

Research Update on Mutual Funds and Shareholder Sentiment

Investment Company Directors Conference

November 12, 2009

Amelia Island, FL

Brian Reid

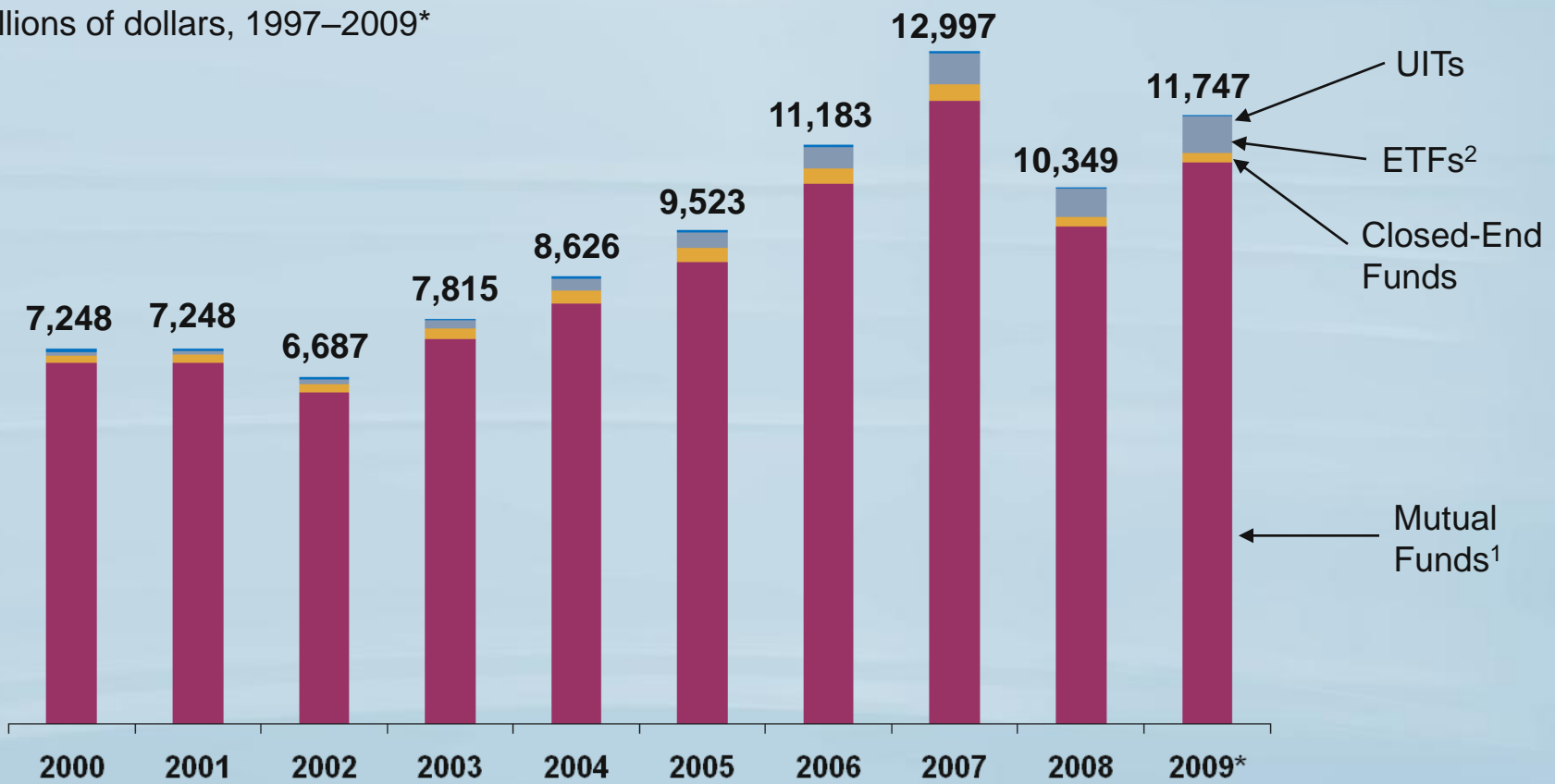
Chief Economist

Overview

- Asset appreciation has lifted U.S.-registered investment company assets significantly.
- Fund inflows have generally been following standard patterns of a low-rate environment that is part of bull market in bonds and a recovering stock market. Outflows from money market funds have been large, whereas inflows to bond funds have been at record levels. Inflows to equity funds have been modest.
- Demand for actively managed domestic equity funds and broad-based domestic equity ETFs has waned.
- Investor sentiment and confidence has dropped considerably, particularly among investors who have a very low tolerance for risk.

Investment Company Assets

Billions of dollars, 1997–2009*



* Data for mutual funds and ETFs are for September 2009, closed-end funds for June 2009, and UITs for December 2008.

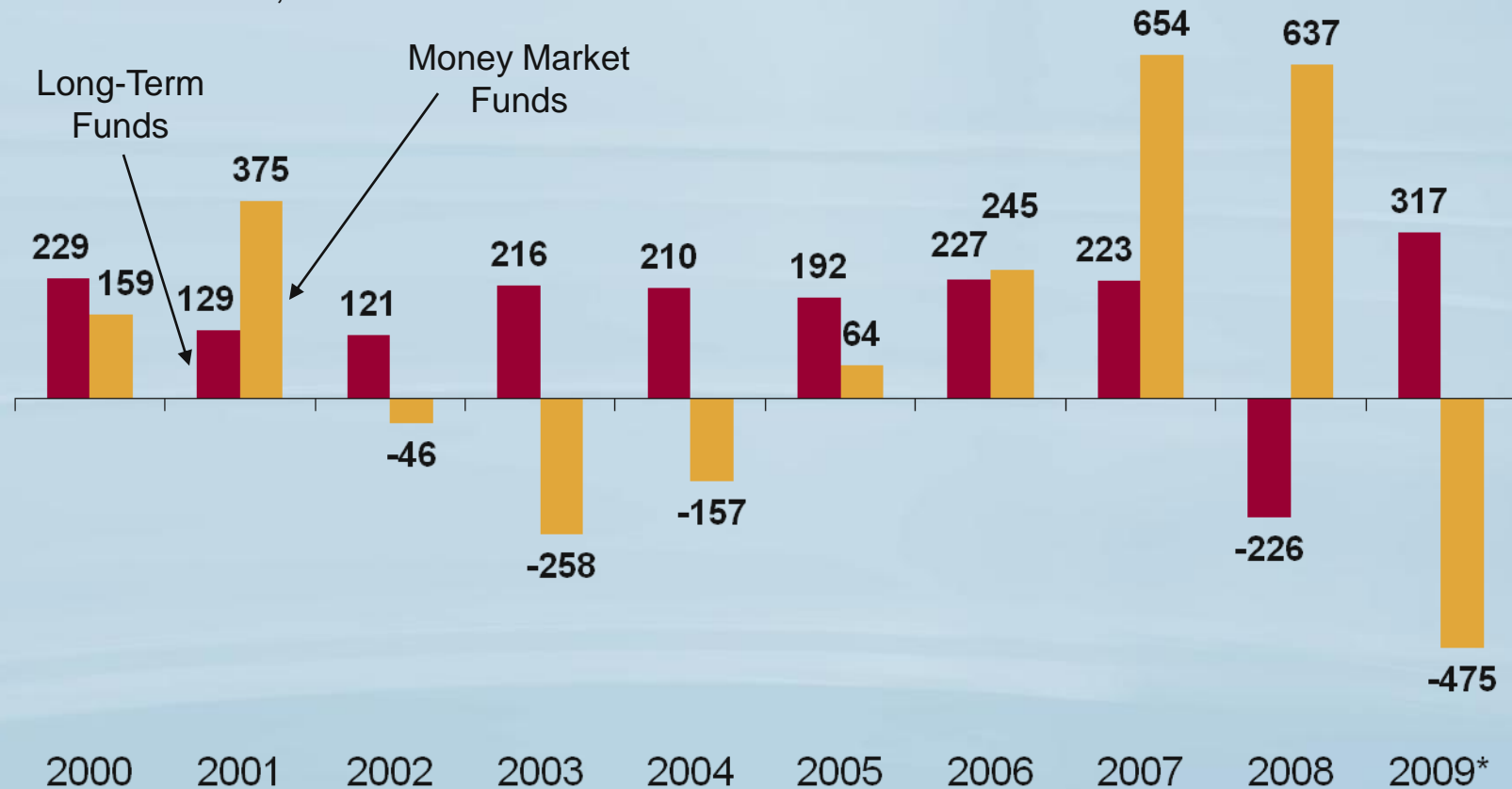
¹ Mutual fund data exclude mutual funds that primarily invest in other mutual funds.

