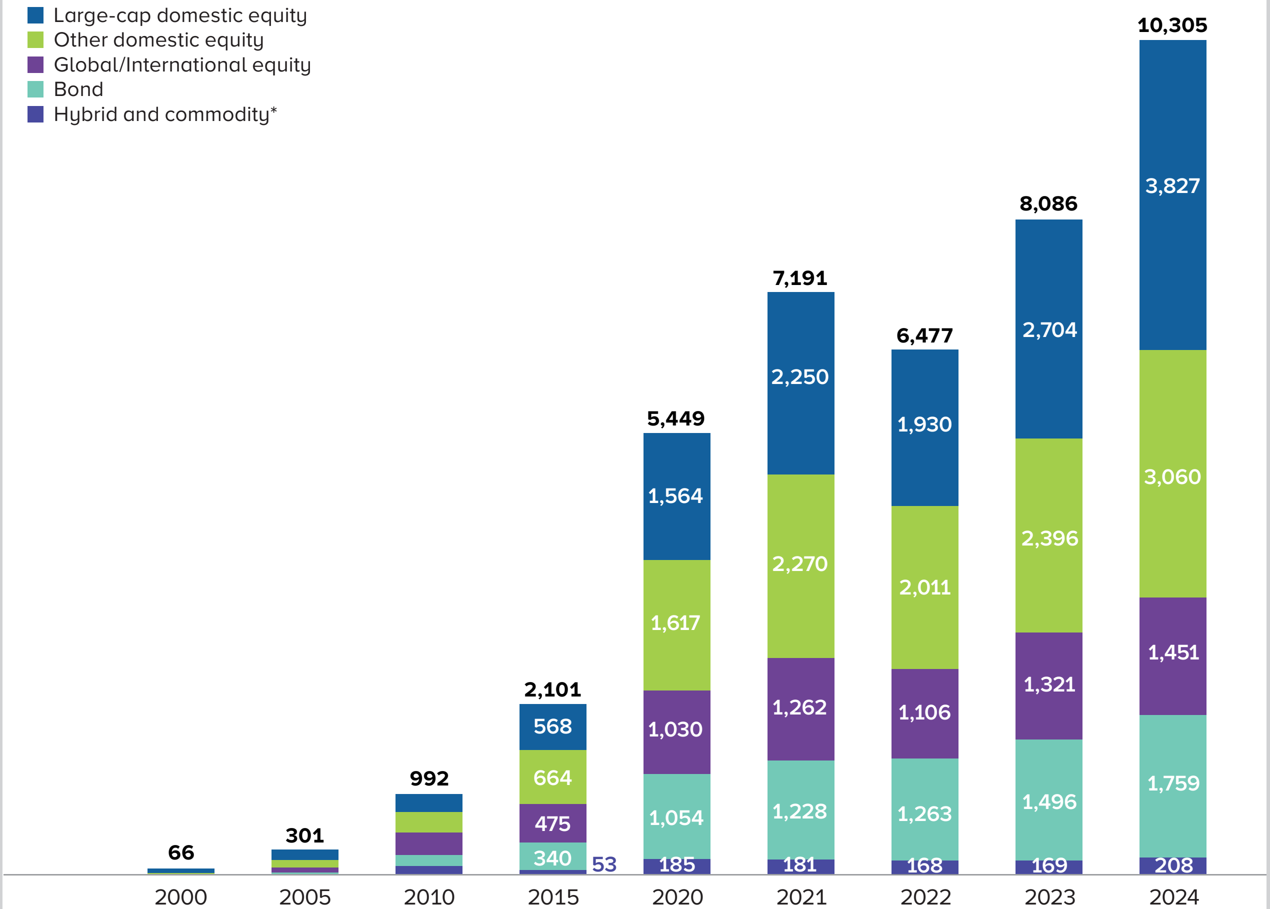
ETFs have proven to be a successful financial innovation among registered investment companies since the first one was created in 1993. The demand for ETFs has grown markedly as both institutional and retail investors have gravitated toward them because of their appealing features. For an introduction to the creation, operation, and evolution of the regulation of ETFs, as well as information about authorized participants (APs) and the key similarities and differences between ETFs and mutual funds, see the ETF Resource Center, available at www.ici.org/etf.

* Based on ICI calculations of data from the International Investment Funds Association (IIFA).

FIGURE 4.1

Total Net Assets of ETFs Surpassed $10 Trillion in 2024

Billions of dollars, year-end



Number of ETFs

2000	2005	2010	2015	2020	2021	2022	2023	2024
80	204	923	1,597	2,203	2,570	2,846	3,119	3,637

* Commodity ETFs include funds—both registered and not registered under the Investment Company Act of 1940—that invest primarily in commodities, currencies, and futures.

Note: The first bond, hybrid, and commodity ETFs were opened in 2002, 2007, and 2004, respectively.

Secondary Market Trading in ETF Shares

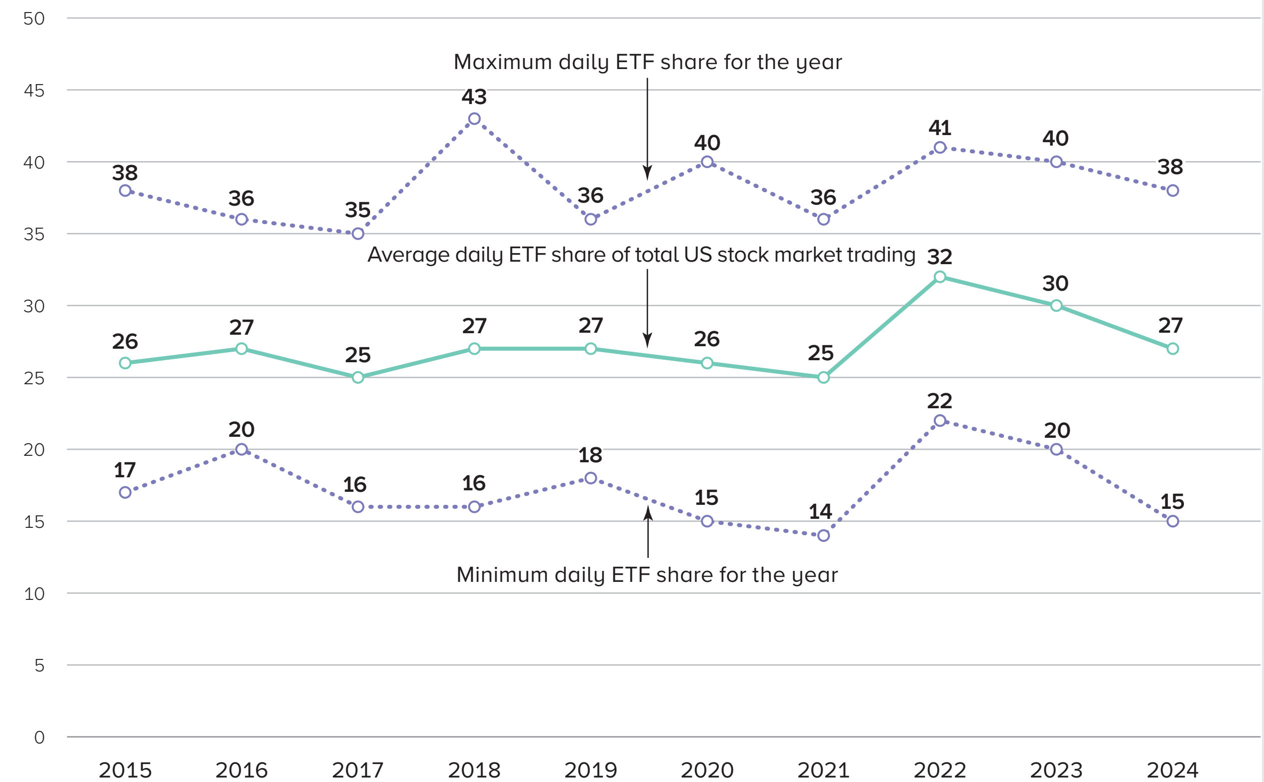
Many investors access ETFs through the secondary market (e.g., on an exchange). Although many large institutional investors can access ETFs in both the primary market (i.e., through creations and redemptions of ETF shares via an AP) and the secondary market, retail investors generally can access them only in the secondary market. ETF investors trading in the secondary market generally are not motivated by arbitrage. They are using ETFs to gain or reduce exposure to specific asset classes or investment strategies, diversify their portfolios, or hedge investment risks. Thus, these funds provide investors with an efficient means to transfer risk. Therefore, it is not surprising that ETF secondary market trading volumes (as measured by the value of shares traded) are a substantial share of total trading on US stock exchanges and other venues. But despite tremendous growth in ETFs in the past decade, their average daily share of total stock market trading remained relatively flat through 2021 (Figure 4.2). In 2022, ETFs' share of trading volume increased to 32 percent, which was likely related to elevated market volatility. This share decreased to 30 percent in 2023 and 27 percent in 2024 as market volatility abated.

During periods of market turbulence, ETF secondary market trading volumes rise—both in absolute terms and as a share of total stock market trading—as investors, especially institutional investors, turn to ETFs to quickly and efficiently transfer and hedge risks. For example, in late 2018, stock market volatility jumped, largely reflecting market participants' concerns about slowing global growth and intensifying trade tensions. On December 24, 2018, when the S&P 500 index neared bear market territory following its September peak, ETF trading volume accounted for 43 percent of total stock market trading—its highest share in the past decade (Figure 4.2). More recently, the regional banking crisis in March 2023 strained financial markets. During this period, ETF trading volumes' share of total stock market trading rose, peaking at 40 percent on March 10, 2023, the day Silicon Valley Bank was shut down and placed under Federal Deposit Insurance Corporation (FDIC) receivership (the first of several regional banks).

FIGURE 4.2

ETF Share of Total Secondary Market Trading Decreased in 2024

Percentage of total US stock market trading volume, annual



	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Date of maximum	Aug 24	Sep 13	Dec 1	Dec 24	Jan 2	Mar 3	Nov 26	Jun 13	Mar 10	Aug 5
Date of minimum	Jun 26	Jul 28	Jun 23	Jun 22	Nov 26	Dec 18	Jun 25	Dec 16	Sep 15	Jun 21

Sources: Investment Company Institute, Bloomberg, Refinitiv, and Cboe Exchange, Inc.

Most ETF activity is conducted in the secondary market (trading ETF shares) rather than the primary market (creations and redemptions of ETF shares through an AP). On average, 83 percent of the total activity in ETFs occurred on the secondary market in 2024. Even for ETFs focused on narrower asset classes—such as emerging market equity, domestic high-yield bond, and emerging market bond—the bulk of the trading occurred on the secondary market (95 percent, 83 percent, and 94 percent, respectively).*

Most ETF secondary market trades represent investors exchanging shares of ETFs among themselves. Unlike primary market activity, these trades do not affect the ETF's underlying securities. In 2024, domestic equity ETFs had a total of $7.0 trillion in primary market activity, which represented only 6.2 percent of the $112.5 trillion traded in company stocks during the year (Figure 4.3). Even in years with significant market volatility, such as 2018, 2020, and 2022, creations and redemptions of domestic equity ETFs accounted for only a modest share of trading in company stocks.

FIGURE 4.3

Domestic Equity ETFs Have Had Minimal Impact on Underlying US Stocks
Annual

	Domestic equity ETF primary market activity* Trillions of dollars	Value of company stock traded Trillions of dollars	Domestic equity ETF primary market activity as a share of company stock traded Percent
2015	2.5	51.3	4.9
2016	2.2	49.7	4.4
2017	2.2	51.3	4.2
2018	3.5	65.1	5.4
2019	2.9	59.4	5.0
2020	4.2	88.9	4.7
2021	4.9	106.3	4.6
2022	5.2	97.0	5.3
2023	4.9	90.6	5.5
2024	7.0	112.5	6.2

* Primary market activity is measured as the total of gross issuance and gross redemptions.
Sources: Investment Company Institute, Bloomberg, Refinitiv, and Cboe Exchange, Inc.

* Based on ICI calculations of data from ICI and Refinitiv.

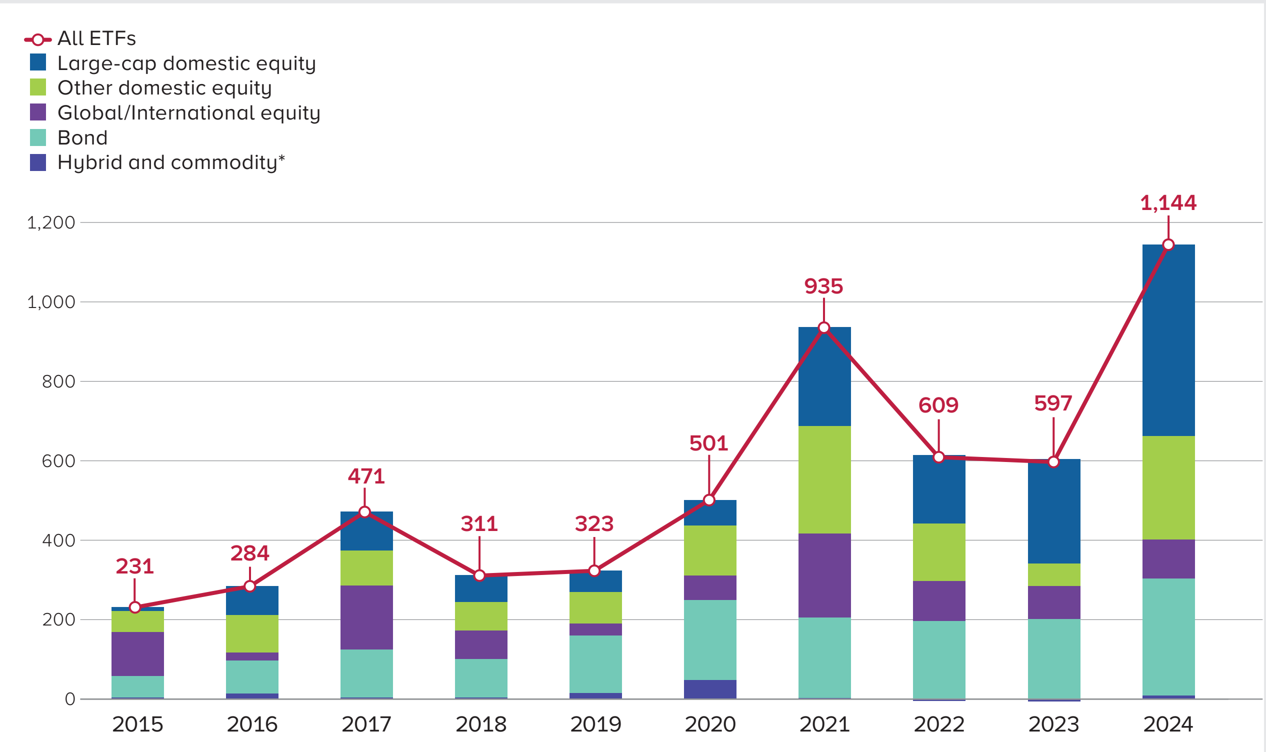
Demand for ETFs

In recent years, demand for ETFs has grown as institutional investors have found ETFs to be a convenient vehicle for participating in, or hedging against, broad movements in the stock market and financial advisers have invested more of their retail clients' assets in ETFs (see Figure 3.10). Net issuance of ETF shares (including reinvested dividends) surged to a record $1.1 trillion in 2024, up from a robust $597 billion in 2023 (Figure 4.4).

FIGURE 4.4

Net Share Issuance of ETFs Surged to a Record $1.1 Trillion in 2024

Billions of dollars, annual



* Commodity ETFs include funds—both registered and not registered under the Investment Company Act of 1940—that invest primarily in commodities, currencies, and futures.

Note: Data for net share issuance include reinvested dividends.

Demand for ETFs increased across all asset classes in 2024. For example, net issuance of domestic equity ETFs rose sharply from $319 billion in 2023 to $742 billion in 2024, and net issuance of global/international equity ETFs increased from $83 billion in 2023 to $97 billion in 2024. The higher demand for domestic equity ETFs likely reflected the stronger performance of US stocks in 2024 (24 percent*) compared with international stocks (6 percent†). Demand for bond ETFs, likely boosted by the aging of Generation X and the Baby Boom, also increased in 2024, with net share issuance increasing from $201 billion in 2023 to $295 billion in 2024.

* As measured by the FT Wilshire 5000 Total Return Index.

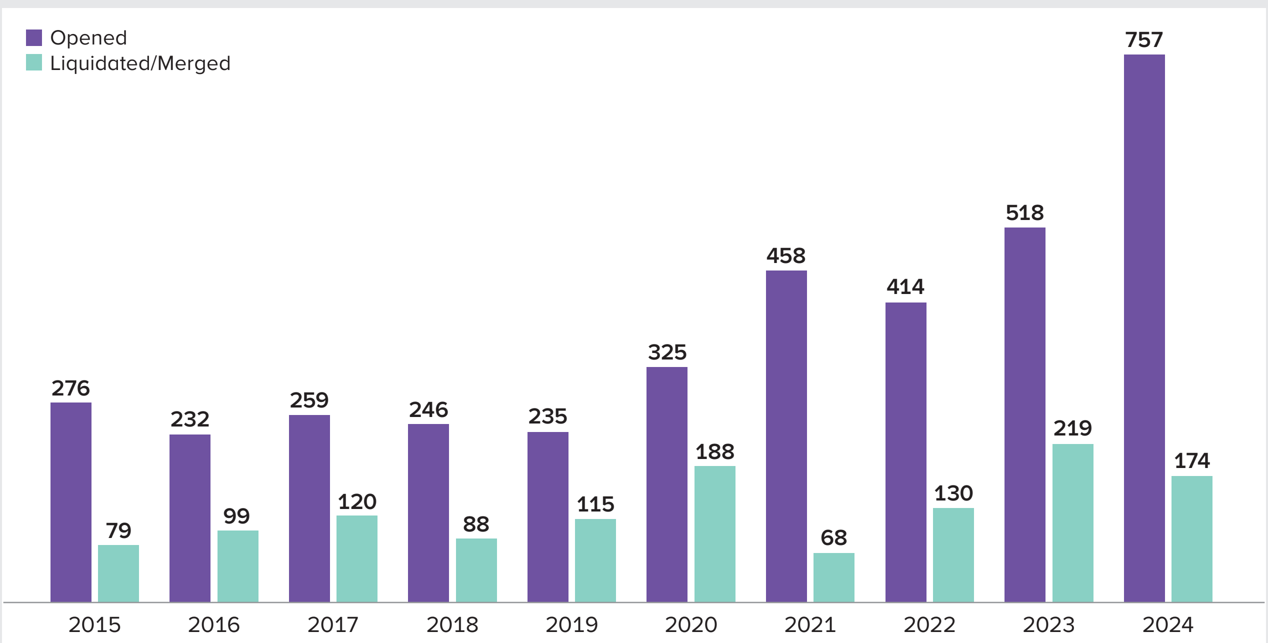
† As measured by the MSCI ACWI Ex USA Index (expressed in US dollars).

More brokers and financial advisers using ETFs in their clients' portfolios has contributed to the growing popularity of ETFs. In 2023, full-service brokers and fee-based advisers had 31 percent and 45 percent, respectively, of their clients' household assets invested in ETFs, up sharply from 9 percent and 18 percent in 2013 (see Figure 3.10). Additionally, in recent years, some of the net share issuance represents mutual funds converting to ETFs. From the beginning of 2021 through 2024, 130 mutual funds, which held $78 billion in total net assets at the time of conversion, have converted to ETFs. These conversions, however, represented only 2.4 percent of ETFs' net issuance ($3.3 trillion) over the same period.

Strong investor demand for ETFs has led to a substantial increase in the number of ETFs created by fund sponsors, with 3,720 new ETFs offered to investors in the past decade (Figure 4.5). Over the same period, 1,280 ETFs were liquidated or merged with another fund. In any given year, fund sponsors liquidate or merge ETFs that have failed to attract sufficient demand. In 2024, 757 ETFs—mostly equity ETFs—were launched. Meanwhile, 174 ETFs were liquidated or merged as sponsors eliminated some global/international equity ETFs from their lineups.

FIGURE **4.5**

Number of ETFs Entering and Exiting the Industry



Note: Data include ETFs that invest primarily in other ETFs.

Characteristics of ETF-Owning Households

About 13 percent of US households (16.9 million) held ETFs in 2024 (see Figure 7.1). Households that own ETFs come from all demographic groups—nearly half are 35 to 64 years old—and more than two-thirds are employed (Figure 4.6). ETF-owning households are often focused on saving for retirement: 82 percent had IRAs, 78 percent had DC plan accounts, and 78 percent indicated that saving for retirement is a household financial goal for their ETF investments. Indeed, nearly six in 10 ETF-owning households indicated that they held ETFs in their IRAs.

In 2024, the vast majority of ETF-owning households reported that they invest in ETFs for diversification and their cost-effectiveness (Figure 4.6). More than nine in 10 ETF-owning households indicated they appreciate their ability to sell their ETF shares any time during the day.

ETF-owning households tended to include investors who owned a range of equity and fixed-income investments. Of households that owned mutual funds, 20 percent also owned ETFs. Conversely, 84 percent of ETF-owning households also owned mutual funds (Figure 4.6).

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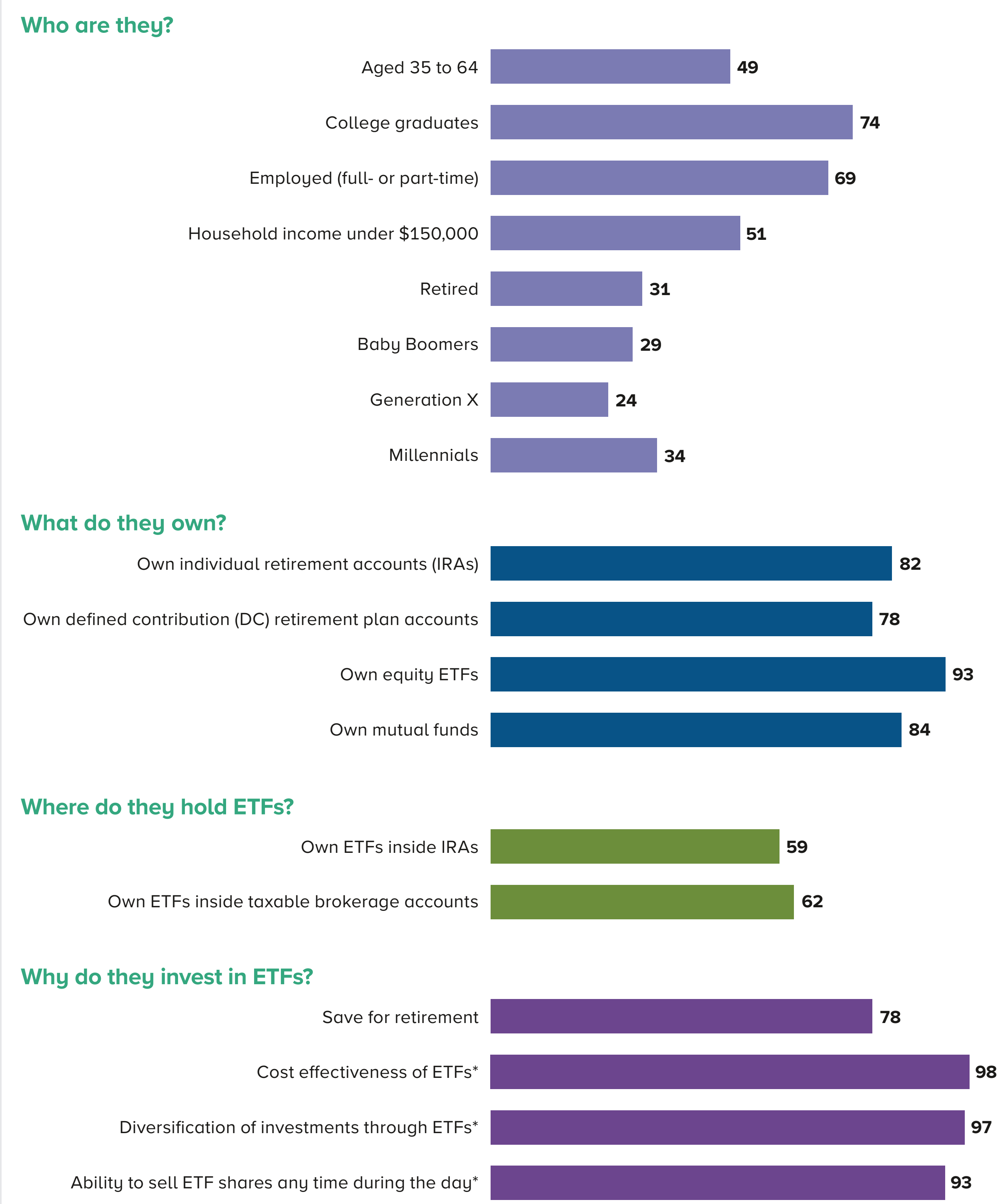
Profile of ETF-Owning Households
www.ici.org/research/investors/etf-households

FIGURE 4.6

ETF-Owning Households Are from All Demographic Groups

Percentage of ETF-owning households, 2024



* Percentage of ETF-owning households indicating the feature was “very important,” “somewhat important,” or “not very important” in their ETF purchase decision.

Source: *ICI Research Data Release*, “Profile of ETF-Owning Households, 2024”

Some ETF-owning households' characteristics are similar to those of mutual fund–owning households and those that own stocks directly. For instance, ETF-owning households—like mutual fund–owning households and those owning individual stocks—tended to have household incomes above the national median (Figure 4.7).

ETF-owning households also exhibit certain characteristics that distinguish them from other households. For example, ETF-owning households tended to be more likely to own individual retirement accounts (IRAs) than households that own mutual funds or those that own individual stocks (Figure 4.7). Additionally, more than one-third of ETF-owning households were Millennials, compared with one-quarter of mutual fund–owning households.

ETF-owning households also indicated they were more willing to take investment risk. In 2024, 51 percent of ETF-owning households were willing to take substantial or above-average investment risk compared with 24 percent of all US households and 32 percent of mutual fund–owning households (Figure 4.7). This result aligns with the predominance of equity ETFs, which make up 81 percent of ETF total net assets (Figure 4.1). Investors who are more willing to take investment risk are more likely to invest in equities. Indeed, 93 percent of ETF-owning households owned equity ETFs (Figure 4.6), compared with 80 percent of mutual fund–owning households owning equity mutual funds (see Figure 7.2).

FIGURE 4.7

Characteristics of ETF-Owning Households

2024

	All US households	Households owning ETFs	Households owning mutual funds	Households owning individual stocks
Median				
Age of household survey respondent	52	49	55	54
Household income[1]	$80,000	$140,000	$115,000	$125,000
Household financial assets[2]	$90,000	$500,000	$300,000	$400,000
Percentage of households				
Household survey respondent				
Millennials	29	34	25	28
Married or living with a partner	64	72	72	72
College or postgraduate degree	40	74	54	60
Employed (full- or part-time)	58	69	65	63
Retired from lifetime occupation	32	31	34	35
Household owns				
IRA(s)	44	82	68	72
DC retirement plan account(s)	59	78	82	78
Household's willingness to take financial risk				
Substantial risk for substantial gain	5	10	5	7
Above-average risk for above-average gain	19	41	27	33
Average risk for average gain	39	39	49	46
Below-average risk for below-average gain	11	7	11	9
Unwilling to take any risk	26	3	8	5

[1] Total reported is household income before taxes in 2023.

[2] Household financial assets include assets in employer-sponsored retirement plans but exclude the household's primary residence.

CHAPTER 5

US Closed-End Funds

There are four types of closed-end funds (CEFs): traditional funds, interval funds, tender offer funds, and business development companies (BDCs). Traditional CEFs (and some interval funds and BDCs) issue a fixed number of shares that are listed on a stock exchange or traded in the over-the-counter (OTC) market. Other CEFs—like most interval funds, tender offer funds, and BDCs—are not listed on stock exchanges and are permitted to continuously offer their shares at net asset value. The assets of a CEF are professionally managed in accordance with the fund's investment objectives and policies and may be invested in stocks, bonds, and other securities. Since most CEFs do not need to maintain cash reserves or sell securities to meet redemptions, they may fully invest their assets according to their strategies and invest in less-liquid portfolio securities. Total assets of traditional CEFs were $249 billion at year-end 2024, while total assets of interval funds, tender offer funds, and BDCs were $403 billion.

IN THIS CHAPTER

71 What Is a Closed-End Fund?

72 Traditional CEFs

78 Interval Funds, Tender Offer Funds, and Business Development Companies

80 Characteristics of Households Owning CEFs

What Is a Closed-End Fund?

Closed-end funds (CEFs) are one of four main types of investment companies, along with mutual funds, exchange-traded funds (ETFs), and unit investment trusts (UITs). Historically, the vast majority of CEFs have been "listed" CEFs—investment companies that issue a fixed number of common shares in an initial public offering (IPO) that are publicly traded on an exchange or in the over-the-counter (OTC) market, like traditional stocks. Once issued, shareholders may not redeem those shares directly to the fund (though some CEFs may repurchase shares through stock repurchase programs or through a tender for shares). Subsequent issuance of common shares generally only occurs through secondary or follow-on offerings, at-the-market offerings, rights offerings, or dividend reinvestments. Listed CEFs primarily include traditional funds but may also include interval funds and business development companies (BDCs) that are listed on exchanges.

There are also "unlisted" CEFs, which have recently seen steady asset growth. Unlisted CEFs are not listed on an exchange but sold publicly to retail investors, mainly through intermediaries, or to certain qualified investors through private placement offerings. Unlike listed CEFs, unlisted CEFs do not issue a fixed number of shares but are permitted to continuously offer their shares at net asset value (NAV) following their IPO. As they are not traded on an exchange, unlisted CEFs engage in scheduled repurchases or tender offers for a certain percentage of the CEF's shares to allow shareholders to exit the fund. The ability of a shareholder to exit the CEF is dependent on the timing of the scheduled repurchase or tender offer and whether the repurchase or tender is "over-subscribed." Unlisted CEFs include tender offer funds, most interval funds, and BDCs.

