2011 Investment Company Fact Book

51st EDITION

A Review of Trends and Activity in the Investment Company Industry

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INVESTMENT COMPANY INSTITUTE®

2010 Facts at a Glance

Total worldwide assets invested in mutual funds	**$24.7 trillion**
U.S. investment company total net assets	**$13.1 trillion**
Mutual funds	$11.8 trillion
Exchange-traded funds	$992 billion
Closed-end funds	$241 billion
Unit investment trusts	$51 billion
U.S. investment companies' share of:	
U.S. stocks	27%
U.S. municipal securities	33%
Commercial paper	45%
U.S. government securities	11%
U.S. household ownership of mutual funds	
Number of households owning mutual funds	51.6 million
Number of individuals owning mutual funds	90.2 million
Percentage of households owning mutual funds	44%
Median amount fund-owning households invested in mutual funds	$100,000
Median number of mutual funds owned	4
U.S. retirement market	
Total retirement market assets	$17.5 trillion
Percentage of households with tax-advantaged retirement savings	70%
IRA and DC plan assets invested in mutual funds	$4.7 trillion

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The Investment Company Institute (ICI) is the national association of U.S. investment companies. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers.

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Fifty-first edition

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Letter from the Chief Economist

Brian Reid

Chief Economist of the Investment Company Institute

One of the aspects of my job that I enjoy the most is visiting our member firms to update them on issues in Washington or trends among funds and investors. While the purpose of my visits is for me to inform members, in truth, these presentations serve more to launch conversations in which I learn from them about the asset management business. These conversations provide color and context for the data that we gather, and they highlight new developments among funds and their shareholders.

Each year, the annual update of the *Fact Book* gives us an opportunity to present a broad overview of the investment landscape by recording in a single volume some of the insights from these meetings and from our own research. Sometimes the developments are slow, and the picture barely changes from one year to the next. In other years, there are large shifts that permanently affect the investment management business.

To capture these trends, Senior Economist Rochelle Antoniewicz and Senior Director of Statistical Research Judy Steenstra, who lead ICI Research's efforts to update the *Fact Book*, decide early each winter what modifications need to be made to the volume's seven chapters and nearly 170 charts and tables. Often, changes from one year to the next, like those in the fund business, are incremental: we expand on an existing topic, add a new chart or table, or even remove material that has become less relevant. Sometimes, sweeping revisions are needed, and we reorganize one or more chapters. With each rewrite, the chapter's author has an opportunity to restructure the material to reflect how funds and investing behavior have changed over time.

This year, Senior Economist Peter Brady rewrote Chapter 7, which examines the role that mutual funds play in the retirement and education savings markets. For example, you will see an expanded discussion of target date funds, which have become a popular investment within 401(k) and other defined contribution plans.

Peter also has done extensive research on how people prepare for retirement, and he discusses some of this work in the restructured chapter. I find it notable that many of the Baby Boomers who are in or nearing retirement will draw income from many of the same sources on which their parents relied. Social Security, for example, continues to play a key role in providing income security for many retired Americans because it replaces a large share of annual labor income for many low- to moderate-income families. At the same time, the creation of IRAs in the 1970s and the expansion of 401(k)s and other defined contribution plans in the past two decades have given these workers new ways to save for retirement.

Exchange-traded funds provide another example of how changes in the fund industry drive ICI Research and the composition of the *Fact Book*. The development of this investment product has been quite rapid. In the past decade, ETF assets have grown from $66 billion to $992 billion, making them the second most common type of registered investment company. Three years ago we included ETFs in a chapter that focused on indexing and index funds, with an emphasis on equity funds. In 2009, we dedicated a separate chapter to ETFs, reflecting both their rapid asset growth and their increasing diversity as they expand to include actively managed funds and funds investing in commodities, fixed-income securities, and a variety of other forms.

In other ways, investing trends have come full circle. While researchers and journalists tend to focus on domestic stock mutual funds, today the assets of fixed-income funds—money market and bond funds—nearly equal those of stock funds. Table 3 in the data section tells us this is not the first time that this has occurred. Stock funds dominated fund investing following the passage of the Investment Company Act of 1940. But successive bear markets in stocks in the 1970s along with rising interest rates drew investors into a growing number of bond and money market funds. By 1979, these funds managed more assets than stock funds, and they remained the dominant form of fund investing as recently as 1995.

As I read this year's *Fact Book* one last time before it goes to the printer, I am reminded how much both funds and their investors have changed over time. The *Fact Book* also has evolved, by reflecting our current research and analysis. What has not changed is our mission. ICI Research seeks to bring together the highest quality data and scholarship about investment companies, fund shareholders, and retirement markets; to serve as a resource for ICI members, educators, government officials, journalists, and the general public; and to facilitate sound, well-informed public policies affecting investment companies, their investors, and the retirement markets.

This mission is central to the work of every member of the ICI Research Department. Each spring we dedicate months of effort, bringing together our talents and deep knowledge of funds and their investors, to publish the latest edition of the *Fact Book*. Thank you for your continued interest and feedback on our research and publications.

ICI Research

Staff and Publications

ICI Senior Research Staff

Chief Economist

Brian Reid leads the Institute's Research Department. The department serves as a source for statistical data on the investment company industry and conducts public policy research on fund industry trends, shareholder demographics, the industry's role in U.S. and foreign financial markets, and the retirement market. Prior to joining ICI in 1996, Reid served as an economist at the Federal Reserve Board of Governors. He has a PhD in economics from the University of Michigan and a BS in economics from the University of Wisconsin–Madison.

Industry and Financial Analysis

Sean Collins, *Senior Director of Industry and Financial Analysis*, heads ICI's research on the structure of the mutual fund industry, industry trends, and the broader financial markets. Collins, who joined ICI in 2000, is responsible for conducting and overseeing research on the flows, assets, and fees of mutual funds, as well as a major research initiative to better understand the costs and benefits of laws and regulations governing mutual funds. Prior to joining ICI, Collins was a staff economist at the Federal Reserve Board of Governors and at the Reserve Bank of New Zealand. He has a PhD in economics from the University of California, Santa Barbara, and a BA in economics from Claremont McKenna College.

Retirement and Investor Research

Sarah Holden, *Senior Director of Retirement and Investor Research*, leads the Institute's research efforts on investor demographics and behavior, retirement and tax policy, and international issues. Holden, who joined ICI in 1999, heads efforts to track trends in household retirement saving activity and ownership of funds and other investments inside and outside retirement accounts. Prior to 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.

Statistical Research

Judy Steenstra, *Senior Director of Statistical Research*, oversees 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 mutual 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.

ICI Research Department Staff

The ICI Research Department consists of 41 staff members, including economists, research assistants, policy analysts, and data assistants. This staff collected and disseminated data for all types of registered investment companies, offering detailed analyses of fund shareholders, the economics of investment companies, and the retirement and education savings markets.

2010 Research Publications and Statistical Releases

ICI is the primary source of analysis and statistical information on the investment company industry. In 2010, the Institute's Research Department released almost 150 statistical reports examining the broader investment company industry as well as specific segments of the industry: money market funds, closed-end funds, exchange-traded funds, and unit investment trusts. In addition to the annual *Investment Company Fact Book*, ICI published 20 research and policy reports in 2010, examining the industry, its shareholders, and industry issues. ICI also regularly compiles and releases specialized statistical reports that measure mutual funds in the retirement, institutional, and worldwide markets.

Industry and Financial Analysis Research Publications

- "Trends in the Fees and Expenses of Mutual Funds, 2009," *Fundamentals*, April 2010
- "Trends in Proxy Voting by Registered Investment Companies, 2007–2009," *Perspective*, November 2010

Investor Research Publications

- *Enduring Confidence in the 401(k) System: Investor Attitudes and Actions*, January 2010
- *Profile of Mutual Fund Shareholders, 2009*, February 2010
- "The Closed-End Fund Market, 2009," *Fundamentals*, June 2010
- *The IRA Investor Profile: Traditional IRA Investors' Contribution Activity, 2007 and 2008*, June 2010
- "Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2010," *Fundamentals*, September 2010
- "Characteristics of Mutual Fund Investors, 2010," *Fundamentals*, September 2010
- *The IRA Investor Profile: Traditional IRA Investors' Rollover Activity, 2007 and 2008*, December 2010

Retirement Research Publications

- "The U.S. Retirement Market, Third Quarter 2009," *Fundamentals*, January 2010
- "The Role of IRAs in U.S. Households' Saving for Retirement, 2009," *Fundamentals*, January 2010
- "The U.S. Retirement Market, 2009," *Fundamentals*, May 2010
- "The U.S. Retirement Market, First Quarter 2010," *Fundamentals*, August 2010
- *Defined Contribution Plan Participants' Activities: First Quarter 2010*, August 2010
- "The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2009," *Fundamentals*, September 2010
- "The U.S. Retirement Market, Second Quarter 2010," *Fundamentals*, October 2010
- *Defined Contribution Plan Participants' Activities: First Half 2010*, October 2010
- "A Look at Retirement Income After ERISA," *Perspective*, November 2010
- "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2009," *Perspective*, November 2010
- "The Role of IRAs in U.S. Households' Saving for Retirement, 2010," *Fundamentals*, December 2010

Statistical Releases

Trends in Mutual Fund Investing

A monthly report that includes mutual fund sales, redemptions, assets, cash positions, exchange activity, and portfolio transactions for the period.

Long-Term Mutual Fund Flows

A weekly report on aggregate estimates of net new cash flows to equity, hybrid, and bond funds.

Money Market Fund Assets

A weekly report on money market fund assets by type of fund.

Mutual Fund Assets in Retirement Accounts

A quarterly report that includes individual retirement account and defined contribution plan assets and estimates of net new cash flows to mutual funds from retirement accounts.

Closed-End Fund Statistics

A quarterly report on closed-end fund assets, number of funds, issuance, and number of shareholders.

Exchange-Traded Funds

A monthly report on ETF assets, number of funds, issuance, and redemptions of ETFs.

Unit Investment Trusts

A monthly report on UIT value and number of deposits of new trusts by type and maturity.

Worldwide Mutual Fund Market

A quarterly report that includes assets, number of funds, and net sales of mutual funds in countries worldwide.

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Acknowledgments

Publication of the *2011 Investment Company Fact Book* was directed by Rochelle Antoniewicz, Senior Economist, and Judy Steenstra, Senior Director of Statistical Research, working with Miriam Moore, Senior Editor, and Jodi Weakland, Design Director.

Part One

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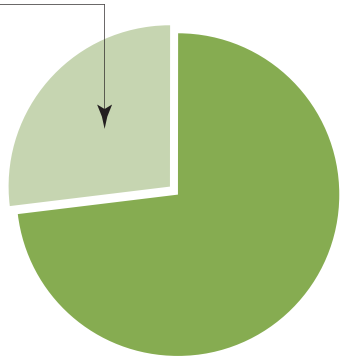
Retirement and Education Savings

Investment companies held more than one-quarter of U.S. corporate equities in 2010

27%
of U.S. corporate equities held by investment companies



Chapter One

Overview of U.S.-Registered Investment Companies

U.S.-registered investment companies play a significant role in the U.S. economy and world financial markets. These funds managed over $13 trillion in assets at the end of 2010 for over 91 million U.S. investors. Funds supplied investment capital in securities markets around the world and were among the largest groups of investors in the U.S. stock, commercial paper, and municipal securities markets.

This chapter provides a broad overview of U.S.-registered investment companies—mutual funds, closed-end funds, exchange-traded funds, and unit investment trusts—and their sponsors.

Investment Company Assets in 2010

U.S.-registered investment companies managed $13.1 trillion at year-end 2010 (Figure 1.1), a $943 billion increase from year-end 2009. Major U.S. stock indexes rose between 13 and 17 percent during the year, significantly increasing total net assets of funds invested in domestic equity markets. Gains in stock prices abroad had a similar effect on funds invested in foreign stocks. However, gains in U.S. stock and bond funds that held international assets were moderated by the strengthening of the U.S. dollar and the resulting decrease in the dollar value of their foreign securities.

The rise in the value of U.S. fund assets was tempered somewhat by net outflows from money market funds. Overall, mutual funds reported $297 billion of net outflows in 2010. Investors pulled $525 billion from money market funds, but added $228 billion to long-term mutual funds. In addition, mutual fund shareholders reinvested $157 billion of income dividends and $39 billion of capital gains distributions that mutual funds paid out during the year. Investor demand for exchange-traded funds (ETFs), unit investment trusts (UITs), and closed-end funds remained fairly steady. In 2010, flows into ETFs were on pace with the previous year, with net share issuance (including reinvested dividends) of $118 billion. UITs had new deposits of $31 billion, while closed-end funds issued $8 billion in new shares during 2010, both up from 2009.

Americans' Continued Reliance on Investment Companies

Households are the largest group of investors in funds, and registered investment companies managed 23 percent of households' financial assets at year-end 2010, little changed from 2009 (Figure 1.2). The increase is largely due to the continued rebound in the value of stocks held in equity and hybrid funds. As households have increased their reliance on funds, their demand for directly held stocks has been decreasing for most of the decade with only one year of moderately renewed interest in 2009 (Figure 1.3). Household demand for directly held bonds rebounded in 2010 after two years of substantially lower demand in 2008 and 2009. In contrast, over the past decade, households' net investment in registered investment companies has been substantially

FIGURE 1.1

Investment Company Total Net Assets by Type

Billions of dollars, year-end, 1995–2010

	Mutual funds[1]	Closed-end funds	ETFs[2]	UITs	Total[3]
1995	$2,811	$143	$1	$73	$3,028
1996	3,526	147	2	72	3,747
1997	4,468	152	7	85	4,712
1998	5,525	156	16	94	5,791
1999	6,846	147	34	92	7,119
2000	6,965	143	66	74	7,248
2001	6,975	141	83	49	7,248
2002	6,383	159	102	36	6,680
2003	7,402	214	151	36	7,803
2004	8,095	254	228	37	8,614
2005	8,891	277	301	41	9,510
2006	10,398	298	423	50	11,168
2007	12,002	313	608	53	12,977
2008	9,604	186	531	29	10,349
2009	11,120	225	777	38	12,161
2010	11,821	241	992	51	13,104

[1] Mutual fund data include only mutual funds that report statistical information to the Investment Company Institute. The data do not include mutual funds that invest primarily in other mutual funds.

[2] ETF data prior to 2001 were provided by Strategic Insight Simfund. ETF data include investment companies not registered under the Investment Company Act of 1940 and exclude ETFs that invest primarily in other ETFs.

[3] Total investment company assets include mutual fund holdings of closed-end funds and ETFs.

Note: Components may not add to the total because of rounding.

Sources: Investment Company Institute and Strategic Insight Simfund

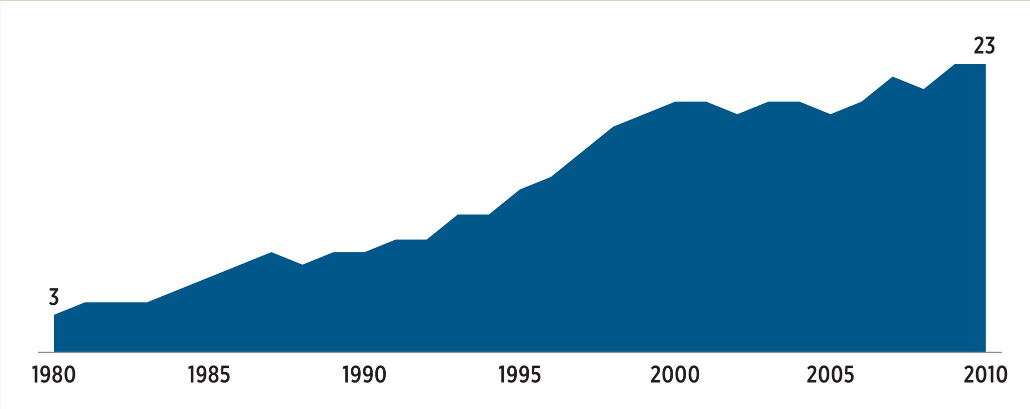
stronger than their net purchases of directly held bonds and stocks. Households invested an average of $349 billion each year, on net, in registered investment companies versus average annual sales, on net, of $333 billion in directly held stocks and bonds over the past 11 years.

The growth of individual retirement accounts (IRAs) and defined contribution (DC) plans, particularly 401(k) plans, in conjunction with the important role that mutual funds play in these plans, explains some of households' increased reliance on investment companies during the past two decades. At year-end 2010, 9 percent of household financial assets were invested in 401(k) and other DC retirement plans, up from 6 percent in 1990. Mutual funds managed 54 percent of the assets in these plans in 2010, up from 8 percent in 1990 (Figure 1.4). IRAs made up 10 percent of household financial assets, and mutual funds managed 47 percent of IRA assets in 2010. Additionally, mutual funds managed $1 trillion in variable annuities outside of retirement accounts, as well as $4 trillion of assets in taxable household accounts.

FIGURE 1.2

Share of Household Financial Assets Held in Investment Companies

Percent, year-end, 1980–2010



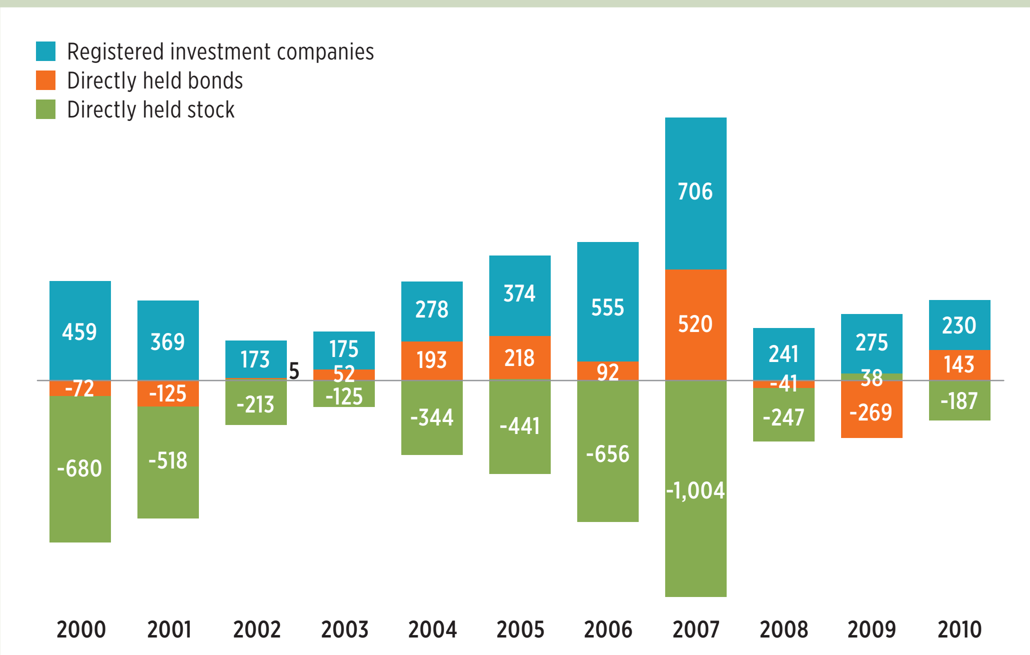
Note: Household financial assets held in registered investment companies include household holdings of ETFs, closed-end funds, UITs, and mutual funds. Mutual funds held in employer-sponsored DC plans, IRAs, and variable annuities are included.

Sources: Investment Company Institute and Federal Reserve Board

FIGURE 1.3

Household Net Investments* in Funds, Bonds, and Stocks

Billions of dollars, 2000–2010



* Net new cash flow and reinvested interest and dividends are included. Data include mutual funds, variable annuities, ETFs, and closed-end funds.

Sources: Investment Company Institute and Federal Reserve Board

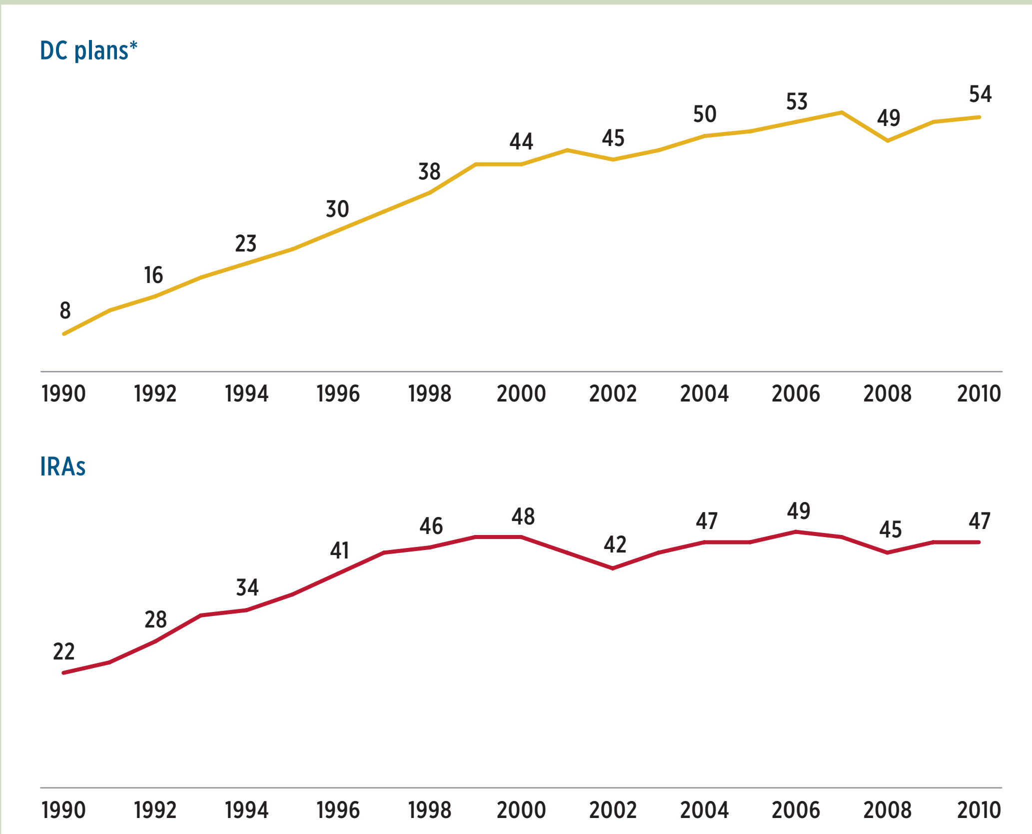
Businesses and other institutional investors also rely on funds. Many institutions use money market funds to manage a portion of their cash and short-term assets. For example, as of year-end 2010, nonfinancial businesses held 25 percent of their cash in money market funds, although this is down from 30 percent at year-end 2009. Institutional investors have also contributed to the growing demand for ETFs. Investment managers, including mutual funds and pension funds, use ETFs to manage liquidity. This strategy allows them to remain fully invested in the market while holding a highly liquid asset to manage their investor flows. Asset managers also use ETFs as part of their investment strategies, including as a hedge for their exposure to equity markets.

For more statistics on investment companies, see the data tables listed on pages 126–127.

FIGURE 1.4

Mutual Funds in Household Retirement Accounts

Mutual fund percentage of retirement assets by type of retirement vehicle, 1990–2010



* DC plans include 403(b) plans, 457 plans, and private employer-sponsored DC plans (including 401(k) plans).

Sources: Investment Company Institute, Federal Reserve Board, National Association of Government Defined Contribution Administrators, American Council of Life Insurers, and Internal Revenue Service Statistics of Income Division

Role of Investment Companies in Financial Markets

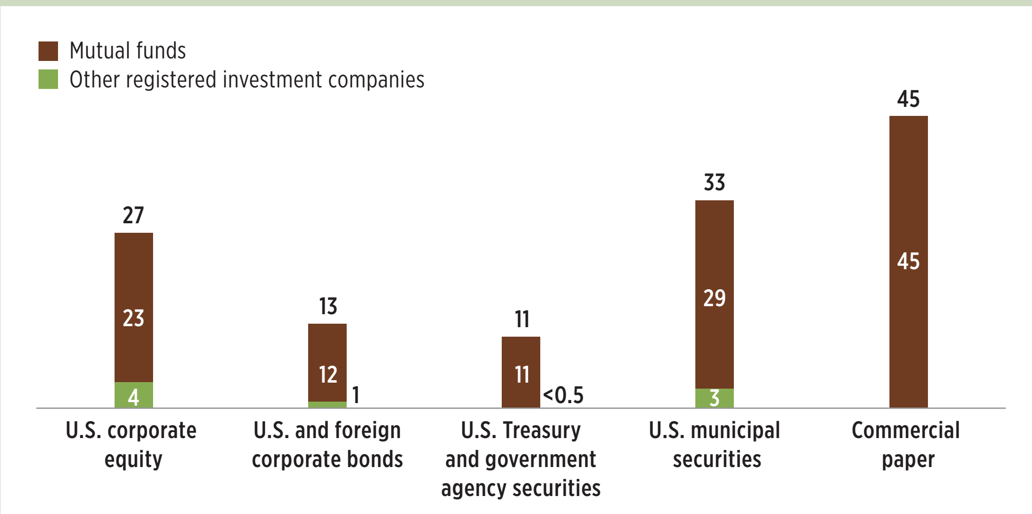
Investment companies have been among the largest investors in the domestic financial markets for much of the past 20 years and held a significant portion of the outstanding shares of U.S.-issued stocks, bonds, and money market securities at year-end 2010. Investment companies as a whole were one of the largest group of investors in U.S. companies, holding 27 percent of their outstanding stock at year-end 2010 (Figure 1.5).

Investment companies continued to be the largest investor in the U.S. commercial paper market—an important source of short-term funding for major U.S. and foreign corporations. However, mutual funds' share of the commercial paper market decreased to 45 percent of outstanding commercial paper at year-end 2010 from 51 percent at year-end 2009. Money market funds account for the majority of funds' commercial paper holdings, and the share of outstanding commercial paper these funds hold tends to fluctuate with investor demand for money market funds and the overall supply of commercial paper. While 2010 marked the fourth year in a row that the total dollar amount of outstanding commercial paper contracted, prime money market funds, which invest in commercial paper, also experienced the largest outflows from their funds since 2003.

FIGURE 1.5

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

Percentage of total market securities held by investment companies, year-end 2010



Note: Components may not add to the total because of rounding.

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

At year-end 2010, investment companies held 33 percent of tax-exempt debt issued by U.S. municipalities, which is on par with direct household ownership. Funds' share of the tax-exempt market has remained fairly stable in the past several years despite changes in the demand for tax-exempt funds and the overall supply of tax-exempt debt. Funds held 11 percent of U.S. Treasury and government agency securities at year-end 2010. Inflows into bond funds, which increased their holdings of U.S. Treasury and government agency securities, largely offset sales by U.S. government money market funds. Funds' share of U.S. government debt securities remained 4 percentage points higher than at year-end 2006, prior to the start of the financial crisis. Funds' role in the corporate bond market expanded somewhat in 2010. Funds held 13 percent of the outstanding debt securities in this market compared to 11 percent at year-end 2009.

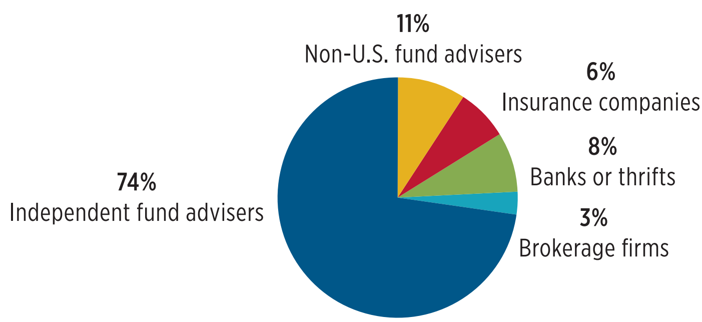
Types of Intermediaries and Number of Investment Companies

A variety of financial service companies offer registered funds in the United States. By year-end 2010, 74 percent of fund complexes were independent fund advisers (Figure 1.6), and these firms managed more than half of investment company assets. Non-U.S. fund advisers, banks, thrifts, insurance companies, and brokerage firms are other types of fund complexes in the U.S. marketplace.

FIGURE 1.6

Nearly Three-Quarters of Fund Complexes Were Independent Fund Advisers

Percentage of investment company complexes by type of intermediary, year-end 2010



Note: Components do not add to 100 percent because of rounding.

In 2010, there were 669 financial firms from around the world that competed in the U.S. market to provide investment management services to fund investors. Historically, low barriers to entry have attracted a large number of investment company sponsors to the fund marketplace in the United States. These low barriers to entry led to a rapid increase in the number of fund sponsors in the 1980s and 1990s. However, competition among these sponsors and pressure from other financial products have reversed this trend over the past decade. From year-end 2000 to year-end 2010, 502 fund sponsors left the fund business. In the same time, 379 new firms entered (Figure 1.7). The overall effect has been a net reduction of 16 percent in the number of industry firms serving investors. The decrease in the number of advisers has occurred with larger fund sponsors acquiring some smaller fund families and with some fund advisers liquidating funds and leaving the fund business. In addition, several other large sponsors of funds sold their fund advisory businesses. The portion of fund companies that have been able to retain assets in addition to attracting new investments has been generally lower in this decade than during the 1990s (Figure 1.8). Two bear markets leading to outflows from stock funds and other competitive pressures affected the profitability of fund sponsors and contributed to the decline in their number over the past 10 years.

FIGURE 1.7

Number of Fund Sponsors

2000–2010

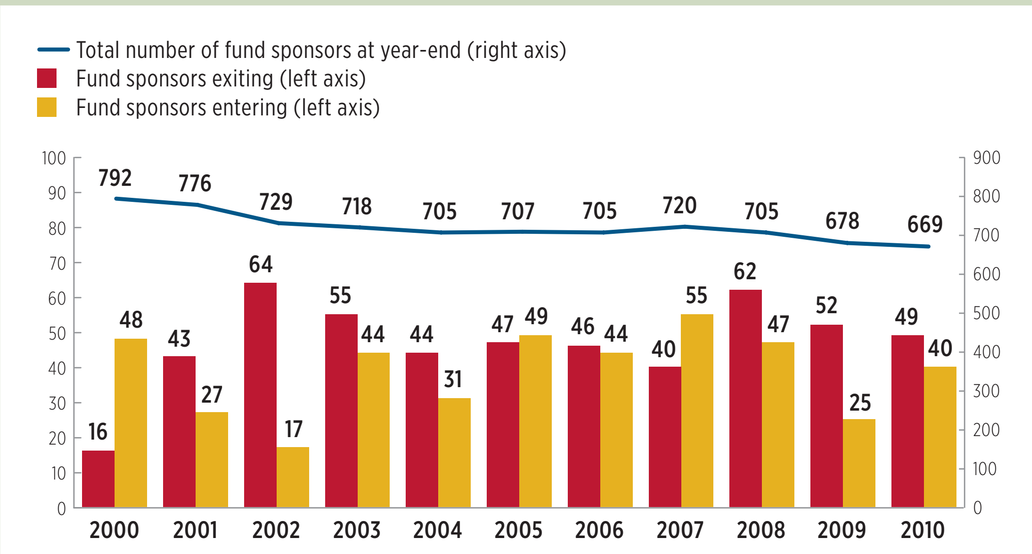
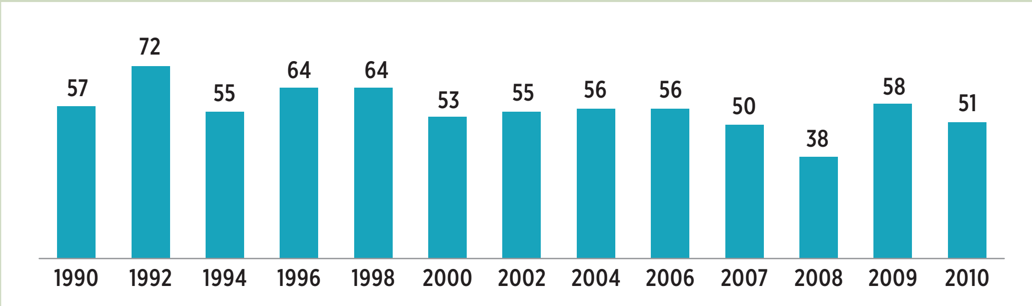


FIGURE 1.8

Fund Complexes with Positive Net New Cash Flow to Stock, Bond, and Hybrid Funds

Percent, selected years

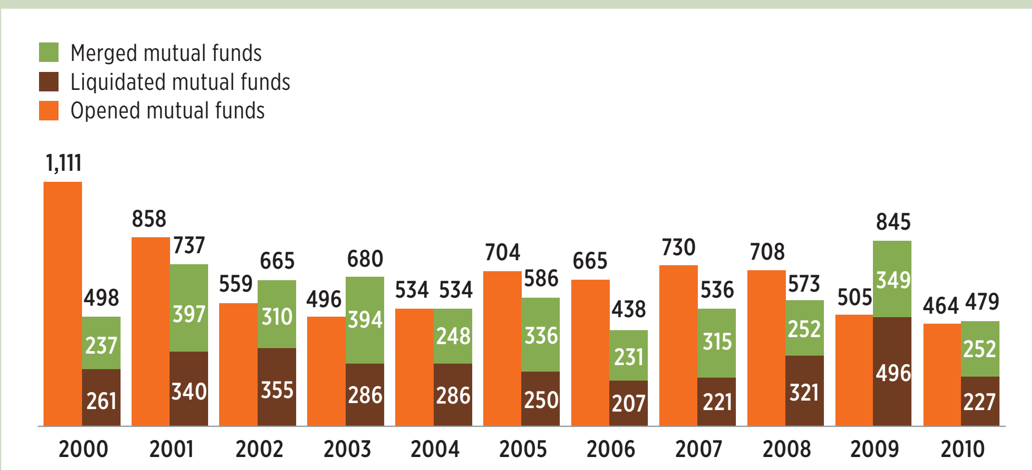


The decline in the number of fund sponsors has been concentrated primarily among those advising mutual funds, and their exit from the industry has caused the growth in the number of mutual funds to slow in recent years and to decline over the past two years. Competitive dynamics also affect the number of funds offered in any given year by the fund advisers that remain. In particular, fund sponsors create new funds to meet investor demand, and they merge or liquidate funds that do not attract sufficient investor interest. The pace of newly opened funds continued to slow in 2010 to its lowest level since 1996. Nevertheless, the rate of fund mergers and liquidations dropped appreciably from 2009 and, as a result, the number of mutual funds was reduced, on net, by only 15 funds in 2010 (Figure 1.9).

FIGURE 1.9

Number of Mutual Funds Leaving and Entering the Industry*

2000–2010



* Data include mutual funds that do not report statistical information to the Investment Company Institute. Data also include mutual funds that invest primarily in other mutual funds.

The total number of other investment companies has fallen considerably since 2000, as sponsors of UITs have been creating fewer new trusts (Figure 1.10). These investment companies often have preset termination dates, and in conjunction with a slowdown in the creation of new UITs, the total number of UITs has declined substantially. Additionally, closed-end fund sponsors shut down four more funds than they opened in 2010. Sponsors of ETFs, however, opened 130 new funds, on net, in 2010.

FIGURE 1.10

Number of Investment Companies[1] by Type

Year-end, 1995–2010

	Mutual funds[2]	Closed-end funds	ETFs[3]	UITs	Total
1995	5,761	500	2	12,979	19,242
1996	6,293	497	19	11,764	18,573
1997	6,778	487	19	11,593	18,877
1998	7,489	492	29	10,966	18,976
1999	8,003	512	30	10,414	18,959
2000	8,370	482	80	10,072	19,004
2001	8,518	492	102	9,295	18,407
2002	8,511	545	113	8,303	17,472
2003	8,426	584	119	7,233	16,362
2004	8,415	619	152	6,499	15,685
2005	8,449	635	204	6,019	15,307
2006	8,721	647	359	5,907	15,634
2007	8,747	664	629	6,030	16,070
2008	8,884	643	743	5,984	16,254
2009	8,617	628	820	6,049	16,114
2010	8,545	624	950	5,971	16,090

[1] Investment company data include only investment companies that report statistical information to the Investment Company Institute.

[2] The data include mutual funds that invest primarily in other mutual funds.

[3] ETF data prior to 2001 were provided by Strategic Insight Simfund. ETF data include investment companies not registered under the Investment Company Act of 1940 and ETFs that invest primarily in other ETFs.

Sources: Investment Company Institute and Strategic Insight Simfund

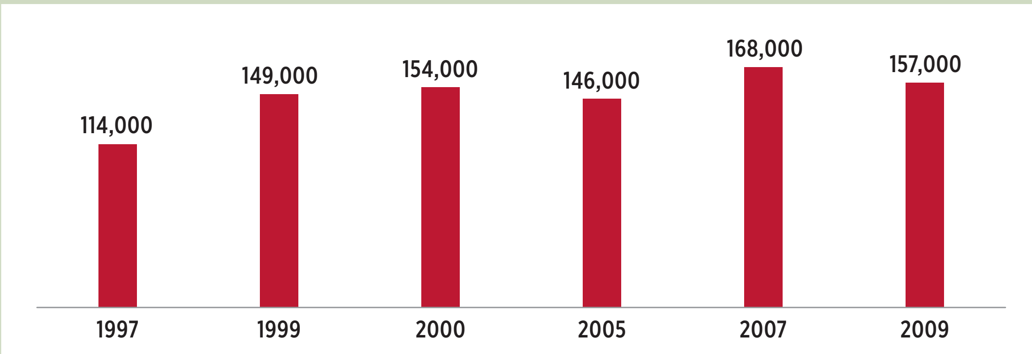
Investment Company Employment

Fund sponsors and third-party service providers offer advisory, recordkeeping, administrative, custody, and other services to a growing number of funds and their investors. From 1997 to 2009, fund industry employment in the United States grew 38 percent from 114,000 workers to 157,000 workers (Figure 1.11). Based on results of an ICI biennial survey, employment peaked in 2007 at 168,000. From March 2007 to March 2009, fund sponsors and their service providers trimmed about 11,000 workers from their payrolls as part of an overall cost-cutting focus in the face of substantially lower revenues from the declines in the stock and bond markets over this period.

FIGURE 1.11

Investment Company Industry Employment

*Estimated number of employees of registered investment companies, selected years**



* Years in which the ICI employment survey was conducted.

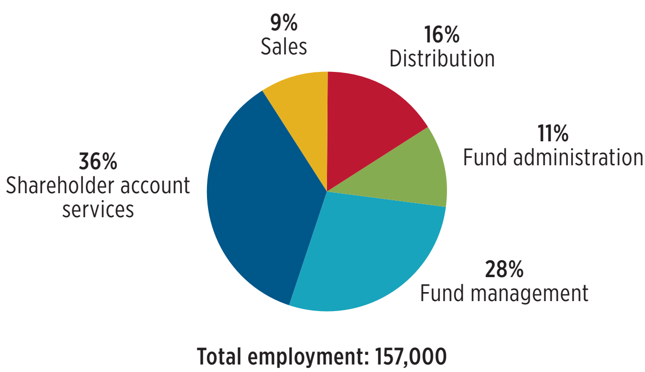
The largest group of workers provides services to fund investors and their accounts, with 36 percent of fund employees involved in these activities in March 2009 (Figure 1.12). Shareholder account servicing encompasses a wide range of activities to help investors monitor and update their accounts. These employees work in call centers and help shareholders and their financial advisers with questions about investor accounts. They also process applications for account openings and closings. Other services include retirement plan transaction processing, retirement plan participant education, participant enrollment, and plan compliance.

At the same time, 28 percent of the industry's workforce was employed by a fund's investment adviser or a third-party service provider in support of portfolio management functions such as investment research, trading and security settlement, information systems and technology, and other corporate management functions. Jobs related to fund administration, including financial and portfolio accounting and regulatory compliance duties, accounted for 11 percent of industry employment. Personnel involved with distribution services (e.g., marketing, product development and design, investor communications) represented 16 percent of the workforce. Sales-force employees—including registered representatives and sales support staff where at least 50 percent of the employee's income is derived from fund sales—and fund supermarket representatives accounted for 9 percent of fund industry jobs.

FIGURE 1.12

Investment Company Industry Employment by Job Function

Percentage of employees in registered investment company operations areas, March 2009

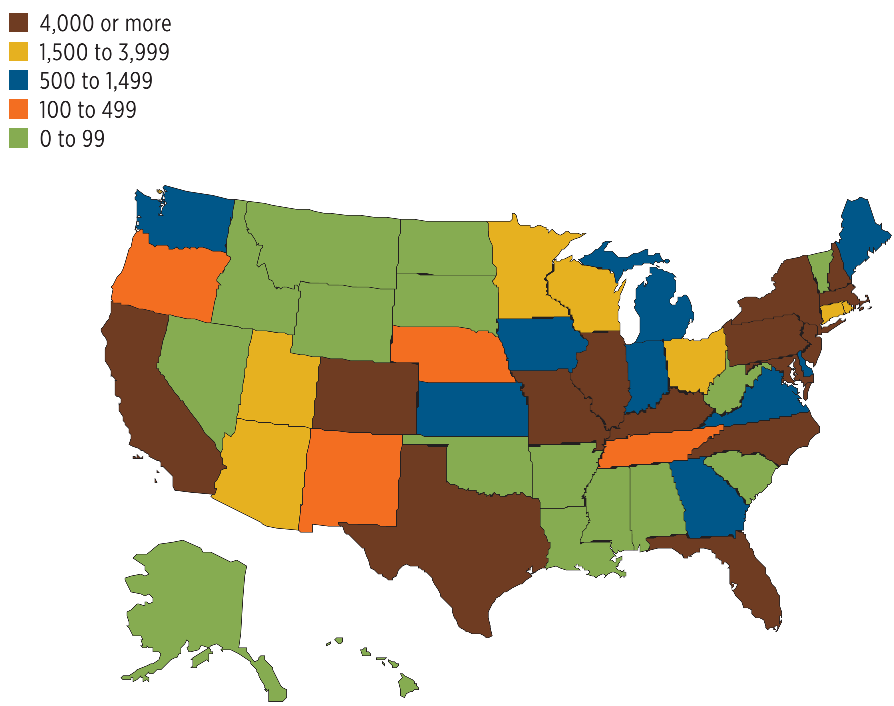


For many industries, employment tends to be concentrated in locations of the industry's origins, and investment companies are no exception. Massachusetts and New York served as early hubs of investment company operations, and remained so in March 2009 (Figure 1.13), employing nearly 30 percent of the workers in the fund industry. As the industry has grown from its early roots, other states have become significant centers of fund employment—including California, Pennsylvania, and Texas. Fund companies in these states employed about one-quarter of all fund industry employees as of March 2009.

FIGURE 1.13

Investment Company Industry Employment by State

Estimated number of employees of registered investment companies by state, March 2009



Nearly half of mutual fund assets were in equity funds

Chapter Two

Recent Mutual Fund Trends

With $11.8 trillion in assets, the U.S. mutual fund industry remained the largest in the world at year-end 2010. Total net assets increased $700 billion from the level at year-end 2009, largely reflecting the continued rise in stock prices in 2010. At the same time, investor demand for mutual funds declined further in 2010 with net withdrawals from all types of mutual funds amounting to $297 billion. Investor demand for certain types of mutual funds appeared to be driven in large part by the interest rate environment and the tepid pace of the economic recovery. In 2010, money market funds continued to experience substantial outflows and equity funds saw net withdrawals for the third consecutive year. While inflows to bond funds were still strong, they slowed appreciably from their record high in 2009.

This chapter describes recent U.S. mutual fund developments and examines the market factors that affect the demand for equity, bond, hybrid, and money market funds.

U.S. Mutual Fund Assets

Investor demand for mutual funds is influenced by a variety of factors, not least of which is funds' ability to assist investors in achieving their investment objectives. For example, U.S. households rely on equity, bond, and hybrid mutual funds to meet long-term personal financial objectives such as preparing for retirement. U.S. households, businesses, and other institutional investors use money market funds as cash management tools because they provide a high degree of liquidity and competitive, short-term yields. Investors' reactions to changes in U.S. and worldwide economic and financial conditions play an important role in determining how demand for specific types of mutual funds and for mutual funds in general evolves over time.

The U.S. mutual fund market—with $11.8 trillion in assets under management at year-end 2010—remained the largest in the world, accounting for 48 percent of the $24.7 trillion in mutual fund assets worldwide (Figure 2.1).

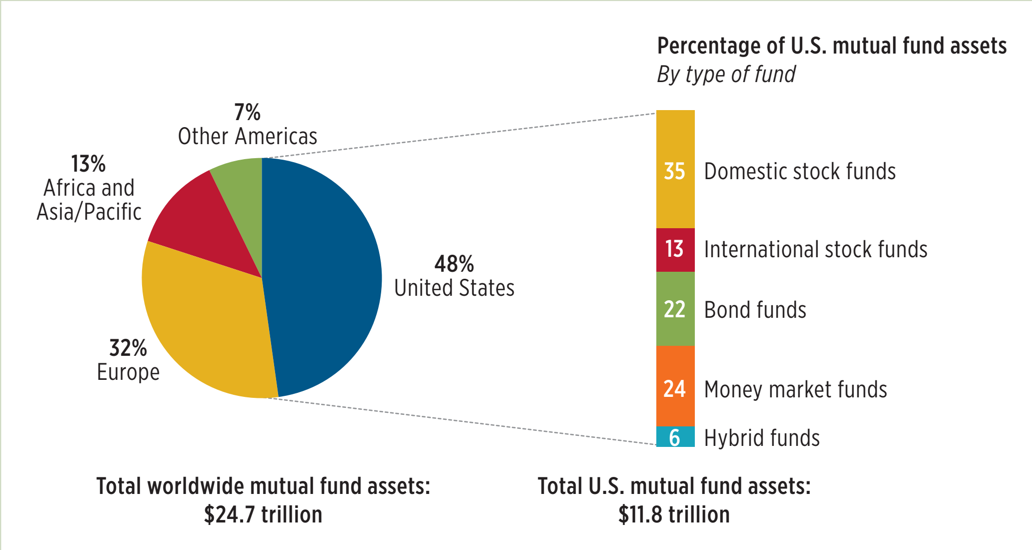
Equity funds made up 48 percent of U.S. mutual fund assets at year-end 2010 (Figure 2.1). Domestic equity funds (those that invest primarily in shares of U.S. corporations) held 35 percent of total industry assets. World equity funds (those that invest primarily in foreign corporations) accounted for another 13 percent. Money market funds accounted for 24 percent of U.S. mutual fund assets. Bond funds (22 percent) and hybrid funds (6 percent) held the remainder of total U.S. mutual fund assets.

Approximately 600 sponsors managed mutual fund assets in the United States in 2010. Long-run competitive dynamics have prevented any single firm or group of firms from dominating the market. For example, of the largest 25 fund complexes in 1985, 13 remained in this top group in 2010. Another measure of market concentration is the Herfindahl-Hirschman Index, which weighs

FIGURE 2.1

The U.S. Had the World's Largest Mutual Fund Market

Percentage of total net assets, year-end 2010



Sources: Investment Company Institute, European Fund and Asset Management Association, and other national mutual fund associations

both the number and relative size of firms in the industry. Index numbers below 1,000 indicate that an industry is unconcentrated. The mutual fund industry had a Herfindahl-Hirschman Index number of 465 as of December 2010.

In this past decade, however, the percentage of industry assets at larger fund complexes has increased. The share of assets managed by the largest 25 firms increased to 74 percent in 2010 from 68 percent in 2000 (Figure 2.2). In addition, the share of assets managed by the largest 10 firms in 2010 was 53 percent, up from the 44 percent share managed by the largest 10 firms in 2000.

FIGURE 2.2

Share of Assets at the Largest Mutual Fund Complexes

Percentage of industry total net assets, year-end, selected years

	1985	1990	1995	2000	2005	2009	2010
Top 5 complexes	37	34	34	32	37	39	40
Top 10 complexes	54	53	48	44	48	53	53
Top 25 complexes	78	75	71	68	70	74	74

Several factors likely contributed to this development. One factor is the acquisition of smaller fund complexes by larger ones. Second, total returns on U.S. stocks averaged only a little over 1 percent annually from year-end 1999 to year-end 2010 and likely held down assets managed by fund complexes that concentrate their offerings primarily in domestic equity funds—many of which tend to be smaller fund complexes. Third, in contrast, total returns on bonds averaged over 6 percent annually in the past 11 years. Finally, strong inflows over the decade to bond funds, which are fewer in number and have fewer fund sponsors than equity mutual funds, helped boost the share of assets managed by those large fund complexes that offer bond funds.

Developments in Mutual Fund Flows

Investor demand for mutual funds as measured by net new cash flow—the dollar value of new fund sales less redemptions combined with net exchanges—declined further in 2010. Overall, the industry had a net cash outflow of $297 billion (Figure 2.3). Investors pulled $525 billion from money market funds, particularly institutional funds. Investors, however, added $228 billion, on net, to long-term funds. The $297 billion total net outflow in 2010 was the largest on record in dollar terms. As a percentage of the average market value of assets, it amounted to 2.7 percent. On this basis, the outflow was about the same as the $23 billion outflow in 1988, which measured 2.8 percent of average assets.

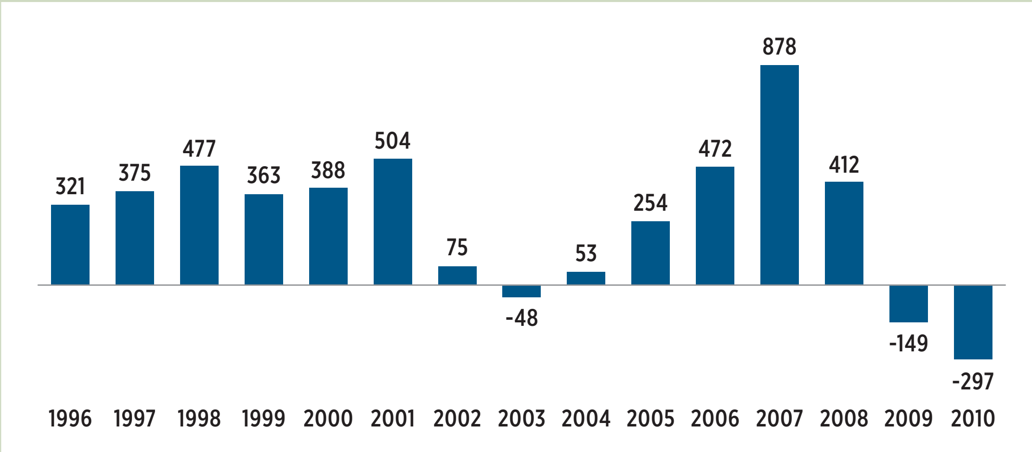
Conditions in financial markets continued to improve in 2010. The Federal Reserve closed several special credit and liquidity programs that had been instituted during the financial crisis in 2008. U.S. stock prices, as measured by the Wilshire 5000 Total Market Index, rose over 15 percent, putting the index almost back to its August 2008 level. Credit spreads on corporate bonds—the difference in yields between investment-grade corporate bonds and Treasury securities—remained fairly stable over the year, hovering around 200 basis points. Nevertheless, the pace of economic activity was fairly modest during 2010—held down by persistently high unemployment, modest income growth, lower housing wealth, and tight credit conditions for households. Consequently, the Federal Reserve kept the federal funds rate in a target range of 0 percent to 0.25 percent.

Abroad, many developed European countries experienced slower economic growth and weaker stock prices than that of the United States in 2010. Emerging markets experienced gains in stock prices that were about on par with the United States.

FIGURE 2.3

Net Flows to Mutual Funds

Billions of dollars, 1996–2010



Demand for Long-Term Mutual Funds

Investors added $228 billion in net new cash to equity, bond, and hybrid funds in 2010, down from the record pace of $390 billion in 2009. Bond and hybrid funds remained popular investment choices by investors, while domestic equity funds continued to experience outflows in 2010.

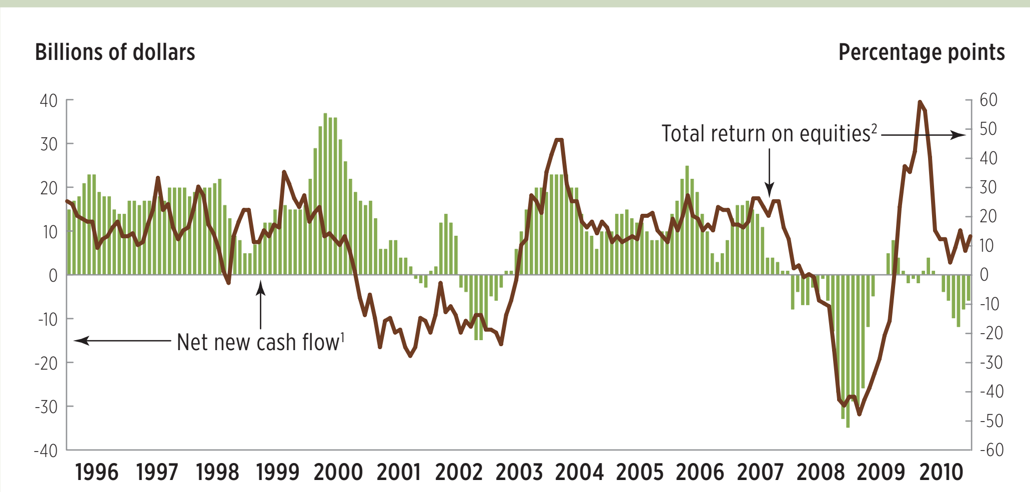
Equity Mutual Funds

Investors withdrew cash from equity funds—particularly domestic equity funds—in 2010 at a faster pace than in 2009. In 2010, withdrawals from all equity funds amounted to $37 billion for the year, more than the $9 billion investors withdrew, on net, the previous year. Generally, demand for equity funds is strongly related to performance in the stock markets (Figure 2.4). Net flows to equity funds tend to rise with stock prices and the opposite tends to occur when stock prices fall. In the past two years, one would have expected sizable inflows to equity funds given the strong rally in stock prices worldwide. Since year-end 2008, major U.S. stock price indexes rose between 45 and 50 percent including any dividends that were paid. The technology-heavy NASDAQ Composite Index rose 68 percent. Despite these gains, domestic equity funds experienced a net outflow of $39 billion in 2009 and $96 billion in 2010. Indeed, domestic equity funds have had four consecutive years of withdrawals totaling $335 billion.

FIGURE 2.4

Net Flows to Equity Funds Related to Global Stock Price Performance

1996–2010



[1] Net new cash flow to equity funds is plotted as a six-month moving average.

[2] The total return on equities is measured as the year-over-year change in the MSCI All Country World Daily Total Return Index.

Sources: Investment Company Institute and Morgan Stanley Capital International

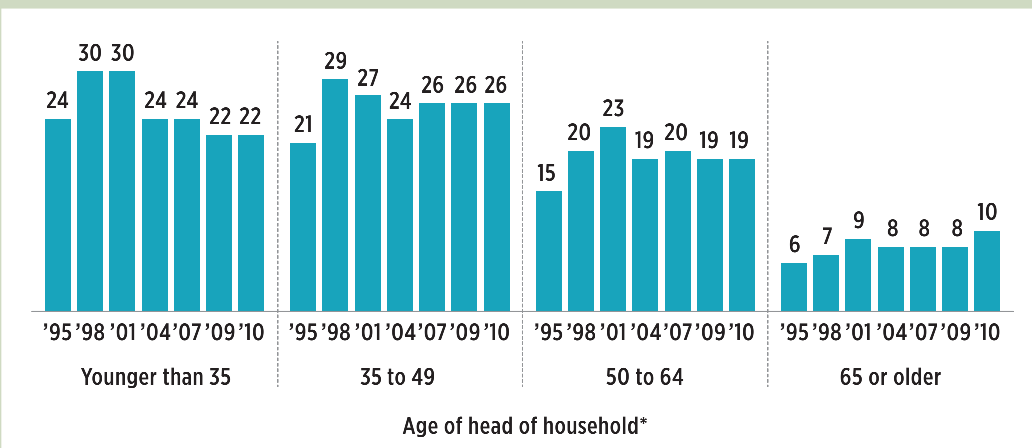
Funds investing in foreign companies fared somewhat better than domestic equity funds. International equity funds garnered $31 billion in net new cash in 2009 and $59 billion in 2010. These inflows, however, were still modest when compared with past inflows and total returns on stocks traded on many foreign stock markets. The MSCI All Country World Daily Total Return Index (excluding U.S. stocks) increased 25 percent annually over the two-year period from year-end 2008 to year-end 2010; the MSCI Daily Total Return Emerging Markets Index rose 46 percent annually. To put this development in perspective with past experience, from 2004 to 2007, the MSCI All Country World Daily Total Return Stock Index increased at an average annual rate of 20 percent, and shareholders invested over $100 billion on average annually into international equity funds.

One factor that may partly explain investors' reduced demand for equity funds is a lower tolerance for risk. In the past decade, households have endured two of the worst bear markets in stocks since the Great Depression. U.S. household surveys show that even within specified age groups, willingness to take investment risk has dropped since the late 1990s and early 2000s (Figure 2.5). For example, only 22 percent of households headed by someone younger than 35 in 2010 were willing to take above-average or substantial investment risk, compared with 30 percent of such households in 1998. The aging of the population also likely has played a role in reducing demand for equity funds. As investors grow older, their willingness to take investment risk tends to decline. In 2010, only 10 percent of households headed by someone 65 or older were willing to take above-average or substantial investment risk, versus 26 percent of households headed by someone between 35 and 49 years old.

FIGURE 2.5

Willingness to Take Above-Average or Substantial Investment Risk by Age

Percentage of U.S. households by age of head of household, selected years*



* Age is based on the age of the sole or co-decisionmaker for household saving and investing.
Sources: Investment Company Institute and Federal Reserve Board

Asset-Weighted Turnover Rate

The turnover rate—the lesser of purchases or sales (excluding those of short-term assets) in a fund's portfolio scaled by average net assets—is a measure of a fund's trading activity.

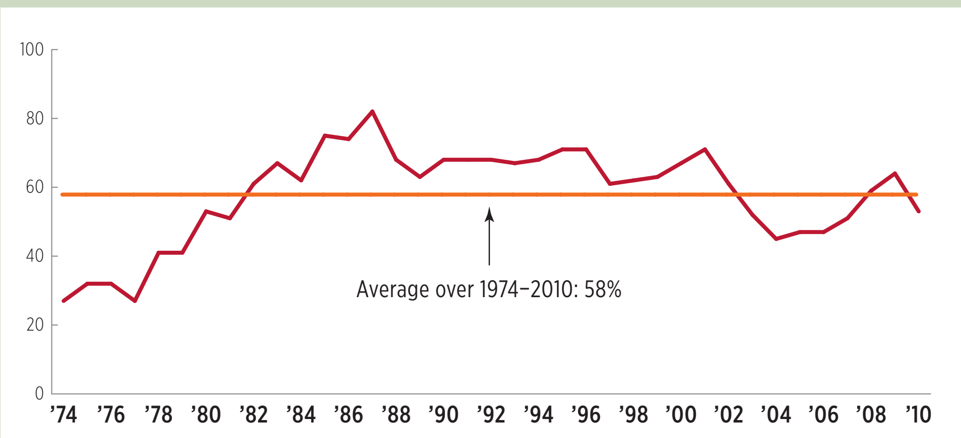
To analyze the turnover rate that shareholders actually experience in their funds, it is important to identify those funds in which shareholders are most heavily invested. Neither a simple average nor a median takes into account where fund assets are concentrated. An asset-weighted average gives more weight to funds with large amounts of assets, and accordingly, indicates the average portfolio turnover actually experienced by fund shareholders. In 2010, the asset-weighted annual turnover rate experienced by equity fund investors moved down to 53 percent, somewhat below the average experience of the past 37 years (Figure 2.6).

Investors tend to own equity funds with relatively low turnover rates. In 2010, about half of equity fund assets were in funds with portfolio turnover rates under 35 percent. This reflects shareholders' tendency to own equity funds with below-average turnover and the propensity for funds with below-average turnover to attract more shareholder dollars.

FIGURE 2.6

Turnover Rate[1] Experienced by Equity Fund Investors[2]

Percent, 1974–2010



[1] The turnover rate is an asset-weighted average.

[2] Data exclude mutual funds available as investment choices in variable annuities.

Sources: Investment Company Institute, Center for Research in Security Prices (CRSP), and Strategic Insight Simfund

Bond and Hybrid Mutual Funds

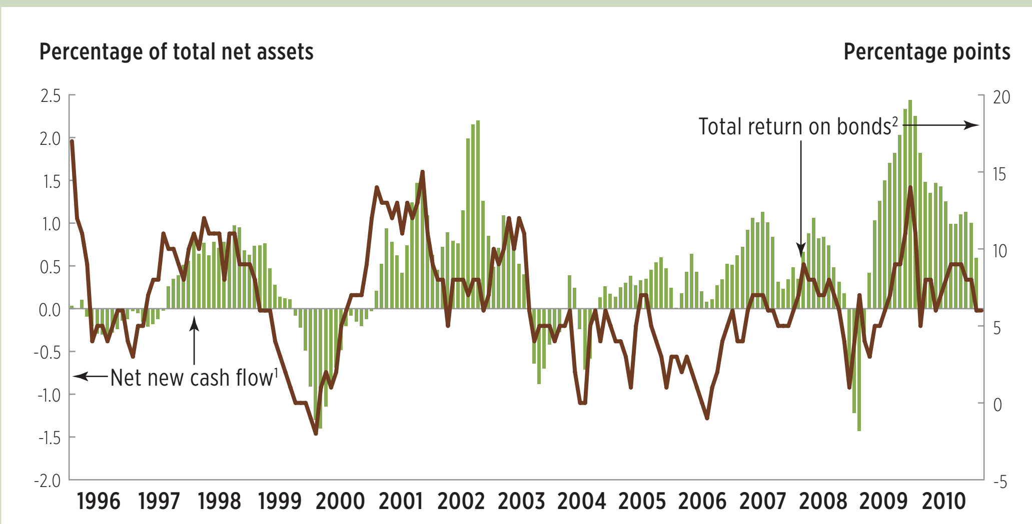
Secular and demographic factors that appear to have tempered inflows into equity funds likely have served to boost flows into bond funds. In 2010, investors added $241 billion to their bond fund holdings—a strong rate, albeit down from the record $376 billion pace of net investment in the previous year. Traditionally, cash flow into bond funds is highly correlated with the performance of bonds (Figure 2.7). The U.S. interest rate environment typically has played a prominent role in the demand for bond funds. Movements in short- and long-term interest rates can significantly impact the returns offered by these types of funds and, in turn, influence retail and institutional investor demand for bond funds. Low short-term interest rates and the relatively steep yield curve likely continued to entice some investors to shift out of money market funds and into bond funds in 2010.

