



INVESTMENT COMPANY INSTITUTE

MATTHEW P. FINK
PRESIDENT

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OFFICE OF THE CHIEF

By Hand

September 15, 1999

The Honorable Arthur Levitt
Chairman
U.S. Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, DC 20549

Re: ICI Paper on the Cost of Investing in Mutual Funds

Dear Arthur:

Today the Institute is releasing its third research paper on trends in the total cost to shareholders of investing in mutual funds. The paper finds that the broad based decline in fund costs we previously identified continued in 1998. Over the course of the year, the cost of investing in equity funds declined by 5.6 percent, bringing the cumulative drop to 40 percent since 1980. Similarly, the cost of investing in bond funds in 1998 declined by 3.5 percent (for a cumulative drop since 1980 of 29 percent), and the cost of money market funds declined by 2.3 percent (for a cumulative drop of 24 percent).

In addition to including updated information for 1998, the paper also examined a question raised in the wake of our previous studies. Some observers asked whether the results we reported for equity funds were disproportionately affected by either the growing popularity of low cost index and institutional funds, or by the relatively lower costs of the three largest fund companies. We found that the paper's conclusions were not substantially altered by the exclusion of these funds. In fact, when all index and institutional funds were removed from our equity fund database, as well as all the equity funds offered by the three largest fund companies, the total cost of investing in equity funds still declined by 28 percent over the nineteen year period.

As you may know, John Rea and Brian Reid, the economists who authored the paper, met yesterday with Paul Roye and his colleagues to discuss their methodology and findings.

If you would like to discuss any of the issues addressed by the paper, please don't hesitate to call me directly.

All best personal regards,

Enclosure