# Marketing and Mutual Fund Size

Empirical evidence on the effectiveness of marketing by fund employees

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## Abstract

This thesis aims to study the effects of marketing on mutual fund size, by itself as well as in comparison to other factors. Although marketing may not be the first thing funds think of when wanting to increase their size, the literature appears to suggest they should. This thesis aims to explore mutual fund marketing from a fund employee perspective, through a combination of qualitative and quantitative data collected through 10 in-depth interviews with both portfolio managers and marketing professionals at 6 different banks and asset managers. The findings emphasize the preference for informative marketing over persuasive marketing, as fund employees appear to see marketing as the main channel to inform investors about their funds and companies. Additionally, it appears that fund employees do agree marketing can affect fund size but indicate this may be dependent on marketing and investor type. Throughout this thesis it also became apparent that the approach to mutual fund marketing can differ between banks and asset managers. Overall, the results provide insights on the effectiveness of mutual fund marketing and add to the discussion on mutual fund size.

Keywords: Mutual funds, Marketing, Fund size

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# 1. Introduction

The mutual fund industry has been expansively growing the past decades, with total assets under management increasing from $882 million in 1945 to $71,1 trillion in 2022, and the number of funds increasing in a similarly explosive manner (Bogle, 2005; Investment Company Institute, 2022). The underlying cause of this growth is complex, as many aspects of a mutual fund can affect its size, as documented by a large body of academic literature on the topic. Performance and skill are often seen as the most important factors driving growth, but even though it is not confirmed that mutual funds actually outperform the market (Berk and van Binsbergen, 2015). The different research directions reflect that the drivers for this growth may not be as straightforward as one might think and could be caused by a combination of aspects. One such aspect might be marketing, since funds spend an immense amount of resources on it (Chen, Jiang, and Xiaolan, 2022).

Literature supports the idea that mutual fund growth can be fuelled by marketing. One of the first indications came from Sirri and Tufano (1998), who document how marketing can decrease investor search costs and thus lead to higher fund inflows. More recently, Roussanov, Ruan, and Wei (2021) study the importance of marketing for determining fund size, and based on their model they provide evidence that marketing is almost equally important for fund size as performance and fees are. If this were true, fund companies should see marketing as one of the most important means to foster growth. Therefore, it is of interest to hear the perspective of fund employees on how they experience marketing as a tool for fund growth in a real-life setting and how it compares to other factors. As a result, this thesis addresses the following research question:

*Does marketing increase fund size?*

This thesis uses a combination of qualitative and quantitative research to answer this question.

The main finding of this thesis is that fund employees view marketing as a means of spreading information to investors. It implies that informative marketing is preferred over persuasive marketing, indicating that fund companies believe investors need to be informed to make investment decisions, not persuaded. As for the effects on fund size, fund managers do appear to agree that marketing can increase fund size, but value it as less important for increasing fund size than other related fund factors. The effectiveness of marketing may also be dependent on the type of investor and the type of marketing. Concerning investor type, marketing may be most efficient for retail investors. Concerning type of marketing, it is expressed that unpaid marketing is superior to paid marketing, as paid marketing is implied to be too forward, again related to the preference for informative over persuasive marketing. If paid marketing is employed, it is informative of nature and includes topics covering multiple funds, such as sustainability. Portfolio managers also express the importance of building trust with their clients, and making the funds feel personal to the investors.

As for marketing expenses, the interviewees indicate they are measured at the fund company level. Portfolio managers do not appear to be aware of marketing expenses for their own funds. In general, it appears marketing expenses are hard to track. Thus, whether marketing expenses by themselves can increase fund size is difficult to analyse due to the lack of data.

There also appear to be some differences between asset manager funds and banks funds. Bank funds may benefit from the name recognition that comes with being part of a well-known bank. The complexities that come with being part of such a big institution complicate marketing however, making it harder to measure the effects thereof.

As for other fund factors impacting fund size, performance is considered by most portfolio managers as very important for the success of a fund. In addition, this thesis finds a negative relationship between fund fee and fund size, which could imply that price competition works for mutual funds. However, competition may also be beneficial for funds, as there may be complementarity between funds. Lastly, it also appeared that differentiation strategies are an effective means of enabling funds to charge higher fees whilst maintaining size, by allowing them to stand out from the crowd.

The findings of this thesis are based on the results of 10 interviews with fund employees. 6 of the interviewees are portfolio managers, 3 are marketing professionals, and 1 is a former portfolio manager. The interviewees are employed at 6 different fund companies, including 3 asset managers and 3 banks. During the interviews, the portfolio managers were additionally asked to rate certain fund aspects and their importance for increasing fund size, as well as the strength of the competitive environment of their funds and the number of years of experience they have as portfolio managers. This was then combined with data points on the funds managed by the interviewed portfolio managers including data on past returns, ongoing fund fees, and assets under management. The data sample includes 109 observations at the share class level.

Two ordinary least squares (OLS) regressions were performed using cross-sectional data to uncover potential variables affecting assets under management, in other words fund size. Additionally, summary statistics were calculated to understand the data collected during the interviews. A correlation table was also created to understand whether any variables were particularly correlated. Lastly, several T-tests were performed to see if there is a difference between variables for portfolio managers and banks.

This thesis contributes to the literature on drivers of mutual fund size. Specifically, this thesis contributes by getting a fund employee's perspective on factors affecting fund size, in particular marketing. This perspective is mostly omitted by existing literature, and the literature on marketing makes assumptions that may be questionable when including this perspective. The literature documents a positive effect of marketing on fund size (Sirri and Tuffano, 1998; Barber, Odean, and Zheng, 2005; Roussanov, Ruan, and Wei, 2021; Chen, Jiang, and Xiaolan, 2022, among others), and the findings of this thesis seem to support this but emphasize the informative nature of mutual fund marketing.

The thesis is structured as follows; section 2 provides a literature review covering different factors affecting mutual fund size, with the focus being on marketing. Section 3 describes the data collection process and methods used to obtain the results of this thesis. Section 4 presents the results of the analysis of the quantitative and qualitative data. Section 5 attempts to interpret the results. Section 6 concludes by summarizing the main findings and discussing future areas of research.

## 2. Literature Review

Mutual funds are part of a highly profitable industry, with mutual fund managers being amongst the highest paid members in society (Berk and van Binsbergen, 2015). The industry itself has been growing continuously worldwide, driven by the desire of individuals to participate in the stock market without having to pick stocks themselves, indicating that they believe fund managers are more capable (Khorana and Servaes, 2012). The promise that mutual funds thus create is that they outperform the market and provide their investors with good returns. This has been a much-studied area of finance, but the main conclusions remain uncertain (Berk and van Binsbergen, 2015). Whether investing in mutual funds provides a competitive advantage compared to the market or not, the size and growth of the industry indicate that at least some people believe it to be a good investment.

The success of a mutual fund from the perspective of a fund manager can be measured by the assets under management of the fund, in other words, the size of the fund, as they usually receive a fixed percentage of assets under management as compensation (Chevalier and Ellison, 1997). There are several aspects which can affect fund size, but before diving deeper into these individual aspects, it is important to discuss a key reason why these aspects can affect fund size. Investors looking to invest their money into mutual funds have an overwhelming set of funds to choose from, and to aid them in their decision making, they can use several fund aspects as a measure to decide whether a fund is good or not (Huan, Wei, and Yan, 2007). This process of deciding which fund to invest in is costly to investors, so they try to lower their search costs by looking at past performance or fund fees for example, but funds themselves can lower investor search costs by increasing their visibility through marketing (Huan, Wei, and Yan, 2007). Most retail investors are not trained at analysing portfolios, so it is fair that they use easy to comprehend information and their own perception to judge whether a mutual fund is good or not, and this also explains why rating agencies, like Morningstar, exist and why fund vendors spend a significant amount on marketing (Sirri and Tuffano, 1998). There are of course other costs associated with investing into mutual funds, but search costs are one of the main reasons why an investor chooses to settle for certain funds instead of exploring the whole universe of mutual funds there is on offer (Huan, Wei, and Yan, 2007).

As a result of the existence of costly search, but also to understand the growth and continuous appeal of mutual funds, many fund aspects have been studied to decide whether there is a potential connection between them and fund inflows. My thesis is mainly focused on mutual fund marketing and the effects of this on fund size, according to managers and industry professionals' own perceptions. But to understand this area of mutual funds, it is also important to understand other factors that may affect fund size. Below, I will first discuss mutual fund marketing, after which I will briefly discuss other potential factors affecting fund size.

## 2.1 Marketing

Whilst this thesis discusses several factors that may affect fund size, the main focus is on marketing and the effects thereof. The literature surrounding mutual fund marketing will be discussed below, but first I would like to define the concept of marketing. According to the Oxford Languages English dictionary, marketing is defined as "the activity or business of promoting and selling products or services, including market research and advertising". It is important to keep in mind that marketing is a very broad term that encompasses all aspects of the process of communicating and selling a product, in this case mutual funds.

