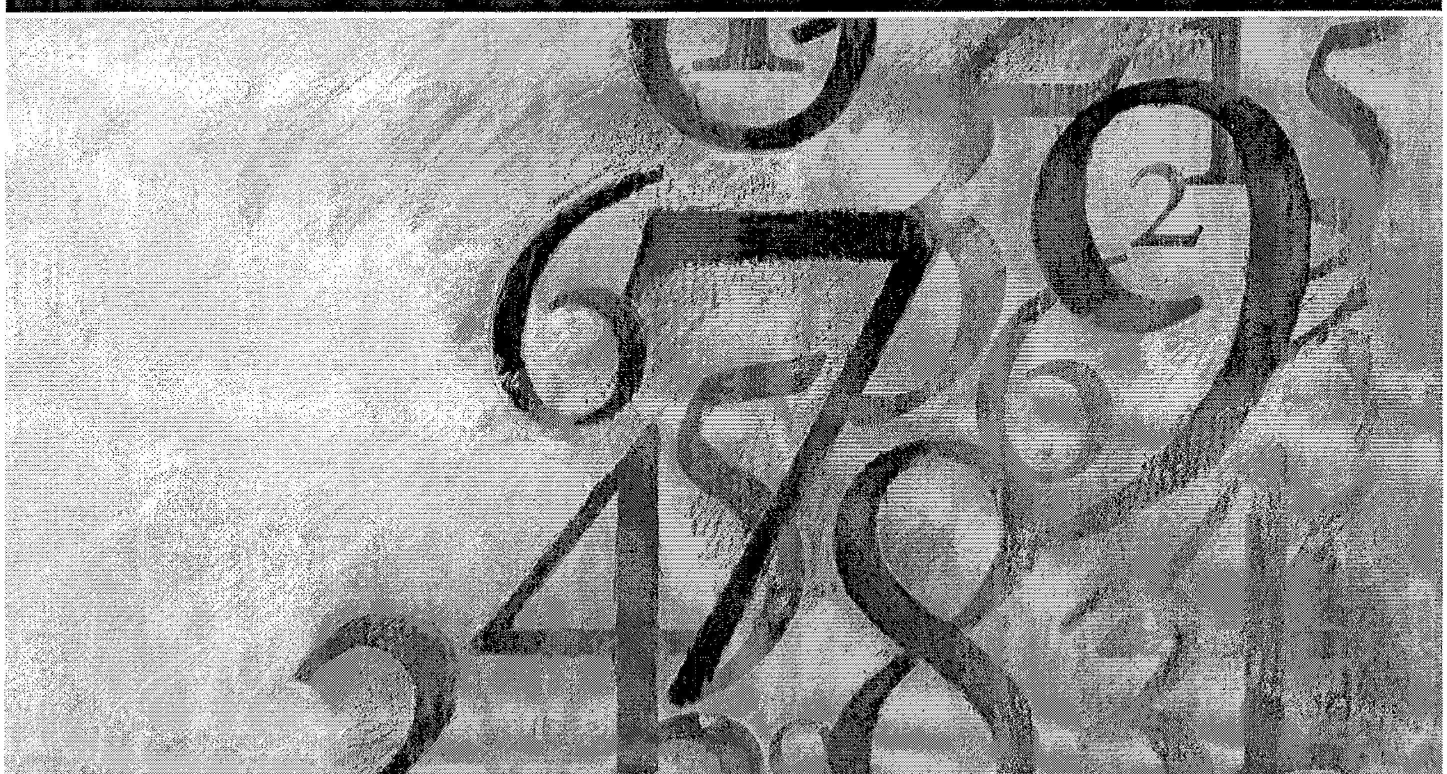
ICI INVESTMENT COMPANY INSTITUTE®

2009 Investment Company Fact Book

49TH EDITION

A Review of Trends and Activity in the Investment Company Industry

WWW.ICIFACTBOOK.ORG



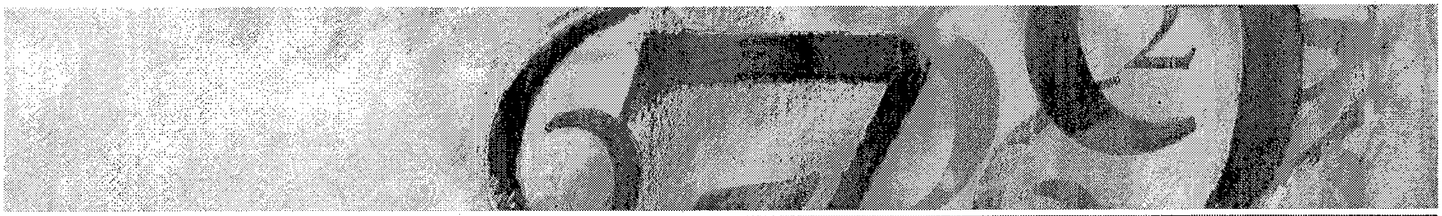
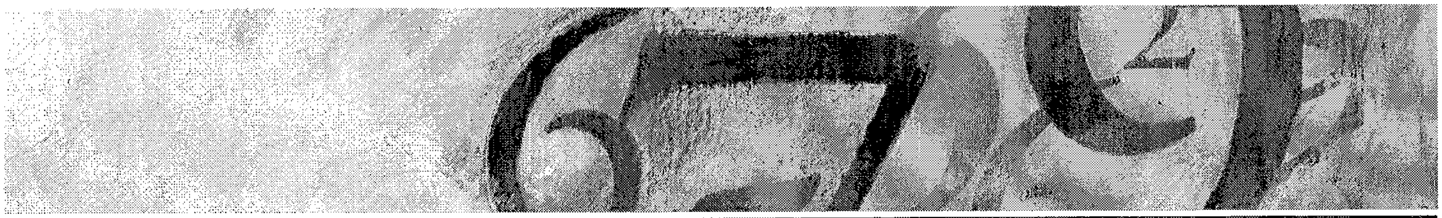


Table of Contents



A LETTER FROM ICI's Chief Economist

The fires of the global credit crisis have been burning for nearly two years. What at first appeared as a wisp of smoke in a corner of the U.S. mortgage market turned into a global firestorm that has since cut through the housing, bond, and stock markets. U.S. households alone have suffered a $13 trillion drop in their financial and housing assets since the crisis started. As homeowners and investors survey the damage, they are left to wonder when it will end and how the eventual rebuilding of their lives and their savings will begin. The uncertainty is unsettling, especially after nearly two decades during which many Americans shared in general economic prosperity and growing wealth.

The government's efforts to contain the damage called upon the analytic skills of private and public sector experts alike. One of ICI's core missions is to gather and consolidate information on registered investment companies and their investors to help government officials and the general public better understand market developments. During the credit crisis, the ICI Research Department has worked alongside many other Institute staff to provide data, research, and analysis to policymakers and the press.