A CEF's assets are professionally managed in accordance with the fund's investment objectives and policies and may be invested in stocks, bonds, and other assets. Because CEFs do not face daily redemptions, there is little need to maintain cash reserves and they can typically be fully invested according to their strategies. Also, other than for any upcoming repurchase or tender offer, CEFs do not sell securities daily and have the flexibility to invest in less-liquid portfolio securities. For example, a CEF may invest in securities of very small companies, municipal bonds that are not widely traded, or securities traded in countries that do not have fully developed securities markets.

CEFs also are permitted to issue one class of preferred shares in addition to common shares. Holders of preferred shares are paid dividends but do not participate in the gains and losses on the fund's investments. Issuing preferred shares allows a CEF to raise additional capital, which it can use to purchase more assets for its portfolio.

Closed-End Fund Resource Center
www.ici.org/cef

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Traditional CEFs

Traditional CEFs issue a fixed number of shares during an IPO that are then listed on an exchange or traded in the OTC market where investors buy and sell them in the open market (i.e., all traditional CEFs are listed CEFs). The market price of a traditional CEF fluctuates like that of other publicly traded securities and is determined by supply and demand in the marketplace.

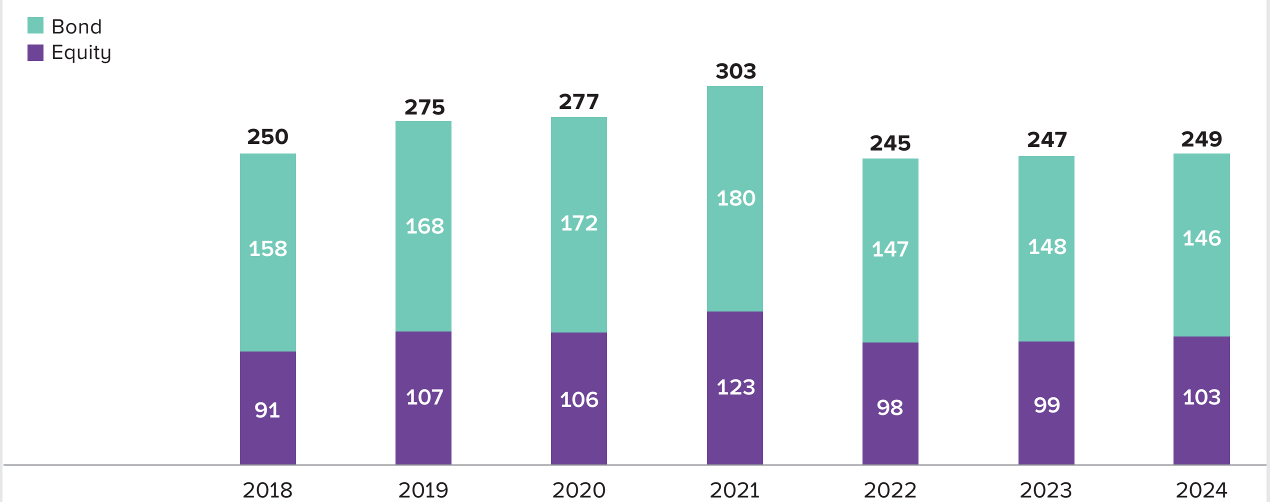
Total Assets and Net Issuance of Traditional CEFs

At year-end 2024, there were 382 traditional CEFs with total assets of $249 billion (Figure 5.1). At year-end 2024, bond CEFs accounted for the majority of traditional CEF assets (59 percent) with the remainder held by equity CEFs.

The number of traditional CEFs available to investors continued to decrease in 2024 (Figure 5.1). In recent years, more traditional CEFs were liquidated, merged, or converted into open-end mutual funds or ETFs than were launched.

FIGURE **5.1** **Total Assets of Traditional CEFs Have Stagnated in Recent Years and the Number of Traditional CEFs Has Significantly Decreased**

Billions of dollars, year-end



	2018	2019	2020	2021	2022	2023	2024
Number of CEFs	**493**	**486**	**479**	**448**	**426**	**401**	**382**
Bond	316	309	306	282	266	249	241
Equity	177	177	173	166	160	152	141

Note: *Total assets* is the fair value of assets held in CEF portfolios funded by common and preferred shares less any liabilities (not including liabilities attributed to preferred shares).

Source: *ICI Research Perspective*, "The Closed-End Fund Market, 2024"

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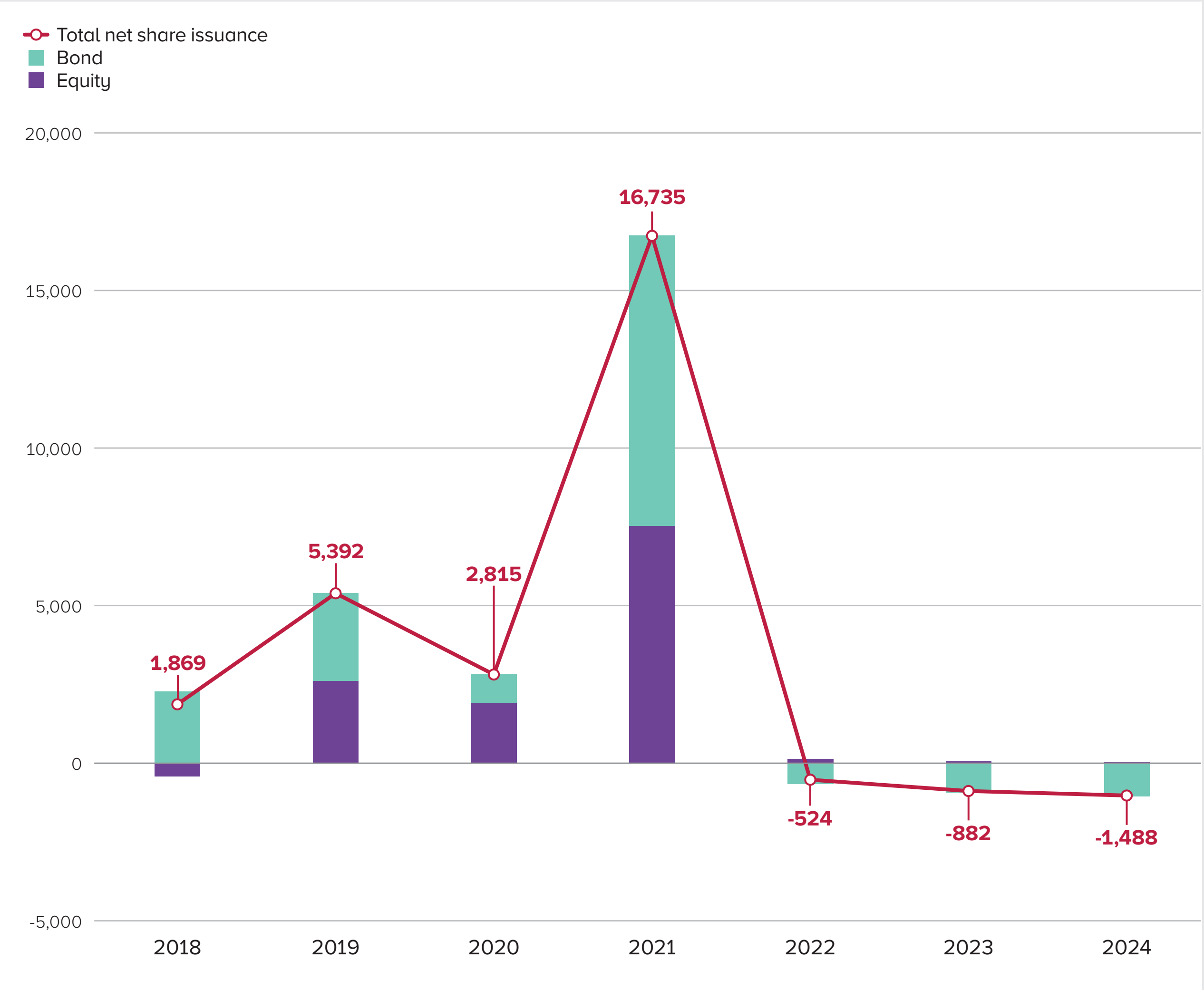
The Closed-End Fund Market, 2024
www.ici.org/files/2025/per31-04.pdf

Traditional CEFs had negative net share issuance of $1.5 billion in 2024, which follows negative net issuance of $882 million in 2023 (Figure 5.2). In 2024, equity CEFs had negative net issuance of $162 million, while bond CEFs had negative net issuance of $1.3 billion. Despite positive returns on stocks and bonds around the world in 2024, demand for traditional CEFs remained low.

FIGURE 5.2

Traditional CEF Net Share Issuance Remained Negative in 2024

Millions of dollars, annual



Note: Net share issuance is the dollar value of gross issuance (proceeds from initial and additional public offerings of shares) minus gross redemptions of shares (share repurchases and fund liquidations).

Source: *ICI Research Perspective*, "The Closed-End Fund Market, 2024"

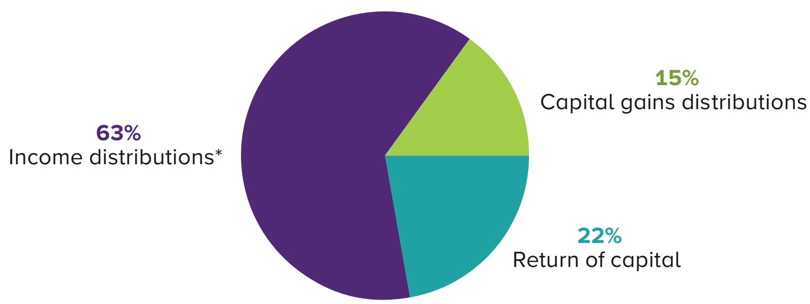
Traditional CEF Distributions

In 2024, traditional CEFs distributed an estimated $18.3 billion to shareholders (Figure 5.3). CEFs may make distributions to shareholders from three possible sources: income distributions, which are payments from interest and dividends that the fund earns on its investments in securities; realized capital gains distributions; and return of capital. Income distributions accounted for the majority (63 percent) of CEF distributions. Capital gains distributions accounted for 15 percent of CEF distributions and return of capital for 22 percent.

FIGURE 5.3

Income Distributions Represent Bulk of Total Traditional CEF Distributions

Percentage of traditional CEF distributions, 2024



Total traditional CEF distributions: $18.3 billion

* Income distributions are paid from interest and dividends that the fund earns on its investments in securities.
Source: *ICI Research Perspective*, "The Closed-End Fund Market, 2024"

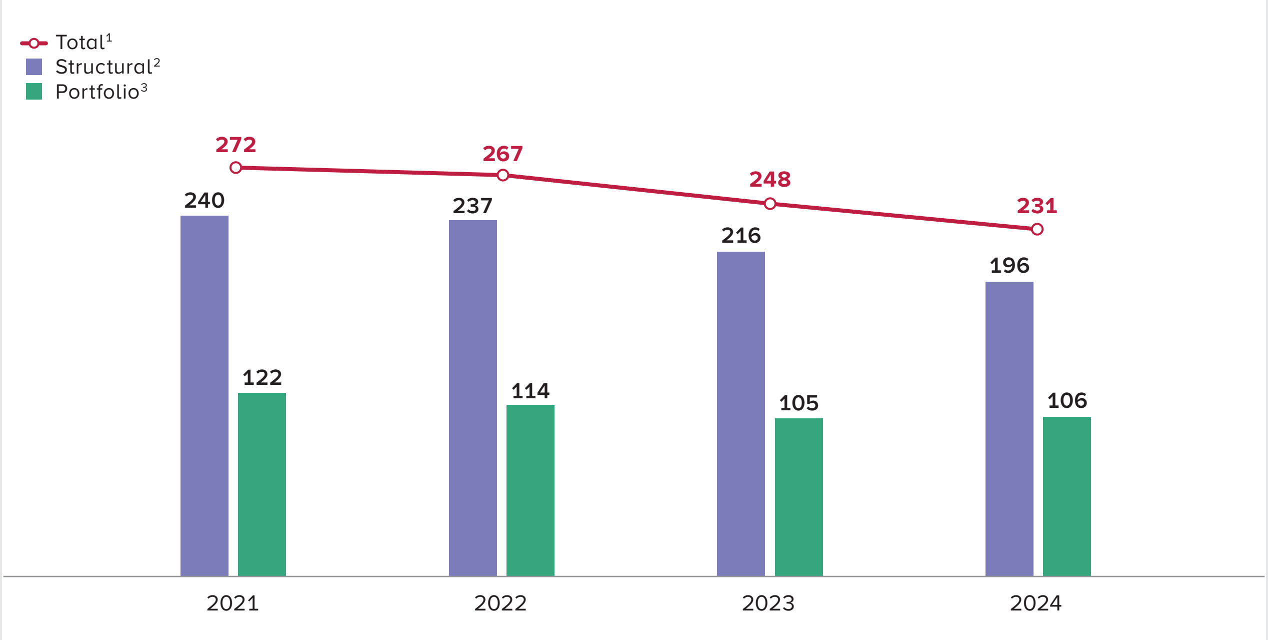
Traditional CEF Leverage

CEFs have the ability—subject to strict regulatory limits—to use leverage as part of their investment strategy. The use of leverage by a CEF can allow it to achieve higher long-term returns but also increases risk and the likelihood of share price volatility. CEF leverage can be classified as either structural leverage or portfolio leverage. At year-end 2024, 231 traditional CEFs, accounting for 60 percent of the total, used structural leverage, some types of portfolio leverage (i.e., tender option bonds or reverse repurchase agreements), or both as a part of their investment strategy (Figure 5.4).

FIGURE 5.4

Traditional CEFs Are Employing Structural Leverage and Some Types of Portfolio Leverage

Number of traditional CEFs, year-end



1 Components do not add to the total because CEFs may employ both structural and portfolio leverage.

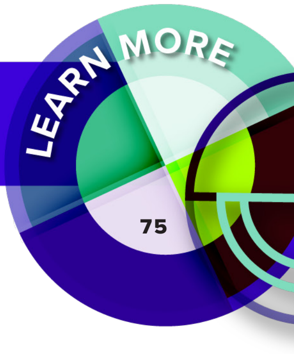
2 Structural leverage affects the CEF's capital structure by increasing the fund's portfolio assets through borrowing and issuing debt and preferred shares.

3 Portfolio leverage is leverage that results from particular types of portfolio investments, including certain types of derivatives, reverse repurchase agreements, tender option bonds, and other investments or types of transactions. Data are only available for reverse repurchase agreements and tender option bonds. Given data collection constraints and the continuing development of types of investments/transactions with a leverage characteristic (and the use of different definitions of *leverage*), actual portfolio leverage may be materially different from what is reflected above.

Source: *ICI Research Perspective*, "The Closed-End Fund Market, 2024"

Frequently Asked Questions About Closed-End Funds and Their Use of Leverage

www.ici.org/faqs/faqs_closed_end



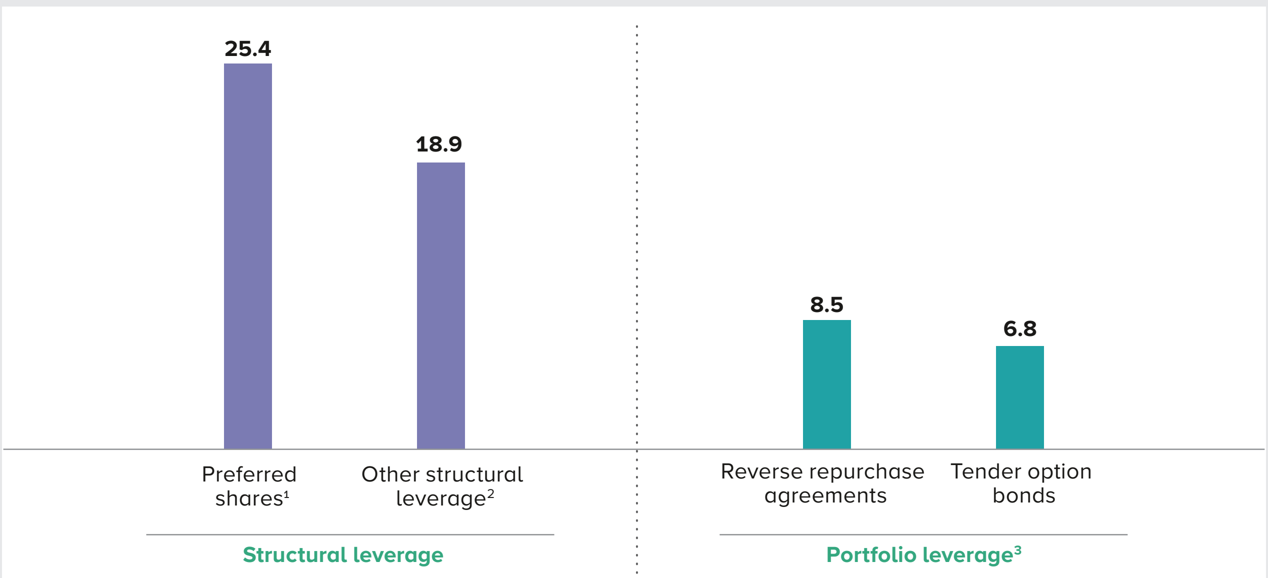
Structural leverage affects the CEF's capital structure by increasing the fund's portfolio assets. Types of CEF structural leverage include borrowing capital and issuing debt and preferred shares. At the end of 2024, 196 traditional CEFs had a total of $44.4 billion in structural leverage, with $25.4 billion from preferred shares and $18.9 billion from other structural leverage, which includes bank borrowing and other forms of debt (Figures 5.4 and 5.5). The average leverage ratio* across those traditional CEFs employing structural leverage was 28 percent at year-end 2024. Among CEFs employing structural leverage, the average leverage ratio for bond funds was somewhat higher (29 percent) than that of equity funds (26 percent).

Portfolio leverage is leverage that results from particular portfolio investments, such as certain types of derivatives, reverse repurchase agreements, and tender option bonds. At the end of 2024, 106 traditional CEFs had $15.3 billion outstanding in reverse repurchase agreements and tender option bonds (Figures 5.4 and 5.5).

FIGURE 5.5

Majority of Traditional CEF Leverage Is Structural

Billions of dollars, 2024



[1] A CEF may issue preferred shares to raise additional capital, which can be used to purchase more securities for its portfolio. Holders of preferred shares are paid dividends, but do not participate in the gains and losses on the fund's investments.

[2] *Other structural leverage* includes bank borrowing and other forms of debt.

[3] Portfolio leverage is leverage that results from particular types of portfolio investments, including certain types of derivatives, reverse repurchase agreements, tender option bonds, and other investments or types of transactions. Data are only available for reverse repurchase agreements and tender option bonds. Given data collection constraints and the continuing development of types of investments/transactions with a leverage characteristic (and the use of different definitions of *leverage*), actual portfolio leverage may be materially different from what is reflected above.

Source: *ICI Research Perspective*, "The Closed-End Fund Market, 2024"

* The *leverage ratio* is the ratio of the amount of structural leverage to the sum of the amount of common share assets and structural leverage.

Secondary Market Trading of Traditional CEFs

More than 95 percent of traditional CEFs calculate the value of their portfolios every business day, while the rest calculate their portfolio values weekly or on some other basis. The NAV of a CEF is calculated by subtracting the fund's liabilities (e.g., fund borrowing) from the current market value of its assets and dividing by the total number of shares outstanding. The NAV changes as the total value of the underlying portfolio securities rises or falls, or the fund's liabilities change.

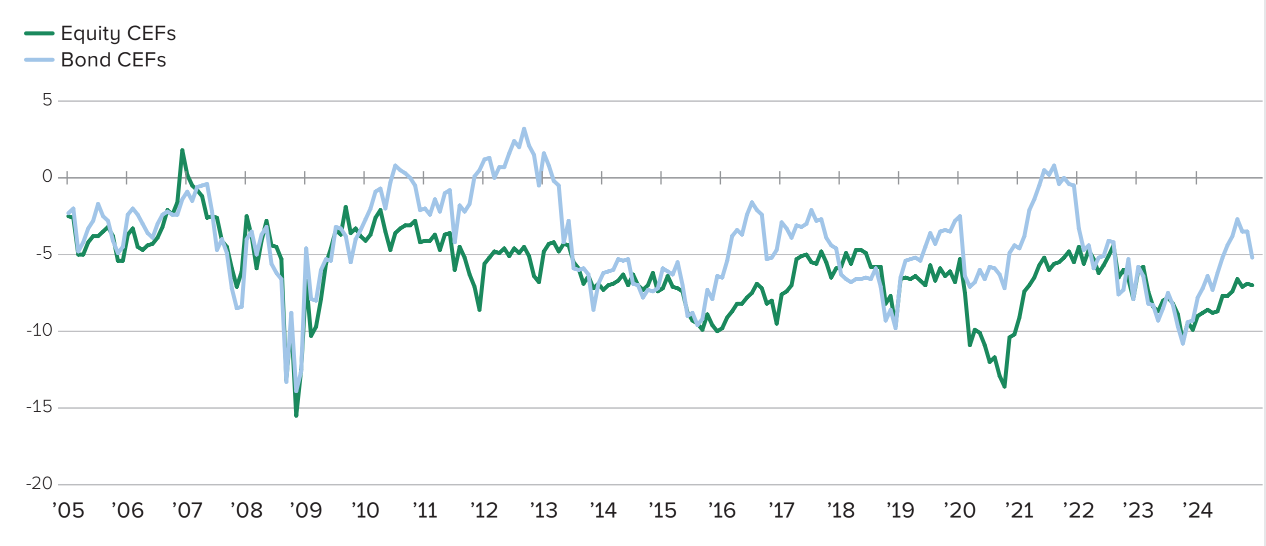
Because a traditional CEF's shares trade based on investor demand, the fund may trade at a price higher or lower than its NAV. A CEF trading at a share price higher than its NAV is said to be trading at a "premium" to the NAV, while a CEF trading at a share price lower than its NAV is said to be trading at a "discount." Funds may trade at premiums or discounts to the NAV for a number of potential reasons, such as market perceptions or investor sentiment. For example, a CEF that invests in securities that are anticipated to generate above-average future returns and are difficult for retail investors to obtain directly may trade at a premium because of a high level of market interest. By contrast, a CEF with large unrealized capital gains may trade at a discount because investors will have priced in any perceived tax liability.

Traditional CEF price deviations narrowed in 2024—equity fund discounts narrowed from 9.9 percent at year-end 2023 to 7.0 percent at year-end 2024, and bond fund discounts narrowed from 9.3 percent to 5.2 percent over the same period. Generally, the majority of traditional CEFs trade at a discount in any given month.

FIGURE 5.6

Traditional CEF Discounts Narrowed in 2024

Percent, month-end



Note: The premium/discount rate is the simple average of the percent difference between share price and NAV at month-end.
Source: Investment Company Institute calculations of data from Bloomberg and Refinitiv

Closed-End Fund Activism
www.ici.org/files/2025/cef-activism.pdf

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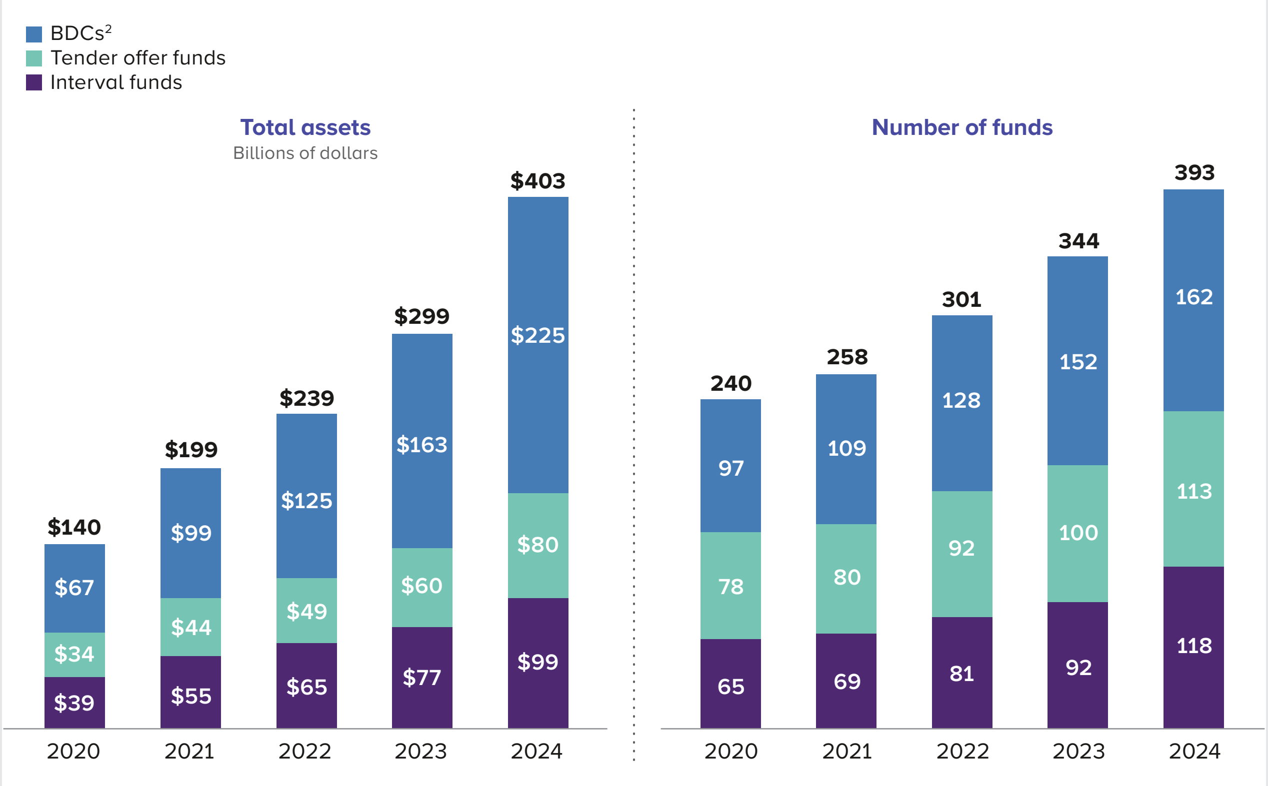
Interval Funds, Tender Offer Funds, and Business Development Companies

In addition to traditional CEFs, there are three other types of CEFs—interval funds, tender offer funds, and business development companies (BDCs). At year-end 2024, there were 393 interval funds, tender offer funds, and BDCs with total assets of $403 billion (Figure 5.7).

FIGURE 5.7

Interval Funds, Tender Offer Funds, and BDCs Have Flourished in Recent Years

Year-end[1]



1 Data are based on quarterly public filings between November and January.

2 Total assets of BDCs are total net assets.

Note: Data for number of funds exclude feeder funds. Data include funds that do not report statistical information to the Investment Company Institute.

Source: Investment Company Institute calculations of data from publicly available SEC Form N-PORT, N-CEN, 10-Q, and 10-K filings

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A Guide to Closed-End Funds

www.ici.org/cef/background/bro_g2_ce

Interval funds, unlike traditional CEFs, are permitted to continuously offer their shares at NAV following their IPO. Most interval funds differ from traditional CEFs in that they do not offer regularly scheduled liquidity via the secondary market (i.e., they typically are not listed on an exchange). Instead, they buy back shares by making periodic repurchase offers at NAV in compliance with Securities and Exchange Commission (SEC) Rule 23c-3 under the 1940 Act. There are some interval funds, however, that are listed on an exchange and are bought and sold in the secondary market—and these funds continue to make periodic repurchases at NAV via Rule 23c-3. Certain unlisted interval funds are not available to the general public and are primarily held by qualified investors that meet income, wealth, and/or sizeable minimum investment thresholds. At year-end 2024, there were 118 interval funds with total assets of $99 billion (Figure 5.7).

For interval funds making continuous offerings, purchases resemble open-end mutual funds in that their shares typically are continuously offered and priced daily. However, unlike a mutual fund, shares are not continuously available for redemption but are repurchased by the fund at scheduled intervals (e.g., quarterly, semiannually, or annually). Further, the number of outstanding shares repurchased may vary, but must be between 5 percent and 25 percent of outstanding shares. In 2024, 91 percent of interval funds had policies to repurchase shares every three months, while the remainder had policies to repurchase shares monthly, semi-annually, or annually.

Tender offer funds are generally unlisted and permitted to continuously offer their shares at NAV. Like interval funds, certain tender offer funds are only sold to accredited investors or other types of qualified investors. Unlike interval funds, however, tender offer funds repurchase shares on a discretionary basis through a tender offer, which must comply with SEC Rule 13e-4 under the Securities Exchange Act of 1934 by filing a Schedule TO. There is no set schedule for when tender offer funds must conduct repurchases or how many shares they must tender. Some tender offer funds hold infrequent tender offers (e.g., one every 2 to 3 years), but many offer them more regularly (e.g., quarterly). In 2024, 50 percent of tender offer funds held tender offers four times during the year; 13 percent held between one and three tender offers; and the remaining 37 percent did not hold any tender offer during the year. At year-end 2024, there were 113 tender offer funds with total assets of $80 billion (Figure 5.7).

Business development companies (BDCs) differ from other CEFs in that they are not registered under the 1940 Act but instead elect to be subject to and regulated by certain provisions of the 1940 Act. BDCs primarily invest in small and medium-sized private companies, developing companies, and distressed companies that do not otherwise have access to lending. In particular, BDCs must invest at least 70 percent of their assets in domestic private companies or domestic public companies that have market capitalizations of $250 million or less. At year-end 2024, there were 162 BDCs with total net assets of $225 billion (Figure 5.7).

BDCs may be listed or unlisted. Listed BDCs are bought and sold on stock exchanges in the secondary market. Unlisted BDCs may either be non-traded or private. Non-traded BDCs are continuously offered (like most interval funds and tender offer funds), may be available to retail investors, and often conduct periodic repurchase offers for investors to redeem their shares. Private BDCs are sold through private placement offerings only to qualified investors. Private BDCs typically only offer those investors the chance to liquidate their shares by either going public (e.g., holding an IPO) or choosing to unwind the portfolio and liquidate the fund. These liquidity events often occur between five and 10 years following the initial private placement.