One of the first papers that documents a positive relationship between fund flows and marketing efforts is the paper by Sirri and Tuffano (1998). They studied consumer behaviour in response to marketing and found that due to marketing lowering investor search costs, it leads to larger fund inflows. Specifically, funds getting more media attention and funds that are part of a bigger fund family manage to grow faster than other funds. This relationship is also found to be most pronounced for funds with higher marketing expenses, as measured by their total management fees. Jain and Wu (2000) reason that next to the proposed lowering of search costs that marketing achieves according to Sirri and Tuffano (1998), there may be a signalling aspect to it too, where funds signal superior managerial skill through performance by advertising. No evidence is found for this signalling aspect however, but by analysing 294 advertised mutual funds and comparing them to a control group, Jain and Wu (2000) find evidence that fund inflows are larger to the advertised funds compared to the control group. It thus seems the effect of advertising is to attract investors.

Barber, Odean, and Zheng (2005) studied the effects of fund expenses on inflows, but whilst they document no relationship between total operating expenses and fund inflows, they find a positive relation only for 12b-1 fees and fund inflows. 12b-1 fees are fees meant for marketing expenses and are part of overall fund operating expenses. They conclude that investors are not attracted to funds with higher operating expenses, only if their attention is attracted through marketing or distribution (Barber, Odean, and Zheng, 2005). Gallaher, Kaniel and Starks (2006) find similar indications, but their research focusses on marketing expenses on the fund family level. They reason that these expenses are usually made by the management company for all their fund products, and thus marketing expenses cannot be tracked accurately at the fund level. When looking at fund family marketing expenses, they find that relative marketing expenses are an important indicator of fund inflows, as fund companies that spend relatively much on marketing compared to their peers have comparatively more fund inflows. These results indicate that although individual fund marketing expenses may be indicative of higher fund inflows, it is important to look at the big picture when examining the relationship between marketing and fund flows, as marketing expenses may not show up in the individual funds expenses.

Further evidence that marketing affects fund inflows comes from Reuter and Zitzewitz (2006) who studied the effects of mutual fund recommendations made by five financial publications that received the most mutual fund advertising dollars between 1997 and 2002. A single additional positive mention in one of these publications managed to raise fund inflows by 7 to 15 percent of its assets under management over the following 12 months, whilst these recommendations do not appear to affect future returns (Reuter and Zitzewitz (2006). This study implicates the effect positive media attention can give is sizeable, and how this indirect aspect of marketing can also play a big role in increasing fund size, regardless of whether this positive media attention is actually associated with better returns in the future.

Another aspect of fund marketing is the sales channels through which the funds are sold. One of these channels is through brokers. Brokers are intermediaries who buy or sell funds on behalf of their investors and may also advise them on which funds to invest in. Bergstresser, Chalmers, and Tufano (2009) raise the question of what benefits broker-channel fund investors get by paying the large distribution fee that usually comes with investing in a fund through this channel. Remarkably, they find that broker-sold funds deliver lower returns compared to direct-sold funds even before distribution fees are subtracted, but investors claim to still prefer to use brokers. Two options are given to explain this contradiction: either brokers provide their customers with immeasurable intangible benefits, or brokers act out of self-interest (Bergstresser, Chalmers, and Tufano, 2009). This latter statement is supported by the finding

that fund flows are positively associated with distribution fees, which could indicate brokers are chasing compensation when advising their clients (Bergstresser, Chalmers, and Tufano, 2009). Christofferson, Evans, and Musto (2013) provide further evidence supporting this claim, as they conclude that brokers' incentives play significantly influence performance and flows of funds. They find that new investments increase with the load fee paid to brokers, and that future performance decreases as the brokers payment from the load increases.
From these papers, one can conclude that brokers can potentially negatively impact their investors returns. Although this is a controversial statement to make, these studies highlight the effect sales channels can have on fund flows.

Recently, Roussanov, Ruan, and Wei (2021) studied the importance of marketing for determining fund size. Based on their model, they find evidence that marketing is almost equally important for fund size as performance and price are. They argue this is related to the previously mentioned investor search costs, and how marketing can decrease search costs as it increases the chance a fund is included in an investor's choice set. A 1 basis point increase in marketing expenses is found to increase fund size by roughly 1%, with slight deviations depending on whether a fund is high- or low-skill (Roussanov, Ruan, and Wei, 2021). Amongst their finding of the effect on fund size, the authors also uncover that marketing decreases investor welfare on average. If marketing were not employed, total fund costs would drop more than the initial cost of marketing, meaning that price competition would increase due to fund not being able to differentiate themselves through marketing. Overall, investors would thus be better off in a world with no marketing, at least according to Roussanov, Ruan, and Wei (2021). This is not the case for fund managers, however.

Chen, Jiang, and Xiaolan (2022) also studied the effects of marketing on fund size but did this by measuring funds' marketing employee ratio. Contradictory to the argument of Roussanov, Ruan, and Wei (2021), they find that search costs are not reason enough to explain marketing decisions made by a fund company, as large fund companies, which should be subject to lower search costs due to their size, allocate more human capital to marketing compared to their smaller competitors. For the marketing ratio variable, they find it causes significant fund growth, especially when paired with high performance relative to its peers. Their findings can be of value for large fund companies that have reached their critical size, which is the point past which performance starts decreasing as Berk and Green (2004) argue in their paper. By hiring more marketing employees, these large funds can continue to increase their fund size even if their superior performance is not persistent (Chen, Jiang, and Xiaolan, 2022).

Overall, there is an extensive literature describing a positive relationship between marketing and fund size, and although marketing by itself may not be able to cause positive value added, as stated by Berk and van Binsbergen (2015), it can cause funds to grow, and may be a good means for large funds to continue growing. The literature summarized here all uses different measures of marketing when analysing its effect on fund size, and this is not surprising when considering marketing efforts cannot be easily quantified, unlike past performance or fund costs. But overall, all authors find a positive relationship between whatever their measure of marketing is and fund size, indicating that marketing should not be overlooked when considering the big drivers of fund growth.

## 2.2 Performance

There has been much evidence suggesting there is a flow-performance relationship for mutual funds, indicating that past performance invites future fund inflows (Chevalier and Ellison, 1997). Sirri and Tufano (1998) confirm the existence of a flow-performance relationship, as well as the effect being disproportionately strong for investors flocking to high performing funds compared to the rate that investors withdraw from lower performing funds, indicating that the relationship may not be as straightforward as it may seem at first.

Berk and Green (2004) also state that investors chase past performance when deciding which fund to invest in. Having good past performance thus implies a fund will grow in the future, but the result of this growth is decreasing future performance once the fund reaches a certain size, as managers suffer decreasing returns once they pass this critical size according to Berk and Green (2004). This in turn will lead to investors chasing past performance elsewhere and implies that provision of funds by investors is competitive, not perse that fund managers lack skill to outperform the market (Berk and Green, 2004).

Huan, Wei, and Yan (2007) also find a relationship between past performance and higher fund inflows. They find that past performance can be a filter that investors use to decide on which funds to focus their attention on. Investors face participation costs when investing in mutual funds, and the higher these costs are, the more important past performance is, as investigating potential investment opportunities becomes increasingly more costly, so they concentrate on fewer funds (Huan, Wei, and Yan, 2007). The ones that make the cut are then based on superior past performance, according to their study. Similarly to Sirri and Tufano (1998), they also document a disproportionate relationship between the rate of fund inflows for good performing funds compared to bad performing funds, but they argue this is due to participation costs investors face, which results in investors not selling funds until their performance is sufficiently bad, making fund flows less sensitive for medium performers if a fund has high transaction costs (Huan, Wei, and Yan, 2007).

All in all, these papers document a complex relationship between performance and fund inflows, but all agree there is a positive relationship in case of superior performance.

### 2.3 Managerial Skill

Using managerial skill as a decisive factor when choosing a fund is a less straightforward process than when assessing performance, although many see the two as being related. According to financial economics, fund managers should only be able to extract additional value from the market, or in other words create alpha, if they possess a competitive advantage, but whether a positive relationship exists between managerial skill and return in the mutual fund industry is unclear (Berk and van Binsbergen, 2015). Determining the managerial skill of a fund manager is a very complex undertaking, and many investors use past performance as an indicator of skill, but there are limits to how well an investor can assess skill using only performance as a measure (Heuer, Merkle, and Weber, 2017). There is evidence however that investors confuse risk taking with managerial skill, and in the process over allocate their capital to lucky past performers, indicating that perceived managerial skill, whether this judgement be incorrect or not, results in fund inflows (Heuer, Merkle, and Weber, 2017). Heuer, Merkle, and Weber (2017) state how return volatility and characteristics of the fund population affect how reliable alpha is as a measure of managerial skill and find that investors deem high volatility high alpha funds to have higher managerial skill compared to low volatility low alpha funds, resulting in more inflows to funds possessing those characteristics. Carhart (1997) states that persistence in fund performance is not explained by stock picking skills of the fund manager but by other common fund factors, meaning that skilled fund managers do not exist.

