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Analysis of Investment Manager Fee in Mutual Fund Performance

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Abstract
This study aims to analyze the impact of investment manager fees on the performance of mutual funds in Indonesia during the period 2020 to 2023. In the mutual fund industry, the investment Manager's fee is a significant cost component that can influence investor returns. This research compares the performance of high-fee and low-fee mutual funds using two risk-adjusted performance measurement methods: the Sharpe ratio and the Treynor ratio. The sample consists of 100 mutual funds, comprising 50 with high fees and 50 with low fees, selected through purposive sampling based on data from the Otoritas Jasa Keuangan (OJK) and other relevant sources. The data analysis includes normality testing using the Kolmogorov-Smirnov test and comparison testing using the Mann-Whitney test. The results show a significant difference in performance between high-fee and low-fee funds when measured using the Sharpe ratio, but no significant difference was found using the Treynor ratio. These findings suggest that higher investment manager fees do not necessarily guarantee superior mutual fund performance, depending on the performance metrics used. The implications provide valuable insights for investors, fund managers, and regulatory authorities in formulating more effective strategies and policies within the mutual fund industry.

Keywords: mutual funds, investment manager fee, fund performance, Sharpe ratio, Treynor ratio, investment cost.

1. Introduction

In recent years, public interest in mutual fund investments in Indonesia has continued to rise, driven by easier access through digital platforms. However, alongside this growing participation, a critical issue has emerged regarding the investment manager fees charged to investors (Sagita, 2024). These fees are often perceived as a reflection of fund management quality, yet there is no clear evidence that higher fees consistently lead to better mutual fund performance (Kim et al., 2014). This uncertainty presents a dilemma for investors in selecting mutual fund products that offer both optimal returns and cost efficiency (Geranio & Zanotti, 2005).

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The issue of the relationship between investment manager fees and mutual fund performance is important because it directly affects the efficiency of investors' returns (Gallagher et al., 2008). If high fees are not matched by superior performance, investors risk experiencing reduced net returns that could otherwise be minimized (Zevelin Rebecca, 2023). Moreover, a misunderstanding of the fee structure may lead to suboptimal investment decisions. Therefore, it is essential to empirically examine whether higher investment manager fees truly reflect better performance, so that investors can make more rational, data-driven decisions (Khorana, 1996).
This study is closely related to previous research that has examined the impact of fees on mutual fund performance, particularly those highlighting the efficiency of investment managers and the cost structure within the mutual fund industry (Vidal & Vidal-García, 2021). Prior studies, such as those by Mooney et al. (2020) and Servaes & Sigurdsson (2018), have suggested that higher fees may encourage more active and potentially superior fund management, but the results remain inconsistent and context-dependent, varying by market conditions and fund types. Unlike previous research that primarily distinguishes mutual funds by type (e.g., conventional vs. sharia) or focuses on performance-based fees, this study offers a novel contribution by comparing fund performance based on the overall investment manager fee, regardless of fund type. Thus, this research expands the scope of prior studies and provides a new perspective for investors in evaluating the effectiveness of costs in relation to investment returns within the Indonesian market.

The objective of this study is to examine whether there is a difference in performance between mutual funds with high investment manager fees and those with low fees, using the Sharpe and Treynor performance evaluation methods. This research also aims to provide a deeper understanding of cost efficiency in mutual fund management. Theoretically, this study is closely linked to the Agency Cost Theory, which explains that the existence of information asymmetry and differing interests between investors (principals) and investment managers (agents) can lead to agency cost. The investment manager fee is considered one form of agency cost that may impact portfolio performance. By analyzing the relationship between fee levels and investment outcomes, this study contributes to validating the theory in the context of Indonesia's mutual fund industry.

There are two main variables in this study: investment manager fee and mutual fund performance. Mutual fund performance is measured using two widely recognized methods: the Sharpe ratio and the Treynor ratio, both of which evaluate returns adjusted for risk. The investment manager fee refers to the percentage cost charged by the fund manager for managing the assets, as stated in the fund's fact sheet. This study categorizes mutual funds into two groups high-fee and low-fee funds to determine whether differences in fee levels influence performance outcomes.

