

Asset Size, Performance, and Flows: Evidence from Japanese Mutual Funds

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January 29, 2019

Abstract

In this article, we study the relation of asset size, return performance, and asset flow of active equity mutual funds in Japan. Although the average excess return of mutual funds is almost zero on average, neither the decreasing returns to scale nor the relation between the return performance and the following asset flows is observed in the whole sample. There are statistical evidence that the mutual funds with small initial asset size have decreasing return to scale technology, but there are no evidence that the mutual funds with large asset size does. Good return performance of the mutual funds with small initial asset tend to be followed by asset inflow but bad return performance are not clearly followed by asset outflow. For the mutual funds with large initial asset size, the return performance and the following flows are not clearly related. We claim that these facts can be explained by our hypothesis about the behavior of the investors, the asset managers, and the distributors.

Keywords: Mutual fund, Active management, Initial fund size, Decreasing return-to-scale, Fund flows

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