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CHAPTER TWO

US-Registered Investment Companies

Registered investment companies are an important segment of the asset management industry in the United States. US-registered investment companies play a major role in the US economy and financial markets and a growing role in global financial markets. These funds managed \$45.1 trillion in total net assets at year-end 2025, largely on behalf of nearly 130 million US retail investors. The industry has experienced robust growth over the past few decades from both asset appreciation and strong demand from households resulting from rising household wealth, the aging US population, and the evolution of employer-based retirement systems. US funds supply investment capital to securities markets around the world and are important investors in the US stock, bond, and money markets.

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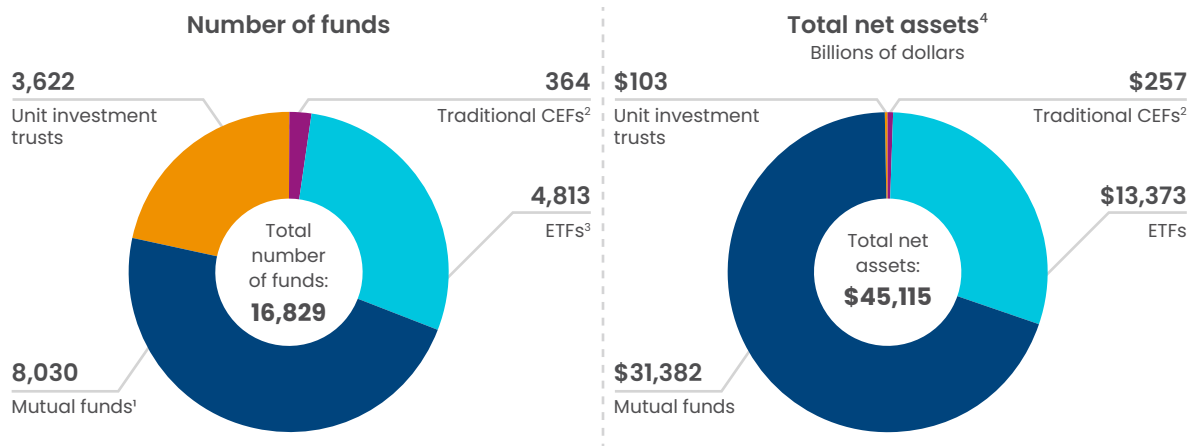
Number and Assets of Investment Companies

There were 16,829 investment companies* offered by US financial services companies at year-end 2025 (Figure 2.1). The overall number of investment companies has fluctuated modestly over the past decade as substantial growth in the number of exchange-traded funds (ETFs) has generally been offset by decreases in the number of unit investment trusts (UITs), mutual funds, and traditional closed-end funds (CEFs).

FIGURE 2.1

Most Investment Company Total Net Assets Are in Mutual Funds

Year-end 2025



¹ Mutual fund data for number of funds include mutual funds that invest primarily in other mutual funds.

² CEF data only include traditional CEFs. CEF data for total net assets include preferred share classes.

³ ETF data for number of funds include ETFs that invest primarily in other ETFs.

⁴ Total investment company assets include mutual fund holdings of CEFs and ETFs.

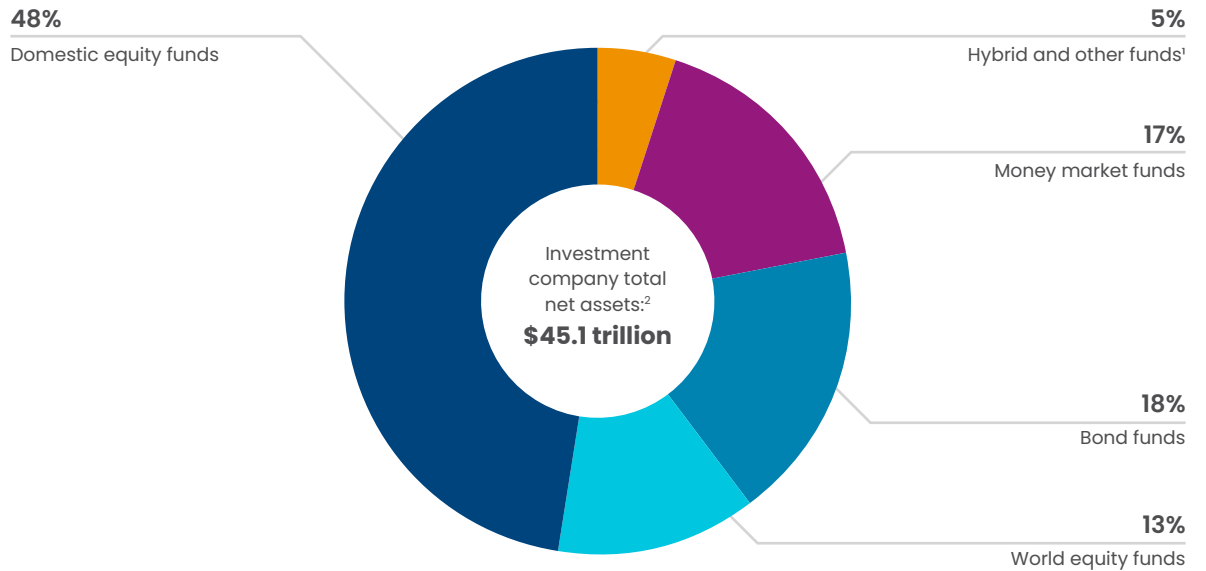
Total net assets in US-registered investment companies increased in 2025 to a year-end level of \$45.1 trillion, with the vast majority held by mutual funds and ETFs (Figure 2.1). US-registered investment company total net assets were concentrated in long-term funds, with equity funds alone holding \$27.3 trillion—61% of all investment company total net assets at year-end 2025 (Figure 2.2). Domestic equity funds (those that invest primarily in shares of US corporations) held \$21.4 trillion in net assets; world equity funds (those that invest significantly in shares of non-US corporations) accounted for \$5.9 trillion. Bond funds held \$7.9 trillion in assets, while money market funds, hybrid funds, and other funds—such as those that invest primarily in commodities—held the remaining \$9.9 trillion.

* The terms *investment companies* and *US investment companies* are used at times throughout this book in place of *US-registered investment companies*. US-registered investment companies are open-end mutual funds, ETFs, traditional CEFs, and UITs.

FIGURE 2.2

The Majority of Investment Company Total Net Assets Were in Equity Funds

Percentage of total net assets, year-end 2025



¹ The *other funds* category includes ETFs—both registered and not registered under the Investment Company Act of 1940—that invest primarily in commodities, currencies, and futures.

² Total investment company assets include mutual fund holdings of CEFs and ETFs. CEF data include only traditional CEFs. CEF data for total net assets include preferred share classes.