Characteristics of Households Owning CEFs

In 2024, 3.6 million US households indicated that they owned CEFs (see Figure 7.1). CEF-owning households tended to include investors who owned a range of equity and fixed-income investments. More than nine in 10 households owning CEFs also owned mutual funds, and nearly six in 10 also owned ETFs.

Because households that owned CEFs often also owned individual stocks and mutual funds, the characteristics of each group were similar in many respects. For instance, households that owned CEFs (like households owning individual stocks and mutual funds) tended to have household incomes and financial assets above the national median and were more likely to own retirement accounts (Figure 5.8). Nonetheless, households that owned CEFs also exhibited certain differences from mutual fund–owning households. For example, 42 percent of CEF-owning households were retired from their lifetime occupations, compared with 34 percent of households owning mutual funds. Households owning CEFs also expressed more willingness to take financial risk—49 percent were willing to take above-average or substantial risk, compared with 32 percent of mutual fund–owning households.

FIGURE 5.8

Closed-End Fund Investors Had Above-Average Household Incomes and Financial Assets

2024

	All US households	Households owning closed-end funds	Households owning mutual funds	Households owning individual stocks
Median				
Age of household survey respondent	52	52	55	54
Household income[1]	$80,000	$110,000	$115,000	$125,000
Household financial assets[2]	$90,000	$375,000	$300,000	$400,000
Percentage of households				
Household survey respondent				
Married or living with a partner	64	66	72	72
College or postgraduate degree	40	54	54	60
Employed (full- or part-time)	58	60	65	63
Retired from lifetime occupation	32	42	34	35
Household owns				
IRA(s)	44	71	68	72
DC retirement plan account(s)	59	78	82	78
Household's willingness to take financial risk				
Substantial risk for substantial gain	5	8	5	7
Above-average risk for above-average gain	19	41	27	33
Average risk for average gain	39	30	49	46
Below-average risk for below-average gain	11	11	11	9
Unwilling to take any risk	26	10	8	5

[1] Total reported is household income before taxes in 2023.

[2] Household financial assets include assets in employer-sponsored retirement plans but exclude the household's primary residence.

Source: *ICI Research Perspective*, "The Closed-End Fund Market, 2024"

CHAPTER 6

US Fund Expenses and Fees

Mutual funds provide investors with many investment-related services, and for those services, investors incur two primary types of expenses and fees: ongoing expenses and sales loads. Average expense ratios (i.e., ongoing expenses) paid by US mutual fund investors have fallen substantially over time. For example, on an asset-weighted basis, average expense ratios for equity mutual funds fell from 0.99 percent in 2000 to 0.40 percent in 2024, a 60 percent decline. Mutual fund share classes with sales loads are far less commonly sold today than they were a few decades ago. In 2024, the vast majority of gross sales to long-term mutual funds went to share classes that charge neither a sales load nor a 12b-1 fee.

IN THIS CHAPTER

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Trends in Mutual Fund Expenses

Mutual fund investors incur two primary types of expenses and fees: ongoing expenses and sales loads. Ongoing expenses cover portfolio management, fund administration, daily fund accounting and pricing, shareholder services (such as call centers and websites), distribution charges (known as 12b-1 fees), and other operating costs. These expenses are included in a fund's expense ratio—the fund's annual expenses expressed as a percentage of its assets. Because expenses are paid from fund assets, investors pay these expenses indirectly. Sales loads are paid at the time of share purchase (front-end loads), when shares are redeemed (back-end loads), or over time (level loads). Mutual fund share classes with a sales load are far less commonly sold today than they were a few decades ago as investors have gravitated toward funds without them (see page 86).

On an asset-weighted basis, average expense ratios* incurred by mutual fund investors have fallen substantially (Figure 6.1). In 2000, equity mutual fund investors incurred expense ratios of 0.99 percent, on average, or 99 cents for every $100 invested. By 2024, that average had fallen to 0.40 percent, a 60 percent decline. Hybrid and bond mutual fund expense ratios have also declined over this period, by 35 percent and 50 percent, respectively.

Like the prices of most goods and services, the expense ratios of individual mutual funds differ considerably across the array of available products. The expense ratios of individual funds depend on many factors, including investment objective, fund assets, payments to financial intermediaries (see page 86), and whether the fund is actively managed or tracks an index (see page 87).

* In this chapter, unless otherwise noted, average expense ratios are calculated on an asset-weighted basis. ICI's fee research uses asset-weighted averages to summarize the expenses and fees that shareholders pay through funds. In this context, asset-weighted averages are preferable to simple averages, which would overstate the expenses and fees of funds in which investors hold few dollars. ICI weights the expense ratio of each fund's share class by its year-end assets.

The fund investment categories used in this chapter are broad and encompass diverse investment styles (e.g., active and index), a range of general investment types (e.g., equity, bond, and hybrid funds), and a variety of arrangements for shareholder services, recordkeeping, or distribution charges (known as 12b-1 fees). This material is intended to provide general information on fees incurred by investors through funds as well as insight into average fees across the marketplace. It is not intended for benchmarking fees and expenses incurred by a particular investor, or charged by a particular fund or other investment product.

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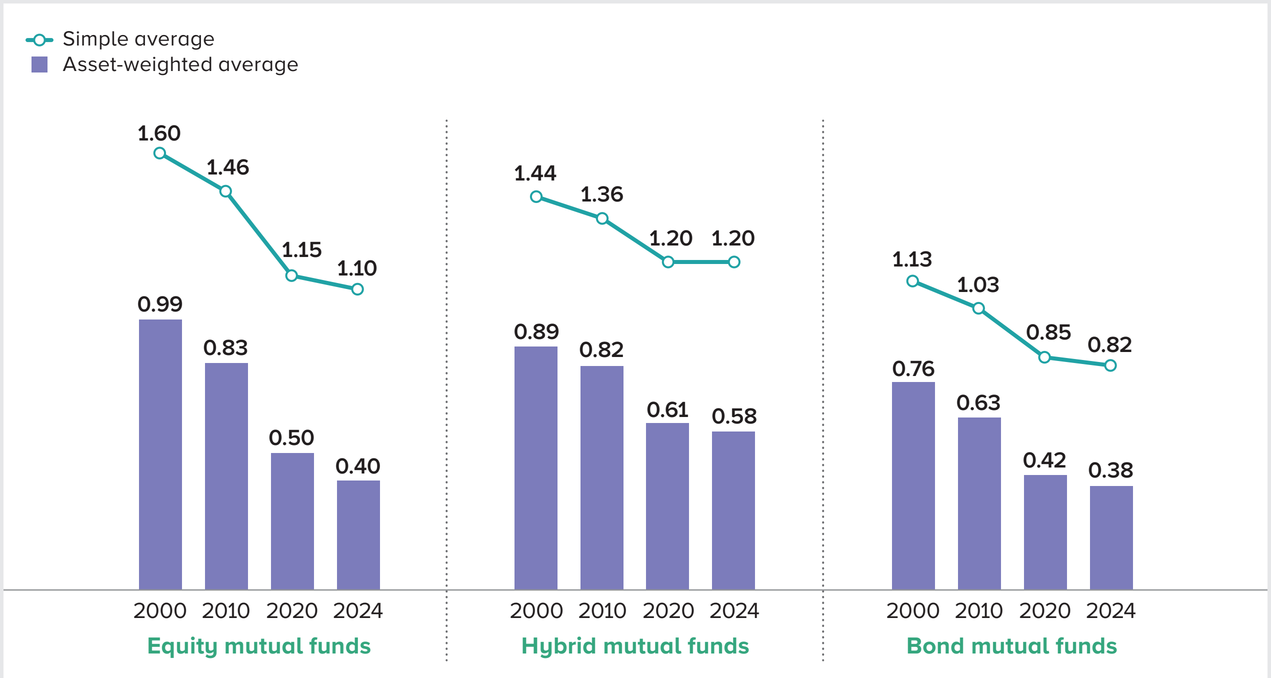
Trends in the Expenses and Fees of Funds, 2024
www.ici.org/files/2025/per31-01.pdf

FIGURE 6.1

Expense Ratios Incurred by Mutual Fund Investors Have Declined Substantially Since 2000

Percent



Note: Data exclude mutual funds available as investment choices in variable annuities.

Sources: Investment Company Institute, Lipper, and Morningstar. See *ICI Research Perspective*, "Trends in the Expenses and Fees of Funds, 2024."

Mutual Fund Investment Objective

Mutual fund expense ratios vary by investment objective. For example, bond mutual funds and money market funds tend to have lower expense ratios than equity mutual funds. Among equity mutual funds, expense ratios tend to be higher for funds that specialize in a given sector (for example, healthcare or real estate) or those that invest in equities worldwide, because such funds tend to cost more to manage. Even within a particular investment objective, mutual fund expense ratios can vary considerably. For example, 10 percent of equity mutual funds that focus on growth stocks have expense ratios of 0.59 percent or less, while another 10 percent have expense ratios of 1.77 percent or more (Figure 6.2). Among other things, this variation reflects the fact that some growth funds focus more on small- or mid-cap stocks and others focus more on large-cap stocks. Portfolios of small- and mid-cap stocks tend to cost more to manage since information about these types of stocks is less readily available, which means that active portfolio managers must spend more time doing research.

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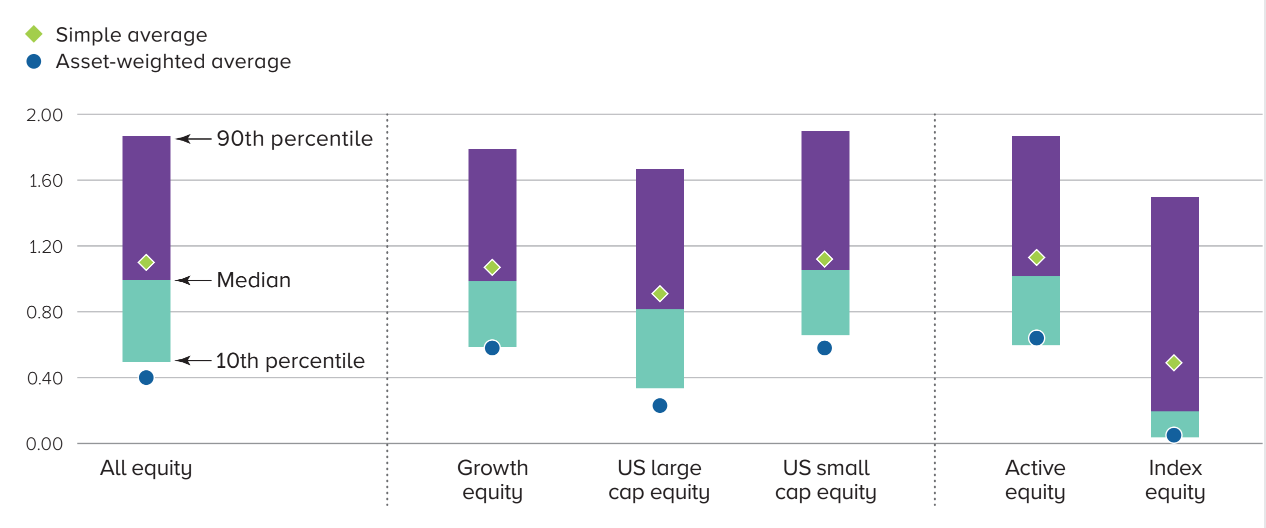
Five Important Points on Mutual Fund Fees and Expenses

www.ici.org/files/2025/quick-facts-mutual-fund-fees.pdf

FIGURE 6.2
Mutual Fund Expense Ratios Vary Across Investment Objectives
Percent, 2024



Note: Each fund's share class is weighted equally for the simple average and the median, 10th, and 90th percentiles. Data exclude mutual funds available as investment choices in variable annuities.

Sources: Investment Company Institute and Morningstar

Understanding the Decline in Mutual Fund Expense Ratios

Several factors help account for the long-term downward trend in mutual fund expense ratios. First, expense ratios are often inversely related to fund assets. Some fund costs included in expense ratios—such as transfer agency fees, accounting and audit fees, and directors' fees—are more or less fixed in dollar terms. This means that when a fund's assets rise, these costs contribute less to a fund's expense ratio. Another factor contributing to the decline of the average expense ratios of long-term mutual funds is the shift toward no-load share classes, particularly institutional no-load share classes, which tend to have below-average expense ratios. In part, this shift reflects a change in how investors pay for services from brokers and other financial professionals (see page 86).

Mutual fund expense ratios also have fallen because of competition and economies of scale. Investor demand for mutual fund services has increased dramatically in the past few decades. From 1990 to 2024, the number of households owning mutual funds tripled—from 23.4 million to 71.0 million (see Figure 7.1). All else being equal, this sharp increase in demand would tend to boost mutual fund expense ratios. Any such tendency, however, was mitigated by downward pressure on expense ratios—from competition among existing mutual fund sponsors, new mutual fund sponsors entering the industry, competition from products such as exchange-traded funds (ETFs) (see chapter 4, Figure 3.9, and page 89 of this chapter), competition from collective investment trusts (CITs) in retirement plans (see Figure 3.11), and economies of scale resulting from the growth in fund assets.

Finally, analysis of where mutual fund shareholders have invested their money finds they tend to hold mutual funds with below-average expense ratios. The simple average expense ratio of equity mutual funds (the average for all equity mutual funds offered for sale) was 1.10 percent in 2024 (Figure 6.1). The asset-weighted average expense ratio for equity mutual funds (the average shareholders actually paid) was far lower, at 0.40 percent. Another way to illustrate the tendency for investors to gravitate to lower-cost funds is to examine how the allocation of their assets across funds varies by expense ratio. At year-end 2024, equity mutual funds with expense ratios in the lowest quartile held most (81 percent) of equity mutual funds' total net assets, and this pattern holds for both actively managed and index equity mutual funds. Furthermore, shareholders indicate that they typically review the fund's fees and expenses when selecting their mutual funds (see Figure 7.8).

The Shift to No-Load Funds

Many mutual fund investors engage an investment professional, such as a broker, an investment adviser, or a financial planner. Among households owning mutual fund shares outside employer-sponsored retirement plans, 67 percent owned mutual fund shares through investment professionals in 2024 (see Figure 7.7). These professionals can provide many benefits to investors, such as helping them identify financial goals, analyzing an existing financial portfolio, determining an appropriate asset allocation, and—depending on the type of financial professional—providing investment advice or recommendations to help investors achieve their financial goals. The investment professional also may provide ongoing services, such as responding to investors' inquiries or periodically reviewing and rebalancing their portfolios.

Over the past few decades, the way that fund shareholders compensate financial professionals has changed significantly, moving away from sales loads (e.g., front-end loads) and toward asset-based fees, which are assessed as a percentage of the investor's assets managed by a financial professional. Increasingly, these fees compensate brokers and other financial professionals who sell mutual funds. An investor may pay an asset-based fee either indirectly through a fund's 12b-1 fee, which is included in the fund's expense ratio, or directly (out of pocket) to the financial professional, in which case it is not included in the fund's expense ratio.

The shift toward no-load share classes has been an important force in driving down the average expense ratio of mutual funds. Some movement toward no-load funds can be attributed to "do-it-yourself" investors who invest through discount brokers or directly with fund companies. Another factor is an ongoing shift to compensate financial professionals with asset-based fees outside of mutual funds (for example, through fee-based professionals and full-service brokerage platforms). Additionally, 401(k) plans and other retirement accounts have bolstered assets and flows into no-load share classes. Since 2000, gross sales to no-load mutual funds without 12b-1 fees have grown substantially, accounting for 92 percent of total gross sales to long-term mutual funds in 2024 (Figure 6.3).

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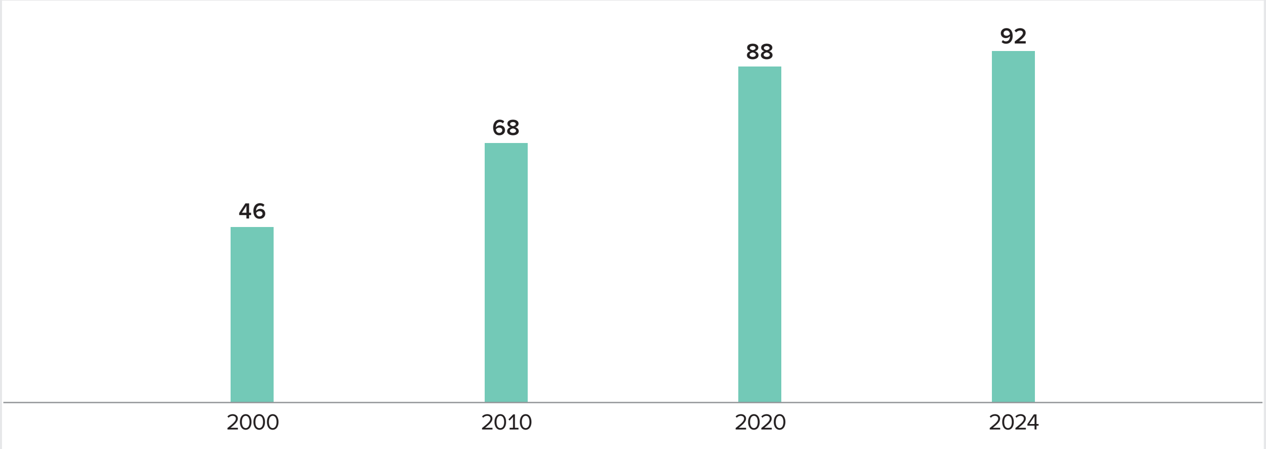
IRA Investors in Mutual Funds Concentrate Their Assets in Lower-Cost Mutual Funds
www.ici.org/files/2024/24-ira-fees.pdf

FIGURE 6.3

Long-Term Mutual Fund Investors Have Increasingly Purchased No-Load Mutual Funds Without 12b-1 Fees

Percentage of long-term mutual fund gross sales, annual



Note: Data exclude mutual funds available as investment choices in variable annuities and "R" share classes.

Sources: Investment Company Institute, Lipper, and Morningstar. See *ICI Research Perspective*, "Trends in the Expenses and Fees of Funds, 2024."

Expense Ratios of Index Mutual Funds and Index ETFs

An index fund generally seeks to replicate the return on a specified index. Under this approach, often referred to as passive management, portfolio managers buy and hold all—or a representative sample of—the securities in their target indexes. This approach to portfolio management is a primary reason that both index mutual funds and index ETFs tend to have below-average expense ratios. By contrast, under an active management approach, managers have more discretion to increase or reduce exposure to sectors or securities within their funds' investment mandates. Active managers may also undertake significant research about stocks or bonds, market sectors, or geographic regions. This approach offers investors the chance to earn superior returns or to meet other investment objectives such as limiting downside risk, managing volatility, underweighting or overweighting various sectors, and altering asset allocations in response to market conditions. These characteristics tend to make active management more costly than management of an index fund.

The rising popularity of index funds over the past two decades has contributed to the decline in long-term mutual fund expense ratios. For example, the growth in index mutual fund assets has placed downward pressure on asset-weighted average expense ratios of all long-term mutual funds. Total net assets of index mutual funds grew to $6.9 trillion at year-end 2024 and represented 32 percent of all long-term mutual fund net assets. Additionally, the growth of ETFs (in particular, index ETFs) has also contributed to the decrease in long-term mutual fund expense ratios as both mutual funds and ETFs compete for market share. Overall, the share of all long-term mutual fund and ETF net assets held in index funds has increased from 19 percent at year-end 2010 to 51 percent at year-end 2024 (see Figure 2.5).

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The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2023

www.ici.org/files/2024/per30-06.pdf

Index Mutual Funds

Index mutual funds tend to have below-average expense ratios for several reasons. First, their approach to portfolio management lends itself to being less costly. This is because index funds' portfolios tend not to change frequently and therefore have low turnover rates.

Second, index mutual funds tend to have below-average expense ratios because of their investment focus. Net assets of index equity mutual funds are concentrated more heavily in large-cap blend funds that target US large-cap indexes, such as the S&P 500. Net assets of actively managed equity mutual funds, on the other hand, are more widely distributed across stocks of varying capitalizations, international regions, or specialized business sectors, which are generally acknowledged to cost more to manage (see page 84).

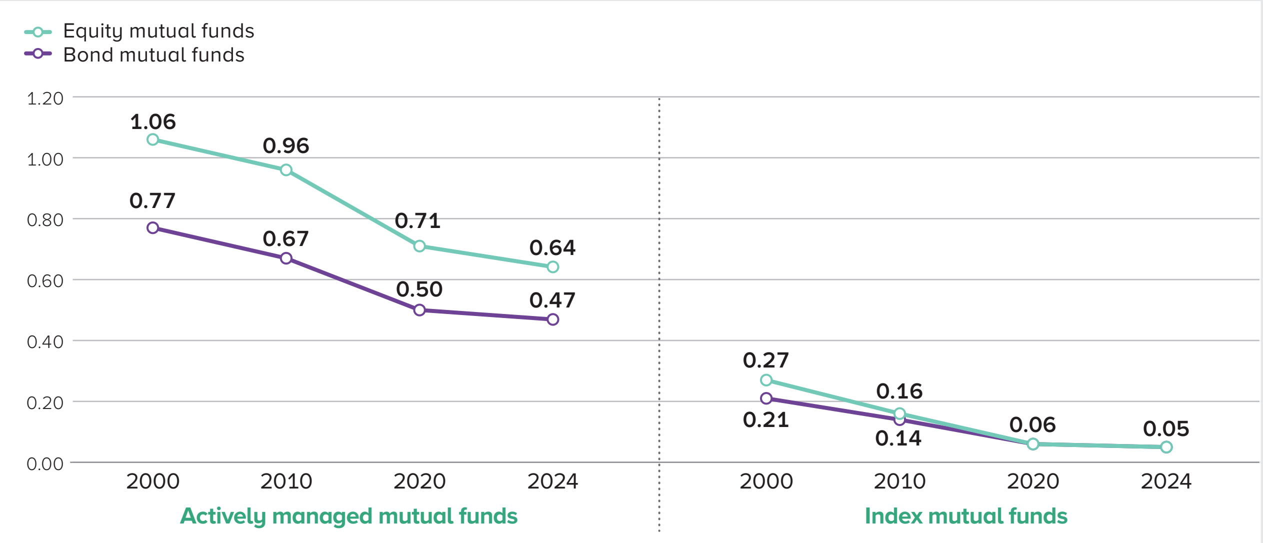
Finally, index mutual funds are larger on average than actively managed mutual funds, which helps reduce fund expense ratios through economies of scale. At year-end 2024, the average index equity mutual fund ($13.6 billion) was significantly larger than the average actively managed equity mutual fund ($2.5 billion). These reasons, among others, help explain why index mutual funds generally have lower expense ratios than actively managed mutual funds. However, both index and actively managed mutual funds have contributed to the overall decline in the average expense ratios of mutual funds (Figure 6.4).

The downward trend in the average expense ratios of both index and actively managed mutual funds reflects, in part, investors' increasing tendency to buy lower-cost funds. Investor demand for index mutual funds is disproportionately concentrated in funds with the lowest costs. Index equity mutual funds with expense ratios in the lowest quartile held 87 percent of index equity mutual funds' net assets at year-end 2024. This phenomenon is not unique to index mutual funds, however; the proportion of assets in the lowest-cost actively managed mutual funds is also high (73 percent).

FIGURE 6.4

Average Expense Ratios of Actively Managed and Index Mutual Funds Have Fallen

Percent



Note: Expense ratios are measured as asset-weighted averages. Data exclude mutual funds available as investment choices in variable annuities.

Sources: Investment Company Institute, Lipper, and Morningstar. See *ICI Research Perspective*, "Trends in the Expenses and Fees of Funds, 2024."

Index ETFs

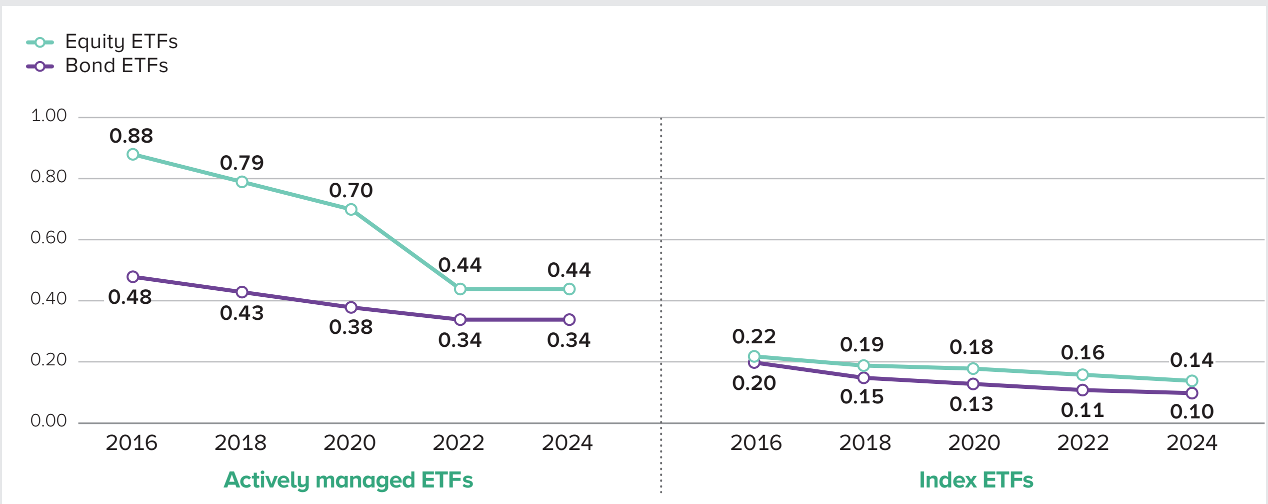
ETF total net assets have grown rapidly in recent years, from $992 billion at year-end 2010 to $10.3 trillion at year-end 2024 (see Figure 4.1). ETFs are largely index-based and generally registered with the Securities and Exchange Commission (SEC) under the Investment Company Act of 1940. Actively managed ETFs registered under the 1940 Act represented 8.3 percent of ETF total net assets at year-end 2024, and ETFs not registered under the 1940 Act represented 2.6 percent. Part of the strong growth in ETFs is attributable to their distribution structure, in which the ETF generally charges an expense ratio that provides no compensation to financial professionals. Compensation to financial professionals for distribution or account servicing and maintenance is typically paid directly by the investor.* And because ETFs are generally index funds, they typically have lower expense ratios.

Like mutual fund investors, ETF shareholders also indicate that fund costs are important to their ETF selection. In 2024, 98 percent of ETF-owning households indicated that ETF fees and expenses are important to their investment decision, and 98 percent placed importance on ETFs' cost effectiveness. ETF owners also tend to invest in funds with below-average expense ratios. For example, the simple average expense ratio of index equity ETFs (the average for all index equity ETFs offered for sale) was 0.45 percent in 2024. The asset-weighted average expense ratio for index equity ETFs (the average shareholders actually paid) was much less than that, 0.14 percent (Figure 6.5). As with mutual funds, both index and actively managed ETFs have contributed to the overall decline in the average expense ratios of ETFs.

FIGURE 6.5

Average Expense Ratios of Actively Managed and Index ETFs Have Fallen

Percent



Note: Expense ratios are measured as asset-weighted averages. Data exclude ETFs not registered under the Investment Company Act of 1940.

Sources: Investment Company Institute and Morningstar. See *ICI Research Perspective*, "Trends in the Expenses and Fees of Funds, 2024."

* Some ETFs bundle distribution fees in the expense ratio to cover marketing and distribution expenses. These fees are usually small, typically no more than 0.05 percent.

Exchange-Traded Funds Resource Center
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CHAPTER 7

Characteristics of US Mutual Fund Owners

A majority of US households rely on mutual funds to help them meet their financial goals. These mutual fund–owning households represent a broad range of the US population—coming from all age, income, and ethnic groups. For instance, Generation Z and Millennial households are well on their way to widespread mutual fund ownership. Furthermore, the racial and ethnic diversity of newer fund investors has increased meaningfully. Mutual fund investors, who tend to primarily save for retirement, make informed purchasing decisions by researching their fund investment choices, often with the assistance of investment professionals.

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98 Many Mutual Fund–Owning Households Rely on Investment Professionals

99 Mutual Fund–Owning Households Make Informed Purchasing Decisions

Household Ownership of Mutual Funds Is Widespread

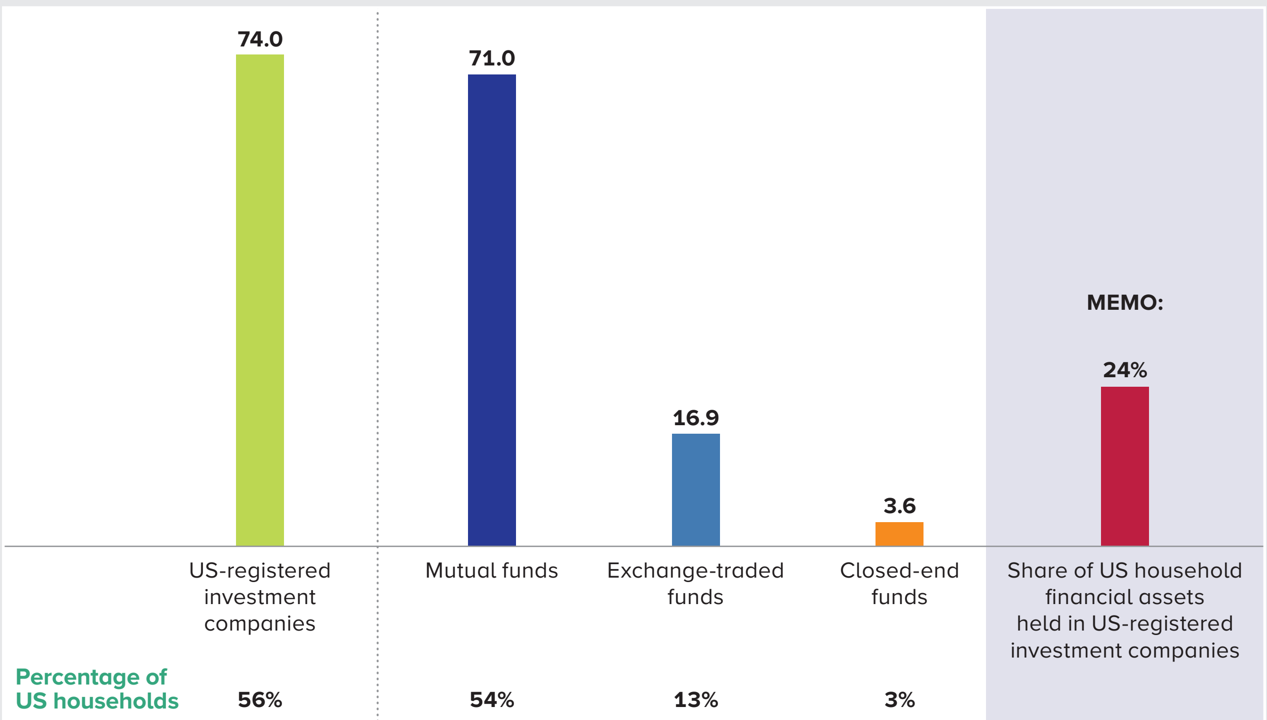
Mutual funds are an important way US households build their financial wealth. In 2024, ICI conducted its latest annual nationwide household survey, which found that about 56 percent of US households owned shares of mutual funds or other US-registered investment companies—including exchange-traded funds (ETFs), closed-end funds (CEFs), and unit investment trusts (UITs)—representing an estimated 74.0 million households (Figure 7.1).

