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The Optimal Amount of Assets under Management in the Mutual Fund Industry

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Abstract

Economies of scale for the mutual fund industry were estimated to determine the optimal amount of assets under management for a fund complex. Empirical results show that the optimal asset size for a multiproduct fund complex is between $20 billion and $40 billion and that the average fund complex could realize some efficiency gains by increasing its asset size. This finding suggests that in the near future, a fund complex with assets less than $20 billion may have difficulty surviving. A fund complex that offers just one kind of mutual fund could achieve economies of scale with far fewer assets under management but potentially could achieve additional cost efficiencies by adding new product lines.

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