Contrary to these findings, Berk and van Binsbergen (2017) find a clear sign of the existence of fund manager skill based on a measure of their ability to extract value from markets and find that investors can correctly identify this skill and reward it. This ability to identify managerial skill leads them to conclude that current compensation, measured as the management fee charged over the assets under management, predicts future performance. Earlier papers by Grinblatt and Titman (1989 and 1993) show that porfolio choices by certain mutual fund managers earned significantly positive returns, and Werners (2000) shows stocks held by mutual funds outperform broad market indices.

Taking all this evidence together, one can conclude that the results of whether fund manager skill exists and if it results in fund inflows is inconclusive, but it is clear that past performance plays a role in judging managerial skill.

### 2.4 Fund Fees

When an investor goes through the process of deciding which mutual fund to invest in, there are several fund expenses they can evaluate, such as front-end-load fees, commissions, and operating expenses (Barber, Odean, and Zheng, 2005). It is natural for investors to prefer low fees, and Barber, Odean, and Zheng (2005) show that mutual fund investors have become more aware of fees, but this awareness is differing for different types of costs. Investors have learned to avoid high front-end-load fees and high commission costs more than operating expenses. They find no difference between the operating expense paid by first-time fund purchasers compared to repeat purchasers, whilst there is a difference for front-end-load fees and commission costs for these two groups of investors. Additionally, they find no relationship between fund inflows and operating expenses, with the only exception being 12B-1 fees, which are distribution costs. The beforementioned Sirri and Tuffano (1993) also document no clear relation between growth in market share and fees charged. Overall, there are several studies that document no clear effect of fund costs or fees on fund size.

On the other hand, Khorana and Servaes (2012) find that fund families have a higher market share when they charge lower objective-adjusted fees compared to other families in the market. They also find that families that charge lower fees as their fund size grows, also have higher market share. This evidence indicates there may be a relationship between these factors if looking at fund families instead of individual funds. What is remarkable however, is the fact that the average expense ratio for fund investors has increased in the period between 1976 and 2009, which seems counterintuitive when considering the idea of competitive markets leading to lower prices (Khorana and Servaes, 2012). Wahal and Wang (2010) studied mutual fund competition and found that fund companies experiencing high overlap with new entrants engage in price competition through lowering their management fees, this result would be fitting for a competitive market, as opposed to what is stated in the paper by Khorana and Servaes (2012). But they also document a rise in distribution costs that counterbalances the decrease in management fees, which leads to investors not really noticing a difference in costs. To conclude, the relationship between fund size and fund costs appears to be complex and more research is needed to get a better idea of the complexities of this relationship and how competition works in the mutual fund market.

### 2.5 Differentiation

Product differentiation in mutual funds is not a straightforward concept, but it can be defined as competition on non-price aspects of the fund. The most important aspect here is past performance, but product innovation, marketing, and investment strategy also fall under this term (Khorana and Servaes, 2012).

According to Khorana and Servaes (2012), product differentiation appears to be a good strategy a fund can use to obtain more market share. They state that product innovation can lead to an increased market share, but it could also lead to cannibalization of other funds offered by the same fund company. It is therefore important to differentiate the new products from the old to ensure fund growth is not caused by this cannibalization effect. A paper by Li (2005) provides further evidence that product differentiation may be beneficial to mutual funds, as he estimates fund profitability to increase by 30% if a fund uses financial product differentiation, as they are able to charge higher fees by doing so. Hortaçsu and Syverson (2004) found evidence that supports the findings by Li (2005), as they show that portfolio differentiation can cause differences in fees.

Pollet and Wilson (2008) studied the behaviour of growing mutual funds, and when growing funds suffer diminishing returns, they find that portfolio diversification can be a useful tool to increase performance, especially for small-cap funds. For fund families, they find that growth in assets under management is best achieved through introducing new funds that have differing investment ideas compared to already existing funds, and not through growing already existing funds. This indicates differentiation plays a role in increasing fund size within individual portfolios but also on the entire fund company level.

To summarize, these studies all indicate there may be a relationship between fund differentiation and fund profitability, and considering how a competitive market works, it makes sense that a relationship should exist within the mutual fund industry, too.

## 2.6 Research Question

Following the discussion on the literature, the goal of this thesis is to understand the effect of different factors on mutual fund size, and to identify implications of these for mutual funds and research regarding them. The main area of research is the effects of marketing on fund size, and thus the main research question of this thesis is:

*Does marketing increase fund size?*

To aid in answering this question, the effects of other factors will also be presented, as this allows a better overview of the overall workings of a mutual fund.

# 3. Methodology

To answer the research question, an inductive research approach was employed, as first the literature related to mutual fund size and marketing was studied, and then industry professionals were interviewed to get an insight into their approach and opinion when it comes to mutual fund marketing. To get a better understanding of the factors influencing mutual fund size, the interviewees were also asked about other fund aspects that could be related to mutual fund size.

The interviews were in-depth and semi-structured, in the sense that all interviewees were asked the same questions depending on their role, but in some cases also asked additional questions to get an even better understanding of their opinion or knowledge. The data collected through these interviews was thus partially of qualitative nature and adds to the literature on this topic by getting a better understanding of what approaches mutual funds use to grow their fund size, including their approach to marketing. In order to further test the research question, a quantitative research aspect was included by asking the interviewed fund managers to rate certain fund aspects in terms of their importance for fund success as measured by fund size, by asking them to rate their competitive environment, and by asking them how many years of experience they have as fund managers. This quantitative data, paired with publicly available data about the fund managers' respective funds, was then used to draw conclusions about the effects of different factors on fund size.

To conclude, a combination of qualitative and quantitative data was used to get a better understanding of the effect of mutual fund marketing on fund size, but related areas were also explored to get an overall understanding of mutual funds operations and how they can increase their fund size.

## 3.1 Data collection

As previously stated, a combination of qualitative and quantitative data was used to explore the research question, and most of this data was collected through interviewing mutual fund industry professionals. 7 of the interviewees were fund/portfolio managers, and 3 were fund marketing or related professionals. A mix of both fund managers and marketing professionals were interviewed to get a thorough understanding of both marketing at a fund level and marketing at the fund company level, and also to gain insights into other non-marketing related fund aspects. The interviewees were based in either Sweden, Finland, or the Netherlands. Potential interviewees were found by looking on fund company websites and their LinkedIn pages. Once a potential subject was identified, their email addresses were sought out. They were then approached via email and the research purpose was explained. Several of the people interviewed at a later stage were referred to by previous interviewees. During the course of the interviews, it came to light that there was a difference in marketing approach between bank funds and asset manager funds, so an even number of interviews from both bank employees and asset manager employees were aimed for to explore this difference in approach. 36 potential interviewees were contacted, 14 of them responded, and 10 subjects were eventually interviewed, resulting in a success rate of 28%. The 4 that responded but weren't interviewed were due to them deciding not to go through with the interview at a later point.

As for the quantitative data collected for this thesis, this was done in two steps. Firstly, at the end of the interview, the interviewees were asked to rate certain fund aspects on a scale of 1 to 5 in terms of their importance for increasing fund size. These fund aspects were marketing, managerial skill, investment strategy, and reaching your customer target group. The interviewees were also asked to rate the competitiveness of their environment on a scale of 1 to 5. In both cases, 1 would be the weakest score and 5 the strongest. Additionally, the portfolio managers were asked to disclose how many years of experience they have being a portfolio manager.

Secondly, public data was compiled on the funds managed by the interviewed portfolio managers. This data consisted of information about the individual share classes of these funds, including the assets under management per share class, the ongoing fee, the trailing returns of each class for the last 1 and 3 years (cumulative returns), and the corresponding performance of a benchmark. All this data was sourced using The Financial Times Markets data between April 19$^{th}$ and April 22$^{nd}$. The benchmarks used were the benchmarks listed on each individual share class page on The Financial Times Markets website. The data compiled during these two steps was then compiled in one dataset, resulting in 109 observations. An identifier variable was added which would be set to 1 if the share class were part of an asset manager-owned fund, and 0 if it were part of bank-owned fund. Additionally, two variables called Relative Return 3 Years and Relative Return 1 Year were added. These variables consist of the difference between the return and benchmark return for that period. The purpose of adding these variables was to increase the comparability between the share classes and the funds they are part of, as some funds cannot be compared to each other in terms of the assets they are made up of. In this sample, some funds contain only bonds and others only stocks.

### 3.2 Context

The interviews conducted for this thesis occurred during February 23rd, 2023 and April 14th, 2023. The duration of the interviews ranged between 20 and 68 minutes. The length of the interviews depended mostly on the amount of explanation interviewees gave for the questions asked and did not depend on the number of questions. The majority of the interviews took place online, using Microsoft Teams. Out of a total of 10 interviews, 3 were in person.

