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Thank you for the opportunity to appear before this distinguished Subcommittee. My name is Jeffrey Ptak and I am a Managing Director of Morningstar, Inc., an independent investment research firm that provides data, analysis, and ratings on investments and companies. Morningstar was founded in 1984 and today covers more than 3 million investments across public and private markets worldwide. More than 100 million individual investors use Morningstar data and research, and we serve financial advisors, asset managers, and institutional investors across more than 30 countries.

I have spent more than two decades at Morningstar studying how Americans invest. In that time, I served as the firm's Chief Ratings Officer, led our ETF research effort from an early stage, and covered the asset management industry as an equity analyst. My work has focused on understanding how fund structure, cost, and manager behavior affect the outcomes investors actually experience.

The evidence suggests that over the past two decades, a combination of rising standards, market competition, growing investor cost-consciousness, and sound regulatory stewardship has contributed to outcomes for ordinary Americans that would have seemed remarkable not long ago. Morningstar's research documents three dimensions of that progress: a dramatic reduction in what investors pay, a decisive shift toward more cost-efficient investment vehicles, and evidence that investors are capturing more of the market's returns than ever before.

1. Cost: A Critical Driver of Investment Success

Cost is one of the strongest differentiators of investment success, and Morningstar's research consistently shows it to be the most reliable predictor of future fund performance.[1] This is not a controversial claim among investment researchers; it is a finding that has been consistently replicated across Morningstar's own research and corroborated by academic literature over the years.[2]

In several landmark studies, Morningstar researchers found funds with the lowest expense ratios generated higher subsequent returns than those with the highest price tags and were more predictive than any variables tested, including past performance.[3] This finding held across all asset classes and time periods analysts examined.

More recent research buttresses these findings. For instance, over the 10 years through 2025, 31 percent of active funds in the cheapest quintile of their respective categories beat their average passive peer. Among the most expensive funds, only 17 percent did. The difference between a low-cost active fund and a high cost one is not just a matter of investor preference; it is a meaningful and measurable driver of long-term outcomes.[4]

2. Low-cost Funds: The Vehicles of Choice

The market has responded to this reality in ways that should give policymakers genuine cause for optimism. Morningstar's 2026 U.S. Fund Fee Study, our annual analysis of fee trends across the fund industry, documents a transformation that has benefited ordinary Americans in concrete, measurable ways.[5] The asset-weighted average expense ratio paid by fund investors fell to 0.32 percent in 2025. This figure represents less than half the 0.80 percent investors paid two decades ago. We estimate that investors saved nearly $6.8 billion in fund expenses last year alone.[6]

More importantly, this data reveals something deeper than a pricing trend; investors are choosing lower-cost funds, putting pressure on the industry to adapt. They are not passive recipients of whatever fee structures the industry designs, and they are actively abandoning expensive ones. For example, the cheapest quintile of funds attracted $694 billion in net inflows in 2025. The

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[1] Russel Kinnel, "Fund Fees Predict Future Success or Failure," *Morningstar*, May 5, 2016, available at https://www.morningstar.com/funds/fund-fees-predict-future-success-or-failure.

[2] *See also* Mark M. Carhart, "On Persistence in Mutual Fund Performance," *Journal of Finance*, Vol. 52, No. 1 (March 1997), pp. 57–82.

[3] Russel Kinnel, "How Expense Ratios and Star Ratings Predict Success," *Morningstar*, August 9, 2010; *and* Russel Kinnel, "Fund Fees Predict Future Success or Failure," *Morningstar*, May 5, 2016, available at https://www.morningstar.com/funds/fund-fees-predict-future-success-or-failure.

[4] Bryan Armour, Eugene Gorbatikov, and Maciej Kowara, *Morningstar's U.S. Active/Passive Barometer Year-End 2025*, Morningstar Manager Research (2026), Exhibit 1, p. 3.

[5] Zachary Evens and Brendan McCann, *2026 U.S. Fund Fee Study*, Morningstar Manager Research (May 2026), available at https://www.morningstar.com/business/insights/research/annual-us-fund-fee-study.

[6] *Ibid.*, Executive Summary and Key Takeaways, pp. 4–5.

remaining 80 percent of funds collectively shed $244 billion in net outflows, a difference of nearly $939 billion.[7]

Rising fiduciary standards and the broader movement toward fee-based financial advice have reshaped how advisors and their clients approach fund selection, with cost emerging as a central criterion. As compensation models have shifted from product distribution and toward ongoing advice relationships, costs have become easier to evaluate and more difficult to ignore. The evidence of investors' growing cost-consciousness is documented in Morningstar's 2026 U.S. Fund Fee Study. Bundled share classes, which embed advice costs into fund fees, have experienced net outflows for 16 consecutive years, while lower-cost unbundled alternatives have seen steady inflows.[8] Investors are not merely aware of costs; they are acting on that awareness in ways that are measurable and consequential.