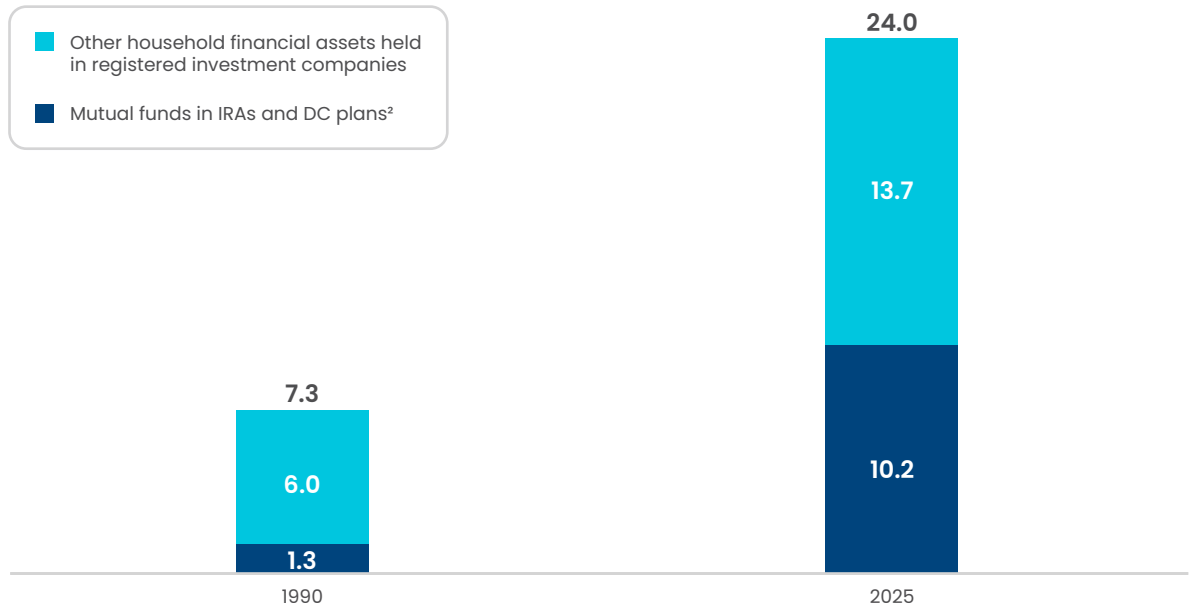
During 2025, mutual funds recorded an aggregate \$552 billion in negative net new cash flow as sustained demand for money market funds was not enough to offset outflows from long-term mutual funds (see Figure 3.3). Mutual fund shareholders reinvested \$665 billion in income dividends and \$704 billion in capital gains distributions that mutual funds paid out during the year. Investors continued to show strong demand for ETFs, with net share issuance (which includes reinvested dividends) of \$1.5 trillion in 2025 (see Figure 4.4). UITs experienced total deposits of \$67 billion, and traditional CEFs had net issuance of \$152 million (see Figure 5.2).

Americans' Continued Reliance on Investment Companies

Households make up the largest group of investors in funds, and registered investment companies managed 24.0% of household financial assets at year-end 2025 (Figure 2.3). The growth of mutual funds inside individual retirement accounts (IRAs) and defined contribution (DC) plans, particularly 401(k) plans, explains some of the increased household reliance on investment companies in the past three decades. Mutual funds in IRAs and DC plans made up 10.2% of household financial assets at year-end 2025, up from 1.3% in 1990.

FIGURE 2.3
Households Rely More on Investment Companies—Partly From Increased Holdings Inside DC Plans and IRAs

Percentage of US household financial assets,¹ year-end



¹ Household financial assets held in registered investment companies include holdings of mutual funds, ETFs, CEFs, and UITs. Mutual funds held in employer-sponsored DC plans, IRAs, variable annuities, 529 plans, and Coverdell education savings accounts are included.

² DC plans include private-sector employer-sponsored DC plans (such as 401(k) plans), 403(b) plans, and 457 plans.

Sources: Investment Company Institute and Federal Reserve Board

Businesses and other institutional investors also rely on funds. For instance, institutions can use money market funds to manage some of their cash and other short-term assets. Institutional investors also have contributed to the growing demand for ETFs. Investment managers—for mutual funds, pension funds, hedge funds, and insurance companies—use ETFs to invest in markets, manage liquidity and investor flows, or hedge their exposures.

Role of Investment Companies in Financial Markets

Investment companies have been important investors in domestic financial markets for much of the past few decades. They have held a largely stable share of the securities outstanding across a variety of asset classes in recent years, mainly through mutual funds. At year-end 2025, investment companies held 33% of US corporate equities outstanding (Figure 2.4).

Investment companies held 24% of bonds issued by US corporations and foreign bonds held by US residents at year-end 2025 and 19% of the US Treasury and government agency securities outstanding. Investment companies also have been important investors in the US municipal securities market, holding 29% of the securities outstanding at year-end 2025. Finally, mutual funds (primarily prime money market funds) held 25% of the US commercial paper market—a critical source of short-term funding for many major corporations around the world.