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.

Sources: Investment Company Institute and Strategic Insight Simfund

Net New Cash Flow into Stock, Bond, and Money Market Funds

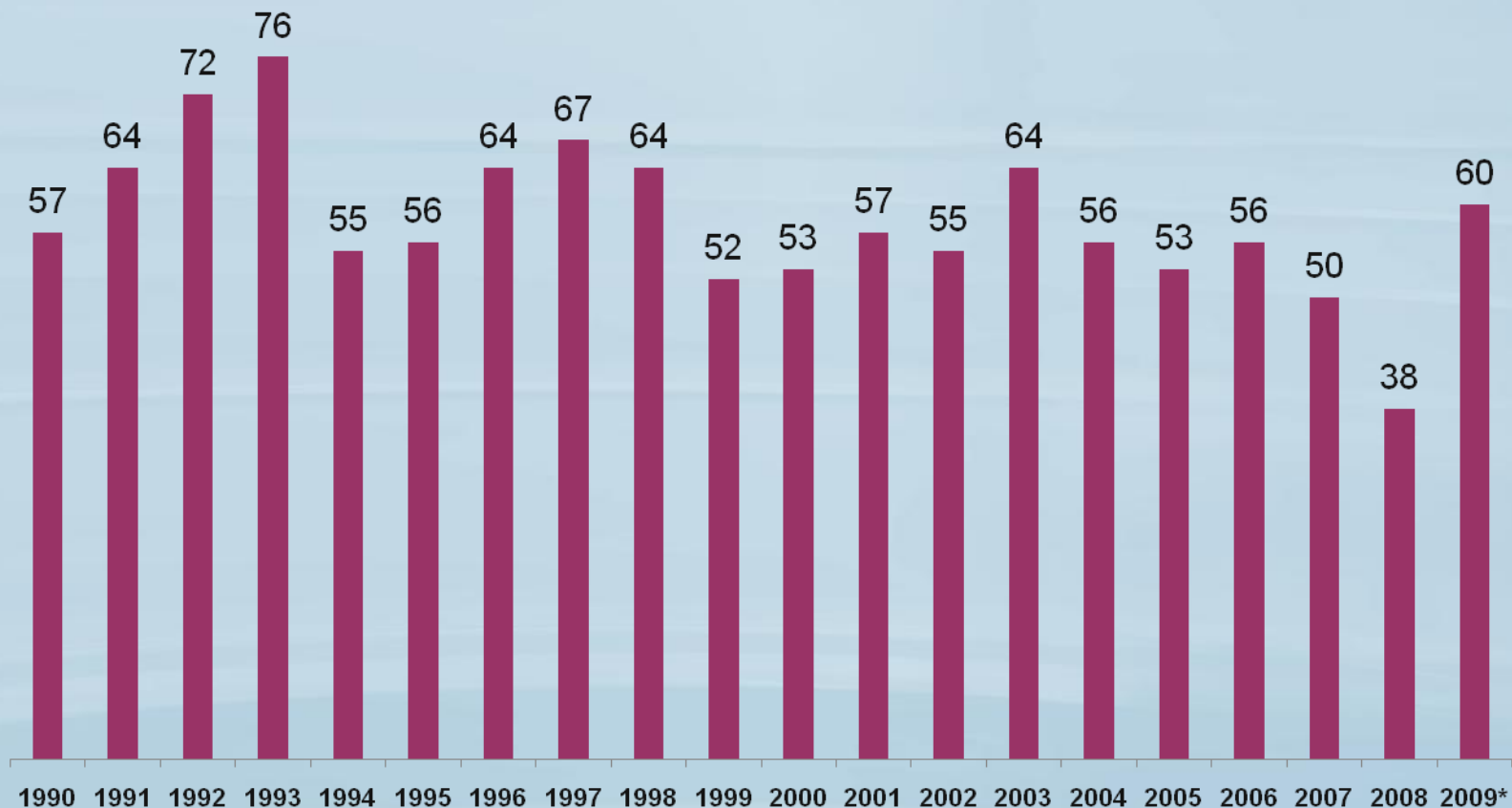
Billions of dollars, 2000–2009*



* Data are through October 21, 2009.
Source: Investment Company Institute

Percentage of Mutual Fund Complexes with Net Inflows to Stock, Bond, and Hybrid Funds

