Monitoring Trends in Mutual Fund Cost of Ownership and Expense Ratios

A Canada – U.S. Perspective

A study by

Investor Economics

and

Strategic Insight

for

The Investment Funds Institute of Canada

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Key Takeaways

1. In the past two decades the mutual fund industries in Canada and the U.S. have followed similar development patterns. Some structural differences remain including the large share of U.S. fund industry assets invested through workforce retirement plans.

2. Major mutual fund companies in both countries offer a wide variety of investment product choices and provide access to their funds and fund-based products through a number of distinct distribution channels.

3. The growth of mutual fund assets in both Canada and the U.S. has been reliant on the active participation of a number of advice-based distribution channels. In Canada approximately 80% of mutual assets are under the care of a professional financial advisor. In the U.S., excluding funds held through workforce retirement plans, roughly four in five investors rely on a financial advisor exclusively or for a significant portion of their investments.

4. Over the past two decades, advisor compensation in Canada and the U.S has shifted away from paying for the advisor's services at the time of purchase (transactional costs) and towards paying for such services over the duration of the investment through ongoing fees representing a percentage of clients' invested assets. However, the two countries took different paths.
   - In Canada, ongoing fees for financial advice are generally embedded within a fund's expense structure, alongside fees for investment management, administration and operations, and any applicable taxes.
   - In the U.S., the prevalent approach is the unbundled fee-for-advice model in which investors pay a negotiated ongoing fee directly to the advisor. These fees are in addition to the fees embedded in a fund's total expense ratio.

5. Neither Canada nor the U.S. provides evidence that the unbundling of financial advisor advice and servicing fees from other fund expenses results in cost savings for mutual fund investors. For many U.S. investors, total costs may have increased.

6. Value-added taxes on management fees which are levied in Canada but not in the U.S.; the scale of the business; the manner in which advice fees are charged; different distribution structures; and the level of penetration of mutual funds in the pension system, are among the factors that combine to explain the differences in the level of the cost of ownership of funds in the two countries and to make it difficult to make detailed comparisons between the two jurisdictions.

7. Beyond these differences, the analysis suggests that the cost of ownership of funds in advised relationships in Canada—both commission - and fee-based—is at a comparable level to the average cost of ownership incurred by a typical fee-based investor in the U.S. who has similarly chosen to be helped by a financial adviser.

8. On a tax-adjusted basis, through the elimination of the impact of Canadian value-added taxes, the asset-weighted cost of ownership in Canadian advice channels is estimated to be 2.02% of invested assets compared to the level of approximately 2% in the U.S.

Introduction

In the summer of 2012, *Strategic Insight* (U.S.) and *Investor Economics* (Canada) were engaged by *The Investment Funds Institute of Canada* (IFIC) to undertake parallel studies of the trends in the cost of ownership of mutual funds in the two jurisdictions. This document summarizes the findings of these studies, highlighting those points of similarity and departure between the U.S. and Canadian mutual fund industries that are relevant to comparing investor costs.

The objective of this summary is twofold. First, to propose an analytical framework that will allow comparisons of the total cost of mutual fund ownership by mutual fund investors in the United States and Canada as well as other countries. The framework identifies and highlights the impact of structural differences between the U.S. and Canadian mutual fund industries, including economies of scale in mutual fund distribution and investment management.

Within this framework, and reflecting two decades of evolving market forces, the second goal of the comparison summary is to arrive at a cost of ownership (CoO) metric for use in discussions focused on cross-border comparisons.

The Cost of Ownership Framework

In analyzing the cost of ownership in Canada and the United States, both studies adopted a comprehensive view of costs associated with owning mutual funds, which reflected investor costs included in the reported fund expense ratios—the total expense ratio ("TER") in the U.S. and the management expense ratio ("MER") in Canada—as well as, importantly, costs residing outside of the fund expense formulas.

The holistic nature of the CoO concept stems from the inclusion of the cost elements at each stage of the fund ownership cycle: at the time of purchase (acquisition costs); during the investment period (ongoing costs, both charged to the mutual fund and directly to the investor); and, at the time of redemption of fund units (disposition costs).

The use of the CoO framework enables industry participants and other observers to account for the structural differences between the U.S. fund TERs and the Canadian fund MERs, and to provide a common platform for investor cost comparisons across countries.

Comparing the Two Mutual Fund Markets

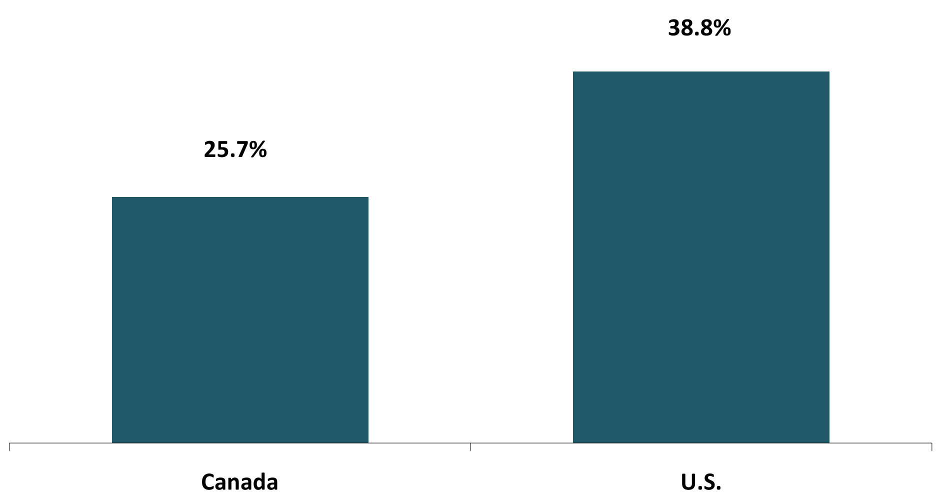
The two studies identify a number of considerations relevant to the discussions of costs incurred by investors in mutual funds.