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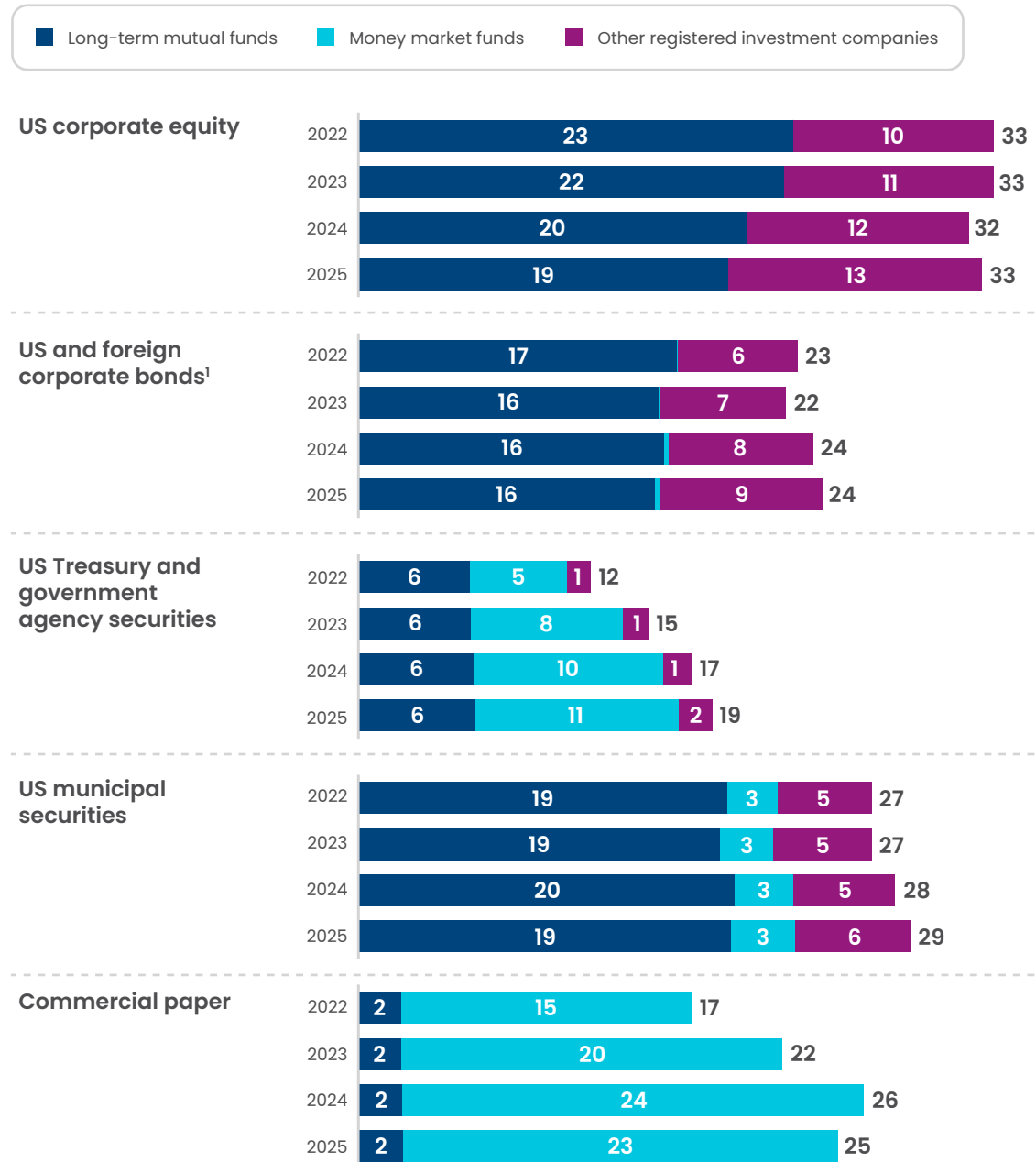
Money Market Funds Resource Hub

www.ici.org/ResourceHubs/money-market-funds

FIGURE 2.4

Investment Companies Channel Investment to Stock, Bond, and Money Markets

Percentage of total market value of securities held by investment companies, year-end



¹ Money market fund holdings of US and foreign corporate bonds were less than 0.25% in all years.

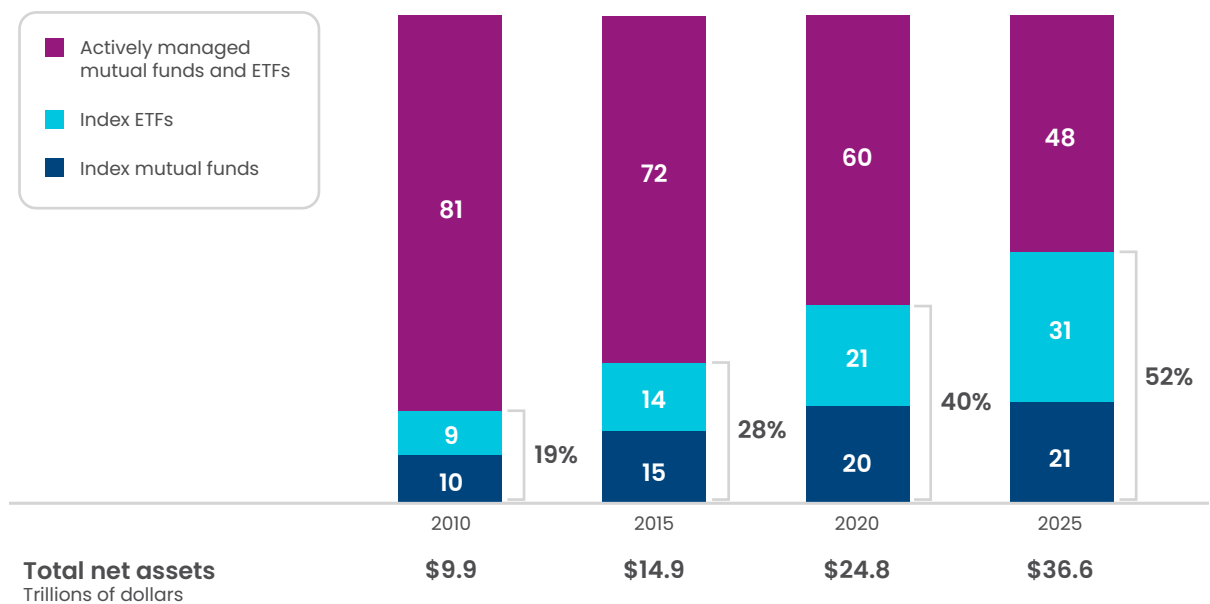
Sources: Investment Company Institute, Federal Reserve Board, and World Federation of Exchanges

Growth of Index Funds

Index funds are designed to track the performance of a market index. To do this, the fund manager purchases all the securities in the index or a representative sample of them—mirroring the index composition—so that the performance of the fund tracks the value of the index. This approach to portfolio management is the primary reason that index funds tend to have below-average expense ratios (see Figures 6.4 and 6.5).

Index mutual funds were first offered in the 1970s, followed by index ETFs in the 1990s. By year-end 2025, total net assets in these two index fund categories had grown to \$19.1 trillion. Along with this growth, index fund assets have become a larger share of overall fund assets. At year-end 2025, index mutual funds and index ETFs together accounted for the majority (52%) of assets in long-term funds, up from 19% at year-end 2010 (Figure 2.5).

FIGURE 2.5
Index Funds Have Grown as a Share of the Fund Market
 Percentage of long-term fund total net assets, year-end