The interviews took place during a rather turbulent time, with the Russia-Ukraine war continuing, and Silicon Valley Bank and other banks facing troubles. In general, the economic mood has been noticeably sour, and it was noticed that fund employees, especially fund managers, were rather busy with the events occurring.

### 3.3 Method

The interview questions posed were based on two prewritten questionnaires which can be found in the appendix, that were in turn based on literature documenting effects of marketing on fund size, as well as literature describing other factors affecting fund size. The literature that gave inspiration for these questions can be found in the literature review. By asking these questions to fund employees, evidence was trying to be uncovered for different theories discussed in these papers, as well as trying to uncover novel implications. Two questionnaires were created to ensure the questions were relevant for the interviewees, as they could be put into two categories: fund/portfolio managers, and marketing and sales employees. As these two types of interviewees have different areas of expertise, it was thought to be important that the questionnaire would be adjusted accordingly.

The interviews started by explaining the research topic and asking for permission to record and transcribe the interview. Not all questions listed in the respective questionnaires were asked during all interviews, and sometimes additional questions were asked. This depended on the answers the interviewees gave during the interview, as additional questions were asked if more information was deemed needed for the understanding of their opinion. Overall, the prewritten questionnaires were adapted to the person being interviewed to get as much information from their knowledge and expertise as possible. At the end of each interview the interviewee was asked if they wanted to add anything to the conversation, as to ensure they felt that they properly expressed their opinion on the matters discussed.

After completion of an interview, it was transcribed factually and in detail. In some cases, parts of the interview were rewritten slightly to improve the clarity of the transcript, but never to a degree that it changed the nature of what the interviewee was trying to convey. The transcripts were compiled once completed for all respective interviews and served as a source for the empirical findings section of this thesis.

As for the quantitative data, four different methods were used to understand the relationship between fund size and the previously discussed variables.

Firstly, the summary statistics were compiled for the two different types of variables: the interviewee-reported variables and the independently collected variables. This was done to get an idea of the average scores given by the interviewees and understand the underlying share classes. The summary statistics for the interviewee-reported variables were collected on an interviewer level, as it was deemed inappropriate to compile it at share class level as share classes belonging to the same fund would all have the same scores for these variables. The summary statistics for the other variables were collected on the share class level, as this problem was not present for these variables.

Secondly, a correlation matrix was created to understand the correlation between all variables, both interviewee-reported and independently collected. The aim of this step was to see if any variables were significantly negatively or positively correlated.

Thirdly, two regressions (OLS) using cross-sectional data were performed to understand the relationship between the variables and share class size. The model for the first regression is:

$$\log(AUM_i) = \alpha + \beta_1 * Return + \beta_2 * Fee\ Ongoing + \epsilon_i$$

The dependent variable AUM stands for the assets under management per share class. The logarithm of this variable was used in the model because the underlying values are positive and by doing so, one can interpret them in terms of elasticities. The return variable in this model has four different specifications; return 3 years, return 1 year, relative return 3 years, and relative return 1 year.

Due to the variables Marketing, Managerial Skill, Competitive Environment, Investment Strategy, Customers, and Experience being based on interviews with six portfolio managers, they violate the regression assumptions as it results in having too few observations. A regression analysis was still performed for suggestive purposes however, and the model for this regression is:

$$\log (AUM_i) = \alpha + \beta_1 * Marketing_i + \beta_2 * Managerial\ Skill_i + \beta_3 * Competitive\ Environment + \beta_4 * Investment\ Strategy_i + \gamma * Controls_i + \epsilon_i$$

The independent variables in this model refer to the scores the interviewed portfolio managers gave for their effect on fund size. The variable measuring the effect of effectively reaching a customer target group on fund size (Customers) was omitted from this regression, as it violated the OLS assumptions due to collinearity. By removing this variable, this issue was solved. The control variables that were used were the ongoing fee and the logarithm of the experience variable. Four regressions were performed, each using either Return 3 Years, Return 1 Year, Relative Return 3 Years, or Relative Return 1 year as an additional control variable.

Lastly, multiple t-tests were performed to test whether the means for different variables were different between the two subgroups: banks and asset managers. The variables tested were assets under management per share class, marketing, managerial skill, investment strategy, customer target group, experience, and competition. Before performing the t-tests, F-tests were performed to determine whether the variances are unequal. The F-tests confirmed this, so the t-tests were done assuming unequal variances.

## 3.4 Limitations

Certain limitations arose by using the described methods. For the interview-based part of this thesis, the subjects that responded may have been biased in their opinion regarding marketing, which would be relevant especially for the portfolio managers, as it was noticed during the interviews that some expressed a particular interest in or previous experience with marketing. This may mean they under- or overstated the actual value of marketing for growing their fund size during the interview, exposing the thesis to a personal bias. This bias could also be present for other fund factors discussed during the interviews. Additionally, the selection may have been subject to sampling bias. What should also be noted is that employees from only 6 different companies were interviewed, meaning that the sample size is limited. More interviews at different companies could provide additional insights.

Additionally, there are several potential limitations for the quantitative data collection method used. Firstly, the data set used is small, which could result in the data containing outliers as well as violating regressions assumptions. In general, the data collection for this thesis was mainly focused on collecting qualitative data, so the quantitative data was used more as a supplement to this. Secondly, the data could be biased due to the collection method for the qualitative data, as the data was dependent on the selected interviewees. Thirdly, the scale used for measuring the effect of the different variables on fund size is small, which resulted in answers being very similar for all fund aspects. This makes it hard to draw clear conclusions about their relationship with fund size. Lastly, the decision to measure relative return using an external benchmark may not be the most effective way to achieve this, but due to the differing underlying assets it was deemed the most appropriate way to compare the results for all funds.

## 4. Empirical Findings

In the following sections the findings of the interviews are described. Firstly, findings of the qualitative part of this thesis will be presented, after which the findings of the quantitative part will be presented. The interviewees are listed by their function and their place of work. Below is a summary table with an overview of all interview candidates and the date and duration of each interview.

**Table 1 – Interview Information**

| **Function** | **Workplace** | **Type** | **Date of Interview** | **Duration of Interview** |
|---|---|---|---|---|
| Portfolio Manager 1 | SEB | Bank | 23-02-2023 | 24:21 |
| Portfolio Manager 2 | SEB | Bank | 23-02-2023 | 43:11 |
| Portfolio Manager | Nordea | Bank | 24-02-2023 | 45:02 |
| Ex- Portfolio Manager | Nordea | Bank | 01-03-2023 | 26:48 |
| Head of Marketing | Robeco | Asset Manager | 02-03-2023 | 30:36 |
| Portfolio Manager | Robeco | Asset Manager | 08-03-2023 | 19:43 |
| Sales and Distribution | Nordea | Bank | 17-03-2023 | 47:05 |
| Investment Communication and Strategy | Handelsbanken | Bank | 20-03-2023 | 69:08 |
| Portfolio Manager | Fondita Sweden | Asset Manager | 24-03-2023 | 28:21 |
| Portfolio Manager | Lannebo Fonder | Asset Manager | 13-04-2023 | 23:40 |

## 4.1 Informative versus Persuasive Marketing

The main finding of this thesis is how marketing is mostly seen as a tool to spread information to potential investors, as the interviewed portfolio managers confirm that their main role when it comes to marketing is sharing information. Portfolio manager 1 at SEB said:

*"The only kind of marketing my colleagues or I do is that we talk to clients…"*

Portfolio manager 2 at SEB added that this also involves talking at events about themselves and their work:

*"It could be boring to sit and just listen to the marketing of one specific fund, it might be more interesting to meet the fund managers and their way of thinking."*

The portfolio manager at Robeco also describes it as:

*"Marketing is the informing of potential customers about your product or service. If you don't have information available, you can't sell a product. It is a necessary condition if you consider the broad definition of marketing."*

Additionally, the portfolio manager at Robeco emphasized how they themselves are tied to the funds they manage. In their case, it goes beyond just managing the funds, they state how they publish scientific articles, hold a PhD, write client white papers, and even write books about their investment strategy. Again, all activities listed appear to support building trust based on information. They state the importance of making the fund feel personal to investors, however:

*"We make it very personal, because our quantitative investment approach is very impersonal, as we use models and such. I try to give it a human face, using myself but also other people, researchers, and fund managers."*

Although these activities may not be seen directly as marketing, by taking part in them the portfolio manager at Robeco states it helps in activating and informing potential customers. Overall, it seems portfolio managers act as a figurehead for their funds; their role in marketing their funds is tied to this as they provide information to external parties, but also try and make this information feel more personal. None of them state to ever perform any actions to persuade investors to invest, they let investors decide themselves what to do with the given information, and this information can be about other fund aspects classically thought of first, like performance. It can include the investment strategy, the sustainability aspect, or philosophy behind the fund company itself.