The pace of inflows into bond funds was quite strong through the first nine months of 2010, but slowed appreciably—particularly for tax-exempt bond funds—in the fourth quarter and turned negative in the last couple of months of the year. This pattern likely was the result of market conditions. From year-end 2009 through September 2010, returns on investment-grade corporate bonds were about 6 percent and those of municipal securities at over 4 percent. Returns on these securities turned negative in the fourth quarter of 2010.

FIGURE 2.7

Net Flows to Bond Funds Related to Bond Returns

1996–2010



[1] Net new cash flow to bond funds is plotted as a three-month moving average of net new cash flow as a percentage of previous month-end assets. The data exclude flows to high-yield bond funds.

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

Sources: Investment Company Institute and Citigroup

One contributing factor to the decline in bond returns likely was the glut of bond issuance by municipalities before the expiration of the Build America Bonds program at the end of the year. The outsized supply helped drive up interest rates for municipal securities and reportedly enticed buyers that normally would purchase corporate securities to cross over and buy securities in the municipal market. In addition, investor concerns about inflationary pressure from the Federal Reserve's second round of quantitative easing, the ability of the federal government to finance growing budget deficits at attractive interest rates, and the deterioration in the outlook for state and local governments' fiscal positions were cited as possible reasons for the downturn in the bond market at the end of 2010.

Despite the relative weakness in bond flows in the fourth quarter of 2010, inflows to bond funds since 2004 have been stronger than what would have been expected based on the historical relationship between bond returns and demand for bond funds. A few secular and demographic factors may have contributed to this development: the aging of the U.S. population, the reduced appetite for investment risk by investors of all ages, and the increasing use of target date and other asset allocation funds, many of which are offered in a funds of funds structure. First, the leading edge of the Baby Boom Generation has just started to retire, and because investors' willingness to take investment risk tends to decline as they age (Figure 2.5), it is natural for them to allocate their investments increasingly toward fixed-income securities. Second, the decline in risk tolerance across all age groups (Figure 2.5) likely boosted flows into bond funds over the past couple of years. Last, funds of funds remained a popular choice with investors and a portion of the flows into these funds was directed to underlying bond funds. Funds of funds garnered $134 billion in net new cash flow in 2010 (Figure 2.8).

Investor demand for hybrid funds, which invest in a combination of stocks and bonds, remained steady in 2010, with investors adding $23 billion, on net, to these funds—about the same pace as in 2009. Over the six-year period of 2005 to 2010, hybrid funds attracted a total of $84 billion in net new cash.

Funds of Funds

Funds of funds are mutual funds that primarily hold and invest in shares of other mutual funds. The most popular type of these funds is hybrid funds—over 80 percent of funds of funds' total net assets were in hybrid funds in 2010. Hybrid funds of funds invest their cash in underlying equity, bond, and hybrid mutual funds.

Assets of funds of funds have grown rapidly over the past decade. By the end of 2010, the number of funds of funds had grown to 964, and total net assets were $928 billion (Figure 2.8). About two-thirds of the increase in the assets of funds of funds in the past 10 years is attributable to increasing investor interest in target date funds (also known as lifecycle funds) and lifestyle funds (also known as target risk funds). The growing popularity of these funds, especially for retirement investing, likely reflects the automatic rebalancing features of these products. Target date funds allow a predetermined allocation of risk over time, and lifestyle funds maintain a predetermined risk level. Since year-end 2000, funds of funds received a total of $673 billion in net new cash, of which 62 percent was from target date and lifestyle funds.

For more information on target date and lifestyle funds, see page 120.

FIGURE 2.8

Total Net Assets and Net Flows to Funds of Funds

2000–2010

	Number of funds *Year-end*	Assets *Billions of dollars, year-end*	Net new cash flow *Billions of dollars, annual*
2000	215	$57	$10
2001	213	63	9
2002	268	69	12
2003	301	123	30
2004	375	200	51
2005	475	306	79
2006	603	470	101
2007	720	637	126
2008	862	487	62
2009	932	673	69
2010	964	928	134

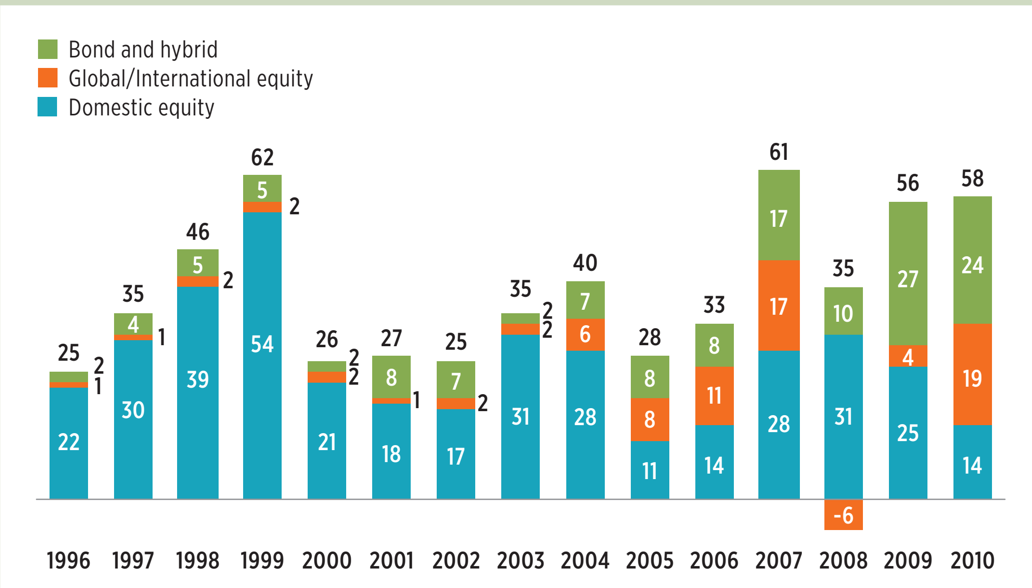
Index Mutual Funds

Index funds continued to remain popular with investors. Of households that owned mutual funds, 31 percent owned at least one index mutual fund in 2010. As of year-end 2010, 365 index funds managed total net assets of $1 trillion. Similar to funds of funds, demand for index funds remained strong in 2010 with investors adding $58 billion in net new cash flow to these funds (Figure 2.9). About 40 percent of the new money that flowed to index funds was invested in funds indexed to bond indexes, while one-third was directed toward funds indexed to global and international stock indexes and one-quarter went to funds indexed to domestic stock indexes. Demand for global and international equity index funds picked up in 2010, with these funds experiencing an aggregate inflow of $19 billion.

FIGURE 2.9

Net Flows to Index Funds

Billions of dollars, 1996–2010



Note: Components may not add to the total because of rounding.

Equity index funds accounted for the bulk of index mutual fund assets at year-end 2010. Eighty-one percent of index mutual fund assets were invested in index funds that track either the S&P 500 or other domestic and international stock indexes (Figure 2.10). Funds indexed to the S&P 500 managed 37 percent of all assets invested in index mutual funds. The share of assets invested in equity index funds relative to all equity mutual funds assets moved up to 14.5 percent in 2010 (Figure 2.11).

FIGURE 2.10

37 Percent of Index Fund Assets Were Invested in S&P 500 Index Funds

Percent, year-end 2010

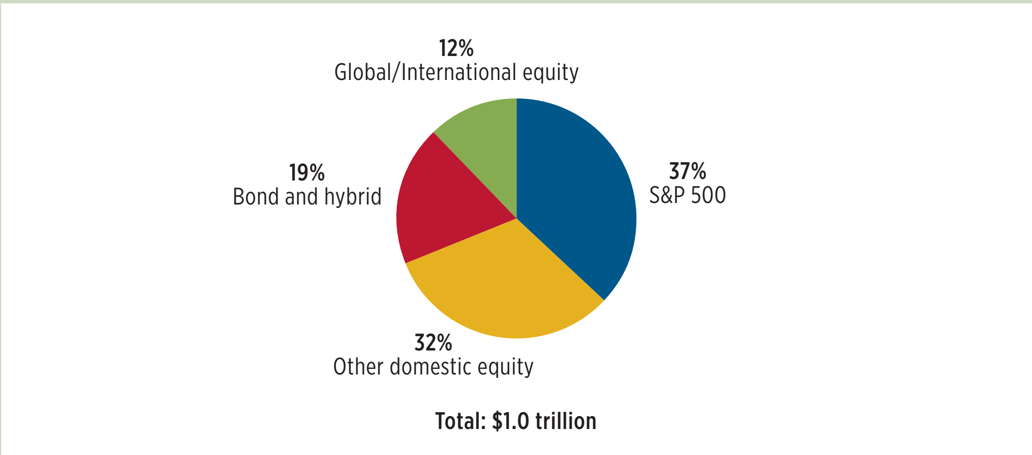
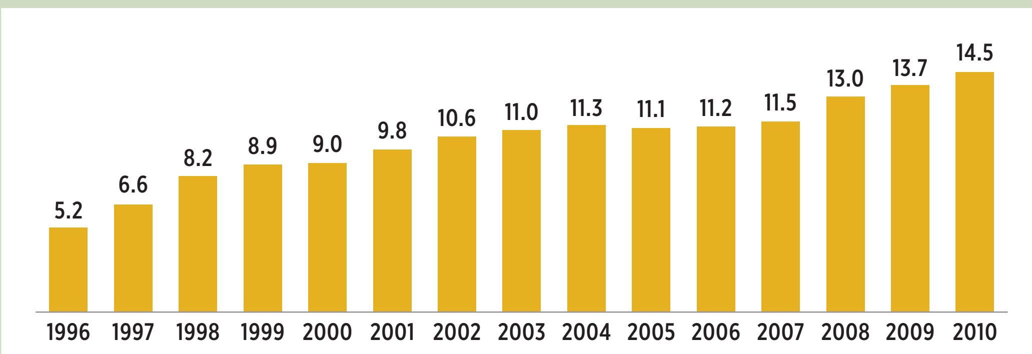


FIGURE 2.11

Equity Index Funds' Share Continued to Rise

Percentage of equity mutual fund assets, 1996–2010



Demand for Money Market Funds

Money market funds continued to experience substantial outflows in 2010. This trend likely reflects the search by investors for higher yields in an environment of low short-term interest rates accompanied by a steep yield curve and a continued unwinding of the flight to safety in response to the financial crisis of 2007 and 2008.

Retail Money Market Funds

Retail money market funds, which are principally sold to individual investors, saw a total outflow of $125 billion in 2010, following an outflow of $309 billion in 2009 (Figure 2.12). Money market fund yields continued to follow the pattern of short-term interest rates in 2010, hovering between 0 and 25 basis points. In addition, yields on money market funds remained consistently below those on bank deposits for the past two years (Figure 2.13)—an unprecedented occurrence since the inception of money market funds in the early 1970s. In general, retail investors tend to withdraw cash from money market funds when the difference in interest rates between bank deposits and money market funds narrows. The sizable outflows from retail money market funds in 2009 and 2010 do not appear to be atypical considering the negative interest rate spread.

FIGURE 2.12

Net Flows to Money Market Funds

Billions of dollars, 1996–2010

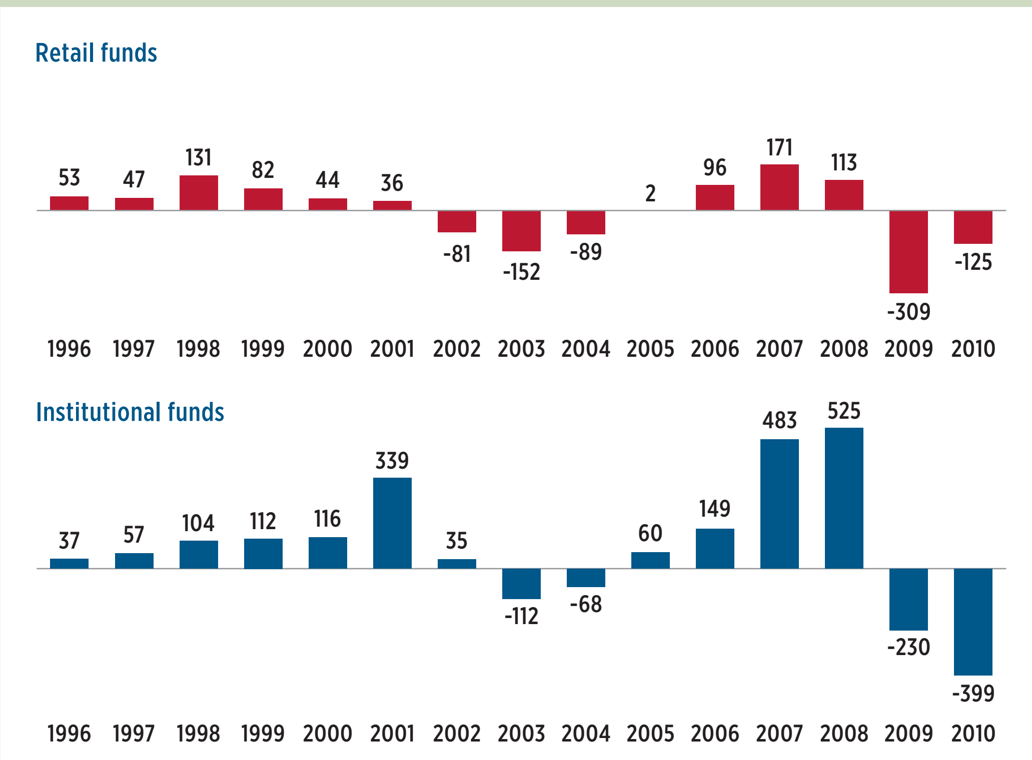
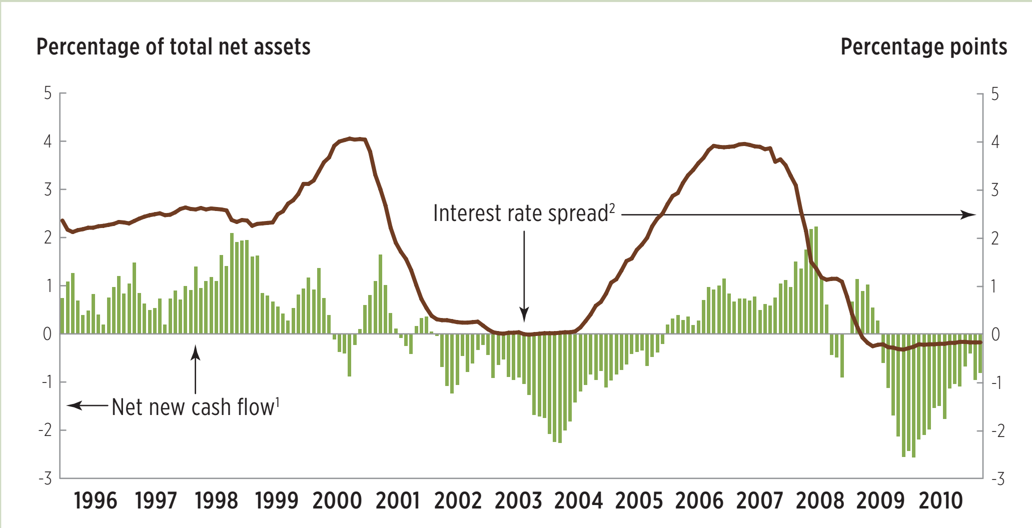


FIGURE 2.13

Net Flows to Taxable Retail Money Market Funds Related to Interest Rate Spread

1996–2010



[1] Net new cash flow is a percentage of previous month-end taxable retail money market fund assets and is shown as a six-month moving average.

[2] The interest rate spread is the difference between the taxable retail money market fund yield and the average interest rate on money market deposit accounts.

Sources: Investment Company Institute, iMoneyNet, and Bank Rate Monitor

Institutional Money Market Funds

Institutional money market funds—used by businesses, pension funds, state and local governments, and other large-account investors—had outflows of $399 billion in 2010, following outflows of $230 billion during the previous year (Figure 2.12). Outflows from institutional money market funds likely reflected the low interest rate environment and the continued unwinding of the flight to quality by these investors in 2007 and 2008.

The tumult in financial markets around the world that started in August 2007 and continued through early 2009 led many institutional investors to seek the liquidity and safety of money market funds that invest primarily in U.S. government securities. These funds, which can invest in U.S. Treasury debt solely or a combination of U.S. Treasury debt and obligations of U.S. government agencies, received $881 billion in net new cash flow from institutional investors in 2007 and 2008 (Figure 2.14). As financial markets stabilized in 2009 and 2010, institutional investors shifted away from U.S. government money market funds, withdrawing $537 billion, on net, from these funds over the past two years. Nevertheless, U.S. government money market funds comprised nearly 39 percent of institutional taxable money market assets at year-end 2010, up from only 24 percent at year-end 2006, prior to the start of the financial crisis.

FIGURE 2.14

Total Net Assets and Net Flows to Taxable U.S. Government and Non-Government Institutional Money Market Funds

Billions of dollars, 2001–2010

	U.S. government		Non-government	
	Total net assets *Year-end*	Net new cash flow *Annual*	Total net assets *Year-end*	Net new cash flow *Annual*
2001	$296	$73	$787	$255
2002	301	-0.4	818	20
2003	272	-32	733	-95
2004	256	-20	675	-64
2005	276	17	745	33
2006	289	9	901	130
2007	578	281	1,106	169
2008	1,204	600	1,076	-75
2009	903	-310	1,181	108
2010	677	-227	1,058	-132

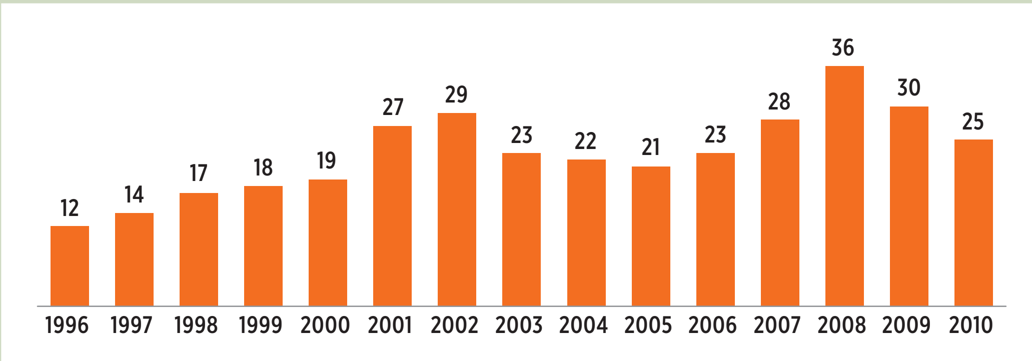
U.S. nonfinancial businesses continued to reduce their holdings of money market funds in 2010. During the financial crisis, corporate treasurers made extensive use of institutional money market funds; at year-end 2008, 36 percent of their short-term assets were in money market funds (Figure 2.15). By year-end 2010, nonfinancial businesses held 25 percent of their short-term assets in money market funds, back to approximately the same proportion measured at year-end 2006, prior to the start of the financial crisis.

For more complete data on money market funds, see section 4 in the data tables on pages 164–171.

FIGURE 2.15

Money Market Funds Managed 25 Percent of U.S. Businesses' Short-Term Assets* in 2010

Percent, year-end, 1996–2010



* U.S. nonfinancial businesses' short-term assets consist of foreign deposits, checkable deposits, time and savings deposits, money market funds, repurchase agreements, and commercial paper.

Sources: Investment Company Institute and Federal Reserve Board

For More Information

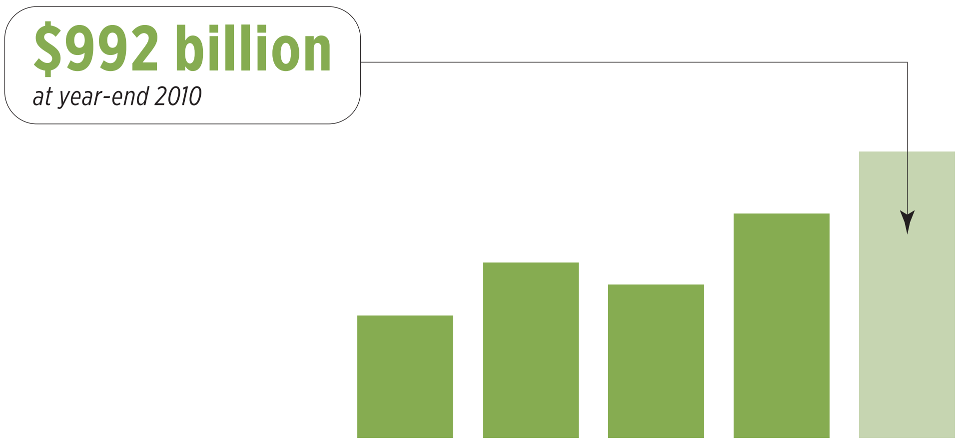
» Frequently Asked Questions About Bond Mutual Funds

» Frequently Asked Questions About Money Market Funds

» "Pricing of U.S. Money Market Funds," *ICI Research Report*

Available at www.ici.org.

Total net assets of ETFs reached nearly $1 trillion at year-end 2010



Chapter Three

Exchange-Traded Funds

Over the past decade, demand for ETFs has grown markedly as investors—both institutional and retail—increasingly turn to them as investment options in their portfolios. With the increase in demand, sponsors have offered more ETFs with a greater variety of investment objectives. While ETFs share some basic characteristics with mutual funds, there remain key operational and structural differences between the two types of investment products.

This chapter provides an overview of exchange-traded funds (ETFs)—how they are created, how they differ from mutual funds, how they trade, the demand by investors for ETFs, and the characteristics of ETF-owning households.

What Is an ETF?

An ETF is an investment company, typically an open-end investment company (open-end fund) or unit investment trust, whose shares are traded intraday on stock exchanges at market-determined prices. Investors may buy or sell ETF shares through a broker just as they would the shares of any publicly traded company.

ETFs are a relatively recent innovation to the investment company concept. The first ETF—a broad-based domestic equity fund tracking the S&P 500 index—was introduced in 1993 after a fund sponsor received U.S. Securities and Exchange Commission (SEC) exemptive relief from various provisions of the Investment Company Act of 1940 that would not otherwise allow the ETF structure. Until 2008, SEC exemptive relief was granted only to ETFs that tracked designated indexes. These ETFs, commonly referred to as index-based ETFs, are designed to track the performance of their specified indexes or, in some cases, a multiple of or an inverse (or a multiple of an inverse) of their indexes.

In early 2008, the SEC first granted exemptive relief to several fund sponsors to offer fully transparent actively managed ETFs that meet certain requirements. These actively managed ETFs must disclose each business day on their publicly available websites the identities and weightings of the component securities and other assets held by the ETF. Actively managed ETFs do not seek to track the return of a particular index. Instead, an actively managed ETF's investment adviser, like that of an actively managed mutual fund, creates a unique mix of investments to meet a particular investment objective and policy.

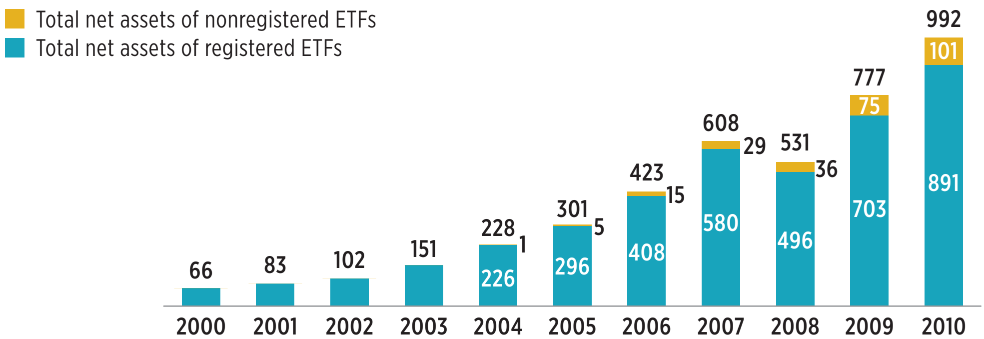
Total Net Assets of ETFs

By the end of 2010, the total number of index-based and actively managed ETFs had grown to 923, and total net assets were $992 billion (Figure 3.1).

FIGURE 3.1

Total Net Assets and Number of ETFs*

Billions of dollars, year-end, 2000–2010



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Number of ETFs	80	102	113	119	152	204	359	629	728	797	923

* ETF data include ETFs not registered under the Investment Company Act of 1940; ETF data exclude ETFs that invest primarily in other ETFs.

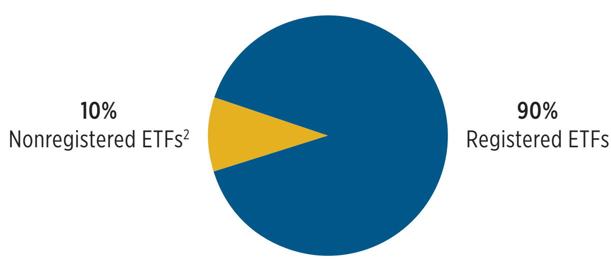
Note: Components may not add to the total because of rounding.

The vast majority of assets in ETFs are in funds registered with and regulated by the SEC under the Investment Company Act of 1940 (Figure 3.2). At year-end 2010, about 10 percent of assets were held in ETFs that invest primarily in commodities, currency, and futures. These ETFs are not registered with or regulated by the SEC under the Investment Company Act of 1940. Nonregistered ETFs that invest in commodity futures are regulated by the Commodity Futures Trading Commission (CFTC), while those that invest solely in physical commodities are regulated by the SEC under the Securities Act of 1933.

FIGURE 3.2

Legal Structure of ETFs[1]

Percentage of total net assets, year-end 2010



Total: $992 billion

[1] ETF data exclude ETFs that invest primarily in other ETFs.

[2] The funds in this category invest primarily in commodities, currency, and futures, and are not registered under the Investment Company Act of 1940.

Creation of an ETF

An ETF originates with a sponsor, who chooses the investment objective of the ETF. In the case of an index-based ETF, the sponsor chooses both an index and a method of tracking its target index. Index-based ETFs track their target index in one of two ways. A replicate index-based ETF holds every security in the target index and invests its assets proportionately in all the securities in the target index. A sample index-based ETF does not hold every security in the target index; instead the sponsor chooses a representative sample of securities in the target index in which to invest. Representative sampling is a practical solution for an ETF that has a target index with thousands of securities in it.

The sponsor of an actively managed ETF also determines the investment objective of the fund and may trade securities at its discretion, much like an actively managed mutual fund. In theory, an actively managed ETF could trade its portfolio securities regularly. In practice, however, most existing actively managed ETFs tend to trade only weekly or monthly for a number of reasons, including minimizing the risk of other market participants front-running their trades.

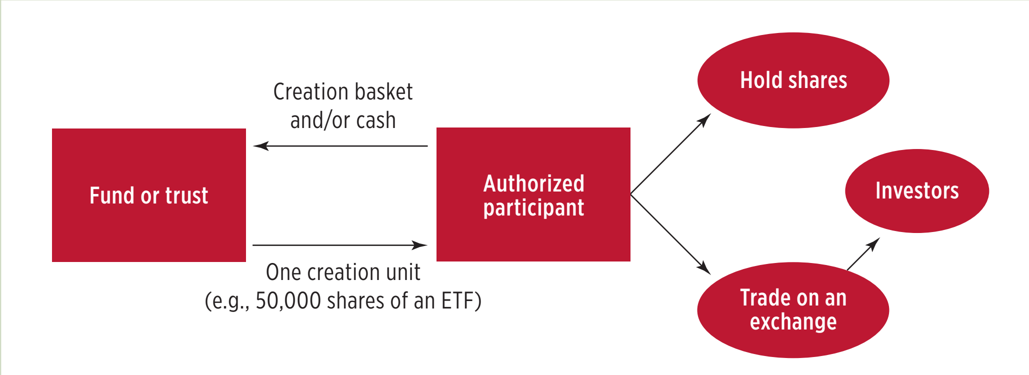
ETFs are required to publish information about their portfolio holdings daily. Each business day, the ETF publishes a "creation basket," a specific list of names and quantities of securities and/or other assets. The creation basket is either a replicate or a sample of the ETF's portfolio. Actively managed ETFs and certain types of index-based ETFs are required to publish their complete portfolio holdings in addition to their creation basket.

ETF shares are created when an "authorized participant"—typically a large institutional investor, such as a market maker or specialist—deposits the daily creation basket and/or cash with the ETF (Figure 3.3). The ETF may require or permit an authorized participant to substitute cash for some or all of the securities or assets in the creation basket. For instance, if a security in the creation basket is difficult to obtain or may not be held by certain types of investors (as is the case with certain foreign securities), the ETF may allow the authorized participant to pay that security's portion of the basket in cash. An authorized participant may also be charged a transaction fee to offset any transaction expenses the fund undertakes. In return for the creation basket and/or cash, the ETF issues to the authorized participant a "creation unit" that consists of a specified number of ETF shares. Creation units are large blocks of shares that generally range in size from 25,000 to 200,000 shares. The authorized participant can either keep the ETF shares that make up the creation unit or sell all or part of them on an exchange. ETF shares are listed on a number of exchanges where investors can purchase them as they would shares of a publicly traded company.

A creation unit is liquidated when an authorized participant returns the specified number of shares in the creation unit to the ETF. In return, the authorized participant receives the daily "redemption basket," a set of specific securities and/or other assets contained within the ETF's portfolio. The composition of the redemption basket typically mirrors that of the creation basket.

FIGURE 3.3

Creation of an ETF



ETFs and Mutual Funds

A registered ETF is similar to a mutual fund in that it offers investors a proportionate share in a pool of stocks, bonds, and other assets. It is most commonly structured as an open-end investment company and is governed by the Investment Company Act of 1940 like other mutual funds. For example, like a mutual fund, an ETF is required to post the mark-to-market net asset value (NAV) of its portfolio at the end of each trading day. Despite these similarities, key features differentiate ETFs from mutual funds.

Key Differences

One major difference is that retail investors buy and sell ETF shares on a stock exchange through a broker-dealer, much like they would any other type of stock. In contrast, mutual fund shares are not listed on stock exchanges. Rather, retail investors buy and sell mutual fund shares through a variety of distribution channels, including through a financial adviser, broker-dealer, or directly from a fund company.

Pricing also differs between mutual funds and ETFs. Mutual funds are "forward priced," which means that although investors can place orders to buy or sell shares throughout the day, all orders placed during the day will receive the same price—the NAV—the next time it is computed. Most mutual funds calculate their NAV as of 4:00 p.m. eastern time because that is the time U.S. stock exchanges typically close. In contrast, the price of an ETF share is continuously determined on a stock exchange. Consequently, the price at which investors buy and sell ETF shares may not necessarily equal the NAV of the portfolio of securities in the ETF. In addition, two investors selling the same ETF shares at different times on the same day may receive different prices for their shares, both of which may differ from the ETF's NAV.

How ETFs Trade

The price of an ETF share on a stock exchange is influenced by the forces of supply and demand. While imbalances in supply and demand can cause the price of an ETF share to deviate from its underlying value (i.e., the market value of the underlying instruments, also known as the Intraday Indicative Value or IIV), substantial deviations tend to be short-lived for many ETFs. Two primary features of an ETF's structure promote trading of an ETF's shares at a price that approximates the ETF's underlying value: portfolio transparency and the ability for authorized participants to create or redeem ETF shares at NAV at the end of each trading day.

The transparency of an ETF's holdings enables investors to observe discrepancies between the ETF's share price and its underlying value during the trading day and to attempt to profit from them. ETFs contract with third parties (typically market data vendors) to calculate an estimate of an ETF's IIV, using the portfolio information an ETF publishes daily. IIVs are disseminated at regular intervals during the trading day (typically every 15 to 60 seconds). Some market participants for whom a 15- to 60-second latency is too long will use their own computer programs to estimate the underlying value of the ETF on a more real-time basis.

If the ETF is trading at a discount to its underlying value, investors may buy ETF shares and/or sell the underlying securities. The increased demand for the ETF should raise its share price and the sales of the underlying securities should lower their share prices, narrowing the gap between the ETF and its underlying value. If the ETF is trading at a premium to its underlying value, investors may choose to sell the ETF and/or buy the underlying securities. These actions should reduce the ETF share price and/or raise the price of the underlying securities, bringing the price of the ETF and the market value of its underlying securities closer together.

The ability of authorized participants to create or redeem ETF shares at the end of each trading day also helps an ETF trade at market prices that approximate the underlying market value of the portfolio. When a deviation between an ETF's market price and its underlying value occurs, authorized participants may engage in trading strategies similar to those described above, but will purchase or sell creation units directly with the ETF. For example, when an ETF is trading at a premium, authorized participants may find it profitable to sell short the ETF during the day while simultaneously buying the underlying securities. At the end of the day, the authorized participant will deliver the creation basket of securities to the ETF in exchange for ETF shares that they use to cover their short sales. When an ETF is trading at a discount, authorized participants may find it profitable to buy the ETF shares and sell short the underlying securities. At the end of the day, authorized participants return ETF shares to the fund in exchange for the ETF's redemption basket of securities that they use for their short positions. These actions by authorized participants, commonly described as "arbitrage opportunities," help keep the market-determined price of an ETF's shares close to its underlying value.

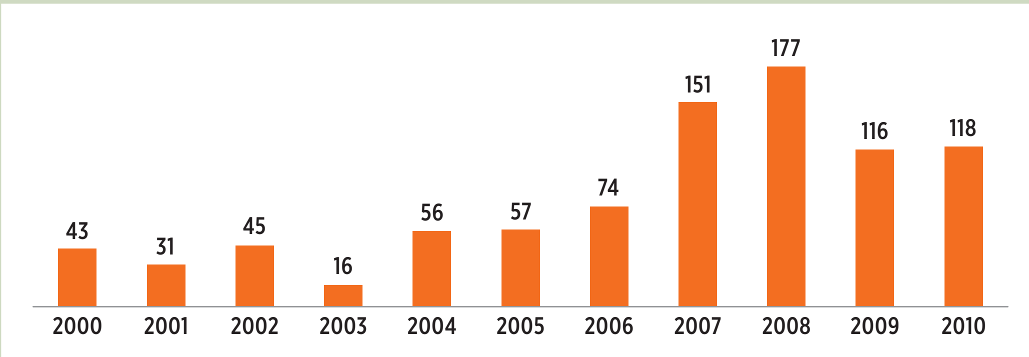
Demand for ETFs

In the past decade, demand for ETFs has accelerated as institutional investors have found ETFs a convenient vehicle for participating in, or hedging against, broad movements in the stock market. Demand for ETFs also has been influenced by increased awareness of these investment vehicles by retail investors and their financial advisers. Assets in ETFs accounted for 8 percent of total net assets managed by investment companies at year-end 2010. Net issuance of ETF shares in 2010 amounted to $118 billion, about the same pace as in 2009 (Figure 3.4).

FIGURE 3.4

Net Issuance of ETF Shares*

Billions of dollars, 2000–2010



* ETF data prior to 2001 were provided by Strategic Insight Simfund; ETF data include ETFs not registered under the Investment Company Act of 1940. ETF data exclude ETFs that invest primarily in other ETFs.

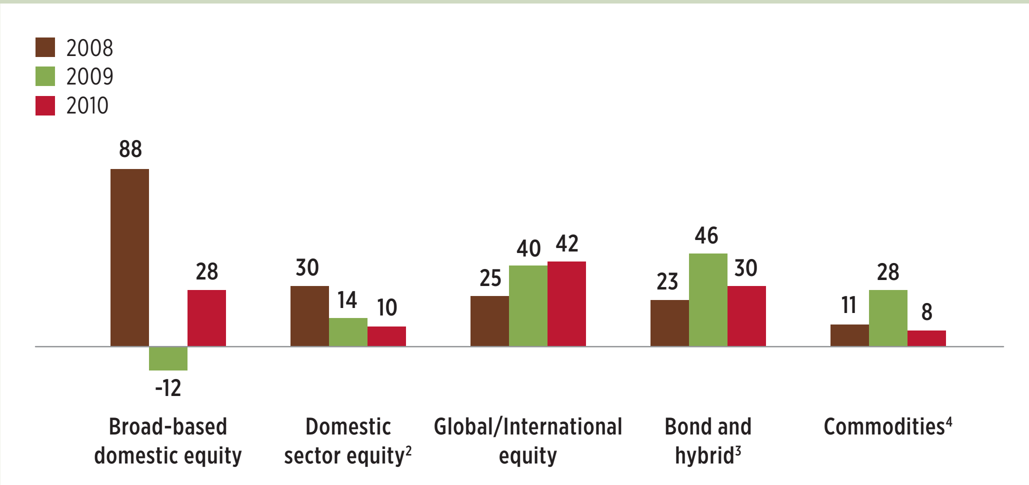
Sources: Investment Company Institute and Strategic Insight Simfund

In 2010, investor demand for broad-based domestic equity ETFs rebounded, and demand for global and international ETFs remained strong (Figure 3.5). Broad-based domestic equity ETFs saw net issuance of $28 billion, after net redemptions of $12 billion in 2009. This reversal more than offset a decline in demand for domestic sector equity ETFs and commodity ETFs in 2010. Demand for bond and hybrid ETFs slowed as well with net issuance amounting to $30 billion in 2010, down from the record pace of $46 billion in 2009. Net issuance of global and international equity ETFs remained strong in 2010 at $42 billion, up from $40 billion in 2009.

FIGURE 3.5

Net Issuance of ETF Shares[1] by Investment Classification

Billions of dollars, 2008–2010



[1] ETF data exclude ETFs that invest primarily in other ETFs.

[2] This category includes funds both registered and not registered under the Investment Company Act of 1940.

[3] Bond ETFs represented 99.52 percent of flows in the bond and hybrid category in 2010.

[4] The funds in this category invest primarily in commodities, currency, and futures, and are not registered under the Investment Company Act of 1940.

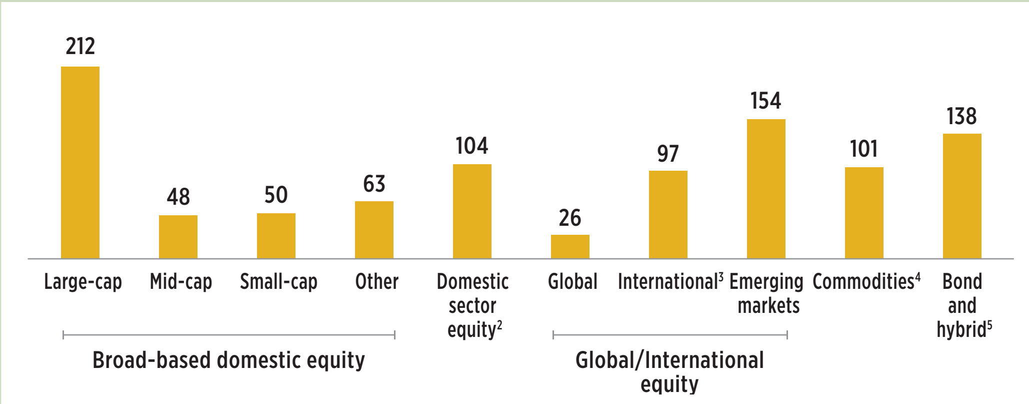
As of year-end 2010, large-cap domestic equity ETFs accounted for the largest proportion of all ETF assets—21 percent, or $212 billion (Figure 3.6). The second-largest category was emerging market equity ETFs, which accounted for 16 percent ($154 billion) of all ETF assets.

Increased investor demand for ETFs led to a rapid increase in the number of ETFs created by fund sponsors in the past decade (Figure 3.7). Over the period of 2000 to 2010, 1,055 ETFs were created with an average of almost 175 ETFs created per year in the past five years. Few ETFs had been liquidated until 2008 when market pressures appeared to come into play and sponsors began liquidating ETFs that had failed to gather sufficient assets. Liquidations have tended to occur among ETFs tracking virtually identical indexes, those focusing on specialty or niche indexes, or those using alternative weighting methodologies. Despite increasing liquidations over the period 2008 through 2010, the total number of ETFs also increased, on net, by 294 to a total of 923 over the same time frame.

FIGURE 3.6

Total Net Assets of ETFs[1] Concentrated in Large-Cap Domestic Stocks

Billions of dollars, year-end 2010



[1] ETF data exclude ETFs that invest primarily in other ETFs.

[2] This category includes funds both registered and not registered under the Investment Company Act of 1940.

[3] This category includes international, regional, and single country ETFs.

[4] The funds in this category invest primarily in commodities, currency, and futures, and are not registered under the Investment Company Act of 1940.

[5] Bond ETFs represented 99.77 percent of the assets in the bond and hybrid category.

FIGURE 3.7

Number of ETFs[1]

2000–2010

	Created	Liquidated	Total at year-end
2000	50	0	80
2001	22	0	102
2002	14	3	113
2003	10	4	119
2004	35	2	152
2005	52	0	204
2006	156	1	359
2007	270	0	629
2008	149	50	728
2009	120	49	797[2]
2010	177	51	923

[1] ETF data include ETFs not registered under the Investment Company Act of 1940. ETF data exclude ETFs that invest primarily in other ETFs.

[2] In 2009, two ETFs converted from holding securities directly to investing primarily in other ETFs.

As demand for ETFs has grown, ETF sponsors have offered more funds with a greater variety of investment objectives. Recently, sponsors have introduced ETFs that invest in particular market sectors, industries, or commodities. At year-end 2010, there were 248 sector and commodity ETFs with $205 billion in assets. While commodity ETFs only made up 22 percent of the number of sector and commodity ETFs (Figure 3.8), they accounted for 49 percent of the total net assets of these funds (Figure 3.9). Since their introduction in 2004, commodity ETFs have grown from just over $1 billion to $101 billion by the end of 2010, with total net assets almost tripling in the past two years. Strong net issuance and surging gold and silver prices were the primary drivers behind the increase in assets during this time. Approximately three-quarters of commodity ETF assets tracked the price of gold and silver through the spot and futures markets in 2010.

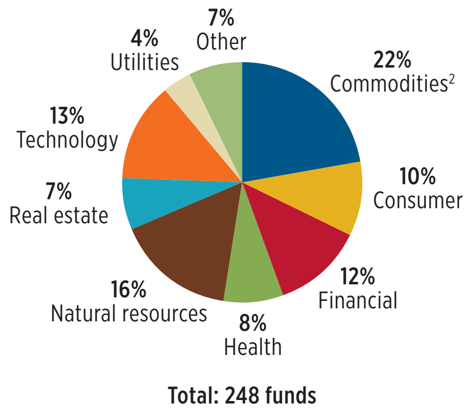
In 2010, ETF sponsors continued building on recent innovations by launching additional actively managed ETFs and ETFs that are structured as funds of funds, both of which were first introduced in 2008. During 2010, seven actively managed ETFs were launched, bringing the total number of actively managed ETFs to 26* with nearly $3 billion in assets at year-end, excluding ETF funds of funds. ETF funds of funds are ETFs that hold and invest primarily in shares of other ETFs. At year-end 2010, there were 27 ETF funds of funds—including three actively managed ETF funds of funds that launched in 2010—with $1.3 billion in assets.

* This total includes two nonregistered ETFs.

FIGURE 3.8

Number of Commodity and Sector ETFs[1]

Percent, year-end 2010



[1] ETF data exclude ETFs that invest primarily in other ETFs.

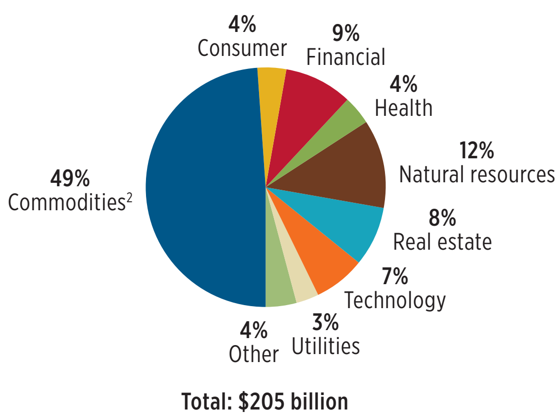
[2] The funds in this category invest primarily in commodities, currency, and futures, and are not registered under the Investment Company Act of 1940.

Note: Components do not add to 100 percent because of rounding.

FIGURE 3.9

Total Net Assets of Commodity and Sector ETFs[1]

Percent, year-end 2010



[1] ETF data exclude ETFs that invest primarily in other ETFs.

[2] The funds in this category invest primarily in commodities, currency, and futures, and are not registered under the Investment Company Act of 1940.

Characteristics of ETF-Owning Households

An estimated 3.3 million U.S. households held ETFs in 2010. Of households that owned mutual funds, an estimated 5 percent also owned ETFs. ETF-owning households tended to include affluent, experienced investors who owned a range of equity and fixed-income investments. In 2010, 97 percent of ETF-owning households also owned stocks, either directly or through stock mutual funds or variable annuities (Figure 3.10). Sixty-six percent of households that owned ETFs also held bonds, bond mutual funds, or fixed annuities. In addition, 39 percent of ETF-owning households owned investment real estate.

FIGURE 3.10

ETF-Owning Households Held a Broad Range of Investments

*Percentage of ETF-owning households holding each type of investment, May 2010**

Stock mutual funds, stocks, or variable annuities (total)	**97**
Bond mutual funds, bonds, or fixed annuities (total)	**66**
Mutual funds (total)	**86**
Stock mutual funds	76
Bond mutual funds	55
Hybrid mutual funds	57
Money market funds	64
Stocks	**88**
Bonds	**27**
Fixed or variable annuities	**33**
Investment real estate	**39**

* Multiple responses are included.

Some characteristics of retail ETF owners are similar to those of retail stock owners because a large number of households that owned ETFs also owned stock. For instance, households that owned ETFs—like stock-owning households—tended to have household incomes above the national median and to own at least one defined contribution (DC) retirement plan account (Figure 3.11). However, ETF-owning households also exhibit some characteristics that distinguish them from stock-owning households. For example, ETF-owning households tended to have higher incomes, greater household financial assets, and to be headed by younger and college-educated individuals.

FIGURE 3.11

Characteristics of ETF-Owning Households

May 2010

	All U.S. households	Households owning ETFs	Households owning individual stocks
Median			
Age of head of household	49	46	52
Household income[1]	$49,800	$130,000	$85,000
Household financial assets[2]	$75,000	$300,000	$225,000
Percentage of households			
Household primary or co-decisionmaker for saving and investing:			
Married or living with a partner	63	84	76
Widowed	10	3	7
Four-year college degree or more	31	84	50
Employed (full- or part-time)	60	80	67
Retired from lifetime occupation	29	29	33
Household owns:			
IRA(s)	41	85	68
DC retirement plan account(s)	52	74	71

[1] Total reported is household income before taxes in 2009.

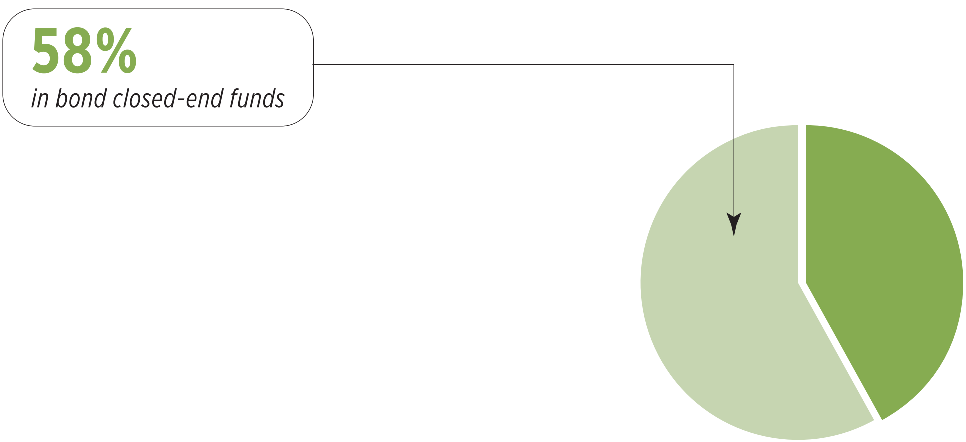
[2] Household financial assets include assets in employer-sponsored retirement plans but exclude the household's primary residence.

For More Information

» Frequently Asked Questions About Exchange-Traded Funds

Available at www.ici.org.

Over half of closed-end fund total net assets were in bond funds in 2010



Chapter Four

Closed-End Funds

Closed-end funds are one of four types of investment companies, along with mutual (or open-end) funds, exchange-traded funds, and unit investment trusts. Closed-end funds generally issue a fixed number of shares that are listed on a stock exchange or traded in the over-the-counter market. The assets of a closed-end fund are professionally managed in accordance with the fund's investment objectives and policies, and may be invested in stocks, bonds, and other securities.

This chapter describes recent closed-end fund developments in the United States and provides a profile of the U.S. households that own them.

What Is a Closed-End Fund?

A closed-end fund is a type of investment company whose shares are listed on a stock exchange or traded in the over-the-counter market. The assets of a closed-end fund are professionally managed in accordance with the fund's investment objectives and policies, and may be invested in stocks, bonds, and other securities. The market price of closed-end fund shares fluctuates like that of other publicly traded securities and is determined by supply and demand in the marketplace.

Closed-end funds offer a fixed number of shares to investors during an initial public offering. Closed-end funds also may make subsequent public offerings of shares in order to raise additional capital. Once issued, the shares of a closed-end fund are not typically purchased or redeemed directly by the fund. Rather, they are bought and sold by investors in the open market.

Because a closed-end fund does not need to maintain cash reserves or sell securities to meet redemptions, the fund has the flexibility to invest in less liquid portfolio securities. For example, a closed-end fund 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. Closed-end funds also have flexibility to borrow against their assets, allowing them to use leverage as part of their investment strategy.

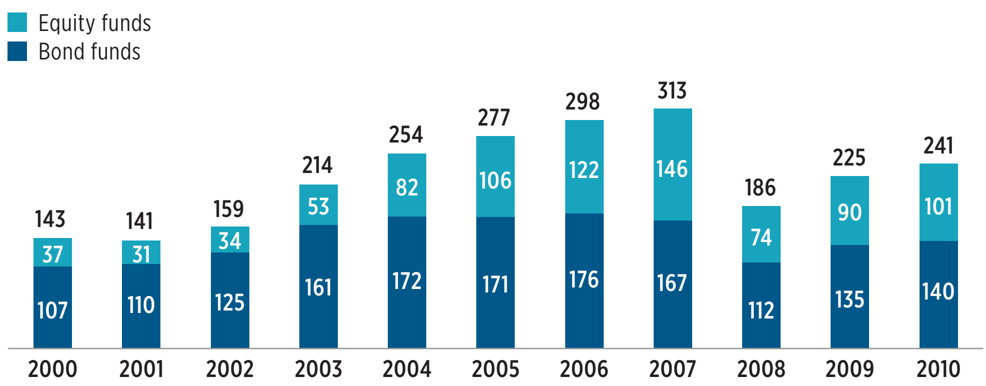
Total Net Assets of Closed-End Funds

Total net assets of closed-end funds increased to $241 billion at year-end 2010, up 7 percent from year-end 2009 but still below the recent high of $313 billion in assets at year-end 2007 (Figure 4.1). Closed-end fund assets have increased by $98 billion, on net, over the past decade.

FIGURE 4.1

Closed-End Fund Total Net Assets Increased to $241 Billion

Billions of dollars, year-end, 2000–2010



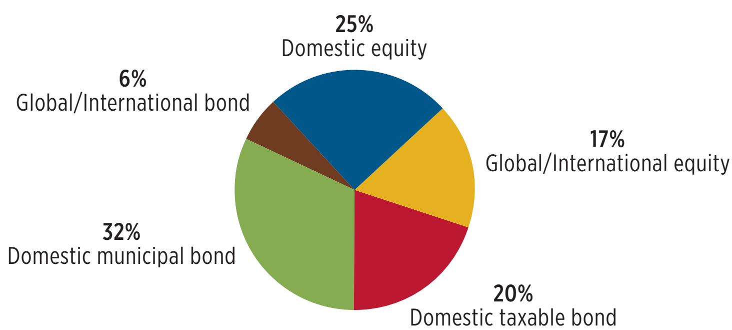
Note: Components may not add to the total because of rounding.

Historically, bond funds have accounted for a large share of assets in closed-end funds. In 2000, 74 percent of all closed-end fund assets were held in bond funds, while the remainder was held in equity funds. At year-end 2010, assets in bond closed-end funds were $140 billion, or 58 percent of closed-end fund assets (Figure 4.2). Equity closed-end funds totaled $101 billion, or 42 percent of closed-end fund assets. These relative shares have shifted over time, in part because issuance by equity closed-end funds exceeded that of bond closed-end funds for every year from 2004 through 2008 (Figure 4.3).

FIGURE 4.2

Bond Funds Were the Largest Segment of the Closed-End Fund Market

Percentage of closed-end fund total net assets, year-end 2010



Total closed-end fund assets: $241 billion

Proceeds from issuance of closed-end funds totaled $8.3 billion in 2010, up from $3.9 billion in the previous year (Figure 4.3). In 2010, issuance of closed-end bond funds totaled $4.6 billion, of which $4.3 billion—or about half of total issuance—was domestic bond funds. The remaining $3.6 billion in proceeds was from issuance of closed-end equity funds. Virtually all equity closed-end fund issuance in 2010 was from domestic equity closed-end funds, in contrast to 2009 in which equity fund proceeds were primarily global and international equity closed-end funds.

For more data on closed-end funds, see section 2 in the data tables on pages 138–139.

FIGURE 4.3

Closed-End Fund Share Issuance

*Proceeds from the issuance of initial and additional public offerings of closed-end fund shares, millions of dollars, 2002–2010**

		Equity		Bond	
	Total	Domestic	Global/ International	Domestic	Global/ International
2002	$24,911	$9,191	$18	$15,701	$0
2003	40,963	11,187	161	28,582	1,032
2004	27,867	15,424	5,801	5,613	1,028
2005	21,266	12,559	6,628	1,955	124
2006	12,333	7,692	2,583	1,724	334
2007	31,193	5,973	19,871	2,654	2,695
2008	330	8	200	121	0
2009	3,900	476	1,176	1,931	317
2010	8,291	3,628	13	4,291	358

* Data are not available for years prior to 2002.
Note: Components may not add to the total because of rounding.

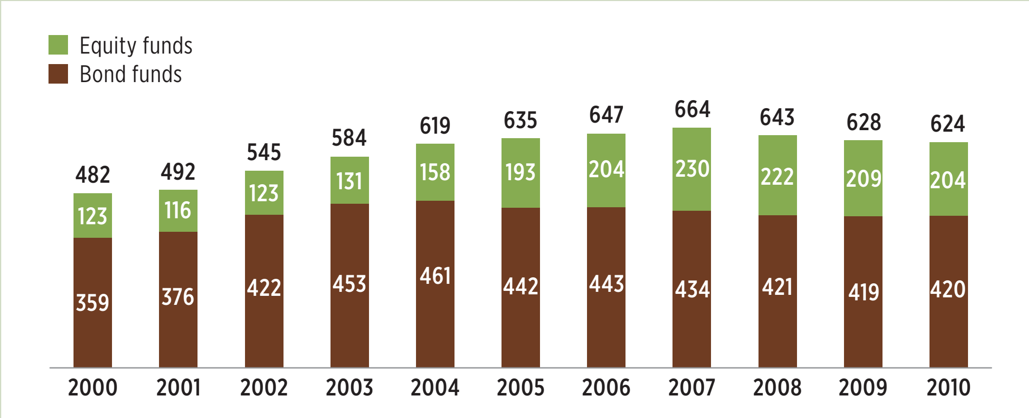
Number of Closed-End Funds

The number of closed-end funds available to investors has increased over the past decade. At the end of 2010, there were 624 closed-end funds, up from 482 at the end of 2000, but still down from 664 at the end of 2007 (Figure 4.4). Bond funds were the most common type of closed-end fund, accounting for 67 percent of the total number of funds. Municipal bond funds represented 41 percent of all closed-end funds in 2010. Equity funds made up 33 percent of the total number of closed-end funds.

FIGURE 4.4

Number of Closed-End Funds

Year-end, 2000–2010



Closed-End Fund Preferred Shares

Closed-end funds are permitted to issue one class of preferred shares in addition to common shares. Preferred shares differ from common shares in that preferred shareholders are paid dividends but do not share in the gains and losses of the fund. Issuing preferred shares allows a closed-end fund to raise additional capital, which it can use to purchase more securities for its portfolio. This strategy, known as leveraging, is intended to allow the fund to produce higher returns for its common shareholders. At year-end 2010, 13 percent of the $241 billion in closed-end fund assets were preferred shares (Figure 4.5). Bond closed-end funds accounted for more than three-quarters of outstanding preferred share assets.

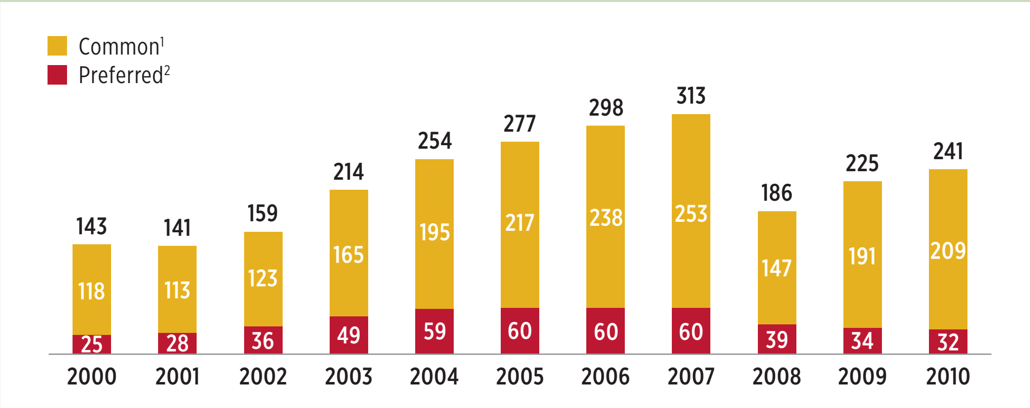
Closed-End Fund Auction Market Preferred Stock

In the early 1990s, closed-end funds began issuing a type of preferred share referred to as auction market preferred stock (AMPS). AMPS are structured to pay dividends at rates set through auctions run by an independent auction agent. Typically, shares traded hands and dividend rates were reset through auctions that were held every seven or 28 days. Investors submitted bids and sell orders through a broker-dealer, who, in turn, submitted them to an auction agent. Bids were filled to the extent shares were available, and sell orders were filled to the extent there were bids. All filled bids received dividends at the new set dividend, or market clearing, rate.

FIGURE 4.5

Bulk of Closed-End Fund Total Net Assets Was in Common Share Classes

Billions of dollars, year-end, 2000–2010



[1] All closed-end funds issue common stock, which is also known as common shares.

[2] A closed-end fund may issue preferred shares to raise additional capital, which can be used to purchase more securities for its portfolio. Preferred stock differs from common stock in that preferred shareholders are paid dividends but do not share in the gains and losses of the fund.

Note: Components may not add to the total because of rounding.

Since mid-February 2008, all auctions for closed-end fund AMPS have failed. The failed auctions have not been caused by defaults under the terms of the AMPS or credit quality concerns with fund investments; they failed because there were more shares offered for sale in the auction than there were bids to buy shares. Prior to the failures, if more shares were tendered for sale than purchased, broker-dealers typically would enter the auction and purchase any excess shares to prevent the auction from failing. However, broker-dealers are not, and never have been, legally required to bid for their own accounts in an auction.

As a result of a series of pressures on their balance sheets, broker-dealers stopped participating in the auctions. After a few auctions failed, all subsequent auctions for closed-end fund preferred stock failed. Preferred shareholders appeared to become concerned about the liquidity of their AMPS, and many sought to sell their shares. This move by preferred shareholders increased the imbalance between supply and demand, making it difficult for the auction market to resume functioning.

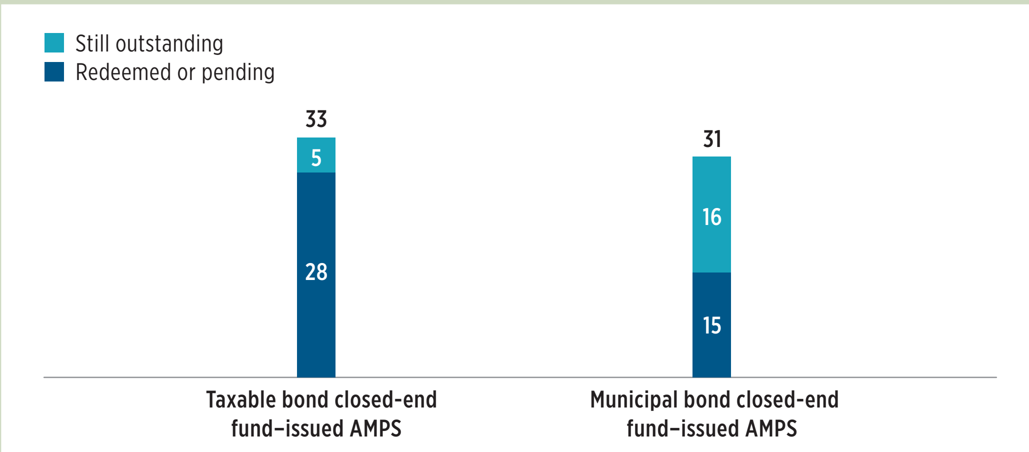
Redemption and Replacement of AMPS

As of year-end 2010, closed-end funds had redeemed, or announced plans to redeem, approximately $43 billion, or 67 percent, of the $64 billion in AMPS that were outstanding in mid-February 2008 (Figure 4.6). Closed-end funds have, among other things, obtained bank loans and lines of credit, issued tender option bonds, engaged in reverse repurchase agreements, and issued extendable notes to replace AMPS while maintaining leverage. Taxable bond closed-end funds have redeemed or announced redemptions for 85 percent of their original outstanding AMPS. Because tax-exempt bond closed-end funds (also known as municipal bond funds) have fewer options for alternative leverage than taxable funds do, they have redeemed, or announced redemptions for, a smaller amount (47 percent of the original AMPS outstanding). A number of these funds have issued MuniFund Term Preferred (MTP) shares and have privately placed Variable Rate Demand Preferred (VRDP) shares to redeem AMPS while maintaining leverage.

FIGURE 4.6

Closed-End Fund AMPS Redemptions

Billions of dollars, year-end 2010



Source: Thomas J. Herzfeld Advisors, Inc.

MuniFund Term Preferred Shares and Puttable Preferred Stock

A number of municipal bond closed-end funds issued—or announced their intention to issue—MTP shares beginning in October 2009. MTP shares are exchange-listed closed-end fund preferred shares that have a fixed dividend rate set at the time of issuance. MTP shares have a mandatory redemption period (typically five years) unless they are redeemed or repurchased earlier by the fund. Unlike fixed-rate preferred stock previously issued, MTP shares were created for issuance by closed-end funds investing in municipal bonds.

