

Shift to index funds reduces average equity fund expenses: ICI

By Editorial Staff Thu, Mar 17, 2016

Weighted by assets, average equity fund expense ratios fell for sixth consecutive year in 2015, by two basis points to 68 basis points, according to the Investment Company Institute.

Because of competition and a shift toward index funds, the average costs of equity, hybrid, and bond mutual funds continued to drop in 2015, reaching 20-year lows, while money market fund fees remained at their 2014 low, according to [data](#) released this week by the Investment Company Institute (ICI).

“Expense ratios for both actively managed and index funds have seen substantial declines,” said Sean Collins, ICI’s senior director of industry and financial analysis. Expense ratios are fund costs expressed as a percentage of net fund assets.

Weighted by assets, average equity fund expense ratios fell two basis points to 68 basis points (0.68% of assets) in 2015. This follows a four-basis-point decline in 2014 and marks the sixth year in a row of falling equity fund expense ratios.

The percentage of long-term equity mutual fund assets held in index funds, not counting exchange-traded funds, has risen to about 22%, Collins told *RIJ* in a telephone interview. The shift to indexing has been fueled in part by the growing diversity of index funds, which 10-12 years ago were mainly large-cap funds, he said. Actively managed equity fund assets fell by \$275 billion in 2015, while passive equity fund assets rose by \$109 billion.

Share of assets in costly-to-manage categories of bond funds declines

Bond fund expense ratios averaged 54 basis points in 2015. In 2015, bond fund expense ratios fell three basis points—a sign of the decline in the assets of high-yield bond funds, which tend to have higher-than-average costs and which underperformed in 2015.

The average expense ratio of hybrid mutual funds, which hold equities and bonds, fell only one basis point to 0.77% in 2015, a smaller decline than stock and bond funds experienced. Hybrid fund assets have increased substantially in recent years, thanks in part to the growth of “alternative strategy” funds, which now account for 8% of the assets of all hybrid funds. The average expense ratio for other types of more conventional hybrid funds fell 2 basis points in 2015.

Money market fund expense ratios remained stable in 2015

Money market fund expense ratios averaged 13 basis points in 2015, unchanged from 2014. Squeezed by low interest rates, these funds have waived portions of their fees in recent years to prevent net yields falling below zero. In 2015, 98% of money market fund share classes waived a portion of their fees. Fund advisers and their distributors absorb these waivers, which totaled an estimated \$5.5 billion in 2015.

Actively managed equity and bond fund expense ratios continued steady decline

The average expense ratios for actively managed equity and bond funds fell by two and three basis points, respectively, in 2015, though the expense ratios of index funds have leveled out in the past two years.

Among both active and passive funds, assets have been migrating to the very lowest cost funds. In 2015, 57% of the assets of actively managed equity funds were in the 10% percent of such funds with the lowest expense ratios. In 2015, 69% of index equity fund assets were held in the 10% of index equity funds with the lowest expense ratios.

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