A key example is the high-frequency estimates of stock and bond fund flows that we provided to policymakers in October and November. As the credit crisis pushed beyond housing and into the broader financial markets, weekly outflows from stock and bond funds began to accelerate, reaching 1 percent of fund assets in mid-October. Policymakers, wanting to stay abreast of these developments, sought out accurate and timely information on investor flows, and ICI provided them with steady updates. Many member firms, along with the press, were also seeking a more contemporaneous measure of fund flows than what ICI provided through our monthly *Trends* report. The desire for higher frequency data led ICI to launch a new weekly public release of stock and bond fund flow estimates in January 2009.

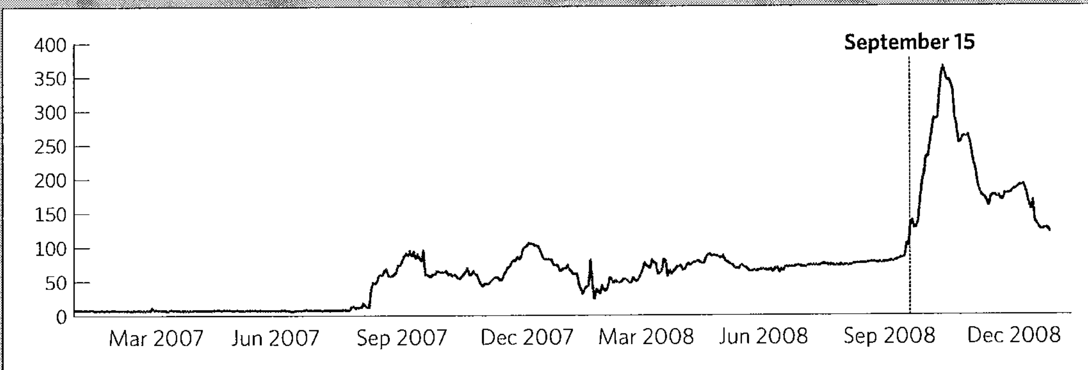
Policymakers continue to watch over and support the financial markets. But they also are beginning to sift through the ashes to see what they can learn as they reexamine the rules and regulations that serve as the financial industry's fire code. The lessons that they draw and the rule changes that they make will shape the financial and regulatory landscape for another generation or more.