Further, VRDP shares—a type of puttable preferred stock—were privately placed for a few municipal bond closed-end funds beginning in August 2008. These issuances continued throughout 2010. They are similar to AMPS in that they pay dividends at variable rates, and sell orders are filled to the extent there are bids. Unlike AMPS, however, rates are set through remarketings (rather than through auctions); and if there are more sell orders than bids, a third party, commonly referred to as a liquidity provider, purchases the VRDP shares. Dividends are set weekly at a rate established by the remarketing agent subject to a maximum rate, which will increase over time in the event of an extended period of unsuccessful remarketing. Closed-end funds are required to redeem VRDP shares still owned by the liquidity provider if there are six months of continuous, unsuccessful remarketing.

Characteristics of Households Owning Closed-End Funds

An estimated 2.1 million U.S. households held closed-end funds in 2010. These households tended to include affluent, experienced investors who owned a range of equity and fixed-income investments. In 2010, 95 percent of closed-end fund–owning households also owned stocks, either directly or through stock mutual funds or variable annuities (Figure 4.7). Seventy-nine percent of households that owned closed-end funds also held bonds, bond mutual funds, or fixed annuities. In addition, 52 percent of these households owned investment real estate. Because a large number of households that owned closed-end funds also owned stocks and mutual funds, the characteristics of closed-end fund–owning households were similar in many respects to those of stock- and mutual fund–owning households. For instance, households that owned closed-end funds—like stock- and mutual fund–owning households—tended to be headed by college-educated individuals and had household incomes above the national average (Figure 4.8).

FIGURE 4.7

Closed-End Fund–Owning Households Held a Broad Range of Investments

*Percentage of closed-end fund–owning households holding each type of investment, May 2010**

Stock mutual funds, stocks, or variable annuities (total)	**95**
Bond mutual funds, bonds, or fixed annuities (total)	**79**
Mutual funds (total)	**87**
Stock mutual funds	80
Bond mutual funds	61
Hybrid mutual funds	65
Money market funds	68
Stocks	**82**
Bonds	**43**
Fixed or variable annuities	**51**
Investment real estate	**52**

* Multiple responses are included.

FIGURE 4.8

Closed-End Fund–Owning Households Had Above-Average Household Incomes and Financial Assets

May 2010

	All U.S. households	Households owning closed-end funds	Households owning mutual funds	Households owning individual stocks
Median				
Age of head of household	49	54	50	52
Household income[1]	$49,800	$87,500	$80,000	$85,000
Household financial assets[2]	$75,000	$500,000	$200,000	$225,000
Percentage of households				
Household primary or co-decisionmaker for saving and investing:				
Married or living with a partner	63	70	75	76
Widowed	10	13	6	7
Four-year college degree or more	31	63	46	50
Employed (full- or part-time)	60	63	73	67
Retired from lifetime occupation	29	55	25	33
Household owns:				
IRA(s)	41	75	68	68
DC retirement plan account(s)	52	65	77	71

[1] Total reported is household income before taxes in 2009.

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

Nonetheless, households that owned closed-end funds exhibit certain characteristics that distinguish them from stock- and mutual fund–owning households. For example, households with closed-end funds tended to have much greater household financial assets than either stock or mutual fund investors. Closed-end fund investors were also more likely to be retired from their lifetime occupations than either stock or mutual fund investors.

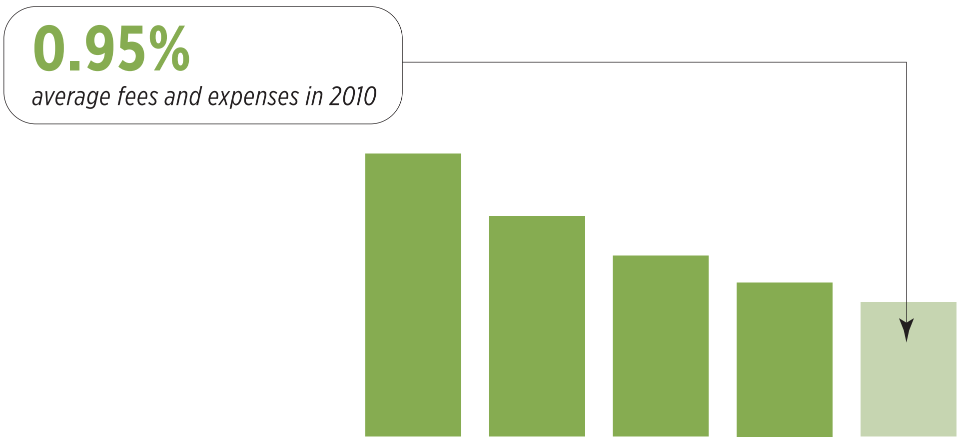
For More Information

» "The Closed-End Fund Market, 2010," *ICI Research Perspective*

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

Available at www.ici.org.

Fees and expenses of stock funds dropped by more than half since 1990



Chapter Five

Mutual Fund Fees and Expenses

Mutual fund investing involves two primary types of fees and expenses: sales loads and ongoing expenses. Sales loads are one-time fees—paid directly by investors either at the time of share purchase (front-end loads) or, in some cases, when shares are redeemed (back-end loads). Unlike sales loads, ongoing expenses are paid from fund assets, and thus investors pay them indirectly. A fund's expense ratio is its annual ongoing expenses expressed as a percentage of fund assets. Ongoing fund 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 miscellaneous costs of operating the fund.

Mutual fund investors, like investors in all financial products, pay for services they receive. This chapter provides an overview of mutual fund fees and expenses.

Trends in Mutual Fund Fees and Expenses

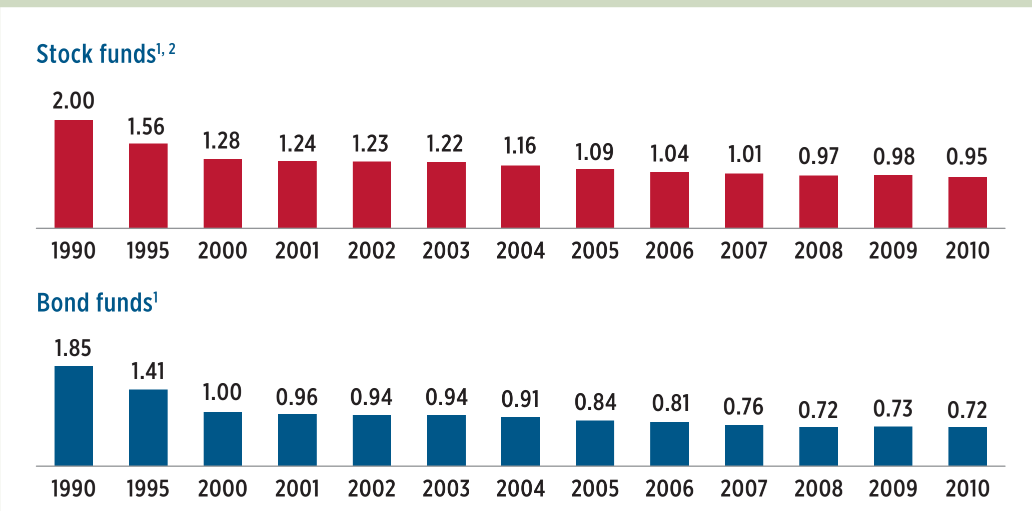
To understand trends in mutual fund fees and expenses, it is helpful to combine major fund fees and expenses into a single measure. ICI created such a measure by adding a fund's annual expense ratio to an estimate of the annualized cost that investors pay for one-time sales loads. This measure is reported as an asset-weighted average, which gives more weight to those funds that have the most assets.

Mutual fund fees and expenses that investors pay have trended downward since 1990. In 1990, investors in stock funds, on average, paid fees and expenses of 2.00 percent of fund assets. By 2010, that figure had fallen by more than 50 percent to 0.95 percent (Figure 5.1). Fees and

FIGURE 5.1

Fees and Expenses Incurred by Stock and Bond Mutual Fund Investors Have Declined by More Than Half Since 1990

Percent, selected years



[1] Data exclude mutual funds available as investment choices in variable annuities and mutual funds that invest primarily in other mutual funds. Figure reports year-end asset-weighted average of annual expense ratios and annualized loads for individual funds.

[2] Stock funds include equity and hybrid funds.

Sources: Investment Company Institute and Lipper

expenses paid on bond funds declined by 61 percent from 1.85 percent of fund assets to 0.72 percent over the same time period.

There are a number of reasons for the dramatic drop in fees and expenses incurred by mutual fund investors. First, investors generally pay much less in sales loads than they did in 1990. Maximum front-end loads that an investor might pay for investing in mutual funds have remained fairly stable since 1990 (Figure 5.2). However, the front-end loads that shareholders actually incurred—sometimes referred to as the effective load—have fallen significantly. For stock funds, for example, the average front-end sales load actually paid fell from 3.9 percent in 1990 to 1.0 percent in 2010. A key factor contributing to the steep decline in loads paid has been the growth of mutual fund sales through employer-sponsored retirement plans. Load funds often waive loads for purchases of fund shares through such retirement plans.

FIGURE 5.2

Front-End Sales Loads That Investors Paid Were Well Below Maximum Front-End Sales Loads That Funds Charged

Percentage of purchase amount, selected years

	Maximum front-end sales load[1]		Front-end sales load that investors actually incurred[1]	
	Stock[2]	Bond	Stock[2]	Bond
1990	5.0	4.6	3.9	3.5
1995	4.8	4.1	2.5	2.1
2000	5.2	4.2	1.4	1.1
2001	5.2	4.2	1.2	1.0
2002	5.3	4.1	1.3	1.0
2003	5.3	4.1	1.3	1.0
2004	5.3	4.1	1.4	1.1
2005	5.3	4.0	1.3	1.0
2006	5.3	4.0	1.2	0.9
2007	5.3	4.0	1.2	0.9
2008	5.3	4.0	1.1	0.8
2009	5.3	3.9	1.0	0.8
2010	5.3	3.9	1.0	0.8

[1] The maximum front-end sales load is a simple average of the highest front-end sales load that funds may charge as set forth in their prospectuses. The average actually incurred is the maximum sales load multiplied by the ratio of total front-end sales loads collected by front-end load funds as a percentage of new sales of shares by such funds.

[2] Stock funds include equity and hybrid funds.

Note: Data exclude mutual funds available as investment choices in variable annuities and mutual funds that invest primarily in other mutual funds.

Sources: Investment Company Institute, Lipper, and Strategic Insight Simfund

Another reason for the decline in the fees and expenses of investing in mutual funds has been growth in the sales of no-load funds. Much of the increase in sales of no-load funds has occurred through the employer-sponsored retirement plan market. In addition, sales of no-load funds have also expanded through mutual fund supermarkets, discount brokers, and full-service brokerage platforms that compensate financial advisers with asset-based fees paid outside of funds.

Finally, mutual fund fees have been pushed down by economies of scale and competition within the mutual fund industry. The demand for mutual fund services has increased dramatically over the past several decades. For example, the number of households owning mutual funds has more than doubled since 1990, going from 23.4 million in 1990 to 51.6 million in 2010. Over the same period, the number of shareholder accounts rose from 61.9 million to over 290 million. Ordinarily, such a sharp increase in demand could tend to raise fund expense ratios. Any such effect, however, was more than offset by the downward pressure on fund expense ratios from competition among existing fund sponsors, the entry of new fund sponsors into the industry, economies of scale resulting from the growth in fund assets, and shareholder movement to lower-cost funds.

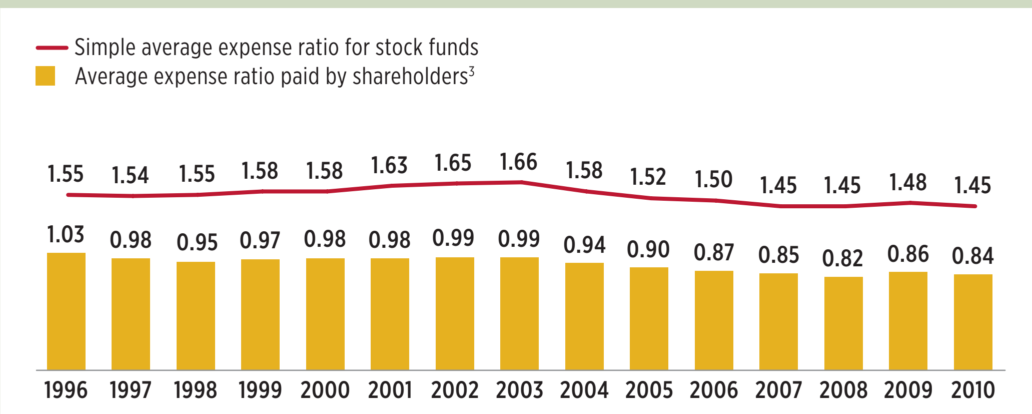
Shareholder Demand for Lower-Cost Funds

ICI research indicates that mutual fund shareholders invest predominantly in lower expense ratio funds. This can be seen by comparing the average expense ratio on mutual funds offered in the marketplace with the average expense ratio actually paid by mutual fund shareholders (Figure 5.3).

FIGURE 5.3

Fund Shareholders Paid Lower-Than-Average Expenses in Stock Funds[1, 2]

Percent, 1996–2010



[1] Data exclude mutual funds available as investment choices in variable annuities and mutual funds that invest primarily in other mutual funds.

[2] Stock funds include equity and hybrid funds.

[3] Figure reports year-end asset-weighted average of annual expense ratios for individual funds.

Sources: Investment Company Institute and Lipper

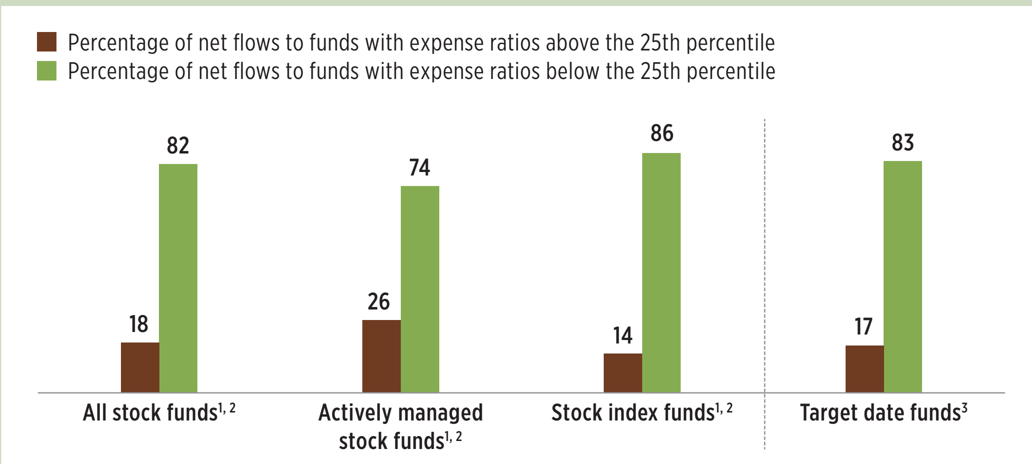
The simple average expense ratio of stock funds (which measures the average expense ratio of all stock funds offered in the market) was 1.45 percent in 2010. The average expense ratio that stock fund shareholders actually paid (the asset-weighted average expense ratio across all stock funds) was considerably lower: just 0.84 percent of stock fund assets.

Another way to illustrate that investors demand mutual funds with lower expense ratios is to identify how investors allocate their new purchases of mutual fund shares. During the 11-year period 2000 to 2010, stock funds with expense ratios in the lowest quartile received 82 percent of all net new cash flow, while the remaining 75 percent of funds received only 18 percent of the net new cash (Figure 5.4). This pattern holds for actively managed stock funds, stock index funds, and target date funds (funds that adjust their portfolios, typically more toward fixed income, as the fund approaches and passes the fund's "target date"). Stock index funds with expense ratios in the lowest quartile garnered 86 percent of the net new cash flow over the 11 years. Since 2005, target date funds with expense ratios in the lowest quartile have received 83 percent of the new net cash to such funds.

FIGURE 5.4

Least Costly Stock Funds Attract Most of the Net New Cash

Percent, 2000–2010



[1] Data exclude mutual funds available as investment choices in variable annuities and mutual funds that invest primarily in other mutual funds.

[2] Stock funds include equity and hybrid funds.

[3] Target date fund data are for 2005–2010; includes target date funds that invest primarily in other mutual funds.

Sources: Investment Company Institute and Lipper

Factors Influencing Mutual Fund Expenses

The prices of most goods and services differ considerably across the array of available products. Mutual funds are no exception: expense ratios vary across the range of mutual funds (Figure 5.5). The level of fund expenses depends on the fund investment objective, fund assets, balances in shareholder accounts, payments to intermediaries, and other factors.

Fund Investment Objective

Expenses vary by type of fund; for example, bond and money market funds tend to have lower expense ratios than equity funds. Among equity funds, expense ratios tend to be higher among funds that specialize in particular sectors—"sector" funds, such as healthcare or real estate—or those that invest in international stocks, because such funds tend to be more costly to manage.

Even within a particular type of investment objective, there can be considerable variation in fund expense ratios. For example, 10 percent of aggressive growth equity funds have expense ratios of 0.89 percent or less, while 10 percent have expense ratios of 2.27 percent or more. Among other

FIGURE 5.5

Expense Ratios for Selected Investment Objectives*

Percent, 2010

Investment objective	10th percentile	Median	90th percentile	Average *Asset-weighted*	Average *Simple*
Equity funds	**0.80**	**1.40**	**2.25**	**0.84**	**1.47**
Aggressive growth	**0.89**	**1.45**	**2.27**	**0.99**	**1.54**
Growth	0.76	1.29	2.15	0.89	1.39
Sector funds	0.93	1.56	2.43	0.98	1.65
Growth and income	0.55	1.18	2.00	0.54	1.25
Income equity	0.73	1.20	1.94	0.83	1.27
International equity	0.95	1.53	2.38	0.99	1.61
Hybrid funds	**0.62**	**1.21**	**2.00**	**0.83**	**1.27**
Bond funds	**0.50**	**0.92**	**1.70**	**0.64**	**1.04**
Taxable bond	0.49	0.95	1.78	0.65	1.06
Municipal bond	0.53	0.87	1.60	0.62	1.02
Money market funds	**0.16**	**0.29**	**0.52**	**0.26**	**0.32**

* Data exclude mutual funds available as investment choices in variable annuities and mutual funds that invest primarily in other mutual funds.

Sources: Investment Company Institute and Lipper

things, such variation reflects the fact that some aggressive growth funds focus more on small- or mid-cap stocks while others focus more on large-cap stocks. This can be significant because portfolios of small- and mid-cap stocks tend to be more costly to manage.

Fund and Average Fund Account Size

Other factors—such as fund size and average fund account size—also help explain differences in fund expense ratios. These two factors vary widely across the industry. In 2010, the median long-term mutual fund had assets of $264 million (Figure 5.6). Twenty-five percent of all long-term funds had assets of $70 million or less, while another 25 percent of long-term funds had assets greater than $929 million. Average fund account balances show similar variation. In 2010, 50 percent of long-term funds had average account balances of $49,052 or less. Twenty-five percent of long-term funds had average account balances of $19,307 or less. At the other extreme, 25 percent of long-term funds had average account balances of more than $162,094.

All else equal, larger mutual funds tend to have lower-than-average expense ratios because of economies of scale. Funds with higher account balances also tend to have lower expense ratios than other funds. This reflects the fact that each account, regardless of its size, requires certain services (such as mailing periodic account statements to account holders). Funds that cater primarily to institutional investors—who typically invest large amounts of money—tend to have higher average account balances. Funds that primarily serve retail investors typically have lower average account balances.

FIGURE 5.6

Fund Sizes and Average Account Balances Varied Widely

Long-term funds, year-end 2010[1, 2]

	Fund assets *Millions of dollars*	**Average account balance[3]** *Dollars*
10th percentile	$21	$10,461
25th percentile	70	19,307
Median	264	49,052
75th percentile	929	162,094
90th percentile	2,703	1,245,613

[1] Data exclude mutual funds available as investment choices in variable annuities and mutual funds that invest primarily in other mutual funds.

[2] Long-term funds include equity, hybrid, and bond funds.

[3] Average account balance is calculated at the fund level as total fund assets divided by the total number of shareholder accounts, which includes a mix of individual and omnibus accounts.

A Look at the Fees and Expenses of S&P 500 Index Mutual Funds

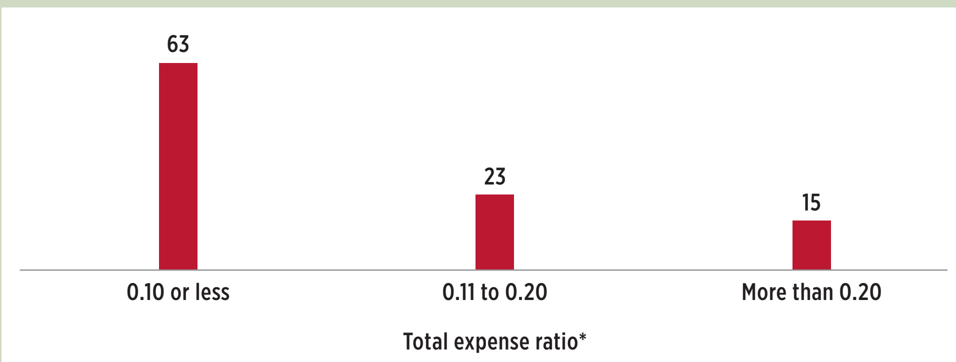
All S&P 500 index funds share the goal of mirroring the return on the S&P 500, a well-known index of 500 large-cap U.S. stocks. As a result, S&P 500 index funds all hold essentially identical portfolios.

Nevertheless, S&P 500 index funds differ from one another in important ways. Some S&P 500 index funds are very large—among the largest of any mutual funds—while other S&P 500 index funds are quite small. Required minimum investments range widely for S&P 500 index funds, from $100 for some retail funds to more than $25 million among S&P 500 index funds that cater to institutions. S&P 500 index funds also differ in terms of certain fees that investors may pay out of pocket, such as account maintenance fees. Finally, some S&P 500 index funds are sold through intermediaries (load funds), while others can be purchased directly from fund companies (no-load funds).

FIGURE 5.7

Investor Assets Were Concentrated in S&P 500 Index Mutual Funds with the Lowest Expense Ratios

Percentage of total net assets of S&P 500 index mutual funds, year-end 2010



* The total expense ratio, which is reported as a percentage of fund assets, includes fund operating expenses and 12b-1 fees.

Note: Components do not add to 100 percent because of rounding. Data exclude mutual funds available as investment choices in variable annuities.

Sources: Investment Company Institute and Lipper

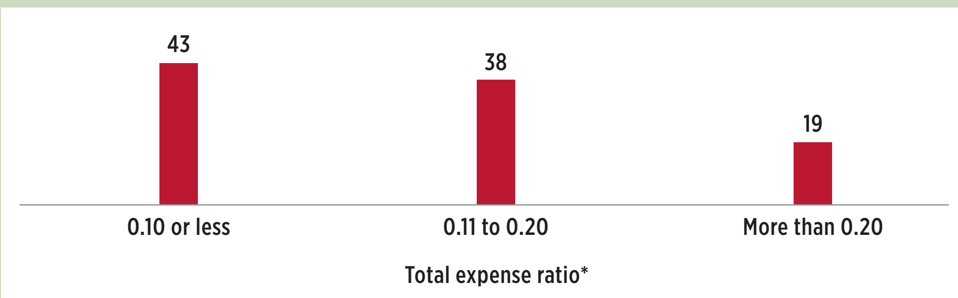
Because S&P 500 index funds are not all identical, their expense ratios differ. Similar to all long-term mutual funds, larger S&P 500 index funds and those S&P 500 index funds with higher average account balances tend to have lower-than-average expense ratios because of economies of scale. S&P 500 index funds sold through intermediaries tend to have higher expense ratios than comparable no-load S&P 500 index funds in order to compensate financial advisers for the planning, advice, and ongoing service that they provide to clients. Retail investors who purchase no-load S&P 500 index funds either do not use a financial adviser or use a financial adviser but pay the adviser directly.

Investors favor the least costly S&P 500 index funds. For example, in 2010, over 60 percent of the assets in S&P 500 index funds were held in funds with expense ratios of 0.10 percent or less (Figure 5.7). Lower-cost funds have garnered the bulk of investors' net new purchases of shares of S&P 500 index funds. From 1996 to 2010, 81 percent of the total net new cash flow to S&P 500 index funds went to those funds with expense ratios of 0.20 percent or less (Figure 5.8).

FIGURE 5.8

Investors' Net Purchases of S&P 500 Index Mutual Funds Were Concentrated in Least Costly Funds

Percentage of net new cash flow of S&P 500 index mutual funds, 1996–2010



*The total expense ratio, which is reported as a percentage of fund assets, includes fund operating expenses and 12b-1 fees.

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

Sources: Investment Company Institute and Lipper

Because larger funds typically have lower expense ratios, the expense ratios of individual funds often fall as those funds grow. This is illustrated in Figure 5.9, which tracks the expense ratios of domestic equity funds continuously in existence since 1991, along with the growth in their assets. Generally, the expense ratios of these funds declined as their total net assets rose, and vice versa. For example, from 1991 to 2010, the average expense ratio of this group of funds fell 13 percent, reflecting trend growth in their assets. On the other hand, when the assets of these funds declined during the bear markets that began in 2000 and 2007, their average expense ratio rose.

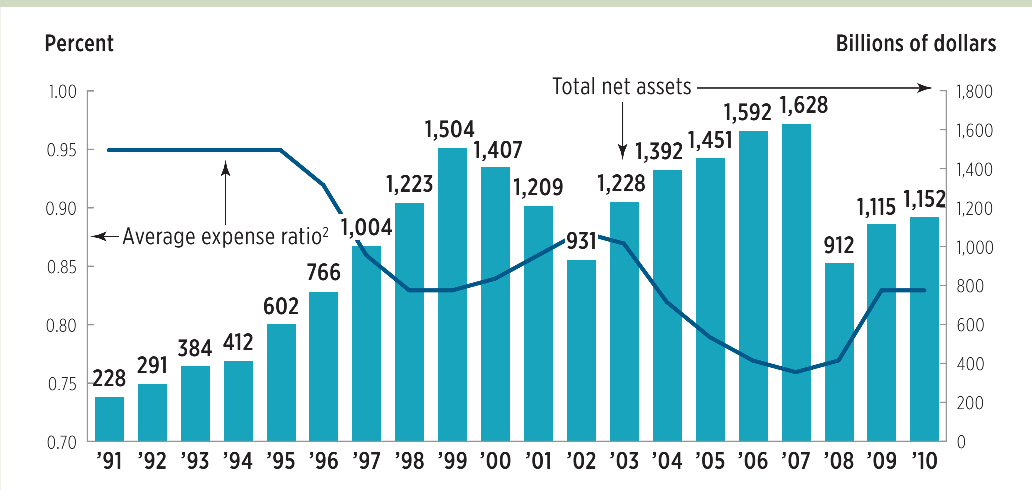
Payments to Intermediaries

Another factor that helps explain variation in fund fees is whether funds are sold through intermediaries, such as brokers or registered financial advisers. These professionals help investors define their investment goals, select appropriate funds, and provide ongoing advice and service. Financial advisers can be compensated for these services through a particular kind of fund fee, known as a 12b-1 fee, which is included in a fund's expense ratio. As a result, funds sold through intermediaries tend to have higher expense ratios than other funds (no-load funds). No-load funds are sold directly to investors or are sold to investors through financial advisers who charge investors separately for investment advice. Thus, no-load funds tend to have lower expense ratios than other funds with similar investment objectives.

FIGURE 5.9

Fund Expense Ratios Tend to Fall as Fund Total Net Assets Rise

Share classes of domestic equity funds continuously in existence since 1991[1]



[1] Calculations are based on a fixed sample of share classes. Sample includes all domestic equity share classes continuously in existence since 1991, excluding mutual funds available as investment choices in variable annuities and mutual funds that invest primarily in other mutual funds.

[2] Average expense ratio is an asset-weighted average.

Sources: Investment Company Institute and Lipper

The Changing Distribution Structure of Mutual Funds

Many mutual fund investors pay for the services of a professional financial adviser. ICI research finds that among investors owning mutual fund shares outside of retirement plans at work, 81 percent own fund shares through professional financial advisers. Financial advisers typically devote time and attention to prospective investors before investors make an initial purchase of funds and other securities. The adviser generally meets with the investor, identifies financial goals, analyzes existing financial portfolios, determines an appropriate asset allocation, and recommends funds to help achieve the investor's goals. Advisers also provide ongoing services, such as periodically reviewing investors' portfolios, adjusting asset allocations, and responding to customer inquiries.

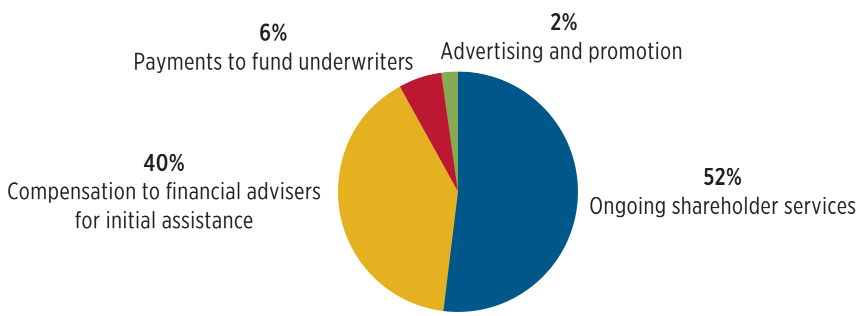
Thirty years ago, fund shareholders usually compensated financial advisers for their assistance through a front-end load—a one-time, upfront payment for current and future services. After 1980, when the U.S. Securities and Exchange Commission (SEC) adopted Rule 12b-1 under the Investment Company Act of 1940, funds and their shareholders had greater flexibility in compensating financial advisers. Rule 12b-1 and subsequent regulatory action established a framework under which investors can pay indirectly for some or all of the services they receive from financial advisers through 12b-1 fees—asset-based fees that are included in a fund's expense ratio.

Under this framework, 12b-1 fees can also be used to compensate financial intermediaries, such as retirement plan recordkeepers and discount brokerage firms, for the services they provide to fund shareholders. Although they can be used to pay for advertising and marketing, 12b-1 fees are primarily used to compensate financial advisers and other financial intermediaries for assisting fund investors before (40 percent of fees collected) and after they purchase fund shares (52 percent of fees collected) (Figure 5.10).

FIGURE 5.10

Most 12b-1 Fees Used to Pay for Shareholder Services

Percentage of 12b-1 fees collected, 2004



Source: *ICI Fundamentals*, "How Mutual Funds Use 12b-1 Fees"

Mutual Fund Share Classes

Mutual funds are often classified according to the class of shares that fund sponsors offer to investors, primarily load or no-load classes. Load classes generally serve investors who own fund shares purchased through financial advisers; no-load fund classes usually serve investors who purchase shares without the assistance of a financial adviser or choose to compensate the financial adviser separately. About two-thirds of all mutual funds offer two or more share classes. Funds that sell through financial advisers typically offer more than one share class to provide investors with alternative ways to pay for the services of financial advisers.

Load Share Classes

Load share classes—front-end load, back-end load, and level-load shares—usually include a sales load or a 12b-1 fee or both. The sales load and 12b-1 fees are used to compensate financial advisers and other investment professionals for their services.

Front-end load shares, which are predominantly Class A shares, represent the traditional means of paying for securities-related assistance. Front-end load shares generally charge a sales load at the time of purchase, which is a percentage of the sales price or offering price. Front-end load shares also often have a 12b-1 fee of 0.25 percent. Front-end load shares are sometimes used in employer-sponsored retirement plans, but fund sponsors typically waive the sales load for purchases made through such retirement plans.

Back-end load shares, which are primarily Class B shares, typically do not have a front-end load. Investors using back-end load shares pay for services provided by financial advisers through a combination of an annual 12b-1 fee and a contingent deferred sales load (CDSL). The CDSL is paid if fund shares are redeemed before a given number of years of ownership. The CDSL decreases the longer the investor owns the shares and reaches zero typically after the shares have been held six or seven years. After six to eight years, back-end load shares usually convert to a share class with a lower 12b-1 fee. For example, Class B shares typically convert to Class A shares after a specified number of years.

Level-load shares, which include Class C shares, generally do not have a front-end load. Investors in this kind of share class compensate financial advisers with a combination of an annual 12b-1 fee (typically 1 percent) and a CDSL (also often 1 percent) that shareholders pay if they sell their shares within the first year after purchase.

No-Load Share Classes

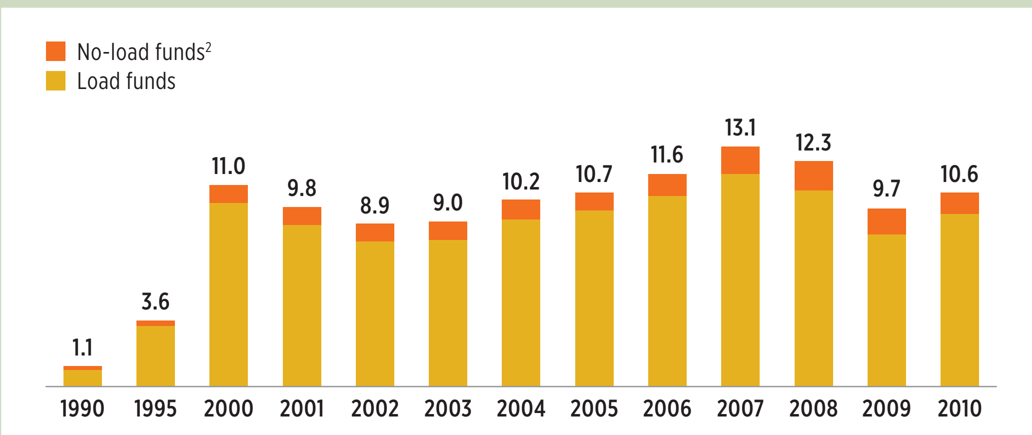
No-load share classes have no front-end load or CDSL, and have a 12b-1 fee of 0.25 percent or less. Originally, no-load share classes were offered by mutual fund sponsors that sold directly to investors. Now, investors can purchase no-load funds through employer-sponsored retirement plans, mutual fund supermarkets, discount brokerage firms, and bank trust departments, as well as directly from mutual fund sponsors. Some financial advisers who charge investors separately for their services rather than through a load or 12b-1 fee use no-load share classes.

The introduction of Rule 12b-1 changed the means by which financial advisers were compensated. The maximum front-end load fees that funds might charge declined sharply in the 1980s as funds adopted 12b-1 fees as an alternative way to compensate financial advisers and intermediaries for providing services to fund shareholders. Since 1990, 12b-1 fees paid by shareholders rose from $1.1 billion to $10.6 billion (Figure 5.11). This increase reflects, in part, the roughly tenfold increase in mutual fund assets and the more than twofold increase in the number of households owning funds since 1990.

FIGURE 5.11

12b-1 Fees Paid Reflect Asset Growth and Shift in Source of Financial Advisers' Compensation

Billions of dollars, selected years[1]



[1] Data exclude mutual funds available as investment choices in variable annuities and mutual funds that invest primarily in other mutual funds.

[2] Front-end load = 0 percent, CDSL = 0 percent, and 12b-1 fee ≤ 0.25 percent.

Sources: Investment Company Institute and Lipper

In recent years, the system for compensating financial intermediaries for distributing mutual fund shares and assisting investors has continued to evolve. For example, maximum front-end load fees have stabilized, but front-end load fee payments (as a percentage of assets) have continued to decline. This, in large measure, reflects the discounts from the maximum front-end load that investors often receive when making large share purchases or purchases through 401(k) plans.

There has also been a shift by investors toward no-load share classes. No-load share classes have consistently attracted more net new cash than load share classes in recent years (Figure 5.12). In 2010, for example, no-load share classes of long-term funds garnered $253 billion in net new cash, compared to an outflow of $33 billion for load share classes. Cumulatively, these flows have led to a concentration of long-term fund assets in no-load share classes; by 2010, no-load share classes of long-term funds had $5.1 trillion in total net assets compared to $2.6 trillion in load share

FIGURE 5.12

Net New Cash Flow Was Greatest in No-Load Share Classes

Billions of dollars, 2001–2010

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
All long-term funds	**$129**	**$121**	**$216**	**$210**	**$192**	**$227**	**$224**	**-$225**	**$390**	**$228**
Load	**45**	**26**	**49**	**49**	**31**	**39**	**16**	**-145**	**30**	**-33**
Front-end load[1]	23	19	33	46	41	42	19	-104	2	-60
Back-end load[2]	-2	-18	-20	-40	-47	-47	-42	-39	-24	-27
Level load[3]	23	24	28	20	17	20	24	-12	30	22
Other load[4]	1	2	8	22	20	24	15	10	22	34
No-load[5]	**72**	**96**	**125**	**125**	**143**	**164**	**184**	**-54**	**330**	**253**
Retail or general purpose	37	47	82	90	68	74	60	-115	131	28
Institutional	35	49	43	34	75	91	124	61	199	224
Variable annuities	**13**	**-2**	**42**	**36**	**18**	**24**	**25**	**-26**	**30**	**8**

[1] Front-end load > 1 percent. Primarily includes A shares; includes sales where front-end loads are waived.

[2] Front-end load = 0 percent and CDSL > 2 percent. Primarily includes B shares.

[3] Front-end load ≤ 1 percent, CDSL ≤ 2 percent, and 12b-1 fee > 0.25 percent. Primarily includes C shares; excludes institutional share classes.

[4] All other load share classes not classified as front-end load, back-end load, or level load. Primarily includes retirement share classes known as R shares.

[5] Front-end load = 0 percent, CDSL = 0 percent, and 12b-1 fee ≤ 0.25 percent.

Note: Components may not add to the total because of rounding. Data exclude mutual funds that invest primarily in other mutual funds.

Sources: Investment Company Institute and Lipper

classes (Figure 5.13). The shift toward no-load funds should not be taken as indicating that investors are eschewing advice from financial advisers. To be sure, some of the flows to no-load funds owe to "do-it-yourself" investors. However, much of the shift represents a change in the way investors compensate their financial advisers, with many investors now paying for financial advice directly out of their pockets instead of indirectly through their mutual funds. Flows from 401(k) plans and other retirement accounts also are often invested in no-load funds.

FIGURE 5.13

Total Net Assets of Long-Term Funds Were Concentrated in No-Load Share Classes

Billions of dollars, 2001–2010

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
All long-term funds	**$4,690**	**$4,118**	**$5,362**	**$6,194**	**$6,864**	**$8,059**	**$8,917**	**$5,771**	**$7,804**	**$9,017**
Load	**1,937**	**1,552**	**1,956**	**2,222**	**2,409**	**2,784**	**2,980**	**1,844**	**2,335**	**2,621**
Front-end load[1]	1,367	1,069	1,360	1,567	1,720	2,014	2,171	1,373	1,744	1,869
Back-end load[2]	407	309	356	334	271	241	204	102	98	78
Level load[3]	151	149	214	252	284	334	373	235	325	396
Other load[4]	12	24	26	68	133	195	233	134	168	279
No-load[5]	**2,055**	**1,976**	**2,605**	**3,031**	**3,416**	**4,051**	**4,590**	**3,073**	**4,332**	**5,096**
Retail or general purpose	1,492	1,424	1,862	2,163	2,399	2,798	3,074	1,922	2,650	2,987
Institutional	563	552	742	869	1,018	1,252	1,516	1,151	1,682	2,109
Variable annuities	**698**	**591**	**802**	**941**	**1,039**	**1,225**	**1,347**	**855**	**1,138**	**1,300**

[1] Front-end load > 1 percent. Primarily includes A shares; includes sales where front-end loads are waived.

[2] Front-end load = 0 percent and CDSL > 2 percent. Primarily includes B shares.

[3] Front-end load ≤ 1 percent, CDSL ≤ 2 percent, and 12b-1 fee > 0.25 percent. Primarily includes C shares; excludes institutional share classes.

[4] All other load share classes not classified as front-end load, back-end load, or level load. Primarily includes retirement share classes known as R shares.

[5] Front-end load = 0 percent, CDSL = 0 percent, and 12b-1 fee ≤ 0.25 percent.

Note: Components may not add to the total because of rounding. Data exclude mutual funds that invest primarily in other mutual funds.

Sources: Investment Company Institute and Lipper

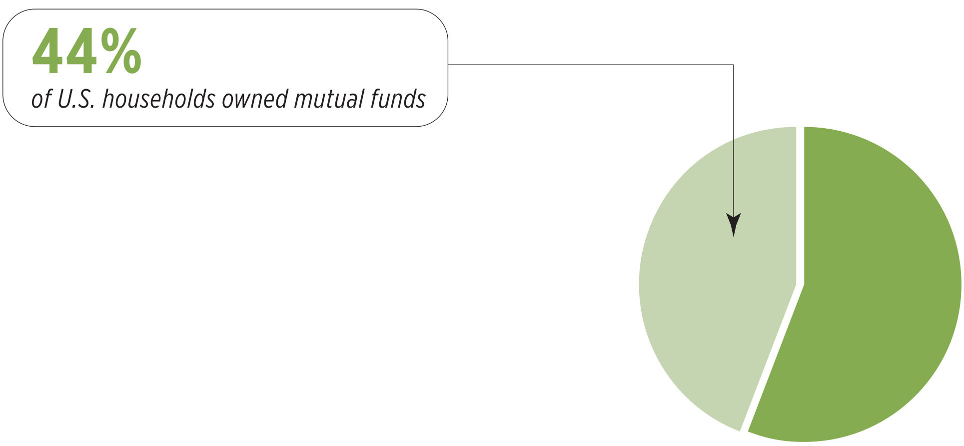
For More Information

» "Trends in the Fees and Expenses of Mutual Funds, 2010," *ICI Research Perspective*

» "The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2009," *Investment Company Institute Fundamentals*

Available at www.ici.org.

More than four in 10 U.S. households held mutual funds in 2010



Chapter Six

Characteristics of Mutual Fund Owners

Ownership of mutual funds by U.S. households has grown significantly in the past 30 years. Forty-four percent of all U.S. households owned mutual funds in 2010, compared with less than 6 percent in 1980. The estimated 90 million individuals who owned mutual funds in 2010 included many different types of people across all age and income groups with a variety of financial goals. These fund investors purchase and sell mutual funds through four principal sources: professional financial advisers (e.g., full-service brokers, independent financial planners), employer-sponsored retirement plans, fund companies directly, and fund supermarkets.

This chapter looks at the characteristics of individual and institutional owners of U.S. mutual funds and examines how these investors purchase fund shares.

Individual and Household Ownership of Mutual Funds

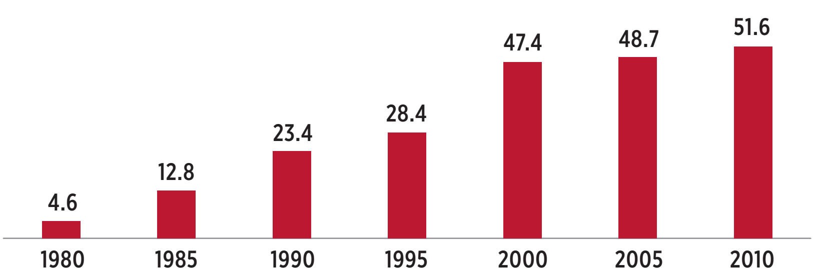
In 2010, an estimated 90 million individual investors owned mutual funds and held 87 percent of total mutual fund assets at year-end. Altogether, 51.6 million households, or 44 percent of all U.S. households, owned funds (Figure 6.1).

Mutual funds represented a significant component of many U.S. households' financial holdings in 2010. Among households owning mutual funds, the median amount invested in mutual funds was $100,000 (Figure 6.2). Seventy-five percent of individuals heading households that owned mutual funds were married or living with a partner, and 46 percent were college graduates. Seventy-three percent of these individuals worked full- or part-time.

FIGURE 6.1

44 Percent of U.S. Households Owned Mutual Funds in 2010

Millions and percentage of U.S. households owning mutual funds, selected years



	1980	1985	1990	1995	2000	2005	2010
Percentage of U.S. households	5.7	14.7	25.1	28.7	44.5	43.0	43.9

Sources: Investment Company Institute and U.S. Census Bureau. See *ICI Fundamentals*, "Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2010."

FIGURE 6.2

Characteristics of Mutual Fund Investors

May 2010

How Many People Own Mutual Funds?
90.2 million individuals
51.6 million U.S. households
Who Are They?
50 is the median age of the head of household
75 percent are married or living with a partner
46 percent are college graduates
73 percent are employed (full- or part-time)
18 percent are Silent or GI Generation
44 percent are Baby Boomers
24 percent are Generation X
14 percent are Generation Y
$80,000 is the median household income
What Do They Own?
$200,000 is the median household financial assets
65 percent hold more than half of their financial assets in mutual funds
68 percent own IRAs
77 percent own DC retirement plan accounts
4 mutual funds is the median number owned
$100,000 is the median mutual fund assets
80 percent own equity funds
When and How Did They Make Their First Fund Purchase?
54 percent bought their first mutual fund before 1995
61 percent purchased their first mutual fund through an employer-sponsored retirement plan
Why Do They Invest?
93 percent are saving for retirement
50 percent hold mutual funds to reduce taxable income
47 percent are saving for emergencies
25 percent are saving for education

Sources: Investment Company Institute and U.S. Census Bureau. See *ICI Fundamentals*, "Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2010"; *ICI Fundamentals*, "Characteristics of Mutual Fund Investors, 2010"; and *Profile of Mutual Fund Shareholders, 2010*.

Mutual Fund Ownership by Age and Income

The incidence of mutual fund ownership in 2010 was greatest among households in their peak earning and saving years, that is, between the ages of 35 and 64 (Figure 6.3). About half of all households in this age group owned mutual funds. Fewer than one-third of households younger than 35 and fewer than 40 percent of households aged 65 or older owned mutual funds.

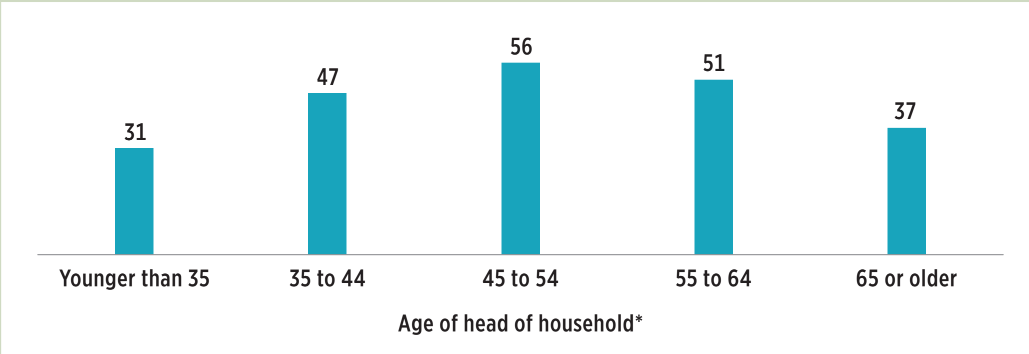
Among mutual fund–owning households in 2010, 67 percent were headed by individuals between the ages of 35 and 64 (Figure 6.4). Fifteen percent of mutual fund–owning households were headed by individuals younger than 35, and 18 percent were headed by individuals 65 or older. The median age of individuals heading households owning mutual funds was 50 (Figure 6.2). Like the U.S. population as a whole, the population of mutual fund–owning households is aging. Thirty-eight percent of mutual fund–owning households were headed by individuals 55 or older in 2010 compared with 26 percent in 1994 (Figure 6.4).

The majority of U.S. households owning mutual funds had moderate incomes. One-quarter of mutual fund–owning households had household incomes of less than $50,000; 20 percent had household incomes between $50,000 and $74,999; 19 percent had incomes between $75,000 and $99,999; and the remaining 36 percent had incomes of $100,000 or more. The median household income of mutual fund–owning households was $80,000 (Figure 6.2).

FIGURE 6.3

Mutual Fund Ownership Is Greatest Among 35- to 64-Year-Olds

Percentage of U.S. households within each age group, May 2010*



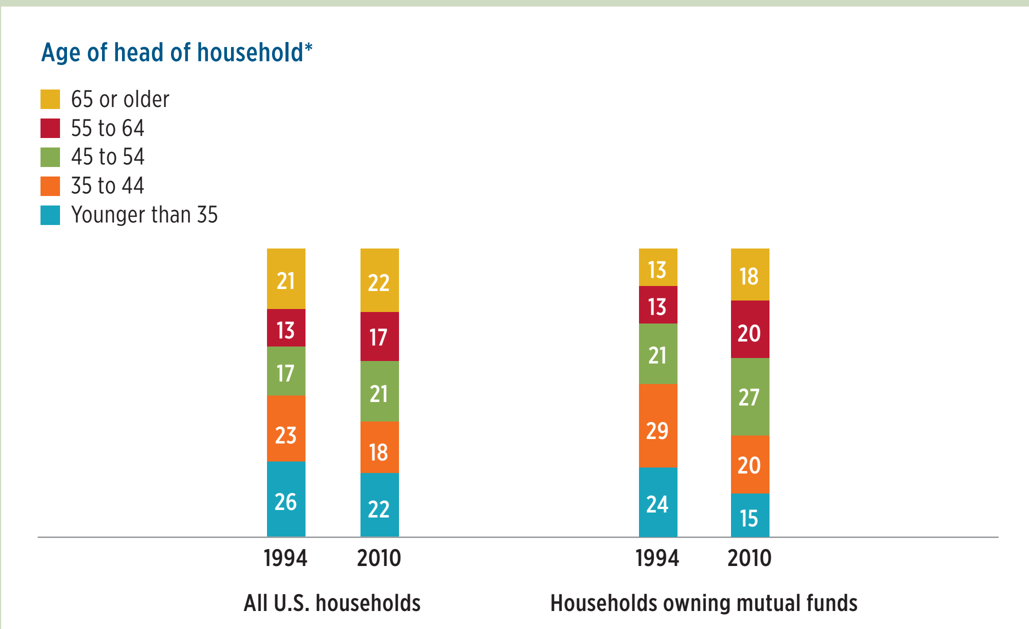
* Age is based on the age of the sole or co-decisionmaker for household saving and investing.

Sources: Investment Company Institute and U.S. Census Bureau. See *ICI Fundamentals*, "Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2010."

FIGURE 6.4

The U.S. Population and Mutual Fund Shareholders Are Getting Older

Percentage of households by mutual fund ownership status and age group, May 2010*



* Age is based on the age of the sole or co-decisionmaker for household saving and investing.

Sources: Investment Company Institute and U.S. Census Bureau. See *ICI Fundamentals*, "Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2010."

Although individuals across all income groups own mutual funds, households with higher incomes are more likely to own mutual funds than lower-income households. In 2010, 66 percent of all U.S. households with incomes of $50,000 or more owned mutual funds, compared with 22 percent of households with incomes of less than $50,000 (Figure 6.5). In fact, lower-income households are less likely to have any type of savings. The typical household with income less than $50,000 had $15,000 in savings and investments, while the typical household with incomes of $50,000 or more held $160,000 in savings and investments.

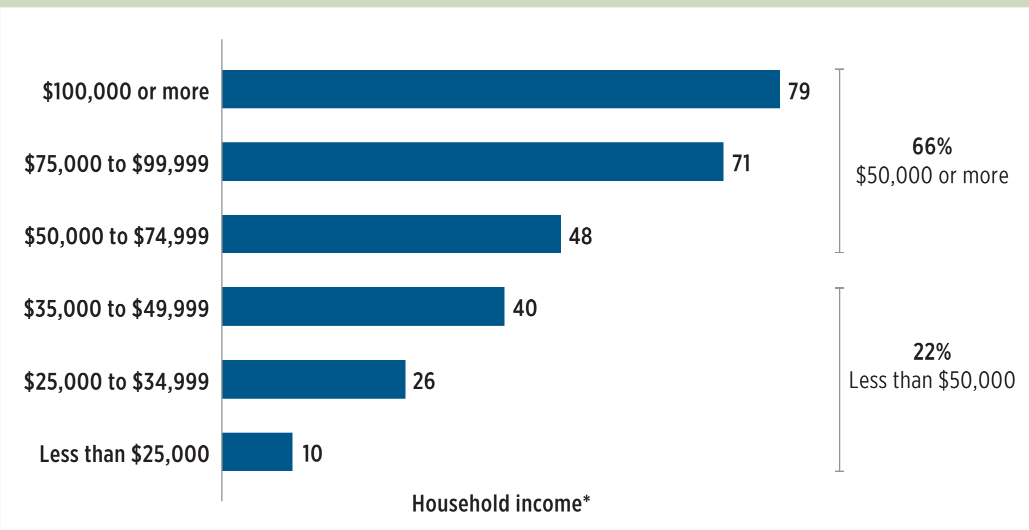
Savings Goals of Mutual Fund Investors

Mutual funds play a key role in achieving both the long- and short-term savings goals of U.S. households. In 2010, 74 percent of mutual fund–owning households indicated that their primary financial goal for their fund investments was saving for retirement. Ninety-one percent of households that owned mutual funds held shares inside workplace retirement plans, individual retirement accounts (IRAs), and other tax-deferred accounts. Households were more likely to invest their retirement assets in long-term mutual funds than in money market funds. Defined contribution (DC) retirement plans and IRA assets held in stock, bond, and hybrid mutual funds totaled $4.3 trillion in 2010 and accounted for 48 percent of those funds' assets, whereas retirement account assets in money market funds were $351 billion, or 13 percent of those funds' assets.

FIGURE 6.5

Ownership of Mutual Funds Increases with Household Income

Percentage of U.S. households within each income group, May 2010*



* Total reported is household income before taxes in 2009.

Sources: Investment Company Institute and U.S. Census Bureau. See *ICI Fundamentals*, "Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2010."

Retirement is not the only financial goal for households' mutual fund investments. Half of mutual fund–owning households reported that reducing their taxable income was one of their goals; 47 percent listed saving for an emergency as a goal; and 25 percent reported saving for education among their goals (Figure 6.2).

Where Investors Own Mutual Funds

The importance of retirement saving among mutual fund investors also is reflected in where they own their funds. As 401(k) and other employer-sponsored DC retirement plans have become increasingly popular in the workplace, the fraction of households that make their first foray into mutual fund investing inside their employer-sponsored retirement plans has increased. Among those households that made their first mutual fund purchase in 2005 or later, 72 percent did so inside an employer-sponsored retirement plan (Figure 6.6). Among those households that made their first purchase before 1990, 52 percent did so inside an employer-sponsored retirement plan.

FIGURE 6.6

Employer-Sponsored Retirement Plans Are Increasingly the Source of First Mutual Fund Purchase

Percentage of U.S. households owning mutual funds, May 2010

	Year of household's first mutual fund purchase					Memo: all mutual fund–owning households
	Before 1990	1990 to 1994	1995 to 1999	2000 to 2004	2005 or later	
Source of first mutual fund purchase						
Inside employer-sponsored retirement plan	52	62	66	66	72	61
Outside employer-sponsored retirement plan	48	38	34	34	28	39

Note: 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).

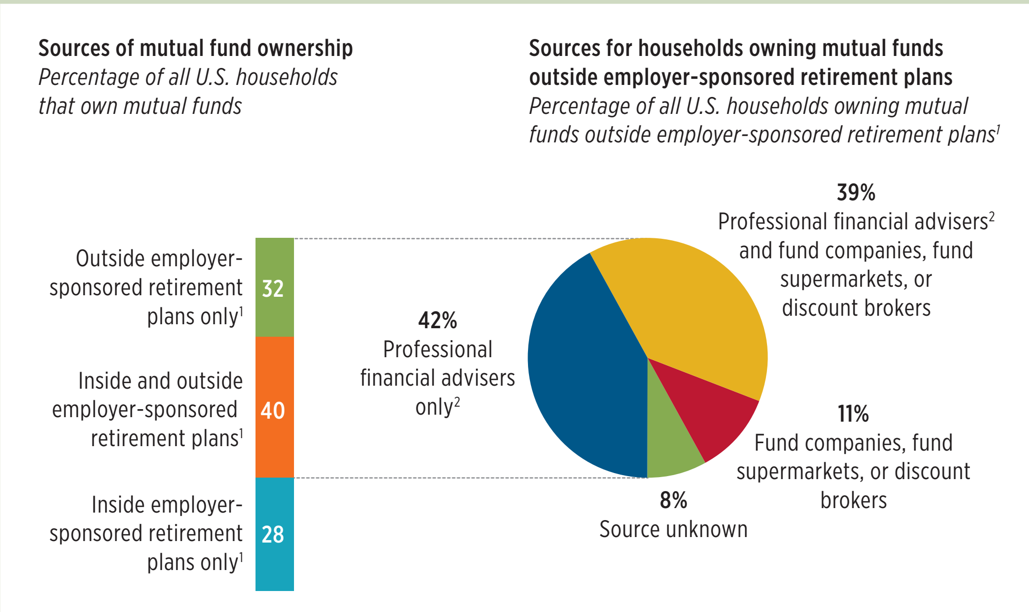
Sources: Investment Company Institute and U.S. Census Bureau. See *ICI Fundamentals*, "Characteristics of Mutual Fund Investors, 2010."

In 2010, 68 percent of mutual fund–owning households owned funds inside employer-sponsored retirement plans, with 28 percent owning funds only inside such plans (Figure 6.7). Seventy-two percent of mutual fund–owning households owned funds outside of employer-sponsored retirement accounts, with 32 percent owning funds only outside such plans. However, 63 percent of mutual fund–owning households without funds in workplace accounts held funds in their IRAs and in many cases, these IRAs held assets rolled over from 401(k)s or other employer-sponsored retirement plans (defined benefit or DC plans).

FIGURE 6.7

72 Percent of Mutual Fund–Owning Households Held Shares Outside Employer-Sponsored Retirement Plans

May 2010



[1] Employer-sponsored retirement plans include DC plans (401(k) plans, 403(b) plans, 457 plans, Keoghs, and other DC plans without 401(k) features) and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

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

Source: *Profile of Mutual Fund Shareholders, 2010*

Sources of Mutual Fund Purchases

Households owning mutual funds outside of workplace retirement plans purchased their funds through a variety of sources. Indeed, 81 percent of those that owned funds outside a workplace retirement plan held funds purchased through a professional adviser (Figure 6.7). Professional financial advisers include full-service brokers, independent financial planners, bank and savings institution representatives, insurance agents, and accountants. Forty-two percent of investors who owned funds outside employer-sponsored retirement plans owned funds solely through advisers, while another 39 percent owned funds purchased from advisers, fund companies directly, or discount brokers. Eleven percent solely owned funds purchased directly from fund companies or discount brokers.

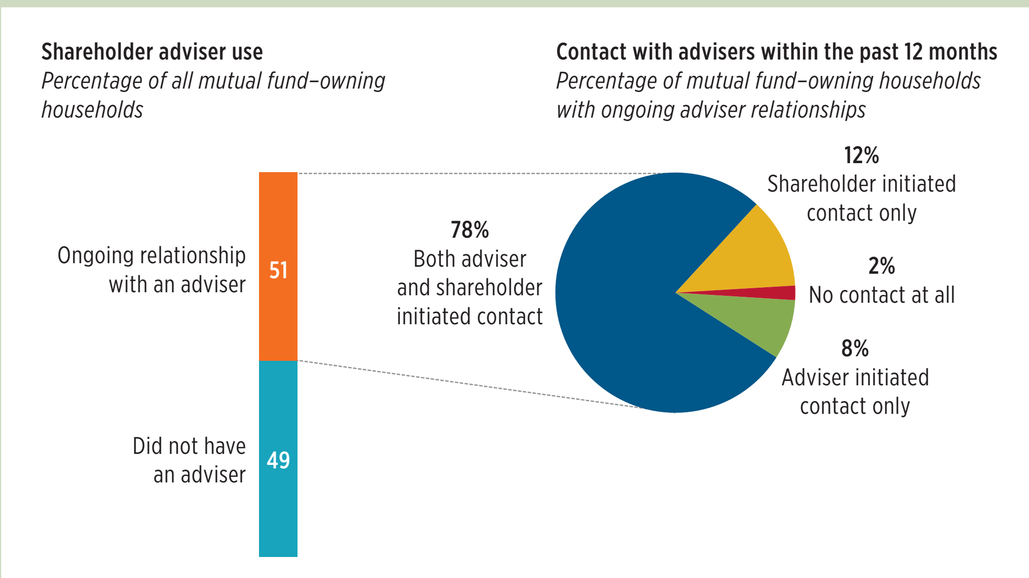
Adviser Contact in 2009 and 2010

About half (51 percent) of all mutual fund–owning households indicated they had ongoing relationships with financial advisers (Figure 6.8). Between June 2009 and May 2010, nearly all households with advisers had contact with their advisers. Seventy-eight percent of shareholders who reported using an adviser indicated that both they and their advisers initiated contact during this time period. Another 12 percent reported contact initiated only by the shareholder, and 8 percent reported contact initiated only by their adviser.

FIGURE 6.8

About Half of Mutual Fund Shareholders Used an Adviser

May 2010



Source: *ICI Fundamentals*, "Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2010"

Those who own funds outside DC retirement plans typically hold mutual funds in their investment portfolios for several years. On average, mutual fund accounts held outside retirement plans at work have been open for five years (Figure 6.9), and shareholders on average have had a relationship with the fund company offering the fund(s) for eight years (Figure 6.10).