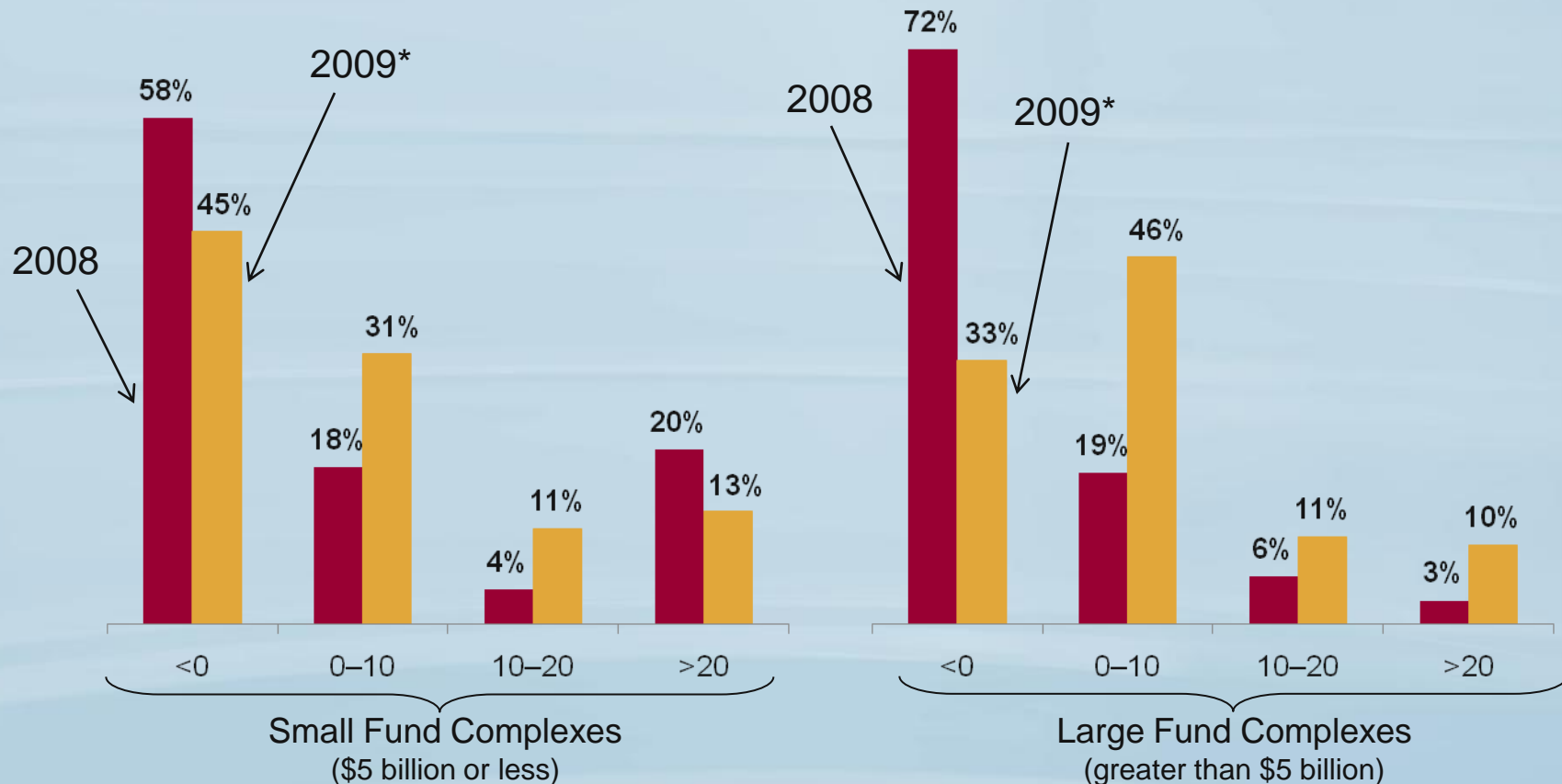
Percentage, 1990–2009*



* Data are through September 30, 2009.
Source: Investment Company Institute

Percentage of Mutual Fund Complexes with Stock, Bond, and Hybrid Fund Inflows and Outflows

Net new cash flow as a percentage of total net assets by complex, 2009*

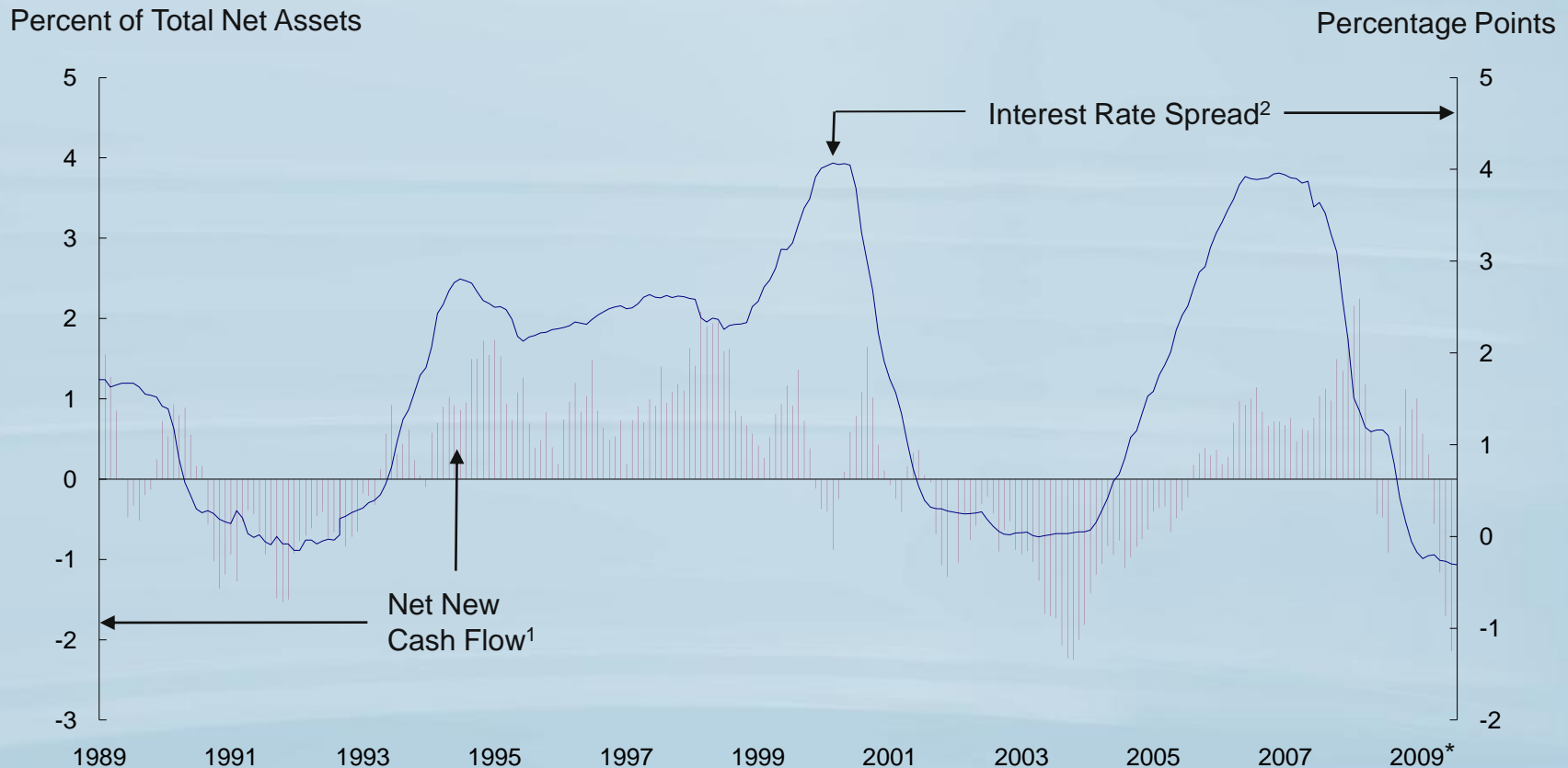


* Data are through September 30, 2009.

Source: Investment Company Institute

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

(1989–2009*)



* Data are through September 2009.

¹ Net new cash flow is a percent 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.