The Importance of Mutual Funds to Individual Savings

Mutual funds represent a primary avenue for mass market and mass affluent households to access and participate in the fixed income and equity sectors of both domestic and international capital markets.

As suggested by **Figure 1**, mutual funds form a significant part of the total financial holdings of both the Canadian and U.S. households, accounting for 26% and 39% of personal financial wealth (investable assets) in Canada and the U.S., respectively.

Figure 1: Mutual Funds as a Percentage of Financial Wealth
As of December 2011



Source: Investment Company Institute, Investor Economics Insight Database and Household Balance Sheet Report.

In both jurisdictions, mutual funds compete with other financial vehicles, such as fixed and variable rate bank deposits, directly held securities and other retail investment and insurance vehicles for a share of household financial holdings.

Diverse Retirement Market Structures Impact Investor Costs

Although mutual funds are an important retirement savings vehicle in both countries, there are structural differences in the configuration of the retirement markets in the U.S. and Canada.

Approximately one-half of all mutual fund assets in the U.S. are held in dedicated tax-advantaged retirement accounts. Of these retirement savings, about half are held in institutionally-driven, employer-sponsored group retirement and savings vehicles, such as defined contribution 401(K) plans. The other half of tax-advantaged assets are held in individual retirement accounts (IRAs).

Given the size of the defined contribution (DC) plan market in the U.S., a number of mutual fund manufacturers have developed their own record-keeping platforms to service this over $2.5 trillion segment. The magnitude of this institutional distribution channel, and the presence of a number of very large DC plans, have resulted in the development of distinct pricing models for U.S. mutual fund series offered on these platforms. These fund series generally feature lower TERs, particularly for the 40% of DC plan members employed by or retired from major U.S. corporations whose total plan assets each exceed $1 billion. It should be noted that about 90% of DC plans in the U.S. each control under $5 million in assets, and TERs of mutual funds typically used in such plans are higher due to the plan size and the scope of services included in the specific arrangement between the fund provider and the plan sponsor.

The participation of the Canadian fund industry in the retirement market is largely focused on the individually-driven registered retirement savings plans (RRSPs). Assets held in this type of registered account represented 43% of mutual fund industry assets as at December 2011.

While many Canadian mutual fund companies participate in the DC plan segment, their participation is largely as suppliers of mutual fund product to the capital accumulation plan (CAP) platforms operated by the major life insurance companies where they compete with other pooled fund providers, including the proprietary fund arms of the insurers. At the end of 2011, these CAP platforms accounted for approximately 3% of total mutual fund assets in Canada[1]. As a result, fund companies currently have limited influence on the investment costs incurred by CAP plan members.

Range of Investor Choices Reflects Market Forces and Scale

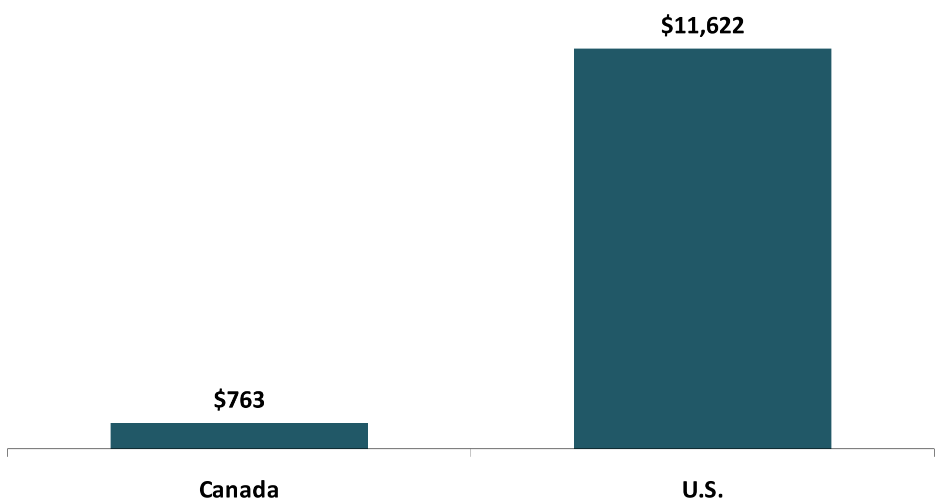
The mutual fund industries in both countries offer investors a wide range of access points, investment strategy mandates, fund features, pricing and advisor

[1] Source: Upcoming Investor Economics *2012 Group Retirement and Savings Report*

compensation options. In both cases, the development of distribution and pricing options reflects the interplay of market rather than regulatory forces.

The more mature and larger U.S. fund marketplace generally offers a broader array of options to investors, particularly in terms of delivery conduits, alternative pricing models that have evolved to reflect client and advisor demand, and investment mandates. The range of investment mandates available to mutual fund investors is one area where the impact of different regulatory frameworks in the two countries has been observed. U.S. regulators have permitted a wider range of investment strategies to be offered by mutual fund manufacturers to retail investors.