This is additionally supported by the head of marketing at Robeco, who admitted that the most important component of mutual funds is their performance, but described how this is hard to use for new funds as there is no information about it yet:

*"You have to have a story about why you think this new fund will perform well … Marketing plays an important role here because at the end of the day, it supplies information about a fund to potential investors."*

Portfolio manager 1 at SEB has also emphasises the importance of past performance:

*"It's essential when you go and try to sell and market your products … When I talk to clients it's an important piece of information"*

This quote again shows how spreading information, even about more tangible aspects of the fund such as past performance, is the most important tool portfolio managers use to attract investors.

When asked about marketing, the initial reaction of many portfolio managers was to think of direct forms of marketing, like paid advertisements in the media. Overall, the impression was given that this type of marketing was not seen as the most effective means of convincing potential clients to invest in the funds. Several reasons for this were given. The portfolio manager at Fondita explained how the rise of online investment platforms that consumers can use to compare funds has made marketing less effective:

*"Nowadays, marketing is definitely not the best way to attract capital."*

This is again aligned with an informative approach to marketing, as due to the abundance of information that is available online these days, the portfolio manager appears to suggest that marketing has become redundant.

To summarize, portfolio managers appear to see marketing as a tool for spreading information. They seem to perceive investors as capable of making investment decisions when they are provided with clear information about the fund and its workings. Persuasive marketing is seen as invasive and as having a deterring effect on potential customers, and by using informative marketing portfolio managers aim to build trust.

## 4.2 Informative marketing activities and effects

Although paid marketing was not seen as the most effective means of attracting fund inflows, the asset manager-employed portfolio managers did state that their companies use it to advertise their funds, specifically social media. Both portfolio managers at Fondita and Lannebo mention their use of social media for advertising. The portfolio manager at Fondita notes how they use this because they believe it is the best way to reach their target customers, but emphasizes they don’t market specific funds, but use it to make their brand known and to spread information about other aspects of their asset manager activities.

When interviewing the person working in Investment Communication and Strategy at Handelsbanken, it showed how the culture at some institutions can greatly impact their approach to marketing. This interviewee explained how their approach relies on building lasting relationships and word of mouth, similar to their overall approach to business in other areas. The only direct marketing is done on institutional platforms. They explain how they have clients from other areas in the bank that can decide to invest in their funds, and they encourage this. This approach matches some of the statements made previously about the portfolio managers’ emphasis on maintaining good relationships with their investors, and preferences for more informative or indirect approaches to marketing.

At Robeco, many different channels are managed by their marketing employees: social media, their website, advertisements, articles, podcasts, and events. At Nordea, the main channels are their fund magazine and advertisements on social media. This latter channel only emerged recently in response to increased competition, as previously this type of direct marketing was not allowed by Nordea itself. The sales and distribution employee at Nordea recalled:

*"I think it was my manager who called the head of Nordea marketing group and said: we see that our competitors do marketing on different platforms such as Instagram, TikTok, Facebook and so on … we also need to do it."*

Although the marketing channels might differ between the different companies, it was again emphasized by the interviewees that the marketing being done through them is of an informative nature. Different companies might thus use different channels, but the type of marketing being done is similar.

Both marketing professionals as Robeco and Nordea explained how marketing is usually not done for an individual fund, but rather for a theme that encompasses several funds, or even all funds. This also shows that marketing efforts should be measured on a company level, and not on an individual fund level. The Robeco employee explained how marketing costs are significant when looking at the total expenses Robeco makes:

*"I think it's* (total marketing costs) *about 1 to 2% at most. The biggest costs for an asset manager are personnel costs."*

When asking the head of marketing at Robeco about their marketing employees, a comparatively clearer structure is given: the entire company has approximately 1100 employees, and 70 of them are marketing professionals. An overview was also given of the activities of the marketing team:

*"There are many specialisations within marketing, and they all focus on different areas."*

The sales and distributions professional at Nordea gave a different answer:

*"I would not say we are divided in different areas, we cover everything, but we have different channels that we work with."*

When asked whether marketing costs are part of the reason why management fees are as high as they are, both marketing employees at Nordea and Robeco replied this was not the case. The portfolio managers state to be uncertain when asked about how much is spent on marketing for their funds. The asset manager-employed portfolio managers did say this is being tracked on the total fund company level but cannot give exact figures. They do state that marketing is a significant cost for the fund company. Although exact monetary figures cannot be given, the portfolio managers say that marketing-related matters take up a significant amount of the time spent performing their duty as portfolio managers. The portfolio manager at Nordea said when asked about this:

*"I don't track this, but I would say maybe 10% of my time."*

It became clear that the different duties of a portfolio manager overlap each other. The portfolio manager at Nordea expressed that he had a hard time categorizing whether a certain activity was marketing or just providing necessary information to investors. Informative marketing can thus overlap with other activities, making it hard to explicitly measure.

The portfolio managers were additionally asked whether they believe marketing costs increase proportionally to fund size, to get an understanding whether there may be a correlation between the two. Differing answers were given, however. The portfolio manager at Lannebo clearly stated he believed there was no relationship. The portfolio manager at Robeco disagreed, as he described that the larger a fund is, the more customers it has, and thus the more investors are needed to be informed about the fund, which increases marketing costs. He thus stated that the two are fairly correlated.

Although portfolio managers do not agree on all terms, what came to light during the interviews however was that portfolio managers do tend to agree that marketing has some effect on the success of a fund. When asked whether marketing affects fund size, most managers agree that an effect exists but state it is hard to establish a direct relationship between the two. The portfolio manager at Fondita emphasizes how the effectiveness of marketing depends on the underlying target group:

*"We have institutional investors, and we have retail investors, and for the retail investors I think it's quite clear that marketing does affect fund size.".*

This statement indicates that institutional investors, which can be a big part of the investor base for mutual funds, may not respond to marketing efforts. This could mean that funds with a customer base that is mainly made up of institutional investors may not benefit from investing more money into marketing.

What was also emphasized by some of the interviewees was that attracting fund inflows is only part of the goal. It is equally important to ensure the money stays in the fund. Marketing may thus lead to fund inflows, but if these are not “sticky”, it does not create significant value for the fund. The portfolio manager at Lannebo recalls how this happened for one of their newly created funds:

*“...we had a significant marketing campaign ahead of the launch of the fund, and that was quite successful: it attracted a lot of money. But it turned out to be that lots of money came into the fund, but it started to disappear quite soon.”*

This means that marketing needs to have a certain quality that motivates investors to invest and stay invested. Part of this may be fostering relationships with current investors by continuing to spread awareness for the fund and its workings, as multiple managers state the importance of being available to current investors in case they have any questions.

The portfolio manager at Nordea gave an insight into how marketing dynamics can affect the in- and outflows of funds, as they explained that the current fund they manage became so large that they and their colleagues decided to stop marketing it. They described the existence of an optimal monetary size for mutual funds depending on the geographic scope, and due to the specifics of his fund, it had reached a point of becoming too big to maintain their returns. He stated:

*“We don’t have the need to market the fund, on the contrary it has been so successful we don’t want to attract any more money, we are politely marketing it to existing shareholders...”*

The reason given for the success of the fund was the recent winning of prizes for their fund and the resulting positive media attention. Multiple other portfolio managers mention that positive media attention is beneficial for their funds. What must be noted here, however, is the distinction that is made between paid and unpaid media attention. The portfolio managers clearly favour the unpaid type, which ties in with what was previously mentioned: portfolio managers believe paid ads or campaigns are not effective at attracting investors, as they believe informative marketing is better than persuasive marketing.

The interviewed portfolio managers were additionally asked whether marketing considerations can affect fund characteristics, and several stated that marketing affects the fund creation process. Marketing information about competitors and the market in general is used when deciding what type of fund to create in terms of theme or investment strategy, and for estimating an adequate fund fee. Although fund fees are fixed for most funds, it was emphasized that it is important to not over- or under-price a fund. Many portfolio managers mention the fact that sustainability linked funds have become more popular in recent years and in response to this their companies have also created such funds, which shows how fund companies are responsive to market trends.

To conclude, the interviewed portfolio managers agree that marketing affects fund size, although the effectiveness of it is dependent on the type of investor and type of marketing used.