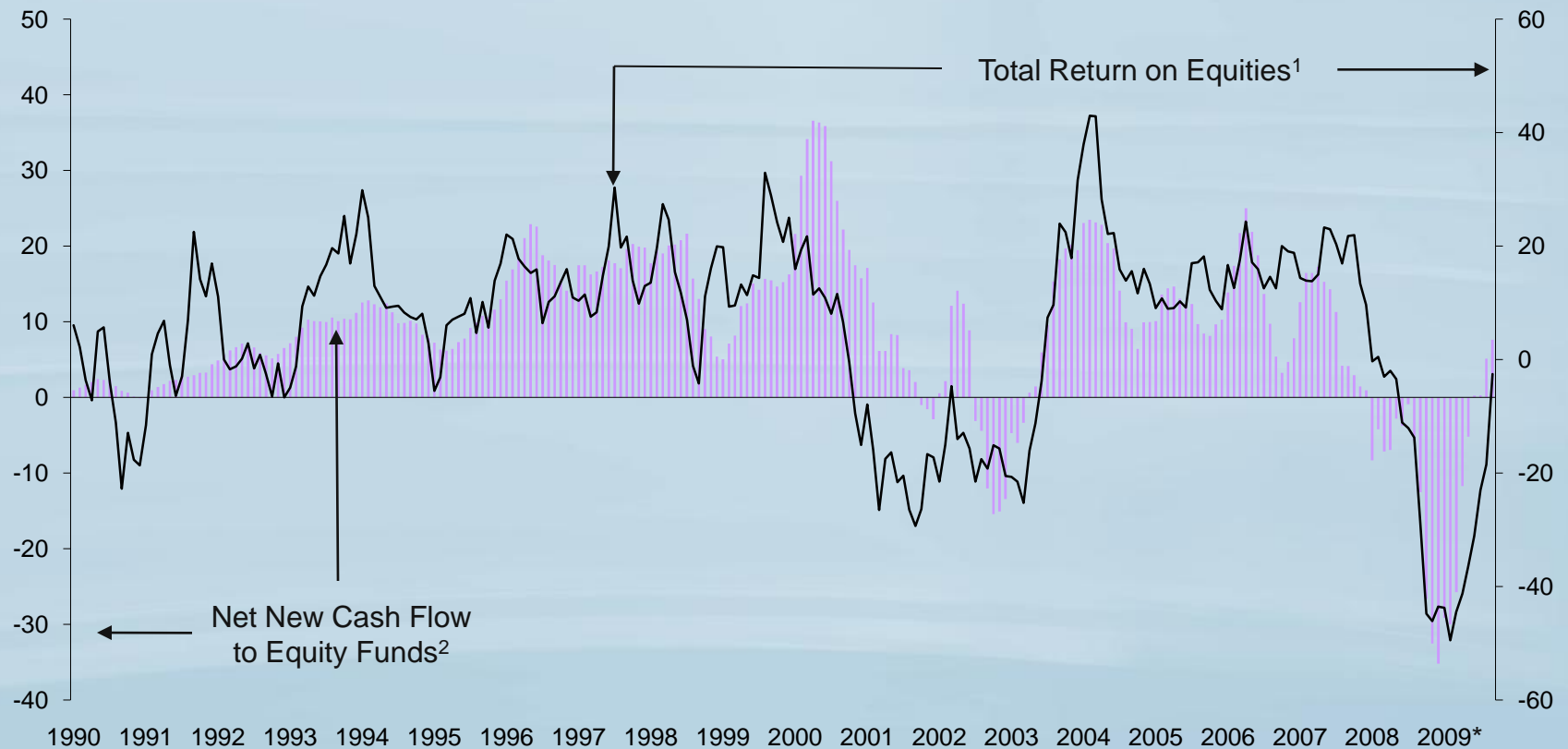
Sources: Investment Company Institute, iMoneyNet, and Bank Rate Monitor

Flows to Equity Funds Related to Global Stock Price Performance

(1990–2009*)

Billions of Dollars

Percentage Points



* Data are through September 2009.

¹ The total return on equities is measured as the year-over-year change in the MSCI All Country World Total Return Stock Index.

² Net new cash flow to equity funds is plotted as a six-month moving average.

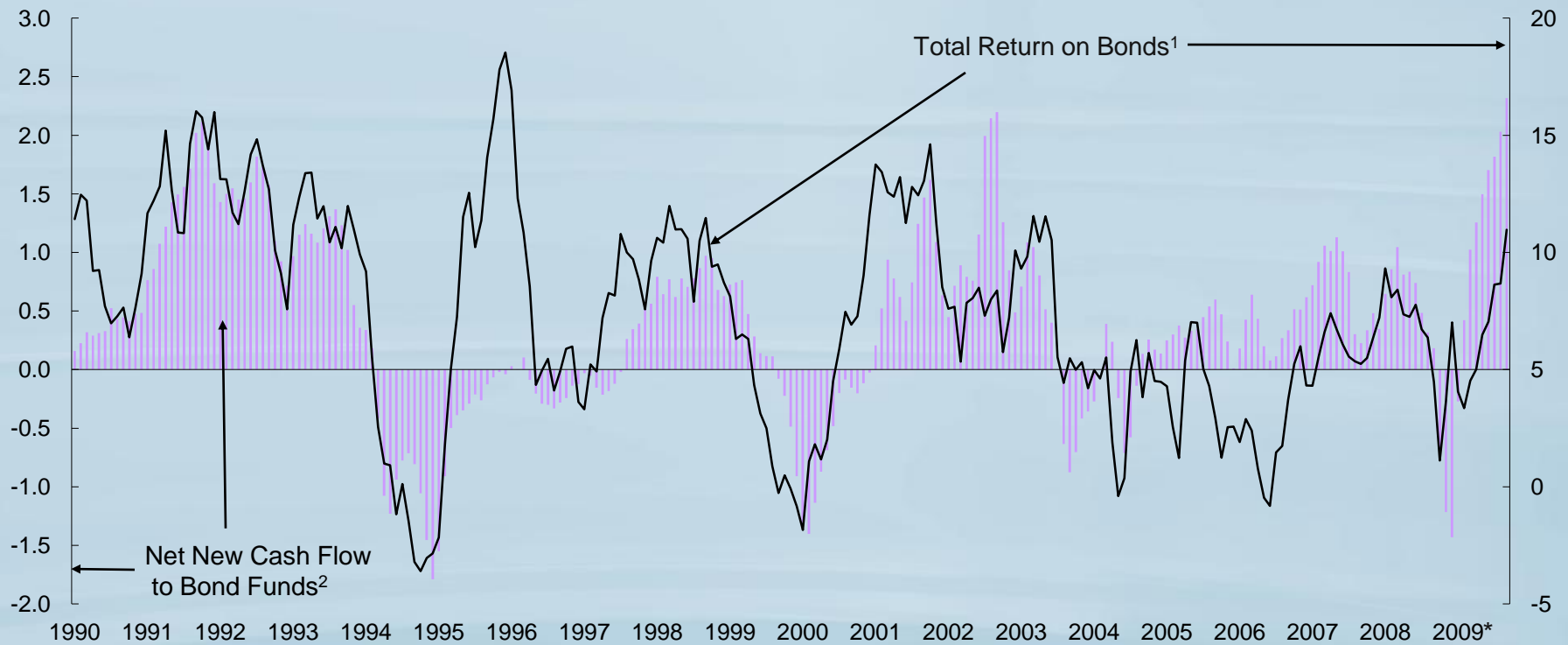
Sources: Investment Company Institute and Morgan Stanley Capital International

Flows to Bond Funds Related to Bond Returns

(1990–2009*)

Percent of Total Net Assets

Percentage Points



* Data are through September 2009.