Figure 2: Mutual Fund Assets Under Management
In billions of dollars, December 2011



Source: Investment Company Institute, Investor Economics Insight Database and Household Balance Sheet Report. Mutual funds exclude ETFs and closed-end mutual funds.

The difference in the scale of both industries is illustrated in **Figure 2**. The U.S. mutual fund industry is more than ten times larger than its Canadian counterpart. The almost $11 trillion gap between the total assets of the two industries underlines the ability of U.S. mutual fund manufacturers and distributors to take advantage of economies of scale in assets, client numbers, revenue and access to capital to pursue innovation and pricing initiatives at a pace and scale not easily achieved by smaller fund jurisdictions such as Canada. Currently, there are approximately 60 U.S. mutual fund managers each managing over $25 billion, compared to 10 managers in Canada. As the size of the Canadian industry grows so too will the opportunity to pass on economies of scale to investors.

Advice is a Common Link Between Delivery Channels

Figures 3a and 3b provide a comparison of the mutual fund delivery models in the two countries. **Figure 3a** illustrates the distribution of total mutual fund assets under administration in Canada by delivery channel. **Figure 3b** provides an analysis of gross sales of mutual funds in the U.S by delivery channel. (For definitions of each channel, please refer to the *Glossary* at the end of the study.)

Figure 3a: Canada – Long-term Mutual Fund Assets by Channel as a % of Total Long-term Mutual Fund Assets as at December 2011

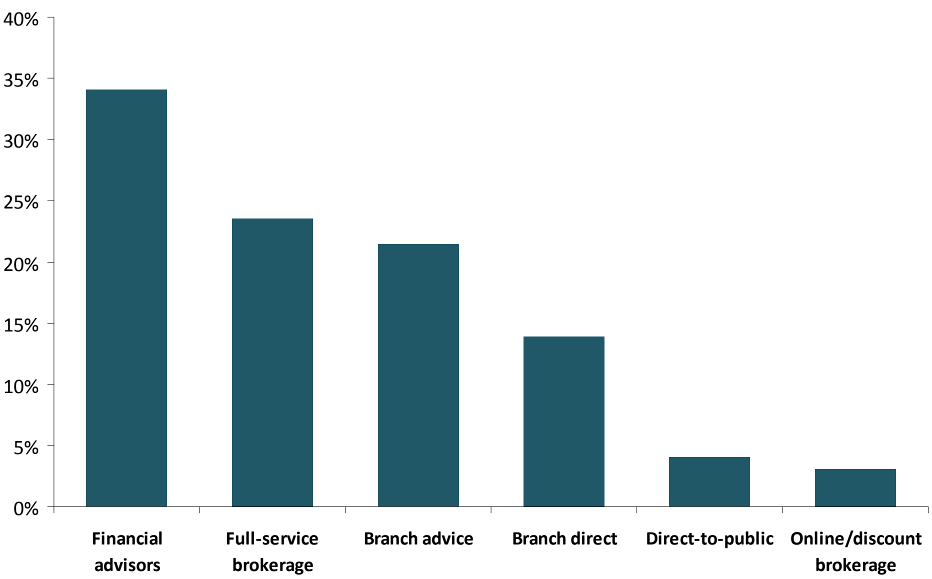
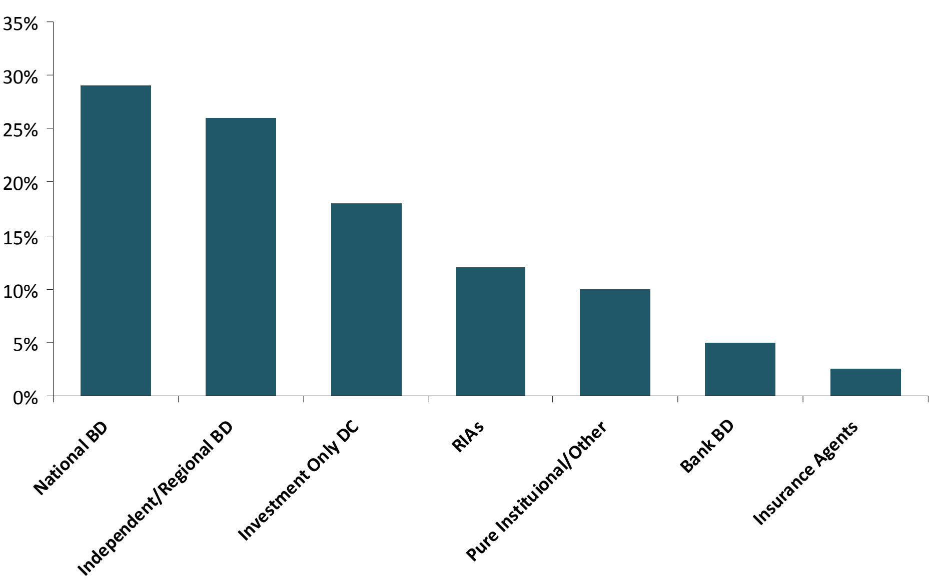


Figure 3b: U.S. – Long-term Fund Sales through Intermediaries: Share of Sales by Distribution Channel 2011



While the two exhibits above use different metrics to provide evidence of distribution channel preferences, the importance of advice channels is a common theme which links the two jurisdictions. In Canada, advice channels account for $79 of every $100 in mutual fund assets. In the U.S., outside of sales that flow through DC plans, an estimated four of five individual fund investors seek advice and investment services from a professional financial advisor for the majority of their invested assets. Furthermore, *Strategic Insight* estimates that in 2011 at least 70% to 80% of sales to individuals being served by financial intermediaries in the U.S. were completed within some form of fee-for-service advisory programs. In such programs, investors pay a fee directly to the financial advisor in addition to the expenses embedded within the mutual funds.