3. Investors Are Succeeding with the Low-Cost Funds They Choose

Evidence suggests this shift is benefiting investors: Our research has found that funds' asset-weighted average returns exceeded their equal-weighted average returns across virtually every popular fund type over the 10 years ended December 2025.[9] That gap, which typically ranged from 50 to 100 basis points per year, stemmed largely from the cost advantage the most-popular funds boasted over other funds, with investors gravitating toward cheaper, better-performing strategies.

This shift not only appears to have conferred higher average returns but also boosted investors' likelihood of outperforming competing options. Indeed, for decades, the conventional wisdom held that skilled active managers could consistently beat the market and justify higher fees. Against this backdrop, Morningstar's Active/Passive Barometer, our semiannual report measuring the performance of active funds against passive peers, tells a different story. The Barometer covers approximately 9,248 funds representing roughly $26 trillion in assets about 67 percent of the U.S. fund market. It is one of the most comprehensive analyses of active versus passive fund performance available to investors and researchers.[10]

The findings are unambiguous. Over the decade through 2025, low-cost passive funds earned higher returns than almost 80% of active funds.[11] The U.S. large-cap equity market has been

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[7] *Ibid.*, Key Takeaways, p. 5.
[8] Zachary Evens and Brendan McCann, *2026 U.S. Fund Fee Study*, Morningstar Manager Research (May 2026), p. 26, available at https://www.morningstar.com/business/insights/research/annual-us-fund-fee-study.
[9] Bryan Armour, Eugene Gorbatikov, and Maciej Kowara, *Morningstar's U.S. Active/Passive Barometer Year-End 2025*, Morningstar Manager Research (2026), Key Takeaways, p. 2, available at https://www.morningstar.com/business/insights/research/active-passive-barometer.
[10] Bryan Armour, Eugene Gorbatikov, and Maciej Kowara, *Morningstar's U.S. Active/Passive Barometer Year-End 2025*, Morningstar Manager Research (2026), available at https://www.morningstar.com/business/insights/research/active-passive-barometer.
[11] Bryan Armour, Eugene Gorbatikov, and Maciej Kowara, *Morningstar's U.S. Active/Passive Barometer Year-End 2025*, Morningstar Manager Research (2026), Key Takeaways, p. 2, available at https://www.morningstar.com/business/insights/research/active-passive-barometer.

especially advantageous for index funds, which outperformed 90% of their active rivals over this span.[12] Among large-growth strategies, the record is even more striking: of the active funds that existed two decades ago, nearly 66 percent have closed, and only 1 percent managed to outperform their average indexed peer on a net-of-fee basis.[13] In other words, investors who gravitated to inexpensive vehicles like passive funds tended to be rewarded far more often than not.

This shift is not a fad, nor is it simply the product of a prolonged bull market. The competitive environment for active funds has grown more structurally challenging over time. The fund industry shrank by a net 1,651 stock and bond funds over the past decade as firms have launched fewer new funds than they once did. That consolidation has narrowed the range of pre-fee returns and reduced the idiosyncratic performance that once gave active managers opportunities to differentiate themselves. Fee differences are now explaining more of the performance gap between funds than in prior periods, further reinforcing the primacy of cost as a predictor of outcomes.[14]

It is worth noting that there are categories where active strategies have shown durable long-term value. Fixed income is the most prominent example: over the past decade, 42 percent of active fixed-income funds survived and outperformed their passive peers, the highest success rate of any category group in our study.[15] Certain international equity categories and select small-cap segments have also shown that skilled active managers can add value over time. The lesson is not that investors should avoid active management categorically. The lesson is that investor choice, backed by transparent and comparable data, produces better outcomes than mandated strategies or opaque decision-making.

Notwithstanding these successes, it's evident that American investors are responding rationally to the information available to them. They're exhibiting a strong and growing preference for lower-cost strategies over higher-cost alternatives, and this has boosted their average returns and likelihood of outperforming comparable alternatives.

4. Low-Cost, Automated Solutions Are Working for Retirement Savers

We also see manifold evidence of this shift in the retirement market, where low-cost automated strategies like target-date funds have come to dominate.