FIGURE 6.9

The Average Mutual Fund Account Has Been Open for Five Years

Percentage of mutual fund accounts held outside DC retirement plans by age of account, year-end 2009

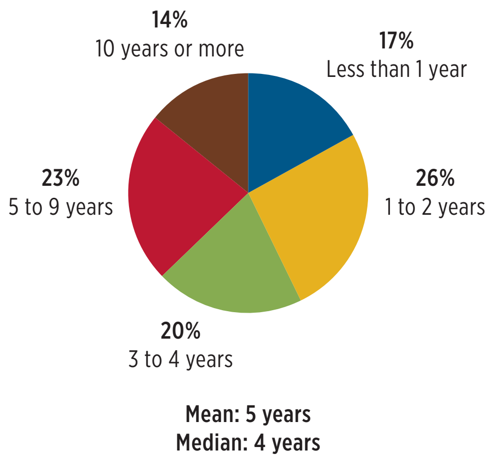
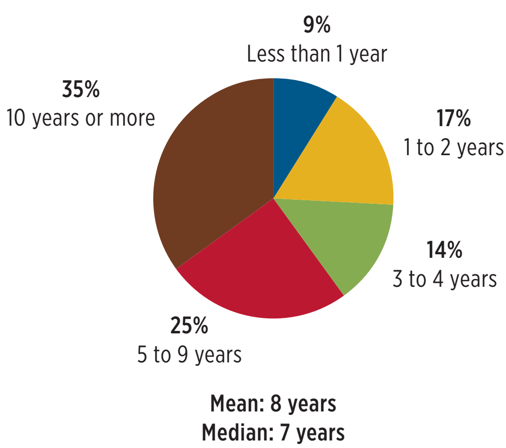


FIGURE 6.10

The Average Shareholder Tenure with a Fund Company Is Eight Years

Percentage of mutual fund shareholders by tenure of shareholder with the fund company, year-end 2009



Shareholder Sentiment, Willingness to Take Investment Risk, and Confidence

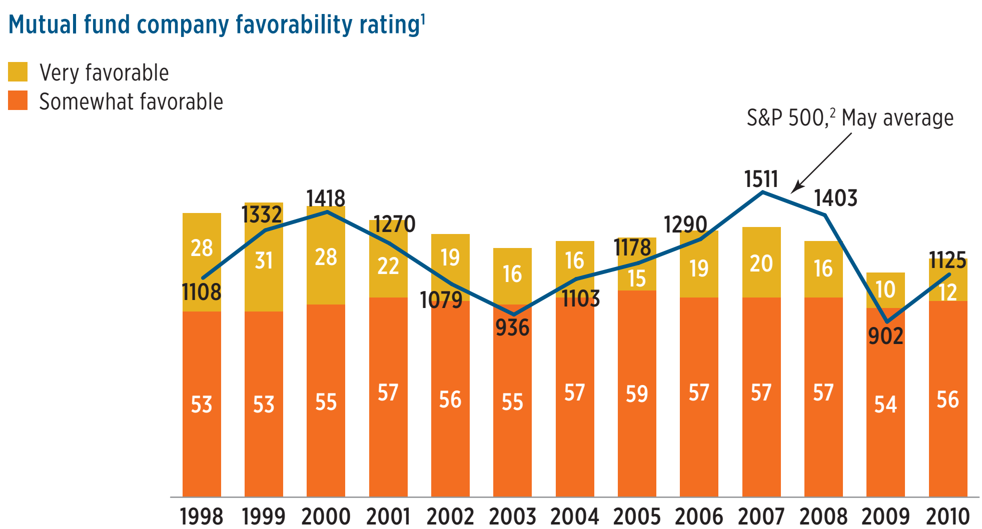
Shareholder sentiment generally moves with stock market performance largely because of the impact on mutual fund returns. For example, mutual fund companies' favorability rose in the late 1990s along with stock prices (measured by the S&P 500), then declined between May 2000 and May 2003 as stock prices fell, and increased between May 2003 and May 2007 as the stock market gained (Figure 6.11).

After falling during the market decline in 2008 and 2009, mutual fund favorability rebounded somewhat as the stock market gained in 2010. Sixty-seven percent of shareholders familiar with mutual fund companies had "very" or "somewhat" favorable impressions of fund companies in 2010, up from 64 percent in 2009 (Figure 6.11).

FIGURE 6.11

Mutual Fund Shareholder Sentiment Rises and Falls with Stock Market Performance

Percentage of mutual fund shareholders familiar with mutual fund companies, 1998–2010



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total percentage with positive opinions[1]	81	84	83	79	75	71	73	74	76	77	73	64	67

[1] The mutual fund industry favorability rating is the percentage of mutual fund shareholders familiar with the mutual fund industry who have a "very" or "somewhat" favorable impression of the fund industry.

[2] The S&P 500 is an index of 500 stocks chosen for market size, liquidity, and industry group representation.

Sources: Investment Company Institute and Standard & Poor's. See *ICI Fundamentals*, "Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2010."

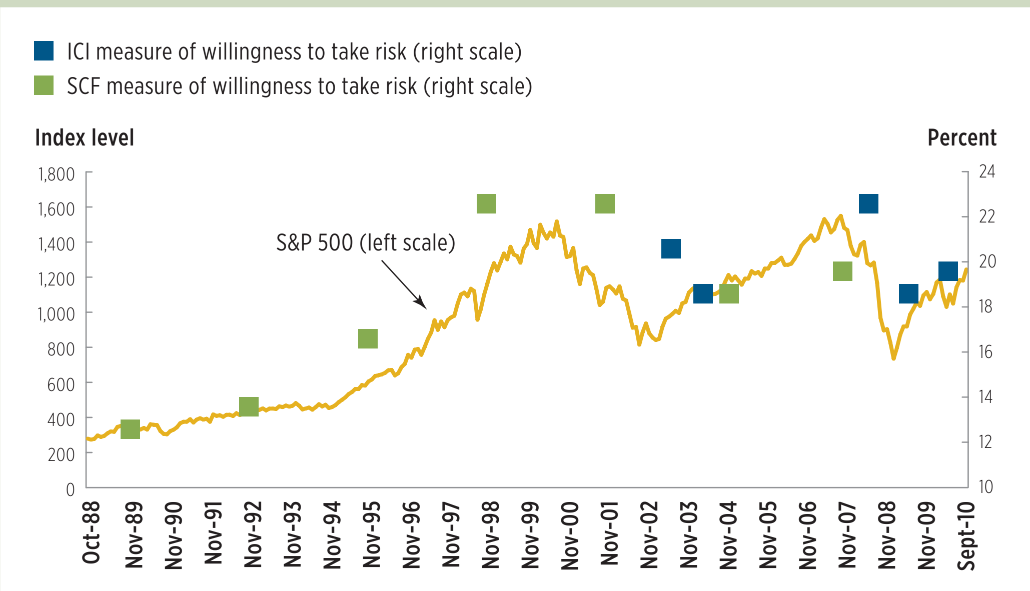
Among all U.S. households, the percentage willing to take above-average or substantial investment risk tends to move with stock market performance (Figure 6.12). U.S. households become less tolerant of investment risk in times of poor stock market performance. For example, willingness to take risk is lower from 2008 to 2010, compared to time periods of higher stock market gains. Households owning mutual funds also have expressed less willingness to take investment risk in recent years. In May 2008, 37 percent of U.S. households owning mutual funds were willing to take above-average or substantial risk with their investments (Figure 6.13). By May 2010, this fraction had fallen to 31 percent of mutual fund–owning households.

Investors' confidence that mutual funds are helping them reach their financial goals declined a bit in the wake of the financial market crisis. In 2009, 73 percent of fund shareholders said they were confident in mutual funds' ability to help them achieve their financial goals, compared to 85 percent in 2008 (Figure 6.14). In 2010, confidence rose: 79 percent of all fund shareholders said they were confident in mutual funds' ability to help them achieve their financial goals. Indeed, nearly one-quarter of fund investors in 2010 were "very" confident that mutual funds could help them meet their financial goals.

FIGURE 6.12

Households' Willingness to Take Investment Risk Tends to Move with the S&P 500 Stock Index

Measure is percentage of U.S. households willing to take above-average or substantial investment risk, 1988–2010

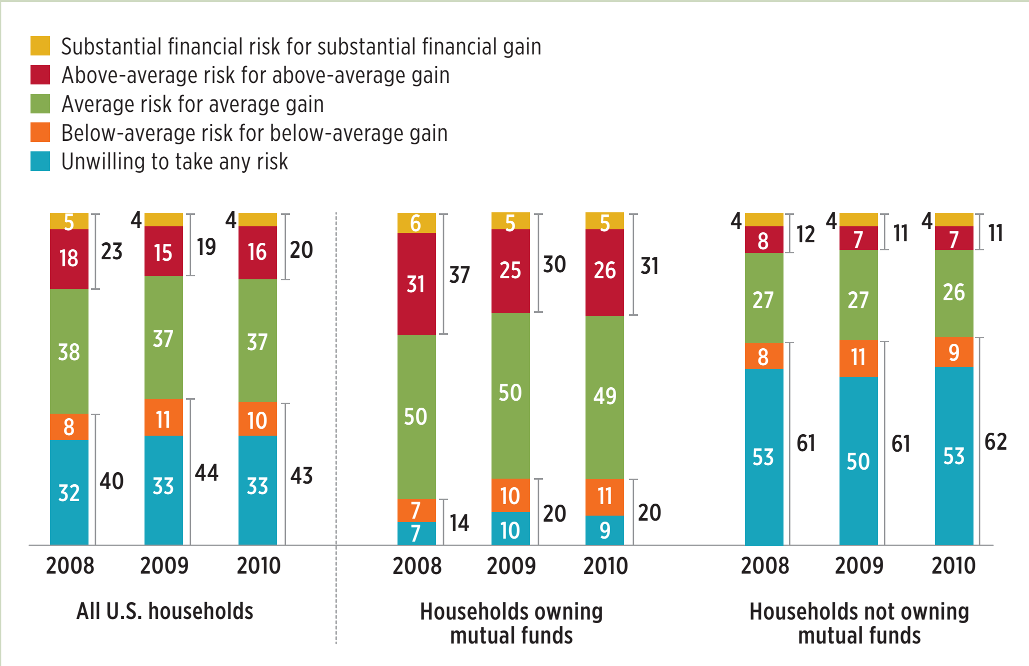


Sources: ICI Annual Mutual Fund Shareholder Tracking Survey, Federal Reserve Board Survey of Consumer Finances (SCF), and Standard & Poor's

FIGURE 6.13

Households' Willingness to Take Investment Risk

Percentage of U.S. households by mutual fund ownership status; May 2008, May 2009, and May 2010



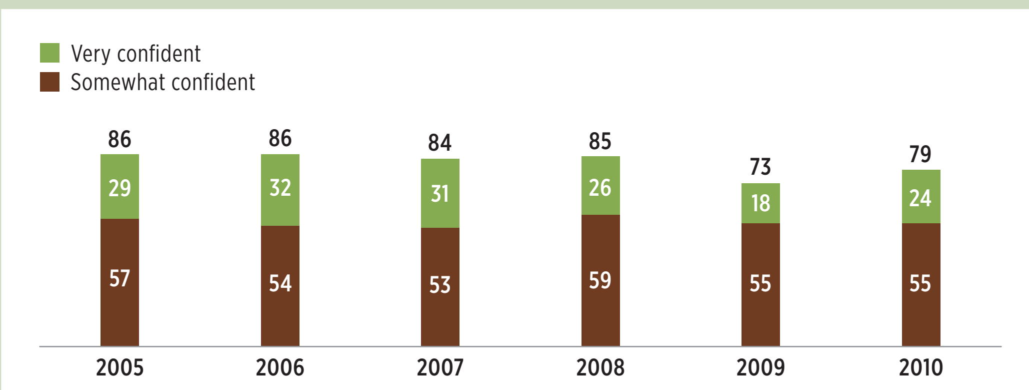
Note: Components may not add to 100 percent because of rounding.

Source: *ICI Fundamentals*, "Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2010"

FIGURE 6.14

Mutual Fund Shareholders' Confidence Rose in 2010

Percentage of all mutual fund shareholders by level of confidence that mutual funds can help them meet their investment goals, 2005–2010



Note: This question was not included in the survey prior to 2005. The question has four choices; the other two possible responses are "not very confident" and "not at all confident."

Source: *ICI Fundamentals*, "Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2010"

Shareholders' Use of the Internet

Some shareholders use the Internet to access fund and other investment information. In 2010, 89 percent of U.S. households owning mutual funds had Internet access (Figure 6.15), up from 68 percent in 2000—the first year in which ICI measured shareholders' access to the Internet. Similar to all U.S. households and households owning DC plans, the incidence of Internet access traditionally has been greatest among younger mutual fund shareholders. Increases in Internet access among older shareholder segments, however, have narrowed the generational gap considerably. Overall, eight in 10 mutual fund–owning households with Internet access used the Internet daily.

FIGURE 6.15

Internet Access Is Widespread Among Mutual Fund–Owning Households

Percentage of households with Internet access, May 2005 and May 2010

	All U.S. households		Mutual fund–owning households		Households with DC plans	
	Had Internet access in 2005	Had Internet access in 2010	Had Internet access in 2005	Had Internet access in 2010	Had Internet access in 2005	Had Internet access in 2010
Respondent age						
Younger than 35	82	84	95	96	93	94
35 to 49	81	85	91	95	90	93
50 to 64	74	77	90	91	87	88
65 or older	34	49	60	70	58	74
Respondent education						
High school graduate or less	51	57	75	77	73	79
Some college or associate's degree	82	84	87	90	90	92
College or postgraduate degree	89	91	94	96	95	96
Household income*						
Less than $50,000	55	59	74	76	75	78
$50,000 to $99,999	84	87	90	90	90	92
$100,000 to $149,999	95	98	97	97	95	98
$150,000 or more	96	95	96	97	98	95
Total	**70**	**75**	**87**	**89**	**86**	**90**

* Total reported is household income before taxes in prior year.

Note: Internet access includes access to the Internet at home, work, or some other location.

Source: *ICI Fundamentals*, "Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2010"

In 2010, 82 percent of shareholders with Internet access went online for financial purposes, most often to obtain investment information or check their bank or investment accounts (Figure 6.16). In addition, mutual fund–owning households were much more likely than non-fund-owning households to engage in common online activities, such as accessing email, obtaining information about products and services other than investments, or purchasing products and services other than investments.

FIGURE 6.16

Most Mutual Fund Shareholders Used the Internet for Financial Purposes

Percentage of fund-owning and non-fund-owning households with Internet access in the past 12 months by online activities,[1, 2] May 2010

	Households owning mutual funds	Households not owning mutual funds
Accessed email	**91**	**85**
Used Internet for a financial purpose (total)	**82**	**62**
Accessed any type of financial account, such as bank or investment accounts	79	57
Obtained investment information	58	23
Bought or sold investments online	21	9
Used Internet for a nonfinancial purpose (total)	**91**	**78**
Obtained information about products and services other than investments	83	68
Bought or sold something other than investments online	81	64

[1] Online activities are based on the sole or co-decisionmaker for household saving and investing.

[2] For this survey, the past 12 months were June 2009 through May 2010.

Note: Internet access includes access to the Internet at home, work, or some other location.

Source: *ICI Fundamentals*, "Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2010"

Younger shareholders, shareholders with higher education levels, and shareholders with higher household incomes all reported the highest levels of Internet use for financial and nonfinancial purposes (Figure 6.17). About nine in 10 members of these groups indicated using the Internet for these online tasks.

FIGURE 6.17

Mutual Fund Shareholders' Use of the Internet by Age, Education, and Income for 2010

Percentage of U.S. households with Internet access by mutual fund ownership and online activities in past 12 months,[1, 2] May 2010

	Accessed email	Used Internet for a financial purpose	Used Internet for a nonfinancial purpose
Respondent age			
Younger than 35	95	89	92
35 to 49	93	86	93
50 to 64	92	79	92
65 or older	83	73	82
Respondent education			
High school graduate or less	80	69	83
Some college or associate's degree	92	84	90
College or postgraduate degree	96	87	95
Household income[3]			
Less than $50,000	85	69	83
$50,000 to $99,999	91	83	91
$100,000 to $149,999	92	87	94
$150,000 or more	98	91	97
Total	**91**	**82**	**91**

[1] Online activities are based on the household's sole or co-decisionmaker for saving and investing.

[2] For this survey, the past 12 months were June 2009 through May 2010.

[3] Total reported is household income before taxes in 2009.

Note: Internet access includes access to the Internet at home, work, or some other location.

Source: *ICI Fundamentals*, "Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2010"

Institutional Ownership

Nonfinancial businesses, financial institutions, nonprofit organizations, and other institutional investors held 13 percent of mutual fund assets at year-end 2010 (Figure 6.18). Institutional investor data exclude mutual fund holdings by fiduciaries, retirement plans, and variable annuities, which are considered to be held primarily by individual investors.

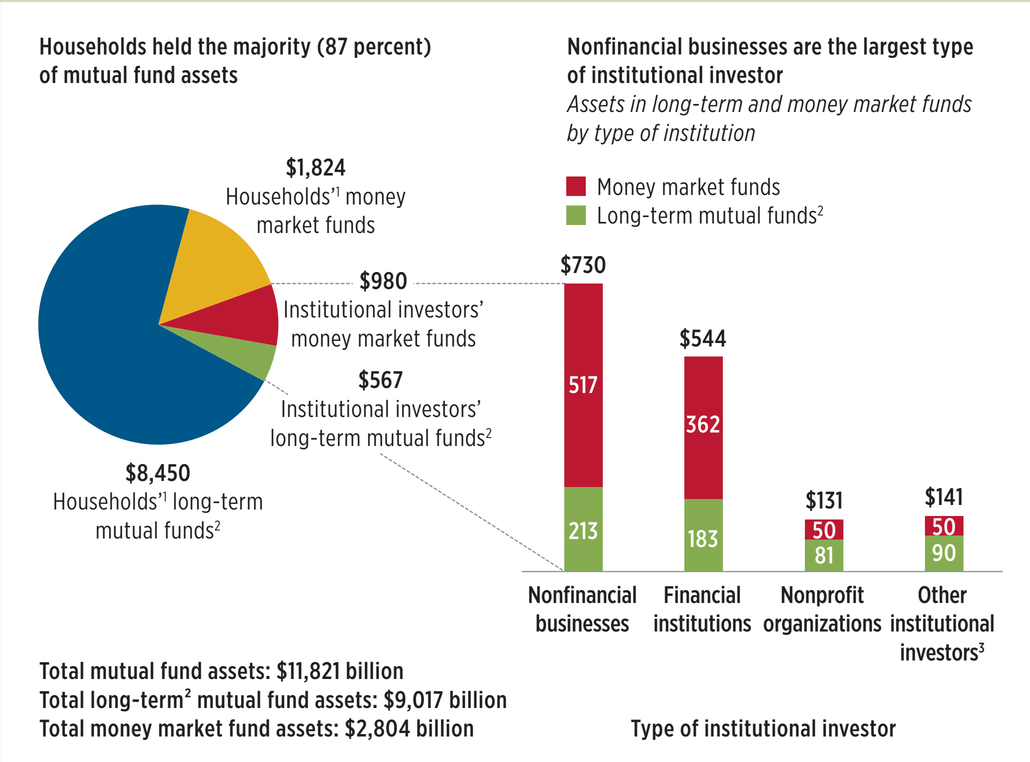
As of year-end 2010, nonfinancial businesses were the largest segment of institutional investors in mutual funds, holding $730 billion in corporate and similar accounts. These firms primarily use mutual funds as a cash management tool, and 71 percent of their mutual funds holdings were money market funds. Business investments in funds do not include assets held by funds in retirement plans on behalf of employees in employer-sponsored retirement plans, since those assets are considered employee assets rather than employer assets.

Financial institutions—which include credit unions, investment clubs, banks, and insurance companies—were the second-largest component of institutional investors in mutual funds. Financial institutions held $544 billion in fund assets at year-end 2010. Nonprofit organizations and other institutional investors held $131 billion and $141 billion, respectively, in mutual fund accounts. Institutional investors overwhelmingly held money market funds as the primary type of mutual fund. Across all types of institutional investors, 63 percent of investments in mutual funds were in money market funds at year-end 2010.

FIGURE 6.18

Institutional and Household Ownership of Mutual Funds

Billions of dollars, year-end 2010



[1] Mutual funds held as investments in variable annuities and 529 plans are counted as household holdings of mutual funds.

[2] Long-term mutual funds include stock, hybrid, and bond mutual funds.

[3] This category includes state and local governments and other institutional accounts not classified.

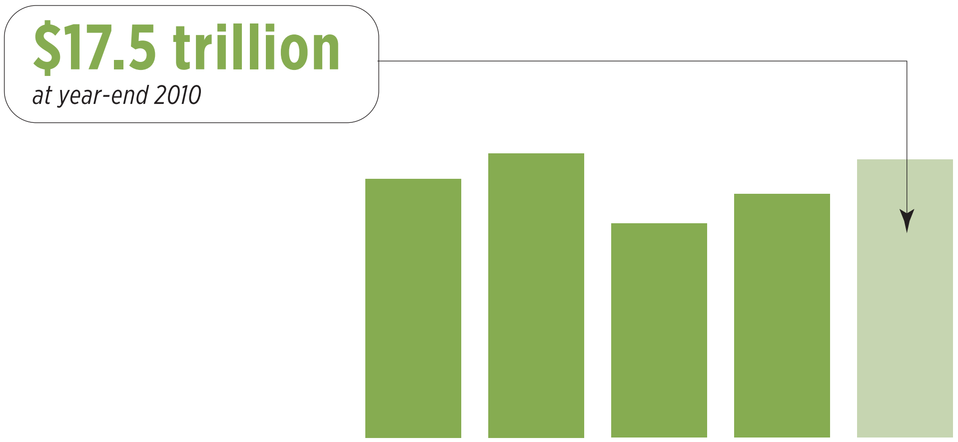
Note: Components may not add to the total because of rounding.

For More Information

- » *Profile of Mutual Fund Shareholders, 2010*
- » "Characteristics of Mutual Fund Investors, 2010," *Investment Company Institute Fundamentals*
- » "Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2010," *Investment Company Institute Fundamentals*

Available at www.ici.org.

U.S. retirement assets were $17.5 trillion in 2010



Chapter Seven

Retirement and Education Savings

National policies that have created or enhanced tax-advantaged savings accounts have proven integral to helping Americans prepare for retirement and other long-term savings goals. Because many Americans use mutual funds in tax-advantaged accounts to reach these goals, ICI studies the U.S. retirement market; the investors who use IRAs, 401(k) plans, 529 plans, and other tax-advantaged savings vehicles; and the role of funds in the retirement and education savings markets.

This chapter analyzes the U.S. retirement market; describes the investors who use IRAs, 401(k) plans, 529 plans, and other tax-advantaged savings vehicles; and explores the role of mutual funds in U.S. households' efforts to save for retirement and education.

The U.S. Retirement System

In retirement, Americans rely on a combination of resources including Social Security benefits and income from employer-sponsored retirement plans, individual retirement accounts (IRAs), and annuities. Reliance on each of these components varies by individual.

The largest component of retiree income and the predominant income source for lower-income retirees is Social Security benefits. Social Security benefits are funded through a payroll tax equal to 12.4 percent of earnings of covered workers (6.2 percent paid by employees* and 6.2 percent paid by employers) up to a maximum taxable earnings amount ($106,800 in 2010). The Social Security benefit formula is highly progressive, with benefits representing a much higher percentage of earnings for workers with lower lifetime earnings. For individuals born in the 1940s, the Congressional Budget Office (CBO) projects that Social Security benefits will replace, on average, 71 percent of average earnings for the bottom 20 percent of retired workers ranked by lifetime earnings (Figure 7.1). This replacement rate drops to 50 percent for the second quintile of retired workers, and then declines more slowly as lifetime earnings increase. For even the top 20 percent of earners, Social Security benefits are projected to replace a considerable fraction (31 percent) of earnings. Over time, Social Security has become a system designed to be the primary means of support for retirees with low lifetime earnings and a substantial source of income for all retired workers.

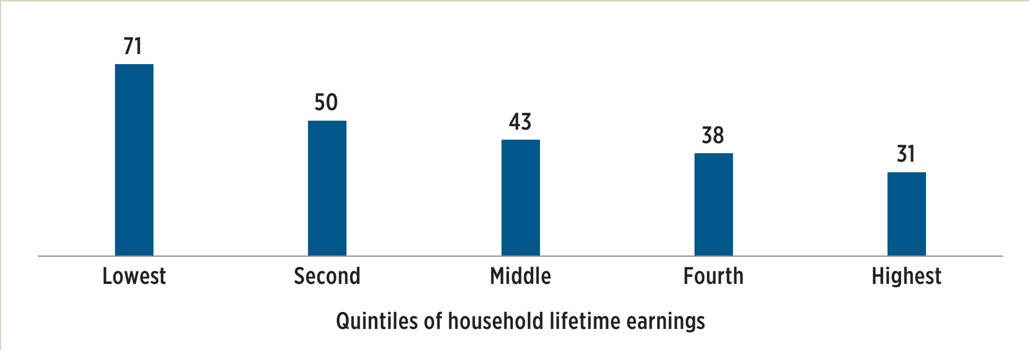
Employer-sponsored retirement plans, IRAs, and annuities also play an important role in the U.S. retirement system. Such retirement assets increased to $17.5 trillion at year-end 2010, up

* For 2011, this rate has been temporarily changed to 4.2 percent.

FIGURE 7.1

Social Security Benefit Formula Is Highly Progressive

CBO estimates of first-year benefits relative to average indexed earnings by household lifetime earnings, 1940s birth cohort, percent

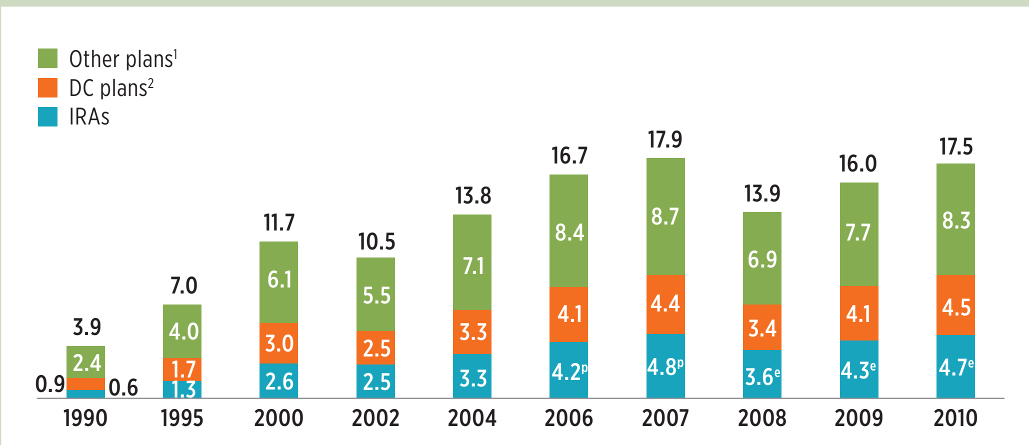


Source: Congressional Budget Office (*CBO's 2010 Long-Term Projections for Social Security: Additional Information)*

FIGURE 7.2

U.S. Retirement Assets Increased in 2010

Trillions of dollars, year-end, selected years



[1] Other plans include private-sector DB plans; federal, state, and local pension plans; and all fixed and variable annuity reserves at life insurance companies less annuities held by IRAs, 403(b) plans, 457 plans, and private pension funds. Federal pension plans include U.S. Treasury security holdings of the civil service retirement and disability fund, the military retirement fund, the judicial retirement funds, the Railroad Retirement Board, and the foreign service retirement and disability fund. These plans also include securities held in the National Railroad Retirement Investment Trust and Federal Employees Retirement System (FERS) Thrift Savings Plan (TSP).

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

[e] Data are estimated.

[p] Data are preliminary.

Note: Components may not add to the total because of rounding.

Sources: Investment Company Institute, Federal Reserve Board, National Association of Government Defined Contribution Administrators, American Council of Life Insurers, and Internal Revenue Service Statistics of Income Division. See "The U.S. Retirement Market, Fourth Quarter 2010."

9 percent from year-end 2009 (Figure 7.2). The largest components of retirement assets were IRAs and employer-sponsored defined contribution (DC) plans, holding $4.7 trillion and $4.5 trillion, respectively, at year-end 2010. Other employer-sponsored pensions include private-sector defined benefit (DB) pension funds ($2.2 trillion), state and local government employee retirement plans ($3.0 trillion), and federal government DB plans and the federal employees' Thrift Savings Plan ($1.4 trillion). In addition, there were $1.6 trillion in annuity reserves outside of retirement plans at year-end 2010.

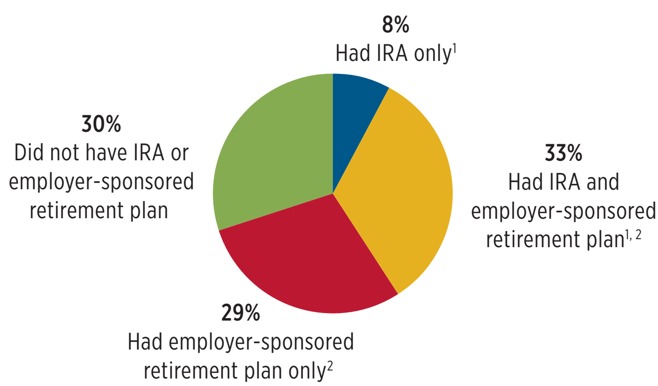
Seventy percent of U.S. households (or 82 million households) reported that they had employer-sponsored retirement plans, IRAs, or both in May 2010 (Figure 7.3). Sixty-two percent of U.S. households reported that they had employer-sponsored retirement plans—that is, they had assets in DC plan accounts, were receiving or expecting to receive benefits from DB plans, or both. Forty-one percent of households reported having assets in IRAs. Thirty-three percent of households had both IRAs and employer-sponsored retirement plans.

Ownership of IRA and DC plan assets has become more common with each successive generation of workers. This can be seen by comparing the ownership rates of households grouped by the decade in which the household heads were born (Figure 7.4). At any given age, younger households have had higher ownership rates over time. For example, in 2010, when they were 51 to 60 years of age, 72 percent of households born in the 1950s owned IRAs and DC plan accounts. By comparison, households born a decade earlier had a 64 percent ownership rate when they were aged 52 to 61 in

FIGURE 7.3

Many U.S. Households Had Tax-Advantaged Retirement Savings

Percentage of U.S. households, May 2010



Total number of U.S. households: 117.5 million

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

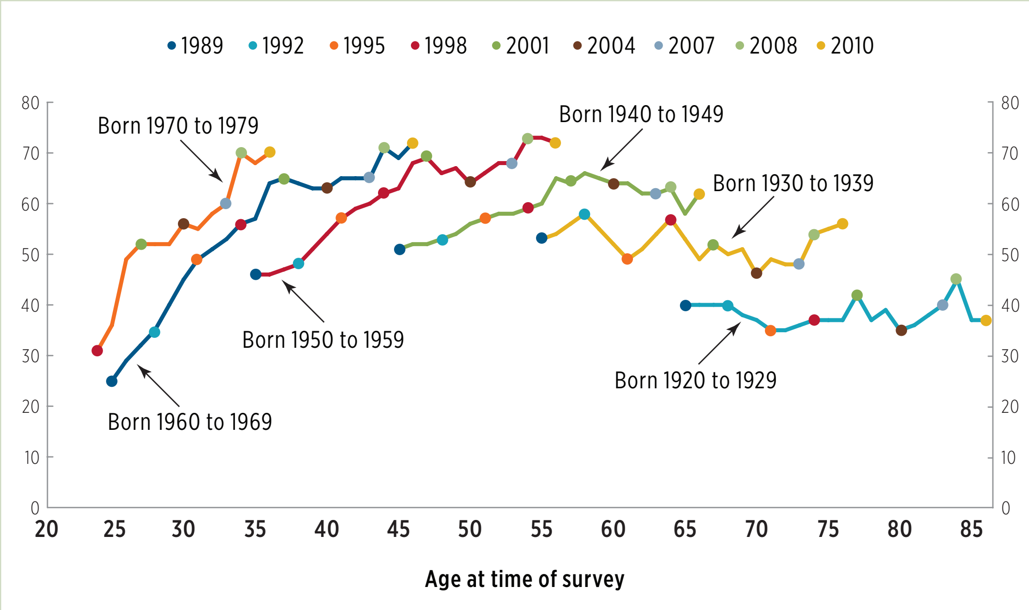
[2] Employer-sponsored retirement plans include DC and DB retirement plans.

Sources: Investment Company Institute and U.S. Census Bureau. See *ICI Fundamentals*, "The Role of IRAs in U.S. Households' Saving for Retirement, 2010."

FIGURE 7.4

Younger Households Have Had Higher and Faster Growing Rates of IRA or Defined Contribution Plan Ownership

Percentage of U.S. households owning IRAs or DC plans by decade in which household heads were born, 1989–2010



Note: Age is the average age of the 10-year birth cohort at the time of the survey. The 10-year birth cohorts are defined using the age of the head of household.

Sources: ICI tabulations of Federal Reserve Board Survey of Consumer Finances 1989–2007 and ICI Annual Mutual Fund Shareholder Tracking Surveys 2000–2010

2001. At younger ages, the differences between birth cohorts are even greater. For example, 70 percent of households with heads born in the 1970s held assets in IRAs or DC plan accounts in 2010 when they were aged 31 to 40. In contrast, those born in earlier decades had lower ownership rates at similar ages. Sixty-five percent of households born in the 1960s owned IRAs or DC plan accounts in 2001, when they were then aged 32 to 41, and 48 percent of households born in the 1950s owned IRAs or DC plan accounts in 1992, when they were aged 33 to 42.

Defined Contribution Plans

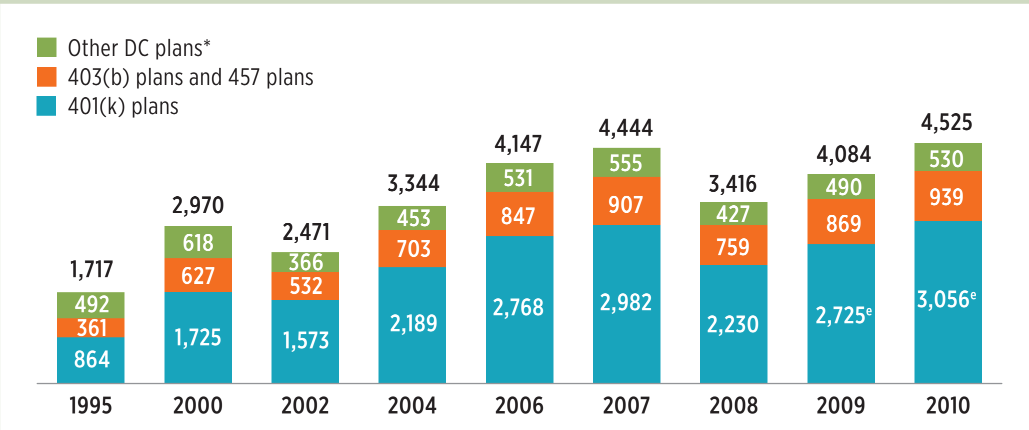
DC plans provide employees with an account derived from employer or employee contributions or both, plus investment earnings or losses on those contributions, less withdrawals from the plans. Assets in employer-sponsored DC plans have grown more rapidly than assets in other types of employer-sponsored retirement plans over the past quarter century, increasing from 27 percent of employer plan assets in 1985 to 40 percent at year-end 2010. At the end of 2010, employer-sponsored DC plans—which include 401(k) plans, 403(b) plans, 457 plans, Keoghs, and other

DC plans—held an estimated $4.5 trillion in assets (Figure 7.5). With $3.1 trillion in assets at year-end 2010, 401(k) plans held the largest share of employer-sponsored DC plan assets. Two types of plans similar to 401(k) plans—403(b) plans, which allow employees of educational institutions and certain nonprofit organizations to receive deferred compensation, and 457 plans, which allow employees of state and local governments and certain tax-exempt organizations to receive deferred compensation—held another $939 billion in assets. The remaining $530 billion in DC plan assets were held by other DC plans without 401(k) features.

FIGURE 7.5

Defined Contribution Plan Assets by Type of Plan

Billions of dollars, year-end, selected years



* Other DC plans include Keoghs and other DC plans (profit-sharing, thrift-savings, stock bonus, and money purchase) without 401(k) features.

e Data are estimated.

Note: Components may not add to the total because of rounding.

Sources: Investment Company Institute, Federal Reserve Board, Department of Labor, National Association of Government Defined Contribution Administrators, and American Council of Life Insurers

401(k) Participants: Asset Allocations, Account Balances, and Loans

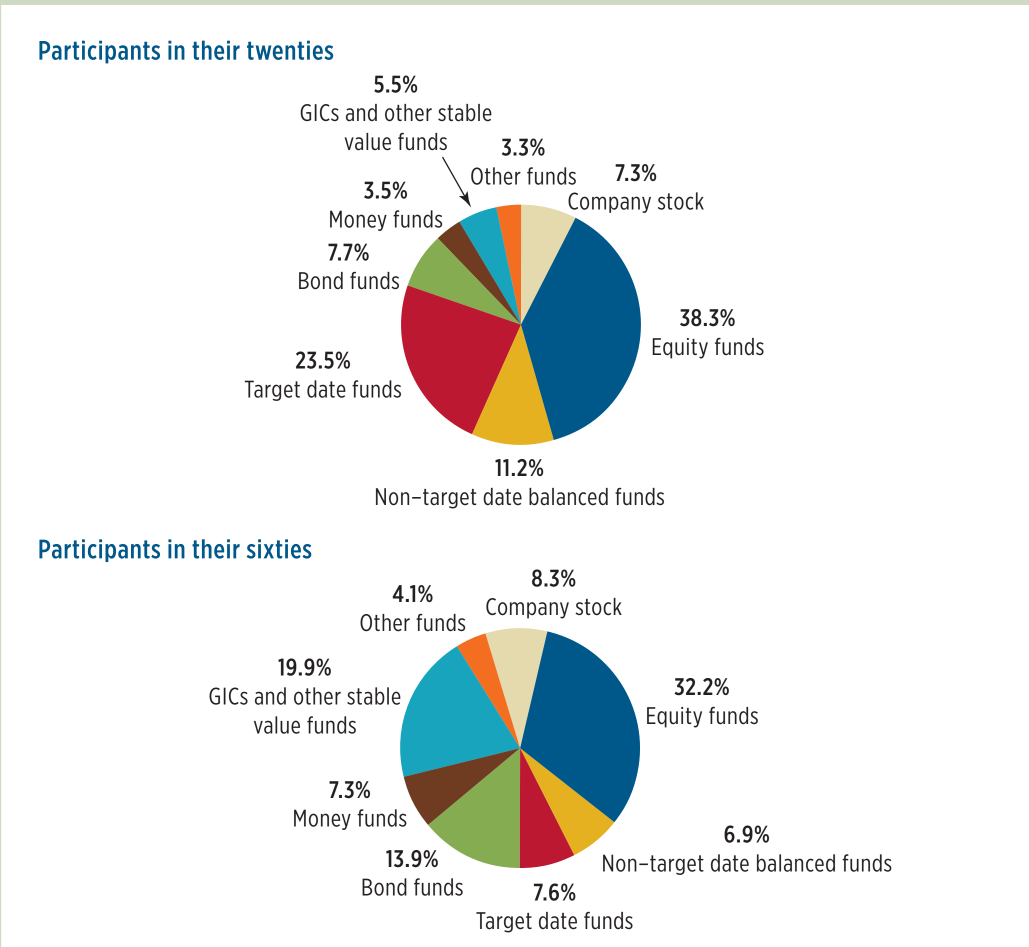
For many American workers, 401(k) plan accounts have become an important part of their retirement planning. The income these accounts provide in retirement depends, in part, on the asset allocation decisions of plan participants.

On average, younger participants allocate a larger portion of their portfolio to equities (which include equity mutual funds and other pooled equity investments; the equity portion of balanced funds, including target date funds; and company stock of their employers). According to research conducted by ICI and the Employee Benefit Research Institute (EBRI), at year-end 2009, individuals in their twenties invested 46 percent of their assets in equity funds and company stock; 35 percent in target date funds and non–target date balanced funds; and 17 percent in guaranteed investment contracts (GICs), stable value funds, money funds, and bond funds (Figure 7.6). All told, participants in their twenties had 73 percent of their 401(k) assets in

FIGURE 7.6

401(k) Asset Allocation Varied with Participant Age

Average asset allocation of 401(k) account balances, percentage of assets, year-end 2009



Note: Funds include mutual funds, bank collective trusts, life insurance separate accounts, and any pooled investment product invested primarily in the security indicated. Components may not add to 100 percent because of rounding. Percentages are dollar-weighted averages.

Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project. See *ICI Perspective*, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2009."

equities. By comparison, at year-end 2009, individuals in their sixties invested 41 percent of their assets in equity funds and company stock, 15 percent in target date funds and non–target date balanced funds, and 41 percent in GICs, stable value funds, money funds, and bond funds. All told, participants in their sixties had 48 percent of their 401(k) assets in equities.

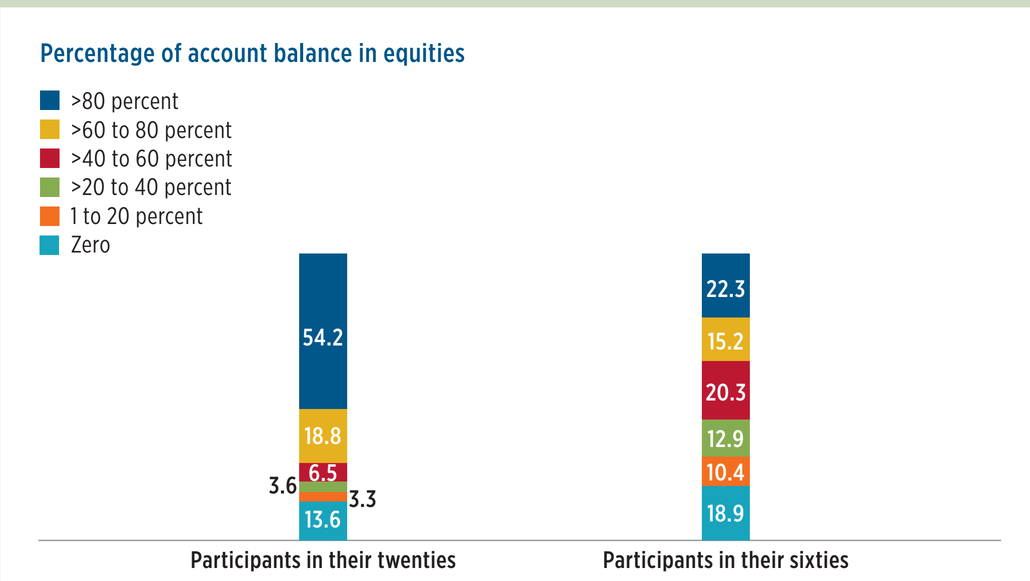
Within age groups, however, portfolio allocation varies widely. For example, at year-end 2009, 54 percent of 401(k) participants in their twenties held more than 80 percent of their account in equities and 17 percent held 20 percent or less (Figure 7.7). Of 401(k) participants in their sixties, 22 percent held more than 80 percent of their account in equities and 29 percent held 20 percent or less.

Only in existence since the mid-1990s, target date funds (including both target date mutual funds and other pooled target date investments) have grown rapidly in recent years. A target date fund follows a predetermined reallocation of assets over time based on a specified target retirement date, and 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. At year-end 2009, target date fund assets represented about 10 percent of total 401(k) assets, up from 5 percent at year-end 2006 (Figure 7.8).

FIGURE 7.7

Asset Allocation to Equities Varied Widely Among 401(k) Participants

Asset allocation distribution of 401(k) participant account balance to equities, percentage of participants, year-end 2009



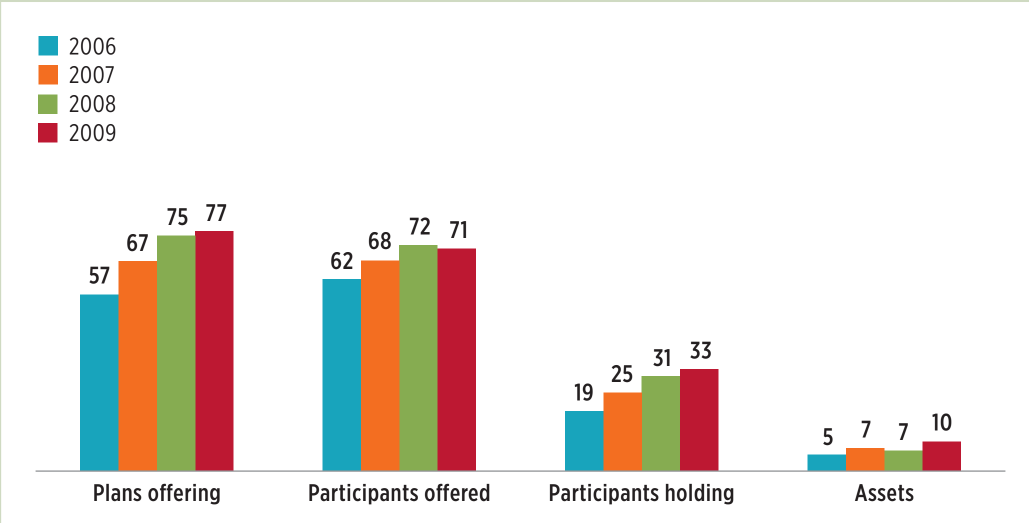
Note: Equities include equity funds, company stock, and the equity portion of balanced funds. Funds include mutual funds, bank collective trusts, life insurance separate accounts, and any pooled investment product invested primarily in the security indicated. Components may not add to 100 percent because of rounding.

Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project. See *ICI Perspective*, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2009."

FIGURE 7.8

Target Date Funds' 401(k) Market Share

Measures of percentage of total 401(k) market, year-end, 2006–2009



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

Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project. See *ICI Perspective*, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2009."

The share of 401(k) plans offering target date funds increased to 77 percent in 2009 from 57 percent in 2006, and the share of 401(k) plan participants offered target date funds increased to 71 percent from 62 percent over the same period. Because not all plan participants choose to allocate assets to the funds, the percentage of 401(k) participants with target date fund assets was lower than the percentage of participants who were offered the option. At year-end 2009, 33 percent of 401(k) participants held at least some plan assets in target date funds, up from 19 percent at year-end 2006. In addition, because not all participants with assets in the funds allocated 100 percent of their holdings to the funds, and because participants with assets in the funds were more likely to be younger or recently hired and have lower account balances, the share of 401(k) assets invested in target date funds was lower than the share of participants invested in the funds.

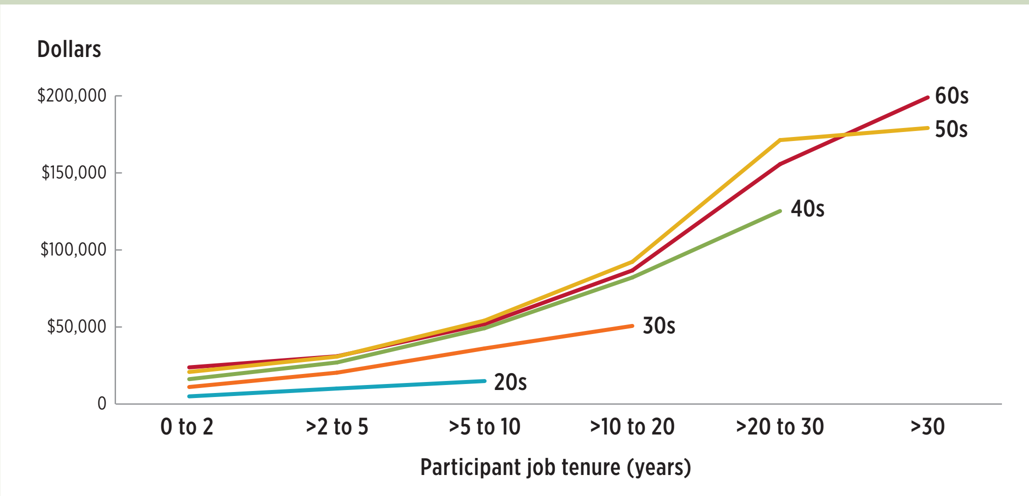
Account balances tended to be higher the longer 401(k) plan participants had been working for their current employers and the older the participant. Workers in their sixties with at least 30 years of tenure at their current employers had an average 401(k) account balance of $198,993 (Figure 7.9). The median age of 401(k) plan participants was 45 years at year-end 2009, and the median job tenure was 6 years.

Most 401(k) participants do not borrow from their plans, although loan activity has edged up in recent years. At year-end 2009, 21 percent of those eligible for loans had loans outstanding. The average unpaid loan balance for these participants represented about 15 percent of their 401(k) account balances (net of the unpaid loan balances).

FIGURE 7.9

401(k) Balances Tend to Increase with Participant Age and Job Tenure

Average 401(k) participant account balance, year-end 2009



Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project. See *ICI Perspective*, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2009."

Distributions from Defined Contribution Plans

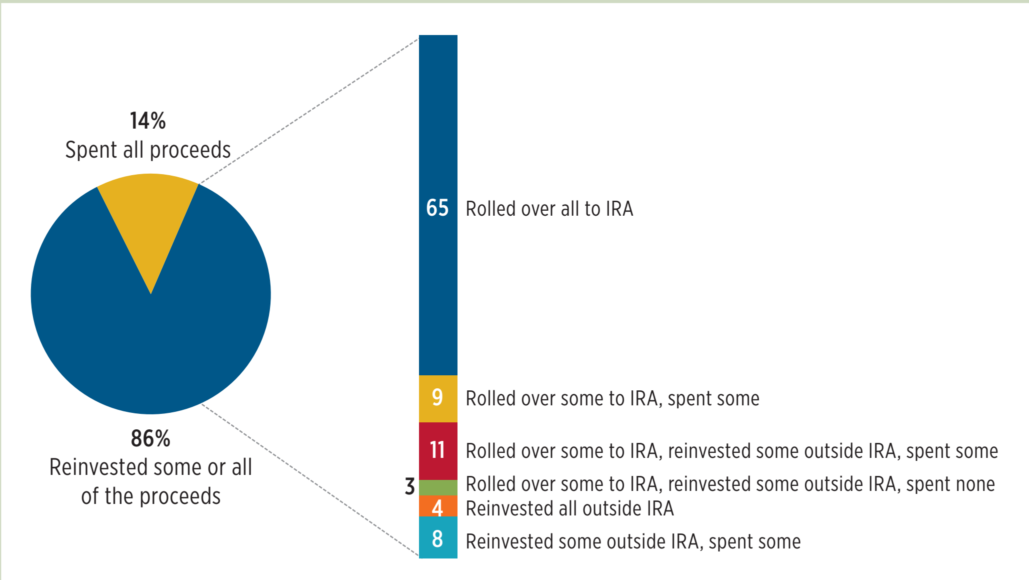
With DC plans representing an increasing share of household retirement assets, the decisions participants make about distributing those assets in retirement have become an issue of increasing interest to plan sponsors, financial institutions, and policymakers. In late 2007, ICI surveyed recent retirees who had actively participated in DC plans about how they used plan proceeds at retirement. Just over half (52 percent) of surveyed DC plan retirees received all their distributions as lump sums, and another 7 percent received a portion of their distributions as lump sums. The remainder deferred withdrawal (i.e., left their money in their plans), received their distribution as annuities or installment payments, or chose some combination of options that did not include lump sums.

Of respondents who received lump-sum distributions, 86 percent of respondents rolled over some or all of the balance to an IRA or otherwise reinvested the assets (Figure 7.10). Indeed, distributions from employer-sponsored retirement plans (of all types) are an important source of funds in IRAs. The remaining 14 percent spent all of the proceeds of the distribution. Because retirees who spent some or all of their lump-sum distributions tended to have lower account balances, only 7 percent of the total dollars distributed as lump sums at retirement were spent immediately.

FIGURE 7.10

Use of Lump-Sum Distributions from Defined Contribution Plans at Retirement

*Percentage of respondents**



* Based upon respondents' recall. Responses are from a survey of employees retiring between 2002 and 2007 who were interviewed in the fall of 2007.

Source: Investment Company Institute, *Defined Contribution Plan Distribution Choices at Retirement*

Services and Expenses in 401(k) Plans

Employers are confronted with two competing economic pressures: the need to attract and retain quality workers with competitive compensation packages and the need to keep their products and services competitively priced. In deciding whether to offer 401(k) plans to their workers, employers must decide if the benefits of offering a plan (in attracting and retaining quality workers) outweigh the costs of providing the plan and plan services—both the compensation paid to the worker and any other costs associated with maintaining the plan and each individual plan participant account.

To provide and maintain 401(k) plans, employers are required to obtain a variety of administrative, participant-focused, regulatory, and compliance services. Employers offering 401(k) plans typically hire service providers to operate these plans, and these providers charge fees for their services.

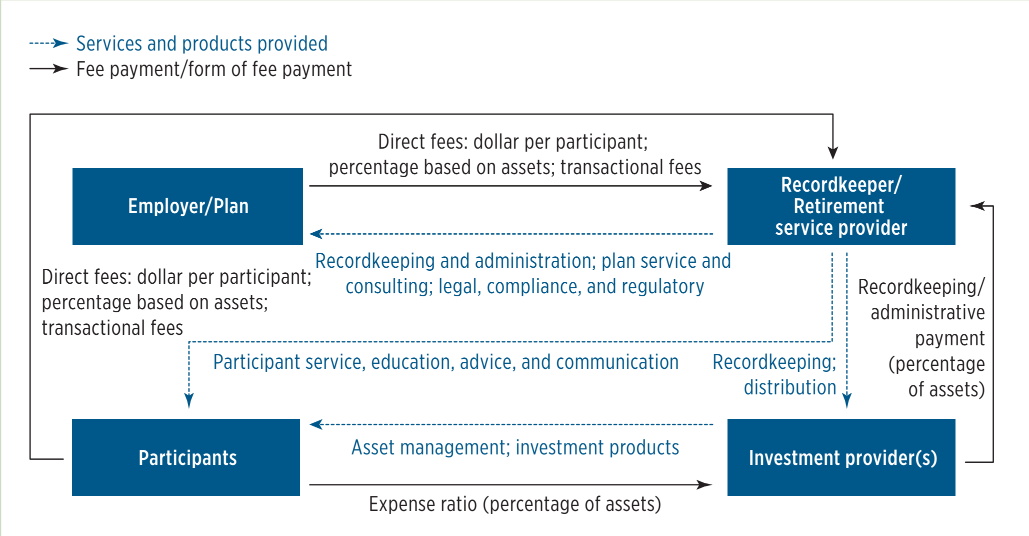
As with any employee benefit, the employer generally determines how the costs will be shared between the employer and employee. Fees can be paid directly by the plan sponsor (i.e., employer), directly by the plan participants (i.e., employees), indirectly by the participants through fees or other reductions in returns paid to the investment provider, or by some combination of these methods (Figure 7.11).

Participants in 401(k) plans holding mutual funds tend to invest in lower-cost funds and funds with below-average portfolio turnover. Both characteristics help to keep down the costs of investing in mutual funds through 401(k) plans. For example, at year-end 2009, 27 percent of 401(k) stock mutual fund assets were in funds that had total annual expense ratios below 0.50 percent of fund assets, and another 49 percent had expense ratios between 0.50 percent and 1.00 percent (Figure 7.12). On an asset-weighted basis, the average total expense ratio incurred on 401(k) participants' holdings of stock mutual funds through their 401(k) plans was 0.74 percent in 2009, compared with an asset-weighted average total expense ratio of 0.86 percent for stock mutual funds industrywide. Similarly, stock mutual funds held in 401(k) accounts tend to have lower turnover in their portfolios. The asset-weighted average turnover rate of stock funds held in 401(k) accounts was 54 percent in 2009, compared with an industrywide asset-weighted average of 64 percent. Fifty-nine percent of 401(k) assets at year-end 2010 were invested in mutual funds.

A Deloitte/ICI study of 130 plan sponsors in late 2008 created and analyzed a comprehensive plan fee measure, the "all-in fee." The study found a range of fees across 401(k) plans and that a key driver of the all-in fee is plan size. Specifically, plans with more participants and larger average account balances tended to have lower all-in fees than plans with fewer participants and smaller average account balances. This observed effect likely results in part from fixed costs required to start up and run the plan, much of which are driven by legal and regulatory requirements. It appears that economies are gained as a plan grows in size because these fixed costs can be spread over more participants or a larger asset base or both. The Deloitte/ICI study also found that employers that sponsor smaller plans (plans with less than $10 million in assets), on average, paid a larger share of plan fees than employers sponsoring larger plans (plans with $10 million or more in assets).

FIGURE 7.11

A Variety of Arrangements May Be Used to Compensate 401(k) Service Providers



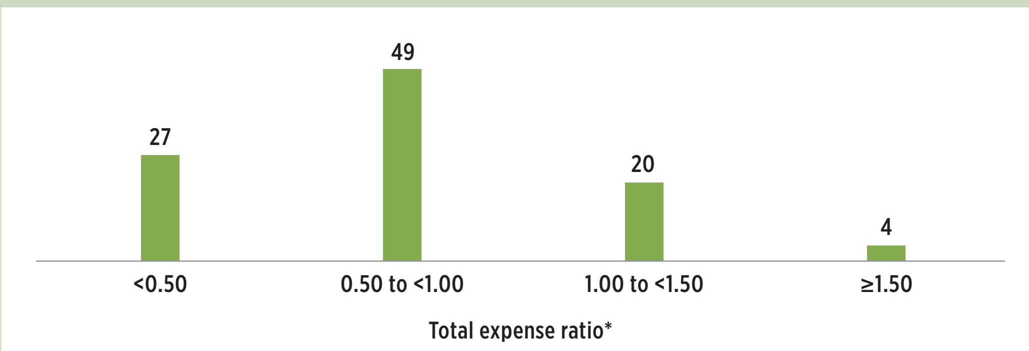
Note: In selecting the service provider(s) and deciding the cost sharing for the 401(k) plan, the employer/plan sponsor will determine which combinations of these fee arrangements will be used in the plan.

Source: *ICI Fundamentals*, "The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2009"

FIGURE 7.12

401(k) Stock Mutual Fund Assets Are Concentrated in Lower-Cost Funds

Percentage of 401(k) stock mutual fund assets, year-end 2009



* The total expense ratio, which is reported as a percentage of fund assets, includes fund operating expenses and 12b-1 fee.

Note: Figures exclude mutual funds available as investment choices in variable annuities. Stock funds include hybrid funds.

Sources: Investment Company Institute and Lipper. See *ICI Fundamentals*, "The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2009."

Individual Retirement Accounts

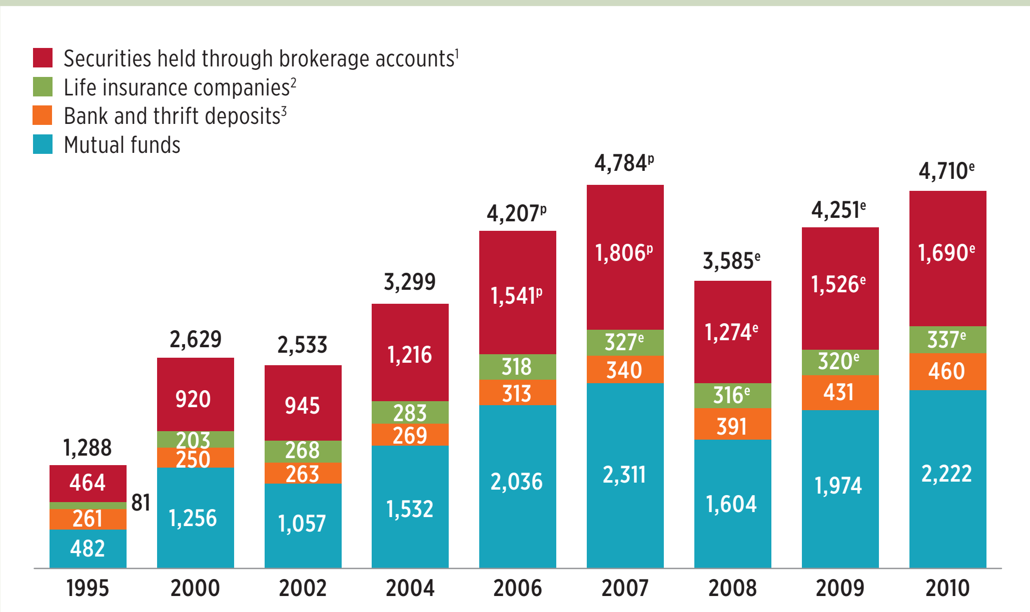
IRAs were designed with two goals when they were created in 1974 under the Employee Retirement Income Security Act (ERISA). First, they provide individuals not covered by workplace retirement plans with an opportunity to save for retirement on their own. Second, they allow workers who are leaving jobs a means to preserve the tax benefits and growth opportunities that employer-sponsored retirement plans provide.

IRA assets accounted for 27 percent of U.S retirement assets with $4.7 trillion at year-end 2010 (Figure 7.13). Mutual fund assets held in IRAs were $2.2 trillion at year-end 2010, an increase of $248 billion, or 13 percent, from year-end 2009. Assets managed by mutual funds were the largest component of IRA assets, followed by securities held through brokerage accounts ($1.7 trillion at year-end 2010). The mutual fund industry's share of the IRA market was 47 percent at year-end 2010, compared with 46 percent at year-end 2009.

FIGURE 7.13

IRA Assets

Billions of dollars, year-end, selected years



[1] Category excludes mutual fund assets held through brokerage accounts, which are included in mutual funds.

[2] Life insurance company IRA assets are annuities held by IRAs, excluding variable annuity mutual fund IRA assets, which are included in mutual funds.

[3] Bank and thrift deposits include Keogh deposits.

[e] Data are estimated.

[p] Data are preliminary.

Note: Components may not add to the total because of rounding.

Sources: Investment Company Institute, Federal Reserve Board, American Council of Life Insurers, and Internal Revenue Service Statistics of Income Division

Since 1990, assets in IRAs have grown primarily due to the investment performance of the securities held in IRA portfolios and rollovers into traditional IRAs from employer-sponsored retirement plans. Although they represent only a small portion of the overall IRA market, assets in two new types of IRAs—SIMPLE IRAs and Roth IRAs—have grown rapidly since they were introduced in the late 1990s.

IRA Investors

More than four out of 10 U.S. households, or 49 million, owned IRAs as of mid-2010 (Figure 7.14). Traditional IRAs—defined as those IRAs first allowed under ERISA—were the most common type of IRA, owned by 39 million U.S. households. Roth IRAs, first made available in 1998 under the Taxpayer Relief Act of 1997, were owned by 20 million U.S. households in mid-2010. Over 9 million U.S. households owned employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, or SIMPLE IRAs).

Although most U.S. households were eligible to make contributions to IRAs, few did so. Only 15 percent of U.S. households contributed to any type of IRA in tax year 2009. In addition, very few eligible households made "catch-up" contributions to traditional or Roth IRAs.

FIGURE 7.14

49 Million U.S. Households Owned IRAs

May 2010

	Year created	Number of U.S. households with type of IRA	Percentage of U.S. households with type of IRA
Traditional IRA	1974 (Employee Retirement Income Security Act)	38.5 million	32.8%
SEP IRA	1978 (Revenue Act)	9.4 million	8.0%
SAR-SEP IRA	1986 (Tax Reform Act)		
SIMPLE IRA	1996 (Small Business Job Protection Act)		
Roth IRA	1997 (Taxpayer Relief Act)	19.5 million	16.6%
Any IRA		48.6 million	41.4%

Note: Households may own more than one type of IRA. SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs are employer-sponsored IRAs.

Sources: Investment Company Institute and U.S. Census Bureau. See *ICI Fundamentals*, "The Role of IRAs in U.S. Households' Saving for Retirement, 2010."