The sheer scale of the U.S. mutual fund industry has enabled it to pioneer innovations in fund delivery such as "fund supermarkets", several of which administer over $100 billion. This channel format is absent from the Canadian retail investment landscape. The establishment and ongoing maintenance of this delivery framework demand significant capital investment in the technology infrastructure by major industry participants, something that is not easily achieved without the benefit of scale.

In addition to serving the do-it-yourself mutual fund investors directly, these "supermarket" platforms are also used extensively by financial advisors to access a wide range of mutual funds and to provide operational and administrative support related to their client accounts. (For more on this channel, please see pages 17-19 in the *Strategic Insight* study *A Perspective on the Evolution in Structure, Investor Demand, Distribution, Pricing, and Shareholders' Total Cost in the U.S. Mutual Fund Industry*.)

A further example of a unique U.S. delivery conduit supported by the scale of the market opportunity is the approximately 29,000 independent Registered Investment Advisors (RIAs) who currently manage an estimated $1 trillion in mutual funds, often through the administration of such accounts within the "fund supermarket" structure discussed above. The scale of this growing channel in the U.S. has provided a fertile ground for the noticeable shift towards the unbundled fee-based advice model.

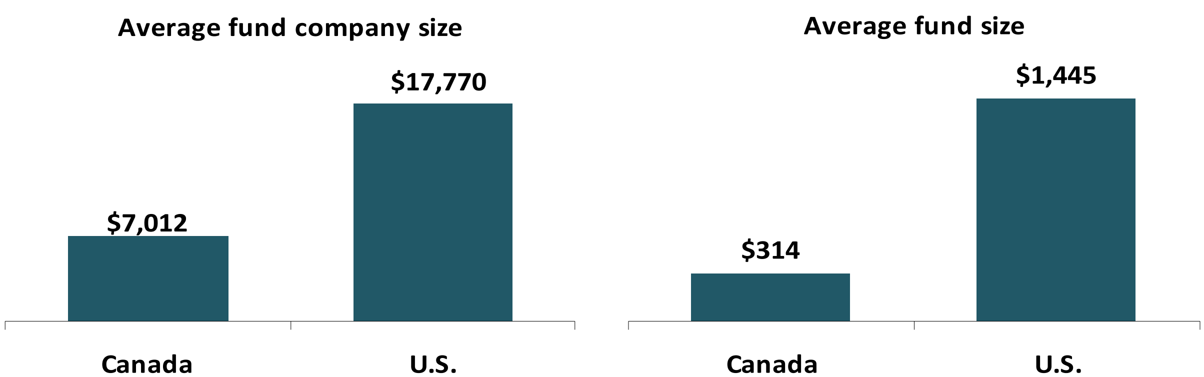
Scale Can Translate into Cost Efficiencies

The scale advantage of the U.S industry is also evident at both the fund company and individual fund levels. For example, the U.S. industry includes three fund companies, among the total of approximately 700, whose managed assets are each larger than the entire Canadian fund industry. In addition, there are 21 U.S. fund companies that each manages over $100 billion. There are 115 active fund companies in Canada, only one of which manages assets in excess of $100 billion.

Both fund industries include a significant number of relatively small fund companies and funds where few economies of scale are available. For example, 29% of Canadian mutual fund managers and 38% of U.S. mutual fund managers each manage less than $100 million.

The average fund company size in the U.S. is about $18 billion, compared to an average of $7 billion in Canada. The corresponding metrics for average mutual fund size are $1.45 billion and $314 million for the U.S. and Canada, respectively **(Figure 4)**.

Figure 4: Average Size of Fund Companies and Individual Funds
In millions of dollars, December 2011



Source: Investment Company Institute and Investor Economics Insight Database

Large financial institutions, such as many of the leading U.S. fund companies, have the ability to realize cost efficiencies in a number of critical areas including investment management, wholesaling, marketing, client servicing, recordkeeping, regulatory filings, and other operations. The competitive nature of the fund industry and the transparency and easy comparison of mutual fund costs are among the market forces encouraging fund companies to pass the financial benefit of their scale efficiencies to fund unitholders in the form of a lower fund management fees.

The same argument can be applied to large funds, where fixed costs can be spread across a large asset base, resulting in potential cost savings at the management fee and operating expense levels.

Evolution of Advisor Compensation Models

The past decade heralded a significant change in the mutual fund distributor and advisor compensation models away from point-of-sale client-paid commissions and fund company-funded advisor commission payouts. The focus of advisor compensation in both Canada and the U.S has shifted towards the charging of ongoing fees-for-advisor-service based on a percentage of client assets.

While the two countries have taken different routes to a largely similar result, forces behind the shift were common to both jurisdictions. These drivers of change, which did not include regulatory intervention, included the evolution of demand (repeat, more mature and better-informed clients); a shift from stand-alone fund sales towards fund-based asset allocation solutions (such as fund wraps); and competition from other investment instruments (such as ETFs) among advice-giving distributors.