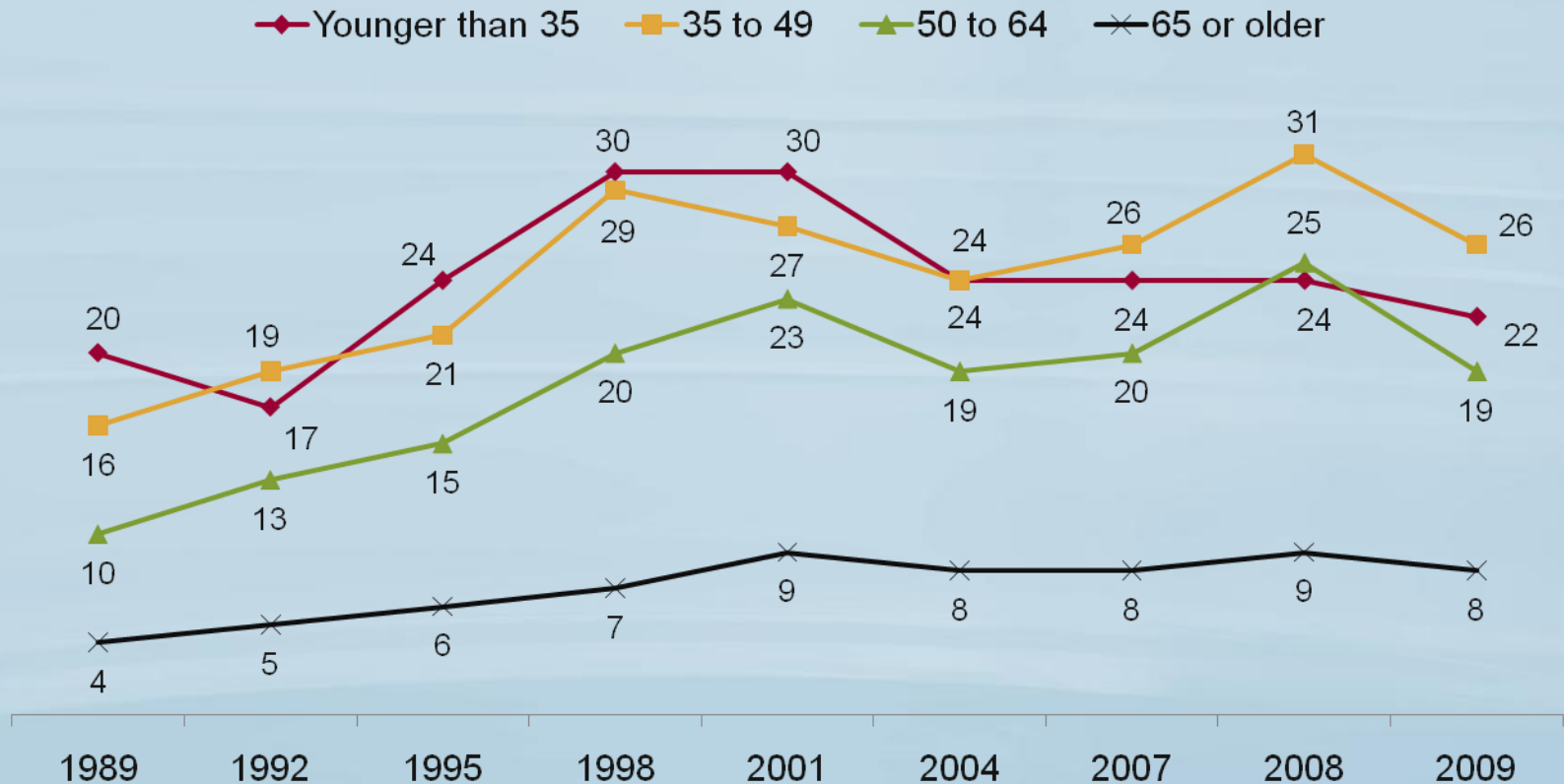
¹ The total return on bonds is measured as the year-over-year change in the Citigroup Broad Investment Grade Bond Index.

² 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.

Sources: Investment Company Institute and Citigroup

Willingness to Take Risk Falls with Age and Has Varied Over Time

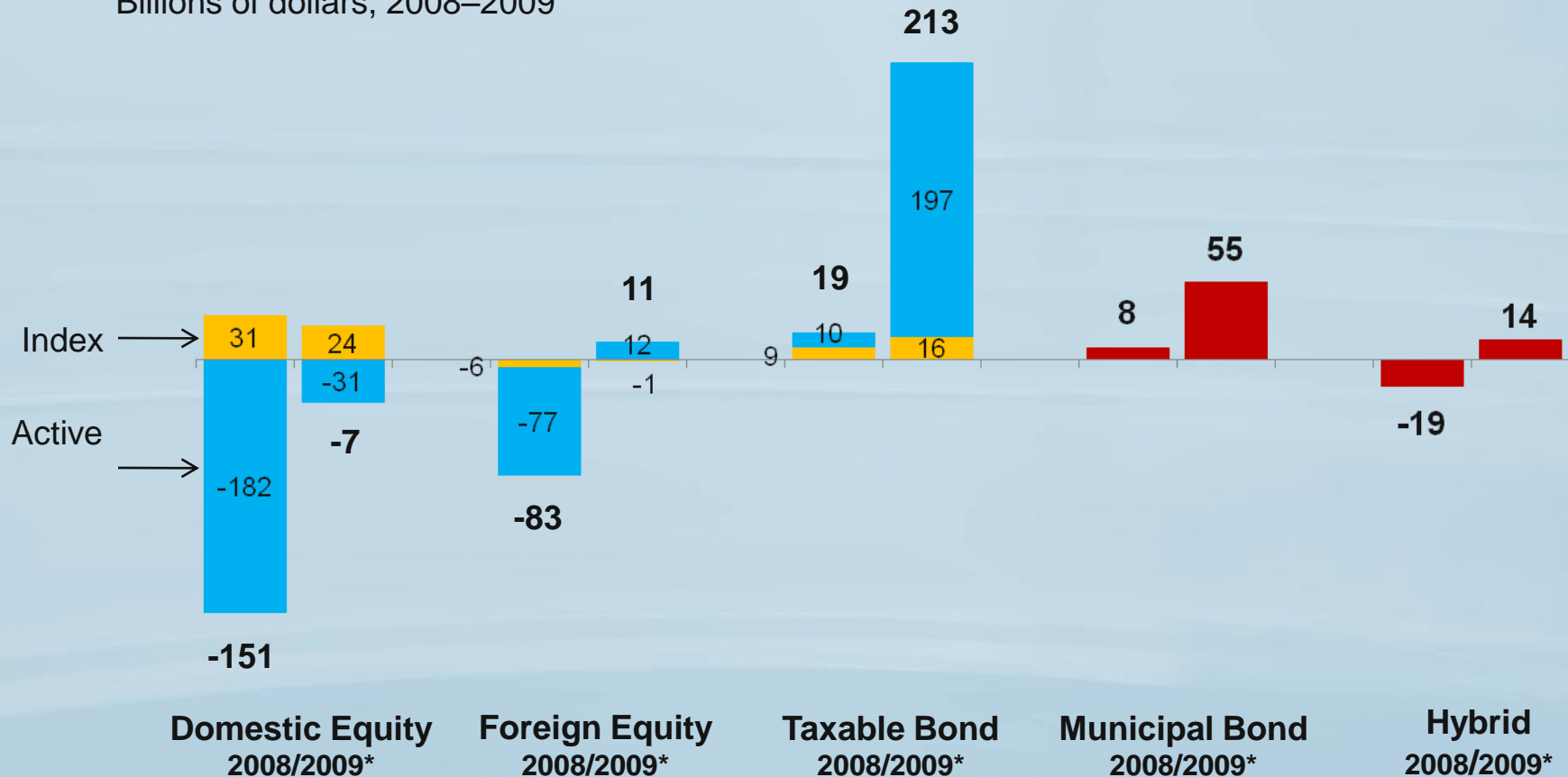
Percentage of U.S. households by age of head of household; willingness to take above average or substantial risk



Sources: Investment Company Institute tabulations of Federal Reserve Board Survey of Consumer Finances and Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey