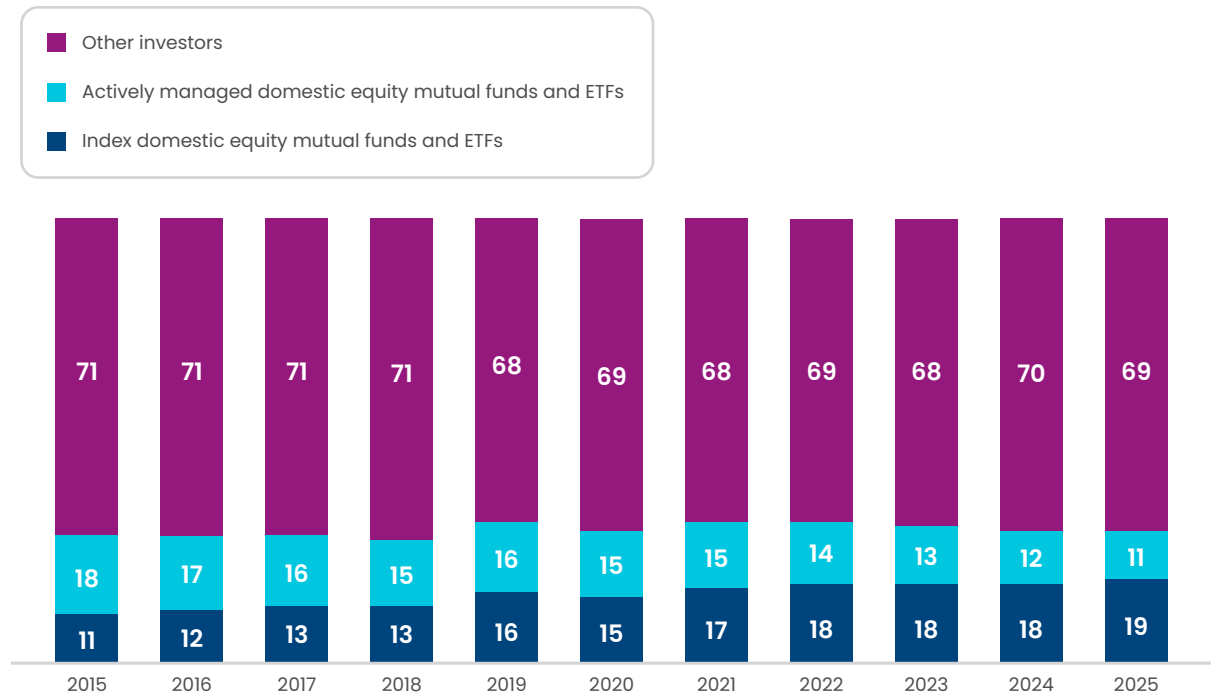
Note: Data exclude money market funds. Data for ETFs exclude commodity ETFs.

The growth in index funds has been concentrated in funds that invest primarily in US equities, with 44% of inflows into index funds over the past decade going to domestic equity funds. But despite their significant growth, index domestic equity mutual funds and ETFs remain relatively small investors in the US stock markets, holding 19% of the value of US stocks at year-end 2025 (Figure 2.6). Actively managed domestic equity mutual funds and ETFs held another 11%, while other investors—including hedge funds, pension funds, life insurance companies, and individuals—held the majority (69%).

FIGURE 2.6

Index Domestic Equity Fund Share of US Stock Market Is Small

Percentage of US stock market capitalization, year-end



Sources: Investment Company Institute and World Federation of Exchanges

Unit Investment Trusts

Unit investment trusts (UITs) are registered investment companies with characteristics of both mutual funds and traditional CEFs. Like mutual funds, UITs issue redeemable shares (called units), and like traditional CEFs, they typically issue a specific, fixed number of shares. But unlike either mutual funds or traditional CEFs, UITs have a preset termination date based on the portfolio's investments and the UIT's investment goals. UITs investing in long-term bonds might have a preset termination date of 20 to 30 years, depending on the maturity of the bonds they hold. UITs investing in stocks might seek to capture capital appreciation in a few years or less. When a UIT terminates, proceeds from the securities are paid to unit holders or, at a unit holder's election, reinvested in another trust.

UITs fall into two main categories: debt (or bond) trusts and equity trusts. Debt trusts are classified as taxable or tax-free; equity trusts are classified as domestic or international/global. The first UIT, introduced in 1961, held tax-free bonds, and historically, most UIT total net assets were invested in bonds. Equity UITs, however, grew to be dominant and now represent the vast majority of net assets in UITs. At year-end 2025, assets in equity UITs far exceeded those of bond UITs, constituting 96% of UIT total net assets (Figure 2.7). The number of trusts outstanding has decreased, as sponsors have created fewer new trusts and existing trusts have reached their preset termination dates.

Federal law requires that UITs have a largely fixed portfolio—one that is not actively managed or traded. Once the trust's portfolio has been selected, its composition may change only in very limited circumstances. Most UITs hold a diversified portfolio, described in detail in the prospectus, with securities professionally selected to meet a stated investment goal, such as growth, income, or capital appreciation.

Investors can obtain UIT price quotes from brokerage or investment firms and investment company websites. Some UITs list their prices on the Nasdaq Fund Network. Some broker-dealers offer their own trusts or sell trusts offered by nationally recognized independent sponsors. Units of these trusts can be bought through their registered representatives. Units can also be bought from the representatives of smaller investment firms that sell trusts sponsored by third-party firms.

Though a fixed number of units of a UIT are sold in a public offering, a trust sponsor is likely to maintain a secondary market, where investors can sell their units back to the sponsor and other investors can buy those units. Even absent a secondary market, UITs are required by law to redeem outstanding units at their net asset value (NAV), which is based on the underlying securities' current market value.

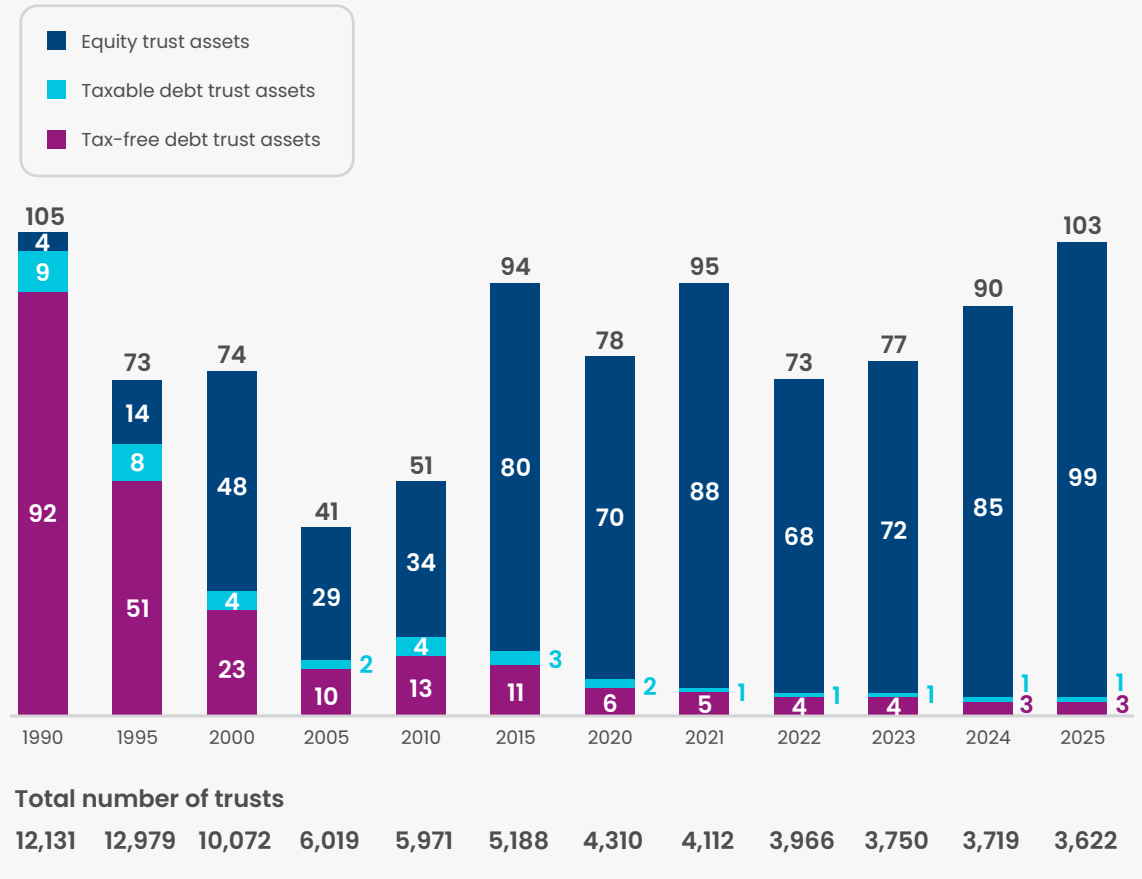
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Unit Investment Trusts, *Continued*