In 2011, 98% of mutual fund assets in Canada did not attract upfront charges and did not incur disposition costs (for more on this measurement, please see pp 22-23 of the *Investor Economics* study *Mutual Fund MERs and Cost to Customer in Canada: Measurement, Trends and Changing Perspectives*). This reflects the prevalence of load-waived front-end load (zero point-of-sales commissions) fund sales in Canada. No load and unbundled fund series (F-series) sales are also on the rise. As a result, advisor compensation is now largely dependent on ongoing fund trailing commissions which are embedded in the fund's MER, or separate fees associated with a fee-based account (the unbundled pricing model). Of the two models, the fund-embedded trailer compensation is currently the dominant one in the financial advisor channel. It is the case, however, that fee-based accounts are emerging as the business model of choice in the full-service brokerage channel, in which mutual funds are but one of multiple product options.

Similarly in the U.S., transactional mutual fund investor costs—where investors pay a fee at point-of-sales or upon redemptions—currently account for fewer than 10% of mutual fund sales. The unbundled fee-for-advice models—where investors pay an ongoing fee directly to the financial advisor and where such a fee is paid in addition to the fees embedded in funds' TERs—is the prevalent method for nearly all mutual funds purchased with the help of a financial intermediary. This fee-for-advice culture extends across both independent advisors (i.e. RIAs), as well as those employed by national or regional U.S. broker-dealers. As a result, cost of ownership comparisons between mutual fund investors in both countries must take into account the impact of this unbundled investor cost which is not captured in the U.S. fund TER.

No Evidence of Meaningful Investor Cost Savings in Unbundled Fee Models

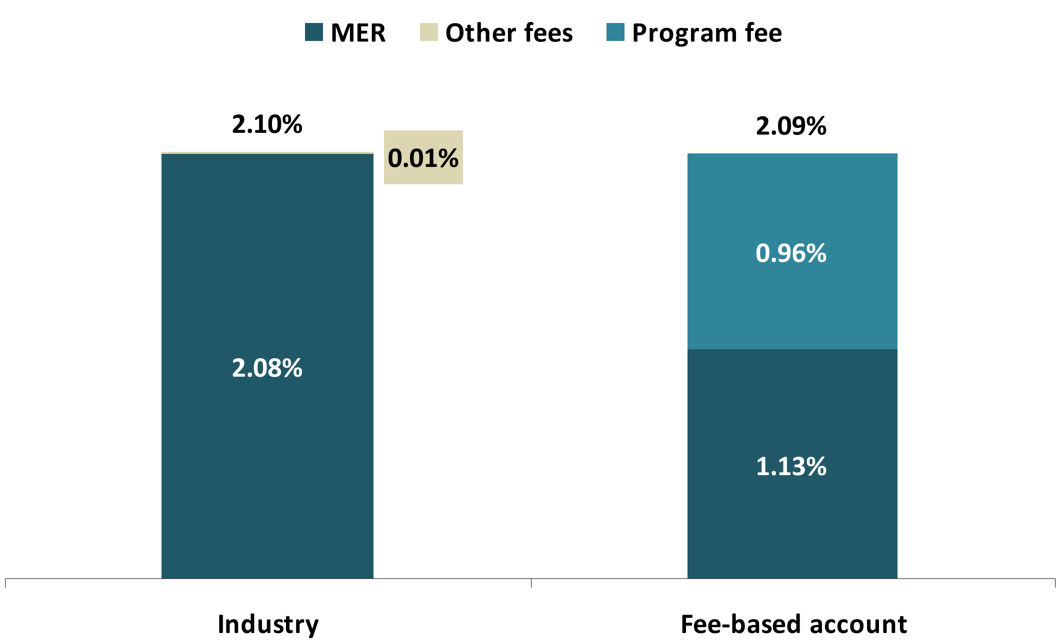
Neither Canada nor the U.S. provides evidence that the unbundling of distributor advice fees from fund expenses results in cost savings for mutual fund investors.

Strategic Insight suggests that an opposite effect took place in the U.S., where fee-for-advice fees range between 1.0% and 1.5%, with the first fee reduction tier occurring at a relatively significant asset level, such as $200,000 for a mutual fund wrap program offered by a full service brokerage firm. In other channels, the fee reduction level is set in some instances at $500,000.

The *Strategic Insight* report states that "for many 'buy-and-hold' U.S. mutual fund investors, total shareholder costs over the lifetime of an investment have increased as a result of the transition to a fee-for-advice model." It further suggests that "In total, the unbundling of fees has resulted in an increase in the total shareholder costs for many investors, with such an increase amplified due to tax considerations at times." (For more information, see pp 5 of the *Strategic Insight* study *A Perspective on the Evolution in Structure, Investor Demand, Distribution, Pricing, and Shareholders' Total Cost in the U.S. Mutual Fund Industry*.)

Canadian fee-based account fees generally fall at or below U.S. levels. **Figure 5** below illustrates the Canadian experience by identifying the average cost of owning mutual funds in an unbundled fee-based account and comparing it to the industry aggregate cost of ownership metric developed for the purposes of this study. The investor cost savings are modest, and likely reflect the higher-end nature of the account clientele. The average account size for a non-discretionary fee-based brokerage account in Canada is $225,000 and $360,000 for a discretionary fee-based account.