Net New Cash Flows of Actively Managed and Index Funds by Investment Objective

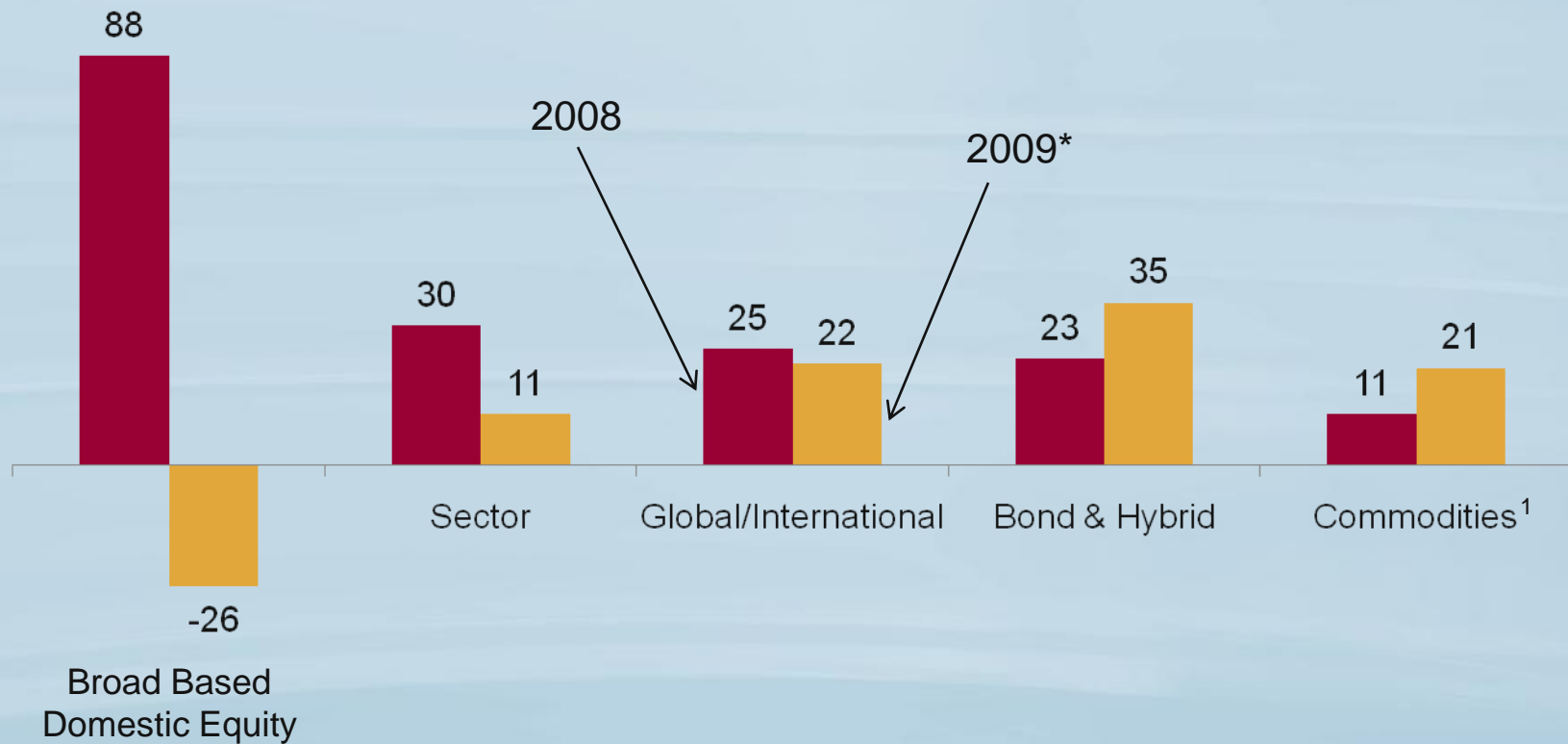
Billions of dollars, 2008–2009*



* Data are through September 30, 2009.
Source: Investment Company Institute

Net Issuance of ETF Shares

Billions of dollars, 2008–2009*



* Data are through September 30, 2009.

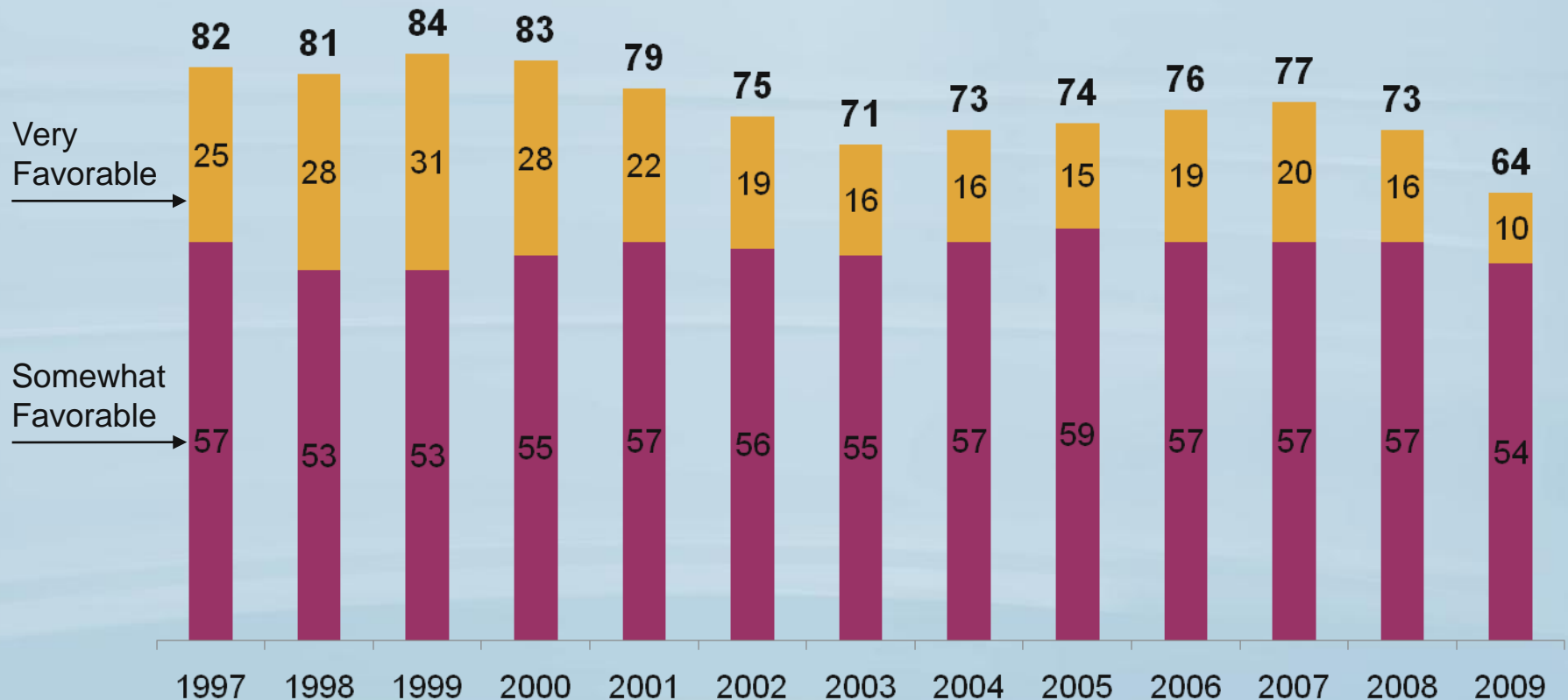
¹ ETFs not registered under the Investment Company Act of 1940.