Mutual funds were the most common type of fund owned, with 71.0 million US households, or 54 percent, owning them in 2024 (Figure 7.1). All told, more than 120 million individual investors owned mutual funds in 2024. In aggregate, US households' investment in funds represents nearly one-quarter of their financial assets, a higher share than seen in other jurisdictions (see Figure 1.9).

FIGURE 7.1

Mutual Funds Are a Key Investment Product for US Households

Ownership of US-registered investment companies; millions of US households, 2024



Sources: Investment Company Institute, US Census Bureau, and Federal Reserve Board

Ownership of Mutual Funds and Shareholder Sentiment, 2024
www.ici.org/files/2024/per30-08.pdf

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Mutual Fund–Owning Households Reflect Everyday People

Households that own mutual funds come from all demographic groups and typically are working and saving for retirement (Figure 7.2). In 2024, the median mutual fund–owning household:

- was middle-aged, employed, and educated;
- owned mutual funds inside an employer-sponsored retirement plan;
- purchased their first mutual fund through an employer-sponsored retirement plan;
- owned mutual funds outside employer-sponsored retirement plans, primarily purchased through investment professionals (registered investment advisers, full-service brokers, independent financial planners, bank or savings institution representatives, insurance agents, or accountants);
- had more than half of the household's financial assets (excluding the primary residence) invested in mutual funds;
- owned an IRA;
- was using mutual funds to save for retirement; and
- was confident that mutual funds could help them reach their financial goals.

Many US mutual fund–owning households had moderate household incomes and often were in their peak earning and saving years. Almost two-thirds of US households owning mutual funds had annual incomes less than $150,000, and 53 percent were headed by individuals between the ages of 35 and 64 in 2024 (Figure 7.2). The median mutual fund–owning household had $115,000 in household income, $300,000 in household financial assets, and $125,000 invested in three mutual funds, including at least one equity mutual fund.

Baby Boom Generation households were the largest share (35 percent) of mutual fund–owning households in 2024, reflecting both their generation's size and their high rates of mutual fund ownership (Figure 7.2). The next largest mutual fund–owning household generations were Generation X households (28 percent) and Millennial households (25 percent).

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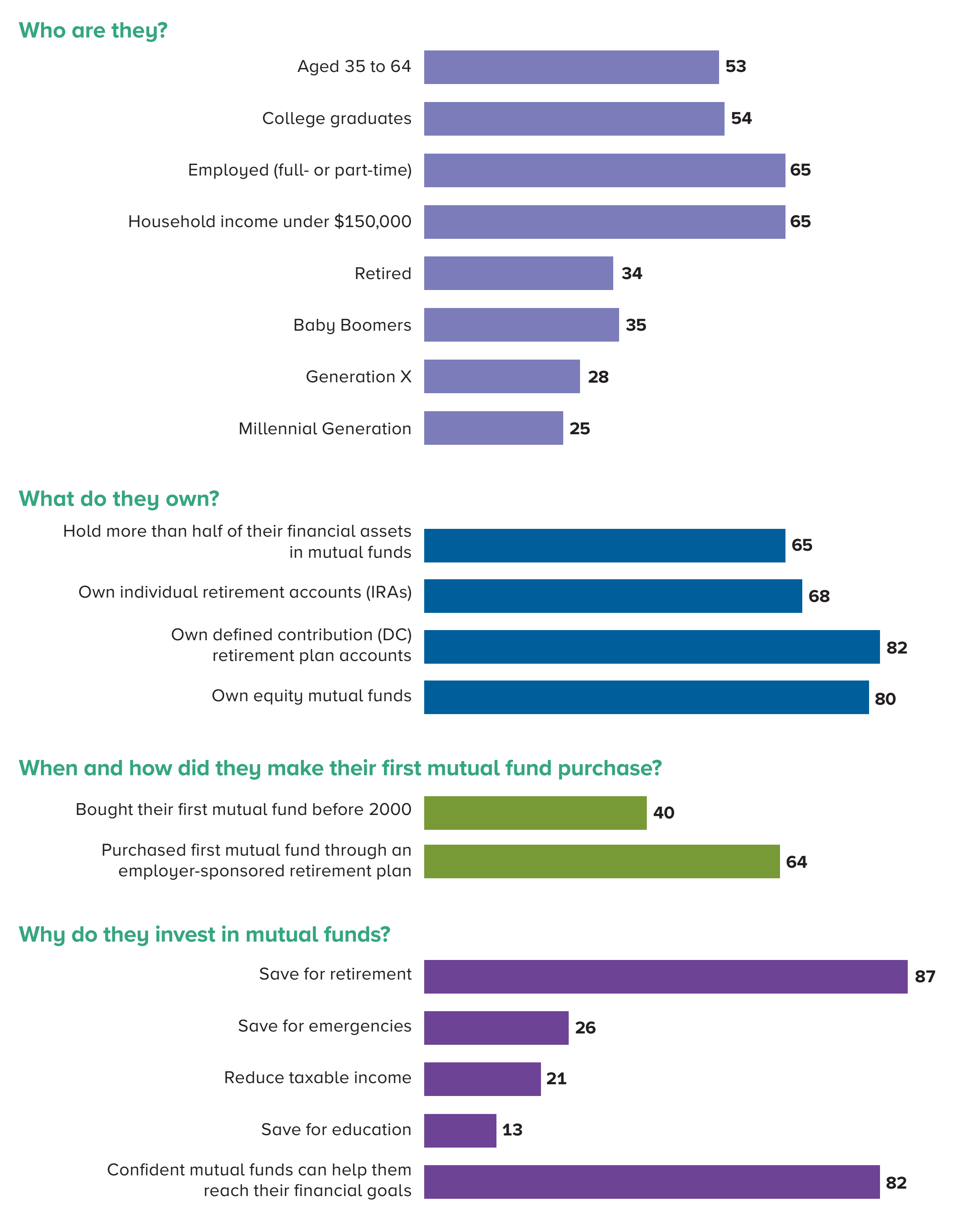
The New Face of Fund Ownership: A Bigger and More Diverse Marketplace
www.ici.org/viewpoints/24-view-mfowners

FIGURE 7.2

Mutual Fund–Owning Households Are from All Demographic Groups

Percentage of mutual fund–owning households, 2024



Sources: *ICI Research Perspective*, "Ownership of Mutual Funds and Shareholder Sentiment, 2024"; *ICI Research Perspective*, "Characteristics of Mutual Fund Investors, 2024"; and *ICI Research Report*, "Profile of Mutual Fund Shareholders, 2024"

Mutual Fund Ownership Tends to Rise Across the Generations

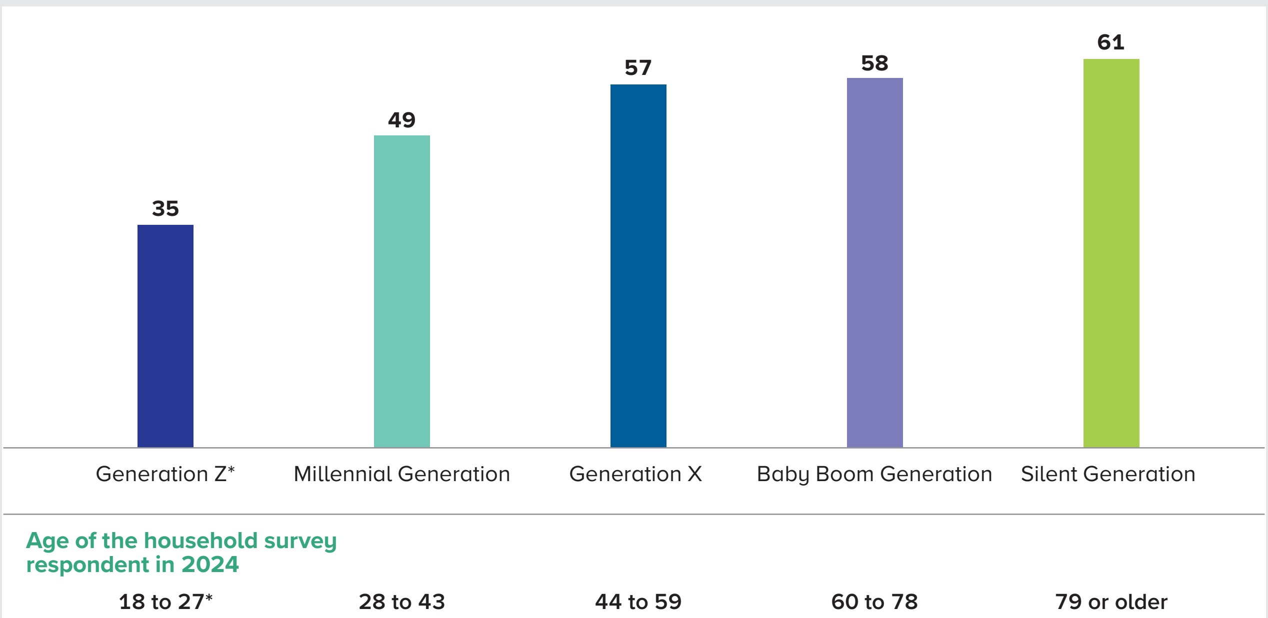
Mutual fund–owning households are headed by members of all generations, but members of the older generations, who have had more time to save, had the highest ownership rates in 2024. More than half of households headed by a member of Generation X, the Baby Boom Generation, or the Silent Generation owned mutual funds in 2024 (Figure 7.3). Younger households were well on their way to widespread mutual fund ownership: 49 percent of Millennial households and 35 percent of Generation Z households owned mutual funds in 2024.

The Baby Boom Generation held almost half (49 percent) of US households' mutual fund assets (Figure 7.4), reflecting: (1) the generation's immense size, (2) their high rate of mutual fund ownership, and (3) the decades they have had to save and invest. Generation X households held 28 percent of households' total mutual fund assets, and Silent Generation households held another 11 percent. Generation Z and Millennial households—who are younger and have not had as much time to save as Baby Boom households—held the remaining 12 percent of households' mutual fund assets.

FIGURE 7.3

Mutual Fund Ownership Is Higher Among Older Generations

Percentage of US households within each generation group, 2024



* Generation Z (born 1997 to 2012) are aged 12 to 27 in 2024; however, survey respondents must be 18 or older.

Note: Generation is based on the age of the household survey respondent.

Source: *ICI Research Perspective*, "Characteristics of Mutual Fund Investors, 2024"

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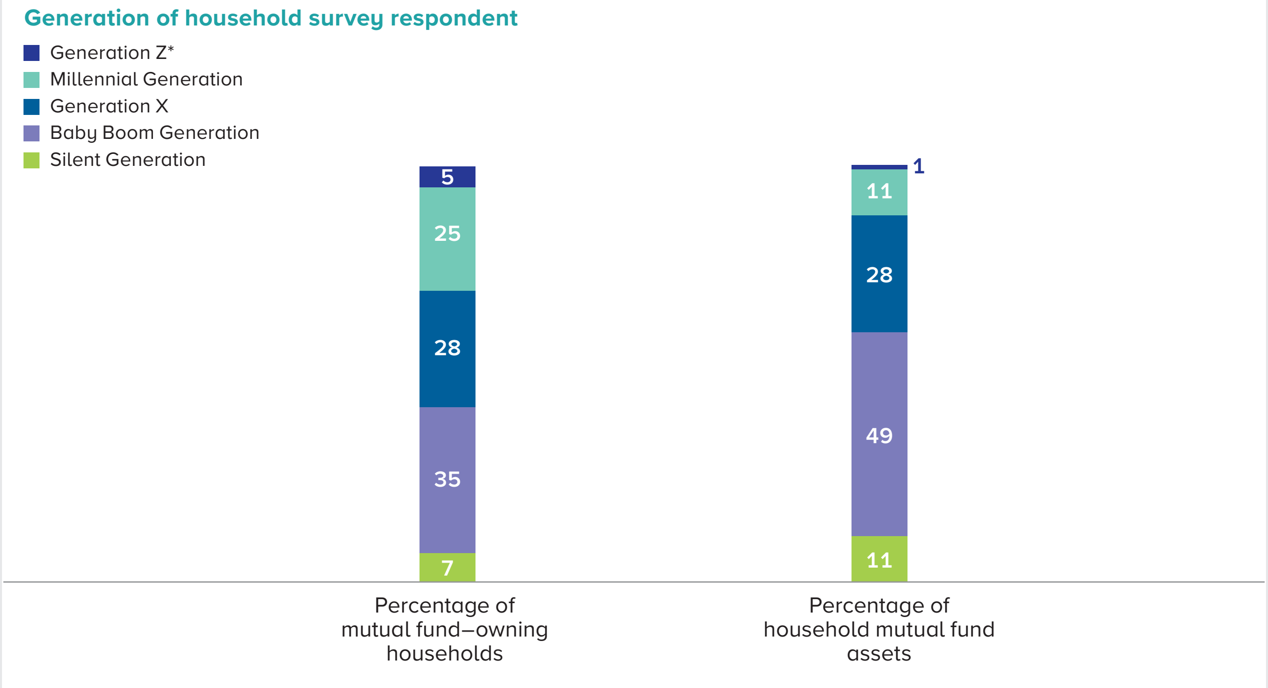
Characteristics of Mutual Fund Investors, 2024

www.ici.org/files/2024/per30-09.pdf

FIGURE 7.4

Baby Boomers Are the Largest Mutual Fund–Owning Generation and Hold the Most Mutual Fund Assets

2024



* Generation Z (born 1997 to 2012) are aged 12 to 27 in 2024; however, survey respondents must be 18 or older.

Note: Generation is based on the age of the household survey respondent.

Source: *ICI Research Perspective*, "Characteristics of Mutual Fund Investors, 2024"

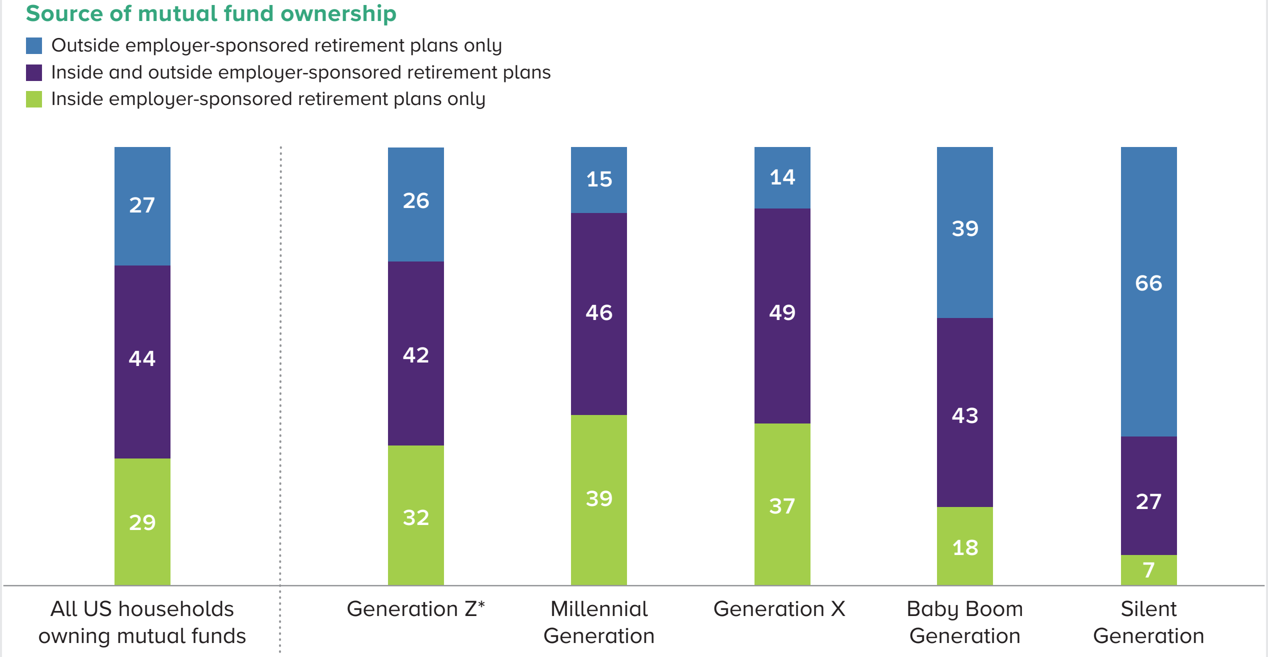
Mutual Fund Ownership Patterns Vary by Generation

How households own mutual funds often depends on where they are in the lifecycle of investing. Because younger generations are more likely to be early in their careers, they are more likely to own mutual funds only inside employer-sponsored retirement plans. As Americans change jobs over their careers, they may roll over retirement savings to IRAs, and older generations are more likely to own funds outside employer-sponsored retirement plans. In 2024, 39 percent of mutual fund–owning Millennial households held funds only inside employer-sponsored retirement plans, compared with 18 percent of mutual fund–owning Baby Boom households (Figure 7.5). Sixty-one percent of mutual fund–owning Millennial households owned funds outside of employer-sponsored retirement plans, compared with 82 percent of mutual fund–owning Baby Boom households. Millennial and Generation X households are more likely than other generations to own funds both inside and outside employer-sponsored retirement plans. At 66 percent, mutual fund–owning Silent Generation households are the most likely to hold them only outside employer-sponsored retirement plans, perhaps reflecting limited access to defined contribution (DC) plans early in their careers or consolidation of retirement savings into IRAs when they retired.

FIGURE 7.5

Mutual Fund Ownership Often Occurs Through Employer-Sponsored Retirement Plans

Percentage of mutual fund–owning households by generation, 2024



* Generation Z (born 1997 to 2012) are aged 12 to 27 in 2024; however, survey respondents must be 18 or older.

Note: Generation is based on the age of the household survey respondent. Employer-sponsored retirement plans include DC plans (such as 401(k), 403(b), or 457 plans) and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

Source: *ICI Research Perspective*, "Characteristics of Mutual Fund Investors, 2024"

Mutual Fund–Owning Households Primarily Save for Retirement

Mutual fund–owning households overwhelmingly report that saving for retirement is one of their financial goals (87 percent, with 80 percent indicating it is the household's primary goal) and that they are confident mutual funds can help them reach their financial goals (82 percent) (Figure 7.2). The importance that mutual fund–owning households place on retirement saving is reflected in where they own their funds—in 2024, 94 percent held mutual fund shares inside employer-sponsored retirement plans, IRAs, or variable annuities.

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Profile of Mutual Fund Shareholders, 2024

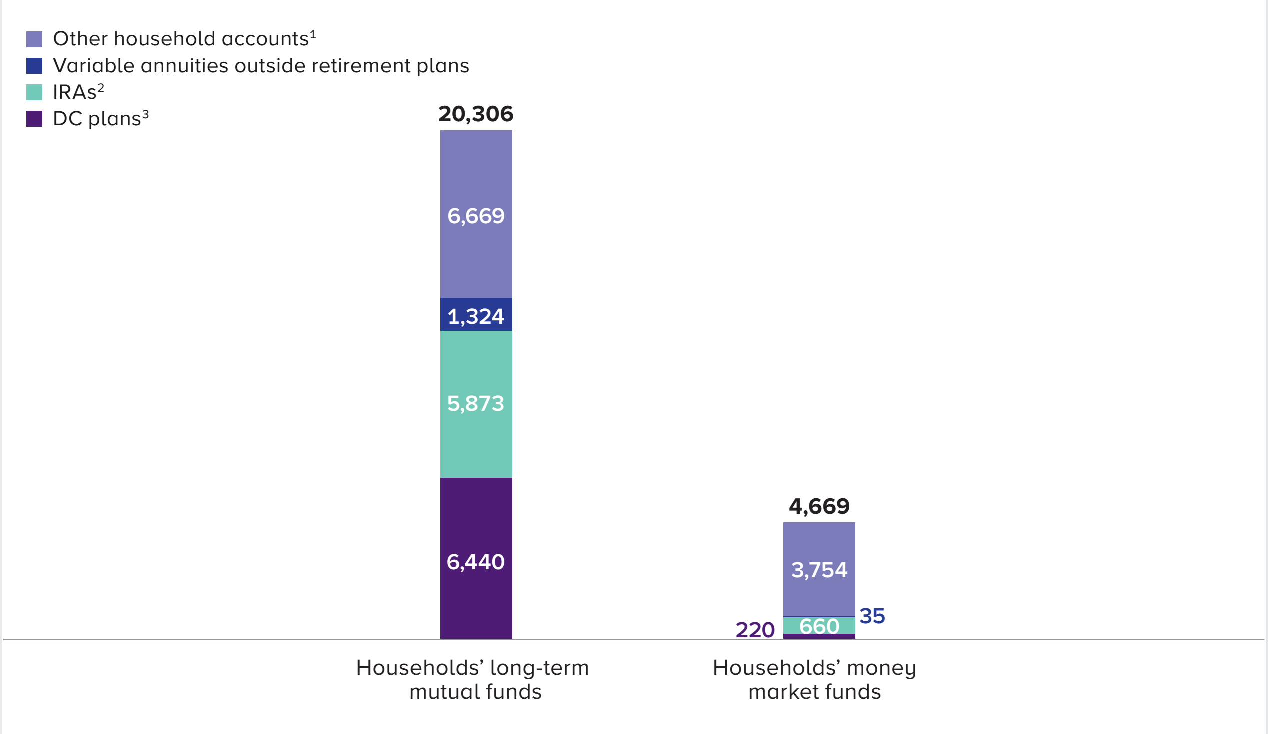
www.ici.org/files/2024/24-rpt-profiles.pdf

Given this long-term focus and the importance of retirement saving, most of households' mutual funds were invested in long-term mutual funds (equity, hybrid, and bond funds). Additionally, more than half of these long-term mutual fund assets were held in DC plans and IRAs (Figure 7.6). At year-end 2024, long-term mutual fund assets held in DC plans and IRAs accounted for $12.3 trillion, or 61 percent of households' long-term mutual fund assets. Households had another $1.3 trillion in long-term variable annuity mutual fund assets outside retirement plans, which have similar tax advantages and restrictions as retirement plans and are counted as part of Americans' nest egg for retirement (see Figures 8.5 and 8.15). In addition, households held a relatively small amount of money market fund assets in DC plans, IRAs, and variable annuities outside retirement plans.

FIGURE 7.6

Households' Mutual Fund Assets Reflect a Long-Term Investment Focus

Billions of dollars, year-end 2024



[1] Mutual funds held as investments in 529 plans and Coverdell ESAs are counted in this category.

[2] IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

[3] DC plans include 401(k) plans, 403(b) plans, 457 plans, and other DC plans without 401(k) features.

Many Mutual Fund–Owning Households Rely on Investment Professionals

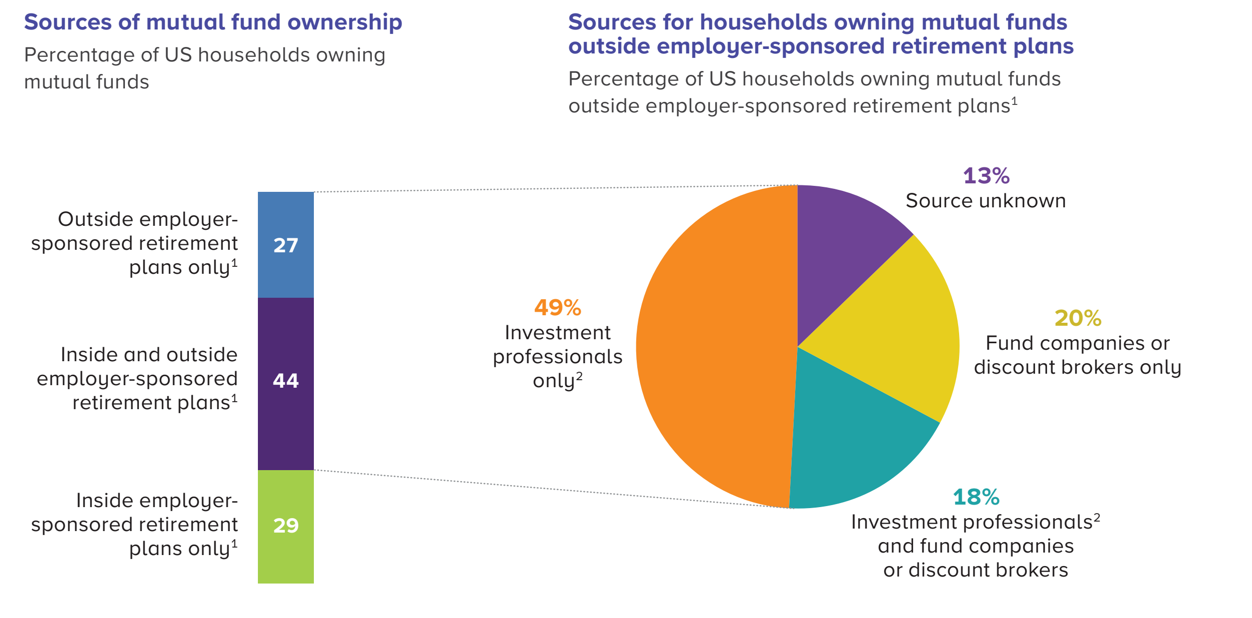
Households owning mutual funds outside employer-sponsored retirement plans often seek the assistance of investment professionals. In 2024, 49 percent of these households owned funds purchased solely with the help of investment professionals, and another 18 percent owned both funds purchased from investment professionals and directly from fund companies or discount brokers (Figure 7.7).

Retirement saving is also important for households holding mutual funds only outside employer-sponsored retirement plans, with 74 percent of those households holding funds in traditional or Roth IRAs. In many cases, these IRAs held assets rolled over from 401(k) plans or other employer-sponsored retirement plans (either defined benefit or DC plans).

FIGURE 7.7

Mutual Fund Investments Outside Retirement Plans Are Often Guided by Investment Professionals

2024



[1] Employer-sponsored retirement plans include DC plans (such as 401(k), 403(b), or 457 plans) and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

[2] Investment professionals include registered investment advisers, full-service brokers, independent financial planners, bank and savings institution representatives, insurance agents, and accountants.

Source: *ICI Research Perspective*, "Characteristics of Mutual Fund Investors, 2024"

Mutual Fund–Owning Households Make Informed Purchasing Decisions

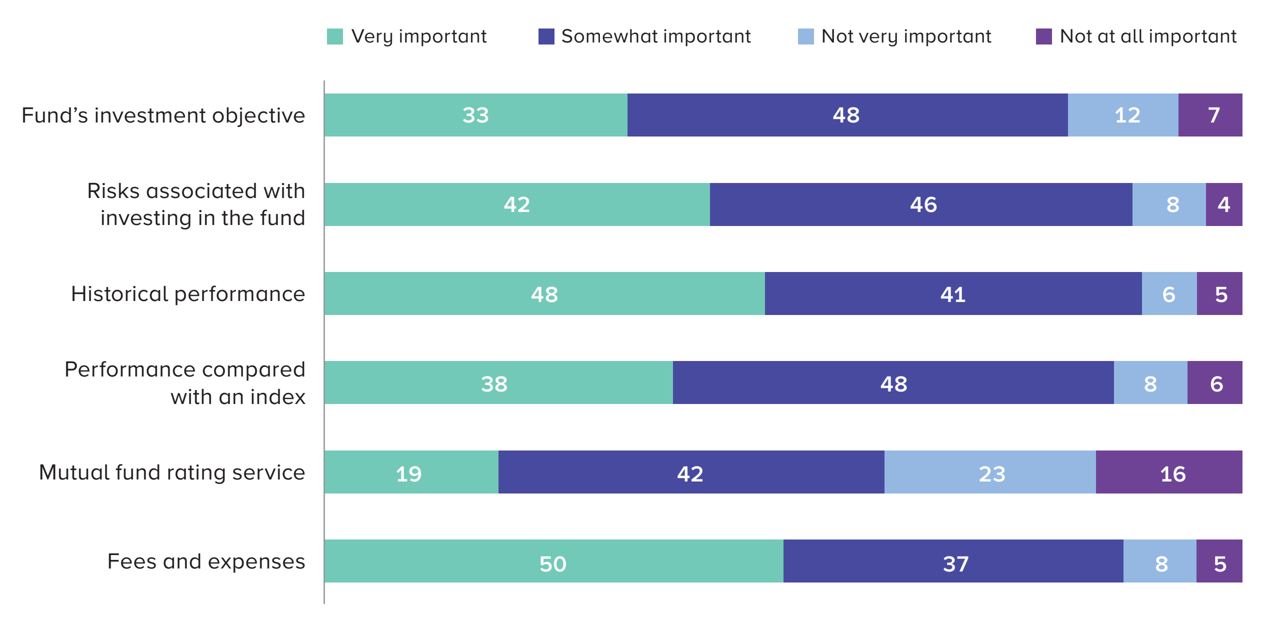
The survey also asked mutual fund–owning households about the importance of a variety of factors when making their mutual fund purchase decisions.