Instead, investment returns and rollovers from employer-sponsored retirement plans have fueled the growth of IRAs. In any given year, a small portion of traditional IRA investors makes rollovers, but analysis of The IRA Investor Database™ finds that it is largely a different group that make rollovers year-to-year. For example, of investors with IRAs at year-end 2008, 21 percent had made a rollover in 2007 or 2008, with 11 percent making a rollover in 2008, 11 percent in 2007, and only 1 percent in both years (Figure 7.15). The proportion of IRA owners that have ever made a rollover is higher because typically different investors make rollovers each year. Of U.S. households owning traditional IRAs in May 2010, an ICI household survey found that 55 percent (or 21 million U.S. households) had traditional IRAs that included rollover assets (Figure 7.16). In their most recent rollover, the vast majority of these households (85 percent) transferred their entire retirement plan balances into traditional IRAs.

FIGURE 7.15

Rollover Activity in The IRA Investor Database™

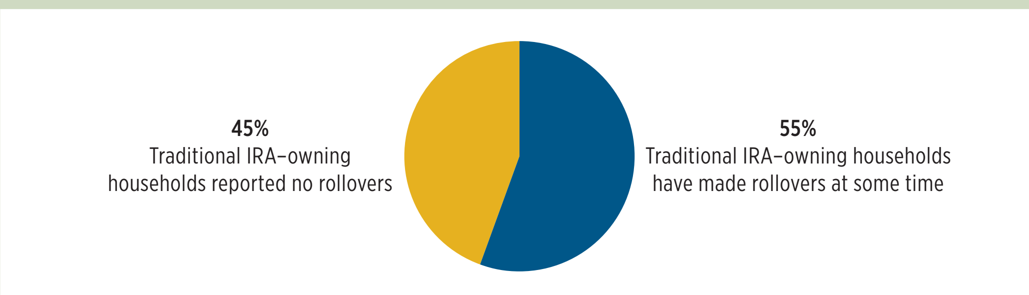
Percentage of traditional IRA investors aged 25 to 74, 2008

Source: The IRA Investor Database™

FIGURE 7.16

Rollovers Are Often a Source of Assets for Traditional IRA Investors

Percentage of households owning traditional IRAs, May 2010



Source: *ICI Fundamentals*, "The Role of IRAs in U.S. Households' Saving for Retirement, 2010"

Households owning IRAs generally are headed by middle-aged individuals (median age 51 years) with moderate household incomes (median income $73,000). These households held a median of $36,000 in IRAs. In addition, many households held multiple types of IRAs. For example, 32 percent of households with traditional IRAs also owned Roth IRAs, and 14 percent also owned employer-sponsored IRAs.

IRA owners are more likely to hold mutual funds, especially long-term mutual funds, in their IRA portfolios than any other type of investment (Figure 7.17). Sixty-three percent of IRA-owning households had IRA assets invested in mutual funds, with about three-quarters of these households holding at least a portion of their balance in stock mutual funds. Far fewer households owned other types of investments in their IRAs: 36 percent held individual stocks, 28 percent held annuities, and 25 percent held bank deposits.

FIGURE 7.17

Households Invested Their IRAs in Many Types of Assets

*Percentage of U.S. households owning IRAs, May 2010**

Mutual funds (total)	**63**
Stock mutual funds	48
Bond mutual funds	30
Hybrid mutual funds	26
Money market funds	27
Individual stocks	**36**
Annuities (total)	**28**
Fixed annuities	19
Variable annuities	19
Bank savings accounts, money market deposit accounts, or certificates of deposit	**25**
Individual bonds (not including U.S. savings bonds)	**11**
U.S. savings bonds	**11**
ETFs	**8**
Other	**5**

* Multiple responses are included.

Source: *ICI Fundamentals*, "Appendix: Additional Data on IRA Ownership in 2010"

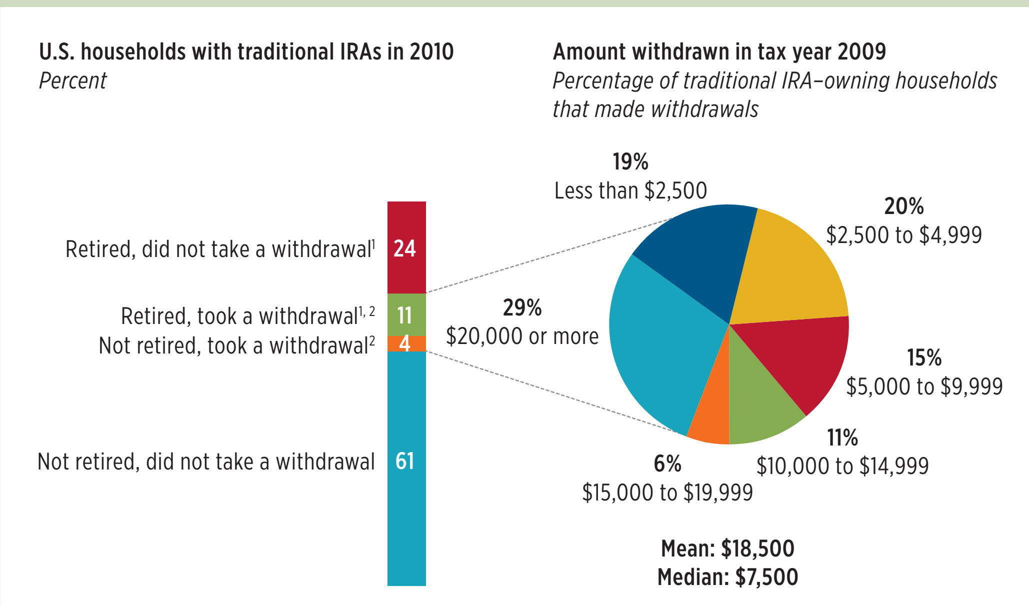
Distributions from IRAs

Of households with traditional IRAs in May 2010, 15 percent took withdrawals in tax year 2009 (Figure 7.18). The share of traditional IRA owners who took withdrawals was down substantially from the previous year's survey, which found that 19 percent took withdrawals in tax year 2008. The lower withdrawal rate in part can be attributed to the temporary suspension of required minimum distributions (RMDs) during the 2009 tax year. An RMD is a distribution equal to a percentage of the IRA account balance, with the percentage based on remaining life expectancy. Traditional IRA owners aged 70½ or older must withdraw the minimum amount each year or pay a penalty for failing to do so. Typically, withdrawals from traditional IRAs are taken to fulfill RMD requirements. For example, 64 percent of individuals who took withdrawals in tax year 2008 stated they did so to meet the RMD requirements. In fact, even though the rules were suspended in tax year 2009, 48 percent cited RMD requirements as the reason for their withdrawals.

Withdrawals from traditional IRAs were typically modest: the median withdrawal in tax year 2009 was $7,500 and 39 percent of withdrawals totaled less than $5,000 (Figure 7.18). The median ratio of withdrawals to account balance was 8 percent.

FIGURE 7.18

Withdrawals from Traditional IRAs Are Infrequent



[1] The household was considered retired if either the head of household or spouse responded affirmatively to "are you retired from your lifetime occupation?"

[2] Households that no longer owned traditional IRAs were not included.

Source: *ICI Fundamentals*, "The Role of IRAs in U.S. Households' Saving for Retirement, 2010"

Of the 15 percent of households who reported taking withdrawals in tax year 2009, 73 percent reported that the head of household or the spouse or both were retired. Of retired households that took traditional IRA withdrawals in tax year 2009, 50 percent reported using some or all of the funds to pay for living expenses (Figure 7.19). Other uses included reinvesting or saving the withdrawal amount in another account (28 percent), using the withdrawal for a healthcare expense (16 percent), and using the withdrawal for a home purchase, repair, or remodeling (14 percent).

Because current withdrawal activity may not be a good indicator of future withdrawal activity, ICI also asked about plans for future traditional IRA withdrawals. Among traditional IRA–owning households in 2010 that did not take a withdrawal in tax-year 2009, 59 percent said that they were not likely to take a withdrawal before age 70½. The top two expected future uses of traditional IRA withdrawals were to pay for living expenses (mentioned by 67 percent of traditional IRA–owning households in 2010 that did not take withdrawals in tax year 2009) and to pay for emergencies (mentioned by 64 percent).

FIGURE 7.19

Traditional IRA Withdrawals Among Retirees Are Often Used to Pay for Living Expenses

Percentage of traditional IRA–owning households[1] in which either the head of household or spouse is retired, May 2010

Use of traditional IRA withdrawal in retirement[2]	
Took withdrawals to pay for living expenses	50
Spent it on a car, boat, or big-ticket item other than a home	6
Spent it on a healthcare expense	16
Used it for an emergency	9
Used it for home purchase, repair, or remodeling	14
Reinvested or saved it in another account	28
Paid for education	2
Some other use	11

[1] The base of respondents includes the 11 percent of traditional IRA–owning households that were retired and took withdrawals reported in Figure 7.18.

[2] Multiple responses are included.

Source: *ICI Fundamentals*, "The Role of IRAs in U.S. Households' Saving for Retirement, 2010"

The Role of Mutual Funds in Households' Retirement Savings

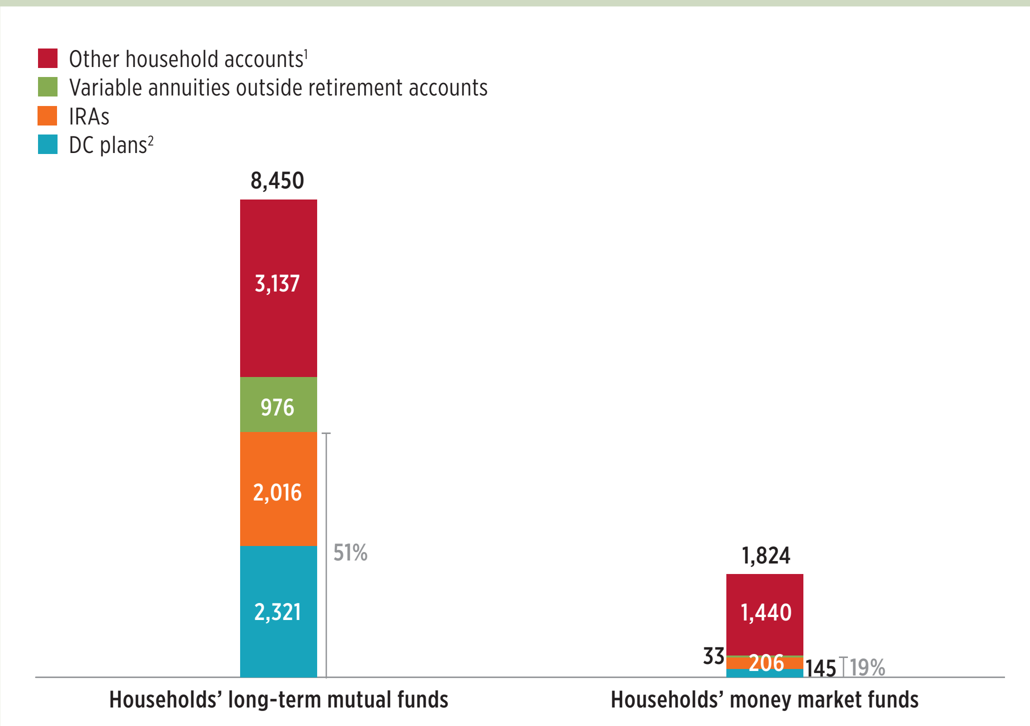
At year-end 2010, mutual funds accounted for $4.7 trillion, or 27 percent, of the $17.5 trillion U.S. retirement market. The $4.7 trillion in mutual fund retirement assets represented 40 percent of all mutual fund assets at year-end 2010. Retirement savings accounts were a significant portion of long-term mutual fund assets (48 percent), but were a relatively minor share of money market fund assets (13 percent). Similarly, as a share of households' mutual fund holdings, mutual fund assets held in DC plans and IRAs represented 51 percent of household long-term mutual funds, but only 19 percent of household money market funds (Figure 7.20).

Retirement assets invested in mutual funds primarily come from two sources: IRAs and employer-sponsored DC plans, such as 401(k) plans. Investors held slightly more mutual fund assets in DC plans than they held in IRAs. At year-end 2010, IRAs held $2.2 trillion in mutual fund assets, and employer-sponsored DC plans had $2.5 trillion (Figure 7.21). Among DC plans, 401(k) plans were the largest holder of mutual funds, with $1.8 trillion in assets. At year-end 2010, 403(b) plans held $365 billion in mutual fund assets, 457 plans held $75 billion, and other DC plans held $223 billion.

FIGURE 7.20

Households' Mutual Fund Assets by Type of Account

Billions of dollars, year-end 2010



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

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

Types of Mutual Funds Used by Retirement Plan Investors

Fifty-nine percent of the $4.7 trillion in mutual fund retirement assets held in IRAs, 401(k) plans, and other retirement accounts at year-end 2010 were invested in domestic or foreign equity funds (Figure 7.21). By comparison, about 48 percent of overall fund industry assets—including retirement and nonretirement accounts—were invested in domestic or foreign equity funds at year-end 2010. Domestic equity funds alone constituted about $2.1 trillion, or 44 percent, of mutual fund retirement assets.

At year-end 2010, 23 percent of mutual fund retirement assets were invested in bond funds and money market funds. Bond funds held $710 billion, or 15 percent, of mutual fund retirement assets, and money market funds accounted for $351 billion, or 7 percent. The remaining $878 billion, or approximately 19 percent, of mutual fund retirement assets were held in hybrid funds, which invest in a mix of equity, bond, and money market securities.

FIGURE 7.21

Bulk of Mutual Fund Retirement Account Assets Was Invested in Equities

Billions of dollars, year-end 2010

	Equity					
	Domestic	Foreign	Hybrid[1]	Bond	Money market	Total
IRAs	**$942**	**$326**	**$372**	**$376**	**$206**	**$2,222**
DC plans	**1,132**	**349**	**506**	**334**	**145**	**2,466**
401(k) plans	788	272	415	232	96	1,803
403(b) plans	222	35	52	35	22	365
457 plans	37	10	13	13	2	75
Other DC plans[2]	85	32	26	54	26	223
Total	**2,074**	**675**	**878**	**710**	**351**	**4,687**

[1] Hybrid funds invest in a mix of equities and fixed-income securities. The bulk of target date and lifestyle funds is counted in this category.

[2] Other DC plans include Keoghs and other DC plans without 401(k) features.

Note: Components may not add to the total because of rounding.

Target Date and Lifestyle Mutual Funds

Target date and lifestyle mutual funds, generally included in the hybrid fund category, have grown in popularity among investors and retirement plan sponsors over the past decade. As previously described, a target date fund follows a predetermined reallocation of assets over time based on a specified target retirement date, and 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. A lifestyle fund maintains a predetermined risk level and generally uses words such as "conservative," "moderate," or "aggressive" in its name to indicate the fund's risk level. Assets in target date and lifestyle mutual funds totaled $604 billion at the end of 2010 (Figure 7.22), up from $487 billion at year-end 2009. Target date mutual funds' assets were up 33 percent in 2010, increasing from $256 billion to $340 billion. Assets of lifestyle mutual funds were up 14 percent in 2010, rising from $231 billion to $264 billion. The bulk (91 percent) of target date mutual fund assets was held in retirement accounts, compared with 43 percent of lifestyle mutual fund assets.

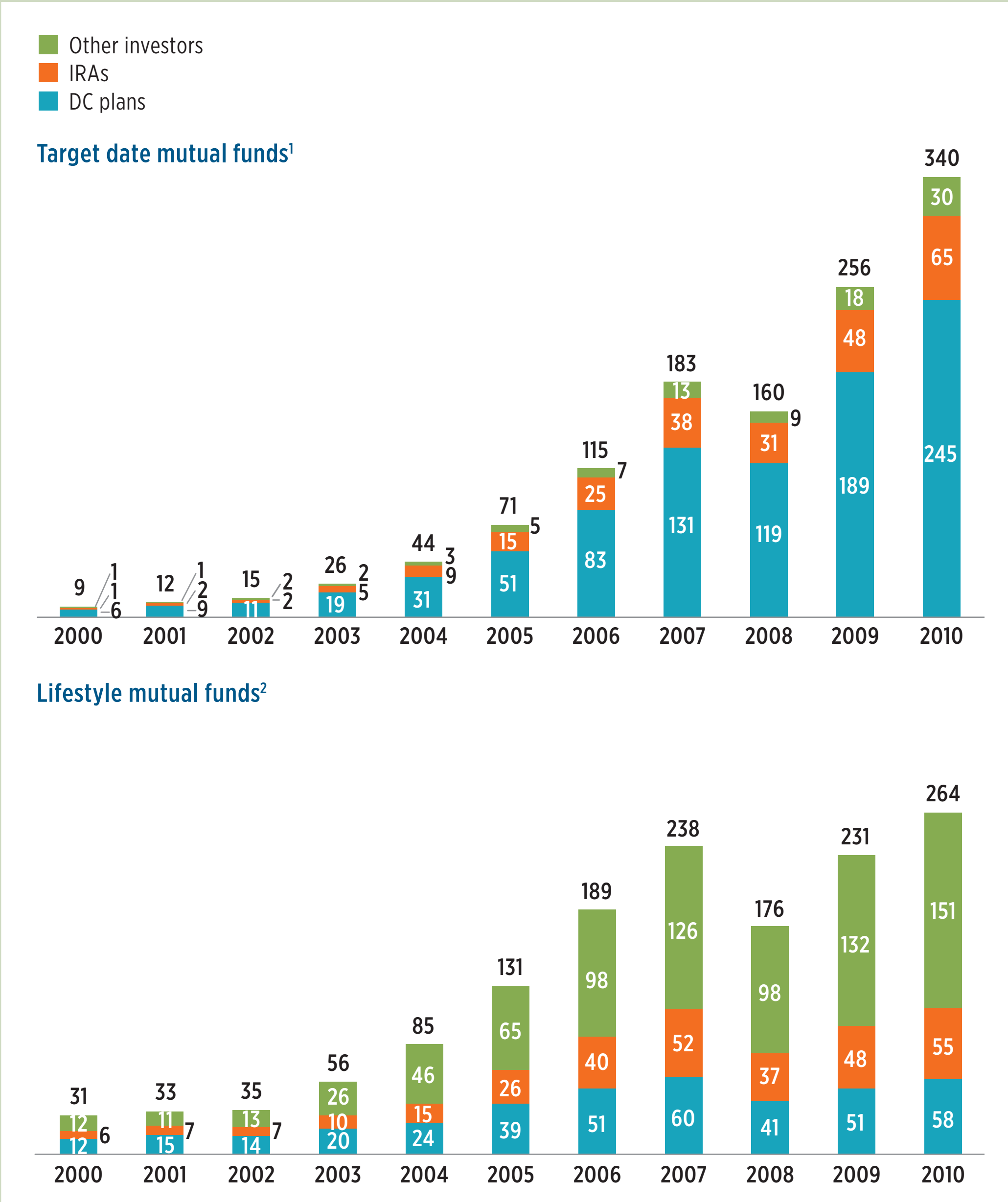
The Role of Mutual Funds in Households' Education Savings

ICI research finds that 25 percent of households that owned mutual funds in 2010 cited education as a financial goal for their fund investments. Nevertheless, the demand for education savings vehicles has been historically modest since their introduction in the 1990s, partly because of their limited availability and investors' lack of familiarity with them. The enactment of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) in 2001 enhanced the attractiveness of both Section 529 plans and Coverdell Education Savings Accounts (ESAs)—two education savings vehicles—by allowing greater contributions and flexibility in the plans. The enactment of the Pension Protection Act (PPA) in 2006 made permanent the EGTRRA enhancements to Section 529 plans. The enactment of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 extended for two years the EGTRRA enhancements to Coverdell ESAs.

FIGURE 7.22

Target Date and Lifestyle Mutual Fund Assets by Account Type

Billions of dollars, year-end, 2000–2010



[1] A target date mutual 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] A lifestyle mutual fund maintains a predetermined risk level and generally contains "conservative," "moderate," or "aggressive" in the fund's name.

Note: Components may not add to the total because of rounding.

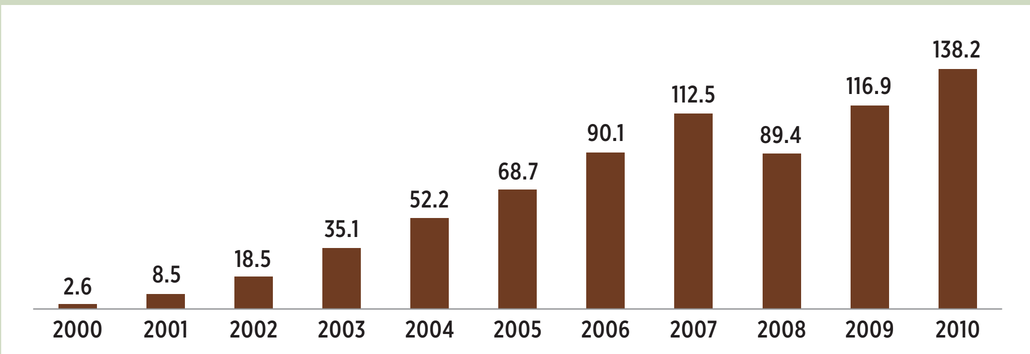
Assets in Section 529 savings plans increased 18 percent in 2010, with $138.2 billion in assets at the end of 2010, up from $116.9 billion at year-end 2009 (Figure 7.23). As of year-end 2010, the number of accounts was 9.5 million, and the average account size was approximately $14,500.

In 2010, as a group, households saving for college through 529 plans, Coverdell ESAs, or mutual funds held outside of these accounts tended to be headed by younger individuals, with 57 percent younger than 45 years of age (Figure 7.24). Heads of households saving for college had a range of educational attainment: 49 percent had not completed college and 51 percent had college degrees or higher education. In addition, these households represented a range of incomes: 40 percent had household income less than $75,000; 18 percent earned between $75,000 and $99,999; and 42 percent had household incomes of $100,000 or more. Nearly 70 percent of these households had children (younger than 18) in the home and 45 percent had more than one child in the home.

FIGURE 7.23

Section 529 Savings Plan Assets

Billions of dollars, year-end, 2000–2010



Note: Data were estimated for a few individual state observations in order to construct a continuous time series.

Sources: Investment Company Institute, College Savings Plans Network, College Savings Foundation, and Financial Research Corporation

FIGURE 7.24

Characteristics of Households Saving for College

Percentage of U.S. households saving for college,[1] May 2010

Age of head of household[2]	
Younger than 35	26
35 to 44	31
45 to 54	23
55 to 64	9
65 or older	11
Education level of head of household[2]	
High school graduate or less	16
Associate's degree or some college	33
Completed college	23
Some graduate school or completed graduate school	28
Household income[3]	
Less than $25,000	6
$25,000 to $34,999	6
$35,000 to $49,999	10
$50,000 to $74,999	18
$75,000 to $99,999	18
$100,000 or more	42
Number of children in home[4]	
None	31
One	24
Two	29
Three or more	16

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

[2] Head of household is the sole or co-decisionmaker for saving and investing.

[3] Total reported is household income before taxes in 2009.

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

For More Information

- » "The U.S. Retirement Market, Fourth Quarter 2010"
- » "Who Gets Retirement Plans and Why: An Update," *ICI Research Perspective*
- » "The Role of IRAs in U.S. Households' Saving for Retirement, 2010," *Investment Company Institute Fundamentals*
- » *The IRA Investor Profile: Traditional IRA Investors' Rollover Activity, 2007 and 2008*
- » *The IRA Investor Profile: Traditional IRA Investors' Contribution Activity, 2007 and 2008*
- » "The Evolving Role of IRAs in U.S. Retirement Planning," *Investment Company Institute Perspective*
- » Frequently Asked Questions About Individual Retirement Accounts
- » *Commitment to Retirement Security: Investor Attitudes and Actions*
- » "A Look at Private-Sector Retirement Plan Income After ERISA," *Investment Company Institute Perspective*
- » "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2009," *Investment Company Institute Perspective*
- » "The Economics of 401(k) Plans: Services, Fees, and Expenses, 2009," *Investment Company Institute Fundamentals*
- » *Defined Contribution / 401(k) Fee Study: Inside the Structure of Defined Contribution/401(k) Plan Fees: A Study Assessing the Mechanics of What Drives the "All-In" Fee*
- » ICI Resources on Target Retirement Date Funds

Available at www.ici.org.

Part Two

Data Tables

Data Tables

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U.S. Mutual Fund Totals

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Closed-End Funds, Exchange-Traded Funds, and Unit Investment Trusts

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Institutional Investors in the U.S. Mutual Fund Industry

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Worldwide Mutual Fund Totals

TABLE 1

Total Net Assets, Number of Funds, Number of Share Classes, and Number of Shareholder Accounts of the U.S. Mutual Fund Industry

Year-end

Year	Total net assets *Billions of dollars*	Number of funds	Number of share classes	Number of shareholder accounts* *Thousands*
1940	$0.45	68	–	296
1945	1.28	73	–	498
1950	2.53	98	–	939
1955	7.84	125	–	2,085
1960	17.03	161	–	4,898
1965	35.22	170	–	6,709
1970	47.62	361	–	10,690
1975	45.87	426	–	9,876
1976	51.28	452	–	9,060
1977	48.94	477	–	8,693
1978	55.84	505	–	8,658
1979	94.51	526	–	9,790
1980	134.76	564	–	12,088
1981	241.37	665	–	17,499
1982	296.68	857	–	21,448
1983	292.99	1,026	–	24,605
1984	370.68	1,243	1,243	27,636
1985	495.39	1,528	1,528	34,098
1986	715.67	1,835	1,835	45,374
1987	769.17	2,312	2,312	53,717
1988	809.37	2,737	2,737	54,056
1989	980.67	2,935	2,935	57,560
1990	1,065.19	3,079	3,177	61,948
1991	1,393.19	3,403	3,587	68,332
1992	1,642.54	3,824	4,208	79,931
1993	2,069.96	4,534	5,562	94,015
1994	2,155.32	5,325	7,697	114,383
1995	2,811.29	5,725	9,007	131,219
1996	3,525.80	6,248	10,352	149,933
1997	4,468.20	6,684	12,002	170,299
1998	5,525.21	7,314	13,720	194,029
1999	6,846.34	7,791	15,262	226,212
2000	6,964.63	8,155	16,738	244,705
2001	6,974.91	8,305	18,023	248,701
2002	6,383.48	8,243	18,984	251,123
2003	7,402.42	8,125	19,318	260,698
2004	8,095.08	8,040	20,029	269,468
2005	8,891.11	7,974	20,549	275,479
2006	10,397.94	8,118	21,257	288,596
2007	12,002.28	8,027	21,621	292,590
2008	9,603.60	8,022	22,237	264,599
2009	11,120.20	7,685	21,716	269,224
2010	11,820.68	7,581	21,971	292,109

* Number of shareholder accounts includes a mix of individual and omnibus accounts.
Note: Data for funds that invest primarily in other mutual funds were excluded from the series.

TABLE 2

Total Sales, New Sales, Exchange Sales, Redemptions, and Exchange Redemptions of the U.S. Mutual Fund Industry

Billions of dollars, annual

Year	Total sales[1]	New sales	Exchange sales[2]	Redemptions	Exchange redemptions[3]
1945	$0.29	–	–	$0.11	–
1950	0.52	–	–	0.28	–
1955	1.21	–	–	0.44	–
1960	2.10	–	–	0.84	–
1965	4.36	$3.93	–	1.96	–
1970	4.63	3.84	–	2.99	–
1975	10.06	8.94	–	9.57	–
1976	13.72	11.92	$1.52	16.41	$1.44
1977	17.07	14.75	2.24	16.69	2.31
1978	37.16	35.40	3.97	31.53	3.94
1979	119.32	115.66	5.83	86.74	5.89
1980	247.42	238.96	10.10	216.08	9.94
1981	472.13	452.42	14.44	362.44	14.59
1982	626.94	604.09	28.25	588.35	27.86
1983	547.77	532.04	35.67	565.83	36.03
1984	680.12	661.74	36.66	607.02	37.11
1985	953.85	933.37	46.55	864.88	46.84
1986	1,204.90	1,179.40	107.75	1,015.64	107.96
1987	1,251.19	1,220.27	205.68	1,178.75	207.35
1988	1,176.81	1,143.62	134.28	1,166.67	134.24
1989	1,444.84	1,401.21	130.66	1,327.05	131.95
1990	1,564.81	1,517.41	138.79	1,470.83	140.98
1991	2,037.64	1,990.53	155.75	1,879.69	154.31
1992	2,749.68	2,704.69	197.43	2,548.28	198.15
1993	3,187.49	3,137.76	248.79	2,904.44	253.95
1994	3,075.63	3,019.76	317.55	2,928.62	325.00
1995	3,600.62	3,526.00	351.53	3,314.86	351.08
1996	4,671.44	4,586.71	504.73	4,266.20	503.94
1997	5,801.23	5,704.83	613.44	5,324.29	618.49
1998	7,230.40	7,126.92	742.97	6,649.27	743.37
1999	9,043.58	8,922.96	949.96	8,562.10	947.36
2000	11,109.54	10,970.50	1,149.75	10,586.59	1,145.42
2001	12,866.21	12,747.53	797.34	12,242.32	798.08
2002	13,168.76	13,084.32	747.34	13,011.36	745.65
2003	12,393.72	12,315.54	572.50	12,361.83	573.76
2004	12,176.96	12,086.82	408.99	12,024.72	417.95
2005	13,939.25	13,812.42	420.83	13,546.66	432.43
2006	17,409.60	17,229.04	487.71	16,752.22	492.19
2007	23,471.88	23,237.64	606.46	22,353.77	611.96
2008	26,346.81	26,133.01	733.84	25,725.92	728.84
2009	20,681.89	20,530.39	529.96	20,681.38	528.12
2010	18,193.46	18,036.65	420.04	18,318.76	434.77

[1] Total sales are the dollar value of new sales plus sales made through reinvestment of income dividends from existing accounts, but exclude reinvestment of capital gains distributions.

[2] Exchange sales are the dollar value of mutual fund shares switched into funds within the same fund group.

[3] Exchange redemptions are the dollar value of mutual fund shares switched out of funds and into other funds in the same fund group.

Note: Data for funds that invest primarily in other mutual funds were excluded from the series.

TABLE 3

Total Net Assets of the U.S. Mutual Fund Industry

Billions of dollars, year-end

		Long-term funds		
Year	**Total**	**Equity funds**	**Bond and income funds**	**Money market funds**
1960	$17.03	$16.00	$1.02	–
1965	35.22	32.76	2.46	–
1970	47.62	45.13	2.49	–
1975	45.87	37.49	4.68	$3.70
1976	51.28	39.19	8.39	3.69
1977	48.94	34.07	10.98	3.89
1978	55.84	32.67	12.31	10.86
1979	94.51	35.88	13.10	45.53
1980	134.76	44.42	13.98	76.36
1981	241.37	41.19	14.01	186.16
1982	296.68	53.63	23.21	219.84
1983	292.99	76.97	36.63	179.39

		Long-term funds			
Year	**Total**	**Equity funds**	**Hybrid funds**	**Bond funds**	**Money market funds**
1984	$370.68	$79.73	$11.15	$46.24	$233.55
1985	495.39	111.33	17.61	122.65	243.80
1986	715.67	154.45	25.76	243.31	292.15
1987	769.17	175.45	29.25	248.37	316.10
1988	809.37	189.38	26.35	255.69	337.95
1989	980.67	245.04	35.64	271.90	428.09
1990	1,065.19	239.48	36.12	291.25	498.34
1991	1,393.19	404.73	52.23	393.78	542.44
1992	1,642.54	514.09	78.04	504.21	546.19
1993	2,069.96	740.67	144.50	619.48	565.32
1994	2,155.32	852.76	164.40	527.15	611.00
1995	2,811.29	1,249.08	210.33	598.87	753.02
1996	3,525.80	1,726.01	252.58	645.41	901.81
1997	4,468.20	2,368.02	317.11	724.18	1,058.89
1998	5,525.21	2,977.94	365.00	830.59	1,351.68
1999	6,846.34	4,041.89	378.81	812.49	1,613.15
2000	6,964.63	3,961.92	346.28	811.19	1,845.25
2001	6,974.91	3,419.61	344.87	925.12	2,285.31
2002	6,383.48	2,664.01	323.95	1,130.45	2,265.08
2003	7,402.42	3,686.30	428.33	1,247.77	2,040.02
2004	8,095.08	4,386.67	516.60	1,290.48	1,901.34
2005	8,891.11	4,942.65	564.35	1,357.28	2,026.82
2006	10,397.94	5,914.10	650.31	1,495.07	2,338.45
2007	12,002.28	6,518.76	716.73	1,681.03	3,085.76
2008	9,603.60	3,705.55	498.28	1,567.54	3,832.24
2009	11,120.20	4,957.04	639.15	2,208.11	3,315.89
2010	11,820.68	5,667.40	741.07	2,608.29	2,803.92

Note: Data for funds that invest primarily in other mutual funds were excluded from the series.
The data contain a series break beginning in 1984. All funds were reclassified in 1984, and a separate category was created for hybrid funds.
Components may not add to the total because of rounding.

TABLE 4

Total Net Assets of the U.S. Mutual Fund Industry by Investment Classification

Billions of dollars, year-end

	EQUITY FUNDS				BOND FUNDS							MONEY MARKET FUNDS	
Year	Capital appreciation	World	Total return	HYBRID FUNDS	Corporate	High yield	World	Government	Strategic income	State muni	National muni	Taxable	Tax-exempt
1986	$70.53	$15.47	$68.45	$25.76	$9.08	$24.59	$0.52	$122.06	$11.37	$25.81	$49.86	$228.35	$63.81
1987	79.31	17.43	78.71	29.25	9.47	24.16	2.14	123.11	12.53	27.79	49.17	254.68	61.42
1988	83.09	17.98	88.31	26.35	10.46	33.43	3.02	111.40	10.65	32.41	54.32	272.20	65.76
1989	107.23	23.59	114.22	35.64	11.68	28.49	3.06	109.60	13.41	41.21	64.45	358.62	69.47
1990	113.37	28.30	97.81	36.12	25.80	19.15	13.02	104.43	8.61	49.55	70.70	414.56	83.78
1991	178.73	39.52	186.48	52.23	36.60	26.33	27.71	134.24	14.70	65.81	88.39	452.46	89.98
1992	235.06	45.68	233.34	78.04	48.16	34.47	31.02	172.68	21.63	85.48	110.78	451.35	94.84
1993	321.18	114.13	305.36	144.50	68.29	48.97	32.91	188.67	26.05	113.59	141.01	461.88	103.44
1994	361.62	161.19	329.95	164.40	64.78	45.08	23.60	140.44	25.95	104.82	122.49	501.11	109.89
1995	572.34	196.51	480.23	210.33	84.75	59.70	24.83	143.00	33.30	117.30	135.99	631.32	121.69
1996	781.72	285.20	659.10	252.58	100.61	78.90	25.74	130.63	56.47	116.96	136.10	763.94	137.87
1997	1,075.27	346.37	946.39	317.11	119.35	104.91	25.99	128.89	73.15	126.54	145.35	901.23	157.66
1998	1,404.71	391.64	1,181.59	365.00	143.51	117.44	24.64	144.35	102.05	139.96	158.63	1,166.97	184.71
1999	2,115.06	585.25	1,341.58	378.81	157.68	116.90	22.94	138.58	104.90	127.89	143.59	1,413.25	199.90
2000	2,144.63	551.76	1,265.54	346.28	140.64	90.28	19.94	133.34	149.15	132.72	145.12	1,611.38	233.87
2001	1,791.27	434.88	1,193.46	344.87	160.97	94.28	19.07	164.24	191.55	140.99	154.03	2,026.23	259.08
2002	1,337.99	360.76	965.25	323.95	179.42	100.40	21.08	233.50	267.53	154.14	174.38	1,988.78	276.30
2003	1,854.91	519.40	1,312.00	428.33	201.12	153.98	27.19	219.94	311.42	150.94	183.16	1,749.73	290.29
2004	2,154.53	692.39	1,539.74	516.60	224.63	155.93	36.35	205.64	340.21	145.10	182.62	1,589.34	312.00
2005	2,374.97	921.70	1,645.98	564.35	239.79	144.17	44.72	201.37	388.47	148.14	190.61	1,690.45	336.37
2006	2,697.78	1,315.25	1,901.07	650.31	272.17	156.50	62.70	186.61	452.20	154.87	210.03	1,969.42	369.03
2007	2,888.80	1,668.20	1,961.76	716.73	299.78	156.97	88.35	195.03	567.07	155.63	218.21	2,617.67	468.09
2008	1,648.45	866.44	1,190.65	498.28	246.08	111.58	88.42	226.17	557.58	134.87	202.84	3,338.56	493.68
2009	2,214.03	1,273.12	1,469.90	639.15	357.42	187.55	125.67	271.10	809.23	158.96	298.18	2,916.96	398.94
2010	2,544.67	1,502.04	1,620.70	741.07	437.62	218.63	192.15	299.38	987.06	155.82	317.63	2,473.92	330.01

Note: Data for funds that invest primarily in other mutual funds were excluded from the series.

TABLE 5

Number of Funds of the U.S. Mutual Fund Industry

Year-end

Year	Total	Long-term funds: Equity funds	Long-term funds: Bond and income funds	Money market funds
1970	361	323	38	–
1971	392	350	42	–
1972	410	364	46	–
1973	421	366	55	–
1974	431	343	73	15
1975	426	314	76	36
1976	452	302	102	48
1977	477	296	131	50
1978	505	294	150	61
1979	526	289	159	78
1980	564	288	170	106
1981	665	306	180	179
1982	857	340	199	318
1983	1,026	396	257	373

Year	Total	Long-term funds: Equity funds	Long-term funds: Hybrid funds	Long-term funds: Bond funds	Money market funds
1984	1,243	459	89	270	425
1985	1,528	562	103	403	460
1986	1,835	678	121	549	487
1987	2,312	824	164	781	543
1988	2,737	1,006	179	942	610
1989	2,935	1,069	189	1,004	673
1990	3,079	1,099	193	1,046	741
1991	3,403	1,191	212	1,180	820
1992	3,824	1,325	235	1,400	864
1993	4,534	1,586	282	1,746	920
1994	5,325	1,886	361	2,115	963
1995	5,725	2,139	412	2,177	997
1996	6,248	2,570	466	2,224	988
1997	6,684	2,951	501	2,219	1,013
1998	7,314	3,512	526	2,250	1,026
1999	7,791	3,952	532	2,262	1,045
2000	8,155	4,385	523	2,208	1,039
2001	8,305	4,717	482	2,091	1,015
2002	8,243	4,748	472	2,035	988
2003	8,125	4,600	507	2,045	973
2004	8,040	4,547	509	2,042	942
2005	7,974	4,586	504	2,014	870
2006	8,118	4,769	507	1,995	847
2007	8,027	4,764	488	1,970	805
2008	8,022	4,827	492	1,920	783
2009	7,685	4,653	471	1,857	704
2010	7,581	4,585	478	1,866	652

Note: Data for funds that invest primarily in other mutual funds were excluded from the series.
The data contain a series break beginning in 1984. All funds were reclassified in 1984, and a separate category was created for hybrid funds.

TABLE 6

Number of Funds of the U.S. Mutual Fund Industry by Investment Classification

Year-end

	EQUITY FUNDS				BOND FUNDS							MONEY MARKET FUNDS	
Year	Capital appreciation	World	Total return	HYBRID FUNDS	Corporate	High yield	World	Government	Strategic income	State muni	National muni	Taxable	Tax-exempt
1986	439	57	182	121	35	57	4	139	67	122	125	360	127
1987	514	81	229	164	42	70	16	201	86	217	149	389	154
1988	578	109	319	179	58	103	28	248	85	245	175	433	177
1989	597	128	344	189	59	105	30	266	101	260	183	470	203
1990	621	155	323	193	120	106	41	252	64	272	191	505	236
1991	645	206	340	212	144	95	61	281	76	331	192	552	268
1992	717	239	369	235	183	89	89	335	76	414	214	585	279
1993	850	306	430	282	251	90	115	405	89	531	265	627	293
1994	994	423	469	361	304	95	138	457	109	707	305	649	314
1995	1,110	528	501	412	358	104	159	429	116	710	301	676	321
1996	1,325	668	577	466	386	119	173	422	143	686	295	669	319
1997	1,538	768	645	501	372	134	186	407	187	649	284	685	328
1998	1,894	890	728	526	350	183	188	395	234	615	285	687	339
1999	2,208	950	794	532	336	208	175	374	282	605	282	704	341
2000	2,541	1,006	838	523	305	214	144	351	326	594	274	704	335
2001	2,852	1,015	850	482	293	211	131	320	323	556	257	690	325
2002	2,955	947	846	472	298	200	116	314	338	519	250	677	311
2003	2,930	863	807	507	291	199	105	315	357	527	251	660	313
2004	2,934	820	793	509	301	199	106	313	357	516	250	637	305
2005	2,968	839	779	504	294	208	105	307	361	501	238	593	277
2006	3,068	915	786	507	289	208	114	309	364	481	230	573	274
2007	3,017	980	767	488	292	207	124	301	372	449	225	545	260
2008	3,018	1,060	749	492	281	196	131	294	381	417	220	534	249
2009	2,822	1,115	716	471	275	187	135	297	366	378	219	476	228
2010	2,750	1,143	692	478	277	187	155	291	375	361	220	442	210

Note: Data for funds that invest primarily in other mutual funds were excluded from the series.

TABLE 7

Number of Share Classes of the U.S. Mutual Fund Industry

Year-end

Year	Total	Equity funds	Hybrid funds	Bond funds	Money market funds
1986	1,835	678	121	549	487
1987	2,312	824	164	781	543
1988	2,737	1,006	179	942	610
1989	2,935	1,069	189	1,004	673
1990	3,177	1,128	200	1,087	762
1991	3,587	1,248	224	1,244	871
1992	4,208	1,452	258	1,584	914
1993	5,562	1,945	349	2,259	1,009
1994	7,697	2,656	517	3,263	1,261
1995	9,007	3,287	637	3,703	1,380
1996	10,352	4,211	753	3,935	1,453
1997	12,002	5,309	877	4,267	1,549
1998	13,720	6,642	968	4,483	1,627
1999	15,262	7,785	1,031	4,716	1,730
2000	16,738	9,079	1,024	4,780	1,855
2001	18,023	10,326	996	4,753	1,948
2002	18,984	11,005	1,043	4,930	2,006
2003	19,318	10,956	1,172	5,159	2,031
2004	20,029	11,398	1,271	5,314	2,046
2005	20,549	11,824	1,371	5,323	2,031
2006	21,257	12,509	1,355	5,381	2,012
2007	21,621	12,827	1,338	5,438	2,018
2008	22,237	13,391	1,382	5,476	1,988
2009	21,716	13,095	1,350	5,422	1,849
2010	21,971	13,130	1,422	5,636	1,783

Note: Data for funds that invest primarily in other mutual funds were excluded from the series.

TABLE 8

Number of Share Classes of the U.S. Mutual Fund Industry by Investment Classification

Year-end

	EQUITY FUNDS				BOND FUNDS							MONEY MARKET FUNDS	
Year	Capital appreciation	World	Total return	HYBRID FUNDS	Corporate	High yield	World	Government	Strategic income	State muni	National muni	Taxable	Tax-exempt
1986	439	57	182	121	35	57	4	139	67	122	125	360	127
1987	514	81	229	164	42	70	16	201	86	217	149	389	154
1988	578	109	319	179	58	103	28	248	85	245	175	433	177
1989	597	128	344	189	59	105	30	266	101	260	183	470	203
1990	632	166	330	200	121	109	45	258	64	291	199	522	240
1991	666	227	355	224	146	100	70	293	77	352	206	591	280
1992	785	263	404	258	201	100	111	382	82	466	242	616	298
1993	1,033	385	527	349	307	115	152	522	109	708	346	672	337
1994	1,362	630	664	517	434	135	205	679	150	1,187	473	858	403
1995	1,660	845	782	637	557	172	248	697	167	1,341	521	953	427
1996	2,099	1,155	957	753	637	202	289	711	207	1,352	537	1,005	448
1997	2,704	1,449	1,156	877	647	264	335	743	300	1,415	563	1,075	474
1998	3,464	1,770	1,408	968	648	378	348	762	392	1,365	590	1,137	490
1999	4,231	1,969	1,585	1,031	669	452	334	760	503	1,380	618	1,230	500
2000	5,163	2,207	1,709	1,024	655	479	287	731	601	1,407	620	1,331	524
2001	6,155	2,375	1,796	996	682	491	271	698	655	1,342	614	1,405	543
2002	6,757	2,342	1,906	1,043	729	498	270	732	763	1,297	641	1,463	543
2003	6,823	2,199	1,934	1,172	753	507	254	766	842	1,344	693	1,462	569
2004	7,218	2,177	2,003	1,271	801	528	260	797	881	1,340	707	1,470	576
2005	7,505	2,287	2,032	1,371	809	557	268	794	906	1,314	675	1,464	567
2006	7,902	2,555	2,052	1,355	837	567	299	796	947	1,268	667	1,454	558
2007	7,941	2,808	2,078	1,338	871	597	337	783	963	1,223	664	1,448	570
2008	8,112	3,166	2,113	1,382	890	589	387	782	1,002	1,157	669	1,445	543
2009	7,682	3,373	2,040	1,350	868	572	426	803	1,003	1,071	679	1,332	517
2010	7,563	3,551	2,016	1,422	892	594	513	828	1,042	1,064	703	1,283	500

Note: Data for funds that invest primarily in other mutual funds were excluded from the series.

TABLE 9

Number of Shareholder Accounts* of the U.S. Mutual Fund Industry

Thousands, year-end

Year	Total	Long-term funds			Money market funds
		Equity funds	Hybrid funds	Bond funds	
1986	45,374	15,509	2,101	11,450	16,313
1987	53,717	20,371	2,732	12,939	17,675
1988	54,056	19,658	2,575	13,253	18,570
1989	57,560	20,348	2,727	13,170	21,314
1990	61,948	22,157	3,203	13,619	22,969
1991	68,332	25,648	3,620	15,509	23,556
1992	79,931	32,730	4,532	19,023	23,647
1993	94,015	42,554	6,741	21,135	23,585
1994	114,383	57,948	10,251	20,806	25,379
1995	131,219	69,340	10,926	20,816	30,137
1996	149,933	85,301	12,026	20,406	32,200
1997	170,299	101,679	12,856	20,140	35,624
1998	194,029	119,557	14,138	21,486	38,847
1999	226,212	147,391	14,252	20,953	43,616
2000	244,705	163,948	13,066	19,553	48,138
2001	248,701	165,649	14,257	21,560	47,236
2002	251,123	164,295	15,579	25,869	45,380
2003	260,698	174,060	17,672	27,752	41,214
2004	269,468	183,241	20,004	28,587	37,636
2005	275,479	187,990	21,206	29,446	36,837
2006	288,596	200,020	21,967	29,541	37,067
2007	292,590	201,293	22,338	29,830	39,130
2008	264,599	175,634	20,753	30,100	38,111
2009	269,224	177,511	21,610	36,637	33,466
2010	292,109	188,858	22,828	49,816	30,606

* Number of shareholder accounts includes a mix of individual and omnibus accounts.
Note: Data for funds that invest primarily in other mutual funds were excluded from the series.
Components may not add to the total because of rounding.

TABLE 10

Number of Shareholder Accounts* of the U.S. Mutual Fund Industry by Investment Classification

Thousands, year-end

	EQUITY FUNDS				BOND FUNDS							MONEY MARKET FUNDS	
Year	Capital appreciation	World	Total return	HYBRID FUNDS	Corporate	High yield	World	Government	Strategic income	State muni	National muni	Taxable	Tax-exempt
1986	8,240	1,631	5,638	2,101	659	1,744	47	5,985	603	722	1,691	15,654	660
1987	10,557	2,171	7,644	2,732	708	1,974	156	6,666	694	874	1,866	16,833	842
1988	10,312	2,034	7,312	2,575	772	2,488	255	6,293	508	1,000	1,938	17,631	939
1989	10,172	2,062	8,114	2,727	810	2,409	237	5,847	584	1,147	2,138	20,173	1,141
1990	11,427	3,077	7,653	3,203	1,389	2,204	680	5,394	310	1,323	2,318	21,578	1,391
1991	13,628	3,478	8,542	3,620	1,678	1,992	1,306	5,846	432	1,631	2,624	21,863	1,693
1992	17,842	4,203	10,685	4,532	2,073	2,041	1,725	7,181	799	2,163	3,041	21,771	1,876
1993	22,003	7,122	13,430	6,741	2,463	2,373	1,878	7,226	977	2,579	3,639	21,587	1,999
1994	28,407	12,162	17,379	10,251	2,849	2,440	1,435	6,359	1,010	3,232	3,482	23,342	2,037
1995	35,758	13,195	20,387	10,926	3,160	2,816	1,283	6,395	1,132	2,621	3,409	27,866	2,271
1996	44,731	15,651	24,919	12,026	3,632	3,189	1,214	5,559	1,152	2,473	3,187	29,929	2,271
1997	53,101	17,912	30,666	12,856	3,722	3,756	1,116	4,918	1,344	2,289	2,995	32,986	2,638
1998	63,288	18,515	37,754	14,138	4,333	4,168	844	4,984	1,651	2,487	3,020	36,461	2,386
1999	83,170	21,833	42,388	14,252	4,760	4,110	783	4,871	1,448	2,228	2,754	41,187	2,428
2000	99,310	23,514	41,124	13,066	3,892	3,532	657	4,539	2,240	2,120	2,573	45,489	2,649
2001	99,381	22,628	43,639	14,257	4,813	3,605	632	5,120	2,822	2,044	2,524	44,425	2,811
2002	97,939	22,365	43,991	15,579	5,523	3,818	713	6,360	4,759	2,060	2,636	42,725	2,655
2003	102,135	24,341	47,585	17,672	5,529	4,783	897	6,186	5,957	1,841	2,559	38,411	2,803
2004	103,812	29,510	49,919	20,004	5,966	4,784	1,038	5,891	6,677	1,744	2,487	34,793	2,843
2005	101,856	35,550	50,584	21,206	6,369	4,626	1,355	5,438	7,468	1,713	2,476	34,031	2,806
2006	103,710	44,591	51,720	21,967	6,184	4,700	1,742	4,552	8,197	1,647	2,519	34,004	3,063
2007	100,787	49,862	50,643	22,338	5,936	4,711	2,140	4,072	8,930	1,575	2,466	35,661	3,469
2008	85,996	44,071	45,568	20,753	5,175	4,106	2,549	4,894	9,631	1,375	2,370	34,497	3,614
2009	86,580	47,200	43,731	21,610	6,840	4,802	3,256	5,172	12,361	1,424	2,784	30,300	3,166
2010	91,378	51,610	45,870	22,828	11,653	6,334	4,549	5,892	16,749	1,490	3,149	27,435	3,171

* Number of shareholder accounts includes a mix of individual and omnibus accounts.
Note: Data for funds that invest primarily in other mutual funds were excluded from the series.

TABLE 11

Closed-End Funds: Total Net Assets and Proceeds from Issuance by Type of Fund

Millions of dollars

		Equity funds			Bond funds			
Year	Total	Total equity	Domestic	Global/ International	Total bond	Domestic taxable	Domestic municipal	Global/ International
Total net assets *Year-end*								
1990	$59,106	$16,634	$10,791	$5,843	$42,472	$16,820	$16,482	$9,170
1991	76,164	19,296	13,109	6,187	56,868	19,403	29,519	7,947
1992	100,666	21,766	14,581	7,185	78,900	24,632	45,593	8,674
1993	131,520	28,010	15,462	12,548	103,510	30,909	60,100	12,501
1994	130,675	37,611	16,018	21,594	93,063	26,604	56,035	10,425
1995	142,619	41,926	18,078	23,848	100,694	28,678	60,318	11,698
1996	146,991	46,987	19,830	27,157	100,004	28,418	59,540	12,046
1997	151,845	49,625	20,536	29,089	102,220	28,315	61,992	11,912
1998	155,814	47,606	22,529	25,077	108,208	34,127	63,628	10,454
1999	147,016	41,267	24,696	16,571	105,749	30,888	64,513	10,348
2000	143,134	36,611	24,557	12,054	106,523	28,581	68,266	9,676
2001	141,251	31,075	22,261	8,814	110,176	26,606	74,467	9,102
2002	158,805	33,724	26,596	7,128	125,081	25,643	90,024	9,414
2003	214,088	53,019	42,987	10,032	161,069	55,428	94,102	11,539
2004	254,296	82,327	63,762	18,565	171,969	64,230	94,884	12,855
2005	277,017	105,588	77,124	28,464	171,430	64,119	94,606	12,705
2006	298,328	122,477	87,772	34,705	175,851	68,051	94,569	13,231
2007	313,099	146,174	87,569	58,604	166,926	62,281	88,963	15,682
2008	185,983	74,288	45,777	28,511	111,695	32,997	67,807	10,891
2009	225,000	90,086	52,309	37,777	134,914	43,189	78,065	13,660
2010	240,782	100,803	59,600	41,203	139,979	48,481	76,551	14,947
Proceeds from issuance* *Annual*								
2002	$24,911	$9,210	$9,191	$18	$15,701	$2,309	$13,392	$0
2003	40,963	11,349	11,187	161	29,614	25,587	2,995	1,032
2004	27,867	21,225	15,424	5,801	6,642	5,608	5	1,028
2005	21,266	19,187	12,559	6,628	2,080	1,924	31	124
2006	12,333	10,275	7,692	2,583	2,057	1,528	196	334
2007	31,193	25,844	5,973	19,871	5,349	2,221	433	2,695
2008	330	208	8	200	121	121	0	0
2009	3,900	1,652	476	1,176	2,248	876	1,055	317
2010	8,291	3,643	3,628	13	4,648	2,323	1,968	358

* Data are not available for years prior to 2002. The data include proceeds from the issuance of initial and additional public offerings of closed-end fund shares.

Note: Components may not add to the total because of rounding.

TABLE 12

Closed-End Funds: Number of Funds by Type of Fund

Year-end

		Equity funds			Bond funds			
Year	Total	Total equity	Domestic	Global/ International	Total bond	Domestic taxable	Domestic municipal	Global/ International
1990	249	93	41	52	156	85	53	18
1991	281	93	40	53	188	86	87	15
1992	373	105	43	62	268	99	149	20
1993	495	119	48	71	376	120	227	29
1994	511	137	50	87	374	123	219	32
1995	500	141	49	92	359	119	207	33
1996	497	142	50	92	355	118	205	32
1997	487	135	45	90	352	115	205	32
1998	492	128	44	84	364	123	211	30
1999	512	124	49	75	388	117	241	30
2000	482	123	53	70	359	109	220	30
2001	492	116	51	65	376	109	240	27
2002	545	123	63	60	422	105	292	25
2003	584	131	75	56	453	129	297	27
2004	619	158	96	62	461	136	295	30
2005	635	193	121	72	442	131	280	31
2006	647	204	129	75	443	134	276	33
2007	664	230	137	93	434	131	269	34
2008	643	222	128	94	421	128	260	33
2009	628	209	117	92	419	127	260	32
2010	624	204	116	88	420	130	258	32

TABLE 13

Exchange-Traded Funds: Total Net Assets by Type of Fund

Millions of dollars, year-end

		INVESTMENT OBJECTIVE						LEGAL STATUS			Memo
		Equity						Registered			
		Domestic equity									
Year	Total	Broad-based	Sector[1]	Global/ International	Commodities[2]	Hybrid	Bond	Index	Actively managed	Nonregistered[2]	Funds of funds[3]
1993	$464	$464	–	–	–	–	–	$464	–	–	–
1994	424	424	–	–	–	–	–	424	–	–	–
1995	1,052	1,052	–	–	–	–	–	1,052	–	–	–
1996	2,411	2,159	–	$252	–	–	–	2,411	–	–	–
1997	6,707	6,200	–	506	–	–	–	6,707	–	–	–
1998	15,568	14,058	$484	1,026	–	–	–	15,568	–	–	–
1999	33,873	29,374	2,507	1,992	–	–	–	33,873	–	–	–
2000	65,585	60,529	3,015	2,041	–	–	–	65,585	–	–	–
2001	82,993	74,752	5,224	3,016	–	–	–	82,993	–	–	–
2002	102,143	86,985	5,919	5,324	–	–	$3,915	102,143	–	–	–
2003	150,983	120,430	11,901	13,984	–	–	4,667	150,983	–	–	–
2004	227,540	163,730	20,315	33,644	$1,335	–	8,516	226,205	–	$1,335	–
2005	300,820	186,832	28,975	65,210	4,798	–	15,004	296,022	–	4,798	–
2006	422,550	232,487	43,655	111,194	14,699	–	20,514	407,850	–	14,699	–
2007	608,422	300,930	64,117	179,702	28,906	$119	34,648	579,517	–	28,906	–
2008	531,288	266,161	58,374	113,684	35,728	132	57,209	495,314	$245	35,728	$97
2009	777,128	304,044	82,073	209,315	74,508	169	107,018	701,586	1,014	74,528	824
2010	991,989	372,377	103,807	276,622	101,081	322	137,781	888,198	2,710	101,081	1,294

[1] This category includes funds both registered and not registered under the Investment Company Act of 1940.

[2] The funds in this category invest primarily in commodities, currency, and futures, and are not registered under the Investment Company Act of 1940.

[3] Data for ETFs that invest primarily in other ETFs are excluded from the totals.

Note: Components may not add to the total because of rounding.

Sources: Investment Company Institute and Strategic Insight Simfund

TABLE 14

Exchange-Traded Funds: Number of Funds by Type of Fund

Year-end

		INVESTMENT OBJECTIVE						LEGAL STATUS			Memo
		Equity						Registered			
		Domestic equity									
Year	Total	Broad-based	Sector[1]	Global/ International	Commodities[2]	Hybrid	Bond	Index	Actively managed	Nonregistered[2]	Funds of funds[3]
1993	1	1	–	–	–	–	–	1	–	–	–
1994	1	1	–	–	–	–	–	1	–	–	–
1995	2	2	–	–	–	–	–	2	–	–	–
1996	19	2	–	17	–	–	–	19	–	–	–
1997	19	2	–	17	–	–	–	19	–	–	–
1998	29	3	9	17	–	–	–	29	–	–	–
1999	30	4	9	17	–	–	–	30	–	–	–
2000	80	29	26	25	–	–	–	80	–	–	–
2001	102	34	34	34	–	–	–	102	–	–	–
2002	113	34	32	39	–	–	8	113	–	–	–
2003	119	39	33	41	–	–	6	119	–	–	–
2004	152	60	42	43	1	–	6	151	–	1	–
2005	204	81	65	49	3	–	6	201	–	3	–
2006	359	133	119	85	16	–	6	343	–	16	–
2007	629	197	191	159	28	5	49	601	–	28	–
2008	728	204	186	225	45	6	62	670	13	45	15
2009	797	222	181	244	47	5	98	727	21	49	23
2010	923	243	193	298	55	6	128	844	24	55	27

[1] This category includes funds both registered and not registered under the Investment Company Act of 1940.
[2] The funds in this category invest primarily in commodities, currency, and futures, and are not registered under the Investment Company Act of 1940.
[3] Data for ETFs that invest primarily in other ETFs are excluded from the totals.
Sources: Investment Company Institute and Strategic Insight Simfund

TABLE 15

Exchange-Traded Funds: Net Issuance by Type of Fund

Millions of dollars, annual

		INVESTMENT OBJECTIVE						LEGAL STATUS			Memo
		Equity						Registered			
		Domestic equity									
Year	Total	Broad-based	Sector[1]	Global/ International	Commodities[2]	Hybrid	Bond	Index	Actively managed	Nonregistered[2]	Funds of funds[3]
1993	$442	$442	–	–	–	–	–	$442	–	–	–
1994	-28	-28	–	–	–	–	–	-28	–	–	–
1995	443	443	–	–	–	–	–	443	–	–	–
1996	1,108	842	–	$266	–	–	–	1,108	–	–	–
1997	3,466	3,160	–	306	–	–	–	3,466	–	–	–
1998	6,195	5,158	$484	553	–	–	–	6,195	–	–	–
1999	11,929	10,221	1,596	112	–	–	–	11,929	–	–	–
2000	42,508	40,591	1,033	884	–	–	–	42,508	–	–	–
2001	31,012	26,911	2,735	1,366	–	–	–	31,012	–	–	–
2002	45,302	35,477	2,304	3,792	–	–	$3,729	45,302	–	–	–
2003	15,810	5,737	3,587	5,764	–	–	721	15,810	–	–	–
2004	56,375	29,084	6,514	15,645	$1,353	–	3,778	55,021	–	$1,353	–
2005	56,729	16,941	6,719	23,455	2,859	–	6,756	53,871	–	2,859	–
2006	73,995	21,589	9,780	28,423	8,475	–	5,729	65,520	–	8,475	–
2007	150,617	61,152	18,122	48,842	9,062	$122	13,318	141,555	–	9,062	–
2008	177,220	88,105	30,296	25,243	10,567	58	22,952	166,372	$281	10,567	$107
2009	116,469	-11,842	14,350	39,599	28,388	15	45,958	87,336	724	28,410	237
2010	117,978	28,317	10,167	41,523	8,175	144	29,652	108,137	1,686	8,155	433

[1] This category includes funds both registered and not registered under the Investment Company Act of 1940.
[2] The funds in this category invest primarily in commodities, currency, and futures, and are not registered under the Investment Company Act of 1940.
[3] Data for ETFs that invest primarily in other ETFs are excluded from the totals.
Note: Components may not add to the total because of rounding.
Sources: Investment Company Institute and Strategic Insight Simfund

TABLE 16

Unit Investment Trusts: Total Net Assets, Number of Trusts, and New Deposits by Type of Trust

	Assets *Millions of dollars, year-end*				Number of trusts *Year-end*				New deposits *Millions of dollars, annual*			
Year	Total trusts	Equity	Taxable debt	Tax-free debt	Total trusts	Equity	Taxable debt	Tax-free debt	Total trusts	Equity	Taxable debt	Tax-free debt
1990	$105,390	$4,192	$9,456	$91,742	12,131	171	722	11,238	$7,489	$495	$1,349	$5,644
1991	102,828	4,940	9,721	88,167	12,388	168	678	11,542	8,195	900	1,687	5,609
1992	97,925	6,484	9,976	81,465	13,598	230	745	12,623	8,909	1,771	2,385	4,752
1993	87,574	8,494	8,567	70,513	13,740	258	679	12,803	9,359	3,206	1,598	4,555
1994	73,682	9,285	7,252	57,144	13,310	306	568	12,436	8,915	3,265	1,709	3,941
1995	73,125	14,019	8,094	51,013	12,979	301	578	12,100	11,264	6,743	1,154	3,367
1996	72,204	22,922	8,485	40,796	11,764	378	591	10,795	21,662	18,316	800	2,546
1997	84,761	40,747	6,480	37,533	11,593	563	513	10,517	38,546	35,855	771	1,919
1998	93,943	56,413	5,380	32,151	10,966	872	414	9,680	47,675	45,947	562	1,166
1999	91,970	62,128	4,283	25,559	10,414	1,081	409	8,924	52,046	50,629	343	1,074
2000	74,161	48,060	3,502	22,599	10,072	1,554	369	8,149	43,649	42,570	196	883
2001	49,249	26,467	3,784	18,999	9,295	1,500	324	7,471	19,049	16,927	572	1,550
2002	36,016	14,651	4,020	17,345	8,303	1,247	366	6,690	11,600	9,131	862	1,607
2003	35,826	19,024	3,311	13,491	7,233	1,206	320	5,707	12,731	10,071	931	1,729
2004	37,267	23,201	2,635	11,432	6,499	1,166	295	5,038	17,125	14,559	981	1,585
2005	40,894	28,634	2,280	9,980	6,019	1,251	304	4,464	22,598	21,526	289	782
2006	49,662	38,809	2,142	8,711	5,907	1,566	319	4,022	29,057	28,185	294	578
2007	53,040	43,295	2,066	7,680	6,030	1,964	327	3,739	35,836	35,101	298	438
2008	28,543	20,080	2,007	6,456	5,984	2,175	343	3,466	23,590	22,335	557	698
2009	38,336	24,774	3,668	9,894	6,049	2,145	438	3,466	22,293	16,159	2,201	3,933
2010	50,567	34,112	3,780	12,675	5,971	2,212	491	3,268	30,936	25,003	928	5,006

Note: Components may not add to the total because of rounding.