Figure 5: CoO of Mutual Funds in Canada



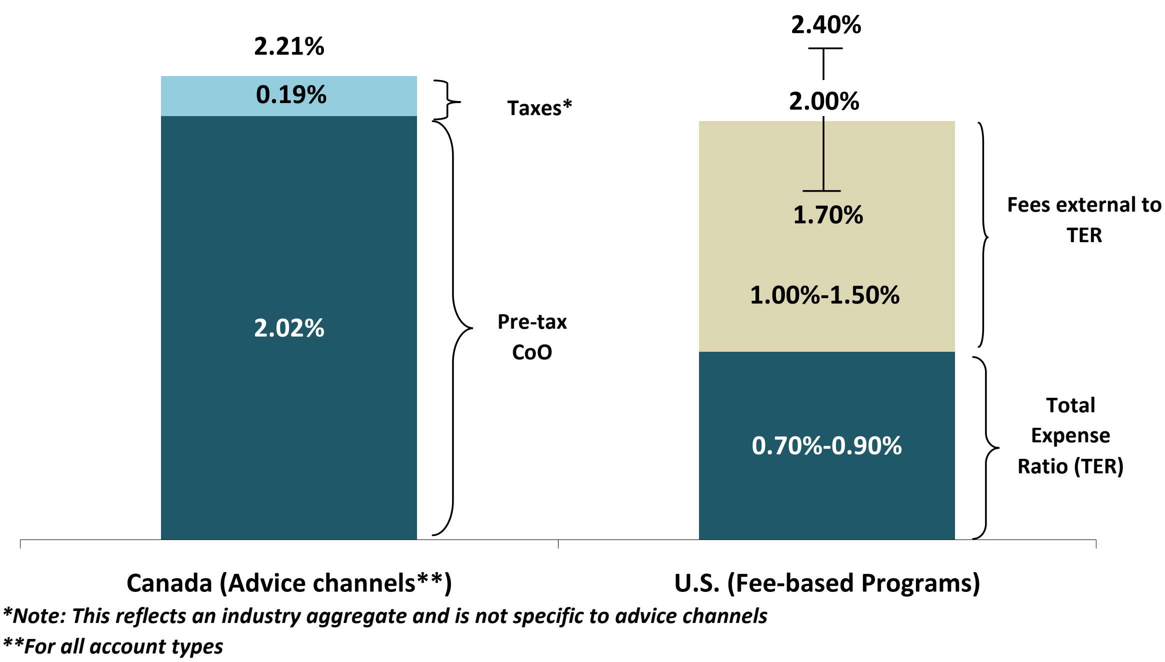
Cross-country Comparison of Mutual Fund Investor Costs

The comparable CoO metrics for clients in advice channels in the U.S. and Canada are shown in **Figure 6.**

The depicted U.S. cost reflects the dominant fee-for-advice model, and includes a range for external fees. These fees can range from up to 1.5% of managed assets charged annually for smaller investments (i.e. $100,000), down to approximately 1.0% for larger investments (i.e. over $1 million) as shown in **Figure 6** (for additional details, please refer to the *Appendix*). These external fees are charged to investors along with the underlying average fund TERs estimated at 0.85% (which does not include any distributor fees).

Adding these two costs components, *Strategic Insight* estimates the average CoO for U.S. mutual fund relationships guided by a financial intermediary to be approximately 2% (see pp 45 of the *Strategic Insight* study *A Perspective on the Evolution in Structure, Investor Demand, Distribution, Pricing, and Shareholders' Total Cost in the U.S. Mutual Fund Industry*). This cost may range depending on the size of the relationship, family of funds, and the portfolio asset mix. For U.S. investors with accounts under $250,000, the CoO may be at the higher end of this range, reaching 2.25% or higher due to increased external fee levels.

Figure 6: Comparing Cost of Mutual Fund Ownership



The Canadian measure has been assembled as an asset-weighted average representing all types of accounts sold through advice-giving distribution channels. This average CoO accounts for the impact of transactional charges and fund-embedded fees (MER) and unbundled fees levied at the account level.

Canada is unique among mutual fund markets in that both federal and provincial value-added taxes are required to be embedded in the MER. On an industry aggregate basis, the impact of these taxes is to increase the asset-weighted CoO by approximately 19 basis points (For information on the methodology used to determine the tax component, please refer to page 59 of the *Investor Economics* study *Mutual Fund MERs and Cost to Customer in Canada: Measurement, Trends and Changing Perspectives*). If no value-added taxes were imposed on various components within the MER, the CoO in Canada would be almost directly comparable to that in the U.S. (For more on the components comprising the Canadian CoO and measures by channel and advice model, please see the *Investor Economics* study *Mutual Fund MERs and Cost to Customer in Canada: Measurement, Trends and Changing Perspectives.*)

The analysis renders similar overall pre-value-added tax CoO results for both countries. On an after-tax basis, the Canadian average CoO is 21 basis points higher than the comparable U.S. measure. This gap expands to 51 basis points for large investors who qualify for fees at the low end of the U.S. fee range but disappears for smaller investors whose advice fees in the U.S. might fall in the higher end of the specified fee range (see *Appendix* below for further details). These differences can be largely explained by economies of scale and the sales taxes levied on virtually all components of the Canadian MERs. No such taxes are imposed in the U.S..