## 4.3 Marketing for Banks versus Asset Managers

During the interview process, differences arose between the marketing approaches used by asset managers and banks. The ex-portfolio manager at Nordea gave a reason for the decrease in effectiveness of marketing which pointed to differences related to regulation:

*"It is less seduction and marketing; it is more professional advice around savings and risk profile. It is much more regulated and scrutinized these days."*

This statement opens a window into how marketing has changed over time for portfolio managers. The bank-employed portfolio managers state how in past decades they were able to do more in terms of direct marketing to their clients. There also appears to have been a shift from persuasive marketing to informative marketing. Going out for dinner with their clients was named as an example of something that could not be done anymore these days. The ex-portfolio manager at Nordea even stated:

*"In the past, you could do whatever you want, like give away candy to clients."*

It appears that stricter regulation has been established for the relationship between portfolio manager and client, at least for the banks. This may be due to the development in Sweden during the 1990's and early 2000's that led to previously separate asset managers being integrated into the banks, as was mentioned by both the portfolio managers at SEB and Nordea. Their funds being part of a wider bank offering also results in their client being different divisions inside the bank in some situations. The portfolio manager at Nordea described this as:

*"We have internal stakeholders. With a bank this size there are many salespeople that are selling to other parts of the bank. I often make presentations for colleagues within the bank who would like an update on the fund."*

The impression given by the portfolio managers employed by banks is that them being part of a total banks offering complicates their relationship with marketing. Whilst for the asset manager funds any marketing that is done is related to the funds themselves, with the bank funds this is of course not the case, as marketing can relate to any service or product being offered by the bank. This comes with potential drawbacks but also benefits. One of the benefits would be the security that comes with a well-known brand. Portfolio manager 2 at SEB explains this:

*"For Swedish banks, it's a bit like going to the pharmacy. If you buy things there, you think that they have a certain quality level, like going to your bank you feel that the quality is already there."*

When asked about the specific marketing that is being done for their funds, one of the drawbacks emerges, however: it is harder to measure a relationship between marketing and fund size when marketing is being done for the totality of the bank. Marketing costs for funds are also not being explicitly tracked, at least according to the portfolio managers who claim not to be aware of any figures.

All in all, the main differences between asset manager funds and bank funds when it comes to marketing appear to be caused by banks facing stricter regulations and funds being only a part of their total offering. Whether the shift from persuasive to informative marketing also happened to asset manager-owned funds is unclear.

### 4.4 Other factors affecting fund size

As previously stated, marketing was the main topic discussed during the interviews, but questions were also asked about other fund factors that could potentially influence fund size, to get a better understanding of mutual funds and their size in general.

Firstly, performance was generally agreed on as being very important for attracting investors. The only disagreement came from the portfolio manager at Robeco, who stated:

*"I try to not use that (past performance), because it just doesn't have the power to predict anything ... we try to emotionally connect with our customers on more solid grounds ..."*

This quote hints that this portfolio manager believes using past performance as a means of attracting customers does not build a strong relationship with customers, as it may not work out the way investors expect it to, leaving them disappointed.

The interviewees were also asked about fund fees and how these are decided on when establishing a new fund. In general, fees seem to be standardized, but this may be different if a fund is very specialized or niche in their theme or strategy. When talking to the portfolio managers employed by Fondita and Lannebo, both stated that by having niche funds they can charge a higher management fee than mainstream funds, whilst not losing customers over this. The reason for this is that more work is put into these type of funds as there is less information available about the assets the fund invests in compared to mainstream funds. The portfolio manager at Fondita described this as:

*"If the performance and the story are good, and the investment strategy is clear, and the sustainability focus is good, then you will attract capital even though you are maybe above average regarding the fees."*

This quote emphasizes how all aspects of a fund affect fund size together in a complex manner. These niche fund may thus be able to charge more for their funds but maintain fund inflows, but only if all other aspects of the fund are good too. This problem is of course present for all fund aspects, including the previously discussed marketing.

The portfolio manager at Robeco also added to this discussion about fund fees that competition on price is part of the way markets function, and that funds are not excluded from this. All in all, the impression is given that funds do compete in terms of price, but this results in all funds having fairly consistent prices: no aggressive price competition takes place.

Another fund aspect discussed, the competitive environment that funds are in, was expressed to be strong by all interviewees, and it has become only stronger in recent years. Although at first thought competition may be seen as a negative influence on fund size, the portfolio manager at Nordea disagrees with this:

*"Sometimes if you have a good competitor that is very successful, they can grow an interest to a sector of funds. Together you create the market of funds … especially in a small and tight market like the Swedish investment fund one."*

They go on to state they would never wish their competitors bad luck, as problems at a competitor may cause negative effects for your own fund due to investors believing problems are not contained to one fund or company only, regardless of the nature of the problem. Taken together, the portfolio managers agree the market is competitive, but no clear conclusions can be drawn about the effect on fund size.

Customer base also appears to be different for each company and fund, but generally institutional clients make up the largest part. The portfolio managers discuss that certain funds can be more targeted at either retail investors or institutional investors. Important to note is that most of the funds managed by the interviewed fund managers have multiple share classes of which some are for retail investors and others for institutional investors. Institutional investors generally pay a lower total fund fee. An interesting remark by the portfolio manager at Nordea was made about the characteristics of these different customers. They describe retail investors to be more long term invested. The fund they manage is more illiquid than most funds, and thus they stated it is a better fit for retail investors, which also currently make up the biggest share. They did mention this was not a conscious decision on their end, but it may indicate that type of investor can have an impact on fund flows and thus size.

Additionally, the investment strategy of a fund and its importance for the success of a fund was discussed during the interviews. Again, all portfolio managers rate this to be very important. Some see this as what differentiates them from their competition and view it as their competitive advantage. This was mentioned specifically by the previously mentioned niche fund managers. The portfolio manager at Robeco also emphasized how this is a big selling point for the funds they manage, but how this can come with the need to educate investors more if the investment style is complex.

Lastly, the portfolio managers also stated the managerial skill of themselves to play a role in growing a fund. This is a subjective response however, as the portfolio managers must see themselves as part of the reason why a fund is doing well.

To conclude, the aspects besides marketing that were discussed during the interviews include fund fees, the competitive environment, customer base, investment strategy, and managerial skill. All interviewees state these to be important for growing a fund, and thus its success. What became clear was that funds are part of an increasingly competitive market, and they use differentiation strategies to ensure continued growth. For the other aspects, not enough information was given to draw any clear conclusions as to what the direct effect of them can be on fund size, however some of them will be discussed further below in the quantitative results section.

## 4.5 Quantitative Findings

When combining the quantitative findings from the interviews and the data collected afterwards, several findings are brought to light.

Firstly, the information collected during the interviews was analysed to get an understanding of the importance of it for fund size. Table 2 shows the summary statics of this data. It shows how marketing was on average rated the lowest in terms of its effect on fund size by the portfolio managers. At the same time, the standard deviation was highest for marketing. This implies that marketing is an aspect that fund managers appear to have differing opinions on, comparatively more differing than for the other fund aspects. Managerial skill has both the highest mean score and lowest standard deviation, making it the factor that fund managers agree on having the most effect on fund size. This is arguably the most subjective fund aspect to rate, as it is hardest to measure. As previously stated, it is also a personal question for portfolio managers as the manager in question is themselves, and thus it is expected that they were to rate this as important. For the other aspects, it appears investment strategy is the runner up in terms of increasing fund size, and reaching your target customer group and the competitive environment are next. All in all, the findings confirm that the effectiveness of marketing is most debatable.

**Table 2 - Summary Statistics Portfolio Manager Input**

| | **Mean** | **Standard Deviation** | **Median** |
|---|---|---|---|
| Competitive Environment | 4,00 | 0,63 | 4,00 |
| Marketing | 3,33 | 0,82 | 3,50 |
| Managerial Skill | 4,83 | 0,41 | 5,00 |
| Investment Strategy | 4,50 | 0,55 | 4,50 |
| Customers | 4,33 | 0,52 | 4,00 |
| Experience | 15,42 | 9,17 | 15,00 |

*Notes: The above table shows the summary of the results of the numerical answers given by the 6 portfolio managers that were interviewed. The first 4 variables express importance for increasing fund size on a scale of 1 to 5, whilst the last variable measures experience in years.*

Secondly, the data collected on the underlying funds managed by the interviewed portfolio managers was analysed. Here it becomes evident that there is a large range for fund size, indicated by the large standard deviation. The other variables were also inconsistent, with even the ongoing fund fee having a relatively large range. This shows that there can be a large difference in fund fee depending on the asset class, which is in line with the idea that different share classes are aimed at different types of investors, with the two main subcategories being retail and institutional investors. This table also shows that although the same amount of bank-and asset manager-employed portfolio managers were interviewed, namely three each, the asset manager funds appear to have more share classes, as the mean for the variable Asset Manager is 0,70.

**Table 3 - Summary Statistics Fund Information**

| | **Mean** | **Standard Deviation** | **Median** |
|---|---|---|---|
| AUM Share Class (GBP) | 86.238.468,81 | 195.029.618,89 | 14.390.000.000,00 |
| Return 1 Year (%) | 0,26 | 3,86 | 1,39 |
| Return 3 Year (%) | 9,51 | 6,21 | 9,73 |
| Fee Ongoing (%) | 0,99 | 0,53 | 0,88 |
| Asset Manager | 0,70 | 0,46 | 1,00 |
| Relative Return 3 Years (%) | 0,21 | 3,48 | -0,13 |
| Relative Return 1 Year (%) | 0,98 | 5,88 | 1,22 |

*Notes: Competitive Environment stands for Strength of Competitive Environment. Customers stands for Reaching Customer Target Group. AUM stands for Assets Under Management.*

On the following page, Table 4 provides an overview of the correlation of all individual variables. The main conclusion that can be drawn from table 4 is that the underlying variables are highly correlated. That the scores for the fund aspects that the portfolio managers were asked to rate are correlated is to be expected, as the scale used for this rating was 1 to 5 and the managers gave similar scores for all aspects, as shown in table 2. For finding effects on the assets under management, which is the main purpose of this thesis, the correlation table is not very useful as it does not control for other variables. To control for this, two regression analyses were performed.