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[12] *Ibid.,* Exhibit 1, p. 3.
[13] *Ibid.,* p. 6.
[14] Jeffrey Ptak, "Funds Are Facing Less Competition. That's Made It Tougher," *Morningstar*, Dec. 17, 2025, available at https://www.morningstar.com/funds/funds-are-facing-less-competition-thats-made-it-tougher.
[15] Bryan Armour, Eugene Gorbatikov, and Maciej Kowara, *Morningstar's U.S. Active/Passive Barometer Year-End 2025*, Morningstar Manager Research (2026), Exhibit 1, p. 3, available at https://www.morningstar.com/business/insights/research/active-passive-barometer.

Target-date strategies have grown into one of the largest and most consequential segments of the U.S. retirement market. Assets reached $4.8 trillion in 2025, growing 20.3% over the prior year and 11.9% annualized over the past decade.[16] Target-date funds have become one of the most common default investment options in workplace retirement plans, a reflection of their low cost, simplicity, and alignment with long-term investor needs.

Here, too, the market has moved decisively toward lower-cost options: our research finds the asset-weighted average expense ratio of target-date funds declined to 0.27% in 2025, roughly half the asset-weighted average price investors paid a decade ago.[17]

The scale of this growth reflects more than strong markets. As our research shows, investors in these strategies are achieving strong outcomes. Morningstar's annual Mind the Gap study measures the gap between what funds earn and the return of the average dollar invested in those funds, which depends on the timing and magnitude of investors' purchases and sales. It is, in many ways, a truer approximation of the return investors actually experience in dollar terms. And nowhere in that study does the data tell a more encouraging story than in the allocation fund category, of which target-date funds are the most common type, representing roughly 70 percent of the category's assets.[18]

Over the decade ended December 31, 2024, investors in allocation funds captured nearly 97 percent of their funds' total returns, a dollar-weighted return of 6.3 percent annually against a fund total return of 6.5 percent. That compares favorably to the average investor across all fund categories, who captured only about 85 percent of available returns, leaving roughly 1.2 percentage points per year on the table due to poorly timed purchases and sales.[19]

Target-date funds produce these results for three reasons that are directly relevant to this Subcommittee's work. They are low-cost. They are meant to hedge risk through diversification. They automate important tasks like rebalancing and portfolio construction. And they are typically held in 401(k) plans where automatic contributions remove the temptation to time the market. These outcomes are not accidents. They are the product of deliberate policy choices: the expansion of automatic enrollment in retirement plans, the designation of target-date funds as qualified default investment alternatives, and sustained fee competition that has brought the cost of these products down dramatically over time. When structure, cost, and accessibility align, Main Street investors do not merely keep pace with institutional investors, they thrive.

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[16] Mahi Roy, *2026 Target-Date Fund Landscape*, Morningstar Manager Research (March 2026), available at https://www.morningstar.com/business/insights/research/tdf-landscape.
[17] *Ibid*.
[18] Morningstar estimate based on Exhibit 15 of Jeffrey Ptak, *Mind the Gap 2025: The More Investors Traded, the Less They Made*, Morningstar, Inc. (Aug. 13, 2025) (allocation fund category ending net assets of $3,144 billion) and Mahi Roy, *2026 Target-Date Fund Landscape*, Morningstar Manager Research (March 2026), available at https://www.morningstar.com/business/insights/research/tdf-landscape (total TDF assets of $4.8 trillion, of which 46 percent were held in mutual funds and ETFs based on CIT share of 54 percent).
[19] Jeffrey Ptak, *Mind the Gap 2025: The More Investors Traded, the Less They Made*, Morningstar, Inc. (Aug. 13, 2025), available at https://www.morningstar.com/business/insights/research/mind-the-gap.

It is also worth noting a development that is adjacent to this Subcommittee's direct jurisdiction but relevant to how many Americans first become investors. Within the retirement channel, collective investment trusts ("CITs") have emerged as a significant and growing vehicle for the delivery of low-cost investing to retirement savers. Morningstar's Target-Date Fund Landscape report shows that CITs represented 54 percent of target-date industry assets at the end of 2025.[20] The shift from higher-cost mutual funds to lower-cost CITs within 401(k) plans reflects the same investor-driven demand for cost efficiency that has shaped the broader fund market.

The progress described in this section is real, but the American retirement system still has clear room to improve. Some of the most consequential improvements involve broader retirement-policy questions that reach beyond this Subcommittee's immediate focus, yet they bear directly on the outcomes investors experience. We raise them here because they complement the Subcommittee's work on cost, disclosure, and access, and we encourage the Committee to support and amplify legislative efforts that advance the following.