This study aims to re-examine this issue specifically in the Indonesian market, using a different approach by distinguishing mutual funds based on the magnitude of investment manager fees rather than fund type (e.g., conventional vs. sharia), as done in earlier research. Thus, the core research problem addressed in this study is the lack of clarity on whether high-fee mutual funds consistently deliver better performance than low-fee funds, making it necessary to conduct empirical testing within the context of Indonesia's mutual fund market from 2020 to 2023.

It is expected that the results of this study will contribute to the development of investment strategies, especially in increasing investment returns through mutual fund assets.

2. Literature Review

2.1 Agency Cost Theory

In this research, Agency Cost Theory is used to explain the relationship between investors (principals) and investment managers (agents), where differences in interests and information can lead to agency costs. These costs arise due to the need to monitor, control, and align the behavior of fund managers with the goals of investors. According to Jensen & Meckling (1976), agency costs consist of monitoring costs, bonding costs, and residual loss. In the context of mutual funds, the investment manager fee is considered a form of agency cost, as it is paid by investors regardless of whether the fund delivers satisfactory performance (Thiyagarajan, 2023).

2.2 Mutual Fund Total Cost Construct

Mutual Fund Total Cost Construct refers to the comprehensive structure of costs associated with mutual fund management, which can influence investor returns both directly and indirectly (Adams et al., 2021). These costs are categorized into four main components: fund management fees, fund distribution fees, fund trading costs, and fund total cost (Haslem, 2012). Additionally, the study highlights performance fees as a form of incentive given to fund managers when they achieve positive returns (Busse et al., 2020). The study emphasizes that understanding the breakdown of these costs is crucial not only for ensuring transparency between fund managers and investors but also for aiding investors in making informed investment decisions.

2.3 Fund Performance

Fund Performance is defined as a key indicator for evaluating the success of fund managers in fund performance is defined as a key aspect in assessing the success of investments managed by fund managers (Ellis, 2014). Performance is measured by comparing mutual fund returns to relevant market benchmarks such as the IHSG, and further evaluated using risk-adjusted metrics like the Sharpe and Treynor ratios. These methods account for both total and systematic risk in performance evaluation. As stated in the study, "Fund Performance or mutual fund performance is one of the key aspects in assessing the success of investments made by fund managers" (Choi & Zhao, 2021). Various factors influence fund performance, including macroeconomic conditions, portfolio strategy, fund size, and particularly management costs (Cooper et al., 2016). Thus, this study uses fund performance to determine whether higher investment manager fees are justified by better returns.

3. Hypothesis Development

The development of hypotheses in this study is based on the research questions, theoretical foundations, and conceptual framework previously described. The hypotheses are formulated as provisional answers to the question of whether there are differences in performance between mutual funds with high and low investment manager fees, measured using the Sharpe and Treynor methods. This study draws on findings from previous research, such as Mooney et al. (2020), who found that high fees have a positive relationship with mutual fund performance, and Roussanov et al. (2018), who argued that low-cost mutual funds can still deliver significant returns. Additionally, the study is grounded in Agency Cost Theory (Jensen & Meckling, 1976) and the Mutual Fund Total Cost Construct (Haslem, 2012), which explain how the fees charged to investors can influence investment efficiency and outcomes. Therefore, the hypotheses in this research aim to empirically examine the relationship between the level of investment manager fees and mutual fund performance in the Indonesian capital market.

H1: There is a difference in performance between high-fee and low-fee mutual funds as measured by the Sharpe ratio.

The first hypothesis (H1) in this study states that there is a difference in performance between mutual funds with high investment manager fees and those with low fees, as measured by the Sharpe ratio. This hypothesis is based on the findings of Mooney et al. (2020), who argued that higher mutual fund fees are positively correlated with performance, as they incentivize fund managers to be more active and strategic in managing portfolios. However, this view contrasts with the findings of Adams et al. (2012), who concluded that low-cost funds tend to generate more optimal returns due to better cost efficiency. The key difference from previous research lies in the approach: while prior studies such as Alfiah (2017) compared fund types (e.g., conventional vs. sharia), this study specifically focuses on comparing the magnitude of investment manager fees as the main variable. Thus, H1 is constructed to empirically test whether high fees truly align with better performance as measured through the risk-adjusted Sharpe ratio within the Indonesian mutual fund market.