The regulatory overview includes how the money market will operate in the future and the role that money market funds will play after the near-freeze in that market last fall.

To participate in the public dialogue, ICI established the Money Market Working Group in November 2008. This panel of fund industry leaders conducted a wide-ranging study of the money market, money market funds, and other participants in that market with the assistance of ICI staff.

SPREAD BETWEEN THREE-MONTH LIBOR AND OVERNIGHT INDEX SWAP RATE*

BASIS POINTS, DAILY, JANUARY 2007-DECEMBER 2008



*Ninety-day LIBOR (London Interbank Offered Rate) less the 90-day Overnight Index Swap (OIS) rate. An OIS is an interest rate swap with the floating rate tied to an index of daily overnight rates, such as the effective federal funds rate. At maturity, two parties exchange, on the basis of the agreed notional amount, the difference between interest accrued at the fixed rate and interest accrued by averaging the floating, or index, rate.

Source: Bloomberg

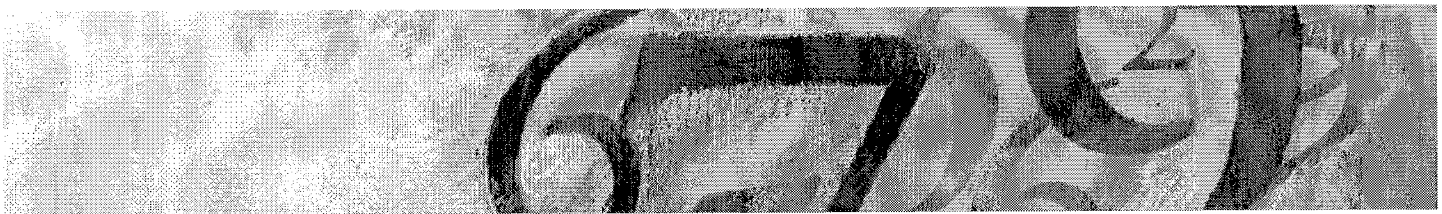
The *Report of the Money Market Working Group,* released in March 2009, forms an important part of the public record and discourse about the future regulation of money market funds and their role in the financial markets. It draws on the difficult experience of the last year and develops a series of recommendations designed to make money market funds more resilient in the face of extreme market conditions. The proposals address a variety of issues, but taken together will increase the liquidity of money market funds and reduce the credit and interest rate risk that investors in these funds will experience.

We are in an environment in which investors, regulators, and legislators have a dramatically reduced tolerance for risk. Rules and regulations can provide additional investor protections, but can also reduce market efficiency at a great cost to borrowers and investors alike. Finding the right balance is the challenge, and is one that necessitates a wide-ranging discussion of proposals on the table. Our role as economists and researchers is to engage in this discussion on behalf of funds and their investors. This dialogue fleshes out strengths and weaknesses of proposals before they are enacted.

While these efforts become all the more focused during periods of market stress, our ability to assist draws upon data collection and research that are part of our normal activities. The annual exercise of writing the *Investment Company Fact Book,* for example, hones our understanding of the markets and fund investors. The project is also a collaborative effort across the research, legal, editorial, and design groups within ICI, and this joint experience is what was leveraged during the events of the past two years. I hope that this year's volume is as valuable to the reader as it is to the staff who worked to bring it together.

Brian Reid
Investment Company Institute
May 2009

As Chief Economist, Brian Reid leads the Institute's Research Department and is a member of the Institute's senior management team.



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 recent 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, conducts and oversees research on the U.S. retirement market, retirement and tax policy, and the worldwide mutual fund industry. She leads ICI 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 and published 16 public policy reports in 2008 offering detailed analyses of fund shareholders, the economics of investment companies, and the retirement and education savings markets.

