Costs Continue to Fall for Mutual Fund Investors, June 2007

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Fees and Expenses in 2006 Fell to Lowest Levels in More Than A Quarter Century

Washington, DC, June 19, 2007 - The cost of owning mutual fund shares continued to decline last year, to the lowest levels in more than a quarter century, according to research published today by the Investment Company Institute, the national association of the American mutual fund industry.

“The continuing decline in mutual fund fees and expenses is a direct result of investor preference for lower-cost funds and increased competition among fund companies,” said ICI Senior Economist Sean Collins, author of the report. “Fees are important to investors, and this study shows that they continue to pay close attention to them.”

The study, *Fees and Expenses of Mutual Funds, 2006*, found that last year's decline in mutual fund fees and expenses continues a trend that has been in place since at least 1980. The decline 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 2006, stock fund investors on average paid 107 basis points (1.07 percent, or $1.07 for every $100 in assets invested) in fees and expenses, including loads, a drop of 4 basis points from 2005. Fees and expenses on bond funds fell to 83 basis points in 2006, a decline of 5 basis points, and fees and expenses on money market funds dropped 2 basis points to 40 basis points.

The study also considered for the first time whether funds of funds could have a meaningful influence on the average expense ratio for stock funds. Funds of funds include the rapidly growing categories of lifestyle funds (funds that mix equity and fixed-income investments to match an investor’s risk profile) and lifecycle funds (funds that adjust a mix of equities and fixed-income investments in line with an investor’s age or target retirement date). The study found that the inclusion of funds of funds would have little effect on either the level or trend in the average expense ratio of stock funds.

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.
- The drop in the average expense ratio on stock funds implies considerable cost savings for fund investors. For example, the average expense ratio on stock funds fell, cumulatively, 7 basis points during 2005 and 2006. If this 7 basis point decline persists, at current asset levels stock fund investors will save an estimated $4.6 billion per year in expenses.
- The decline in fees and expenses in 2006 on stock funds in part reflected lower loads paid by investors. In 2006, the average maximum sales load on stock funds offered to investors was 5.28 percent, but the average sales loads investors actually paid was just 1.31 percent, owing to load discounts on large purchases and waivers on purchases through 401(k) plans.
- Over the past five years, the average expense ratio of stock funds has dropped 11 basis points as investors shifted their purchases toward lower-cost funds and as expense ratios fell on stock funds they already owned.

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 loads 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. The study evaluates fees on an asset-weighted basis in order to measure the fees that investors actually pay.

The Investment Company 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.