

MEMORANDUM

To: File Nos. S7-07-18, S7-08-18, S7-09-18

From: Jeffrey Dinwoodie, Senior Counsel to Chairman Jay Clayton

Re: Standards of Conduct for Investment Professionals

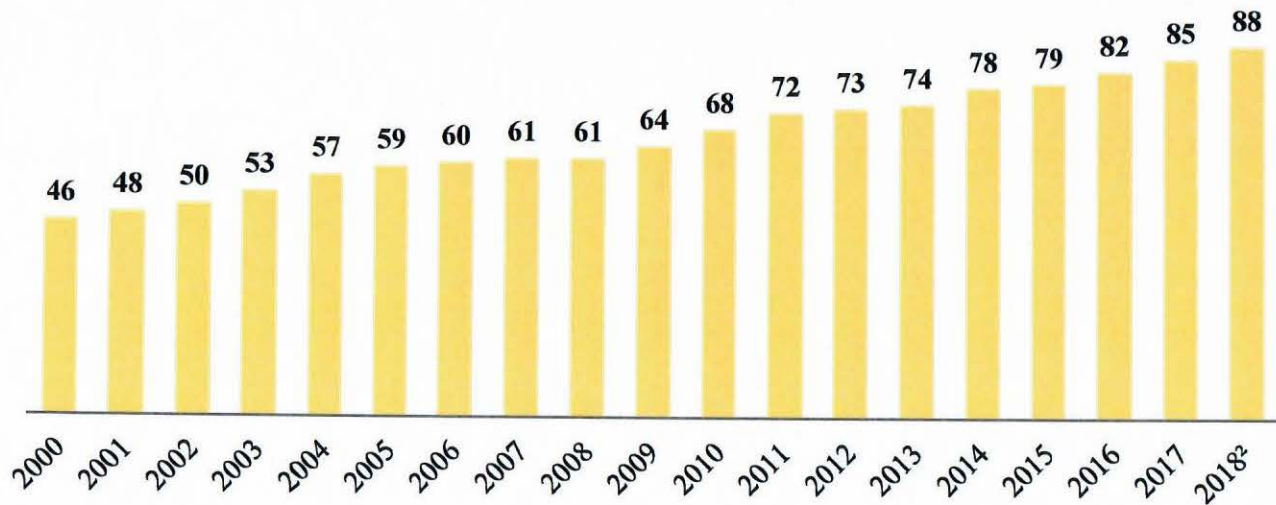
Date: June 11, 2018

On June 11, 2018, Chairman Jay Clayton, Lucas Moskowitz (Chief of Staff to Chairman Clayton) and Jeffrey Dinwoodie (Senior Counsel to Chairman Clayton) met with Paul Schott Stevens, Dorothy Donohue and Sarah Bessin from the Investment Company Institute (“ICI”). The meeting participants discussed, among other things, the SEC’s proposed rules and interpretation relating to standards of conduct for investment professionals.

At the meeting, the ICI representatives distributed (1) copies of the 2018 Investment Company Fact Book (a copy of which is available online at https://www.ici.org/pdf/2018_factbook.pdf), (2) the attached document.

The Majority of Long-Term Mutual Fund Gross Sales Went to No-Load Mutual Funds Without 12b-1 Fees

Percentage of long-term mutual fund gross sales,¹ 2000–2017



¹Long-term mutual fund data exclude mutual funds available as investment choices in variable annuities, mutual funds that ICI designates as “retirement share classes,” and mutual funds that invest primarily in other mutual funds.