First, participation should be more universal. Millions of working Americans, particularly those at small employers, do not have access to an employer-sponsored plan. Expanding access and participation would extend the benefits documented above more to a far broader share of American workers.

Second, the advantages of scale should reach smaller plans, which often pay more and offer fewer low-cost options than the large, pooled arrangements that give modest savers access to institutional pricing and professional management.

Third, sensible guardrails, such as thoughtfully designed contribution minimums and reasonable limits on early withdrawal, should be adopted to help American savers capture more of the long-term, compounding returns that accrue to those who stay invested.

5. The Industry Is Responding: Innovation Continues Toward Lower-Cost, More Tax-Efficient Solutions

Exchange-traded funds have been one of the most consequential developments in modern investing, expanding access for retail investors to low-cost, tax-efficient and transparent investment strategies at a scale that was far more limited a generation ago. They have also, by their very existence and success, forced the broader fund industry to compete more aggressively on price, a dynamic that has directly benefited every investor in every type of fund.

Morningstar has watched the rise of ETFs unfold from its early stages, and what made them succeed was not simply a good product idea. Rather, it was a regulatory environment that permitted and ultimately facilitated competition. Decades of regulatory accommodation

[20] Mahi Roy, *2026 Target-Date Fund Landscape*, Morningstar Manager Research (2026), available at https://www.morningstar.com/business/insights/research/tdf-landscape.

culminated in the SEC's adoption of Rule 6c-11 in 2019, which replaced a patchwork of more than 300 individual exemptive orders with a single standardized regulatory pathway. That regulatory foundation, combined with intensifying competition among asset managers and the shift toward fee-based advice models, helped drive fees substantially lower.[21]

The market response to these regulatory developments has been striking. Active ETFs took in roughly $475 billion in inflows in 2025, representing approximately one-third of all new ETF money, and close to 1,000 active ETFs launched during the year.[22] Over the past five years, active ETFs have added $375 billion in inflows while nearly $1.8 trillion has flowed out of active mutual funds.[23] Morningstar's research on active ETFs finds that, compared with traditional mutual funds, the ETF wrapper has in many cases been associated with lower fees, greater tax efficiency, and enhanced transparency, factors that can positively influence investor outcomes depending on strategy and implementation. The same principles that drove the passive ETF revolution are now reshaping active management. That is a development worth encouraging, provided the transparency and cost standards that made ETFs successful in the first place are preserved as the market evolves.

6. What Congress Can Do to Preserve and Extend These Gains

The question for this Subcommittee is how to preserve and improve the aforementioned conditions that empower investor success. The story described above is a genuine American success. But it is not self-sustaining. The conditions that produced it, namely rising standards, fee competition, disclosure transparency, accessible data, and a level regulatory playing field, require active stewardship. There are pressures, both active and incremental, that could erode each of these conditions if left unaddressed. Morningstar offers five recommendations to this Subcommittee.

Preserve robust and frequent fund disclosure. Investors and independent researchers depend on standardized, comparable, and frequent fund disclosures to do the analysis that flows downstream to ordinary investors. When that data is available, we can produce comprehensive research that helps investors make informed decisions. When it is degraded, whether through reduced frequency, reduced comparability, or weakened fee transparency requirements, our ability to serve investors is diminished. Morningstar supports legislation, such as the Improving Disclosure for Investors Act provision in the INVEST Act, that ensures the information investors need reaches them in a format they are more likely to engage with. Electronic delivery of fund documents is a simple, practical step that expands investor access at lower cost.

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[21] Zachary Evens and Brendan McCann, *2026 U.S. Fund Fee Study*, Morningstar Manager Research (May 2026), Executive Summary and Key Takeaways, pp. 4–5, available at https://www.morningstar.com/business/insights/research/annual-us-fund-fee-study.
[22] Bryan Armour, "Active ETF Launches and Closures: 2025 in Review," *Morningstar*, Feb. 13, 2026, available at https://www.morningstar.com/business/insights/blog/active-etf-launches-and-liquidations-2025.
[23] Bryan Armour, "Active ETFs: Where to Find the Best Investment Opportunities," *Morningstar*, Apr. 23, 2024, available at https://www.morningstar.com/funds/active-etfs-are-soaring-should-you-invest.

