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what determines mutual fund growth: evidence from finland

Several studies have examined fund performance in return and risk terms but relatively little research has been focused on mutual fund growth. While the fund industry is rapidly growing it is highly important to understand which factors determine the fund growth. Unlike majority of earlier papers which focus on the mutual fund investor standpoint, this study focuses on the mutual fund supplier standpoint. Therefore, the focus of this study is not on whether past returns can predict a fund's ability to earn excess risk adjusted return in the future per se, but whether past returns, among other factors, have power to explain investor behavior in their selection of mutual funds. For the first time, we explicitly examine the effect of fund advertising on generating demand for mutual fund shares.

The results from the empirical analysis suggest that investors of mutual funds distributed through independent management companies allocate their capital between mutual funds based on prior performance. These results are robust to using different measures of performance. Investors of mutual funds distributed through banks, however, seem to be rather ignorant of prior performance. Neither the level of management fee nor the level of load fees seems to be related to external fund growth. The evidence also suggests that the amount of fund advertising is positively related to external fund growth during positive category growth, but unrelated to growth during negative external fund category growth. In addition, the analysis provides very tentative evidence of a positive relationship between services provided by a fund and external fund growth.