TABLE 17

Liquid Assets and Liquidity Ratio of Long-Term Mutual Funds

Year-end

	Liquid assets *Millions of dollars*				Liquidity ratio* *Percent*			
Year	Total	Equity funds	Hybrid funds	Bond funds	Total	Equity funds	Hybrid funds	Bond funds
1986	$30,611	$14,612	$2,514	$13,485	7.2%	9.5%	9.8%	5.5%
1987	37,930	16,319	2,730	18,881	8.4	9.3	9.3	7.6
1988	44,980	17,742	2,986	24,252	9.5	9.4	11.3	9.5
1989	44,603	25,602	5,747	13,253	8.1	10.4	16.1	4.9
1990	48,440	27,344	4,225	16,872	8.5	11.4	11.7	5.8
1991	60,385	30,657	3,318	26,410	7.1	7.6	6.4	6.7
1992	73,984	42,417	6,595	24,972	6.7	8.3	8.5	5.0
1993	99,436	57,539	16,774	25,123	6.6	7.8	11.6	4.1
1994	120,430	70,885	20,093	29,453	7.8	8.3	12.2	5.6
1995	141,755	97,743	19,494	24,518	6.9	7.8	9.3	4.1
1996	151,988	107,667	18,067	26,254	5.8	6.2	7.2	4.1
1997	198,826	145,565	24,761	28,500	5.8	6.1	7.8	3.9
1998	191,393	143,516	25,569	22,307	4.6	4.8	7.0	2.7
1999	219,098	174,692	20,656	23,750	4.2	4.3	5.5	2.9
2000	277,164	227,961	23,774	25,429	5.4	5.8	6.9	3.1
2001	222,475	172,044	25,938	24,492	4.7	5.0	7.5	2.6
2002	208,939	122,903	23,540	62,495	5.1	4.6	7.3	5.5
2003	259,580	157,218	29,218	73,144	4.8	4.3	6.8	5.9
2004	306,756	186,380	34,965	85,411	5.0	4.2	6.8	6.6
2005	302,922	194,394	40,030	68,499	4.4	3.9	7.1	5.0
2006	346,491	229,409	52,773	64,309	4.3	3.9	8.1	4.3
2007	381,306	276,962	54,092	50,251	4.3	4.2	7.5	3.0
2008	296,206	193,406	45,155	57,645	5.1	5.2	9.1	3.7
2009	365,866	178,229	46,386	141,251	4.7	3.6	7.3	6.4
2010	331,696	198,089	59,468	74,139	3.7	3.5	8.0	2.8

* Liquidity ratio is the ratio of liquid assets divided by total net assets at year-end.

Note: Data for funds that invest primarily in other mutual funds were excluded from the series.

Components may not add to the total because of rounding.

TABLE 18

Liquidity Ratio* of Long-Term Mutual Funds by Investment Classification

Percent, year-end

	EQUITY FUNDS				BOND FUNDS						
Year	Capital appreciation	World	Total return	HYBRID FUNDS	Corporate	High yield	World	Government	Strategic income	State muni	National muni
1986	8.7%	9.4%	10.2%	9.8%	6.3%	5.0%	21.1%	6.7%	10.8%	2.5%	3.0%
1987	10.2	11.5	7.9	9.3	7.9	7.3	22.2	8.2	11.2	4.3	6.5
1988	10.5	7.1	8.8	11.3	13.1	7.0	17.3	11.5	17.8	4.4	7.2
1989	11.0	7.2	10.7	16.1	8.6	6.9	14.8	4.3	13.5	2.4	3.5
1990	12.0	11.7	10.6	11.7	8.6	11.4	43.7	1.3	8.0	2.7	4.7
1991	8.6	8.7	6.3	6.4	7.9	5.4	30.5	5.5	7.0	2.8	3.8
1992	10.3	9.6	5.9	8.5	8.4	5.7	22.8	2.3	6.5	2.8	3.8
1993	8.5	10.6	6.0	11.6	8.8	4.6	17.9	0.9	7.5	2.1	3.5
1994	9.1	10.8	6.2	12.2	10.2	7.9	20.0	2.8	8.6	2.8	4.5
1995	8.5	8.6	6.7	9.3	6.3	7.0	12.3	1.5	7.3	2.1	3.5
1996	6.6	7.0	5.4	7.2	5.3	6.7	9.0	-0.6	11.2	2.4	3.6
1997	6.4	8.0	5.1	7.8	4.8	5.3	8.7	0.8	9.8	2.1	2.8
1998	5.0	5.8	4.3	7.0	3.2	4.6	6.1	-3.0	8.7	1.7	2.4
1999	4.5	5.3	3.6	5.5	5.5	4.3	6.9	-4.6	8.2	2.1	2.5
2000	6.0	7.8	4.5	6.9	4.7	8.4	4.3	-2.6	3.1	3.1	3.5
2001	5.3	6.3	4.2	7.5	5.7	6.9	3.3	-0.3	0.4	2.3	3.1
2002	4.9	5.8	3.8	7.3	4.1	6.8	3.6	0.5	13.1	2.6	4.1
2003	4.1	5.7	3.9	6.8	6.2	5.3	6.1	1.1	12.3	2.2	3.7
2004	4.2	5.4	3.8	6.8	4.7	5.9	9.8	2.5	12.0	2.9	6.5
2005	3.8	5.1	3.5	7.1	3.8	5.1	6.1	0.3	8.8	2.6	5.7
2006	3.7	4.3	3.9	8.1	0.4	5.5	13.3	-4.9	9.5	2.1	4.4
2007	4.1	5.1	3.7	7.5	0.1	4.9	14.5	-4.9	4.6	1.8	4.6
2008	5.2	6.3	4.5	9.1	3.0	11.1	7.7	-0.5	3.6	1.7	4.9
2009	3.9	4.0	2.8	7.3	6.7	5.5	8.6	3.8	7.8	2.8	6.0
2010	3.7	4.3	2.5	8.0	3.4	5.8	10.3	-1.8	1.3	2.1	5.2

* Liquidity ratio is the ratio of liquid assets divided by total net assets at year-end.
Note: Data for funds that invest primarily in other mutual funds were excluded from the series.

TABLE 19

Net New Cash Flow* of Long-Term Mutual Funds

Millions of dollars, annual

Year	Total	Equity funds	Hybrid funds	Bond funds
1986	$129,991	$20,386	$6,988	$102,618
1987	29,776	19,231	3,748	6,797
1988	-23,119	-14,948	-3,684	-4,488
1989	8,731	6,774	3,183	-1,226
1990	21,211	12,915	1,483	6,813
1991	106,213	39,888	7,089	59,236
1992	171,696	78,983	21,832	70,881
1993	242,049	127,260	44,229	70,559
1994	75,160	114,525	23,105	-62,470
1995	122,208	124,392	3,899	-6,082
1996	231,874	216,937	12,177	2,760
1997	272,030	227,106	16,499	28,424
1998	241,796	156,875	10,311	74,610
1999	169,780	187,565	-13,705	-4,081
2000	228,874	309,367	-30,728	-49,765
2001	129,188	32,138	9,346	87,704
2002	120,583	-27,177	7,148	140,612
2003	215,843	152,451	31,762	31,629
2004	209,851	178,171	42,438	-10,757
2005	192,086	135,773	25,081	31,232
2006	227,104	158,942	7,481	60,682
2007	223,898	90,675	24,163	109,060
2008	-225,027	-234,324	-18,393	27,690
2009	389,990	-8,755	22,718	376,028
2010	227,825	-36,787	23,315	241,297

* Net new cash flow is the dollar value of new sales minus redemptions combined with net exchanges.
Note: Data for funds that invest primarily in other mutual funds were excluded from the series.
Components may not add to the total because of rounding.

TABLE 20

Net New Cash Flow and Components of Net New Cash Flow of Equity Mutual Funds

Millions of dollars, annual

Year	Net new cash flow[1]	Sales: New + exchange	Sales: New[2]	Sales: Exchange[3]	Redemptions: Regular + exchange	Redemptions: Regular[4]	Redemptions: Exchange[5]
1986	$20,386	$87,997	$50,774	$37,224	$67,612	$26,051	$41,561
1987	19,231	139,596	65,093	74,502	120,365	38,601	81,764
1988	-14,948	68,827	25,641	43,186	83,774	33,247	50,528
1989	6,774	89,345	46,817	42,527	82,571	37,229	45,342
1990	12,915	104,334	62,872	41,462	91,419	44,487	46,931
1991	39,888	146,618	90,192	56,427	106,730	53,394	53,336
1992	78,983	201,720	134,309	67,411	122,738	61,465	61,272
1993	127,260	307,356	213,639	93,717	180,095	91,944	88,151
1994	114,525	366,659	252,887	113,772	252,134	141,097	111,037
1995	124,392	433,853	282,937	150,915	309,461	170,402	139,059
1996	216,937	674,323	442,372	231,951	457,385	240,531	216,854
1997	227,106	880,286	579,064	301,222	653,180	362,022	291,158
1998	156,875	1,065,197	699,554	365,643	908,322	534,256	374,065
1999	187,565	1,410,845	918,600	492,245	1,223,280	744,144	479,136
2000	309,367	1,975,882	1,321,838	654,044	1,666,515	1,038,572	627,943
2001	32,138	1,330,963	953,475	377,488	1,298,826	892,985	405,841
2002	-27,177	1,220,950	899,182	321,768	1,248,127	879,216	368,911
2003	152,451	1,086,828	848,078	238,749	934,376	710,876	223,500
2004	178,171	1,107,248	935,762	171,486	929,077	762,520	166,557
2005	135,773	1,210,416	1,032,245	178,171	1,074,643	882,789	191,854
2006	158,942	1,437,413	1,231,740	205,672	1,278,471	1,054,828	223,643
2007	90,675	1,758,340	1,531,577	226,763	1,667,665	1,398,416	269,249
2008	-234,324	1,539,568	1,341,369	198,199	1,773,892	1,491,355	282,538
2009	-8,755	1,205,186	1,047,273	157,913	1,213,942	1,028,038	185,904
2010	-36,787	1,412,070	1,239,233	172,837	1,448,857	1,253,551	195,306

[1] Net new cash flow is the dollar value of new sales minus redemptions combined with net exchanges.

[2] New sales are the dollar value of new purchases of mutual fund shares. This does not include shares purchased through reinvestment of dividends in existing accounts.

[3] Exchange sales are the dollar value of mutual fund shares switched into funds within the same fund group.

[4] Regular redemptions are the dollar value of shareholder liquidation of mutual fund shares.

[5] Exchange redemptions are the dollar value of mutual fund shares switched out of funds and into other funds in the same fund group.

Note: Data for funds that invest primarily in other mutual funds were excluded from the series.
Components may not add to the total because of rounding.

TABLE 21

Net New Cash Flow and Components of Net New Cash Flow of Hybrid Mutual Funds

Millions of dollars, annual

Year	Net new cash flow[1]	Sales			Redemptions		
		New + exchange	New[2]	Exchange[3]	Regular + exchange	Regular[4]	Exchange[5]
1986	$6,988	$13,535	$12,342	$1,194	$6,548	$5,162	$1,386
1987	3,748	14,948	12,419	2,528	11,200	7,848	3,353
1988	-3,684	6,259	4,601	1,658	9,943	7,521	2,422
1989	3,183	11,139	9,334	1,805	7,956	5,780	2,176
1990	1,483	9,721	8,021	1,700	8,238	5,619	2,619
1991	7,089	16,912	13,789	3,122	9,823	7,030	2,792
1992	21,832	32,955	26,586	6,369	11,122	7,265	3,858
1993	44,229	62,391	50,866	11,525	18,162	11,828	6,334
1994	23,105	60,434	50,436	9,998	37,329	25,761	11,568
1995	3,899	43,851	36,038	7,813	39,952	28,241	11,711
1996	12,177	58,089	48,494	9,595	45,912	31,915	13,997
1997	16,499	70,279	56,856	13,423	53,780	38,926	14,854
1998	10,311	84,483	68,853	15,630	74,171	54,649	19,523
1999	-13,705	82,993	68,582	14,411	96,698	71,076	25,622
2000	-30,728	71,823	58,350	13,473	102,551	74,510	28,041
2001	9,346	87,492	70,012	17,480	78,146	60,931	17,215
2002	7,148	93,443	76,324	17,119	86,296	68,585	17,711
2003	31,762	108,887	90,876	18,010	77,124	63,731	13,393
2004	42,438	131,849	115,513	16,336	89,410	76,879	12,531
2005	25,081	122,057	106,983	15,074	96,976	82,326	14,650
2006	7,481	123,183	106,978	16,205	115,702	96,772	18,930
2007	24,163	182,717	162,435	20,282	158,554	137,656	20,898
2008	-18,393	164,389	141,267	23,121	182,781	149,314	33,468
2009	22,718	159,927	131,356	28,571	137,209	115,323	21,886
2010	23,315	172,220	150,761	21,459	148,905	128,188	20,717

[1] Net new cash flow is the dollar value of new sales minus redemptions combined with net exchanges.

[2] New sales are the dollar value of new purchases of mutual fund shares. This does not include shares purchased through reinvestment of dividends in existing accounts.

[3] Exchange sales are the dollar value of mutual fund shares switched into funds within the same fund group.

[4] Regular redemptions are the dollar value of shareholder liquidation of mutual fund shares.

[5] Exchange redemptions are the dollar value of mutual fund shares switched out of funds and into other funds in the same fund group.

Note: Data for funds that invest primarily in other mutual funds were excluded from the series.

Components may not add to the total because of rounding.

TABLE 22

Net New Cash Flow and Components of Net New Cash Flow of Bond Mutual Funds

Millions of dollars, annual

Year	Net new cash flow[1]	Sales: New + exchange	Sales: New[2]	Sales: Exchange[3]	Redemptions: Regular + exchange	Redemptions: Regular[4]	Redemptions: Exchange[5]
1986	$102,618	$158,874	$138,240	$20,634	$56,256	$35,776	$20,480
1987	6,797	123,528	93,725	29,803	116,731	69,627	47,104
1988	-4,488	72,174	47,378	24,796	76,662	51,558	25,103
1989	-1,226	71,770	48,602	23,168	72,996	48,517	24,480
1990	6,813	80,608	57,074	23,534	73,795	47,959	25,836
1991	59,236	141,622	108,059	33,563	82,387	56,158	26,228
1992	70,881	217,680	171,868	45,812	146,799	96,573	50,226
1993	70,559	260,519	207,265	53,254	189,960	127,200	62,759
1994	-62,470	185,015	129,958	55,057	247,485	162,360	85,125
1995	-6,082	165,610	109,797	55,814	171,693	114,252	57,441
1996	2,760	202,037	136,827	65,210	199,277	124,984	74,293
1997	28,424	240,377	174,682	65,695	211,953	140,245	71,708
1998	74,610	312,637	229,375	83,263	238,028	158,775	79,253
1999	-4,081	298,122	216,467	81,655	302,202	205,968	96,234
2000	-49,765	245,866	184,021	61,845	295,631	217,157	78,474
2001	87,704	389,128	297,243	91,885	301,424	222,933	78,491
2002	140,612	508,466	396,225	112,241	367,854	280,355	87,499
2003	31,629	515,201	424,037	91,164	483,572	373,295	110,276
2004	-10,757	396,214	341,542	54,672	406,971	338,386	68,586
2005	31,232	407,115	355,676	51,438	375,882	320,739	55,143
2006	60,682	448,892	394,315	54,577	388,211	331,234	56,976
2007	109,060	587,890	503,557	84,333	478,831	408,328	70,502
2008	27,690	710,442	582,981	127,461	682,752	586,584	96,168
2009	376,028	1,011,491	862,410	149,081	635,463	525,647	109,816
2010	241,297	1,101,017	976,494	124,523	859,721	745,531	114,190

[1] Net new cash flow is the dollar value of new sales minus redemptions combined with net exchanges.

[2] New sales are the dollar value of new purchases of mutual fund shares. This does not include shares purchased through reinvestment of dividends in existing accounts.

[3] Exchange sales are the dollar value of mutual fund shares switched into funds within the same fund group.

[4] Regular redemptions are the dollar value of shareholder liquidation of mutual fund shares.

[5] Exchange redemptions are the dollar value of mutual fund shares switched out of funds and into other funds in the same fund group.

Note: Data for funds that invest primarily in other mutual funds were excluded from the series.

Components may not add to the total because of rounding.

TABLE 23

Net New Cash Flow* of Long-Term Mutual Funds by Investment Classification

Millions of dollars, annual

	EQUITY FUNDS				BOND FUNDS						
Year	Capital appreciation	World	Total return	HYBRID FUNDS	Corporate	High yield	World	Government	Strategic income	State muni	National muni
1986	$3,071	$4,200	$13,115	$6,988	$3,468	$9,618	$429	$57,450	$3,416	$12,105	$16,132
1987	7,432	-568	12,368	3,748	608	610	673	2,892	1,114	1,864	-964
1988	-7,210	-2,402	-5,336	-3,684	-200	3,209	609	-13,655	464	2,878	2,209
1989	-64	1,210	5,628	3,183	774	-2,875	-84	-12,812	1,738	6,484	5,550
1990	4,610	6,812	1,493	1,483	1,269	-5,229	7,615	-7,574	791	6,192	3,749
1991	23,509	3,959	12,421	7,089	6,016	1,682	10,282	17,337	2,685	11,112	10,121
1992	43,171	7,044	28,768	21,832	6,881	4,604	-3,003	29,643	4,389	13,205	15,162
1993	48,247	38,441	40,573	44,229	11,958	8,467	750	6,186	4,867	18,998	19,333
1994	42,854	44,248	27,424	23,105	715	-972	-6,800	-39,862	-102	-6,242	-9,208
1995	72,452	11,512	40,428	3,899	6,366	8,258	-4,248	-13,670	4,101	-2,221	-4,670
1996	99,511	47,516	69,910	12,177	6,368	12,486	-2,202	-13,771	5,772	-1,953	-3,940
1997	94,495	37,846	94,766	16,499	11,077	16,851	-1,287	-9,494	10,405	353	520
1998	82,591	7,527	66,757	10,311	20,121	13,602	-1,166	8,899	17,955	7,999	7,200
1999	160,190	11,224	16,151	-13,705	6,195	-2,546	-2,179	-2,201	8,802	-4,583	-7,568
2000	307,602	52,901	-51,136	-30,728	-7,736	-12,306	-2,208	-16,346	2,968	-5,513	-8,625
2001	17,591	-22,176	36,723	9,346	11,149	7,195	-1,022	27,872	30,919	6,631	4,961
2002	-35,360	-4,242	12,424	7,148	8,808	10,580	167	58,370	46,284	5,720	10,684
2003	67,380	22,047	63,024	31,762	7,902	26,335	3,040	-18,729	20,160	-8,056	977
2004	47,244	66,002	64,925	42,438	11,534	-9,327	5,810	-19,376	14,263	-8,239	-5,422
2005	14,525	104,188	17,060	25,081	6,229	-15,607	7,739	-9,720	37,551	881	4,159
2006	7,911	147,903	3,128	7,481	14,060	-2,818	9,730	-20,603	45,194	3,647	11,472
2007	-31,725	138,318	-15,918	24,163	11,388	-2,679	18,498	-2,736	73,715	3,337	7,536
2008	-104,188	-82,732	-47,404	-18,393	-22,119	-700	5,325	23,052	14,313	-2,239	10,058
2009	-11,064	30,721	-28,412	22,718	70,402	22,381	22,400	35,111	156,649	6,082	63,003
2010	-53,467	59,105	-42,425	23,315	52,181	7,556	51,304	15,200	103,870	-2,812	13,999

* Net new cash flow is the dollar value of new sales minus redemptions combined with net exchanges.

Note: Data for funds that invest primarily in other mutual funds were excluded from the series.

TABLE 24

New Sales* of Long-Term Mutual Funds by Investment Classification

Millions of dollars, annual

	EQUITY FUNDS				BOND FUNDS						
Year	Capital appreciation	World	Total return	HYBRID FUNDS	Corporate	High yield	World	Government	Strategic income	State muni	National muni
1986	$21,395	$7,076	$22,303	$12,342	$4,066	$12,645	$432	$78,991	$4,873	$14,505	$22,728
1987	30,529	6,829	27,736	12,419	3,224	8,285	1,073	51,019	4,574	9,909	15,642
1988	12,417	2,206	11,018	4,601	1,738	7,856	1,348	15,940	2,923	7,104	10,469
1989	19,943	4,245	22,629	9,334	2,514	7,607	740	10,966	3,679	10,046	13,049
1990	27,234	11,273	24,364	8,021	5,545	3,372	8,639	13,206	2,093	11,430	12,789
1991	44,081	9,860	36,251	13,789	13,242	4,546	14,556	37,187	4,028	16,571	17,931
1992	68,960	13,225	52,124	26,586	24,014	9,362	12,664	70,148	7,167	21,554	26,957
1993	99,309	40,651	73,679	50,866	37,045	14,375	14,193	65,850	9,058	29,828	36,917
1994	112,063	68,396	72,428	50,436	37,167	11,852	8,324	27,386	6,581	16,677	21,971
1995	142,591	53,555	86,792	36,038	28,686	15,415	4,889	21,993	9,477	13,355	15,983
1996	221,530	88,669	132,173	48,494	36,433	22,989	6,441	20,757	15,936	15,588	18,684
1997	275,013	120,065	183,986	56,856	42,472	33,312	7,773	24,106	24,104	19,029	23,886
1998	344,980	132,747	221,827	68,853	53,039	41,872	7,533	38,607	33,863	25,406	29,056
1999	500,938	181,670	235,992	68,582	51,509	32,360	5,620	38,138	38,372	22,931	27,536
2000	765,497	334,218	222,123	58,350	43,763	23,171	5,911	26,450	43,706	17,152	23,868
2001	480,724	248,277	224,474	70,012	60,866	33,747	6,127	63,180	77,281	25,701	30,341
2002	437,932	241,734	219,516	76,324	66,736	40,269	7,566	102,936	111,889	27,578	39,250
2003	422,909	199,696	225,474	90,876	79,333	66,433	13,410	82,784	120,205	21,967	39,906
2004	497,004	174,788	263,969	115,513	76,513	39,662	14,881	52,187	107,795	17,631	32,873
2005	534,956	231,022	266,267	106,983	72,424	33,956	20,261	46,053	122,748	22,259	37,975
2006	609,750	343,709	278,282	106,978	85,305	32,691	25,919	41,003	136,912	25,615	46,871
2007	737,628	464,297	329,652	162,435	98,122	42,457	38,682	48,153	192,249	29,469	54,426
2008	681,472	352,863	307,035	141,267	91,546	42,921	46,595	87,386	214,099	30,483	69,951
2009	533,799	281,797	231,677	131,356	161,217	66,221	54,139	124,945	315,653	28,333	111,902
2010	608,138	372,454	258,641	150,761	190,496	75,807	97,500	121,883	353,573	28,460	108,775

* New sales are the dollar value of new purchases of mutual fund shares. This does not include shares purchased through reinvestment of dividends in existing accounts.

Note: Data for funds that invest primarily in other mutual funds were excluded from the series.

TABLE 25

Exchange Sales* of Long-Term Mutual Funds by Investment Classification

Millions of dollars, annual

	EQUITY FUNDS				BOND FUNDS						
Year	Capital appreciation	World	Total return	HYBRID FUNDS	Corporate	High yield	World	Government	Strategic income	State muni	National muni
1986	$20,019	$3,619	$13,585	$1,194	$1,192	$2,792	$37	$4,096	$1,197	$2,242	$9,079
1987	47,382	4,434	22,686	2,528	1,595	3,398	438	6,001	1,898	3,903	12,569
1988	31,041	1,451	10,693	1,658	1,650	4,364	605	4,979	1,451	3,077	8,670
1989	30,650	1,676	10,201	1,805	1,748	3,396	367	4,575	1,463	3,360	8,259
1990	29,022	3,804	8,635	1,700	2,108	2,279	816	5,370	535	3,429	8,998
1991	39,712	4,357	12,357	3,122	3,874	3,392	1,280	10,356	935	3,814	9,913
1992	45,976	6,327	15,108	6,369	6,008	6,228	2,475	11,784	1,184	5,021	13,113
1993	57,080	18,074	18,563	11,525	6,690	6,694	4,179	9,795	1,435	6,121	18,340
1994	62,488	33,316	17,968	9,998	5,465	7,875	3,355	7,807	2,066	9,424	19,063
1995	95,586	30,313	25,017	7,813	6,776	6,995	2,016	7,279	1,868	10,808	20,071
1996	138,835	52,450	40,666	9,595	6,920	9,773	2,996	7,666	2,507	10,599	24,748
1997	172,140	65,594	63,488	13,423	7,977	12,588	3,323	9,757	3,770	8,309	19,971
1998	217,434	77,380	70,828	15,630	13,106	13,920	2,924	20,792	8,178	7,485	16,858
1999	304,719	111,442	76,084	14,411	13,505	13,000	1,367	23,142	6,602	6,984	17,056
2000	427,248	161,953	64,844	13,473	9,193	10,268	1,333	16,715	8,161	5,309	10,865
2001	233,731	84,066	59,692	17,480	17,686	11,093	1,162	26,694	16,216	5,367	13,666
2002	199,824	69,250	52,693	17,119	16,486	11,262	1,799	39,068	24,398	5,654	13,573
2003	141,962	40,278	56,509	18,010	15,622	16,948	2,804	21,452	19,831	4,312	10,194
2004	101,315	27,014	43,157	16,336	11,227	7,694	1,541	12,433	12,893	2,788	6,096
2005	98,347	37,703	42,121	15,074	8,796	6,463	2,186	11,442	13,153	3,012	6,386
2006	106,295	55,923	43,455	16,205	9,028	6,310	2,229	11,727	15,006	3,456	6,821
2007	102,352	67,798	56,613	20,282	14,921	6,940	3,658	13,942	28,499	5,704	10,669
2008	93,424	46,724	58,051	23,121	19,925	7,251	7,138	34,481	33,867	7,069	17,730
2009	72,179	44,455	41,279	28,571	24,974	12,920	6,697	24,248	55,088	5,180	19,975
2010	75,544	56,018	41,275	21,459	25,286	13,283	7,204	20,863	38,772	3,856	15,259

* Exchange sales are the dollar value of mutual fund shares switched into funds within the same fund group.
Note: Data for funds that invest primarily in other mutual funds were excluded from the series.

TABLE 26

Redemptions* of Long-Term Mutual Funds by Investment Classification

Millions of dollars, annual

	EQUITY FUNDS				BOND FUNDS						
Year	Capital appreciation	World	Total return	HYBRID FUNDS	Corporate	High yield	World	Government	Strategic income	State muni	National muni
1986	$14,004	$2,958	$9,089	$5,162	$872	$3,128	$28	$21,045	$1,645	$2,677	$6,381
1987	19,892	5,044	13,665	7,848	2,233	5,900	489	40,407	3,176	5,733	11,689
1988	16,268	3,663	13,316	7,521	1,891	5,527	731	28,056	2,687	4,290	8,377
1989	17,859	2,895	16,476	5,780	2,000	8,133	768	22,889	2,398	4,248	8,080
1990	19,810	4,198	20,480	5,619	4,366	6,798	1,326	20,314	1,288	5,143	8,724
1991	23,982	5,645	23,766	7,030	8,387	3,856	4,476	22,883	1,446	6,030	9,081
1992	29,209	6,730	25,526	7,265	17,633	5,652	12,462	37,589	2,343	8,310	12,583
1993	47,885	10,183	33,876	11,828	24,966	7,255	11,190	52,251	3,487	10,647	17,404
1994	68,498	28,854	43,745	25,761	32,827	10,506	13,016	56,835	5,512	18,399	25,265
1995	81,950	37,830	50,622	28,241	23,342	9,390	7,912	33,731	5,198	15,209	19,470
1996	126,349	44,950	69,233	31,915	29,487	12,096	8,194	29,956	9,326	16,145	19,782
1997	183,157	79,102	99,763	38,926	30,745	18,013	8,220	30,288	13,747	16,965	22,267
1998	261,491	119,842	152,924	54,649	35,368	27,247	8,010	31,552	17,445	17,204	21,949
1999	367,674	171,238	205,233	71,076	44,569	32,125	7,091	36,639	28,068	25,176	32,299
2000	519,969	283,697	234,907	74,510	49,098	30,805	7,536	37,693	38,719	22,077	31,229
2001	444,992	260,512	187,481	60,931	53,531	26,799	6,762	39,908	50,531	18,921	26,482
2002	445,585	239,854	193,777	68,585	60,998	29,877	7,798	58,159	71,416	21,733	30,374
2003	361,178	180,364	169,334	63,731	71,926	43,779	10,732	86,906	95,929	26,861	37,163
2004	443,265	118,178	201,077	76,879	65,891	45,667	9,199	66,640	91,098	23,938	35,953
2005	502,052	142,237	238,500	82,326	66,142	46,136	13,275	53,933	86,713	21,099	33,442
2006	577,615	215,013	262,201	96,772	70,899	35,174	16,566	57,300	93,515	21,957	35,823
2007	736,027	336,035	326,353	137,656	87,940	43,340	21,538	53,427	129,465	25,738	46,881
2008	755,817	407,405	328,133	149,314	115,045	42,410	42,768	82,032	209,180	32,084	63,066
2009	533,008	248,533	246,497	115,323	100,918	47,459	34,718	89,578	173,905	22,716	56,353
2010	650,800	308,208	294,543	128,188	141,605	71,910	48,167	105,559	255,862	29,007	93,421

* Redemptions are the dollar value of shareholder liquidation of mutual fund shares.
Note: Data for funds that invest primarily in other mutual funds were excluded from the series.

TABLE 27

Exchange Redemptions* of Long-Term Mutual Funds by Investment Classification

Millions of dollars, annual

	EQUITY FUNDS				BOND FUNDS						
Year	Capital appreciation	World	Total return	HYBRID FUNDS	Corporate	High yield	World	Government	Strategic income	State muni	National muni
1986	$24,340	$3,537	$13,684	$1,386	$918	$2,691	$13	$4,592	$1,009	$1,964	$9,294
1987	50,587	6,787	24,389	3,353	1,979	5,173	349	13,721	2,182	6,215	17,486
1988	34,400	2,396	13,731	2,422	1,697	3,484	614	6,519	1,223	3,013	8,553
1989	32,799	1,817	10,726	2,176	1,488	5,745	424	5,465	1,006	2,673	7,679
1990	31,837	4,068	11,027	2,619	2,018	4,082	515	5,836	549	3,524	9,313
1991	36,301	4,613	12,422	2,792	2,712	2,399	1,078	7,323	831	3,243	8,642
1992	42,556	5,778	12,938	3,858	5,508	5,334	5,680	14,700	1,619	5,060	12,326
1993	60,257	10,101	17,793	6,334	6,810	5,347	6,432	17,208	2,138	6,305	18,520
1994	63,200	28,610	19,227	11,568	9,091	10,193	5,463	18,220	3,238	13,944	24,977
1995	83,775	34,525	20,759	11,711	5,754	4,762	3,241	9,211	2,045	11,174	21,254
1996	134,505	48,653	33,696	13,997	7,498	8,180	3,446	12,238	3,345	11,995	27,590
1997	169,502	68,712	52,944	14,854	8,627	11,036	4,163	13,070	3,722	10,021	21,069
1998	218,332	82,759	72,974	19,523	10,656	14,943	3,613	18,947	6,641	7,688	16,764
1999	277,794	110,650	90,692	25,622	14,250	15,780	2,074	26,842	8,104	9,322	19,861
2000	365,173	159,573	103,197	28,041	11,595	14,939	1,916	21,818	10,181	5,897	12,128
2001	251,871	94,008	59,962	17,215	13,872	10,846	1,550	22,095	12,048	5,517	12,564
2002	227,531	75,373	66,008	17,711	13,416	11,075	1,400	25,476	18,587	5,780	11,766
2003	136,313	37,563	49,624	13,393	15,127	13,267	2,443	36,058	23,947	7,475	11,960
2004	107,810	17,622	41,124	12,531	10,316	11,016	1,413	17,356	15,327	4,720	8,438
2005	116,726	22,300	52,828	14,650	8,849	9,889	1,432	13,283	11,638	3,291	6,761
2006	130,518	36,716	56,408	18,930	9,374	6,644	1,851	16,033	13,210	3,467	6,398
2007	135,677	57,742	75,830	20,898	13,715	8,735	2,304	11,403	17,568	6,098	10,678
2008	123,267	74,913	84,358	33,468	18,546	8,462	5,640	16,784	24,474	7,707	14,557
2009	84,035	46,997	54,872	21,886	14,871	9,300	3,718	24,504	40,188	4,714	12,520
2010	86,349	61,159	47,799	20,717	21,996	9,625	5,233	21,986	32,613	6,121	16,615

* Exchange redemptions are the dollar value of mutual fund shares switched out of funds and into other funds in the same fund group.
Note: Data for funds that invest primarily in other mutual funds were excluded from the series.

TABLE 28

Annual Redemption Rates of Long-Term Mutual Funds

Percent

Year	Narrow redemption rate[1] Total	Narrow redemption rate[1] Equity funds	Narrow redemption rate[1] Hybrid funds	Narrow redemption rate[1] Bond funds	Broad redemption rate[2] Total	Broad redemption rate[2] Equity funds	Broad redemption rate[2] Hybrid funds	Broad redemption rate[2] Bond funds
1986	19.8%	19.6%	23.8%	19.6%	38.6%	50.9%	30.2%	30.7%
1987	26.5	23.4	28.5	28.3	56.7	73.0	40.7	47.5
1988	20.0	18.2	27.1	20.5	36.9	45.9	35.8	30.4
1989	17.9	17.1	18.7	18.4	31.9	38.0	25.7	27.7
1990	17.5	18.4	15.7	17.0	31.0	37.7	23.0	26.2
1991	16.4	16.6	15.9	16.4	28.1	33.1	22.2	24.1
1992	17.0	13.4	11.2	21.5	28.8	26.7	17.1	32.7
1993	17.8	14.7	10.6	22.6	29.9	28.7	16.3	33.8
1994	21.6	17.7	16.7	28.3	35.2	31.6	24.2	43.2
1995	17.4	16.2	15.1	20.3	28.9	29.4	21.3	30.5
1996	17.0	16.2	13.8	20.1	30.0	30.7	19.8	32.0
1997	17.9	17.7	13.7	20.5	30.5	31.9	18.9	31.0
1998	19.7	20.0	16.0	20.4	32.2	34.0	21.7	30.6
1999	21.7	21.2	19.1	25.1	34.5	34.9	26.0	36.8
2000	25.7	26.0	20.6	26.7	39.9	41.6	28.3	36.4
2001	24.0	24.2	17.6	25.7	34.2	35.2	22.6	34.7
2002	27.9	28.9	20.5	27.3	38.7	41.0	25.8	35.8
2003	24.2	22.4	16.9	31.4	31.5	29.4	20.5	40.7
2004	20.4	18.9	16.3	26.7	24.7	23.0	18.9	32.1
2005	19.7	18.9	15.2	24.2	23.7	23.0	17.9	28.4
2006	19.9	19.4	15.9	23.2	23.9	23.6	19.1	27.2
2007	22.9	22.5	20.1	25.7	27.2	26.8	23.2	30.2
2008	30.3	29.2	24.6	36.1	35.9	34.7	30.1	42.0
2009	24.6	23.7	20.3	27.8	29.3	28.0	24.1	33.7
2010	25.3	23.6	18.6	31.0	29.2	27.3	21.6	35.7

[1] Narrow redemption rate is calculated by taking the sum of regular redemptions for the year as a percentage of average net assets at the beginning and end of the period.

[2] Broad redemption rate is calculated by taking the sum of regular redemptions and exchange redemptions for the year as a percentage of average net assets at the beginning and end of the period.

Note: Data for funds that invest primarily in other mutual funds were excluded from the series.

Data Section 3

Data Section 3

TABLE 29

Portfolio Holdings of Long-Term Mutual Funds and Share of Total Net Assets

Millions of dollars, year-end

Year	Total net assets	Common and preferred stocks	Long-term U.S. government bonds	Corporate bonds	Municipal bonds	Liquid assets	Other
1990	$566,849	$216,451	$128,153	$45,365	$117,084	$48,440	$11,356
1991	850,744	381,289	163,093	87,571	149,439	60,385	8,967
1992	1,096,342	485,188	225,358	115,389	191,779	73,984	4,645
1993	1,504,644	712,137	272,293	165,387	249,203	99,436	6,187
1994	1,544,320	823,714	223,070	155,157	211,127	120,430	10,822
1995	2,058,275	1,215,210	259,076	190,880	245,330	141,755	6,024
1996	2,623,994	1,718,220	264,925	238,030	245,182	151,988	5,649
1997	3,409,315	2,358,205	282,183	292,901	266,324	198,826	10,876
1998	4,173,531	3,004,181	286,577	389,225	292,395	191,393	9,760
1999	5,233,194	4,059,536	293,542	388,385	267,428	219,098	5,204
2000	5,119,386	3,910,275	309,697	349,072	269,179	277,164	3,999
2001	4,689,603	3,424,372	379,392	371,946	289,655	222,475	1,763
2002	4,118,402	2,687,884	481,377	417,779	320,509	208,939	1,913
2003	5,362,398	3,761,057	506,227	500,390	332,114	259,580	3,031
2004	6,193,746	4,490,102	537,583	532,486	318,333	306,756	8,486
2005	6,864,287	5,055,348	612,962	549,619	330,879	302,922	12,557
2006	8,059,484	6,024,631	645,685	667,555	359,156	346,491	15,966
2007	8,916,522	6,612,378	749,917	782,802	369,040	381,306	21,080
2008	5,771,368	3,736,193	704,716	675,919	336,820	296,206	21,514
2009	7,804,303	5,098,508	850,434	1,022,205	449,807	365,866	17,483
2010	9,016,755	5,862,371	1,079,681	1,257,895	478,757	331,696	6,355
Percent, year-end							
1990	100.0%	38.2%	22.6%	8.0%	20.7%	8.5%	2.0%
1991	100.0	44.8	19.2	10.3	17.6	7.1	1.1
1992	100.0	44.3	20.6	10.5	17.5	6.7	0.4
1993	100.0	47.3	18.1	11.0	16.6	6.6	0.4
1994	100.0	53.3	14.4	10.0	13.7	7.8	0.7
1995	100.0	59.0	12.6	9.3	11.9	6.9	0.3
1996	100.0	65.5	10.1	9.1	9.3	5.8	0.2
1997	100.0	69.2	8.3	8.6	7.8	5.8	0.3
1998	100.0	72.0	6.9	9.3	7.0	4.6	0.2
1999	100.0	77.6	5.6	7.4	5.1	4.2	0.1
2000	100.0	76.4	6.0	6.8	5.3	5.4	0.1
2001	100.0	73.0	8.1	7.9	6.2	4.7	0.0
2002	100.0	65.3	11.7	10.1	7.8	5.1	0.0
2003	100.0	70.1	9.4	9.3	6.2	4.8	0.1
2004	100.0	72.5	8.7	8.6	5.1	5.0	0.1
2005	100.0	73.6	8.9	8.0	4.8	4.4	0.2
2006	100.0	74.8	8.0	8.3	4.5	4.3	0.2
2007	100.0	74.2	8.4	8.8	4.1	4.3	0.2
2008	100.0	64.7	12.2	11.7	5.8	5.1	0.4
2009	100.0	65.3	10.9	13.1	5.8	4.7	0.2
2010	100.0	65.0	12.0	14.0	5.3	3.7	0.1

Note: Data for funds that invest primarily in other mutual funds were excluded from the series.
Components may not add to the total because of rounding.

TABLE 30

Portfolio Holdings of Long-Term Mutual Funds as a Share of Total Net Assets by Type of Fund

Year-end

Year	Total net assets	Common and preferred stocks	Long-term U.S. government bonds	Corporate bonds	Municipal bonds	Liquid assets	Other	Total net assets *Millions of dollars*
Equity funds								
1997	100.0%	91.8%	0.9%	0.9%	0.0%	6.1%	0.2%	$2,368,024
1998	100.0	93.6	0.5	1.0	0.0	4.8	0.1	2,977,944
1999	100.0	94.7	0.2	0.7	0.0	4.3	0.0	4,041,890
2000	100.0	93.4	0.2	0.6	0.0	5.8	0.0	3,961,922
2001	100.0	94.0	0.2	0.7	0.0	5.0	0.0	3,419,606
2002	100.0	93.8	0.5	1.0	0.0	4.6	0.0	2,664,007
2003	100.0	94.7	0.2	0.7	0.0	4.3	0.0	3,686,302
2004	100.0	94.8	0.2	0.7	0.0	4.2	0.1	4,386,666
2005	100.0	95.1	0.2	0.7	0.0	3.9	0.1	4,942,655
2006	100.0	95.1	0.3	0.6	0.0	3.9	0.1	5,914,100
2007	100.0	94.7	0.3	0.6	0.0	4.2	0.2	6,518,757
2008	100.0	93.2	0.4	0.9	0.0	5.2	0.3	3,705,548
2009	100.0	95.0	0.4	1.0	0.0	3.6	0.1	4,957,044
2010	100.0	95.2	0.4	0.9	0.0	3.5	0.1	5,667,400
Hybrid funds								
1997	100.0%	54.2%	16.1%	20.7%	0.3%	7.8%	0.9%	$317,111
1998	100.0	55.6	12.8	23.8	0.4	7.0	0.5	364,997
1999	100.0	57.9	13.5	22.6	0.4	5.5	0.1	378,809
2000	100.0	57.7	13.9	21.1	0.3	6.9	0.1	346,276
2001	100.0	58.1	12.4	21.6	0.2	7.5	0.2	344,872
2002	100.0	56.9	12.3	23.1	0.3	7.3	0.1	323,947
2003	100.0	61.1	10.8	20.9	0.3	6.8	0.1	428,326
2004	100.0	62.1	11.5	19.0	0.4	6.8	0.1	516,603
2005	100.0	61.5	10.7	20.1	0.5	7.1	0.1	564,349
2006	100.0	60.0	10.6	20.7	0.4	8.1	0.1	650,314
2007	100.0	59.0	10.6	22.3	0.4	7.5	0.2	716,733
2008	100.0	54.6	10.0	25.0	0.5	9.1	0.8	498,284
2009	100.0	58.1	9.4	24.0	0.4	7.3	0.7	639,147
2010	100.0	60.0	8.1	22.7	0.5	8.0	0.7	741,068
Bond funds								
1997	100.0%	1.7%	28.9%	28.4%	36.6%	3.9%	0.4%	$724,179
1998	100.0	1.7	27.2	32.8	35.0	2.7	0.6	830,590
1999	100.0	1.7	28.6	33.6	32.7	2.9	0.4	812,494
2000	100.0	1.3	31.3	30.9	33.0	3.1	0.3	811,188
2001	100.0	0.9	35.8	29.4	31.2	2.6	0.0	925,124
2002	100.0	0.5	37.8	27.9	28.3	5.5	0.0	1,130,448
2003	100.0	0.6	36.1	30.8	26.5	5.9	0.1	1,247,770
2004	100.0	0.7	36.4	31.4	24.5	6.6	0.4	1,290,477
2005	100.0	0.7	39.8	29.7	24.2	5.0	0.5	1,357,283
2006	100.0	0.7	37.5	33.2	23.9	4.3	0.5	1,495,069
2007	100.0	0.9	39.0	34.7	21.8	3.0	0.6	1,681,032
2008	100.0	0.6	40.8	33.0	21.3	3.7	0.5	1,567,536
2009	100.0	0.8	35.0	37.2	20.2	6.4	0.4	2,208,112
2010	100.0	1.0	38.3	39.8	18.2	2.8	-0.1	2,608,287

Note: Data for funds that invest primarily in other mutual funds were excluded from the series.
Components may not add to the total because of rounding.

TABLE 31

Paid and Reinvested Dividends of Long-Term Mutual Funds by Type of Fund

Millions of dollars, annual

Year	Paid dividends				Reinvested dividends			
	Total	Equity funds	Hybrid funds	Bond funds	Total	Equity funds	Hybrid funds	Bond funds
1986	$22,689	$6,328	$1,499	$14,862	$13,991	$3,706	$1,087	$9,197
1987	31,708	7,246	1,934	22,528	18,976	4,841	1,476	12,659
1988	31,966	6,554	1,873	23,539	17,494	4,476	1,217	11,801
1989	34,102	10,235	2,165	21,702	20,584	7,119	1,383	12,082
1990	33,156	8,787	2,350	22,018	21,124	6,721	1,725	12,678
1991	35,145	9,007	2,337	23,801	24,300	7,255	1,907	15,139
1992	58,608	17,023	4,483	37,102	30,393	8,845	2,937	18,611
1993	73,178	20,230	6,810	46,137	38,116	12,174	4,270	21,672
1994	61,261	17,279	6,896	37,086	39,136	12,971	5,043	21,122
1995	67,229	22,567	9,052	35,610	46,635	18,286	6,929	21,421
1996	73,282	25,061	9,844	38,378	53,213	21,345	8,196	23,672
1997	79,522	27,597	11,607	40,318	58,423	23,100	9,602	25,721
1998	81,011	25,495	11,456	44,060	60,041	22,377	9,528	28,135
1999	95,443	32,543	12,821	50,078	69,973	27,332	10,746	31,894
2000	88,215	27,987	10,681	49,546	66,277	24,590	9,276	32,411
2001	82,967	22,325	10,161	50,481	62,306	20,090	8,960	33,256
2002	82,065	21,395	9,214	51,455	62,413	19,375	8,292	34,746
2003	85,926	25,386	9,236	51,303	66,870	23,012	8,225	35,634
2004	98,130	36,154	10,901	51,075	78,252	32,665	9,552	36,034
2005	115,500	44,431	13,190	57,879	94,023	40,223	11,577	42,223
2006	143,496	62,565	16,663	64,268	119,073	56,434	14,737	47,901
2007	181,020	81,510	20,861	78,649	151,788	73,156	18,330	60,302
2008	181,650	74,703	21,301	85,646	152,671	67,387	18,806	66,479
2009	168,126	62,438	18,166	87,522	140,465	56,367	15,649	68,449
2010	180,988	65,806	18,069	97,113	152,341	59,723	16,047	76,572

Note: Data for funds that invest primarily in other mutual funds were excluded from the series.
Components may not add to the total because of rounding.

TABLE 32

Paid and Reinvested Capital Gains of Long-Term Mutual Funds by Type of Fund

Millions of dollars, annual

	Paid capital gains				Reinvested capital gains			
Year	Total	Equity funds	Hybrid funds	Bond funds	Total	Equity funds	Hybrid funds	Bond funds
1986	$17,661	$13,942	$1,240	$2,478	$14,275	$11,851	$778	$1,646
1987	22,926	18,603	1,605	2,718	17,816	15,449	1,056	1,312
1988	6,354	4,785	620	948	4,769	3,883	364	522
1989	14,766	12,665	540	1,562	9,710	8,744	348	617
1990	8,017	6,833	443	742	5,515	4,975	255	285
1991	13,917	11,961	861	1,095	9,303	8,242	485	576
1992	22,089	17,294	1,488	3,306	14,906	12,233	1,134	1,538
1993	35,905	27,705	3,496	4,704	25,514	19,954	2,697	2,862
1994	29,744	26,351	2,411	981	24,864	22,038	2,093	733
1995	54,271	50,204	3,343	724	46,866	43,550	2,845	471
1996	100,489	88,212	10,826	1,451	87,416	76,638	9,769	1,009
1997	182,764	160,744	19,080	2,941	164,916	145,358	17,360	2,198
1998	164,989	138,681	21,572	4,737	151,105	127,473	19,698	3,935
1999	237,624	219,484	16,841	1,299	206,508	190,300	15,229	979
2000	325,841	307,586	17,808	446	298,429	281,339	16,719	371
2001	68,626	60,717	5,488	2,421	64,820	57,564	5,198	2,059
2002	16,097	10,886	548	4,663	14,749	10,186	530	4,033
2003	14,397	7,728	813	5,856	12,956	7,142	748	5,065
2004	54,741	42,286	5,982	6,473	49,896	38,740	5,547	5,609
2005	129,042	113,878	11,274	3,890	117,556	103,816	10,410	3,330
2006	256,915	236,622	18,218	2,076	236,466	217,589	17,099	1,778
2007	413,630	380,193	29,984	3,453	380,975	349,876	28,096	3,003
2008	132,406	110,278	8,613	13,514	123,273	103,270	8,141	11,863
2009	15,680	6,104	413	9,163	14,370	5,781	402	8,188
2010	42,909	15,532	1,767	25,610	38,922	14,594	1,659	22,670

Note: Data for funds that invest primarily in other mutual funds were excluded from the series.
Components may not add to the total because of rounding.

TABLE 33

Total Portfolio, Common Stock, and Other Securities: Purchases, Sales, and Net Purchases by Long-Term Mutual Funds

Millions of dollars, annual

	Total portfolio			Common stock			Other securities		
Year	Purchases	Sales	Net purchases	Purchases	Sales	Net purchases	Purchases	Sales	Net purchases
1986	$500,597	$365,087	$135,509	$134,446	$118,026	$16,421	$366,150	$247,062	$119,089
1987	530,601	485,271	45,330	198,859	176,004	22,855	331,741	309,267	22,474
1988	410,509	421,223	-10,713	112,742	128,815	-16,073	297,767	292,407	5,359
1989	471,744	445,453	26,291	142,771	141,694	1,077	328,973	303,759	25,214
1990	554,720	505,780	48,940	166,398	146,580	19,817	388,322	359,199	29,123
1991	735,674	608,111	127,563	250,289	209,276	41,013	485,386	398,835	86,551
1992	949,366	758,475	190,891	327,518	261,857	65,661	621,848	496,618	125,230
1993	1,335,506	1,060,360	275,145	506,713	380,855	125,858	828,793	679,505	149,288
1994	1,433,739	1,329,324	104,414	628,668	512,346	116,321	805,071	816,978	-11,907
1995	1,550,510	1,400,702	149,809	790,017	686,756	103,260	760,494	713,946	46,548
1996	2,018,253	1,736,884	281,370	1,151,262	927,266	223,996	866,991	809,618	57,373
1997	2,384,639	2,108,981	275,659	1,457,384	1,268,983	188,401	927,255	839,997	87,258
1998	2,861,562	2,560,074	301,487	1,762,565	1,597,311	165,255	1,098,997	962,764	136,233
1999	3,437,180	3,224,301	212,878	2,262,505	2,088,544	173,962	1,174,674	1,135,757	38,917
2000	4,922,927	4,698,192	224,734	3,560,671	3,330,417	230,254	1,362,255	1,367,775	-5,519
2001	4,688,530	4,393,114	295,416	2,736,933	2,609,657	127,275	1,951,597	1,783,456	168,141
2002	4,018,969	3,807,392	211,578	2,176,363	2,141,754	34,609	1,842,606	1,665,638	176,968
2003	4,281,605	3,998,766	282,840	2,054,379	1,884,711	169,667	2,227,227	2,114,054	113,173
2004	4,310,180	4,019,273	290,907	2,390,924	2,198,578	192,346	1,919,256	1,820,695	98,561
2005	4,834,374	4,532,166	302,208	2,765,100	2,610,805	154,296	2,069,274	1,921,362	147,912
2006	5,737,379	5,398,123	339,257	3,330,068	3,172,237	157,832	2,407,311	2,225,886	181,425
2007	7,099,174	6,721,565	377,609	3,836,033	3,733,373	102,660	3,263,141	2,988,192	274,949
2008	7,353,803	7,295,224	58,579	3,656,331	3,716,025	-59,694	3,697,472	3,579,199	118,273
2009	6,935,792	6,454,757	481,034	2,645,445	2,543,650	101,796	4,290,346	3,911,108	379,239
2010	7,297,941	6,846,704	451,238	2,781,498	2,736,478	45,019	4,516,444	4,110,225	406,219

Note: Data for funds that invest primarily in other mutual funds were excluded from the series.
Components may not add to the total because of rounding.

TABLE 34

Total Portfolio, Common Stock, and Other Securities: Purchases, Sales, and Net Purchases by Equity Mutual Funds

Millions of dollars, annual

	Total portfolio			Common stock			Other securities		
Year	Purchases	Sales	Net purchases	Purchases	Sales	Net purchases	Purchases	Sales	Net purchases
1986	$129,723	$111,233	$18,491	$110,016	$96,512	$13,504	$19,708	$14,721	$4,987
1987	196,902	175,292	21,611	170,715	150,705	20,009	26,188	24,586	1,601
1988	119,861	130,821	-10,959	100,888	113,635	-12,747	18,973	17,186	1,788
1989	148,346	144,753	3,593	128,998	127,026	1,973	19,348	17,728	1,621
1990	187,592	169,373	18,218	151,907	133,630	18,277	35,684	35,743	-59
1991	251,775	207,946	43,829	224,117	186,785	37,333	27,658	21,162	6,496
1992	339,002	268,868	70,134	300,712	242,319	58,393	38,290	26,549	11,741
1993	500,197	382,432	117,765	451,485	345,357	106,128	48,712	37,075	11,637
1994	618,004	508,389	109,615	564,380	456,708	107,672	53,623	51,681	1,942
1995	785,867	678,060	107,807	718,298	621,699	96,599	67,569	56,361	11,208
1996	1,116,906	896,644	220,262	1,050,884	832,486	218,397	66,022	64,157	1,865
1997	1,421,211	1,223,463	197,748	1,352,085	1,166,649	185,436	69,126	56,814	12,312
1998	1,723,752	1,557,212	166,540	1,635,842	1,475,384	160,458	87,909	81,827	6,082
1999	2,232,821	2,049,539	183,282	2,126,853	1,941,504	185,349	105,968	108,035	-2,067
2000	3,537,394	3,286,115	251,279	3,396,792	3,152,518	244,274	140,601	133,597	7,005
2001	2,731,622	2,616,107	115,516	2,576,761	2,469,082	107,679	154,861	147,025	7,837
2002	2,156,882	2,126,447	30,435	2,022,673	2,006,165	16,507	134,210	120,282	13,927
2003	1,991,674	1,839,642	152,033	1,912,286	1,761,500	150,786	79,388	78,142	1,246
2004	2,305,788	2,128,510	177,277	2,225,256	2,057,243	168,012	80,532	71,267	9,265
2005	2,704,427	2,545,505	158,923	2,601,659	2,456,261	145,398	102,768	89,243	13,525
2006	3,269,410	3,093,807	175,603	3,146,149	2,977,000	169,149	123,261	116,807	6,454
2007	3,792,135	3,671,456	120,679	3,591,688	3,484,353	107,335	200,447	187,103	13,344
2008	3,628,851	3,698,468	-69,617	3,345,555	3,413,847	-68,292	283,296	284,621	-1,326
2009	2,779,699	2,704,572	75,127	2,431,202	2,341,175	90,027	348,497	363,398	-14,900
2010	2,843,370	2,853,003	-9,634	2,550,676	2,523,970	26,706	292,693	329,033	-36,339

Note: Data for funds that invest primarily in other mutual funds were excluded from the series.
Components may not add to the total because of rounding.

TABLE 35

Total Portfolio, Common Stock, and Other Securities: Purchases, Sales, and Net Purchases by Hybrid Mutual Funds

Millions of dollars, annual

	Total portfolio			Common stock			Other securities		
Year	Purchases	Sales	Net purchases	Purchases	Sales	Net purchases	Purchases	Sales	Net purchases
1986	$34,746	$28,007	$6,739	$21,894	$19,451	$2,443	$12,853	$8,556	$4,297
1987	48,335	44,168	4,168	26,282	23,989	2,293	22,053	20,179	1,874
1988	28,070	31,455	-3,384	10,628	13,833	-3,205	17,442	17,622	-179
1989	26,747	24,864	1,883	12,459	13,598	-1,139	14,288	11,266	3,022
1990	31,003	27,042	3,961	13,329	11,849	1,480	17,674	15,192	2,481
1991	42,937	34,656	8,281	18,658	15,435	3,223	24,279	19,221	5,058
1992	64,429	43,855	20,574	23,966	17,200	6,766	40,463	26,655	13,809
1993	116,821	74,135	42,686	49,689	30,490	19,200	67,131	43,645	23,486
1994	141,268	114,962	26,306	54,812	46,429	8,383	86,456	68,533	17,923
1995	189,989	180,066	9,923	67,628	60,612	7,016	122,360	119,454	2,907
1996	233,471	211,094	22,377	92,495	88,487	4,008	140,976	122,607	18,370
1997	266,438	245,278	21,160	98,115	94,990	3,125	168,323	150,288	18,036
1998	290,682	266,334	24,347	115,714	111,414	4,300	174,967	154,920	20,047
1999	303,946	304,642	-696	128,313	138,952	-10,639	175,633	165,690	9,943
2000	317,617	339,135	-21,517	156,082	168,520	-12,438	161,536	170,615	-9,079
2001	360,107	337,367	22,740	152,177	132,093	20,084	207,930	205,274	2,656
2002	340,543	321,258	19,285	142,241	124,414	17,828	198,302	196,844	1,457
2003	360,701	318,785	41,916	129,370	111,743	17,628	231,330	207,042	24,288
2004	412,952	353,738	59,215	156,504	130,888	25,616	256,449	222,850	33,599
2005	389,769	350,637	39,132	157,039	147,680	9,359	232,730	202,957	29,773
2006	391,070	372,393	18,678	176,560	187,855	-11,296	214,511	184,537	29,973
2007	523,170	477,541	45,629	234,408	238,103	-3,695	288,763	239,439	49,324
2008	613,713	594,658	19,055	300,647	289,092	11,555	313,066	305,566	7,500
2009	465,631	432,974	32,657	203,898	194,760	9,138	261,733	238,213	23,519
2010	496,461	452,279	44,182	211,796	197,484	14,311	284,665	254,795	29,871

Note: Data for funds that invest primarily in other mutual funds were excluded from the series.
Components may not add to the total because of rounding.

TABLE 36

Total Portfolio, Common Stock, and Other Securities: Purchases, Sales, and Net Purchases by Bond Mutual Funds

Millions of dollars, annual

	Total portfolio			Common stock			Other securities		
Year	Purchases	Sales	Net purchases	Purchases	Sales	Net purchases	Purchases	Sales	Net purchases
1986	$336,127	$225,848	$110,279	$2,537	$2,062	$475	$333,590	$223,785	$109,805
1987	285,363	265,812	19,551	1,862	1,310	553	283,501	264,502	18,999
1988	262,577	258,947	3,630	1,226	1,347	-121	261,351	257,600	3,751
1989	296,651	275,836	20,815	1,314	1,071	243	295,337	274,765	20,572
1990	336,125	309,364	26,761	1,161	1,101	60	334,964	308,264	26,700
1991	440,962	365,509	75,453	7,514	7,056	457	433,449	358,453	74,996
1992	545,934	445,752	100,182	2,840	2,338	502	543,095	443,414	99,680
1993	718,488	603,793	114,694	5,538	5,009	529	712,950	598,785	114,165
1994	674,467	705,973	-31,506	9,475	9,209	266	664,991	696,764	-31,773
1995	574,655	542,576	32,079	4,091	4,445	-354	570,564	538,131	32,433
1996	667,876	629,146	38,730	7,884	6,292	1,591	659,992	622,854	37,139
1997	696,990	640,240	56,750	7,184	7,344	-160	689,806	632,896	56,910
1998	847,129	736,529	110,600	11,009	10,512	496	836,120	726,016	110,104
1999	900,413	870,121	30,292	7,339	8,088	-749	893,074	862,033	31,041
2000	1,067,916	1,072,943	-5,027	7,797	9,380	-1,582	1,060,118	1,063,563	-3,445
2001	1,596,800	1,439,640	157,160	7,994	8,482	-488	1,588,806	1,431,158	157,648
2002	1,521,544	1,359,686	161,858	11,449	11,175	274	1,510,095	1,348,512	161,584
2003	1,929,230	1,840,339	88,892	12,722	11,469	1,254	1,916,508	1,828,870	87,638
2004	1,591,441	1,537,025	54,415	9,165	10,447	-1,282	1,582,276	1,526,578	55,698
2005	1,740,178	1,636,024	104,153	6,402	6,863	-461	1,733,776	1,629,161	104,615
2006	2,076,899	1,931,923	144,976	7,360	7,382	-22	2,069,539	1,924,541	144,998
2007	2,783,868	2,572,567	211,301	9,937	10,918	-981	2,773,931	2,561,650	212,281
2008	3,111,239	3,002,098	109,141	10,129	13,087	-2,958	3,101,110	2,989,011	112,099
2009	3,690,462	3,317,212	373,250	10,345	7,715	2,631	3,680,116	3,309,497	370,620
2010	3,958,111	3,541,421	416,690	19,026	15,024	4,002	3,939,085	3,526,398	412,687

Note: Data for funds that invest primarily in other mutual funds were excluded from the series.
Components may not add to the total because of rounding.

