

Mutual Fund Costs Continued to Decline in 2005, June 2006

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Average Fees Paid by Investors at Lowest Levels in More Than 25 Years, Latest Research Shows

Washington, DC, June 12, 2006 - The cost of owning mutual fund shares fell again last year, to the lowest levels in more than 25 years, according to updated research published today by the Investment Company Institute, the national association of the American investment company industry.

The 2005 decline in mutual fund fees was driven primarily by continued investor migration to lower-cost funds and by cuts in expense ratios by funds in an intensely competitive market environment, said ICI Senior Economist Sean Collins, author of the report.

“The latest data indicate that vigorous competition among fund providers is clearly benefiting investors,” said Collins. “Fees are obviously an important component of total returns and this study shows that investors are paying attention to them.”

The study, [Fees And Expenses of Mutual Funds, 2005](#), found that last year’s decline in mutual fund fees and expenses continues a trend that has been in place since 1980. The decline since 1980 has been most pronounced among stock and bond funds—where average fees and expenses have dropped by more than 50 percent. The average fees and expenses of money market funds, which are lower than those of stock and bond funds, have fallen about 25 percent since 1980. In 2005, stock fund investors on average paid 113 basis points in fees and expenses, a drop of 4 basis points from 2004. Fees and expenses on bond funds fell to 90 basis points in 2005, a decline of 2 basis points.

The total cost of investing in stock funds fell in 2005 for the third consecutive year.

Other highlights of the study include:

- The vast majority of investors’ assets are in low-cost funds: of the total assets held in stock funds, 90 percent are in funds with below-average expense ratios.
- Investors shop for low-cost funds: the average expense ratio that shareholders paid to invest in stock funds was 0.91 percent in 2005, considerably less than the average expense ratio of 1.53 percent for all stock funds offered in the marketplace.
- Investors new purchases of fund shares are increasingly going to very low cost funds: of the \$136 billion in net new cash flow to stock funds during 2005, 30 percent went to funds with an expense ratio of less than 50 basis points.
- Of the 4 basis point decline in the average expense ratio of stock funds, a drop in expense ratios of individual funds accounted for 1.75 basis points and the increased market share of lower-cost funds accounted for 2.25 basis points.

The Institute’s unique annual study evaluates fee trends using a comprehensive measure of the major fees and expenses that shareholders pay for investing in mutual funds. It accounts for load fees and annual fund expenses, and is based on the same considerations underlying the fee information required by the U.S. Securities and Exchange Commission in every mutual fund prospectus. It evaluates fees on an asset-weighted basis, which is the proper way to measure the fees that investors actually pay.

The Institute is the national association of the investment company industry. Its members include mutual funds, closed-end funds, exchange-traded funds, and unit investment trusts.

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