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ICI VIEWPOINTS

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Fact Book Illustrates the Dynamic, Evolving Fund Industry

By Brian Reid

Each year, the annual update of the *Investment Company Fact Book* gives ICI an opportunity to present a broad overview of the investment landscape by recording, in a single volume, insights gleaned from both our members and 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.

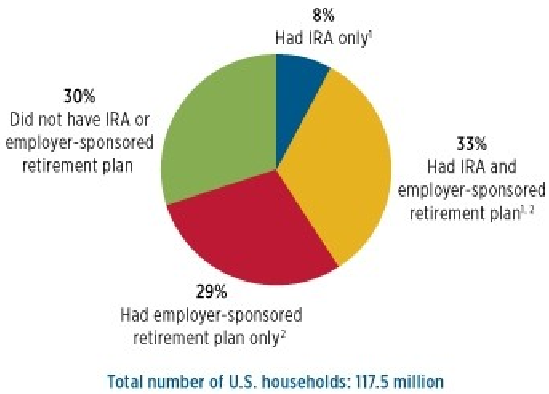
So what are the big developments that you will find in our recently published 2011 *Fact Book*? One I find noteworthy is that in some respects, investing trends have come full circle. For example, while researchers and journalists tend to focus on domestic stock mutual funds, today the assets of fixed-income 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.

I would also flag the *Fact Book*'s discussion of retirement issues. This year, ICI 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.

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

Percentage of U.S. households, May 2010



[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."

As funds and their investors have changed over time, the *Fact Book* also has evolved, 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 and their investors.

This mission, so central to the work of every member of the ICI Research Department, is embodied in the *Fact Book* each year. We hope you both enjoy and gain insight from this year's edition.

Brian Reid was Chief Economist of the Investment Company Institute.

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