FIGURE 2.7

Equity Trusts Hold the Vast Majority of UIT Total Net Assets

Billions of dollars, year-end



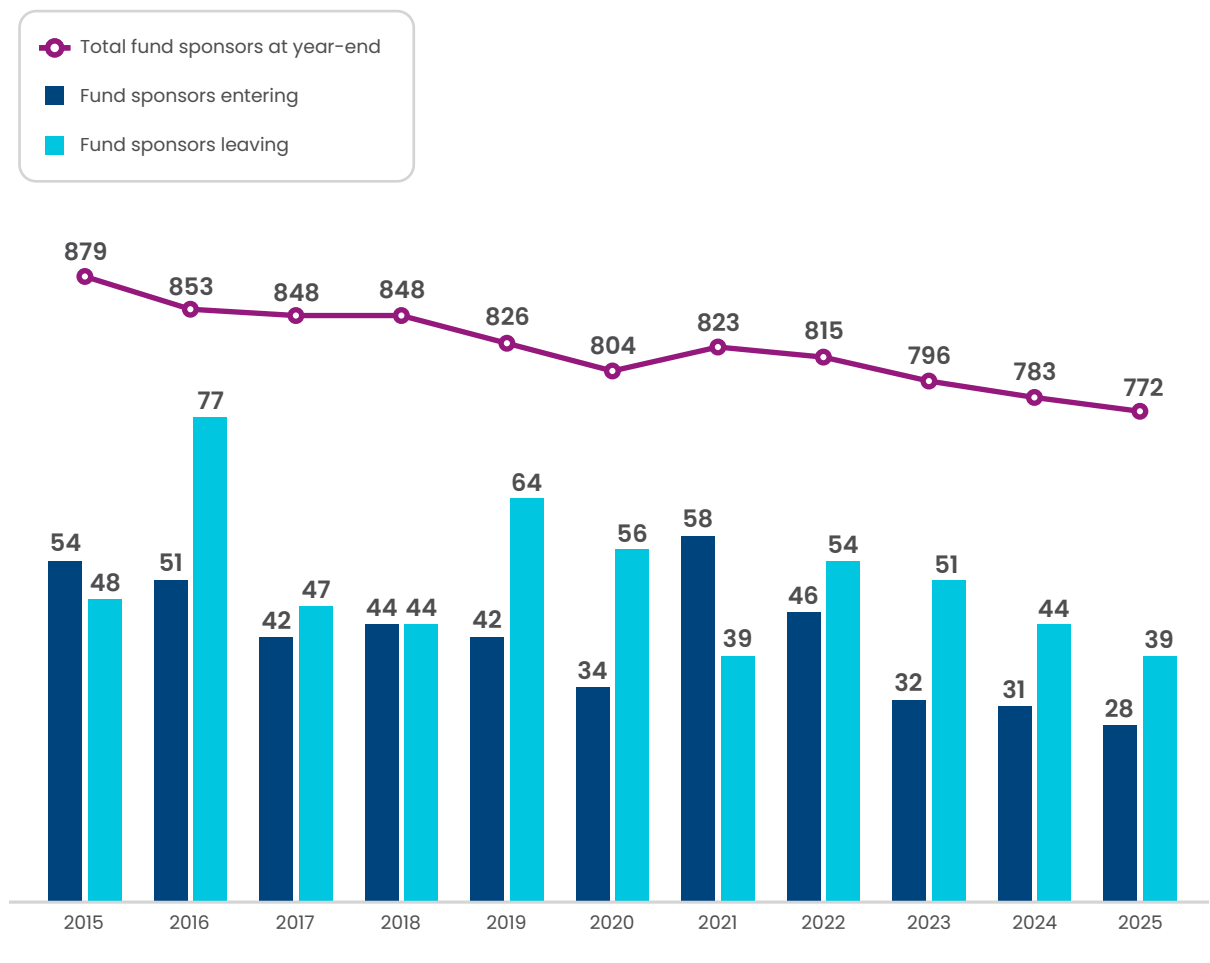
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Unit Investment Trust Data
www.ici.org/unit-investment-trust-data

Fund Complexes and Sponsors

At year-end 2025, 772 fund sponsors from around the world competed in the US market to provide investment management services to fund investors (Figure 2.8). The decline in the number of fund sponsors since year-end 2015 may be due to a variety of business decisions, including larger fund sponsors acquiring smaller ones, fund sponsors liquidating funds and leaving the business, or larger sponsors selling their advisory businesses. Prior to 2015, the number of fund sponsors had been increasing as the economy and financial markets recovered from the 2007–2009 financial crisis. Overall, from year-end 2015 through year-end 2025, 408 sponsors entered the market while 515 left, for a net decrease of 107.

