

Could mutual funds regain footing with the dual-share class structure?

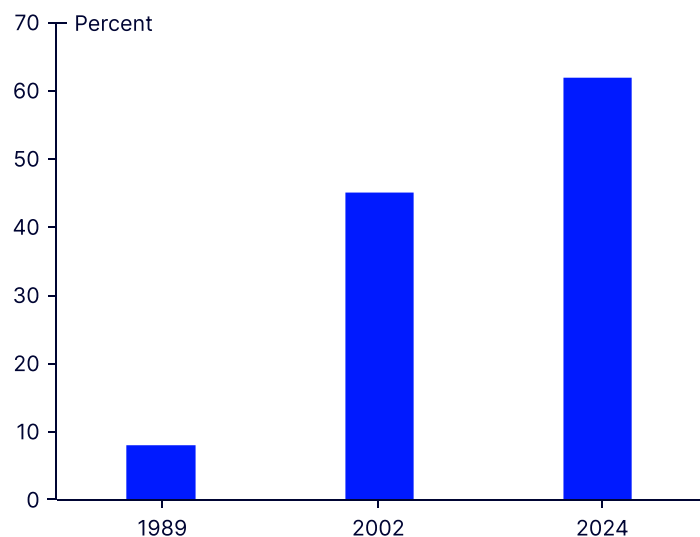
James Veneruso,
CAIA, CFA, FRM

Mutual funds have long anchored retirement plans, but their dominance is challenged by the rise of collective investment trusts (CITs), which offer lower costs and greater flexibility. Outside of retirement plans, mutual funds are also losing ground to exchange-traded funds (ETFs), valued for their transparency, liquidity, and tax efficiency. This paper explores how dual-share class structures could help reignite mutual fund growth in retirement offerings, even as their broader role evolves.

In the nearly five decades since the creation of 401(k) plans, mutual funds grew to become the workhorse of plan lineups, offering investors exposures needed to diversify their portfolios—from the “Nifty 50” to options as adventurous as liquid alternatives. In 1989, mutual funds represented just 8% of 401(k) assets. By 2002, that figure had soared to 45%¹ and, by 2024, it had reached 62%.²

Yet this impressive growth masks a shift: over the past two decades collective investment trusts (“CITs”) have steadily challenged mutual funds’ dominance in retirement plans, while ETFs have eroded mutual funds’ position in the retail investment space.

Figure 1: Mutual funds remain prominent in DC plan lineups



Source: ICI, as of October 7, 2025.

Growing appeal of CITs in 401(k)s and ETFs

CITs steadily gained ground in the 401(k) space, with their share of assets rising from 6% in 2000 to 38% in 2023. Within target date funds (“TDFs”), which attract the majority of defined contribution plan inflows, CITs saw a 12% increase in assets from 2022 to 2024, compared to just 3% for mutual fund TDFs.³ As a result, assets in TDF CITs surpassed those in TDF mutual funds, accounting for 52% of assets at the end of 2024.⁴

Despite this shift, mutual funds continue to hold a meaningful position in the 401(k) and broader retirement market, particularly among smaller employers whose plans may not meet CIT investment minimums or who lack the resources to support a more complex onboarding process.

While ETFs, for operational reasons, haven’t disrupted mutual funds in retirement plans, they have steadily gained ground in the retail market, and mutual funds’ share in that space is now under pressure. ETFs have grown from a modest \$1 trillion in 2010 to \$13.2 trillion today, near parity with the \$12.6 trillion held in retail mutual funds.⁵

This growth reflects a stark divergence in investor behavior—ETFs saw record inflows globally of over \$2.4 trillion in 2025,⁶ while mutual funds saw well over \$700 billion in outflows over the same time period.⁷ That momentum has also shifted product development and innovation. There are now over 4,300 listed ETFs, a number that eclipses the 4,200 individual stocks.⁸ Over the last three years, over 1,900 ETFs have launched including ETFs that blend private and public markets. In contrast, mutual fund innovation has slowed, with just over 300 new funds launched over that same time period, with new launches decreasing in each of the past 3 years.⁹

These shifts reflect the inherent strengths of each wrapper. CITs benefit from cost efficiencies relative to mutual funds, while ETFs appeal to investors for

their tax efficiency and lower fees. Though it may appear CITs and ETFs are pushing mutual funds toward obsolescence, recent innovations and regulatory developments could alter such a path.

Could dual-share-class relief reignite mutual fund share class growth?

Operational innovation may offer mutual funds a brighter future in the form of dual share class structures. On September 29, 2025, the SEC announced its intent to grant exemptive relief to the first firm in line to apply for the dual-share class relief. Further, the SEC issued a notice to approximately 30 firms on December 17, 2025, which included SSGA Funds Management, Inc. An order was issued on January 12, 2026.

This operational innovation allows a single pool of assets to be accessed through both a mutual fund and an ETF wrapper. This gives investors flexibility to choose the vehicle that best suits their needs and that operationally makes the most sense.

Most of the industry’s enthusiasm has focused on offering ETF share classes of existing mutual funds. But State Street Investment Management believes the real disruptor could be the reverse: offering mutual fund share classes of existing ETFs.

This approach aligns with the operational infrastructure already in place at most recordkeepers (e.g., daily NAV, fractional shares, payroll deductions), making adoption potentially seamless. Under the hood, though, plan participants could benefit from the scale, cost discipline, and efficient in-kind flows that define ETFs. It would also unlock access to continued ETF innovation—such as strategies that blend public and private markets—bringing modern, diversified solutions into DC plans without disruption existing infrastructure.

Unlocking innovation and access to reshape retirement for the future

Relative to traditional mutual funds, dual-share class offerings could benefit participants by expanding investment choice, potentially lowering costs with a unified asset pool. But the true potential lies in what a mutual fund share class unlocks: access to innovation and to momentum, both in investor appetite and product development.

For plan sponsors, recordkeepers, and asset managers, the opportunity is clear—embracing this evolution isn't just a technical upgrade, it's a chance to reshape retirement investing for the future.

Endnotes

- 1 Investment Company Institute Research Perspective 401(K) Plans: a 25 Year Retrospective, November 2006 [401\(k\) Plans: A 25-Year Retrospective \(Perspective; Vol.12, No.2\)](#).
- 2 Investment Company Institute Research Perspective: The Economics of Providing 401(k) Plan Services, Fees and Expenses 2004, July 2025. [The Economics of Providing 401\(k\) Plans: Services, Fees, and Expenses, 2024](#).
- 3 "CITs Lead Over Mutual Funds Grows," Ted Godbout, PSCA February 13, 2025.
- 4 Morningstar TDF Study.
- 5 Quarterly Retirement Market Data, Second Quarter 2025, ICI, September 18th, 2025.
- 6 "Global ETF Industry Recorded Highest-Ever Annual Inflows in 2025", Investment Executive. January 20, 2026.
- 7 [Morningstar](#) US Fund Flows, December 2025.
- 8 "There are Now More ETFs in the US Than There Are Individual Stocks", Vildana Hajric, Bloomberg, August 25, 2025.
- 9 ICI Factbook 2024, ISS Market Intelligence Launches and Liquidations Mutual Funds vs. ETFs, May 2025.

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* This figure is presented as of December 31, 2025 and includes ETF AUM of \$1,950.80 billion USD of which approximately \$173.02 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Investment Management are affiliated. Please note all AUM is unaudited.

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