Maintain an environment where low-cost products can compete on a level playing field. The ETF market is the clearest proof of concept. Morningstar encourages this Subcommittee to carefully weigh any legislative or regulatory proposal that reduces the transparency or comparability of investment cost information available to ordinary investors. Fee transparency is foundational to investor choice. When it is diminished, even incrementally, investors bear the cost.

Preserve and strengthen investor access to fund portfolio holdings data. Morningstar's research on portfolio disclosure frequency shows that monthly-disclosing funds outperform quarterly-disclosing peers in roughly 51.7 percent of category-year observations.[24] That finding argues strongly for preserving, not rolling back, public access to monthly portfolio holdings data. Institutional investors already have access to information, for example through separate account agreements, private placements, and other channels, that retail investors do not. The public availability of monthly holdings data under Form N-PORT is one of the few mechanisms that partially offsets that advantage. Reducing its availability would widen, not narrow, that information gap.[25] Morningstar has observed a consistent pattern: proposals to reduce fund disclosure frequency or comparability are most often framed as reducing investor confusion. But the data shows that investors use this information and benefit from it.[26] Congress should weigh any proposal to reduce fund portfolio holdings disclosure frequency or comparability against the demonstrated benefits that disclosure provides to investors. Greater transparency has generally been associated with improved investor decision-making, while reduced transparency can limit comparability across products and make cost analysis more difficult to perform for investors.

Support innovation in low-cost investment vehicles. The rise of active ETFs represents the next chapter of this story. The wrapper is evolving, but the principle holds: cost and transparency matter. Congress can support this environment by resisting measures that would re-erect barriers to low-cost product formation and preserving the tax treatment that has made ETFs accessible to ordinary Americans.

Remain vigilant as the product landscape evolves. The growing availability of illiquid and alternative strategies in retail-accessible wrappers warrants close attention, for example interval funds and tender offer funds. The principles that made ETFs a success story for Main Street investors, namely cost transparency, daily liquidity, and standardized disclosure, are not always present in these newer structures. As innovation continues, maintaining those standards should remain a priority for regulators and for this Subcommittee.

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[24] Morningstar, Inc., Comment Letter on Release No. IC-35963; File No. S7-16-22, Investment Company Names / Form N-PORT Reporting; Extension of Compliance Date; and Related Proposed Amendments to Form N-PORT (Apr. 24, 2026), available at https://www.sec.gov/comments/s7-16-22/s71622.htm.
[25] *Ibid*.
[26] *See* Zachary Evens and Brendan McCann, *2026 U.S. Fund Fee Study*, Morningstar Manager Research (May 2026), Key Takeaways, p. 5 (documenting $694 billion in net inflows to the cheapest quintile of funds in 2025, reflecting investor responsiveness to fee and disclosure data), available at https://www.morningstar.com/business/insights/research/annual-us-fund-fee-study.

Crucially, the trends documented throughout this testimony, such as falling costs, greater transparency, and standardized, comparable disclosure, should not stop at the edge of the public markets. Many of these same trends can and should play out in the private markets as well. Regardless of whether illiquid and alternative strategies ultimately catch on in the retail space, every investor in these offerings, from the largest institution to the smallest individual saver, deserves the full benefits that have flowed to investors in public markets. Comparability is essential to that end: investors cannot meaningfully weigh cost, performance, and risk across public and private offerings unless the underlying disclosures are consistent and comparable across them. Extending the public-market standards of cost transparency and comparable disclosure into the private markets would help ensure that these gains reach investors wherever they choose to invest.

Conclusion

The data tells a clear story: over the past two decades, American investors have saved billions in fund fees, gained access to an unprecedented range of low-cost investment options, and achieved outcomes that would have seemed far-fetched a generation ago. That progress is a product of deliberate policy choices.

Yet the success story is incomplete. Morningstar's research shows that more than half of American investors — approximately 54 percent[27] — still feel uncertain or nervous navigating today's markets. The policy agenda this Subcommittee advances, such as lower costs, better disclosure, and more accessible products, can help close the gap between the outcomes investors can achieve and their confidence in achieving them.

Morningstar's mission is to empower investor success, and we do that by providing investors with the data, insights, and ratings they need to make informed investment decisions across public and private markets. Morningstar and this Subcommittee share a vital common goal: an investment landscape where every American investor has access to the information and opportunities needed to make informed decisions and achieve financial success.

[27] Joseph Agostinelli, "Morningstar Investor Perspectives: How Can Advisors Turn Complexity into Clarity?" *Morningstar*, June 2, 2026, available at https://www.morningstar.com/business/insights/research/investor-perspectives-for-retail-investors-us.