FIGURE 2.8
Number of Fund Sponsors Has Generally Declined Since 2015

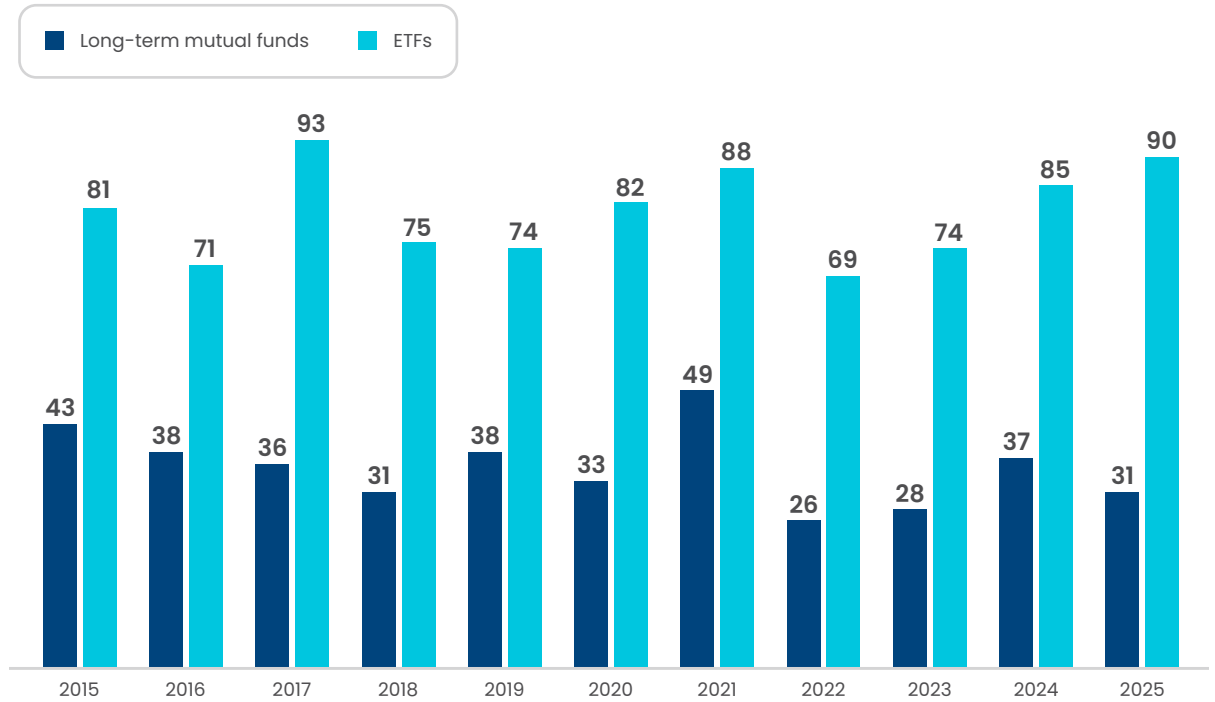


Many recent entrants to the fund industry have adopted solutions in which the fund’s sponsor arranges for a third party to provide certain services (e.g., audit, trustee, some legal) through a turnkey setup. This allows the sponsor to focus more on managing portfolios and gathering assets. Through an arrangement known as a series trust, the third party provides services to multiple independent fund sponsors under a single complex that serves as an “umbrella.” This can be cost-efficient because the costs of operating funds are spread across the combined assets of a number of funds in the series trust.

The increased availability of other investment products has led to changes in how investors are allocating their portfolios. The percentage of mutual fund companies retaining assets and attracting net new investments generally has been lower in recent years. In 2025, 31% of fund complexes saw positive flows to their long-term mutual funds, while 90% of ETF sponsors had positive net share issuance (Figure 2.9).

FIGURE 2.9
Easier Access to Other Investment Products Has Dampened Inflows Into Long-Term Mutual Funds

Percentage of fund complexes with positive net flows



Note: Long-term mutual fund data include net new cash flow and reinvested dividends; ETF data for net share issuance include reinvested dividends.

The concentration of mutual fund and ETF assets managed by the largest fund complexes has increased over time. The share of assets managed by the five largest firms rose from 35% at year-end 2005 to 58% at year-end 2025 (Figure 2.10). Some of the increase in market share occurred at the expense of the middle tier of firms—those ranked from 11 to 25—whose market share fell from 21% in 2005 to 14% in 2025.

FIGURE 2.10

Share of Mutual Fund and ETF Assets at the Largest Fund Complexes Has Increased

Percentage of total net assets of mutual funds and ETFs, year-end

	2005	2010	2015	2020	2025
Largest 5 complexes	35	42	45	53	58
Largest 10 complexes	46	55	56	64	72
Largest 25 complexes	67	74	75	81	86

Note: Data for ETFs exclude non-1940 Act ETFs.

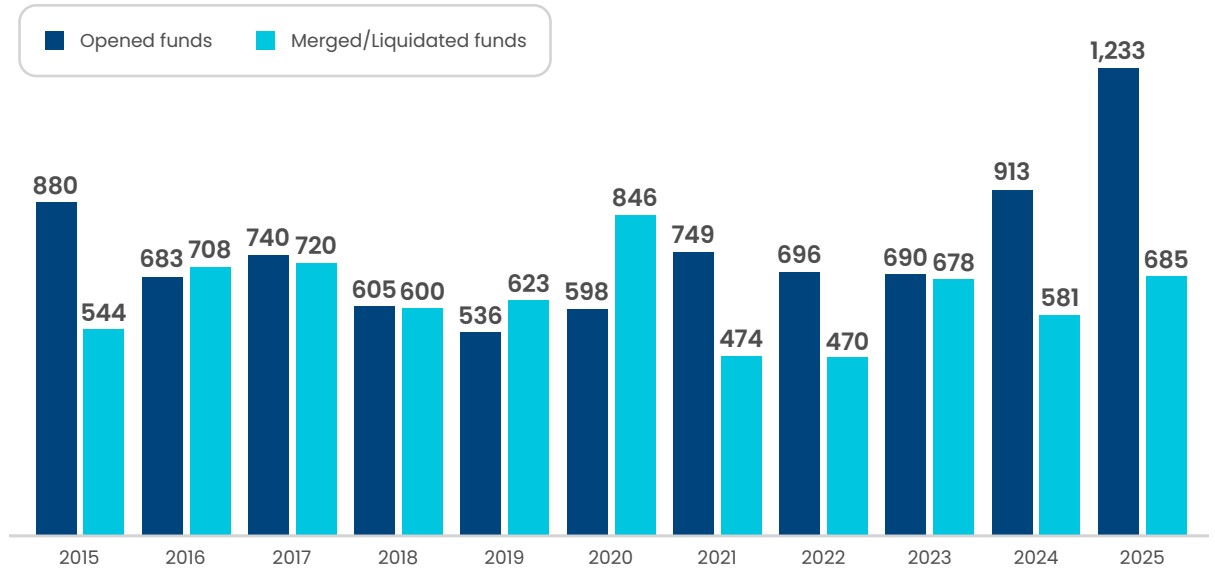
At least two factors have contributed to the rise in industry concentration. First, the increased concentration reflects the growing popularity of index funds—the 10 largest fund complexes manage most of the assets in index mutual funds. Actively managed domestic equity mutual funds had outflows in every year after 2005, while index domestic equity mutual funds and index domestic equity ETFs have generally experienced inflows over this period. Second, generally strong inflows over the past decade to bond mutual funds and ETFs (see Figures 3.7 and 4.4), which are fewer in number and are less likely to be offered by smaller fund sponsors, helped boost the share of assets managed by large fund complexes.

