

Mutual Fund Fees Around the World

Ajay Khorana (Georgia Tech), Henri Servaes (London Business School), and Peter Tufano (Harvard Business School)

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Do fees in the mutual fund industry vary from country to country and if so what accounts for these differences? Our work attempts to answer these questions by examining fees charged by 46,799 mutual funds (with total assets in excess of \$10 trillion) offered for sale in 18 countries, which together account for about 86% of the world fund industry.

Why should we care about fund fees? Mutual fund fees are large and economically important. For example, the average management fee in our sample is 1.03% of assets under management, with investors paying \$63.46 billion per year on a value-weighted basis, for investment management services alone (excluding other annual fees and distribution charges). The corresponding figure for total expenses (excluding loads) is 1.59%. Both in absolute amounts and relative to potential alpha generation, these fees are material to both investors and fund companies.

From the perspective of investors, mutual fund fees are the price paid for investment management, distribution and other services. From the perspective of financial service firms, these fees represent revenues. For both, fees are important. Higher fees are associated with lower investment performance, and they drive revenues and profits of fund companies. Furthermore, fund fees are a subject of public policy and court action, especially in the U.S. Recent settlements in the fund industry have been accompanied by fee reductions, and a spate of ongoing lawsuits allege that fund managers and fund trustees breached fiduciary duties by approving fees to retail investors that are “too high” relative to other U.S. investments. However, to assess whether fees are too high, examining fees that fund investors pay globally provide another useful benchmark for comparison.

Do fees vary from country to country? Although the fund industry is global, and while products and competitors are similar worldwide, fund fees differ considerably from country to country. We find that total equally-weighted expenses for the average equity fund offered for sale in the United States are 1.71% (excluding loads), but they are 1.99% in Spain, and 2.87% in Canada. We find similar disparities in fees for other types of fund objectives. Even after controlling for fund and sponsor characteristics, fees differ from country to country.

Why are fees different from country to country? Our research sheds light on the determinants of fund fees globally by examining differences at the fund, complex (or sponsor), and national levels. With relatively simple models, we are able to explain a substantial amount of the variation in fund fees around the globe. Not surprisingly, we find that funds with different investment objectives charge different fees. Larger funds and fund complexes charge lower fees, as do index funds, funds of funds, and certain funds selling cross-nationally. Fees are higher for funds distributed in more countries and funds domiciled in certain offshore locations.

Substantial cross-country differences persist after controlling for these variables. The remaining differences are associated with a variety of factors, the most robust of which is that stronger investor protection is associated with lower mutual fund fees. However, we also find evidence that all types of fees (i.e., management fees, total expense ratios, and total shareholder costs which include expenses plus loads) are lower when funds are domiciled in countries with an older fund industry. Moreover, management fees are lower in wealthier countries with a more educated population, where there is either little concentration in the banking industry or where banks are prohibited from entering the securities business.

Our work has sparked a lively debate in one country about fee levels. While public debate might want to quickly judge fund fees as “too high,” our work shows how supply factors, demand factors, and legal factors interact and relate to fund fees. While we are not advocates of any particular position, we feel that unbiased academic research should inform public debates of this sort.