H2: There is a difference in performance between high-fee and low-fee mutual funds as measured by the Treynor ratio.

The second hypothesis (H2) in this study states that there is a difference in performance between high-fee and low-fee mutual funds as measured by the Treynor ratio. This method focuses on evaluating portfolio performance based on systematic risk (beta), making it more relevant for well-diversified investors. The hypothesis refers to the findings of Servaes & Sigurdsson (2018), who suggested that additional fees such as performance fees can motivate fund managers to deliver better results. However, the study also considers the findings of Dehaan et al. (2020), who argued that high and complex fee structures may obscure performance information and negatively affect actual fund outcomes. Unlike previous studies that primarily focused on the impact of fees on absolute returns or fund type comparisons, this hypothesis specifically examines the effect of fees on performance adjusted for market risk. Therefore, H2 is constructed to assess whether the magnitude of the investment manager fee reflects a manager's ability to manage systematic risk effectively.

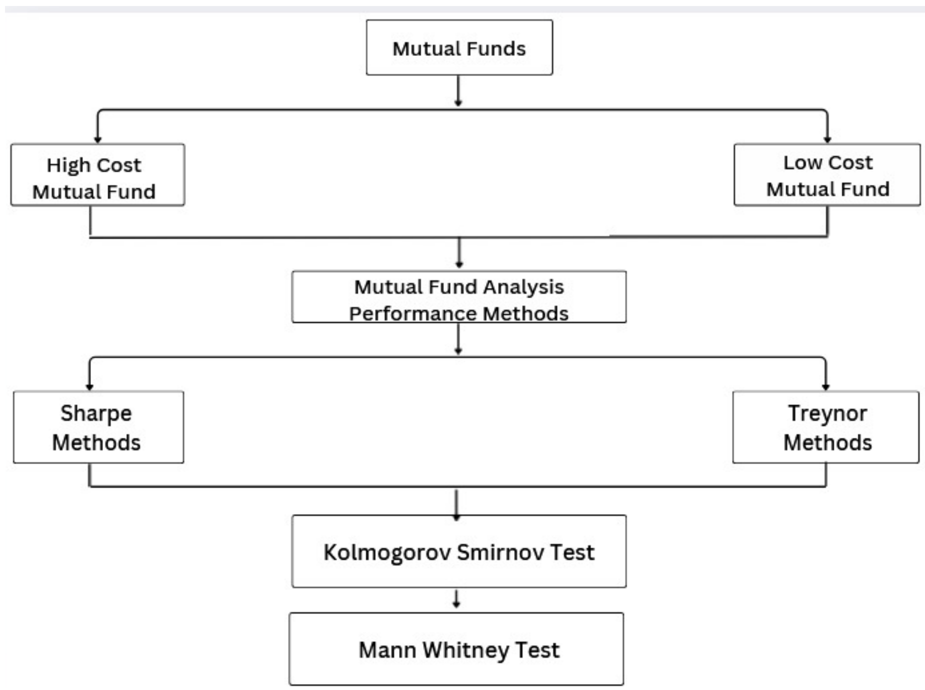

Figure 1. Theoretical Framework

4. Method

This study employs a quantitative comparative approach to analyze the performance differences between mutual funds with high and low investment manager fees. The performance of mutual funds is assessed using two risk-adjusted evaluation methods: the Sharpe ratio and the Treynor ratio, which are selected to provide an objective analysis of returns while accounting for risk. This method is appropriate for comparing the performance of two groups of mutual funds with differing fee structures.

The population in this study consists of all open-end mutual funds that were active and registered in Indonesia during the 2020 to 2023 period. From this population, a total of 100 mutual funds were selected as samples, consisting of 50 high-fee and 50 low-fee mutual funds. The sample was selected using a purposive sampling technique, which involves selecting data that meet specific criteria relevant to the research objective (Tongco, 2007). The data were sourced from secondary sources such as Bareksa, the Otoritas Jasa Keuangan (OJK), and official fund fact sheets provided by fund managers.