Macroeconomic conditions and competitive dynamics can affect the supply of funds offered for sale. Fund sponsors create new funds to meet investor demand and merge or liquidate those that do not attract sufficient investor interest. A total of 1,233 mutual funds and ETFs opened in 2025, up substantially from a robust 913 in 2024 and higher than the 2015–2024 annual average of 709 (Figure 2.11). The number of mutual fund and ETF mergers and liquidations increased from 581 in 2024 to 685 in 2025.

FIGURE 2.11

Mutual Funds and ETFs Enter and Exit in a Competitive Market

Number of funds



Note: Data include mutual funds that do not report statistical information to the Investment Company Institute and mutual funds that invest primarily in other mutual funds. ETF data include ETFs that invest primarily in other ETFs.

Fund Proxy Voting Reflects Heterogeneous Industry

Investment companies are shareholders of public companies and have held a steady share of US-issued corporate equities outstanding over the past several years (Figure 2.4). Like any company shareholder, they are entitled to vote on proxy proposals put forth by a company's board or its shareholders. Funds normally delegate proxy voting responsibilities to fund advisers, which have a fiduciary duty to vote in the best interest of fund shareholders.

During proxy year 2025 (the 12 months that ended June 30, 2025), shareholders of the 3,000 largest US public companies considered 26,106 proposals—98% (25,624) of these were proposed by management and 2% (482) were submitted by shareholders. Investment companies cast nearly 10.3 million votes on these proposals, with each investment company voting, on average, on more than 1,600 separate proxy proposals. Because management proposals account for the bulk of proxy proposals, 73% of funds' votes were cast on management proposals related to uncontested elections of directors, with an additional 13% and 11% related to management proposals on management compensation and ratification of audit firms, respectively.

Investment companies voted in favor of management proposals 92% of the time. The strong support for management proxy proposals likely reflects that the vast majority of them are not controversial—84% of management proposals were uncontested elections of directors and ratifications of the audit firms that companies selected.

During the same proxy year, 4% of the votes that investment companies cast were on 482 shareholder proxy proposals. Among the shareholder proposals, 53% were related to social and environmental matters, 13% to board structures and elections, 22% to shareholder rights and anti-takeover issues, and the remainder to compensation matters and miscellaneous issues. Shareholder proxy proposals received support from investment companies, on average, 25% of the time.

Investment companies' support for shareholder proposals varied considerably depending on a range of factors. These factors included, among other things, the details of the proposal, the issuer to whom the proposal applied, and the backdrop and context in which the proposal was set. Investment companies tend to offer more support for shareholder proxy proposals that are likely to increase their rights as company shareholders. For example, investment companies voted in favor of shareholder proxy proposals related to shareholder rights or anti-takeover measures 48% of the time in proxy year 2025.

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Fund Proxy Voting Reflects Heterogeneous Industry, *Continued*

Investment companies, on average, have provided more limited support for social and environmental proposals. In proxy year 2025, these proposals received a favorable vote 15% of the time. Average levels of support can mask important nuances of how investment companies vote on such issues. These kinds of proposals, though classified generally as “social and environmental,” cover a wide array of issues, including the environment, diversity in hiring practices, human rights matters, and the safety of a company’s business operations.

In addition, these proposals must be viewed in context. For example, suppose virtually identical proposals are directed to two different companies. An investment company might view the proposal as appropriate for the first company, but inappropriate for the second because the latter has already taken steps to address the proposal’s concerns.

In short, there is no one-size-fits-all description of how funds vote, other than to say that investment companies seek to vote in the interests of their shareholders and in a way that is consistent with their investment objectives and policies.

Environmental, Social, and Governance (ESG) Investing

In the United States, funds may consider ESG factors to varying degrees. For decades, some funds have incorporated ESG factors into their investment processes to enhance fund performance, manage investment risks, and identify emerging investment risks and opportunities. Funds consider these factors just as they would macroeconomic or interest rate risks, idiosyncratic business risks, and investment exposures to particular companies, industries, or geographical regions. Because these funds “integrate” ESG factors into the investment process, this type of investing is known as ESG integration.

Funds’ use of ESG integration is distinct from funds’ use of “sustainable investing strategies,” which use ESG analysis as a significant part of the fund’s investment thesis as a way to pursue investment returns and ESG-related outcomes.

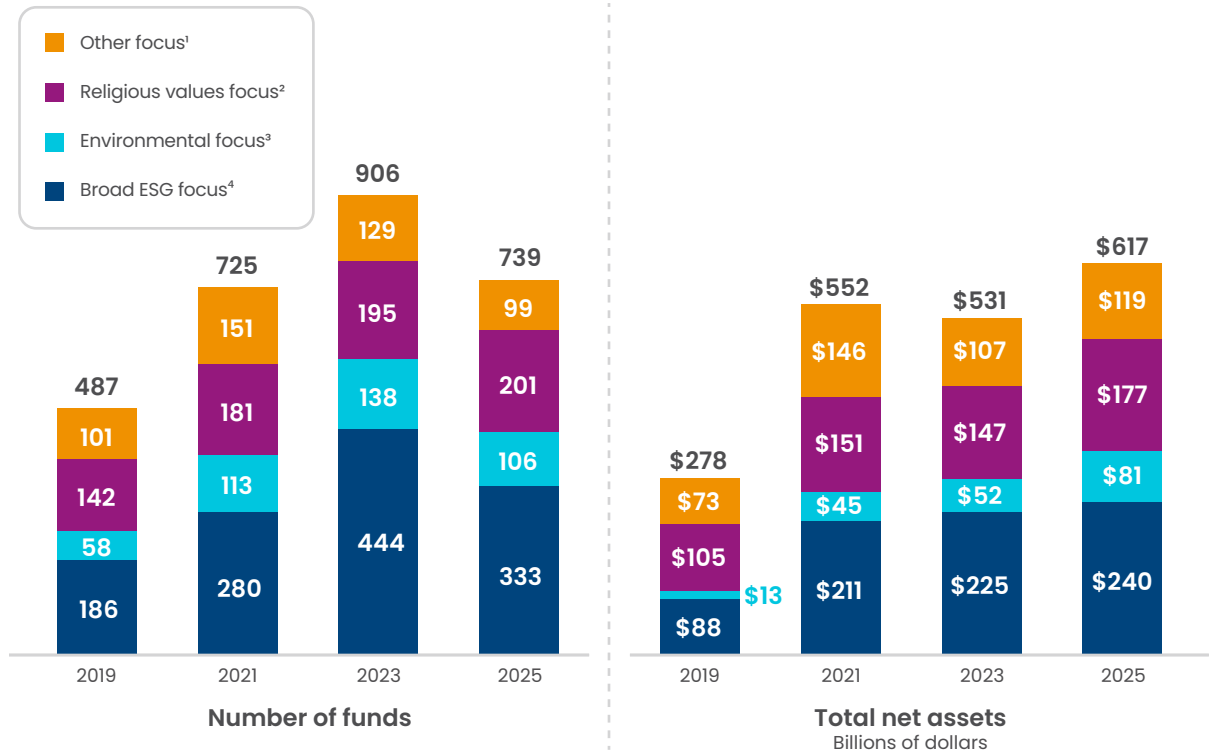
Exclusionary investing (e.g., “screening out” investments in particular industries), inclusionary investing (e.g., “tilting” a portfolio pursuant to a specific investment thesis), and impact investing (e.g., seeking measurable impact through its investments) are all common approaches to ESG investing, which are not mutually exclusive. A single fund may use multiple approaches (e.g., a best-in-class fund that excludes certain types of investments). As a result, classifying funds that invest according to ESG criteria as solely exclusionary, inclusionary, or impact can be challenging.