**Table 4 – Correlations between variables**

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 AUM Share Class | 1,00 | | | | | | | | | | | | |
| 2 Return 1 Year | -0,16 | 1,00 | | | | | | | | | | | |
| 3 Return 3 Years | 0,05 | 0,10 | 1,00 | | | | | | | | | | |
| 4 Ongoing Fee | 0,07 | -0,32*** | 0,54*** | 1,00 | | | | | | | | | |
| 5 Competition | 0,22* | -0,64*** | 0,03 | 0,42*** | 1,00 | | | | | | | | |
| 6 Marketing | -0,11 | 0,43*** | -0,59*** | -0,68*** | -0,62*** | 1,00 | | | | | | | |
| 7 Managerial Skill | 0,11 | 0,21* | 0,36*** | 0,09 | -0,25** | -0,13 | 1,00 | | | | | | |
| 8 Investment Strategy | 0,20* | -0,54*** | 0,09 | 0,33*** | 0,61*** | -0,61*** | 0,17 | 1,00 | | | | | |
| 9 Customers | 0,06 | -0,42*** | -0,47*** | -0,03 | 0,42*** | -0,30** | 0,12 | 0,69*** | 1,00 | | | | |
| 10 Experience | 0,20* | -0,06 | 0,11 | 0,00 | -0,03 | -0,02 | 0,67*** | 0,62*** | 0,32*** | 1,00 | | | |
| 11 Asset Manager | -0,18 | 0,53*** | 0,19* | -0,10 | -0,62*** | 0,16 | 0,40*** | -0,72*** | -0,35*** | -0,35*** | 1,00 | | |
| 12 Relative Return 3 Years | 0,18 | 0,05 | 0,44*** | 0,36*** | 0,30** | -0,38*** | 0,13 | '0,30** | -0,06 | 0,19* | -0,20* | 1,00 | |
| 13 Relative Return 1 Year | 0,18 | 0,33*** | 0,39*** | 0,16 | 0,05 | -0,06 | '0,27** | 0,19* | -0,24* | 0,43*** | -0,21* | 0,70* | 1,00 |

*Notes significance of correlation expressed by *** p<0,01 ** p<0,05, * p<0,1*

Below, Table 5 shows the regression analysis documenting the effects of the four different return measures and the ongoing fee on fund size. The regression is based on 109 observations consisting of all share classes managed by the interviewed portfolio managers. The underlying share classes each have different fees and share classes belonging to the same fund can have different returns due to this difference in fees. The results suggest that the ongoing fee has a significant negative effect on fund size when using three of the four return measures. This indicates that if the ongoing fee were to increase by one basis point, the assets under management of the share class are to decrease anywhere between 0,78% and 1,13%, depending on the measure of return used. Return does not seem to have a significant effect on fund size, except in the model using Return 1 Year as the return variable.

The regression analysis in Table 6 was performed to give suggestive results as to the effects of the variables Competitive Environment, Marketing, Managerial Skill, Investment Strategy, and log(Experience). This regression is suggestive because the variables violate the regression assumptions, as the 109 observations are only based on 6 portfolio managers' answers. The table shows consistent significant results for the following variables: ongoing fee and competitive environment. This indicates that if the ongoing fee were to increase by one basis point, the assets under management of the share class are to decrease anywhere between 2,8% and 1,9%, depending on the measure of return used. For the competitive environment, it means that if the portfolio managers were to rate it stronger by one point, the assets under management of the share class are expected to increase between 164% and 572%. The return also appears to have a significant effect on share class size, but only when using the absolute return variable and not the relative return variable. For the other variables, the regression indicates that they are not consistently significant, meaning that it is uncertain whether an actual effect on share class size is present.

**Table 5 – Regression Table Model 1**

| | Dependent variable: | | | |
|---|---|---|---|---|
| | log(AUM Share Class) | | | |
| | **(1)** | **(2)** | **(3)** | **(4)** |
| Return 3 Years | 0,037 | | | |
| | (0,048) | | | |
| Return 1 Year | | -0,169** | | |
| | | (0,067) | | |
| Relative Return 3 Years | | | 0,057 | |
| | | | (0,078) | |
| Relative Return 1 Year | | | | 0,019 |
| | | | | (0,044) |
| Fee Ongoing | -0,979* | -1,134** | -0,879* | -0,779 |
| | (0,561) | (0,485) | (0,507) | (0,480) |
| Constant | 16,729*** | 17,280*** | 16,973*** | 16,867*** |
| | (0,553) | (0,543) | (0,555) | (0,532) |
| Observations | 109 | 109 | 109 | 109 |
| Adjusted $R^2$ | 0,010 | 0,061 | 0,009 | 0,006 |
| F Statistic (df = 7; 101) | 1,543 | 4,480** | 1,511 | 1,334 |

*Notes: significance of correlation expressed by *** p<0,01 ** p<0,05, * p<0,1. Standard errors in parentheses.*

**Table 6 – Regression Table Model 2**

| | Dependent variable: | | | |
|---|---|---|---|---|
| | log(AUM Share Class) | | | |
| | **(1)** | **(2)** | **(3)** | **(4)** |
| Return 3 Years | -0,777*** | | | |
| | (0,234) | | | |
| Return 1 Year | | -0,195** | | |
| | | (0,083) | | |
| Relative Return 3 Years | | | -0,043 | |
| | | | (0,080) | |
| Relative Return 1 Year | | | | -0,042 |
| | | | | (0,052) |
| Fee Ongoing | -2,801*** | -2,190*** | -1,967*** | -1,976*** |
| | (0,668) | (0,643) | (0,654) | (0,652) |
| Competitive Environment | 5,717*** | 1,635* | 2,119** | 2,311** |
| | (1,380) | (0,833) | (0,883) | (0,937) |
| Marketing | -21,176*** | -1,607 | -1,434 | -1,634 |
| | (6,135) | (1,291) | (1,383) | (1,415) |
| Managerial Skill | -60,534*** | -0,841 | -0,710 | -2,415 |
| | (19,021) | (5,428) | (5,829) | (6,445) |
| Investment Strategy | -31,366*** | -3,186 | -2,375 | -3,049 |
| | (9,107) | (2,315) | (2,432) | (2,666) |
| log(Experience) | 39,225*** | 2,968 | 2,640 | 3,734 |
| | (11,565) | (3,062) | (3,308) | (3,748) |
| Constant | 410,325*** | 28,293 | 22,498 | 30,901 |
| | (121,803) | (30,651) | (32,542) | (35,279) |
| Observations | 109 | 109 | 109 | 109 |
| Adjusted $R^2$ | 0,212 | 0,171 | 0,128 | 0,131 |
| F Statistic (df = 7; 101) | 5,151*** | 4,179*** | 3,268*** | 3,332*** |

*Notes: significance of correlation expressed by *** p<0,01 ** p<0,05, * p<0,1. Standard errors in parentheses.*

Lastly, table 6 shows the test for the difference in means between banks and asset managers. The P-values show that only the variables investment strategy and experience are significant at the 10% level, indicating that the null hypothesis of the means between the two groups being the same can be rejected for these variables. Banks rate investment strategy as being more important for fund size, and the bank-employed portfolio managers have more experience on average, according to this t-test.

**Table 6 – T-test Difference Banks and Asset Managers**

| | Mean Bank | Mean Asset Manager | Difference | P-value |
|---|---|---|---|---|
| Marketing | 3,571 | 3,429 | 0,143 | 0,624 |
| Managerial Skill | 4,857 | 5,000 | 0,143 | 0,356 |
| Investment Strategy | 4,857 | 4,143 | 0,714 | 0,001 |
| Reaching Customers | 4,429 | 4,143 | 0,286 | 0,234 |
| Competition | 4,000 | 3,714 | 0,286 | 0,263 |
| Experience | 22,214 | 14,143 | 8,071 | 0,051 |
| AUM Share Class | £ 140.257.770,30 | £ 62.551.904,94 | 77705865,368 | 0,147 |

## 5. Discussion

To conclude, the implications of the findings of this thesis will be discussed. For mutual fund marketing, it appears that portfolio managers have differing opinions on its importance for increasing fund size. Although all agree that an effect is present, disagreement arises when it comes to the details of this relationship. What is clear however, is that fund employees see informative marketing strategies as more effective than persuasive marketing strategies. Throughout all interviews it was emphasized how marketing helps in spreading information about funds and their companies. This can be communicated through many channels, including different online media channels which have become increasingly popular over recent years. Media attention is similarly judged in the sense that it is only positive if unpaid, and many portfolio managers describe this type of attention as having a positive impact on their fund size. All in all, fund employees seem to believe that investors need to be informed to make investment decisions, not persuaded. Important to note is also that marketing may attract fund inflows, but they may flow out soon after, making them less valuable for a fund. Marketing should thus include a means of getting investors to commit to a fund long-term. The effectiveness of marketing may also be dependent on the underlying customer target group, as retail investors are described to be more sensitive to marketing. This implies that funds having a relatively larger share of retail investors may benefit more from marketing than funds with a relatively lower share. Additionally, it is suggested that funds have a critical size consistent with Berk and Green’s (2004) findings. Past this point, returns decrease, and marketing may be a tool that can be used to control the size of the fund. Lastly, the interviewed portfolio managers emphasized the importance trust in the relationship with their clients, and how they try to increase this by emphasizing the personal aspect behind managing funds. This could point towards the findings reported by Gennaioli, Shleifer, and Vishny (2015) on how investors might allocate their investments to a fund manager based on trust. It at least appears that portfolio managers view this as an important component of their marketing strategy.