In 2024, 93 percent of mutual fund–owning households considered a fund's investment objective when making their purchase decision (Figure 7.8). Similarly, 96 percent of mutual fund–owning households reviewed the risk level of a fund's investments. The vast majority of mutual fund–owning households also reviewed the historical performance of a fund and considered a fund's performance compared with an index.

Mutual fund–owning households also typically reviewed the fund's fees and expenses when selecting their mutual funds. Indeed, mutual fund investors tend to concentrate their assets in lower-cost funds (see Chapter 6).

FIGURE 7.8 **Most Mutual Fund–Owning Households Research Fund Investments**

Percentage of mutual fund–owning households, 2024



Source: *ICI Research Perspective*, "What US Households Consider When They Select Mutual Funds, 2024"

What US Households Consider When They Select Mutual Funds, 2024
www.ici.org/files/2025/per31-03.pdf

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CHAPTER 8

US Retirement and Education Savings

National policies that have created or enhanced tax-advantaged savings accounts have proven integral to helping Americans save for retirement and other long-term goals. Assets earmarked for retirement represent more than one-third of US households' financial assets, and many Americans use mutual funds in tax-advantaged retirement accounts. ICI studies the US retirement market; the investors who use 401(k) plans, IRAs, 529 plans, and other tax-advantaged savings vehicles; and the role of mutual funds in the retirement and education savings markets. At year-end 2024, individual account-based retirement savings were 67 percent of the total US retirement market, and mutual funds managed 45 percent of those account-based retirement assets. In addition, inflation-adjusted retirement assets per household are more than 10 times what they were a half century ago.

IN THIS CHAPTER

101 The US Retirement System Has Many Components

106 The US Retirement System Produces Robust Income Replacement in Retirement

109 Defined Contribution Plans Play an Increasing Role in Retirement Saving

113 IRAs Are a Significant Part of US Retirement Savings

119 The Role of Mutual Funds in Retirement Savings

120 Mutual Funds Also Play a Role in Education Savings

The US Retirement System Has Many Components

American households rely on a combination of resources in retirement, and the role each type of resource plays has changed over time and varies across households. The traditional analogy compares retirement resources to a three-legged stool, with resources divided equally among the legs—Social Security, employer-sponsored retirement plans, and private savings. A better analogy, however, is to think of Americans' retirement resources as a five-layer pyramid. Unlike the legs of a stool, pyramid layers need not be the same size.

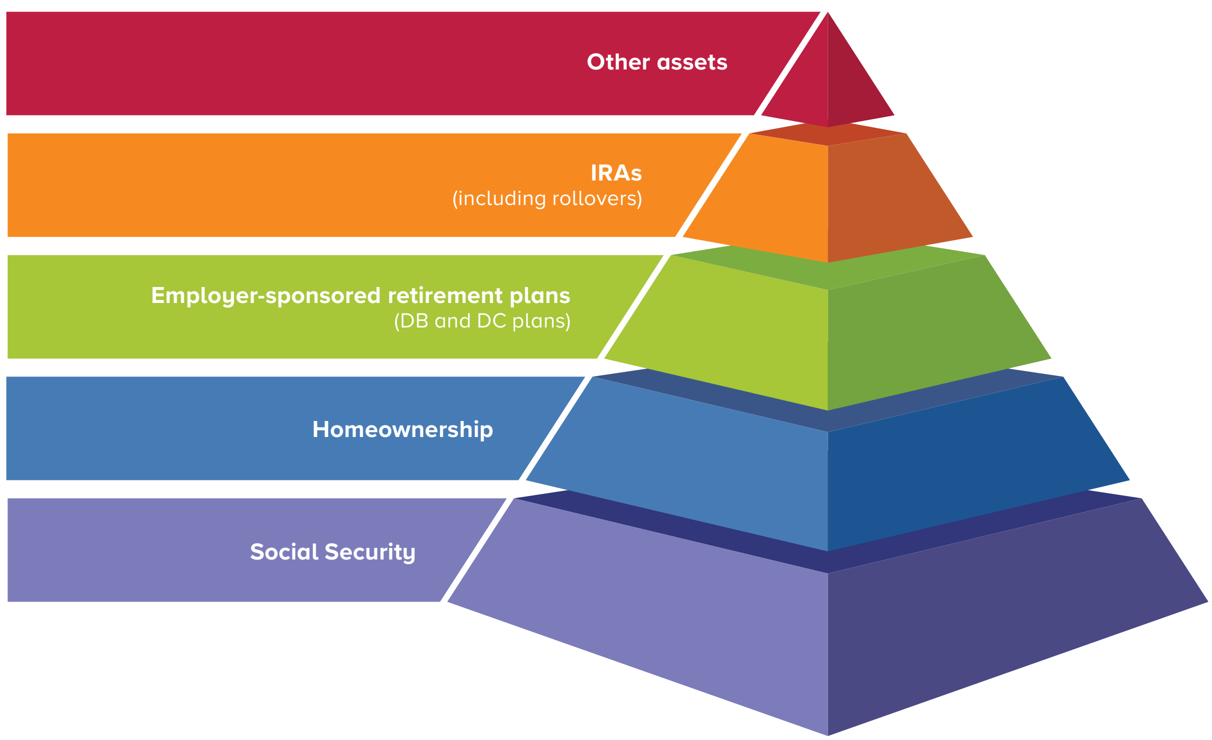
Americans' Multi-Tiered Retirement Resources

The retirement resource pyramid has five layers, which draw from government programs, compensation deferred until retirement, and other savings (Figure 8.1):

- Social Security
- Homeownership
- Employer-sponsored retirement plans (private-sector and government employer plans, including both defined benefit [DB] and defined contribution [DC] plans)
- Individual retirement accounts (IRAs), including rollovers
- Other assets

FIGURE 8.1

US Households Rely on Multi-Tiered Retirement Resources



Source: Investment Company Institute, *The Success of the US Retirement System*

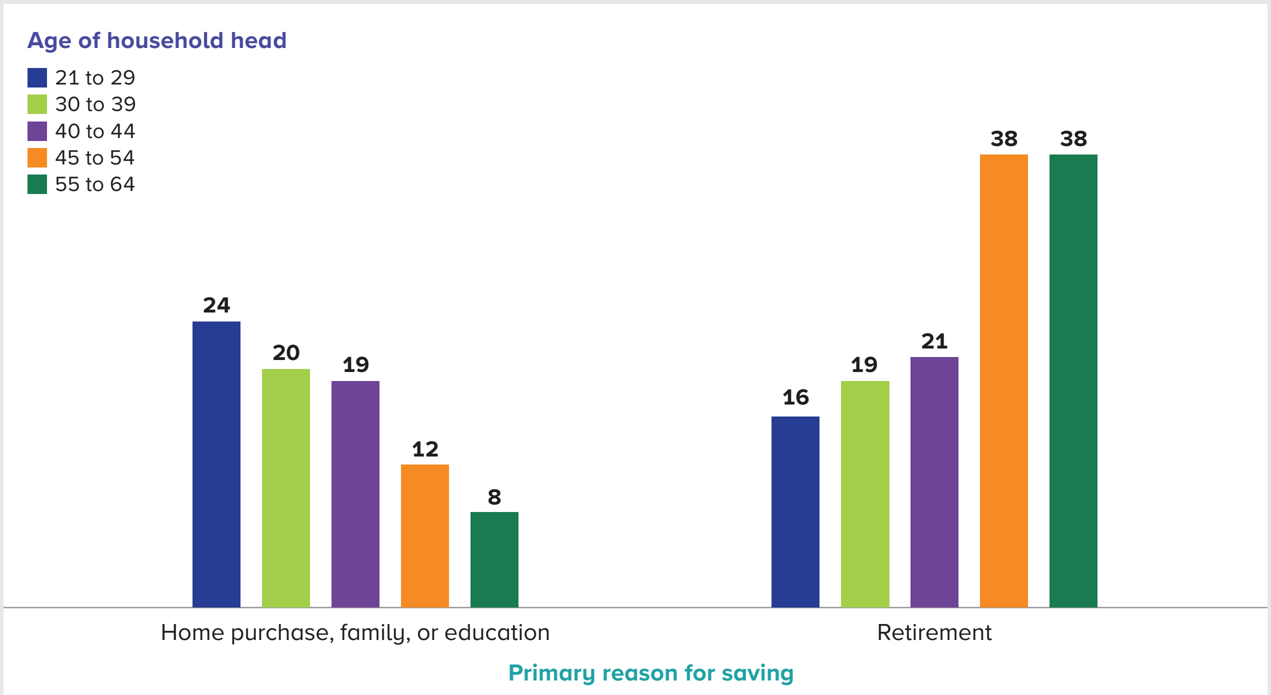
Together, these resources have broadly enabled recent generations of retirees to maintain their standard of living in retirement, though the use of each layer differs by household. For example, the composition of households' retirement resources varies with income. Lower-income households tend to rely more on Social Security, reflecting the fact that Social Security benefits replace a higher share of pre-retirement earnings for workers with lower lifetime earnings.

The amount and composition of retirement resources also change with age. Younger households are more likely to save primarily for a home purchase, family, or education (Figure 8.2). By contrast, older households are more likely to save primarily for retirement, as many have already reached their other savings goals. The tendency of younger workers to focus less on saving for retirement is consistent with economic models of life-cycle consumption, which predict that most workers delay saving for retirement until later in their careers, when they typically have higher earnings.

FIGURE 8.2

Primary Reason for Household Saving Changes with Age

Percentage of households by age of household reference person, 2022



Source: Investment Company Institute tabulations of the 2022 Federal Reserve Board Survey of Consumer Finances

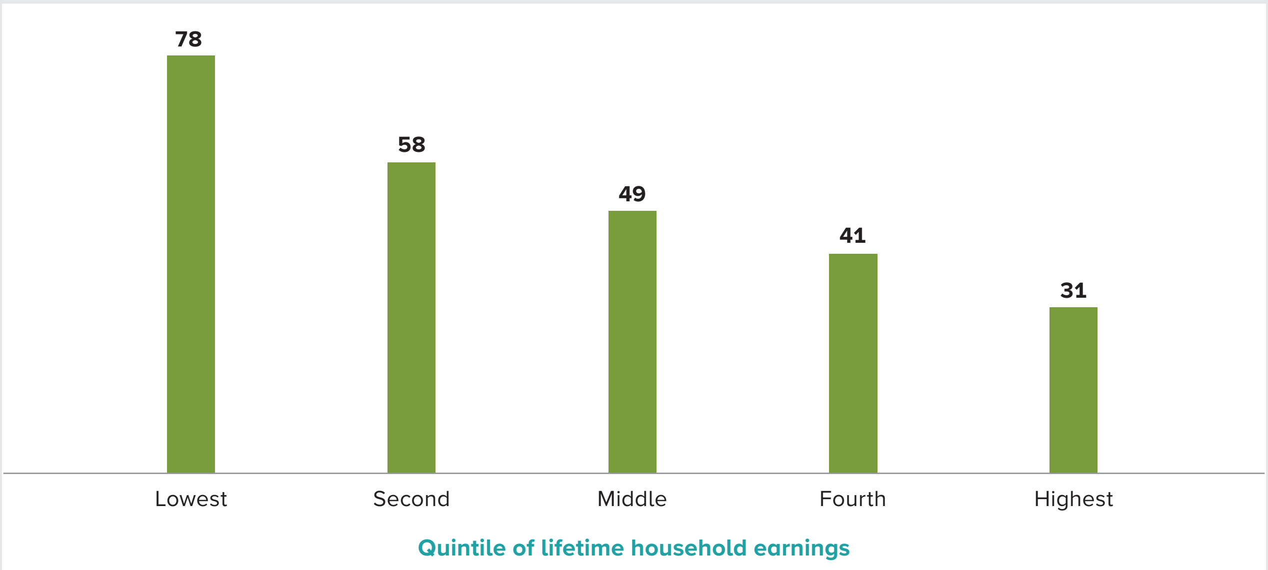
Social Security, the base of the US retirement resource pyramid, is a substantial component of retiree income and the primary source of income for lower-income retirees. Social Security benefits are funded through a payroll tax equal to 12.4 percent of earnings of covered workers (split equally between employers and employees) up to a maximum taxable earnings amount ($168,600 in 2024). The benefit formula is highly progressive, with benefits representing a much higher percentage of earnings for workers with lower lifetime earnings.

By design, Social Security is the primary means of support for retirees with low lifetime earnings and a substantial source of income for all retired workers. The Congressional Budget Office estimates that, for those in the lowest quintile (20 percent) of households ranked by lifetime household earnings, first-year Social Security benefits will replace 78 percent of inflation-indexed lifetime earnings, on average, for workers born in the 1960s who claim benefits at age 65 (Figure 8.3). That replacement rate drops to 58 percent for workers in the second quintile of households, and then declines more slowly as lifetime household earnings increase. Even for workers in the top 20 percent of households, Social Security benefits are projected to replace a considerable portion (31 percent) of earnings.

FIGURE 8.3

Social Security Benefit Formula Is Highly Progressive

Average scheduled Social Security replacement rates for workers in the 1960s birth cohort by quintile of lifetime household earnings, percent



Note: The replacement rate is the ratio of Social Security benefits net of income tax to average inflation-indexed lifetime earnings. Replacement rates are for workers claiming benefits at age 65. For workers born in the 1960s, the Social Security full benefit retirement age is 67. If these workers claimed benefits at age 67, benefits would increase by about 15 percent.

Source: Congressional Budget Office, *CBO's 2021 Long-Term Projections for Social Security: Additional Information*

Homeownership is the second most important retirement resource after Social Security for many households. Older households are more likely to own their homes, more likely to own their homes without mortgage debt, and more likely to have small mortgages relative to the value of their homes if they do still have mortgages. Retired households typically benefit simply by living in their homes rent-free.

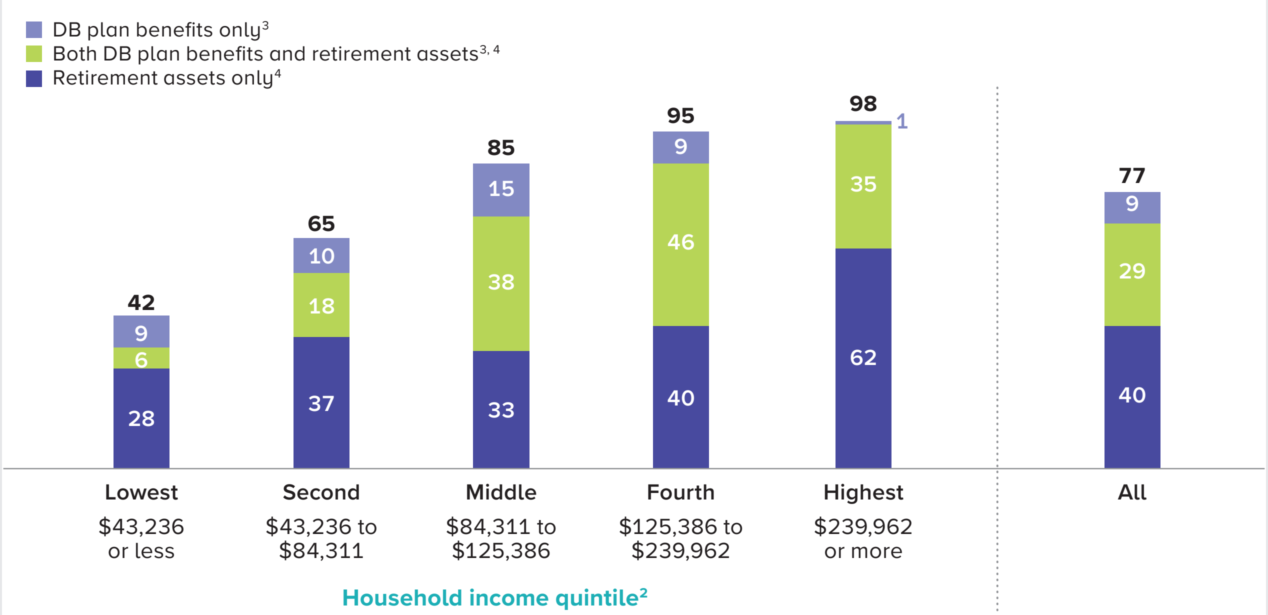
Employer-sponsored retirement plans and IRAs, which complement Social Security benefits and are important resources for households regardless of income or wealth, increase in importance for households for which Social Security replaces a smaller share of earnings. In 2022, more than three-quarters of near-retiree households had accrued benefits in employer-sponsored retirement plans—DB and DC plans sponsored by private-sector and government employers—or IRAs (Figure 8.4).

Finally, although less important on average, retirees also rely on ***other assets*** in retirement. These assets can be financial—including bank deposits, stocks, bonds, and mutual funds owned outside employer-sponsored retirement plans and IRAs. Other assets can also be nonfinancial—including business equity, investment real estate, second homes, and consumer durables (long-lived goods such as vehicles, household appliances, and furniture). Higher-income households are more likely to have large holdings of assets in this category.

FIGURE **8.4**

Near-Retiree Households Across All Income Groups Have Retirement Assets, DB Plan Benefits, or Both

Percentage of near-retiree households[1] by income quintile,[2] 2022



[1] *Near-retiree households* are those with a household reference person aged 55 to 64, and a working household reference person or working spouse.

[2] Income is household income before taxes in 2021.

[3] Households currently receiving DB plan benefits and households with the promise of future DB plan benefits, whether from private-sector or government employers, are counted in this category.

[4] In this figure, retirement assets include DC plan assets (401(k), 403(b), 457, thrift, and other DC plans), whether from private-sector or government employers, and IRAs (traditional, Roth, SEP, SAR-SEP, and SIMPLE).

Source: Investment Company Institute tabulations of the 2022 Federal Reserve Board Survey of Consumer Finances

US Households Have Accumulated a Significant Retirement Nest Egg

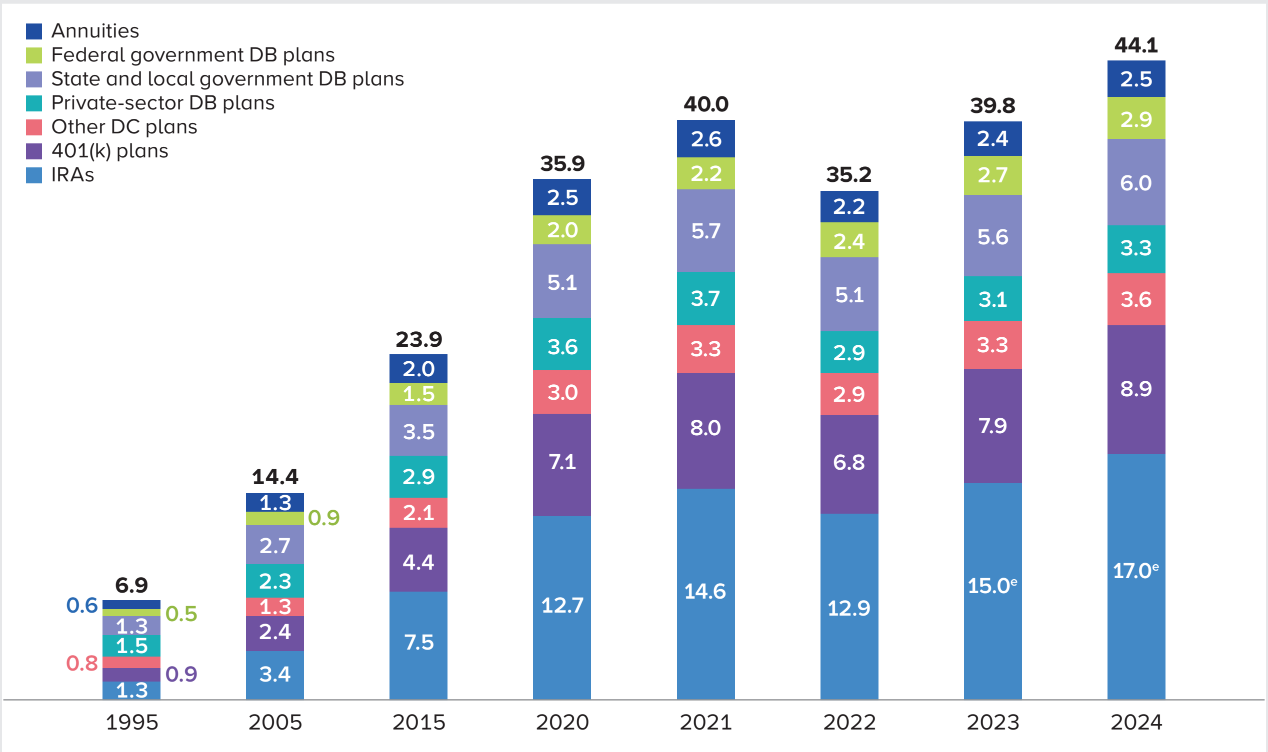
Employer-sponsored retirement plans, IRAs (including rollovers), and annuities play an important role in the US retirement system, with assets earmarked for retirement representing more than one-third of US households' total financial assets at year-end 2024.

US households had $44.1 trillion earmarked for retirement at year-end 2024 (Figure 8.5)—up 11 percent from year-end 2023. The largest components of retirement assets were IRAs and employer-sponsored DC plans (including 401(k) plans), which together represented 67 percent of all retirement market assets at year-end 2024. IRAs and DC plans had 45 percent of their assets invested in mutual funds at year-end 2024 (Figure 8.15). In addition, US households had $1.4 trillion in variable annuity (VA) mutual fund assets held outside retirement accounts. Retirement assets have grown significantly over the past five decades, even when adjusted for inflation and growth in the number of households in the United States. At year-end 2024, average assets earmarked for retirement per household, adjusted for inflation, were more than 10 times their level at year-end 1974.

FIGURE **8.5**

US Retirement Market Assets

Trillions of dollars, year-end



e Data are estimated.

Source: Investment Company Institute. For a complete list of sources, see Investment Company Institute, "The US Retirement Market, Fourth Quarter 2024."

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Retirement Market

www.ici.org/research/stats/retirement

While US households manage individual account-based savings (DC plans and IRAs), traditional DB plans promise to pay benefits in retirement typically based on salary and years of service. Some DB plans, however, do not have sufficient assets to cover promised benefits that households have a legal right to expect. Unfunded liabilities are a larger issue for government DB plans than for private-sector DB plans. As of year-end 2024, unfunded liabilities were 32 percent of benefit entitlements for state and local government DB plans and 26 percent of benefit entitlements for federal government DB plans. Private-sector DB plans were overfunded by 2 percent.

The US Retirement System Produces Robust Income Replacement in Retirement

In retirement, most Americans maintain spendable income that is a high percentage of the spendable income they had in their late 50s, according to a study by ICI economists analyzing tax data. The study, which followed Americans who were aged 55 in 2000 until they were aged 72 in 2017, also finds that most retirees get substantial amounts of both Social Security benefits and retirement income—that is, distributions from employer-sponsored retirement plans, annuities, and IRAs. Indeed, at every age through age 72, the typical individual maintained more than 90 percent of the inflation-adjusted spendable income they had, on average, from age 55 through age 59. Spendable income is the income available after paying taxes and contributing to retirement accounts.

Lower-income Americans typically had higher spendable income replacement rates. Individuals were ranked by their average total income from age 55 to age 59 and split into 20 groups, or ventiles. At age 72, the median replacement rate for lower-income individuals (third ventile) was 103 percent, for middle-income individuals (10th ventile) was 93 percent, and for higher-income individuals (18th ventile) was 84 percent (Figure 8.6). A similar pattern by ventile is seen throughout the replacement rate distribution. At the 75th percentile, replacement rates were well above 100 percent for lower-income ventiles. At the 25th percentile, the relationship between replacement rates and income was less pronounced, with ventiles 4 through 16 all around 70 percent.

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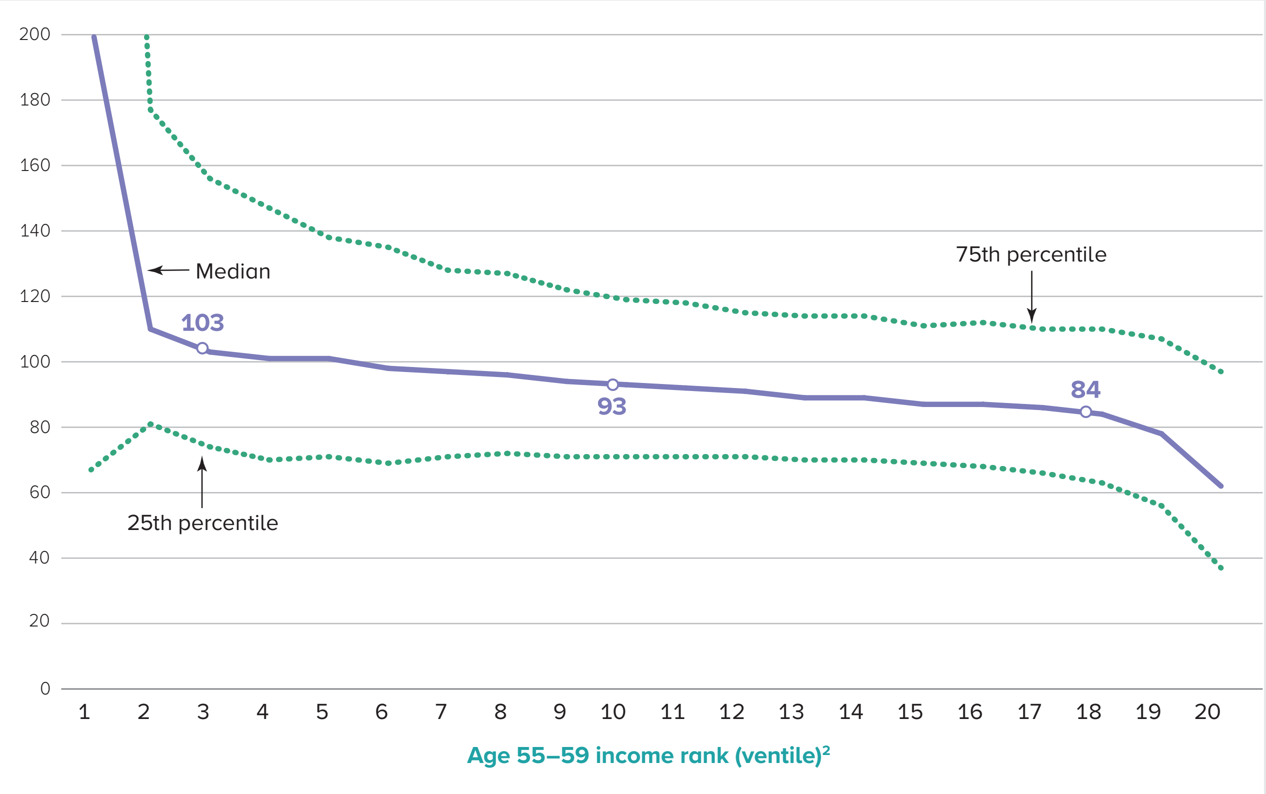
Income from Retirement Plans
www.ici.org/research/retirement/income

FIGURE 8.6

Lower-Income Individuals Tend to Replace Higher Percentages of Income in Retirement

Spendable income replacement rate[1] at age 72



[1] The replacement rate is spendable income at age 72 as a percentage of average inflation-adjusted spendable income between ages 55 and 59. Spendable income is the income available after paying taxes and contributing to retirement accounts. For married individuals, spendable income is per capita (that is, spendable income for the couple divided by two).

[2] Individuals were ranked by their average total income from age 55 to age 59 and split into 20 groups, or ventiles.

Note: The median replacement rate for individuals in the lowest income group was 204 percent at age 72, and the 75th percentile replacement rate was 604 percent. The sample consists of Americans aged 55 at year-end 2000 who were alive at year-end 2017 (when they were age 72).

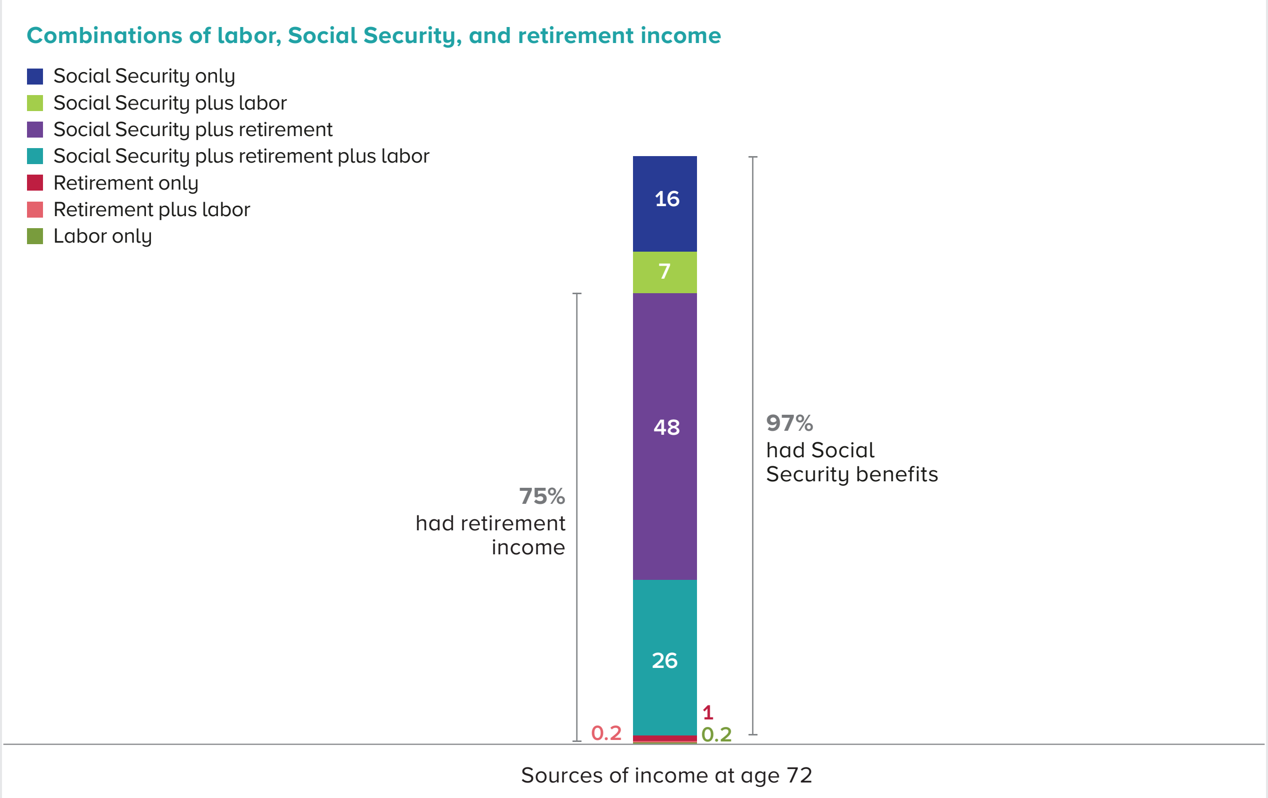
Source: *When I'm 64 (or Thereabouts): Changes in Income from Middle Age to Old Age*, available at www.ici.org/research/retirement/income

In addition to Social Security benefits, the study found that the vast majority of American retirees had income from employer-sponsored retirement plans, annuities, and IRAs. At age 72, either directly or through a spouse, 97 percent received Social Security benefits and 75 percent received retirement income (Figure 8.7). Nearly half (48 percent) had Social Security benefits and retirement income (but no labor income), and more than one-quarter had all three.