TABLE 37

Total Net Assets and Number of Shareholder Accounts of Money Market Funds by Type of Fund

Year-end

Year	Total net assets *Millions of dollars*				Number of shareholder accounts* *Thousands*			
		Taxable				Taxable		
	Total	Government	Non-government	Tax-exempt	Total	Government	Non-government	Tax-exempt
1986	$292,152	$63,736	$164,610	$63,806	16,313	2,397	13,256	660
1987	316,096	67,589	187,087	61,420	17,675	2,484	14,348	842
1988	337,954	61,298	210,897	65,758	18,570	1,684	15,947	939
1989	428,093	74,685	283,939	69,470	21,314	1,814	18,359	1,141
1990	498,341	109,376	305,189	83,777	22,969	2,283	19,294	1,391
1991	542,442	138,111	314,346	89,984	23,556	2,557	19,306	1,693
1992	546,194	151,043	300,310	94,841	23,647	2,826	18,945	1,876
1993	565,319	149,180	312,701	103,439	23,585	2,806	18,780	1,999
1994	611,005	148,139	352,972	109,894	25,379	3,047	20,295	2,037
1995	753,018	181,494	449,829	121,695	30,137	3,823	24,042	2,271
1996	901,807	223,790	540,146	137,871	32,200	4,241	25,688	2,271
1997	1,058,886	254,223	647,005	157,658	35,624	4,643	28,342	2,638
1998	1,351,678	312,907	854,061	184,711	38,847	4,452	32,009	2,386
1999	1,613,146	333,726	1,079,523	199,897	43,616	4,843	36,344	2,428
2000	1,845,248	359,166	1,252,212	233,869	48,138	4,941	40,548	2,649
2001	2,285,310	463,764	1,562,465	259,081	47,236	6,792	37,632	2,811
2002	2,265,075	455,507	1,533,271	276,297	45,380	6,800	35,925	2,655
2003	2,040,022	410,481	1,339,249	290,291	41,214	5,960	32,451	2,803
2004	1,901,336	380,238	1,209,099	311,999	37,636	5,619	29,174	2,843
2005	2,026,822	399,892	1,290,557	336,373	36,837	5,530	28,501	2,806
2006	2,338,451	426,819	1,542,603	369,029	37,067	4,297	29,707	3,063
2007	3,085,760	759,934	1,857,735	468,092	39,130	4,682	30,978	3,469
2008	3,832,236	1,489,740	1,848,817	493,680	38,111	5,410	29,087	3,614
2009	3,315,893	1,106,879	1,810,078	398,935	33,466	5,308	24,992	3,166
2010	2,803,922	855,021	1,618,896	330,006	30,606	4,511	22,924	3,171

* Number of shareholder accounts includes a mix of individual and omnibus accounts.
Note: Data for funds that invest primarily in other mutual funds were excluded from the series.
Components may not add to the total because of rounding.

Data Section 4

TABLE 38

Number of Funds and Number of Share Classes of Money Market Funds by Type of Fund

Year-end

	Number of funds				Number of share classes			
		Taxable				Taxable		
Year	Total	Government	Non-government	Tax-exempt	Total	Government	Non-government	Tax-exempt
1986	487	147	213	127	487	147	213	127
1987	543	154	235	154	543	154	235	154
1988	610	159	274	177	610	159	274	177
1989	673	160	310	203	673	160	310	203
1990	741	176	329	236	762	183	339	240
1991	820	211	341	268	871	228	363	280
1992	864	235	350	279	914	248	368	298
1993	920	265	362	293	1,009	286	386	337
1994	963	276	373	314	1,261	368	490	403
1995	997	284	392	321	1,380	404	549	427
1996	988	277	392	319	1,453	413	592	448
1997	1,013	279	406	328	1,549	442	633	474
1998	1,026	277	410	339	1,627	462	675	490
1999	1,045	281	423	341	1,730	488	742	500
2000	1,039	276	428	335	1,855	533	798	524
2001	1,015	272	418	325	1,948	575	830	543
2002	988	262	415	311	2,006	582	881	543
2003	973	253	407	313	2,031	575	887	569
2004	942	242	395	305	2,046	580	890	576
2005	870	223	370	277	2,031	572	892	567
2006	847	216	357	274	2,012	576	878	558
2007	805	202	343	260	2,018	568	880	570
2008	783	198	336	249	1,988	577	868	543
2009	704	179	297	228	1,849	560	772	517
2010	652	165	277	210	1,783	544	739	500

Note: Data for funds that invest primarily in other mutual funds were excluded from the series.

TABLE 39

Total Net Assets of Money Market Funds by Type of Fund

Millions of dollars, year-end

	All money market funds				Retail money market funds				Institutional money market funds			
		Taxable				Taxable				Taxable		
Year	Total	Government	Non-government	Tax-exempt	Total	Government	Non-government	Tax-exempt	Total	Government	Non-government	Tax-exempt
1996	$901,807	$223,790	$540,146	$137,871	$592,604	$94,786	$387,705	$110,113	$309,203	$129,003	$152,441	$27,758
1997	1,058,886	254,223	647,005	157,658	663,408	100,991	439,670	122,747	395,478	153,232	207,334	34,911
1998	1,351,678	312,907	854,061	184,711	835,255	121,664	571,465	142,126	516,423	191,243	282,596	42,585
1999	1,613,146	333,726	1,079,523	199,897	964,686	132,915	675,986	155,785	648,460	200,812	403,537	44,111
2000	1,845,248	359,166	1,252,212	233,869	1,061,923	141,122	741,762	179,039	783,325	218,044	510,450	54,830
2001	2,285,310	463,764	1,562,465	259,081	1,132,956	167,712	775,760	189,484	1,152,354	296,052	786,706	69,597
2002	2,265,075	455,507	1,533,271	276,297	1,062,103	154,460	715,618	192,025	1,202,973	301,047	817,653	84,272
2003	2,040,022	410,481	1,339,249	290,291	935,557	138,621	606,324	190,612	1,104,465	271,860	732,926	99,679
2004	1,901,336	380,238	1,209,099	311,999	849,472	123,964	533,714	191,794	1,051,864	256,274	675,385	120,205
2005	2,026,822	399,892	1,290,557	336,373	872,557	123,763	545,389	203,406	1,154,265	276,129	745,168	132,968
2006	2,338,451	426,819	1,542,603	369,029	1,004,092	138,218	641,830	224,043	1,334,359	288,601	900,773	144,986
2007	3,085,760	759,934	1,857,735	468,092	1,220,122	182,423	752,109	285,590	1,865,639	577,511	1,105,626	182,503
2008	3,832,236	1,489,740	1,848,817	493,680	1,361,966	285,658	773,095	303,212	2,470,271	1,204,082	1,075,722	190,467
2009	3,315,893	1,106,879	1,810,078	398,935	1,068,659	204,095	629,219	235,345	2,247,234	902,784	1,180,860	163,590
2010	2,803,922	855,021	1,618,896	330,006	945,332	178,256	561,132	205,944	1,858,590	676,764	1,057,763	124,062

Note: Data for funds that invest primarily in other mutual funds were excluded from the series.
Components may not add to the total because of rounding.

TABLE 40

Net New Cash Flow of Money Market Funds by Type of Fund

Millions of dollars, annual

	All money market funds				Retail money market funds				Institutional money market funds			
		Taxable				Taxable				Taxable		
Year	Total	Government	Non-government	Tax-exempt	Total	Government	Non-government	Tax-exempt	Total	Government	Non-government	Tax-exempt
1996	$89,422	$20,572	$58,935	$9,915	$52,886	$6,181	$39,505	$7,200	$36,536	$14,391	$19,430	$2,715
1997	103,466	20,129	69,107	14,231	46,620	4,781	32,081	9,758	56,846	15,347	37,026	4,473
1998	235,457	45,178	167,909	22,370	130,992	15,835	100,428	14,728	104,465	29,343	67,481	7,642
1999	193,681	8,486	174,957	10,238	82,006	-757	72,935	9,827	111,675	9,243	102,021	411
2000	159,365	14,494	118,308	26,563	43,623	-727	25,679	18,672	115,741	15,222	92,629	7,891
2001	375,291	85,910	268,040	21,340	36,262	12,714	13,530	10,017	339,029	73,196	254,510	11,323
2002	-45,937	-10,923	-51,268	16,254	-80,690	-10,530	-71,489	1,328	34,753	-393	20,220	14,925
2003	-263,403	-52,327	-220,850	9,774	-151,649	-20,771	-125,971	-4,908	-111,754	-31,556	-94,880	14,682
2004	-156,713	-35,584	-139,155	18,027	-88,836	-15,716	-75,555	2,434	-67,876	-19,869	-63,600	15,592
2005	62,082	13,115	28,075	20,891	2,202	-3,674	-4,912	10,788	59,880	16,790	32,988	10,103
2006	245,236	19,041	200,763	25,432	96,174	9,616	70,533	16,024	149,062	9,425	130,230	9,408
2007	654,476	319,127	251,327	84,022	171,269	38,044	82,532	50,693	483,207	281,082	168,795	33,329
2008	637,122	697,455	-73,532	13,198	112,595	97,393	1,476	13,727	524,526	600,063	-75,008	-528
2009	-539,139	-414,767	-28,741	-95,631	-308,729	-104,306	-136,829	-67,595	-230,410	-310,461	108,088	-28,036
2010	-524,658	-253,927	-201,359	-69,372	-125,283	-27,218	-69,667	-28,398	-399,375	-226,708	-131,692	-40,975

Note: Data for funds that invest primarily in other mutual funds were excluded from the series.
Components may not add to the total because of rounding.

TABLE 41

Net New Cash Flow and Components of Net New Cash Flow of Money Market Funds

Millions of dollars, annual

		Sales			Redemptions		
Year	Net new cash flow[1]	New + exchange	New[2]	Exchange[3]	Regular + exchange	Regular[4]	Exchange[5]
1986	$33,552	$1,026,745	$978,041	$48,704	$993,193	$948,656	$44,537
1987	10,072	1,147,877	1,049,034	98,843	1,137,805	1,062,671	75,133
1988	106	1,130,639	1,066,003	64,636	1,130,534	1,074,346	56,188
1989	64,132	1,359,616	1,296,458	63,158	1,295,484	1,235,527	59,957
1990	23,179	1,461,537	1,389,439	72,098	1,438,358	1,372,764	65,594
1991	6,068	1,841,131	1,778,491	62,640	1,835,063	1,763,106	71,957
1992	-16,006	2,449,766	2,371,925	77,841	2,465,772	2,382,976	82,796
1993	-13,890	2,756,282	2,665,987	90,295	2,770,172	2,673,464	96,707
1994	8,525	2,725,201	2,586,478	138,722	2,716,675	2,599,400	117,275
1995	89,381	3,234,216	3,097,225	136,990	3,144,834	3,001,968	142,866
1996	89,422	4,156,985	3,959,014	197,971	4,067,563	3,868,772	198,791
1997	103,466	5,127,328	4,894,226	233,102	5,023,863	4,783,096	240,767
1998	235,457	6,407,574	6,129,140	278,434	6,172,116	5,901,590	270,526
1999	193,681	8,080,959	7,719,310	361,649	7,887,278	7,540,912	346,367
2000	159,365	9,826,677	9,406,287	420,391	9,667,312	9,256,350	410,962
2001	375,291	11,737,291	11,426,804	310,487	11,362,000	11,065,468	296,533
2002	-45,937	12,008,801	11,712,587	296,215	12,054,738	11,783,209	271,530
2003	-263,403	11,177,118	10,952,544	224,574	11,440,521	11,213,929	226,592
2004	-156,713	10,860,499	10,694,008	166,492	11,017,212	10,846,935	170,277
2005	62,082	12,493,663	12,317,518	176,145	12,431,581	12,260,802	170,779
2006	245,236	15,707,260	15,496,005	211,256	15,462,024	15,269,381	192,643
2007	654,476	21,315,157	21,040,070	275,087	20,660,681	20,409,373	251,307
2008	637,122	24,452,449	24,067,390	385,059	23,815,327	23,498,664	316,663
2009	-539,139	18,683,752	18,489,354	194,399	19,222,891	19,012,375	210,516
2010	-524,658	15,771,387	15,670,167	101,220	16,296,045	16,191,487	104,558

[1] Net new cash flow is the dollar value of new sales minus redemptions combined with net exchanges.

[2] New sales are the dollar value of new purchases of mutual fund shares. This does not include shares purchased through reinvestment of dividends in existing accounts.

[3] Exchange sales are the dollar value of mutual fund shares switched into funds within the same fund group.

[4] Regular redemptions are the dollar value of shareholder liquidation of mutual fund shares.

[5] Exchange redemptions are the dollar value of mutual fund shares switched out of funds and into other funds in the same fund group.

Note: Data for funds that invest primarily in other mutual funds were excluded from the series.

Components may not add to the total because of rounding.

TABLE 42

Paid and Reinvested Dividends of Money Market Funds by Type of Fund

Millions of dollars, annual

	Paid dividends			Reinvested dividends		
Year	Total	Taxable money market funds	Tax-exempt money market funds	Total	Taxable money market funds	Tax-exempt money market funds
1986	$14,832	$12,432	$2,400	$11,514	$9,981	$1,533
1987	15,654	12,833	2,821	11,946	10,136	1,810
1988	21,618	17,976	3,642	15,692	13,355	2,337
1989	28,619	24,683	3,936	23,050	20,294	2,756
1990	30,258	26,448	3,810	26,282	23,226	3,056
1991	28,604	25,121	3,483	22,809	19,998	2,811
1992	20,280	17,197	3,083	14,596	12,567	2,029
1993	18,991	15,690	3,302	11,615	10,007	1,607
1994	23,737	20,504	3,233	16,739	14,626	2,113
1995	37,038	32,855	4,183	27,985	24,873	3,111
1996	42,555	38,446	4,108	31,516	28,448	3,068
1997	48,843	44,185	4,658	37,979	34,425	3,554
1998	57,375	52,164	5,211	43,443	39,580	3,863
1999	69,004	63,229	5,775	50,648	46,602	4,046
2000	98,219	90,154	8,064	72,771	66,887	5,884
2001	79,307	73,361	5,946	56,367	51,949	4,418
2002	32,251	29,397	2,854	22,033	19,940	2,093
2003	17,041	15,124	1,917	11,314	9,916	1,398
2004	18,374	15,891	2,482	11,883	10,077	1,807
2005	50,186	43,547	6,639	32,803	27,951	4,852
2006	96,425	85,020	11,405	61,489	53,268	8,220
2007	127,908	113,178	14,730	82,457	71,938	10,519
2008	93,858	82,727	11,130	61,135	53,455	7,680
2009	18,619	16,590	2,030	11,035	9,999	1,037
2010	7,171	6,718	453	4,461	4,209	252

Note: Data for funds that invest primarily in other mutual funds were excluded from the series.
Components may not add to the total because of rounding.

TABLE 43

Asset Composition of Taxable Government Money Market Funds as a Percentage of Total Net Assets

Year-end

Year	Total net assets *Millions of dollars*	U.S. Treasury bills	Other Treasury securities	U.S. government agency issues	Repurchase agreements	Certificates of deposit	Eurodollar CDs	Commercial paper	Bank notes[1]	Corporate notes[2]	Other assets[3]	Average maturity *Days*
1986	$63,736	22.8%	7.9%	14.4%	39.1%	4.1%	4.9%	4.3%	–	–	2.5%	51
1987	67,589	4.6	11.2	22.0	44.9	4.8	7.4	4.0	–	–	1.1	35
1988	61,298	5.0	9.7	20.5	58.4	1.2	0.1	3.2	–	–	2.0	28
1989	74,685	5.0	6.9	20.6	62.7	0.2	0.1	3.0	–	–	1.5	31
1990	109,376	11.1	12.2	20.6	45.7	0.0	0.0	0.3	–	–	9.9	46
1991	138,111	21.5	16.5	20.3	40.9	0.0	0.0	0.4	–	–	0.3	58
1992	151,043	26.0	16.5	21.6	34.7	0.0	0.0	0.5	–	–	0.6	55
1993	149,180	30.3	14.1	20.7	32.8	0.0	0.0	0.3	–	–	1.8	61
1994	148,139	24.4	12.6	26.3	34.0	0.0	0.0	0.4	0.0%	–	2.2	37
1995	181,494	19.8	13.9	28.5	34.1	0.0	0.0	0.5	0.0	–	3.1	48
1996	223,790	17.7	18.5	25.4	35.2	0.0	0.1	0.7	0.0	–	2.4	49
1997	254,223	15.2	17.6	25.1	37.8	0.1	0.0	1.2	0.1	–	2.9	50
1998	312,907	14.3	17.7	30.4	33.4	0.3	0.0	1.7	0.1	0.2%	2.0	52
1999	333,726	17.1	13.0	37.1	28.2	0.1	0.0	1.4	0.1	1.1	1.9	48
2000	359,166	14.5	10.3	31.7	37.2	0.0	0.0	2.1	0.1	1.2	2.9	45
2001	463,764	19.1	9.1	34.4	31.6	0.2	0.0	0.7	0.0	1.7	3.2	55
2002	455,507	20.3	6.4	33.1	35.4	0.1	0.0	0.8	0.0	1.7	2.1	52
2003	410,481	19.9	7.2	33.9	36.2	0.3	0.0	0.9	0.0	1.9	-0.3	52
2004	380,238	21.3	4.9	34.6	35.9	0.2	0.0	0.9	0.1	0.9	1.2	36
2005	399,892	15.8	4.4	28.1	49.9	0.0	0.0	0.3	0.1	0.8	0.6	27
2006	426,819	14.9	4.0	21.6	58.6	0.1	0.0	0.4	0.0	0.1	0.3	32
2007	759,934	16.3	5.1	24.1	53.7	0.3	0.0	0.2	0.0	0.0	0.2	31
2008	1,489,740	30.5	6.2	36.2	26.8	0.0	0.0	0.1	0.1	0.2	-0.1	48
2009	1,106,879	25.6	6.0	35.4	30.6	0.0	0.0	1.0	0.2	0.3	0.7	47
2010	855,021	22.9	8.5	33.3	33.0	0.0	0.0	0.9	0.1	0.4	0.9	47

[1] Prior to 1994, bank notes are included in other assets.
[2] Prior to 1998, corporate notes are included in other assets.
[3] Other assets include banker's acceptances, municipal securities, and cash reserves.
Note: Data for funds that invest primarily in other mutual funds were excluded from the series.
Components may not add to 100 percent because of rounding.

TABLE 44

Asset Composition of Taxable Non-Government Money Market Funds as a Percentage of Total Net Assets

Year-end

Year	Total net assets *Millions of dollars*	U.S. Treasury bills	Other Treasury securities	U.S. government agency issues	Repurchase agreements	Certificates of deposit	Eurodollar CDs	Commercial paper	Bank notes[1]	Corporate notes[2]	Other assets[3]	Average maturity *Days*
1986	$164,610	3.6%	1.6%	3.6%	4.4%	10.0%	11.6%	56.0%	–	–	9.3%	42
1987	187,087	1.0	0.9	6.5	4.8	16.2	8.9	52.3	–	–	9.4	34
1988	210,897	1.0	0.2	2.8	2.8	15.2	14.1	54.6	–	–	9.4	32
1989	283,939	1.3	0.8	2.0	2.8	14.4	9.3	62.3	–	–	7.1	43
1990	305,189	4.4	2.2	4.7	2.9	6.9	8.9	65.5	–	–	4.7	48
1991	314,346	5.7	2.9	4.2	3.7	10.6	6.9	60.1	–	–	5.8	56
1992	300,310	2.7	2.5	7.5	4.9	10.4	6.9	57.7	–	–	7.4	59
1993	312,701	2.6	2.4	11.9	5.9	8.0	3.2	52.6	–	–	13.3	58
1994	352,972	2.4	1.3	11.4	5.6	6.4	4.5	53.4	2.4%	–	12.7	38
1995	449,829	1.4	0.9	9.2	6.2	8.9	4.5	52.5	3.7	–	12.7	60
1996	540,146	0.5	1.6	9.0	5.1	12.8	4.3	51.0	2.3	–	13.5	56
1997	647,005	0.4	0.5	5.4	5.3	14.7	3.7	52.0	3.2	–	14.8	57
1998	854,061	0.4	0.8	9.6	4.6	13.0	3.6	48.7	3.9	5.8%	9.6	58
1999	1,079,523	0.3	0.3	6.8	4.8	12.8	3.9	49.2	3.1	8.4	10.4	49
2000	1,252,212	0.3	0.1	6.2	4.3	11.6	6.5	50.4	3.6	10.4	6.5	53
2001	1,562,465	0.5	0.3	12.3	5.9	15.0	7.3	41.7	1.5	11.0	4.5	58
2002	1,533,271	1.3	0.3	11.8	8.1	13.8	7.0	40.1	1.4	12.0	4.3	54
2003	1,339,249	1.4	0.3	14.9	8.1	11.6	5.1	35.6	2.0	16.2	4.6	59
2004	1,209,099	0.3	0.1	11.9	8.5	14.1	5.8	33.9	2.6	17.9	4.9	41
2005	1,290,557	0.6	0.1	4.1	11.9	14.5	6.0	38.5	2.3	17.9	4.0	38
2006	1,542,603	0.1	0.2	2.9	9.9	13.9	4.4	39.6	2.2	21.6	5.2	49
2007	1,857,735	0.8	0.2	3.1	11.3	15.2	5.5	36.9	4.0	16.7	6.3	44
2008	1,848,817	1.9	0.5	12.7	8.4	21.5	4.7	34.1	3.1	9.3	3.8	47
2009	1,810,078	2.3	1.3	8.9	8.3	31.6	5.5	28.1	2.9	6.4	4.8	50
2010	1,618,896	2.7	1.9	7.8	12.8	28.6	6.7	24.3	3.2	6.2	5.8	44

[1] Prior to 1994, bank notes are included in other assets.
[2] Prior to 1998, corporate notes are included in other assets.
[3] Other assets include banker's acceptances, municipal securities, and cash reserves.
Note: Data for funds that invest primarily in other mutual funds were excluded from the series.
Components may not add to 100 percent because of rounding.

TABLE 45

Funds of Funds:[1] Total Net Assets, Net New Cash Flow, Number of Funds, and Number of Share Classes

	Total net assets *Millions of dollars, year-end*			Net new cash flow[2] *Millions of dollars, annual*			Number of funds *Year-end*			Number of share classes *Year-end*		
Year	Total	Equity	Hybrid and bond	Total	Equity	Hybrid and bond	Total	Equity	Hybrid and bond	Total	Equity	Hybrid and bond
1990	$1,426	$211	$1,215	$131	-$21	$152	20	11	9	20	11	9
1991	2,313	403	1,910	475	97	378	20	10	10	20	10	10
1992	3,722	651	3,072	1,134	205	929	21	10	11	21	10	11
1993	5,403	900	4,503	1,160	154	1,006	24	12	12	24	12	12
1994	6,170	1,367	4,803	567	342	225	32	15	17	32	15	17
1995	9,063	2,288	6,774	1,135	633	502	36	19	17	37	19	18
1996	13,404	4,596	8,808	2,457	1,572	885	45	24	21	56	28	28
1997	21,480	7,580	13,900	3,380	1,617	1,763	94	41	53	148	58	90
1998	35,368	12,212	23,156	6,376	2,006	4,370	175	75	100	305	112	193
1999	48,310	18,676	29,634	6,572	3,392	3,180	212	83	129	394	137	257
2000	56,911	16,206	40,704	10,401	5,101	5,300	215	86	129	414	143	271
2001	63,385	15,756	47,629	8,929	1,858	7,072	213	85	128	450	154	296
2002	68,960	14,403	54,557	11,593	2,097	9,496	268	103	165	625	194	431
2003	123,091	28,509	94,582	29,900	4,780	25,120	301	111	190	720	214	506
2004	199,552	41,784	157,768	50,520	8,022	42,497	375	111	264	963	223	740
2005	306,016	58,569	247,447	79,480	8,708	70,772	475	129	346	1,298	273	1,025
2006	469,597	94,939	374,658	101,324	18,461	82,862	603	160	443	1,859	337	1,522
2007	637,026	114,565	522,461	126,326	18,153	108,173	720	173	547	2,358	393	1,965
2008	486,586	75,122	411,464	61,547	7,606	53,941	862	181	681	2,814	415	2,399
2009	672,720	72,264	600,456	69,429	7,543	61,886	932	172	760	3,000	412	2,588
2010	928,169	124,411	803,757	134,219	24,006	110,213	964	183	781	3,095	433	2,662

[1] Funds of funds are mutual funds that invest primarily in other mutual funds.
[2] Net new cash flow is the dollar value of new sales minus redemptions combined with net exchanges.
Note: Components may not add to the total because of rounding.

TABLE 46

Funds of Funds:[1] Components of Net New Cash Flow[2]

Millions of dollars, annual

	Sales									Redemptions								
	New + exchange			New[3]			Exchange[4]			Regular + exchange			Regular[5]			Exchange[6]		
Year	Total	Equity	Hybrid and bond	Total	Equity	Hybrid and bond	Total	Equity	Hybrid and bond	Total	Equity	Hybrid and bond	Total	Equity	Hybrid and bond	Total	Equity	Hybrid and bond
1990	$416	$68	$348	$351	$58	$293	$65	$10	$55	$285	$89	$196	$186	$87	$99	$100	$3	$97
1991	772	192	580	579	142	437	194	50	143	298	95	203	185	79	105	113	16	97
1992	1,617	371	1,246	1,255	294	961	362	76	286	483	166	318	303	130	174	180	36	144
1993	1,953	358	1,594	1,533	293	1,240	419	65	354	793	205	588	453	156	297	340	49	291
1994	1,781	583	1,197	1,341	389	952	439	194	245	1,213	241	972	682	166	517	531	75	456
1995	2,362	987	1,376	1,750	692	1,059	612	295	317	1,227	354	873	768	233	535	459	121	338
1996	4,522	2,321	2,201	3,621	1,847	1,774	901	474	428	2,066	749	1,317	1,290	519	771	776	230	546
1997	6,317	2,858	3,459	4,753	2,017	2,736	1,565	842	723	2,937	1,241	1,696	1,749	774	975	1,189	468	721
1998	12,931	4,398	8,532	9,938	3,578	6,360	2,993	821	2,172	6,554	2,392	4,162	3,766	1,541	2,225	2,788	850	1,938
1999	16,749	6,861	9,888	12,759	5,575	7,184	3,990	1,287	2,703	10,177	3,469	6,708	6,638	2,553	4,084	3,540	916	2,624
2000	24,092	9,346	14,746	18,607	7,539	11,068	5,485	1,806	3,678	13,690	4,245	9,445	9,250	3,199	6,052	4,440	1,046	3,394
2001	22,577	5,735	16,842	17,606	4,893	12,712	4,971	842	4,129	13,647	3,877	9,770	9,546	3,111	6,435	4,101	766	3,335
2002	28,193	6,780	21,414	23,063	5,787	17,276	5,131	993	4,138	16,600	4,683	11,917	12,209	3,865	8,344	4,391	818	3,573
2003	46,962	8,711	38,251	38,444	7,260	31,184	8,518	1,451	7,068	17,062	3,931	13,131	12,785	3,276	9,509	4,277	655	3,622
2004	76,821	13,709	63,112	63,136	11,451	51,685	13,685	2,258	11,427	26,301	5,687	20,614	19,845	4,809	15,036	6,456	878	5,578
2005	122,861	16,760	106,102	106,077	13,986	92,091	16,784	2,774	14,010	43,381	8,052	35,329	35,351	7,034	28,317	8,030	1,018	7,012
2006	163,087	30,201	132,885	138,852	24,854	113,998	24,234	5,347	18,888	61,763	11,740	50,023	49,046	10,057	38,990	12,717	1,683	11,033
2007	226,953	37,327	189,626	193,609	29,870	163,739	33,343	7,457	25,887	100,627	19,174	81,453	81,950	15,842	66,108	18,676	3,331	15,345
2008	214,547	33,545	181,002	183,647	27,822	155,825	30,900	5,723	25,177	153,000	25,938	127,061	121,254	20,978	100,276	31,746	4,961	26,785
2009	189,563	26,453	163,110	170,197	24,274	145,923	19,366	2,180	17,187	120,134	18,910	101,224	101,658	16,954	84,704	18,476	1,956	16,520
2010	307,649	46,771	260,879	282,275	45,152	237,123	25,374	1,619	23,756	173,430	22,764	150,666	151,321	20,890	130,432	22,109	1,875	20,234

[1] Funds of funds are mutual funds that invest primarily in other mutual funds.
[2] Net new cash flow is the dollar value of new sales minus redemptions combined with net exchanges.
[3] New sales are the dollar value of new purchases of mutual fund shares. This does not include shares purchased through reinvestment of dividends in existing accounts.
[4] Exchange sales are the dollar value of mutual fund shares switched into funds within the same fund group.
[5] Regular redemptions are the dollar value of shareholder liquidation of mutual fund shares.
[6] Exchange redemptions are the dollar value of mutual fund shares switched out of funds and into other funds in the same fund group.
Note: Components may not add to the total because of rounding.

TABLE 47

Index Mutual Funds: Total Net Assets and Net New Cash Flow

Millions of dollars

	Total net assets *Year-end*					Net new cash flow* *Annual*				
		Equity					Equity			
Year	Total	S&P 500	Other domestic	Global/ International	Hybrid and bond	Total	S&P 500	Other domestic	Global/ International	Hybrid and bond
1993	$27,460	$19,445	$3,338	$1,281	$3,396	$6,350	$3,916	$953	$501	$980
1994	32,078	22,257	3,863	2,095	3,863	3,298	1,821	515	436	525
1995	57,042	41,744	6,442	2,846	6,009	11,808	8,816	1,038	512	1,442
1996	97,759	73,856	11,241	4,124	8,538	24,780	18,447	3,192	1,033	2,108
1997	170,302	129,857	21,221	5,329	13,894	34,847	25,208	5,230	818	3,591
1998	264,998	201,791	35,051	7,962	20,193	46,143	30,977	8,499	1,568	5,099
1999	387,411	284,588	63,386	13,130	26,307	61,603	38,063	16,102	2,241	5,197
2000	384,039	272,462	72,028	12,625	26,923	25,592	10,783	10,672	1,660	2,477
2001	370,560	249,452	73,598	11,128	36,381	26,735	9,113	8,846	1,194	7,582
2002	327,417	200,989	69,426	11,050	45,952	25,255	4,818	12,152	1,669	6,616
2003	455,293	273,691	112,469	18,218	50,903	35,234	14,231	16,537	2,199	2,266
2004	554,044	317,826	147,819	28,236	60,163	40,130	11,739	16,078	5,661	6,651
2005	618,699	334,012	171,377	42,792	70,518	27,877	-317	11,731	8,456	8,007
2006	747,468	379,765	218,303	66,647	82,752	32,974	-5,908	20,283	10,674	7,925
2007	854,715	394,593	257,935	95,667	106,520	61,139	-1,440	29,095	16,903	16,582
2008	601,728	252,956	178,045	50,125	120,602	34,966	7,705	23,398	-6,003	9,866
2009	835,422	328,647	256,803	92,177	157,795	55,976	8,195	16,409	4,257	27,115
2010	1,016,713	375,949	325,767	122,385	192,612	57,560	-808	15,035	19,064	24,269

* Net new cash flow is the dollar value of new sales minus redemptions combined with net exchanges.
Note: Data for funds that invest primarily in other mutual funds were excluded from the series.
Components may not add to the total because of rounding.

TABLE 48
Index Mutual Funds: Number of Funds and Number of Share Classes
Year-end

	Number of funds					Number of share classes				
		Equity					Equity			
Year	Total	S&P 500	Other domestic	Global/ International	Hybrid and bond	Total	S&P 500	Other domestic	Global/ International	Hybrid and bond
1993	69	38	15	6	10	73	42	15	6	10
1994	81	42	17	7	15	95	53	17	10	15
1995	87	48	18	7	14	110	63	19	11	17
1996	105	60	22	7	16	143	86	25	11	21
1997	132	72	27	12	21	205	115	38	21	31
1998	156	86	37	15	18	252	148	52	25	27
1999	197	97	59	20	21	323	166	95	31	31
2000	271	120	100	25	26	465	221	164	42	38
2001	286	126	110	24	26	518	238	197	43	40
2002	313	132	124	28	29	578	255	221	53	49
2003	321	128	134	30	29	601	253	243	56	49
2004	328	127	146	28	27	633	262	269	55	47
2005	322	119	147	29	27	647	258	279	62	48
2006	342	125	158	33	26	697	272	304	70	51
2007	354	125	161	36	32	735	276	316	80	63
2008	359	122	164	41	32	754	278	317	95	64
2009	357	113	153	48	43	757	259	296	103	99
2010	365	111	163	49	42	776	253	306	117	100

Note: Data for funds that invest primarily in other mutual funds were excluded from the series.

Data Section 5

TABLE 49

Index Mutual Funds: New Sales and Exchange Sales

Millions of dollars, annual

	New + exchange					New[1]					Exchange[2]				
		Equity					Equity					Equity			
Year	Total	S&P 500	Other domestic	Global/ International	Hybrid and bond	Total	S&P 500	Other domestic	Global/ International	Hybrid and bond	Total	S&P 500	Other domestic	Global/ International	Hybrid and bond
1993	$13,267	$8,898	$1,560	$746	$2,064	$11,208	$7,826	$1,283	$455	$1,644	$2,059	$1,072	$277	$291	$420
1994	11,850	7,976	1,283	824	1,767	10,172	7,103	1,130	579	1,361	1,677	874	153	245	405
1995	21,845	15,903	2,107	1,019	2,815	17,665	13,087	1,883	800	1,895	4,180	2,816	224	219	920
1996	42,680	31,828	4,893	1,855	4,103	34,903	26,165	4,182	1,463	3,093	7,776	5,663	711	392	1,010
1997	73,274	54,494	10,219	2,173	6,388	54,093	41,160	6,562	1,816	4,555	19,181	13,334	3,657	357	1,834
1998	102,843	75,186	15,515	3,014	9,128	79,382	59,457	11,405	2,157	6,362	23,461	15,728	4,109	857	2,767
1999	145,582	101,675	26,755	4,544	12,608	112,686	81,540	18,994	3,232	8,920	32,896	20,135	7,761	1,312	3,688
2000	136,385	92,019	29,055	6,085	9,225	107,344	75,990	20,147	4,857	6,351	29,041	16,029	8,908	1,228	2,875
2001	122,247	72,936	28,057	4,641	16,612	94,018	58,654	20,961	3,945	10,458	28,229	14,282	7,096	697	6,154
2002	127,752	68,085	34,211	5,161	20,295	99,640	57,060	24,922	4,505	13,154	28,112	11,026	9,289	656	7,141
2003	136,830	67,688	44,593	5,998	18,550	104,703	54,472	31,680	5,178	13,372	32,127	13,216	12,913	820	5,178
2004	159,310	74,967	53,947	9,403	20,992	128,162	63,371	40,622	7,915	16,253	31,148	11,597	13,325	1,488	4,739
2005	163,344	70,763	56,374	13,523	22,684	131,335	58,818	43,402	11,275	17,840	32,009	11,945	12,971	2,248	4,844
2006	189,914	69,619	73,488	19,890	26,918	152,436	59,125	57,535	16,061	19,715	37,478	10,494	15,953	3,828	7,203
2007	259,419	93,691	92,182	30,523	43,023	200,041	76,300	72,054	23,633	28,054	59,378	17,391	20,129	6,889	14,969
2008	249,585	87,086	82,210	26,262	54,027	201,213	74,133	64,794	22,358	39,928	48,371	12,953	17,416	3,903	14,099
2009	243,411	69,398	66,721	24,571	82,721	181,737	60,024	52,542	19,017	50,154	61,674	9,374	14,178	5,554	32,567
2010	279,016	70,013	84,148	50,788	74,066	212,865	59,437	64,787	31,937	56,704	66,151	10,577	19,361	18,851	17,362

[1] New sales are the dollar value of new purchases of mutual fund shares. This does not include shares purchased through reinvestment of dividends in existing accounts.

[2] Exchange sales are the dollar value of mutual fund shares switched into funds within the same fund group.

Note: Data for funds that invest primarily in other mutual funds were excluded from the series.

Components may not add to the total because of rounding.

TABLE 50

Index Mutual Funds: Redemptions and Exchange Redemptions

Millions of dollars, annual

	Regular + exchange					Regular[1]					Exchange[2]				
		Equity					Equity					Equity			
Year	Total	S&P 500	Other domestic	Global/ International	Hybrid and bond	Total	S&P 500	Other domestic	Global/ International	Hybrid and bond	Total	S&P 500	Other domestic	Global/ International	Hybrid and bond
1993	$6,917	$4,982	$607	$245	$1,084	$5,278	$3,996	$449	$118	$715	$1,639	$986	$158	$127	$369
1994	8,552	6,155	768	387	1,241	7,134	5,383	645	243	863	1,418	772	123	144	379
1995	10,037	7,087	1,069	507	1,373	7,723	5,732	935	337	719	2,314	1,355	135	170	654
1996	17,900	13,382	1,700	822	1,995	13,578	10,330	1,429	566	1,253	4,321	3,052	271	256	742
1997	38,427	29,286	4,988	1,355	2,797	24,753	19,824	2,468	779	1,681	13,674	9,462	2,520	576	1,116
1998	56,700	44,208	7,016	1,446	4,029	40,024	32,563	4,256	973	2,232	16,676	11,646	2,760	473	1,797
1999	83,979	63,612	10,653	2,303	7,411	60,809	48,336	7,050	1,276	4,146	23,170	15,276	3,603	1,027	3,265
2000	110,793	81,237	18,383	4,425	6,749	80,788	61,735	11,961	2,814	4,278	30,005	19,501	6,422	1,611	2,471
2001	95,512	63,823	19,211	3,447	9,030	68,474	47,792	12,746	2,582	5,353	27,038	16,030	6,465	865	3,677
2002	102,497	63,267	22,059	3,492	13,679	74,963	48,625	15,223	2,819	8,296	27,534	14,642	6,835	673	5,383
2003	101,596	53,457	28,056	3,800	16,284	76,804	42,814	20,548	3,407	10,035	24,792	10,643	7,508	393	6,249
2004	119,180	63,228	37,869	3,742	14,341	90,044	50,340	26,886	3,061	9,756	29,136	12,888	10,982	681	4,585
2005	135,467	71,080	44,643	5,067	14,677	102,053	54,621	32,287	4,108	11,036	33,414	16,459	12,356	959	3,641
2006	156,940	75,527	53,205	9,215	18,993	118,530	59,556	39,117	6,775	13,083	38,410	15,971	14,088	2,441	5,910
2007	198,280	95,131	63,087	13,620	26,441	141,059	71,405	43,001	10,076	16,576	57,221	23,726	20,086	3,544	9,865
2008	214,619	79,381	58,812	32,264	44,161	167,780	62,286	43,152	28,067	34,275	46,839	17,094	15,660	4,197	9,887
2009	187,435	61,203	50,312	20,315	55,605	133,211	49,794	38,816	17,079	27,521	54,223	11,409	11,495	3,236	28,084
2010	221,456	70,821	69,113	31,725	49,797	162,503	56,993	54,910	14,623	35,977	58,953	13,828	14,203	17,102	13,820

[1] Regular redemptions are the dollar value of shareholder liquidation of mutual fund shares.

[2] Exchange redemptions are the dollar value of mutual fund shares switched out of funds and into other funds in the same fund group.

Note: Data for funds that invest primarily in other mutual funds were excluded from the series.

Components may not add to the total because of rounding.

TABLE 51

Lifestyle and Target Date Mutual Funds:[1] Total Net Assets, Net New Cash Flow, Number of Funds, and Number of Share Classes

	Total net assets Millions of dollars, year-end			Net new cash flow[2] Millions of dollars, annual			Number of funds Year-end			Number of share classes Year-end		
Year	Total	Lifestyle	Target date	Total	Lifestyle	Target date	Total	Lifestyle	Target date	Total	Lifestyle	Target date
1995	$2,746	$2,259	$487	$1,194	$1,009	$185	26	20	6	50	40	10
1996	6,497	5,693	805	2,583	2,367	216	44	35	9	70	61	9
1997	14,314	12,906	1,408	4,138	3,945	193	77	65	12	141	124	17
1998	25,413	20,905	4,508	6,015	4,862	1,153	110	93	17	199	176	23
1999	34,849	27,835	7,014	4,928	3,618	1,311	130	111	19	240	210	30
2000	39,716	30,928	8,788	7,581	3,983	3,598	146	122	24	279	237	42
2001	45,467	33,095	12,372	7,696	3,902	3,795	147	122	25	351	269	82
2002	49,425	34,523	14,902	8,095	4,386	3,708	171	146	25	432	350	82
2003	81,733	55,832	25,901	19,040	11,819	7,221	192	147	45	499	379	120
2004	129,170	85,414	43,756	28,336	15,432	12,903	241	157	84	740	477	263
2005	202,017	130,794	71,223	57,166	34,910	22,256	324	197	127	1,128	663	465
2006	303,594	189,034	114,560	66,791	33,769	33,022	422	238	184	1,558	775	783
2007	420,863	237,958	182,905	91,920	35,720	56,200	494	249	245	1,840	805	1,035
2008	335,428	175,591	159,837	54,424	12,527	41,897	617	275	342	2,222	851	1,371
2009	486,553	230,950	255,603	52,118	8,674	43,444	647	264	383	2,357	840	1,517
2010	603,950	264,155	339,795	48,587	4,184	44,403	642	261	381	2,331	836	1,495

[1] Categories include data for funds that invest primarily in other funds.
[2] Net new cash flow is the dollar value of new sales minus redemptions combined with net exchanges.
Note: Components may not add to the total because of rounding.

TABLE 52

Lifestyle and Target Date Mutual Funds:[1] Components of Net New Cash Flow[2]

Millions of dollars, annual

	Sales						Redemptions					
	New[3]			Exchange[4]			Regular[5]			Exchange[6]		
Year	Total	Lifestyle	Target date	Total	Lifestyle	Target date	Total	Lifestyle	Target date	Total	Lifestyle	Target date
1995	$1,289	$1,008	$282	$364	$355	$9	$304	$203	$100	$155	$151	$5
1996	3,393	2,771	622	564	552	12	989	583	406	385	373	11
1997	5,580	5,067	513	1,066	1,033	33	1,763	1,432	331	746	723	22
1998	8,856	7,549	1,306	2,782	1,428	1,354	3,557	2,916	641	2,066	1,199	867
1999	10,663	8,832	1,831	3,144	1,436	1,707	6,102	5,102	1,000	2,776	1,549	1,227
2000	15,034	10,767	4,267	4,621	1,776	2,845	8,302	6,648	1,654	3,772	1,912	1,861
2001	15,408	10,621	4,787	4,179	1,602	2,576	8,510	6,665	1,844	3,381	1,656	1,724
2002	18,235	12,953	5,282	3,691	1,384	2,307	10,901	8,561	2,340	2,930	1,389	1,541
2003	27,581	19,498	8,083	5,321	1,931	3,390	11,038	8,518	2,521	2,824	1,093	1,731
2004	41,670	25,228	16,442	8,713	3,239	5,474	17,571	11,296	6,274	4,477	1,738	2,739
2005	77,111	50,358	26,754	11,647	3,955	7,692	25,919	17,287	8,633	5,673	2,116	3,558
2006	89,496	49,584	39,912	17,113	5,956	11,157	31,232	18,571	12,662	8,586	3,201	5,385
2007	137,672	61,517	76,155	23,456	6,415	17,041	56,637	28,131	28,507	12,570	4,080	8,490
2008	127,518	48,978	78,539	22,099	5,979	16,120	73,879	35,492	38,387	21,314	6,938	14,375
2009	118,475	38,138	80,337	15,172	3,618	11,554	68,200	28,805	39,395	13,329	4,277	9,053
2010	149,988	42,356	107,632	20,606	3,983	16,623	104,982	37,567	67,415	17,025	4,588	12,437

[1] Categories include data for funds that invest primarily in other funds.
[2] Net new cash flow is the dollar value of new sales minus redemptions combined with net exchanges.
[3] New sales are the dollar value of new purchases of mutual fund shares. This does not include shares purchased through reinvestment of dividends in existing accounts.
[4] Exchange sales are the dollar value of mutual fund shares switched into funds within the same fund group.
[5] Regular redemptions are the dollar value of shareholder liquidation of mutual fund shares.
[6] Exchange redemptions are the dollar value of mutual fund shares switched out of funds and into other funds in the same fund group.
Note: Components may not add to the total because of rounding.

TABLE 53

Retirement Mutual Funds:[1] Total Net Assets, Net New Cash Flow, Number of Funds, and Number of Share Classes

Year	Total	Equity	Hybrid	Bond	Money market	Total	Equity	Hybrid	Bond	Money market
	Total net assets *Millions of dollars, year-end*					Net new cash flow[2] *Millions of dollars, annual*				
1993	$4,900	$529	$487	$304	$3,580	$470	$197	-$5	$51	$226
1994	4,929	421	628	234	3,646	-132	40	29	-59	-142
1995	9,092	1,408	1,907	428	5,349	2,055	394	140	35	1,485
1996	9,574	1,420	2,003	446	5,705	610	612	-135	23	110
1997	10,960	2,066	2,284	518	6,092	505	430	-56	43	89
1998	13,273	2,564	2,578	709	7,423	1,197	285	-267	159	1,019
1999	18,113	6,859	2,304	860	8,090	138	57	-482	161	402
2000	18,762	6,961	1,764	1,034	9,004	917	844	-451	73	451
2001	25,303	6,646	1,487	1,348	15,823	542	-256	-160	221	737
2002	26,491	7,316	1,674	1,418	16,083	1,944	1,489	283	124	48
2003	40,074	21,536	3,748	2,359	12,431	8,385	9,686	1,610	820	-3,731
2004	66,421	47,856	8,104	2,822	7,640	18,637	19,300	3,193	324	-4,180
2005	101,133	78,680	11,747	3,780	6,926	25,053	21,848	3,145	908	-848
2006	154,252	124,148	16,556	5,340	8,207	33,430	28,241	3,147	1,197	845
2007	221,421	175,699	26,078	8,363	11,282	46,391	34,691	6,964	2,141	2,595
2008	181,160	130,837	25,201	9,417	15,704	46,413	32,855	8,094	2,090	3,373
2009	281,649	211,604	39,493	13,399	17,153	36,806	28,922	6,891	2,459	-1,466
2010	359,190	273,490	52,695	16,132	16,873	40,288	30,247	7,587	2,202	252
	Number of funds *Year-end*					Number of share classes *Year-end*				
1993	28	10	5	7	6	28	10	5	7	6
1994	44	17	7	12	8	44	17	7	12	8
1995	52	21	10	13	8	52	21	10	13	8
1996	53	23	10	12	8	53	23	10	12	8
1997	57	25	11	13	8	57	25	11	13	8
1998	63	30	16	10	7	63	30	16	10	7
1999	79	45	16	12	6	79	45	16	12	6
2000	127	85	18	17	7	160	111	18	23	8
2001	184	123	27	24	10	237	150	46	30	11
2002	281	188	34	44	15	422	267	61	70	24
2003	461	316	55	73	17	641	422	88	105	26
2004	703	462	110	111	20	944	602	161	149	32
2005	826	523	157	125	21	1,302	787	274	203	38
2006	966	592	217	134	23	1,679	944	470	225	40
2007	1,147	679	284	158	26	1,967	1,062	605	255	45
2008	1,328	759	368	176	25	2,196	1,152	728	272	44
2009	1,380	750	421	185	24	2,321	1,199	775	306	41
2010	1,414	770	410	211	23	2,401	1,245	765	351	40

[1] Retirement mutual funds include share classes and funds that are primarily available to retirement plans or IRAs. The table includes data for funds that invest primarily in other funds.

[2] Net new cash flow is the dollar value of new sales minus redemptions combined with net exchanges.

Note: Components may not add to the total because of rounding.

TABLE 54

Retirement Mutual Funds:[1] Components of Net New Cash Flow[2]

Millions of dollars, annual

	Sales								Redemptions							
	New[3]				Exchange[4]				Regular[5]				Exchange[6]			
Year	Equity	Hybrid	Bond	Money market	Equity	Hybrid	Bond	Money market	Equity	Hybrid	Bond	Money market	Equity	Hybrid	Bond	Money market
1993	$242	$14	$90	$13,907	$188	$1	$60	(*)	$67	$17	$55	$13,681	$165	$3	$44	(*)
1994	94	91	60	14,760	204	5	26	$2	61	59	65	14,903	197	9	79	$1
1995	1,342	411	128	17,250	207	14	26	11	923	250	93	15,766	232	36	26	10
1996	1,325	440	141	18,998	196	24	27	20	752	501	101	18,887	157	98	44	22
1997	864	442	186	21,575	169	36	38	11	441	475	136	21,470	162	59	45	27
1998	1,073	463	333	23,867	254	23	56	36	789	670	183	22,867	253	83	47	17
1999	1,189	445	464	29,494	161	15	45	22	1,184	857	307	29,085	109	86	41	30
2000	2,269	364	452	31,729	194	10	25	44	1,533	746	353	31,279	87	80	51	42
2001	1,392	337	642	40,007	348	20	83	229	1,712	498	441	39,492	284	20	63	8
2002	3,203	737	858	59,587	583	63	228	61	2,079	488	925	59,549	218	29	37	51
2003	10,548	2,146	1,748	58,887	2,333	162	137	163	2,964	651	946	62,488	231	47	119	293
2004	24,947	4,244	1,781	39,237	1,274	136	107	177	6,581	1,108	1,437	43,156	341	79	126	438
2005	34,373	5,028	2,092	41,290	1,611	173	170	193	13,488	1,911	1,173	41,876	648	145	181	456
2006	49,855	6,517	2,305	45,463	3,721	426	253	322	24,171	3,509	1,168	44,426	1,165	287	193	514
2007	76,315	13,326	4,481	33,373	4,159	489	530	808	43,689	6,497	2,511	30,640	2,094	355	359	945
2008	76,362	15,672	5,327	44,770	5,304	1,466	730	1,336	43,523	7,865	3,437	41,809	5,288	1,178	529	924
2009	68,624	13,769	7,874	41,075	18,384	2,672	1,471	914	39,229	6,628	4,826	42,422	18,858	2,922	2,060	1,032
2010	85,857	18,090	7,527	72,488	15,069	1,467	709	657	56,090	10,583	5,169	72,277	14,589	1,387	866	616

[1] Retirement mutual funds include share classes and funds that are primarily available to retirement plans or IRAs. The table includes data for funds that invest primarily in other funds.
[2] Net new cash flow is the dollar value of new sales minus redemptions combined with net exchanges.
[3] New sales are the dollar value of new purchases of mutual fund shares. This does not include shares purchased through reinvestment of dividends in existing accounts.
[4] Exchange sales are the dollar value of mutual fund shares switched into funds within the same fund family.
[5] Regular redemptions are the dollar value of shareholder liquidation of mutual fund shares.
[6] Exchange redemptions are the dollar value of mutual fund shares switched out of funds and into other funds in the same fund group.
(*) = less than $500,000
Note: Components may not add to the total because of rounding.

TABLE 55

Variable Annuity Mutual Funds: Total Net Assets, Net New Cash Flow, and Number of Funds

	Total net assets *Millions of dollars, year-end*				Net new cash flow* *Millions of dollars, annual*				Number of funds *Year-end*			
Year	Total	Equity	Hybrid and bond	Money market	Total	Equity	Hybrid and bond	Money market	Total	Equity	Hybrid and bond	Money market
1990	$28,749	$14,974	$8,355	$5,420	$3,083	$1,866	$323	$895	331	145	134	52
1991	91,056	69,138	13,734	8,184	6,174	5,097	1,498	-420	354	150	147	57
1992	109,868	80,934	21,046	7,888	12,884	8,708	4,363	-188	366	157	151	58
1993	152,403	104,823	39,740	7,841	26,088	16,423	9,834	-169	428	192	176	60
1994	176,370	121,153	44,339	10,878	22,066	15,998	3,763	2,305	507	245	202	60
1995	259,813	187,702	60,042	12,069	20,824	18,604	2,214	5	665	344	250	71
1996	349,341	260,959	73,189	15,193	40,133	32,699	5,063	2,371	800	435	290	75
1997	473,331	364,286	92,571	16,474	40,470	33,743	6,316	411	937	535	323	79
1998	615,152	474,961	116,337	23,853	44,259	27,857	10,362	6,040	1,162	703	377	82
1999	818,958	656,874	128,352	33,732	38,543	30,736	-461	8,267	1,353	867	405	81
2000	816,800	658,176	125,587	33,037	48,461	56,420	-5,896	-2,063	1,562	1,054	428	80
2001	742,258	564,622	132,881	44,756	21,583	3,452	9,444	8,687	1,750	1,255	406	89
2002	638,949	440,533	150,346	48,070	-1,286	-13,705	12,092	327	1,903	1,393	418	92
2003	837,443	620,662	181,130	35,652	29,827	34,428	7,471	-12,071	1,889	1,369	432	88
2004	973,910	739,983	200,567	33,361	33,505	33,021	3,167	-2,683	1,881	1,354	440	87
2005	1,072,894	823,049	216,146	33,699	16,404	12,679	5,024	-1,299	1,882	1,360	439	83
2006	1,266,934	976,184	248,558	42,192	29,712	17,198	7,013	5,501	1,926	1,396	449	81
2007	1,399,513	1,056,472	290,318	52,723	31,957	2,559	22,148	7,250	1,895	1,376	441	78
2008	929,512	603,784	250,757	74,971	-6,139	-28,029	2,352	19,538	1,892	1,377	436	79
2009	1,195,034	796,699	341,039	57,296	10,945	-9,929	39,679	-18,806	1,856	1,336	447	73
2010	1,348,276	892,773	406,949	48,554	-2,026	-24,247	31,932	-9,711	1,805	1,290	445	70

* Net new cash flow is the dollar value of new sales minus redemptions combined with net exchanges.
Note: Data for funds that invest primarily in other mutual funds were excluded from the series.
Components may not add to the total because of rounding.

TABLE 56

Variable Annuity Mutual Funds: Components of Net New Cash Flow[1]

Millions of dollars, annual

	Sales								Redemptions							
	New[2]				Exchange[3]				Regular[4]				Exchange[5]			
Year	Total	Equity	Hybrid and bond	Money market	Total	Equity	Hybrid and bond	Money market	Total	Equity	Hybrid and bond	Money market	Total	Equity	Hybrid and bond	Money market
1990	$9,994	$4,714	$1,808	$3,473	$1,082	$450	$183	$449	$6,993	$2,941	$1,465	$2,587	$1,000	$357	$203	$440
1991	16,408	9,034	3,368	4,006	838	331	174	333	10,294	3,967	1,920	4,407	778	301	124	352
1992	24,779	13,294	6,634	4,851	1,568	740	350	478	12,014	4,745	2,348	4,921	1,450	581	273	596
1993	42,392	22,738	13,146	6,508	1,131	576	325	230	16,352	6,425	3,410	6,517	1,084	467	227	390
1994	48,010	25,661	10,907	11,443	7,017	4,064	429	2,525	25,933	9,941	6,830	9,161	7,029	3,786	742	2,501
1995	53,101	31,661	9,326	12,114	8,674	4,984	727	2,963	32,283	13,201	7,234	11,849	8,668	4,840	606	3,223
1996	84,933	53,188	13,056	18,689	12,656	7,190	864	4,602	44,729	20,497	8,041	16,191	12,726	7,182	815	4,729
1997	105,222	67,005	15,290	22,926	24,210	13,017	2,348	8,846	65,377	33,408	9,905	22,063	23,586	12,871	1,417	9,298
1998	141,464	83,457	23,227	34,780	37,136	18,967	5,502	12,668	99,141	54,024	14,964	30,153	35,199	20,542	3,403	11,254
1999	212,025	130,900	22,005	59,120	40,818	22,080	2,985	15,753	174,418	100,392	22,276	51,750	39,883	21,853	3,174	14,856
2000	334,936	221,862	21,211	91,863	36,326	22,853	1,821	11,652	287,230	166,996	26,673	93,561	35,571	21,299	2,255	12,017
2001	346,166	196,698	34,840	114,628	31,716	16,184	4,928	10,604	325,676	191,318	27,169	107,189	30,623	18,112	3,155	9,356
2002	342,193	183,337	48,600	110,256	34,170	16,465	7,123	10,583	344,224	194,900	38,382	110,942	33,425	18,607	5,249	9,570
2003	283,007	168,816	54,619	59,572	28,791	15,457	5,794	7,540	253,526	136,424	46,269	70,832	28,445	13,421	6,673	8,351
2004	261,715	169,962	46,711	45,042	26,407	14,451	5,656	6,300	228,278	136,810	43,916	47,552	26,340	14,582	5,285	6,472
2005	246,396	162,156	48,451	35,789	19,598	10,601	3,402	5,595	230,118	148,412	44,127	37,578	19,472	11,666	2,702	5,104
2006	280,246	192,938	50,463	36,846	22,318	10,826	3,422	8,070	250,509	174,188	43,462	32,859	22,344	12,378	3,410	6,555
2007	343,673	219,650	72,689	51,334	37,045	19,701	8,247	9,097	317,211	216,347	55,375	45,488	31,550	20,444	3,413	7,693
2008	380,416	201,941	90,307	88,169	25,445	11,160	5,065	9,220	390,185	228,548	89,493	72,144	21,816	12,583	3,527	5,706
2009	314,975	154,729	98,718	61,528	22,650	6,875	11,480	4,294	303,902	157,151	68,521	78,231	22,778	14,382	1,999	6,397
2010	339,011	167,184	138,863	32,964	17,325	6,755	6,742	3,828	340,784	189,670	108,713	42,401	17,578	8,517	4,959	4,102

[1] Net new cash flow is the dollar value of new sales minus redemptions combined with net exchanges.
[2] New sales are the dollar value of new purchases of mutual fund shares. This does not include shares purchased through reinvestment of dividends in existing accounts.
[3] Exchange sales are the dollar value of mutual fund shares switched into funds within the same fund group.
[4] Regular redemptions are the dollar value of shareholder liquidation of mutual fund shares.
[5] Exchange redemptions are the dollar value of mutual fund shares switched out of funds and into other funds in the same fund group.
Note: Data for funds that invest primarily in other mutual funds were excluded from the series.
Components may not add to the total because of rounding.

TABLE 57

Total Net Assets of Mutual Funds Held in Individual and Institutional Accounts

Millions of dollars, year-end

Year	Total	Equity funds	Hybrid funds	Bond funds	Money market funds
Total					
2000	$6,964,634	$3,961,922	$346,276	$811,188	$1,845,248
2001	6,974,913	3,419,606	344,872	925,124	2,285,310
2002	6,383,477	2,664,007	323,947	1,130,448	2,265,075
2003	7,402,420	3,686,302	428,326	1,247,770	2,040,022
2004	8,095,082	4,386,666	516,603	1,290,477	1,901,336
2005	8,891,108	4,942,655	564,349	1,357,283	2,026,822
2006	10,397,935	5,914,100	650,314	1,495,069	2,338,451
2007	12,002,282	6,518,757	716,733	1,681,032	3,085,760
2008	9,603,604	3,705,548	498,284	1,567,536	3,832,236
2009	11,120,196	4,957,044	639,147	2,208,112	3,315,893
2010	11,820,677	5,667,400	741,068	2,608,287	2,803,922
Individual accounts					
2000	$6,237,606	$3,749,687	$334,296	$741,692	$1,411,931
2001	6,098,684	3,239,488	331,983	843,414	1,683,799
2002	5,517,068	2,509,892	312,905	1,037,277	1,656,995
2003	6,529,580	3,473,839	414,027	1,147,865	1,493,848
2004	7,174,316	4,111,954	499,480	1,187,400	1,375,482
2005	7,774,598	4,605,373	545,468	1,222,769	1,400,987
2006	9,057,897	5,480,112	627,962	1,339,176	1,610,647
2007	10,327,955	6,040,802	692,158	1,494,546	2,100,449
2008	7,817,678	3,408,233	482,709	1,401,450	2,525,286
2009	9,262,344	4,526,140	619,586	1,981,616	2,135,002
2010[p]	9,995,832	5,150,129	716,691	2,314,935	1,814,076
Institutional accounts*					
2000	$727,029	$212,235	$11,980	$69,496	$433,317
2001	876,229	180,119	12,889	81,710	601,511
2002	866,409	154,115	11,042	93,171	608,081
2003	872,840	212,463	14,299	99,904	546,174
2004	920,766	274,712	17,123	103,077	525,854
2005	1,116,510	337,281	18,881	134,514	625,834
2006	1,340,038	433,988	22,352	155,893	727,804
2007	1,674,327	477,955	24,575	186,486	985,311
2008	1,785,926	297,315	15,574	166,086	1,306,950
2009	1,857,852	430,904	19,560	226,497	1,180,891
2010[p]	1,824,845	517,271	24,377	293,351	989,846

* Institutional accounts include accounts purchased by an institution, such as a business, financial, or nonprofit organization. Institutional accounts do not include primary accounts of individuals issued by a broker-dealer.

[p] Data are preliminary.

Note: Data for funds that invest primarily in other mutual funds were excluded from the series. Components may not add to the total because of rounding.