2008 ICI Statistical and Research Publications

In 2008, the Institute's Research Department released more than 100 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. ICI also regularly compiles and releases specialized statistical reports that measure mutual funds in the retirement, institutional, and worldwide markets. See Appendix B on page 182 for a more detailed description of ICI's regular statistical releases and about how to obtain copies of these releases.

INDUSTRY AND FINANCIAL ANALYSIS RESEARCH PUBLICATIONS

- "Proxy Voting by Registered Investment Companies: Promoting the Interests of Fund Shareholders," *Perspective*, July 2008
- *Cost-Benefit Analysis of the Summary Prospectus Proposal*, February 2008

INVESTOR RESEARCH PUBLICATIONS

- "Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet," *Fundamentals,* December 2008
- *Equity and Bond Ownership in America, 2008*, December 2008
- "Ownership of Mutual Funds Through Professional Financial Advisers, 2007," *Fundamentals,* September 2008
- *Profile of Mutual Fund Shareholders*, April 2008
- "Characteristics of Mutual Fund Investors, 2007," *Fundamentals,* April 2008
- *Investor Views on the U.S. Securities and Exchange Commission's Proposed Summary Prospectus,* March 2008

RETIREMENT AND TAX RESEARCH PUBLICATIONS

- "The U.S. Retirement Market, Second Quarter 2008," *Fundamentals*, December 2008
- *Retirement Saving in Wake of Financial Market Volatility*, December 2008
- "The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2007," *Fundamentals,* December 2008
- "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2007," *Perspective,* December 2008
- *Defined Contribution Plan Distribution Choices at Retirement*, October 2008
- "Who Gets Retirement Plans and Why," *Perspective,* September 2008
- "The U.S. Retirement Market, 2007," *Fundamentals*, July 2008
- "The Role of IRAs in U.S. Households' Saving for Retirement," *Fundamentals*, January 2008

A complete, updated list of ICI research publications is available on the Institute's website.

Acknowledgements

Publication of the *2009 Investment Company Fact Book* was directed by Rochelle Antoniewicz, Senior Economist, working with Miriam Moore, Senior Editor, and Jodi Kessler, Director, Design.

The total number of other investment companies has fallen considerably since 2000, as sponsors of UITs have been creating fewer new trusts (Figure 1.9). 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 18 more funds than they opened in 2008. Sponsors of ETFs, however, opened over 100 new funds, on net, in 2008.

FIGURE 1.9

NUMBER OF INVESTMENT COMPANIES BY TYPE

YEAR-END, 1995–2008

	Mutual funds[1]	Closed-end funds	ETFs[2]	UITs	Total
1995	5,761	500	2	12,979	19,242
1996	6,293	498	19	11,764	18,574
1997	6,778	488	19	11,593	18,878
1998	7,489	492	29	10,966	18,976
1999	8,004	512	30	10,414	18,960
2000	8,371	482	80	10,072	19,005
2001	8,519	492	102	9,295	18,408
2002	8,512	545	113	8,303	17,473
2003	8,427	584	119	7,233	16,363
2004	8,419	619	152	6,499	15,689
2005	8,451	635	204	6,019	15,309
2006	8,723	647	359	5,907	15,636
2007	8,749	664	629	6,030	16,072
2008	8,889	646	743	5,984	16,262

[1]Mutual fund data include only mutual funds that report statistical information to the Investment Company Institute. The data also 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 ETFs that invest primarily in other ETFs.

Sources: Investment Company Institute and Strategic Insight Simfund

THIS SECTION DESCRIBES RECENT U.S. MUTUAL FUND DEVELOPMENTS AND EXAMINES THE MARKET FACTORS THAT AFFECT THE DEMAND FOR STOCK, BOND, HYBRID, AND MONEY MARKET FUNDS.