ICI classifies ESG-criteria funds into four groups based on the frameworks or guidelines expressed at the forefront of their principal investment strategies sections. These categories include broad ESG focus, environmental focus, religious values focus, and other focus. In 2025, 739 mutual funds and ETFs with assets of \$617 billion were classified generally as investing according to exclusionary, inclusionary, or impact investing ESG criteria (Figure 2.12).

FIGURE 2.12

Number of Funds That Invest According to ESG Criteria Decreased in 2025

By focus, year-end



¹ *Other focus* includes funds that focus narrowly on some combination of environmental, social, and/or governance elements, but not all three. They often negatively screen to eliminate certain investments.

² *Religious values focus* includes funds that invest in accordance with specific religious values.

³ *Environmental focus* includes funds that focus more narrowly on environmental matters. They may include terms such as alternative energy, climate change, clean energy, environmental solutions, or low carbon in their principal investment strategies or fund names.

⁴ *Broad ESG focus* includes funds that focus broadly on ESG matters. They consider all three elements of ESG (rather than focusing on one or two of the considerations) or may include ESG in their names.

Note: Data include mutual funds and ETFs. Data include mutual funds that invest primarily in other mutual funds and ETFs that invest primarily in other ETFs.

Investment Company Employment

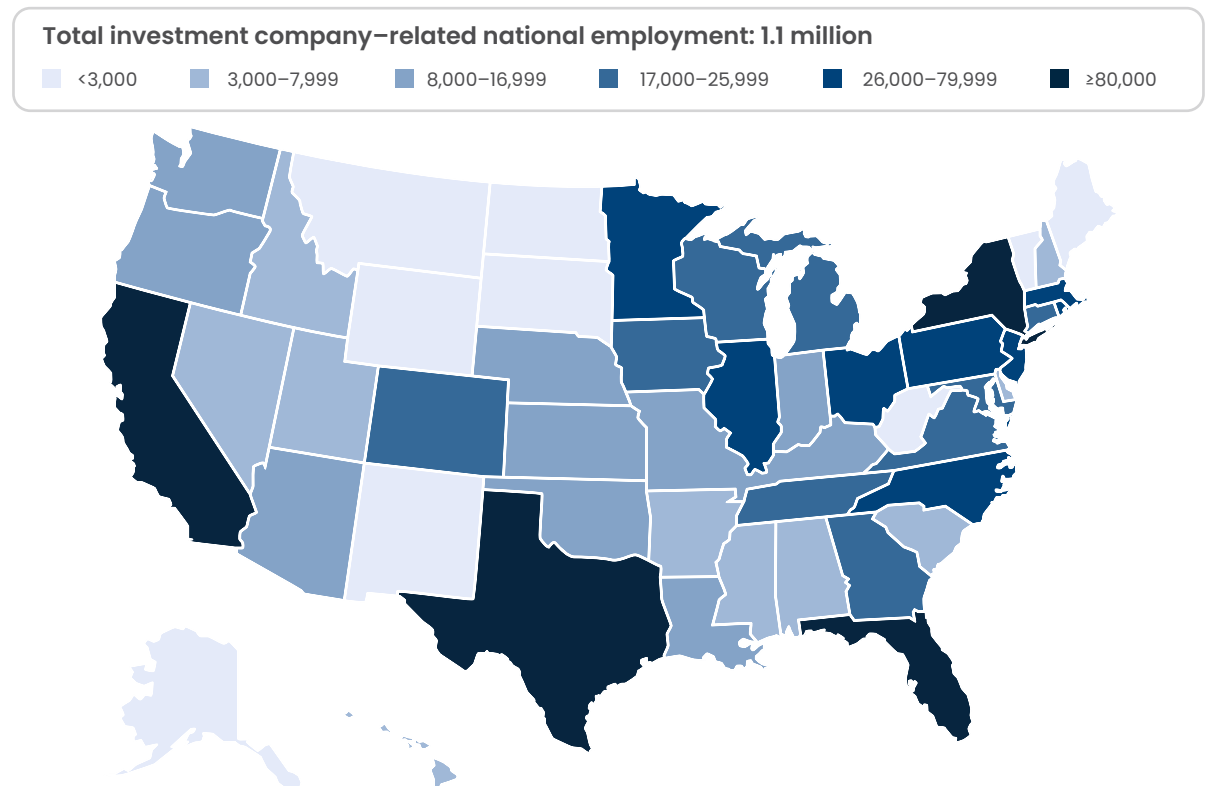
Registered investment companies typically do not have employees—instead, they contract with other businesses to provide services to the fund. Except for UITs, funds in the United States have fund boards that oversee the management of the fund and represent the interests of the fund shareholders. Fund boards must approve all major contracts between the fund and its service providers, including the advisory contract with a fund’s investment adviser, who is usually also the fund’s sponsor.

Fund sponsors and third-party service providers offer advisory, recordkeeping, administrative, custody, and other services to funds and their investors. Investment company–related employment in the United States was 1.1 million in 2024 (Figure 2.13). For many industries, employment tends to be concentrated in locations where the industry began. The same is true for investment companies: those located in Massachusetts and New York, early hubs of investment company operations, employ 16% of fund industry workers. As the industry has grown, other states—including California, Florida, and Texas—have become major centers of fund industry employment. Fund companies in these three states employed an additional 28% of US fund industry employees in 2024.

FIGURE 2.13

Investment Companies Employ 1.1 Million Individuals Across the United States

Estimated number of employees of fund sponsors and their service providers by state, 2024



Source: Investment Company Institute calculations of 2024 NAICS data from The Business Dynamics Research Consortium: a project of the University of Wisconsin, Institute for Business and Entrepreneurship