FIGURE 8.7

Most Americans Had Non–Social Security Retirement Income at Age 72

Percentage of Americans at age 72



Note: The sample consists of Americans aged 55 at year-end 2000 who were alive at year-end 2017 (when they were age 72). Retirement income is income from DB and DC pensions, annuities, and IRAs. Individuals are classified as having a given income type if they received it either directly or through a spouse. At age 72, 2 percent of Americans did not have labor, Social Security, or retirement income.

Source: *When I'm 64 (or Thereabouts): Changes in Income from Middle Age to Old Age*, available at www.ici.org/research/retirement/income

Defined Contribution Plans Play an Increasing Role in Retirement Saving

DC plans provide employees with a retirement account funded with employer contributions, employee contributions, or both, plus investment earnings or losses on those contributions, less withdrawals. Assets in employer-sponsored DC plans have grown faster than assets in DB plans over the past three decades, increasing from less than one-third of total DC and DB plan assets in 1994 to more than half by year-end 2024.

A Closer Look: 401(k) Plans Are the Most Common DC Plan

At the end of 2024, employer-sponsored DC plans—which include 401(k) plans, 403(b) plans, 457 plans, the federal Thrift Savings Plan (TSP), and other private-sector DC plans—held an estimated $12.4 trillion in assets (Figure 8.5). With $8.9 trillion in assets at year-end 2024, 401(k) plans held the largest share of employer-sponsored DC plan assets; 403(b) plans—which are similar to 401(k) plans and are offered by some education and nonprofit organizations—held another $1.4 trillion in assets.

With 91 percent of 401(k) plan participants in plans offering employer contributions, 401(k) plans are a powerful saving tool (Figure 8.8). DC-owning individuals agree that payroll deduction makes it easier to save and that the tax treatment of DC plans is a big incentive to contribute. The typical 401(k) plan offers a full assortment of investment options generally including domestic equity funds, international equity funds, domestic bond funds, and target date funds. Eighty-three percent of DC-owning individuals agree that their plan offers a good lineup of investment options.

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The BrightScope/ICI Defined Contribution Plan Profile
www.ici.org/research/retirement/dc-plan-profile

401(k) Plan Participants' Asset Allocation Varies with Participant Age

The vast majority of 401(k) plan participants embrace investing in equities—whether through equity funds, balanced funds* (including target date funds), or company stock. According to research conducted by ICI and the Employee Benefit Research Institute (EBRI), 97 percent of 401(k) participants held at least some equities in their 401(k) accounts at year-end 2022 (Figure 8.8).

FIGURE **8.8**

401(k) Plans Offer Powerful and Convenient Saving and Investing

401(k) plans

- **70 million** active participants
- **$8.9 trillion** in assets at year-end 2024
    - **60 percent** of 401(k) plan assets invested in mutual funds
- **29** investment options, on average
    - Typically including domestic equity funds, international equity funds, domestic bond funds, and target date funds[1]

401(k) participants

- **91 percent** are offered employer contributions
- **97 percent** have investments in equities[2]
- **68 percent** have invested in target date funds[1]
- **84 percent** have access to plan loans

DC-owning individuals

- **87 percent** agree that payroll deduction makes it easier for them to save
- **85 percent** agree that the tax treatment of their retirement plan is a big incentive to contribute
- **83 percent** agree that their employer-sponsored retirement plan offers them a good lineup of investment options

[1] Funds include mutual funds, collective investment trusts, separate accounts, and other pooled investment products.

[2] Equities include equity funds, company stock, and the equity portion of balanced funds. The Investment Company Institute classifies balanced funds as *hybrid* in its data.

Sources: Investment Company Institute, The US Retirement Market (www.ici.org/research/stats/retirement); The BrightScope/ICI Defined Contribution Plan Profile (www.ici.org/research/retirement/dc-plan-profile); EBRI/ICI 401(k) Database (www.ici.org/research/retirement/ebri-ici-401k); US Household Views on Retirement Savings (www.ici.org/research/retirement/us-views)

* The Investment Company Institute classifies balanced funds as *hybrid* in its data.

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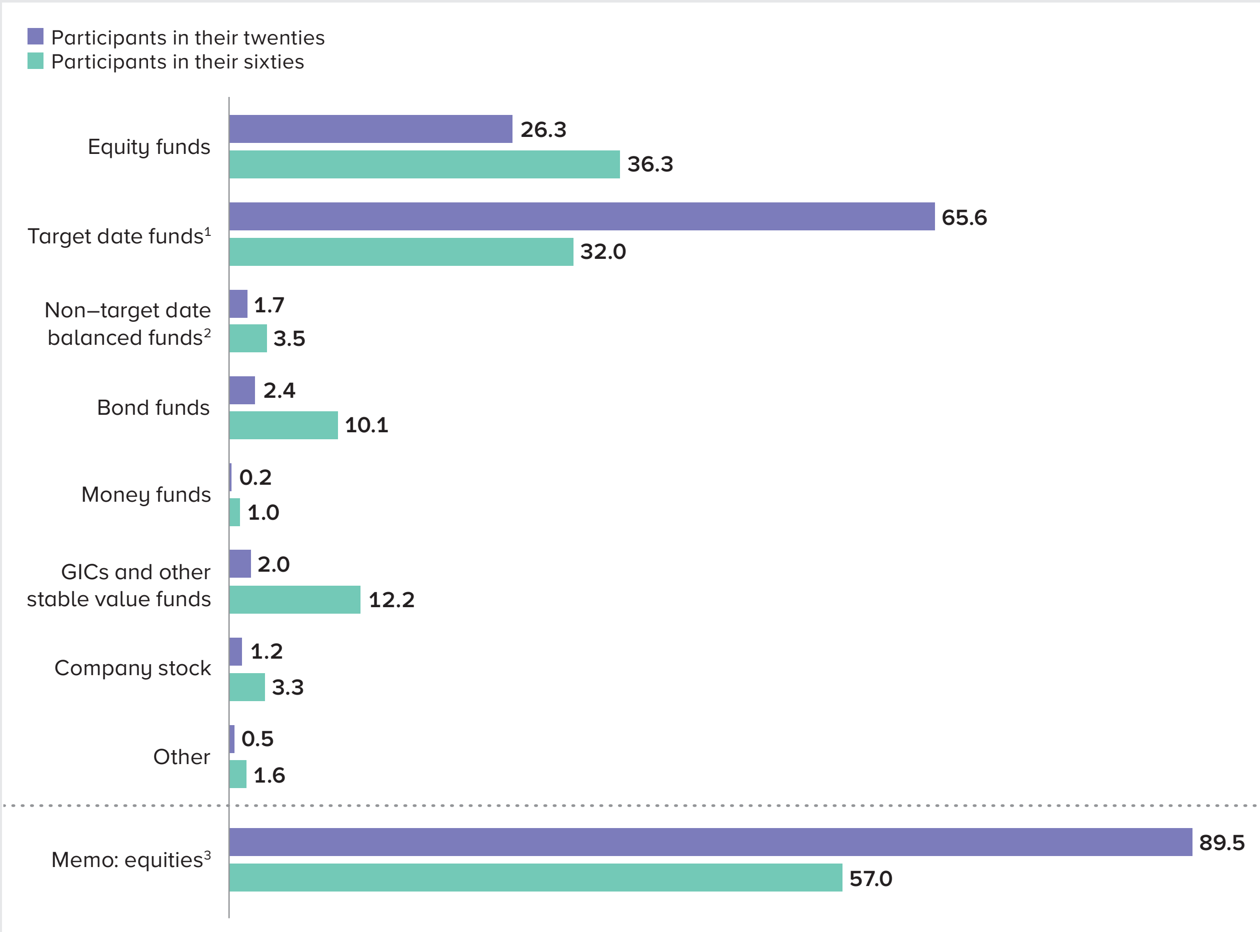
US Household Views on Retirement Saving
www.ici.org/research/retirement/us-views

The composition of the asset allocation of 401(k) participants' accounts also varies with participant age. For example, at year-end 2022, 401(k) plan participants in their twenties had a much higher allocation to target date funds (66 percent of their 401(k) plan balances) than those in their sixties (32 percent) (Figure 8.9). And older 401(k) plan participants had much higher allocations to fixed-income investments (bond funds, GICs and other stable value funds, and money funds) compared with younger 401(k) plan participants. All told, younger participants allocate more of their portfolios to equities compared with older participants. At year-end 2022, participants in their twenties had 90 percent of their 401(k) assets invested in equities, on average, while those in their sixties had 57 percent of their 401(k) assets invested in equities. Furthermore, younger 401(k) plan participants were more likely to have high concentrations in equities in their accounts compared with older participants.

FIGURE **8.9**

Average 401(k) Asset Allocation Varies with Participant Age

Average asset allocation of 401(k) account balances, percentage of account balances, year-end 2022



[1] A target date fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name.

[2] The Investment Company Institute classifies balanced funds as *hybrid* in its data.

[3] Equities include equity funds, company stock, and the equity portion of balanced funds.

Note: Funds include mutual funds, bank collective trusts, life insurance separate accounts, and any pooled investment product primarily invested in the security indicated. Percentages are dollar-weighted averages.

Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project. See *ICI Research Perspective*, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2022."

Target Date Funds Are Widely Available and Frequently Used

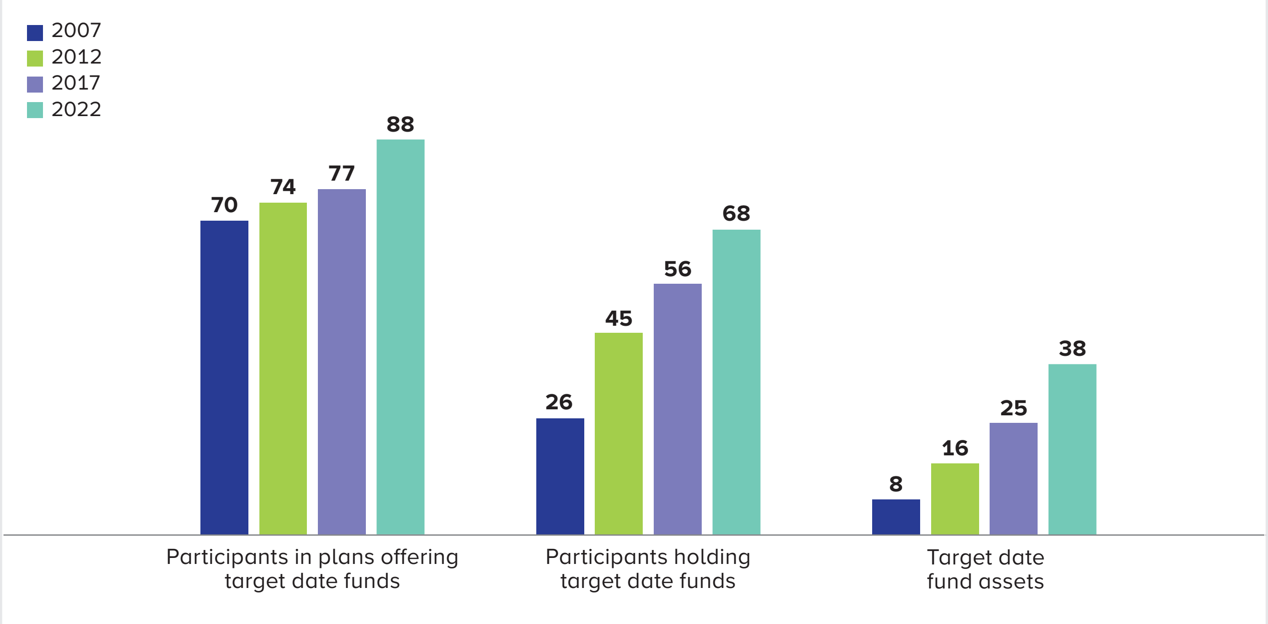
A target date fund follows a predetermined reallocation of assets over time based on a specified target retirement date. Typically, the fund rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date, which is usually indicated in the fund's name.

The offering and use of target date funds in 401(k) plans have increased in recent years. Target date funds (including target date mutual funds, target date collective investment trusts (CITs), and other pooled target date investments) have risen from 8 percent of 401(k) plan assets at year-end 2007 to 38 percent at year-end 2022 (Figure 8.10). Participant use of target date funds has also increased—at year-end 2022 nearly seven in 10 401(k) plan participants held target date funds.

FIGURE 8.10

Target Date Funds' Rising 401(k) Market Share

Percentage of total 401(k) market, year-end



Note: A target date fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name. Funds include mutual funds, bank collective trusts, life insurance separate accounts, and other pooled investment products.

Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project. See *ICI Research Perspective*, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2022."

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Quick Facts on Target Date Fund Use in Retirement Plans

www.ici.org/files/quick-facts-tdfs-retirement-plans.pdf

401(k) Plan Loans Can Offer a Safety Valve in Times of Need

Most 401(k) plan participants do not borrow from their plans, although the majority have access to plan loans. The percentage of 401(k) plan participants with loans outstanding has been trending down in the wake of changes to plan rules regarding hardship withdrawals since 2019 and special COVID-related access during 2020. Analysis of EBRI/ICI 401(k) data finds that only 13 percent of DC plan participants had loans outstanding and outstanding loan balances among participants with loans averaged 10 percent of the remaining 401(k) account balance at year-end 2022. US Department of Labor data indicate that outstanding loan amounts were 1 percent of 401(k) plan assets in 2022.

IRAs Are a Significant Part of US Retirement Savings

IRA assets totaled $17.0 trillion at year-end 2024, accounting for 39 percent of US retirement market assets (Figure 8.5). Mutual funds were 38 percent of IRA assets at year-end 2024 (Figure 8.11). More than four in 10, or 58 million, US households owned IRAs in 2024.

The first type of IRA—known as a traditional IRA—was created under the Employee Retirement Income Security Act of 1974 (ERISA) and is the most common type of IRA. IRAs provide all workers with a contributory retirement savings vehicle, and, through rollovers, give workers leaving jobs a means to preserve the tax benefits and growth opportunities that employer-sponsored retirement plans provide. Roth IRAs, first available in 1998, were created to provide a contributory retirement savings vehicle on an after-tax basis, with qualified withdrawals distributed tax-free. In addition, policymakers have added employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs) to encourage small businesses to provide retirement plans by simplifying the rules applicable to tax-qualified plans.

Traditional IRA–owning households access a full array of investment options, with 72 percent reporting they held mutual funds and 32 percent indicating they held ETFs in their traditional IRAs (Figure 8.11). Nearly 70 percent of traditional IRA–owning households have a strategy to manage income and assets in retirement. Typically, these strategies have many components, such as reviewing asset allocations, determining their retirement expenses, developing a retirement income plan, setting aside emergency funds, and determining when to take Social Security benefits.

Roth IRA–owning households also access a full array of investment options, with 68 percent reporting they held mutual funds and 37 percent indicating they held ETFs in their Roth IRAs (Figure 8.11). Roth IRA–owning households skew younger than traditional IRA–owning households.

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The Role of IRAs in US Households' Saving for Retirement
www.ici.org/research/retirement/role-of-iras

FIGURE 8.11

IRAs Play an Important Role in US Households' Retirement Saving

IRAs

58 million US households own IRAs

$17.0 trillion in assets at year-end 2024

- **38 percent** of IRA assets invested in mutual funds

Traditional IRA–owning households

$14.1 trillion in assets in traditional IRAs

72 percent have mutual funds in their traditional IRAs

32 percent have ETFs in their traditional IRAs

59 percent have rollovers from employer-sponsored retirement plans in their traditional IRAs

The three most common primary reasons for rolling over were:

- **23 percent** not wanting to leave assets behind at the former employer
- **19 percent** wanting to consolidate assets
- **14 percent** wanting more investment options

69 percent have a strategy to manage income and assets in retirement

61 years old is their median age

Roth IRA–owning households

$2.0 trillion in assets in Roth IRAs

68 percent have mutual funds in their Roth IRAs

37 percent have ETFs in their Roth IRAs

65 percent have a strategy to manage income and assets in retirement

50 years old is their median age

Sources: Investment Company Institute, The US Retirement Market (www.ici.org/research/stats/retirement); The Role of IRAs in US Households' Saving for Retirement (www.ici.org/research/retirement/role-of-iras)

LEARN MORE

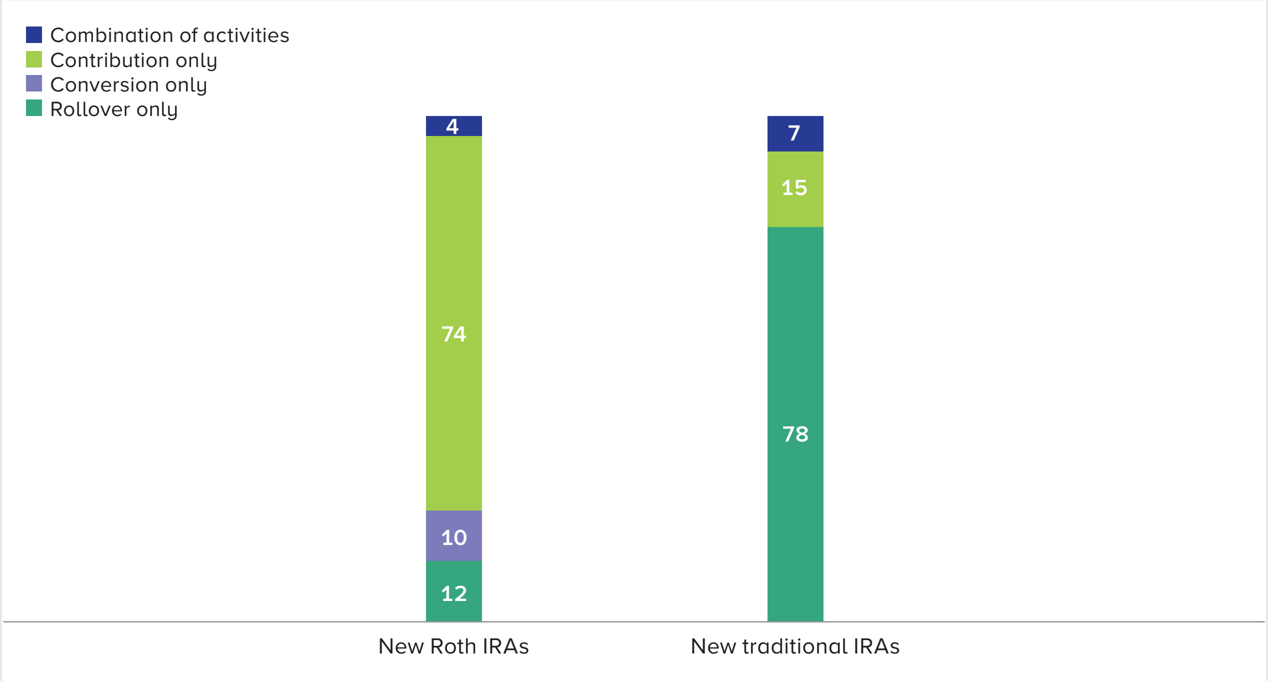
The IRA Investor Database™
www.ici.org/research/retirement/ira-investor-database

Analysis of the IRA Investor Database—which contains information on millions of IRA investors—finds that contributions are more important for opening new Roth IRAs, while rollovers are more important for opening new traditional IRAs. In 2022, 74 percent of new Roth IRAs were opened solely with contributions, while 78 percent of new traditional IRAs were opened only with rollovers (Figure 8.12).

FIGURE 8.12

New Roth IRAs Are Often Opened with Contributions; New Traditional IRAs Are Often Opened with Rollovers

Percentage of new IRAs opened in 2022 by type of IRA



Note: New IRAs are accounts that did not exist in The IRA Investor Database in 2021 and were opened by one of the paths indicated in 2022. The calculation excludes IRAs that changed financial services firms. The samples are 0.2 million new Roth IRA investors aged 18 or older at year-end 2022 and 0.3 million new traditional IRA investors aged 18 to 74 at year-end 2022.

Source: The IRA Investor Database™

Traditional IRA–owning households generally researched the decision to roll over money from their former employers' retirement plans into traditional IRAs. Traditional IRA–owning households with rollovers cite multiple reasons for rolling over their retirement plan assets into traditional IRAs. The three most common primary reasons for rolling over were not wanting to leave assets behind at the former employer, wanting to consolidate assets, and wanting more investment options (Figure 8.11).

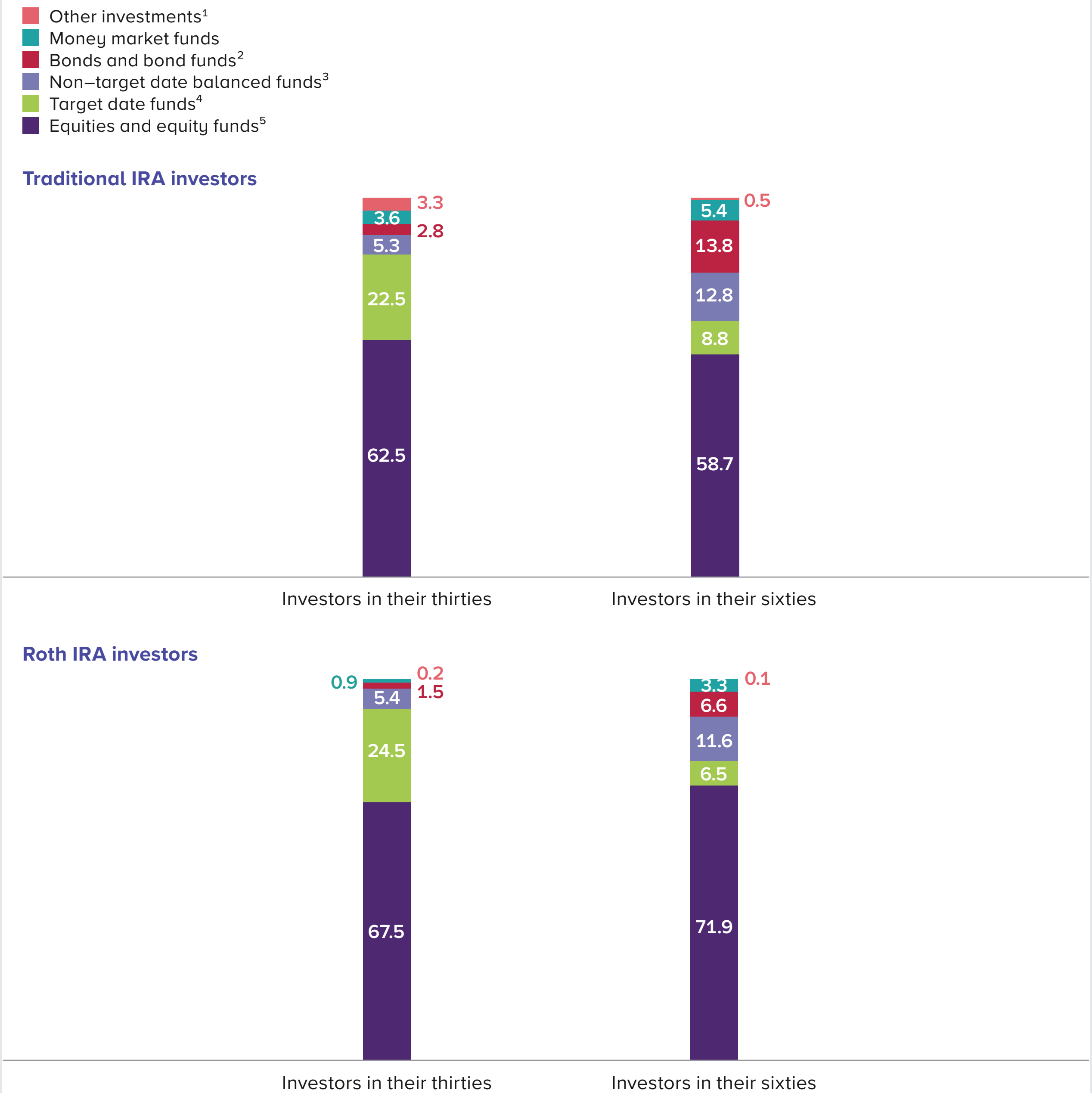
IRA Portfolios Often Reach Toward Equity Investments

As with 401(k) plan assets, a majority of IRA assets are invested in equities, and younger IRA investors tend to have a larger share of their assets invested in equities, equity funds, and target date funds than older investors. Older IRA investors tend to be more invested in bonds, bond funds, and non–target date balanced funds (Figure 8.13). Roth IRA investors display a similar pattern of investing by age compared with traditional IRA investors, although in all age groups, Roth IRA investors tend to have higher allocations to equities and equity funds and lower allocations to bonds and bond funds.

FIGURE 8.13

Average IRA Asset Allocation Varies with Investor Age

Average asset allocation of IRA balances, percentage of assets, year-end 2022



1 *Other investments* includes certificates of deposit and unidentifiable assets.

2 Bond funds include bond mutual funds, bond closed-end funds, and bond ETFs.

3 The Investment Company Institute classifies balanced funds as *hybrid* in its data.

4 A target date fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name.

5 Equity funds include equity mutual funds, equity closed-end funds, and equity ETFs.

Note: Percentages are dollar-weighted averages.

Source: The IRA Investor Database™

IRA Withdrawals Are Rare Until Required by Law Later in Life

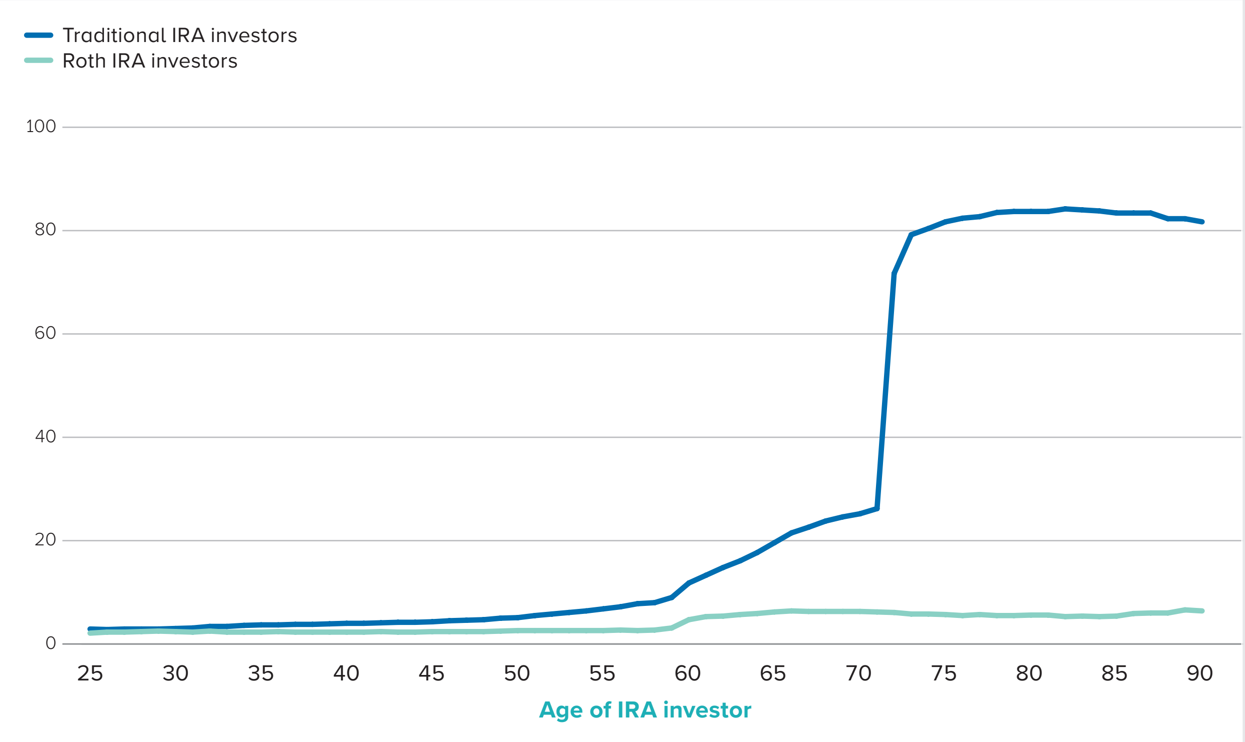
Withdrawals from IRAs tend to occur later in life, often to fulfill required minimum distributions (RMDs) under the law. An RMD is calculated as a percentage of the IRA balance, based on remaining life expectancy. Older traditional IRA owners generally must withdraw at least the minimum amount each year, or pay a penalty (historically, RMDs began at age 70½, but this age increased to 72 in 2022 and 73 in 2023). In addition, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) waived RMDs for 2020.

Withdrawal activity is lower among younger traditional and Roth IRA investors, likely related to early withdrawal penalties for distributions taken by individuals younger than 59½ (Figure 8.14). Withdrawal activity rises for investors in their sixties (where withdrawals are generally penalty free) and increases substantially for traditional IRA investors at the RMD age (72 in 2022). The withdrawal rate does not increase after age 70 for Roth IRA investors, who are not subject to RMDs during the owner's lifetime.