TABLE 58

Total Net Assets of Institutional Investors in Mutual Funds by Type of Institution and Type of Fund

Millions of dollars, year-end

Year		Total	Business corporations	Financial institutions[1]	Nonprofit organizations	Other[2]
2002	**Total**	**$866,409**	**$414,108**	**$314,708**	**$86,734**	**$50,859**
	Equity	154,115	56,570	56,755	23,710	17,080
	Hybrid	11,042	5,027	4,282	1,089	643
	Bond	93,171	32,780	16,519	32,323	11,549
	Money market	608,081	319,731	237,152	29,611	21,587
2003	**Total**	**872,840**	**408,534**	**304,365**	**94,343**	**65,598**
	Equity	212,463	79,352	70,561	33,639	28,910
	Hybrid	14,299	6,784	4,625	2,185	705
	Bond	99,904	33,119	18,416	32,479	15,890
	Money market	546,174	289,278	210,763	26,040	20,093
2004	**Total**	**920,766**	**429,853**	**293,830**	**94,236**	**102,846**
	Equity	274,712	92,787	88,198	38,004	55,723
	Hybrid	17,123	7,482	6,036	2,654	951
	Bond	103,077	30,020	20,305	28,992	23,760
	Money market	525,854	299,563	179,291	24,587	22,412
2005	**Total**	**1,116,510**	**492,419**	**350,909**	**100,114**	**173,069**
	Equity	337,281	104,857	101,871	43,549	87,004
	Hybrid	18,881	6,809	7,611	2,627	1,834
	Bond	134,514	28,542	26,041	25,597	54,334
	Money market	625,834	352,211	215,385	28,341	29,896
2006	**Total**	**1,340,038**	**602,349**	**402,541**	**112,820**	**222,328**
	Equity	433,988	138,718	121,376	53,181	120,713
	Hybrid	22,352	7,847	9,815	2,738	1,953
	Bond	155,893	34,509	28,478	26,062	66,845
	Money market	727,804	421,275	242,873	30,840	32,817
2007	**Total**	**1,674,327**	**741,848**	**496,617**	**133,144**	**302,718**
	Equity	477,955	141,623	122,199	58,103	156,029
	Hybrid	24,575	8,152	11,799	2,436	2,187
	Bond	186,486	41,243	30,610	25,180	89,453
	Money market	985,311	550,830	332,008	47,425	55,048
2008	**Total**	**1,785,926**	**840,434**	**566,927**	**118,179**	**260,385**
	Equity	297,315	83,240	70,967	31,936	111,173
	Hybrid	15,574	5,780	6,692	1,463	1,640
	Bond	166,086	36,747	26,425	23,368	79,547
	Money market	1,306,950	714,668	462,844	61,413	68,025
2009	**Total**	**1,857,852**	**836,279**	**566,616**	**126,988**	**327,968**
	Equity	430,904	122,373	98,391	43,670	166,470
	Hybrid	19,560	7,316	8,244	1,792	2,208
	Bond	226,497	60,492	36,479	30,067	99,459
	Money market	1,180,891	646,098	423,502	51,460	59,831
2010[p]	**Total**	**1,824,845**	**740,441**	**544,477**	**133,306**	**406,620**
	Equity	517,271	139,226	120,982	48,578	208,485
	Hybrid	24,377	8,661	9,836	2,081	3,799
	Bond	293,351	75,059	51,784	32,329	134,180
	Money market	989,846	517,495	361,875	50,319	60,157

[1] Financial institutions include credit unions, investment clubs, accounts of banks not held as fiduciaries, insurance companies, and other financial organizations.

[2] Other institutional investors include state and local governments, funds holding mutual fund shares, and other institutional accounts not classified.

[p] Data are preliminary.

Note: Data for funds that invest primarily in other mutual funds were excluded from the series.

Components may not add to the total because of rounding.

Data Section 6

TABLE 59

Total Net Assets of Institutional Investors in Taxable Money Market Funds by Type of Institution and Type of Fund[1]

Millions of dollars, year-end

Year		Total	Business corporations	Financial institutions[2]	Nonprofit organizations	Other[3]
2000	**Total**	**$409,477**	**$201,996**	**$158,334**	**$22,987**	**$26,160**
	Institutional funds	305,180	137,226	134,543	14,951	18,460
	Retail funds	104,297	64,770	23,791	8,037	7,699
2001	**Total**	**575,202**	**300,491**	**219,136**	**27,975**	**27,599**
	Institutional funds	469,332	235,735	195,688	18,212	19,698
	Retail funds	105,870	64,757	23,448	9,764	7,902
2002	**Total**	**578,129**	**303,165**	**226,645**	**27,673**	**20,646**
	Institutional funds	485,717	247,775	202,489	20,205	15,248
	Retail funds	92,412	55,390	24,156	7,468	5,398
2003	**Total**	**509,444**	**266,890**	**198,158**	**24,873**	**19,523**
	Institutional funds	426,835	217,867	176,770	18,535	13,663
	Retail funds	82,609	49,023	21,389	6,339	5,859
2004	**Total**	**480,301**	**271,792**	**165,395**	**22,936**	**20,178**
	Institutional funds	404,084	223,647	149,570	16,274	14,593
	Retail funds	76,217	48,146	15,825	6,662	5,585
2005	**Total**	**569,730**	**317,580**	**198,300**	**26,146**	**27,704**
	Institutional funds	479,977	266,053	173,229	20,393	20,302
	Retail funds	89,753	51,527	25,071	5,753	7,401
2006	**Total**	**667,533**	**383,030**	**224,721**	**29,134**	**30,648**
	Institutional funds	575,482	318,958	210,539	21,925	24,060
	Retail funds	92,051	64,072	14,182	7,209	6,588
2007	**Total**	**909,719**	**501,673**	**311,080**	**44,878**	**52,089**
	Institutional funds	802,379	430,233	289,954	36,668	45,525
	Retail funds	107,339	71,440	21,125	8,210	6,564
2008	**Total**	**1,238,258**	**671,540**	**441,820**	**59,770**	**65,128**
	Institutional funds	1,123,636	594,591	417,579	51,754	59,712
	Retail funds	114,623	76,950	24,241	8,016	5,416
2009	**Total**	**1,119,079**	**604,351**	**407,882**	**49,884**	**56,963**
	Institutional funds	1,028,286	541,198	390,271	44,024	52,794
	Retail funds	90,793	63,153	17,611	5,860	4,169
2010[p]	**Total**	**941,277**	**485,487**	**348,829**	**49,218**	**57,743**
	Institutional funds	865,554	432,953	334,022	44,325	54,255
	Retail funds	75,722	52,535	14,807	4,893	3,488

[1] Institutional funds are sold primarily to institutional investors or institutional accounts. This includes accounts that are purchased by an institution, such as a business, financial, or nonprofit organization. Retail funds are sold primarily to individual investors and include variable annuity mutual funds.

[2] Financial institutions include credit unions, investment clubs, accounts of banks not held as fiduciaries, insurance companies, and other financial organizations.

[3] Other institutional investors include state and local governments, funds holding mutual fund shares, and other institutional accounts not classified.

[p] Data are preliminary.

Note: Data for funds that invest primarily in other mutual funds were excluded from the series.
Components may not add to the total because of rounding.

TABLE 60

Worldwide Total Net Assets of Mutual Funds*

Millions of U.S. dollars, year-end

	2004	2005	2006	2007	2008	2009	2010
World	**$16,152,911**	**$17,757,360**	**$21,808,884**	**$26,132,316**	**$18,920,012**	**$22,952,849**	**$24,698,642**
Americas	**8,780,593**	**9,750,205**	**11,470,489**	**13,423,909**	**10,581,943**	**12,585,819**	**13,586,869**
Argentina	2,355	3,626	6,153	6,789	3,867	4,470	5,179
Brazil	220,586	302,927	418,771	615,365	479,321	783,970	980,448
Canada	413,772	490,518	566,298	698,397	416,031	565,156	636,947
Chile	12,588	13,969	17,700	24,444	17,587	34,227	38,243
Costa Rica	1,053	804	1,018	1,203	1,098	1,309	1,470
Mexico	35,157	47,253	62,614	75,428	60,435	70,659	98,094
Trinidad and Tobago	N/A	N/A	N/A	N/A	N/A	5,832	5,812
United States	8,095,082	8,891,108	10,397,935	12,002,283	9,603,604	11,120,196	11,820,677
Europe	**5,640,425**	**6,002,310**	**7,803,877**	**8,934,860**	**6,231,116**	**7,545,535**	**7,902,835**
Austria	103,709	109,002	128,236	138,709	93,269	99,628	94,670
Belgium	118,373	115,314	137,291	149,842	105,057	106,721	96,288
Bulgaria	N/A	N/A	N/A	N/A	226	256	302
Czech Republic	4,859	5,334	6,488	7,595	5,260	5,436	5,508
Denmark	64,796	75,187	95,601	104,083	65,182	83,024	89,800
Finland	37,658	45,415	67,804	81,136	48,750	66,131	71,210
France	1,370,954	1,362,671	1,769,258	1,989,690	1,591,082	1,805,641	1,617,176
Germany	295,997	296,787	340,325	372,072	237,986	317,543	333,713
Greece	43,106	32,011	27,604	29,807	12,189	12,434	8,627
Hungary	4,932	6,113	8,472	12,573	9,188	11,052	11,532
Ireland	467,620	546,242	855,011	951,371	720,486	860,515	1,013,549
Italy	511,733	450,514	452,798	419,687	263,588	279,474	234,313
Liechtenstein	12,543	13,970	17,315	25,103	20,489	30,329	35,387
Luxembourg	1,396,131	1,635,785	2,188,278	2,685,065	1,860,763	2,293,973	2,512,874
Netherlands	102,134	94,357	108,560	113,759	77,379	95,512	85,924
Norway	29,911	40,111	54,075	74,709	41,157	71,170	84,505
Poland	12,015	17,651	28,959	45,542	17,782	23,025	25,595
Portugal	30,514	28,801	31,214	29,732	13,572	15,808	11,004
Romania	72	109	247	390	326	1,134	1,713
Russia	1,347	2,417	5,659	7,175	2,026	3,182	3,917
Slovakia	2,171	3,031	3,168	4,762	3,841	4,222	4,349
Slovenia	N/A	N/A	2,486	4,219	2,067	2,610	2,663
Spain	317,538	316,864	367,918	396,534	270,983	269,611	216,915
Sweden	107,064	119,103	176,968	194,955	113,331	170,277	205,449
Switzerland	94,405	116,669	159,517	176,282	135,052	168,260	261,893
Turkey	18,112	21,760	15,462	22,609	15,404	19,426	19,545
United Kingdom	492,731	547,092	755,163	897,460	504,681	729,141	854,413
Asia and Pacific	**1,677,887**	**1,939,251**	**2,456,492**	**3,678,326**	**2,037,536**	**2,715,234**	**3,067,323**
Australia	635,073	700,068	864,234	1,192,988	841,133	1,198,838	1,455,850
China	N/A	N/A	N/A	434,063	276,303	381,207	364,985
Hong Kong	343,638	460,517	631,055	818,421	N/A	N/A	N/A
India	32,846	40,546	58,219	108,582	62,805	130,284	111,421
Japan	399,462	470,044	578,883	713,998	575,327	660,666	785,504
Korea, Rep. of	177,417	198,994	251,930	329,979	221,992	264,573	266,495
New Zealand	11,171	10,332	12,892	14,925	10,612	17,657	19,562
Pakistan	N/A	N/A	2,164	4,956	1,985	2,224	2,290
Philippines	952	1,449	1,544	2,090	1,263	1,488	2,184
Taiwan	77,328	57,301	55,571	58,323	46,116	58,297	59,032
Africa	**54,006**	**65,594**	**78,026**	**95,221**	**69,417**	**106,261**	**141,615**
South Africa	54,006	65,594	78,026	95,221	69,417	106,261	141,615

* Funds of funds are not included except for France, Italy, and Luxembourg. Data include home-domiciled funds, except for Hong Kong, Korea, and New Zealand, which include home- and foreign-domiciled funds.

N/A = not available

Note: Components may not add to the total because of rounding. For more worldwide mutual fund statistics, visit ICI's website at www.ici.org/research#statistics.

Sources: Investment Company Institute, European Fund and Asset Management Association, and other national mutual fund associations

TABLE 61

Worldwide Number of Mutual Funds*

Year-end

	2004	2005	2006	2007	2008	2009	2010
World	**55,523**	**56,867**	**61,855**	**66,348**	**69,032**	**67,552**	**69,519**
Americas	**14,063**	**13,763**	**14,475**	**15,460**	**16,459**	**16,954**	**18,019**
Argentina	186	200	223	241	253	252	254
Brazil	2,859	2,685	2,907	3,381	4,169	4,744	5,618
Canada	1,915	1,695	1,764	2,038	2,015	2,075	2,117
Chile	537	683	926	1,260	1,484	1,691	1,912
Costa Rica	115	110	100	93	85	64	68
Mexico	411	416	437	420	431	407	434
Trinidad and Tobago	N/A	N/A	N/A	N/A	N/A	36	35
United States	8,040	7,974	8,118	8,027	8,022	7,685	7,581
Europe	**29,306**	**30,060**	**33,151**	**35,210**	**36,780**	**34,899**	**35,292**
Austria	840	881	948	1,070	1,065	1,016	1,016
Belgium	1,281	1,391	1,549	1,655	1,828	1,845	1,797
Bulgaria	N/A	N/A	N/A	N/A	81	85	90
Czech Republic	53	51	52	66	76	78	80
Denmark	423	471	494	500	489	483	490
Finland	280	333	376	379	389	377	366
France	7,908	7,758	8,092	8,243	8,301	7,982	7,791
Germany	1,041	1,076	1,199	1,462	1,675	2,067	2,106
Greece	262	247	247	230	239	210	213
Hungary	97	91	161	212	270	264	276
Ireland	2,088	2,127	2,531	2,898	3,097	2,721	2,899
Italy	1,142	1,035	989	924	742	675	650
Liechtenstein	171	200	233	391	335	348	409
Luxembourg	6,855	7,222	7,919	8,782	9,351	9,017	9,353
Netherlands	542[a]	515	473	450	458[a]	N/A	N/A
Norway	406	419	524	511	530	487	507
Poland	130	150	157	188	210	208	214
Portugal	163	169	175	180	184	171	171
Romania	19	23	32	41	52	51	56
Russia	210	257	358	533	528	480	462
Slovakia	40	43	43	54	56	54	58
Slovenia	N/A	N/A	96	106	125	125	130
Spain	2,559	2,672	3,235	2,940	2,944	2,588	2,486
Sweden	461	464	474	477	508	506	504
Switzerland	385	510	609	567	572	509	653
Turkey	240	275	282	294	304	286	311
United Kingdom	1,710	1,680	1,903	2,057	2,371	2,266	2,204
Asia and Pacific	**11,617**	**12,427**	**13,479**	**14,847**	**14,909**	**14,795**	**15,265**
Australia	N/A	N/A	N/A	N/A	N/A	N/A	N/A
China	N/A	N/A	N/A	341	429	547	660
Hong Kong	1,013	1,009	1,099	1,162	N/A	N/A	N/A
India	394	445	468	555	551	590	658
Japan	2,552	2,640	2,753	2,997	3,333	3,656	3,905
Korea, Rep. of	6,636	7,279	8,030	8,609	9,384	8,703	8,687
New Zealand	553	563	613	623	643	702	700
Pakistan	N/A	N/A	31	64	83	96	125
Philippines	24	32	38	40	43	41	43
Taiwan	445	459	447	456	443	460	487
Africa	**537**	**617**	**750**	**831**	**884**	**904**	**943**
South Africa	537	617	750	831	884	904	943

* Funds of funds are not included except for France, Italy, and Luxembourg. Data include home-domiciled funds, except for Hong Kong, Korea, and New Zealand, which include home- and foreign-domiciled funds.

[a] Year-end data are not available. Data are as of September.

N/A = not available

Note: For more worldwide mutual fund statistics, visit ICI's website at www.ici.org/research#statistics.

Sources: Investment Company Institute, European Fund and Asset Management Association, and other national mutual fund associations

Data Section 7

TABLE 62

Worldwide Net Sales[1] of Mutual Funds[2]

Millions of U.S. dollars, annual

	2004	2005	2006	2007	2008	2009	2010
World	**$458,515**	**$968,786**	**$1,296,992**	**$1,533,465**	**$275,672**	**$272,149**	**$57,296**
Americas	**167,343**	**424,357**	**725,054**	**1,204,158**	**606,159**	**80,084**	**-38,994**
Argentina	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Brazil	1,611	5,293	21,083	16,880	-32,653	47,317	58,316
Canada	18,454	31,220	36,579	61,286	17,495	12,074	23,797
Chile	3,236	N/A	3,113	3,282	-1,167	9,921	416
Costa Rica	N/A	N/A	N/A	N/A	N/A	N/A	171
Mexico	768	6,849	11,377	10,154	-3,418	8,572	18,382
Trinidad and Tobago	N/A	N/A	N/A	N/A	N/A	-150	-45
United States	143,274	380,995	652,902	1,112,556	625,902	2,350	-140,031
Europe	**236,618**	**459,913**	**427,527**	**101,766**	**-443,035**	**166,653**	**84,421**
Austria	6,874	16,240	3,402	-4,864	-18,147	-4,746	-2,301
Belgium	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Bulgaria	N/A	N/A	N/A	N/A	-151	8	51
Czech Republic	-77	642	59	198	-1,561	-263	55
Denmark	9,260	12,950	5,646	1,893	-4,000	2,419	5,204
Finland	7,856	6,371	13,229	3,535	-11,387	5,475	936
France	66,216	76,442	133,843	-49,354	-68,351	6,164	-110,856
Germany	-8,687	10,557	-10,472	-18,531	-32,746	11,935	13,835
Greece	52	-7,810	-9,598	-2,643	-11,382	-1,124	-1,424
Hungary	N/A	1,777	-42	2,436	-1,755	776	936
Ireland	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Italy	-37,142	-19,216	-59,828	-81,538	-107,691	-10,925	-29,921
Liechtenstein	2,569	1,363	782	3,636	2,317	5,087	261
Luxembourg	142,199	293,331	299,906	255,689	-102,257	95,059	152,608
Netherlands	802	-9,313	11	-5,732	-6,117[a]	N/A	225
Norway	2,968	8,231	4,676	6,870	40	6,689	4,807
Poland	N/A	N/A	N/A	N/A	-1,423	859	1,278
Portugal	534	1,645	-1,843	-5,707	-11,169	1,120	-3,684
Romania	29	20	97	93	125	760	561
Russia	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Slovakia	594	1,207	-512	689	-897	80	308
Slovenia	N/A	N/A	18	637	-433	27	21
Spain	30,610	26,962	-3,852	-23,273	-84,149	-15,858	-30,938
Sweden	5,400	7,518	7,735	2,228	3,754	10,203	7,371
Switzerland	-2,185	9,218	11,681	15,074	17,851	7,343	4,063
Turkey	N/A	N/A	N/A	N/A	N/A	2,324	2,608
United Kingdom	8,746	21,778	32,589	430	-3,506	43,241	68,417
Asia and Pacific	**48,005**	**75,420**	**135,467**	**217,849**	**105,561**	**13,908**	**-3,093**
Australia	N/A	N/A	N/A	N/A	N/A	N/A	N/A
China	N/A	N/A	N/A	N/A	35,721[b]	-35,612	-15,115
Hong Kong	2,640	1,195	3,613	6,834	N/A	N/A	N/A
India	339	4,915	11,766	27,357	2,754	43,029	-35,950
Japan	22,429	77,458	99,625	120,308	5,430	32,571	68,847
Korea, Rep. of	31,540	13,585	25,292	61,081	58,818	-27,836	-19,604
New Zealand	-132	-555	-196	254	226	1,363	1,281
Pakistan	N/A	N/A	425	2,922	-612	-3	-208
Philippines	118	300	-241	-15	-453	11	318
Taiwan	-8,929	-21,478	-4,817	-892	3,677	385	-2,661
Africa	**6,549**	**9,096**	**8,944**	**9,692**	**6,987**	**11,504**	**14,962**
South Africa	6,549	9,096	8,944	9,692	6,987	11,504	14,962

[1] Net sales is a calculation of total sales minus total redemptions plus net exchanges.
[2] Funds of funds are not included except for France, Italy, and Luxembourg. Data include home-domiciled funds, except for Hong Kong, Korea, and New Zealand, which include home- and foreign-domiciled funds.
[a] Year-end data are not available. Data are for January through September.
[b] Data are only for October through December.
N/A = not available
Note: Components may not add to the total because of rounding.
Sources: Investment Company Institute, European Fund and Asset Management Association, and other national mutual fund associations

Data Section 7

Appendix A

How U.S.-Registered Investment Companies Operate and the Core Principles Underlying Their Regulation

This appendix provides an overview of how investment company operations and features serve investors, examines the tax treatment of funds, and describes the core principles underlying investment company regulation.

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 U.S. shores. In 1868, the Foreign and Colonial Government Trust formed in London. This trust resembled the U.S. 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 U.S. securities markets, helping finance the development of the post–Civil War U.S. 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 U.S. 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, formed as a common law 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 greatly 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 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 disclosure requirements and restrictions on day-to-day operations. Among other things, the Investment Company 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. Requires all advisers to registered investment companies and other large advisers to register with the SEC. The Advisers Act 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.
The Securities Act of 1933	Regulates public offerings of securities, including investment company shares. The 1933 Act also requires that all investors receive a current prospectus describing the fund.

The Different Types of U.S. Investment Companies

Fund sponsors in the U.S. offer four types of registered investment companies: open-end investment companies (commonly called mutual funds), closed-end investment companies, exchange-traded funds (ETFs), and unit investment trusts (UITs).

The vast majority of investment companies are **mutual funds**, both in terms of number of funds and assets under management. 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 current 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.

Unlike mutual funds, **closed-end funds** do not issue redeemable shares. Instead, they issue a fixed number of shares that trade intraday on stock exchanges at market-determined prices. Investors in a closed-end fund buy or sell shares through a broker, just as they would trade the shares of any publicly traded company. For more information on closed-end funds, see chapter 4 on page 53.

ETFs are described as a hybrid of other types of investment companies. They are structured and legally classified as mutual funds or UITs (discussed below), but trade intraday on stock exchanges like closed-end funds. ETFs only buy and sell fund shares directly to authorized participants in large blocks, often 50,000 shares or more. For more information on ETFs, see chapter 3 on page 39.

UITs are also a hybrid, with some characteristics of mutual funds and some of closed-end funds. Like closed-end funds, UITs typically issue 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 buying and holding a set of particular investments until a set termination date, at which time the trust is dissolved and proceeds are paid to shareholders.

The Organization of a Mutual Fund

Individuals and institutions invest in a mutual fund by purchasing shares issued by the fund. It is through these sales of shares that a mutual fund raises the cash used to invest in its portfolio of stocks, bonds, and other investments. Each investor shares in the returns from the fund's portfolio while benefiting from professional investment management, diversification, and liquidity. Mutual funds may offer other benefits and services, such as asset allocation programs or check-writing privileges on money market fund accounts.

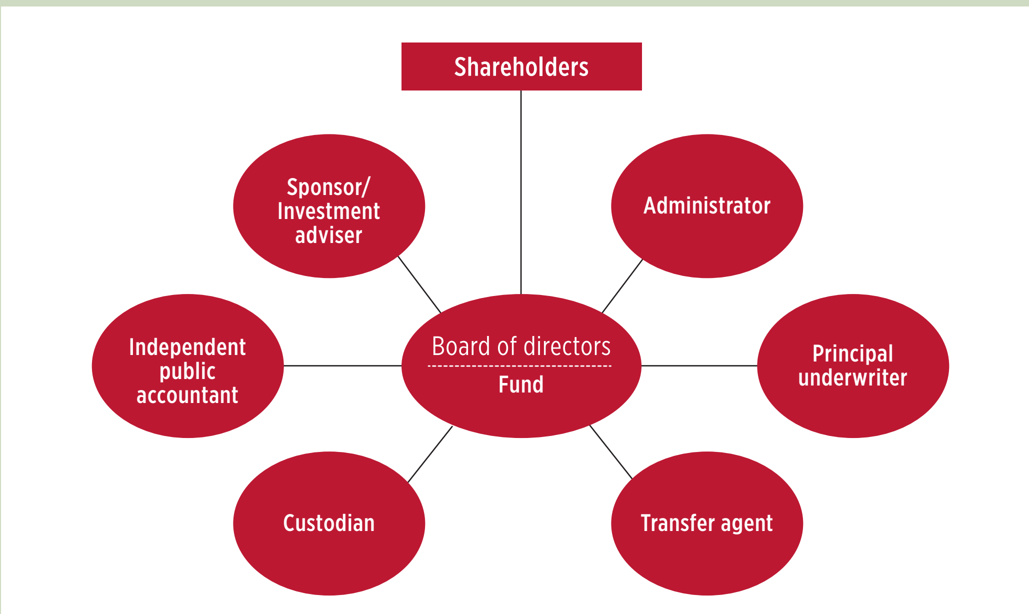
A mutual fund is organized under state law either as a corporation or a business trust (sometimes called a statutory trust). Mutual funds have officers and directors (if the fund is a corporation) or trustees (if the fund is a business trust).[1] In this way, mutual funds are like any other type of operating company, such as Exxon or Google. The fund's board plays an important role, described in more detail below, in overseeing fund operations.

Unlike other companies, however, a mutual fund is typically externally managed; it is not an operating company and it has no employees in the traditional sense. Instead, a fund relies upon third parties or service providers that are either affiliated organizations or independent contractors to invest fund assets and carry out other business activities. The diagram below (Figure A.1) shows the primary types of service providers usually relied upon by a fund.

Although it typically has no employees, a fund is required by law to have its own written compliance program, overseen by an individual designated as a chief compliance officer (CCO). This compliance program establishes detailed procedures and internal controls designed to ensure compliance with all relevant laws and regulations.

FIGURE A.1

Organization of a Mutual Fund



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

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 or a fund's investment objectives or fundamental policies cannot be changed unless a majority of shareholders vote to approve the increase or change.

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 as either a business trust or corporation, registering the fund with the SEC as an investment company pursuant to the Investment Company Act of 1940, and registering the fund shares for sale to the public pursuant to the Securities Act of 1933.[2] Unless otherwise exempt from doing so, the fund must also make filings and pay fees to each state (except Florida) 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 funds' shareholders and determine which securities to buy and sell in the funds' portfolio, consistent with the funds' 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.

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[2] 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 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 the mutual fund, investment advisers are required to have their own written compliance programs that are overseen by chief compliance officers 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, and 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 or indirectly through the principal underwriter, also known as the fund's distributor. Principal underwriters are registered under the Securities Exchange Act of 1934 as broker-dealers, and, as such, are subject to strict rules governing how they offer and sell securities to investors.

The principal underwriter contracts with the fund to purchase and then resell fund shares to the public. A majority of both the fund's independent directors and the entire fund board must approve the contract with the principal underwriter.

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, and 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 below.

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, asset, and distribution requirements.

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 which, 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 which the fund controls and 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 not subject to tax on its income and capital gains, 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 is taxed at regular corporate tax rates. Therefore, mutual funds generally distribute substantially all of their income and capital gains each year.

Mutual Fund Assets by Tax Status

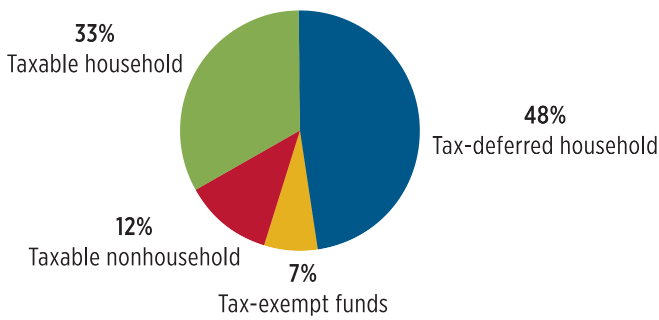
Mutual funds generally distribute all earnings—capital gains and ordinary dividends—each year to shareholders, and are taxed only on amounts retained. Fund investors are ultimately responsible for paying tax on a fund's earnings, whether they receive the distributions in cash or reinvest them in additional fund shares. Investors often attempt to lessen the impact of taxes on their investments by investing in tax-exempt funds and tax-deferred retirement accounts and variable annuities. As of year-end 2010, 7 percent of all mutual fund assets were held in tax-exempt funds, and 48 percent were invested in tax-deferred accounts held by households (Figure A.2).

For more information on tax issues affecting mutual fund shareholders, visit the Institute's website at www.ici.org.

FIGURE A.2

55 Percent of Mutual Fund Assets Were Held in Tax-Deferred Accounts and Tax-Exempt Funds

Percent, year-end 2010



Total mutual fund assets: $11.8 trillion

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, and 98 percent of its net capital gain earned during the 12-month period ending on October 31 of the calendar year. Mutual funds typically seek to avoid this charge—imposed at a 4 percent rate on the "underdistributed" amount—by electing to distribute their income each year.

Types of Distributions

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

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 an investor's tax return and are taxed at the investor's ordinary income tax rate. Legislation in effect through 2012 provides a top tax rate of 15 percent on certain "qualified dividend" income. Some dividends paid by mutual funds may qualify for this lower tax rate.

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. Legislation in effect through 2012 also provides a top tax rate of 15 percent on investors' long-term capital gains; a lower rate applies to some taxpayers.

Fund investors ultimately are responsible for paying tax on their share of a fund's earnings, whether they receive the distributions in cash or reinvest them in additional fund shares. 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)

Mutual Fund Dividend Distributions

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 $188 billion in dividends to fund shareholders in 2010 (Figure A.3). Bond and money market funds accounted for 55 percent of all dividend distributions in 2010. Fifty-six percent of all dividend distributions were paid to tax-exempt fund shareholders and tax-deferred household accounts. Another 36 percent were paid to taxable household accounts.

FIGURE A.3

Dividend Distributions

Billions of dollars, 1998–2010

	Tax-deferred household and tax-exempt funds	Taxable household	Taxable nonhousehold	Total
1998	$61	$63	$15	$138
1999	74	72	18	164
2000	75	87	24	186
2001	68	72	22	162
2002	59	44	12	114
2003	57	38	8	103
2004	65	42	10	117
2005	83	62	20	166
2006	113	92	35	240
2007	141	121	47	309
2008	135	103	38	276
2009	105	65	17	187
2010	106	68	14	188

Note: Components may not add to the total because of rounding.

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 $43 billion in capital gains to shareholders in 2010 (Figure A.4). Forty-nine percent of these distributions were paid to tax-deferred household accounts, and another 42 percent were paid to taxable household accounts. Stock, bond, and hybrid funds can distribute capital gains, but stock funds typically account for the bulk of distributions. In 2010, 11 percent of stock fund share classes made a capital gains distribution, and half of these share classes distributed at least 1.7 percent of their assets as capital gains.

FIGURE A.4

Capital Gains Distributions*

Billions of dollars, 1998–2010

	Tax-deferred household	Taxable household	Taxable nonhousehold	Total
1998	$98	$61	$6	$165
1999	144	82	11	238
2000	197	116	13	326
2001	50	16	2	69
2002	10	6	1	16
2003	7	6	1	14
2004	30	21	4	55
2005	76	45	8	129
2006	161	81	14	257
2007	253	137	23	414
2008	94	31	8	132
2009	11	4	1	16
2010	21	18	4	43

* Capital gains distributions include long-term and short-term capital gains.

Note: Components may not add to the total because of rounding.

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 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.

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. Many funds voluntarily provide cost basis information to shareholders or compute gains and losses for shares sold. Beginning in 2012, new tax rules will require all brokers and funds to provide cost basis information to shareholders, as well as indicate whether any gains or losses are long-term or short-term, for fund shares acquired on or after January 2, 2012.

Tax-Exempt Funds

Tax-exempt bond funds pay dividends earned from municipal bond interest. This income is exempt from federal income tax and, in some cases, state and local taxes as well. 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 tax-exempt 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.

Core Principles Underlying the Regulation of U.S. 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 separately managed accounts, collective investment trusts, and private pools. The cornerstone of the disclosure regime for mutual funds and ETFs is the prospectus.[3] 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 on the Internet and on paper upon request.

Mutual funds and ETFs also are required to make statements of additional information (SAIs) available to investors upon request and without charge. The SAI conveys information about the fund that, while 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 disclosure on certain investment policies (such as borrowing and concentration policies), and lists officers, directors, and 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 Securities and Exchange Commission (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 each year to ensure that financial statements and other information do not become stale.[4] These funds also amend registration statements throughout the year as necessary to reflect material changes to their disclosure.

[3] Closed-end funds and UITs also provide investors with extensive disclosure, but under a slightly different regime that reflects the way shares of these funds trade. Both closed-end funds 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.

[4] 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. As a result, mutual funds and ETFs must amend their registration statements within four months after the end of their fiscal year.

In addition to registration statement disclosure, funds provide shareholders with several other disclosure documents. Shareholders receive audited annual and unaudited semiannual reports within 60 days after the end and the midpoint of the fund's fiscal year. These reports contain updated financial statements, a list of the fund's portfolio securities,[5] management's discussion of financial performance, and other information current as of the date of the report.

Following their first and third quarter, funds file an additional form with the SEC, Form N-Q, disclosing the complete schedule of their portfolio holdings. Finally, funds 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. Funds are not required to mail Form N-Q and 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-Qs, and Form N-PXs provide 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 any number of private-sector vendors, such as Morningstar, that are in the business of compiling publicly available information on funds in ways that might benefit investors.

Daily Valuation and Liquidity

Nearly all funds offer shareholders liquidity and objective, market-based valuation of their investments at least daily. ETF and closed-end fund shares are traded intraday on stock exchanges at market-determined prices, giving shareholders real-time liquidity and pricing. Mutual fund shares are redeemable on a daily basis at a price that reflects the current market value of the fund's portfolio securities, calculated according to pricing methodologies established by each fund's board of directors. The value of each security in the fund's portfolio is determined either by a market quotation, if a market quotation is readily available, or at fair value as determined in good faith.

The daily pricing process is a critically important core compliance function that involves numerous staff, the fund board, and pricing vendors. The fair valuation process, a part of the overall pricing process, receives particular scrutiny from funds, their board of directors, regulators, and independent auditors. Under SEC rules, all funds must adopt written policies and procedures that address the circumstances under which securities may be fair valued, and must establish criteria for determining how to assign fair values in particular instances.[6]

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[5] A fund is permitted to include a summary portfolio schedule in its shareholder reports in lieu of the complete schedule, provided that the complete portfolio schedule is filed with the SEC and is provided to shareholders upon request, free of charge. The summary portfolio schedule includes each of the fund's 50 largest holdings in unaffiliated issuers and each investment that exceeds 1 percent of the fund's NAV.

[6] ICI has published several papers on the mutual fund valuation process. For more information, see ICI's two white papers titled *Valuation and Liquidity Issues for Mutual Funds* (February 1997 and March 2002) and two installments of ICI's *Fair Value Series*, "An Introduction to Fair Valuation" (2005) and "The Role of the Board" (2007).

This daily valuation process results in a net asset value, or NAV, for the fund. The NAV is the price used for all mutual fund share transactions—new purchases, sales (redemptions), and exchanges from one fund to another within the same fund family.[7] It represents the current mark-to-market value of all the fund's assets, minus liabilities (e.g., fund expenses), divided by the total number of outstanding shares (Figure A.5). 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.

FIGURE A.5

Determining NAV

Fund X owns a portfolio of stocks worth $6 million;
its liabilities are $60,000; its shareholders own 500,000 shares.

Net asset value (NAV) **$11.88** = Market value in dollars of securities minus liabilities **$6,000,000 - $60,000** / Number of investor shares outstanding **500,000**

NAVs can be found on most major financial websites or in the financial pages of most major newspapers.

The Investment Company Act of 1940 requires mutual funds to process transactions based upon "forward pricing," meaning that shareholders receive the next computed NAV following the fund's receipt of their transaction order. So, for a fund that prices its shares at 4:00 p.m.,[8] orders received prior to 4:00 p.m. receive the NAV determined that same day at 4:00 p.m. Orders received after 4:00 p.m. receive the NAV determined at 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 price of the securities in the fund's portfolio that occur after the fund calculates its NAV.

[7] 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" who trade with the ETF in large blocks, often of 50,000 shares or more. The NAV is the price used for these large transactions. Closed-end funds are not required to strike a daily NAV, but most do so in order 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" or "discount."

[8] Funds must price their shares at least once per day at a time determined by the fund's board. Many funds price at 4:00 p.m. eastern time or when the New York Stock Exchange closes.

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 extremely limited exceptions)[9] or delay payments of redemption proceeds for more than seven days.

SEC guidelines require a mutual fund to have at least 85 percent of its assets in liquid securities.[10] In part to ensure that redemptions can be made, a security is generally deemed to be liquid if it can be sold or disposed of in the ordinary course of business within seven days at approximately the price at which the mutual fund has valued it. Many funds adopt a specific policy with respect to investments in illiquid securities; these policies are sometimes more restrictive than the SEC requirements.

Oversight and Accountability

All funds are subject to a strong system of oversight from both internal and external sources. Internal oversight mechanisms include boards of directors, which include independent directors, and written compliance programs overseen by chief compliance officers, both at the fund and adviser levels. External oversight is provided by the SEC, the Financial Industry Regulatory Association (FINRA), and external service providers, such as certified public accounting firms.

Fund Boards

Mutual funds, closed-end funds, and most ETFs have boards. A fund's board of directors is elected by the fund's shareholders to govern the fund, and its role 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 of the fund 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 the 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."

[9] An example of such an exception would be an emergency that affects markets or funds, such as the assassination of President John F. Kennedy in 1963, the blackouts that affected lower Manhattan in 1990, or earthquakes and other natural disasters. The SEC must declare an emergency to exist to trigger an exception.

[10] Money market funds are held to a stricter standard, and must limit illiquid investments to 5 percent of the portfolio.

Unlike boards of operating companies, these 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 2009, independent directors comprised at least three-quarters of boards in almost 90 percent of fund complexes.

Independent fund directors play a critical role in overseeing fund operations and are entrusted with the primary responsibility for looking after 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 owe shareholders the duties of loyalty and care under state law. 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, for example, 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.

Compliance Programs

The internal oversight function played by the board has been greatly enhanced in recent years by the development of written compliance programs and a formal requirement that all funds have chief compliance officers. Rules adopted in 2003 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. Funds are also overseen by self-regulatory organizations, such as FINRA and stock exchanges; state securities regulators; and banking regulators (to the extent the fund is affiliated with a bank).

Auditors

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

Sarbanes-Oxley

Like officers of public companies, fund officers are required to make certifications and disclosures required by the Sarbanes-Oxley Act. For example, they must certify the accuracy of the 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 securities 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, closed-end funds, 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 has historically interpreted the definition of senior security broadly, taking the view 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 also takes the view that the Investment Company Act prohibits a fund from creating a future obligation to pay unless it "covers" the obligation. A fund generally can cover an obligation by owning the instrument underlying that obligation. For example, a fund that wants to take a short position in a certain stock can comply with the Investment Company Act by owning an equivalent long position in that stock. The fund can also cover by earmarking or segregating liquid securities equal in value to the fund's potential exposure from the leveraged transaction. The assets set aside to cover the potential future obligation must be liquid, unencumbered, and marked-to-market daily. They may not be used to cover other obligations and, if disposed of, must be replaced.

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.[11] Mutual funds and ETFs are permitted to borrow from a bank if, immediately after the bank 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.

Closed-end funds have a slightly different set of limitations. 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.

Many funds voluntarily go beyond the prohibitions in the Investment Company Act, adopting policies that further restrict their ability to issue senior securities or borrow. 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,[12] nearly all funds use a bank custodian for domestic securities. Foreign securities are required to be held in the custody of a foreign bank or securities depository.

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.

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

[12] The Investment Company Act contains six separate custody rules for the different types of possible custody arrangements for mutual funds, closed-end funds, and ETFs. UITs are subject to a separate rule that requires the use of a bank to maintain custody.

The strict rules on the custody and reconciliation of fund assets are designed to prevent the types of theft and other fraud-based losses that have occurred in less-regulated investment products.[13] 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 1940 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."[14]

Although there are a number of affiliated transaction prohibitions in the Investment Company Act, three are particularly noteworthy:

- Generally prohibiting direct transactions between a fund and an affiliate
- Generally prohibiting joint transactions, where the fund and affiliate are acting together vis-à-vis a third party
- 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

13 Ponzi schemes and other frauds involving the misappropriation of assets in unregistered pools or private accounts have comprised a significant portion of SEC enforcement cases in recent years.

14 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 http://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 law and the Investment Company Act provide diversification standards for funds. As discussed in detail above, under the tax laws, all mutual funds, closed-end funds, and ETFs, as well as most UITs, qualify as RICs and, as such, 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, closed-end funds, and ETFs must disclose whether they are diversified under the Act's standards or not.

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 2010, for example, the median number of stocks held by U.S. equity funds was 101.[15]

[15] This number is the median (the midpoint of a range of numbers that are arranged in order of value) among U.S. actively managed and index equity funds, excluding sector 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 U.S. 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.
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 U.S. economy and explaining the concept of investment companies.

1955	The first U.S.-based international mutual fund is introduced.
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 (ERISA) creates the individual retirement account (IRA) for workers not covered by employer-sponsored retirement plans.
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. 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.
1989	Mutual fund assets top $1 trillion.
1993	The first exchange-traded fund (ETF) shares are issued.
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 nonexchange 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 U.S. 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 (EGTRRA) of 2001 significantly expands retirement savings opportunities for millions of working Americans.
2003	The Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) provides mutual fund shareholders with the full benefits of lower tax rates on dividends and capital gains.
2006	Enactment of the Pension Protection Act (PPA) and the Tax Increase Prevention and Reconciliation Act provides incentive for investors young and old to save more in tax-deferred and taxable investment accounts.
2008	SEC votes to adopt Summary Prospectus rule. Reserve Primary Fund fails to maintain $1.00 NAV, becoming the second money market fund in 25 years to "break a dollar."
2009	Money market fund assets hit $3.92 trillion, their highest level to date. 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	SEC adopts new rules and amendments to regulations governing money market funds. In *Jones v. Harris*, the U.S. Supreme Court unanimously upholds the Gartenberg standard under which courts have long considered claims of excessive fund advisory fees. Enactment of the Regulated Investment Company Modernization Act streamlines and updates technical tax rules, benefiting shareholders by making funds more efficient.

Glossary

adviser. An organization employed by a mutual fund to give professional advice on the fund's investments and asset management practices. Also known as *investment adviser*.

after-tax return. The total return of a fund after the effects of taxes on distributions and/or redemptions have been assessed. Funds are required by federal securities law to calculate after-tax returns using standardized formulas based upon the highest tax rates. (Consequently, they are not representative of the after-tax returns of most mutual fund shareholders.) These standardized after-tax returns are not relevant for shareholders in tax-deferred retirement accounts.

annual report. A report that a fund sends to its shareholders that discusses the fund's performance over the past fiscal year and identifies the securities in the fund's portfolio on the last business day of the fund's fiscal year. The annual report includes audited financial statements. See also **semiannual report**.

appreciation. An increase in an investment's value. Contrast **depreciation**.

assets. Securities, cash, and receivables owned by a fund.

auction market preferred stock (AMPS). A type of preferred share. AMPS are structured to pay dividends at rates set through auctions run by an independent auction agent.

authorized participant. An entity, usually an institutional investor, that submits orders to the exchange-traded fund (ETF) for the creation and redemption of ETF "creation units."

automatic reinvestment. A fund service giving shareholders the option to purchase additional shares using dividend and capital gains distributions.

average portfolio maturity. The average maturity of all the securities in a bond or money market fund's portfolio.

back-end load. See **contingent deferred sales load (CDSL)**.

basis point. One one-hundredth of 1 percent (0.01 percent); thus, 100 basis points equal 1 percent. When applied to $1.00, 1 basis point is $0.0001; 100 basis points equal one cent ($0.01).

bear market. A period during which the majority of securities prices in a particular market (such as the stock market) drop substantially. One generally accepted measure is a price decline of 20 percent or more over at least a two-month period. Contrast **bull market**.

bond. A debt security issued by a company, municipality, or government agency. A bond investor lends money to the issuer and, in exchange, the issuer promises to repay the loan amount on a specified maturity date; the issuer usually pays the bondholder periodic interest payments over the life of the loan.

break the dollar. A phrase used to describe when the net asset value (NAV) of a money market fund is repriced from its stable $1.00 NAV, an event that could be triggered by a deviation greater than one-half of 1 percent (one-half cent, or $0.0050) between the fund's mark-to-market value (shadow price) and its stable $1.00 NAV. Also known as *break the buck*.

breakpoints. The dollar amounts at which many mutual funds offer reduced fees to investors. There are two kinds of breakpoints. One kind is a reduction in sales charges (load fees) to investors when they initially purchase fund shares. The amount of the discount varies, depending upon the amount of the investment: the more invested, the greater the likelihood of surpassing a "breakpoint" and thus receiving a discount. The other kind of breakpoint is a reduction in management fees that fund advisers may charge their associated funds as fund assets surpass a given level.

broker-dealer. A firm that buys and sells mutual fund shares and other securities from and to investors, operating as either a broker or dealer depending on the transaction.

bull market. A period during which a majority of securities prices in a particular market (such as the stock market) rise substantially. Contrast **bear market**.

capital gains distributions. Profits distributed to shareholders resulting from the sale of securities held in the fund's portfolio.

catch-up contribution. Individuals aged 50 or older are permitted to make contributions to an IRA or employer-sponsored retirement savings plan in excess of the annual contribution limit. In 2010, the catch-up limit was $1,000 for IRAs, $2,500 for SIMPLE plans, and $5,500 for 401(k) plans.

certificate of deposit (CD). A savings certificate entitling the bearer to receive interest. A CD bears a fixed maturity date, has a specified fixed interest rate, and can be issued in any denomination. CDs are generally issued by commercial banks and are currently insured by the Federal Deposit Insurance Corporation (FDIC) up to a maximum of $250,000. CDs are generally offered at terms ranging from one month to five years.

closed-end fund. A type of investment company that issues a fixed number of shares that trade intraday on stock exchanges at market-determined prices. Investors in a closed-end fund buy or sell shares through a broker, just as they would trade the shares of any publicly traded company.

commercial paper. Short-term, unsecured notes issued by a corporation to meet immediate short-term needs for cash, such as the financing of accounts payable, inventories, and short-term liabilities. Maturities typically range from overnight to 270 days. Commercial paper is usually issued by corporations with high credit ratings and sold at a discount from face value.

commission. A fee paid to a broker or other sales agent for services related to transactions in securities.

compounding. The effect of growth on reinvestment of future earnings. Over time, compounding can produce significant growth in the value of an investment.

contingent deferred sales load (CDSL). A fee imposed by some funds when shares are redeemed (sold back to the fund) during the first few years of ownership. Also known as *back-end load.*

Coverdell Education Savings Account (ESA). This type of account, formerly known as an education IRA, is a tax-advantaged trust or custodial account set up to pay the qualified education expenses of a designated beneficiary.

creation unit. A specified number of shares issued by an exchange-traded fund (ETF) in large blocks, generally between 25,000 and 200,000 shares. Authorized participants that buy creation units either keep the ETF shares that make up the creation unit or sell all or part of them on a stock exchange.

credit risk. The possibility that a bond issuer may not be able to pay interest or repay its debt.

credit spread. The additional yield required of a debt security beyond that of a risk-free alternative (such as a U.S. Treasury instrument of the same maturity).

custodian. An organization, usually a bank, that safeguards the securities and other assets of a mutual fund.

default. A failure by an issuer to: (1) pay principal or interest when due, (2) meet nonpayment obligations, such as reporting requirements, or (3) comply with certain covenants in the document authorizing the issuance of a bond (an indenture).

defined benefit (DB) plan. An employer-sponsored pension plan where the amount of future benefits an employee will receive from the plan is defined, typically by a formula based on salary history and years of service. The amount of contributions the employer is required to make will depend on the investment returns experienced by the plan and the benefits promised. Contrast **defined contribution plan**.

defined contribution (DC) plan. An employer-sponsored retirement plan, such as a 401(k) plan or a 403(b) plan, in which contributions are made to individual participant accounts. Depending on the type of DC plan, contributions may be made by the employee, the employer, or both. The employee's benefits at retirement or termination of employment are based on the employee and employer contributions and earnings and losses on those contributions. See also **401(k) plan**. Contrast **defined benefit plan**.

depreciation. A decline in an investment's value. Contrast **appreciation**.

distribution. (1) The payment of dividends and capital gains, or (2) a term used to describe a method of selling fund shares to the public.

diversification. The practice of investing broadly across a number of different securities, industries, or asset classes to reduce risk. Diversification is a key benefit of investing in mutual funds and other investment companies that have diversified portfolios.

dollar-cost averaging. The practice of investing a fixed amount of money at regular intervals, regardless of whether the securities markets are declining or rising, in the hopes of reducing average share cost by acquiring more shares when prices are low and fewer shares when prices are high.

education IRA. See **Coverdell Education Savings Account (ESA)**.

equity fund. See **stock fund**.

exchange privilege. A fund option enabling shareholders to transfer their investments from one fund to another within the same fund family as their needs or objectives change. Typically, fund companies allow exchanges several times a year for a low fee or no fee.

exchange-traded fund (ETF). An investment company, typically a mutual fund or unit investment trust, whose shares are traded intraday on stock exchanges at market-determined prices. Investors may buy or sell ETF shares through a broker just as they would the shares of any publicly traded company.

ex-dividend date. With regard to mutual funds, this is the day on which declared distributions (dividends or capital gains) are deducted from the fund's assets before it calculates its net asset value (NAV). The NAV per share will drop by the amount of the distribution per share.

expense ratio. A fund's total expenses—disclosed in the prospectus and shareholder reports—expressed as a percentage of its assets.

face value. The stated principal or redemption value of a bond; the amount that a bond's issuer must repay at the bond's maturity date.

fair value. The price for a security which the fund might reasonably expect to receive upon its current sale.

family of funds. A group or "complex" of mutual funds, each typically with its own investment objective, managed and distributed by the same company.

federal funds. Non-interest-bearing deposits held by member banks at the Federal Reserve.

Financial Industry Regulatory Authority (FINRA). A self-regulatory organization with authority over broker-dealer firms that distribute mutual fund shares as well as other securities.

529 Plan. An investment program, offered by state governments, designed to help pay future qualified higher education expenses. States offer two types of 529 plans: prepaid tuition programs allow contributors to establish an account in the name of a student to cover the cost of a specified number of academic periods or course units in the future at current prices; and college savings plans allow individuals to contribute to an investment account to pay for a student's qualified higher education expenses.

forward pricing. The concept describing the price at which mutual fund shareholders buy or redeem fund shares. Shareholders must receive the next computed share price following the fund's receipt of a shareholder transaction order.

457 plan. An employer-sponsored retirement plan that enables employees of state and local governments and other tax-exempt employers to make tax-deferred contributions from their salaries to the plan.

401(k) plan. An employer-sponsored retirement plan that enables employees to make tax-deferred contributions from their salaries to the plan. See also **defined contribution plan**.

403(b) plan. An employer-sponsored retirement plan that enables employees of universities, public schools, and nonprofit organizations to make tax-deferred contributions from their salaries to the plan.

front-end load. A fee imposed by some funds at the point of purchase.

funds of funds. Mutual funds that primarily hold and invest in shares of other mutual funds.

fund supermarket. A brokerage platform that provides access to funds from a wide range of fund families.

health savings account (HSA). A plan that allows workers with high-deductible health insurance coverage to set aside money each year for routine or future health care costs.

hedge fund. A private investment pool for qualified (typically wealthy) investors that, unlike a mutual fund, is exempt from SEC registration.

hybrid fund. A mutual fund that invests in a mix of equity and fixed-income securities.

income distributions. Dividends, interest, and/or short-term capital gains paid to a mutual fund's shareholders. Operating expenses are deducted from income before it is distributed to shareholders.

independent director. A fund director or trustee who does not have any significant business relationship with a mutual fund's adviser or underwriter. An independent director better enables the fund board to provide an independent check on the fund's management.

index mutual fund. A fund designed to track the performance of a market index. The fund's portfolio of securities is either a replicate or a representative sample of the designated market index.

individual retirement account (IRA). A tax-deferred account set up by or for an individual to hold and invest funds for retirement.

inflation risk. The risk that the purchasing power of the future value of assets or income will be lower due to inflation.

initial public offering (IPO). A corporation's or closed-end fund's first offering of stock or fund shares to the public.

institutional investor. The businesses, nonprofit organizations, and other similar investors who own funds and other securities on behalf of their organizations. This classification of investors differs from individual or household investors who own the majority of investment company assets.

interest rate risk. Risk of gain or loss on a security due to possible changes in interest-rate levels. When interest rates rise, the market value of a debt security will fall, and vice versa.

intraday indicative value (IIV). A real-time estimate of an exchange-traded fund's (ETF) intraday value. Third-party providers calculate and disseminate this measure every 15 to 60 seconds during securities market trading hours.

investment adviser. See **adviser**.

investment company. A corporation, trust, or partnership that invests pooled shareholder dollars in securities appropriate to the organization's objective. Mutual funds, closed-end funds, unit investment trusts, and exchange-traded funds are the main types of SEC-registered investment companies.

investment objective. The goal (e.g., current income, long-term capital growth) that a mutual fund pursues on behalf of its investors.

issuer. The company, municipality, or government agency that issues securities, such as stocks, bonds, or money market instruments.

Keogh. A tax-favored investment vehicle covering self-employed individuals, partners, and owners of unincorporated businesses; also called an H.R. 10 plan. These were first made available by Congress in 1962, but today operate under rules very similar to those for retirement plans for a corporation's employees.

lifecycle fund. See **target date fund**.

lifestyle fund. Mutual funds that maintain a predetermined risk level and generally use words such as "conservative," "moderate," or "aggressive" in their names to indicate the fund's risk level. Also known as *target risk fund*.

liquidity. The ability to gain ready access to invested money. Mutual funds are liquid because their shares can be redeemed for the next computed net asset value on any business day. In the money market, a security is said to be liquid if the spread between bid and ask prices is narrow and reasonably sized trades can take place at those quotes.

load. See **sales charge**.

load fund. A mutual fund that imposes a sales charge—either when fund shares are purchased (front-end load) or redeemed (contingent deferred sales load)—or a fund that charges a 12b-1 fee greater than 0.25 percent.

long-term funds. A mutual fund industry designation for all funds other than money market funds. Long-term funds are broadly divided into equity (stock), bond, and hybrid funds.

management fee. The amount paid by a mutual fund to the investment adviser for its services.

market value. The price at which a security was last traded or a market maker or dealer is currently offering to trade and could presumably be purchased or sold.

maturity. The date by which an issuer promises to repay a bond's face value.

money market. The global financial market for short-term borrowing and lending where short-term instruments such as Treasury bills, commercial paper, and repurchase agreements are bought and sold.

money market fund. A mutual fund that invests in short-term, high-grade fixed-income securities, and seeks the highest level of income consistent with preservation of capital (i.e., maintaining a stable share price).

MuniFund Term Preferred (MTP) shares. Exchange-listed closed-end fund preferred shares that have a fixed dividend rate set at the time of issuance. MTP shares have a mandatory redemption period (usually five years) unless they are redeemed or repurchased earlier by the fund. Unlike fixed-rate preferred stock previously issued, MTP shares were created for issuance by closed-end funds investing in municipal bonds.

mutual fund. An investment company that buys a portfolio of securities selected by a professional investment adviser to meet a specified financial goal (investment objective). Mutual funds can have actively managed portfolios, where 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 current net asset value. See also **open-end investment company**.

net asset value (NAV). The per-share value of an investment company, calculated by subtracting the fund's liabilities from the current market value of its assets and dividing by the number of shares outstanding. Mutual funds calculate their NAVs at least once daily.

net new cash flow. The dollar value of new sales minus redemptions, plus net exchanges. A positive number indicates new sales plus exchanges into funds exceeded redemptions plus exchanges out of funds. A negative number indicates redemptions plus exchanges out of funds exceeded new sales plus exchanges into funds.

no-load fund. A mutual fund whose shares are sold without a sales commission and without a 12b-1 fee of more than 0.25 percent per year.

open-end investment company. The legal name for a mutual fund, indicating that it stands ready to redeem (buy back) its shares from investors.

operating expenses. Business costs paid from a fund's assets. These include management fees, 12b-1 fees, and other expenses.

payroll deduction plan. An arrangement that some employers offer employees where employees can authorize their employer to deduct a specified amount from their salaries at stated times to buy mutual fund shares.

pooled investing. The basic concept behind mutual funds in which a fund aggregates the assets of investors who share common financial goals. A fund uses the pool assets to buy a diversified portfolio of investments, and each mutual fund share purchased represents ownership in all the fund's underlying securities.

portfolio. A collection of securities owned by an individual or an institution (such as a mutual fund) that may include stocks, bonds, money market instruments, and other securities.

portfolio manager. A specialist employed by a mutual fund's adviser to invest the fund's assets in accordance with predetermined investment objectives.

portfolio turnover. A measure of the trading activity in a fund's investment portfolio; how often securities are bought and sold by a fund.

prepayment risk. The possibility that a bond owner will receive his or her principal investment back from the issuer prior to the bond's maturity date.

principal. See **face value**.

prospectus. The official document that describes an investment company to prospective investors. The prospectus contains information required by the SEC, such as investment objectives and policies, risks, services, and fees.

puttable preferred stock. See **Variable Rate Demand Preferred (VRDP) shares**.

quality. A term used in portfolio management to describe the creditworthiness of an issuer of fixed-income securities and indicate the likelihood that the issuer will be able to repay its debt.

redeem. To sell mutual fund shares back to the fund. Mutual fund shares may be redeemed on any business day. An investor receives the next computed share price, called net asset value (NAV), minus any deferred sales charge or redemption fee.

redemption price. The amount per share that mutual fund shareholders receive when they redeem.

reinvestment privilege. An option whereby shareholders may elect to use dividend and capital gains distributions to automatically buy additional fund shares.

repurchase agreements. A form of short-term funding for dealers. The dealer sells the securities to investors, usually on an overnight basis, and buys them back at a higher price reflecting the cost of funding.

required minimum distribution (RMD). Minimum distribution rules require that beginning at age 70½, the entire amount of a traditional IRA be distributed over the expected life of the individual (or the joint lives of the individual and designated beneficiary). Distributing less than the required amount will result in a tax penalty. Roth IRAs are not subject to required minimum distributions during the account holder's lifetime.

risk/return tradeoff. The principle that an investment must offer higher potential returns as compensation for the likelihood of higher volatility in returns.

rollover. The transfer of an investor's assets from one qualified retirement plan (including an IRA) to another—due to changing jobs, for instance—without a tax penalty.

Roth IRA. An individual retirement plan, first available in 1998, that permits only after-tax contributions; earnings are not taxed, and qualified distributions of earnings and principal are generally tax-free.

sales charge. An amount charged for the sale of some fund shares, usually those sold by brokers or other sales professionals. By regulation, mutual fund sales charges are capped. The charge may vary depending on the amount invested and the fund chosen. Also known as the *load*.

SAR-SEP IRA (salary reduction simplified employee pension). A SEP IRA with a salary reduction feature (see **SEP IRA**). The Small Business Job Protection Act of 1996, which created SIMPLE IRAs, prohibited the formation of new SAR-SEP IRAs, which were created in 1986.

secondary market. Market in which an investor purchases or sells certain investment company shares (closed-end, UIT, and ETF) from another investor through an intermediary such as a broker-dealer.

Securities and Exchange Commission. See **U.S. Securities and Exchange Commission (SEC)**.

securitization. The process of aggregating similar instruments, such as loans or mortgages, into a negotiable security, such as the creation of mortgage-backed securities.

semiannual report. A report a fund sends to its shareholders that discusses the fund's performance over the first six months of the fiscal year and identifies the securities in the fund's portfolio on the last business day of the first six months of the fiscal year. See also **annual report**.

SEP IRA (simplified employee pension plan). A retirement program created in 1978 that consists of individual retirement accounts for all eligible employees, to which the employer can contribute according to certain rules. A fairly simple, inexpensive plan to establish and administer, a SEP can be attractive to small businesses and self-employed individuals.

series fund. A group of different mutual funds, each with its own investment objective and policies, that is structured as a single corporation or business trust.

share classes. Some mutual funds offer investors different types of shares known as classes. Each class will invest in the same portfolio of securities and will have the same investment objectives and policies, but each class will have different shareholder services and/or distribution arrangements with different fees and expenses and, therefore, different performance results. A multiclass structure offers investors the ability to select a fee and expense structure that is most appropriate for their investment goals (including the time that they expect to remain invested in the fund).

shareholder. An investor who owns shares of a mutual fund or other company.

short-term fund. See **money market fund**.

SIMPLE IRA (savings incentive match plan for employees). A simplified tax-favored retirement plan created in 1996 that small employers can set up for the benefit of their employees.

Standard & Poor's 500 index (S&P 500). A daily measure of stock market performance based on 500 U.S. stocks chosen for market size, liquidity, and industry group representation.

statement of additional information (SAI). The supplementary document to a prospectus that contains more detailed information about a fund; also known as "Part B" of the prospectus.

stock. A share of ownership or equity in a corporation.

stock fund. A fund that concentrates its investments in stocks.

summary prospectus. A short-form prospectus that mutual funds and exchange-traded funds (ETFs) may use with investors if the fund meets certain requirements, including making the long-form prospectus and additional information available online or in paper upon request. See also **prospectus**.

target date fund. Hybrid funds that follow a predetermined reallocation of risk over a working career and into retirement for a person expecting to retire at the target date of the fund (which is usually included in the fund's name). These funds invest in a mix of asset classes and typically rebalance their portfolios over time to become more conservative and income-producing. Also known as *lifecycle fund*.

target risk fund. See **lifestyle fund**.

total net assets. The total amount of assets, less any liabilities, a fund holds as of a certain date.

total return. A measure of a fund's performance that encompasses all elements of return: dividends, capital gains distributions, and changes in net asset value. Total return is the change in value of an investment over a given period, assuming reinvestment of any dividends and capital gains distributions, expressed as a percentage of the initial investment.

traditional IRA. The first type of individual retirement account, created in 1974. Individuals may make tax-deductible or nondeductible (depending on income and other requirements) contributions to these accounts. See also **individual retirement account (IRA)**.

transfer agent. The internal or external organization that a mutual fund uses to prepare and maintain records relating to shareholder accounts.

Treasury bill (T-bill). A short-term debt obligation of the U.S. government with a maturity of less than one year. T-bills are sold in denominations of $1,000 up to a maximum purchase of $5 million and commonly have maturities of one month (four weeks), three months (13 weeks), or six months (26 weeks).

12b-1 fee. A mutual fund fee, named for the SEC rule that permits it, used to pay distribution costs, such as compensation to financial advisers for initial and ongoing assistance. If a fund has a 12b-1 fee, it will be disclosed in the fee table of a fund's prospectus.

underwriter. The organization that sells a mutual fund's shares to broker-dealers and investors.

unit investment trust (UIT). A type of fund with some characteristics of mutual funds and some of closed-end funds. Like mutual funds, UITs issue redeemable shares. Like closed-end funds, however, UITs typically issue only a specific, fixed number of shares. A UIT does not actively trade its investment portfolio, instead buying and holding a set of particular investments until a set termination date, at which time the trust is dissolved and proceeds are paid to shareholders.

U.S. Securities and Exchange Commission (SEC). The primary U.S. government agency responsible for the regulation of the day-to-day operations and disclosure obligations of registered investment companies.

variable annuity. An investment contract sold by an insurance company; capital is accumulated, often through mutual fund investments, with the option to convert to an income stream in retirement.

Variable Rate Demand Preferred (VRDP) shares. A type of puttable preferred stock that is similar to auction market preferred stock (AMPS) in that they pay dividends at variable rates, and sell orders are filled to the extent there are bids. Rates are set through remarketings, and if there are more sell orders than bids, a third party (commonly referred to as a liquidity provider) purchases the VRDP shares.

withdrawal plan. A fund service allowing shareholders to receive income or principal payments from their fund account at regular intervals.

yield. A measure of income (dividends and interest) earned by the securities in a fund's portfolio less the fund's expenses during a specified period. A fund's yield is expressed as a percentage of the maximum offering price per share on a specified date.

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