The criteria used for sample selection in this research include: (1) mutual funds that were actively operating throughout the 2020–2023 period, (2) availability of complete data regarding investment manager fees and monthly returns, and (3) inclusion in the category of open-end

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mutual funds, excluding closed-end funds or specialized products such as index funds or ETFs. Additionally, the study does not limit the type of mutual fund (e.g., equity, fixed income, or money market), but instead focuses on the level of fees charged to investors.

This study uses the Kolmogorov-Smirnov normality test to determine the distribution of the data. If the test results show that the data are normally distributed, a T-test will be conducted. However, if the results indicate that the data are not normally distributed, the non-parametric Mann-Whitney test will be used to test the hypothesis.

5. Result

The results of the Kolmogorov-Smirnov test showed that the significance value (Asymp. Sig. 2-tailed) for both groups—measured using the Sharpe ratio and the Treynor ratio—was less than 0.05. This indicates that the data are not normally distributed. Therefore, since the data do not meet the assumption of normality, the hypothesis testing in this study could not use parametric tests such as the independent sample t-test, and instead employed the non-parametric Mann-Whitney U Test to determine whether there is a significant difference in performance between high-fee and low-fee mutual funds. The normality test results serve as an important basis for selecting the appropriate statistical method.

Table 5.1 Kolmogorov-Smirnov Test

		Sharpe Ratio Low Cost	Treynor Ratio Low Cost	Sharpe Ratio High Cost	Sharpe Ratio Low Cost
N		200	200	200	200
Normal Parameters[a,b]	Mean	3.031436	0.093998	8.404076	-1.665588
	Std. Deviation	10.3806082	1.7108527	12.0488742	11.993584
Most Extrme Differences	Absolute	.267	.366	.266	.478
	Positive	.267	.366	.266	.402
	Negative	-.258	-.322	-.193	-.478
Test Statistic		.267	.366	.267	.478
Asymp. Sig. (2-tailed)		0.000[c]	0.000[c]	0.000[c]	0.000[c]

a. Test distribution is normal.
b. Calculated from data
c. Lilliefors Significance Correction
Source: Data Processed SPSS 30 (2025)

Table 5.2 Wilcoxon Test

		N	Mean Rank	Sum of Ranks
Sharpe Ratio High Cost - Sharpe Ratio Low Cost	Negative Ranks	82[a]	84.28	6911.00
	Positive Ranks	118[b]	111.77	13189.00
	Ties	0[c]		
	Total	200		
Treynor Ratio High Cost - Treynor Ratio Low Cost	Negative Ranks	103[d]	104.41	10754.00
	Positive Ranks	97[e]	96.35	9346.00
	Ties	0[f]		
	Total	200		

a. Sharpe Ratio High Cost < Sharpe Ratio Low Cost
b. Sharpe Ratio High Cost > Sharpe Ratio Low Cost
c. Sharpe Ratio High Cost = Sharpe Ratio Low Cost
d. Treynor Ratio High Cost < Sharpe Ratio Low Cost
e. Treynor Ratio High Cost > Sharpe Ratio Low Cost
f. Treynor Ratio High Cost = Sharpe Ratio Low Cost

Test Statistic [a]		
	Sharpe Ratio High Cost - Sharpe Ratio Low Cost	Treynor Ratio High Cost - Treynor Ratio Low Cost
Z	-3.830[b]	-.859[c]
Asymp.Sig. (2-tailed)	.000	.390

a. wilcoxon Signed Rank Test
b. based on negative ranks.
c. Based on positive ranks.
Source: Data Processed SPSS 30 (2025)

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Table 5.3 Mann-Whitney Test

RANKS	Mutual Fund	N	Mean Rank	Sum of Ranks
Sharpe Ratio	Low Cost	200	176.11	35221.00
	High Cost	200	224.9	44979.00
	Total	400		
Treynor Ratio	Low Cost	200	199.64	
	High Cost	200	201.37	39927.00
	Total	400		40273.00

Test Statistic[a]	Sharpe Ratio	Treynor Ratio
Mann-Whitney U	15121.000	19827.000
Wilcoxon W	35221.000	39927.000
Z	-4.220	-.150
Asymp. Sig. (2-tailed)	0.000	.881
a. Grouping Variable: Mutual Fund		

Source: Data Processed SPSS 30 (2025)

After the normality test using the Kolmogorov-Smirnov method revealed that the data were not normally distributed (significance value < 0.05), the research proceeded with the Mann-Whitney U Test. This non-parametric test was used to determine whether there is a significant difference in mutual fund performance between the high investment manager fee group and the low fee group, using two performance evaluation approaches: the Sharpe ratio and the Treynor ratio.