U.S. Mutual Fund Assets

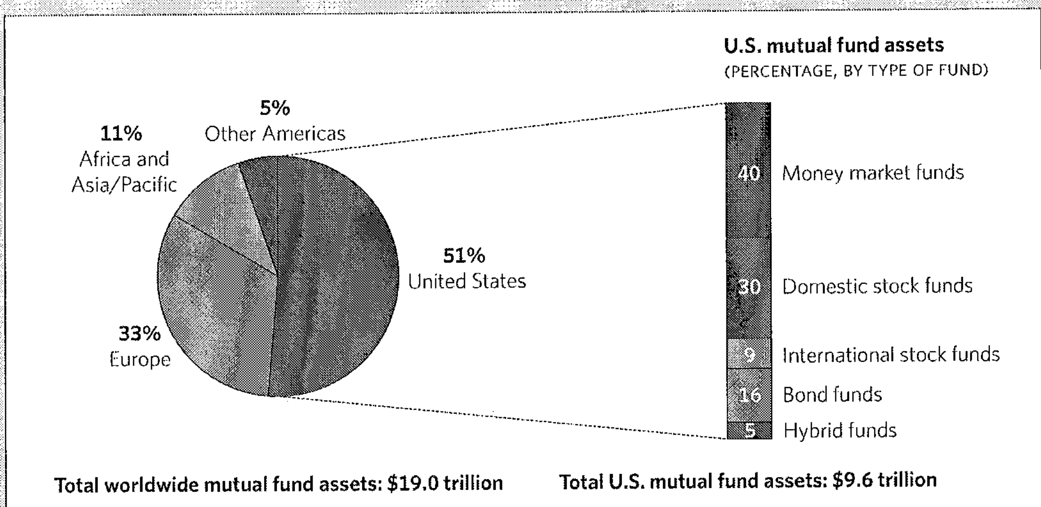
The U.S. mutual fund market, with $9.6 trillion in assets under management as of year-end 2008, remained the largest in the world, accounting for 51 percent of the $19.0 trillion in mutual fund assets worldwide (Figure 2.1).

Investor demand for mutual funds is influenced by a variety of factors, not least of which is funds' ability to assist investors in achieving a wide variety of investment objectives. In particular, U.S. households' reliance on stock, bond, and hybrid mutual funds reflects investor desire to meet long-term personal

FIGURE 2.1

U.S. HAD THE WORLD'S LARGEST MUTUAL FUND MARKET

PERCENTAGE OF TOTAL NET ASSETS, YEAR-END 2008



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

THIS SECTION LOOKS AT INDIVIDUAL AND INSTITUTIONAL OWNERS OF U.S. MUTUAL FUNDS AND EXAMINES HOW THESE INVESTORS PURCHASE FUND SHARES.

Individual and Household Ownership

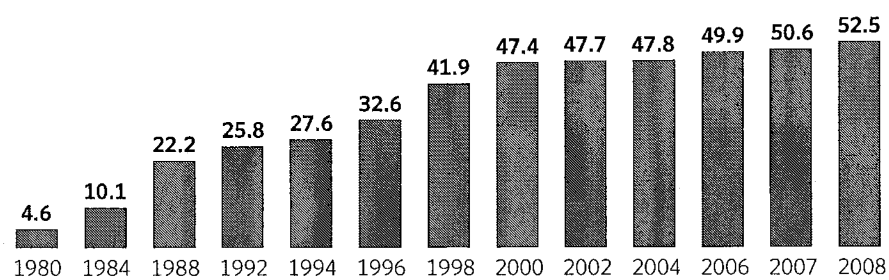
In 2008, an estimated 92 million individual investors owned mutual funds and held 82 percent of total mutual fund assets at year-end. Altogether, 52.5 million households, or 45 percent of all U.S. households, owned funds (Figure 6.1).

Mutual funds represented a significant component of many U.S. households' financial holdings in 2008. Among households owning mutual funds, the median amount invested in mutual funds was $100,000 (Figure 6.2). Seventy-six percent of individuals heading households that owned mutual funds were married or living with a partner, and 46 percent were college graduates. Seventy-eight percent of these individuals worked full- or part-time.

FIGURE 6.1

45 PERCENT OF U.S. HOUSEHOLDS OWNED MUTUAL FUNDS

MILLIONS AND PERCENTAGE OF U.S. HOUSEHOLDS OWNING MUTUAL FUNDS, SELECTED YEARS



	1980	1984	1988	1992	1994	1996	1998	2000	2002	2004	2006	2007	2008
Percentage of U.S. households	5.7	11.9	24.4	27.0	28.4	32.7	40.9	44.5	43.6	42.7	43.6	43.6	45.0

Sources: Investment Company Institute and U.S. Census Bureau (Fundamentals, "Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2008" [www.ici.org/pdf/fm-v17n6.pdf]) http://www.icifactbook.org/pdf/2009_factbook.pdf