On average, the Canadian mutual fund CoO in advice channels can be lower than the U.S. for more modest account levels, as a result of the potentially higher fee-based account fee ranges for U.S. investors. However, the emerging competitive pressures in the U.S. are pushing the fee-for-advice fee levels towards the lower end of the fee range.

In Canada, similar pressures have resulted in an overall decline in fee levels charged to clients using fee-based brokerage and advisor managed accounts, as well as declining fund management fee levels, particularly in the unbundled F-series and the HNW-series, both of which target the high end of the fund investor spectrum.

Appendix

The commentary below has been developed by *Strategic Insight* to provide additional information on charges incurred by investors in the U.S. that hold mutual fund units in a fee-based account. There is no comparable data available for Canada as the use of similar fee-based structures for holding mutual fund units is extremely limited and, in any event, only available to investors with accounts in excess of $100,000. Additional information on this topic is contained in the reports developed by *Strategic Insight* and *Investor Economics*.

Fees Charged to U.S. Mutual Fund Investors within Fee-for-Service Accounts in Addition to Mutual Fund Embedded Fees

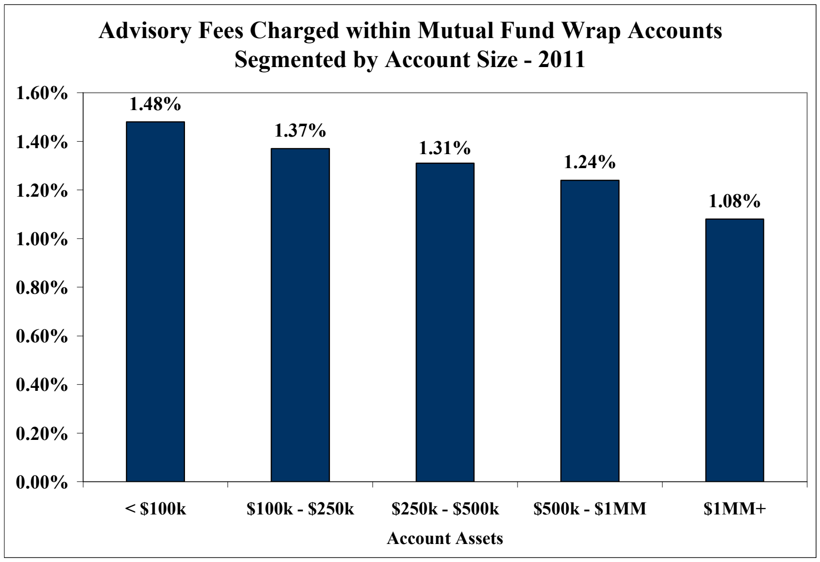
The table below indicates advisory fees charged directly by financial advisors to their clients across various account sizes. These advisory fees are in addition to mutual fund TERs. For example, the top row shows that among investors with $100,000 accounts, only 1% of financial advisors charge less than 0.75% annually, while 65% of such advisors charge their $10 million dollar client accounts less than 0.75%.

US Fee-Based Advisory Programs Frequency of Advisory Fee Charged by Client Asset Size - 2011						
Fee Range	**$100K**	**$300K**	**$750K**	**$1.5m**	**$5m**	**$10m**
Less than 0.75%	1%	1%	2%	7%	30%	65%
0.75% to 1.00%	6%	9%	22%	36%	45%	26%
1.00% to 1.25%	22%	35%	44%	36%	19%	6%
1.25% to 1.50%	39%	30%	16%	12%	3%	1%
1.50% to 1.75%	10%	12%	8%	6%	2%	1%
1.75% to 2.00%	10%	9%	6%	3%	1%	1%
2.00% to 2.50%	9%	3%	1%	0%	0%	0%
More than 2.50%	2%	0%	0%	0%	0%	0%

Sources: Cerulli Associates, in partnerships with the Financial Planning Association, the Investment Management Consultants Association, Advisor Perspectives, and Morningstar

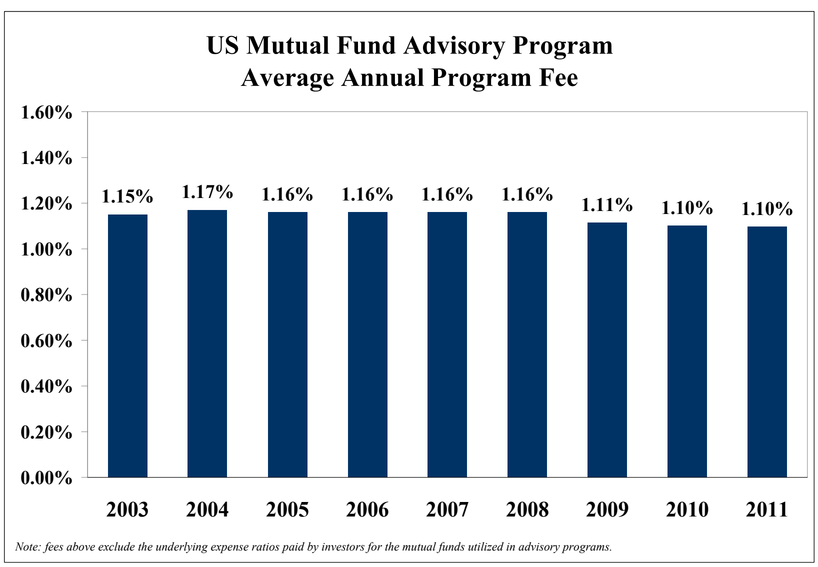
As captured above, approximately 70% of U.S. investors with account sizes of $100,000 are charged advisory fees higher than 1.25% and 31% are charged over 1.50%. This suggests that the external fees for an average mutual fund investor could exceed 1.25%.