FIGURE 8.14

Roth IRA Investors Rarely Take Withdrawals; Traditional IRA Investors Are Heavily Affected by RMDs

Percentage of IRA investors with withdrawals by type of IRA and investor age, 2022



Note: The samples are 6.6 million traditional IRA investors aged 25 to 90 at year-end 2022 and 4.7 million Roth IRA investors aged 25 to 90 at year-end 2022.

Source: The IRA Investor Database™

The Role of Mutual Funds in Retirement Savings

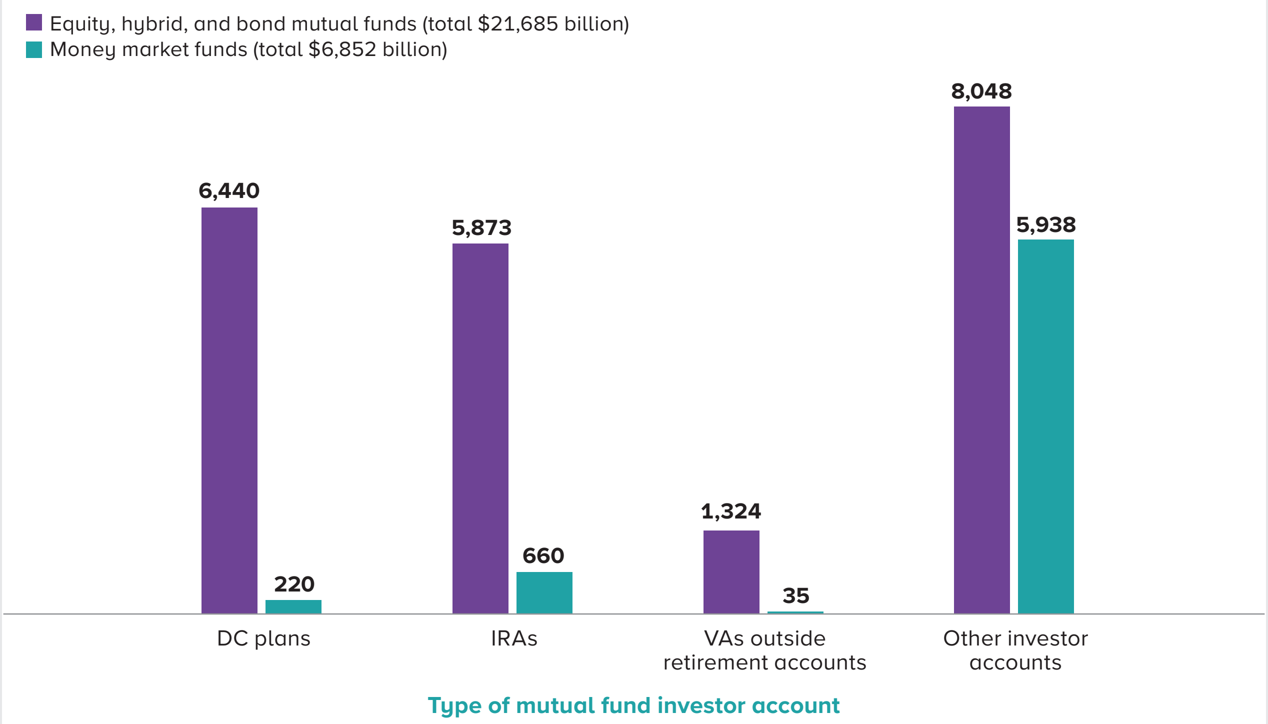
Mutual funds play a major role in employer-sponsored DC plans (such as 401(k) plans) and IRAs. At year-end 2024, mutual funds accounted for 54 percent of DC plan assets and 38 percent of IRA assets (Figures 8.5 and 8.15). Investors held slightly more mutual fund assets in DC plans ($6.7 trillion) than in IRAs ($6.5 trillion) (Figure 8.15).

Mutual fund assets held in DC plans and IRAs represent a large share of mutual fund assets overall, and long-term mutual fund assets in particular (Figure 8.15). The $13.2 trillion in mutual fund retirement assets made up 46 percent of all mutual fund assets at year-end 2024. DC plans and IRAs held 57 percent of equity, hybrid, and bond mutual fund assets, but only 13 percent of money market fund assets. Another $1.3 trillion held in long-term VA mutual funds outside retirement accounts represented another 6 percent of long-term mutual fund assets.

FIGURE 8.15

Substantial Amounts of Retirement Market Assets Are Invested in Long-Term Mutual Funds

Billions of dollars, year-end 2024



Source: Investment Company Institute. See Investment Company Institute, “The US Retirement Market, Fourth Quarter 2024.”

Mutual Funds Also Play a Role in Education Savings

Thirteen percent of households that owned mutual funds in 2024 cited education as a financial goal for their fund investments (see Figure 7.2), and 15 percent of mutual fund–owning households have 529 plans. Nevertheless, the demand for education savings vehicles has been moderate since their introduction in the 1990s, partly because of their limited availability and partly due to investors' lack of familiarity with them. The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) enhanced the attractiveness of two education savings vehicles—Section 529 plans and Coverdell education savings accounts (ESAs)—by making them more flexible and allowing larger contributions. The 2006 Pension Protection Act (PPA) made the EGTRRA enhancements permanent. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 extended the EGTRRA enhancements to Coverdell ESAs for two years; the American Taxpayer Relief Act of 2012 made these enhancements permanent. The Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act) expanded the types of education costs that are covered by 529 plans. The SECURE 2.0 Act of 2022 allowed Roth IRA rollovers of a limited amount of 529 plan assets starting in 2024.

Assets in Section 529 savings plans were $500.6 billion as of year-end 2024, up 12.1 percent from year-end 2023. As of year-end 2024, there were 16.1 million 529 savings plan accounts, with an average account size of approximately $31,100.

Households Saving for College Tend to Be Younger

In 2024, as a group, households saving for college through 529 plans, Coverdell ESAs, or mutual funds or ETFs held outside these accounts tended to be younger—about half (52 percent) were younger than 45 (Figure 8.16). Households saving for college had a range of educational attainment levels. Sixty-three percent had completed college, 19 percent had an associate's degree or some college experience, and 18 percent had a high school diploma or less. These households also represented a range of incomes, with 35 percent of households saving for college having household income of less than $100,000. Finally, these households typically had children (younger than 18) in the home.

LEARN MORE

529 Plan Program Statistics
www.ici.org/research/stats/529s

FIGURE
8.16

Characteristics of Households Saving for College

Percentage of US households saving for college,[1] 2024

Age of household survey respondent	
Younger than 35	25
35 to 44	27
45 to 54	23
55 to 64	11
65 or older	14
Education level of household survey respondent	
High school diploma or less	18
Associate’s degree or some college	19
Completed college	35
Completed graduate school	28
Household income[2]	
Less than $50,000	16
$50,000 to $99,999	19
$100,000 to $149,999	19
$150,000 to $199,999	16
$200,000 or more	30
Number of children in home[3]	
None	44
One	23
Two	22
Three or more	11

[1] Households saving for college are households that own education savings plans (Coverdell ESAs or 529 plans) or that said paying for education was one of their financial goals for their mutual funds or ETFs.

[2] Total reported is household income before taxes in 2023.

[3] The number of children reported is children younger than 18 living in the home.

Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey

APPENDIX A

How US-Registered Investment Companies Operate and the Core Principles Underlying Their Regulation

IN THIS CHAPTER

123 The Origins of Pooled Investing

124 Four Principal Securities Laws Govern Investment Companies

125 The Types of US Investment Companies

126 The Organization of a Mutual Fund

131 Tax Features of Mutual Funds

136 Core Principles Underlying the Regulation of US Investment Companies

The Origins of Pooled Investing

The investment company concept dates to the late 1700s in Europe, according to K. Geert Rouwenhorst in *The Origins of Mutual Funds*, when "a Dutch merchant and broker…invited subscriptions from investors to form a trust…to provide an opportunity to diversify for small investors with limited means."

The emergence of "investment pooling" in England in the 1800s brought the concept closer to US shores. In 1868, the Foreign and Colonial Government Trust formed in London. This trust resembled the US fund model in basic structure, providing "the investor of moderate means the same advantages as the large capitalists…by spreading the investment over a number of different stocks."

Perhaps more importantly, the British fund model established a direct link with US securities markets, helping to finance the development of the post–Civil War US economy. The Scottish American Investment Trust, formed on February 1, 1873, by fund pioneer Robert Fleming, invested in the economic potential of the United States, chiefly through American railroad bonds. Many other trusts followed that not only targeted investment in America, but also led to the introduction of the fund investing concept on US shores in the late 1800s and early 1900s.

The first mutual, or open-end, fund was introduced in Boston in March 1924. The Massachusetts Investors Trust introduced important innovations to the investment company concept by establishing a simplified capital structure, continuous offering of shares, the ability to redeem shares rather than hold them until dissolution of the fund, and a set of clear investment restrictions and policies.

The stock market crash of 1929 and the Great Depression that followed hampered the growth of pooled investments until a succession of landmark securities laws—beginning with the Securities Act of 1933 and concluding with the Investment Company Act of 1940—reinvigorated investor confidence. Renewed investor confidence and many innovations led to relatively steady growth in industry assets and the number of accounts.

Four Principal Securities Laws Govern Investment Companies

The Investment Company Act of 1940	Regulates the structure and operations of investment companies through a combination of registration and disclosure requirements and restrictions on day-to-day operations. The Investment Company Act generally requires the registration of all investment companies with more than 100 investors. Among other things, the act addresses investment company capital structures, custody of assets, investment activities (particularly with respect to transactions with affiliates and other transactions involving potential conflicts of interest), and the duties of fund boards.
The Investment Advisers Act of 1940	Regulates investment advisers. The Advisers Act requires all advisers to registered investment companies and other large advisers to register with the Securities and Exchange Commission (SEC). The act also contains provisions requiring fund advisers to meet recordkeeping, custodial, reporting, and other regulatory responsibilities.
The Securities Exchange Act of 1934	Regulates the trading, purchase, and sale of securities, including investment company shares. The 1934 Act also regulates broker-dealers, including investment company principal underwriters and others that sell investment company shares, and requires them to register with the SEC. In 1938, the act was revised to add Section 15A, which authorized the SEC to create self-regulatory organizations. Pursuant to this authority, in 1939 a self-regulatory organization for broker-dealers—which is now known as the Financial Industry Regulatory Authority (FINRA)—was created. Through its rules, inspections, and enforcement activities, FINRA, with oversight by the SEC, continues to regulate the conduct of broker-dealers, thereby adding another layer of protection for investors.
The Securities Act of 1933	Requires the registration of public offerings of securities—including investment company shares—and regulates such offerings. The 1933 Act also requires that all investors receive a current prospectus describing the fund.

The Types of US Investment Companies

Fund sponsors in the United States offer four main types of registered investment companies: mutual funds, closed-end funds (CEFs), exchange-traded funds (ETFs), and unit investment trusts (UITs).

The majority of investment company assets are held in mutual funds. Mutual funds can have actively managed portfolios, in which a professional investment adviser creates a unique mix of investments to meet a particular investment objective, or passively managed portfolios, in which the adviser seeks to track the performance of a selected benchmark or index. One hallmark of mutual funds is that they issue redeemable securities, meaning that the fund stands ready to buy back its shares at their next computed net asset value (NAV). The NAV is calculated by dividing the total market value of the fund's assets, minus its liabilities, by the number of mutual fund shares outstanding.

Money market funds are one type of mutual fund. They offer investors a variety of features, including liquidity, a market-based rate of return, and the goal of returning principal, all at a reasonable cost. These funds, which are typically publicly offered to all types of investors, are registered investment companies that are regulated by the Securities and Exchange Commission (SEC) under US federal securities laws, including Rule 2a-7 under the Investment Company Act. That rule contains numerous risk-limiting conditions concerning portfolio maturity, quality, diversification, and liquidity.* Since October 2016, institutional prime money market funds (funds that primarily invest in corporate debt securities) and institutional municipal money market funds maintain a floating NAV for transactions based on the current market value of the securities in their portfolios. Government money market funds and retail money market funds (funds designed to limit all beneficial owners of the funds to natural persons) are allowed to use the amortized cost method of pricing or penny rounding—or both—to seek to maintain a stable share price. Money market funds' boards of directors also have the ability to impose liquidity fees in certain circumstances.†

Unlike mutual funds, CEFs do not issue redeemable shares. Historically, the vast majority of CEFs have been "listed" CEFs—investment companies that issue a fixed number of common shares in an initial public offering (IPO) that are publicly traded on an exchange or in the over-the-counter market, like traditional stocks. Once issued, shareholders may not redeem those shares directly to the fund (though some CEFs may repurchase shares through stock repurchase programs or through a tender for shares). Investors in listed CEFs buy or sell shares through a broker, just as they would trade the shares of any publicly traded company. Subsequent issuance of common shares generally only occurs through secondary or follow-on offerings, at-the-market offerings, rights offerings, or dividend reinvestments.

There are also "unlisted" CEFs, which have recently seen steady asset growth. Unlisted CEFs are not listed on an exchange but are sold publicly to retail investors, mainly through intermediaries, or to certain qualified investors through private placement offerings. Unlike listed CEFs, unlisted CEFs do not issue a fixed number of shares but are permitted to continuously offer their shares at net asset value (NAV) following their IPO. As they are not traded on an exchange, unlisted CEFs engage in scheduled repurchases or tender offers for a certain percentage of the CEF's shares to allow shareholders to exit the fund. The ability of a shareholder to exit the CEF is dependent on the timing of the scheduled repurchase or tender offer and whether the repurchase or tender is "over-subscribed." For more information on CEFs, see chapter 5.

* On July 15, 2023, the SEC adopted a number of amendments to Rule 2a-7.

† Institutional prime and institutional tax-exempt money market funds are required to impose liquidity fees in certain circumstances.

ETFs are a hybrid of investment companies. They are structured and legally classified as open-end management investment companies or UITs (discussed below) but trade intraday on stock exchanges like listed CEFs. ETFs only buy and sell fund shares directly with authorized participants in large blocks, often 50,000 shares or more. For more information on ETFs, see chapter 4.

UITs are also a hybrid, with some characteristics of mutual funds and some of CEFs. Like listed CEFs, UITs historically issued only a specific, fixed number of shares, called units. Like mutual funds, the units are redeemable; but unlike mutual funds, generally the UIT sponsor will maintain a secondary market in the units so that redemptions do not deplete the UIT's assets. A UIT does not actively trade its investment portfolio—instead it buys and holds a set of particular investments until a set termination date, at which time the trust is dissolved and proceeds are paid to shareholders. For more information, see chapter 2.

The Organization of a Mutual Fund

A mutual fund typically is organized under state law either as a corporation or a business trust (sometimes called a statutory trust). The three most popular forms of organization are Massachusetts business trusts, Maryland corporations, and Delaware statutory trusts (Figure A.1).*

Historically, Massachusetts business trusts were the most popular—in part because the very first mutual fund was formed as a Massachusetts business trust. This was a common form of organization at the time for pools that invested in real estate or public utilities, and it provided a model for others to follow. Developments in the late 1980s gave asset management companies other attractive choices, and since then, the percentage of funds organized as Massachusetts business trusts has declined as more and more funds have formed as Maryland corporations and Delaware statutory trusts. For example, in 1987, Maryland revised its law to align it with interpretations of the Investment Company Act concerning when funds are required to hold annual meetings. As a result, Maryland corporations became more competitive with the Massachusetts business trust as a form of organization for mutual funds. In 1988, Delaware—already a popular domicile for US corporations—adopted new statutory provisions devoted specifically to business trusts (since renamed statutory trusts). Benefits, such as management of the trust and limited liability afforded to the trust's beneficial owners, have led to Delaware statutory trusts being the most favored form of mutual fund organization.

Mutual funds have officers and directors (if the fund is a corporation) or trustees (if the fund is a business trust).† The fund's board plays an important role in overseeing fund operations, described in more detail on page 139.

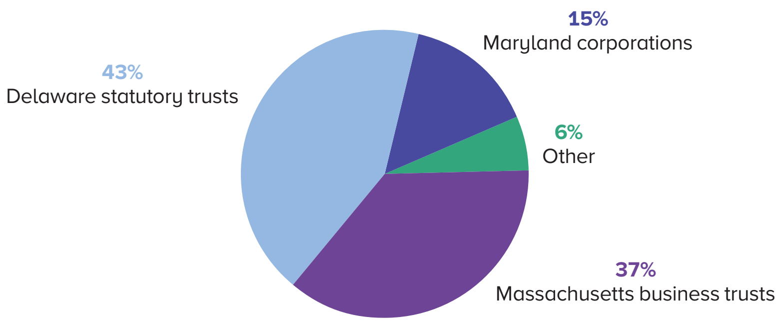
* At year-end 2024, 6 percent of mutual funds chose other forms of organization, such as limited liability partnerships, or other domiciles, such as Ohio or Minnesota.

† For ease of reference, this appendix refers to all directors and trustees as *directors* and all boards as *boards of directors*.

FIGURE A.1

The Most Popular Forms of Mutual Fund Organization

Percentage of funds, year-end 2024

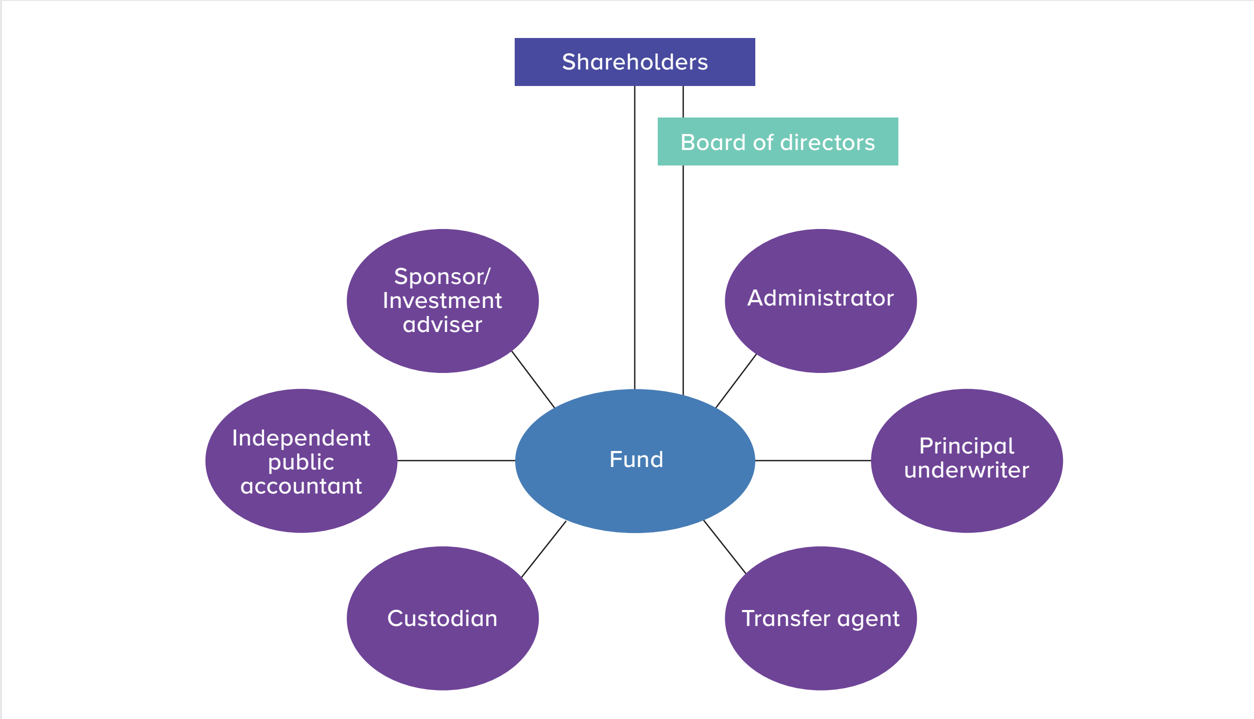


Number of funds: 8,653

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.

Unlike other companies, a mutual fund is typically externally managed; it is not an operating company and has no employees in the traditional sense. Instead, a fund relies upon third parties or service providers—either affiliated organizations or independent contractors—to invest fund assets and carry out other business activities. Figure A.2 shows the primary types of service providers funds usually rely upon.

FIGURE A.2 **Organization of a Mutual Fund**



Although it typically has no employees, a fund is required by law to have written compliance policies and procedures that govern the operations of the fund and the fund's administrator, investment adviser, transfer agent, and principal underwriter, and that are reasonably designed to ensure the fund's compliance with the federal securities laws. All funds must also have a chief compliance officer (CCO), whose appointment must be approved by the fund's board and who must annually produce a report for the board regarding the adequacy of the fund's compliance policies and procedures, the effectiveness of their implementation, and any material compliance matters that have arisen.

Fund Boards

A fund board represents the interests of the fund's shareholders by overseeing the management and operations of the fund, including the fund's contractual arrangements with its service providers. For more information on fund boards, see page 139.

Shareholders

Like shareholders of other companies, mutual fund shareholders have specific voting rights. These include the right to elect directors at meetings called for that purpose and the right to approve material changes in the terms of a fund's contract with its investment adviser, the entity that manages the fund's assets. For example, a fund's management fee cannot be increased unless a majority of shareholders vote to approve the increase.

Sponsors

Setting up a mutual fund is a complicated process performed by the fund's sponsor, which is typically the fund's investment adviser. The fund sponsor has a variety of responsibilities. For example, it must assemble the group of third parties needed to launch the fund, including the persons or entities charged with managing and operating the fund. The sponsor provides officers and affiliated directors to oversee the fund and recruits unaffiliated persons to serve as independent directors.

Some of the major steps in the process of starting a mutual fund include organizing the fund under state law, registering the fund with the SEC as an investment company pursuant to the Investment Company Act, and registering the offering of fund shares for sale to the public pursuant to the Securities Act of 1933.* Unless the sales of shares in a particular state qualify for an exemption, the fund also must make filings and pay fees to those states in which the fund's shares will be offered to the public. The Investment Company Act also requires that each new fund have at least $100,000 of seed capital before distributing its shares to the public; this capital is usually contributed by the sponsor or adviser in the form of an initial investment.

Advisers

Investment advisers have overall responsibility for directing the fund's investments and handling its business affairs. The investment advisers have their own employees, including investment professionals who work on behalf of the fund's shareholders and determine which securities to buy and sell in the fund's portfolio, consistent with the fund's investment objectives and policies. In addition to managing the fund's portfolio, the adviser often serves as administrator to the fund, providing various "back-office" services. As noted earlier, a fund's investment adviser is often the fund's initial sponsor and its initial shareholder through the seed money invested to create the fund.

To protect investors, a fund's investment adviser and the adviser's employees are subject to numerous standards and legal restrictions, including restrictions on transactions that may pose conflicts of interest. Like a mutual fund, investment advisers are required to have their own written compliance programs that are overseen by CCOs and establish detailed procedures and internal controls designed to ensure compliance with all relevant laws and regulations.

Administrators

A fund's administrator handles the many back-office functions for a fund. For example, administrators often provide office space, clerical and fund accounting services, data processing, bookkeeping, and internal auditing; they also may prepare and file SEC, tax, shareholder, and other reports. Fund administrators also help maintain compliance procedures and internal controls, subject to oversight by the fund's board and CCO.

Principal Underwriters

Investors buy and redeem fund shares either directly through a fund's transfer agent or indirectly through a broker-dealer that is authorized to sell fund shares. In order to offer a particular fund's shares, however, a broker-dealer must have a sales agreement with the fund. The role of a fund's principal underwriter is

* For more information on the requirements for the initial registration of a mutual fund, see the SEC's Investment Company Registration and Regulation Package, available at www.sec.gov/divisions/investment/invcoreg121504.htm.

to act as the agent for the fund in executing sales agreements that authorize broker-dealers to offer for sale and sell fund shares. Though principal underwriters must register under the Securities Exchange Act of 1934 as broker-dealers, they (1) do not operate as full-service broker-dealers, (2) typically are not involved in offering or selling fund shares to retail investors, and (3) do not establish or maintain accounts for retail investors.

Transfer Agents

Mutual funds and their shareholders rely on the services of transfer agents to maintain records of shareholder accounts; calculate and distribute dividends and capital gains; and prepare and mail shareholder account statements, federal income tax information, and other shareholder notices. Some transfer agents also prepare and mail statements confirming shareholder transactions and account balances. Additionally, they may maintain customer service departments, including call centers, to respond to shareholder inquiries.

Auditors

Auditors certify the fund's financial statements. The auditors' oversight role is described more fully on page 140.

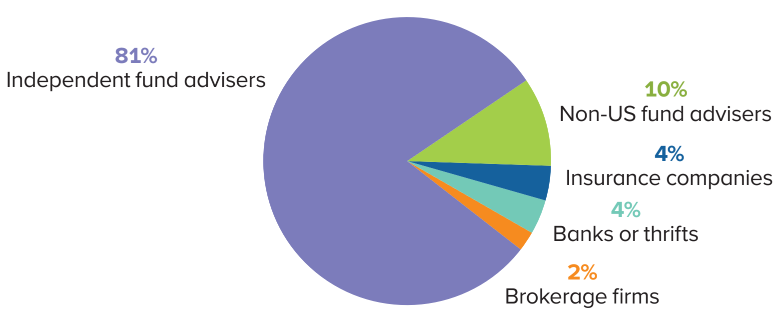
Types of Mutual Fund Complexes

A variety of financial services companies offer registered funds in the United States. At year-end 2024, 81 percent of investment company complexes were independent fund advisers (Figure A.3), managing 70 percent of investment company assets. Other types of investment company complexes in the US market include non-US fund advisers, insurance companies, banks, thrifts, and brokerage firm.

FIGURE A.3

81 Percent of Fund Complexes Were Independent Fund Advisers

Percentage of investment company complexes by type of intermediary, year-end 2024



Tax Features of Mutual Funds

Mutual funds are subject to special tax rules set forth in subchapter M of the Internal Revenue Code. Unlike most corporations, mutual funds are not subject to taxation on their income or capital gains at the entity level, provided that they meet certain gross income and asset requirements and distribute their income annually.

To qualify as a regulated investment company (RIC) under subchapter M, at least 90 percent of a mutual fund's gross income must be derived from certain sources, including dividends, interest, payments with respect to securities loans, and gains from the sale or other disposition of stock, securities, or foreign currencies. In addition, at the close of each quarter of the fund's taxable year, at least 50 percent of the value of the fund's total net assets must consist of cash, cash items, government securities, securities of other funds, and investments in other securities that, with respect to any one issuer, represent neither more than 5 percent of the assets of the fund nor more than 10 percent of the voting securities of the issuer. Further, no more than 25 percent of the fund's assets may be invested in the securities of any one issuer (other than government securities or the securities of other funds), the securities (other than the securities of other funds) of two or more issuers that the fund controls and that are engaged in similar trades or businesses, or the securities of one or more qualified publicly traded partnerships.

If a mutual fund satisfies the gross income and asset tests and thus qualifies as a RIC, the fund is eligible for the tax treatment provided by subchapter M, including the ability to deduct from its taxable income the dividends it pays to shareholders, provided that the RIC distributes at least 90 percent of its income (other than net capital gains) each year. A RIC may retain up to 10 percent of its income and all capital gains, but the retained income and capital gains are taxed at regular corporate tax rates. Therefore, mutual funds generally distribute all, or nearly all, of their income and capital gains each year.

The Internal Revenue Code also imposes an excise tax on RICs, unless a RIC distributes by December 31 at least 98 percent of its ordinary income earned during the calendar year, 98.2 percent of its net capital gains earned during the 12-month period ending on October 31 of the calendar year, and 100 percent of any previously undistributed amounts. Mutual funds typically seek to avoid this charge—imposed at a 4 percent rate on the under-distributed amount—by making the required minimum distribution each year.

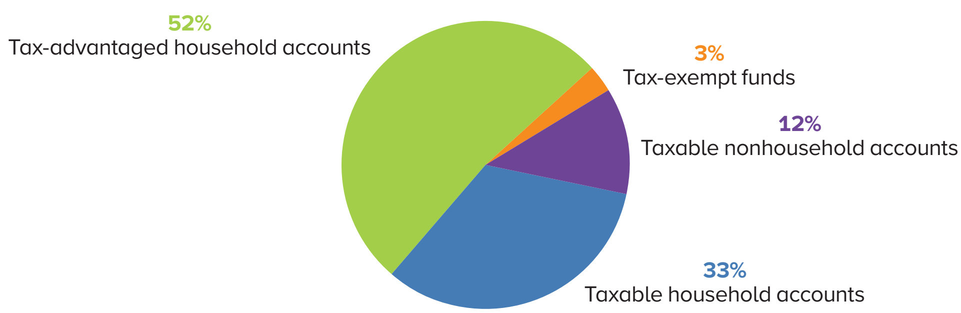
Mutual Fund Assets by Tax Status

Fund investors are responsible for paying tax on the amount of a fund's earnings and gains distributed to them, whether they receive the distributions in cash or reinvest them in additional fund shares. Investors often attempt to lessen the impact of taxes on their investments by investing in tax-exempt funds and tax-advantaged retirement accounts and variable annuities. As of year-end 2024, 3 percent of all mutual fund assets were held in tax-exempt funds and 52 percent were invested in tax-advantaged accounts held by households (Figure A.4).

FIGURE A.4

The Majority of Mutual Fund Total Net Assets Were Held in Tax-Advantaged Accounts and Tax-Exempt Funds

Percentage of total net assets, year-end 2024



Mutual fund total net assets: $28.5 trillion

Types of Distributions

Mutual funds make two types of taxable distributions to shareholders: ordinary dividends and capital gains.

Ordinary dividend distributions come primarily from the interest and dividends earned by the securities in a fund's portfolio and net short-term gains, if any, after expenses are paid by the fund. These distributions must be reported as dividends on a US investor's tax return and are taxed at the investor's ordinary income tax rate, unless they are qualified dividends. Qualified dividend income is taxed at a maximum rate of 20 percent. Some dividends paid by mutual funds may qualify for these lower top tax rates. Long-term capital gains distributions represent a fund's net gains, if any, from the sale of securities held in its portfolio for more than one year. Long-term capital gains are taxed at a maximum rate of 20 percent.