The results of the Mann-Whitney test showed that for the Sharpe ratio, the significance value was below 0.05, indicating a statistically significant difference in performance between the high-fee and low-fee mutual funds. This means that when performance is evaluated using total risk (as measured by the Sharpe ratio), the two groups perform differently. However, for the Treynor ratio, the significance value was above 0.05, indicating no significant difference in performance based on systematic risk (beta). This suggests that investment manager fees do not consistently reflect the manager's ability to manage market risk.

6. Discussion

This study aims to analyze the differences in mutual fund performance between groups with high and low investment manager fees, using two risk-adjusted performance evaluation methods: the Sharpe ratio and the Treynor ratio. The primary objective is to determine whether the level of

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investment manager fees charged to investors corresponds with improved mutual fund performance, thereby offering a rational foundation for investors to make well-informed investment decisions.

6.1. Performance Differences Between High-Fee and Low-Fee Mutual Funds Based on the Sharpe Ratio

Based on the results of the Mann-Whitney U test, the significance value for the Sharpe ratio was found to be less than 0.05. This indicates that there is a significant difference in performance between mutual funds with high investment manager fees and those with low fees. In other words, when performance is measured using total risk (standard deviation), the level of fees charged to investors does influence the returns achieved. This finding aligns with Mooney et al. (2020) and Livingston et al. (2019), who stated that fund managers with higher fees tend to be more aggressive and active in managing portfolios. However, this result does not necessarily prove that high fees always yield better outcomes, but rather that there is a statistically significant performance difference between the two fee groups.

6.2. Performance Differences Between High-Fee and Low-Fee Mutual Funds Based on the Treynor Ratio

In contrast to the previous result, the Treynor ratio analysis showed a significance value above 0.05. This means there is no significant difference in performance between high-fee and low-fee mutual funds when performance is measured based on systematic risk (beta). This indicates that the amount of fee charged does not strongly correlate with the fund manager’s ability to manage market risk. This finding supports Roussanov et al. (2018) and Bessembinder et al. (2023), who argued that cost efficiency can support optimal performance without necessarily requiring high fees. Thus, for investors who have already diversified their portfolios, investment manager fees may not be a primary factor in determining mutual fund performance based on systematic risk.

7. Conclusions

This study reveals the phenomenon that high investment manager fees do not necessarily guarantee better mutual fund performance, especially when performance is measured based on systematic risk (Treynor ratio). Although there is a significant difference in performance when assessed using total risk (Sharpe ratio), the results are not consistent when different risk approaches are applied. This phenomenon indicates that higher fees are not always proportional to the value received by investors, making cost efficiency and transparency crucial issues in the mutual fund industry. It also reflects a misperception among investors that high fees are inherently associated with better quality.

8. Limitation and Suggestions

This study has several limitations that should be noted. First, it does not differentiate mutual funds based on their types (such as equity funds, fixed income funds, balanced funds, or money market funds), making the findings general and not representative of the specific performance characteristics of each category. Second, the study period is limited to 2020 to 2023, which may be influenced by market instability due to the pandemic and the global economic recovery, thus the results may not fully reflect long-term market conditions. Additionally, the study only uses two performance evaluation approaches Sharpe ratio and Treynor ratio which, although popular, do not capture all aspects of mutual fund risk and return comprehensively.

For future research, it is recommended to categorize mutual funds by type to obtain more specific and relevant analyses based on product characteristics. Researchers are also advised to extend the research period to cover a wider range of market conditions, including both stable and crisis periods. Furthermore, incorporating additional evaluation methods such as Jensen's Alpha or the Information Ratio may provide a more comprehensive view of mutual fund performance. Importantly, future studies could also include control variables such as assets under management (AUM), fund age, and manager reputation to improve the accuracy and depth of the analysis.

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