The chart below – based on data and research from PriceMetrix – details the average overlay fee charged to investors of varying asset sizes across 11,000 mutual fund wrap accounts in the U.S.



*Source: PriceMetrix, Inc *Note: Advisory Fees expressed as RoA (Return on Assets)*

In measuring the fee paid on the average dollar (as opposed to the average investor) within fee-based accounts in the U.S., the influence of larger investor accounts is significant with a relatively low number of accounts holding a high proportion of actual dollars. The graph below, based on research from Cerulli Associates, shows the dollar-weighted-average annual program fee paid by U.S. investors in aggregate, within mutual fund-centric fee-based advisory programs. This data excludes underlying fund expenses and additional charges that are levied in some programs.



Source: Cerulli Associates

Glossary

Canadian Distribution Channels

1. Branch advice (BA)

The branch advice channel is a creation of the major banks and credit unions and accounts for $314 billion in client assets. 13,500 in-branch advisors are engaged primarily in financial planning and investment product distribution. Advisors are predominantly registered to the MFDA arm of deposit-takers, although some BA advisors are registered through IIROC.

2. Branch direct (BD)

This channel is made up of personal banking officers and employees with similar responsibilities. They initiate mutual fund transactions at the request of customers and provide limited advice. Individuals in the branch direct channel may move into the firms' branch advice channel.

3. Direct-to-public

The direct-to-public channel is represented by a small group of firms that include private investment counsellors and specialist firms. The share of the mutual fund market represented by this channel is modest.

4. Financial advisor (FA)

The FA channel is the most varied of the channels. It is made up of a wide range of firms including registered dealer firms; unregistered, fee-only planning firms; and life insurance distributors. These business models have varying degrees of independence and different product shelf capabilities. In the dealer category, models range from those with dedicated sales forces to firms with a high degree of product independence.

The FA channel also includes insurance distribution firms through which licensed insurance agents distribute life insurance products and segregated funds. The majority of these insurance distributor firms (approximately 300) are managing general agencies.

5. Full-service brokerage (FSB)

In terms of assets, FSB is the largest intermediated channel. The channel includes those IIROC member firms that have client-facing advisors with a retail offering of directly-held securities and fee-based managed asset solutions, including discretionary management. The open architecture and investment dealer registration allow these firms to distribute the widest range of investment products and wealth management solutions of any channel. Over 10,000 advisors operate in the full-service channel, though the number of firms operating in the channel continues to be reduced by consolidation.

6. Online/discount brokerage (ODB) and direct-to-public

This channel delivers products and its value proposition largely through centrally-managed technology platforms. The channel is dominated by bank-owned firms although some small firms operate in the deep discount and specialized sectors. This channel is growing rapidly in terms of both assets under administration and the number of users.

<u>U.S. Distribution Channels</u>

1. National Broker-Dealers

The National Broker-Dealer channel encompasses a number of the largest wealth management firms in the U.S. These firms, which distribute both individual securities, unitized investment and other fee-based solutions, account for more than 50,000 financial advisors nationwide and represent a very substantive proportion of overall U.S. mutual fund industry sales. From an asset perspective, National Broker-Dealers account for in aggregate over $1 trillion in total U.S. mutual fund assets.

2. Independent/Regional Broker-Dealers

Independent and Regional Broker-Dealers are comprised mainly of broker-dealer firms whose financial advisors operate as independent contractors (as opposed to National BD advisors who are employees of their firms). The Independent/Regional BD marketplace is made up of a majority of small firms but also several large and growing players. This channel, which offers similar products to National Broker-Dealers, represents an important advisor-sold mutual fund distribution avenue in the U.S.

3. Registered Investment Advisors (RIAs)

The RIA channel encompasses independent and largely fee-only advisors whose primary means of accessing mutual funds is via supermarket platforms such as those offered by Schwab, Fidelity, etc. While the RIA channel has been an emerging area of focus for many of the large, traditionally broker-dealer sold fund firms in the U.S., much of the established mutual fund presence within the RIA community has been concentrated largely among no load boutique and specialized fund managers.

4. Investment-Only Defined Contribution

The Investment-Only Defined Contribution channel includes mutual fund sales within defined contribution retirement plans in which the fund manager acts in an investment capacity only (through the offering of its mutual funds to plan participants) and does not also serve as the retirement plan's recordkeeper.

5. Bank Broker-Dealers

The Bank Broker Dealer channel includes mutual fund sales through bank-affiliated financial advisor networks. These Bank BD advisors often operate and sell products out of branches of affiliated bank locations.

6. Insurance Agents

The Insurance Agent channel represents sales through the agent networks of insurance companies. For purposes of the data included in this report, Insurance Agent sales include mutual funds only and exclude sales of variable annuity or other insurance-related products (which may be more prevalent within this channel).

7. Pure Institutional / Other

The Pure Institutional / Other channel captures mutual fund sales through pure institutional investors such as pension funds, endowments, etc. Such sales may often be made directly by a fund company to an institution, without the assistance of a financial advisor.