Certain high-income individuals also are subject to a 3.8 percent tax on net investment income (NII). The tax on NII applies to interest, dividends, and net capital gains, including those received from a mutual fund.

Non-US investors may be subject to US withholding and estate taxes and certain US tax reporting requirements on investments in US funds. Amounts distributed to non-US investors that are designated as interest-related dividends or dividends deriving from capital gains will generally be eligible for exemption from US withholding tax. Other distributions that are treated as ordinary dividends will generally be subject to US withholding tax (at a 30 percent rate or lower treaty rate).

To help mutual fund shareholders understand the impact of taxes on the returns generated by their investments, the SEC requires mutual funds to disclose standardized after-tax returns for one-, five-, and 10-year periods. After-tax returns, which accompany before-tax returns in fund prospectuses, are presented in two ways:

- After taxes on fund distributions only (preliquidation)
- After taxes on fund distributions and an assumed redemption of fund shares (postliquidation)

Types of Taxable Shareholder Transactions

An investor who sells mutual fund shares usually incurs a capital gain or loss in the year the shares are sold; an exchange of shares between funds in the same fund family also usually results in either a capital gain or loss. Investors are liable for tax on any capital gain arising from the sale of fund shares, just as they would be if they sold a stock, bond, or other security. Capital losses from mutual fund share sales and exchanges, like capital losses from other investments, may be used to offset other capital gains in the current year and thereafter. In addition, up to $3,000 of capital losses in excess of capital gains ($1,500 for a married individual filing a separate return) may be used to offset ordinary income. The amount of a shareholder’s gain or loss on fund shares is determined by the difference between the cost basis of the shares (generally, the purchase price—including sales loads—of the shares, whether acquired with cash or reinvested dividends) and the sale price. Tax rules enacted in 2012 require all brokers and funds to provide cost basis information to shareholders, as well as to indicate whether any gains or losses are long-term or short-term, for fund shares acquired beginning in 2012. For shares acquired before 2012, many funds have voluntarily been providing cost basis information to shareholders or computing gains and losses for shares sold.

Tax-Exempt Funds

Tax-exempt bond funds distribute amounts attributable to municipal bond interest. These “exempt-interest dividends” are exempt from federal income tax and, in some cases, state and local taxes. Tax-exempt money market funds invest in short-term municipal securities or equivalent instruments and also pay exempt-interest dividends. Even though income from these funds generally is tax-exempt, investors must report it on their income tax returns. Tax-exempt funds provide investors with this information and typically explain how to handle exempt-interest dividends on a state-by-state basis. For some taxpayers, portions of income earned by tax-exempt funds also may be subject to the federal alternative minimum tax.

Mutual Fund Ordinary Dividend Distributions

Ordinary dividend distributions represent income—primarily from interest and dividends earned by securities in a fund's portfolio—after expenses are paid by the fund. Mutual funds distributed $743 billion in dividends to fund shareholders in 2024 (Figure A.5). Bond and money market funds accounted for 69 percent of all dividend distributions in 2024. Overall, 37 percent of dividend distributions were paid to tax-advantaged household accounts and tax-exempt fund shareholders. Another 47 percent were paid to taxable household accounts.

FIGURE A.5

Dividend Distributions

Billions of dollars

Year	Tax-advantaged household accounts and tax-exempt funds	Taxable household accounts	Taxable nonhousehold accounts	Total
2000	$75	$87	$25	$186
2005	84	61	21	166
2010	112	64	12	188
2015	140	93	17	250
2020	158	124	23	305
2021	164	133	20	317
2022	187	162	30	379
2023	240	290	102	632
2024	274	351	118	743

Mutual Fund Capital Gains Distributions

Capital gains distributions represent a fund's net gains, if any, from the sale of securities held in its portfolio. When gains from these sales exceed losses, they are distributed to fund shareholders. Mutual funds distributed $540 billion in capital gains to shareholders in 2024—63 percent of these distributions were paid to tax-advantaged household accounts, and 32 percent were paid to taxable household accounts and tax-exempt fund shareholders (Figure A.6). Equity mutual funds typically represent the bulk of capital gains distributions. In 2024, 57 percent of equity mutual fund share classes made a capital gains distribution, and 84 percent of these share classes distributed more than 2.0 percent of their assets as capital gains.

FIGURE A.6

Capital Gains Distributions

Billions of dollars

Year	Tax-advantaged household accounts	Taxable household accounts and tax-exempt funds	Taxable nonhousehold accounts	Total
2000	$194	$119	$13	$326
2005	78	44	8	129
2010	22	18	3	43
2015	251	113	15	379
2020	225	124	17	367
2021	504	278	40	822
2022	268	111	15	394
2023	164	73	9	245
2024*	342	175	23	540

* In 2024, tax-exempt funds distributed less than $30 million in capital gains.

Note: Only the net gains from the sale of a fund's assets held for more than one year (long-term capital gain distributions) are taxed as capital gains. Net short-term gains are taxed as ordinary dividend distributions. Data presented here on capital gains distributions include both long-term and short-term capital gains.

Core Principles Underlying the Regulation of US Investment Companies

Embedded in the structure and regulation of mutual funds and other registered investment companies are several core principles that provide important protections for shareholders.

Transparency

Funds are subject to more extensive disclosure requirements than any other comparable financial product, such as hedge funds and other private pools. The cornerstone of the disclosure regime for mutual funds and ETFs is the prospectus.* Mutual funds and ETFs are required to maintain a current prospectus, which provides investors with information about the fund, including its investment objectives, investment strategies, risks, fees and expenses, and performance, as well as how to purchase, redeem, and exchange fund shares. Importantly, the key parts of this disclosure, with respect to performance information and fees and expenses, are standardized to facilitate comparisons by investors. Mutual funds and ETFs may provide investors with a summary prospectus containing key information about the fund while making more information available online and by mail upon request.

Mutual funds and ETFs are also required to make statements of additional information (SAIs) available to investors upon request and without charge. The SAI conveys information about the fund that, though useful to some investors, is not necessarily needed to make an informed investment decision. For example, the SAI generally includes information about the history of the fund, offers detailed disclosures on certain investment policies (such as borrowing and concentration policies), and lists officers, directors, and other persons who control the fund.

The prospectus, SAI, and certain other required information are contained in the fund's registration statement, which is filed electronically with the SEC and is publicly available via the SEC's Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system. Mutual fund and ETF registration statements are amended at least once a year to ensure that financial statements and other information do not become stale.† These funds also amend registration statements throughout the year as necessary to reflect material changes to their disclosures. In addition to the registration statement disclosure, funds provide shareholders with several other disclosure documents.

Funds must transmit annual and semiannual shareholder reports within 60 days after the end and the midpoint of the fund's fiscal year, respectively. For mutual funds and most ETFs, these shareholder reports are condensed to highlight key information, including cost and performance information, key fund statistics, and a graphical presentation of holdings. In addition, those funds must post their full financial statements and a list of the fund's full portfolio securities on an easily accessible online site that the fund operates, which must be delivered to shareholders upon request. An independent accountant must audit

* CEFs and UITs also provide investors with extensive disclosures, but under a slightly different regime that reflects the way shares of these funds trade. Both CEFs and UITs file an initial registration statement with the SEC containing a prospectus and other information related to the initial offering of their shares to the public.

† Section 10(a)(3) of the Securities Act of 1933 prohibits investment companies that make a continuous offering of shares from using a registration statement with financial information that is more than 16 months old. This gives mutual funds and ETFs four months after the end of their fiscal year to amend their registration statements.

the fund's annual financial statements. The annual shareholder report for non–money market mutual funds and most ETFs must also provide management's discussion of fund performance (MDFP), briefly describing the key factors that affected the fund's performance, including relevant market conditions and investment strategies and techniques used by the fund's investment adviser.*

Most funds (mutual funds, ETFs and CEFs) are also required to file Form N-PORT with the SEC. Form N-PORT must include a complete list of the fund's portfolio securities in a structured data format along with other information, including flows, returns, securities lending information, and—for funds investing more than a specified amount in fixed-income securities—portfolio-level risk metrics. Funds must file Form N-PORT for each month during the year; however, only the filing relating to the third month of each fiscal quarter is made publicly available. These requirements cause funds to publicly disclose their portfolio holdings at least four times each fiscal year.†

Funds must also file census-type information annually on Form N-CEN and must annually disclose how they voted on specific proxy issues at portfolio companies on Form N-PX. Funds are the only shareholders required to publicly disclose each and every proxy vote they cast. They are not required to mail Form N-PORT, Form N-CEN, or Form N-PX to shareholders, but the forms are publicly available via the SEC's EDGAR database.‡

The combination of prospectuses, SAIs, annual and semiannual shareholder reports, Form N-PORT, Form N-CEN, and Form N-PX provides the investing public, regulators, media, and other interested parties with far more information on funds than is available for other types of investments. This information is easily and readily available from most funds and the SEC. It is also available from private-sector vendors, such as Morningstar, that compile publicly available information on funds in ways that might benefit investors.

Daily Valuation and Liquidity

Nearly all funds offer shareholders liquidity and market-based valuation of their investments at least daily. ETFs and listed CEF shares are traded intraday on stock exchanges at market-determined prices, giving shareholders real-time liquidity and pricing. Unlisted CEFs engage in scheduled repurchases or tender offers for a certain percentage of the CEF's shares to allow shareholders to exit the fund and are required to price the current market value of the fund's portfolio investments in connection with the repurchase or tender or when offering its shares. Mutual fund shares are redeemable daily at a price that reflects the current market value of the fund's portfolio investments. The value of each portfolio investment is determined either by a market quotation, if one is readily available, or at fair value (i.e., an estimate of the amount for which the investment could be sold in a current transaction). Under the SEC's fair value rule, fair value for applicable portfolio investments may be determined by the fund's board or its investment adviser (subject to continued oversight by the fund's board).

* CEFs must transmit more fulsome annual and semi-annual reports within 60 days after the end and midpoint of the fund's fiscal year, respectively. These reports contain performance and expense information, financial statements, and a list of the fund's securities. CEFs must also include audited financial statements and an MDFP describing the factors that affected the fund's performance, including relevant market conditions and investment strategies and techniques used by the fund' investment adviser in their annual shareholder reports.

† The SEC recently adopted amendments that will make each Form N-PORT filing public 60 days after the end of each month. The amendments will cause funds to publicly disclose their portfolio holdings at least twelve times each fiscal year and will take effect on November 17, 2025. Money market funds, which already must file portfolio holdings with the SEC monthly on Form N-MFP and disclose those holdings on their websites, are not required to file Form N-PORT.

‡ Again, until November 17, 2025, only the Form N-PORT filing relating to the third month of the fiscal quarter is made publicly available.

The daily pricing process is a critically important core function that involves numerous staff of the investment adviser and other entities (e.g., pricing vendors). The fair valuation process, a part of the overall pricing process, receives particular scrutiny from funds, their advisers, and their boards of directors, as well as regulators and independent auditors. Under SEC rules, all funds must adopt written fair valuation policies and procedures and establish and apply methodologies for determining fair values in particular instances.* Those methodologies must be consistent with US generally accepted accounting principles (GAAP).

This daily valuation process results in a NAV for the fund. The per share NAV is the price used for all mutual fund share transactions occurring that day—new purchases, sales (redemptions), and exchanges from one fund to another within the same fund family.† It represents the current mark-to-market value of all the fund's assets, minus liabilities (e.g., accrued fund expenses payable), divided by the total number of outstanding shares. Mutual funds release their daily NAVs to investors and others after they complete the pricing process, generally around 6:00 p.m. eastern time. Daily fund prices are available through fund toll-free telephone services, websites, and other means.

The Investment Company Act requires mutual funds to process transactions based upon "forward pricing," meaning that shareholders receive the next computed NAV following the fund's (or an intermediary's) receipt of their transaction orders. For example, for a fund that prices its shares as of 4:00 p.m.,‡ orders received before 4:00 p.m. receive the NAV determined that same day as of 4:00 p.m. Orders received after 4:00 p.m. receive the NAV determined as of 4:00 p.m. on the next business day. Forward pricing is an important protection for mutual fund shareholders. It is designed to minimize the ability of shareholders to take advantage of fluctuations in the prices of a fund's portfolio investments that occur after the fund has last calculated its NAV.

When a shareholder redeems shares in a mutual fund, he or she can expect to be paid promptly. Mutual funds may not suspend redemptions of their shares (subject to certain narrow exceptions)§ or delay payments of redemption proceeds for more than seven days.

* For more information on the valuation process, see ICI's *Fund Valuation Under the SEC's New Fair Value Rule* (December 2021), available at **www.ici.org/files/2021/21-ppr-fund-valuation-primer.pdf**.

† The pricing process is also critical for ETFs, although for slightly different reasons. ETFs operate like mutual funds with respect to transactions with authorized participants that trade with the ETF in large blocks, often of 50,000 shares or more. The NAV is the price used for these large transactions. Listed CEFs are not required to strike a daily NAV, but most do so to provide the market with the ability to calculate the difference between the fund's market price and its NAV. That difference is called the fund's premium (if the market price is greater than the NAV) or discount (if the market price is less than the NAV). Although an unlisted CEF is only required to price when offering shares or engaging is a repurchase or tender, many price daily (and are required to do so if continuously offered).

‡ Mutual funds and ETFs must price their shares at least once every business day as of a time determined by the fund's board. Many of these funds price as of 4:00 p.m. eastern time or when the New York Stock Exchange closes.

§ Section 22(e) of the Investment Company Act prohibits mutual funds and ETFs from suspending redemptions unless the SEC permits them to do so or declares an emergency, or the New York Stock Exchange closes or restricts trading. These occurrences are relatively rare, although funds have suspended redemptions on several occasions, such as during Hurricane Sandy in 2012.

Under the SEC's liquidity rule, no more than 15 percent of a mutual fund's or ETF's portfolio may be invested in illiquid assets,* in part to ensure that the fund can meet redemption requests. This liquidity rule and its related reporting framework also impose other liquidity-related regulatory obligations on these funds.

Oversight and Accountability

All funds are subject to a strong system of oversight from both internal and external sources. Boards of directors, which include independent directors, and written compliance programs overseen by CCOs (see Compliance and Risk Management Programs on page 140) are examples of internal oversight mechanisms. External oversight is provided by the SEC, FINRA, and external service providers such as certified public accounting firms.

Fund Boards

Mutual funds, CEFs, and ETFs structured as open-end funds have boards. The role of a fund's board of directors is primarily one of oversight. The board of directors typically is not involved in the day-to-day management of the fund company. Instead, day-to-day management is handled by the fund's investment adviser or administrator pursuant to a contract with the fund.

Investment company directors review and approve major contracts with service providers (including, notably, the fund's investment adviser), approve policies and procedures to ensure the fund's compliance with federal securities laws, and undertake oversight and review of the performance of the fund's operations. Directors devote substantial time and consider large amounts of information in fulfilling these duties, in part because they must perform all their duties in "an informed and deliberate manner."

Fund boards must maintain a particular level of independence. The Investment Company Act requires at least 40 percent of the members of a fund board to be independent from fund management. An independent director is a fund director who does not have any significant business relationship with a mutual fund's adviser or underwriter. In practice, most fund boards have far higher percentages of independent directors. As of year-end 2022, independent directors made up at least three-quarters of boards in 89 percent of fund complexes.†

Independent fund directors play a critical role in overseeing fund operations and are entrusted with the primary responsibility for safeguarding the interests of the fund's shareholders. They serve as watchdogs, furnishing an independent check on the management of funds. Like directors of operating companies, they have a fiduciary duty to represent the interests of shareholders. But independent fund directors also have specific statutory and regulatory responsibilities under the Investment Company Act beyond the duties required of other types of directors. Among other things, they oversee the performance of the fund, approve the fees paid to the investment adviser for its services, and oversee the fund's compliance program.

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* Money market funds are held to different liquidity standards. For more information on this topic, see The Types of US Investment Companies on page 125 and www.ici.org/mmfs/history-mmf-rule.

† See *Overview of Fund Governance Practices, 1994–2022* for a description of the study that collects data on this and other governance practices. Available at www.ici.org/files/2023/23-fund-governance-practices.pdf.

Compliance and Risk Management Programs

The board's oversight function was greatly enhanced by rules adopted in 2003 that require every fund and adviser to have a CCO who administers a written compliance program reasonably designed to prevent, detect, and correct violations of the federal securities laws. Compliance programs must be reviewed at least annually for their adequacy and effectiveness, and fund CCOs are required to report directly to the independent directors.

Regulatory Oversight

Internal oversight is accompanied by a number of forms of external oversight and accountability. Funds are subject to inspections, examinations, and enforcement by their primary regulator, the SEC. Fund underwriters and distributors also are overseen by FINRA, a self-regulatory organization. Funds affiliated with a bank may also be overseen by banking regulators. All funds are subject to the antifraud jurisdiction of each state in which the fund's shares are offered for sale or sold.

Auditors

A fund's financial statement disclosure is also subject to several internal and external checks. For example, annual reports include audited financial statements certified by an independent public accounting firm subject to oversight by the Public Company Accounting Oversight Board (PCAOB). This practice ensures that the financial statements are prepared in conformity with GAAP and fairly present the fund's financial position and results of operations.

Sarbanes-Oxley Act

Like officers of public companies, fund officers must make certifications and disclosures required by the Sarbanes-Oxley Act. For example, they have to certify the accuracy of the fund's financial statements.

Additional Regulation of Advisers

In addition to the system of oversight applicable directly to funds, investors enjoy protections through SEC regulation of the investment advisers that manage fund portfolios. All advisers to registered funds are required to register with the SEC and are subject to SEC oversight and disclosure requirements. Advisers also owe a fiduciary duty to each fund they advise, meaning that they have a fundamental legal obligation to act in the best interests of the fund pursuant to a duty of undivided loyalty and utmost good faith.

Limits on Leverage

The inherent nature of a fund—a professionally managed pool of assets owned pro rata by its investors—is straightforward and easily understood by investors. The Investment Company Act fosters simplicity by prohibiting complex capital structures and limiting funds' use of leverage.

The Investment Company Act imposes various requirements on the capital structure of mutual funds, CEFs, and ETFs, including limitations on the issuance of "senior securities" and borrowing. These limitations greatly minimize the possibility that a fund's liabilities will exceed the value of its assets.

Generally speaking, a senior security is any debt that takes priority over the fund's shares, such as a loan or preferred stock. The SEC historically has interpreted the definition of senior security broadly, finding that selling securities short, purchasing securities on margin, and investing in many types of derivative instruments, among other practices, may create senior securities.

The SEC recently modernized its framework governing funds' use of derivatives, permitting mutual funds, CEFs, and ETFs to invest in derivatives if they adopt a derivatives risk management program that a fund's board oversees and comply with an outer-bound limit on fund leverage risk. Funds that limit their derivatives exposure to less than 10 percent of their net assets will not need to comply with the new requirements but will need to adopt and implement written policies and procedures reasonably designed to manage the fund's derivatives risks. The Investment Company Act also limits borrowing. With the exception of certain privately arranged loans and temporary loans, any promissory note or other indebtedness would generally be considered a prohibited senior security.* Mutual funds and ETFs are permitted to borrow from a bank if, immediately after borrowing, the fund's total net assets are at least three times total aggregate borrowings. In other words, the fund must have at least 300 percent asset coverage.

CEFs have a slightly different set of limitations regarding senior securities. They are permitted to issue debt and preferred stock, subject to certain conditions, including asset coverage requirements of 300 percent for debt and 200 percent for preferred stock.

In addition, funds may invest in reverse repurchase agreements and other similar financing transactions if they treat those investments as borrowings subject to the relevant asset coverage requirements applicable to open-end funds (mutual funds or ETFs) or CEFs or if they treat such transactions as derivatives investments.

Many funds voluntarily impose stricter limitations on their ability to issue senior securities or borrow than set forth under the Investment Company Act. Funds often, for example, adopt a policy stating that they will borrow only as a temporary measure for extraordinary or emergency purposes and not to finance investment in securities. In addition, they may disclose that, in any event, borrowings will be limited to a small percentage of fund assets (such as 5 percent). These are meaningful voluntary measures, because under the Investment Company Act, a fund's policies on borrowing money and issuing senior securities cannot be changed without the approval of fund shareholders.

Custody

To protect fund assets, the Investment Company Act requires all funds to maintain strict custody of fund assets, separate from the assets of the adviser. Although the act permits other arrangements,† nearly all funds use a bank custodian for domestic securities. Foreign securities are required to be held in the custody of an international foreign bank or securities depository.

* Temporary loans cannot exceed 5 percent of the fund's total net assets and must be repaid within 60 days.

† The Investment Company Act contains six separate custody rules for the possible types of custody arrangements for mutual funds, CEFs, and ETFs. UITs are subject to a separate rule that requires the use of a bank to maintain custody. See Section 17(f) of the Investment Company Act and SEC Rules 17f-1 through 17f-7.

A fund's custody agreement with a bank is typically far more elaborate than the arrangements used for other bank clients. The custodian's services generally include safekeeping and accounting for the fund's assets, settling securities transactions, receiving dividends and interest, providing foreign exchange services, paying fund expenses, reporting failed trades, reporting cash transactions, monitoring corporate actions at portfolio companies, and tracing loaned securities.

The strict rules on the custody and reconciliation of fund assets are designed to prevent theft and other fraud-based losses. Shareholders are further insulated from these types of losses by a provision in the Investment Company Act that requires all mutual funds to have fidelity bonds designed to protect them against possible instances of employee larceny or embezzlement.

Prohibitions on Transactions with Affiliates

The Investment Company Act contains a number of strong and detailed prohibitions on transactions between the fund and fund insiders or affiliated organizations (such as the corporate parent of the fund's adviser). Many of these prohibitions were part of the original statutory text of the act, enacted in response to instances of overreaching and self-dealing by fund insiders during the 1920s in the purchase and sale of portfolio securities, loans by funds, and investments in related funds. The SEC's Division of Investment Management has said that "for more than 50 years, [the affiliated transaction prohibitions] have played a vital role in protecting the interests of shareholders and in preserving the industry's reputation for integrity; they continue to be among the most important of the act's many protections."*

Although a number of prohibitions in the Investment Company Act relate to affiliated transactions, three are particularly noteworthy:

- General prohibition on direct transactions between a fund and an affiliate
- General prohibition on "joint transactions," where the fund and affiliate are acting together vis-à-vis a third party
- Restrictions preventing investment banks from placing or "dumping" unmarketable securities with an affiliated fund by generally prohibiting the fund from buying securities in an offering syndicated by an affiliated investment bank

* See *Protecting Investors: A Half Century of Investment Company Regulation, Report of the Division of Investment Management, Securities and Exchange Commission* (May 1992), available at **www.sec.gov/divisions/investment/guidance/icreg50-92.pdf**. The Division of Investment Management is the division within the SEC responsible for the regulation of funds.

Diversification

Both tax and securities laws provide diversification standards for funds registered under the Investment Company Act. To qualify as RICs under the tax laws, all mutual funds, CEFs, and ETFs, as well as most UITs, must meet a tax diversification test every quarter. The effect of this test is that a fund with a modest cash position and no government securities would hold securities from at least 12 different issuers. Another tax diversification restriction limits the amount of an issuer's outstanding voting securities that a fund may own.

The securities laws set higher standards for funds that elect to be diversified. If a fund elects to be diversified, the Investment Company Act requires that, with respect to at least 75 percent of the portfolio, no more than 5 percent may be invested in the securities of any one issuer and no investment may represent more than 10 percent of the outstanding voting securities of any issuer. Diversification is not mandatory, but all mutual funds, CEFs, and ETFs must disclose whether or not they are diversified under the act's standards.

In practice, most funds that elect to be diversified are much more highly diversified than they need to be to meet these two tests. As of December 2024, for example, the median number of stocks held by US equity mutual funds was 77.*

* This number—calculated using Morningstar data—is the median among domestic equity mutual funds, excluding sector funds and funds of funds.

APPENDIX B

Significant Events in Fund History

1774	Dutch merchant and broker Adriaan van Ketwich invites subscriptions from investors to form a trust, the Eendragt Maakt Magt, with the aim of providing investment diversification opportunities to investors of limited means.
1868	The Foreign and Colonial Government Trust, the precursor to the US investment fund model, is formed in London. This trust provides “the investor of moderate means the same advantages as large capitalists.”
1924	The first mutual funds are established in Boston.
1933	The Securities Act of 1933 regulates the registration and offering of new securities, including mutual fund and closed-end fund shares, to the public.
1934	The Securities Exchange Act of 1934 authorizes the Securities and Exchange Commission (SEC) to provide for fair and equitable securities markets.
1936	The Revenue Act of 1936 establishes the tax treatment of mutual funds and their shareholders. Closed-end funds were covered by the act in 1942.
1940	The Investment Company Act of 1940 is signed into law, setting the structure and regulatory framework for registered investment companies. The forerunner to the National Association of Investment Companies (NAIC) is formed. The NAIC will become the Investment Company Institute.

1944	The NAIC begins collecting investment company industry statistics.
1951	The total number of mutual funds surpasses 100, and the number of shareholder accounts exceeds one million for the first time. The first mutual fund focusing on non-US investments is made available to US investors.
1954	Households' net purchases of fund shares exceed those of corporate stock. NAIC initiates a nationwide public information program emphasizing the role of investors in the US economy and explaining the concept of investment companies.
1961	The first tax-free unit investment trust is offered. The NAIC changes its name to the Investment Company Institute (ICI) and welcomes fund advisers and underwriters as members.
1962	The Self-Employed Individuals Tax Retirement Act creates savings opportunities (Keogh plans) for self-employed individuals.
1971	Money market funds are introduced.
1974	The Employee Retirement Income Security Act of 1974 (ERISA) creates the individual retirement account (IRA).
1976	The Tax Reform Act of 1976 permits the creation of municipal bond funds. The first retail index fund is offered.
1978	The Revenue Act of 1978 creates new Section 401(k) retirement plans and simplified employee pensions (SEPs).
1981	The Economic Recovery Tax Act establishes "universal" IRAs for all workers. The IRS proposes regulations for Section 401(k).
1986	The Tax Reform Act of 1986 reduces IRA deductibility.
1987	ICI welcomes closed-end funds as members.
1990	Mutual fund assets top $1 trillion.
1993	The first exchange-traded fund (ETF) shares are issued.

1994	Target date (lifecycle) funds are introduced.
1996	Enactment of the National Securities Markets Improvement Act of 1996 (NSMIA) provides a more rational system of state and federal regulation, giving the SEC exclusive jurisdiction for registering and regulating mutual funds, exchange-listed securities, and larger advisers. States retain their antifraud authority and responsibility for regulating non-exchange-listed offerings and smaller advisers. The Small Business Job Protection Act creates SIMPLE plans for employees of small businesses.
1997	The Taxpayer Relief Act of 1997 creates the Roth IRA and eliminates restrictions on portfolio management that disadvantage fund shareholders.
1998	The SEC approves the most significant disclosure reforms in the history of US mutual funds, encompassing "plain English," fund profiles, and improved risk disclosure.
1999	The Gramm-Leach-Bliley Act modernizes financial services regulation and enhances financial privacy.
2001	Enactment of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) significantly expands retirement savings opportunities for millions of working Americans.
2003	The Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) provides mutual fund shareholders with the full benefits of lower tax rates on dividends and capital gains.
2006	The Pension Protection Act (PPA) and the Tax Increase Prevention and Reconciliation Act provide incentives for investors of all ages to save more in tax-advantaged and taxable investment accounts.
2008	The SEC votes to adopt the Summary Prospectus rule. Reserve Primary Fund fails to maintain $1.00 NAV, becoming the second money market fund in 25 years to "break the dollar."
2009	The Money Market Working Group, a task force of senior industry executives, submits its report to the ICI board. The board endorses the working group's call for immediate implementation of new regulatory and oversight standards for money market funds.
2010	The SEC adopts new rules and amendments to regulations governing money market funds. In *Jones v. Harris*, the US Supreme Court unanimously upholds the Gartenberg standard under which courts have long considered claims of excessive fund advisory fees. Enactment of the RIC Modernization Act streamlines and updates technical tax rules, benefiting shareholders by making funds more efficient.

2011	In *Business Roundtable et al. v. SEC*, the United States Court of Appeals for the District of Columbia Circuit vacates the SEC's proxy access rule for failing to adequately evaluate the rule's costs and benefits. ICI launches ICI Global to carry out the Institute's international work by advancing the perspective of regulated investment funds globally.
2014	The SEC adopts sweeping changes to the rules that govern money market funds, building upon the changes to money market fund regulation adopted by the SEC in 2010.
2017	Congress passes the most significant tax bill in three decades. Reflecting congressional support for the voluntary, employer-based retirement system, lawmakers reject proposals to raise revenue by limiting retirement savings tax incentives.
2018	The SEC adopts Rule 30e-3, permitting US-registered funds to deliver shareholder reports online to satisfy their fund disclosure obligations.
2019	The SEC adopts Rule 6c-11, known as the ETF rule, finally enabling most ETFs to operate under the Investment Company Act of 1940 without having to apply for exemptive relief.
2020	The SEC provides relief measures to funds to navigate operational challenges during the COVID-19 pandemic. The SEC adopts Rule 18f-4 and related amendments modernizing regulations governing fund investments in derivatives.
2022	The SEC amends fund shareholder reports, dramatically condensing them to highlight key information for investors to assess and monitor their fund investments. The SEC adopts rules to modernize and enhance proxy voting disclosure by registered investment companies.
2023	The SEC continues its unprecedented pace of new rulemakings in 2023 by adopting various changes to existing rules, including: • Changes to shorten the settlement cycle for securities transactions from two business days (T+2) to one (T+1). • Changes to the rules that govern money market funds, building upon the changes to money market fund regulation adopted by the SEC in 2010 and 2014. • Changes to modernize and enhance the Fund Names rule.
2024	An unprecedented number of Commission rulemakings were subject to legal challenge, including those related to the private funds adviser rule, climate risk disclosure rule, securities loan reporting, short position reporting, Form N-PORT amendments, amendments to the dealer rule, and Regulation NMS amendments. The litigation regarding the private funds adviser rule and the amendments to the dealer rule resulted in both rules being vacated. The rest of the rule litigation is ongoing.

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