²Data are through April 2018

Sources: Investment Company Institute, Lipper, and Morningstar

No-Load Share Classes Garnered Positive Net New Cash Flow in 2017

Billions of dollars, 2008–2018¹

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 ¹
All long-term mutual funds	-\$211	\$393	\$244	\$28	\$200	\$162	\$98	-\$122	-\$197	\$67	\$30
Load	-156	9	-62	-130	-77	-70	-174	-130	-234	-296	-68
Front-end ¹	-105	2	-56	-100	-67	-56	-160	-101	-183	-221	-49
Back-end ²	-39	-24	-27	-23	-16	-11	-9	-7	-5	-2	-1
Level ³	-13	31	21	-6	6	-2	-4	-22	-46	-72	-19
Other ⁴	(*)	(*)	(*)	(*)	-1	(*)	(*)	(*)	(*)	(*)	(*)
Unclassified ⁵	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)
No-load⁶	-66	322	265	168	299	270	338	77	117	447	128
Retail	-96	137	55	-46	16	38	111	8	-37	33	7
Institutional	30	185	210	214	283	232	226	69	154	414	121
Variable annuities	-26	29	8	-21	-26	-51	-64	-67	-78	-112	-40
“R” share classes⁷	37	33	33	10	4	13	-2	-2	-2	27	10

¹Data are through April 2018

²Front-end load > 1 percent. Primarily includes Class A shares; includes sales where front-end loads are waived.

³Front-end load = 0 percent and contingent deferred sales load (CDSL) > 2 percent. Primarily includes Class B shares

⁴Front-end load ≤ 1 percent, CDSL ≤ 2 percent, and 12b-1 fee > 0.25 percent. Primarily includes Class C shares; excludes institutional share classes.

⁵This category contains all other load share classes not classified as front-end load, back-end load, or level load.

⁶This category contains load share classes with missing load fee data.

⁷Front-end load = 0 percent, CDSL = 0 percent, and 12b-1 fee ≤ 0.25 percent.

⁸“R” shares include assets in any share class that ICI designates as a “retirement share class.” These share classes are sold predominantly to employer-sponsored retirement plans. However, other share classes—including retail and institutional share classes—also contain investments made through 401(k) plans or IRAs.

(*) = inflow or outflow of less than \$500 million

Note: Components may not add to the totals because of rounding. Data exclude mutual funds that invest primarily in other mutual funds.

Sources: Investment Company Institute, Lipper, and Morningstar

Total Net Assets of Long-Term Mutual Funds Are Concentrated in No-Load Share Classes

Billions of dollars, 2008–2018¹

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 ¹
All long-term mutual funds	\$5,788	\$7,795	\$9,030	\$8,942	\$10,361	\$12,331	\$13,149	\$12,897	\$13,616	\$15,899	\$15,904
Load	1,722	2,185	2,352	2,176	2,361	2,651	2,614	2,440	2,370	2,382	2,334
Front-end ²	1,374	1,750	1,882	1,751	1,892	2,148	2,115	1,989	1,946	1,990	1,965
Back-end ³	102	98	78	50	39	32	24	15	9	6	5
Level ⁴	237	328	381	367	417	459	468	429	408	378	355
Other ⁵	7	8	8	7	11	10	7	6	6	7	6
Unclassified ⁶	2	2	3	1	2	2	1	(*)	1	2	3
No-load⁷	3,067	4,248	5,089	5,224	6,261	7,598	8,382	8,373	9,093	11,056	11,129
Retail	1,951	2,659	3,067	2,991	3,464	4,142	4,639	4,586	4,875	5,647	5,613
Institutional	1,116	1,589	2,022	2,233	2,798	3,456	3,743	3,787	4,219	5,409	5,516
Variable annuities	854	1,129	1,291	1,251	1,398	1,630	1,672	1,597	1,638	1,794	1,755
“R” share classes⁸	146	233	297	290	340	452	480	487	514	666	686

¹As of April 2018

²Front-end load > 1 percent. Primarily includes Class A shares; includes sales where front-end loads are waived.

³Front-end load = 0 percent and contingent deferred sales load (CDSL) > 2 percent. Primarily includes Class B shares

⁴Front-end load ≤ 1 percent, CDSL ≤ 2 percent, and 12b-1 fee > 0.25 percent. Primarily includes Class C shares; excludes institutional share classes.

⁵This category contains all other load share classes not classified as front-end load, back-end load, or level load.

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(*) = total net assets of less than \$500 million

Note: Components may not add to the totals because of rounding. Data exclude mutual funds that invest primarily in other mutual funds.

Sources: Investment Company Institute, Lipper, and Morningstar