As for marketing expenses, it appears that these may not be related to fund fees, contrary to the assumption made by Sirri and Tuffano (1998) that a higher fund fee indicates a higher marketing expense. It is also implied that marketing expenses are best measured on a fund company level as opposed to on the individual fund level, which would be consistent with the approach used by Gallaher, Kaniel, and Starks (2006). In general, portfolio managers appear to not be aware of marketing expenses for their funds, and due to marketing activities overlapping with other portfolio manager activities, it is hard to measure them. The effect of marketing on fund size may thus not be related to the size of the expense, but more to the type of marketing employed. This also means that using limited measures to estimate total marketing efforts may not capture them fully, such as 12b-1 fees as used by Barber, Odean, and Zheng (2005).

Another contribution of this thesis was uncovering the difference between banks and asset managers when it comes to their funds. Bank funds appear to benefit from the name recognition that comes with being part of a bank's total offering. Fund employees believe less marketing needs to be done because of this. It does appear that this also complicates marketing more, as all marketing done by a bank may in some way affect their funds. Marketing for asset manager funds is easier to measure, and it also appears that asset manager employed portfolio managers are more involved in the marketing of their funds.

As for other factors besides marketing, it appears portfolio managers agree that fund performance is an important driver of fund size. This is also supported by the results of the data analysis, although there it becomes evident that this effect is dependent on what return measure is used. Additionally, performance may be used as a filter by investors when picking which fund to invest in, particularly when investing through online brokerage platforms, consistent with the idea that investors need to informed to make investment decisions. This would also be consistent with the idea presented by Huan, Wei, and Yan (2007) in their paper. A negative relationship between fund fee and fund size was also found, which could imply that price competition works for mutual funds. However, competition may also be beneficial for funds, as there may be complementarity between funds in terms of gaining more investor interest if a fund is part of a larger family of funds. Lastly, it also appeared that differentiation strategies are an effective means of enabling funds to charge higher fees whilst maintaining size, by allowing them to stand out from the crowd.

## 6. Conclusion

To conclude this thesis, the results of the analysis of the empirical findings are summarized. The aim of this thesis was to answer the research question:

*Does marketing increase fund size?*

According to the interviewed fund employees, this statement is generally considered to be true. Most importantly however, fund employees emphasize the informative nature of marketing. Informative marketing is seen as more effective at attracting investors as compared to persuasive marketing. Marketing is seen as the main means of spreading information about funds and their companies to investors. Fund employees do appear to agree that marketing positively affects fund size, but it might be dependent on the type of marketing and customer. Unpaid marketing is seen as better than paid marketing, and media attention is also stated to only be beneficial when unpaid. Additionally, portfolio managers express the importance of building trust with their clients. This trust is also built on making funds feel personal to investors, indicating how funds try to build a strong and long-lasting relationships with their clients. Persuasive marketing does not fit well into that relationship. The effectiveness of marketing may also be stronger for retail customers than institutional investors, which could mean marketing is more effective for funds with a higher share of retail investors.

As for marketing expenses, there is not enough evidence indicating that they are related to fund fees, and it was also expressed by the interviewees that marketing expenses are not measured at a fund level, indicating that they should be measured at a company level. Due to marketing activities often overlapping with other portfolio manager-activities, it additionally complicates the measurement of marketing efforts.

Additionally, bank funds appear to benefit from name recognition, and fund employees believe less marketing needs to be done because of this. Due to their complex environment, it is harder to measure marketing efforts for bank funds. For asset managers, this relationship appears easier to measure.

Lastly, portfolio managers agree that fund performance is an important driver of fund size, although this is dependent on what return measure is used. Additionally, performance may be used as a filter by investors when picking which fund to invest in, supporting the idea that investors use information to make investment decisions. A negative relationship between fund fee and fund size was also found, which could imply that price competition works for mutual funds. However, competition may cause complementarity between funds in terms of gaining more investor interest if a fund is part of a larger family of funds. Differentiation strategies were also mentioned to help in maintaining fund size whilst charging higher fees than competitors.

This thesis contributes to the literature on mutual fund size by getting a fund employee perspective on factors affecting fund size, in particular marketing. Most literature on these topics does not include this perspective, and the literature on marketing makes assumptions that may be questionable when including this perspective, such as assuming higher marketing expenses correlate with higher fees, and assuming all marketing efforts are captured by specific marketing fees, like the 12b-1 fee (Sirri and Tufano, 1998; Barber, Odean, and Zheng, 2005).

The literature documents a positive effect of marketing on fund size (Sirri and Tuffano, 1998; Barber, Odean, and Zheng, 2005; Roussanov, Ruan, and Wei, 2021; Chen, Jiang, and Xiaolan, 2022, among others), and the findings of this thesis seem to support this. This thesis does add that this effect may depend on the type marketing and investor. It also adds the perspective that portfolio managers are not as confident in marketing as more traditional fund factors, like performance, to significantly affect fund size.

During the course of this thesis, two ideas for future research emerged. Firstly, this thesis emphasizes how informative marketing is seen as superior to persuasive marketing by fund employees. It would be interesting to see whether there is a difference in effect on fund size between these two approaches. Secondly, it could be worthwhile to explore whether different types of investors react differently to marketing. Specifically, the difference between retail and institutional investors. Lastly, due to the limited geographical scope, it would be beneficial to replicate this thesis in different geographies.

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# 8. Appendix

## 8.1 Questionnaire portfolio managers:

- Would you say marketing adds significant value to your mutual fund activities?
- What is the split between marketing employees and other employees of your fund?
  - Is there a standardized approach you use for deciding on this split?
- Do you use different types of marketing, and if yes, which?
  - Is your marketing team divided into different specialized areas?
  - How do you allocate marketing costs across different channels?
- Does your marketing strategy focus on certain fund aspects?
- Do you employ specific marketing strategies?
- What do you intend to achieve with marketing your fund?
- Are marketing reasons a key driver or motivator when setting fund fees?
- Are marketing considerations a big influence when deciding what kind of fund to create?
- Do you create a marketing strategy for a fund before it is launched?
  - How do you decide on this?
- Do you adjust your marketing strategy over the life of the fund? If yes, why?
- How do you decide on the fund fee upon fund creation?
  - Do you adjust this over the life of the fund?
- Do marketing costs increase proportionally to overall fund costs over the life of the fund?
- Does your marketing strategy tend to change over the life of the fund?
- Is performance a big part of your marketing campaign?
  - Does this change over the life of the fund?
- How much of your total fund costs are attributable to marketing?
- Which funds do you currently manage?
- How many years of experience do you and the other managers of the fund you manage currently have?
- How would you rate the importance of the following factors for the success of your fund, on a scale of 1 to 5?
  - Marketing

- Managerial skill
- Investment strategy
- Customer target group

- What do you believe is the number one reason you attract fund inflows?
- How competitive would you rate the environment your fund is in, on a scale of 1 to 5?
- What customers do you aim to target with your fund?

8.2 Questionnaire marketing professionals

- Would you say marketing increases fund size?
- What does your job encompass at (*Name Company*)?
- What is the split between marketing employees and other employees at (*Name Company*)?
- Do you use different types of marketing, and if yes, which?
    - How do you allocate marketing costs across different channels?
- Does your marketing strategy focus on certain fund aspects?
- What do you intend to achieve with marketing your funds?
- How do you decide on the fund fee upon fund creation?
    - Do you adjust this over the life of the fund?
- Are marketing reasons a key driver or motivator when setting fund fees?
- Are marketing considerations a big influence when deciding what kind of fund to create?
- Do you create a marketing strategy for a fund before it is launched?
    - How do you decide on this?
- Do you adjust your marketing strategy over the life of the fund? If yes, Why?
- Do marketing costs increase proportionally to overall fund costs over the life of the fund?
- Is performance a big part of your marketing campaign?
    - Does this change over the life of the fund?
- Do you track marketing costs?
- What do you believe is the number one reason you attract fund inflows at (*Name Company*)?