Note: Data for ETFs that invest primarily in other ETFs are excluded from the total.

Source: Investment Company Institute

Shareholder Favorability

Percentage of mutual fund shareholders familiar with mutual fund companies, 1997–2009



Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey

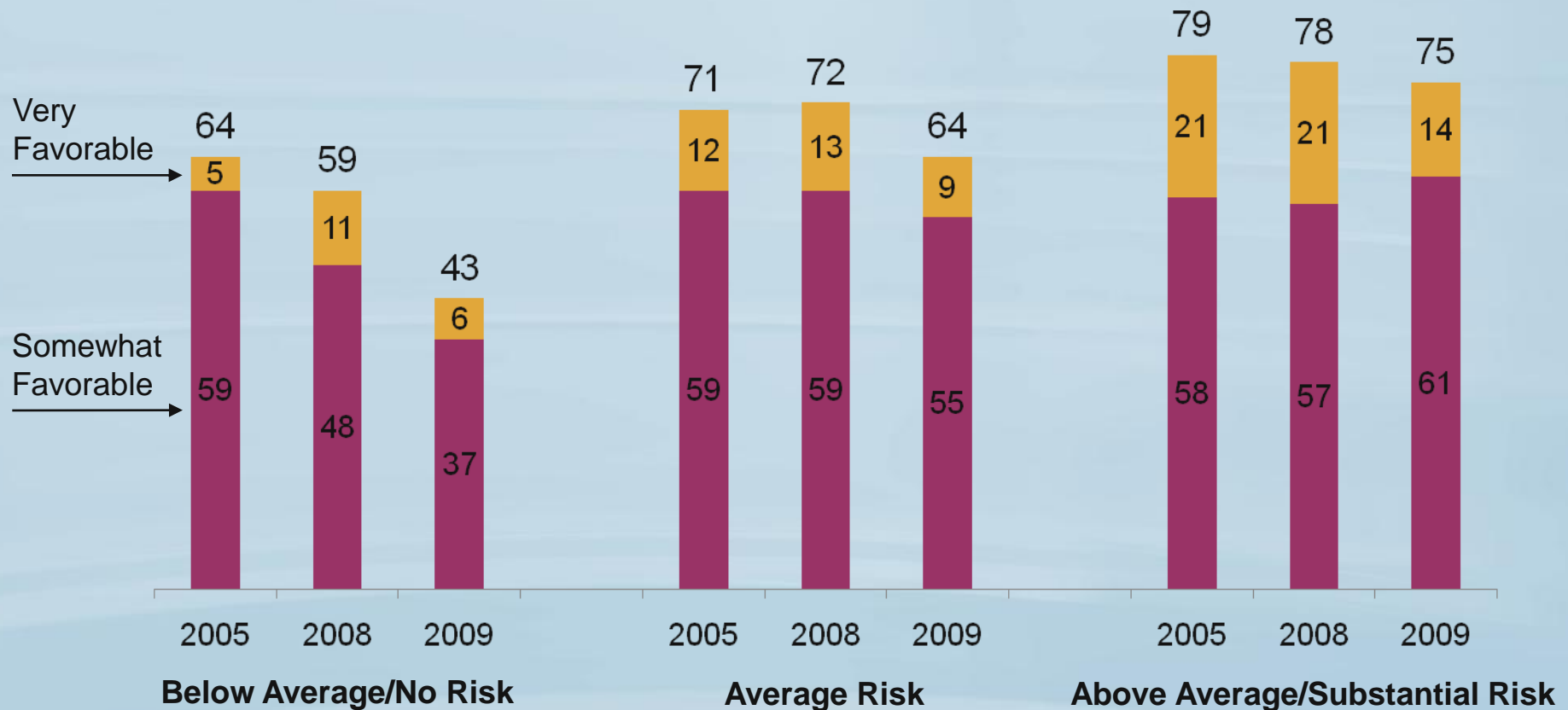
Shareholder Favorability Rises and Falls with Stock Market Performance



Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey and Standard and Poor's

Shareholders Who Report Higher Risk Tolerance Had Smaller Drop in Favorability

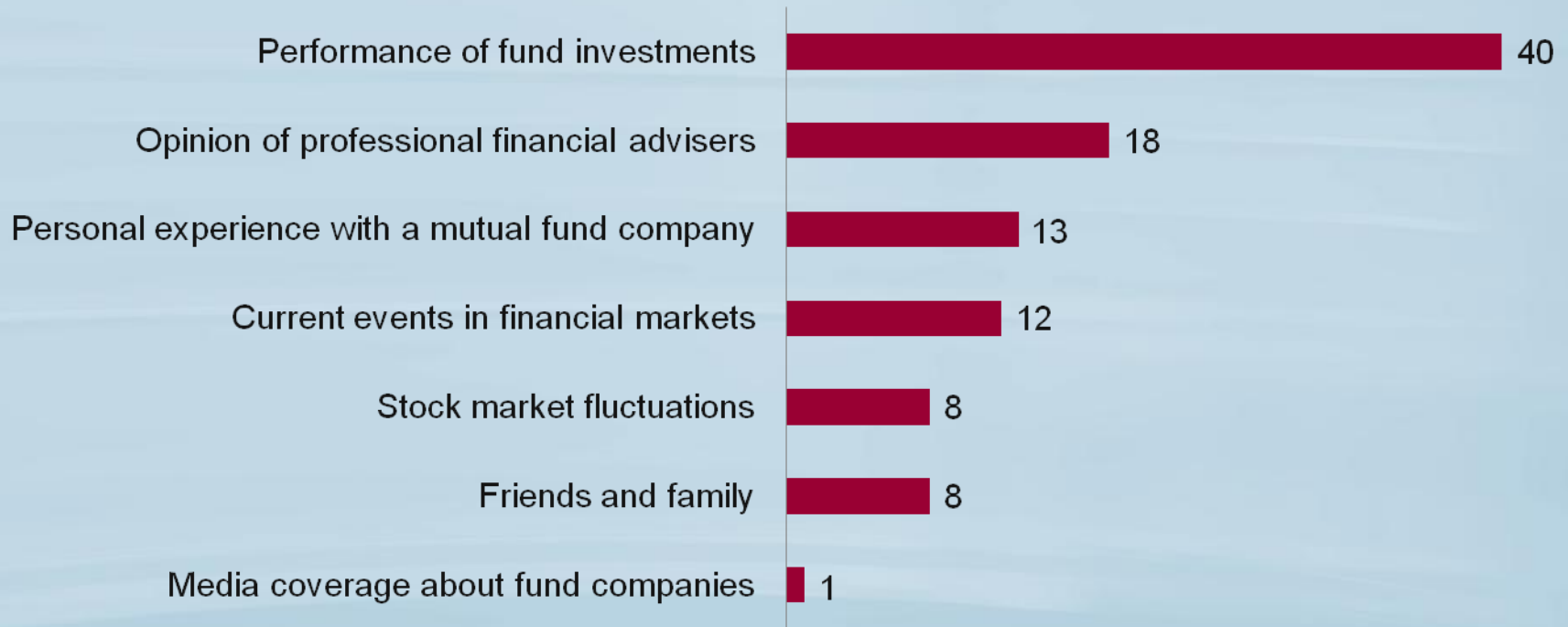
Percentage of mutual fund shareholders familiar with mutual fund companies; 2005, 2008, and 2009



Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey

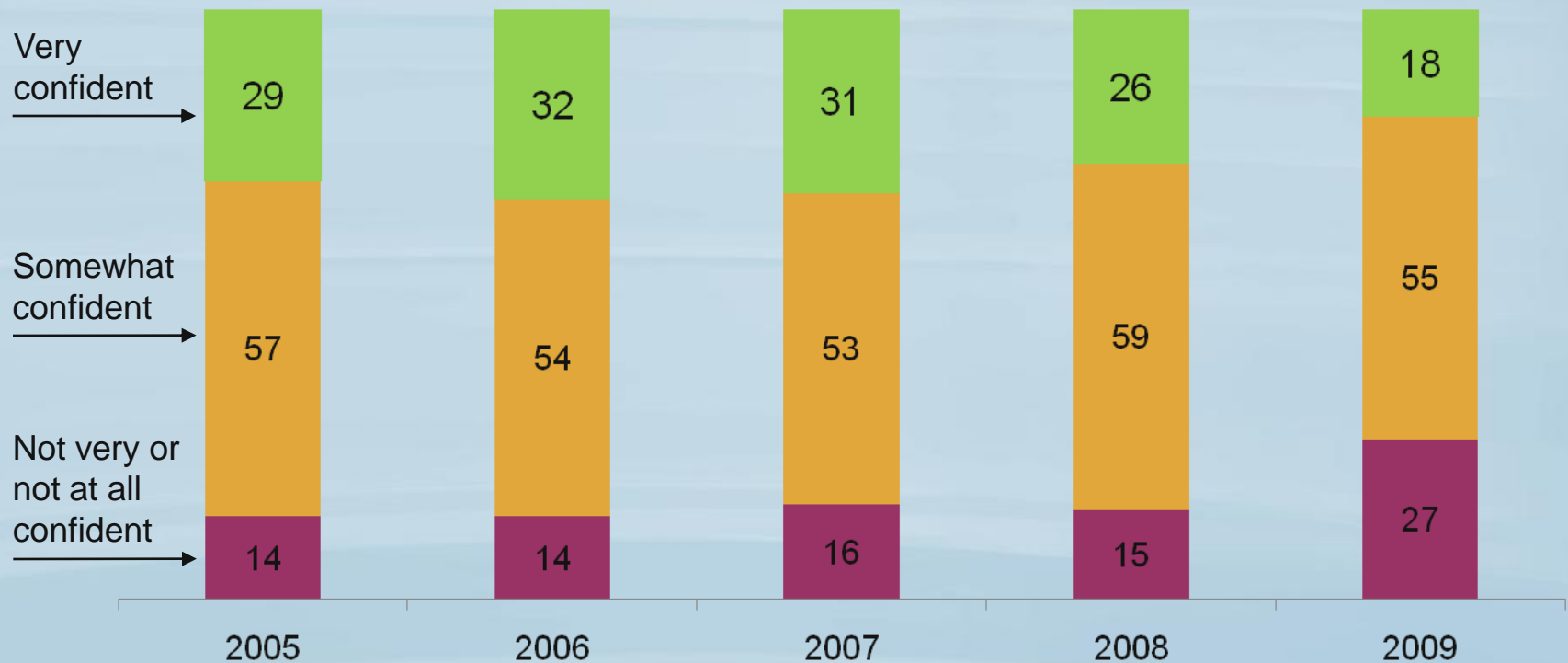
Most Important Factor Shaping Opinion Is Performance

Percentage of shareholders familiar with mutual fund companies who indicate each factor is “most” important, 2009



Shareholder Confidence Has Declined

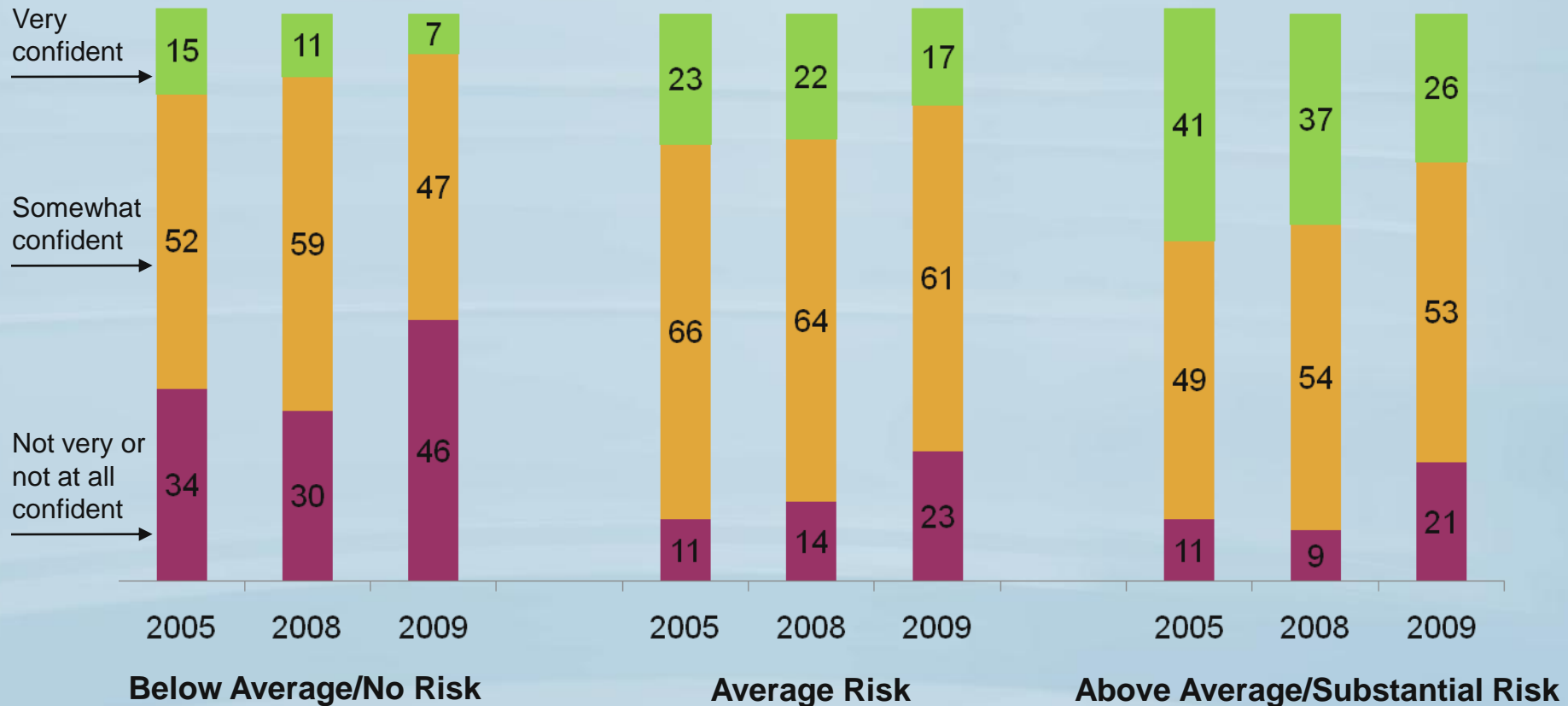
Percentage of all mutual fund shareholders by level of confidence that mutual funds can help them meet their investment goals, 2005–2009



Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey

Shareholders Who Report Higher Risk Tolerance Have Higher Confidence

Percentage of mutual fund–owning household by risk tolerance; 2005, 2008, and 2009



Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey